KERING

2019

First-Half Report

CHAPTER 1
Kering in the first half of 2019 – Key figures 3

CHAPTER 2
Financial information for first-half 2019 6

1. Activity report 6
   - Changes in Group structure and highlights of first-half 2019 6
   - First-half 2019 business review 8
   - Operating performance 17
   - Financial structure as of June 30, 2019 39
   - Method used to prepare 2018 financial data restated under IFRS 16 49
   - Definitions of non-IFRS financial indicators 49
2. Condensed consolidated interim financial statements for the six months ended June 30, 2019 51
   - Consolidated income statement 51
   - Consolidated statement of comprehensive income 52
   - Consolidated statement of financial position 53
   - Consolidated statement of cash flows 55
   - Consolidated statement of changes in equity 56
   - Notes to the condensed consolidated interim financial statements 57
3. Statutory auditor's review report on the interim financial information 88
4. Statement by the persons responsible for the interim financial report 90

This is a free translation into English of the 2019 Half-year Report.

CHAPTER 1
Kering in the first half of 2019

KEY FIGURES

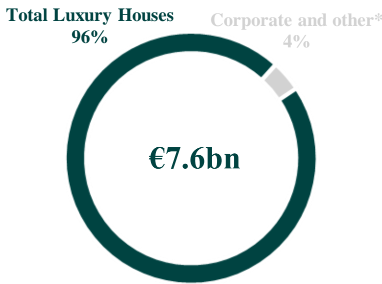
Key consolidated figures

(in € millions)	First-half 2019	First-half 2018 Restated under IFRS 16	Change	First-half 2018 Reported
Revenue	**7,638.4**	**6,431.9**	**+18.8%**	**6,431.9**
EBITDA	**2,809.3**	**2,348.5**	**+19.6%**	**2,021.6**
EBITDA margin (as a % of revenue)	*36.8%*	*36.5%*	*+0.3pts*	*+31.4%*
Recurring operating income	2,252.7	1,797.7	+25.3%	1,771.9
Recurring operating margin (as a % of revenue)	*29.5%*	*27.9%*	*+1.6 pts*	*27.5%*
Net income attributable to owners of the parent	**579.7**	**2,344.9**	**-75.3%**	**2,359.6**
o/w continuing operations excluding non-recurring items	**1,556.1**	**1,247.5**	**+24.7%**	**1,262.2**
Gross operating investments[1]	**383.7**	**311.0**	**+23.4%**	**311.0**
Free cash flow from operations[2]	**1,532.7**	**1,686.1**	**-9.1%**	**1,400.5**
Net debt[3][4]	**2,134.6**	**N/A**	**N/A**	**2,793.0**

[1] Purchases of property, plant and equipment and intangible assets.
[2] Net cash flow from operating activities less net acquisitions and sales of property, plant and equipment and intangible assets.
[3] Net debt is defined on page 50.
[4] Data not restated.

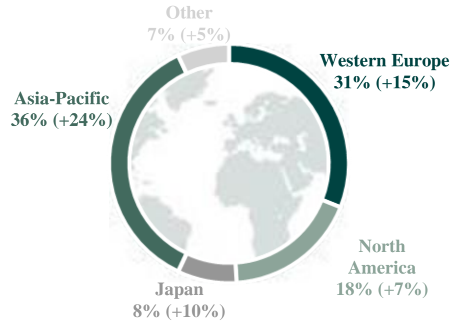
Per share data *(in €)*	First-half 2019	First-half 2018 Restated under IFRS 16	Change	First-half 2018 Reported
Net income attributable to owners of the parent	**€4.61**	**€18.62**	**-75.2%**	**€18.74**
o/w continuing operations excluding non-recurring items	**€12.37**	**€9.90**	**+24.9%**	**€10.02**

Breakdown of revenue from continuing operations



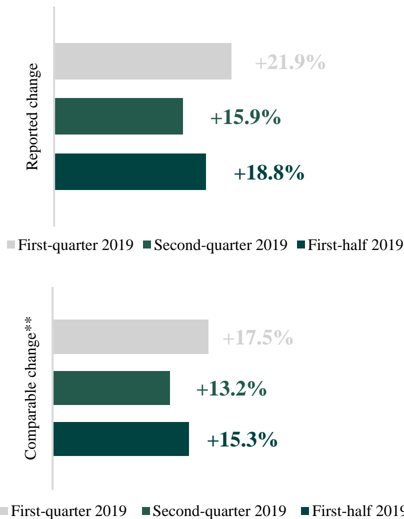
* The "Corporate and other" segment is defined on page 37.

Breakdown of revenue by region



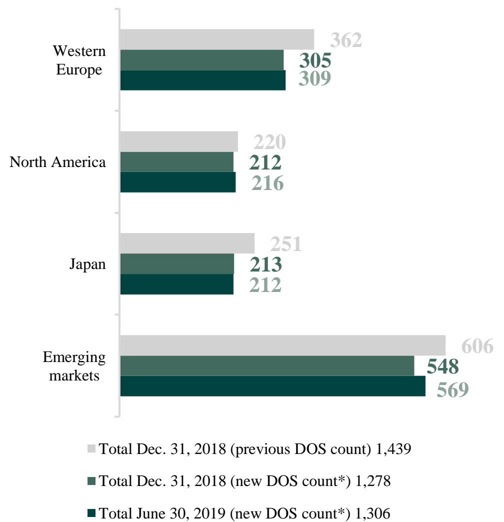
As a % of revenue (% comparable growth**).

Change in revenue by quarter



** Comparable revenue is defined on page 49.

Number of directly operated stores by region



* Per building, based on occupancy under the same roof.

Recurring operating income: change and margin

(in € millions)	First-half 2019	First-half 2018 Restated under IFRS 16	Change	First-half 2018 Reported
Luxury Houses	**2,370.0**	**1,910.0**	**+24.1%**	**1,886.0**
Recurring operating margin	*32.2%*	*30.8%*	*+1.4 pts*	*30.4%*
Corporate and other	**(117.3)**	**(112.3)**	**-4.5%**	**(114.1)**
Group	**2,252.7**	**1,797.7**	**+25.3%**	**1,771.9**
Recurring operating margin	*29.5%*	*27.9%*	*+1.6 pts*	*27.5%*

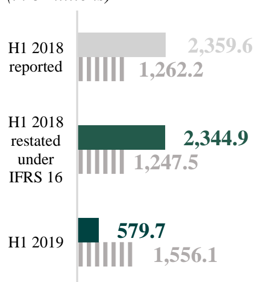
Bridge to adjusted recurring operating income (under IAS 17)

(in € millions)	First-half 2019	First-half 2018 Restated under IFRS 16	Change	First-half 2018 Reported
Recurring operating income	**2,252.7**	**1,797.7**	**+25.3%**	**1,771.9**
as a % of revenue	*29.5%*	*27.9%*	*+1.6 pts*	*27.5%*
Fixed portion of lease payments restated under IFRS 16	(340.9)	(326.9)	-4.3%	N/A
Depreciation of right-of-use assets (IFRS 16)	316.6	301.0	+5.2%	N/A
Adjusted recurring operating income (IAS 17)	**2,228.4**	**1,771.9**	**+25.8%**	**1,771.9**
as a % of revenue	*29.2%*	*27.5%*	*+1.7 pts*	*27.5%*

Net income attributable to owners of the parent*

* Net income of consolidated companies attributable to owners of the parent.

(in € millions)

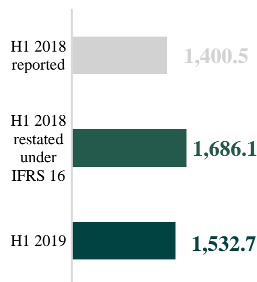


of which continuing operations excluding non-recurring items

Free cash flow from operations**

** Net cash from operating activities less net acquisitions of property, plant and equipment and intangible assets.

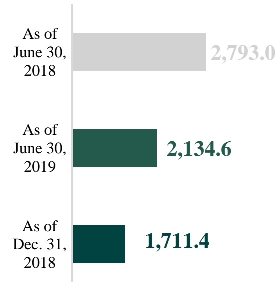
(in € millions)



Net debt***

*** Net debt is defined on page 50.

(in € millions)



CHAPTER 2
Financial information for first-half 2019

1. ACTIVITY REPORT

Changes in Group structure and highlights of first-half 2019

Strategic redeployment and discontinued operations – Volcom

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 (see Note 9 – Discontinued operations, to the condensed consolidated interim 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 8 – Income taxes, to the condensed consolidated interim 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 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 new stock repurchase agreement was set up with an investment services provider on June 17, 2019. It represents a second tranche of the program, covering a maximum volume of 658,000 shares, i.e., approximately 0.5% of the share capital. As a reminder, the maximum purchase price set at the Annual General Meeting of April 24, 2019 in the tenth resolution was €580 (five hundred and eighty euros) per share.

The purchases will commence on June 17, 2019 for a period not exceeding three months, and the purchased shares will subsequently be canceled.

Appointments and corporate governance at Kering

At its meeting on February 11, 2019, the Board of Directors of Kering designated 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.

Lastly, Bartolomeo Rongone will succeed Claus-Dietrich Lahrs as CEO of Bottega Veneta, effective from September 1, 2019. He will report to François-Henri Pinault, Chairman and Chief Executive Officer of Kering, and will be a member of the Group's Executive Committee.

First-half 2019 business review

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

Kering has applied IFRS 16 – *Leases* for the first time in its condensed consolidated interim financial statements for the six months ended June 30, 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 Houses.

The Group elected to use the "modified retrospective" approach for its transition to IFRS 16, under which entities are not authorized to restate prior-period comparative financial information. Consequently, the first-half 2019 income statement is presented differently to the Group's prior-period 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 first-half 2018 has been restated in order to present the impact of IFRS 16 on that period and to provide meaningful comparisons with the first-half 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 49.
- **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 49.

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

Key figures

Condensed consolidated income statement

(in € millions)	First-half 2019	First-half 2018 Restated under IFRS 16	Change	First-half 2018 Reported
Revenue	7,638.4	6,431.9	+18.8%	6,431.9
Recurring operating income	2,252.7	1,797.7	+25.3%	1,771.9
as a % of revenue	*29.5%*	27.9%	*+1.6 pts*	27.5%
EBITDA	2,809.3	2,348.5	*+19.6%*	2,021.6
as a % of revenue	*36.8%*	36.5%	*+0.3 pts*	31.4%
Other non-recurring operating income and expenses	(42.2)	(39.6)	+6.6%	(39.6)
Finance costs, net	(133.7)	(142.6)	-6.24%	(97.1)
Income tax	(1,449.4)	(380.4)	+281.0%	(385.0)
Share in earnings (losses) of equity-accounted companies	20.7	(3.0)	N/A	(3.0)
Net income from continuing operations	648.1	1,232.1	-47.4%	1,247.2
o/w attributable to owners of the parent	*623.4*	*1,214.2*	*-48.7%*	*1,228.9*
o/w attributable to non-controlling interests	*24.7*	*17.9*	*+38.0%*	*18.3*
Net income (loss) from discontinued operations	(60.0)	1,148.2	-105.2%	1,148.2
Net income attributable to owners of the parent	579.7	2,344.9	-75.3%	2,359.6
Net income from continuing operations (excluding non-recurring items) attributable to owners of the parent(1)	1,556.1	1,247.5	+24.7%	1,262.2

(1) In first-half 2019, this item did not include the non-recurring tax expense relating to the tax settlement in Italy (see Notes 8 and 10.2 to the condensed consolidated interim financial statements for the six months ended June 30, 2019).

Recurring operating income and EBITDA

	First-half 2019	First-half 2018 Restated under IFRS 16	Change	First-half 2018 Reported
Recurring operating income	2,252.7	1,797.7	+25.3%	1,771.9
as a % of revenue	*29.5%*	*27.9%*	*+1.6 pts*	*27.5%*
Fixed portion of lease payments restated under IFRS 16	(340.9)	(326.9)	-4.3%	N/A
Depreciation of right-of-use assets (IFRS 16)	316.6	301.0	+5.2%	N/A
Adjusted recurring operating income (IAS 17)	2,228.4	1,771.9	+25.8%	1,771.9
as a % of revenue	*29.2%*	*27.5%*	*+1.7 pts*	*27.5%*
EBITDA	2,809.3	2,348.5	+19.6%	2,021.6
as a % of revenue	*36.8%*	*36.5%*	*+0.3 pts*	*31.4%*
Fixed portion of lease payments restated under IFRS 16	(340.9)	(326.9)	-4.3%	N/A
Adjusted EBITDA (IAS 17)	2,468.4	2,021.6	+22.1%	2,021.6
as a % of revenue	*32.3%*	*31.4%*	*+0.9 pts*	*31.4%*

Earnings per share				
Earnings per share attributable to owners of the parent	€4.61	€18.62	-75.2%	€18.74
Earnings per share from continuing operations (excluding non-recurring items) attributable to owners of the parent	€12.37	€9.90	+24.9%	€10.02

Operating investments

(in € millions)	First-half 2019	First-half 2018 Restated under IFRS 16	Change	First-half 2018 Reported
Gross operating investments	383.7	311.0	+23.4%	311.0

Free cash flow from operations

(in € millions)	First-half 2019	First-half 2018 Restated under IFRS 16	Change	First-half 2018 Reported
Free cash flow from operations	1,532.7	1,686.1	-9.1%	1,400.5

Revenue

(in € millions)	First-half 2019	%	First-half 2018	%	Reported change	Comparable change[1]
Total Luxury Houses	7,364.4	96%	6,208.7	97%	+18.6%	+15.2%
Corporate and other	*274.0*	*4%*	*223.2*	*3%*	*+22.8%*	*+18.7%*
Total revenue	**7,638.4**	**100%**	**6,431.9**	**100%**	**+18.8%**	**+15.3%**

[1] On a comparable Group structure and exchange rate basis.

Consolidated revenue for the first half of 2019 amounted to €7,638 million, up 18.8% on first-half 2018 as reported and 15.3% based on a comparable Group structure and exchange rates.

Exchange rate fluctuations had a €192 million positive effect on revenue during the period, of which €94 million related to the US dollar.

Revenue by region

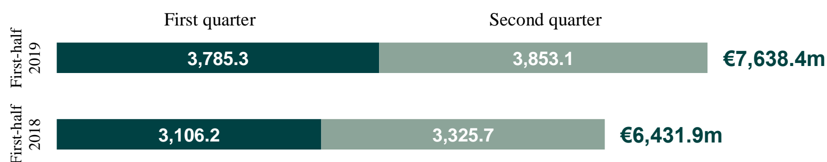
(in € millions)	First-half 2019	%	First-half 2018	%	Reported change	Comparable change[1]
Western Europe	2,355.0	30.8%	2,046.3	31.8%	+15.1%	+14.8%
North America	1,408.4	18.4%	1,230.6	19.1%	+14.4%	+7.3%
Japan	638.6	8.4%	547.5	8.6%	+16.6%	+10.2%
Sub-total – mature markets	**4,402.0**	**57.6%**	**3,824.4**	**59.5%**	**+15.1%**	**+11.6%**
Eastern Europe, Africa and the Middle East	392.3	5.1%	374.2	5.8%	+4.8%	+2.0%
South America	100.3	1.4%	83.3	1.3%	+20.4%	+16.0%
Asia-Pacific (excluding Japan)	2,743.8	35.9%	2,150.0	33.4%	+27.6%	+24.2%
Sub-total – emerging markets	**3,236.4**	**42.4%**	**2,607.5**	**40.5%**	**+24.1%**	**+20.8%**
Total revenue	**7,638.4**	**100%**	**6,431.9**	**100%**	**+18.8%**	**+15.3%**

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

Revenue generated outside the eurozone represented 79% of the consolidated total in first-half 2019.

Quarterly revenue data

Consolidated revenue by quarter



Quarterly revenue by activity

(in € millions)	First-quarter 2019	Second-quarter 2019	First-half 2019
Gucci	2,325.6	2,291.5	4,617.1
Yves Saint Laurent	497.5	475.5	973.0
Bottega Veneta	248.1	300.9	549.0
Other Houses	576.9	648.4	1,225.3
Total Luxury Houses	**3,648.1**	**3,716.3**	**7,364.4**
Corporate and other	*137.2*	*136.8*	*274.0*
Kering total	**3,785.3**	**3,853.1**	**7,638.4**

(in € millions)	First-quarter 2018	Second-quarter 2018	First-half 2018
Gucci	1,866.6	1,986.2	3,852.8
Yves Saint Laurent	408.2	400.0	808.2
Bottega Veneta	261.2	291.0	552.2
Other Houses	461.7	533.8	995.5
Total Luxury Houses	**2,997.7**	**3,211.0**	**6,208.7**
Corporate and other	*108.5*	*114.7*	*223.2*
Kering total	**3,106.2**	**3,325.7**	**6,431.9**

(comparable change)	Change First-quarter 2019	Change Second-quarter 2019	Change First-half 2019
Gucci	+20.0%	+12.7%	+16.3%
Yves Saint Laurent	+17.5%	+15.8%	+16.6%
Bottega Veneta	-8.9%	+0.8%	-3.8%
Other Houses	+21.7%	+19.2%	+20.3%
Total Luxury Houses	**+17.4%**	**+13.1%**	**+15.2%**
Corporate and other	+21.5%	+16.0%	+18.7%
Kering total	**+17.5%**	**+13.2%**	**+15.3%**

Recurring operating income

(in € millions)	First-half 2019	First-half 2018 Restated under IFRS 16	Change	First-half 2018 Reported
Total Luxury Houses	2,370.0	1,910.0	+24.1%	1,886.0
Corporate and other	*(117.3)*	*(112.3)*	*-4.5%*	*(114.1)*
Recurring operating income	**2,252.7**	**1,797.7**	**+25.3%**	**1,771.9**
Total Luxury Houses	(312.3)	(306.3)	-2.0%	N/A
Corporate and other	*(28.6)*	*(20.6)*	*-38.8%*	*N/A*
Fixed portion of lease payments restated under IFRS 16	**(340.9)**	**(326.9)**	**-4.3%**	**N/A**
Total Luxury Houses	289.8	282.3	+2.7%	N/A
Corporate and other	*26.8*	*18.7*	*+43.3%*	*N/A*
Depreciation of right-of-use assets (IFRS 16)	**316.6**	**301.0**	**+5.2%**	**N/A**
Total Luxury Houses	2,347.5	1,886.0	+24.5%	1,886.0
Corporate and other	*(119.1)*	*(114.1)*	*-4.4%*	*(114.1)*
Adjusted recurring operating income (IAS 17)	**2,228.4**	**1,771.9**	**+25.8%**	**1,771.9**

The Group's gross margin for the first half of 2019 amounted to €5,652 million, up €876 million, or 18.3%, on first-half 2018 (2018 data restated under IFRS 16). Recurring operating expenses increased by 14.1% year on year (2018 data restated under IFRS 16).

Kering's recurring operating income totaled €2,253 million in the first six months of 2019, up 25.3% on first-half 2018 (data restated under IFRS 16). Consolidated recurring operating margin widened by 1.6 points to 29.5%, fueled by the margin for the Group's Houses, which increased by 1.4 points to 32.2%.

For the purposes of comparison, consolidated recurring operating income for first-half 2019 adjusted based on IAS 17 was 25.8% higher than the reported figure for the first half of 2018. Operating margin advanced 1.7 percentage points to 29.2% for the Group as a whole and by 1.5 points to 31.9% for the Houses.

EBITDA

(in € millions)	First-half 2019	First-half 2018 Restated under IFRS 16	Change	First-half 2018 Reported
Recurring operating income	**2,252.7**	**1,797.7**	**+25.3%**	**1,771.9**
Net recurring charges to depreciation, amortization and provisions on non-current operating assets	556.6	550.8	+1.1%	249.7
O/w depreciation of right-of-use assets (IFRS 16)	316.6	301.0	+5.2%	N/A
EBITDA	**2,809.3**	**2,348.5**	**+19.6%**	**2,021.6**

(in € millions)	First-half 2019	First-half 2018 Restated under IFRS 16	Change	First-half 2018 Reported
Total Luxury Houses	2,850.1	2,401.6	+18.7%	2,095.3
Corporate and other	*(40.8)*	(53.1)	+23.2%	(73.7)
EBITDA	**2,809.3**	**2,348.5**	**+19.6%**	**2,021.6**
Total Luxury Houses	(312.3)	(306.3)	-2.0%	N/A
Corporate and other	(28.6)	*(20.6)*	-38.8%	*N/A*
Fixed portion of lease payments restated under IFRS 16	(340.9)	**(326.9)**	-4.3%	**N/A**
Total Luxury Houses	2,537.8	2,095.3	+21.1%	2,095.3
Corporate and other	*(69.4)*	*(73.7)*	*+5.8%*	*(73.7)*
Adjusted EBITDA (IAS 17)	**2,468.4**	**2,021.6**	**+22.1%**	**2,021.6**

EBITDA margin widened by 0.3 points compared with the first half of 2018 (data restated under IFRS 16), coming in at 36.8%.

For the purposes of comparison, EBITDA margin for first-half 2019 adjusted based on IAS 17 was 32.3%, 0.9 points higher than the reported figure for the first half of 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 brand's financial performance.

In the first six months of 2019, this item represented a net expense of €42.2 million and primarily concerned the costs of restructuring the Group's logistics activities and the Watches and Jewelry Division.

In the first half of 2018, other non-recurring operating income and expenses represented a net expense of €39.6 million, primarily comprising all of the costs related to the departure of Tomas Maier, Bottega Veneta's Creative Director, as well as restructuring costs and impairment losses recognized for the Couture and Leather Goods Division.

See Note 6 – Other non-recurring operating income and expenses, to the condensed consolidated interim financial statements.

Finance costs, net

(in € millions)	First-half 2019	First-half 2018 Restated under IFRS 16	Change	First-half 2018 Reported
Cost of net debt	25.6	42.4	-39.6%	43.4
Other financial income and expenses	59.0	53.7	+9.9%	53.7
Finance costs, net (excluding leases)	**84.6**	**96.1**	-12.0%	**97.1**
Interest expense on lease liabilities[1]	49.1	46.5	+5.6%	N/A
Finance costs, net	**133.7**	**142.6**	**-6.2%**	**97.1**

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

The Group's cost of net debt was €25.6 million in first-half 2019, representing a 39.6% decrease from the first half of 2018 (restated under IFRS 16). The significant year-on-year improvement chiefly reflects the favorable impact of the reduction in the Group's average outstanding bond debt following early redemptions carried out in 2018, and repayments made in October 2018 and April 2019.

"Other financial income and expenses" represented a net expense of €59.0 million in first-half 2019, up 9.9% on the €53.7 million net expense recorded for the first half of 2018. This increase includes a negative currency effect of €22.8 million, which led to an increase in the finance cost of currency hedges. This negative effect was partly offset by the fact that unlike the previous period, no one-off finance costs were recognized in first-half 2019 in respect of bonds redeemed ahead of maturity (one-off finance costs of €16 million in first-half 2018).

See Note 7 – Finance costs (net), to the condensed consolidated interim financial statements.

Income taxes

(in € millions)	First-half 2019	First-half 2018 Restated under IFRS 16	Change	First-half 2018 Reported
Income before tax	**2,076.8**	**1,615.5**	**+28.6%**	**1,635.2**
Current tax expense	(1,864.5)	(515.1)	+262.0%	(515.1)
o/w				
Tax expense relating to the tax settlement in Italy	(895.9)	-	N/A	-
Deferred tax income (expense)	415.1	134.7	+208.2%	130.1
Income tax expense	**(1,449.4)**	**(380.4)**	**+281.0%**	**(385.0)**
Effective tax rate	**69.8%**	**23.5%**	**+46.3 pts**	**23.5%**

(in € millions)	First-half 2019	First-half 2018 Restated under IFRS 16	Change	First-half 2018 Reported
Other non-recurring operating income and expenses	(42.2)	(39.6)	+6.6%	(39.6)
Recurring income before tax	**2,119.0**	**1,655.1**	**+28.0%**	**1,674.8**
Tax income on other non-recurring operating income and expenses	5.4	6.3	N/A	6.3
Tax expense relating to the tax settlement in Italy	(895.9)	-	N/A	-
Tax expense on recurring income (excluding impact of tax settlement in Italy)	**(558.9)**	**(386.7)**	**+44.5%**	**(391.3)**
Effective tax rate on recurring income (excluding impact of tax settlement in Italy)	**26.4%**	**23.4%**	**+3.0 pts**	**23.4%**

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., and booked a tax liability in this respect.

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 €896 million for first-half 2019.

Restated for the above, the increase in the effective tax rate on recurring income is broadly the result of the complete restructuring of the Houses' business models, particularly in terms of supply chain and logistics operations.

See Note 8 – Income taxes, to the condensed consolidated interim financial statements.

Net income (loss) from discontinued operations

As of June 30, 2019, discontinued operations include Stella McCartney, Volcom and Christopher Kane. As of June 30, 2018, they also included PUMA until May 16, 2018, for which a net gain of €1,177 million was recognized following PUMA's payment of a stock dividend.

See Note 9 – Discontinued operations, to the condensed consolidated interim financial statements.

Operating performance

LUXURY HOUSES

(in € millions)	First-half 2019	First-half 2018 Restated under IFRS 16	Change	First-half 2018 Reported
Revenue	**7,364.4**	**6,208.7**	**+18.6%**	**6,208.7**
Recurring operating income	**2,370.0**	**1,910.0**	**+24.1%**	**1,886.0**
as a % of revenue	***32.2%***	***30.8%***	***+1.4 pts***	***30.4%***
EBITDA	2,850.1	2,401.6	+18.7%	2,095.3
as a % of revenue	*38.7%*	*38.7%*	*+0.0 pts*	*33.7%*
Gross operating investments	271.3	221.9	+22.3%	221.9
Average FTE headcount	30,217	25,811	+17.1%	25,811

(in € millions)	First-half 2019	First-half 2018 Restated under IFRS 16	Change	First-half 2018 Reported
Recurring operating income	2,370.0	1,910.0	+24.1%	1,886.0
as a % of revenue	*32.2%*	*30.8%*	*+1.4 pts*	*30.4%*
Fixed portion of lease payments restated under IFRS 16	(312.3)	(306.3)	-2.0%	N/A
Depreciation of right-of-use assets (IFRS 16)	289.8	282.3	+2.7%	N/A
Adjusted recurring operating income (IAS 17)	2,347.5	1,886.0	+24.5%	1,886.0
as a % of revenue	*31.9%*	*30.4%*	*+1.5 pts*	*30.4%*

According to the most recent study carried out by Bain & Company/Altagamma, published in spring 2019, the worldwide luxury market (as presented and defined in Chapter 2 of Kering's 2018 Reference Document) grew 5% in the first quarter of 2019 at constant exchange rates (8% as reported), following on from a 6% year-on-year increase at constant exchange rates in 2018 (3% as reported). For the full twelve months of 2019, growth is forecast to remain robust, within a range of 4% to 6%.

However, as in 2018, these figures mask contrasting performances between the industry's various players, confirming the trend toward market polarization.

Sales trends by region observed for the first quarter of 2019 or projected for the full year by Bain & Company/Altagamma show that the industry's strong performance is still being led by spending on luxury goods by Chinese customers. Sales in Mainland China are expected to advance by 18% to 20% at constant exchange rates for the full twelve months of 2019. This brisk momentum should drive performance for the whole of the Asia-Pacific region (where sales are forecast to rise by 10% to 12% at constant exchange rates, excluding Japan and Mainland China) in a context where domestic demand is expected to remain buoyant overall.

Growth in other regions is forecast to be more contained (between 1% and 4% in Europe, Japan and America), reflecting the growth potential of mature economies and taking into account the

various factors that could affect the industry's performance in these regions, especially tourist flows.

The sales generated by the Group's brands in the six months ended June 30, 2019 confirm that China is still the luxury industry's growth driver, with the proportion of domestic purchases continuing to rise, following the same pattern as in 2018. During the period under review, trade tensions between China and the United States and the gradual slowing of the Chinese economy do not seem to have weighed on spending on luxury goods by Chinese consumers. Asia's other markets also fared well, led by purchases by Chinese tourists as well as domestic demand. This was particularly the case in South Korea. Macao and Hong Kong, however, saw a tail-off in growth (although sales were up year on year), due to high bases of comparison, and, above all, the protests that affected business in Hong Kong towards the end of the second quarter.

Western Europe and Japan also helped drive the Group's overall performance. Revenue rose sharply in these two regions, propelled both by solid growth in domestic sales and good tourist numbers. By way of illustration, based on data released by Global Blue, spending by tourists (who used Global Blue's tax-free shopping service) was 8% to 9% higher in Europe in first-half 2019 than in the equivalent period of 2018. Broken down by nationality, the figures show excellent momentum for sales to American customers, an upturn in sales to Asian customers (from Hong Kong, Korea and Japan), and a more typical level of growth in spending by Chinese customers.

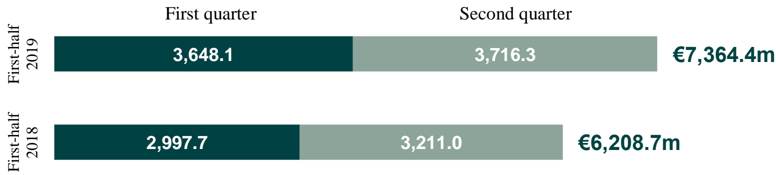
The Group's sales in North America were obviously impacted by Gucci's flatter growth due to extremely high bases of comparison. On top of that, numerous indicators point to a less favorable consumer spending environment for luxury brands in the United States. The number of tourists – especially from China and Asia as a whole – was much lower, and retail sales data show a marked contraction over the past several months (with these downward trends particularly affecting the luxury market in early 2019). In addition, the sharp rise in spending by American customers in Western Europe may also have held back performance in the North American market.

Meanwhile, geopolitical tensions hampered sales in the Middle East and the overall spending habits of Middle Eastern consumers.

As in the last two periods, the picture was mixed across product categories in the first half of 2019. Accessories and jewelry fared well but trends seemed less favorable for ready-to-wear and for watches, in a still fragile market.

In contrast to the first half of 2018, which saw a rise in the euro, in the first six months of 2019 the value of the euro fell quite sharply against the US dollar. Consequently, first-half 2019 reported growth for Kering's Luxury Houses was 340 basis points higher than growth at constant exchange rates.

Revenue



The Group's Luxury Houses posted outstanding revenue growth of 15.2% for the first half of 2019 based on a comparable Group structure and exchange rates (18.6% as reported). This was achieved despite a very high basis of comparison with the previous year. Growth for the second quarter came to 13.1%, having already reached 17.4% on a comparable basis in the first three months of the year.

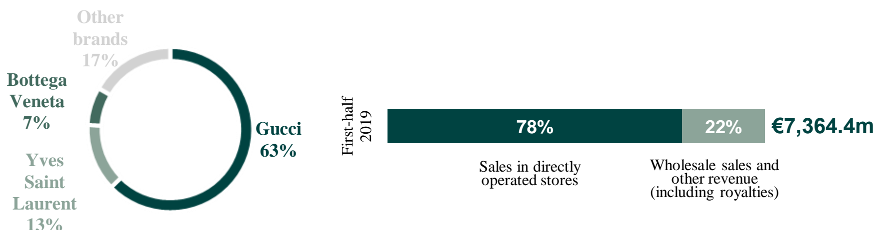
First-half 2019

Reported change	+18.6%
Comparable change	+15.2%

During the period under review, the vast majority of Kering's Luxury Houses contributed to the Group's revenue growth in absolute value terms. Gucci accounted for two-thirds of the growth figure, but the other Houses – especially Yves Saint Laurent and Balenciaga – were also significant contributors.

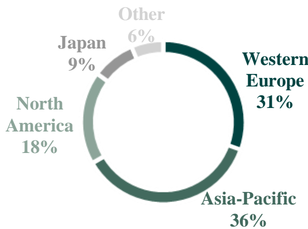
During first-half 2019, sales in directly operated stores and online sales advanced 16.1%, led by very good retail performances from Gucci, Yves Saint Laurent, Balenciaga and Alexander McQueen, and successful business development for the Group's jewelry brands.

Directly operated stores represented 78.0% of total revenue generated by the Group's Luxury Houses in the first half of 2019, compared with 77.2% in the corresponding prior-year period. This increase reflects Gucci's greater weighting within the total revenue figure and the strategy implemented by all of the brands to more effectively control 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 for the first half of 2019 were 11.6% higher year on year on a comparable basis, with all of the Group's main markets registering brisk growth, including the United States. This performance reflects the strong appeal of the Group's brands, resulting in them being showcased by wholesalers, which have become increasingly selective in their purchasing choices. Consequently, the brands were able to win further market share during the period.

Revenue by region



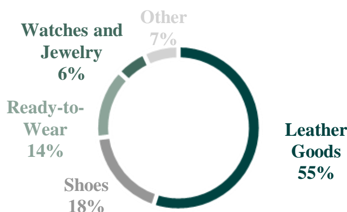
The Group's Luxury Houses registered robust revenue rises in the first half of 2019, with the pace of growth remaining higher in emerging markets than mature ones.

Sales in emerging markets advanced 21.0% year on year, with the Asia-Pacific market posting a 24.5% rise. Mainland China saw the strongest growth in the Asia-Pacific region, with sales up 35.3% year on year, reflecting the fact that Chinese customers are shifting their purchases back to their domestic market. Apart from Hong Kong and Macao, which recorded moderate growth, all of the main markets in the region delivered excellent performances.

In mature markets – whose contribution to total Luxury Houses revenue fell below the 60% mark to 57.5% – revenue rose by 11.3%, breaking down as follows by region:

- a 14.0% rise in Western Europe, with more or less even growth across the region's various countries;
- a 10.3% rise in Japan, spurred by excellent performances from Yves Saint Laurent and Balenciaga and ongoing sales growth for Gucci;
- a 7.4% rise in North America.

Revenue by product category



All of the main product categories saw solid revenue growth in the first six months of 2019, except for watches, where sales at constant exchange rates were on a par with first-half 2018. 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.

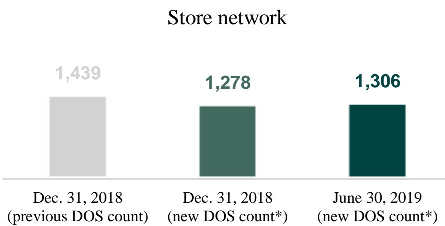
Revenue from royalties was up sharply in first-half 2019, reflecting successful development for eyewear licenses as well as buoyant business levels for fragrance licenses.

Recurring operating income

Recurring operating income for the Group's Luxury Houses totaled €2,370 million in the first half of 2019, up by a steep 24.1% on the first six months of 2018 (data restated under IFRS 16). Recurring operating margin widened by 140 basis points to 32.2%. Based on data adjusted for IAS 17, recurring operating margin was 31.9% versus 30.4% for first-half 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. Exchange rate fluctuations and currency hedges had a slight favorable impact on recurring operating income but their combined effect on recurring operating margin was significantly dilutive, making the year-on-year increase in this indicator all the more impressive.

EBITDA for first-half 2019 amounted to €2,850 million versus €2,402 million in first-half 2018 (data restated under IFRS 16), and EBITDA margin remained stable at 38.7%.

Store network and operating investments



* Per building, based on occupancy under the same roof.

The Luxury Houses' gross 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 €271 million in first-half 2019, €49 million higher than in the comparable prior-year period. As a proportion of revenue, gross operating investments represented 3.7% in the first six months of 2019, on a par with the 3.6% figure for first-half 2018. As in previous years, the majority of operating investments are expected to be made in the second half of the year in 2019, although the seasonal effect should be slightly less marked.

As of June 30, 2019, the Group's Luxury Houses had a network of 1,306 directly operated stores, including 737 (56%) in mature markets and 569 in emerging markets. Net store additions during the period totaled 28, representing a 2.2% increase, largely attributable to the scheduled expansion of the Yves Saint Laurent and Balenciaga 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)	First-half 2019	First-half 2018 Restated under IFRS 16	Change	First-half 2018 Reported
Revenue	**4,617.1**	**3,852.8**	**+19.8%**	**3,852.8**
Recurring operating income	**1,876.1**	**1,480.7**	**+26.7%**	**1,470.5**
as a % of revenue	***40.6%***	***38.4%***	***+2.2 pts***	***38.2%***
EBITDA	2,106.0	1,741.7	+20.9%	1,601.8
as a % of revenue	*45.6%*	*45.2%*	*+0.4 pts*	*41.6%*
Gross operating investments	125.1	114.4	+9.4%	114.4
Average FTE headcount	16,739	13,771	+21.6%	13,771

	First-half 2019	First-half 2018 Restated under IFRS 16	Change	First-half 2018 Reported
Recurring operating income	1,876.1	1,480.7	+26.7%	1,470.5
as a % of revenue	*40.6%*	*38.4%*	*+2.2 pts*	*38.2%*
Fixed portion of lease payments restated under IFRS 16	(139.3)	(139.9)	+0.4%	N/A
Depreciation of right-of-use assets (IFRS 16)	130.2	129.7	+0.4%	N/A
Adjusted recurring operating income (IAS 17)	1,867.0	1,470.5	+27.0%	1,470.5
as a % of revenue	*40.4%*	*38.2%*	*+2.2 pts*	*38.2%*

Following on from two years of very strong growth (resulting in high bases of comparison), Gucci had an excellent first half in 2019 and continued to outperform the luxury market as a whole.

The brand’s sales growth began to level off during the period, as expected. The same trend was seen for its social media presence, because although Gucci is the still the most followed fashion brand overall, the increase in its followers is naturally starting to taper off.

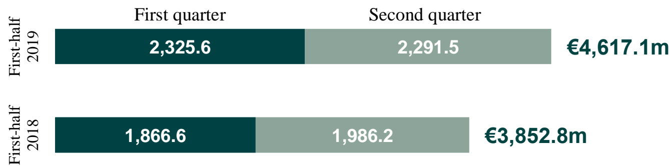
Against a more unsettled backdrop for the luxury industry – which has particularly affected North America – Gucci is methodically pursuing the rollout of action plans geared to supporting its long-term growth.

- Ensuring the quality and exclusivity of its distribution is still a key aspect of Gucci’s strategy, in order to continuously enhance customer experience and raise the productivity levels of all distribution channels.
- The brand’s creative and merchandising teams work ceaselessly to maximize the growth potential of each product category by constantly honing 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.
- Gucci has devised a communication policy designed to sustain the brand’s desirability and raise engagement levels of both existing and future customers of all ages and nationalities. Digital communication is particularly effective for creating a brand universe that is both

unique and inclusive, and the investments that Gucci has made in this respect have enabled it to constantly position itself as one of the most advanced luxury brands in this area.

- Gucci is pursuing its aim of rendering its supply chain, logistics solutions and information systems more agile, responsive, and able to absorb the expected rise in demand and support the omni-channel model. Many of the brand's projects undertaken to achieve this aim will benefit from the investments incurred by the Group for all of its Houses. In parallel, work is in progress to more closely integrate the brand's product development and manufacturing processes, while taking care to limit the impact that such major changes to its operating model could have on its business.

Revenue



First-half 2019

Reported change	+19.8%
Comparable change	+16.3%

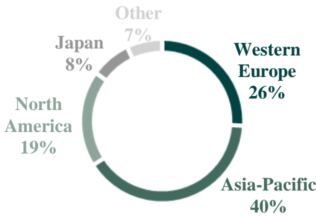
Gucci posted €4,617 million in revenue for the first half of 2019, up 16.3% year on year at comparable exchange rates. This represents a remarkable performance in view of the growth that the brand has already delivered since the beginning of its rejuvenation in mid-2016. In the first six months of 2019, Gucci generated more sales than for the whole of 2016.

The revenue increase for the second quarter of 2019 came to 12.7%, a very robust figure in line with the leveling off of Gucci's overall growth trajectory.

Retail sales generated in directly operated stores advanced 16.2% at constant exchange rates in first-half 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 performance indicators. The average first-half sales increase for directly operated stores represents around 27% on a comparable basis over the last four years.

Sales generated in the wholesale network rose 15.8% based on comparable data, with the number of points of sale remaining relatively stable year on year and all of the brand's main markets making very positive contributions.

Revenue by region



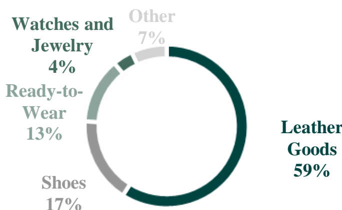
In view of the proportion of Gucci's sales that are generated in directly operated stores (85.9% in the first half of 2019), the following revenue analysis by region only concerns the retail business.

In Gucci's mature markets, sales in Western Europe and Japan rose 12.7% and 11.1% respectively despite high bases of comparison (around 40% growth in first-half 2018). In both of these regions, the domestic market remained very robust, and sales to tourists rose once again, albeit at a more modest pace.

In North America, revenue edged up 1.1%. This performance should be viewed in light of the exceptional 57.4% comparable-basis year-on-year growth posted in 2018. The region's two-year growth figure is close to those of the brand's other mature markets. In addition, as illustrated by several economic indicators, the consumer spending environment in the United States seems to be less favorable than previously. Irrespective of this general context, Gucci has already launched action plans to re-energize its business in North America – a region where it has already significantly increased its market share.

In emerging markets, revenue jumped 26.0% at constant exchange rates, largely driven by Gucci's excellent performance in the Asia-Pacific region (excluding Japan) where revenue was up 29.4% year on year. Strong sales momentum with Chinese customers drove very solid growth in Mainland China as well as good performances in the region's other markets.

Revenue by product category



All of the brand's main product categories registered sales increases during the period in directly operated stores. The proportion of carryovers stabilized 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 registered the briskest sales during the period, in line with 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 esthetic in 2016 and were therefore the first to fully benefit from the brand's turnaround.

Royalties were up sharply in the first half of 2019, due to (i) a buoyant showing from eyewear (licensed to Kering Eyewear) despite high bases of comparison, and (ii) a good start to the year for Coty's fragrances business.

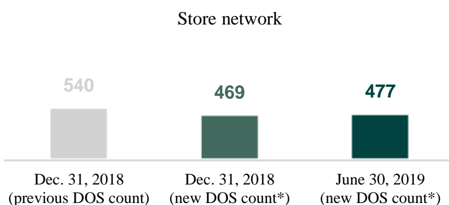
Recurring operating income

Gucci's recurring operating income amounted to €1,876 million for first-half 2019, representing a 26.7% increase on the same period of 2018 (restated under IFRS 16). The brand's recurring operating margin widened by 220 basis points to 40.6%. Gucci's first-half performance was just as robust based on figures adjusted for IAS 17, as on this basis its recurring operating margin came to 40.4%, also up 220 basis points year on year.

This further increase in profitability was not driven by a rise in gross margin, which did not increase on a reported basis due to the combined effect of exchange rates and currency hedges. Instead, it stemmed from a particularly favorable leverage effect as revenue grew at a much higher rate than operating expenses. This was the case despite the fact that Gucci continued to make the necessary investments during the period to support the brand's development by raising the budget for its store-related expenses on communications and information systems in line with the industry's accelerating digital transformation. The impact of these initiatives was once again offset by strict cost control measures for other expense items.

Gucci's EBITDA for first-half 2019 stood at €2,106 million, with an EBITDA margin of 45.6%, up by 40 basis points. Based on IAS 17-adjusted data, EBITDA came to €1,967 million, and EBITDA margin amounted to 42.6% (100 basis points higher than in first-half 2018).

Store network and operating investments



* Per building, based on occupancy under the same roof.

As of June 30, 2019, Gucci operated 477 stores directly, including 201 in emerging markets. A net eight new stores were added during the period. 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 June 30, 2019, around 48% of the store network had adopted the new concept.

Gucci's gross operating investments amounted to €125 million in the first half of 2019, up 9.4% on the same period of 2018. This figure mostly corresponds to the refurbishment program aimed at introducing the new store concept across the brand's entire network. Investments are expected to follow the same pattern in 2019 as in the last two years, with a higher level of expenditure incurred in the second half of the year than in the first.

YVES SAINT LAURENT

(in € millions)	First-half 2019	First-half 2018 Restated under IFRS 16	Change	First-half 2018 Reported
Revenue	**973.0**	**808.2**	**+20.4%**	**808.2**
Recurring operating income	**251.7**	**202.5**	**+24.3%**	**198.0**
as a % of revenue	***25.9%***	***25.1%***	***+0.8 pts***	***24.5%***
EBITDA	332.4	268.7	+23.7%	218.0
as a % of revenue	*34.2%*	*33.2%*	*+1.0 pt*	*27.0%*
Gross operating investments	55.3	32.7	+69.1%	32.7
Average FTE headcount	3,490	2,975	+17.3%	2,975

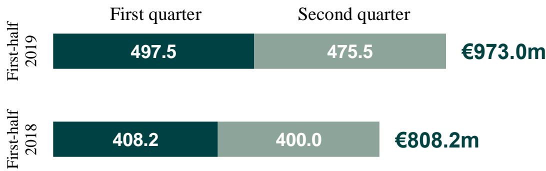
Recurring operating income	251.7	202.5	+24.3%	198.0
as a % of revenue	*25.9%*	*25.1%*	*+0.8 pts*	*24.5%*
Fixed portion of lease payments restated under IFRS 16	(59.7)	(50.7)	-17.8%	N/A
Depreciation of right-of-use assets (IFRS 16)	54.8	46.2	+18.6%	N/A
Adjusted recurring operating income (IAS 17)	246.8	198.0	+24.6%	198.0
as a % of revenue	*25.4%*	*24.5%*	*+0.9 pts*	*24.5%*

In the first six months of 2019, Yves Saint Laurent continued down the growth path both for sales and profitability.

Its teams – led by its CEO, Francesca Bellettini – are rigorously and effectively implementing the strategy that has been mapped out for the brand and are taking all of the requisite measures to ensure the success of the collections designed by Anthony Vaccarello, Creative Director since April 2016.

This work includes managing major projects for the brand such as modernizing the supply chain, increasing insourcing of product development and production, and improving distribution in the store network and online. The brand is also reaping the full benefits of the investments made by the Group to optimize its IT systems and logistics operations and to build an internal e-commerce platform in view of the end of the partnership formed with Yoox Net-à-Porter in 2012.

Revenue



First-half 2019

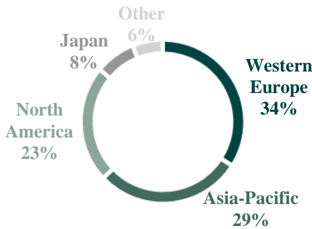
Reported change	+20.4%
Comparable change	+16.6%

Despite a high basis of comparison after eight consecutive periods of close to or higher than 20% growth, Yves Saint Laurent posted a remarkable performance in the first six months of 2019, with sales advancing 16.6% at constant exchange rates.

Revenue from retail sales in directly operated stores climbed 19.0% on a comparable basis in the first half of 2019. The second-quarter performance (up 16.6%) was particularly strong given the higher basis of comparison than in the first quarter.

Sales generated in the wholesale network advanced 10.6% on a comparable basis in the first half of 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 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 (69.1% in the first half of 2019), the following revenue analysis by region only concerns the retail business.

Yves Saint Laurent notched up revenue rises across all major regions in the first half of 2019.

Sales in Yves Saint Laurent's heritage markets rose 19.1% based on comparable data.

As in the first half of 2018, year-on-year growth was particularly strong in North America, coming in at 21.6% on a comparable basis.

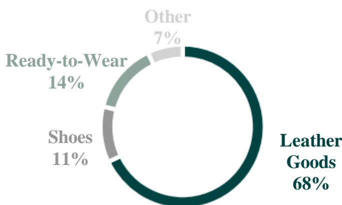
The market in Western Europe recorded 19.4% growth, driven by the brand's appeal among tourists and generally high domestic demand.

Following a particularly impressive performance in 2018, sales in Japan advanced 13.5% during the first six months of 2019, as the number of Chinese tourists declined.

In emerging markets, sales generated in directly operated stores were up 18.9% on first-half 2018. In the Asia-Pacific region, which accounts for most of the brand's sales in emerging markets, growth was brisk in all of Yves Saint Laurent's main markets, apart from Macau and Hong Kong, especially in the second quarter.

The wholesale network delivered particularly strong performances in Western Europe. The brand outperformed market trends in North America, although its growth rate is returning to more normalized levels.

Revenue by product category



As in 2018, leather goods was Yves Saint Laurent's main growth driver, propelled by the measures taken by the brand over the last several years to constantly renew and refresh this category's offering, with a specific creative team. This has helped it 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. However, the merchandising work undertaken to make the brand's ready-to-wear offering and price architecture more relevant – notably for men's collections – is beginning to pay off and the category's performance in first-half 2019 reflected this gradual improvement.

The brand’s third leading product category – shoes – continues 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.

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

Recurring operating income

Yves Saint Laurent ended the first half of 2019 with recurring operating income of €252 million, versus €203 million in the prior-year period as restated for the impacts of IFRS 16, representing a year-on-year increase of 24.3%. Recurring operating margin was 25.9%, up 80 basis points despite the dilutive impact of fluctuations in exchange rates and currency hedges. Adjusted recurring operating income under IAS 17 totaled €247 million, and adjusted recurring operating margin widened by 90 basis points to 25.4%.

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

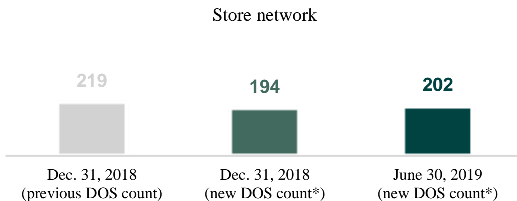
EBITDA rose by €64 million to €332 million, and EBITDA margin was 34.2% (adjusted EBITDA margin under IAS 17 was 28.0%, versus 27.0% as reported in first-half 2018).

Store network and operating investments

As of June 30, 2019, Yves Saint Laurent had 202 directly operated stores, including 94 in emerging markets. In line with the brand’s store network expansion plan, there were eight net store openings during the period, including the new flagship store on rue Saint Honoré in Paris in the space that formerly housed concept store Colette.

Yves Saint Laurent’s gross operating investments rose sharply during the period to €55 million, versus €33 million in the first half of 2018. This investment drive, which reflects the brand’s store opening and relocation policy, remains consistent with Yves Saint Laurent’s strategy when expressed as a percentage of revenue. In addition, although investment expenditure was subject to a strong seasonal effect in 2018, with a particularly high concentration of projects in the second half of the year (63%), it is expected to be more balanced in 2019.

Store network



* Per building, based on occupancy under the same roof.

BOTTEGA VENETA

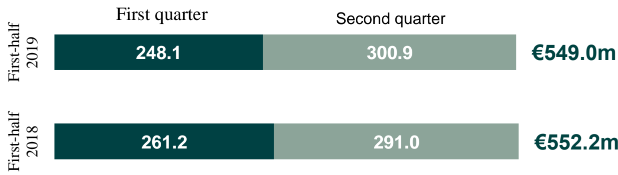
(in € millions)	First-half 2019	First-half 2018 Restated under IFRS 16	Change	First-half 2018 Reported
Revenue	**549.0**	**552.2**	**-0.6%**	**552.2**
Recurring operating income	**103.9**	**137.3**	**-24.3%**	**132.5**
as a % of revenue	***18.9%***	***24.9%***	***-6.0 pts***	***24.0%***
EBITDA	178.0	214.4	-17.0%	152.5
as a % of revenue	32.4%	38.8%	*-6.4 pts*	27.6%
Gross operating investments	29.2	32.7	-10.7%	32.7
Average FTE headcount	3,716	3,524	+5.4%	3,524

Recurring operating income	103.9	137.3	-24.3%	132.5
as a % of revenue	18.9%	*24.9%*	*-6.0 pts*	*24.0%*
Fixed portion of lease payments restated under IFRS 16	(53.7)	(61.9)	+13.2%	N/A
Depreciation of right-of-use assets (IFRS 16)	50.4	57.1	-11.7%	N/A
Adjusted recurring operating income (IAS 17)	100.6	132.5	-24.1%	132.5
as a % of revenue	18.3%	*24.0%*	*-5.7 pts*	*24.0%*

With the appointment of Daniel Lee as Creative Director as of June 15, 2018, Bottega Veneta began a new phase in its plan to re-energize its leather goods offering and develop its other product categories. The popularity of the new product lines and the enthusiastic welcome given to the first fashion show presenting Daniel Lee's creations at Women's Fashion Week in Milan in February 2019 are very encouraging.

However, the action plans put in place are designed to cover the long term. They are aimed at rejuvenating and broadening Bottega Veneta's customer base, raising awareness of the brand – especially in mature markets – and enhancing the in-store customer experience. Not all of their benefits will be felt in 2019. Bartolomeo Rongone, who will replace Claus-Dietrich Lahrs as CEO of Bottega Veneta from September 1, 2019, will be responsible for leading this radical transformation of the brand over the coming years.

Revenue



First-half 2019

Reported change	-0.6%
Comparable change	-3.8%

In first-half 2019, Bottega Veneta's revenue retreated 3.8% on a comparable basis (0.6% as reported). After dipping nearly 9% in the first quarter, sales rose 0.8% on a comparable basis in the second quarter. This trend reflects the intensification of efforts to support the introduction and gradual adoption of the new collections under Daniel Lee. In particular, events were organized in Asia (Shanghai, Hong Kong and Seoul) to accompany the launch of the Pre-Fall collection and met with great success, attracting as many loyal customers as they did new.

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 81.7% of the brand's total sales in the first six months of 2019.

Revenue generated in directly operated stores contracted 4.6% year on year based on comparable data. In addition, taking into account the product mix and average selling price, online sales are increasing very solidly but do not at this stage represent a significant portion of revenue and are therefore not yet a growth vector.

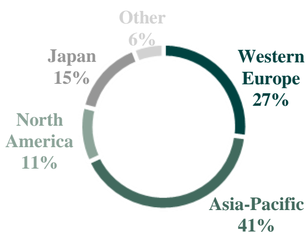
Sales to wholesalers remained stable, rising 0.2% in 2019 in the context of the gradual replacement of the old collections and following two years of reorganizing this distribution channel with the twin aims of (i) avoiding the risk of saturation in points of sale and (ii) only working with the highest-quality partners.

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.

In Western Europe, despite moderate growth in tourist flows and taking into account the more favorable basis of comparison, sales were virtually stable (down 0.5% at constant exchange rates).

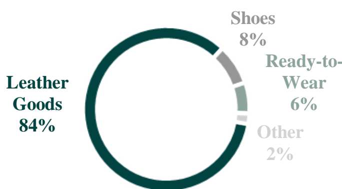
In Japan and North America, Bottega Veneta's revenue retreated 3.8% and 6.8%, respectively, bearing in mind the satisfactory performance in first-half 2018, especially in the United States, where significant investments were made in communications to support the opening of a new flagship store on New York's Madison Avenue. As for the other regions, performance in the second quarter far surpassed that of the first quarter.



In emerging markets, the House's sales contracted by 6.5% year on year, based on comparable data. While Bottega Veneta saw its revenue grow overall in Southeast Asia and in South Korea, its performance in Greater China has been restricted by the wait-and-see attitude of Chinese customers in this creative transition phase and by one-off closures, due to demonstrations, of certain stores in Hong Kong, which even today accounts for almost 9% of the brand's revenue.

Revenue by product category

The leather goods category – which is still Bottega Veneta's core business, accounting for 83.8% of the brand's total sales, including to wholesalers – posted negative growth for the year. This was due to revenue attrition for the brand's iconic lines (carry-over and seasonal variants), while new lines (the *Pouch*, the *Maxi Cabat* for the Spring/Summer season or the *Arco* for the Fall/Winter season) recorded excellent results, particularly in the second quarter. The leather goods offer for women has shown greater resilience than the men's offer given the successful launch of new handbag references.



Revenue for all of Bottega Veneta's other categories edged slightly down year on year (0.6% on a comparable basis). Nevertheless, the very good response from customers to the women's ready-to-wear collections has helped boost the category's sales trajectory in the half-year now ended.

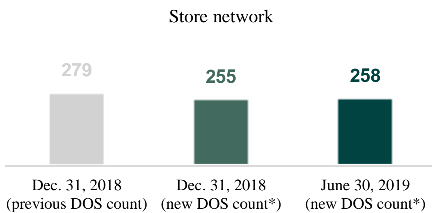
Recurring operating income

Bottega Veneta's recurring operating income amounted to €104 million in the first six months of 2019, down €33 million on the first-half 2018 figure. Recurring operating margin fell 600 basis points to 18.9% year on year, mainly due to the targeted and controlled increase in certain operating expenses within a context of lower sales. These expenses relate to all of the initiatives put in place to enable Bottega Veneta to enter a new phase in its expansion and ensure that the brand will be in a position to use its current transition period as a springboard for future growth. They were mainly used for managing and running stores and for communication and marketing campaigns, with other types of expenses being particularly well controlled.

Adjusted figures under IAS 17 show the same trends, with recurring operating income of €101 million, down 24.1%, and recurring operating margin of 18.3%, down 570 basis points.

EBITDA totaled 178 million (€124 million for EBITDA adjusted under IAS 17). EBITDA margin narrowed 640 basis points to 32.4% (adjusted EBITDA margin under IAS 17 was 22.6%, versus 27.6% as reported in the first half of 2018).

Store network and operating investments



* Per building, based on occupancy under the same roof.

As of June 30, 2019, Bottega Veneta had 258 directly operated stores, including 121 in emerging markets. There were three net store openings during the period.

Bottega Veneta has put in place a program to streamline its store network, which includes not only store closures but also relocating certain stores, opening a select number of flagship stores, and expanding the brand's presence in a number of regions or networks (such as travel retail).

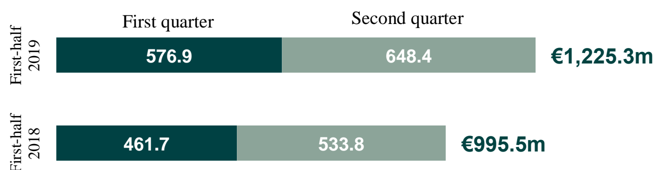
Within this context and in view of the need to refurbish its existing store network, the House has maintained a high operating investment budget. Altogether, gross operating investments totaled €29 million, down just €4 million on first-half 2018. This investment drive is necessary in view of the relaunch phase that the brand is currently undergoing.

OTHER HOUSES

(in € millions)	First-half 2019	First-half 2018 Restated under IFRS 16	Change	First-half 2018 Reported
Revenue	**1,225.3**	**995.5**	**+23.1%**	**995.5**
Recurring operating income	**138.3**	**89.5**	**+54.5%**	**85.0**
as a % of revenue	***11.3%***	***9.0%***	***+2.3 pts***	***8.5%***
EBITDA	233.7	176.8	+32.2%	123.0
as a % of revenue	*19.1%*	*17.8%*	*+1.3 pts*	*12.4%*
Gross operating investments	61.7	42.1	+46.6%	42.1
Average FTE headcount	6,273	5,540	+13.2%	5,540

Recurring operating income	138.3	89.5	+54.5%	85.0
as a % of revenue	*11.3%*	*9.0%*	*+2.3 pts*	*8.5%*
Fixed portion of lease payments restated under IFRS 16	(59.6)	(53.8)	-10.8%	N/A
Depreciation of right-of-use assets (IFRS 16)	54.4	49.3	+10.3%	N/A
Adjusted recurring operating income (IAS 17)	133.1	85.0	+56.6%	85.0
as a % of revenue	*10.9%*	*8.5%*	*+2.4 pts*	*8.5%*

Revenue



First-half 2019

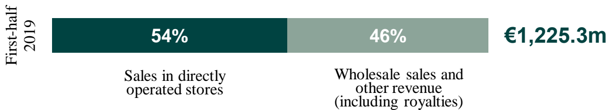
Reported change	+23.1%
Comparable change	+20.3%

Overall sales generated by the Group's Other Houses advanced 20.3% on a comparable basis in the first half of 2019, coming in at €1,225 million. Growth was generally well balanced across the first and second quarters.

Balenciaga, Alexander McQueen and the Jewelry Houses delivered very strong performances for the full six months. In particular, the development plans undertaken at Boucheron began to bear fruit. However, the watches brands were weighed down by a less favorable delivery schedule and basis of comparison.

In light of the sustained growth experienced by the brands that have focused on exclusive distribution over the previous quarters, the proportion of sales generated in directly operated stores increased significantly. This distribution channel, which is the main channel used by the Other Houses, registered 32.3% sales growth on a comparable basis in the first six months of 2019. This strong showing was driven by the excellent performances turned in by Balenciaga and Alexander McQueen. Retail revenue once again decreased slightly at Brioni, mainly due to its reduced number of stores.

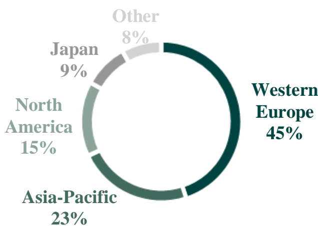
Sales in the wholesale network rose 9.8% on a comparable basis versus the prior-year period, reflecting a high basis of comparison and the fact that a number of wholesale points of sale were converted into directly operated stores in the second half of 2018.



Revenue by region

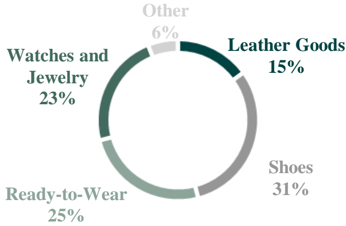
In the first half of 2019, sales for the Other Houses were up across all of the Group's main regions. As in 2018, the performance was very balanced between mature and emerging markets.

In mature markets, revenue surged 19.6% at constant exchange rates. In Western Europe, the increase was 20.6%. In Japan and North America, the Other Houses delivered very positive performances, with sales jumping 19.8% and 16.6%, respectively, despite trends in the United States revealing a more difficult market environment since the beginning of the year.



In emerging markets, year-on-year growth was 21.9%, mirroring trends for the Asia-Pacific region and, to a lesser extent, the Near and Middle East. In the Asia-Pacific region, the most dynamic markets were Mainland China and South Korea. Despite posting further sales growth during the period, Hong Kong and Macao showed signs of slowing.

Revenue by product category



Apart from the watches brands, whose business leveled off during the first six months of 2019, all of the product categories registered sustained revenue growth.

The categories that saw the briskest momentum were shoes followed by ready-to-wear, although leather goods also had a very robust six months.

Jewelry and high jewelry turned in a very solid showing in the first half of the year, fueled by the successful implementation of the development plans at Boucheron and Qeelin and a good performance at Pomellato.

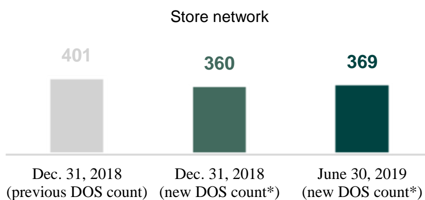
Recurring operating income

Recurring operating income for the Other Houses surged €49 million year on year to €138 million for the first six months of 2019, and recurring operating margin widened by 230 basis points to 11.3%.
Adjusted IAS 17 figures show an equivalent increase, with recurring operating margin rising from 8.5% to 10.9%.

This remarkable year-on-year increase was partly attributable to the rapid growth of Balenciaga and Alexander McQueen and their ensuing operating leverage, as well as to a reduction in Boucheron's losses after two years of investment.

EBITDA came in at €234 million, up €57 million on first-half 2018, and EBITDA margin widened by 130 basis points to 19.1%. Under IAS 17, adjusted EBITDA stood at €174 million or 14.2% of revenue (versus 12.4% in first-half 2018).

Store network and operating investments



* Per building, based on occupancy under the same roof.

The network of directly operated stores owned by the Other Houses totaled 369 units as of June 30, 2019, representing an increase of nine stores compared with 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. On the other hand, Brioni continued its policy of reducing its points of sale in order to concentrate its distribution on its most profitable stores. As of June 30, 2019, the network comprised 216 stores in mature markets and 153 in emerging markets.

Gross operating investments for the Other Houses amounted to €62 million, up €20 million on the prior-year period, mainly due to various projects undertaken by Balenciaga and Alexander McQueen.

CORPORATE AND OTHER

(in € millions)	First-half 2019	First-half 2018 Restated under IFRS 16	Change	First-half 2018 Reported
Recurring operating income (excluding corporate long-term incentive plans)	(88.6)	(73.5)	+20.5%	(75.3)
Cost of corporate long-term incentive plans	(28.7)	(38.8)	-26.0%	(38.8)
Recurring operating income	**(117.3)**	**(112.3)**	**+4.5%**	**(114.1)**
Fixed portion of lease payments restated under IFRS 16	(28.6)	(20.6)	+38.8%	N/A
Depreciation of right-of-use assets (IFRS 16)	26.8	18.7	+42.6%	N/A
Adjusted recurring operating income (IAS 17)	(119.1)	(114.1)	+4.4%	(114.1)

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.

During the first half of 2019, Kering Eyewear posted very robust sales of €321 million, fueled by its takeover of the Montblanc and Balenciaga licenses. Its contribution to consolidated revenue climbed 20.7% at constant exchange rates, coming in at €259 million for the first half of 2019 (after eliminating intra-group sales and royalties paid to the Group's brands).

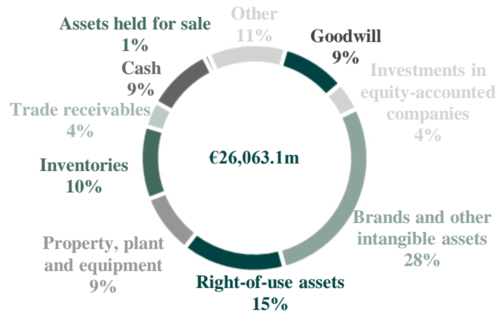
Despite recognizing the amortization expense on the portion of the indemnity paid to Safilo for the early termination of the Gucci license – which was capitalized in the Group's statement of financial position in an amount of €29 million as of December 31, 2018 and is being amortized over a residual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

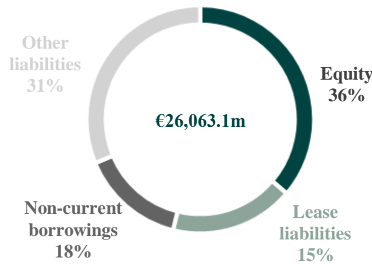
Overall, net costs recorded by the "Corporate and other" segment for the first six months of 2019 totaled around €117 million, €5 million higher than the first-half 2018 figure as restated for the first-time application of IFRS 16.

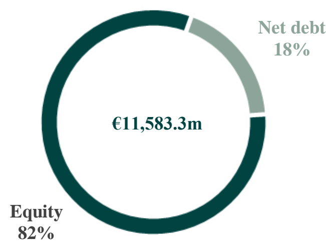
The cost of long-term incentive plans, including those of corporate officers, fell in the first half of 2019, as growth in the Kering share price was slower than in the prior-year period. Other Corporate costs, net of the positive contributions by KGS and Kering Eyewear, were higher year on year, due to the development of new functions to lead the Group's digital and innovation initiatives.

Gross operating investments came to €112 million, up €23 million on the first-half 2018 figure. This year-on-year increase reflects (i) the continued acceleration of projects to upgrade the IT systems and (ii) the logistics operations managed by the Corporate teams on behalf of the Group's brands.

Financial structure as of June 30, 2019







Condensed statement of financial position

(in € millions)	June 30, 2019	Dec. 31, 2018	First-time application of IFRS 16	Other changes	June 30, 2018
Goodwill	2,402.1	2,399.2		2.9	2,441.9
Brands and other intangible assets	7,276.1	7,393.6	(144.7)	27.2	7,305.7
Right-of-use assets	3,852.0	N/A	3,759.1	92.9	N/A
Property, plant and equipment	2,236.9	2,228.5	(120.2)	128.6	2,012.8
Investments in equity-accounted companies	1,084.7	1,074.7		10.0	1,057.3
Other non-current assets	1,828.1	1,200.6		627.5	1,109.8
Non-current assets	**18,679.9**	**14,296.6**	**3,494.2**	**889.1**	**13,927.5**
Inventories	2,726.0	2,414.7		311.3	2,179.4
Trade receivables	956.7	849.5		107.2	877.1
Cash and cash equivalents	2,450.9	2,216.6		234.3	1,926.3
Other current assets	1,056.4	1,051.0	(45.8)	51.2	833.9
Current assets	**7,190.0**	**6,531.8**	**(45.8)**	**704.0**	**5,816.7**
Assets held for sale	**193.2**	**539.1**		**(345.9)**	**531.3**
Total assets	**26,063.1**	**21,367.5**	**3,448.4**	**1,247.2**	**20,275.5**
Equity attributable to owners of the parent	9,276.2	9,905.9		(629.7)	9,219.0
Equity attributable to non-controlling interests	172.5	155.7		16.8	137.6
Total equity	**9,448.7**	**10,061.6**	-	**(612.9)**	**9,356.6**
Non-current borrowings	2,910.2	3,171.6	(42.8)	(218.6)	3,459.8
Non-current lease liabilities	3,259.8	N/A	3,177.2	82.6	N/A
Other non-current liabilities	1,782.5	1,723.8		58.7	1,731.5
Non-current liabilities	**7,952.5**	**4,895.4**	**3,134.4**	**(77.3)**	**5,191.3**
Current borrowings	1,675.3	756.4	(35.9)	954.8	1,259.5
Current lease liabilities	613.5	N/A	552.9	60.6	N/A
Other current liabilities	6,292.1	5,465.5	(203.0)	1,029.6	4,304.0
Current liabilities	**8,580.9**	**6,221.9**	**314.0**	**2,045.0**	**5,563.5**
Liabilities associated with assets held for sale	**81.0**	**188.6**		**(107.6)**	**164.1**
Total equity and liabilities	**26,063.1**	**21,367.5**	**3,448.4**	**1,247.2**	**20,275.5**

Net debt

(in € millions)	June 30, 2019	Dec. 31, 2018	First-time application of IFRS 16	Other changes	June 30, 2018
Gross borrowings	4,585.5	3,928.0	(78.7)	736.2	4,719.3
Cash	(2,450.9)	(2,216.6)		(234.3)	(1,926.3)
Net debt	**2,134.6**	**1,711.4**	**(78.7)**	**501.9**	**2,793.0**

Capital employed

(in € millions)	June 30, 2019	Dec. 31, 2018	First-time application of IFRS 16	Other changes	June 30, 2018
Total equity	9,448.7	10,061.6		(612.9)	9,356.6
Net debt	2,134.6	1,711.4	(78.7)	501.9	2,793.0
Capital employed	**11,583.3**	**11,773.0**	**(78.7)**	**(111.0)**	**12,149.6**

Comments on the Group's financial position

Goodwill and brands

As of June 30, 2019, brands net of deferred tax liabilities amounted to €5,280 million, compared with €5,269 million as of December 31, 2018.

Current assets and liabilities

(in € millions)	June 30, 2019	Dec. 31, 2018	First-time application of IFRS 16	Other changes	June 30, 2018
Inventories	2,726.0	2,414.7		311.3	2,179.4
Trade receivables	956.7	849.5		107.2	877.1
Trade payables	(796.4)	(745.8)		(50.6)	(746.7)
Net current tax receivables (payables)	(2,885.6)	(1,212.7)		(1,672.9)	(993.8)
Other current assets (liabilities), net	(1,344.1)	(2,191.7)	157.2	690.4	(1,494.5)
Net current assets (liabilities)	**(1,343.4)**	**(886.0)**	**157.2**	**(614.6)**	**(178.5)**

Fluctuations in exchange rates during the first half of 2019 had an overall €26 million positive impact on the value of net current assets (liabilities). The effect on inventories and other net current liabilities was €7 million and €14 million respectively.

At constant exchange rates, inventories rose by €304 million in first-half 2019. This year-on-year increase was due to higher volumes of purchases made by the Group's main Houses, in order to support sales growth as inventories were rebuilt after the low point reached at the end of 2018.

Trade receivables rose by a contained €104 million (at constant exchange rates), reflecting growth in wholesale sales, notably for Gucci and Kering Eyewear.

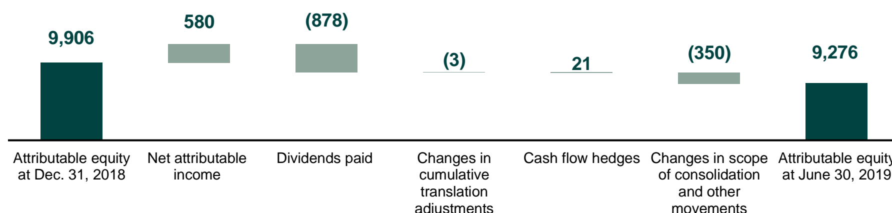
Trade payables were up by a contained €52 million (at constant exchange rates).

Net current tax payables climbed €1,673 million due to the settlement concluded with the Italian Revenue Agency and a rise in taxation as a result of the restructuring currently under way of the Houses' supply chain and logistics operations.

Lastly, the €442 million interim dividend decided by the Board of Directors in December 2018 and paid out on January 17, 2019 led to a reduction in net other current liabilities.

Equity

As of June 30, 2019, equity attributable to owners of the parent totaled €9,276 million, €630 million lower than at December 31, 2018.



As of June 30, 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 June 30, 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 Annual General Meeting, Kering purchased 323,839 of its own shares in the first half of 2019, and the total number of shares still held in treasury at the period end was 752,856. These shares will be canceled once the stock repurchase program is completed.

See Note 13 – Equity, to the condensed consolidated interim financial statements.

As of June 30, 2019, equity attributable to non-controlling interests stood at €173 million (versus €156 million as of December 31, 2018).

Comments on movements in net debt

Breakdown of net debt

The Group's net debt is traditionally higher at the end of the first half of the fiscal year than at the year end due to the dividend payout date and, to some extent, to the seasonal nature of its business. As of June 30, 2019, the Group's net debt stood at €2,135 million.

(in € millions)	June 30, 2019	Dec. 31, 2018	First-time application of IFRS 16	Other changes	June 30, 2018
Bonds	2,593.8	2,836.2		(242.4)	3,700.2
Bank borrowings	219.7	200.0		19.7	259.2
Commercial paper	876.2	-		876.2	-
Other borrowings	895.8	891.8	(78.7)	82.7	759.9
Gross borrowings	**4,585.5**	**3,928.0**	**(78.7)**	**736.2**	**4,719.3**
Cash and cash equivalents	(2,450.9)	(2,216.6)		(234.3)	(1,926.3)
Net debt	**2,134.6**	**1,711.4**	**(78.7)**	**501.9**	**2,793.0**

As of June 30, 2019, the Group's gross borrowings included €385 million concerning put options granted to non-controlling interests (€393 million as of December 31, 2018).

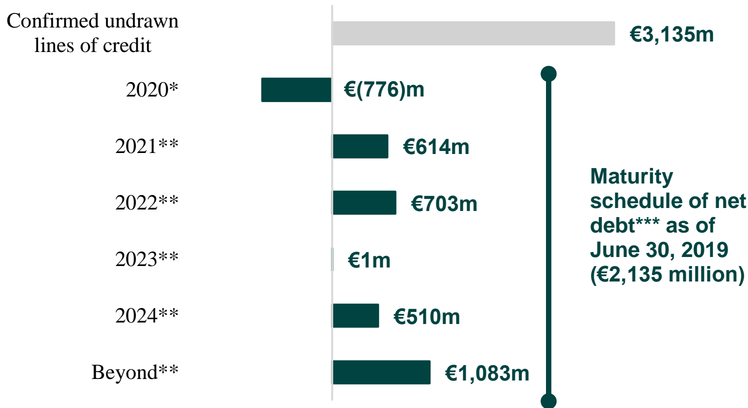
Solvency

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 June 30, 2019, the Group had cash and cash equivalents totaling €2,451 million (€2,217 million as of December 31, 2018), as well as confirmed lines of credit amounting to €3,135 million (unchanged from December 31, 2018). The balance of confirmed undrawn lines of credit was €3,135 million as of both June 30, 2019 and December 31, 2018.

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



* Gross borrowings after deduction of cash and cash equivalents.
** Gross borrowings.
*** Net debt is defined on page 50.

The portion of the Group's gross borrowings maturing within one year corresponded to 36.5% as of June 30, 2019 (19.3% as of December 31, 2018 and 26.7% as of June 30, 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 15 – Borrowings, to the condensed consolidated interim financial statements.

Changes in net debt

(in € millions)	June 30, 2019	Dec. 31, 2018	Change	June 30, 2018
Net debt as of January 1	**1,711.4**	**3,048.6**	**(1,337.2)**	**3,048.6**
Restatement of net debt as of January 1, 2018 for discontinued operations (IFRS 5)	-	367.1	(367.1)	367.1
First-time application of IFRS 16[1]	(78.7)	N/A	(78.7)	N/A
Free cash flow from operations	(1,532.7)	(2,955.2)	1,422.5	(1,400.5)
Dividends paid	1,332.7	780.3	552.4	776.2
Net interest paid and dividends received	115.3	187.0	(71.7)	94.9
Net acquisitions (disposals) of Kering shares	152.7	167.9	(15.2)	(0.1)
Repayment of lease liabilities	284.6	N/A	284.6	N/A
Other acquisitions and disposals	95.1	93.8	1.3	31.9
Other movements	54.2	21.9	32.3	(125.1)
Net debt of continuing operations at the period end	**2,134.6**	**1,711.4**	**423.2**	**2,793.0**

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

Free cash flow from operations

Cash flow from operating activities

(in € millions)	First-half 2019	First-half 2018 Restated under IFRS 16	Change	First-half 2018 Reported
Cash flow from operating activities before tax, dividends and interest	**2,727.1**	**2,358.9**	**+15.6%**	**2,031.9**
Change in working capital requirement (excluding tax)	(437.0)	(123.0)	+255.3%	(81.7)
Income tax paid	(374.6)	(239.6)	+56.3%	(239.6)
Net cash from operating activities	**1,915.5**	**1,996.2**	**-4.0%**	**1,710.6**

Operating investments

(in € millions)	First-half 2019	First-half 2018 Restated under IFRS 16	Change	First-half 2018 Reported
Net cash from operating activities	**1,915.5**	**1,996.2**	**-4.0%**	**1,710.6**
Purchases of property, plant and equipment and intangible assets	(383.7)	(311.0)	+23.4%	(311.0)
Proceeds from disposals of property, plant and equipment and intangible assets	0.9	0.9	-	0.9
Free cash flow from operations	**1,532.7**	**1,686.1**	**-9.1%**	**1,400.5**
IFRS 16 restatement of lease payments	(298.7)	(285.6)	-4.6%	N/A
Adjusted free cash flow from operations (IAS 17)	**1,234.0**	**1,400.5**	**-11.9%**	**1,400.5**

Gross operating investments by activity

(in € millions)	First-half 2019	First-half 2018 Restated under IFRS 16	Change	First-half 2018 Reported
Total Luxury Houses	271.3	221.9	+22.3%	221.9
Corporate and other	*112.4*	*89.1*	*+26.2%*	*89.1*
Gross operating investments	**383.7**	**311.0**	**+23.4%**	**311.0**

In the first six months of 2019, 53% of the Group's gross operating investments concerned the store network (versus 56% in first-half 2018). 57% of these investments related to store opening programs and 43% to store conversions and refurbishments.

Available cash flow

(in € millions)	First-half 2019	First-half 2018 Restated under IFRS 16	Change	First-half 2018 Reported
Free cash flow from operations	**1,532.7**	**1,686.1**	**-9.1%**	**1,400.5**
Interest and dividends received	14.8	3.3	+348.5%	3.3
Interest paid and equivalent	(130.1)	(143.6)	-9.4%	(98.1)
Available cash flow	**1,417.4**	**1,545.8**	**-8.3%**	**1,305.7**
IFRS 16 restatement of lease payments	(298.7)	(285.6)	-4.6%	N/A
IFRS 16 restatement of interest paid	47.7	45.5	+4.8%	N/A
Adjusted available cash flow (IAS 17)	**1,166.4**	**1,305.7**	**-10.7%**	**1,305.7**

Dividends paid

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

Dividends paid in first-half 2019 included €13 million paid to non-controlling interests in consolidated subsidiaries (€19 million in first-half 2018).

Repayment of lease liabilities

The Group's first-time application of IFRS 16 as from January 1, 2019 led to the recognition of €285 million in repayments of lease liabilities, corresponding to fixed lease payments. As these repayments correspond to prior-period reported figures (for first-half and full-year 2018), they have been included in free cash flow from operations for those periods (see Note 4 – First-time application of IFRS 16 – *Leases*, to the condensed consolidated interim financial statements).

Other acquisitions and disposals

In the first half of 2019, transactions with non-controlling interests amounted to €18 million. Other acquisitions and disposals in first-half 2019 also included financing transactions carried out with non-controlled or equity-accounted companies.

Other movements

This item includes a €21 million negative impact of fluctuations in exchange rates in the first half of 2019 (€10 million in first-half 2018).

Results and share capital of the parent company

The parent company ended first-half 2019 with net income of €19 million, compared with €922 million for the first six months of 2018, including the gain on the sale of sale of PUMA shares for €798 million.

The first-half 2019 figure includes €30 million in dividends received from subsidiaries (versus €210 million in first-half 2018).

As of June 30, 2019, Kering's share capital comprised 126,279,322 shares with a par value of €4 each.

Transactions with related parties

Transactions with related parties in the first half of 2019 are described in Note 21 – Transactions with related parties, to the condensed consolidated interim financial statements.

Subsequent events

No significant events occurred between June 30, 2019 and July 25, 2019, when the Board of Directors authorized the condensed consolidated interim financial statements for issue.

Main risks and uncertainties for the remaining six months of the year

The main risks and uncertainties to which the Group could be exposed in the second half of 2019 are described in the Risk Management chapter of the 2018 Reference Document as well as in Note 30 to the 2018 consolidated financial statements.

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 a targeted and selective expansion of the store network in order to strengthen its Houses' operating margins for the long term. 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, events that could impact consumer trends and tourism.

Against this backdrop, in 2019 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 further enhance its operating performance, maintaining a high level of cash flow generation and continuing to grow its return on capital employed.

Method used to prepare 2018 financial data restated under IFRS 16

The data for first-half 2018 has been restated in order to present the impact of IFRS 16 on that period and to permit meaningful comparisons with first-half 2019 data, for which IFRS 16 has been applied. This restated data takes into account all of the leases in force during the first half of 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 condensed consolidated interim financial statements.

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 CNC recommendation No. 2009-R-03 of July 2, 2009, 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. CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2019

Consolidated income statement

(in € millions)	Notes	First-half 2019	First-half 2018	2018
CONTINUING OPERATIONS				
Revenue	5	**7,638.4**	**6,431.9**	**13,665.2**
Cost of sales		(1,986.3)	(1,655.6)	(3,467.0)
Gross margin		**5,652.1**	**4,776.3**	**10,198.2**
Payroll expenses		(1,140.5)	(1,012.7)	(2,080.4)
Other recurring operating income and expenses		(2,258.9)	(1,991.7)	(4,174.0)
Recurring operating income	5	**2,252.7**	**1,771.9**	**3,943.8**
Other non-recurring operating income and expenses	6	(42.2)	(39.6)	(222.4)
Operating income		**2,210.5**	**1,732.3**	**3,721.4**
Finance costs, net	7	(133.7)	(97.1)	(207.3)
Income before tax		**2,076.8**	**1,635.2**	**3,514.1**
Income tax	8	(1,449.4)	(385.0)	(867.7)
Share in earnings (losses) of equity-accounted companies	12	20.7	(3.0)	11.9
Net income from continuing operations		**648.1**	**1,247.2**	**2,658.3**
o/w attributable to owners of the parent		623.4	1,228.9	2,630.6
o/w attributable to non-controlling interests		24.7	18.3	27.7
DISCONTINUED OPERATIONS				
Net income (loss) from discontinued operations	9.1	**(60.0)**	**1,148.2**	**1,095.2**
o/w attributable to owners of the parent		(43.7)	1,130.7	1,084.3
o/w attributable to non-controlling interests		(16.3)	17.5	10.9
Net income of consolidated companies		**588.1**	**2,395.4**	**3,753.5**
o/w attributable to owners of the parent		579.7	2,359.6	3,714.9
o/w attributable to non-controlling interests		8.4	35.8	38.6

(in € millions)	Notes	First-half 2019	First-half 2018	2018
Net income attributable to owners of the parent		**579.7**	**2,359.6**	**3,714.9**
Earnings per share *(in €)*	10.1	4.61	18.74	29.49
Fully diluted earnings per share *(in €)*	10.1	4.61	18.74	29.49
Net income from continuing operations attributable to owners of the parent		**623.4**	**1,228.9**	**2,630.6**
Earnings per share *(in €)*	10.1	4.96	9.76	20.88
Fully diluted earnings per share *(in €)*	10.1	4.96	9.76	20.88
Net income from continuing operations (excluding non-recurring items) attributable to owners of the parent[1]		**1,556.1**	**1,262.2**	**2,816.7**
Earnings per share *(in €)*	10.2	12.37	10.02	22.36
Fully diluted earnings per share *(in €)*	10.2	12.37	10.02	22.36

[1] In first-half 2019, this item did not include the non-recurring tax expense relating to the tax settlement in Italy (see Notes 8 and 10.2 to the condensed consolidated interim financial statements for the six months ended June 30, 2019).

Consolidated statement of comprehensive income

(in € millions)	Notes	First-half 2019	First-half 2018	2018
Net income		**588.1**	**2,395.4**	**3,753.5**
Actuarial gains and losses[1]		(10.4)	8.3	9.6
Total items not reclassified to income		**(10.4)**	**8.3**	**9.6**
Foreign exchange gains and losses		(2.6)	(97.4)	(70.6)
Cash flow hedges[1]		21.3	(91.3)	(142.0)
Financial assets at fair value[1]		(0.1)	(2.8)	(13.3)
Share in other comprehensive income (loss) of equity-accounted companies		(5.1)	8.4	12.0
Total items to be reclassified to income		**13.5**	**(183.1)**	**(213.9)**
Other comprehensive income (loss), net of tax	11	**3.1**	**(174.8)**	**(204.3)**
Total comprehensive income		**591.2**	**2,220.6**	**3,549.2**
o/w attributable to owners of the parent		582.5	2,180.8	3,504.8
o/w attributable to non-controlling interests		8.7	39.8	44.4

[1] Net of tax.

Consolidated statement of financial position

ASSETS *(in € millions)*	Notes	June 30, 2019	Dec. 31, 2018	June 30, 2018
Goodwill		2,402.1	2,399.2	2,441.9
Brands and other intangible assets		7,276.1	7,393.6	7,305.7
Right-of-use assets	4	3,852.0	N/A	N/A
Property, plant and equipment		2,236.9	2,228.5	2,012.8
Investments in equity-accounted companies	12	1,084.7	1,074.7	1,057.3
Non-current financial assets		372.8	336.3	325.0
Deferred tax assets		1,381.9	830.1	768.6
Other non-current assets		73.4	34.2	16.2
Non-current assets		**18,679.9**	**14,296.6**	**13,927.5**
Inventories		2,726.0	2,414.7	2,179.4
Trade receivables		956.7	849.5	877.1
Current tax receivables		109.3	90.6	46.7
Other current financial assets		58.4	60.9	49.9
Other current assets		888.7	899.5	737.3
Cash and cash equivalents	14	2,450.9	2,216.6	1,926.3
Current assets		**7,190.0**	**6,531.8**	**5,816.7**
Assets held for sale		**193.2**	**539.1**	**531.3**
TOTAL ASSETS		**26,063.1**	**21,367.5**	**20,275.5**

EQUITY AND LIABILITIES *(in € millions)*	Notes	June 30, 2019	Dec. 31, 2018	June 30, 2018
Share capital	13	505.2	505.2	505.2
Capital reserves		2,428.3	2,428.3	2,428.3
Treasury shares	13.1	(322.4)	(168.3)	-
Translation adjustments		(209.4)	(206.7)	(231.4)
Remeasurement of financial instruments		(76.5)	(97.8)	(47.0)
Other reserves		6,951.0	7,445.2	6,563.9
Equity attributable to owners of the parent	13	**9,276.2**	**9,905.9**	**9,219.0**
Equity attributable to non-controlling interests		172.5	155.7	137.6
Total equity	13	**9,448.7**	**10,061.6**	**9,356.6**
Non-current borrowings	15	2,910.2	3,171.6	3,459.8
Non-current lease liabilities	4	3,259.8	N/A	N/A
Other non-current financial liabilities		5.4	3.0	0.7
Provisions for pensions and other post-employment benefits		101.7	88.0	89.3
Other non-current provisions		14.9	14.2	23.1
Deferred tax liabilities		1,573.7	1,578.6	1,579.6
Other non-current liabilities		86.8	40.0	38.8
Non-current liabilities		**7,952.5**	**4,895.4**	**5,191.3**
Current borrowings	15	1,675.3	756.4	1,259.5
Current lease liabilities	4	613.5	N/A	N/A
Other current financial liabilities		69.3	553.2	108.1
Trade payables		796.4	745.8	746.7
Provisions for pensions and other post-employment benefits		8.7	8.6	8.3
Other non-current provisions		200.9	255.7	226.8
Current tax liabilities		2,994.9	1,303.3	1,040.5
Other current liabilities		2,221.9	2,598.9	2,173.6
Current liabilities		**8,580.9**	**6,221.9**	**5,563.5**
Liabilities associated with assets held for sale		**81.0**	**188.6**	**164.1**
TOTAL EQUITY AND LIABILITIES		**26,063.1**	**21,367.5**	**20,275.5**

Consolidated statement of cash flows

(in € millions)	Notes	First-half 2019	First-half 2018	2018
Net income from continuing operations		**648.1**	**1,247.2**	**2,658.3**
Net recurring charges to depreciation, amortization and provisions on non-current operating assets	5	556.6	249.7	491.9
Other non-cash income and expenses	19.2	(465.2)	(75.7)	(6.6)
Cash flow from operating activities		**739.5**	**1,421.2**	**3,143.6**
Interest paid/received		123.1	95.9	186.6
Dividends received		-	(0.3)	(1.0)
Net income tax payable	8	1,864.5	515.1	1,062.4
Cash flow from operating activities before tax, dividends and interest		**2,727.1**	**2,031.9**	**4,391.6**
Change in working capital requirement		(437.0)	(81.7)	(51.6)
Income tax paid		(374.6)	(239.6)	(562.0)
Net cash from operating activities		**1,915.5**	**1,710.6**	**3,778.0**
Purchases of property, plant and equipment and intangible assets	5	(383.7)	(311.0)	(828.0)
Proceeds from disposals of property, plant and equipment and intangible assets		0.9	0.9	5.2
Acquisitions of subsidiaries, net of cash acquired		-	1.3	(15.8)
Purchases of other financial assets		(101.7)	(38.7)	(80.3)
Proceeds from disposals of other financial assets		16.9	13.4	21.9
Interest and dividends received		14.8	3.2	5.4
Net cash used in investing activities		**(452.8)**	**(330.9)**	**(891.6)**
Dividends paid to owners of the parent company	13.2	(1,320.1)	(757.6)	(757.6)
Dividends paid to non-controlling interests		(12.6)	(18.6)	(22.8)
Transactions with non-controlling interests		(17.7)	(3.0)	(2.7)
Treasury share transactions	13.1	(152.7)	0.1	(167.9)
Debt issues	19.3	34.8	8.2	73.1
Debt redemptions/repayments	19.3	(264.2)	(413.5)	(1,404.5)
Increase/decrease in other borrowings	19.3	861.6	(21.7)	(27.9)
Repayment of lease liabilities	4	(284.6)	N/A	N/A
Interest paid and equivalent	4	(130.1)	(98.1)	(192.4)
Net cash used in financing activities		**(1,285.6)**	**(1,304.2)**	**(2,502.7)**
Net cash used in discontinued operations	9.2	(73.9)	(329.5)	(379.1)
Impact of exchange rate variations		28.3	21.5	(67.6)
Net increase (decrease) in cash and cash equivalents		**131.5**	**(232.5)**	**(63.0)**
Cash and cash equivalents at beginning of period	19	**1,836.3**	**1,899.3**	**1,899.3**
Cash and cash equivalents at end of period	19	**1,967.8**	**1,666.8**	**1,836.3**

Consolidated statement of changes in equity

(in € millions)	Number of shares outstanding[1]	Share capital	Capital reserves	Treasury shares	Cumulative translation adjustments	Remeasurement of financial instruments	Other reserves and net income attributable to owners of the parent	Equity Owners of the parent	Equity Non-controlling interests	Equity Total
As of December 31, 2017	**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 for first-half 2018					(99.7)	(93.3)	2,373.8	**2,180.8**	**39.8**	**2,220.6**
Treasury shares[2]							0.1	**0.1**		**0.1**
Share capital increase								-	0.2	**0.2**
Cash dividend paid							(505.1)	**(505.1)**	(43.3)	**(548.4)**
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]							124.9	**124.9**	(537.3)	**(412.4)**
As of June 30, 2018	**126,279,322**	**505.2**	**2,428.3**	**-**	**(231.4)**	**(47.0)**	**6,563.9**	**9,219.0**	**137.6**	**9,356.6**
Total comprehensive income for second-half 2018					24.7	(50.8)	1,350.1	1,324.0	4.6	**1,328.6**
Treasury shares[2]				(168.3)			0.2	(168.1)		**(168.1)**
Cash dividend and interim dividend paid							(442.0)	(442.0)	(1.7)	**(443.7)**
Changes in Group structure and other changes[3]							(27.0)	(27.0)	15.2	**(11.8)**
As of December 31, 2018	**126,279,322**	**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 for first-half 2019					(2.8)	21.3	564.0	582.5	8.7	**591.2**
Treasury shares[2]				(154.2)				(154.2)		**(154.2)**
Share capital increase									0.5	**0.5**
Cash dividend paid							(878.1)	(878.1)	(18.4)	**(896,5)**
First-time application of IFRIC 23[4]							(166.0)	(166.0)		**(166.0)**
Changes in Group structure and other changes[3]							(13.9)	(13.9)	26.0	**12.1**
As of June 30, 2019[5]	**126,279,322**	**505.2**	**2,428.3**	**(322.5)**	**(209.5)**	**(76.5)**	**6,951.2**	**9,276.2**	**172.5**	**9,448.7**

(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 15 – Borrowings).
(4) See Note 2.2.1 – Standards, amendments and interpretations adopted by the European Union and effective as of January 1, 2019.
(5) Number of shares outstanding as of June 30, 2019: 126,279,322.

Notes to the condensed consolidated interim financial statements

Note 1 – Introduction....58
Note 2 – Accounting policies and methods....58
Note 3 – Changes in Group structure and other highlights....60
Note 4 – First-time application of IFRS 16 – *Leases*....62
Note 5 – Operating segments....70
Note 6 – Other non-recurring operating income and expenses....72
Note 7 – Finance costs, net....73
Note 8 – Income taxes....74
Note 9 – Discontinued operations....75
Note 10 – Earnings per share....76
Note 11 – Other comprehensive income....79
Note 12 – Investments in equity-accounted companies....80
Note 13 – Equity....80
Note 14 – Cash and cash equivalents....81
Note 15 – Borrowings....82
Note 16 – Derivative instruments at market value....83
Note 17 – Accounting classification and market value of financial instruments....84
Note 18 – Net debt....85
Note 19 – Statement of cash flows....86
Note 20 – Contingent liabilities, contractual commitments not recognized and other contingencies....87
Note 21 – Transactions with related parties....87
Note 22 – Subsequent events....87

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 condensed consolidated interim financial statements for the six months ended June 30, 2019 reflect the accounting position of Kering and its subsidiaries, together with its interests in associates and joint ventures.

On July 25, 2019, the Board of Directors approved the condensed consolidated interim financial statements for the six months ended June 30, 2019 and authorized their publication.

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, 2018 were prepared in accordance with applicable international accounting standards adopted by the European Union and mandatorily applicable as of that date.

The condensed consolidated interim financial statements for the six months ended June 30, 2019 have been prepared in accordance with IAS 34 – *Interim Financial Reporting*, as adopted by the European Union, which allows entities to present selected explanatory notes.

The notes do not therefore include all of the disclosures required for a complete set of annual financial statements, and should be read in conjunction with the consolidated financial statements for the year ended December 31, 2018.

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 interim financial statements have been prepared in accordance with the accounting principles and methods applied by the Group for its 2018 annual financial statements, except for corporate income tax, which is subject to specific valuation methods (Note 2.3.1), and the following standards, amendments and interpretations that are applicable as from 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 unlikely contingencies. This change in approach led to an additional provision of €166 million as of January 1, 2019, which was recognized against equity.

The other amendments did not have an impact on the consolidated interim financial statements for the six months ended June 30, 2019.

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

The Group has elected not to early adopt the following standards and interpretations whose application is not mandatory for financial periods beginning on or after January 1, 2019:

- 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.

2.3. Details specific to the preparation of interim financial statements

2.3.1. Income tax

The income tax charge for the period (current and deferred) is calculated based on the estimated effective tax rate for the full year, for each tax entity or sub-group, and is adjusted for transactions specific to the first half of the year.

2.3.2. Seasonality of operations

Revenue, recurring operating income and all operating indicators (including working capital requirement) are subject to strong seasonal fluctuations due to the high level of activity in the second half of the calendar year. Consequently, the interim results for the six months ended June 30, 2019 are not necessarily representative of those that may be expected for full-year 2019.

2.4. Use of estimates and judgement

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.

In addition to the use of estimates, Group management uses judgement 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.

Note 3 – Changes in Group structure and other highlights

3.1. Strategic redeployment and discontinued operations

Volcom

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 (see Note 9 – Discontinued operations).

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 8 – 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 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 new stock repurchase agreement was set up with an investment services provider on June 17, 2019. It represents a second tranche of the program, covering a maximum volume of 658,000 shares, i.e., approximately 0.5% of the share capital. As a reminder, the maximum purchase price set at the Annual General Meeting of April 24, 2019 in the tenth resolution was €580 (five hundred and eighty euros) per share.

The purchases will commence on June 17, 2019 for a period not exceeding three months, and the purchased shares will subsequently be canceled.

3.5. Appointments and corporate governance at Kering

At its meeting on February 11, 2019, the Board of Directors of Kering designated 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.

Lastly, Bartolomeo Rongone will succeed Claus-Dietrich Lahrs as CEO of Bottega Veneta, effective from September 1, 2019. He will report to François-Henri Pinault, Chairman and Chief Executive Officer of Kering, and will be a member of the Group's Executive Committee.

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 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 standard setter (*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.

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 simplified 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 will be 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.

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 *(in € millions)*	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 *(in € millions)*	Dec. 31, 2018	First-time application of IFRS 16	Jan. 1, 2019
Share capital	**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

(in € millions)	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**

Note 5 – Operating segments

(in € millions)	Gucci	Yves Saint Laurent	Bottega Veneta	Other Houses
First-half 2019				
Revenue[1]	4,617.1	973.0	549.0	1,225.3
Recurring operating income (loss)	**1,876.1**	**251.7**	**103.9**	**138.3**
Adjusted recurring operating income (loss) (IAS 17)[2]	1,867.0	246.8	100.6	133.1
Recurring charges to depreciation, amortization and provisions on non-current operating assets	229.9	80.7	74.1	95.4
Other non-cash recurring operating income and expenses	(98.0)	(20.8)	(11.0)	(12.9)
Purchases of property, plant and equipment and intangible assets, gross	125.1	55.3	29.2	61.7
First-half 2018				
Revenue[1]	3,852.8	808.2	552.2	995.5
Recurring operating income (loss)	**1,470.5**	**198.0**	**132.5**	**85.0**
Recurring charges to depreciation, amortization and provisions on non-current operating assets	131.3	20.0	20.0	38.0
Other non-cash recurring operating income and expenses	(80.8)	(24.2)	(22.5)	(18.6)
Purchases of property, plant and equipment and intangible assets, gross	114.4	32.7	32.7	42.1
2018				
Revenue[1]	8,284.9	1,743.5	1,109.1	2,109.2
Recurring operating income (loss)	**3,275.2**	**459.4**	**242.0**	**214.4**
Recurring charges to depreciation, amortization and provisions on non-current operating assets	239.4	43.4	42.3	82.4
Other non-cash recurring operating income and expenses	(199.0)	(38.3)	(38.4)	(39.9)
Purchases of property, plant and equipment and intangible assets, gross	312.7	89.0	68.6	140.0
Segment assets as of December 31, 2018	**9,401.3**	**1,758.5**	**868.6**	**2,921.1**
Segment liabilities as of December 31, 2018	**2,812.0**	**505.4**	**244.0**	**717.0**

[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).

(in € millions)	Total Houses	Corporate and other	Total
First-half 2019			
Revenue[1]	7,364.4	274.0	7,638.4
Recurring operating income (loss)	**2,370.0**	**(117.3)**	**2,252.7**
Adjusted recurring operating income (loss) (IAS 17)[2]	2,347.5	(119.1)	2,228.4
Recurring charges to depreciation, amortization and provisions on non-current operating assets	480.1	76.5	556.6
Other non-cash recurring operating income and expenses	**(142.7)**	**135.9**	**(6.8)**
Purchases of property, plant and equipment and intangible assets, gross	271.3	112.4	383.7
First-half 2018			
Revenue[1]	6,208.7	223.2	6,431.9
Recurring operating income (loss)	**1,886.0**	**(114.1)**	**1,771.9**
Recurring charges to depreciation, amortization and provisions on non-current operating assets	209.3	40.4	249.7
Other non-cash recurring operating income and expenses	(146.2)	110.8	(35.4)
Purchases of property, plant and equipment and intangible assets, gross	221.9	89.1	311.0
2018			
Revenue[1]	13,246.7	418.5	13,665.2
Recurring operating income (loss)	**4,191.0**	**(247.2)**	**3,943.8**
Recurring charges to depreciation, amortization and provisions on non-current operating assets	407.5	84.4	491.9
Other non-cash recurring operating income and expenses	(315.6)	246.8	(68.8)
Purchases of property, plant and equipment and intangible assets, gross	610.3	217.7	828.0
Segment assets as of December 31, 2018	**14,949.5**	**1,269.7**	**16,219.2**
Segment liabilities as of December 31, 2018	**4,278.4**	**587.2**	**4,865.6**

Note 6 – Other non-recurring operating income and expenses

(in € millions)	First-half 2019	First-half 2018
Non-recurring operating expenses	**(44.8)**	**(44.1)**
Restructuring costs	(24.8)	(12.7)
Asset impairment	(9.9)	(12.4)
Capital losses on disposals	-	(0.1)
Other	(10.1)	(18.9)
Non-recurring operating income	**2.6**	**4.5**
Capital gains on disposals	0.1	0.5
Other	2.5	4.0
Total	**(42.2)**	**(39.6)**

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

In the first six months of 2019, this item represented a net expense of €42.2 million and primarily concerned the costs of restructuring the Group's logistics activities and the Watches and Jewelry Division.

In the first half of 2018, other non-recurring operating income and expenses represented a net expense of €39.6 million, primarily comprising all of the costs related to the departure of Tomas Maier, Bottega Veneta's Creative Director, as well as restructuring costs and impairment losses recognized for the Couture and Leather Goods Division.

Note 7 – Finance costs, net

(in € millions)	First-half 2019	First-half 2018
Cost of net debt	**(25.6)**	**(43.4)**
Income from cash and cash equivalents	6.1	2.8
Finance costs at amortized cost	(32.3)	(46.3)
Gains and losses on cash flow hedging derivatives	0.6	0.1
Other financial income and expenses	**(59.0)**	**(53.7)**
Net gains and losses on financial assets measured at fair value	(0.3)	0.5
Foreign exchange gains and losses	(4.1)	1.3
Ineffective portion of cash flow hedges	(54.8)	(37.4)
Gains and losses on derivative instruments not qualifying for hedge accounting (foreign exchange and interest rate hedges)	0.3	(0.2)
Impact of discounting assets and liabilities	(0.6)	(0.9)
Other finance costs	0.5	(17.0)
Total finance costs, net (excluding leases)	**(84.6)**	**(97.1)**
Interest expense on lease liabilities[1]	(49.1)	N/A
Total	**(133.7)**	**(97.1)**

[1] See Note 4 – First-time application of IFRS 16 – *Leases*.

The Group's cost of net debt was €25.6 million in first-half 2019, a sharp decrease from the first half of 2018. The significant year-on-year improvement chiefly reflects the favorable impact of the reduction in the Group's average outstanding bond debt following early redemptions carried out in 2018, and repayments made in October 2018 and April 2019.

"Other financial income and expenses" represented a net expense of €59.0 million in first-half 2019, up 9.9% on the €53.7 million net expense recorded for the first half of 2018. This increase includes a negative currency effect of €22.8 million, which led to an increase in the finance cost of currency hedges. This negative effect was partly offset by the fact that unlike the previous period, no one-off finance costs were recognized in first-half 2019 in respect of bonds redeemed ahead of maturity (one-off finance costs of €16 million in first-half 2018).

Note 8 – Income taxes

(in € millions)	First-half 2019	First-half 2018
Income before tax	**2,076.8**	**1,635.2**
Current tax expense	(1,864.5)	(515.1)
o/w		
Tax expense relating to the tax settlement in Italy	(895.9)	-
Deferred tax income (expense)	415.1	130.1
Income tax expense	**1,449.4**	**(385.0)**
Effective tax rate	**69.8%**	**23.5%**

(in € millions)	First-half 2019	First-half 2018
Other non-recurring operating income and expenses	(42.2)	(39.6)
Recurring income before tax	**2,119.0**	**1,674.8**
Tax income on other non-recurring operating income and expenses	5.4	6.3
Tax expense relating to the tax settlement in Italy	(895.9)	-
Tax expense on recurring income (excluding impact of tax settlement in Italy)	**(558.9)**	**(391.3)**
Effective tax rate on recurring income (excluding impact of tax settlement in Italy)	**26.4%**	**23.4%**

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., and booked a tax liability in this respect.

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 €896 million for first-half 2019.

Restated for the above, the increase in the effective tax rate on recurring income is broadly the result of the complete restructuring of the Houses' business models, particularly in terms of supply chain and logistics operations.

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.

Note 9 – Discontinued operations

As of June 30, 2019, discontinued operations include Stella McCartney, Volcom and Christopher Kane. As of June 30, 2018, discontinued operations also included PUMA up to May 16.

On February 13, 2019, Kering sold its stake in Christopher Kane back to the eponymous designer.

On April 2, 2019, Kering announced that it had completed the sale of Volcom, as described in Highlights (see Note 3.1 – Strategic redeployment and discontinued operations).

At the end of March 2019, one year after the conclusion of the agreement between Kering and Ms. Stella McCartney for the sale of Kering's stake in Stella McCartney Ltd, the transition and carve-out process was virtually complete. The sale of Kering's shares in the brand was finalized on July 15, 2019. Accordingly, the capital gain on the sale and the collection of the sale price will be recognized in the second half of the year.

9.1. Impact on the consolidated income statement

(in € millions)	First-half 2019	First-half 2018	2018
Revenue	**148.6**	**1,672.7**	**1,949.5**
Cost of sales	(67.0)	(845.5)	(979.7)
Gross margin	**81.6**	**827.2**	969.8
Payroll expenses	(46.8)	(224.4)	**(275.2)**
Other recurring operating income and expenses	(64.1)	(460.6)	(547.0)
Recurring operating income (loss)	**(29.3)**	**142.2**	**147.6**
Other non-recurring operating income and expenses	(0.8)	(134.1)	(175.2)
Operating income (loss)	**(30.1)**	**8.1**	**(27.6)**
Finance costs, net	(5.4)	(17.6)	(26.4)
Income (loss) before tax	**(35.5)**	**(9.5)**	**(54.0)**
Income tax	(13.1)	(16.9)	(29.1)
Share in earnings (losses) of equity-accounted companies	-	(0.9)	(0.9)
Net gain (loss) on disposal of discontinued operations	(11.4)	1,175.5	1,179.2
Net income (loss) from discontinued operations	**(60.0)**	**1,148.2**	**1,095.2**
o/w attributable to owners of the parent	(43.7)	1,130.7	1,084.3
o/w attributable to non-controlling interests	(16.3)	17.5	10.9

As of June 30, 2018, the Group's relinquishment of control of PUMA in 2018 following the distribution of the stock dividend had given rise to a net gain of €1,177 million.

9.2. Impact on the consolidated statement of cash flows

(in € millions)	First-half 2019	First-half 2018	2018
Net cash used in operating activities	(50.9)	(174.4)	(193.8)
Net cash used in investing activities	(29.0)	(36.6)	(71.2)
Net cash from (used in) financing activities	(9.3)	110.7	98.0
Impact of exchange rate variations	(1.1)	2.0	2.6
Net change in cash and cash equivalents	**(90.3)**	**(98.3)**	**(164.4)**
Opening cash and cash equivalents and changes in intra-Group cash flows	16.4	(231.2)	(214.7)
Net cash used in discontinued operations	**(73.9)**	**(329.5)**	**(379.1)**

Note 10 – Earnings per share

10.1. Earnings per share

Earnings per share in first-half 2019

(in € millions)	Consolidated Group	Continuing operations	Discontinued operations
Net income (loss) attributable to ordinary shareholders	**579.7**	**623.4**	**(43.7)**
Weighted average number of ordinary shares outstanding	126,332,226	126,332,226	126,332,226
Weighted average number of treasury shares	(526,197)	(526,197)	(526,197)
Weighted average number of ordinary shares	**125,806,029**	**125,806,029**	**125,806,029**
Basic earnings per share *(in €)*	**4.61**	**4.96**	**(0.35)**
Net income (loss) attributable to ordinary shareholders	**579.7**	**623.4**	**(43.7)**
Convertible and exchangeable instruments	-	-	-
Diluted net income (loss) attributable to owners of the parent	**579.7**	**623.4**	**(43.7)**
Weighted average number of ordinary shares	125,806,029	125,806,029	125,806,029
Potentially dilutive ordinary shares	-	-	-
Weighted average number of diluted ordinary shares	**125,806,029**	**125,806,029**	**125,806,029**
Fully diluted earnings per share *(in €)*	**4.61**	**4.96**	**(0.35)**

Earnings per share in first-half 2018

(in € millions)	Consolidated Group	Continuing operations	Discontinued operations
Net income attributable to ordinary shareholders	**2,359.6**	**1,228.9**	**1,130.7**
Weighted average number of ordinary shares outstanding	126,279,322	126,279,322	126,279,322
Weighted average number of treasury shares	(332,815)	(332,815)	(332,815)
Weighted average number of ordinary shares	**125,946,507**	**125,946,507**	**125,946,507**
Basic earnings per share *(in €)*	**18.74**	**9.76**	**8.98**
Net income attributable to ordinary shareholders	**2,359.6**	**1,228.9**	**1,130.7**
Convertible and exchangeable instruments	-	-	-
Diluted net income attributable to owners of the parent	**2,359.6**	**1,228.9**	**1,130.7**
Weighted average number of ordinary shares	125,946,507	125,946,507	125,946,507
Potentially dilutive ordinary shares	-	-	-
Weighted average number of diluted ordinary shares	**125,946,507**	**125,946,507**	**125,946,507**
Fully diluted earnings per share *(in €)*	**18.74**	**9.76**	**8.98**

Earnings per share in 2018

(in € millions)	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 *(in €)*	**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 *(in €)*	**29.49**	**20.88**	**8.61**

10.2. Earnings per share from continuing operations excluding non-recurring items

Non-recurring items consist of the income statement line "Other non-recurring operating income and expenses", reported net of tax and non-controlling interests.

(in € millions)	First-half 2019	First-half 2018	2018
Net income attributable to ordinary shareholders	**623.4**	**1,228.9**	**2,630.6**
Other non-recurring operating income and expenses	(42.2)	(39.6)	(222.4)
Income tax on other non-recurring operating income and expenses	5.4	6.3	36.3
Tax expense relating to the tax settlement in Italy	(895.9)	-	-
Net income excluding non-recurring items	**1,556.1**	**1,262.2**	**2,816.7**
Weighted average number of ordinary shares outstanding	126,332,226	126,279,322	126,332,266
Weighted average number of treasury shares	(526,197)	(332,815)	(376,188)
Weighted average number of ordinary shares	**125,806,029**	**125,946,507**	**125,956,038**
Basic earnings per share excluding non-recurring items *(in €)*	**12.37**	**10.02**	**22.36**
Net income excluding non-recurring items	**1,556.1**	**1,262.2**	**2,816.7**
Convertible and exchangeable instruments	**-**	-	**-**
Diluted net income attributable to owners of the parent	**1,556.1**	**1,262.2**	**2,816.7**
Weighted average number of ordinary shares	125,806,029	125,946,507	125,956,038
Potentially dilutive ordinary shares	-	-	-
Weighted average number of diluted ordinary shares	**125,806,029**	**125,946,507**	**125,956,038**
Fully diluted earnings per share *(in €)*	**12.37**	**10.02**	**22.36**

Note 11 – Other comprehensive income

(in € millions)	Gross	Income tax	Net
Foreign exchange gains and losses	(2.6)		(2.6)
Cash flow hedges	22.5	(1.2)	21.3
- change in fair value	*(23.0)*		
- gains and losses reclassified to income	*45.5*		
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	(5.1)		(5.1)
Actuarial gains and losses	(12.8)	2.4	(10.4)
Other comprehensive income for first-half 2019	**1.9**	**1.2**	**3.1**
Foreign exchange gains and losses	(97.4)		(97.4)
Cash flow hedges	(95.3)	4.0	(91.3)
- change in fair value	*(159.4)*		
- gains and losses reclassified to income	*64.1*		
Financial assets at fair value	(2.8)		(2.8)
- change in fair value	*(2.8)*		
- gains (losses) on financial assets at fair value	*-*		
Share in other comprehensive income of equity-accounted companies	8.4		8.4
Actuarial gains and losses	10.8	(2.5)	8.3
Other comprehensive income (loss) for first-half 2018	**(176.3)**	**1.5**	**(174.8)**
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 12 – Investments in equity-accounted companies

(in € millions)	June 30, 2019	Dec. 31, 2018	June 30, 2018
PUMA (15.85%)	1,053.6	1,044.7	1,028.3
Other investments in equity-accounted companies	31.1	30.0	29.0
Total	**1,084.7**	**1,074.7**	**1,057.3**

The market value of the PUMA shares held by Kering amounts to €1,389 million, based on a closing share price of €59 as of June 28, 2019. As PUMA's earnings for first-half 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 June 30, 2019, other investments in equity-accounted companies comprised shares in Altuzarra, WG Alligator Farm and Wall's Gator Farm.

Note 13 – Equity

As of June 30, 2019, the 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).

13.1. Kering treasury shares and options on Kering 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 first-half 2019, the Group purchased 79,466 shares and sold 79,466 shares under the liquidity agreement. Accordingly, it held no treasury shares under the agreement as of June 30, 2019 (no shares were held in treasury at December 31, 2018).

Stock repurchase program

Within the scope of the stock repurchase program authorized at the April 26, 2018 Annual General Meeting, Kering purchased 323,839 of its own shares in first-half 2019, bringing the total number of shares still held in treasury to 752,856 as of June 30, 2019. These shares will be canceled once the stock repurchase program is completed.

13.2. Dividends

At the Ordinary General Meeting of April 24, 2019, held to approve the financial statements for the year ended December 31, 2018, Kering's shareholders decided to pay a cash dividend of €10.50 per share in respect of 2018.

The balance of the cash dividend for 2018 of €7.00 per share was paid on May 6, 2019 in a total amount of €878.1 million, following the payment of an interim cash dividend of €3.50 per share on January 17, 2019 in a total amount of €442.0 million. The total cash dividend payout therefore amounted to €1,320.1 million.

Note 14 – Cash and cash equivalents

(in € millions)	June 30, 2019	Dec. 31, 2018	June 30, 2018
Cash	2,269.6	1,686.6	1,345.9
Cash equivalents	181.3	530.0	580.4
Total	**2,450.9**	**2,216.6**	**1,926.3**

As of June 30, 2019, cash equivalents include certificates of deposit and term deposits with a maturity of less than three months.

Note 15 – Borrowings

(in € millions)	June 30, 2019	Y+1	Y+2	Y+3	Y+4	Y+5	Beyond	Dec. 31, 2018	June 30, 2018
Non-current borrowings	**2,910.2**		**614.3**	**702.8**	**1.1**	**509.6**	**1,082.4**	**3,171.6**	**3,459.8**
Bonds	2,462.0		491.4	618.1		508.5	844.0	2,592.1	2,900.9
Other bank borrowings	102.9		41.0	50.0	1.1	1.1	9.7	160.0	162.2
Obligations under finance leases	N/A							42.8	44.7
Other borrowings	345.3		81.9	34.7			228.7	376.7	352.0
Current borrowings	**1,675.3**	**1,675.3**						**756.4**	**1,259.5**
Bonds	131.8	131.8						244.1	799.3
Drawdowns on unconfirmed lines of credit	8.2	8.2						7.6	6.2
Other bank borrowings	116.8	116.8						40.0	97.0
Obligations under finance leases	N/A							35.9	36.7
Bank overdrafts	483.1	483.1						380.3	259.5
Commercial paper	876.2	876.2							-
Other borrowings	59.2	59.2						48.5	60.8
Total	**4,585.5**	**1,675.3**	**614.3**	**702.8**	**1.1**	**509.6**	**1,082.4**	**3,928.0**	**4,719.3**
%		**36.5%**	**13.4%**	**15.3%**	**0.1%**	**11.1%**	**23.6%**		

Bond issues represented 56.6% of gross borrowings as of June 30, 2019 (72.2% of gross borrowings as of December 31, 2018 and 78.4% as of June 30, 2018).

Borrowings with a maturity of more than one year represented 63.5% of total gross borrowings as of June 30, 2019 (80.7% as of December 31, 2018 and 73.3% as of June 30, 2018).

As of June 30, 2019, the Group has access to confirmed lines of credit totaling €3,135.0 million. The undrawn balance on these confirmed lines of credit as of June 30, 2019 was €3,135.0 million.

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 June 30, 2019, the Group's other borrowings included €385.5 million in put options granted to non-controlling interests (compared with €393.4 million as of December 31, 2018 and €380.8 million as of June 30, 2018), and accrued interest.

Note 16 – Derivative instruments at market value

(in € millions)	June 30, 2019	Interest rate risk	Foreign exchange risk	Other market risks	Dec. 31, 2018	June 30, 2018
Derivative assets	**50.7**	**0.3**	**49.1**	**1.3**	**54.1**	**45.8**
Non-current					**1.5**	**2.0**
At fair value through income						
Cash flow hedges					1.5	2.0
Fair value hedges						
Current	**50.7**	**0.3**	**49.1**	**1.3**	**52.6**	**43.8**
At fair value through income	4.8		4.8		31.7	30.8
Cash flow hedges	43.2	0.3	41.6	1.3	16.8	7.2
Fair value hedges	2.7		2.7		4.1	5.8
Derivative liabilities	**68.6**	**0.5**	**68.1**		**114.1**	**105.5**
Non-current	**5.4**	**0.5**	**4.9**		**3.0**	**0.7**
At fair value through income	4.9		4.9		2.5	
Cash flow hedges	0.5	0.5			0.5	0.7
Fair value hedges						
Current	**63.2**		**63.2**		**111.1**	**104.8**
At fair value through income	7.8		7.8		33.7	42.7
Cash flow hedges	50.6		50.6		73.0	57.1
Fair value hedges	4.8		4.8		4.4	5.0
TOTAL	**(17.9)**	**(0.2)**	**(19.0)**	**1.3**	**(60.0)**	**(59.7)**

In accordance with IFRS 13, derivatives were measured as of June 30, 2019 taking into account credit and debit value adjustments (CVA/DVA). The probability of default 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.

Note 17 – Accounting classification and market value of financial instruments

The basis of measurement for financial instruments and the market value of these instruments as of June 30, 2019 are presented below:

	June 30, 2019		Breakdown by accounting classification			
(in € millions)	Carrying amount	Market value	Fair value through income	Fair value through other comprehensive income	Loans and receivables	Amortized cost
Non-current assets						
Non-current financial assets	372.8	372.8		69.4	303.4	
Current assets						
Trade receivables	956.7	956.7				956.7
Other current financial assets	58.4	58.4			7.7	
Cash and cash equivalents	2,450.9	2,450.9	181.3			2,269.6
Non-current liabilities						
Non-current borrowings	2,910.2	3,079.0				2,910.2
Other non-current financial liabilities	5.4	5.4				
Current liabilities						
Current borrowings	1,675.3	1,675.5				1,675.3
Other current financial liabilities	69.3	69.3				6.1
Trade payables	796.4	796.4				796.4

(in € millions)	Derivatives qualifying for hedge accounting	Derivatives not qualifying for hedge accounting	Dec. 31, 2018		June 30, 2018	
			Carrying amount	Market value	Carrying amount	Market value
Non-current assets						
Non-current financial assets			336.3	336.3	325.0	325.0
Current assets						
Trade receivables			849.5	849.5	877.1	877.1
Other current financial assets	45.9	4.8	60.9	60.9	49.9	49.9
Cash and cash equivalents			2,216.6	2,216.6	1,926.3	1,926.3
Non-current liabilities						
Non-current borrowings			3,171.6	3,261.3	3,459.8	3,586.7
Other non-current financial liabilities	0.5	4.9	3.0	3.0	0.7	0.7
Current liabilities						
Current borrowings			756.4	759.7	1,259.5	1,271.0
Other current financial liabilities	55.4	7.8	553.2	553.2	108.1	108.1
Trade payables			745.8	745.8	746.7	746.7

Note 18 – Net debt

(in € millions)	June 30, 2019	Dec. 31, 2018	June 30, 2018
Gross borrowings	4,585.5	3,928.0	4,719.3
Cash and cash equivalents	(2,450.9)	(2,216.6)	(1,926.3)
Net debt	**2,134.6**	**1,711.4**	**2,793.0**

Note 19 – Statement of cash flows

19.1. 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

(in € millions)	June 30, 2019	Dec. 31, 2018	June 30, 2018
Cash and cash equivalents as reported in the statement of financial position	2,450.9	2,216.6	1,926.3
Bank overdrafts	(483.1)	(380.3)	(259.5)
Cash and cash equivalents as reported in the statement of cash flows	**1,967.8**	**1,836.3**	**1,666.8**

19.2. Breakdown of cash flow from operating activities

(in € millions)	First-half 2019	First-half 2018
Net income from continuing operations	**648.1**	**1,247.2**
Net recurring charges to depreciation, amortization and provisions on non-current operating assets	556.6	249.7
Other non-cash income and expenses:	(465.2)	(75.7)
o/w		
Recurring operating income and expenses (Note 5):	(6.8)	(35.4)
Fair value of operating foreign exchange rate hedges	*44.6*	*(63.0)*
Other	*(51.4)*	*27.6*
Other income and expenses:	(458.4)	(40.3)
Asset impairment	*9.9*	*12.4*
Fair value of foreign exchange rate hedges in net finance costs	*(43.2)*	*67.5*
Deferred tax (income) expense	*(415.1)*	*(130.1)*
Share in (earnings) losses of equity-accounted companies	*(20.7)*	*3.0*
Other	*10.7*	*6.9*
Cash flow from operating activities	**739.5**	**1,421.2**

19.3. Debt issues and redemptions/repayments

(in € millions)	First-half 2019	First-half 2018
Debt issues	34.8	8.2
Debt redemptions/repayments	(264.2)	(413.5)
Increase/decrease in other borrowings	861.6	(21.7)
Total	**632.2**	**(427.0)**

As of June 30, 2019, debt redemptions and repayments notably include redemption of the outstanding €245 million debt on the 3.125% bonds issued in April 2012 and maturing on April 23, 2019. These bonds were partially redeemed in 2018.

Changes in debt and other borrowings chiefly reflect issues and redemptions of Kering Finance commercial paper and to a lesser extent, bank loans denominated in Japanese yen.

Note 20 – Contingent liabilities, contractual commitments not recognized and other contingencies

As part of the complete restructuring of its logistics organization and the investments planned in Italy, Kering has entered into an arrangement with various partners in which it undertakes to lease a logistics hub and to finance the equipment to be installed there. As of June 30, 2019, these commitments represented approximately €150 million.

To the best of the Group's knowledge, no other significant contingent liabilities, contractual commitments or risks arose in the period.

Note 21 – Transactions with related parties

Kering SA is controlled by Artémis, which in turn is wholly owned by Financière Pinault. As of June 30, 2019, the Artémis group held 40.9% of Kering's share capital and 57.9% of its voting rights.

The main transactions carried out between Kering's consolidated companies and Artémis in first-half 2019 are described below:

- 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 €2.6 million in the first half of 2019 (€2.2 million in the first half of 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.

Note 22 – Subsequent events

No significant events occurred between June 30, 2019 and July 25, 2019, when the Board of Directors authorized the condensed consolidated interim financial statements for issue.

3. STATUTORY AUDITOR'S REVIEW REPORT ON THE INTERIM FINANCIAL INFORMATION

For the six months ended June 30, 2019

This is a free translation into English of the Statutory Auditors' review report issued in French and is provided solely for the convenience of English speaking readers. This report should be read in conjunction with, and construed in accordance with French law and professional auditing standards applicable in France.

To the Shareholders of KERING,

In compliance with the assignment entrusted to us by your Annual General Meeting and in accordance with the requirements of Article L.451-1-2 III of the French Monetary and Financial Code (Code monétaire et financier), we hereby report to you on:

- the review of the accompanying condensed consolidated interim financial statements of KERING for the six months ended June 30, 2019;

- the verification of the information contained in the interim management report.

These condensed consolidated interim financial statements are the responsibility of the Board of Directors. Our role is to express a conclusion on these financial statements based on our review.

I. Conclusion on the financial statements

We conducted our review in accordance with professional standards applicable in France. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with professional standards applicable in France and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.
Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements have not been prepared, in all material respects, in accordance with IAS 34 – Interim Financial Reporting, as adopted by the European Union.

Without qualifying the conclusion expressed above, we draw your attention to Notes 4 and 2.2.1 to the half-year condensed interim consolidated financial statements which describe the impacts of the first-time application as of January 1, 2019 of IFRS 16 "Leases" and IFRIC 23 "Uncertainty over Income Tax Treatments".

II. Specific verification

We have also verified the information given in the interim management report on the condensed consolidated interim financial statements subject to our review. We have no matters to report as to its fair presentation and its consistency with the condensed consolidated interim financial statements.

Paris La Défense, July 25, 2019

The Statutory Auditors

KPMG Audit		Deloitte & Associés
Department of KPMG SA		
Isabelle Allen	Grégoire Menou	Frédéric Moulin

4. STATEMENT BY THE PERSONS RESPONSIBLE FOR THE INTERIM FINANCIAL REPORT

We certify that, to our knowledge, the condensed consolidated interim financial statements for the six months ended June 30, 2019 have been prepared in accordance with applicable accounting standards and give a true and fair view of the assets, liabilities, financial position and results of the Company and the undertakings included in the consolidation, and that the interim management report gives a fair description of the material events that occurred in the first six months of the financial year and their impact on the interim financial statements, as well as a description of the principal risks and uncertainties for the remaining six months of the year, along with the principal transactions with related parties.

Paris, July 25, 2019

Jean-François Palus, Group Managing Director

Jean-Marc Duplaix, Chief Financial Officer

KERING

Société anonyme (a French corporation) with a share capital of €505,117,288

Registered office: 40 rue de Sèvres, 75007 Paris

552 075 020 RCS Paris

Tel.: +33 (0)1 45 64 61 00

kering.com

This document was produced by an “Imprim’Vert” eco-responsible printer on PEFC-certified paper from sustainably managed forests.

Empowering Imagination