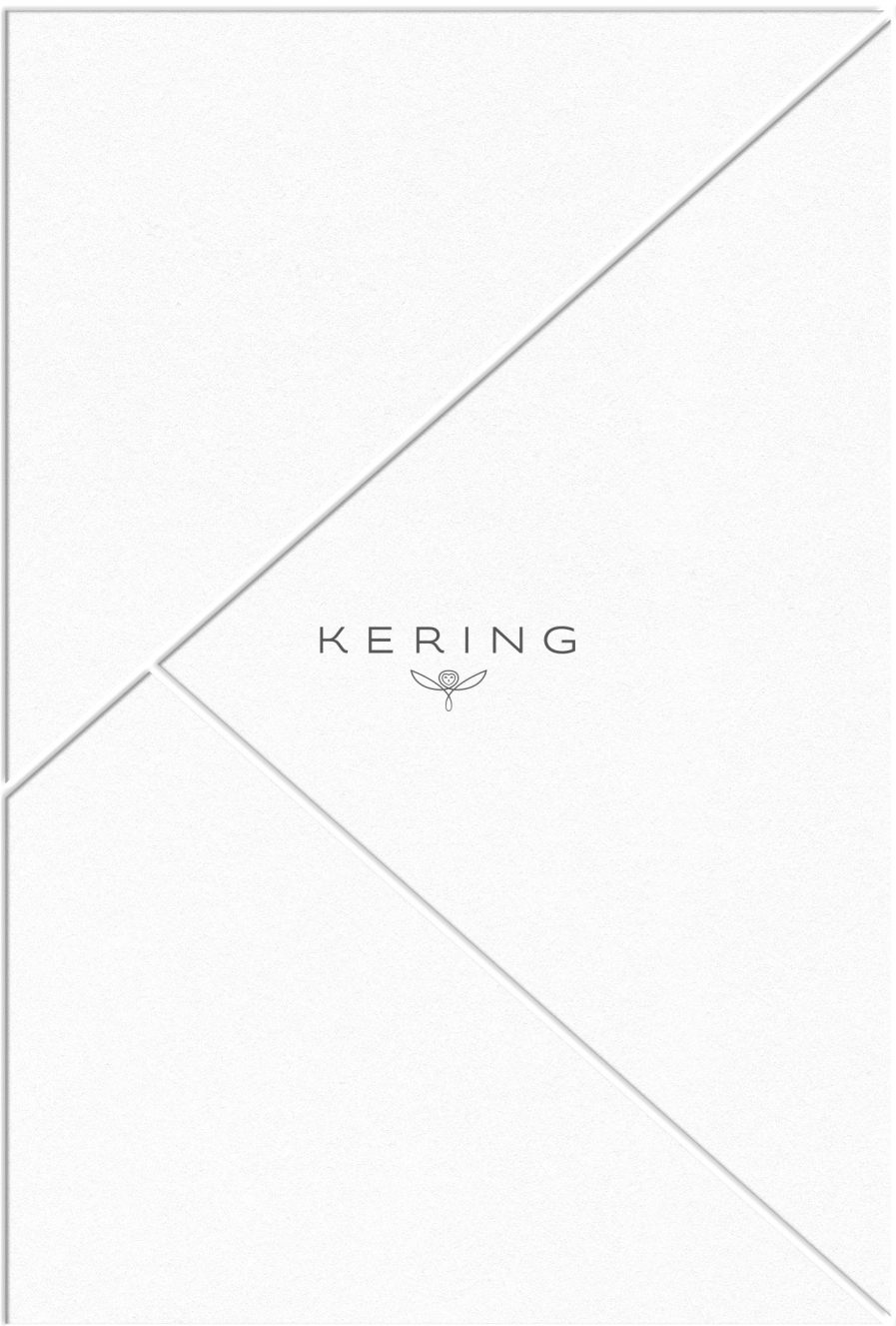




K E R I N G



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CHAPTER 1
Kering at a glance

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A global Luxury Group, Kering manages the development of a series of renowned houses in fashion, leather goods, jewelry and watches. By placing creativity at the heart of its strategy, Kering enables its Houses to set new limits in terms of their creative expression while crafting tomorrow's Luxury in a sustainable and responsible way. We capture these beliefs in our signature: "Empowering Imagination".

François-Henri Pinault
Chairman of the Board of Directors
and Chief Executive Officer

1. KERING IN 2019

G U C C I

SAINT LAURENT

BOTTEGA VENETA

BALENCIAGA

Alexander
McQUEEN

Brioni
ROMA

BOUCHERON
PARIS

Pomellato



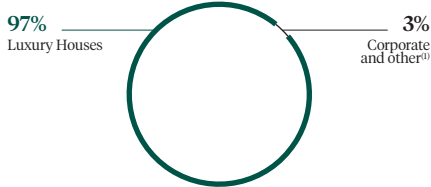
qeelin

ULYSSE NARDIN
SINCE 1848 LE LOGLLE - SUISSE

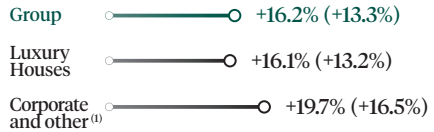
GIRARD-PERREGAUX


K E R I N G
E Y E W E A R


Revenue

€15,884 million

Change in reported revenue

(and change in comparable⁽²⁾ revenue
2019 vs 2018, in %)

Recurring operating income

€4,778 million

Free cash flow from operations

€1,521 millionNet income attributable
to owners of the parent**€2,309 million**

Dividend per share

€11.50⁽³⁾**38,068**Employees
as of December 31, 2019⁽⁴⁾**55%**Women managers
within the Group**-14%**EP&L intensity⁽⁵⁾**Carbon neutrality achieved
in 2019 with respect to 2018
(offsetting, Scopes 1 to 3)**

(1) The "Corporate and other" segment is defined on page 80.

(2) Comparable revenue is defined on page 88.

(3) Subject to the approval of the Annual General Meeting to be held on April 23, 2020.

(4) 34,902 FTE in 2019.

(5) 2015-2018.

2. HISTORY AND 2019 HIGHLIGHTS

Kering has continuously transformed itself since its inception in 1963, guided by an entrepreneurial spirit and a commitment to constantly seek out growth and create value.

Founded by François Pinault as a lumber and building materials business, the Kering group repositioned itself on the retail market in the 1990s and soon became one of the leading European players in the sector. The acquisition of a controlling stake in Gucci Group in 1999 marked a new stage in the Group's development, and the establishment of a coherent ensemble of complementary luxury brands. Kering is continuing its growth story, unlocking the potential of its Houses and pursuing its ambition to be the world's most influential Luxury group in terms of creativity, sustainability and long-term economic performance.

1963

- François Pinault establishes the Pinault group, specializing in lumber trading.

1988

- Listing of Pinault SA on the Paris Stock Exchange.

1990

- Acquisition of Cfao, a group specializing in trading with Africa and in electrical equipment distribution (activity renamed Rexel in 1993).

1991

- The Group acquires Conforama and enters the retail market.

1992

- Takeover of Au Printemps SA, a department store chain which also held a majority interest in mail order clothing brand La Redoute.

1994

- La Redoute is merged into Pinault-Printemps, renamed Pinault-Printemps-Redoute.
- Takeover of Fnac, a retailer of books, music, films and consumer electronics.

1999

- Acquisition of a 42% stake in Gucci Group NV, marking the Group's entry into the luxury sector.
- First steps toward the creation of a multi-brand Luxury group, with the acquisition by Gucci Group of Yves Saint Laurent, YSL Beauté and Sergio Rossi.

2000

- Acquisition by Gucci Group of high jewelry House Boucheron.

2001

- Gucci Group acquires Italian leather goods brand Bottega Veneta and the House of Balenciaga and signs partnership agreements with Alexander McQueen and Stella McCartney.
- The Group raises its stake in Gucci Group to 53.2%.

2003

- Sale of Pinault Bois & Matériaux to the Wolseley group of the UK.
- The Group raises its stake in Gucci Group to 67.6% (after raising it to 54.4% in 2002).

2004

- The Group raises its stake in Gucci Group to 99.4% further to a tender offer.
- Sale of Rexel.

2005

- Pinault-Printemps-Redoute becomes PPR.
- François-Henri Pinault becomes Chairman and Chief Executive Officer of PPR.

2006

- Sale of a 51% controlling stake in Printemps to RREEF and the Borletti group.

2007

- Sale of the residual 49% stake in Printemps to RREEF and the Borletti group.
- Acquisition of a 27.1% controlling stake in PUMA. This stake was increased to 62.1% further to a tender offer.

2008

- Sale of YSL Beauté to L'Oréal.
- Acquisition of a 23% stake in watchmaker Girard-Perregaux.

2009

- Listing of 58% of Cfao.
- Creation of the Kering Foundation to combat violence against women.

2010

- Acquisition by PUMA of COBRA.

2011

- Closing of the sale of Conforama to Steinhoff.
- Acquisition of Volcom.
- The Group raises its stake in Sowind Group (Girard-Perregaux and JEANRICHARD) to 50.1%.

2012

- Closing of the acquisition of Italian men's tailor Brioni.
- Sale of the remaining 42% stake in Cfao.
- Creation of a joint venture with Yoox S.p.A. dedicated to e-commerce for several of the Group's luxury brands.

2013

- Closing of the acquisition of a majority stake in Chinese fine jewelry brand Qeelin.
- Acquisition of a majority stake in the Christopher Kane brand.
- Acquisition of a majority stake in France Croco – now named Tannerie de Pèriers – a Normandy-based tannery specializing in precious skins.
- Listing of Groupe Fnac on the Paris Stock Exchange.
- Change of corporate name: PPR becomes **Kering**.
- Acquisition of a majority stake in Italian jewelry group Pomellato.
- Kering is listed on the Dow Jones Sustainability World and Europe Indices (DJSI).

2014

- Closing of the sale of La Redoute.
- Acquisition of watchmaker Ulysse Nardin.

2015

- Launch of Kering Eyewear.
- Sale of Italian shoemaker Sergio Rossi.
- Publication of the very first Environmental Profit and Loss Account (EP&L) at Group level.

2016

- Sale of Electric by Volcom.
- Kering relocates its headquarters to the former Laennec Hospital, in the heart of Paris' Left Bank.
- Kering announces its 2025 Sustainability strategy, which is based on three pillars: Care, Collaborate, Create.

2017

- Agreement signed between Kering Eyewear and Maison Cartier to develop, manufacture and distribute the Cartier eyewear collections, with Richemont acquiring a minority stake in Kering Eyewear.

2018

- Distribution in kind of PUMA shares to Kering shareholders, confirming the Group's positioning as a luxury pure player while maintaining its financial interest at 15.85% of PUMA's share capital.
- Kering announces its withdrawal from Stella McCartney, Volcom, Christopher Kane and Tomas Maier.
- Kering publishes its first Integrated Report (for 2017).
- Kering announces new developments in its digital strategy, aimed at enhancing the Group's omni-channel capabilities and its Houses' digital activities. In particular, Kering will fully internalize the e-commerce activities currently handled through the joint venture with Yoox Net-a-Porter Group (YNAP) in the first half of 2020.

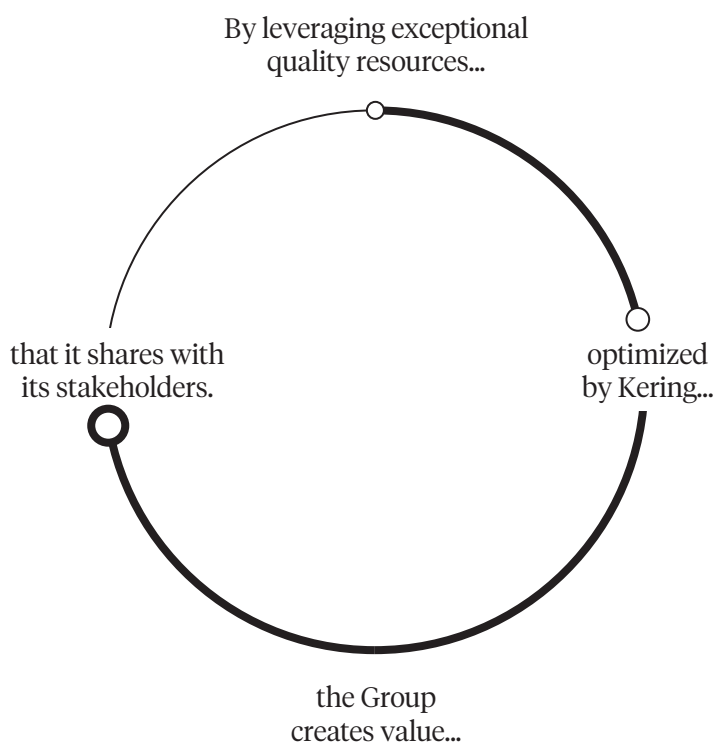
2019***Strategy, activities and finance***

- Completion of the sale of Volcom.
- Kering launches an offering of bonds exchangeable into existing ordinary shares of PUMA maturing in 2022 for a nominal amount of €550 million.

***Corporate Social Responsibility***

- French president Emmanuel Macron gives François-Henri Pinault, Chairman and Chief Executive Officer of Kering, a mission to bring together fashion and textile players with the aim of setting practical objectives for reducing the environmental impact of their industry. Sixty-three leading global fashion and textile companies pledge their commitment in three areas: climate, biodiversity and oceans.
- Kering is the only Luxury group to be included in the Carbon Disclosure Project (CDP) climate change A List for the third consecutive year. Kering becomes carbon neutral, offsetting all remaining emissions in Scopes 1, 2 and 3 of the GHG Protocol from its operations and supply chains.
- Kering is listed on the Dow Jones Sustainability World and Europe Indices (DJSI) for the seventh consecutive year.
- Kering develops a new open source digital platform and organizes a hackathon dedicated to its pioneering EP&L measurement tool.
- Global parental policy: from 2020, Kering commits to providing 14 weeks of paid baby leave to all parents of a new child.

3. OUR VALUE CREATION MODEL

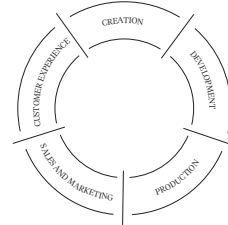


By leveraging exceptional quality resources...

- The Group's actions and business practices founded on an **EXPANSIVE SENSE OF ETHICAL RESPONSIBILITY** combined with strong values
- **38,068 EMPLOYEES** with exceptional know-how and creativity
- **RESPONSIBLE USE OF NATURAL RESOURCES** and raw materials, guided by our 2025 roadmap
- **INNOVATIONS TO PRODUCTS AND PROCESSES**, key levers for differentiation, and exceptional customer experience
- **A network of SEVERAL THOUSAND SUPPLIERS** mainly located in Italy
- **1,381 DIRECTLY OPERATED** stores and a growing number of ateliers
- **€956M IN GROSS OPERATING INVESTMENTS** to support the growth of the Houses
- **A stable SHAREHOLDER STRUCTURE** combined with international capital and a committed governance to support the Group's long-term development

optimized by Kering...

- **A VISION**
Embracing creativity for a modern, bold vision of Luxury
- **A MULTI-BRAND MODEL**
built on a long-term approach and creative autonomy for the Houses
- **A VALUE CHAIN bringing key advantages**
Upstream positioning and integration in the value chain
Cross-business expertise, e.g., Kering Eyewear
Shared support functions
Kering Standards, the common foundation for implementing the 2025 Sustainability strategy



- **A STRATEGY**
that aims to harness the full potential of Luxury to grow faster than our markets
- | | |
|--------------------------------|--|
| PROMOTING
ORGANIC
GROWTH | ENHANCING
SYNERGIES AND
DEVELOPING GROWTH
PLATFORMS |
|--------------------------------|--|
- **TO SUPPORT OUR AMBITION**
To be the world's most influential Luxury group in terms of creativity, sustainability and long-term economic performance.

the Group creates value...

	2015 ⁽¹⁾	2019	
Revenue	€7,660m	€15,884m	x2.1 +20% CAGR
Recurring operating income	€1,528m	€4,778m	x3.1 +33% CAGR
Recurring operating margin	19.9%	30.1%	>+10 pts



CUSTOMERS

Several prizes and awards acknowledging the Houses' creativity.

Direct distribution channels guaranteeing service quality and respect for the image of the Houses, representing 78% of revenue.

An increasingly digital experience with growth of more than 20% in online sales.

⁽¹⁾ 2015 data adjusted for 2019 scope.

that it shares with its stakeholders.



EMPLOYEES

€1.98 billion paid in salaries and employer contributions
82.5% of employees trained



ACTORS OF INNOVATION

Extension of the Plug and Play – Fashion for Good partnership to China with the organization of the first K Generation Award



SUPPLIERS AND SUBCONTRACTORS

Resource optimization resulting in annual savings of nearly €1 million as part of the Clean by Design program and an average 19% reduction in greenhouse gas emissions (2015-2018) at participating suppliers

3,441 audits conducted with suppliers on social, environmental and sourcing issues



NGOS AND CIVIL SOCIETY

More than €2.4 million paid by our Houses to cultural sector projects

More than 1 million people reached via social media in the 3 countries hosting the “16 Days 16 Films” campaign (Kering Foundation)



CREATIVE TALENTS AND EXCELLENCE IN CRAFTSMANSHIP

Nearly 500 experts trained at Kering's Houses since 2015 via around twenty programs to support excellence in craftsmanship

First MOOC on sustainability launched in 2018, extended to China in 2019



LOCAL COMMUNITIES

2.4 million metric tons of CO₂ offset via projects in favor of local communities and biodiversity thanks to support from REDD+ carbon offset programs

More than €2.7 million donated by the Houses to combat poverty, and for healthcare, education and training



SHAREHOLDERS AND FINANCIAL COMMUNITY

A balanced and rewarding dividend distribution policy, with a steadily increasing cash dividend: €11.50⁽¹⁾ with respect to 2019, an increase of 10%



ENVIRONMENT

14% reduction in EP&L impact between 2015 and 2018

Roll-out of Kering Standards across all activities; new animal welfare standard published in 2019

Carbon neutrality in Scopes 1, 2 and 3 achieved in 2018 for Kering's operations and supply chains

Kering, founding member of the Fashion Pact

88% of key materials traced back to their country of origin

(1) Subject to the approval of the Annual General Meeting to be held on April 23, 2020.

4. GROUP STRATEGY

Vision

Embracing creativity
for a modern, bold vision
of Luxury

Business model

A multi-brand model
built on a long-term
approach and creative
autonomy for our
Houses

AGILITY

BALANCE

RESPONSIBILITY

Strategy

Harnessing the full
potential of Luxury to
grow faster than our
markets

PROMOTING
ORGANIC GROWTH

ENHANCING SYNERGIES
AND DEVELOPING
GROWTH PLATFORMS

Vision: Embracing creativity for a modern, bold vision of Luxury

A new world order is forming. Against a backdrop of ever-faster change, new economies are taking shape as cultures evolve, disruptive technologies emerge and young “always-on” consumers seek meaningful connections. Today’s change generation is shaking up the rules.

Kering is setting the trend, purposefully shaping the Luxury of tomorrow, which will be more responsible and more in tune with our times while remaining true to the exceptional history and heritage of its Houses. Our ambition is to be the world’s most influential Luxury group in terms of creativity, sustainability and long-term economic performance.

A new generation of consumers means new client expectations. Tradition and expertise, which many luxury brands have relied on for decades, are no longer enough. Consumers today want to express their unique individuality – and our vision of Luxury supports this radical shift. We dare to take risks, think differently, and constantly propose fresh and innovative ideas that inspire emotion and

enthusiasm for our exceptional products capable of expressing each consumer’s distinctive personality.

What Kering and its Houses propose is an experience. Our values are closely tied to a powerful, creative content imbued with modernity and are complemented by the entrepreneurial spirit that permeates each of our brands and by the vision of our creative teams. Kering is made up of women and men who strive each day to create authentic, ever-changing Luxury.

We want to play our part in the emergence of a more environmentally friendly world. We are constantly raising our creative and production standards to ensure respect for the planet while at the same time having positive social impacts. We aim to create value that is equitably distributed among all our stakeholders.

Pronounced “caring”, Kering is much more than a simple allusion – it gives meaning to everything we do.

Business model: A multi-brand model built on a long-term approach and creative autonomy for our Houses

A global Luxury group, Kering manages the development of a series of renowned Houses in Fashion, Leather Goods, Jewelry and Watchmaking: Gucci, Saint Laurent, Bottega Veneta, Balenciaga, Alexander McQueen, Brioni, Boucheron, Pomellato, DoDo, Qeelin, Ulysse Nardin and Girard-Perregaux, as well as Kering Eyewear.

Thanks to our international footprint and the strength of our Houses combined with the creative autonomy they enjoy and the unique quality of our creations, Kering is among the foremost players in the luxury goods market. Our model fosters rapid growth for our brands and creates the space for them to thrive.

"Our multi-brand approach is built on a long-term vision and combines agility, balance and responsibility."

AGILITY:

Kering provides its Houses with an organizational structure that unlocks their potential for excellence

- **Constancy**

Kering began as a family company more than 50 years ago and is now controlled by Artémis, a holding company owned by the Pinault family. With this strong and stable shareholder, Kering boasts an attractive and sustainable profile conducive to developing its vision in the luxury goods market over the long term.

- **Transformation**

From a conglomerate of diversified retail activities until the early 2000s, Kering has transformed itself into a Luxury group focusing on personal goods. We are now an integrated group bringing together and developing some of the world's most prestigious Houses. Through the years, we have been able to leverage the most effective growth drivers.

- **Clarity**

Kering helps its Houses realize their full growth potential. At each stage of their development, they benefit from the Group's solid integrated value chain and pooled support functions. By encouraging imagination in all its forms, our organization fosters performance while enabling our Houses to unleash the best of their talent and creativity. The Group ensures that performance is aligned with the brands' long-term visions and objectives. Thanks to our curiosity, capacity for self-reflection and big-picture thinking, we can achieve the clarity necessary to secure the performance of the Group and its Houses.

BALANCE:

Kering's multi-brand model is reaching optimal efficiency

- **An ensemble of exceptional Houses**

Each of our Houses fosters a unique blend of emotions and creations. Following our successful transformation into a leading luxury goods player, we boast some of the most prestigious Houses. With distinctive positionings, they play complementary roles in a coherent ensemble.

- **Multi-brand model**

We use our strength as a Group to help forge a distinctive identity for each House. Our brands find ways to express their unique characters: couture and accessories for some, jewelry and traditional watchmaking for others. The Group supports the brands by providing expertise, exercising its power as a group to exert influence, improving supply chain reliability and opening up access to distribution networks, as well as enhancing client experience, especially in digital channels. It also encourages the Houses to share best practices with a view to driving innovation.

- **Growth prospects**

Spurred by positive demographic, economic and sociological factors, the global luxury goods market enjoys significant structural growth potential. Kering adds its own momentum on top of these intrinsic factors, further amplified by placing creative boldness at the heart of its model. So while our most firmly established Houses are reinventing themselves and re-engaging with their audiences, our emerging brands are focused on realizing their full potential and gaining new clients.

- **Ready to weather adverse market conditions**

With both well established and still emerging brands in various specialties, segments and markets, Kering has an extensive footprint in diverse regions. Due to the variety of its clients, products, brands and locations, the Group is well placed to weather changes in market conditions and seize growth opportunities.

“Our economic model is built on exceptional Houses, complementary positionings and varied maturity profiles”

RESPONSIBILITY:

All our operations are founded on a responsible economic model. Our comprehensive, sustainable approach is a structural competitive advantage

- **Towards sustainable Luxury**

Can a responsible economic approach change the very nature of Luxury? For Kering, the answer is a resounding “yes”. For our Houses, sustainability is in line with our vision of modern Luxury. Businesses have an ethical obligation to be more responsible, reflecting society’s new expectations, but this situation can also be viewed as an opportunity to grow, and a source of inspiration and innovation. Methods, materials, resources and products are being reinvented and client usages and expectations are changing. Kering is changing the way it designs luxury products by incorporating the criterion of sustainable value, for clients as well as for society. The targets identified to improve the Group’s social and environmental performance are set out in the 2025 “Advance” strategy.

- **An inclusive approach**

The aim of the responsible model is to rethink Kering’s relationships with its stakeholders so as to ensure fairness and responsibility. Affecting all dimensions of Kering’s eco-system, from the Group’s strategy and the Houses’ creative decisions to operational production, processing and distribution choices, the model aims to reduce the social and environmental impacts of the Group’s operations. Placing people at the heart of the model brings fresh entrepreneurial spirit, engaging employees and stakeholders.

- **Creative potential**

Responsibility is deeply embedded in the Group’s organizational structure and promotes business growth through ever more innovative and attractive products. It rewards best business practices such as good cost control and process upgrading. In a context of limited natural resources, new high-quality materials are being fashioned and more sustainable processes devised. We are constantly on the look-out for innovative and disruptive technologies. For our brands, this represents a vast swathe of creative territory yet to be explored.

- **Governance and ethics**

Built on the Group’s core values, Kering’s responsible model leverages an ambitious governance structure, supported by the Board of Directors and its Sustainability Committee. Together they drive the sustainability strategy, which the Houses put into action every day under the guidance of dedicated experts. The Group’s Ethics Committees, Compliance structure and whistleblowing procedure for employees and third parties ensure that Kering’s Code of Ethics and principles for responsible business conduct are properly applied.

“Being a responsible Luxury group means crafting the Luxury of tomorrow – we perceive change as an opportunity and a growth lever”

Strategy: Harnessing the full potential of Luxury to grow faster than our markets

Over the past decade, Kering has undergone a profound strategic shift and is now a global leader in the luxury sector. In the coming years, the Group will continue to strengthen and sustain its growth momentum.

Promoting organic growth

- **Above-market performance in a growth industry**

The future of the luxury goods market is structurally bright. The growth of emerging economies, the cultural exposure of new populations to new global brands and the increasing use of new technologies are major sources of value creation for Kering. The market growth rate having normalized over recent years, the challenge for each of our Houses is to outperform its respective market in all segments and categories.

- **Product innovation**

Energized by new creative teams, our Houses are setting trends. Backed by the Group, they are moving into new product categories and coming up with ever more fresh ideas. Their offerings both stimulate and meet their clients' expectations and aspirations by arousing desire, inspiring dreams and tapping into emotions.

- **Sales efficiency**

In their networks of directly operated stores, our brands deploy initiatives to boost sales performance, capitalizing on increasingly effective merchandising and in-store operational excellence, supported by the Group and its dedicated teams. Optimizing comparable-store sales performance is a key organic growth lever for Kering.

- **Client experience**

Improving the quality of in-store client experience is central to driving sales performance. Personalized client experience and customization help make each client relationship unique. Support for clients before, during and after the sale – in stores or online – is what enables our Houses to create and sustain lasting connections. With this in mind, in 2019 Kering completed the roll-out of a dedicated application designed with Apple. The Group's sales associates are invited to use the app to consult stock levels in real time, order an out-of-stock product for delivery to the client's home, and generate personalized style advice for a truly revitalized shopping experience. The decision to bring client relations and e-commerce platforms back in-house was guided by the same aim.

- **Omni-channel approach**

Our clients are connected and mobile, constantly flicking between distribution channels, from digital platforms to brick-and-mortar stores. Our client relations strategy is epitomized by continuity on all communication and distribution channels. This holistic omni-channel approach is supported by targeted directly operated store extensions and strategies for distribution agreements, travel retail, e-commerce, social media and digital communication. In 2018, we announced that we would be internalizing our Couture & Leather Goods brands' e-commerce activities in 2020 (with the exception of Gucci, which has always managed its e-commerce directly). With this move, the Group aims to oversee the whole value chain so as to provide clients with a truly exceptional experience across all channels and touchpoints, aligning the e-commerce side with the standards of excellence seen in its boutiques.

- **Digital expertise, CRM and innovation**

A number of projects have been set up under the leadership of the Chief Client and Digital Officer to support Kering in its digital transformation and drive forward its e-commerce, CRM, data science and innovation activities. These include several pilot projects using data science techniques to deliver personalized messages and experiences to individual clients, as well as the creation of a dedicated data science team to improve the service provided to the clients of Kering's Houses by making the best use of the available data. Lastly, the Group's Innovation team has been tasked with fulfilling two objectives: firstly, to instill an internal culture of innovation (applying a test-and-learn approach, sharing discoveries quickly, scouting business trends, etc.) and secondly, to work on disruptive technologies to enrich our business models and support our sustainability efforts.

"Digital is simultaneously accelerating and deepening our relationships with our clients, allowing us to offer them an exceptional shopping experience"

Enhancing synergies and developing growth platforms

Our integrated model gives us a distinct advantage. Our brands benefit from Group-wide synergies while preserving their unique characters and exclusivity.

- **Resource pooling**

Our Houses share certain support functions, allowing them to concentrate on what really counts: creativity, production quality, product range development and renewal, client relations, and brand and product communication. The Group pools resources and streamlines certain strategic functions such as logistics, indirect purchasing, legal affairs, property, accounting, media relations, IT and the development of new tools (in particular with respect to the omni-channel approach). Safe in the knowledge that they are supported by the Group, our Houses can give free reign to their creative energy.

- **Cross-business expertise**

In order to enrich its brands' offerings, the Group draws on cross-business expertise. A notable success story in this domain is Kering Eyewear, which has been developed internally. Our Houses benefit from a dedicated specialist that ensures full control over the value chain of their frame and sunglasses businesses, from creation and development to supply chain; brand strategy and marketing to distribution. This innovative management model enables Kering to harness the full growth potential of its brands in this category and generate significant value creation opportunities.

- **Vertical integration and operational efficiency**

In 2013, the Group began strengthening its upstream positioning in the luxury goods value chain, in particular via the targeted acquisition of leather tanneries to secure raw materials sourcing.

Kering is constantly improving and adapting its operating model to ensure its structures are always more up-to-date and flexible. The Group has launched an ambitious transformation project focusing on its information systems,

supply chain and logistics. The aim is to adapt these functions to the Group's new scope, as well as changing consumer trends and client expectations. With shared, state-of-the-art information systems, as well as redefined logistics operations that include the construction of new warehouses in the United States (2019), Italy (2020-2021) and ultimately Asia, the Group's brands will be in a better position to anticipate demand, respond more quickly and adapt inventory management to optimize costs.

- **Talent excellence**

We pay particular attention to the professional development and satisfaction of the women and men working for our Houses and in our headquarters. Based on ever-greater mobility, our ambitious worldwide human resources strategy facilitates the growth of the Houses through a shared pool of talented individuals, expertise and excellence. The Group helps employees reach their potential and express their creativity by developing skills and performance, as well as by offering aspirational development opportunities.

A source of collective intelligence and enrichment but also fundamental to our culture of equality, allowing each individual to realize their full potential, our policy of promoting diversity, gender parity and inclusiveness is at the heart of Group and House talent management actions and initiatives.

Kering also pays careful attention to the role of women, who make up the majority of its employees and clients. Internal systems are in place to guarantee gender equality, as evidenced by our ambitious global parental policy. The Kering Corporate Foundation is committed to combating violence against women. The aim of the Women in Motion initiative is to showcase the contribution of women to the film industry, whether in front of the camera or behind.

"The Group strives to create value for its Houses and is geared to unlocking their creative potential"

Kering in 2019: A further year of strong and profitable growth

In a global environment once again characterized by geopolitical tensions and their economic ramifications, the luxury goods market enjoyed another year of sustained growth in 2019 (see Chapter 2 for a presentation of the luxury goods market). As in the two previous years, this growth was not uniform across the sector, with some groups – in particular multi-brand groups – considerably outperforming mono-brand players. In addition, growth across geographic areas was uneven, with the Asia-Pacific region clearly driving growth despite the challenges encountered in Hong Kong in the second half of the year.

In 2019, Kering once again demonstrated the relevance of its multi-brand model, harnessing the growth of the luxury goods market across the various segments, regions and consumer groups.

Kering continued to implement its vision and strategy in line with two principles:

- promoting long-term value creation, combining boldness and imagination, creativity and measured risk-taking, adaptability and agility;
- nurturing each brand's potential, with priority given to organic growth and operating cash flow generation.

Structured and organized to bring more expertise, value and operational support to each of its Houses, Kering's financial priorities are unchanged and aim to optimize return on capital employed by enhancing profit margins and rigorously managing capital allocation.

In an economic environment still hesitant in light of the disruptive impact of geopolitical tensions and health crises, the Group is looking ahead with confidence and determination.

In 2019, Kering's model again inspired the Group to make commitments and take action for sustainability. A significant example of this is the Fashion Pact, a coalition of fashion and textile players formed under the leadership of François-Henri Pinault with the aim of setting practical objectives for reducing the environmental impact of their industry. The Group also became carbon neutral across all its operations and supply chains, and implemented initiatives to promote greater diversity, as well as an ambitious and inclusive parental policy.

Kering is more committed than ever to environmental and social sustainability and diversity, which are crucial to its goals and long-term performance.

CHAPTER 2

Group activities

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1. KEY FIGURES

<i>(in € millions)</i>	2019	2018 Restated under IFRS 16	Change	2018 Reported
Revenue	15,884	13,665	+16.2%	13,665
EBITDA	6,024	5,093	+18.3%	4,436
<i>EBITDA margin (as a % of revenue)</i>	<i>37.9%</i>	<i>37.3%</i>	<i>+0.6 pts</i>	<i>32.5%</i>
Recurring operating income	4,778	3,995	+19.6%	3,944
<i>Recurring operating margin (as a % of revenue)</i>	<i>30.1%</i>	<i>29.2%</i>	<i>+0.9 pts</i>	<i>28.9%</i>
Net income attributable to owners of the parent	2,309	3,688	-37.4%	3,715
<i>o/w continuing operations excluding non-recurring items⁽¹⁾</i>	<i>3,212</i>	<i>2,790</i>	<i>+15.1%</i>	<i>2,817</i>
Gross operating investments⁽²⁾	956	828	+15.4%	828
Free cash flow from operations⁽³⁾	1,521	3,551	-57.2%	2,955
Net debt⁽⁴⁾	2,812	-	-	1,711
Average number of employees (full time equivalent)	34,902	30,595	+14.1%	30,595

<i>Per share data (in €)</i>	2019	2018 Restated under IFRS 16	Change	2018 Reported
Earnings per share attributable to owners of the parent	18.40	29.28	-37.2%	29.49
<i>o/w continuing operations excluding non-recurring items</i>	<i>25.59</i>	<i>22.15</i>	<i>+15.5%</i>	<i>22.36</i>
Dividend per share	11.50⁽⁵⁾	10.50	+9.5%	10.50

Revenue breakdown and comparable⁽⁶⁾ growth by region



34% of revenue
Asia-Pacific
growth: 20%



33% of revenue
Western Europe
growth: 14%



19% of revenue
North America
growth: 7%



8% of revenue
Japan
growth: 6%



6% of revenue
Other countries
growth: 6%

(1) In 2019, this item did not include the non-recurring tax expense relating to the tax settlement in Italy (see Notes 12.1.1 and 14.2 to the 2019 consolidated financial statements).

(2) Purchases of property, plant and equipment and intangible assets.

(3) Net cash flow from operating activities less net acquisitions of property, plant and equipment and intangible assets.

(4) Net debt is defined on page 88.

(5) Subject to the approval of the Annual General Meeting to be held on April 23, 2020.

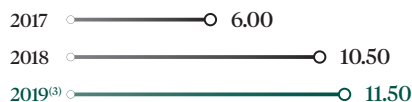
(6) Comparable revenue is defined on page 88.

Recurring operating income: change and margin

(in € millions)	2019	2018 Restated under IFRS 16	Change	2018 Reported
Total Luxury Houses	5,042	4,238	+19.0%	4,191
Recurring operating margin	32.8%	32.0%	+0.8 pts	31.6%
Corporate and other⁽¹⁾	(264)	(243)	-8.3%	(247)
Group	4,778	3,995	+19.6%	3,944
Recurring operating margin	30.1%	29.2%	+0.9 pts	28.9%

Bridge to adjusted recurring operating income (under IAS 17)

(in € millions)	2019	2018 Restated under IFRS 16	Change	2018 Reported
Recurring operating income	4,778	3,995	+19.6%	3,944
as a % of revenue	30.1%	29.2%	+0.9 pts	28.9%
Fixed portion of lease payments restated under IFRS 16	(765)	(657)	-16.5%	N/A
Depreciation of right-of-use assets (IFRS 16)	711	606	+17.4%	N/A
Adjusted recurring operating income (IAS 17)	4,724	3,944	+19.8%	3,944
as a % of revenue	29.7%	28.9%	+0.8 pts	28.9%

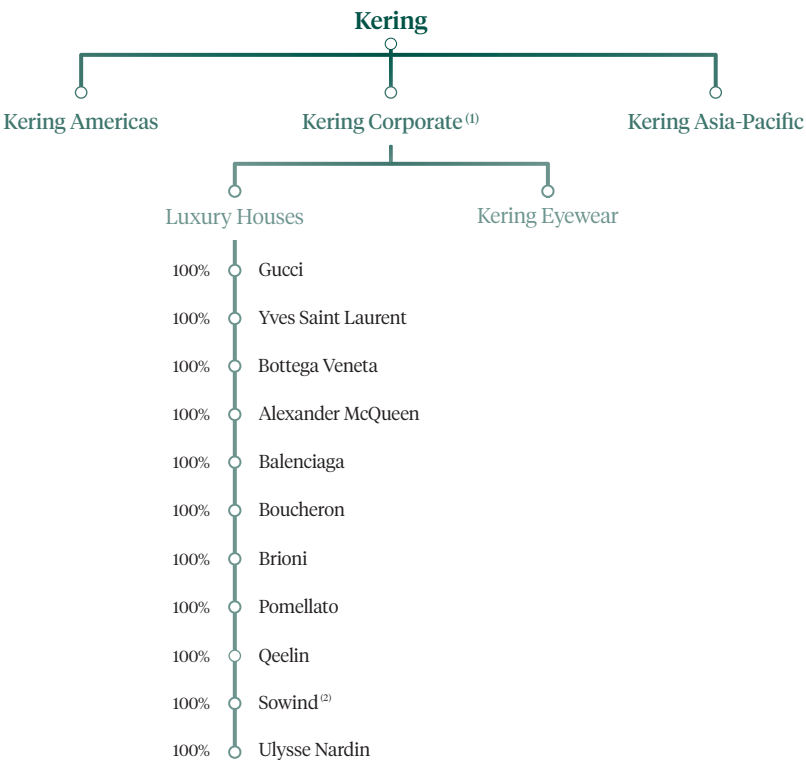
Equity and debt-to-equity ratio*
(in € millions and in %)* Net debt⁽²⁾/equity.Dividend per share
(in €)

(1) The "Corporate and other" segment is defined on page 80.

(2) Net debt is defined on page 88.

(3) Subject to the approval of the Annual General Meeting to be held on April 23, 2020.

2. SIMPLIFIED ORGANIZATIONAL CHART AS OF DECEMBER 31, 2019



(1) Corporate is defined on page 80.

(2) The Sowind group owns the Girard-Perregaux and JEANRICHARD brands.

3. OUR MARKETS

Introduction



Outlook for 2025

€335-375bn

estimation for personal luxury goods market

NEW GROWTH DRIVERS

Fast-growing middle classes in emerging countries

Larger number of wealthy individuals worldwide

Increase in discretionary spending

Increased global mobility

Relevance of the omni-channel approach and development of travel retail

Development of local and tourist customers



Outlook for 2025

25%

share of e-commerce in total personal luxury goods sales

ENVIRONMENT AND TECHNOLOGY

Growing consumer awareness of environmental issues

Development of artificial intelligence (AI), a new, extra performance driver

Reserves of creativity and innovation for products and processes

Acceleration of digital transformation and sophistication of the CRM approach

Personalization of customer service and stronger relations with our audiences



Outlook for 2025

55%

of the sales made to generations Y and Z

NEW CONSUMPTION HABITS

Young customers, more connected, searching for quality, innovation, and a sense of purpose (millennials)

Globalization and digitization of consumption habits

New consumer experiences explored (rental, subscription, second-hand market, etc.)

Development of the brand universe through directly operated store network

An omni-channel experience supported by global communication



Ambition for 2025

100%

of Kering raw materials traced back to their origin

DEMAND FOR TRANSPARENCY

New stakeholder expectations as regards the environment, society and ethics

Greater transparency in supplier relations

Attraction and retention of talent by becoming the preferred employer

Improved standards throughout the entire value chain

Exemplarity of Kering and recognition by all stakeholders

Source: unless otherwise indicated, all historical and forecast information comes from the Bain Luxury Study – Altagamma Worldwide Market Monitor, published in November 2019, rounded out with data from the full report published in December 2019.

Personal luxury goods market overview

This section contains information derived from studies conducted by organizations such as Altagamma and Bain & Company. Unless otherwise indicated, all historical and forecast information, including trends, sales, market shares, sizes and growth, comes from the Bain Luxury Study – Altagamma Worldwide Market Monitor, published in November 2019, rounded out with data from the detailed report published in December 2019. Luxury goods industry segments and product categories correspond to the definitions used in the Bain Luxury Study – Altagamma Worldwide Market Monitor. The definitions of certain product categories have been modified this year to better reflect market dynamics. In this document, the worldwide personal luxury goods market includes the “soft luxury” segment (shoes, apparel and leather goods), the “hard luxury” segment (watches and jewelry) and the “perfumes and cosmetics” segment.

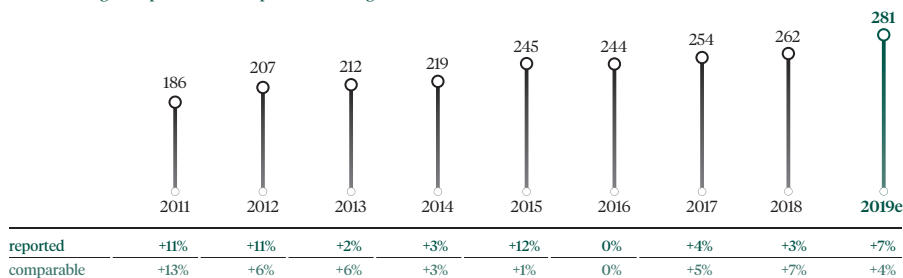
Market overview: size, trends and main growth drivers

The worldwide personal luxury goods market enjoyed strong growth from 2010 to 2012. The market gradually decelerated from late 2013, with weaker or even soft growth at comparable exchange rates up to and including 2016, when signs of a recovery were nonetheless visible in the second half of the year. 2017 saw the return of solid

growth in the market, a trend confirmed in 2018 thanks notably to a promising macro-economic environment. Growth slowed slightly in 2019 at comparable exchange rates, with the luxury goods market expected to reach €281 billion for the year, up 7% as reported and up 4% at comparable exchange rates.

Worldwide personal luxury goods market trend (2010-2019e, in € billions)

Annual change at reported and comparable exchange rates:



Trends

2019 was characterized by:

- growing geopolitical tensions, political changes at the national level and rising economic uncertainties likely to have an impact on consumer confidence, tourism flows and consumption trends, such as trade tensions between the United States and China, Brexit negotiations, uncertainties in the Middle East and protests in France and Hong Kong;
- persistently high currency volatility in certain key currencies for the luxury industry, with some movements affecting local and tourist consumption patterns, including

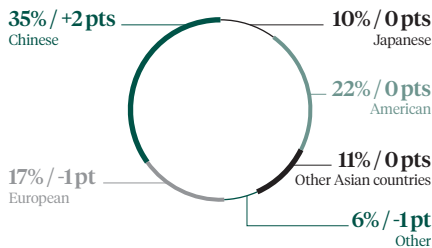
depreciation of the euro, sensitivity of the British pound to each development in the Brexit negotiations, depreciation of the Chinese yuan and the Brazilian real, and strengthening of the Japanese yen;

- slower global GDP growth (2.6% in 2019e versus 3.2% in 2018), with key luxury market regions such as the United States, the Eurozone and Mainland China contributing to the slowdown. The expansionary monetary policies maintained in the world's main business regions nonetheless limited the deceleration in global growth.

Main structural and cyclical factors underpinning trends in the luxury goods market

a. 2019e luxury goods market by nationality

By nationality, the worldwide personal luxury goods market is characterized by the weight of Chinese and American consumers, who together account for more than half of the market in value. Consumers from China and other Asian countries were the main contributors to market growth in 2019. Chinese consumers increased their share by two percentage points versus 2018, with a corresponding decrease in the share of consumers from Europe and other countries, particularly in the Gulf region.



/pt: Market share change (2019e vs 2018).

b. The market is facing a number of structural changes and more cyclical events, including:

- true core luxury consumers are extending their spending from personal luxury goods to experiences (hotels, cruises, restaurants, etc.), while new luxury consumers are entering the market, either via the "accessible" segment or by going directly to brands that are positioned in a more premium segment;
- luxury consumption and patterns are becoming more value sensitive and digital-oriented and leaning increasingly toward innovation and newness, especially as younger people enter the market and more particularly generations Y and Z (born after 1980 and around 2000, respectively);
- the key players and biggest brands have already achieved significant penetration of the main markets thanks to the expansion of their store networks, which means that growth is now mainly driven by increases in same-store sales.

Against this backdrop, luxury groups and brands need to adapt their strategy to the market trends that are likely to shape the industry in the coming years:

- Chinese consumers will still drive growth, with the increase mostly coming from the boost provided by the rising middle class. Bain estimates that Chinese customers accounted for around 90% of luxury market growth in 2019e;
- management of the generational shift of consumers, whose buying decisions are increasingly influenced by:
 - digital technology (online editorial and marketing content, social media, etc.), together with buying habits that require greater use of digital features and tools (online shopping, Internet of Things, virtual reality, artificial intelligence, mobile payment, etc.),
 - environmental awareness (environmental impact of raw materials and production and distribution activities, product composition, animal welfare, etc.) and the integration of these expectations into brands' operations and communications (carbon offsetting, management of unsold inventory, etc.);
- luxury consumers seeking a creative and differentiated product offering, together with a customer experience that is both personalized and integrated across physical and digital distribution channels;
- rebalancing of local/tourist spending through close management of international pricing strategy and price differentials across regions.

Certain factors will continue to support demand and growth in the personal luxury goods market, including:

- demographic trends in emerging markets;
- the emerging middle class in these countries, where the average disposable income and the purchasing power of consumers continue to grow;
- the rising number of super-rich consumers and high-net-worth individuals (HNWIs);
- increasing international mobility, generating higher travel flows and spending.

Nevertheless, the luxury goods market is exposed to short-term disruptions that could include:

- macroeconomic uncertainties, currency volatility and higher customs tariffs and taxes on luxury goods;
- geopolitical tensions, security threats and outbreaks of epidemics/diseases;
- any other factor impacting tourism flows (such as visa policies, travel regulations, etc.) or luxury consumption (restrictions, tax and import duties, etc.);
- exogenous events such as political turmoil and unfavorable weather conditions.

Competitive environment

Although fragmented, the worldwide personal luxury goods market is nonetheless characterized by the presence of a few large global players, often part of so-called “multi-brand groups”, as well as a large number of smaller independent players. These players compete in different segments in terms of both product category and geographic location. Kering operates alongside some of the most global groups in the personal luxury goods market, prominent among which are LVMH, Hermès, Prada,

Burberry, Chanel and Richemont. A number of brands with more accessible prices could also compete with established luxury brands.

A phenomenon known as performance polarization has been observed over the past two to three years, with:

- above-market performances by certain players, usually of significant size or belonging to a multi-brand group; and
- below-market performances by single brand and/or medium-sized players.

Regional overview

Worldwide personal luxury goods market: breakdown by region (2019e)

	Size (in € billions)	Reported YoY change	YoY change at comparable exchange rates	% of total market
Europe	88	+2%	+1%	31%
Americas	84	+5%	0%	30%
Mainland China	30	+30%	+26%	11%
Japan	24	+11%	+4%	9%
Rest of Asia	42	+9%	+6%	15%
Rest of the world	12	0%	-5%	4%
TOTAL	281	+7%	+4%	100%

In 2019, the eight largest countries in the worldwide personal luxury goods market were as follows (revenue by consumption location and not by nationality):

Rank	Country	Size (in € billions)	Reported YoY change	YoY change at comparable exchange rates	% of total market
1	United States	75	+5%	0%	27%
2	Mainland China	30	+30%	+26%	11%
3	Japan	24	+11%	+4%	9%
4	Italy	19	+1%	+1%	7%
5	United Kingdom	17	+4%	+4%	6%
6	France	17	+1%	+1%	6%
7	South Korea	15	+15%	+15%	5%
8	Germany	12	+1%	+1%	4%

Europe remained the world's biggest luxury goods market in 2019, with revenue up 1% versus 2018 at comparable exchange rates. Growth in the region was supported by a slight increase in local demand, but the vitality of tourist spending varied between nationalities and destinations, despite generally favorable currency effects. Inside the Eurozone, Italy remained the leading country but recorded a weak performance, with growth of just 1% at comparable

exchange rates. Growth was also limited in France, where tourist numbers were affected by the tense socio-political climate. Spain recorded strong growth, while Germany was impacted by flatter consumption among both locals and tourists. Among the big four European countries, the United Kingdom recorded the best performance, with tourists attracted by the weakness of the British pound resulting from Brexit-related uncertainty.

The Americas region was the second largest market after Europe, with the United States accounting for the vast majority of revenue (c. 89%). The size of the region's market remained stable in 2019, at comparable exchange rates. In the United States, the local market was boosted by the country's economic vitality for most of the year, but department stores continued to struggle with traffic, contributing to the mixed performance in wholesale. The appreciation of the US dollar during the year spurred a shift in spend to purchases outside the domestic market, with US traveler purchases in Europe growing strongly throughout the year. Conversely, the strength of the dollar impacted spending in the United States by tourists from both Asia, particularly China, and Latin America. Canada was also affected by the decline in incoming Chinese tourists, while the luxury market's performance was dampened by socio-political tension in Brazil and Mexico.

Japan represented 9% of the worldwide personal luxury goods market in 2019. It is the third largest country in terms of personal luxury goods consumption after the United States and China, and was up 4% at comparable exchange rates. Despite a stronger yen, Japan continued to benefit to a certain extent from spending by Chinese tourists seeking an alternative to Hong Kong (Special Administrative Region), while domestic spending grew at a slower pace, particularly after the increase in consumption tax that came into effect on October 1, 2019.

Mainland China was the fastest growing key country in 2019, up 26% at comparable exchange rates, and represented 11% of the worldwide personal luxury goods market, an increase of two percentage points. The consumption of luxury goods was boosted by an acceleration in the repatriation of local spending, notably driven by exchange rate trends, supportive government policies (such as the VAT rate reduction in April 2019) and the rise of e-commerce. Spending by locals in their domestic market represented 30% of total spending by Chinese nationals, up three percentage points compared to the previous year. Social unrest in Hong Kong began to impact the personal luxury goods market in the third quarter, with Chinese tourists – who account for the majority of luxury spending in Hong Kong – heading to other countries in Asia or Europe or purchasing their luxury goods in Mainland China.

The market posted double-digit growth in South Korea, thanks to both local and tourist spending, with the country notably attracting tourists who would historically have visited Hong Kong.

The rest of the world – including the Middle East, Africa and Australia – represented 4% of the personal luxury goods market, with €12 billion in revenue in 2019. The market recorded negative growth in the Middle East, with luxury spending hampered by a decline in confidence among local consumers and a decrease in tourist numbers due to recent political turmoil.

Product categories

Following the change in methodology mentioned above, the worldwide personal luxury goods market is now divided into seven main product categories, as shown below:

Worldwide personal luxury goods market: breakdown by category (2019e)

	Market value 2019e (in € billions)	Reported YoY change	YoY change at comparable exchange rates	% of total market
Apparel	64	+5%	+1%	23%
Leather goods	57	+11%	+7%	20%
Shoes	21	+12%	+9%	7%
Watches	39	+1%	-2%	14%
Jewelry	21	+12%	+9%	7%
Perfumes and cosmetics	60	+7%	+3%	22%
Other (eyewear, textile accessories, etc.)	19	N/A	N/A	7%
TOTAL	281	+7%	+4%	100%

Apparel

Apparel represented 23% of the total personal luxury goods market in 2019, totaling an estimated €64 billion, up 5% versus 2018. This category includes ready-to-wear for both men and women. The latter accounted for 54% of the category's revenue in 2019 and was its main growth driver. Two key trends have emerged in apparel: (i) the popularity of streetwear among younger generations and (ii) the return of more formal clothing with a modern spin.

All Kering "soft luxury" Houses operate in this product category, especially Gucci, Saint Laurent, Balenciaga, Alexander McQueen and, to a lesser extent, Bottega Veneta, as well as Brioni for menswear.

Leather goods

This category includes handbags, small leather goods (wallets, purses, etc.), and other leather products. The revenue generated by leather goods in 2019 is estimated at €57 billion. The category grew at a rate of 11% between 2018 and 2019 (on a reported basis), driven by entry-price handbags and small leather goods.

Kering operates in this category primarily through the Gucci and Saint Laurent brands, as well as Bottega Veneta and, to a lesser extent, Balenciaga and Alexander McQueen.

Shoes

This category includes both men's and women's shoes. It represented 7% of the luxury market in 2019, or €21 billion in revenue. It grew by 12% on a reported basis, thanks notably to the trend toward less formal shoes such as sneakers, particularly in Asia.

Kering mainly operates in this product category through Gucci, Saint Laurent, Balenciaga, Alexander McQueen and Bottega Veneta.

Watches

This category generated revenue of €39 billion in 2019, representing 14% of the total personal luxury goods market, and was up 1% versus 2018 as reported. The watches segment was particularly affected by the tense socio-political climate in Hong Kong, with the negative impact only partially offset by growth in other Asian markets, especially Mainland China and Japan. Kering operates in this category across different price points with Gucci Timepieces, Girard-Perregaux, Boucheron and Ulysse Nardin.

Jewelry

Revenue from jewelry increased by 12% as reported in 2019 to reach €21 billion, representing 7% of the personal luxury goods market. The segment was supported by its core offering and by the performance of high jewelry, especially in Japan and Mainland China.

Kering operates in this category primarily through Boucheron, Pomellato, DoDo and Qeelin.

Perfumes and cosmetics

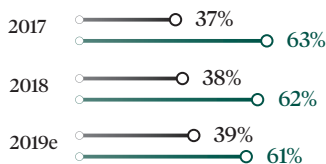
This category represented 22% of the total personal luxury goods market in 2019 and was worth an estimated €60 billion. Kering operates in this product category through licensing agreements between its main brands and leading industry players such as L'Oréal, Coty and Interparfums to develop and sell perfumes and cosmetics.

Other (eyewear, textile accessories, etc.)

Personal luxury goods that do not fit into the categories mentioned above represented 7% of the market in 2019, or €19 billion in revenue. This category includes eyewear, a segment in which Kering operates through Kering Eyewear.

Distribution channels

Worldwide personal luxury goods market: breakdown by distribution channel (2017-2019e)



- Retail
- Wholesale

Retail channel

A strong directly operated store network is important for the success of a luxury brand as it allows greater control over the consumer shopping experience and over the product assortment, merchandising and customer service. In 2019, the retail channel accounted for sales amounting to 39% of the total worldwide personal luxury goods market.

In the case of Kering's Houses, the share of retail sales is far higher (78%), reflecting the maturity of some of the brands, Kering's strategic commitment to grow its directly operated network and growth in the portion of online sales via the brands' own websites.

This also reflects the Group's product mix, as the higher share of leather goods and accessories typically translates into a more prominent share of retail sales in the channel mix.

Wholesale channel

The wholesale channel typically includes department stores, independent high-end multi-brand stores and franchise stores, and accounted for approximately 61% of the total worldwide personal luxury goods market in 2019. This channel can thus be multi-brand or mono-brand. The share of wholesale sales is typically higher in ready-to-wear, watches and jewelry, and is also more significant than retail in the channel mix for brands that stand at an earlier stage of maturity.

Sales formats

Distribution channels can also be split into six sales formats. Some of these formats may be operated through retail or wholesale.



/pt: Market share change (2019e vs 2018).

E-commerce

Online sales of luxury goods continued to grow at a fast pace in 2019, with revenue reaching nearly €34 billion (up 22% at comparable exchange rates), representing around 12% of total worldwide personal luxury goods sales. This includes sales made through brand websites (retail channel)

and by department stores and e-tailers (wholesale). Online is the market's fastest growing format globally, driven by Asia and by a younger cohort of generation Y and generation Z consumers. Within e-commerce, brands and e-tailers are the top performers. Brands are accelerating their development of online activities, expanding both the geographical reach and the assortment offered on their e-stores, while e-tailers are seeing strong momentum due to an integrated offer of appealing content, sometimes supported by exclusive partnerships with brands.

Kering's Houses are present online via e-commerce sites, operated completely internally in the case of Gucci. The same will soon be true for the majority of the Group's Houses, thanks to the internalization of their e-commerce activities during 2020.

Kering brands are also distributed online by selected partners.

Market outlook

Key trends for 2020 include:

- a global economic outlook that has been revised downward due to fears about the trade war between China and the United States, and the slowdown in growth in both countries, as well as uncertainty surrounding Brexit;
- a deceleration in demand (whose scale is still difficult to quantify) in China, a key country in today's luxury goods market, notably driven by a slowdown in the country's economic growth and by the consequences of the China-US trade war;
- impacts related to the outbreak of coronavirus;
- continued repatriation of Chinese spending to the domestic market, and the corresponding impact on spending among Chinese tourists, spurred by a reduction in the luxury goods price gap with Europe, partly due to the decline of the Chinese yuan, and government measures implemented to encourage local consumption. In addition, Hong Kong's ability to recover its appeal as a destination for luxury consumers will depend on how its socio-political situation evolves over the coming months;
- uncertainty about the strength of US spending due to the gradual slowdown expected in the country's economic growth. A potential decline in the US financial markets – which could become more volatile during the election period – would also have a negative impact on the wealth effect among US consumers.

According to the forecasts by Bain and Altagamma, the personal luxury goods market is expected to reach €335-375 billion in 2025e, at a compound annual growth rate (CAGR) of 3-5% from 2019e, driven by:

- emerging countries: in addition to Southeast Asian countries (Indonesia, Thailand, etc.), Brazil, Australia, Africa and India are expected to make a greater contribution to the growth of the worldwide personal luxury goods market;
- emerging consumers: a booming upper-middle class especially benefiting the “accessible” luxury segment, particularly in China. In fact, according to McKinsey, by 2022, the Chinese upper-middle class is expected to account for 54% of urban households and 56% of urban private consumption (up from 14% and 20% in 2012 respectively);
- generations Y and Z: estimated to have fueled all of the market growth in 2019e, they are expected to account for 55% of the market by 2025e versus c. 39% in 2019e;
- the development of distribution channels such as discount outlets, travel retail and e-commerce. The latter is expected to account for 25% of total personal luxury goods sales by 2025;

- an increase in high-spending consumer classes such as high-net-worth individuals (HNWIs). Bain estimates that ultra-high-net-worth individuals (UNHWIs) already represent 30% of the luxury market in 2019 and that their share will continue to grow;
- the development of new high-end products and services;
- increasing interest in second-hand luxury goods. The second-hand market generated an estimated €26 billion in 2019e, with growth driven by increased environmental awareness among consumers. Certain customers, particularly among the younger generations, also see the second-hand segment as a more accessible way to enter the luxury goods market;
- the potential of the American market due to its relative under-penetration by European luxury brands.

These trends are expected to drive an increase in the number of luxury market customers from c. 380-390 million in 2019e to c. 450 million in 2025e.

Eyewear market overview

This section contains information derived from data compiled by Mordor Intelligence, an independent market research and advisory firm, as well as Grand View Research, a market research and consulting company. The higher levels of granularity provided by the new contributors is the reason behind the change of sources compared to the previous year. The worldwide eyewear market presented in this section includes the following product categories: spectacles, contact lenses, sunglasses and other products.

Estimates of the size of the worldwide eyewear market are based on data from Mordor Intelligence and Grand View Research, both of which follow a similar methodology whereby they extract data from published reference sources, liaise with experts to capitalize on their market knowledge, and validate data and research following a stringent internal process.

According to Mordor Intelligence, the worldwide eyewear market generated revenue of €119 billion in 2018 (retail price value) and could reach €158 billion in 2024e, representing an average increase of 5% per year.

Rounded figures (in billions of euros)	2018	2024e	CAGR ⁽¹⁾
Spectacles	61	81	4%
as a % of total market	51%	51%	
o/w lenses	34	46	4%
as a % of total market	29%	29%	
o/w frames	27	35	4%
as a % of total market	22%	22%	
Contact lenses	17	21	4%
as a % of total market	14%	13%	
Sunglasses	16	26	9%
as a % of total market	13%	17%	
Other products	25	30	3%
as a % of total market	22%	19%	
TOTAL	119	158	5%

(1) Compound annual growth rate.

The spectacle frames and sunglasses segment was estimated at €43 billion in 2018, of which approximately €30 billion corresponded to premium and high-end products, as was the case in 2017.

Kering Eyewear operates only in the high-end (frames and sunglasses) sub-segment, which in 2017 was estimated at €7 billion (retail price value; sub-segment unit prices starting from €180) or around €3 billion at equivalent wholesale prices (source: internal).

Competition on the high-end eyewear sub-segment is relatively intense, with more than 20 players of widely varying sizes and operating models (own brands and/or licensed trademarks, different levels of vertical integration in terms of production and distribution) managing and marketing a total of around 70 luxury brands. The main player on the market is Luxottica (now EssilorLuxottica), which operates alongside companies such as Marcolin/Thélios, De Rigo and Safilo.

Future growth for the worldwide eyewear market is expected to be sustained by i) an aging population and the corresponding demand for solutions for presbyopia, and ii) the development of emerging markets and a rise in disposable income.

These two factors, as well as changing consumer habits with a shift to considering eyewear as beauty or fashion accessories, are contributing to the development of the high-end sub-segment, with a high rate of product renewal.

Lastly, given their price positioning, spectacle frames and sunglasses are an accessible form of Luxury and represent a way for brands to attract a new, more aspirational customer base.

4. GROUP ACTIVITIES

Luxury Houses

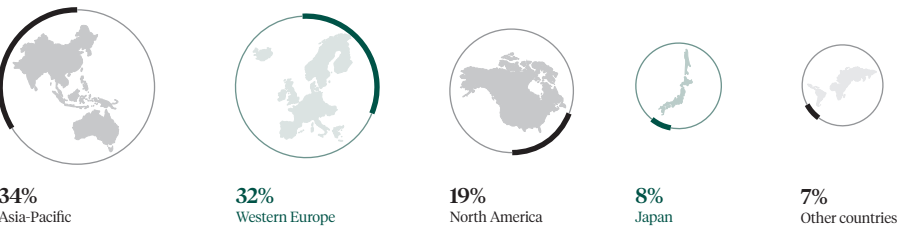
2019 key figures

€15,383 million
in revenue

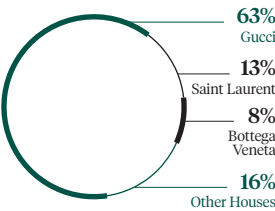
Revenue
(in € millions)



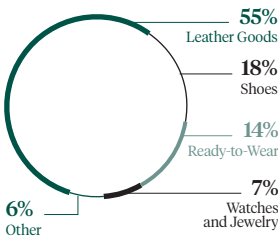
Breakdown of revenue by region



Breakdown of revenue by brand



Breakdown of revenue by product category



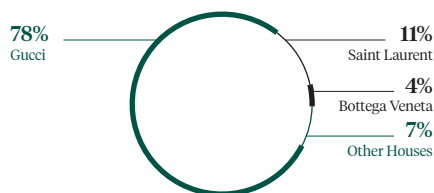
Breakdown of revenue by distribution channel



€5,042 million

in recurring operating income

Breakdown of recurring operating income



Recurring operating income (in € millions)

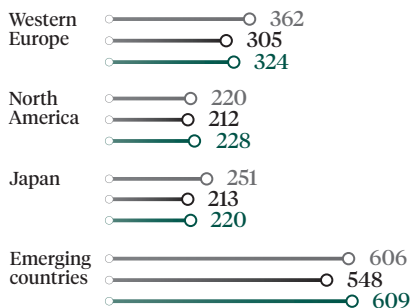


30,956

average number of employees
(full time equivalent)

1,381

directly operated stores



○ Total Dec. 31, 2018: 1,439
(previous DOS count)

○ Total Dec. 31, 2018: 1,278
(new DOS count ⁽¹⁾)

○ Total Dec. 31, 2019: 1,381
(new DOS count ⁽¹⁾)

(1) Per building, based on occupancy under the same roof.

GUCCI

2019 key figures

€9,628 million

in revenue

€3,947 million

in recurring operating income

17,157

average number of employees
(full time equivalent)

487

directly operated stores

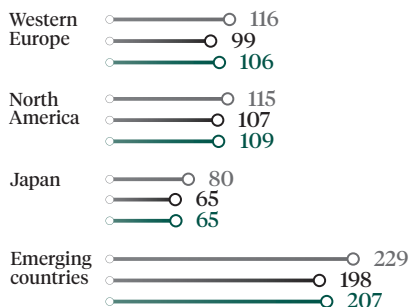
Revenue (in € millions)



Recurring operating income (in € millions)



Number of directly operated stores by region

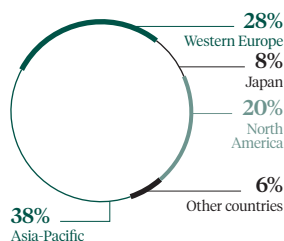


○ Total Dec. 31, 2018: 540
(previous DOS count)

○ Total Dec. 31, 2018: 469
(new DOS count ⁽¹⁾)

○ Total Dec. 31, 2019: 487
(new DOS count ⁽¹⁾)

Breakdown of revenue by region



Breakdown of revenue by product category



Breakdown of revenue by distribution channel



(1) Per building, based on occupancy under the same roof.

Business concept

Founded in Florence in 1921, Gucci is one of the world's leading luxury fashion brands.

At the beginning of 2015, Gucci embarked on a new chapter in its history under the direction of a new management team led by President and CEO Marco Bizzarri and Creative Director Alessandro Michele. Over the last five years, thanks to a disruptive approach to luxury fashion, Gucci has regained its leadership position within the industry, resulting in powerful business momentum.

One of the foundations for the brand's success has been its ability to combine the introduction of a wholly new aesthetic with an equally out-of-the-box strategic vision and execution led by Marco Bizzarri. His approach has prioritized company culture and shared values as the catalysts for a dynamic business. The framework is defined by empowerment at every level of the Company, an atmosphere that encourages thoughtful risk-taking, and a progressive approach to social responsibility.

Gucci products continue to represent the pinnacle of Italian craftsmanship and *savoir-faire*, with unsurpassed quality and attention to detail. They are sold exclusively through a network of 487 directly operated boutiques, a directly operated online store (active in 35 markets), a limited number of franchises as well as select department and specialty stores, both offline and online.

At the end of 2019, Gucci's retail sales represented approximately 85% of the brand's total revenue.

Competitive environment

Gucci is one of the few luxury brands with truly worldwide operations, alongside Hermès, Christian Dior, Chanel and Louis Vuitton. In 2019, Gucci confirmed its leadership position as one of the world's leading luxury fashion brands both in terms of revenue and profitability.

Strategy

The House is just one year away from its 100th anniversary. What has defined and underpinned its success over time has been its constant capacity for reinvention and regeneration, while remaining true to its unique DNA.

Gucci's emphasis on creativity, empowerment of self-expression and constant innovation has helped to ensure the brand continues to sustain a competitive advantage.

The focus on creating an increasingly emotional bond between Gucci and its clients has been one of the key drivers of its performance over the past five years. Deepening the conversation with clients across all of the brand's touchpoints is critical for its long-term success, especially in a technologically connected society, where immersive and innovative digital experiences are paramount to lead the way and engage with consumers across the globe. This is achieved through the careful implementation of a qualitative content and platform strategy that is the source of an ongoing, authentic emotional and engaging narrative.

Gucci's long-term business strategy is based mainly on the key growth drivers reaffirmed during the Kering Capital Markets Day held in June 2018. These include, in particular, the constant improvement of its retail KPIs (traffic, conversion, retention and average ticket), an always more widespread diffusion of the new store concept and the further expansion of the online and travel retail businesses. In terms of products, Gucci's strategy is to achieve full potential in all of its product categories, supported by a clear creative vision, blending established, iconic pieces with the arrival of new products each season.

In line with Kering's long-lasting commitment to sustainability and the introduction of the "Culture of Purpose" ten-year sustainability plan in 2018, Gucci's long-term sustainability strategy is designed to reduce environmental impacts and drive progressive change.

2019 highlights and outlook for 2020

In 2019, Gucci continued to deliver solid growth, above the industry average, as a result of the consistent and successful implementation of its innovative long-term strategy. This performance was achieved by the continued optimization and excellence of its business model and with a limited expansion of the retail footprint and the product portfolio.

From a distribution perspective, the ongoing roll-out of Gucci's new store concept in the year continued to be pivotal in reflecting the brand's aesthetic and values, giving substance and expression to the notion of client inclusivity, reducing barriers between the product and the client, while enhancing cross-selling opportunities.

Given the stability of the retail network footprint during the past few years, the new store concept has played a key part in the significant increase in sales density, achieved across all regions.

A selective approach continued to characterize the wholesale channel, while online sales grew strongly during the year, driven by greater penetration in an increased number of countries and a seamless best-in-class client experience blending a wide range of e-commerce functionalities with rich storytelling. During the year, new online concessions and innovative relationships were also developed with key e-tailers in order to achieve a complete offer on non-proprietary platforms.

In 2019, travel retail emerged as the fastest growing distribution sub-channel, with an acceleration of the network refurbishment. Thanks to a dedicated organization within the Company, Gucci has been able to capture new market opportunities across new, targeted travel retail openings.

In November, Gucci introduced *Gucci Pin*, a series of pop-up stores designed to connect and engage with clients in cities around the world and their surrounding communities, combining dedicated collections with immersive and innovative digital experiences.

From a product perspective, in 2019 Gucci continued consolidating key pillar products, which have become recognized objects of desire, while sustaining curiosity through the calibrated introduction of new pieces, launched at specific times during the year and perfectly integrating with the current offer. During the year, new introductions across all product categories represented approximately 30% of total business.

Meanwhile, building on the highly successful launches of Alessandro Michele's first fragrances with *Bloom*, followed by *The Alchemist's Garden* in 2019, Gucci also saw the introduction of a make-up line bringing the brand's disruptive vision to the beauty category.

Still in 2019, the brand opened its first high jewelry boutique on Place Vendôme (Paris), coinciding with the launch of Alessandro Michele's first high jewelry collection.

Gucci's overall momentum was underlined in 2019 by the Interbrand Best Global Brands ranking, which saw the brand climb from number 39 to 33 as the second fastest growing brand in the world.

Throughout 2019, the House rolled out its new global client service center (Gucci 9) headquartered in Florence (Italy) with regional hubs in the US, Korea, Japan and Southeast Asia. With 350 dedicated online client advisors powered by the latest technology, the new service provides clients with a direct connection to the Gucci community through a seamless, always accessible and personalized experience with a human touch.

In line with Gucci's ongoing mission to create a positive corporate culture in which diversity and inclusion can flourish, the Company appointed a Global Head of Diversity, Equity & Inclusion in July. Her role is to design, develop and implement a global strategy to create a more inclusive and equitable workplace and increase workforce diversity as it relates to Gucci's business initiatives.

In keeping with its long-term sustainability strategy to reduce environmental impacts and drive progressive change, in September Gucci announced its commitment to offset all remaining greenhouse gas (GHG) emissions annually from its own operations and the entire supply chain through four critical REDD+ projects supporting forest conservation and biodiversity around the world. In an unprecedented commitment to sustainability leadership in luxury and fashion, Gucci's supply chain has therefore become carbon neutral.

Reinforcing its global digital expertise, in December Gucci finalized a partnership with Tencent, a Chinese conglomerate specialized in internet-related services. This cooperation agreement will establish a framework that stimulates innovation and leadership in digital strategies spanning the IoT, AI, data science, smart retail, original content and digital thought leadership. The first initiative was launched in October with a series of short films entitled *Gucci Inspiration Map* and featuring multiple international stars and Gucci ambassadors.

In 2020, against a macroeconomic and geopolitical backdrop that will remain challenging, Gucci aims to further consolidate its leadership position within the luxury industry, driven by Alessandro Michele's ever-evolving creative vision. In line with the strategic update presented at the Kering Capital Markets Day held in June 2018, the House will continue to unleash its full potential across all product categories.

More specifically, as a testament to its investment in men's categories, Gucci decided to show its men's Fall/Winter 2020-2021 collection during Milan Fashion Week in January 2020.

The brand plans to continue to invest heavily in innovation across different functions in order to consolidate its leadership in the luxury industry.

SAINT LAURENT

2019 key figures

€2,049 million

in revenue

€562 million

in recurring operating income

3,606

average number of employees
(full time equivalent)

222

directly operated stores

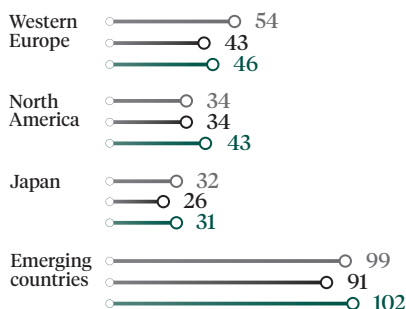
Revenue (in € millions)



Recurring operating income (in € millions)



Number of directly operated stores by region

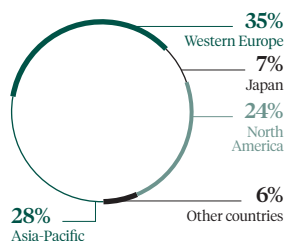


○ Total Dec. 31, 2018: 219
(previous DOS count)

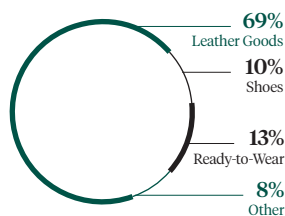
○ Total Dec. 31, 2018: 194
(new DOS count ⁽¹⁾)

○ Total Dec. 31, 2019: 222
(new DOS count ⁽¹⁾)

Breakdown of revenue by region



Breakdown of revenue by product category



Breakdown of revenue by distribution channel



(1) Per building, based on occupancy under the same roof.

Business concept

Founded in 1961, Yves Saint Laurent is one of the most prominent fashion Houses of the 20th century. Originally an haute couture House, Yves Saint Laurent revolutionized modern fashion in 1966 with the introduction of luxury ready-to-wear under the name *Saint Laurent Rive Gauche*.

Saint Laurent designs and markets a broad range of men's and women's ready-to-wear, handbags, shoes, small leather goods, jewelry, scarves, ties and eyewear. The House's products are made in Italy and France, where an historic workshop manufactures ready-to-wear garments. Under a worldwide licensing agreement with L'Oréal, the House is active in the fragrances and cosmetics segment, and also collaborates with Kering Eyewear to develop a full range of frames and sunglasses.

Anthony Vaccarello has been the Creative Director of the House since 2016. His modern, pure aesthetic, reaffirmed by his mastery in tailoring techniques, is pushing the brand forward with clarity and sophistication, while respecting its DNA.

As of December 31, 2019, the Saint Laurent retail network consisted of 222 directly operated boutiques, which together generated 69% of the total revenue for the year and included flagship stores in Paris, London, Dubai, New York, Hong Kong, Shanghai, Beijing, Tokyo, Miami and Los Angeles.

The House is also present in selected multi-brand and department stores worldwide.

At the end of 2019, the Saint Laurent business achieved another significant milestone by reaching the €2 billion revenue mark.

During the year, YSL.com sales grew dramatically, reinforcing the House's position on the e-commerce market.

Competitive environment

Since its inception, Saint Laurent has held enormous influence both inside and outside the fashion industry. Over the years, its founder, the couturier Yves Saint Laurent, secured a reputation as one of the 20th century's foremost designers and personalities.

The House now competes globally with high-end exclusive luxury brands and occupies a leading position in the ready-to-wear, fashion and leather goods sectors. Saint Laurent's status as a leading fashion House is fully established and recognized, with a very distinctive identity based on solid foundations and strong values, perfectly identified and made relevant to our time.

Strategy

Saint Laurent's primary objective remains to create and market highly desirable products that embody the core values of the brand through innovation and unparalleled quality and design.

Creative Director Anthony Vaccarello's aesthetic influences are remarkably in line with the House style. With a great understanding of the brand's core values such as youth, capacity to bring couture to the street, and ability to create a style that resonates in modern times, he has strongly empowered a highly desirable and sophisticated vision, extremely well received both by the historical client base and by new clients worldwide.

A key focus of Saint Laurent is to build an innovative and sustainable future by retaining and hiring the best talent, promoting gender equality, and developing a sustainable way of doing business, while preserving heritage craft and exploring new business models. With this strategy firmly in place, Saint Laurent is confident in its continuing evolution as a highly desirable 21st century brand with a strong and unique DNA, made authentic by its distinctive history in the world of fashion.

2019 highlights and outlook for 2020

Under the leadership of Francesca Bellettini, the Company's CEO, 2019 was another year of expansion for Saint Laurent.

Thanks to the implementation of a highly consistent strategy in terms of products, distribution and communication, the brand confirmed its evolution driven by awareness, desirability and strong performances to enhance the fashion leadership of Saint Laurent in the market.

Under the Eiffel Tower and in different cities around the world, Anthony Vaccarello kept on reaffirming Saint Laurent's ultimate positioning and *savoir-faire*. Season after season, the Creative Director continues to present acclaimed collections, conceived with a modern perspective naturally merging with the legacy of the brand.

Reinforcing brand values through modern and original projects is key to consistently executing Saint Laurent's global communications strategy.

SELF, the multifaceted creative initiative, has proved to be another significant project, bringing back art as one of the brand's core values. Following Daido Moriyama, Vanessa Beecroft and Bret Easton Ellis, the movies of Gaspard Noé and Wong Kar Wai, respectively presented at the Cannes festival and in Shanghai, made the brand highly visible in different creative fields.

Saint Laurent also made 2019 another year of investments, enhancing its retail network with selective store openings worldwide, in both emerging and mature markets, as well as key refurbishments and relocations. Throughout the year, the brand opened 28 directly operated stores (net figure) and reinforced its presence in China with 5 net openings and its first flagship stores in Shanghai and Beijing.

Saint Laurent Rive Droite, a new creative and cultural destination curated by Anthony Vaccarello, was inaugurated in June 2019 on rue Saint Honoré, Paris and Rodeo Drive, Los Angeles. Named Rive Droite as a nod to the *Saint Laurent Rive Gauche* line, the space introduces a brand-new retail destination for expression, exchange and Lifestyle. It proposes a wide range of products including exclusive pieces, limited editions, library, vintage, music and photography combined with art, performances, exhibitions, events and cultural exchanges. Through an extensive and diversified offer from different creative and design fields, Anthony Vaccarello imagines and embraces new ways of enlarging the universe and DNA of Saint Laurent.

In a world where high-tech is key to evolution and growth, Saint Laurent's e-commerce business, as part of the overall omni-channel strategy, was particularly successful in 2019.

As of December 2019, Saint Laurent was present online in more than 50 countries worldwide, including the US, all major European countries, South Korea and Hong Kong.

In an increasingly competitive environment, the brand's priority is to offer an exceptional experience across all distribution channels, while maintaining a privileged relationship with clients in store.

Saint Laurent embraces a clear digital strategy and a consistent and strong social media presence establishing solid online visibility. This is achieved by developing owned channels, while reinforcing earned media relationships and creating relevant and viral content.

Authentic, exclusive and selective, the digital strategy successfully focuses on developing social media and increasing share of voice (SOV). As a result, the September show (presenting the Spring/Summer 2020 collection) ranked #1 in Vogue's ranking of most viewed runways and the collection was acclaimed across all different media platforms.

Fully integrated into the brand's global communications practices and strategies, social media initiatives positioned Saint Laurent as the fastest growing brand on Instagram, now followed by 7.3 million people. Saint Laurent reached more than 2.9 million fans on Facebook and is one of the most popular luxury brands on Twitter, with close to 5.5 million followers.

In line with its current strategy, Saint Laurent will continue to expand its retail distribution network in 2020, while reinforcing its online presence and focusing on building an excellent experience for its clients in every touchpoint with the brand.

BOTTEGA VENETA

2019 key figures

€1,168 million

in revenue

€215 million

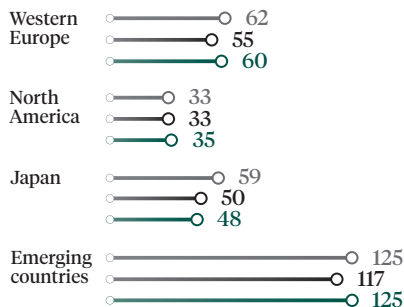
in recurring operating income

3,754average number of employees
(full time equivalent)**268**

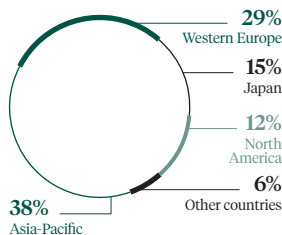
directly operated stores

Revenue
(in € millions)Recurring operating income
(in € millions)

Number of directly operated stores by region

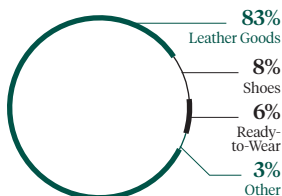
○ Total Dec. 31, 2018: 279
(previous DOS count)○ Total Dec. 31, 2018: 255
(new DOS count ⁽¹⁾)○ Total Dec. 31, 2019: 268
(new DOS count ⁽¹⁾)

Breakdown of revenue by region



(1) Per building, based on occupancy under the same roof.

Breakdown of revenue by product category



Breakdown of revenue by distribution channel



Business concept

Founded in 1966 in the Veneto region of Italy, Bottega Veneta began its journey as a leather goods House. The brand quickly rose to fame with its signature *Intrecciato* code and unparalleled artisanship.

In July 2018, Bottega Veneta embarked on a new chapter in its history with the arrival of British Creative Director Daniel Lee. Providing a fresh perspective and a new sense of modernity, while remaining respectful of the brand's heritage, Lee has transformed a single iconic code into a full iconic silhouette, transporting Bottega Veneta's ready-to-wear offering into bold new realms.

Bottega Veneta has set a new standard for luxury since its creation. Inspired by Italian culture and adopting a global outlook, the House is defined by a distinctive and refined attitude. Creating carefully considered pieces made to wear every day, the brand embraces a core philosophy of style, innovation and luxury across ready-to-wear and accessories for men, women and the home.

Bottega Veneta's products are sold through a distribution network of directly operated stores, complemented by exclusive franchise stores and select department and specialty stores worldwide. In addition, Bottega Veneta's products are now available through the brand's online store in 51 countries, including Mainland China.

Competitive environment

Bottega Veneta draws on its Italian heritage to offer truly handcrafted products made with the expert know-how of its master artisans. Creating an inclusive world built on exclusive products, Bottega Veneta offers a unique and elevated experience. Never compromising on quality and providing an unsurpassed level of service to its clients, Bottega Veneta is placed at the top of the luxury scale with a limited number of competing brands.

Strategy

On September 1, 2019, Bartolomeo Rongone was appointed as CEO of Bottega Veneta. His mission is to unleash the full potential of the House's new creative force. Under his leadership and the creative direction of Daniel Lee, Bottega Veneta's strategy aims to take the brand further into elegant and confident new realms by engaging with a broader, younger audience. The business and creative sides are working hand in hand to increase brand awareness.

Historically, the brand's core business has been leather goods – which accounted for 83% of sales in 2019 – characterized by the use of the highest quality materials and attention to detail. A wider range of products appealing to an international clientele of men and women has gradually been integrated, all featuring Bottega Veneta's sophisticated substance, craftsmanship, Italian glamour and eloquent discretion. The *Intrecciato* code remains an essential element of the brand's visual identity, imbued with a fresh, modern perspective.

2019 highlights and outlook for 2020

The first quarter of 2019, a transitional period before Daniel Lee's collection became available in-store, was accompanied by the immediately positive reception of the first new handbags introduced for the Spring 2019 collection (*Maxi Cabat* and *The Pouch*).

In February, Bottega Veneta released its Spring 2019 advertising campaign. The first to be executed under the Creative Direction of Daniel Lee and photographed by Tyrone LeBon, the out-of-home campaign began in Milan and continued through the year in major international cities during fashion weeks and other key events.

On February 22, the first fashion show by Daniel Lee, Fall 2019 at the *Arco Della Pace* in Milan, marked a bold new approach for the brand. The collection, a celebration of freedom, self-expression and sensuality, brought modernity together with traditional craftsmanship.

The second quarter reflected the investments made in the House's new transformation. Daniel Lee's first collection, Pre-Fall 2019, began hitting shelves in mid-May, receiving an extraordinary response from both new and existing clients, with particular excitement around the handbags and shoes.

Between May and June, Bottega Veneta hosted "Together", a new event concept drawing inspiration from the brand's illustrious heritage and the innate warmth and spirit of Italy. Guests were invited to discover the Pre-Fall 2019 collection in key international cities such as Shanghai, Hong Kong, Seoul, Tokyo and New York.

The second half of the year saw a positive performance. The brand integrated new skills and capabilities, while accelerating its marketing and communication investments. Action plans were put in place to speed up production and ensure sufficient new product inventory levels.

The Spring 2020 fashion show held at Palazzo del Senato in Milan on September 19 served to cement the new modern era for the brand. A compelling response from international press and buyers was further echoed in social media conversations, with a rapid increase in posts demonstrating the House's momentum.

The product mix continued to evolve with significant efforts to expand shoes and ready-to-wear in addition to the leather goods category, which has been revitalized through new shapes, functionalities and variations of the *Intrecciato*. The House opened a dedicated ready-to-wear atelier in its Milan headquarters in order to fulfil the creative needs driving the category's business development.

An outstanding response was received in the women's categories thanks to new iconic styles. *The Pouch*, for instance, became the fastest-selling bag in Bottega Veneta's history, followed by the resounding success of *Arco* and *Cassette*. Meanwhile, shoes steadily posted very strong performances, with key families such as *Stretch* and *Bloc* garnering icon status.

In terms of distribution, Bottega Veneta focused on reinforcing its existing retail network throughout 2019. Continuing to enhance its boutiques, through both refurbishments and expansions, the brand aims to offer an unparalleled and elevated customer experience. Pursuing selective store openings, Bottega Veneta had increased its total network to 268 at the end of the year.

In July, Bottega Veneta opened its first regular store in Kuwait at The Avenues Mall – 401 square meters showcasing an extensive range of pieces for both men and women, including ready-to-wear, bags, small leather goods, shoes, jewelry, fragrances, eyewear and accessories.

In September, the first Bottega Veneta café opened in Osaka in Hankyu Men's department store. Directly accessible from the brand's newly opened boutique, the café offers a curated menu, inspired by traditional Italian staples and including a noteworthy wine selection from the Veneto region.

In November, Bottega Veneta opened its first store designed by Daniel Lee, in the Miami Design District. A two-floor space inspired by process and purity, color and clarity, it contrasts materials to enhance light, elevate beauty, and showcase products with total transparency.

Lastly, in December, the House inaugurated a unique store in Beijing's SKP South. Continuing Bottega Veneta's journey of evolution, the boutique will be refreshed on a quarterly basis with new creative elements and exclusive pieces, echoing the visionary essence of the mall itself.

Bottega Veneta's new collections were enthusiastically received by third-party distributors: the wholesale channel performance was driven by new customers across all regions, special collaborations with wholesale partners such as Bergdorf Goodman, Dover Street Market, Matchesfashion.com and Ssense, and new online activations.

In the third quarter, Bottega Veneta entered the Lyst Index, ranking as the number 1 breakout brand of the year, with *The Pouch* and *Stretch* sandals featured in the 2019 most wanted products section.

Bottega Veneta and Daniel Lee were shortlisted among the nominees in four categories of the Fashion Awards 2019: Brand of the Year, Designer of the Year, British Womenswear Designer of the Year and Accessories Designer of the Year. Bottega Veneta won all four awards at the annual ceremony held in London on December 2, 2019.

In 2020, the brand is expected to sustain its positive performance, lifted by the House's creative renewal and an ongoing acceleration in marketing and communication investments also amplified by a social media halo, thus increasing brand awareness. In particular, Bottega Veneta aims to achieve sustainable growth by evolving from a classic luxury label to a global Lifestyle brand and undisputed leader in the luxury fashion segment. The Company will champion new client recruitment by increasing visibility in key cities around the globe leveraging Daniel Lee's vision, iconic key products, long-term equity and brand heritage.

In terms of products, the Company will increase its focus on a complete silhouette for both men and women.

Bottega Veneta will continue to build on its achievements and positioning, supported by further strategic retail openings worldwide, including a flagship store in Tokyo's Omotesando.

The newly established visual language and contemporary vision for the House will continuously enhance its reputation as one of the world's most renowned luxury lifestyle brands, increasing its global relevance within the luxury industry. The brand will continue to nurture its strategy based on innovation while refreshing the existing retail network under the new store concept conceived by Daniel Lee in key locations, as it works to build the world of Bottega Veneta.

OTHER LUXURY HOUSES

2019 key figures

€2,538 million

in revenue

€318 million

in recurring operating income

6,439

average number of employees
(full time equivalent)

404

directly operated stores

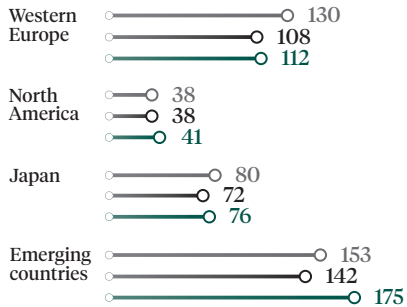
Revenue (in € millions)



Recurring operating income (in € millions)



Number of directly operated stores by region

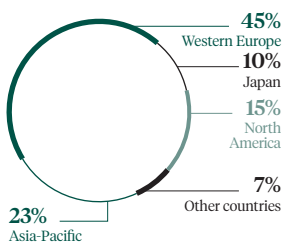


○ Total Dec. 31, 2018: 401
(previous DOS count)

○ Total Dec. 31, 2018: 360
(new DOS count⁽¹⁾)

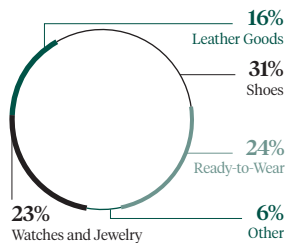
○ Total Dec. 31, 2019: 404
(new DOS count⁽¹⁾)

Breakdown of revenue by region

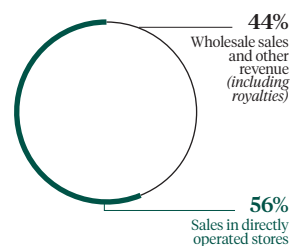


(1) Per building, based on occupancy under the same roof.

Breakdown of revenue by product category



Breakdown of revenue by distribution channel



Alexander McQUEEN

Founded in 1992 by Lee Alexander McQueen, the Alexander McQueen brand quickly gained a reputation for uncompromising creativity and forged a strong identity, which led to a partnership with Kering in 2001. Since 2010, the House has been fully owned by Kering.

Alexander McQueen is renowned for innovation grounded in craftsmanship and the House today has become synonymous with modern British couture. In December 2016, Alexander McQueen was awarded British Brand of the Year by the British Fashion Council (BFC).

Since her appointment as Creative Director in 2010, Sarah Burton has produced critically acclaimed collections with a focus on storytelling, experimentation and traditional artisanal techniques. Her ability to develop the design codes of the House with lightness and a distinctive, authentic touch has ushered in a new aesthetic that is being translated throughout the Company's culture, establishing a blueprint for the future.

The House's strength lies in the cohesive presence of a distinctive silhouette that informs designs across all product categories. Alexander McQueen has recently enjoyed strong growth in shoes and leather goods with collections built around iconic products that embody the brand's codes, while consolidating its worldwide authority in ready-to-wear.

After the successful launch, in partnership with Coty Prestige, of the inaugural fragrance from Alexander McQueen in 2016, a fragrance for women, *Eau Blanche*, was launched in 2017, followed by an exclusive *McQueen* fragrance collection in 2018.

As of 2019, the Alexander McQueen brand was sold in over 50 countries worldwide, through a network of 66 directly operated boutiques, a limited number of franchises and selected department and specialty stores. The network was recently reinforced with several openings, culminating in the relocation of the London flagship store. With nearly 11,000 square feet, the Old Bond Street store unveils a new retail concept developed by Sarah Burton in collaboration with the architect Smiljan Radic, which translates the brand's powerful storytelling into a unique customer journey through a physical space.

At the same time, the House continues to enhance its visibility and reach with strategic openings of shop-in-shops in high traffic locations, direct entry in new, high potential markets (such as Malaysia and Thailand, where the brand has operated since 2018) and by further developing its online presence. The Alexander McQueen e-commerce store has been the brand's number one store in terms of revenue contribution since 2018. Directly operated concessions with Tmall Luxury Pavilion and Farfetch have extended the Company's footprint in the digital eco-system.

The Alexander McQueen brand has a strong social media presence, with over 9 million followers on Instagram and approximately 2 million followers on Twitter and Facebook as of the end of 2019. To increase honest and direct connections with its customers and build a true sense of community, Alexander McQueen continues to invest in digital communication, including through heightened engagement across Chinese social media such as Weibo and WeChat.

Alexander McQueen's social media channels are integrated into the larger brand communications strategy and fully aligned on key themes and stories.

The Company has also successfully developed McQ, which was re-launched as an in-house brand in 2011 and is today well established in the popular contemporary market. The McQ brand is currently distributed in many countries, primarily as an international wholesale business across a total of more than 500 doors. Franchises also represent an important part of McQ's business. In 2020, following the radical evolution of the contemporary market, McQ is transitioning toward a new aesthetic, distribution, and direct-to-consumer model. The new McQ is an innovative and collaborative platform, integrating fashion and technology. McQ is now a global creative collective, working with credited collaborators and using a unique blockchain that registers each item, allowing consumers to interact and engage with the platform via an NFC chip, located in each garment. MYMCQ is a peer-to-peer platform that combines social media and resale capabilities, bringing the brand into a circular economy model.

In 2019, Alexander McQueen pursued its growth strategy through increased investment in communications, further penetration in accessories with the launch of elevated new leather goods lines and strong developments in footwear, and an acceleration in the expansion of the network. The roll-out of the new store concept gained momentum during the year with the opening of key flagships in Dubai, Shanghai and Hong Kong. Creative Director Sarah Burton also achieved two standout accolades, winning the CFDA International Designer Award and the Trailblazer Award at The British Fashion Awards.

Sarah Burton has also introduced her vision of open access installations and collaborative education at Alexander McQueen. The opening of the new Bond Street store established the beginning of an extensive program devoted to sharing the history and skills of the House via guided tours, which are available to every visitor. The dedicated floor attracted an audience of students invited from across the United Kingdom.

Through the staging and curation of thematic installations, Sarah Burton's purpose is to open up in-depth perspectives on the thinking, research and expertise that bring alive the links between the archive and the unique working processes of the House, an idea that will be further nourished and developed in 2020. The roll-out of the new store concept continues in 2020 with another 15 projects in the pipeline.

BALENCIAGA

Founded in 1917 by Cristóbal Balenciaga, the House of Balenciaga was established in Paris in 1937, where it defined many of the greatest movements in fashion from the 1930s to the 1960s. Balenciaga's exquisite technique, masterful cut and constant innovation in its use of fabrics has helped it carve out a special place in the hearts and minds of its clients.

In the 1990s and early 2000s, after returning to the world of fashion, the brand experienced a re-birth, with an extension of its product universe beyond its core ready-to-wear segment to include handbags and the development of new lines of shoes and accessories. Balenciaga also significantly expanded its retail network, helping to bolster brand awareness around the globe.

Demna Gvasalia was appointed Artistic Director of Balenciaga in October 2015. His mastery of techniques and use of volumes, combined with his innovative approach, make him a powerful force in today's creative world. As Artistic Director, Demna Gvasalia has begun writing a new chapter in Balenciaga's history and consolidated the House's status as a fashion authority. Demna Gvasalia has embraced Balenciaga's values and is developing them in harmony with contemporary trends.

Balenciaga has been developing men and women's eyewear collections with Kering Eyewear, sold worldwide through its retail network and specialty third-party retailers, since 2018.

In recent years, Balenciaga has been consolidating its directly operated store network worldwide. As of end-2019, the House has a network of 155 stores in both mature markets (Western Europe, the United States and Japan) and Asia (Greater China and South Korea). Balenciaga has taken its stores in the Middle East back under direct management. It is also distributed through franchises and leading multi-brand stores.

In 2019, Balenciaga pursued its retail expansion strategy with the opening of several new stores in Asia and the United States, including a flagship store on New York's Madison Avenue. During the year, several stores were renovated in line with the new concept developed by Demna Gvasalia. The brand also extended its retail presence in upscale department stores, with the opening of new shop-in-shops in Europe, Canada, Japan and Asia.

The online store Balenciaga.com confirmed its position in 2019 as one of the brand's top-performing directly operated stores, and traffic continued to increase strongly. All regions are enjoying outstanding results and the web experience is perfectly in line with the brand's audience and their shopping preferences. Mobile continues to be the preferred method for both browsing and shopping. Today there are nine local versions of Balenciaga.com, in different languages, including Chinese, Korean and Russian, and the Balenciaga website is e-commerce enabled in nearly 100 markets.

On social media, as of December 2019, Balenciaga had more than 1.6 million fans on Facebook and is increasingly popular on Instagram with almost 11 million followers. This reflects growing interest for the collections and a significant gain in brand awareness and visibility.

In 2020, the brand will continue to benefit from the momentum generated by the new creative vision and new product launches, particularly the new lines of leather goods. While wholesale distribution will remain an important contributor to the brand's activity, retail and e-commerce development will continue to be the priority. To this end, new store openings are planned during the year in strategic locations both in mature markets and in Asia. In its roadmap for 2020, Balenciaga also plans to further develop its men's collection, with dedicated spaces in the new stores, and to continue to enlarge its online product and services offering, forming part of the overall omni-channel strategy.

BOUCHERON

PARIS

Founded in Paris in 1858 by Frédéric Boucheron, the eponymous House was built up by four generations of the founder's direct descendants and soon acquired fame for its expertise in precious stones and its *savoir-faire* in creating innovative jewelry. Thanks to its founder's natural instincts, Boucheron became the first major contemporary jeweler to open a boutique on Paris' prestigious Place Vendôme in 1893. Since its creation, the House has been closely associated with the idea of freedom, not only in terms of its aesthetic, creative and technical approach but also the freedom of women to wear jewelry according to their own sense of style, transcending traditional codes and conventions. For 160 years, Boucheron has been synonymous with creativity and style in jewelry and high jewelry.

The brand is focusing its expansion through its 43 directly operated stores (at the end of 2019) and 13 franchises in key locations worldwide.

2019 was a year of remarkable events for Boucheron.

The House made its return to the US market following several years away, with a corner in New York's Saks Fifth Avenue. In addition, 2019 saw the House transform four of its existing boutiques in line with the new concept.

A new global advertising campaign was launched in February to enhance brand development and awareness. The signature feel of the campaign captures the spirit guiding Boucheron's creations. Lensed by the talented Oliver Hadlee Pearch, Andreea Diaconu plays a woman who asserts her freedom to wear jewelry her own way. A series of seven images and four films, each presenting a different collection, was released in all markets.

Boucheron strengthened its product offering with the launch of a new jewelry icon in April. Turning a page in the history of the House, the playful and independent *Jack de Boucheron* collection gives free rein to the wearer's creativity.

In July, the House paid tribute to its Parisian roots through High Jewelry collection *Paris vu du 26*, in which Creative Director Claire Choise shared her personal view of the city. The collection was designed at number 26 Place Vendôme, where it was also presented to clients and the media during Paris Fashion Week.

In 2020, to celebrate the launch of the new *Signature* High Jewelry collection, Boucheron trialed a new events concept in January. Rolled out across all markets, the event allowed participants to immerse themselves in the experience and discover the essence of Boucheron, living a journey through history, innovation, the French art of living, and most importantly style, which captured the House to perfection.

A new boutique will open its doors in late April 2020 in one of the world's largest shopping malls, SKP Beijing. Inspired by the *Jardin d'Hiver* at 26 Place Vendôme, the new boutique echoes the Parisian space to take clients on a journey through the French art of living. More than just a boutique, the space will also allow visitors to taste *pâtisseries* created by a French pastry chef, for immediate consumption or to take away.

In July 2020, the House will launch its new creative High Jewelry collection, which will stop time to capture the fleeting nature of the present.

In 2020, Boucheron is renewing its commitments to sustainability. Having reached its target of purchasing 95% ethically sourced gold (Kering Ethical Gold Framework), the House is committed to achieving 100% in 2020. For the launch of its new jewelry collections in 2020, Boucheron has focused on the traceability of its colored gemstones and will use fully traceable rhodolite garnets, as well as sustainable pearls produced by Paspaley in Australia.

The House will embrace its femininity through various personalities in 2020. Complementary profiles of all ages and nationalities will lead the campaign in each of Boucheron's key markets, in keeping with the House's ambition to develop its brand awareness on the international markets, especially in the Asia-Pacific region.



Brioni was founded in Rome in 1945 by Italian tailor Nazareno Fonticoli and entrepreneur Gaetano Savini. Revolutionary since the beginning, Brioni was in 1952 the first men's luxury House to stage a fashion show and to introduce bright colors and new fabrics to its tailoring collections, pushing the boundaries and interpretations of traditional menswear.

Over the years, Brioni strengthened its global reputation, obtaining notable recognition in the US, where it was named the most prestigious men's luxury fashion brand by the Luxury Institute of New York in 2007 and 2011.

Part of Kering since 2012, Brioni develops and manufactures men's apparel, leather goods and shoes. The Company's identity is founded on its bespoke service, which provides entirely custom-made garments with an unparalleled level of craftsmanship.

All the brand's products are meticulously handmade by expert artisans and the majority of the production is made in-house at Brioni's ateliers in Penne, a small town in the Abruzzo region with a rich, long-standing tailoring tradition.

Wholesale represents an important distribution channel and, in recent years, Brioni has focused on optimizing and consolidating its distribution and franchise network.

In retail, Brioni had 30 directly operated stores as of the end of 2019, mainly located in Western Europe, North America and, to a lesser extent, in Japan and Asia.

2020 will be a special year for Brioni. The brand celebrates its 75th anniversary and has a strong communication plan in place for both retail and wholesale channels. The celebrations started in early January with Brioni's presence at Pitti Immagine in Florence, where Brioni made history with the first men's runway show in 1952. During this event, Brioni unveiled its Fall/Winter 2020 collection. The celebrations continued with the launch, later in January, of the new campaign featuring Brad Pitt as new brand ambassador.

In 2020 and beyond, under the helm of its new CEO, Brioni aims to sustain like-for-like growth, supported by its strong retail network, whilst leveraging its long tradition of Italian tailoring to anchor the brand as a leading player in the world of luxury menswear.

GIRARD-PERREGAUX



Girard-Perregaux traces its origins back to 1791, spanning over 225 years of watchmaking history. The brand is one of the oldest Swiss watch Manufactures, marked by legendary watches that bridge technical mastery and iconic design, such as the renowned *Tourbillon with Three Gold Bridges*. The complication won a gold medal at the Paris Universal Exhibition and has featured in the brand's catalogue ever since.

Girard-Perregaux has been part of Kering since 2011.

True to its roots, the Girard-Perregaux Manufacture has remained in La Chaux-de-Fonds, in Western Switzerland, a UNESCO World Heritage site. The brand has proudly retained its Manufacture status by mastering all the required horological skills in-house. From design and development to production, finishing and assembling, the brand's comprehensive expertise reflects generations of relentless effort in the pursuit of technical mastery and iconic artistry. In the second half of 2019, following the completion of important building works, the Girard-Perregaux Manufacture re-opened its doors to external visitors who will once again be able to discover the brand's history and its watchmaking workshops.

Today, Girard-Perregaux is a brand with unique appeal to true watch connoisseurs. Innovation remains a hallmark

of the Swiss Manufacture, as Girard-Perregaux continuously reinvents its icons, as underpinned by the numerous launches throughout 2019. At the start of the year, the brand presented a new collection of exceptional timepieces – both classic and contemporary – under the theme Earth to Sky including models such as the *Laureato Absolute*, the *Laureato Absolute Rock*, the *Cosmos*, the *Quasar* and the *Neo-Bridges Earth to Sky Edition*. In 2019, Girard-Perregaux also introduced a new brand identity in order to inject more meaning and iconicity into the components of its brand.

Girard-Perregaux revealed the brand's new face in China, Chen Xiao – a young and acclaimed television and film actor – through a campaign illustrating their shared values: engagement, precision, innovation, as well as adding emotion and elegance to our everyday lives. The partnership with Chen Xiao has also involved an outdoor media campaign in targeted cities as well as a presence at key points of sale and on social media channels.

Girard-Perregaux timepieces are distributed through an exclusive but global distribution network. In December 2019, Girard-Perregaux opened a point of sale in the exclusive K11 Musea mall in Hong Kong, introducing a new retail concept in which visitors are fully immersed in the Girard-Perregaux brand.



Known to the international jewelry scene for its creativity and distinctive character, Pomellato, established in 1967, was the first to introduce the *prêt-à-porter* philosophy to the world of jewelry.

Pomellato's voluminous creations are unique in their blend of colorful stones, Milanese craftsmanship, stone-cutting techniques and jewel-setting know-how. The brand's designs are immediately recognizable for their consistent, iconic style. Jewels are handcrafted by expert goldsmiths on site at Casa Pomellato, the brand's Milan headquarters, where the artisans transform the spirit of the brand into extraordinary designs.

The *Iconica*, *Nudo*, *Tango* and *Sabbia* collections are Pomellato's product pillars. Each fully embodies the message of the brand: "The first global luxury Italian fashion fine jeweler, unconventional and colorful, The New Precious". *Nudo*, launched in 2001, continues to be a Pomellato signature collection, and is constantly expanding with new designs. The golden *Iconica* collection, launched in 2017 for the brand's fiftieth anniversary, is confirming its ongoing success by crossing over into daywear jewelry, while including more precious pieces.

In 2019, Pomellato boosted its brand recognition with the expansion of both its digital and product activities. As part of its digital approach, the brand sought greater visibility with its fashion-oriented core target market as well as with millennials. This was achieved by increasing its social media presence and thanks to its #PomellatoForWomen global advertising campaign, launched as a celebration of the brand's fiftieth anniversary. #PomellatoForWomen features real-world, strong-willed, independent women of all ages and walks of life. Its 360° communication platform encompasses digital, social media, public relations and events, and celebrates the diversity and authenticity of womanhood.

Regarding product initiatives in 2019, Pomellato launched the *Brera* collection and an extension of the *Nudo* line.

Pomellato consolidated the architecture of its products by upscaling its pillar collections, investing in the gold segment and increasing the stackability of its entry-level products.

With an eye toward the future, Pomellato has further invested in sustainability and social responsibility. Since 2018, the brand has achieved 100% responsible gold sourcing. Pomellato also continued its partnership with the Galdus Goldsmith Academy, established in 2018. Known as *Pomellato Virtuosi*, it provides programs, seminars and apprenticeships to promising young local artisans in Milan with the aim of safeguarding craftsmanship.

In 2020, Pomellato plans to increase its presence in China and other Asian markets. In addition, the House will further invest in brand communications, especially by developing greater digital media prominence, to enhance visibility and build on existing market opportunities. As for products, the brand will continue to roll out its pillar strategy and will affirm its legitimacy in the gold segment with the launch of *Fantina*, a new gold and diamonds collection that explores the very origins of the Pomellato brand name, expressing Pomellato's passion for design, in a tribute to the modern Amazon, a free-spirited woman.

Following its international expansion, at the end of 2019, Pomellato had a distribution network spanning 48 directly operated stores, 12 franchise boutiques and approximately 510 wholesale points of sale.



DoDo is an Italian fine jewelry House founded in 1994 by renowned Milan-based goldsmith Pomellato. The House takes its name from the legendary bird of Mauritius. A symbol of precious moments, DoDo loves Mother Nature, promotes inclusivity and celebrates self-expression.

DoDo is the jeweler for the modern girl, offering charming collections of delicate and small handmade creations that match her cool chic style. Its composable jewelry is designed to be mixed and matched, multiplied and played with.

In 2019, DoDo concentrated on communicating its core values and on strengthening its presence in Western Europe. The beginning of the year was dedicated to love and emotions in honor of Valentine's Day, and was followed by the successful restyling of its luckiest charm, the *Ladybug*. Spring started with a celebration of craftsmanship following the launch of the very first jewelry line, *Nodo*, which is inspired by cotton rope knots.

In May, in line with its commitment to the environment, DoDo launched the "A Tree for a Tree" campaign in partnership with charitable organization Treedom. The goal of the campaign is to raise awareness around the role of trees in the world, by allowing every customer of a *Cherry Tree Charm* to plant their own tree remotely and watch it grow.

In the fall, DoDo kicked off the celebrations for its 25th anniversary, which will continue for a full year. The brand successfully relaunched its key icons in new sizes and materials, and a new egg charm and egg packaging were also released for the occasion.

At the end of 2019, the DoDo distribution network included 27 directly operated stores, 24 franchisees and 530 authorized dealers.

In 2020, DoDo will continue to enhance brand awareness and distribution in Western Europe while maintaining its leadership position in Italy. The brand will leverage its pillar lines to reach new audiences with new, modern, ready-to-wear and personalizable jewelry (*Granelli*, *Everyday*, *Nodo* and *Pepita*). The charms' novelty will sustain the brand's storytelling, focusing on key DoDo themes, sales events and limited edition pieces.

qeelin

Qeelin fine jewelry is a playful fusion of Chinese symbolism and modernity. Since the brand's creation in 2004, every piece of jewelry has carried rich cultural connotations, reinterpreting traditional symbols with stylish designs that infuse new life and contemporary meaning into Chinese heritage.

Named after the *Qilin*, an auspicious Chinese mythical animal and icon of love, Qeelin fuses unbridled creativity with excellence in craftsmanship, bringing a touch of playfulness and surprise into the world of fine jewelry.

The brand's iconic *Wulu* collection revisits the legendary Chinese gourd, an auspicious symbol of good fortune and positive energy in the country's traditional culture. Its contemporary lines echo the curves of the cherished number 8.

Qeelin's other two pillar collections are *Yu Yi* and *Bo Bo*. *Yu Yi* is inspired by the *ruyi* lock, or lock of good wishes, a traditional Chinese symbol of protection and spiritual potency representing a modern fulfiller of dreams. Inspired by the panda, China's national treasure, Qeelin's *Bo Bo* has many endearing expressions. Named after the Chinese word *bao* meaning "precious", *Bo Bo* conveys the priceless value of childhood innocence and curiosity.

Perpetuating Chinese culture is Qeelin's most distinctive ambition, through exquisite jewelry intended for daily wear, embracing the fashion trends of new generations and shining a light on Chinese culture in the world of luxury.

In 2019, Qeelin marked its 15th anniversary with a milestone as the first Chinese jeweler to open a boutique on Place Vendôme in Paris, the world's most prestigious showcase for fine jewelry. At the end of the year, Qeelin had over 28 boutiques and store-in-store points of sale globally, with a focus on expansion in Greater China (25 points of sale at year-end). The 17 boutiques in Mainland China include the opening in 2019 of directly operated stores at Dalian Time Square, Chongqing Time Square, Kunming Spring 66 and Beijing SKP South. Wholesale expansion included Shengyang Center and Ningbo HeYi, as well as the travel retail points of sale Haikou Downtown Duty Free and Shanghai Pudong Airport.

Marketing and communications milestones included the appearance of Qeelin's founder and Creative Director Dennis Chan on season 2 of CCTV2's *Fashion Master*, which aired on November 9, 2019. The Qeelin brand origins story, linked to the Dunhuang region of China, was thus told to a wide audience, generating over 17 million views on online video platforms and over 220 million mentions on social media. Brand ambassador Sandra Ma, an award-winning Chinese actress, increased brand visibility by appearing at the Qeelin 15th anniversary event at SKP Mall in Beijing, for which she scored Weibo hot search #1. Chinese actor and singer Sean Xiao also helped recruit millennials, with many of his Weibo hashtags achieving over 150 million views.

Key product launches included the limited edition *Wulu Jade Place Vendôme* necklace, showcasing exquisite jade carving craftsmanship, and the *Wulu Bamboo Lace* pendant, breathing new life into Qeelin's iconic collection. Also new in 2019 were the very successful red agate *Wulu* and jade *Wulu* collections, which brought a pop of color. The launch of the unisex *Wulu* interchangeable bracelet collection expanded the range of products available to male consumers, while *Hip Bo Bo*, the newest member of the *Bo Bo Gang*, who dances in a cool hip hop style, is not simply a fashion statement but a milestone in jewelry making. For the first time, a fine jewelry piece is presented with a switch mechanism that allows the wearer to change *Hip Bo Bo*'s hand gesture.

In 2020, Qeelin will focus on further developing its footprint in Greater China, as well as upgrading the brand's e-commerce operations. Key product launches will include expansion of the *Wulu* rings category, animation of the *Double Wulu* collection, launch of the new *Cannes Couture* collection and a number of exciting collaborations.



Ulysse Nardin is the pioneering Swiss watch manufacturer inspired by the sea, delivering innovative timepieces to free spirits.

Founded by Ulysse Nardin in 1846 and part of Kering since November 2014, Ulysse Nardin has written some of the finest chapters in the history of Haute Horlogerie. The Company achieved early renown due to its ties to the nautical world: its marine chronometers are among the most reliable ever made, still sought by collectors around the world.

A pioneer of cutting-edge technologies and the innovative use of materials like silicon, Ulysse Nardin is one of the few Swiss watchmakers with the in-house expertise to produce its own high-precision components and movements. This exceptional level of watchmaking excellence has earned Ulysse Nardin membership of the most exclusive circle of Swiss watchmakers, the *Fondation de la Haute Horlogerie*. Today, from its sites in Le Locle and La Chaux-de-Fonds in Switzerland, the brand's continuing quest for horological perfection is anchored around five collections: the *Marine*, the *Diver*, the *Classic*, the *Executive* and the *Freak*.

In 2019, Ulysse Nardin introduced the X factor to the watchmaking industry with the launch of *Freak X* and *Skeleton X* in January. The X collections reveal the inner design and mechanics of the watches, with a price positioning accessible to a younger client base, especially in China. The X factor stands for disruption and addresses those who dare to be different. New X models within the *Diver* collection will be launched in early 2020 to continue to Xplore the X saga.

During the year, Ulysse Nardin also opened three new stand-alone boutiques in Geneva, Shanghai and Beijing, and inaugurated a new architectural concept. The bright and airy design is based on a non-literal representation of the sea, playing on raw materials and transparency. In addition to these flagships, Ulysse Nardin continued the transformation of its visual merchandising with the renovation of 59 additional corners and 10 shop-in-shops. By the end of 2019, Ulysse Nardin's new face had been displayed in more than 100 key locations around the world.

The evolution of physical distribution in the year was matched with digital transformation. Ulysse Nardin revamped its website to offer a mobile first, lightning speed experience, designed to enhance products. E-commerce was launched in the UK as well as in the US and will be further deployed in 2020.

New releases for 2020 were unveiled in style in late 2019, as part of a unique event at Kering's headquarters, gathering key media players and retailers. During the gala dinner, Ulysse Nardin announced its partnership with the Vendée Globe sailing race. As the official timekeeper of the event, Ulysse Nardin will gain visibility and offer exclusive content throughout 2020. Dedicated timepieces will celebrate the round-the-world journey of 35 free spirits following in the footsteps of Ulysses.



Launched in 2014 by Kering and a group of managers led by Roberto Vedovotto, Kering Eyewear was created to develop in-house eyewear expertise for the Group's brands.

Eyewear is a strategic product category and the rationale behind the creation of Kering Eyewear was to help the Houses reach their growth potential in this business segment while leveraging each brand's unique appeal, through:

- the development of a product fully reflecting each brand's identity and trends;
- an unparalleled level of quality provided by a network of industry-leading suppliers recognized for their technical expertise and craftsmanship;
- a distribution in line with each brand's image and positioning, by serving only the best doors worldwide.

In order to establish eyewear as a core category, Kering decided to internalize the entire value chain, marking a significant change to the industry's standard processes. Thanks to a strong group of talented and skilled people, Kering Eyewear directly manages design and product development, supply chain, commercial and distribution strategies, as well as sales and marketing, thus allowing tight control over the whole value chain.

Kering Eyewear's first collection was unveiled on June 30, 2015, for 11 of Kering's Houses and, since then, more brands have been added to the portfolio, starting with Gucci, for which the first collection was presented in October 2016.

In March 2017, Kering and Richemont announced a partnership agreement for the development, manufacturing and worldwide distribution of the Maison Cartier and Alaïa eyewear categories, resulting in Richemont becoming a shareholder of Kering Eyewear.

In January 2019, the Company added to its portfolio Courrèges, Montblanc and Balenciaga – the last Kering brand at the time with an eyewear category not managed by Kering Eyewear. As of the end of 2019 and as a result of these additions, Kering Eyewear designs, develops and distributes a complete and well-balanced portfolio of 15 brands.

Since its creation, Kering Eyewear has been a telling example of disruption in a historically consolidated industry. It is now a fully established and recognized eyewear company with a unique approach, a strong reputation in the market and a commitment to creating long-lasting and valuable partnerships with brands, suppliers and clients.

As the leading luxury company in eyewear, Kering Eyewear has built an innovative business model that is able to anticipate and embrace all the challenges of this relevant and growing industry.

The Company relies on a fast and agile decision-making process as well as a close collaboration with the brands to create synergies and generate incremental business growth in "shared channels", such as brand boutiques, travel retail, department stores, multi-brand fashion specialists and e-tailers.

Kering Eyewear works together with the Creative Directors of the brands in order to preserve the DNA and aesthetic code of each individual House when developing its eyewear, while maintaining a focus on innovation in terms of design and materials. As a result, the eyewear collections are always fully in line with the Houses' calendars and needs.

Along with design, strong attention is also paid to sustainability and to material research and development. Since 2017, Kering Eyewear has been working with renewable materials to create its first 100% biodegradable frame and, in 2018, the Company published its first EP&L for 2017.

From a manufacturing standpoint, Kering Eyewear's strategy is based on the flexibility required to produce only through the best manufacturers in the world and to select production capabilities globally, guaranteeing product excellence and the highest quality standards in the industry. The Company has thus been able to establish strong relationships with a selected number of suppliers located mainly in Italy, France, Japan and the Far East.

Under the deal with Maison Cartier, the production plant Manufacture Kering Eyewear, previously known as Manufacture Cartier Lunettes, located in Sucy-en-Brie (France), was included in and contributed to Kering Eyewear. This one-of-a-kind plant is equipped with best-in-class technologies and machinery as well as undisputed expertise in solid gold, precious stones, horn and wood manufacturing.

In March 2019, Kering Eyewear acquired a minority stake in one of its most valuable partners, Trenti S.p.A., as part of its industrial strategy to increase control of its supply chain through strategic partnerships with key players in the industry.

Following a three-year collaboration, in October 2019, Kering Eyewear and Safilo announced the renewal of their agreement for the manufacturing and supply of Gucci-branded frames and sunglasses until December 2023.

Communications and marketing are coherent with the brands' strategies, generating synergies among advertising purchasing, event organization, celebrity seeding, public relations and media access.

Kering Eyewear has built an extensive distribution system serving over 20,000 customers and 30,000 doors worldwide in around 110 countries, directly operating in more than 25 markets through 15 subsidiaries (France, the UK, Germany, Spain, the US, Hong Kong, Japan, Singapore, Taiwan, China, Korea, Australia, India, Malaysia and the Middle East) and a network of carefully selected distributors.

In order to guarantee the highest level of service to its clients, in 2019 Kering Eyewear started to operate from its own logistics hub, a newly built, fully automated center allowing the Company to secure end-to-end control over the entire logistics process.

Widespread distribution, together with a highly qualitative commercial approach, provides the Houses with broad market coverage, in line with their positioning and desired visibility.

In the coming years, Kering Eyewear will be committed to fully exploiting the potential of all its brands, in both the sun and optical categories, as well as to expanding its presence in new channels, leveraging its expertise and unique positioning.

Thanks to its innovative business model and value-oriented approach, Kering Eyewear will continue to establish itself as the most relevant player in the luxury and high-end segment of the eyewear industry.

CHAPTER 3

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1. ACTIVITY REPORT

1.1 Changes in Group structure and highlights of 2019

Strategic redeployment and discontinued operations

On April 2, 2019, Kering announced that it had completed the sale of its US sports and lifestyle brand Volcom. US company Authentic Brands Group (ABG) purchased the intellectual property rights of Volcom, effective from April 1, 2019. The current Volcom management team has acquired the operating license of Volcom and will continue the development of its operations based in the United States, France, Australia and Japan.

On July 15, 2019, Kering finalized the sale of its stake in Stella McCartney, following a transition phase and carve-out process that began on March 28, 2018 (see Note 13 – Discontinued operations, to the consolidated financial statements).

Italy tax settlement

On May 9, 2019, Kering announced that it had concluded a settlement with the Italian Revenue Agency relating to claims vis-à-vis its Swiss subsidiary Luxury Goods International (LGI). The settlement, concluded after in-depth analysis and with a collaborative spirit, acknowledged that the claims raised during the tax audit pertained both to the existence of a permanent establishment in Italy in the period 2011-2017 with the associated profits, and to the transfer prices applied by LGI in the same period with its related party Guccio Gucci S.p.A. (see Note 12 – Income taxes, to the consolidated financial statements).

Logistics activities: restructuring and transfer

Against a backdrop of rapid change in the industry and strong growth, Kering is undertaking a complete restructuring of its logistics activities, using the latest technologies, in order to meet the Luxury Houses' new needs in terms of volumes, lead time and omni-channel integration.

Already initiated in the United States with the construction of a new site in New Jersey, the project will be gradually implemented by 2022. It will include the transfer of most of the logistics activities currently located in Switzerland to a new hub in Italy, close to Novara.

The new Italian hub will be designed to handle the Group's future growth and will have greater storage capacity, reflecting increased volumes. It will also meet the growing demand for interconnectivity with the main transportation hubs.

Stock repurchase program

On October 29, 2018, Kering announced that it had set up a stock repurchase program covering up to 1.0% of its share capital over a 12-month period.

Between October 29, 2018 and February 28, 2019, a total of 603,406 shares were repurchased under a first tranche of the program. A further 658,000 shares were repurchased under a second tranche between June 17 and July 31, 2019. The repurchased shares will be canceled during 2020.

Placement of bonds exchangeable into PUMA shares

On September 25, 2019 Kering completed a placement of bonds exchangeable into existing ordinary shares of PUMA. Following strong demand, the nominal amount of the issuance was increased from €500 million to €550 million. The net proceeds of the issuance will be used for Kering's general corporate purposes. The bonds were issued at a principal amount of €100,000 per bond and bear no interest (zero coupon). They were offered at an issue price equal to 108.75% of the principal amount, namely €108,750, corresponding to an annual yield-to-maturity of -2.78%. They will be redeemed at their principal amount on September 30, 2022 (save in the event of early redemption). Throughout the life of the bonds and at their maturity, Kering has an option to redeem them in PUMA shares, cash or a combination of shares and cash.

Appointments and corporate governance at Kering

At its meeting on February 11, 2019, the Board of Directors of Kering appointed Sophie L'Hélias as lead independent director. In coordination with the Chairman of the Board, Sophie L'Hélias will notably represent the Board in its dealings with investors concerning ESG (Environmental, Societal, Governance) matters.

Kering also announced the appointment of Cédric Charbit, CEO of Balenciaga, to the Group's Executive Committee, effective from July 1, 2019.

In addition, Bartolomeo Rongone succeeded Claus-Dietrich Lahrs as CEO of Bottega Veneta, effective from September 1, 2019. He reports to François-Henri Pinault, Chairman and Chief Executive Officer of Kering, and is a member of the Group's Executive Committee.

Lastly, on December 17, 2019 Kering announced the appointment of Mehdi Benabadji as CEO of Brioni, with effect from January 1, 2020. Taking over from Fabrizio Malverdi, Mehdi Benabadji reports to Jean-François Palus, Group Managing Director of Kering.

1.2 2019 business review

General information – First-time application of IFRS 16 – *Leases*

Kering has applied IFRS 16 – *Leases* for the first time in its consolidated financial statements for the year ended December 31, 2019. Applying this new standard – which supersedes IAS 17 – *Leases* – had a material impact on Kering's consolidated financial statements due to the size of the network of stores operated directly by its Luxury Houses.

The Group elected to use the “modified retrospective” approach for its transition to IFRS 16, under which entities are not required to restate prior-period comparative financial information. Consequently, the 2019 income statement is presented differently to the Group's prior year income statements. Instead of the expense that was previously recognized on a straight-line basis for fixed lease payments under IAS 17, a depreciation expense is now recognized on a straight-line basis for right-of-use assets and an interest expense is recognized on lease liabilities. In the statement of financial position, right-of-use assets are recognized under non-current assets and lease liabilities under current and non-current liabilities, corresponding to the present value of fixed future lease payments.

In order to assist users of the Group's financial statements to understand the impact of its transition to IFRS 16, and to help provide meaningful comparisons between the financial data for 2019 and 2018 presented below, the Group has chosen to present two types of data in this activity report, for which reconciliations have been performed:

- **IFRS 16-restated financial data for 2018:** the data for 2018 has been restated in order to present the impact of IFRS 16 on that period and to provide meaningful comparisons with the 2019 data to which IFRS 16 has been applied. The method used to prepare this IFRS 16-restated data for 2018 is described at the end of this chapter on page 87;
- **IAS 17-adjusted non-IFRS financial indicators for 2019:** key indicators such as recurring operating income, EBITDA, free cash flow from operations and available cash flow have been presented on an adjusted basis as if IAS 17 had been applied instead of IFRS 16. Definitions of these non-IFRS financial indicators are presented at the end of this chapter on page 88.

See Note 4 – First-time application of IFRS 16 – *Leases*, to the consolidated financial statements.

Key figures

Condensed consolidated income statement

(in € millions)	2019	2018 Restated under IFRS 16	Change	2018 Reported
Revenue	15,883.5	13,665.2	+16.2%	13,665.2
Recurring operating income	4,778.3	3,994.9	+19.6%	3,943.8
as a % of revenue	30.1%	29.2%	+0.9 pts	28.9%
EBITDA	6,023.6	5,092.8	+18.3%	4,435.7
as a % of revenue	37.9%	37.3%	+0.6 pts	32.5%
Other non-recurring operating income and expenses	(168.5)	(222.4)	-24.2%	(222.4)
Finance costs, net	(309.5)	(294.3)	+5.2%	(207.3)
Income tax expense	(2,133.7)	(859.3)	+148.3%	(867.7)
Share in earnings (losses) of equity-accounted companies	41.8	11.9	+251.3%	11.9
Net income from continuing operations	2,208.4	2,630.8	-16.1%	2,658.3
o/w attributable to owners of the parent	2,166.9	2,603.8	-16.8%	2,630.6
o/w attributable to non-controlling interests	41.5	27.0	+53.7%	27.7
Net income from discontinued operations	125.4	1,095.2	-88.6%	1,095.2
Net income attributable to owners of the parent	2,308.6	3,688.0	-37.4%	3,714.9
Net income from continuing operations (excluding non-recurring items) attributable to owners of the parent ⁽¹⁾	3,211.5	2,789.8	+15.1%	2,816.7

(1) In 2019, this item did not include the non-recurring tax expense relating to the tax settlement in Italy (see Notes 12.1.1 and 14.2 to the consolidated financial statements).

Recurring operating income

<i>(in € millions)</i>	2019	2018 Restated under IFRS 16	Change	2018 Reported
Recurring operating income	4,778.3	3,994.9	+19.6%	3,943.8
as a % of revenue	30.1%	29.2%	+0.9 pts	28.9%
Fixed portion of lease payments restated under IFRS 16	(765.3)	(657.1)	-16.5%	N/A
Depreciation of right-of-use assets (IFRS 16)	711.4	606.0	+17.4%	N/A
Adjusted recurring operating income (IAS 17)	4,724.4	3,943.8	+19.8%	3,943.8
as a % of revenue	29.7%	28.9%	+0.8 pts	28.9%

EBITDA

<i>(in € millions)</i>	2019	2018 Restated under IFRS 16	Change	2018 Reported
EBITDA	6,023.6	5,092.8	+18.3%	4,435.7
as a % of revenue	37.9%	37.3%	+0.6 pts	32.5%
Fixed portion of lease payments restated under IFRS 16	(765.3)	(657.1)	-16.5%	N/A
Adjusted EBITDA (IAS 17)	5,258.3	4,435.7	+18.5%	4,435.7
as a % of revenue	33.1%	32.5%	+0.6 pts	32.5%

Earnings per share

	2019	2018 Restated under IFRS 16	Change	2018 Reported
Earnings per share attributable to owners of the parent	€18.40	€29.28	-37.2%	€29.49
Earnings per share from continuing operations (excluding non-recurring items)				
attributable to owners of the parent	€25.59	€22.15	+15.5%	€22.36

Operating investments

<i>(in € millions)</i>	2019	2018 Restated under IFRS 16	Change	2018 Reported
Gross operating investments	(955.8)	(828.0)	+15.4%	(828.0)

Free cash flow from operations

<i>(in € millions)</i>	2019	2018 Restated under IFRS 16	Change	2018 Reported
Free cash flow from operations	1,520.7	3,551.3	-57.2%	2,955.2

Revenue

(in € millions)	2019	%	2018	%	Reported change	Comparable change ⁽¹⁾
Total Luxury Houses	15,382.6	97%	13,246.7	97%	+16.1%	+13.2%
Corporate and other	500.9	3%	418.5	3%	+19.7%	+16.5%
Total revenue	15,883.5	100%	13,665.2	100%	+16.2%	+13.3%

(1) On a comparable Group structure and exchange rate basis.

Consolidated revenue for 2019 amounted to €15,884 million, up 16.2% on 2018 as reported and 13.3% based on a comparable Group structure and exchange rates.

Exchange rate fluctuations had a €354 million positive effect on revenue during the year, of which €155 million related to the US dollar and €81 million to the Japanese yen.

Revenue by region

(in € millions)	2019	%	2018	%	Reported change	Comparable change ⁽¹⁾
Western Europe	5,120.2	33%	4,471.5	33%	+14.5%	+14.2%
North America	3,039.7	19%	2,704.7	20%	+12.4%	+6.8%
Japan	1,309.8	8%	1,157.5	8%	+13.2%	+5.9%
Sub-total – mature markets	9,469.7	60%	8,333.7	61%	+13.6%	+10.5%
Eastern Europe, Africa and the Middle East	770.2	5%	725.1	6%	+6.2%	+3.7%
South America	222.1	1%	186.1	1%	+19.3%	+15.6%
Asia-Pacific (excluding Japan)	5,421.6	34%	4,420.3	32%	+22.7%	+20.1%
Sub-total – emerging markets	6,413.8	40%	5,331.5	39%	+20.3%	+17.7%
Total revenue	15,883.5	100%	13,665.2	100%	+16.2%	+13.3%

(1) On a comparable Group structure and exchange rate basis.

Revenue generated outside the eurozone represented 78% of the consolidated total in 2019.

Quarterly revenue data

Consolidated revenue by quarter

	First quarter	Second quarter	Third quarter	Fourth quarter	
2019	3,785.3	3,853.1	3,884.6	4,360.5	€15,883.5m
2018	3,106.2	3,325.7	3,402.0	3,831.3	€13,665.2m

Quarterly revenue by activity

<i>(in € millions)</i>	First quarter	Second quarter	Third quarter	Fourth quarter	Total 2019
Gucci	2,325.6	2,291.5	2,374.7	2,636.6	9,628.4
Yves Saint Laurent	497.5	475.5	506.5	569.6	2,049.1
Bottega Veneta	248.1	300.9	284.3	334.3	1,167.6
Other Houses	576.9	648.4	612.3	699.9	2,537.5
Total Luxury Houses	3,648.1	3,716.3	3,777.8	4,240.4	15,382.6
Corporate and other	137.2	136.8	106.8	120.1	500.9
KERING TOTAL	3,785.3	3,853.1	3,884.6	4,360.5	15,883.5

<i>(in € millions)</i>	First quarter	Second quarter	Third quarter	Fourth quarter	Total 2018
Gucci	1,866.6	1,986.2	2,096.0	2,336.1	8,284.9
Yves Saint Laurent	408.2	400.0	446.9	488.4	1,743.5
Bottega Veneta	261.2	291.0	258.9	298.0	1,109.1
Other Houses	461.7	533.8	516.4	597.3	2,109.2
Total Luxury Houses	2,997.7	3,211.0	3,318.2	3,719.8	13,246.7
Corporate and other	108.5	114.7	83.8	111.5	418.5
KERING TOTAL	3,106.2	3,325.7	3,402.0	3,831.3	13,665.2

<i>(comparable change ⁽¹⁾)</i>	First-quarter change	Second-quarter change	Third-quarter change	Fourth-quarter change	Full-year 2019
Gucci	+20.0%	+12.7%	+10.7%	+10.5%	+13.3%
Yves Saint Laurent	+17.5%	+15.8%	+10.8%	+14.0%	+14.4%
Bottega Veneta	-8.9%	+0.8%	+6.9%	+9.4%	+2.2%
Other Houses	+21.7%	+19.2%	+16.3%	+14.9%	+17.8%
Total Luxury Houses	+17.4%	+13.1%	+11.3%	+11.6%	+13.2%
Corporate and other	+21.5%	+16.0%	+24.8%	+5.6%	+16.5%
KERING TOTAL	+17.5%	+13.2%	+11.6%	+11.4%	+13.3%

(1) On a comparable Group structure and exchange rate basis.

Recurring operating income

<i>(in € millions)</i>	2019	2018 Restated under IFRS 16	Change	2018 Reported
Total Luxury Houses	5,042.0	4,238.3	+19.0%	4,191.0
Corporate and other	(263.7)	(243.4)	-8.3%	(247.2)
Recurring operating income	4,778.3	3,994.9	+19.6%	3,943.8
Total Luxury Houses	(707.9)	(613.7)	-15.3%	N/A
Corporate and other	(57.4)	(43.4)	-32.3%	N/A
Fixed portion of lease payments restated under IFRS 16	(765.3)	(657.1)	-16.5%	N/A
Total Luxury Houses	657.8	566.4	+16.1%	N/A
Corporate and other	53.6	39.6	+35.4%	N/A
Depreciation of right-of-use assets (IFRS 16)	711.4	606.0	+17.4%	N/A
Total Luxury Houses	4,991.9	4,191.0	+19.1%	4,191.0
Corporate and other	(267.5)	(247.2)	-8.2%	(247.2)
Adjusted recurring operating income (IAS 17)	4,724.4	3,943.8	+19.8%	3,943.8

The Group's gross margin for 2019 amounted to €11,775 million, up €1,577 million or 15.5% on 2018 (2018 data restated under IFRS 16). Recurring operating expenses increased by 12.8% year on year (2018 data restated under IFRS 16).

Kering's recurring operating income totaled €4,778 million in 2019, up 19.6% on 2018 (IFRS 16-restated data). Recurring operating margin advanced 0.9 percentage points to 30.1%

for the Group as a whole and 0.8 points to 32.8% for the Luxury Houses.

For the purposes of comparison, consolidated recurring operating income for 2019 adjusted based on IAS 17 was 19.8% higher than the reported figure for 2018. Operating margin widened by 0.8 percentage points to 29.7% for the Group and by 0.9 points to 32.5% for the Luxury Houses.

EBITDA

<i>(in € millions)</i>	2019	2018 Restated under IFRS 16	Change	2018 Reported
Recurring operating income	4,778.3	3,994.9	+19.6%	3,943.8
Net recurring charges to depreciation, amortization and provisions on non-current operating assets	1,245.3	1,097.9	+13.4%	491.9
<i>o/w depreciation of right-of-use assets (IFRS 16)</i>	<i>711.4</i>	<i>606.0</i>	<i>+17.4%</i>	<i>N/A</i>
EBITDA	6,023.6	5,092.8	+18.3%	4,435.7

<i>(in € millions)</i>	2019	2018 Restated under IFRS 16	Change	2018 Reported
Total Luxury Houses	6,121.6	5,212.2	+17.4%	4,598.5
Corporate and other	(98.0)	(119.4)	+17.9%	(162.8)
EBITDA	6,023.6	5,092.8	+18.3%	4,435.7
Total Luxury Houses	(707.9)	(613.7)	-15.3%	N/A
Corporate and other	(57.4)	(43.4)	-32.3%	N/A
Fixed portion of lease payments restated under IFRS 16	(765.3)	(657.1)	-16.5%	N/A
Total Luxury Houses	5,413.7	4,598.5	+17.7%	4,598.5
Corporate and other	(155.4)	(162.8)	+4.5%	(162.8)
Adjusted EBITDA (IAS 17)	5,258.3	4,435.7	+18.5%	4,435.7

EBITDA margin widened by 0.6 points compared with 2018 (IFRS 16-restated data), coming in at 37.9%.

For the purposes of comparison, EBITDA margin for 2019 adjusted based on IAS 17 was 33.1%, 0.6 points higher than the reported figure for 2018.

Other non-recurring operating income and expenses

Other non-recurring operating income and expenses consist of unusual items that could distort the assessment of each House's financial performance.

In 2019, "Other non-recurring operating income and expenses" represented a net expense of €168 million and primarily corresponded to €95 million in asset impairment losses, including €76 million recognized by the Group's

Other Houses against goodwill and two brands. The overall net expense figure also includes €29 million in restructuring costs and €44 million in miscellaneous income and expenses, primarily relating to claims and litigation.

In 2018, "Other non-recurring operating income and expenses" represented a net expense of €222 million and primarily corresponded to €140 million in asset impairment losses, of which €88 million is related to the write-down of goodwill and a brand within the Group's Other Houses. The overall net expense figure also includes all of the costs related to the departure of Tomas Maier, Bottega Veneta's Creative Director, as well as restructuring costs incurred within the Other Houses (see Note 10 – Other non-recurring operating income and expenses, to the consolidated financial statements).

Finance costs, net

<i>(in € millions)</i>	2019	2018 Restated under IFRS 16	Change	2018 Reported
Cost of net debt	(52.3)	(74.5)	-29.7%	(77.4)
Other financial income and expenses	(147.6)	(129.9)	+13.6%	(129.9)
Finance costs, net (excluding leases)	(199.9)	(204.4)	-2.2%	(207.3)
Interest expense on lease liabilities ⁽¹⁾	(109.6)	(89.9)	+21.9%	N/A
Finance costs, net	(309.5)	(294.3)	+5.2%	(207.3)

(1) See Note 4 – First-time application of IFRS 16 – Leases, to the consolidated financial statements.

The Group's cost of net debt was €52 million in 2019, 29.7% lower than the €75 million (IFRS 16-restated data) recorded for 2018. This significant improvement was primarily due to the positive impact of the year-on-year reduction in the average amount of outstanding bonds in 2019.

Other financial income and expenses represented a net expense of €148 million in 2019, up 13.6% on 2018 (IFRS 16-restated data). This rise includes a negative currency effect, which led to an increase in the finance cost of currency hedges, and a favorable basis of comparison, as one-off finance costs of €28 million were recognized in 2018 in respect of bonds redeemed ahead of maturity (see Note 11 – Finance costs, net, to the consolidated financial statements).

Income tax expense

<i>(in € millions)</i>	2019	2018 Restated under IFRS 16	Change	2018 Reported
Income before tax	4,300.3	3,478.2	+23.6%	3,514.1
Current tax expense	(2,597.9)	(1,062.4)	+144.5%	(1,062.4)
o/w				
Tax expense relating to the tax settlement in Italy	(904.0)	N/A	N/A	N/A
Deferred tax income (expense)	464.2	203.1	+128.6%	194.7
Income tax expense	(2,133.7)	(859.3)	+148.3%	(867.7)
Effective tax rate	49.6%	24.7%	+24.9 pts	24.7%

<i>(in € millions)</i>	2019	2018 Restated under IFRS 16	Change	2018 Reported
Other non-recurring operating income and expenses	(168.5)	(222.4)	-24.2%	(222.4)
Recurring income before tax	4,468.8	3,700.6	+20.8%	3,736.5
Tax income on other non-recurring operating income and expenses	27.9	36.3	-23.1%	36.3
Tax expense relating to the tax settlement in Italy	(904.0)	N/A	N/A	N/A
Tax expense on recurring income (excluding effect of the tax settlement in Italy)	(1,257.6)	(895.6)	+40.4%	(904.0)
Effective tax rate on recurring income (excluding effect of the tax settlement in Italy)	28.1%	24.2%	+3.9 pts	24.2%

On May 9, 2019, Kering announced that it had concluded a settlement with the Italian Revenue Agency relating to claims vis-à-vis its Swiss subsidiary Luxury Goods International (LGI). The settlement, concluded after in-depth analysis and with a collaborative spirit, acknowledged that the claims raised during the tax audit pertained both to the existence of a permanent establishment in Italy in the period 2011-2017 with the associated profits, and to the transfer prices applied by LGI in the same period with its related party Guccio Gucci S.p.A..

Under the terms of the settlement, additional tax payable amounts to €897 million, plus penalties and interest. The total amount of the settlement is €1.25 billion. The Group drew the necessary conclusions from the settlement in assessing the 2018 tax expense for LGI and Guccio Gucci S.p.A., which was recognized in 2019.

Net of the reversal of the provision booked as of December 31, 2018 in respect of its transfer pricing policy, the total tax expense relating to the tax settlement in Italy was €904.0 million for 2019. The total amount paid out in 2019 for the additional tax due as a result of (i) the agreement entered into with the Italian tax authorities for the period from 2011 through 2017 and (ii) the reassessment of the tax expense for 2018, amounted to approximately €1.61 billion.

Excluding the above-described impacts, the increase in the effective tax rate on recurring income is broadly the result of overhauling the Luxury Houses' business models, particularly in terms of supply chain and logistics.

This change in the Group's business model and value chain will result in a considerable increase in current tax liabilities, as well as deferred tax assets, in terms of recognizing tax loss carryforwards and of temporary differences (see Note 12 – Income taxes, to the consolidated financial statements).

Net income from discontinued operations

In 2019, net income from discontinued operations – which includes the results of the Stella McCartney, Volcom and Christopher Kane brands and the gains/losses recorded on their disposal – amounted to €125 million.

In 2018, this item included PUMA's results as well as the €1,181 million net gain arising on the Group's relinquishment of control of this brand (see Note 13 – Discontinued operations, to the consolidated financial statements).

1.3 Operating performance

Information concerning the breakdown of revenue (by region, product and distribution channel) is set out in Chapter 2.

Luxury Houses

<i>(in € millions)</i>	2019	2018 Restated under IFRS 16	Change	2018 Reported
Revenue	15,382.6	13,246.7	+16.1%	13,246.7
Recurring operating income as a % of revenue	5,042.0 32.8%	4,238.3 32.0%	+19.0% +0.8 pts	4,191.0 31.6%
EBITDA as a % of revenue	6,121.6 39.8%	5,212.2 39.3%	+17.4% +0.5 pts	4,598.5 34.7%
Gross operating investments	651.9	610.3	+6.8%	610.3
Average FTE headcount	30,956	27,057	+14.4%	27,057

<i>(in € millions)</i>	2019	2018 Restated under IFRS 16	Change	2018 Reported
Recurring operating income as a % of revenue	5,042.0 32.8%	4,238.3 32.0%	+19.0% +0.8 pts	4,191.0 31.6%
Fixed portion of lease payments restated under IFRS 16	(707.9)	(613.7)	-15.3%	N/A
Depreciation of right-of-use assets (IFRS 16)	657.8	566.4	+16.1%	N/A
Adjusted recurring operating income (IAS 17) as a % of revenue	4,991.9 32.5%	4,191.0 31.6%	+19.1% +0.9 pts	4,191.0 31.6%

In 2019, the worldwide personal luxury goods market (as presented and defined in Chapter 2 of this Document) grew 4% at constant exchange rates (7% as reported) according to the latest edition of the Bain & Company/Altagamma annual study of the luxury market. These figures represent a slowdown in growth after two strong years (up 5% in 2017 and 6% in 2018), reflecting a less favorable economic and geopolitical environment.

As in 2018, there were contrasting performances between the industry's various players, confirming the trend toward market polarization.

2019 sales trends by region, as estimated by Bain & Company/Altagamma, show that the industry's strong performance is still being led by spending on luxury goods by Chinese customers (accounting for some 35% of the market versus 33% in 2018). Overall, sales for Mainland China jumped 26% at constant exchange rates, driven by Chinese customers shifting their purchases back to their domestic market. In the Asia-Pacific region (excluding Japan and Mainland China) the picture was more mixed, with overall growth of 6% at constant exchange rates. Strong momentum in certain markets, such as South Korea, which was fueled by local spending and, to some extent, purchases by Chinese tourists, was negatively affected by the steep fall in the Hong Kong market. This decline, which began in the summer of 2019, is estimated to amount to 20% for the full year.

Growth in other regions was more contained (between 0% and 4% in Europe, Japan and the Americas), reflecting the more restrained growth potential of mature economies and taking into account the various factors that could affect the industry's performance in those regions, especially tourist numbers.

In the United States (which makes up most of the luxury goods market in the Americas), department store footfall remained sluggish and the rise in the US dollar triggered a sharp drop in tourist purchases, especially by Chinese tourists.

In Japan, market trends were buoyant for the first nine months of 2019 but in the last three months of the year there was less domestic spending following the VAT increase introduced on October 1, 2019. The fourth quarter also saw a net decrease in the numbers of Chinese tourists due to a high basis of comparison with the same period of 2018 as well as the stronger yen.

In Western Europe, market growth was fueled by strong tourism levels (although tourist numbers varied depending on nationality and destination), as well as by slightly positive trends for local spending.

In the world's other regions, geopolitical tension hampered performance in the Middle East and more generally the purchasing behavior of Middle Eastern consumers, both in their domestic market and in Europe.

As in the last two years, the picture was mixed across product categories in 2019. Accessories and jewelry fared well but trends were less favorable for ready-to-wear and negative for the watches market, which is still fragile.

In addition, certain underlying trends that have been shaping the luxury goods market for several years continued in 2019. For example, the fast-paced expansion of e-commerce for luxury brands clearly shows the need for a real omni-channel approach to communications, customer relations and distribution. At the same time, the younger customer base, with an increasing proportion of millennials, is continuing to spur the industry's growth (based on Bain & Company data, the Y and Z generations accounted for almost 40% of the luxury goods market in 2019 in value terms). Asian, and particularly Chinese, customers are still making a significant contribution to the industry's development, and technological innovations and the emergence of new business models are pushing long-standing luxury players to rethink how they address production, distribution and consumption.

Regarding foreign exchange impacts, 2019 saw a fall in the euro against the US dollar and numerous other currencies. Consequently, reported growth for Kering's Luxury Houses came in 290 basis points higher than growth at constant exchange rates. The difference was 340 basis points for the first half alone, as exchange rates were more similar between the second half of 2019 and the second half of 2018.

Revenue

The Group's Luxury Houses posted outstanding revenue growth of 13.2% in 2019 based on a comparable Group structure and exchange rates (16.1% as reported), achieved despite a very high basis of comparison with the previous year, especially for Gucci. This propelled revenue to €15,383 million, up €1,794 million on 2018 excluding the currency effect. The vast majority of Kering's Luxury Houses contributed to the Group's revenue growth in absolute value terms. Gucci accounted for around 60% of the growth figure, but the other brands – especially Yves Saint Laurent and Balenciaga – were also significant contributors. After reaching 15.2% at constant exchange rates in the first six months of the year, revenue growth for the second half came in at 11.4%. This return to more typical growth levels was expected due to high bases of comparison over the past four years (2016 to 2019), with average sales growth for the second-half period being almost the same than for the first half, at around 27%.

Sales in directly operated stores and online sales were close to €12 billion in 2019, up 14.0% year on year on a comparable basis. This increase was driven by strong performances at Gucci, Yves Saint Laurent, Balenciaga and Alexander McQueen, as well as by successful strategic development by the jewelry brands.

Sales in directly operated stores accounted for 78.0% of total revenue generated by the Group's Luxury Houses in 2019, versus 77.2% in 2018. This increase reflects Gucci's weighting within the total revenue figure and the strategy implemented by all of the brands to control more effectively their distribution, including online, and strengthen their exclusivity while prudently managing the expansion of the directly operated store network and the related investments. It also attests to the Group's objective of retaining or developing a network of high-quality wholesalers for a select number of brands and product categories and in certain regions.

Wholesale sales rose 10.4% in 2019, based on comparable data. All of the Group's main wholesale markets enjoyed solid growth, including North America, despite the region's wholesalers being adversely impacted by the more challenging economic environment towards the end of the year. This performance reflects the strong appeal of the Group's brands, resulting in them being showcased by all wholesalers, which have become increasingly selective in their purchasing choices.

Revenue by region

The Group's Luxury Houses registered robust revenue rises in 2019, with the pace of growth remaining higher in emerging markets than mature ones.

Total revenue in emerging markets advanced 17.8% year on year, with the Asia-Pacific region posting a 20.4% rise. Mainland China saw the strongest growth in the Asia-Pacific region, with sales up 35.0% year on year, reflecting the fact that Chinese customers are shifting their purchases back to their domestic market. All of the region's main countries enjoyed growth, except for Hong Kong, where revenue decreased, especially in the second half due to the political tension and demonstrations in the country. South Korea was the star performer, but Taiwan, Singapore and Thailand were also growth drivers for the Asia-Pacific region as a whole.

In mature markets – which represented 59% of Luxury Houses' sales (versus 61% in 2018) – revenue was up 10.3%.

Sales in Western Europe climbed by a brisk 13.7%. Growth in revenue generated with local customers remained solid, and tourist spending helped boost the region's performance, although the contributions were uneven depending on country and nationality. Based on data released by Global Blue, spending by tourists (who used Global Blue's tax-free shopping service) was 10% higher in Europe in 2019 than in 2018, with Italy and the United Kingdom benefiting the most. Broken down by nationality, the figures show a more typical level of growth in spending by Chinese customers and a sales upturn for most other nationalities. Sales to American customers rose sharply in all of the region's markets.

In Japan, revenue rose 5.9% year on year at constant exchange rates. After nine months of strong growth, all of the Group's Luxury Houses in Japan were hit in the fourth quarter by flat-lined domestic spending due to the VAT rise introduced on October 1, 2019 and a marked decline in numbers of Chinese tourists.

In North America, the Group's Luxury Houses delivered 6.7% revenue growth. Performance in this region was hampered by normalizing growth at Gucci in view of extremely high year-on-year bases of comparison. Additionally, many indicators seem to be pointing to a less favorable consumer environment for luxury brands in the US: much lower tourist numbers, for instance (particularly from China and Asia as a whole), as well as

falling retail sales figures over the past few months. At the same time, a sharp rise in spending by Americans in Western Europe may also have held back performance in North America.

Revenue by product category

All of the main product categories saw solid revenue growth in 2019, except for watches, which suffered from a persistently unfavorable market environment. Leather goods and jewelry were the main growth drivers. Sales of shoes were up sharply year on year despite extremely high bases of comparison and fierce competition. Ready-to-wear reported a robust revenue rise, but growth seems to be returning to a more normal level after reaching record highs in 2017 and 2018.

Revenue from royalties was up sharply in 2019, reflecting successful development for eyewear licenses as well as an overall recovery in business levels for fragrance licenses compared with 2018.

Recurring operating income

Recurring operating income for the Group's Luxury Houses totaled €5,042 million in 2019, up by a steep €804 million, or 19.0%, compared with 2018 (IFRS 16-restated data).

Recurring operating margin widened by 80 basis points to 32.8%. Based on data adjusted for IAS 17, recurring operating margin was 32.5% versus 31.6% for 2018.

This further significant increase in profitability was achieved thanks to a very favorable operating leverage effect, with sales growth exceeding rises in cost bases, particularly for Gucci, but also for Yves Saint Laurent and Balenciaga. Exchange rate fluctuations and currency hedges had a slightly positive impact on recurring operating income but their combined effect on recurring operating margin was highly dilutive, making the year-on-year increase in this indicator all the more impressive.

EBITDA for 2019 amounted to €6,122 million versus €5,212 million in 2018 (IFRS 16-restated data), and EBITDA margin edged up to 39.8%.

Store network and operating investments

The Luxury Houses' operating investments – which do not include the vast majority of investments in logistics and information systems centralized by the Corporate entity for all of the brands – totaled €652 million in 2019, €42 million higher than in 2018. As a proportion of revenue, gross operating investments represented 4.2% in 2019. This decrease compared to the 4.6% figure for 2018 was due to the fact that a higher proportion of the investments in 2019 were made by the Corporate entity. Some 58% of the investments made in 2019 were incurred in the second half of the year, resulting in less pronounced seasonal effects than in 2018 thanks to tight management of investment needs and pace.

As of December 31, 2019, the Group's Luxury Houses had a network of 1,381 directly operated stores, including 772 (56%) in mature markets and 609 in emerging markets. Net store additions during the year totaled 103, with around two-thirds of the increase attributable to the scheduled expansion of the Yves Saint Laurent, Balenciaga and Alexander McQueen networks. The objective of

raising the presence of Kering's brands in travel retail and duty-free stores, including by taking operations that were previously controlled by a franchisee back under direct management, is still a key component of the Group's distribution strategy, and is one of the reasons for the current and future increase in the number of points of sale.

Gucci

(in € millions)	2019	2018 Restated under IFRS 16	Change	2018 Reported
Revenue	9,628.4	8,284.9	+16.2%	8,284.9
Recurring operating income as a % of revenue	3,946.9 41.0%	3,295.2 39.8%	+19.8% +1.2 pts	3,275.2 39.5%
EBITDA as a % of revenue	4,463.6 46.4%	3,791.2 45.8%	+17.7% +0.6 pts	3,514.6 42.4%
Gross operating investments	337.3	312.7	+7.9%	312.7
Average FTE headcount	17,157	14,628	+17.3%	14,628

(in € millions)	2019	2018 Restated under IFRS 16	Change	2018 Reported
Recurring operating income as a % of revenue	3,946.9 41.0%	3,295.2 39.8%	+19.8% +1.2 pts	3,275.2 39.5%
Fixed portion of lease payments restated under IFRS 16	(310.0)	(276.6)	-12.1%	N/A
Depreciation of right-of-use assets (IFRS 16)	289.2	256.6	+12.7%	N/A
Adjusted recurring operating income (IAS 17) as a % of revenue	3,926.1 40.8%	3,275.2 39.5%	+19.9% +1.3 pts	3,275.2 39.5%

2019 was another strong year for Gucci, following a two-year period of exceptional growth.

In view of the resulting high bases of comparison, the revenue growth rate is now normalizing, as expected. The same leveling-off can be seen for growth in Gucci's presence on social media, where it still has a highly innovative approach and is one of the most followed luxury brands.

Against a more unsettled backdrop for the luxury industry – which has particularly affected North America – Gucci is systematically pursuing its long-term strategy aimed at sustaining its growth trajectory. Meanwhile, for the mid-term targets it announced in June 2018 at an Investor Day organized by Kering, it has either already achieved them or is close to doing so.

Ensuring the quality and exclusivity of its distribution remains central to Gucci's strategy, in order to continuously enhance customer experience and raise productivity levels for its points of sale. The brand is drawing on a range of drivers to achieve these goals, such as gradually rolling out its new store concept, broadening its travel retail network (a sector in which it is currently under-represented), and continuing to expand online sales. Towards the end of the

year, it also launched a new format of pop-up shops (*Gucci Pin*), where it sells a very carefully selected offering in order to boost its coverage of certain markets.

The brand's creative and merchandising teams work ceaselessly to maximize the growth potential of each product category by constantly adapting the overall offering, focusing on segmentation to reach out to the widest possible range of customers, and optimizing the mix between carryovers and new products. The successful launch of its first collection of High Jewelry showed how the power of the Gucci brand gives it the standing to extend its creative expression into areas that were under-represented in its offering until now.

Gucci has devised a communication policy designed to sustain the brand's desirability and raise engagement from both existing and future customers of all ages and nationalities. Digital communication is proving particularly effective for creating a brand universe that is both unique and inclusive, and Gucci is significantly stepping up its investment in digital so it can remain a top player in this domain.

Lastly, with the Group's support, Gucci is pursuing its aim of rendering its supply chain, logistics solutions and information systems more agile, responsive, and able to absorb rising demand and support the omni-channel model. In parallel, work is in progress to integrate more closely the brand's product development and manufacturing processes, while taking care to minimize the impact that such major changes to its operating model could have on its business.

Revenue

Gucci posted €9,628 million in revenue in 2019, up 13.3% year on year at comparable exchange rates (16.2% as reported). This represents a remarkable performance given the high bases of comparison resulting from the very strong growth that the brand has delivered since the beginning of its rejuvenation in mid-2016. Between 2016 and 2019, Gucci more than doubled its sales.

Retail sales generated in directly operated stores advanced 13.2% at constant exchange rates in 2019. This was achieved on a practically same-store basis, thanks to the brand's stores turning in higher results for the vast majority of retail KPIs.

Sales generated in the wholesale network climbed 13.4% comparable, with the number of points of sale remaining relatively stable year on year and all of the brand's main markets making positive contributions.

Revenue by region

In view of the proportion of Gucci's sales that are generated in directly operated stores (85.3% in 2019), the following revenue analysis by region only concerns the retail business.

In emerging markets, revenue rose 7.6% at constant exchange rates. Western Europe led the way, with a 12.9% revenue increase as tourist sales continued to grow.

In Japan, after a strong sales increase in the first nine months of the year, weak consumer spending in the fourth quarter weighed on full-year revenue growth, which came in at 6.1%.

Conversely, North America saw more buoyant sales in the last three months of 2019, bringing the region's full-year revenue growth to 2.0%. 2019 trends in North America were adversely affected by a generally weaker consumer environment in the United States, as well as factors specific to the brand, such as extremely high bases of comparison from 2017 and 2018 during which Gucci's cumulative growth was around 100%. Action plans have been put in place to re-energize the brand's business in this region, particularly since September.

In emerging markets, revenue jumped 20.3% at constant exchange rates, largely fueled by Gucci's excellent performance in the Asia-Pacific region (excluding Japan) where revenue was up 22.4% year on year. Strong sales momentum with local customers drove very solid growth in Mainland China. At the same time, sales to Chinese customers contributed to the good performances delivered by Asia-Pacific's other markets (except for Hong Kong), which were also buoyed by high domestic demand, especially in South Korea.

Revenue by product category

All of the brand's main product categories registered sales increases in 2019 in directly operated stores. The proportion of carryovers held firm at the target level set by Gucci for all of its product categories.

This proportion was naturally higher for leather goods, which was the product category that posted the briskest sales during the year, reflecting general market trends.

Sales growth for shoes and ready-to-wear was very solid, but leveled off as expected, as these two categories spearheaded Gucci's new design aesthetic three years ago and were therefore the first to fully benefit from the brand's turnaround.

Other product categories – including jewelry – recorded outstanding performances in 2019, demonstrating Gucci's brand appeal and its ability to extend its creative expression into all possible areas.

Royalties saw very solid growth in 2019, due to a buoyant showing from eyewear (licensed to Kering Eyewear), and very encouraging launches for Coty's fragrances business, despite a downturn towards the end of the year attributable to the wholesale network's delivery schedule.

Recurring operating income

Gucci's recurring operating income amounted to €3,947 million for 2019, representing a 19.8% increase on 2018 (IFRS 16-restated data), and recurring operating margin widened by 120 basis points to 41.0%. The brand's performance was just as robust based on figures adjusted for IAS 17, as on this basis its recurring operating margin came to 40.8%, up 130 basis points year on year.

This further improvement in profitability was due to an ongoing favorable leverage effect as revenue grew faster than operating expenses. This was the case despite the fact that Gucci continued to make investments during the year to support its development by raising its expenses related to retail, communications and information systems, in line with the industry's accelerating digital transformation. This leverage effect was less pronounced in the second half than in the first six months since some investments were amplified after the summer and sales growth gradually began to normalize.

Gucci's EBITDA for 2019 stood at €4,464 million, with an EBITDA margin of 46.4%, up by 60 basis points. Based on IAS 17-adjusted data, EBITDA came to €4,154 million, with an EBITDA margin of 43.1% (70 basis points higher than in 2018).

Store network and operating investments

As of December 31, 2019, Gucci operated 487 stores directly, including 207 in emerging markets. A net 18 new stores were added during the year. The brand now has an overall network that is adapted to its operations in terms of store numbers but it is continuing to identify opportunities for improving its distribution in certain regions and sales channels, such as in travel retail. Apart from these targeted openings, Gucci's focus is still on increasing organic growth by pursuing its refurbishment program for existing stores. As of December 31, 2019, around 60% of the store network had adopted the new concept.

Gucci's gross operating investments amounted to €337 million in 2019, up only 7.9% on 2018. The 2019 figure mostly corresponds to the refurbishment program aimed at introducing the new store concept across the brand's entire network. As anticipated, and in line with 2017 and 2018, Gucci's operating investments were particularly concentrated on the second half of the year (accounting for some 63% of the total).

Yves Saint Laurent

<i>(in € millions)</i>	2019	2018 Restated under IFRS 16	Change	2018 Reported
Revenue	2,049.1	1,743.5	+17.5%	1,743.5
Recurring operating income <i>as a % of revenue</i>	562.2 27.4%	468.4 26.9%	+20.0% +0.5 pts	459.4 26.3%
EBITDA <i>as a % of revenue</i>	733.7 35.8%	608.3 34.9%	+20.6% +0.9 pts	502.8 28.8%
Gross operating investments	98.0	89.0	+10.1%	89.0
Average FTE headcount	3,606	3,087	+16.8%	3,087

<i>(in € millions)</i>	2019	2018 Restated under IFRS 16	Change	2018 Reported
Recurring operating income <i>as a % of revenue</i>	562.2 27.4%	468.4 26.9%	+20.0% +0.5 pts	459.4 26.3%
Fixed portion of lease payments restated under IFRS 16	(126.8)	(105.5)	-20.2%	N/A
Depreciation of right-of-use assets (IFRS 16)	117.1	96.5	+21.3%	N/A
Adjusted recurring operating income (IAS 17) <i>as a % of revenue</i>	552.5 27.0%	459.4 26.3%	+20.3% +0.7 pts	459.4 26.3%

Yves Saint Laurent continued on the growth path in 2019, both for sales and profitability. Its teams are rigorously and effectively implementing the strategy that has been mapped out for the brand and are actioning all of the requisite measures to ensure the success of the collections designed by Anthony Vaccarello.

Thanks to this work, revenue topped the €2 billion mark in 2019, and recurring operating margin exceeded 27%. And the House has the potential to grow even more, in view of Yves Saint Laurent's heritage, its indisputable position as a flagship brand in the world of fashion and luxury, and its successful business development over the past few years.

In order to tap this potential, Yves Saint Laurent's teams need to successfully carry out many major projects, a large number of which were already underway in 2019, such as optimizing the ready-to-wear merchandising strategy, upgrading the supply chain, and increasing the internalization of product development and production processes. Another key objective for Yves Saint Laurent is to improve distribution, both in-store and online. Kering is giving its full support to all of these transformation measures. For example, the brand is reaping the benefits of the investments made by the Group to optimize its information systems and logistics organization and to internally develop an e-commerce platform in view of the upcoming end of the partnership forged in 2012 with Yoox Net-A-Porter.

Revenue

Despite a high basis of comparison after eight consecutive years of close to or higher than 20% growth, Yves Saint Laurent delivered a remarkable performance in 2019, with sales advancing 14.4% at constant exchange rates to €2,049 million.

Revenue from directly operated stores climbed 15.7% on a comparable basis. After a very strong first half, business tapered off in the third quarter, particularly as the sales decline in Hong Kong could not be fully offset by revenue growth in Mainland China, where Yves Saint Laurent's distribution network in the main cities is not yet sufficiently developed or mature. Trends then swung back up in the fourth quarter, with more Chinese tourists making purchases in other countries in the Asia-Pacific region and more effective clienteling in Western Europe.

Sales generated in the wholesale network advanced 10.6% on a comparable basis in 2019. The wholesale channel remains strategically important for Yves Saint Laurent as it perfectly complements its retail business. However, the brand is keeping a very close eye on the quality and exclusivity of its distribution network and is focusing its wholesale business on a limited number of distributors.

Revenue by region

In view of the proportion of Yves Saint Laurent's sales that are generated in directly operated stores (69.2% in 2019), the following revenue analysis by region only concerns the retail business.

Yves Saint Laurent notched up revenue rises across all of its main host regions in 2019.

Sales in its heritage markets rose 17.3% on a comparable basis.

As in 2018, year-on-year growth was particularly buoyant in North America, coming in at 23.1% on a comparable basis. The performance was driven by very solid sales momentum in existing stores thanks to the brand's high-quality teams, as well as by new store openings and certain customers shifting their purchases from department stores.

In Western Europe, revenue grew 16.8%, fueled by the brand's appeal among tourists and generally high domestic demand.

In Japan, after an exceptional performance in 2018, which resulted in high bases of comparison, the gradual decrease in the numbers of Chinese tourists in 2019 and an eroded consumer environment in the fourth quarter hampered overall sales growth. However, the brand still recorded a 7.6% comparable-basis increase.

In emerging markets, sales generated in directly operated stores were up 13.1% year on year. In the Asia-Pacific region (which accounts for most sales in emerging markets), growth (13.2%) was robust in the brand's main markets apart from Hong Kong and Macao. As stated above, the sales decline in Hong Kong could not be fully offset by growth in the region's other countries.

The wholesale network delivered particularly strong showings in Western Europe. In North America, the brand's growth rate began to normalize against a less favorable market backdrop for big retailers.

Revenue by product category

As in 2018, the leather goods category was Yves Saint Laurent's main growth driver, propelled by the initiatives taken over the last several years to constantly renew and refresh this offering, with a specially dedicated creative team. This has helped the brand to both attract new customers and retain existing customers in all of its markets.

Ready-to-wear – which continued to occupy an essential place in the brand's offering – once again saw a fairly balanced weighting of sales between women's and men's collections. In 2018, Yves Saint Laurent launched a project to change its merchandising strategy with the aim of making its ready-to-wear offering and price architecture more relevant. This strategic work – which is a long-term project – was radically stepped up in the second half of 2019. It is being honed collection by collection and is already starting to pay off in some of the brand's main markets.

Yves Saint Laurent's third-leading product category – shoes – continued to be affected by relatively weak sales in the Middle East, which is a key market for women's shoes, as well as by the under-representation of sneakers in the offering (a deliberate choice made by the brand).

Licensed product categories (L'Oréal and Kering Eyewear) turned in very good performances during the year in view of their maturity and their already very significant size in their respective markets.

Recurring operating income

Yves Saint Laurent ended 2019 with recurring operating income of €562 million, versus €468 million in 2018 (as restated for the impacts of IFRS 16), representing a year-on-year increase of 20.0%.

Recurring operating margin was up 50 basis points to 27.4%. Adjusted recurring operating income under IAS 17 totaled €553 million, and adjusted recurring operating margin widened by 70 basis points to 27.0%.

This further year-on-year improvement is in line with the goals and growth trajectory the brand has set itself. It also demonstrates how Yves Saint Laurent has now reached critical scale, enabling it to capitalize on its operating leverage while also increasing the operating expenses that are essential for its short- and medium-term development.

EBITDA rose by €125 million to €734 million, and EBITDA margin was 35.8% (adjusted EBITDA margin under IAS 17 was 29.6%, versus 28.8% as reported in 2018).

Store network and operating investments

As of December 31, 2019, Yves Saint Laurent directly operated 222 stores, including 102 in emerging markets. There were 28 net store openings during the year, half of which correspond to points of sale in department stores or airports. These openings were in line with the brand's development and store network expansion plan.

The new stores opened during the year include the Saint Laurent Rive Droite boutique located on rue Saint Honoré in Paris (which formerly housed the legendary Colette concept store). This boutique is based on a

different format that fuses creative and cultural components, with a wider, more inclusive offering to spur ready-to-wear sales.

Yves Saint Laurent's gross operating investments rose during the year to €98 million from €89 million in 2018. This investment drive, which reflects the brand's store opening and relocation policy, remains consistent with the House's strategy: when expressed as a percentage of revenue, gross operating investments were, in fact, contained to slightly less than 5% of sales.

Bottega Veneta

(in € millions)	2019	2018 Restated under IFRS 16	Change	2018 Reported
Revenue	1,167.6	1,109.1	+5.3%	1,109.1
Recurring operating income as a % of revenue	215.2 18.4%	251.2 22.6%	-14.3% -4.2 pts	242.0 21.8%
EBITDA as a % of revenue	374.3 32.1%	405.5 36.6%	-7.7% -4.5 pts	284.3 25.6%
Gross operating investments	57.8	68.6	-15.7%	68.6
Average FTE headcount	3,754	3,574	+5.0%	3,574

(in € millions)	2019	2018 Restated under IFRS 16	Change	2018 Reported
Recurring operating income as a % of revenue	215.2 18.4%	251.2 22.6%	-14.3% -4.2 pts	242.0 21.8%
Fixed portion of lease payments restated under IFRS 16	(120.2)	(121.2)	+0.8%	N/A
Depreciation of right-of-use assets (IFRS 16)	112.4	112.0	+0.4%	N/A
Adjusted recurring operating income (IAS 17) as a % of revenue	207.4 17.8%	242.0 21.8%	-14.3% -4.0 pts	242.0 21.8%

The appointment of Daniel Lee as Creative Director in June 2018, followed by Bartolomeo Rongone as CEO from September 1, 2019, opened a new chapter in Bottega Veneta's history, with a return to growth.

Daniel Lee's debut runway show in February 2019 at Milan's Women's Fashion Week and the arrival in stores of the Fall pre-collection in the second quarter of the year clearly marked a turning point in how the brand is perceived. Bottega Veneta's new creative direction was rewarded by heightened interest in its new collections from the media, wholesalers and customers. And at The Fashion Awards held in London in December 2019, Bottega Veneta and Daniel Lee walked away with four awards.

The brand's radical transformation intensified in 2019, with major investments undertaken to action measures aimed at developing its offerings in all product categories, rejuvenating and broadening its customer base, raising brand awareness – especially in mature markets – and enhancing customers' in-store experience.

This strategy already began to pay off during the year but it is also part of Bottega Veneta's long-term roadmap. The brand is currently overhauling its structures – particularly related to product development and production – to adapt them to the new challenges it is facing, such as reducing design lead times for new collections and expanding product categories that are currently under-developed. The pressure of these changes on the supply chain could give rise to delays in delivery schedules as well as performance volatility – albeit contained – from one period to another.

Revenue

Bottega Veneta generated revenue of €1,168 million in 2019, up 2.2% based on comparable data and 5.3% as reported. After retreating in the first half of the year – particularly in the first few months – revenue swung up in the second half, advancing 8.2% at constant exchange rates on the back of the growing appeal of the brand's new collections.

With a view to preserving its high-end positioning and exclusivity, Bottega Veneta's preferred distribution channel is its directly operated stores, which accounted for 81.1% of the brand's total sales in 2019.

Revenue from retail sales in directly operated stores rose 1.3% for the year as a whole and 7.2% in the second half. Momentum in the second half was especially strong in mature markets and for the brand's online distribution channel.

Wholesale sales were up 6.8%, thanks to faster growth in the second half as a result of orders taken for new collections. This very solid performance was achieved against a backdrop of gradually replacing old collections with new ones, and came after two years of reorganizing this distribution channel with a view to only working with best-in-class partners and minimizing the risk of saturating points of sale.

Revenue by region

In view of the proportion of Bottega Veneta's sales that are generated in directly operated stores, the following revenue analysis by region only concerns the retail business.

The brand's new women's collections – in leather goods, ready-to-wear and shoes – have proved particularly popular in mature markets.

In Western Europe, for example, sales climbed 7.4% at constant exchange rates, with a very significant contribution from local customers. The trend was similar in North America, where comparable-basis sales were up 5.7%, primarily thanks to American customers, as tourist numbers were lower during the year. Conversely, in Japan sales contracted 5.0% on a comparable basis, weighed down by performance in the fourth quarter and the fact that the brand's new creative aesthetic is taking longer to be accepted in Japan than in other countries, which was also the case for Gucci in 2016 and 2017 when it carried out its stylistic revolution.

In emerging markets, Bottega Veneta's sales inched down 0.7% year on year based on comparable data. They picked up sharply in the second half, however, as illustrated by the buoyant fourth-quarter revenue generated in Mainland China and South Korea – the brand's two main emerging markets. Nonetheless, it suffered from exposure to Hong Kong – a legacy market for the brand, which made up around 9% of its in-store sales in 2018 – although the downturn observed since the summer of 2019 seems to be in line with the overall market trend.

Revenue by product category

The leather goods category – which is still Bottega Veneta's core business, accounting for almost 83% of its total sales, including to wholesalers – posted a slight revenue increase for the year as a whole, with very positive trends in the second half. New lines (*The Pouch*, *Maxi Cabat* and *Arco*) delivered excellent showings, which more than offset the revenue attrition for collections launched before Daniel Lee's arrival. Growth in women's leather goods – the first product category to benefit from the brand's revisited offerings – is currently outpacing that of leather goods collections for men.

Revenue for all of Bottega Veneta's other categories rose sharply in 2019, buoyed by the success of its women's ready-to-wear and shoes collections.

Recurring operating income

Bottega Veneta's recurring operating income for 2019 totaled €215 million, down €36 million on 2018 (IFRS 16-restated data). Recurring operating margin narrowed by 420 basis points to 18.4%, mainly due to the targeted and controlled increase in certain operating expenses required for the brand's transformation and relaunch processes. Product development, store network management, marketing and communication costs increased significantly year on year, but other expenses were tightly controlled. Although this investment phase is weighing on Bottega Veneta's profitability, it is needed in order to make the brand's revamping a lasting success.

Adjusted figures under IAS 17 show the same trends, with a recurring operating income of €207 million, down 14.3%, and margin of 17.8%, down 400 basis points.

EBITDA totaled €374 million (€254 million for IAS 17-adjusted EBITDA). EBITDA margin narrowed by 450 basis points to 32.1% (IAS 17-adjusted EBITDA margin was 21.8%, versus 25.6% as reported in 2018).

Store network and operating investments

As of December 31, 2019, Bottega Veneta had 268 directly operated stores, including 125 in emerging markets. There were 13 net store openings during the year. The majority of these openings correspond to targeted new points of sale in department stores and airports as well as taking back under direct control operations that were previously managed by franchisees in certain regions. The brand is also pursuing its strategy of progressively opening new flagship stores and relocating or renovating its existing stores.

Against this backdrop, Bottega Veneta's operating investment budget remained relatively high (at 5.0% of revenue), but it was lower than in 2018. Altogether, gross operating investments totaled €58 million, compared with €69 million in 2018.

Other Houses

<i>(in € millions)</i>	2019	2018 Restated under IFRS 16	Change	2018 Reported
Revenue	2,537.5	2,109.2	+20.3%	2,109.2
Recurring operating income as a % of revenue	317.7 12.5%	223.5 10.6%	+42.1% +1.9 pts	214.4 10.2%
EBITDA as a % of revenue	550.0 21.7%	407.2 19.3%	+35.1% +2.4 pts	296.8 14.1%
Gross operating investments	158.8	140.0	+13.4%	140.0
Average FTE headcount	6,439	5,769	+11.6%	5,769

<i>(in € millions)</i>	2019	2018 Restated under IFRS 16	Change	2018 Reported
Recurring operating income as a % of revenue	317.7 12.5%	223.5 10.6%	+42.1% +1.9 pts	214.4 10.2%
Fixed portion of lease payments restated under IFRS 16	(150.9)	(110.4)	-36.7%	N/A
Depreciation of right-of-use assets (IFRS 16)	139.1	101.3	+37.3%	N/A
Adjusted recurring operating income (IAS 17) as a % of revenue	305.9 12.1%	214.4 10.2%	+42.7% +1.9 pts	214.4 10.2%

Revenue

Overall revenue generated by the Other Houses advanced 17.8% on a comparable basis in 2019, reaching €2,538 million.

This excellent performance was mainly led by Balenciaga and Alexander McQueen, which both enjoyed a brisk pace of sales throughout the year. The Group's jewelry brands also posted robust revenue rises in 2019, despite their fourth-quarter figures being hit by falling demand in Japan. The watches brands were adversely impacted by their persistently fragile market and the fact that they have embarked on a new phase in streamlining their offerings and distribution channels.

In light of the sustained growth experienced by the brands focused on exclusive distribution in both 2018 and 2019, the proportion of sales generated in directly operated stores increased significantly to 56% (51% in 2018). This distribution channel, which is the main channel used by the Group's Other Houses, registered 28.7% sales growth on a comparable basis in 2019, with a good balance between the first and second halves of the year. This strong showing was propelled by the excellent performances turned in by Balenciaga and Alexander McQueen. Retail revenue once again decreased at Brioni, mainly due to its reduced number of stores.

Sales in the wholesale network rose 7.4% on a comparable basis versus 2018, reflecting a high basis of comparison and the fact that a number of wholesale points of sale have been converted into directly operated stores.

Revenue by region

Sales for the Other Houses were up across all of the Group's main regions in 2019. Performances remained balanced overall between mature and emerging markets, demonstrating the brands' appeal and their development potential.

In mature markets, revenue advanced 16.4% at constant exchange rates. In Western Europe, the increase was 17.6%. In Japan and North America, the Other Houses turned in very positive performances, with sales up 14.3% for both regions, despite a more mixed market environment in the United States and the slowdown in Japan in the fourth quarter.

In emerging markets, year-on-year growth was 21.0%, mirroring the trends seen in the Asia-Pacific region (excluding Japan). Mainland China, South Korea and Australia saw the strongest growth in this region, whereas revenue unsurprisingly declined in Hong Kong.

Revenue by product category

Apart from the watches brands, which suffered the effects of a weak market, all of the product categories registered strong revenue growth.

The shoes category was once again the star performer, in line with general market trends in the luxury industry, although ready-to-wear and leather goods also had a very good year.

Jewelry and high jewelry delivered very solid showings in 2019, fueled by the successful implementation of the development plans at Boucheron and Qeelin and steadily rising sales at Pomellato.

Recurring operating income

Recurring operating income for the Other Houses topped the €300 million mark in 2019, climbing €94 million (or 42.1%) compared with the 2018 figure (as restated under IFRS 16) to €318 million.

Recurring operating margin widened by 190 basis points to 12.5%. Adjusted IAS 17 figures show an equivalent increase, with recurring operating margin rising from 10.2% to 12.1%.

This year-on-year increase partly stemmed from Balenciaga's and Alexander McQueen's rapid growth and ensuing operating leverage. However, it was also due to losses being curtailed both at Boucheron (after two years of investments) and at Brioni, whose restructuring is now beginning to bear fruit.

EBITDA came in at €550 million, up €143 million on 2018, and EBITDA margin widened by 240 basis points to 21.7%. Adjusted under IAS 17, EBITDA stood at €399 million or 15.7% of revenue (versus 14.1% in 2018).

Store network and operating investments

The Other Houses directly operated 404 stores as of December 31, 2019, or 44 units more than at December 31, 2018. This rise was due to openings carried out mainly by Balenciaga and Alexander McQueen as part of their respective strategies to expand their exclusive distribution networks. Brioni, meanwhile, continued its strategy of reducing its points of sale in order to concentrate distribution on its most profitable stores.

As of December 31, 2019, the network comprised 229 stores in mature markets and 175 in emerging markets.

Gross operating investments for the Other Houses totaled €159 million, up €20 million on 2018, with the bulk (61%) concentrated in the second half, as in the previous year. As a percentage of revenue, the Other Houses' gross operating investments were slightly lower than in 2018.

The Other Houses performed as follows in 2019, beginning with the brands in the Couture and Leather Goods Division:

- Alexander McQueen pursued its strategy of enhancing its collections in all of its product categories. Ready-to-wear remained at the heart of the brand's identity, with constant emphasis on exacting quality and design, while reaching out through a broader offering. During the year, Alexander McQueen continued to develop other categories, such as shoes – a category in which the brand has won sizable market share. It also extended its store network with targeted openings that helped drive strong sales growth. As a whole, the House – which also includes the McQ line, which is positioned in the accessible luxury segment and has embarked on a radical transformation process – posted revenue of over €500 million and kept up a very satisfactory level of recurring operating margin;

- for Balenciaga, 2019 was another year of very strong growth, with sales well above the €1 billion mark. Drawing on this sales success and its acclaimed runway shows, Balenciaga invested throughout the year to position the House at the very top in terms of creativity, renown and distribution. The brand notably further increased the proportion of exclusive distribution by opening new stores, bringing back in-house the management of its stores in the Middle East, and successfully continuing to develop its online sales. Thanks to its high revenue growth, Balenciaga enjoyed a strong leverage effect during the year, which resulted in a slight rise in recurring operating margin despite outlay incurred on strengthening its organizational processes and structures;

- Brioni managed to contain its losses in 2019 against a backdrop of declining sales. It continued to streamline its distribution channels during the year, both in terms of directly operated stores and the wholesale network, and also worked on optimizing its production organization processes. Thanks to all of these efforts, the House is now well positioned for a turnaround, with 2020 being its 75th anniversary and Brad Pitt taking on the role of the brand's new ambassador.

For the jewelry brands, 2019 was another year of expansion and investment, in line with their respective strategic plans:

- having celebrated its 160th anniversary in 2018, Boucheron had another action-packed year in 2019, with the opening of new stores, special events for existing collections, the launch of the new *Jack de Boucheron* collection, successful new high jewelry pieces and an intensification of its communication campaigns. The House registered very robust sales growth and scaled back its losses, in line with its relaunch plan;
- Pomellato also posted very solid growth in sales and recurring operating income in 2019. The brand devoted its investments during the year to controlled expansion of its store network as well as to communication campaigns related to its iconic collections and the launch of the *Brera* line. For DoDo – whose business was concentrated on its heritage markets and main product lines – 2019 was a transition year;
- despite the downturn in the luxury goods market in Hong Kong during the second half, Qeelin had an excellent year in 2019, thanks to its rapid expansion in Mainland China and ever-growing acclaim in the Asia-Pacific region.

Since 2018, the Girard-Perregaux and Ulysse Nardin watches brands have been placed under the direction of one management team and have rethought their organizational structures in order to optimize synergies. In 2019, in a persistently difficult market environment for watches, these brands continued to streamline and renew their offerings while reconfiguring their distribution networks.

Corporate and other

<i>(in € millions)</i>	2019	2018 Restated under IFRS 16	Change	2018 Reported
Recurring operating income (loss) (excluding corporate long-term incentive plans)	(195.5)	(179.3)	+9.0%	(183.1)
Cost of corporate long-term incentive plans	(68.2)	(64.1)	+6.4%	(64.1)
Recurring operating income (loss)	(263.7)	(243.4)	+8.3%	(247.2)

<i>(in € millions)</i>	2019	2018 Restated under IFRS 16	Change	2018 Reported
Recurring operating income (loss)	(263.7)	(243.4)	+8.3%	(247.2)
Fixed portion of lease payments restated under IFRS 16	(57.4)	(43.4)	+32.3%	N/A
Depreciation of right-of-use assets (IFRS 16)	53.6	39.6	+35.4%	N/A
Adjusted recurring operating income (IAS 17)	(267.5)	(247.2)	+8.2%	(247.2)

The “Corporate and other” segment comprises (i) Kering’s corporate departments and headquarters teams, (ii) Shared Services, which provide a range of services to the brands, (iii) the Kering Sustainability Department, and (iv) the Kering Sourcing Department (KGS), a profit center for services that it provides on behalf of non-Group brands, such as the companies making up the former Redcats group.

In addition, since January 1, 2017, Kering Eyewear’s results have been reported within the “Corporate and other” segment.

Kering Eyewear’s sales advanced by a robust 17.8% at constant exchange rates in 2019 to €596 million, notably fueled by its takeover of the Montblanc and Balenciaga licenses. Kering Eyewear contributed €474 million to consolidated revenue for 2019 (after eliminating intra-group sales and royalties paid to the Group’s brands), representing an 18.2% year-on-year increase at constant exchange rates.

Excluding sales to major international distributors and stores operated by the Group’s brands (which, combined, accounted for 34% of Kering Eyewear’s sales), EMEA was once again Kering Eyewear’s main market, followed by the Americas, with both of these regions each making up around 50% of total revenue. In terms of distribution channels, local chains and the three “Os” (Opticians, Optometrists and Ophthalmologists) constitute the main sales channel for Kering Eyewear (representing almost 50% of total sales). As was the case in 2018, this channel is growing fast, testifying to the efficient sales structure put in place by Kering Eyewear.

Despite recognizing the amortization expense on the portion of the indemnity paid to Safilo for the early termination of the Gucci license – which was capitalized in the Group’s statement of financial position in an amount of €29 million as of December 31, 2018 and is being amortized over a residual period of approximately two years – Kering Eyewear ended 2019 with a recurring operating income figure that was not only positive but also significantly higher than in 2018.

Overall, net costs recorded by the “Corporate and other” segment for 2019 came to approximately €264 million, €21 million higher than the 2018 figure (restated for the impacts of IFRS 16).

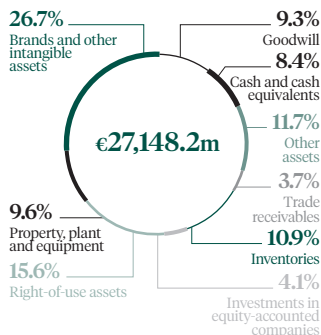
The cost of long-term incentive plans, including those of corporate officers, rose by €4 million, in view of the rise in Kering’s share price in 2019, particularly in the second half of the year.

Other Corporate costs, net of the positive contributions by KGS and Kering Eyewear, were 90% higher year on year, due to the development of new functions, notably to lead the Group’s digital and innovation initiatives.

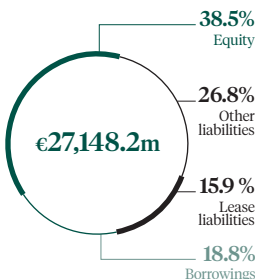
Gross operating investments amounted to €304 million, up €86 million on the 2018 figure (€116 million adjusted for the payment in 2018 of the final installment of the compensation due to Safilo for the early termination of the Gucci license). This year-on-year increase primarily reflects measures undertaken concerning logistics matters handled by the Corporate team on behalf of the brands, but also includes the impact of continued efforts to accelerate projects to upgrade all of the Group’s information systems. Despite the high proportion of the Group’s operating investments incurred by the Corporate entity (almost a third of the total budget), the Group managed to contain its overall investments at around 6.0% of consolidated revenue, more or less unchanged from 2018. This was achieved thanks to tight management and prioritization of projects concerned throughout 2019.

1.4 Financial structure as of December 31, 2019

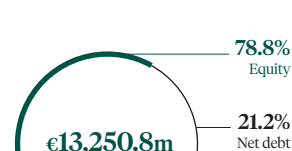
Assets



Equity and liabilities



Capital employed



Condensed statement of financial position

(in € millions)	Dec. 31, 2019	Dec. 31, 2018	First-time application of IFRS 16	Change
Goodwill	2,525.9	2,399.2		126.7
Brands and other intangible assets	7,260.5	7,393.6	(144.7)	11.6
Right-of-use assets	4,246.7	N/A	3,759.1	487.6
Property, plant and equipment	2,619.3	2,228.5	(120.2)	511.0
Investments in equity-accounted companies	1,105.3	1,074.7		30.6
Other non-current assets	1,844.8	1,200.6		644.2
Non-current assets	19,602.5	14,296.6	3,494.2	1,811.7
Inventories	2,959.2	2,414.7		544.5
Trade receivables	996.0	849.5		146.5
Cash and cash equivalents	2,285.9	2,216.6		69.3
Other current assets	1,298.5	1,051.0	(45.8)	293.3
Current assets	7,539.6	6,531.8	(45.8)	1,053.6
Assets held for sale	6.1	539.1		(533.0)
TOTAL ASSETS	27,148.2	21,367.5	3,448.4	2,332.3
Equity attributable to owners of the parent	10,278.1	9,905.9		372.2
Equity attributable to non-controlling interests	160.5	155.7		4.8
Total equity	10,438.6	10,061.6	-	377.0
Non-current borrowings	3,122.2	3,171.6	(42.8)	(6.6)
Non-current lease liabilities	3,598.6	N/A	3,177.2	421.4
Other non-current liabilities	1,841.3	1,723.8		117.5
Non-current liabilities	8,562.1	4,895.4	3,134.4	532.3
Current borrowings	1,975.9	756.4	(35.9)	1,255.4
Current lease liabilities	720.0	N/A	552.9	167.1
Other current liabilities	5,450.8	5,465.5	(203.0)	188.3
Current liabilities	8,146.7	6,221.9	314.0	1,610.8
Liabilities associated with assets held for sale	0.8	188.6		(187.8)
TOTAL EQUITY AND LIABILITIES	27,148.2	21,367.5	3,448.4	2,332.3

Net debt

<i>(in € millions)</i>	Dec. 31, 2019	Dec. 31, 2018	First-time application of IFRS 16	Change
Gross borrowings	5,098.1	3,928.0	(78.7)	1,248.8
Cash	(2,285.9)	(2,216.6)		(69.3)
Net debt	2,812.2	1,711.4	(78.7)	1,179.5

Capital employed

<i>(in € millions)</i>	Dec. 31, 2019	Dec. 31, 2018	First-time application of IFRS 16	Change
Total equity	10,438.6	10,061.6	-	377.0
Net debt	2,812.2	1,711.4	(78.7)	1,179.5
Capital employed	13,250.8	11,773.0	(78.7)	1,556.5

1.5 Comments on the Group's financial position

Brands

As of December 31, 2019, the value of brands net of deferred tax liabilities amounted to €5,226 million, compared with €5,269 million as of December 31, 2018.

Operating infrastructure

	Owned outright	Leased	2019	2018 Restated ⁽¹⁾	2018 Reported
Stores	64	1,317	1,381	1,278	1,439
Logistics units	12	84	96	78	109
Production units & other	37	263	300	244	101

(1) The methodology for identifying the number of operating infrastructures was revised in 2019, with restated comparative data for 2018.

Current assets (liabilities)

<i>(in € millions)</i>	Dec. 31, 2019	Dec. 31, 2018	First-time application of IFRS 16	Translation adjustments and other	Cash flow
Inventories	2,959.2	2,414.7		37.7	506.8
Trade receivables	996.0	849.5		18.7	127.8
Trade payables	(808.7)	(745.8)		0.4	(63.3)
Net current tax receivables (payables)	(1,080.8)	(1,212.7)		(165.7)	297.6
Lease liabilities	(720.0)	N/A	(552.9)	(798.3)	631.2
Other current assets (liabilities), net	(2,037.9)	(2,191.7)	157.2	62.5	(65.9)
Current assets (liabilities)	(692.2)	(886.0)	(395.7)	(844.7)	1,434.2

Fluctuations in exchange rates during 2019 had an overall €18 million positive impact on the value of net current assets (liabilities). The effect on inventories was €29 million.

Changes in inventories resulted in a net cash outflow of €507 million in 2019. This year-on-year increase was due to higher volumes of purchases made by the Group's main Luxury Houses, in order to support sales growth as inventories were rebuilt after the low point reached at the end of 2018.

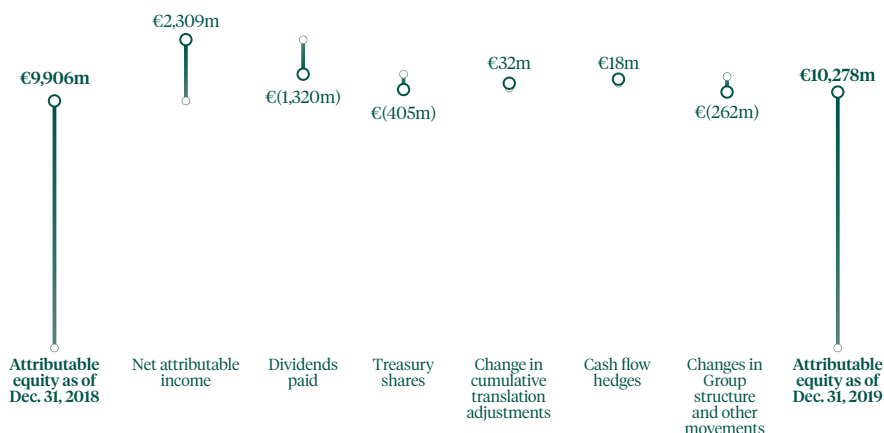
The contained increase in trade receivables led to a €128 million net cash outflow, reflecting growth in wholesale sales, notably for Gucci and Kering Eyewear.

Trade payables rose only very slightly in 2019, generating a €63 million net cash inflow.

Net current tax payables rose by €298 million due to the higher taxes resulting from the reshuffling currently under way of the Luxury Houses' supply chain and logistics operations.

Equity

As of December 31, 2019, equity attributable to owners of the parent totaled €10,278 million, €372 million higher than as of December 31, 2018 (€9,906 million).



As of December 31, 2019, Kering SA's share capital amounted to €505,117,288, comprising 126,279,322 fully paid-up shares with a par value of €4 each, unchanged from December 31, 2018. As of December 31, 2019 and December 31, 2018, Kering held no shares in treasury in connection with the liquidity agreement. However, as part of the stock repurchase program authorized at the April 26, 2018 and April 24, 2019 Annual General Meetings, Kering purchased 832,389 of its own shares in 2019, and

the total number of shares still held in treasury at the year end was 1,261,406. The repurchased shares will be canceled during 2020.

As of December 31, 2019, equity attributable to non-controlling interests stood at €161 million, versus €156 million as of December 31, 2018 (see Note 26 – Equity, to the consolidated financial statements).

1.6 Comments on movements in net debt

Breakdown of net debt

The Group's net debt stood at €2,812 million as of December 31, 2019, up on the December 31, 2018 figure of €1,711 million and breaking down as follows:

(in € millions)	Dec. 31, 2019	Dec. 31, 2018	First-time application of IFRS 16	Change
Bonds	3,147.8	2,836.2		311.6
Bank borrowings	211.6	200.0		11.6
Commercial paper	804.6	-		804.6
Other borrowings	934.1	891.8	(78.7)	121.0
Gross borrowings	5,098.1	3,928.0	(78.7)	1,248.8
Cash and cash equivalents	(2,285.9)	(2,216.6)		(69.3)
Net debt	2,812.2	1,711.4	(78.7)	1,179.5

As of December 31, 2019, the Group's gross borrowings included €444 million concerning put options granted to non-controlling interests (€393 million as of December 31, 2018).

Solvency

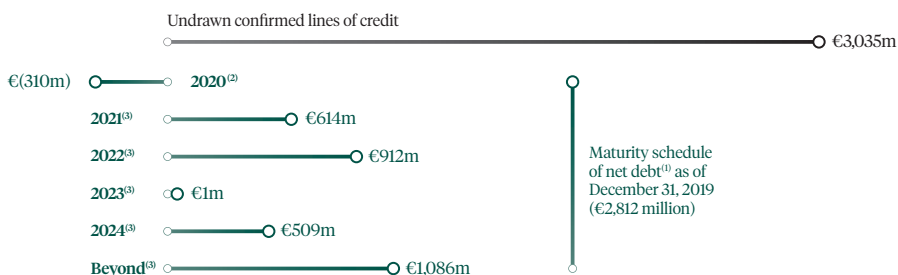
The Group has a very sound financial structure and on April 18, 2019 Standard & Poor's upgraded Kering's long-term BBB+ rating with a positive outlook to A- with a stable outlook.

Liquidity

As of December 31, 2019, the Group had cash and cash equivalents totaling €2,286 million (€2,217 million as of December 31, 2018). Confirmed lines of credit amounted to €3,035 million (€3,135 million as of December 31, 2018). The balance of confirmed undrawn lines of credit was €3,035 million as of December 31, 2019 (€3,135 million one year earlier).

Cash and cash equivalents exclusively comprise cash instruments that are not subject to any risk of changes in value.

Maturity schedule of net debt



(1) Net debt is defined on page 88.

(2) Gross borrowings less cash and cash equivalents.

(3) Gross borrowings.

The portion of the Group's gross borrowings maturing within one year corresponded to 38.8% as of December 31, 2019 (19.3% as of December 31, 2018). Consequently, the Group is not exposed to any liquidity risk.

The Group's loan agreements feature standard *pari passu*, cross default and negative pledge clauses.

The Group's debt contracts do not include any rating trigger clauses (see Note 30 – Borrowings, to the consolidated financial statements).

Changes in net debt

(in € millions)

	2019	2018	Change
Net debt as of January 1	1,711.4	3,048.6	(1,337.2)
Restatement of net debt as of January 1, 2019 for discontinued operations (IFRS 5)	-	367.1	(367.1)
First-time application of IFRS 16 ⁽¹⁾	(78.7)	N/A	(78.7)
Free cash flow from operations	(1,520.7)	(2,955.2)	1,434.5
Dividends paid	1,342.1	780.3	561.8
Net interest paid and dividends received	161.2	187.0	(25.8)
Net acquisitions (disposals) of Kering shares	402.1	167.9	234.2
Repayment of lease liabilities	749.6	N/A	749.6
Other acquisitions and disposals	323.2	93.8	229.4
Other movements	(278.0)	21.9	(299.9)
Net debt at year end	2,812.2	1,711.4	1,100.8

(1) See Note 4 – First-time application of IFRS 16 – Leases, to the consolidated financial statements.

Free cash flow from operations

Cash flow from operating activities

<i>(in € millions)</i>	2019	2018 Restated under IFRS 16	Change	2018 Reported
Cash flow from operating activities before tax, dividends and interest	5,936.3	5,048.7	+17.6%	4,391.6
Change in working capital requirement	(557.5)	(112.6)	+395.1%	(51.6)
Income tax paid	(2,903.5)	(562.0)	+416.6%	(562.0)
Net cash from operating activities	2,475.3	4,374.1	-43.4%	3,778.0

Operating investments

<i>(in € millions)</i>	2019	2018 Restated under IFRS 16	Change	2018 Reported
Net cash from operating activities	2,475.3	4,374.1	-43.4%	3,778.0
Purchases of property, plant and equipment and intangible assets	(955.8)	(828.0)	+15.4%	(828.0)
Proceeds from disposals of property, plant and equipment and intangible assets	1.2	5.2	-76.9%	5.2
Free cash flow from operations	1,520.7	3,551.3	-57.2%	2,955.2
IFRS 16 restatement of lease payments	(710.1)	(596.1)	+19.1%	N/A
Adjusted free cash flow from operations (IAS 17)	810.6	2,955.2	-72.6%	2,955.2

Gross operating investments by activity

<i>(in € millions)</i>	2019	2018 Restated under IFRS 16	Change	2018 Reported
Total Luxury Houses	651.9	610.3	+6.8%	610.3
Corporate and other	303.9	217.7	+39.6%	217.7
Gross operating investments	955.8	828.0	+15.4%	828.0

In 2019, 59% of the Group's gross operating investments concerned the store network (versus 61% in 2018). 49% of these investments related to store opening programs and 51% to store conversions and refurbishments.

Available cash flow

<i>(in € millions)</i>	2019	2018 Restated under IFRS 16	Change	2018 Reported
Free cash flow from operations	1,520.7	3,551.3	-57.2%	2,955.2
Interest and dividends received	19.1	5.4	+253.7%	5.4
Interest paid and equivalent	(289.9)	(279.5)	+3.7%	(192.4)
Available cash flow	1,249.9	3,277.2	-61.9%	2,768.2
IFRS 16 restatement of lease payments	(710.1)	(596.1)	+19.1%	N/A
IFRS 16 restatement of interest paid	106.9	87.1	+22.7%	N/A
Adjusted available cash flow (IAS 17)	646.7	2,768.2	-76.6%	2,768.2

Dividends paid

The cash dividend paid by Kering SA to its shareholders in 2019 amounted to €1,320 million (€758 million in 2018), including the €442 million interim dividend paid on January 17, 2019.

Dividends paid in 2019 also included €22 million paid to non-controlling interests in consolidated subsidiaries (€23 million in 2018).

Repayment of lease liabilities

The Group's first-time application of IFRS 16 as from January 1, 2019 led to the recognition of €750 million in repayments of lease liabilities, corresponding to fixed lease payments. The repayments relating to 2018 have been directly included in free cash flow from operations for

that period (see Note 4 – First-time application of IFRS 16 – *Leases*, to the consolidated financial statements).

Other acquisitions and disposals

In 2019, transactions with non-controlling interests amounted to €70 million (€17 million in 2018). Other acquisitions and disposals over the year also included financial investments, deposits and guarantees and financing transactions carried out with non-controlled companies.

Other movements

This item includes the €105 million negative impact of fluctuations in exchange rates in 2019 (€85 million positive impact in 2018).

1.7 Results and share capital of the parent company

The parent company ended 2019 with net income of €918 million compared with €1,657 million in 2018. The 2019 figure includes €930 million in dividends received from subsidiaries (versus €1,010 million in 2018).

As of December 31, 2019, Kering's share capital comprised 126,279,322 shares with a par value of €4 each.

Payment of a cash dividend

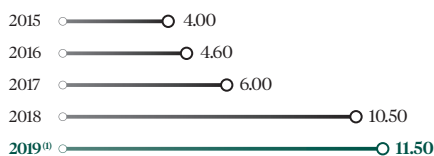
At its February 11, 2020 meeting, the Board of Directors decided to ask shareholders to approve a €11.50 per-share cash dividend for 2019 at the Annual General Meeting to be held to approve the financial statements for the year ended December 31, 2019.

An interim cash dividend of €3.50 per share was paid on January 16, 2020 pursuant to a decision by the Board of Directors on December 12, 2019.

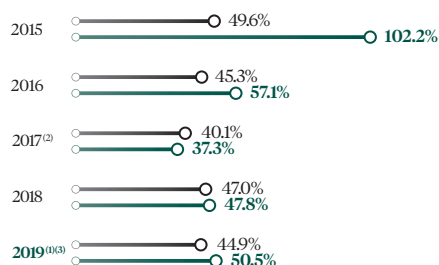
If the final dividend is approved, the total cash dividend payout in 2020 for 2019 will amount to €1,438 million, taking into account Kering shares acquired under the stock repurchase program and held in treasury.

Kering's goal is to maintain well-balanced payout ratios bearing in mind, on the one hand, changes in net income from continuing operations (excluding non-recurring items) attributable to owners of the parent and, on the other, the amount of available cash flow.

Dividend per share (in €)



Payout ratios



○ % of attributable recurring net income from continuing operations
○ % of available cash flow

(1) Subject to the approval of the Annual General Meeting to be held on April 23, 2020.

(2) Data restated for discontinued operations (PUMA, Stella McCartney, Volcom and Christopher Kane) in accordance with IFRS 5.

(3) 2019 available cash flow, excluding the impact of the settlement with the Italian tax authorities.

1.8 Transactions with related parties

Transactions with related parties in 2019 are described in Note 36 – Transactions with related parties, to the consolidated financial statements.

1.9 Subsequent events

No significant events occurred between December 31, 2019 and February 11, 2020 – the date on which the Board of Directors authorized the consolidated financial statements for issue.

1.10 Outlook

Positioned in structurally high-growth markets, Kering enjoys very solid fundamentals and a balanced portfolio of complementary, high-potential brands with clearly focused priorities.

The Group is continuing to implement its strategy focused on achieving same-store revenue growth while ensuring the targeted and selective expansion of the store network in order to sustainably grow its Houses and consolidate their profitability profiles.

The Group is also pro-actively investing to develop cross-business growth platforms in the areas of e-commerce, omni-channel distribution, logistics and IT infrastructure, expertise, and innovative digital technologies.

The Group's operating environment remains unsettled with regard to macroeconomic and geopolitical uncertainties, national trade policies, and fluctuations in exchange rates. These uncertainties may be temporarily heightened during major events or crises, such as the recent coronavirus epidemic, given the impact on consumption trends and tourism flows, and their ability to affect economic growth.

Against this backdrop, in 2020 the Group plans to pursue the strategic measures that it has successfully implemented in recent years, namely rigorously managing and allocating its resources in order to support its operating performance, maintaining a high level of cash flow generation and optimizing its return on capital employed.

1.11 Method used to prepare 2018 financial data restated under IFRS 16

The data for 2018 has been restated in order to present the impact of IFRS 16 on that period and to permit meaningful comparisons with 2019 data, for which IFRS 16 has been applied. This restated data takes into account all of the leases in force during 2018, applying the modified retrospective approach and the accounting principles used by the Group for the first-time application of IFRS 16 as of January 1, 2018, discounted using the discount rates applicable at January 1, 2019 (the Group's effective IFRS 16 transition date). In accordance with the

accounting principles applied by the Group as from January 1, 2019, no restatements have been made for (i) leases with only variable payments, (ii) short-term leases (i.e., leases with a term of 12 months or less, including long-term leases that will have expired at December 31, 2019), and (iii) leases for which the underlying asset is of low value.

See Note 4 – First-time application of IFRS 16 – *Leases*, to the consolidated financial statements.

1.12 Definitions of non-IFRS financial indicators

“Reported” and “comparable” revenue

The Group’s “reported” revenue corresponds to published revenue. The Group also uses “comparable” data to measure organic growth. “Comparable” revenue refers to 2018 revenue adjusted as follows by:

- neutralizing the portion of revenue corresponding to entities divested in 2018;
- including the portion of revenue corresponding to entities acquired in 2019;
- remeasuring 2018 revenue at 2019 exchange rates.

These adjustments give rise to comparative data at constant scope and exchange rates, which serve to measure organic growth.

Recurring operating income

The Group’s total operating income includes all revenues and expenses directly related to Group activities, whether these revenues and expenses are recurring or arise from non-recurring decisions or transactions.

“Other non-recurring operating income and expenses” consists of unusual items, notably as concerns the nature or frequency, that could distort the assessment of Group entities’ financial performance. Other non-recurring operating income and expenses may include impairment of property, plant and equipment, goodwill and other intangible assets, gains or losses on disposals of non-current assets, restructuring costs and costs relating to employee adaptation measures.

Consequently, Kering monitors its operating performance using “Recurring operating income”, defined as the difference between total operating income and other non-recurring operating income and expenses.

Recurring operating income is an intermediate line item intended to facilitate the understanding of the Group’s operating performance and that can be used as a way to estimate recurring performance. This indicator is presented in a manner that is consistent and stable over the long term in order to ensure the continuity and relevance of financial information.

EBITDA

The Group uses EBITDA to monitor its operating performance. This financial indicator corresponds to recurring operating income plus net charges to depreciation, amortization and provisions on non-current operating assets recognized in recurring operating income.

Free cash flow from operations and available cash flow

The Group also uses an intermediate line item, “Free cash flow from operations”, to monitor its financial performance. This financial indicator measures net operating cash flow less net operating investments (defined as purchases and sales of property, plant and equipment and intangible assets).

“Available cash flow” corresponds to free cash flow from operations plus interest and dividends received, less interest paid and equivalent.

Net debt

As defined by French accounting standards authority (*Autorité des Normes Comptables* – ANC) recommendation No. 2013-03, net debt comprises gross borrowings, including accrued interest, less cash and cash equivalents.

Net debt includes fair value hedging instruments recorded in the statement of financial position relating to bank borrowings and bonds of which the interest rate risk is fully or partly hedged as part of a fair value relationship.

Effective tax rate on recurring income

The effective tax rate on recurring income corresponds to the effective tax rate excluding tax effects relating to “Other non-recurring operating income and expenses”.

2. CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2019

Audited data, report pending.

2.1 Consolidated income statement for the years ended December 31, 2019 and 2018

<i>(in € millions)</i>	Notes	2019	2018
CONTINUING OPERATIONS			
Revenue	6	15,883.5	13,665.2
Cost of sales		(4,108.5)	(3,467.0)
Gross margin		11,775.0	10,198.2
Payroll expenses	7-8	(2,290.8)	(2,080.4)
Other recurring operating income and expenses		(4,705.9)	(4,174.0)
Recurring operating income	9	4,778.3	3,943.8
Other non-recurring operating income and expenses	10	(168.5)	(222.4)
Operating income		4,609.8	3,721.4
Finance costs, net	11	(309.5)	(207.3)
Income before tax		4,300.3	3,514.1
Income tax expense	12	(2,133.7)	(867.7)
Share in earnings (losses) of equity-accounted companies		41.8	11.9
Net income from continuing operations		2,208.4	2,658.3
o/w attributable to owners of the parent		2,166.9	2,630.6
o/w attributable to non-controlling interests	16.1	41.5	27.7
DISCONTINUED OPERATIONS			
Net income from discontinued operations	13.1	125.4	1,095.2
o/w attributable to owners of the parent		141.7	1,084.3
o/w attributable to non-controlling interests		(16.3)	10.9
TOTAL GROUP			
Net income of consolidated companies		2,333.8	3,753.5
o/w attributable to owners of the parent		2,308.6	3,714.9
o/w attributable to non-controlling interests	16.1	25.2	38.6

<i>(in € millions)</i>	Notes	2019	2018
Net income attributable to owners of the parent		2,308.6	3,714.9
Earnings per share <i>(in €)</i>	14.1	18.40	29.49
Fully diluted earnings per share <i>(in €)</i>	14.1	18.40	29.49
Net income from continuing operations attributable to owners of the parent		2,166.9	2,630.6
Earnings per share <i>(in €)</i>	14.1	17.27	20.88
Fully diluted earnings per share <i>(in €)</i>	14.1	17.27	20.88
Net income from continuing operations (excluding non-recurring items) attributable to owners of the parent		3,211.5	2,816.7
Earnings per share <i>(in €)</i>	14.2	25.59	22.36
Fully diluted earnings per share <i>(in €)</i>	14.2	25.59	22.36

2.2 Consolidated statement of comprehensive income

for the years ended December 31, 2019 and 2018

<i>(in € millions)</i>	Notes	2019	2018
Net income		2,333.8	3,753.5
Actuarial gains and losses ⁽¹⁾	27.2	(16.1)	9.6
Total items not reclassified to income		(16.1)	9.6
Foreign exchange gains and losses		33.6	(70.6)
Cash flow hedges ⁽¹⁾	31	17.8	(142.0)
Financial assets at fair value ⁽¹⁾		(0.1)	(13.3)
Share in other comprehensive income (loss) of equity-accounted companies		(7.0)	12.0
Total items to be reclassified to income		44.3	(213.9)
Other comprehensive income (loss), net of tax	15	28.2	(204.3)
Total comprehensive income		2,362.0	3,549.2
o/w attributable to owners of the parent		2,335.4	3,504.8
o/w attributable to non-controlling interests		26.6	44.4

(1) Net of tax.

2.3 Consolidated statement of financial position

as of December 31, 2019 and 2018

ASSETS

<i>(in € millions)</i>	Notes	Dec. 31, 2019	Dec. 31, 2018
Goodwill	17-20	2,525.9	2,399.2
Brands and other intangible assets	18-20	7,260.5	7,393.6
Right-of-use assets	4	4,246.7	N/A
Property, plant and equipment	19	2,619.3	2,228.5
Investments in equity-accounted companies	21	1,105.3	1,074.7
Non-current financial assets	22	458.4	336.3
Deferred tax assets	12.2.2	1,367.6	830.1
Other non-current assets		18.8	34.2
Non-current assets		19,602.5	14,296.6
Inventories	23	2,959.2	2,414.7
Trade receivables	24	996.0	849.5
Current tax receivables	12.2.1	280.7	90.6
Other current financial assets	25	38.4	60.9
Other current assets	25	979.4	899.5
Cash and cash equivalents	29	2,285.9	2,216.6
Current assets		7,539.6	6,531.8
Assets held for sale		6.1	539.1
TOTAL ASSETS		27,148.2	21,367.5

EQUITY AND LIABILITIES

<i>(in € millions)</i>	Notes	Dec. 31, 2019	Dec. 31, 2018
Share capital		505.2	505.2
Capital reserves		2,428.3	2,428.3
Treasury shares		(573.6)	(168.3)
Translation adjustments		(174.5)	(206.7)
Remeasurement of financial instruments		(80.0)	(97.8)
Other reserves		8,172.7	7,445.2
Equity attributable to owners of the parent	26	10,278.1	9,905.9
Equity attributable to non-controlling interests	16.2	160.5	155.7
Total equity	26	10,438.6	10,061.6
Non-current borrowings	30	3,122.2	3,171.6
Non-current lease liabilities	4	3,598.6	N/A
Other non-current financial liabilities		47.9	3.0
Provisions for pensions and other post-employment benefits	27	106.5	88.0
Other non-current provisions	28	15.1	14.2
Deferred tax liabilities	12.2.2	1,530.4	1,578.6
Other non-current liabilities		141.4	40.0
Non-current liabilities		8,562.1	4,895.4
Current borrowings	30	1,975.9	756.4
Current lease liabilities	4	720.0	N/A
Other current financial liabilities	25	503.2	553.2
Trade payables	25	808.7	745.8
Provisions for pensions and other post-employment benefits	27	8.9	8.6
Other current provisions	28	216.0	255.7
Current tax liabilities	12.2.1	1,361.5	1,303.3
Other current liabilities	25	2,552.5	2,598.9
Current liabilities		8,146.7	6,221.9
Liabilities associated with assets held for sale		0.8	188.6
TOTAL EQUITY AND LIABILITIES		27,148.2	21,367.5

2.4 Consolidated statement of cash flows

for the years ended December 31, 2019 and 2018

<i>(in € millions)</i>	Notes	2019	2018
Net income from continuing operations		2,208.4	2,658.3
Net recurring charges to depreciation, amortization and provisions on non-current operating assets	5.1	1,245.3	491.9
Other non-cash income and expenses	34.2	(392.4)	(6.6)
Cash flow from operating activities	34.2	3,061.3	3,143.6
Interest paid/received		277.1	186.6
Dividends received		-	(1.0)
Current tax expense	12.1	2,597.9	1,062.4
Cash flow from operating activities before tax, dividends and interest		5,936.3	4,391.6
Change in working capital requirement		(557.5)	(51.6)
Income tax paid	12.2.1	(2,903.5)	(562.0)
Net cash from operating activities		2,475.3	3,778.0
Purchases of property, plant and equipment and intangible assets	5.1	(955.8)	(828.0)
Proceeds from disposals of property, plant and equipment and intangible assets		1.2	5.2
Acquisitions of subsidiaries, net of cash acquired		(42.4)	(15.8)
Proceeds from disposals of subsidiaries and associates, net of cash transferred		0.8	-
Purchases of other financial assets		(285.6)	(80.3)
Proceeds from disposals of other financial assets		76.6	21.9
Interest and dividends received		19.1	5.4
Net cash used in investing activities		(1,186.1)	(891.6)
Dividends paid to owners of the parent company	26.2	(1,320.1)	(757.6)
Dividends paid to non-controlling interests		(21.9)	(22.8)
Transactions with non-controlling interests		(19.2)	(2.7)
Treasury share transactions	26.1	(402.1)	(167.9)
Debt issues	34.3	644.6	73.1
Debt redemptions/repayments	34.3	(287.6)	(1,404.5)
Increase/decrease in other borrowings	34.3	798.8	(27.9)
Repayment of lease liabilities	4 and 34.4	(639.6)	N/A
Interest paid and equivalent	4 and 34.4	(289.9)	(192.4)
Net cash used in financing activities		(1,537.0)	(2,502.7)
Net cash from (used in) discontinued operations	13.2	132.7	(379.1)
Impact of exchange rate variations		116.4	(67.6)
Net increase (decrease) in cash and cash equivalents		1.3	(63.0)
Cash and cash equivalents at beginning of year	34.1	1,836.3	1,899.3
Cash and cash equivalents at end of year	34.1	1,837.6	1,836.3

2.5 Consolidated statement of changes in equity

for the years ended December 31, 2019 and 2018

(Before appropriation
of net income)

(in € millions)	Number of shares outstanding ⁽¹⁾	Share capital	Capital reserves	Treasury shares	Cumulative translation adjustments	Remeasu- rement of financial instruments	Other reserves and net income attributable to owners of the parent	Equity		Total
								Owners of the parent	Non- controlling interests	
As of January 1, 2018	126,279,322	505.2	2,428.3	-	(131.7)	76.0	9,070.4	11,948.2	678.2	12,626.4
Total comprehensive income					(75.0)	(144.1)	3,723.9	3,504.8	44.4	3,549.2
Share capital increase										
Treasury shares ⁽²⁾	(429,017)			(168.3)			0.3	(168.0)		0.2 (168.0)
Cash dividend paid and interim dividend							(947.1)	(947.1)	(45.0)	(992.1)
Stock dividend paid (PUMA shares)							(4,514.5)	(4,514.5)		(4,514.5)
First-time application of IFRS 9 ⁽²⁾						(29.7)	29.7			
First-time application of IFRS 15 ⁽²⁾							(15.4)	(15.4)		(15.4)
Changes in Group structure and other changes ⁽³⁾							97.9	97.9	(522.1)	(424.2)
As of December 31, 2018	125,850,305	505.2	2,428.3	(168.3)	(206.7)	(97.8)	7,445.2	9,905.9	155.7	10,061.6
Total comprehensive income					32.2	17.8	2,285.4	2,335.4	26.6	2,362.0
Share capital increase										
Treasury shares ⁽²⁾	(832,389)			(405.3)				(405.3)	0.9	0.9 (405.3)
Cash dividend paid and interim dividend							(1,320.1)	(1,320.1)	(21.9)	(1,342.0)
First-time application of IFRIC 23 ⁽⁴⁾							(166.0)	(166.0)		(166.0)
Changes in Group structure and other changes ⁽³⁾							(71.8)	(71.8)	(0.8)	(72.6)
As of December 31, 2019	125,017,916	505.2	2,428.3	(573.6)	(174.5)	(80.0)	8,172.7	10,278.1	160.5	10,438.6

(1) Shares with a par value of €4 each.

(2) Net of tax.

(3) Changes in Group structure and other changes include put options granted to non-controlling interests (see Note 30 – Borrowings).

(4) See Note 2.2.1 – Standards, amendments and interpretations adopted by the European Union and effective as of January 1, 2019.

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Note 1 – Introduction

Kering, the Group's parent company, is a *société anonyme* (French joint-stock company) with a Board of Directors, incorporated under French law, whose registered office is located at 40, rue de Sèvres, 75007 Paris, France. It is registered with the Paris Trade and Companies Registry under reference 552 075 020 RCS Paris, and is listed on the Euronext Paris stock exchange.

The consolidated financial statements for the year ended December 31, 2019 reflect the accounting position of

Kering and its subsidiaries, together with its interests in associates and joint ventures.

On February 11, 2020, the Board of Directors approved the consolidated financial statements for the year ended December 31, 2019 and authorized their publication. These consolidated financial statements will only be considered as final after their adoption by the April 23, 2020 Annual General Meeting.

Note 2 – Accounting policies and methods

2.1 General principles and statement of compliance

Pursuant to European Regulation No. 1606/2002 of July 19, 2002, the consolidated financial statements of the Kering group for the year ended December 31, 2019 were prepared in accordance with applicable international accounting standards published and adopted by the European Union and mandatorily applicable as of that date.

These international standards comprise International Financial Reporting Standards (IFRS), International Accounting Standards (IAS) and the interpretations of the International Financial Reporting Standards Interpretations Committee (IFRS IC).

The financial statements presented do not reflect the draft standards and interpretations that were at the exposure draft stage with the International Accounting Standards Board (IASB) and the IFRS IC on the date these financial statements were prepared.

All accounting standards and guidance adopted by the European Union may be consulted on the European Union law website at: <http://eur-lex.europa.eu/homepage.html>.

2.2 IFRS basis adopted

2.2.1 Standards, amendments and interpretations adopted by the European Union and effective as of January 1, 2019

The Group has applied the following standards, amendments and interpretations in its consolidated financial statements, newly applicable as of January 1, 2019:

- IFRS 16 – *Leases*, which establishes an accounting model for the recognition of leases and supersedes IAS 17 – *Leases*, IFRIC 4, SIC 15 and SIC 27;
- amendments to IFRS 9 – *Prepayment Features with Negative Compensation*;

- amendments to IAS 28 – *Long-term Interests in Associates and Joint Ventures*;
- amendments to IAS 19 – *Plan Amendment, Curtailment or Settlement*;
- amendments contained in the Annual Improvements to IFRSs 2015-2017 Cycle and concerning IAS 12, IAS 23, IFRS 3 and IFRS 11;
- IFRIC 23 – *Uncertainty over Income Tax Treatments*.

The bases for preparation and impacts of the first-time application of IFRS 16 as of January 1, 2019 are set out in Note 4 – First-time application of IFRS 16 – *Leases*.

In connection with its first-time application of IFRIC 23, the Group reviewed its approach to assessing its tax exposure for likely contingencies. This change in approach led to an additional tax liability of €166 million as of January 1, 2019, which was recognized against equity.

The other amendments did not have an impact on the consolidated financial statements for the year ended December 31, 2019.

2.2.2 Standards, amendments and interpretations that have not yet been adopted by the European Union

The standards and amendments that have not yet been adopted by the European Union are as follows:

- amendments to IAS 1 and IAS 8 – *Definition of Material*, which the IASB indicates will be mandatorily applicable as of January 1, 2020;
- amendments to IFRS 3 – *Definition of a Business*, which the IASB indicates will be mandatorily applicable as of January 1, 2020;
- changes in the IFRS conceptual framework, which the IASB indicates will be mandatorily applicable as of January 1, 2020;
- IFRS 17 – *Insurance Contracts*, mandatorily applicable as of January 1, 2021.

The Group will continue to apply the amendments to IFRS 9/IAS 39, both in terms of timing and the amounts of the underlying cash flows to which it is exposed, until there is more clarity relating to the reform to benchmark interest rates ("IBOR reform"). The Group believes that the situation will be unclear for as long as (i) the existing contracts that refer to these rates are not amended to specify the date on which the benchmark rate will be replaced, and (ii) the impacts related to the use of the new benchmark interest rate and ensuing adjustments to lending margins have not been determined. How the situation evolves will partly depend on the replacement clauses that will need to be added to the contracts concerned and negotiations with lenders and bondholders.

2.3 Basis of preparation of the consolidated financial statements

2.3.1 Basis of measurement

The consolidated financial statements are prepared in accordance with the historical cost convention, with the exception of:

- certain financial assets and liabilities measured at fair value;
- right-of-use assets and lease liabilities;
- defined benefit plan assets measured at fair value;
- liabilities in respect of cash-settled share-based payments (share appreciation rights) measured at fair value;
- assets held for sale, which are measured and recognized at the lower of net carrying amount and fair value less costs to sell as soon as their sale is considered highly probable. These assets are no longer depreciated from the time they qualify as assets (or disposal groups) held for sale.

2.3.2 Use of estimates and judgment

The preparation of consolidated financial statements requires Group management to make estimates and assumptions that can affect the carrying amounts of certain assets and liabilities, income and expenses, and the disclosures in the accompanying notes. Group management reviews these estimates and assumptions on a regular basis to ensure their pertinence with respect to past experience and the current economic situation. Items in future financial statements may differ from current estimates as a result of changes in these assumptions. The impact of changes in accounting estimates is recognized during the period in which the change occurs and all affected future periods.

The main estimates made by management in the preparation of the financial statements concern the valuations and useful lives of operating assets, property, plant and equipment, intangible assets and goodwill, the amount of uncertain tax positions, contingency provisions and other provisions relating to operations, and assumptions underlying the calculation of lease liabilities, obligations

relating to employee benefits, share-based payment, deferred tax balances and financial instruments. The Group notably uses discount rate assumptions based on market data to estimate the value of its long-term assets and liabilities. The Group also exercises judgment to determine whether any lease extension options are reasonably certain to be exercised or not.

The main assumptions made by the Group are detailed in specific sections of the notes to the consolidated financial statements, and in particular:

- Note 4 – First-time application of IFRS 16 – *Leases*;
- Note 8 – Share-based payment;
- Note 12 – Income taxes;
- Note 20 – Impairment tests on non-financial assets;
- Note 27 – Provisions for pensions and other post-employment benefits;
- Note 28 – Provisions;
- Note 31 – Exposure to interest rate, foreign exchange, equity and precious metals price risk;
- Note 32 – Accounting classification and market value of financial instruments.

In addition to the use of estimates, Group management uses judgment to determine the appropriate accounting treatment for certain transactions, pending the clarification of certain IFRSs or where prevailing standards do not cover the issue at hand. This is notably the case for put options granted to non-controlling interests.

Put options granted to non-controlling interests

The Group has undertaken to repurchase the non-controlling interests of shareholders of certain subsidiaries. The strike price of these put options may be set or determined according to a predefined calculation formula, and the options may be exercised at any time or on a specific date.

The Group records a financial liability at the present value of the strike price in respect of the put options granted to holders of non-controlling interests in the entities concerned.

The offsetting entry for this financial liability will differ depending on whether the non-controlling shareholders have maintained present access to the economic benefits of the entity.

In the case of present access to the entity's economic benefits, non-controlling interests are maintained in the statement of financial position and the liability is recognized against equity attributable to owners of the parent. Where access to the entity's economic benefits is no longer available by virtue of the put option, the corresponding non-controlling interests are derecognized. The difference between the liability representing the commitment to repurchase the non-controlling interests and the carrying amount of derecognized non-controlling interests is recorded as a deduction from equity attributable to owners of the parent.

Subsequent changes in the value of the commitment are recorded by an adjustment to equity attributable to owners of the parent.

2.3.3 Statement of cash flows

The Group's statement of cash flows is prepared in accordance with IAS 7 – *Statement of Cash Flows*. The Group prepares its statement of cash flows using the indirect method.

2.4 Consolidation principles

The Kering group consolidated financial statements include the financial statements of the companies listed in Note 37 – List of consolidated subsidiaries. They include the financial statements of companies acquired as from the acquisition date and companies sold up until the date of disposal.

2.4.1 Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group exercises control. Control is defined according to three criteria: (i) power over the investee; (ii) exposure, or rights, to variable returns from involvement with the investee; and (iii) the ability to exert power over the investee to affect the amount of the investor's returns. This definition of control implies that power over an investee can take many forms other than simply holding voting rights. The existence and effect of potential voting rights are considered when assessing control, if the rights are substantive. Control generally implies directly or indirectly holding more than 50% of the voting rights but can also exist when less than 50% of the voting rights are held.

Subsidiaries are consolidated from the effective date of control.

Intercompany assets and liabilities and transactions between consolidated companies are eliminated. Gains and losses on internal transactions with controlled companies are fully eliminated.

Accounting policies and methods are modified where necessary to ensure consistency of accounting treatment at Group level.

2.4.2 Associates

Associates are all entities in which the Group exercises a significant influence over the entity's management and financial policy, without exercising control or joint control. This generally implies holding 20% to 50% of the voting rights.

Associates are recognized using the equity method and initially measured at cost, except when the associates were previously controlled by the Group, in which case they are measured at fair value through the income statement as of the date control is lost.

Subsequently, the share in profits or losses of the associate attributable to owners of the parent is recognized in "Share in earnings (losses) of equity-accounted companies", and the share in other comprehensive income of associates is carried on a separate line of the statement of comprehensive income. If the Group's share in the losses of an associate equals or exceeds its investment in that associate, the Group no longer recognizes its share of losses, unless it has legal or constructive obligations to make payments on behalf of the associate.

Goodwill related to an associate is included in the carrying amount of the investment, presented separately within "Investments in equity-accounted companies" in the statement of financial position.

Gains or losses on internal transactions with equity-accounted associates are eliminated in the amount of the Group's investment in these companies.

The accounting policies and methods of associates are modified where necessary to ensure consistency of accounting treatment at Group level.

2.4.3 Business combinations

Business combinations, where the Group acquires control of one or more other activities, are recognized using the acquisition method.

Business combinations are recognized and measured in accordance with the provisions of the revised IFRS 3. Accordingly, the consideration transferred (acquisition price) is measured at the fair value of the assets transferred, equity interests issued and liabilities incurred by the acquirer at the date of exchange. Identifiable assets and liabilities are generally measured at their fair value on the acquisition date. Costs directly attributable to the business combination are recognized in expenses.

The excess of the consideration transferred plus the amount of any non-controlling interest in the acquiree over the net fair value of the identifiable assets and liabilities acquired is recognized as goodwill. If the difference is negative, the gain on the bargain purchase is immediately recognized in income.

The Group may choose to measure any non-controlling interests resulting from each business combination at fair value (full goodwill method) or at the proportionate share in the identifiable net assets acquired, which are also generally measured at fair value (partial goodwill method).

Goodwill is determined at the date control over the acquired entity is obtained and may not be adjusted after the measurement period. No additional goodwill is recognized on any subsequent acquisition of non-controlling interests. Acquisitions and disposals of non-controlling interests are recognized directly in consolidated equity.

The accounting for a business combination must be completed within 12 months of the acquisition date. This applies to the measurement of identifiable assets and liabilities, consideration transferred and non-controlling interests.

2.5 Foreign currency translation

2.5.1 Functional and presentation currency

Items included in the financial statements of each Group entity are valued using the currency of the primary economic environment in which the entity operates (functional currency). The Group's consolidated financial statements are presented in euros, which serves as its presentation currency.

2.5.2 Foreign currency transactions

Transactions denominated in foreign currencies are recognized in the entity's functional currency at the exchange rate prevailing on the transaction date.

Monetary items in foreign currencies are translated at the closing exchange rate at the end of each reporting period. Translation adjustments arising from the settlement of these items are recognized in income or expenses for the period.

Non-monetary items in foreign currencies valued at historical cost are translated at the rate prevailing on the transaction date, and non-monetary items in foreign currencies measured at fair value are translated at the rate prevailing on the date the fair value is determined. When a gain or loss on a non-monetary item is recognized directly in other comprehensive income, the foreign exchange component is also recognized in other comprehensive income. Otherwise, the component is recognized in income or expenses for the period.

The treatment of foreign exchange rate hedges in the form of derivatives is described in the section on derivative instruments in Note 2.11 – Financial assets and liabilities.

2.5.3 Translation of the financial statements of foreign subsidiaries

The results and financial statements of Group entities with a functional currency that differs from the presentation currency are translated into euros as follows:

- items recorded in the statement of financial position other than equity are translated at the exchange rate at the end of the reporting period;
- income and cash flow statement items are translated at the average exchange rate for the period, corresponding to an approximate value for the rate at the transaction date in the absence of significant fluctuations;
- foreign exchange differences are recognized as translation adjustments in the statement of comprehensive income under other comprehensive income.

Goodwill and fair value adjustments arising from a business combination with a foreign activity are recognized in the functional currency of the entity acquired. They are subsequently translated into the Group's presentation currency at the closing exchange rate, and any resulting

differences are transferred to other comprehensive income within the statement of comprehensive income.

2.5.4 Net investment in a foreign subsidiary

Foreign exchange gains or losses arising on the translation of a net investment in a foreign subsidiary are recognized in the consolidated financial statements as a separate component within the statement of comprehensive income, and in income on disposal of the net investment. Foreign exchange gains or losses in respect of foreign currency borrowings designated as a net investment in a foreign subsidiary are recognized in other comprehensive income (to the extent that the hedge is effective) within the statement of comprehensive income, and in income on disposal of the net investment.

2.6 Goodwill

Goodwill is determined as indicated in Note 2.4.3 – Business combinations.

Goodwill is allocated as of the acquisition date to cash-generating units (CGUs) or groups of CGUs defined by the Group based on the characteristics of the core business, market or geographical segment of each brand. The CGUs or groups of CGUs to which goodwill has been allocated are tested for impairment during the second half of each fiscal year or whenever events or circumstances indicate that an impairment loss is likely.

Impairment tests are described in Note 2.10 – Asset impairment.

2.7 Brands and other intangible assets

Intangible assets are recognized at cost less accumulated amortization and impairment losses.

Intangible assets acquired as part of a business combination, which are controlled by the Group and are separable or arise from contractual or other legal rights, are recognized separately from goodwill.

Intangible assets are amortized over their useful lives where this is finite and are tested for impairment when there is an indication that they may be impaired. Intangible assets with indefinite useful lives are not amortized but are tested for impairment at least annually or more frequently when there is an indication that an impairment loss is likely.

Brands representing a predominant category of the Group's intangible assets are recognized separately from goodwill when they meet the criteria set out in IAS 38. Recognition and durability criteria are then taken into account to assess the useful life of the brand. Most of the Group's brands are intangible assets with indefinite useful lives.

Impairment tests are described in Note 2.10 – Asset impairment.

In addition to the projected future cash flows method, the Group applies the royalties method, which consists of determining the value of a brand based on future royalty revenue receivable where it is assumed that the brand will be operated under license by a third party.

Software acquired as part of recurring operations is usually amortized over a period not exceeding 12 months.

Software developed in-house by the Group and meeting all the criteria set out in IAS 38 is capitalized and amortized on a straight-line basis over its useful life, which is generally between three and ten years.

2.8 Property, plant and equipment

Property, plant and equipment are recognized at cost less accumulated depreciation and impairment losses with the exception of land, which is presented at cost less impairment losses. The various components of property, plant and equipment are recognized separately when their estimated useful life and therefore their depreciation periods are significantly different. The cost of an asset includes the expenses that are directly attributable to its acquisition.

Subsequent costs are included in the carrying amount of the asset or recognized as a separate component, where necessary, if it is probable that future economic benefits will flow to the Group and the cost of the asset can be reliably measured. All other routine repair and maintenance costs are expensed in the year they are incurred.

Depreciation is calculated using the straight-line method, based on the purchase price or production cost, less any residual value, which is reviewed annually if considered material, over a period corresponding to the useful life of each asset category, i.e., 10 to 40 years for buildings and improvements to land and buildings, and 3 to 10 years for equipment.

Property, plant and equipment are tested for impairment when an indication of impairment exists, such as a scheduled closure, a redundancy plan or a downward revision of market forecasts. When an asset's recoverable amount is less than its net carrying amount, an impairment loss is recognized. Where the recoverable amount of an individual asset cannot be determined precisely, the Group determines the recoverable amount of the CGU or group of CGUs to which the asset belongs.

2.9 Inventories

Inventories are valued at the lower of cost and net realizable value. Net realizable value is the estimated sale price in the normal course of operations, net of costs to be incurred to complete the sale.

The same method for determining costs is adopted for inventories of a similar nature and use within the Group. Inventories are valued using the retail method or weighted average cost method, depending on the Group activity.

Interest expenses are excluded from inventories and expensed as finance costs in the year they are incurred.

The Group may recognize an inventory allowance based on expected turnover, if inventory items are damaged, have become wholly or partially obsolete, the selling price has declined, or if the estimated costs to completion or to be incurred to make the sale have increased.

2.10 Asset impairment

For the purposes of impairment testing, assets are grouped into cash-generating units (CGUs), i.e., the smallest group of assets that generates cash inflows from continuing use, that are largely independent of the cash inflows from other assets or CGUs. Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

CGUs comprising goodwill and/or intangible assets with indefinite useful lives, such as certain brands, are tested for impairment at least annually during the second half of each fiscal year.

An impairment test is also performed for all CGUs when events or circumstances indicate that they may be impaired. Such events or circumstances concern material unfavorable changes of a permanent nature affecting either the economic environment or the assumptions or objectives used on the acquisition date of the assets.

Impairment tests seek to determine whether the recoverable amount of a CGU is less than its net carrying amount.

The recoverable amount of a CGU is the higher of its fair value less costs to sell and its value in use.

The value in use is determined with respect to future cash flow projections, taking into account the time value of money and the specific risks attributable to the asset, CGU or group of CGUs.

Future cash flow projections are based on medium-term budgets and plans. These plans are drawn up for a period of five years with the exception of certain CGUs or groups of CGUs undergoing strategic repositioning, for which a longer period may be applied. To calculate value in use, a terminal value equal to the perpetual capitalization of a normative annual cash flow is added to the estimated future cash flows.

Fair value corresponds to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. These values are determined based on market data (comparison with similar listed companies, values adopted in recent transactions and stock market prices).

When the CGU's recoverable amount is less than its net carrying amount, an impairment loss is recognized.

Impairment is charged first to goodwill where appropriate, and recognized under "Other non-recurring operating income and expenses" in the income statement as part of operating income.

Impairment losses recognized in respect of property, plant and equipment and other intangible assets may be reversed at a later date if there is an indication that the impairment loss no longer exists or has decreased. Impairment losses in respect of goodwill may not be reversed.

Goodwill relating to the disposed portion of a CGU is measured on a proportionate basis, except where an alternative method is more appropriate.

2.11 Financial assets and liabilities

Derivative instruments are recognized in the statement of financial position at fair value, in assets (positive fair value) or liabilities (negative fair value).

2.11.1 Financial assets

Pursuant to IFRS 9, financial assets are classified within one of the following three categories:

- financial assets at fair value through the income statement (profit or loss);
- financial assets at amortized cost;
- financial assets at fair value through other comprehensive income.

The classification determines the accounting treatment for the instrument. It is defined by the Group upon initial recognition, based on the characteristics of the instrument and the management objective behind the asset's purchase. Purchases and sales of financial assets are recognized on the transaction date, which is the date the Group is committed to the purchase or sale of the asset. A financial asset is derecognized if the contractual rights to the cash flows from the financial asset expire or the asset is transferred.

1. Financial assets at fair value through the income statement

Financial assets at fair value through the income statement mostly comprise financial assets giving rise to contractual cash flows that are not solely payments of principal and interest on the principal amount outstanding.

This category includes:

- trading assets the Group intends to resell in the near term and that are part of a portfolio of financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivative instruments not eligible for hedge accounting are also classified as assets and liabilities contracted for trading purposes;
- assets designated as at fair value under the fair value option. These primarily relate to the portfolio of money market funds (UCITS⁽¹⁾) that are managed and whose performance is tracked on a fair value basis.

Changes in the fair value of these assets are taken to the income statement. Net gains or losses arising on assets at fair value through the income statement correspond to interest income, dividends and changes in the fair value of the assets.

Net gains and losses arising on derivatives contracted for trading purposes relate to the amounts traded and to changes in the fair value of the corresponding instruments.

2. Financial assets at amortized cost

Financial assets are carried at amortized cost if they are held as part of a business model whose objective is to collect contractual cash flows that are solely payments of principal and interest on the principal amount outstanding.

Loans and receivables due from non-consolidated investments, deposits and guarantees, trade receivables and other short-term receivables are included in this category and are shown in "Non-current financial assets", "Trade receivables" and "Other current financial assets" in the statement of financial position.

These financial assets are initially recognized at fair value and subsequently at amortized cost using the effective interest method. Net gains and losses on loans and receivables relate to interest income and impairment allowances.

Impairment allowances are recognized in the income statement based on the expected loss model:

- for its trade receivables, the Group applies a provision matrix for each country/brand based on historical loss data. Credit insurance that may be taken out by the Group is taken into account in the evaluation of the risk and therefore of the provision;
- for its other financial assets, an analysis is carried out taking into account the probability of counterparty default.

(1) *Undertakings for Collective Investment in Transferable Securities.*

3. Financial assets at fair value through other comprehensive income

Financial assets are carried at fair value. Changes in fair value are recognized through other comprehensive income if the financial assets are held as part of a business model whose objective is achieved both by (i) collecting contractual cash flows (corresponding solely to payments of principal and interest on the principal amount outstanding) and (ii) selling these financial assets.

This category includes debt instruments meeting the contractual cash flow and business model characteristics set out above.

It also includes shares where the Group has elected to classify shares in this category, in which case changes in the fair value of the shares are recognized directly in other comprehensive income until the shares are sold, with the exception of dividends received in respect of these shares, which are systematically recognized in the income statement.

2.11.2 Financial liabilities

The measurement of financial liabilities depends on their IFRS 9 classification. Excluding put options granted to non-controlling interests, derivative liabilities and financial liabilities accounted for under the fair value option, the Group recognizes all financial liabilities and particularly borrowings, trade payables and other liabilities initially at fair value less transaction costs and subsequently at amortized cost, using the effective interest method.

The effective interest rate is determined for each transaction and corresponds to the rate that would provide the net carrying amount of the financial liability by discounting its estimated future cash flows until maturity or the nearest date the price is reset to the market rate. The calculation includes transaction costs and any premiums and/or discounts. Transaction costs correspond to the costs directly attributable to the acquisition or issue of a financial liability.

The net carrying amount of financial liabilities that qualify as hedged items as part of a fair value hedging relationship and are valued at amortized cost is adjusted with respect to the hedged risk.

Hedging relationships are described in Note 2.11.4 – Derivative instruments.

Financial liabilities accounted for under the fair value option, other than derivative liabilities, are carried at fair value. Changes in fair value are taken to the income statement. Transaction costs incurred in setting up these financial liabilities are recognized immediately in expenses.

2.11.3 Hybrid instruments

Certain financial instruments have both a standard debt component and an equity component.

For the Group, this concerns in particular bonds convertible into Kering shares or bonds exchangeable into shares other than Kering shares.

Under IAS 32, convertible bonds are considered hybrid instruments insofar as the conversion option provides for the repayment of the instrument against a fixed number of equity instruments. There are several components:

- a financial liability (corresponding to the contractual commitment to pay cash), representing the debt component;
- the option converting the bonds into a fixed number of ordinary shares, similar to a call option written by the issuer, representing the equity component, when referring to bonds exchangeable into Kering shares;
- potentially one or more embedded derivatives, such as bonds exchangeable into shares other than Kering shares.

The accounting policies applicable to each of these components, at the issue date and at the end of each subsequent reporting period, are as follows:

- debt component: the amount initially recognized as debt corresponds to the present value of the future cash flows arising from interest and principal payments at the market rate for a similar bond with no conversion option. If the convertible bond contains embedded derivatives closely related to the borrowing within the meaning of IFRS 9, the value of these components is allocated to the debt in order to determine the value of the equity component. The debt component is subsequently recognized at amortized cost;
- embedded derivatives not closely related to the debt are recognized at fair value with changes in fair value recognized in income;
- equity component: the value of the conversion option is determined by deducting the value of any embedded derivatives from the amount of the issue less the carrying amount of the debt component. The conversion option continues to be recorded in equity at its initial value. Changes in the value of the option are not recognized;
- transaction costs are allocated pro rata to each component.

2.11.4 Derivative instruments

The Group uses various financial instruments to reduce its exposure to foreign exchange, interest rate and equity risk. These instruments are listed on organized markets or traded over the counter with leading counterparties.

All derivatives are recognized in the statement of financial position under other current or non-current assets and liabilities depending on their maturity and accounting classification, and are valued at fair value as of the transaction date. Changes in the fair value of derivatives are always recorded in income except in the case of cash flow and net investment hedges.

Derivatives designated as hedging instruments are classified by category of hedge based on the nature of the risks being hedged:

- a cash flow hedge is used to hedge the risk of changes in cash flow from recognized assets or liabilities or a highly probable transaction that would impact net income;
- a fair value hedge is used to hedge the risk of changes in the fair value of recognized assets or liabilities or a firm commitment not yet recognized that would impact net income;
- a net investment hedge is used to hedge the foreign exchange risk arising on foreign activities.

Hedge accounting can only be applied if all of the following conditions are met:

- the hedged instrument and the hedging instrument are both eligible;
- there is a formal designation and documentation of the hedging relationship as of the date of inception;
- there is an economic relationship between the hedged item and the hedging instrument.

Any hedge ineffectiveness must be recognized in the income statement at each reporting date.

The accounting treatment of financial instruments qualified as hedging instruments, and their impact on the income statement and the statement of financial position, depends on the type of hedging relationship:

- for cash flow and net investment hedges, fair value gains and losses attributable to the effective portion of the hedging instrument are recognized directly in other comprehensive income. For foreign currency derivatives, changes in the time value of the options and changes in premiums and discounts are also recognized in other comprehensive income. These amounts are reclassified to the income statement to match the recognition of the hedged items, mainly in gross margin for the effective portion of commercial transaction hedges, and in net finance costs for financial hedges and the time value of commercial hedges;
- for fair value hedges, the hedged component of these items is measured in the statement of financial position at fair value with respect to the hedged risk. Fair value gains and losses are recorded in the income statement and are offset, to the extent effective, by matching fair value gains and losses on the hedging instrument.

2.11.5 Cash and cash equivalents

The “Cash and cash equivalents” line item recorded on the assets side of the consolidated statement of financial position comprises cash, mutual or similar funds, short-term investments and other highly liquid instruments that are readily convertible to known amounts of cash, subject to an insignificant risk of changes in value, and have a maximum maturity of three months as of the purchase date.

Investments with a maturity exceeding three months, and blocked or pledged bank accounts, are excluded from cash. Bank overdrafts are presented in borrowings on the liabilities side of the statement of financial position.

In the statement of cash flows, cash and cash equivalents include accrued interest receivable on assets presented in cash and cash equivalents and bank overdrafts. A schedule reconciling cash in the statement of cash flows and in the statement of financial position is provided in Note 34 – Statement of cash flows.

2.11.6 Definition of consolidated net debt

The definition of net debt used by Group companies comprises gross debt including accrued interest receivable, less net cash as defined by French accounting standards authority (*Autorité des normes comptables* – ANC) recommendation no. 2013-03. Net debt includes fair value hedging instruments recorded in the statement of financial position relating to bank borrowings and bonds, on which the interest rate risk is fully or partly hedged as part of a fair value hedging relationship.

2.12 Treasury shares

Treasury shares, whether specifically allocated for grant to employees or allocated to the liquidity agreement or in any other case, as well as directly related transaction costs, are deducted from equity attributable to owners of the parent. On disposal, the consideration received for these shares, net of transaction costs and the related tax impacts, is recognized in equity attributable to owners of the parent.

2.13 Treasury share options

Treasury share options are accounted for as derivative instruments, equity instruments or non-derivative financial liabilities, as appropriate based on their characteristics.

Options classified as derivatives are recognized at fair value through the income statement. Options classified as equity instruments are recorded in equity for their initial amount, and any changes in their value are not recognized. The accounting treatment of financial liabilities is described in Note 2.11.2 – Financial liabilities.

2.14 Share-based payment

The Group may award free share plans, stock purchase plans and stock subscription plans settled in shares. In accordance with IFRS 2 – *Share-based Payment*, the fair value of these plans, determined by reference to the fair value of the services rendered by the beneficiaries, is assessed at the grant date.

During the rights vesting period, the fair value of options and free shares calculated as described above is amortized in proportion to the vesting of rights. This expense is recorded in payroll expenses with an offsetting increase in equity.

The Group may also award share-based payment plans systematically settled in cash, which result in the recognition of payroll expenses spread over the rights vesting period and a matching liability, which is measured at fair value through the income statement at the end of each reporting period.

2.15 Income taxes

Income tax expense for the year comprises the current and deferred tax expense.

Deferred tax is calculated using the liability method on all temporary differences between the carrying amount recorded in the consolidated statement of financial position and the tax value of assets and liabilities, except for goodwill that is not deductible for tax purposes and certain other exceptions. The valuation of deferred tax balances depends on the way in which the Group intends to recover or settle the carrying amount of assets and liabilities, using tax rates that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax assets and liabilities are not discounted and are classified in the statement of financial position within non-current assets and liabilities.

A deferred tax asset is recognized on deductible temporary differences and for tax loss carry-forwards and tax credits to the extent that their future offset is probable.

A deferred tax liability is recognized on taxable temporary differences relating to investments in subsidiaries, associates and joint ventures unless the Group is able to control the timing of the reversal of the temporary difference, and it is probable that the temporary difference will not reverse in the foreseeable future.

2.16 Provisions

Provisions for litigation, disputes and miscellaneous contingencies and losses are recognized as soon as a present obligation arises from past events, which is likely to result in an outflow of resources embodying economic benefits, the amount of which can be reliably estimated.

Provisions maturing in more than one year are valued at their discounted amount, representing the best estimate of the expense necessary to extinguish the current obligation at the end of the reporting period. The discount rate used reflects current assessments of the time value of money and specific risks related to the liability.

A provision for restructuring costs is recognized when there is a formal and detailed restructuring plan and the plan has begun to be implemented or its main features have been announced before the end of the reporting period. Restructuring costs for which a provision is made essentially represent employee costs (severance pay, early retirement plans, payment in lieu of notice, etc.), work stoppages and compensation for breaches of contract with third parties.

2.17 Post-employment benefits and other long-term employee benefits

Based on the laws and practices of each country, the Group recognizes various types of employee benefits.

Under defined contribution plans, the Group is not obliged to make additional payments over and above contributions already made to a fund, if the fund does not have sufficient assets to cover the benefits corresponding to services rendered by personnel during the current period and prior periods. Contributions paid into these plans are expensed as incurred.

Under defined benefit plans, obligations are valued using the projected unit credit method based on agreements in effect in each entity. Under this method, each period of service gives rise to an additional unit of benefit entitlement and each unit is measured separately to build up the final obligation. The obligation is then discounted. The actuarial assumptions used to determine the obligations vary according to the economic conditions of the country where the plan is established. These plans are valued by independent actuaries on an annual basis. The valuations take into account the level of future compensation, the probable active life of employees, life expectancy and staff turnover.

Actuarial gains and losses are primarily due to changes in assumptions and the difference between estimated results based on actuarial assumptions and actual results. All actuarial differences in respect of defined benefit plans are recognized immediately in other comprehensive income.

The past service cost, designating the increase in an obligation following the introduction of a new plan or changes to an existing plan, is expensed immediately whether the benefit entitlement has already vested or is still vesting.

Expenses relating to this type of plan are recognized in recurring operating income (service cost) and net finance costs (net interest on the net defined benefit liability or asset). Curtailments, settlements and past service costs are recognized in recurring operating income. The provision recognized in the statement of financial position corresponds to the present value of the obligations calculated as described above, less the fair value of plan assets.

2.18 Non-current assets (and disposal groups) held for sale and discontinued operations

The Group applies IFRS 5 – *Non-current Assets Held for Sale and Discontinued Operations*. This requires the separate recognition and presentation of non-current assets (or disposal groups) held for sale and discontinued operations.

Non-current assets, or groups of assets and liabilities directly associated with those assets, are considered as held for sale if it is highly probable that their carrying amount will be recovered principally through a sale rather than through continuing use. Non-current assets (or disposal groups) held for sale are measured and recognized at the lower of their net carrying amount and their fair value less the costs of disposal. These assets are no longer depreciated from the time they qualify as assets (or disposal groups) held for sale. They are presented on separate lines in the consolidated statement of financial position, without restatement for previous periods.

A discontinued operation is defined as a component of a group that generates cash flows that can be clearly distinguished from the rest of the group and represents a separate major line of business or geographical area of operations. For all periods presented, the net income or loss from these activities is shown on a separate line of the income statement ("Discontinued operations"), and is restated in the statement of cash flows.

2.19 Revenue recognition

Revenue mainly comprises sales of goods, together with income from associated services, and income from royalties and operating licenses.

Sales of goods and associated services

Sales of goods, whether through a retail network or wholesale operations, are recognized when the Group satisfies its performance obligation to its customers, typically upon delivery.

Sales of goods are measured:

- at the fair value of the consideration received;
- excluding taxes;
- net of any rebates or discounts;
- net of any returned goods, when a wholesaler has a contractual right of return or routinely makes returns, in which case a specific provision is set aside. When such returns are not contractual, the provision for returns is estimated based on historical data. Provisions for returns are presented in the statement of financial position under liabilities in respect of future refunds. A corresponding asset (with an offsetting adjustment to cost of sales) representing the right to recover the goods from the customer is also recognized;
- in the event of deferred payment beyond habitual credit terms that is not backed by a financing institution, the revenue from the sale corresponds to the discounted price. The difference between the discounted price and the cash value is recognized under "Other financial income and expenses".

Warranties in connection with certain product categories are recognized under "Other provisions" and have no impact on revenue recognition.

Revenue from services directly related to the sale of goods is recognized in the period in which such services are rendered.

Income from royalties and operating licenses

Income from royalties and operating licenses is recognized in accordance with the contractual obligations specific to each agreement, over time as the performance obligation is satisfied, for example, when calculated based on the value of the underlying sales generated by the licensee under the agreement.

2.20 Operating income

Operating income includes all revenue and expenses directly related to Group activities, both recurring revenue and expense items and revenue and expenses arising from non-recurring decisions or transactions.

Recurring operating income is an analytical balance intended to facilitate the understanding of the entity's operating performance.

Other non-recurring operating income and expenses consist of items which by their nature, amount or frequency could distort the assessment of Group entities' operating performance. Other non-recurring operating income and expenses may include:

- impairment of goodwill and of other intangible assets and property, plant and equipment;
- gains or losses on disposals of non-current assets;
- restructuring costs and costs relating to employee retraining measures.

2.21 Earnings per share

Earnings per share are calculated by dividing net income attributable to owners of the parent by the weighted average number of outstanding shares during the period, after deduction of the weighted average number of treasury shares held by consolidated companies.

Fully diluted earnings per share are calculated by adjusting net income attributable to owners of the parent and the number of outstanding shares for all instruments granting deferred access to the share capital of the Company, whether issued by Kering or by one of its subsidiaries. Dilution is determined separately for each instrument based on the following conditions:

- when the proceeds corresponding to potential future share issues are received at the time dilutive securities are issued (e.g., convertible bonds), the numerator is equal to net income before dilution plus the interest expense that would be saved in the event of conversion, net of tax;

- when the proceeds are received at the time the rights are exercised (e.g., stock subscription options), the dilution attached to the options is determined using the treasury shares method (theoretical number of shares purchased at market price [average price over the period] based on the proceeds received at the time the rights are exercised).

In the case of material non-recurring items, earnings per share excluding non-recurring items are calculated by adjusting net income attributable to owners of the parent for non-recurring items net of taxes and non-controlling interests. Non-recurring items taken into account for this calculation correspond to all of the items included under “Other non-recurring operating income and expenses” in the income statement.

2.22 Operating segments

In accordance with IFRS 8 – *Operating Segments*, segment information is reported on the same basis as used internally by the Chairman and Chief Executive Officer and the Group Managing Director – the Group’s chief operating decision makers – to allocate resources to segments and assess their performance.

An operating segment is a separate component of the Group that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the entity’s chief operating decision maker, and for which discrete financial information is available.

Each operating segment is monitored separately for internal reporting purposes, according to performance indicators common to all of the Group’s segments.

The segments presented are operating segments or groups of similar operating segments.

Note 3 – Changes in Group structure and other highlights

3.1 Strategic redeployment and discontinued operations

On April 2, 2019, Kering announced that it had completed the sale of its US sports and lifestyle brand Volcom. US company Authentic Brands Group (ABG) purchased the intellectual property rights of Volcom, effective from April 1, 2019. The current Volcom management team has acquired the operating license of Volcom and will continue the development of its operations based in the United States, France, Australia and Japan.

On July 15, 2019, Kering finalized the sale of its stake in Stella McCartney, following a transition phase and carve-out process that began on March 28, 2018 (see Note 13 – Discontinued operations, to the consolidated financial statements).

3.2 Italy tax settlement

On May 9, 2019, Kering announced that it had concluded a settlement with the Italian Revenue Agency relating to claims vis-à-vis its Swiss subsidiary Luxury Goods International (LGI). The settlement, concluded after in-depth analysis and with a collaborative spirit, acknowledged that the claims raised during the tax audit pertained both to the existence of a permanent establishment in Italy in the period 2011-2017 with the associated profits, and to the transfer prices applied by LGI in the same period with its related party Guccio Gucci S.p.A. (see Note 12 – Income taxes).

3.3 Logistics activities: restructuring and transfer

Against a backdrop of rapid change in the industry and strong growth, Kering is undertaking a complete restructuring of its logistics activities, using the latest technologies, in order to meet the Luxury Houses’ new needs in terms of volumes, lead time and omni-channel integration.

Already initiated in the United States with the construction of a new site in New Jersey, the project will be gradually implemented by 2022. It will include the transfer of most of the logistics activities currently located in Switzerland to a new hub in Italy, close to Novara.

The new Italian hub will be designed to handle the Group’s future growth and will have greater storage capacity, reflecting increased volumes. It will also meet the growing demand for interconnectivity with the main transportation hubs.

3.4 Stock repurchase program

On October 29, 2018, Kering announced that it had set up a stock repurchase program covering up to 1.0% of its share capital over a 12-month period.

Between October 29, 2018 and February 28, 2019, a total of 603,406 shares were repurchased under a first tranche of the program. A further 658,000 shares were repurchased under a second tranche between June 17 and July 31, 2019. The repurchased shares will be canceled during 2020.

3.5 Placement of bonds exchangeable into PUMA shares

On September 25, 2019 Kering completed a placement of bonds exchangeable into existing ordinary shares of PUMA. Following strong demand, the nominal amount of the issuance was increased from €500 million to €550 million. The net proceeds of the issuance will be used for Kering's general corporate purposes. The bonds were issued at a principal amount of €100,000 per bond and bear no interest (zero coupon). They were offered at an issue price equal to 108.75% of the principal amount, namely €108,750, corresponding to an annual yield-to-maturity of 2.78%. They will be redeemed at their principal amount on September 30, 2022 (save in the event of early redemption). Throughout the life of the bonds and at their maturity, Kering has an option to redeem them in PUMA shares, cash or a combination of shares and cash.

3.6 Appointments and corporate governance at Kering

At its meeting on February 11, 2019, the Board of Directors of Kering appointed Sophie L'Hélias as lead independent director. In coordination with the Chairman of the Board, Sophie L'Hélias will notably represent the Board in its dealings with investors concerning ESG (Environmental, Societal, Governance) matters.

Kering also announced the appointment of Cédric Charbit, CEO of Balenciaga, to the Group's Executive Committee, effective from July 1, 2019.

In addition, Bartolomeo Rongone succeeded Claus-Dietrich Lahrs as CEO of Bottega Veneta, effective from September 1, 2019. He reports to François-Henri Pinault, Chairman and Chief Executive Officer of Kering, and is a member of the Group's Executive Committee.

Lastly, on December 17, 2019 Kering announced the appointment of Mehdi Benabadji as CEO of Brioni, with effect from January 1, 2020. Taking over from Fabrizio Malverdi, Mehdi Benabadji will report to Jean-François Palus, Group Managing Director of Kering.

Note 4 – First-time application of IFRS 16 – *Leases*

This note describes Kering's first-time application of IFRS 16 – *Leases* in its capacity as lessee, which is by far the most common situation in its business due to the network of stores operated directly by the Luxury Houses. The majority of the Group's leases are property leases. Its activity as lessor is not material, and there are no major changes compared to IAS 17 lessor accounting. Accordingly, this note does not deal with the accounting for leases in which Kering acts as lessor.

4.1 Accounting policies and methods applied to leases as of January 1, 2019

4.1.1 Leases affected by the application of IFRS 16

According to IFRS 16, a lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. A contract, on the other hand, is an agreement between two or more parties that creates enforceable rights and obligations.

In accordance with the exemptions provided by paragraph 5 of the standard, Kering has elected to apply IFRS 16 to all of its leases, save the following:

- short-term leases, with a lease term of 12 months or less as of the commencement date;

- leases for which the underlying asset is of low value, based on the value of the asset when it is new;
- variable lease payments that, by definition, cannot be considered firm and therefore constitute lease liabilities to be recognized in the statement of financial position.

In addition, certain leases may contain a substantive substitution right for the lessor. If the lessor has a right or an obligation to substitute the asset only on or after either a particular date (lease or notice period) or the occurrence of a specified event (renovation, construction, etc.), its substitution right is not deemed substantive. It follows that only non-property leases may contain substantive substitution rights.

The lease payments associated with these leases will continue to be recognized as an expense on a straight-line basis over the term of the lease, as was the case under IAS 17.

Furthermore, where certain lease agreements include explicitly identifiable non-lease components, those components are recognized in the appropriate item under recurring operating expenses.

4.1.2 Recognition of leases under IFRS 16

Under IFRS 16, for each affected lease, the following items are recognized in the consolidated statement of financial position as of the commencement date:

- a lease liability, corresponding to the present value of all fixed future payments for the estimated term of the lease. The current and non-current portions of the liability are presented separately. Fixed future lease payments include the remeasurement of any payments that depend on an index or a growth rate established in the lease. They may also include the value of any purchase options or estimated penalties for terminating the lease, where Kering is reasonably certain to exercise these options. In addition, any lease incentives receivable as of the commencement date are deducted from fixed payments;
- a right-of-use asset, corresponding to the value of the lease liability less any incentives received from the lessor and plus any prepaid lease payments, initial direct costs and the estimated cost of restoring the asset where required by the terms and conditions of the lease.

After the commencement date and at each reporting date:

- the lease liability is remeasured as follows:
 - an increase reflecting the discounting adjustments made over the period depending on the incremental borrowing rate applied to the lease, with a corresponding entry to "Interest expense on leases", a new line item included within "Finance costs, net" in the consolidated income statement,
 - a reduction reflecting the lease payments made over the period, with a corresponding entry to "Cash and cash equivalents" in the consolidated statement of financial position,
 - an increase reflecting any revisions to the index or growth rate applicable to the lease payments, where appropriate, with a corresponding entry to "Right-of-use assets" in the consolidated statement of financial position,
 - an increase or a reduction reflecting the remeasurement of future lease payments further to a change in the estimated lease term, with a corresponding entry to "Right-of-use assets" in the consolidated statement of financial position;
- the right-of-use asset is remeasured as follows:
 - a reduction reflecting the depreciation of the asset on a straight-line basis over the term of the lease, with a corresponding entry to "Depreciation of right-of-use assets" within "Recurring operating income" in the income statement,
 - a reduction reflecting the potential impairment of right-of-use assets, with a corresponding entry to "Other non-recurring operating income and expenses" in the income statement,
 - an increase reflecting any revisions to the index or growth rate applicable to the lease payments, where appropriate, with a corresponding entry to "Lease liabilities" in the consolidated statement of financial position,
 - an increase or a reduction reflecting the remeasurement of future lease payments further to a change in the estimated lease term, with a corresponding entry to "Lease liabilities" in the consolidated statement of financial position.

The impact of applying IFRS 16 on the income statement can be summarized as follows:

- within "Other recurring operating income and expenses", as part of "Recurring operating income":
 - variable lease payments, rental charges and payments under short-term leases or leases with a low-value underlying asset,
 - straight-line depreciation of right-of-use assets;
- within "Finance costs, net", the interest expense corresponding to the unwinding of the discount on lease liabilities.

Lastly, the impact of applying IFRS 16 on the consolidated statement of cash flows can be summarized as follows:

- within "Net cash from operating activities": variable lease payments, rental charges and payments under short-term leases or leases with a low-value underlying asset;
- within "Net cash used in financing activities": repayments of the principal amount ("Repayment of lease liabilities") and interest expense on lease liabilities ("Interest paid and equivalent").

4.1.3 Estimation of lease terms

The lease term corresponds to the non-cancelable period for which a lessee has the right to use an underlying asset, together with both:

- periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and
- periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

When estimating the terms of its property leases, Kering divides the underlying assets into two categories:

- points of sale: the lease term corresponds to the initial term of the lease on the signature date, namely without taking into account any extension options, as Kering views the ability to take advantage of opportunities to relocate its stores throughout the term of the lease to be a key part of its store network management policy. Consequently, options to extend or even terminate leases are only accounted for if Kering has actually exercised them;
- other properties (offices, logistics and production centers): the lease term corresponds to the initial term of the lease together with any periods covered by an extension option if Kering is reasonably certain to exercise that option, based on expected future usage of the underlying assets.

In the specific case of “3-6-9”-type commercial leases in France, Kering has adopted nine years as the enforceable lease term as of the commencement of the lease, in accordance with the conclusions published by the French accounting standards authority (*Autorité des normes comptables* – ANC) in its position statement of February 16, 2018. For certain “6+6”-type commercial leases in Italy, Kering has adopted 12 years as the enforceable lease term as of the commencement of the lease.

Certain leases include automatic renewal clauses or have indefinite terms. Kering is unable to reliably determine the estimated lease term for these leases beyond their strictly contractual period. Accordingly, they are accounted for as leases with no extension option.

Kering continues to depreciate improvements to its stores and other buildings consistently with the term of the underlying leases, and has not changed its approach compared to the accounting treatment applicable in this respect under IAS 17. Many different factors are taken into account in determining the depreciation period of leasehold improvements, including the term of the underlying lease.

December 16, 2019 decision of the IFRS Interpretations Committee

On December 16, 2019 the IFRS Interpretations Committee (IFRS IC) published its final agenda decision on cancelable or renewable leases with a notice to terminate. In its decision the Committee defined the criteria to apply for determining the enforceable period of the lease and interaction between the lease term and the useful life of non-removable leasehold improvements.

The Group has identified its leases that may be affected by this decision in order to estimate any potential impacts. However, as the IFRS IC decision was published so recently, the Group is still in the process of collecting the required information and will finalize its full list of leases during the first half of 2020. The leases that have been identified to date correspond to department store leases, which mainly have the following characteristics: (i) non-removable leasehold improvements that are relatively non-onerous compared with leasehold improvements in directly operated stores (particularly flagships) and (ii) a predominantly – and at times exclusively – variable payment component. Consequently, the costs of abandoning or dismantling non-removable leasehold improvements related to these leases cannot be considered as a penalty. In addition, as the fixed lease payment only represents a low amount for the vast majority of these leases, any recognition of right-of-use assets and lease liabilities relating to this type of lease would not have a significant impact at Group level.

In accordance with the conclusions published on February 16, 2018 by the ANC for certain “3-6-9”-type commercial leases in France, Kering has applied nine years as the enforceable lease term as of the commencement of this type of lease. The IFRS IC agenda decision could require a change in this accounting treatment and potentially result in a longer term for some leases, as well as an increase in the value of the recognized right-of-use assets and lease liabilities. However, this would not have a significant impact at Group level.

4.1.4 Determination of the discount rate applicable to lease liabilities

Kering believes that there is no readily available means of determining the interest rates implicit in its leases and has thus elected to apply the incremental borrowing rate.

The incremental borrowing rate corresponds to the rate of interest that Kering would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

The rates applied by Kering are based on a combination of risk-free interest rate curves per currency/country, euro/foreign currency swap points, and Kering's credit spread, also accounting for the nature of the underlying asset (property).

An “industry” beta is added to these inputs to reflect the specific risk of each activity, as follows:

- Kering and the principal Couture and Leather Goods Houses: Gucci, Saint Laurent and Bottega Veneta;
- other Couture and Leather Goods Houses: Alexander McQueen, Balenciaga and Brioni;
- other Watches and Jewelry Houses: Boucheron, Pomellato, Qeelin, Sowind and Ulysse Nardin.

The rate curves take into account the average lease term and are prepared on a quarterly basis.

The rates used as of January 1, 2019 to calculate the impact of the transition to IFRS 16 were based on the average remaining lease term as of that date.

4.1.5 Lease rights taken into account when calculating right-of-use assets

As of January 1, 2019, lease rights attached to certain leases were reclassified from “Brands and other intangible assets” to “Right-of-use assets” in the consolidated statement of financial position. Depending on the legal arrangements applicable to each lease right, they are either amortized over the term of the underlying lease or are not amortized but tested each year for impairment.

4.1.6 Deferred taxes relating to leases accounted for under IFRS 16

The first-time application of IFRS 16 did not give rise to any deferred tax assets or liabilities as of January 1, 2019 because the Group has applied the modified retrospective approach for its transition to the standard, with no impact on equity.

However, future changes in lease liabilities and right-of-use assets, which each follow their own respective logic in terms of financial amortization/straight-line depreciation, along with any potential accelerated amortization/depreciation, will generate deferred taxes in subsequent periods. These deferred taxes are recognized on a net basis (deferred tax asset or liability) for each contract.

4.2 Transition approach and practical expedients applied as of January 1, 2019

4.2.1 Transition approach

In accordance with the transitional provisions set out in paragraph C5 (b) of IFRS 16, Kering has chosen to apply the modified retrospective approach for its transition to the standard, which consists in accounting for the cumulative impact of applying IFRS 16 in its consolidated financial statements as of the date of first-time application, i.e., January 1, 2019. Under this method, comparative periods are not restated. The financial data for 2018 was prepared in accordance with the accounting principles of IAS 17 – *Leases*, as described in the 2018 Reference Document (see Note 2.8 – Property, plant and equipment).

Accordingly, as of January 1, 2019, Kering recognized:

- current and non-current lease liabilities for leases previously classified as operating leases in accordance with IAS 17. These liabilities represent the present value of outstanding fixed lease payments, discounted at the incremental borrowing rate applicable to each of the leases as of January 1, 2019;
- right-of-use assets for these same leases, at the amount of the corresponding lease liability, adjusted for any prepaid or accrued lease payments previously recognized within other current assets or other current liabilities in the consolidated statement of financial position.

Leases previously classified as finance leases in accordance with IAS 17 and included in the calculation of net debt have been reclassified to current and non-current lease liabilities for the same amounts. The corresponding property, plant and equipment have been reclassified to right-of-use assets.

4.2.2 Practical expedients

In accordance with the transitional provisions of IFRS 16 (paragraph C10), Kering has elected to apply the following practical expedients to all of the leases concerned:

- use of the same scope of leases as defined under IAS 17;
- recognition exemption for leases with a residual term of less than one year as of the transition date, i.e., January 1, 2019;
- use of hindsight to determine the lease term.

4.3 Impact of the transition approach on subsequent periods

Owing to its technical features, the modified retrospective transition approach is likely to give rise to two measurement discrepancies compared to the full retrospective approach. These two discrepancies, which will impact subsequent reporting periods, are as follows:

- in a historically low interest rate environment, the use for all leases of incremental borrowing rates calculated at prevailing market conditions as of January 1, 2019 tends to overstate lease liabilities and the corresponding right-of-use assets recognized in the consolidated statement of financial position as of January 1, 2019. The weighted average incremental borrowing rate as of January 1, 2019 was 2.3%. The impact on subsequent reporting periods will be an increase in the depreciation charged against right-of-use assets (affecting recurring operating income) compared to the depreciation that would have been charged had the full retrospective approach been adopted. Conversely, the interest expense on lease liabilities will be less than if the full retrospective approach had been adopted using higher historical incremental borrowing rates;
- taking January 1, 2019 as the commencement date of all leases in force as of the transition date, regardless of their actual commencement date, will lead to higher interest expenses on lease liabilities in 2019, which will gradually decrease throughout the remaining term of the leases. This would not have been the case had the Group adopted the full retrospective approach. This impact will gradually reduce over subsequent periods, as the lease portfolio is renewed.

4.4 Impact of the transition on the consolidated statement of financial position as of January 1, 2019

ASSETS

<i>(in € millions)</i>	Dec. 31, 2018	First-time application of IFRS 16	Jan. 1, 2019
Goodwill	2,399.2		2,399.2
Brands and other intangible assets	7,393.6	(144.7)	7,248.9
Right-of-use assets	N/A	3,759.1	3,759.1
Property, plant and equipment	2,228.5	(120.2)	2,108.3
Investments in equity-accounted companies	1,074.7		1,074.7
Non-current financial assets	336.3		336.3
Deferred tax assets	830.1		830.1
Other non-current assets	34.2		34.2
Non-current assets	14,296.6	3,494.2	17,790.8
Inventories	2,414.7		2,414.7
Trade receivables	849.5		849.5
Current tax receivables	90.6		90.6
Other current financial assets	60.9		60.9
Other current assets	899.5	(45.8)	853.7
Cash and cash equivalents	2,216.6		2,216.6
Current assets	6,531.8	(45.8)	6,486.0
Assets held for sale	539.1		539.1
TOTAL ASSETS	21,367.5	3,448.4	24,815.9

EQUITY AND LIABILITIES

<i>(in € millions)</i>	Dec. 31, 2018	First-time application of IFRS 16	Jan. 1, 2019
Total equity	10,061.6		10,061.6
Non-current borrowings	3,171.6	(42.8)	3,128.8
Non-current lease liabilities	N/A	3,177.2	3,177.2
Other non-current financial liabilities	3.0		3.0
Provisions for pensions and other post-employment benefits	88.0		88.0
Other non-current provisions	14.2		14.2
Deferred tax liabilities	1,578.6		1,578.6
Other non-current liabilities	40.0		40.0
Non-current liabilities	4,895.4	3,134.4	8,029.8
Current borrowings	756.4	(35.9)	720.5
Current lease liabilities	N/A	552.9	552.9
Other current financial liabilities	553.2		553.2
Trade payables	745.8		745.8
Provisions for pensions and other post-employment benefits	8.6		8.6
Other current provisions	255.7		255.7
Current tax liabilities	1,303.3		1,303.3
Other current liabilities	2,598.9	(203.0)	2,395.9
Current liabilities	6,221.9	314.0	6,535.9
Liabilities associated with assets held for sale	188.6		188.6
TOTAL EQUITY AND LIABILITIES	21,367.5	3,448.4	24,815.9

4.5 Reconciliation between off-balance sheet commitments relating to operating leases as of December 31, 2018 and lease liabilities as of January 1, 2019

<i>(in € millions)</i>	Reconciliation
Off-balance sheet commitments relating to operating leases as of December 31, 2018 (reported)	4,148.9
Impact of incremental borrowing rates on off-balance sheet commitments relating to operating leases as of December 31, 2018	(432.3)
Off-balance sheet commitments relating to operating leases as of December 31, 2018 (discounted at the incremental borrowing rate)	3,716.6
Leases with a commencement date after January 1, 2019 (not included in lease liabilities)	(196.1)
Short-term leases (initial and remaining terms as of January 1, 2019)	(57.1)
Leases with a low-value underlying asset	(3.0)
Difference in estimated lease terms (including periods covered by extension or termination options in lease liabilities)	168.9
Other impacts	100.8
Lease liabilities as of January 1, 2019	3,730.1

4.6 Breakdown of leases as of December 31, 2019

<i>(in € millions)</i>	2019
Charges to depreciation on right-of-use assets – Property leases	736.7
Interest expense on lease liabilities	109.6
Rental expense – Short-term leases	44.6
Rental expense – Leases with a low-value underlying asset	9.5
Rental expense – Variable lease payments	939.3
Sub-lease revenue	7.5
Cash outflows in respect of leases	749.1
Additions to right-of-use assets	1,078.6
Carrying amount of right-of-use assets as of December 31, 2019	4,246.7

Maturity schedule of lease liabilities

<i>(in € millions)</i>	Dec. 31, 2019
Y+1	720.0
Y+2	642.0
Y+3	563.5
Y+4	475.2
Y+5 and beyond	1,917.9
Lease liabilities	4,318.6

Note 5 – Operating segments

The policies applied to determine the operating segments presented are set out in Note 2.22 – Operating segments.

Information provided on operating segments is prepared in accordance with the same accounting rules as used for the consolidated financial statements and set out in the notes thereto.

The performance of each operating segment is measured based on recurring operating income, which is the approach used by the Group's chief operating decision maker.

Net recurring charges to depreciation, amortization and provisions on non-current operating assets reflect net charges to depreciation, amortization and provisions on intangible assets, right-of-use assets (as of 2019) and property, plant and equipment recognized in recurring operating income.

Purchases of property, plant and equipment and intangible assets correspond to gross non-current asset purchases, including cash timing differences.

Segment assets comprise goodwill, brands and other intangible assets, right-of-use assets (as of 2019), property, plant and equipment, other non-current assets, inventories, trade receivables and other current assets.

Segment liabilities comprise deferred tax liabilities on brands, lease liabilities (as of 2019), trade payables and other current liabilities.

5.1 Information by segment

<i>(in € millions)</i>	Gucci	Yves Saint Laurent
2019		
Revenue ⁽¹⁾	9,628.4	2,049.1
Recurring operating income (loss)	3,946.9	562.2
Adjusted recurring operating income (loss) (IAS 17) ⁽²⁾	3,926.1	552.5
Net recurring charges to depreciation, amortization and provisions on non-current operating assets	516.7	171.5
Other non-cash recurring operating income and expenses	(155.2)	(29.2)
Purchases of property, plant and equipment and intangible assets	337.3	98.0
Segment assets as of December 31, 2019	11,619.8	2,523.4
Segment liabilities as of December 31, 2019	4,380.6	1,245.9
2018		
Revenue ⁽¹⁾	8,284.9	1,743.5
Recurring operating income (loss)	3,275.2	459.4
Net recurring charges to depreciation, amortization and provisions on non-current operating assets	239.4	43.4
Other non-cash recurring operating income and expenses	(199.0)	(38.3)
Purchases of property, plant and equipment and intangible assets	312.7	89.0
Segment assets as of December 31, 2018	9,401.3	1,758.5
Segment liabilities as of December 31, 2018	2,812.0	505.4

(1) Non-Group.

(2) Adjusted recurring operating income (IAS 17) represents recurring operating income as though IAS 17 had been applied instead of IFRS 16. Adjusted recurring operating income was introduced in the context of the Group's transition to IFRS 16 in order to provide clearer information for both internal and external users of the financial statements. See the Activity report for a reconciliation of recurring operating income with adjusted recurring operating income (IAS 17).

Bottega Veneta	Other Houses	Total Luxury Houses	Corporate and other	Total
1,167.6	2,537.5	15,382.6	500.9	15,883.5
215.2	317.7	5,042.0	(263.7)	4,778.3
207.4	305.9	4,991.9	(267.5)	4,724.4
159.1	232.3	1,079.6	165.7	1,245.3
(16.7)	0.8	(200.3)	300.5	100.2
57.8	158.8	651.9	303.9	955.8
1,614.1	3,842.9	19,600.2	2,005.6	21,605.8
925.1	1,550.4	8,102.0	1,081.3	9,183.3
1,109.1	2,109.2	13,246.7	418.5	13,665.2
242.0	214.4	4,191.0	(247.2)	3,943.8
42.3	82.4	407.5	84.4	491.9
(38.4)	(39.9)	(315.6)	246.8	(68.8)
68.6	140.0	610.3	217.7	828.0
868.6	2,921.1	14,949.5	1,269.7	16,219.2
244.0	717.0	4,278.4	587.2	4,865.6

5.2 Information by geographic area

The presentation of revenue by geographic area is based on the geographic location of customers. Non-current segment assets are not broken down by geographic area since these assets largely consist of goodwill and brands, which are analyzed based on the revenue generated in each region, and not based on their geographic location.

<i>(in € millions)</i>	2019	2018
Western Europe	5,120.2	4,471.5
North America	3,039.7	2,704.7
Japan	1,309.8	1,157.5
Sub-total – mature markets	9,469.7	8,333.7
Eastern Europe, Middle East and Africa	770.2	725.1
South America	222.1	186.1
Asia-Pacific (excluding Japan)	5,421.6	4,420.3
Sub-total – emerging markets	6,413.8	5,331.5
Revenue	15,883.5	13,665.2

5.3 Reconciliation of segment assets and liabilities

<i>(in € millions)</i>	Dec. 31, 2019	Dec. 31, 2018
Goodwill	2,525.9	2,399.2
Brands and other intangible assets	7,260.5	7,393.6
Right-of-use assets	4,246.7	N/A
Property, plant and equipment	2,619.3	2,228.5
Other non-current assets	18.8	34.2
Non-current segment assets	16,671.2	12,055.5
Inventories	2,959.2	2,414.7
Trade receivables	996.0	849.5
Other current assets	979.4	899.5
Segment assets	21,605.8	16,219.2
Investments in equity-accounted companies	1,105.3	1,074.7
Non-current financial assets	458.4	336.3
Deferred tax assets	1,367.6	830.1
Current tax receivables	280.7	90.6
Other current financial assets	38.4	60.9
Cash and cash equivalents	2,285.9	2,216.6
Assets held for sale	6.1	539.1
TOTAL ASSETS	27,148.2	21,367.5

<i>(in € millions)</i>	Dec. 31, 2019	Dec. 31, 2018
Deferred tax liabilities on brands	1,503.5	1,520.9
Lease liabilities	4,318.6	N/A
Trade payables	808.7	745.8
Other current liabilities	2,552.5	2,598.9
Segment liabilities	9,183.3	4,865.6
Total equity	10,438.6	10,061.6
Non-current borrowings	3,122.2	3,171.6
Other non-current financial liabilities	47.9	3.0
Other non-current liabilities	141.4	40.0
Non-current provisions for pensions and other post-employment benefits	106.5	88.0
Other non-current provisions	15.1	14.2
Other deferred tax liabilities	26.9	57.7
Current borrowings	1,975.9	756.4
Other current financial liabilities	503.2	553.2
Current provisions for pensions and other post-employment benefits	8.9	8.6
Other current provisions	216.0	255.7
Current tax liabilities	1,361.5	1,303.3
Liabilities associated with assets held for sale	0.8	188.6
TOTAL EQUITY AND LIABILITIES	27,148.2	21,367.5

Note 6 – Revenue

<i>(in € millions)</i>	2019	2018
Net sales of goods	15,681.6	13,488.4
Net sales of services	17.2	15.1
Revenue from concessions and licenses	157.4	134.1
Other revenue	27.3	27.6
TOTAL	15,883.5	13,665.2

Note 7 – Payroll expenses and headcount

7.1 Payroll expenses by activity

Payroll expenses primarily include fixed and variable remuneration, payroll taxes, charges relating to employee profit-sharing and other incentives, training costs, share-based payment expenses (as detailed in Note 8 – Share-based payment) and expenses relating to employee benefits recognized in recurring operating income (as detailed in Note 27 – Provisions for pensions and other post-employment benefits).

<i>(in € millions)</i>	2019	2018
Total Luxury Houses	(1,913.1)	(1,732.7)
Corporate and other	(377.7)	(347.7)
TOTAL	(2,290.8)	(2,080.4)

7.2 Average headcount on a full-time equivalent basis by activity

	2019	2018
Total Luxury Houses	30,956	27,057
Corporate and other	3,946	3,538
TOTAL	34,902	30,595

7.3 Headcount on the payroll at year-end by activity

	2019	2018
Total Luxury Houses	33,893	30,925
Corporate and other	4,175	3,870
TOTAL	38,068	34,795

Note 8 – Share-based payment

Kering Monetary Units (KMUs)

Since 2013, the Group has granted certain employees Kering Monetary Units (KMUs), namely long-term incentive plans based on synthetic shares that are systematically settled in cash.

The Group recognizes its obligation as services are rendered by the beneficiaries, over the period from the grant date to the vesting date:

- the grant date is the date on which the plans were individually approved by the relevant decision-making body (Board of Directors or other) and corresponds to the initial measurement date of the plans;

- as from the grant date, the rights vesting period is the so-called "lock-in" period during which the specified vesting conditions are to be satisfied (service conditions for all beneficiaries, plus performance conditions for executive corporate officers);
- the exercise date is the date at which all of the specified vesting conditions have been satisfied, and as of which the beneficiaries are entitled to ask for payment of their rights.

The unit value of the KMUs awarded is determined and changes based on intrinsic movements in the Kering share and in comparison with the average increase in a basket of seven stocks from the luxury industry.

The terms and conditions of outstanding KMU plans are as follows:

Plans based on Kering Monetary Units	2015 Plan	2016 Plan	2017 Plan	2018 Plan	2019 Plan
Grant date	05/22/2015	05/20/2016	05/29/2017	05/18/2018	05/22/2019
Vesting period	3 years	3 years	3 years	3 years ⁽²⁾	3 years
Exercise period ⁽¹⁾	2 years	2 years	2 years	2 years	2 years
Number of beneficiaries	316	323	319	331	345
Number initially granted	114,997	126,974	111,000	64,281	38,205
Number of existing KMUs as of Jan. 1, 2019	3,207	113,927	94,126	64,281	
Number awarded in 2019					38,205
Number forfeited in 2019		8,754	11,752	2,206	853
Number exercised in 2019	3,207	100,247		9,961	
Number of existing KMUs as of Dec. 31, 2019		4,926	85,416	52,114	37,352
Number exercisable as of Dec. 31, 2019		4,926	N/A	N/A ⁽²⁾	N/A
Fair value at grant date (in €)	167.00	166.00	249.00	581.0	753.0
Weighted average price of KMUs paid (in €)	727.33	895.04	N/A	948.58	N/A

(1) Vested rights may be exercised over a period of two years, during which beneficiaries can opt to cash out some or all of their KMUs in April or October, at their discretion, based on the most recently determined value.

(2) The rights vesting period is three years, except for certain KMUs that were awarded in 2018 as exceptional remuneration in recognition of the successful transformation of the Group and the refocus on Luxury following the relinquishment of control of PUMA. These KMUs were mainly awarded to corporate officers. The vesting period of half of the rights was reduced to one year, and to two to three years for the other half. The corresponding expense is recognized within net income from discontinued operations under net gain on the disposal of PUMA.

In 2019, the Group recognized a €155.2 million payroll expense within recurring operating income in respect of vested KMUs (€102.8 million expense in 2018). The KMU plans also gave rise to a cash outflow of €123.9 million in 2019 (€100.7 million in 2018).

Note 9 – Recurring operating income

Recurring operating income and EBITDA are key indicators of the Group's operating performance.

9.1 Recurring operating income by activity

(in € millions)	2019	2018
Total Luxury Houses	5,042.0	4,191.0
Corporate and other	(263.7)	(247.2)
TOTAL	4,778.3	3,943.8

9.2 Reconciliation of recurring operating income with EBITDA

(in € millions)	2019	2018
Recurring operating income	4,778.3	3,943.8
Net recurring charges to depreciation, amortization and provisions on non-current operating assets	1,245.3	491.9
EBITDA	6,023.6	4,435.7

Note 10 – Other non-recurring operating income and expenses

<i>(in € millions)</i>	2019	2018
Non-recurring operating expenses	(173.0)	(227.8)
Asset impairment	(94.9)	(140.4)
Restructuring costs	(28.5)	(53.2)
Capital losses on disposals	(1.1)	(0.4)
Other	(48.5)	(33.8)
Non-recurring operating income	4.5	5.4
Capital gains on disposals	1.6	0.6
Other	2.9	4.8
TOTAL	(168.5)	(222.4)

Other non-recurring operating income and expenses consist of unusual items that could distort the assessment of each House's financial performance.

Other non-recurring operating income and expenses represented a net expense of €168.5 million in 2019, chiefly comprising:

- €76.5 million in impairment losses recognized against Sowind's goodwill and the Ulysse Nardin and Brioni brands, with no impact on consolidated cash;
- €28.5 million in restructuring costs, mainly concerning the Group's logistics operations and the Watches and Jewelry Division;
- other expenses, primarily relating to claims and litigation.

In 2018, other non-recurring operating income and expenses represented a net expense of €222.4 million, chiefly comprising:

- impairment of goodwill relating to Ulysse Nardin and Brioni (Other Houses) for €88.3 million, with no impact on consolidated cash;
- impairment of assets for €52.1 million, mainly relating to Houses within the Couture and Leather Goods Division;
- costs of restructuring industrial and sales operations for €53.2 million, mainly relating to Houses within the Couture and Leather Goods Division;
- other costs, including costs associated with the departure of Tomas Maier, Bottega Veneta's Creative Director.

Note 11 – Finance costs, net

<i>(in € millions)</i>	2019	2018
Cost of net debt	(52.3)	(77.4)
Income from cash and cash equivalents	10.6	6.4
Finance costs at amortized cost	(63.7)	(84.2)
Gains and losses on cash flow hedging derivatives	0.8	0.4
Other financial income and expenses	(147.6)	(129.9)
Net gains and losses on financial assets measured at fair value	(0.1)	(0.3)
Foreign exchange gains and losses	(10.9)	(6.2)
Ineffective portion of cash flow and fair value hedges	(133.5)	(89.8)
Gains and losses on derivative instruments not qualifying for hedge accounting (foreign exchange and interest rate hedges)	0.9	0.0
Impact of discounting assets and liabilities	(1.7)	(2.1)
Other finance costs	(2.3)	(31.5)
Total finance costs, net (excluding leases)	(199.9)	(207.3)
Interest expense on lease liabilities ⁽¹⁾	(109.6)	N/A
TOTAL	(309.5)	(207.3)

(1) See Note 4 – First-time application of IFRS 16 – Leases.

The Group's cost of net debt was €52.3 million in 2019, 32.4% lower than the €77.4 million recorded for 2018. This significant improvement was primarily due to the positive impact of the year-on-year reduction in the average amount of outstanding bonds in 2019.

Other financial income and expenses represented a net expense of €147.6 million in 2019, up 13.6% on the €129.9 million net expense recorded for 2018. This rise includes a negative currency effect, which led to an increase in the finance cost of currency hedges, and a favorable basis of comparison, as one-off finance costs of €28 million were recognized in 2018 in respect of bonds redeemed ahead of maturity.

Note 12 – Income taxes

12.1 Income tax expense

12.1.1 Income tax expense and effective tax rate

(in € millions)

	2019	2018
Income before tax	4,300.3	3,514.1
Current tax expense	(2,597.9)	(1,062.4)
o/w		
Tax expense relating to the tax settlement in Italy	(904.0)	-
Deferred tax income (expense)	464.2	194.7
Income tax expense	(2,133.7)	(867.7)
Effective tax rate	49.6%	24.7%
Other non-recurring operating income and expenses	(168.5)	(222.4)
Recurring income before tax	4,468.8	3,736.5
Tax income on other non-recurring operating income and expenses	27.9	36.3
Tax expense relating to the tax settlement in Italy	(904.0)	-
Tax expense on recurring income (excluding effect of the tax settlement in Italy)	(1,257.6)	(904.0)
Effective tax rate on recurring income (excluding effect of the tax settlement in Italy)	28.1%	24.2%

On May 9, 2019, Kering announced that it had concluded a settlement with the Italian Revenue Agency relating to claims vis-à-vis its Swiss subsidiary Luxury Goods International (LGI). The settlement, concluded after in-depth analysis and with a collaborative spirit, acknowledged that the claims raised during the tax audit pertained both to the existence of a permanent establishment in Italy in the period 2011-2017 with the associated profits, and to the transfer prices applied by LGI in the same period with its related party Guccio Gucci S.p.A.

Under the terms of the settlement, additional tax payable amounts to €897 million, plus penalties and interest. The total amount of the settlement is €1.25 billion. The Group drew the necessary conclusions from the settlement in assessing the 2018 tax expense for LGI and Guccio Gucci S.p.A., which was recognized in 2019.

Net of the reversal of the provision booked as of December 31, 2018 in respect of its transfer pricing policy, the total tax expense relating to the tax settlement in Italy was €904.0 million for 2019. The total amount paid out in 2019 for the additional tax due as a result of (i) the agreement with the Italian tax authorities for the period from 2011 through 2017 and (ii) the reassessment of the tax expense for 2018, was approximately €1.61 billion in total.

Excluding the above-described impacts, the increase in the effective tax rate on recurring income is broadly the result of overhauling the Luxury Houses' business models, particularly in terms of supply chain and logistics.

This change in the Group's business model and value chain will result in a significant increase in current tax liabilities, as well as deferred tax assets, in terms of recognizing tax loss carryforwards and of temporary differences.

12.1.2 Reconciliation of the tax rate

<i>(as a % of pre-tax income)</i>	2019	2018
Tax rate applicable in France	34.4%	34.4%
Impact of taxation of foreign subsidiaries	-8.8%	-20.1%
Effect of items taxed at reduced rates	0.0%	0.0%
Effect of permanent differences	-1.6%	-0.8%
Effect of unrecognized temporary differences	0.1%	0.4%
Effect of unrecognized tax losses carried forward	-3.4%	-1.9%
Effect of changes in tax rates	-0.2%	-0.4%
Other	7.6%	12.6%
Effective tax rate on recurring income (excluding effect of the tax settlement in Italy)	28.1%	24.2%
Effect on other non-recurring operating income and expenses (permanent differences and differences in foreign tax rates)	-0.2%	0.5%
Effect of the tax settlement in Italy	21.7%	N/A
Effective tax rate	49.6%	24.7%

In 2019, the income tax rate applicable in France was the standard rate of 33.33%, plus a social surtax of 3.3%, bringing the overall rate to 34.43%.

In 2019 and 2018, "Other" relates mainly to the CVAE tax on value-added in France, the IRAP regional production tax in Italy, and tax reassessments.

12.2 Tax assets and liabilities

12.2.1 Current tax receivables and liabilities

<i>(in € millions)</i>	Dec. 31, 2018	Income tax expense	Cash outflows relating to operating activities	Other ⁽¹⁾	Dec. 31, 2019
Current tax receivables	90.6				280.7
Current tax liabilities	(1,303.3)				(1,361.5)
Net current tax liabilities	(1,212.7)	(2,597.9)	2,903.5	(173.7)	(1,080.8)

(1) "Other" includes changes in Group structure and exchange rates, and reclassifications of statement of financial position items.

12.2.2 Deferred tax assets and liabilities

<i>(in € millions)</i>	Dec. 31, 2018	Income tax benefit (expense)	Other ⁽¹⁾	Other items recognized in equity	Dec. 31, 2019
Brands	(1,520.9)	18.4	(1.0)		(1,503.5)
Other intangible assets	(5.0)	3.8	(2.0)		(3.2)
Property, plant and equipment	24.0	(4.6)	9.3		28.7
Other non-current assets	12.9	11.5	1.8		26.2
Other current assets	526.0	276.4	15.0		817.4
Equity	(0.4)	-	-		(0.4)
Borrowings	(3.1)	0.6	-		(2.5)
Leases	N/A	12.8	-		12.8
Provisions for pensions and other post-employment benefits	139.5	(2.9)	(1.8)	3.8	138.6
Other provisions	25.6	(0.4)	(0.6)		24.6
Other current liabilities	(14.5)	182.0	(8.0)	(1.0)	158.7
Recognized tax losses and tax credits	67.4	68.3	4.3		140.0
Net deferred tax assets (liabilities)	(748.5)	565.9	17.0	2.8	(162.8)
<i>o/w related to continuing operations</i>		464.2			
<i>o/w related to discontinued operations</i>		101.7			
Deferred tax assets	830.1				1,367.6
Deferred tax liabilities	(1,578.6)				(1,530.4)

(1) "Other" includes changes in Group structure and exchange rates, and deferred tax item reclassifications.

12.3 Unrecognized deferred tax assets

Changes in and maturities of tax losses and tax credits in respect of continuing operations for which no deferred tax assets were recognized in the statement of financial position can be analyzed as follows:

(in € millions)

As of January 1, 2018	2,511.1
Losses generated during the year	212.4
Losses utilized and time-barred during the year	(279.8)
Assets held for sale	(380.5)
Effect of changes in Group structure and exchange rates	(56.7)
As of December 31, 2018	2,006.5
Losses generated during the year	180.5
Losses utilized and time-barred during the year	(621.5)
Effect of changes in Group structure and exchange rates	16.5
As of December 31, 2019	1,582.0
Ordinary tax loss carry-forwards expiring in	902.2
Less than five years	418.2
More than five years	484.0
Indefinite tax loss carry-forwards	679.8
TOTAL	1,582.0

There are no unrecognized deferred taxes in respect of temporary differences relating to investments in subsidiaries, associates and joint ventures.

Note 13 – Discontinued operations

Discontinued operations include Stella McCartney, Volcom and Christopher Kane and the gains resulting from their sale for 2019, and PUMA and the gain realized when the Group ceased to exercise control over that company for 2018.

13.1 Impact on the consolidated income statement

(in € millions)

	2019	2018
Revenue	150.0	1,949.5
Cost of sales	(68.2)	(979.7)
Gross margin	81.8	969.8
Payroll expenses	(46.8)	(275.2)
Other recurring operating income and expenses	(69.5)	(547.0)
Recurring operating income (loss)	(34.5)	147.6
Other non-recurring operating income and expenses	(1.0)	(175.2)
Operating income (loss)	(35.5)	(27.6)
Finance costs, net	(5.3)	(26.4)
Income (loss) before tax	(40.8)	(54.0)
Income tax	(12.8)	(29.1)
Share in earnings (losses) of equity-accounted companies	-	(0.9)
Net gain (loss) on disposal of discontinued operations	179.0	1,179.2
Net income (loss)	125.4	1,095.2
o/w attributable to owners of the parent	141.7	1,084.3
o/w attributable to non-controlling interests	(16.3)	10.9

The Group's relinquishment of control of PUMA following the distribution of the stock dividend gave rise to a net gain of €1,181 million in 2018.

13.2 Impact on the consolidated statement of cash flows

<i>(in € millions)</i>	2019	2018
Net cash from (used in) operating activities	160.6	(193.8)
Net cash used in investing activities	(29.0)	(71.2)
Net cash from (used in) financing activities	(9.3)	98.0
Impact of exchange rate variations	(1.1)	2.6
Net change in cash and cash equivalents	121.2	(164.4)
Opening cash and cash equivalents and changes in intra-Group cash flows	11.5	(214.7)
Net cash from (used in) discontinued operations	132.7	(379.1)

Note 14 – Earnings per share

Basic earnings per share are calculated on the basis of the weighted average number of shares outstanding, after deduction of the weighted average number of shares held by consolidated companies.

Fully diluted earnings per share are based on the weighted average number of shares as defined above, plus the weighted average number of potentially dilutive ordinary shares, which may be granted to employees as part of equity-settled share-based payment plans. Earnings are adjusted for the theoretical interest charge, net of tax, on convertible and exchangeable instruments.

14.1 Earnings per share

2019

<i>(in € millions)</i>	Consolidated Group	Continuing operations	Discontinued operations
Net income attributable to ordinary shareholders	2,308.6	2,166.9	141.7
Weighted average number of ordinary shares outstanding	126,332,226	126,332,226	126,332,226
Weighted average number of treasury shares	(833,460)	(833,460)	(833,460)
Weighted average number of ordinary shares	125,498,766	125,498,766	125,498,766
Basic earnings per share (in €)	18.40	17.27	1.13
Net income attributable to ordinary shareholders	2,308.6	2,166.9	141.7
Convertible and exchangeable instruments	-	-	-
Diluted net income attributable to owners of the parent	2,308.6	2,166.9	141.7
Weighted average number of ordinary shares	125,498,766	125,498,766	125,498,766
Potentially dilutive ordinary shares	-	-	-
Weighted average number of diluted ordinary shares	125,498,766	125,498,766	125,498,766
Fully diluted earnings per share (in €)	18.40	17.27	1.13

2018

<i>(in € millions)</i>	Consolidated Group	Continuing operations	Discontinued operations
Net income attributable to ordinary shareholders	3,714.9	2,630.6	1,084.3
Weighted average number of ordinary shares outstanding	126,332,226	126,332,226	126,332,226
Weighted average number of treasury shares	(376,188)	(376,188)	(376,188)
Weighted average number of ordinary shares	125,956,038	125,956,038	125,956,038
Basic earnings per share <i>(in €)</i>	29.49	20.88	8.61
Net income attributable to ordinary shareholders	3,714.9	2,630.6	1,084.3
Convertible and exchangeable instruments	-	-	-
Diluted net income attributable to owners of the parent	3,714.9	2,630.6	1,084.3
Weighted average number of ordinary shares	125,956,038	125,956,038	125,956,038
Potentially dilutive ordinary shares	-	-	-
Weighted average number of diluted ordinary shares	125,956,038	125,956,038	125,956,038
Fully diluted earnings per share <i>(in €)</i>	29.49	20.88	8.61

14.2 Earnings per share from continuing operations excluding non-recurring items

Non-recurring items presented below consist of the income statement line "Other non-recurring operating income and expenses" (see Note 10 – Other non-recurring operating income and expenses), reported net of tax and non-controlling interests.

<i>(in € millions)</i>	2019	2018
Net income attributable to ordinary shareholders	2,166.9	2,630.6
Other non-recurring operating income and expenses	(168.5)	(222.4)
Income tax on other non-recurring operating income and expenses	27.9	36.3
Tax expense relating to the tax settlement in Italy	(904.0)	-
Net income excluding non-recurring items	3,211.5	2,816.7
Weighted average number of ordinary shares outstanding	126,332,226	126,332,226
Weighted average number of treasury shares	(833,460)	(376,188)
Weighted average number of ordinary shares	125,498,766	125,956,038
Basic earnings per share excluding non-recurring items <i>(in €)</i>	25.59	22.36
Net income excluding non-recurring items	3,211.5	2,816.7
Convertible and exchangeable instruments	-	-
Diluted net income attributable to owners of the parent	3,211.5	2,816.7
Weighted average number of ordinary shares	125,498,766	125,956,038
Potentially dilutive ordinary shares	-	-
Weighted average number of diluted ordinary shares	125,498,766	125,956,038
Fully diluted earnings per share <i>(in €)</i>	25.59	22.36

Note 15 – Other comprehensive income

The main components of other comprehensive income are:

- gains and losses arising from translating the financial statements of foreign operations;
- gains and losses on cash flow hedging instruments;
- gains and losses on the remeasurement and disposal of financial assets at fair value;
- components relating to the measurement of provisions for pensions and other post-employment benefits: unrecognized surplus of pension plan assets and actuarial gains and losses on defined benefit plans.

<i>(in € millions)</i>	Gross	Income tax	Net
Foreign exchange gains and losses	33.6		33.6
Cash flow hedges	18.8	(1.0)	17.8
- change in fair value	(85.0)		
- gains and losses reclassified to income	103.8		
Financial assets at fair value	(0.1)		(0.1)
- change in fair value	(0.1)		
- gains (losses) on financial assets at fair value			
Share in other comprehensive income (loss) of equity-accounted companies	(7.0)		(7.0)
Actuarial gains and losses	(19.9)	3.8	(16.1)
Other comprehensive income for 2019	25.4	2.8	28.2

<i>(in € millions)</i>	Gross	Income tax	Net
Foreign exchange gains and losses	(70.6)		(70.6)
Cash flow hedges	(148.8)	6.8	(142.0)
- change in fair value	(53.3)		
- gains and losses reclassified to income	(95.5)		
Financial assets at fair value	(13.3)		(13.3)
- change in fair value	(13.7)		
- gains (losses) on financial assets at fair value	0.4		
Share in other comprehensive income of equity-accounted companies	12.0		12.0
Actuarial gains and losses	12.0	(2.4)	9.6
Other comprehensive income (loss) for 2018	(208.7)	4.4	(204.3)

A negative amount on the "Gains and losses reclassified to income" line item corresponds to a gain recognized in the income statement. Conversely, a positive amount on the "Gains and losses reclassified to income" line item corresponds to a loss recognized in the income statement.

Gains and losses on cash flow hedging instruments reclassified to income are recognized under gross margin.

Note 16 – Non-controlling interests

16.1 Net income attributable to non-controlling interests

<i>(in € millions)</i>	2019	2018
Continuing operations	41.5	27.7
Total Luxury Houses	38.9	27.7
Corporate and other	2.6	-
Discontinued operations	(16.3)	10.9
TOTAL	25.2	38.6

16.2 Non-controlling interests in equity

<i>(in € millions)</i>	Dec. 31, 2019	Dec. 31, 2018
Total Luxury Houses	133.1	130.2
Corporate and other	27.4	25.5
TOTAL	160.5	155.7

Note 17 – Goodwill

<i>(in € millions)</i>	Gross	Impairment losses	Net
Goodwill as of January 1, 2018	4,407.9	(986.7)	3,421.2
Assets held for sale ⁽¹⁾	(1,612.9)	628.7	(984.2)
Acquisitions	16.4		16.4
Impairment losses		(60.6)	(60.6)
Translation adjustments	13.5	(5.9)	7.6
Other movements	(21.3)	20.1	(1.2)
Goodwill as of December 31, 2018	2,803.6	(404.4)	2,399.2
Acquisitions	80.9		80.9
Impairment losses		(8.6)	(8.6)
Translation adjustments	18.5	(13.6)	4.9
Other movements	45.7	3.8	49.5
Goodwill as of December 31, 2019	2,948.7	(422.8)	2,525.9

(1) All of the assets and liabilities of PUMA, Stella McCartney, Volcom and Christopher Kane were reclassified to "Assets held for sale" and "Liabilities associated with assets held for sale" at their respective classification dates, in accordance with IFRS 5.

The Group did not carry out any material acquisitions in 2019 or 2018. Note 20.2 – Impairment losses recognized during the period provides details of goodwill impairment recognized in 2019 and 2018.

Note 18 – Brands and other intangible assets

<i>(in € millions)</i>	Brands	Internally generated intangible assets	Other intangible assets	Total
Carrying amount as of January 1, 2019	6,789.8	121.8	482.0	7,393.6
First-time application of IFRS 16			(144.7)	(144.7)
Acquisitions		87.9	135.3	223.2
Amortization		(11.6)	(110.3)	(121.9)
Impairment losses	(68.1)			(68.1)
Translation adjustments	12.7		1.4	14.1
Other movements	(4.5)	16.1	(47.3)	(35.7)
Carrying amount as of December 31, 2019	6,729.9	214.2	316.4	7,260.5
Gross value as of December 31, 2019	6,942.6	228.1	941.4	8,112.1
Accumulated amortization and impairment as of December 31, 2019	(212.7)	(13.9)	(625.0)	(851.6)

<i>(in € millions)</i>	Brands	Internally generated intangible assets	Other intangible assets	Total
Carrying amount as of January 1, 2018	10,626.0	63.2	469.8	11,159.0
Assets held for sale ⁽¹⁾	(3,813.2)		(57.4)	(3,870.6)
Acquisitions		58.1	189.4	247.5
Amortization			(121.2)	(121.2)
Impairment losses	(31.2)			(31.2)
Translation adjustments	8.1		2.9	11.0
Other movements	0.1	0.5	(1.5)	(0.9)
Carrying amount as of December 31, 2018	6,789.8	121.8	482.0	7,393.6
Gross value as of December 31, 2018	6,934.8	121.8	1,138.2	8,194.8
Accumulated amortization and impairment as of December 31, 2018	(145.0)		(656.2)	(801.2)

(1) All of the assets and liabilities of PUMA, Stella McCartney, Volcom and Christopher Kane were reclassified to "Assets held for sale" and "Liabilities associated with assets held for sale" at their respective classification dates, in accordance with IFRS 5.

Note 20.2 – Impairment losses recognized during the period provides details of goodwill impairment recognized in 2019 and 2018.

Note 19 – Property, plant and equipment

<i>(in € millions)</i>	Land and buildings	Plant and equipment	Other PP&E	Total
Carrying amount as of January 1, 2019	713.3	1,391.9	123.3	2,228.5
First-time application of IFRS 16	(65.4)	(54.8)	-	(120.2)
Acquisitions	17.2	526.8	248.5	792.5
Disposals	(1.7)	(8.9)	(0.8)	(11.4)
Depreciation	(24.3)	(357.8)	(8.1)	(390.2)
Translation adjustments	11.9	23.2	1.0	36.1
Other movements	47.3	130.4	(93.7)	84.0
Carrying amount as of December 31, 2019	698.3	1,650.8	270.2	2,619.3
o/w gross value	871.8	3,471.9	309.2	4,652.9
o/w depreciation and impairment	(173.5)	(1,821.1)	(39.0)	(2,033.6)

<i>(in € millions)</i>	Land and buildings	Plant and equipment	Other PP&E	Total
Carrying amount as of January 1, 2018	771.5	1,205.0	291.1	2,267.6
Assets held for sale ⁽¹⁾	(104.6)	(124.3)	(98.2)	(327.1)
Changes in Group structure	-	1.6	0.6	2.2
Acquisitions	18.4	484.9	115.8	619.1
Disposals	(3.2)	(4.8)	(0.5)	(8.5)
Amortization	(26.4)	(354.0)	(1.4)	(381.8)
Translation adjustments	17.4	22.8	1.9	42.1
Other movements	40.2	160.7	(186.0)	14.9
Carrying amount as of December 31, 2018	713.3	1,391.9	123.3	2,228.5
o/w gross value	942.6	3,117.3	126.4	4,186.3
o/w depreciation and impairment	(229.3)	(1,725.4)	(3.1)	(1,957.8)

(1) All of the assets and liabilities of PUMA, Stella McCartney, Volcom and Christopher Kane were reclassified to "Assets held for sale" and "Liabilities associated with assets held for sale" at their respective classification dates, in accordance with IFRS 5.

Charges to depreciation are recognized under "Cost of sales" and "Other recurring operating income and expenses" in the income statement.

Note 20 – Impairment tests on non-financial assets

The principles governing the impairment of non-financial assets are set out in Note 2.10 – Asset impairment.

The main items of goodwill, brands and other intangible assets are broken down by activity in Note 17 – Goodwill, and Note 18 – Brands and other intangible assets.

20.1 Impairment tests and main assumptions adopted

2019	Goodwill		Brands		Perpetual growth rate	Business plan time frame
	Net carrying amount (in € millions)	Discount rate (before tax)	Net carrying amount (in € millions)	Discount rate (before tax)		
Gucci	1,647.4	9.9%	4,800.0	9.8%	3.0%	5 years
Other Houses	873.8	9.5%-11.8%	1,929.9	9.4%-11.6%	3.0%	5 or 10 years
Corporate and other	4.7	N/A	N/A	N/A	N/A	N/A
TOTAL	2,525.9		6,729.9			

2018	Goodwill		Brands		Perpetual growth rate	Business plan time frame
	Net carrying amount (in € millions)	Discount rate (before tax)	Net carrying amount (in € millions)	Discount rate (before tax)		
Gucci	1,593.9	9.3%	4,800.0	9.3%	3.0%	5 years
Other Houses	800.6	8.8%-10.9%	1,989.8	8.6%-11.1%	3.0%	5 or 10 years
Corporate and other	4.7	N/A	N/A	N/A	N/A	N/A
TOTAL	2,399.2		6,789.8			

The growth rates are appropriate in view of the country mix (the Group now operates in regions whose markets are enjoying faster-paced growth than in Europe), the rise in the cost of raw materials and inflation.

As discussed in Note 2.10 – Asset impairment, the business plans for certain CGUs are drawn up over a longer time frame, namely ten years. These CGUs currently being

repositioned are Boucheron, Brioni, Pomellato, Sowind, Qeelin and Ulysse Nardin.

In the case of the Gucci brand, the value based on future royalty revenue receivable on the assumption that the brand will be operated under license by a third party was calculated using a royalty rate of 15.0%.

Sensitivity to changes in key assumptions is shown below:

(in € millions)	Value of net assets tested	Impairment loss due to:		
		10 basis-point increase in post-tax discount rate	10 basis-point decrease in perpetual growth rate	10 basis-point decrease in cash flows
Total Luxury Houses (including Gucci)	11,180	(15)	(10)	(1)
Gucci brand	4,800	-	-	N/A

20.2 Impairment losses recognized during the period

Based on the impairment tests carried out by the Group in 2019, an impairment loss amounting to €76.5 million was recognized against two brands and an item of goodwill within Other Houses. The write-downs relating to Ulysse Nardin and Sowind were recorded due to the overall outlook for the global watches market. Ongoing restructuring at Brioni also had a short-term impact on revenue and margins, which led to the recognition of an impairment loss.

Asset impairment tests carried out in 2018 had already led the Group to recognize an impairment loss against Ulysse Nardin and Brioni in a total amount of €88.3 million.

This expense is recognized in the income statement under "Other non-recurring operating income and expenses" (see Note 10 – Other non-recurring operating income and expenses).

Based on events foreseeable within reason at the date of this report, the Group considers that any changes impacting the key assumptions described above would not lead to the recognition of material impairment loss against other CGUs.

Note 21 – Investments in equity-accounted companies

<i>(in € millions)</i>	Dec. 31, 2019	Dec. 31, 2018
PUMA (15.70%)	1,071.2	1,044.7
Other investments in equity-accounted companies	34.1	30.0
TOTAL	1,105.3	1,074.7

The market value of Kering's PUMA securities amounts to €1,618.9 million, based on a closing share price of €68 as of December 30, 2019. As PUMA's earnings at December 31, 2019 were not available at the end of the period, the corresponding share in earnings (losses) was estimated based on the latest Vara consensus.

As of December 31, 2019, other investments in equity-accounted companies mainly comprised shares in Altuzarra, WG Alligator Farm and Wall's Gator Farm.

Note 22 – Non-current financial assets

<i>(in € millions)</i>	Dec. 31, 2019	Dec. 31, 2018
Non-consolidated investments	21.2	67.0
Derivative financial instruments	-	1.5
Loans and receivables	131.6	11.4
Deposits and guarantees	202.2	175.5
Other non-current financial liabilities	103.4	80.9
TOTAL	458.4	336.3

Note 23 – Inventories

<i>(in € millions)</i>	Dec. 31, 2019	Dec. 31, 2018
Commercial inventories	3,903.9	3,142.4
Industrial inventories	744.7	687.4
Gross amount	4,648.6	3,829.8
Allowances	(1,689.4)	(1,415.1)
Carrying amount	2,959.2	2,414.7

Movements in allowances	2019	2018
As of January 1	(1,415.1)	(1,155.4)
Additions	(282.2)	(360.4)
Reversals	64.1	38.6
Assets held for sale ⁽¹⁾	-	79.7
Changes in Group structure	0.4	0.2
Translation adjustments	(18.0)	(16.1)
Other movements	(38.6)	(1.7)
As of December 31	(1,689.4)	(1,415.1)

(1) All of the assets and liabilities of PUMA, Stella McCartney, Volcom and Christopher Kane were reclassified to "Assets held for sale" and "Liabilities associated with assets held for sale" at their respective classification dates, in accordance with IFRS 5.

No inventories were pledged to secure liabilities as of December 31, 2019 or December 31, 2018.

Changes in gross inventories recognized under "Cost of sales" in 2019 represented an increase of €724.9 million (increase of €845.3 million in 2018).

Note 24 – Trade receivables

<i>(in € millions)</i>	Dec. 31, 2019	Dec. 31, 2018
Trade receivables	1,023.3	877.4
Allowances	(27.3)	(27.9)
Carrying amount	996.0	849.5

Movements in allowances	2019	2018
As of January 1	(27.9)	(76.4)
Net (additions)/reversals	2.3	2.2
Assets held for sale ⁽¹⁾	-	46.7
Changes in Group structure	-	-
Translation adjustments	(0.5)	(0.4)
Other movements	(1.2)	-
As of December 31	(27.3)	(27.9)

(1) All of the assets and liabilities of PUMA, Stella McCartney, Volcom and Christopher Kane were reclassified to "Assets held for sale" and "Liabilities associated with assets held for sale" at their respective classification dates, in accordance with IFRS 5.

Allowances are calculated based on the probability of recovering the receivables concerned. Trade receivables break down by age as follows:

(in € millions)	Dec. 31, 2019	Dec. 31, 2018
Not past due	864.5	719.4
Less than one month past due	99.0	115.7
One to six months past due	41.7	23.0
More than six months past due	18.1	19.3
Allowance for doubtful receivables	(27.3)	(27.9)
Carrying amount	996.0	849.5

No trade receivables were pledged to secure liabilities during the periods presented.

Given the nature of its activities, the Group's exposure to customer default would not have a material impact on its business, financial position or net assets.

Note 25 – Other current assets and liabilities

(in € millions)	Dec. 31, 2018	First-time application of IFRS 16	Working capital cash flows	Other cash flows	Changes in Group structure	Translation adjustments and other	Dec. 31, 2019
Inventories	2,414.7		506.8		2.8	34.9	2,959.2
Trade receivables	849.5		127.8		2.2	16.5	996.0
Other financial assets and liabilities	(492.3)			(3.5)	-	31.0	(464.8)
Current tax receivables/liabilities	(1,212.7)			297.6	0.2	(165.9)	(1,080.8)
Trade payables	(745.8)		(63.3)		1.1	(0.7)	(808.7)
Lease liabilities ⁽¹⁾	N/A	(552.9)		631.2	0.1	(798.4)	(720.0)
Other	(1,699.4)	157.2	(62.4)		(0.4)	31.9	(1,573.1)
Other current assets and liabilities	(886.0)	(395.7)	508.9	925.3	6.0	(850.7)	(692.2)

(1) Translation adjustments and other movements relating to lease liabilities correspond to reclassifications from non-current to current liabilities, accrued interest, any remeasurements of lease liabilities, and foreign exchange differences.

Note 26 – Equity

As of December 31, 2019, share capital amounted to €505,117,288, comprising 126,279,322 fully paid-up shares with a par value of €4 each (unchanged from December 31, 2018).

26.1 Kering treasury shares

Liquidity agreement

Kering and Rothschild Martin Maurel entered into a new liquidity agreement with effect from February 13, 2019. The new agreement was set up in the wake of changes in the regulations governing liquidity agreements following AMF ruling no. 2018-01 of July 2, 2018, applicable since January 1, 2019. The new agreement replaces the previous agreement with Rothschild Martin Maurel. Transactions under the liquidity agreement will be carried out on Euronext Paris.

In 2019, the Group purchased 240,491 shares and sold 240,491 shares under the liquidity agreement. Accordingly, it held no treasury shares under the agreement as of December 31, 2019 (no shares were held in treasury at December 31, 2018).

The liquidity agreement was entered into with a financial broker on May 26, 2004 in order to improve the liquidity of the Group's shares and ensure share price stability. It complies with the Professional Code of Conduct drawn up by the French Association of Financial and Investment Firms (*Association française des marchés financiers* – AMAFI) and approved by the French financial markets authority (*Autorité des marchés financiers* – AMF). The agreement was initially endowed with €40.0 million, half of which was provided in cash and half in Kering shares. An additional €20.0 million in cash was allocated to the agreement on September 3, 2004, and a further €30.0 million on December 18, 2007. Since the amendment dated December 15, 2016, Kering has maintained a credit

balance of €5.0 million in the liquidity account with the financial broker. Moreover, given the limit set by AMF declaration 2018-01 of July 2, 2018, effective as of January 1, 2019, the funds allocated to the liquidity agreement were reduced to €50.0 million as of January 1, 2019.

Stock repurchase program

On October 29, 2018, Kering announced that it had set up a stock repurchase program covering up to 1.0% of its share capital over a 12-month period.

Between October 29, 2018 and February 28, 2019, a total of 603,406 shares were repurchased under a first tranche of the program. A further 658,000 shares were repurchased under a second tranche between June 17 and July 31, 2019.

The Group purchased 832,389 of its own shares in 2019, bringing the total number of shares still held in treasury to 1,261,406 as of December 31, 2019. The repurchased shares will be canceled during 2020.

26.2 Appropriation of 2019 net income and distribution of dividend

At its February 11, 2020 meeting, Kering's Board of Directors decided to ask shareholders to approve a €11.50 per-share cash dividend for 2019 at the Annual General Meeting to be held on April 23, 2020 to approve the financial statements for the year ended December 31, 2019.

An interim cash dividend of €3.50 per share was paid on January 16, 2020 pursuant to a decision by the Board of Directors on December 12, 2019.

If the final dividend is approved, the total cash dividend payout in 2020 with respect to 2019 will amount to €1,437.7 million, taking into account Kering shares held in treasury for the stock repurchase program.

The cash dividend paid for 2018 amounted to €10.50 per share (€1,320.1 million).

Note 27 – Provisions for pensions and other post-employment benefits

27.1 Description of the main pension plans and other post-employment benefits

In accordance with the laws and practices in each country, Group employees receive long-term or post-employment benefits in addition to their short-term remuneration. These additional benefits take the form of defined contribution or defined benefit plans.

Under defined contribution plans, the Group is not obliged to make any additional payments beyond contributions already made. Contributions to these plans are expensed as incurred.

An actuarial valuation of defined benefit plans is carried out by independent experts. These benefits primarily concern mandatory supplementary pension plans in Switzerland, statutory dismissal compensation in Italy, and retirement termination payments and long-service bonuses in France.

- **Mandatory supplementary pension plans (LPP) – Switzerland**

In Switzerland, pension plans are defined contribution plans that guarantee a minimum yield and provide for a fixed salary conversion rate on retirement. However, the pension plans operated by the Group's entities in Switzerland offer benefits over and above those stipulated in the LPP/BVG pension law. Consequently, a provision is booked in respect of defined benefit plans for the amounts that exceed LPP/BVG pension law requirements.

These pension plans are generally operated as separate legal entities in the form of a foundation, which may be a collective institution or affiliated to a specific plan. The Board of Trustees of these foundations, comprising an equal number of employer and employee representatives, is responsible for administering the plan and bears the investment and longevity risks. Collective foundations insure some of their risk with an insurance company.

- **Statutory dismissal compensation (TFR) – Italy**
The TFR (*Trattamento di Fine Rapporto*) plans in Italy were created by Law no. 297, adopted on May 29, 1982, and are applicable to all workers in the private sector on termination of employment for whatever reason (resignation, termination at the employer's initiative, death, incapacity or retirement).

Since 2007, companies with at least 50 employees have had to transfer their TFR funding to an external fund manager. This concerns the large majority of plans operated by Kering group companies.

- **Retirement termination benefits and long-service bonuses – France**

In France, retirement termination benefits are fixed and paid by the Company to the employee on retirement. The amount paid depends on the years of service on retirement, and is defined in the collective bargaining agreement. The payments do not confer any vested entitlement to employees until they reach retirement age. Retirement termination benefits are not related to other statutory retirement benefits such as pensions paid by social security bodies or top-up pension funds such as ARRCO and AGIRC in France, which are defined contribution plans.

Long-service bonuses are not compulsory in France (there is no legal obligation to pay such awards to employees), but hold a symbolic value. Nevertheless, some of Kering's

French entities choose to pay long-service bonuses after 20, 30, 35 and 40 years of service.

27.2 Changes in provisions for pensions and other post-employment benefits

(in € millions)	2019			Change of the period	
	Present value of obligation	Fair value of plan assets	Financial position	Other comprehensive income	Income statement
As of January 1	206.8	110.2	96.6	41.7	
Current service cost	11.9		11.9		(11.9)
Curtailments and settlements	(20.6)	(16.5)	(4.1)		4.1
Interest cost	2.5		2.5		(2.5)
Interest income on plan assets		1.1	(1.1)		1.1
Past service cost	(3.8)		(3.8)		3.8
Actuarial gains and losses	21.2	1.3	19.9	19.9	
<i>Impact of changes in demographic assumptions</i>	2.7		2.7	2.7	
<i>Impact of changes in financial assumptions</i>	18.8		18.8	18.8	
<i>Impact of experience adjustments</i>	(0.3)		(0.3)	(0.3)	
<i>Return on plan assets (excluding interest income)</i>		1.3	(1.3)	(1.3)	
Benefits paid	(9.1)	(4.7)	(4.4)		
Contributions paid by beneficiaries	4.5	4.5	-		
Contributions paid by employer		5.1	(5.1)		
Changes in Group structure	(1.0)	(0.5)	(0.5)		
Insurance contract	(0.7)	(0.7)	-		
Administrative expense		(0.4)	0.4		(0.4)
Translation adjustments	5.8	2.7	3.1		
As of December 31	217.5	102.1	115.4	61.6	(5.8)

As of December 31, 2019, the present value of the benefit obligation amounted to €217.5 million, (€206.8 million as of December 31, 2018), breaking down as:

- €60.8 million in respect of wholly unfunded plans (€54.0 million as of end-2018);
- €156.7 million in respect of fully or partially funded plans (€152.8 million as of end-2018).

2018

(in € millions)	Present value of obligation	Fair value of plan assets	Financial position	Change of the period	
				Other comprehensive income	Income statement
As of January 1	292.0	155.6	136.4	53.7	
Assets held for sale⁽¹⁾	(83.8)	(52.6)	(31.2)		
Current service cost	12.5		12.5		(12.5)
Interest cost	2.0		2.0		(2.0)
Interest income on plan assets		0.8	(0.8)		0.8
Past service cost	(2.4)		(2.4)		2.4
Actuarial gains and losses	(12.6)	(0.6)	(12.0)	(12.0)	
<i>Impact of changes in demographic assumptions</i>	(3.4)		(3.4)	(3.4)	
<i>Impact of changes in financial assumptions</i>	(6.1)		(6.1)	(6.1)	
<i>Impact of experience adjustments</i>	(3.1)		(3.1)	(3.1)	
<i>Return on plan assets (excluding interest income)</i>		(0.6)	0.6	0.6	
Benefits paid	(10.0)	(6.9)	(3.1)		
Contributions paid by beneficiaries	5.0	5.0	-		
Contributions paid by employer		5.4	(5.4)		
Changes in Group structure	0.1		0.1		
Insurance contract	(0.9)	(0.9)	-		
Administrative expense		(0.4)	0.4		(0.4)
Translation adjustments	4.9	4.8	0.1		
As of December 31	206.8	110.2	96.6	41.7	(11.7)

(1) All of the assets and liabilities of PUMA, Stella McCartney, Volcom and Christopher Kane were reclassified to "Assets held for sale" and "Liabilities associated with assets held for sale" at their respective classification dates, in accordance with IFRS 5.

27.3 Breakdown of the present value of the benefit obligation by country

(in € millions)	Dec. 31, 2019	Dec. 31, 2018
Supplementary pension plans (LPP) – Switzerland	152.2	148.2
Statutory dismissal compensation (TFR) – Italy	35.2	31.8
Retirement termination benefits – France	23.4	21.5
Other	6.7	5.3
Present value of benefit obligations as of December 31	217.5	206.8

27.4 Contributions payable in 2020 by country

(in € millions)	Total	Switzerland	Italy	France	Other
Contributions for 2020	4.8	4.8	-	-	-

27.5 Fair value of plan assets by type of financial instrument

<i>(in € millions)</i>	Dec. 31, 2019	%	Dec. 31, 2018	%
Debt instruments	37.7	36.9%	41.1	37.3%
Equity instruments	26.5	25.9%	28.9	26.2%
Real estate	0.5	0.5%	21.5	19.5%
Insurance contracts	21.0	20.5%	0.4	0.4%
Derivatives	7.0	6.9%	8.2	7.4%
Cash and cash equivalents	3.8	3.7%	2.6	2.4%
Other assets	5.6	5.6%	7.5	6.8%
Fair value of plan assets as of December 31	102.1	100.0%	110.2	100.0%

27.6 Actuarial assumptions

	France		Switzerland		Italy	
	2019	2018	2019	2018	2019	2018
Average maturity of plans	12.5	12.0	13.7	13.4	9.9	12.5
Discount rate	1.00%	1.75%	0.30%	1.00%	1.00%	1.75%
Expected rate of increase in salaries	2.51%	2.40%	1.29%	1.28%	3.00%	3.00%
Inflation rate	1.75%	1.75%	0.70%	0.70%	1.75%	1.75%

Based on the sensitivity tests of actuarial assumptions, the impact of a 50 basis-point increase or decrease in the discount rate would not be material and would represent less than 0.2% of consolidated equity.

Note 28 – Provisions

<i>(in € millions)</i>	Dec. 31, 2018	Charge	Reversal (utilized provision)	Reversal (surplus provision)	Translation adjustments	Other	Dec. 31, 2019
Provision for restructuring costs	-	0.8	(0.5)	-	-	0.8	1.1
Provision for claims and litigation	4.2	1.4	(0.4)	-	-	1.4	6.6
Other provisions	10.0	0.7	(3.3)	-	0.1	(0.1)	7.4
Other non-current provisions	14.2	2.9	(4.2)	-	0.1	2.1	15.1
Provision for restructuring costs	60.6	28.9	(38.4)	(2.1)	0.8	2.9	52.7
Provision for claims and litigation	56.9	28.8	(6.5)	(10.4)	0.3	(6.9)	62.2
Other provisions	138.2	30.9	(67.0)	(6.8)	0.2	5.6	101.1
Other current provisions	255.7	88.6	(111.9)	(19.3)	1.3	1.6	216.0
TOTAL	269.9	91.5	(116.1)	(19.3)	1.4	3.7	231.1
Impact on income	(125.0)	(91.5)	N/A	19.3	N/A	N/A	(72.2)
- on recurring operating income	(22.2)	(29.6)		17.8			(11.8)
- on other non-recurring operating income and expenses	(53.5)	(48.2)		1.5			(46.7)
- on net finance costs	-						-
- on income taxes	-						-
- on earnings (losses) of equity-accounted companies	(1.5)						-
- on income from discontinued operations	(47.8)	(13.7)					(13.7)

"Other provisions" mainly corresponds to vendor warranties granted within the scope of disposals.

Note 29 – Cash and cash equivalents

29.1 Breakdown by category

<i>(in € millions)</i>	Dec. 31, 2019	Dec. 31, 2018
Cash	2,233.8	1,686.6
Cash equivalents	52.1	530.0
TOTAL	2,285.9	2,216.6

As of December 31, 2019, cash equivalents include certificates of deposit with a maturity of less than three months.

The items classified by the Group as cash and cash equivalents strictly comply with the AMF's position published in 2008 and updated in 2011 and 2013. In particular, cash investments are reviewed on a regular

basis in accordance with Group procedures and in strict compliance with the eligibility criteria set out in IAS 7 and with the AMF's recommendations. As of December 31, 2019, no reclassifications were made as a result of these reviews.

29.2 Breakdown by currency

(in € millions)	Dec. 31, 2019	%	Dec. 31, 2018	%
EUR	692.9	30.3%	969.2	43.7%
CNY	367.8	16.1%	344.7	15.6%
USD	181.6	8.0%	134.5	6.1%
HKD	165.5	7.2%	131.8	5.9%
GBP	121.7	5.3%	91.0	4.1%
AUD	111.7	4.9%	89.8	4.0%
KRW	70.7	3.1%	44.2	2.0%
Other currencies	574.0	25.1%	411.4	18.6%
TOTAL	2,285.9	100.0%	2,216.6	100.0%

Note 30 – Borrowings

30.1 Breakdown of borrowings by maturity

(in € millions)	Dec. 31, 2019	Y+1	Y+2	Y+3	Y+4	Y+5	Beyond
Non-current borrowings	3,122.2	613.7	912.0	1.1	508.8	1,086.6	
Bonds	2,654.5	477.8	824.6	-	507.7	844.4	
Other bank borrowings	83.0	37.0	35.1	1.1	1.1	8.7	
Other borrowings	384.7	98.9	52.3	-	-	233.5	
Current borrowings	1,975.9	1,975.9					
Bonds	493.3	493.3					
Drawdowns on unconfirmed lines of credit	15.2	15.2					
Other bank borrowings	128.6	128.6					
Bank overdrafts	448.3	448.3					
Commercial paper	804.6	804.6					
Other borrowings	85.9	85.9					
TOTAL	5,098.1	1,975.9	613.7	912.0	1.1	508.8	1,086.6
%	100.0%	38.8%	12.0%	17.9%	0.0%	10.0%	21.3%

(in € millions)	Dec. 31, 2018	Y+1	Y+2	Y+3	Y+4	Y+5	Beyond
Non-current borrowings	3,171.6	713.1	563.7	282.4	5.2	1,607.2	
Bonds	2,592.1	490.5	474.9	273.7	-	1,353.0	
Other bank borrowings	160.0	117.9	30.5	1.1	1.0	9.5	
Obligations under finance leases	42.8	5.4	5.5	7.6	4.2	20.1	
Other borrowings	376.7	99.3	52.8	-	-	224.6	
Current borrowings	756.4	756.4					
Bonds	244.1	244.1					
Drawdowns on unconfirmed lines of credit	7.6	7.6					
Other bank borrowings	40.0	40.0					
Obligations under finance leases	35.9	35.9					
Bank overdrafts	380.3	380.3					
Commercial paper	-	-					
Other borrowings	48.5	48.5					
TOTAL	3,928.0	756.4	713.1	563.7	282.4	5.2	1,607.2
%	100.0%	19.3%	18.2%	14.3%	7.2%	0.1%	40.9%

As of December 31, 2019, all of the Group's gross borrowings were recognized at amortized cost based on an effective interest rate determined after taking into account any identified issue costs and redemption or issue premiums relating to each liability, apart from the bonds issued on September 30, 2019 that are exchangeable for PUMA shares. The liability component of these bonds has been recognized at amortized cost in an amount of €550.5 million and the equity component corresponding to the option to exchange the bonds for PUMA shares has been recorded as a derivative liability at fair value through income, in an amount of €41.9 million.

Bond issues represented 61.7% of gross borrowings as of December 31, 2019 versus 72.2% as of end-2018.

Borrowings with a maturity of more than one year represented 61.2% of total gross borrowings as of December 31, 2019 and 80.7% as of December 31, 2018.

The total amount of confirmed lines of credit was €3,035.0 million at the end of the reporting period, all of which was undrawn as of December 31, 2019.

Short-term drawdowns on facilities backed by confirmed lines of credit maturing in more than one year are included in non-current borrowings.

As of December 31, 2019, the Group's other borrowings also included €444.6 million concerning put options granted to non-controlling interests (compared with €393.4 million as of December 31, 2018), and accrued interest.

30.2 Breakdown by repayment currency

<i>(in € millions)</i>	Dec. 31, 2019	Non-current borrowings	Current borrowings	%	Dec. 31, 2018	%
EUR	4,308.5	2,905.7	1,402.8	84.5%	3,188.3	81.2%
JPY	469.4	69.9	399.5	9.2%	362.8	9.2%
USD	277.0	133.4	143.6	5.4%	315.8	8.0%
CHF	14.3	13.2	1.1	0.3%	29.5	0.8%
TWD	10.2	-	10.2	0.2%	9.8	0.2%
Other currencies	18.7	-	18.7	0.4%	21.8	0.6%
TOTAL	5,098.1	3,122.2	1,975.9	100.0%	3,928.0	100.0%

Borrowings denominated in currencies other than the euro are distributed to Group subsidiaries for local financing purposes.

30.3 Breakdown of gross borrowings by category

<i>(in € millions)</i>	Dec. 31, 2019	Dec. 31, 2018
Bonds	3,147.8	2,836.2
Other bank borrowings	211.6	200.0
Drawdowns on unconfirmed lines of credit	15.2	7.6
Commercial paper	804.6	-
Obligations under finance leases	N/A	78.7
Bank overdrafts	448.3	380.3
Other borrowings	470.6	425.2
TOTAL	5,098.1	3,928.0

Group borrowings primarily consist of bonds, bank borrowings and commercial paper, which accounted for 90.9% of gross borrowings as of December 31, 2019 (88.1% as of December 31, 2018).

As of December 31, 2019, the Group's other borrowings included €444.6 million in respect of put options granted to non-controlling interests, mainly concerning the Eyewear activity (€393.4 million as of December 31, 2018) (see Note 2.3.2 – Use of estimates and judgment).

30.4 Description of the main bond issues

Kering bond issues

The Group has a Euro Medium Term Notes (EMTN) program capped at €6,000 million as of December 31, 2019.

This program was signed and approved by the French financial markets authority (AMF) on December 19, 2019. The program existing as of December 31, 2019 expires on December 20, 2020.

As of December 31, 2019, the bonds issued under this program totaled €2,597.0 million, of which €267.0 million issued in US dollars (€2,837.0 million

as of December 31, 2018, of which €262.0 million issued in US dollars).

All of these borrowings are covered by the rating assigned to the Kering group by Standard & Poor's ("A-" with a stable outlook) and are not subject to any financial covenants.

The bonds issued on September 30, 2019 exchangeable for PUMA shares do not form part of the EMTN program.

Kering euro bond issues

(in € millions)

Par value	Issue interest rate	Effective interest rate	Issue date	Documented/ non-documented hedge	Maturity	Dec. 31, 2019	Dec. 31, 2018
245.0 ⁽¹⁾	3.125% fixed	3.31%	04/23/2012		04/23/2019	-	244.1
360.0 ⁽²⁾	2.50% fixed	2.58%	07/15/2013	-	07/15/2020	359.8	359.6
500.0 ⁽³⁾	2.75% fixed	2.81% & 2.57% & 2.50% & 2.01% & 1.87%	04/08/2014 & 05/30/2014 & 06/26/2014 & 09/22/2015 & 11/05/2015	-	04/08/2024	507.7	509.4
345.0 ⁽⁴⁾	1.375% fixed	1.47%	10/01/2014	-	10/01/2021	344.4	344.0
275.0 ⁽⁵⁾	0.875% fixed	1.02%	03/27/2015	-	03/28/2022	274.1	273.7
50.0 ⁽⁶⁾	1.60% fixed	1.66%	04/16/2015	-	04/16/2035	49.6	49.6
500.0 ⁽⁷⁾	1.25% fixed	1.35%	05/10/2016	-	05/10/2026	497.0	496.5
300.0 ⁽⁸⁾	1.50% fixed	1.61%	04/05/2017	-	04/05/2027	297.8	297.5
550.0 ⁽⁹⁾	Zero coupon	-0.03%	09/30/2019	-	09/30/2022	550.5	-

(1) Issue price: bond issue, comprising 245,000 bonds with a par value of €1,000 each under the EMTN program, with 500,000 bonds issued on April 23, 2012. A total of 200,000 of these bonds were redeemed on April 9, 2018 and a further 55,000 on October 9, 2018. Redemption: in full on April 23, 2019.

(2) Issue price: bond issue, comprising 3,600 bonds with a par value of €100,000 each under the EMTN program, with 5,000 bonds issued on July 15, 2013. A total of 1,400 of these bonds were redeemed on October 9, 2018. Redemption: in full on July 15, 2020.

(3) Issue price: bond issue on April 8, 2014, comprising 1,000 bonds with a par value of €100,000 each under the EMTN program, with 1,000 additional bonds issued on May 30, 2014, 1,000 additional bonds issued on June 26, 2014, 1,500 additional bonds issued on September 22, 2015 and 500 additional bonds issued on November 5, 2015, thereby raising the issue to 5,000 bonds. Redemption: in full on April 8, 2024.

(4) Issue price: bond issue, comprising 3,450 bonds with a par value of €100,000 each under the EMTN program, with 5,000 bonds issued on October 1, 2014. A total of 1,000 of these bonds were redeemed on April 9, 2018 and a further 550 on October 9, 2018. Redemption: in full on October 1, 2021.

(5) Issue price: bond issue, comprising 2,750 bonds with a par value of €100,000 each under the EMTN program, with 5,000 bonds issued on March 27, 2015. A total of 1,052 of these bonds were redeemed on April 9, 2018 and a further 1,198 on October 9, 2018. Redemption: in full on March 28, 2022.

(6) Issue price: bond issue on April 16, 2015, comprising 500 bonds with a par value of €100,000 each under the EMTN program. Redemption: in full on April 16, 2035.

(7) Issue price: bond issue on May 10, 2016, comprising 5,000 bonds with a par value of €100,000 each under the EMTN program. Redemption: in full on May 10, 2026.

(8) Issue price: bond issue on April 5, 2017, comprising 3,000 bonds with a par value of €100,000 each under the EMTN program. Redemption: in full on April 5, 2027.

(9) Issue price: bond issue on September 30, 2019, comprising 5,500 bonds with a par value of €100,000 each, exchangeable for PUMA shares. This issue does not form part of the EMTN program. The issue price was set at 108.75%. The reference PUMA share price and the exchange price were set at €68.273 and €92.17 respectively. The bonds can be redeemed either in cash or PUMA shares, or a combination of cash and PUMA shares. Redemption: in full on September 30, 2022.

Kering USD bond issues

(in € millions)							
Par value	Issue interest rate	Effective interest rate	Issue date	Documented/ non-documented hedge	Maturity	Dec. 31, 2019	Dec. 31, 2018
133.5 ⁽¹⁾	Floating 3-month USD Libor +0.73%	2.21%	03/09/2015	2.589% fixed-rate swap for the full amount Documented under IFRS	03/09/2020	133.5	130.9
133.5 ⁽²⁾	2.887% fixed	2.94%	06/09/2015	-	06/09/2021	133.4	130.9

(1) Issue price: bond issue on March 9, 2015, in the form of floating-rate notes, comprising 150 notes with a par value of USD 1,000,000 each under the EMTN program, i.e., representing a total of USD 150 million.
Redemption: in full on March 9, 2020.

(2) Issue price: bond issue on June 9, 2015, comprising 150 bonds with a par value of USD 1,000,000 each under the EMTN program, i.e., representing a total of USD 150 million.
Redemption: in full on June 9, 2021.

The bonds issued between 2013 and 2017 within the scope of the EMTN program are all subject to change-of-control clauses entitling bondholders to request early redemption at par if Kering's rating is downgraded to non-investment grade following a change of control.

The corresponding amounts are recognized in the statement of financial position at amortized cost based on the effective interest rate, taking account of the fair value adjustment resulting from the hedging relationship documented in accordance with IFRS 9.

Accrued interest is recorded in "Other borrowings".

30.5 Main bank borrowings and confirmed lines of credit

30.5.1 Breakdown of the main bank borrowings

The Group's bank borrowings include the following:

Long- and medium-term borrowings

(in € millions)							
Par value	Issue interest rate	Effective interest rate	Issue date	Documented/ non-documented hedge	Maturity	Dec. 31, 2019	Dec. 31, 2018
41.0 ⁽¹⁾	Floating JPY Tiber +0.40%	-	04/15/2015	-	04/15/2020	41.0	39.7
16.4 ⁽²⁾	Floating JPY Tiber +0.35%	-	03/31/2016	-	03/31/2020	16.4	15.9
16.4 ⁽³⁾	Floating JPY Tiber +0.25%	-	03/31/2016	-	03/31/2021	4.9	7.9
30.9 ⁽⁴⁾	Floating JPY Tiber +0.29%	-	09/30/2016	-	09/30/2019	-	17.4
24.6 ⁽⁵⁾	Floating JPY Tiber +0.27%	-	03/31/2017	-	03/31/2020	24.6	23.8
25.6 ⁽⁶⁾	Floating JPY Tiber +0.29%	-	04/17/2017	-	04/15/2020	10.7	15.8
24.6 ⁽⁷⁾	Floating JPY Tiber +0.29%	-	11/27/2017	-	11/27/2020	24.6	23.8
16.4 ⁽⁸⁾	Floating JPY Tiber +0.20%	-	09/28/2018	-	09/30/2021	16.4	15.9
32.8 ⁽⁹⁾	Floating JPY Tiber +0.20%	-	01/30/2019	-	01/31/2022	32.8	-

(1) Loan contracted in April 2015 for JPY 5,000 million (€41.0 million).

(2) Loan contracted in March 2016 for JPY 2,000 million (€16.4 million).

(3) Redeemable loan contracted in March 2016 for JPY 2,000 million (€16.4 million). The outstanding balance on this loan was JPY 600 million (€4.9 million) as of December 31, 2019.

(4) Redeemable loan contracted in September 2016 for JPY 3,771 million (€30.9 million).

(5) Loan contracted in March 2017 for JPY 3,000 million (€24.6 million).

(6) Redeemable loan contracted in April 2017 for JPY 3,120 million (€25.6 million). The outstanding balance on this loan was JPY 1,306 million (€10.7 million) as of December 31, 2019.

(7) Loan contracted in November 2017 for JPY 3,000 million (€24.6 million).

(8) Loan contracted in September 2018 for JPY 2,000 million (€16.4 million).

(9) Loan contracted in January 2019 for JPY 4,000 million (€32.8 million).

30.5.2 Confirmed lines of credit available to the Group

As of December 31, 2019, the Group had access to €3,035.0 million in confirmed lines of credit versus €3,135.0 million as of December 31, 2018.

30.5.3 Breakdown of confirmed lines of credit by maturity

Kering and Kering Finance SNC: €3,035.0 million breaking down by maturity as follows:

(in € millions)	Dec. 31, 2019	Less than one year	One to five years	More than five years	Dec. 31, 2018
Confirmed lines of credit	3,035.0		3,035.0		3,135.0

The confirmed lines of credit include a syndicated facility for €2,385.0 million signed on December 20, 2018 and initially maturing in December 2023. This facility provides for two one-year loan extension options. In December 2019, the Group confirmed that it would exercise one extension option, as a result of which the facility will now mature in December 2024. As of December 31, 2019, the Group still has a one-year extension option.

As of December 31, 2019, no amounts had been drawn down under the December 2018 syndicated facility.

The Group's confirmed bank lines of credit are governed by the standard commitment and default clauses customarily included in this type of agreement: *pari passu* ranking, a negative pledge clause that limits the security that can be granted to other lenders, and a cross-default obligation.

The Group was in compliance with all of these covenants as of December 31, 2019 and there is no foreseeable risk of breach.

The undrawn balance on these confirmed lines of credit as of December 31, 2019 was €3,035.0 million (€3,135.0 million as of December 31, 2018).

The undrawn confirmed lines of credit guarantee the Group's liquidity and mainly back the commercial paper issue program, on which a total of €804.6 million remained outstanding as of December 31, 2019 (none of the program had been used at December 31, 2018).

Note 31 – Exposure to interest rate, foreign exchange, equity and precious metals price risk

The Group uses derivative financial instruments to manage its exposure to market risks.

31.1 Exposure to interest rate risk

To manage interest rate risk on its financial assets and liabilities, and particularly on its borrowings, the Kering group uses instruments with the following outstanding notional amounts:

<i>(in € millions)</i>	Dec. 31, 2019	Y+1	Y+2	Y+3	Y+4	Y+5	Beyond	Dec. 31, 2018
Swaps: fixed-rate lender								
Swaps: fixed-rate borrower	140.0	133.5		6.5				138.9
Other interest rate instruments	32.5		32.5					
TOTAL	172.5	133.5	32.5	6.5				138.9

In accordance with the interest rate risk hedging policy, these instruments are typically designed to convert fixed interest rates on negotiable debt securities, fixed-rate borrowings and credit line drawdowns into floating rates.

These instruments also convert floating-rate bonds into fixed-rate debt.

As of December 31, 2019, fixed-rate borrower swaps for a notional amount of USD 150 million convert all USD bond debt initially issued at floating rates into fixed-rate debt.

In accordance with IFRS 9, these financial instruments were analyzed with respect to hedge accounting eligibility criteria.

As of December 31, 2019, documented and non-documented financial instruments can be analyzed as follows:

<i>(in € millions)</i>	Dec. 31, 2019	Fair value hedges	Cash flow hedges	Non-documented hedges
Swaps: fixed-rate lender				
Swaps: fixed-rate borrower	140.0		140.0	
Other interest rate instruments	32.5			32.5
TOTAL	172.5		140.0	32.5

These interest rate derivatives are recognized in the statement of financial position at their market value as of the end of the reporting period.

The accounting treatment of fair value movements depends on the purpose of the derivative instrument and the resulting accounting classification.

In the case of interest rate derivatives designated as fair value hedges, fair value movements are recognized in net income for the year, fully or partly offsetting symmetrical changes in the fair value of the hedged debt. The ineffective portion impacts net finance costs for the year.

In the case of interest rate derivatives designated as cash flow hedges, the effective portion of changes in fair value is initially recognized in other comprehensive income and subsequently taken to income when the hedged position itself affects income. The ineffective portion impacts net finance costs for the year.

Movements in the fair value of non-documented derivative instruments are recognized directly in income, with an impact on net finance costs for the year.

The Group's exposure to interest rate risk **before the impact** of hedging is presented below, with a distinction made between:

- fixed-rate financial assets and liabilities, exposed to a price risk before hedging:

(in € millions)	Dec. 31, 2019	2019 maturities			Dec. 31, 2018
		Less than one year	One to five years	More than five years	
Fixed-rate financial assets	56.6	22.9	32.7	1.0	48.8
Bonds	3,014.3	359.8	1,810.1	844.4	2,705.2
Commercial paper	804.6	804.6			-
Other borrowings	12.3		12.3		21.1
Fixed-rate financial liabilities	3,831.2	1,164.4	1,822.4	844.4	2,726.4

- floating-rate financial assets and liabilities, exposed to a cash flow risk before hedging:

(in € millions)	Dec. 31, 2019	2019 maturities			Dec. 31, 2018
		Less than one year	One to five years	More than five years	
Floating-rate financial assets	2,351.3	2,294.9	42.0	14.4	2,263.9
Bonds	133.5	133.5			131.0
Commercial paper	-				-
Other borrowings	1,133.4	678.0	213.2	242.2	1,070.6
Floating-rate financial liabilities	1,266.9	811.5	213.2	242.2	1,201.6

The Group's exposure to interest rate risk **after the impact** of hedging is presented below, with a distinction made between:

- fixed-rate financial assets and liabilities, exposed to a price risk after hedging:

(in € millions)	Dec. 31, 2019	2019 maturities			Dec. 31, 2018
		Less than one year	One to five years	More than five years	
Fixed-rate financial assets	56.6	22.9	32.7	1.0	48.8
Bonds	3,147.8	493.3	1,810.1	844.4	2,836.2
Commercial paper	804.6	804.6			-
Other borrowings	18.8	1.5	17.3		29.1
Fixed-rate financial liabilities	3,971.2	1,299.4	1,827.4	844.4	2,865.3

- floating-rate financial assets and liabilities, exposed to a cash flow risk after hedging:

(in € millions)	Dec. 31, 2019	2019 maturities			Dec. 31, 2018
		Less than one year	One to five years	More than five years	
Floating-rate financial assets	2,351.3	2,294.9	42.0	14.4	2,263.9
Bonds	-				-
Commercial paper	-				-
Other borrowings	1,126.9	676.5	208.2	242.2	1,062.7
Floating-rate financial liabilities	1,126.9	676.5	208.2	242.2	1,062.7

Financial assets and liabilities consist of interest-bearing items recorded in the statement of financial position.

The breakdown of gross borrowings by type of interest rate before and after hedging transactions is as follows:

(in € millions)	Dec. 31, 2019	Before hedging		After hedging	
		Fixed-rate	Floating-rate	Fixed-rate	Floating-rate
Gross borrowings	5,098.1	3,831.2	1,266.9	3,971.2	1,126.9
%	100.0%	75.1%	24.9%	77.9%	22.1%

(in € millions)	Dec. 31, 2018	Before hedging		After hedging	
		Fixed-rate	Floating-rate	Fixed-rate	Floating-rate
Gross borrowings	3,928.0	2,726.4	1,201.6	2,865.3	1,062.7
%	100.0%	69.4%	30.6%	72.9%	27.1%

Analysis of sensitivity to interest rate risk

Based on the fixed/floating rate mix after hedging, a sudden 50 basis-point increase or decrease in interest rates would have a full-year impact of €0.7 million on pre-tax consolidated net income. As of December 31, 2018, the impact of a sudden 50 basis-point increase or decrease in interest rates was estimated at €4.8 million (assumption consistent with relative interest rate levels observed as of December 31, 2019).

Based on market data as of December 31, 2019, and the particularly low benchmark interest rates for the Group, the impact of interest rate derivatives and financial liabilities carried at fair value through income was determined assuming a sudden increase or decrease of 50 basis points in the euro and US dollar yield curve as of December 31, 2019.

(in € millions)	Impact on remeasurement of financial instruments	Impact on net finance costs
As of December 31, 2019		
Increase of 50 basis points		0.1
Decrease of 50 basis points		(0.1)
As of December 31, 2018		
Increase of 50 basis points		0.7
Decrease of 50 basis points		(0.7)

All other market variables were assumed to remain unchanged for the purpose of the sensitivity analysis.

The impact on remeasurement of financial instruments in equity is generated by interest rate instruments eligible for cash flow hedge accounting.

The impact on net finance costs in the income statement is generated by interest rate instruments not eligible for hedge accounting.

These amounts are shown before tax.

31.2 Exposure to foreign exchange risk

The outstanding notional amounts of instruments used by the Kering group to manage its foreign exchange risk are shown below:

<i>(in € millions)</i>	Dec. 31, 2019	Dec. 31, 2018
Currency forwards	(5,669.4)	(5,036.4)
Cross currency swaps	(109.1)	(105.7)
Currency options – export tunnels	(233.2)	(160.7)
Currency options – purchases	(154.7)	(92.1)
TOTAL	(6,166.4)	(5,394.9)

The Group primarily uses forward currency contracts and/or currency/cross currency swaps to hedge commercial import/export risks and to hedge the financial risks stemming in particular from Intercompany refinancing transactions in foreign currencies.

The Group may also implement plain vanilla option strategies (purchases of options or tunnels) to hedge future exposures.

These derivative financial instruments were analyzed with respect to IFRS 9 hedge accounting eligibility criteria. The Group has no derivatives eligible for net investment hedge accounting.

As of December 31, 2019, documented and non-documented derivative instruments were as follows:

<i>(in € millions)</i>	Dec. 31, 2019	USD	JPY	GBP
Cash flow hedges				
Forward purchases and forward purchase swaps	3.1		1.6	
Forward sales and forward sale swaps	(3,718.3)	(1,196.1)	(501.3)	(363.8)
Currency options – purchases of export tunnels	(233.2)	(148.2)	(1.6)	(61.7)
Currency options – purchases	(154.7)			
Fair value hedges				
Forward purchases and forward purchase swaps	617.4	165.2	58.5	62.3
Forward sales and forward sale swaps	(1,959.7)	(369.0)	(139.7)	(218.6)
Not documented				
Forward purchases and forward purchase swaps	162.6	159.1		
Forward sales and forward sale swaps	(774.5)	(316.1)	(115.0)	(9.6)
Cross currency swaps	(109.1)		(109.1)	
Maturity				
Less than one year				
Forward purchases and forward purchase swaps	783.1	324.3	60.1	62.3
Forward sales and forward sale swaps	(6,448.4)	(1,881.2)	(751.9)	(592.0)
Cross currency swaps				
Currency options – purchases of export tunnels	(233.2)	(148.2)	(1.6)	(61.7)
Currency options – purchases	(154.7)			
More than one year				
Forward purchases and forward purchase swaps				
Forward sales and forward sale swaps	(4.1)		(4.1)	
Cross currency swaps	(109.1)		(109.1)	

Foreign exchange derivatives are recognized in the statement of financial position at their market value at the end of the reporting period.

Derivatives qualifying as cash flow hedges are used to hedge highly probable future cash flows (not yet recognized) based on a budget for the current budget period (season, quarter, half-year, etc.) or certain future cash flows not yet recognized (firm orders).

As of December 31, 2019, the majority of foreign exchange derivatives qualifying as cash flow hedges had a residual maturity of less than one year and are used to hedge cash flows expected to be realized and recognized in the coming reporting period.

Derivatives qualifying as fair value hedges are used to hedge items recognized in the consolidated statement of financial position at the end of the reporting period, or certain future cash flows not yet recognized (firm orders).

Certain foreign exchange derivatives treated as hedges for management purposes are not documented in accordance with IFRS 9 hedge accounting and are therefore recorded as derivatives, with any changes in their fair value impacting net finance costs.

These derivatives mainly hedge items recorded in the statement of financial position and future cash flows that do not satisfy the “highly probable” criteria required by IFRS 9.

CHF	HKD	CNY	AUD	TWD	KRW	Other	Dec. 31, 2018
					1.5		28.3
	(376.7)	(522.3)	(102.1)	(61.3)	(390.7)	(204.0)	(3,302.0)
	(21.7)						(160.7)
		(154.7)					(92.1)
39.3	27.3	67.4	12.0	4.0	132.9	48.5	514.0
(14.5)	(137.8)	(370.8)	(63.6)	(31.5)	(195.5)	(418.7)	(1,600.6)
		1.2				2.3	937.2
(329.5)		(1.2)				(3.1)	(1,613.3)
							(105.7)
39.3	27.3	68.6	12.0	4.0	134.4	50.8	1,479.5
(344.0)	(514.5)	(894.3)	(165.7)	(92.8)	(586.2)	(625.8)	(6,491.2)
	(21.7)						(160.7)
		(154.7)					(92.1)
							(24.7)
							(105.7)

As of December 31, 2019, the exposure to foreign exchange risk on the statement of financial position was as follows:

<i>(in € millions)</i>	Dec. 31, 2019	USD	JPY	GBP
Monetary assets	4,207.9	982.9	381.3	285.8
Monetary liabilities	994.9	410.1	471.4	9.7
Net exposure in the statement of financial position	3,213.0	572.8	(90.1)	276.1
Forecast exposure	4,103.2	1,344.4	501.3	425.5
Net exposure before hedging	7,316.2	1,917.2	411.2	701.6
Hedging instruments	(6,166.4)	(1,705.1)	(806.6)	(591.4)
Net exposure after hedging	1,149.8	212.1	(395.4)	110.2

Monetary assets comprise loans and receivables, bank balances, and investments and cash equivalents maturing within three months of the acquisition date.

Monetary liabilities comprise borrowings, operating payables and other payables.

Most of these monetary items are denominated in the functional currencies in which the subsidiaries operate, or are converted into the Group's functional currency using foreign exchange derivatives in accordance with applicable procedures.

Analysis of sensitivity to foreign exchange risk

This analysis excludes the impact of translating the financial statements of each Group entity into the presentation currency (euro) and the measurement of the foreign exchange position on the statement of financial position, not considered material as of the end of the reporting period.

Based on market data as of December 31, 2019, the impact of foreign exchange derivative instruments in the event of a sudden 10% increase or decrease in the euro exchange rate against the principal currencies to which the Group is exposed (USD, JPY and CNY) would be as follows:

<i>(in € millions)</i>	Impact on remeasurement of financial instruments		Impact on net finance costs	
	10% increase	10% decrease	10% increase	10% decrease
USD	120.5	(143.0)	0.6	(0.7)
JPY	45.5	(55.7)		
CNY	59.3	(61.7)		

<i>(in € millions)</i>	Impact on remeasurement of financial instruments		Impact on net finance costs	
	10% increase	10% decrease	10% increase	10% decrease
USD	111.4	(136.2)	0.6	(0.7)
JPY	42.0	(51.9)		
CNY	42.4	(44.9)		

All other market variables were assumed to remain unchanged for the purpose of the sensitivity analysis.

The impact on remeasurement of financial instruments in equity is generated by interest rate instruments eligible for cash flow hedge accounting.

The impact on net finance costs in the income statement is generated by foreign exchange instruments not eligible for hedge accounting and from the change in the ineffective portion of cash flow hedges.

These amounts are shown before tax.

CHF	HKD	CNY	AUD	TWD	KRW	Other	Dec. 31, 2018
426.0	256.2	677.4	163.8	50.1	130.7	853.7	3,494.7
66.6	3.2	0.1	0.2	11.9	0.0	21.7	988.4
359.4	253.0	677.3	163.6	38.2	130.7	832.0	2,506.3
	398.4	677.0	102.1	61.3	389.2	204.0	3,559.4
359.4	651.4	1,354.3	265.7	99.5	519.9	1,036.0	6,065.7
(304.7)	(508.9)	(980.4)	(153.7)	(88.8)	(451.8)	(575.0)	(5,394.9)
54.7	142.5	373.9	112.0	10.7	68.1	461.0	670.8

31.3 Exposure to equity risk

In the normal course of its business, the Group enters into transactions involving shares in consolidated companies or shares issued by Kering.

Naturally, the value of Kering's investment in PUMA, which is treated as an equity-accounted investment as of December 31, 2019, could vary depending on changes in PUMA's share price.

Shares held in connection with non-consolidated investments represent a low exposure risk for the Group and are not hedged.

The exchangeable bonds issued in September 2019 contain an equity component corresponding to an exchange option indexed to the PUMA share price. The redemption and/or exchange price of the bonds is linked to changes in the PUMA share price. As of December 31, 2019 and at the issue date, the reference exchange price was set at €92.17.

Based on market data at the end of the reporting period, a 10% increase in PUMA's share price would have a negative €19.0 million impact on the Group's annual pre-tax consolidated income and would increase by €19.0 million the carrying amount of the equity component recognized as a derivative liability at fair value in the consolidated statement of financial position. Conversely, a 10% decrease in PUMA's share price would have a positive €11.1 million impact on the Group's annual pre-tax consolidated income and would reduce by €11.1 million the carrying amount of the equity component recognized as a derivative liability at fair value in the consolidated statement of financial position.

31.4 Exposure to precious metals price risk

The Group may be exposed to fluctuations in the price of certain precious metals, particularly gold, within the scope of its brands' activities in the Watches and Jewelry segments. Hedges may therefore be put in place by contracting derivative financial instruments to fix the production cost or by negotiating prices with refiners or manufacturers of semi-finished products.

As of December 31, 2019, these hedging transactions with a residual maturity of less than one year are treated as forward purchases for a notional amount of €6.3 million. Their market value is not material (notional amount of €12.2 million as of December 31, 2018).

A sudden 1% increase or decrease in precious metals prices would have an impact of €0.1 million, excluding the tax impact on remeasurement of financial instruments in equity.

31.5 Other market risks – Credit risk

The Group uses derivative instruments solely to reduce its overall exposure to foreign exchange, interest rate and equity risk arising in the normal course of business. All transactions involving derivatives are carried out on organized markets or over the counter with leading firms.

As the Group has a large number of customers in a wide range of business segments and realizes a significant portion of its sales directly with the end customer, direct sales do not expose the Group to any credit risk. For sales through wholesalers, there is no strong dependency or concentration whereby the loss of one or more wholesalers might have a significant impact on the Group's earnings. Credit risk with respect to wholesalers is also minimized by appropriate credit insurance coverage.

31.6 Derivative instruments at market value

As of December 31, 2019, and in accordance with IFRS 9, the market value of derivative financial instruments is recognized in the statement of financial position, in assets under the headings "Non-current financial assets" and "Other current financial assets", and in liabilities under the headings "Other non-current financial liabilities" and "Other current financial liabilities".

The fair value of derivatives hedging interest rate risk is recognized in non-current or current assets or liabilities depending on the maturity of the underlying debt.

The fair value of derivatives hedging the foreign exchange risk on commercial transactions is recognized in other current financial assets or liabilities.

The fair value of derivatives hedging the foreign exchange risk on financial transactions is recognized in non-current financial assets or liabilities if their term exceeds one year.

<i>(in € millions)</i>	Dec. 31, 2019	Interest rate risk	Foreign exchange risk	Other market risks	Dec. 31, 2018
Derivative assets	30.9		30.0	0.9	54.1
Non-current					1.5
At fair value through income					
Cash flow hedges					1.5
Fair value hedges					
Current	30.9		30.0	0.9	52.6
At fair value through income	2.9		2.9		31.7
Cash flow hedges	23.2		22.3	0.9	16.8
Fair value hedges	4.8		4.8		4.1
Derivative liabilities	109.1	0.4	66.8	41.9	114.1
Non-current	47.9	0.3	5.7	41.9	3.0
At fair value through income	47.6		5.7	41.9	2.5
Cash flow hedges	0.3	0.3			0.5
Fair value hedges					
Current	61.2	0.1	61.1		111.1
At fair value through income	1.1	0.1	1.0		33.7
Cash flow hedges	51.6		51.6		73.0
Fair value hedges	8.5		8.5		4.4
TOTAL	(78.2)	(0.4)	(36.8)	(41.0)	(60.0)

The effective portion of derivatives hedging future cash flows is recorded against equity, in "Remeasurement of financial instruments". Changes in this line item are presented in Note 15 – Other comprehensive income.

Derivatives recognized under non-current liabilities at fair value through income include the fair value of the equity component of the bonds issued on September 30, 2019 exchangeable for PUMA shares. The carrying amount of this component was €41.9 million as of December 31, 2019.

In accordance with IFRS 13, derivatives were measured as of December 31, 2019 taking into account credit and debit value adjustments (CVA/DVA). The probability of default used is based on market data where this is available for the counterparty. The impact of this revised measurement was not material for the Group as of the end of the reporting period.

31.7 Liquidity risk

Liquidity risk management for the Group and each of its subsidiaries is closely monitored and periodically assessed by Kering within the scope of Group financial reporting procedures.

In order to guarantee its liquidity, the Group holds confirmed lines of credit totaling €3,035.0 million. As of December 31, 2019, this includes an amount of €3,035.0 million not yet drawn and available cash of €2,285.9 million.

The following table shows contractual commitments relating to borrowings and trade payables. It includes accrued interest payable and excludes the impact of netting agreements. The table also shows Group commitments relating to derivative instruments recorded in assets or liabilities in the statement of financial position.

Projected cash flows relating to accrued interest payable are included in "Other borrowings" and are calculated up to the maturity of the borrowings to which they relate. Future floating-rate interest is set by reference to the last coupon for the current period, based on fixings applicable as of the end of the reporting period for flows associated with subsequent maturities.

The future cash flows presented have not been discounted.

Based on data available as of the end of the reporting period, the Group does not expect that the cash flows indicated will materialize before the scheduled date or that the amounts concerned will differ significantly from those set out in the maturity schedule.

This analysis excludes non-derivative financial assets in the statement of financial position and in particular, the cash and cash equivalents and trade receivables line items, which amounted to €2,285.9 million and €996.0 million, respectively, as of December 31, 2019.

<i>(in € millions)</i>	Dec. 31, 2019		Less than one year	One to five years	More than five years
	Carrying amount	Cash flow			
Non-derivative financial instruments					
Bonds	3,147.8	(3,147.0)	(493.5)	(1,803.5)	(850.0)
Commercial paper	804.6	(804.6)	(804.6)		
Other borrowings	1,145.7	(1,314.7)	(699.0)	(338.6)	(277.1)
Trade payables	808.7	(808.7)	(808.7)		
Derivative financial instruments					
Interest rate hedges	0.4				
Interest rate swaps		0.5	0.7	(0.2)	
Other interest rate instruments					
Foreign exchange hedges	36.8				
Currency forwards and currency swaps					
Outflows		(6,327.6)	(6,323.5)	(4.1)	
Inflows		6,264.1	6,260.0	4.1	
Other foreign exchange instruments					
Outflows		(323.1)	(213.5)	(109.6)	
Inflows		318.3	215.2	103.1	
TOTAL	5,944.0	(6,142.8)	(2,866.9)	(2,148.8)	(1,127.1)

<i>(in € millions)</i>	Dec. 31, 2018		Less than one year	One to five years	More than five years
	Carrying amount	Cash flow			
Non-derivative financial instruments					
Bonds	2,836.2	(2,837.0)	(245.0)	(1,242.0)	(1,350.0)
Commercial paper					
Other borrowings	1,091.8	(1,335.6)	(544.4)	(471.0)	(320.2)
Trade payables	745.8	(745.8)	(745.8)		
Derivative financial instruments					
Interest rate hedges	(1.0)				
Interest rate swaps		1.1	1.1		
Other interest rate instruments					
Foreign exchange hedges	61.6				
Currency forwards and currency swaps					
Outflows		(7,325.9)	(7,301.2)	(24.7)	
Inflows		7,210.2	7,186.0	24.2	
Other foreign exchange instruments					
Outflows		(220.8)	(114.6)	(106.2)	
Inflows		218.2	114.7	103.5	
TOTAL	4,734.4	(5,035.6)	(1,649.2)	(1,716.2)	(1,670.2)

Note 32 – Accounting classification and market value of financial instruments

The basis of measurement for financial instruments and the market value of these instruments as of December 31, 2019 are presented below:

(in € millions)	Dec. 31, 2019		Breakdown by accounting classification					
	Carrying amount	Market value	Fair value through income	Fair value through OCI	Loans and receivables	Amortized cost	Derivatives qualifying for hedge accounting	Derivatives not qualifying for hedge accounting
Non-current assets								
Non-current financial assets	458.4	458.4		68.6	389.8			
Current assets								
Trade receivables	996.0	996.0				996.0		
Other current financial assets	38.4	38.4			7.5		28.0	2.9
Cash and cash equivalents	2,285.9	2,285.9	52.1			2,233.8		
Non-current liabilities								
Non-current borrowings	3,122.2	3,302.7				3,122.2		
Other non-current financial liabilities	47.9	47.9					0.3	47.6
Current liabilities								
Current borrowings	1,975.9	1,981.4				1,975.9		
Other current financial liabilities	503.2	503.2				442.0	60.1	1.1
Trade payables	808.7	808.7				808.7		

(in € millions)	Dec. 31, 2018		Breakdown by accounting classification					
	Carrying amount	Market value	Fair value through income	Fair value through OCI	Loans and receivables	Amortized cost	Derivatives qualifying for hedge accounting	Derivatives not qualifying for hedge accounting
Non-current assets								
Non-current financial assets	336.3	336.3		67.0	267.8		1.5	
Current assets								
Trade receivables	849.5	849.5				849.5		
Other current financial assets	60.9	60.9			8.3		20.9	31.7
Cash and cash equivalents	2,216.6	2,216.6	530.0			1,686.6		
Non-current liabilities								
Non-current borrowings	3,171.6	3,261.3				3,171.6		
Other non-current financial liabilities	3.0	3.0					0.5	2.5
Current liabilities								
Current borrowings	756.4	759.7				756.4		
Other current financial liabilities	553.2	553.2				442.1	77.4	33.7
Trade payables	745.8	745.8				745.8		

As of December 31, 2019, the following methods were used to price financial instruments:

- Financial instruments other than derivatives recorded in assets in the statement of financial position:

Carrying amounts are based on reasonable estimates of market value, with the exception of marketable securities and investments in non-consolidated companies, whose market value was determined based on the last known stock market price as of December 31, 2019 for listed securities;

- Financial instruments other than derivatives recorded in liabilities in the statement of financial position:

The market value of listed bonds was determined on the basis of the last market price as of the end of the reporting period;

The market value of other borrowings was calculated using other valuation techniques such as discounted future cash flows, taking into account the Group's credit risk and interest rate conditions as of the end of the reporting period;

- Derivative financial instruments:

The market value of derivative financial instruments was provided by the financial institutions involved in the transactions or calculated using standard valuation methods that factor in market conditions as of the end of the reporting period.

The Group has identified three financial instrument categories based on the two valuation methods used (listed prices and valuation techniques). In accordance with IFRS, this classification is used as a basis for presenting the characteristics of financial instruments recognized in the statement of financial position at fair value through income as of the end of the reporting period:

Level 1 category: financial instruments quoted on an active market;

Level 2 category: financial instruments whose fair value is determined using valuation techniques drawing on observable market inputs;

Level 3 category: financial instruments whose fair value is determined using valuation techniques drawing on non-observable inputs (inputs whose value does not result from the price of observable market transactions for the same instrument or from observable market data available as of the end of the reporting period) or inputs which are only partly observable.

The table below shows the fair value hierarchy by financial instrument category as of December 31, 2019:

<i>(in € millions)</i>	Fair value hierarchy			Dec. 31, 2019
	Market price = Level 1	Models based on observable inputs = Level 2	Models based on non-observable inputs = Level 3	
Non-current assets				
Non-current financial assets	47.4		411.0	458.4
Current assets				
Trade receivables			996.0	996.0
Other current financial assets		30.9	7.5	38.4
Cash and cash equivalents		52.1	2,233.8	2,285.9
Non-current liabilities				
Non-current borrowings			3,122.2	3,122.2
Other non-current financial liabilities		47.9		47.9
Current liabilities				
Current borrowings			1,975.9	1,975.9
Other current financial liabilities		61.2	442.0	503.2
Trade payables			808.7	808.7

<i>(in € millions)</i>	Fair value hierarchy			Dec. 31, 2018
	Market price = Level 1	Models based on observable inputs = Level 2	Models based on non-observable inputs = Level 3	
Non-current assets				
Non-current financial assets		1.5	334.8	336.3
Current assets				
Trade receivables			849.5	849.5
Other current financial assets		52.6	8.3	60.9
Cash and cash equivalents		530.0	1,686.6	2,216.6
Non-current liabilities				
Non-current borrowings			3,171.6	3,171.6
Other non-current financial liabilities		3.0		3.0
Current liabilities				
Current borrowings			756.4	756.4
Other current financial liabilities		111.1	442.1	553.2
Trade payables			745.8	745.8

Note 33 – Net debt

<i>(in € millions)</i>	Dec. 31, 2019	Dec. 31, 2018
Gross borrowings	5,098.1	3,928.0
Cash and cash equivalents	(2,285.9)	(2,216.6)
Net debt	2,812.2	1,711.4

Note 34 – Statement of cash flows

34.1 Reconciliation of cash and cash equivalents as reported in the statement of financial position with cash and cash equivalents as reported in the statement of cash flows

<i>(in € millions)</i>	Dec. 31, 2019	Dec. 31, 2018
Cash and cash equivalents as reported in the statement of financial position	2,285.9	2,216.6
Bank overdrafts	(448.3)	(380.3)
Cash and cash equivalents as reported in the statement of cash flows	1,837.6	1,836.3

34.2 Breakdown of cash flow from operating activities

<i>(in € millions)</i>	2019	2018
Net income from continuing operations	2,208.4	2,658.3
Net recurring charges to depreciation, amortization and provisions on non-current operating assets	1,245.3	491.9
Other non-cash income and expenses:	(392.4)	(6.6)
<i>o/w:</i>		
Recurring operating income and expenses (Note 5):	100.2	(68.8)
- Fair value of operating foreign exchange rate hedges	97.4	(93.2)
- Other	2.8	24.4
Other income and expenses:	(492.6)	62.2
- Asset impairment	94.9	140.4
- Fair value of foreign exchange rate hedges in net finance costs	(96.5)	98.5
- Deferred tax expense (income)	(464.2)	(194.8)
- Share in earnings (losses) of equity-accounted companies	(41.8)	(11.9)
- Other	15.0	30.0
Cash flow from operating activities	3,061.3	3,143.6

34.3 Debt issues and redemptions/repayments

<i>(in € millions)</i>	Dec. 31, 2019	Dec. 31, 2018
Debt issues	644.6	73.1
Debt redemptions/repayments	(287.6)	(1,404.5)
Increase/decrease in other borrowings	798.8	(27.9)
TOTAL	1,155.8	(1,359.3)

Debt includes the €550-million worth of bonds issued on September 30, 2019 exchangeable for PUMA shares. These bonds have a zero coupon and mature on September 30, 2022.

Debt redemptions and repayments in 2019 notably included the redemption of the €245 million debt outstanding under the 3.125% bonds issued in April 2012. These bonds were originally issued in an amount of €500 million and

matured on April 23, 2019. They were partially bought back by Kering in 2018.

Changes in debt and other borrowings mainly concern issues and redemptions/repayments of (i) commercial paper by Kering Finance, and, to a lesser extent, (ii) bank loans denominated in Japanese yen.

34.4 Reconciliation of changes in borrowings with net cash flows from (used in) financing activities

	Bonds	Other bank borrowings	Confirmed lines of credit	Drawdowns on unconfirmed lines of credit
<i>(in € millions)</i>				
As of January 1, 2019	2,836.2	200.0	-	17.9
Increase/decrease in share capital and other transactions with owners				
Treasury share transactions				
Dividends paid to owners of the parent company				
Dividends paid to non-controlling interests				
Debt issues	598.1	46.5		
Debt redemptions/repayments	(245.0)	(42.6)		
Increase/decrease in other borrowings				(3.2)
Repayment of lease liabilities				
Interest paid and equivalent				
Net cash from (used in) financing activities	353.1	3.9		(3.2)
Changes in Group structure				
Translation adjustments		6.5		0.5
Changes in put options granted to non-controlling interests				
Changes related to discontinued operations				
Other movements	(41.5)	1.2		
As of December 31, 2019	3,147.8	211.6	-	15.2

	Bonds	Other bank borrowings	Confirmed lines of credit	Drawdowns on unconfirmed lines of credit
<i>(in € millions)</i>				
As of January 1, 2018	4,096.1	318.5	-	20.5
Increase/decrease in share capital and other transactions with owners				
Treasury share transactions				
Dividends paid to owners of the parent company				
Dividends paid to non-controlling interests				
Debt issues	15.2	57.9		
Debt redemptions/repayments	(1,275.1)	(129.4)		
Increase/decrease in other borrowings		(3.6)		(2.8)
Interest paid and equivalent				
Net cash from (used in) financing activities	(1,259.9)	(75.1)	-	(2.8)
Changes in Group structure				
Translation adjustments		15.2		0.2
Changes in put options granted to non-controlling interests				
Other movements		(58.6)		
As of December 31, 2018	2,836.2	200.0	-	17.9

Commercial paper	Finance lease liabilities	Bank overdrafts	Borrowings		Lease liabilities	Equity		Total
			Other borrowings			Equity attributable to owners of the parent	Non-controlling interests	
-	78.7	380.3	414.9					
						(19.2)		(19.2)
						(402.1)		(402.1)
						(1,320.1)		(1,320.1)
							(21.9)	(21.9)
							644.6	644.6
804.6			(2.6)				798.8	798.8
					(639.6)			(639.6)
			(180.3)		(109.6)			(289.9)
804.6			(182.9)		(749.2)	(1,741.4)	(21.9)	(1,537.0)
		(10.2)	3.0					
		7.4	0.3					
	(78.7)	70.8	235.3					
804.6	-	448.3	470.6					

Commercial paper	Finance lease liabilities	Bank overdrafts	Borrowings		Lease liabilities	Equity		Total
			Other borrowings			Equity attributable to owners of the parent	Non-controlling interests	
-	83.9	237.3	428.9					
						(2.7)		(2.7)
						(167.9)		(167.9)
						(757.6)		(757.6)
							(22.8)	(22.8)
							73.1	73.1
			(21.5)				(1,404.5)	(1,404.5)
	(3.0)	(1.2)	(188.2)				(27.9)	(27.9)
							(192.4)	(192.4)
-	(3.0)	(1.2)	(209.7)			(928.2)	(22.8)	(2,502.7)
		0.3						
	1.8	11.4	0.5					
	(4.0)	132.5	11.4					
			4.8					
-	78.7	380.3	414.9					

Note 35 – Contingent liabilities, contractual commitments not recognized and other contingencies

35.1 Commitments given or received following asset disposals

Vendor warranties given or received by the Group on sales of companies in prior years are summarized below as of December 31, 2019:

Disposals	Vendor warranties
December 2010 Sale of Conforama	Vendor warranty covering tax-related claims expiring when the period becomes time-barred, capped at €120 million. This disposal is related to an ancillary commitment by Kering to continue commercial relations between Conforama and the BNP Paribas group as regards customer loans.
December 2012 Sale of The Sportsman's Guide and The Golf Warehouse	Vendor warranties covering (i) certain fundamental representations (with respect to organization, title ownership, and capacity) which survive indefinitely, (ii) employment and benefit plans, and (iii) tax-related claims; (ii) and (iii) expiring when the period becomes time-barred. These warranties are capped at USD 21.5 million.
February 2013 Sale of OneStopPlus	Specific vendor warranty covering an identified tax-related claim, expiring when the period becomes time-barred.
March 2013 Sale of the Children and Family Division	Specific warranty covering an occupancy fee capped at €400,000.
June 2013 Sale of Ellos	Customary vendor warranty covering certain fundamental representations (with respect to capacity, existence, title ownership and capitalization), which survives indefinitely and is capped at the sale price. This was accompanied by a commitment received as regards the continuation of commercial relations with Finaref, covered by a €70 million bank guarantee expiring in 2023.
June 2014 Sale of La Redoute and Relais Colis	Customary vendor warranty covering certain fundamental representations (particularly with respect to the existence of the companies sold, the availability of the shares sold and the capacity and power to complete the sale), which expires when the period becomes time-barred and is capped at €10 million. Vendor warranty covering tax-related claims and capped at €10 million, expiring when the period becomes time-barred. Specific vendor warranties covering (i) the group's restructuring operations prior to its sale, which expire on December 31, 2021 and are not capped, and (ii) environmental risks, which expire on December 31, 2020 and are capped at €37 million.
December 2015 Sale of Sergio Rossi	Vendor warranties covering (i) tax-related or similar claims expiring when the period becomes time-barred in each jurisdiction concerned and (ii) certain fundamental representations (particularly with respect to organization, capitalization, titles and authority) which survive indefinitely. These warranties are capped at €15 million with the exception of (ii), which is capped at the sale price. Specific vendor warranties covering (i) tax audits of the years 2010 to 2014; (ii) the tax impact of the group's restructuring operations prior to its sale; and (iii) intellectual property claims and potential disputes with certain managerial-grade employees (<i>cadres</i>), which survive indefinitely. These warranties are not capped.
March 2016 Disposal of Electric	Customary vendor warranty covering certain fundamental representations, particularly with respect to organization, capitalization and authority. The vendor warranties are limited to the seller's knowledge of insurance, litigation and tax-related matters. These warranties are not capped.

Disposals

Vendor warranties

April 2019

Disposal of Volcom

Specific warranties capped at \$7.5 million covering (i) intellectual property and certain real estate and contractual matters (expiring in April 2020) and (ii) certain tax-related claims (expiring in April 2022). A further vendor warranty covering certain tax obligations, which is uncapped and expires in April 2025. A vendor warranty covering certain fundamental representations (ownership and capacity), which survives indefinitely and is capped at the sale price.

July 2019

Disposal of Stella McCartney

Customary vendor warranty covering certain fundamental representations (ownership and ability to freely dispose of shares), which survives indefinitely and is uncapped. Specific warranty covering certain tax-related claims, capped at €7 million and expiring when the period becomes time-barred.

In addition to the vendor warranties described above, minor vendor warranty agreements with standard terms were set up for the purchasers of the other companies sold by the Group.

35.2 Other commitments given**35.2.1 Contractual obligations**

The table below shows all the Group's contractual commitments and obligations, excluding employee benefit obligations presented in Note 27 – Provisions for pensions and other post-employment benefits.

(in € millions)	Payments due by period			Dec. 31, 2019	Dec. 31, 2018
	Less than one year	One to five years	More than five years		
Borrowings (Note 30)	1,975.9	2,035.6	1,086.6	5,098.1	3,928.0
Leases	68.3	126.7	320.4	515.4	4,148.9
Binding purchase commitments	72.3	243.3	4.0	319.6	174.8
Total commitments given	2,116.5	2,405.6	1,411.0	5,933.1	8,251.7

In accordance with the application of IFRS 16 – *Leases*, as of January 1, 2019, all leases in force are recognized directly in the statement of financial position for the amount of the corresponding fixed lease payments. The contractual obligations included above in “Leases” therefore only concern:

- leases signed as of December 31, 2019 but taking effect after that date;
- short-term leases, with a lease term of 12 months or less as of the commencement date;

- leases for which the underlying asset is of low value, based on the value of the asset when it is new.

However, leases presented within off-balance sheet commitments as of December 31, 2018 include all leases, as no leases were recognized in the statement of financial position as of that date. See Note 4 – First-time application of IFRS 16 – *Leases*.

Finance leases

IAS 17 was superseded by IFRS 16 as of January 1, 2019. See Note 4 – First-time application of IFRS 16 - *Leases*. As of December 31, 2018, the present value of future lease payments included in “Borrowings” and relating to capitalized assets meeting the definition of a finance lease set out in IAS 17 is as follows:

<i>(in € millions)</i>	Dec. 31, 2019	Dec. 31, 2018
Less than one year	N/A	40.7
One to five years	N/A	34.0
More than five years	N/A	26.2
Finance costs included	N/A	101.0 (22.2)
Present value of future minimum lease payments	N/A	78.7

35.2.2 Guarantees and other collateral

<i>(in € millions)</i>	Pledge start date	Pledge expiry date	Amount of assets pledged as of Dec. 31, 2019	Statement of financial position total (carrying amount)	Corresponding %	Amount of assets pledged as of Dec. 31, 2018
Intangible assets				7,260.5		-
Property, plant and equipment	06/08/2001	03/31/2028	32.2	2,619.3	1.2%	32.2
Non-current financial assets				458.4		-
Total non-current assets pledged as collateral			32.2	10,338.2	0.3%	32.2

35.2.3 Other commitments

<i>(in € millions)</i>	Payments due by period			Dec. 31, 2019	Dec. 31, 2018
	Less than one year	One to five years	More than five years		
Confirmed lines of credit (see Note 30)		3,035.0		3,035.0	3,135.0
Letters of credit	11.3	-	-	11.3	14.0
Other guarantees received	4.1	0.8	1.3	6.2	8.4
Total commitments received	15.4	3,035.8	1.3	3,052.5	3,157.4
Guarantees given to banks responsible for cash pooling arrangements	0.4	-	-	0.4	6.0
Rent guarantees, property guarantees	0.6	4.8	1.3	6.7	7.2
Other commitments	31.3	2.0	0.2	33.5	37.1
Total commitments given	32.3	6.8	1.5	40.6	50.3

Other commitments given primarily include customs warranties and operating guarantees.

35.3 Contingent liabilities

To the best of the Group's knowledge, there are no significant contingent liabilities.

35.4 Dependence on patents, licenses and supply contracts

The Group is not significantly dependent on any patents, licenses or supply contracts.

35.5 Litigation and disputes

Group companies are involved in a number of lawsuits or disputes arising in the normal course of business, including with various authorities. Provisions have been set aside for the probable costs, as estimated by the Group's entities and their counsel.

According to the Group's legal counsel, no disputes currently in progress are likely to have a material impact on normal or foreseeable operations or the planned development of the Group or any of its subsidiaries.

The Group believes there are no known disputes likely to have a potential material impact on its net assets, earnings or financial position that are not adequately covered by provisions recorded as of the end of the reporting period.

No individual claim against the Company and/or against any of its subsidiaries is material to the Company or the Group.

The Group is not aware of any arbitration proceedings that have had in the recent past, or are likely to have in the future, a material impact on the financial position, activity or earnings of the Company or Group.

Note 36 – Transactions with related parties

36.1 Related party controlling the Group

Kering SA is controlled by Artémis, which in turn is wholly owned by Financière Pinault. As of December 31, 2019, the Artémis group held 41.0% of Kering's share capital (40.9% as of end-2018) and 58.1% of its voting rights (57.8% as of end-2018).

The main transactions carried out between Kering's consolidated companies and Artémis in 2019 are described below:

- payment on January 16, 2020 of an interim dividend in respect of 2019 totaling €181.1 million, approved on December 12, 2019;
- payment of the balance of the cash dividend for 2018 of €361.6 million, further to the payment of an interim dividend of €180.8 million in January 2019 (€309.7 million for the full 2017 dividend);

- recognition of fees totaling €5.7 million in 2019 (€5.1 million in 2018) for (i) business development consulting services and complex transaction support, and (ii) the supply of development opportunities, new business and cost reduction solutions. These fees are governed by an agreement reviewed by the Audit Committee and approved by the Board of Directors.

36.2 Associates

In the normal course of business, the Group enters into transactions with associates on an arm's length basis.

These transactions are not material.

36.3 Remuneration paid to members of the Board of Directors and the Group's Executive Committee

<i>(in € millions)</i>	2019	2018
Short-term benefits	38.9	37.7
Payroll taxes	9.0	5.0
Termination indemnities	0.4	-
Post-employment benefits	1.4	2.0
Other long-term benefits	3.9	103.3
Share-based payment	71.8	85.5
TOTAL	125.4	233.5

Short-term benefits, payroll taxes and termination benefits correspond to amounts paid during the year. Post-employment benefits, other long-term benefits and share-based payment correspond to amounts recognized as expenses in the period.

Note 37 – List of consolidated subsidiaries as of December 31, 2019

Consolidation method

Full consolidation: C

Equity method: E

Company	% interest	
	Dec.31,2019	Dec.31,2018
Kering SA	Parent company	
CONTINUING OPERATIONS		
HOUSES		
France		
ALEXANDER MCQUEEN FRANCE SAS	C 100.00	C 100.00
ARCADES PONTHEIU SA	C 95.00	C 95.00
BALENCIAGA SA	C 100.00	C 100.00
BOTTEGA VENETA FRANCE SAS	C 100.00	C 100.00
BOUCHERON HOLDING SAS	C 100.00	C 100.00
BOUCHERON PARFUMS SAS	C 100.00	C 100.00
BOUCHERON SAS	C 100.00	C 100.00
BRIONI FRANCE SAS	C 100.00	C 100.00
C. MENDES SAS	C 100.00	C 100.00
DODO PARIS SAS	C 99.99	C 99.99
FRANCE CROCO SAS	C 100.00	C 100.00
GG FRANCE SERVICES SAS	C 100.00	C 100.00
GPO HOLDING SAS	C 100.00	C 100.00
GUCCI FRANCE SAS	C 100.00	C 100.00
LES BOUTIQUES BOUCHERON SAS	C 100.00	C 100.00
POMELLATO PARIS SA	C 99.99	C 99.99
QEELIN FRANCE SARL	C 100.00	C 100.00
SOWIND FRANCE SAS	C 100.00	C 100.00
TANNERIE DE PERIERS SAS	C 100.00	C 100.00
YSL VENTES PRIVEES FRANCE SAS	C 100.00	C 100.00
YVES SAINT LAURENT BOUTIQUE FRANCE SAS	C 100.00	C 100.00
YVES SAINT LAURENT PARFUMS SAS	C 100.00	C 100.00
YVES SAINT LAURENT SAS	C 100.00	C 100.00
Germany		
BALENCIAGA GERMANY GmbH	C 100.00	C 100.00
BOTTEGA VENETA GERMANY GmbH	C 100.00	C 100.00
BRIONI GERMANY GmbH	C 100.00	C 100.00
DODO DEUTSCHLAND GmbH	C 100.00	C 100.00
GG LUXURY GOODS GmbH	C 100.00	C 100.00
KW LUXURY DISTRIBUTION GmbH	C 100.00	C 100.00

Company	% interest	
	Dec. 31, 2019	Dec. 31, 2018
POMELLATO DEUTSCHLAND GmbH	C 100.00	C 100.00
KERING WATCHES LUXURY DIVISION GmbH	C 100.00	C 100.00
YVES SAINT LAURENT GERMANY GmbH	C 100.00	C 100.00
Austria		
ALEXANDER MCQUEEN GmbH	C 100.00	C 100.00
BOTTEGA VENETA AUSTRIA GmbH	C 100.00	C 100.00
BRIONI AUSTRIA GmbH	C 100.00	C 100.00
GUCCI AUSTRIA GmbH	C 100.00	C 100.00
YVES SAINT LAURENT AUSTRIA GmbH	C 100.00	C 100.00
Belgium		
GUCCI BELGIUM SA	C 100.00	C 100.00
Spain		
BALENCIAGA SPAIN SL	C 100.00	C 100.00
BOTTEGA VENETA ESPANA SL	C 100.00	C 100.00
BRIONI RETAIL ESPANA SL	C 100.00	C 100.00
DODO SPAIN SA	C 100.00	C 100.00
LUXURY GOODS SPAIN SL	C 100.00	C 100.00
LUXURY TIMEPIECES ESPANA SL	C 100.00	C 100.00
SOWIND IBERICA SL	C 100.00	C 100.00
YVES SAINT LAURENT SPAIN SA	C 100.00	C 100.00
United Kingdom		
ALEXANDER MCQUEEN TRADING Ltd	C 100.00	C 100.00
AUTUMNPAPER Ltd	C 100.00	C 100.00
BALENCIAGA UK Ltd	C 100.00	C 100.00
BIRDSWAN SOLUTIONS Ltd	C 100.00	C 100.00
BOTTEGA VENETA UK CO. Ltd	C 100.00	C 100.00
BOUCHERON UK Ltd	C 100.00	C 100.00
BRIONI UK Ltd	C 100.00	C 100.00
DODO (UK) Ltd	C 100.00	C 100.00
GUCCI Ltd	C 100.00	C 100.00
LUXURY TIMEPIECES UK Ltd	C 100.00	C 100.00
LUXURY TIMEPIECES & JEWELLERY OUTLETS Ltd	C 100.00	C 100.00

Company	% interest	
	Dec.31, 2019	Dec.31, 2018
PAINTGATE Ltd	C 100.00	C 100.00
POMELLATO (UK) Ltd	C 100.00	C 100.00
YVES SAINT LAURENT UK Ltd	C 100.00	C 100.00
Greece		
LUXURY GOODS GREECE AE	C 99.80	C 99.80
Hungary		
GUCCI HUNGARY KFT	C 100.00	C 100.00
Ireland		
GUCCI IRELAND Ltd	C 100.00	C 100.00
Italy		
ACCADEMICA DELLA PELLETERIA SRL	C 51.00	C 51.00
ALEXANDER MCQUEEN ITALIA SRL	C 100.00	C 100.00
ALEXANDER MCQUEEN ONLINE ITALIA SRL	C 100.00	Formation
BALENCIAGA LOGISTICA SRL	C 100.00	C 100.00
BALENCIAGA ONLINE ITALIA SRL	C 100.00	Formation
BALENCIAGA RETAIL ITALIA SRL	C 100.00	C 100.00
BRIONI SPA	C 100.00	C 100.00
BRIONI GERMANICS HOLDING SRL	C 100.00	C 100.00
BRIONI ITALIA SRL	C 100.00	C 100.00
BRIONI SERVIZI SRL	Merger	C 100.00
B.V. LUXURY SRL	C 100.00	C 100.00
B.V. ITALIA SRL	C 100.00	C 100.00
B.V. SERVIZI SRL	Merger	C 100.00
BOTTEGA VENETA SRL	C 100.00	C 100.00
CALZATURIFICIO FLORA SRL	Merger	C 100.00
CARAVEL PELLI PREGIATE SPA	C 100.00	C 100.00
CHEM – TEC SRL	C 51.00	Acquisition
COLONNA SPA	C 51.00	Acquisition
CONCERIA BLUTONIC SPA	C 51.00	C 51.00
CONCERIA 800 SPA	C 51.00	Acquisition
DESIGN MANAGEMENT SRL	C 100.00	C 100.00
DESIGN MANAGEMENT 2 SRL	C 100.00	C 100.00
E-LITE SPA	C 51.00	C 51.00
FALCO PELLAMI SPA	C 51.00	Acquisition
GARPE SRL	C 100.00	C 100.00
GUCCI GARDEN SRL	C 100.00	C 100.00
G COMMERCE EUROPE SPA	C 100.00	C 100.00
G.F. LOGISTICA SRL	Merger	C 100.00
GGW ITALIA SRL	C 100.00	C 100.00

Company	% interest	
	Dec.31, 2019	Dec.31, 2018
GJP SRL	C 100.00	C 100.00
GOS SRL	Merger	-
GPA SRL	C 100.00	C 100.00
GT SRL	C 100.00	C 100.00
GUCCI IMMOBILIARE LECCIO SRL	C 100.00	C 100.00
GUCCI LOGISTICA SPA	C 100.00	C 100.00
GUCCIO GUCCI SPA	C 100.00	C 100.00
IMMOBILIARE ARMEA SRL	C 100.00	-
KERING FASHION OPERATIONS SRL	C 100.00	C 100.00
K RETAIL ROMA SRL	C 100.00	C 100.00
LECCIO SRL	C 100.00	C 100.00
LGM SRL	Disposal	C 73.30
LUXURY GOODS ITALIA SPA	C 100.00	C 100.00
LUXURY GOODS OUTLET SRL	C 100.00	C 100.00
MANIFATTURA VENETA PELLETERIE SRL	C 100.00	C 100.00
MARBELLA PELLAMI SPA	C 51.00	Acquisition
PIGINI SRL	C 100.00	C 100.00
POMELLATO SPA	C 100.00	C 100.00
POMELLATO EUROPA SPA	C 100.00	C 100.00
ROMAN STYLE SPA	C 100.00	C 100.00
SAINT LAURENT ECOMMERCE SRL	C 100.00	Formation
SAMMEZZANO OUTLET SRL	C 100.00	C 100.00
SOWIND ITALIA SRL	C 100.00	C 100.00
SL LUXURY RETAIL SRL	C 100.00	C 100.00
TIGER FLEX SRL	C 100.00	C 100.00
TOMAS MAIER ITALIA SRL	E 51.00	E 51.00
TRAMOR SRL	C 100.00	C 100.00
ULYSSE NARDIN ITALIA SRL	C 100.00	C 100.00
SAINT LAURENT SHOES SRL	C 100.00	C 100.00
YVES SAINT LAURENT LOGISTICA SRL	C 100.00	C 100.00
Luxembourg		
BOTTEGA VENETA INTERNATIONAL SARL	C 100.00	C 100.00
CASTERA SARL	C 100.00	C 100.00
GUCCI GULF INVESTMENTS SARL	C 100.00	C 100.00
QEELIN HOLDING LUXEMBOURG SA	C 100.00	C 100.00
Monaco		
BOUCHERON SAM	C 100.00	C 100.00
GUCCI SAM	C 100.00	C 100.00
KERING RETAIL MONACO SAM	C 100.00	C 100.00

Company	% interest	
	Dec. 31, 2019	Dec. 31, 2018
SMHJ SAM	C 99.79	C 99.79
SAM YVES SAINT LAURENT OF MONACO	C 100.00	C 100.00
Netherlands		
BOTTEGA VENETA NETHERLANDS BV	C 100.00	C 100.00
G DISTRIBUTION BV	C 100.00	C 100.00
GG MIDDLE EAST BV	C 51.00	C 51.00
GG OTHER TERRITORIES BV	C 100.00	C 100.00
GUCCI NETHERLANDS BV	C 100.00	C 100.00
KERING ASIAN HOLDING BV	C 100.00	C 100.00
YVES SAINT LAURENT NETHERLANDS BV	C 100.00	C 100.00
Portugal		
BOTTEGA VENETA PORTUGAL, UNIPessoal LDA	C 100.00	Formation
Czech Republic		
BRIONI CZECH REPUBLIC SRO	C 100.00	C 100.00
LUXURY GOODS CZECH REPUBLIC SRO	C 100.00	C 100.00
YVES SAINT LAURENT CZECH REPUBLIC, SRO	C 100.00	Formation
Romania		
SIFA INTERNATIONAL SRL	C 70.00	C 70.00
Russia		
BOUCHERON RUSSIA OOO	C 100.00	C 100.00
GUCCI RUS OOO	C 100.00	C 100.00
ULYSSE NARDIN RUSSIA LLC	C 100.00	C 100.00
Serbia		
LUXURY TANNERY DOO	C 51.00	C 51.00
F.LLI ROSSI SHOES DOO	C 70.00	Acquisition
Switzerland		
BALENCIAGA SWITZERLAND SA	C 100.00	C 100.00
BOTTEGA VENETA SA	C 100.00	C 100.00
BOUCHERON (SUISSE) SA	C 100.00	C 100.00
BRIONI SWITZERLAND SA	C 100.00	C 100.00
DONZE CADRANS SA	C 100.00	C 100.00
FABBRICA QUADRANTI SA	C 100.00	C 100.00
GT SILK SA	C 100.00	C 100.00
GUCCI SWISS RETAIL SA	C 100.00	C 100.00
GUCCI SWISS TIMEPIECES SA	C 100.00	Formation
LUXURY GOODS INTERNATIONAL SA	C 100.00	C 100.00
LUXURY GOODS OUTLETS EUROPE SAGL	C 100.00	C 100.00

Company	% interest	
	Dec. 31, 2019	Dec. 31, 2018
OCHS UND JUNIOR AG	E 32.80	E 32.80
SIGATEC SA	E 50.00	E 50.00
SOWIND GROUP SA	C 100.00	C 100.00
SOWIND SA	C 100.00	C 100.00
THE MALL LUXURY OUTLET SA	C 100.00	C 100.00
ULYSSE NARDIN LE LOCLE SA	C 100.00	C 100.00
UNCA SA	E 50.00	E 50.00
YVES SAINT LAURENT SWITZERLAND SA	C 100.00	C 100.00
Aruba		
GEMINI ARUBA NV	C 100.00	C 100.00
Brazil		
BOTTEGA VENETA HOLDING Ltda	C 100.00	C 100.00
GUCCI BRASIL IMPORTACAO E EXPORTACAO Ltda	C 100.00	C 100.00
SAINT LAURENT BRASIL IMPORTACAO E EXPORTACAO Ltda	C 100.00	C 100.00
Canada		
BALENCIAGA CANADA Inc.	C 100.00	C 100.00
BOTTEGA VENETA CANADA Ltd	C 100.00	C 100.00
G. BOUTIQUES Inc.	C 100.00	C 100.00
SAINT LAURENT CANADA BOUTIQUES Inc.	C 100.00	C 100.00
Chile		
LUXURY GOODS CHILE SPA	C 51.00	C 51.00
United States		
ALEXANDER MCQUEEN TRADING AMERICA, Inc.	C 100.00	C 100.00
741 MADISON AVENUE CORP.	C 100.00	C 100.00
BALENCIAGA AMERICA Inc.	C 100.00	C 100.00
BOTTEGA VENETA Inc.	C 100.00	C 100.00
BOUCHERON JOAILLERIE (USA) Inc.	C 100.00	C 100.00
BRIONI AMERICA Inc.	C 100.00	C 100.00
BRIONI AMERICA HOLDING Inc.	C 100.00	C 100.00
E-LITE US Inc.	C 51.00	C 51.00
G GATOR USA LLC	C 100.00	C 100.00
GUCCI AMERICA Inc.	C 100.00	C 100.00
GUCCI CARIBBEAN Inc.	C 100.00	C 100.00
GUCCI GROUP WATCHES Inc.	C 100.00	C 100.00
GUCCI OSTERIA USA TRUST	C 100.00	Formation
GUCCI OSTERIA USA LLC	C 100.00	Formation
JOSEPH ALTUZARRA	E 40.54	E 40.54
LUXURY HOLDINGS Inc.	C 100.00	C 100.00

Company	% interest	
	Dec.31, 2019	Dec.31, 2018
LUXURY TIMEPIECES AND JEWELRY USA, Inc.	C 100.00	C 100.00
POMELLATO USA Inc.	C 100.00	C 100.00
TOMAS MAIER LLC	Liquidation	E 51.00
TOMAS MAIER DISTRIBUTION LLC	E 51.00	E 51.00
TOMAS MAIER HOLDING LLC	E 51.00	E 51.00
TRADEMA OF AMERICA Inc.	C 100.00	C 100.00
ULYSSE NARDIN Inc.	C 100.00	C 100.00
WALL'S GATOR FARM II LLC	E 40.00	E 40.00
WG ALLIGATOR FARM LLC	E 40.00	E 40.00
YVES SAINT LAURENT AMERICA HOLDING Inc.	C 100.00	C 100.00
YVES SAINT LAURENT AMERICA Inc.	C 100.00	C 100.00
Mexico		
BALENCIAGA RETAIL MEXICO S. DE R.L. DE C.V.	C 100.00	Formation
BOTTEGA VENETA MEXICO, S. DE R.L. DE C.V.	C 100.00	C 100.00
BOTTEGA VENETA SERVICIOS, S. DE R.L. DE C.V.	C 100.00	C 100.00
D ITALIAN CHARMS S.A. DE C.V.	C 100.00	C 100.00
GUCCI IMPORTACIONES S.A. DE C.V.	C 100.00	C 100.00
GUCCI MEXICO S.A. DE C.V.	C 100.00	C 100.00
RETAIL LUXURY SERVICIOS S.A. DE C.V.	C 100.00	C 100.00
SAINT LAURENT MEXICO, S. DE R.L. DE C.V.	C 100.00	C 100.00
SAINT LAURENT SERVICIOS, S. DE R.L. DE C.V.	C 100.00	C 100.00
SERVICIOS DE PERSONAL BALENCIAGA S. DE R.L. DE C.V.	C 100.00	Formation
Panama		
LUXURY GOODS PANAMA S. DE R.L.	C 51.00	C 51.00
SAINT LAURENT PANAMA Inc.	C 100.00	Formation
Australia		
ALEXANDER MCQUEEN AUSTRALIA PTY Ltd	C 100.00	Formation
BALENCIAGA AUSTRALIA PTY Ltd	C 100.00	C 100.00
BOTTEGA VENETA AUSTRALIA PTY Ltd	C 100.00	C 100.00
GUCCI AUSTRALIA PTY Ltd	C 100.00	C 100.00
SAINT LAURENT AUSTRALIA PTY Ltd	C 100.00	C 100.00
New Zealand		
GUCCI NEW ZEALAND Ltd	C 100.00	C 100.00

Company	% interest	
	Dec.31, 2019	Dec.31, 2018
China		
<i>Mainland China</i>		
1921 (SHANGHAI) RESTAURANT Ltd	C 100.00	C 100.00
ALEXANDER McQUEEN (SHANGAI) TRADING Ltd	C 100.00	C 100.00
BALENCIAGA FASHION SHANGAI CO. Ltd	C 100.00	C 100.00
BOTTEGA VENETA (CHINA) TRADING Ltd	C 100.00	C 100.00
KERING (SHANGHAI) WATCHES AND JEWELRY Ltd	C 100.00	C 100.00
BRIONI (SHANGAI) TRADING Ltd	C 100.00	C 100.00
GUCCI (CHINA) TRADING Ltd	C 100.00	C 100.00
GUCCI WATCHES MARKETING CONSULTING (SHANGHAI) Ltd	C 100.00	C 100.00
LGI (SHANGHAI) ENTERPRISE MANAGEMENT Ltd	C 100.00	C 100.00
POMELLATO SHANGAI CO. Ltd	C 100.00	C 100.00
QEELIN TRADING (SHANGAI) CO. Ltd	C 100.00	C 100.00
YVES SAINT LAURENT (SHANGHAI) TRADING Ltd	C 100.00	C 100.00
<i>Hong Kong SAR</i>		
ALEXANDER MCQUEEN (HONG KONG) Ltd	C 100.00	C 100.00
BALENCIAGA ASIA PACIFIC Ltd	C 100.00	C 100.00
BOTTEGA VENETA HONG KONG Ltd	C 100.00	C 100.00
BOUCHERON HONG KONG Ltd	C 100.00	C 100.00
BRIONI HONG KONG Ltd	C 100.00	C 100.00
GUCCI (HONG KONG) Ltd	C 100.00	C 100.00
GUCCI ASIA COMPANY Ltd	C 100.00	C 100.00
LUXURY TIMEPIECES (HONG KONG) Ltd	C 100.00	C 100.00
MOVEN INTERNATIONAL Ltd	C 100.00	C 100.00
POMELLATO CHINA Ltd	C 100.00	C 100.00
POMELLATO PACIFIC Ltd	C 100.00	C 100.00
QEELIN Ltd	C 100.00	C 100.00
ULYSSE NARDIN (ASIA PACIFIC) Ltd	C 100.00	C 100.00
YVES SAINT LAURENT (HONG KONG) Ltd	C 100.00	C 100.00
<i>Macau SAR</i>		
ALEXANDER McQUEEN (MACAU) Ltd	C 100.00	C 100.00
BALENCIAGA MACAU Ltd	C 100.00	C 100.00
BOTTEGA VENETA MACAU Ltd	C 100.00	C 100.00

Company	% interest	
	Dec. 31, 2019	Dec. 31, 2018
BRIONI MACAU Ltd	C 100.00	C 100.00
GUCCI MACAU Ltd	C 100.00	C 100.00
KERING (MACAU) WATCHES AND JEWELRY Ltd	C 100.00	C 100.00
QEELIN MACAU Ltd	C 100.00	C 100.00
YVES SAINT LAURENT MACAU Ltd	C 100.00	C 100.00
Taiwan		
BOUCHERON TAIWAN CO. Ltd	C 100.00	C 100.00
GUCCI GROUP WATCHES TAIWAN Ltd	C 100.00	C 100.00
ULYSSE NARDIN (TAIWAN) Ltd	C 100.00	C 100.00
Korea		
ALEXANDER MCQUEEN KOREA Ltd	C 100.00	C 100.00
BALENCIAGA KOREA Ltd	C 100.00	C 100.00
BOTTEGA VENETA KOREA Ltd	C 100.00	C 100.00
BOUCHERON KOREA Ltd	C 100.00	C 100.00
GUCCI KOREA Ltd	C 100.00	C 100.00
YVES SAINT LAURENT KOREA Ltd	C 100.00	C 100.00
Guam		
BOTTEGA VENETA GUAM Inc.	C 100.00	C 100.00
GUCCI GROUP GUAM Inc.	C 100.00	C 100.00
India		
LUXURY GOODS RETAIL PRIVATE Ltd LGR	C 51.00	C 51.00
Japan		
BALENCIAGA JAPAN Ltd	C 100.00	C 100.00
BOTTEGA VENETA JAPAN Ltd	C 100.00	C 100.00
BOUCHERON JAPAN Ltd	C 100.00	C 100.00
BRIONI JAPAN & CO. Ltd	C 100.00	C 100.00
E-LITE JAPAN Ltd	C 51.00	C 51.00
LUXURY TIMEPIECES JAPAN Ltd	C 100.00	C 100.00
POMELLATO JAPAN CO. Ltd	C 100.00	C 100.00
SOWIND JAPAN KK	C 100.00	C 100.00
Vietnam		
GUCCI VIETNAM CO. Ltd	C 100.00	C 100.00
Bahrain		
FLORENCE 1921 WLL	C 49.00	C 49.00
United Arab Emirates		
AP LUXURY GOODS MIDDLE EAST LLC	C 49.00	Formation
ATELIER LUXURY GULF LLC	C 49.00	C 49.00
FASHION LUXURY MIDDLE EAST LLC	C 49.00	C 49.00

Company	% interest	
	Dec. 31, 2019	Dec. 31, 2018
LUXURY GOODS GULF LLC	C 49.00	C 49.00
LUXURY FASHION GULF LLC	C 49.00	C 49.00
Kazakhstan		
ULYSSE NARDIN KAZAKHSTAN LLP	E 50.00	E 50.00
Kuwait		
B.A.I FOR READY-TO-WEAR APPAREL AND ACCESSORIES WLL	C 49.00	Acquisition
BOTTEGA VENETA LEATHER GOODS KUWAIT WLL	C 49.00	Formation
LUXURY GOODS KUWAIT WLL	C 26.01	C 26.01
YSL KUWAIT FOR READYMADE CLOTHES AND ACCESSORIES WLL	C 49.00	C 49.00
Qatar		
SAINT LAURENT PARIS LLC	C 24.00	C 24.00
LUXURY GOODS QATAR LLC	C 25.50	C 25.50
Malaysia		
AUTUMNPAPER MALAYSIA SDN BHD	C 100.00	C 100.00
BALENCIAGA SEA MALAYSIA SDN BHD	C 100.00	C 100.00
BOTTEGA VENETA MALAYSIA SDN BHD	C 100.00	C 100.00
GUCCI (MALAYSIA) SDN BHD	C 100.00	C 100.00
KERING WATCHES AND JEWELRY (MALAYSIA) SDN BHD	C 100.00	C 100.00
SAINT LAURENT (MALAYSIA) SDN BHD	C 100.00	C 100.00
Mongolia		
ULYSSE NARDIN MONGOLIA LLC	E 50.00	E 50.00
Singapore		
ALEXANDER MCQUEEN (SINGAPORE) PTE Ltd	C 100.00	C 100.00
BALENCIAGA SINGAPORE PTE Ltd	C 100.00	C 100.00
BOTTEGA VENETA SINGAPORE PRIVATE Ltd	C 100.00	C 100.00
GUCCI SINGAPORE PTE Ltd	C 100.00	C 100.00
SAINT LAURENT (SINGAPORE) PTE Ltd	C 100.00	C 100.00
Turkey		
GUCCI TURKEY LUXURY GOODS TRADE LLP	C 100.00	Formation
POMELLATO MUCVEHERAT VE AKSESUAR DAGITIM VE TICARET Ltd SIRKETI	C 100.00	C 100.00
Thailand		
ALEXANDER MCQUEEN (THAILAND) Ltd	C 100.00	C 100.00

Company	% interest	
	Dec. 31, 2019	Dec. 31, 2018
BALENCIAGA THAILAND Ltd	C 100.00	C 100.00
BOTTEGA VENETA (THAILAND) Ltd	C 75.00	C 75.00
CLOSED-CYCLE BREEDING INTERNATIONAL Ltd	C 48.00	C 48.00
G OPERATIONS FRASEC Ltd	C 49.00	C 49.00
GUCCI (THAILAND) CO. Ltd	C 100.00	C 100.00
GUCCI SERVICES (THAILAND) CO. Ltd	C 100.00	C 100.00
GUCCI SERVICES (THAILAND) Ltd	C 98.00	Formation
LUXURY GOODS (THAILAND) Ltd	C 75.00	C 75.00
SAINT LAURENT (THAILAND) CO. Ltd	C 100.00	C 100.00
South Africa		
GG LUXURY RETAIL SOUTH AFRICA PTE Ltd	C 62.00	C 62.00
CORPORATE AND OTHER		
France		
CONSEIL ET ASSISTANCE	C 100.00	C 100.00
DISCODIS SAS	C 100.00	C 100.00
GG FRANCE 13 SAS	C 100.00	C 100.00
GG FRANCE 14 SAS	C 100.00	C 100.00
KERING FRANCE PARTICIPATIONS SAS	C 100.00	C 100.00
KERING EYEWEAR FRANCE SAS	C 63.00	C 63.00
KERING FINANCE SNC	C 100.00	C 100.00
KERING SIGNATURE	C 100.00	C 100.00
MANUFACTURE KERING EYEWEAR SAS	C 63.00	C 63.00
SAPRODIS SERVICES SAS	Liquidation	C 100.00
Germany		
KERING EYEWEAR DACH GmbH	C 63.00	C 63.00
PUMA SE (GERMANY)	E 15.70	E 15.70
Croatia		
KERING EYEWEAR SOUTH EAST EUROPE DOO	C 63.00	Formation
Spain		
KERING EYEWEAR ESPANA SA	C 63.00	C 63.00
KERING SPAIN SL	C 100.00	C 100.00
United Kingdom		
KERING EYEWEAR UK Ltd	C 63.00	C 63.00
KERING INTERNATIONAL Ltd	C 100.00	C 100.00
KERING UK SERVICES Ltd	C 100.00	C 100.00

Company	% interest	
	Dec. 31, 2019	Dec. 31, 2018
Italy		
KERING EYEWEAR SPA	C 63.00	C 63.00
KERING ITALIA SPA	C 100.00	C 100.00
ALEXANDER MCQUEEN LOGISTICA SRL	C 100.00	C 100.00
KERING SERVICE ITALIA SPA	C 100.00	C 100.00
TRENTI INDUSTRIA OCCHIALI SRL	E 30.00	Acquisition
Luxembourg		
KERING RE	C 100.00	C 100.00
KERING LUXEMBOURG SA	C 100.00	C 100.00
E-KERING LUX SA	C 100.00	C 100.00
Netherlands		
K OPERATIONS BV	C 100.00	C 100.00
GUCCI INTERNATIONAL NV	Merger	C 100.00
GUCCI PARTICIPATION BV	C 100.00	C 100.00
KERING HOLLAND NV	C 100.00	C 100.00
KERING INVESTMENTS EUROPE BV	C 100.00	C 100.00
Switzerland		
LUXURY GOODS SERVICES SA	Merger	C 100.00
LUXURY GOODS LOGISTICS SA	C 51.00	C 51.00
LUXURY GOODS OPERATIONS SA	C 51.00	C 51.00
China		
Mainland China		
GUANGZHOU KGS CORPORATE MANAGEMENT & CONSULTANCY Ltd	C 100.00	C 100.00
KERING (CHINA) ENTERPRISE MANAGEMENT Ltd	C 100.00	C 100.00
KERING EYEWEAR SHANGHAI TRADING ENTERPRISES Ltd	C 63.00	C 63.00
REDCATS COMMERCE ET TRADING (SHANGHAI) CO Ltd	C 100.00	C 100.00
REDCATS SOURCING (SHANGHAI) Ltd	C 100.00	C 100.00
Hong Kong SAR		
KERING ASIA PACIFIC Ltd	C 100.00	C 100.00
KERING EYEWEAR APAC Ltd	C 63.00	C 63.00
KGS GLOBAL MANAGEMENT SERVICES Ltd	C 100.00	C 100.00
KGS SOURCING Ltd	C 100.00	C 100.00
Taiwan		
KERING EYEWEAR TAIWAN Ltd	C 63.00	C 63.00

Company	% interest	
	Dec. 31, 2019	Dec. 31, 2018
Korea		
KERING EYEWEAR KOREA Ltd	C 63.00	C 63.00
KERING KOREA Ltd	C 100.00	C 100.00
India		
KERING EYEWEAR INDIA Ltd	C 63.00	C 63.00
KGS SOURCING INDIA PTE Ltd	C 100.00	C 100.00
Japan		
GUCCI YUGEN KAISHA	C 100.00	C 100.00
KERING EYEWEAR JAPAN Ltd	C 63.00	C 63.00
KERING JAPAN Ltd	C 100.00	C 100.00
KERING TOKYO INVESTMENT Ltd	C 100.00	C 100.00
Malaysia		
KERING EYEWEAR MALAYSIA SDN BHD	C 63.00	C 63.00
KERING SERVICES MALAYSIA SDN BHD	C 100.00	C 100.00
Singapore		
KERING EYEWEAR SINGAPORE PTE Ltd	C 63.00	C 63.00
KERING (SINGAPORE) WATCHES AND JEWELRY PTE Ltd	C 100.00	Formation
KERING SOUTH EAST ASIA PTE Ltd	C 100.00	C 100.00
Turkey		
KGS SOURCING TURKEY LIMITED	C 100.00	C 100.00
United Arab Emirates		
KERING SERVICES MIDDLE EAST	C 100.00	C 100.00
KERING EYEWEAR MIDDLE EAST FZ-LLC	C 63.00	Formation
Australia		
KERING AUSTRALIA PTY Ltd	C 100.00	C 100.00
KERING EYEWEAR AUSTRALIA PTY Ltd	C 63.00	C 63.00
United States		
KERING AMERICAS Inc.	C 100.00	C 100.00
KERING EYEWEAR USA Inc.	C 63.00	C 63.00
Mexico		
KERING MEXICO S. DE R.L. DE C.V.	C 100.00	C 100.00

Company	% interest	
	Dec. 31, 2019	Dec. 31, 2018

DISCONTINUED OPERATIONS**VOLCOM**

VOLCOM LLC	Disposal	C 100.00
LS&S RETAIL LLC	Disposal	C 100.00
VOLCOM RETAIL LLC	Disposal	C 100.00
VOLCOM RETAIL OUTLET LLC	Disposal	C 100.00
VOLCOM LUXEMBOURG HOLDING SA	Disposal	C 100.00
VOLCOM INTERNATIONAL SARL	Disposal	C 100.00
WELCOM DISTRIBUTION SARL	Disposal	C 100.00
VOLCOM DISTRIBUTION SPAIN SL	Disposal	C 100.00
VOLCOM SAS	Disposal	C 100.00
VOLCOM DISTRIBUTION (UK) Ltd	Disposal	C 100.00
VOLCOM RETAIL (UK) Ltd	Disposal	C 100.00
VOLCOM AUSTRALIA HOLDING COMPANY PTY Ltd	Disposal	C 100.00
VOLCOM AUSTRALIA PTY Ltd	Disposal	C 100.00
VOLCOM CANADA Inc.	Disposal	C 100.00
VOLCOM NEW ZEALAND Ltd	Disposal	C 100.00
VOLCOM JAPAN GODOGAISHIYA	Disposal	C 100.00
VOLCOM ASIA PACIFIC Ltd	Disposal	C 100.00

STELLA McCARTNEY

STELLA McCARTNEY FRANCE SAS	Disposal	C 50.00
STELLA McCARTNEY Ltd	Disposal	C 50.00
STELLA McCARTNEY SPAIN SL	Disposal	C 50.00
STELLA McCARTNEY ITALIA SRL	Disposal	C 50.00
STELLA McCARTNEY KIDS ITALIA SRL	Disposal	C 50.00
LUXURY FASHION SA	Disposal	C 50.00
LUXURY FASHION LUXEMBOURG SA	Disposal	C 50.00
STELLA McCARTNEY AMERICA Inc.	Disposal	C 50.00
STELLA McCARTNEY (SHANGHAI) TRADING Ltd	Disposal	C 50.00
STELLA McCARTNEY HONG KONG Ltd	Disposal	C 50.00
STELLA McCARTNEY JAPAN Ltd	Disposal	C 50.00
STELLA McCARTNEY TAIWAN Ltd	Disposal	C 50.00

CHRISTOPHER KANE

CHRISTOPHER KANE FRANCE SA	Disposal	C 51.00
CHRISTOPHER KANE Ltd	Disposal	C 51.00
CHRISTOPHER KANE SRL	Disposal	C 51.00
CHRISTOPHER KANE Inc.	Disposal	C 51.00

Note 38 – Statutory Auditors' remuneration

Fees for fiscal year 2019

(in € thousands)	KPMG				Deloitte			
	Statutory Auditor: KPMG SA		Network		Statutory Auditor: Deloitte & Associés		Network	
	Amount	%	Amount	%	Amount	%	Amount	%
Statutory audit and interim review of the parent company and consolidated financial statements								
- Issuer	673.8	40%	N/A	N/A	696.0	69%	N/A	N/A
- Fully-consolidated subsidiaries	962.1	56%	3,672.5	72%	129.0	13%	1,700.0	96%
Sub-total	1,635.9	96%	3,672.5	72%	825.0	82%	1,700.0	96%
Non-audit services								
- Issuer	26.0	2%	-	-	181.0	18%	-	-
- Fully-consolidated subsidiaries	38.0	2%	1,445.5	28%	-	0%	64.0	4%
Sub-total⁽¹⁾	64.0	4%	1,445.5	28%	181.0	18%	64.0	4%
TOTAL	1,699.9	100%	5,118.0	100%	1,006.0	100%	1,764.0	100%

(1) Non-audit services provided by KPMG SA to the reporting entity and to its controlled subsidiaries chiefly concerned comfort letters.

Non-audit services provided by Deloitte & Associés to the reporting entity and to its controlled subsidiaries chiefly concerned comfort letters, CSR procedures and the non-financial information statement.

Note 39 – Subsequent events

No significant events occurred between December 31, 2019 and February 11, 2020 – the date on which the Board of Directors authorized the consolidated financial statements for issue.

3. KERING SA FINANCIAL STATEMENTS

3.1 Balance sheet – assets as of December 31, 2019 and 2018

ASSETS

			2019	2018
(in € millions)	Gross value	Depreciation, amortization and provisions	Carrying amount	Carrying amount
Non-current assets				
Non-consolidated investments	9,922.2	(1,728.8)	8,193.4	8,183.6
Other long-term investments ⁽¹⁾	896.2	(22.8)	873.4	450.6
	10,818.4	(1,751.6)	9,066.8	8,634.2
Property, plant and equipment and intangible assets	366.1	(78.3)	287.8	209.4
NON-CURRENT ASSETS	11,184.5	(1,829.9)	9,354.6	8,843.6
Current assets				
Receivables ⁽²⁾⁽³⁾	245.0	(1.1)	243.9	219.7
Cash ⁽³⁾	351.1		351.1	1,032.3
CURRENT ASSETS	596.1	(1.1)	595.0	1,252.0
TOTAL ASSETS	11,780.6	(1,831.0)	9,949.6	10,095.6
(1) o/w due in less than one year:			723.0	1879
(2) o/w due in more than one year:			0.0	6.3
(3) o/w concerning associates:			596.6	1,215.5

3.2 Balance sheet – shareholders' equity and liabilities as of December 31, 2019 and 2018

LIABILITIES

(in € millions)	2019	2018
Share capital	505.1	505.1
Additional paid-in capital	2,052.4	2,052.4
Reserves	1,585.3	1,585.5
Retained earnings	949.8	613.4
Net income for the year	917.7	1,656.6
SHAREHOLDERS' EQUITY	6,010.3	6,413.0
Provisions	16.8	129.1
Bonds ⁽¹⁾	3,147.1	2,837.0
Other borrowings ⁽¹⁾⁽³⁾	30.1	31.1
Other liabilities ⁽²⁾⁽³⁾	745.3	685.4
Liabilities	3,922.5	3,553.5
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	9,949.6	10,095.6
(1) o/w due in more than one year:	2,787.1	2,592.0
(2) o/w due in more than one year:	0.0	0.0
(3) o/w concerning associates:	132.2	116.2

3.3 Income statement

for the years ended December 31, 2019 and 2018

<i>(in € millions)</i>	2019	2018
Operating income	440.4	366.5
Operating expenses	(485.1)	(401.6)
Operating income (loss)	(44.7)	(35.3)
Dividends	938.3	1,010.3
Other financial income and expenses	(48.8)	(73.2)
Net finance costs	889.5	937.1
Recurring income before tax	844.8	901.8
Net non-recurring income (loss)	(88.4)	725.7
Employee profit-sharing	(6.9)	(7.3)
Income tax	168.2	36.3
Net income for the year	917.7	1,656.6

3.4 Statement of cash flows

for the years ended December 31, 2019 and 2018

<i>(in € millions)</i>	2019	2018
Dividends received	938.3	1,010.3
Interest on borrowings	(51.9)	(71.5)
Income tax received	116.8	44.8
Other	86.3	2.9
Change in cash resulting from operating activities	1,089.5	986.5
(Acquisitions)/disposals of operating assets	(107.7)	(118.0)
Change in long-term investments	(603.6)	(2,647.4)
Change in cash resulting from investing activities	(711.3)	(2,765.4)
Net change in borrowings	260.7	(1,290.5)
Share capital increases	-	-
Dividends paid by Kering	(1,320.1)	(757.7)
Change in cash resulting from financing activities	(1,059.4)	(2,048.2)
Change in cash and cash equivalents	(681.2)	(3,827.1)
Cash and cash equivalents at beginning of year	1,032.3	4,859.4
Cash and cash equivalents at end of year	351.1	1,032.3

Kering

Société anonyme (a French corporation) with a share capital of €505,117,288
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