2020
First-Half Report

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This is a free translation into English of the 2020 First-Half Report issued in French.

CHAPTER 1
Kering in the first half of 2020

KEY FIGURES

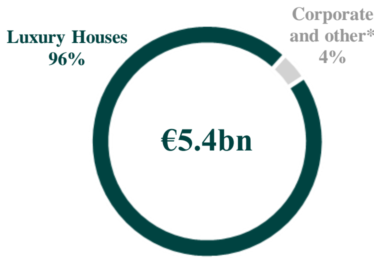
Key consolidated figures

(in € millions)	First-half 2020	First-half 2019	Change
Revenue	**5,378.3**	**7,638.4**	**-29.6%**
EBITDA	**1,675.0**	**2,809.3**	**-40.4%**
EBITDA margin (as a % of revenue)	*31.1%*	*36.8%*	*-5.7 pts*
Recurring operating income	**952.4**	**2,252.7**	**-57.7%**
Recurring operating margin (as a % of revenue)	*17.7%*	*29.5%*	*-11.8 pts*
Net income attributable to owners of the parent	**272.6**	**579.7**	**-53.0%**
o/w continuing operations excluding non-recurring items	**569.3**	**1,556.1**	**-63.4%**
Gross operating investments[1]	**367.8**	**383.7**	**-4.1%**
Free cash flow from operations[2]	**565.6**	**1,532.7**	**-63.1%**
Net debt[3]	**3,815.5**	**2,134.6**	**+78.7%**

[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.

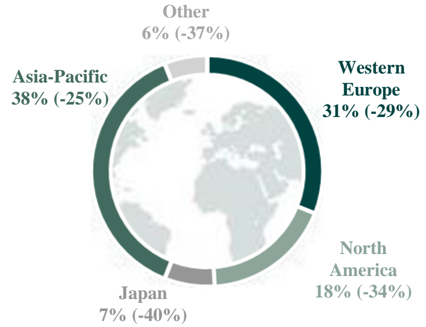
Per share data *(in €)*	First-half 2020	First-half 2019	Change
Net income attributable to owners of the parent	**€2.18**	**€4.61**	**-52.7%**
o/w continuing operations excluding non-recurring items	**€4.55**	**€12.37**	**-63.2%**

Breakdown of revenue from continuing operations



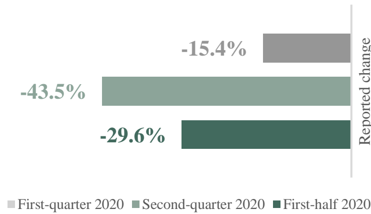
* The “Corporate and other” segment is defined on page 37.

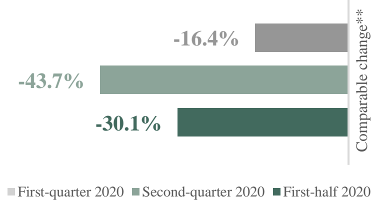
Breakdown of revenue by region



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

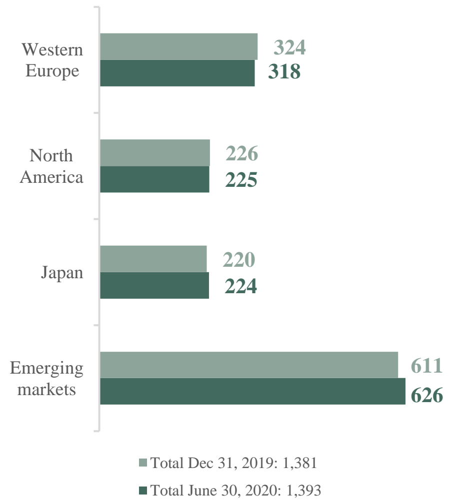
Change in revenue by quarter





** Comparable revenue is defined on page 49.

Number of directly operated stores by region



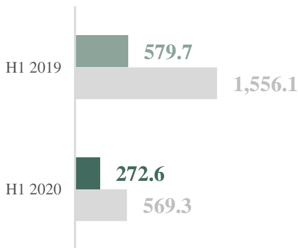
Recurring operating income: change and margin

(in € millions)	First-half 2020	First-half 2019	Change
Luxury Houses	**1,063.0**	**2,370.0**	**-55.1%**
Recurring operating margin	*20.5%*	*32.2%*	*-11.7 pts*
Corporate and other	**(110.6)**	**(117.3)**	**-5.7%**
Group	**952.4**	**2,252.7**	**-57.7%**
Recurring operating margin	*17.7%*	*29.5%*	*-11.8 pts*

Net income attributable to owners of the parent

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

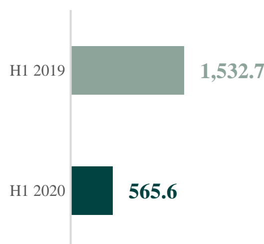
(in € millions)



Free cash flow from operations**

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

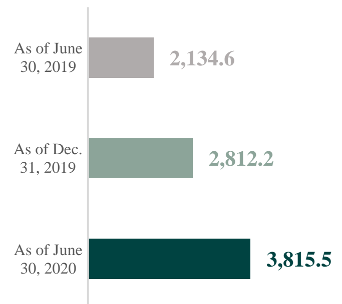
(in € millions)



Net debt***

*** Net debt is defined on page 50.

(in € millions)



CHAPTER 2
Financial information for first-half 2020

1. ACTIVITY REPORT

Introduction – Impacts of the COVID-19 pandemic on the Group's business and its interim financial statements for the six months ended June 30, 2020

A global economic shock

The Coronavirus pandemic that started in Asia in late 2019, and the measures taken to mitigate its consequences on human health, have had a profound and probably lasting effect on the global economy. The deterioration in the economic environment has resulted mainly from the lockdown measures and travel restrictions, which are weighing heavily on world trade, consumer spending and confidence, production operations and companies' liquidity. The support measures put in place by the governments of countries affected by the pandemic have helped to contain or level out the impact of the crisis but they cannot prevent a short-term economic recession.

Consequently, according to data issued by Oxford Economics, the global economy could shrink by 5% in 2020 before swinging back up 9% in 2021. The lockdown measures that were gradually introduced outside China as of late February 2020 are expected to mainly affect the second quarter. During that period, the global economy is set to contract by 10.5% compared with just 3.5% in the first quarter, thanks to a very dynamic start to the year. As the virus is still in active circulation and new targeted and general lockdown measures are still having to be implemented, it is difficult to anticipate the trends for the second half of the year. The latest projections show the global economy contracting by 4.5% in the third quarter and 1.2% in the fourth quarter.

As the situation currently stands, it is thought that mature economies will shrink by between 6% and 9% in 2020 and will then grow by between 6% and 8% in 2021 (except for Japan whose forecast growth is approximately 2%). The impact of the crisis should be less severe in 2020 for Asia's main economies, which could experience just a small contraction or even slight growth. 2021 is also expected to see a rebound in economic activity in emerging markets (with almost 11% growth in China).

A major crisis for the luxury sector

According to the most recent studies carried out by Bain & Company/Altagamma, average annual growth in the worldwide personal luxury goods market (as presented in Chapter 2 of Kering's 2019 Universal Registration Document) over the last ten years has been 6% based on reported data, with more modest growth in 2019 (4% at constant exchange rates). Over the past few years, growth in the personal luxury goods market has been propelled by a sharp rise in

Chinese and Asian demand, particularly due to increasing numbers of tourists in many regions of the world. Luxury market growth has also been closely correlated to both economic growth and financial market performance, and to a high consumer confidence index.

It is therefore logical that the luxury sector is being directly affected by the current difficult macro-economic context, which is dragging down consumers' purchasing power and notably their propensity to consume. While the consumer confidence index is still relatively high in China, it has decreased in the United States, and is particularly low in the Eurozone and the United Kingdom. In addition, tourist numbers have collapsed since mid-February, which has hit not only the travel retail market but also business in general in Western Europe, Japan and many Asian countries. By way of illustration, data issued by ForwardKeys shows a 67% drop in trips abroad booked by the Chinese in the first quarter of the year. This falloff is expected to represent 100% in the second quarter and around 97% in the third quarter. Lastly, the combination of the pandemic and political tensions weighed very heavily on performances in Hong Kong and Macao – markets that have been in crisis since the end of first-half 2019.

In view of all these factors, according to Bain & Company/Altagamma, the global luxury goods market may have contracted by some 25% (at constant exchange rates) in the first quarter of 2020. For the full twelve months of 2020, forecasts vary depending on assumptions as to how the pandemic will evolve and the authors of the studies concerned (mainly Bain & Company, McKinsey and BCG). Following on from a second quarter that could see a 50-60% market fall, trends for the second half are very difficult to predict. A best-case scenario would be a gradual recovery, resulting in a stable to slightly positive performance for the six months overall. A worst-case scenario would see a much slower improvement, with a lack of tourists, and the market shrinking by a further 20% to 25% in the second half of 2020. For the full year, therefore, the worldwide personal luxury goods market could contract by approximately 20% to 40%, depending on the scenario. Business is not expected to return to 2019 levels until the end of 2021 or even early 2022 in the best-case scenarios, with 2023 projected in more conservative forecasts.

The market segments hit the hardest by the crisis seem to be watches and, to a lesser extent, ready-to-wear and jewelry. Accessories, and particularly the perfumes and cosmetics segment, appear to be the least affected proportionally.

As regards distribution, travel retail in tourist destinations and international airports, as well as wholesale – which had already been struggling for the last few years (especially in the United States) – are expected to particularly suffer from the crisis. Conversely, online sales have been boosted.

The effect in different geographic markets evidently reflects differing local levels of severity of the health crisis and lockdown durations, as well as the extent to which each region is exposed to tourism. While Mainland China should benefit from the repatriation of spending to the domestic market, and South Korea is expected to see robust sales to domestic customers despite the contraction in travel retail, European markets – especially Italy and France – will suffer from the lack of tourists. In Japan, weak local demand is not likely to be able to offset the decrease in sales to Chinese tourists. And North America should be significantly impacted in 2020 in view of lockdowns, store closures, and an economic environment that is not propitious for consumer spending.

Accelerated transformation of the luxury sector

COVID-19 has clearly amplified the transformations that have been taking place in the luxury sector for several years now, most of which the Group has anticipated:

- First of all, lockdowns have boosted growth in online sales, which was already very robust. Bain & Company/Altagamma estimate that online sales accounted for 12% of luxury houses' revenue in 2019 and this proportion is expected to continue to rise, reaching 28% to 30% by 2025.
- The repatriation of Chinese spending to the domestic market, combined with a gradually weakening wholesale market, is expected to spur luxury brands into making their distribution more exclusive and to rethink the geographic coverage of their store networks.
- Lower in-store footfall, which has been exacerbated by the lack of tourists, means that brands are having to invent new forms of clienteling, helped by optimal use of data and CRM tools.
- In the long term, Chinese customers and generations Y and Z will be the growth drivers of the worldwide personal luxury goods market. This change in the customer profile of luxury brands will obviously have an impact on the geographic mix of sales but will also highlight new imperatives for the sector's players. For example, it has become absolutely vital to put in place a clear sustainability strategy covering the whole value chain.
- In the shorter term, at a time when sales are retreating but massive investments are required in several domains (digitalization, the store network, revamping the supply chain, etc.), closely and accurately monitoring operating costs has become more of a necessity than ever in order to maximize return on investment and expenditure.
- It is still too early to foresee the impacts that COVID-19 may have on the polarization that was already happening in the market, and any consolidation that may occur. It does seem, however, that the heightened complexity of doing business in a market that is global, but at the same time more fragmented than before (given the concentration on local customers), could strengthen the competitive advantage of large multi-brand groups as they can pool their resources and investments in numerous areas (such as sourcing, logistics, information systems and talent management).

Impacts of the pandemic on Kering's business and performance

Like all other luxury sector players, during the first half of 2020 the Group was deeply impacted by the effects of the pandemic, both in terms of its customers and its overall business operations.

The partial or full closure of its stores due to lockdowns, and the collapse in tourist numbers, obviously had a very material effect on the Group's revenue. As from late January, the store network in China was gradually closed, followed by a large number of stores in Asia in February. Europe and the United States were next, with stores closing as from mid-March. Consequently, at the end of the first quarter, around 55% of the points of sale directly managed by the Group's brands were completely closed and 25% were partially open (with reduced opening times). In April, despite some stores beginning to reopen in China, on average, barely 15% of the Group's stores were open as normal. The peak of the closures was in mid-April, when 70% of the network was completely closed (100% in North America and Europe). Since the end of April, stores have been re-opening very gradually, picking up pace since mid-May with the easing of national lockdowns. At end-June, around a quarter of the Group's points of sale were open as

normal and two-thirds were operating on reduced opening hours. The situation in North America was still concerning, however, with 25% of stores closed and almost all of the others only partially open.

The lockdown measures also temporarily reduced the Group's capacity to design, produce and distribute its products in normal conditions. In some cases, this led to temporary supply difficulties in stores and curtailed the depth and breadth of the offering, which meant that sales could not actually take place when stores re-opened or on the brands' e-commerce sites. This was due to the fact that the Group, and its suppliers, had to shut their product development and production sites in March as they are almost all based in Italy in regions that were severely affected by the pandemic (Lombardy, Tuscany and Veneto). At the same time, supply chain operations were heavily disrupted by the partial or complete closure of warehouses and other logistics sites, mainly in Switzerland (the canton of Ticino), Italy and the United States. These closures also affected the supply chain of Yoox Net-A-Porter, the e-commerce partner of our brands (apart from Gucci). Since late April, operations have gradually resumed at all of these sites, with strict health and hygiene measures implemented, and after consultations with employee representatives. As of end-June, not all development/prototyping and manufacturing operations had completely returned to normal due to social distancing measures, which obviously affect the organization of production processes. The Group's supply chain activities are almost fully back up and running, and barring any resurgence of the pandemic, should return to optimal productivity levels and response times during the summer.

The work of the Group's creative directors and merchandising and sales teams has also been significantly impacted by the COVID-19 crisis. The Group's brands have all shown a high level of responsiveness by accelerating the digitalization of their operations, which has helped limit the pandemic's impacts on the marketing of products and the design of collections. However, although the brands have been able to put in place virtual showrooms, the calendar for collections and fashion shows has been completely thrown off course. The in-store presentation of spring/summer collections has therefore been extended and the delivery of fall/winter collections has been postponed. In order to improve inventory turnover, private and public sales were held at the end of the spring/summer season. This healthy way of managing working capital led to a slight dilution in the brands' gross margin.

Thanks to the quality of the Group's information systems, homeworking was able to be organized during lockdown across the board, so the main functions of the brands and the Group as a whole could continue to operate as effectively as possible. Some projects did have to be put on hold for several weeks, however, due to a lack of available employees and consultants or because of governmental restrictions. For example, the construction of the Group's new logistics site at Trecate (in Piedmont, Italy) was temporarily stopped, although this interruption did not substantially alter the overall timing of the project. Similarly, the schedule for internalizing our brands' e-commerce management (handled until now by Yoox Net-A-Porter) has had to be adjusted.

In sum, the Group's drop in revenue for the first half of 2020 is without doubt related to the Coronavirus pandemic. Based on pre-COVID-19 growth forecasts for 2020 for the worldwide personal luxury goods market (2.5 to 6.0% growth at constant exchange rates depending on the product category according to Bain & Company/Altagamma) and for the Group (7.0 to 11.0% based on a selection of 18 analysts' reports following the Group's third-quarter 2019 revenue release), Kering's revenue loss for the first half of 2020 compared with the original estimates could lie within a range of €2.5 billion to €3.2 billion as reported. It is important to note that the

year started out on a very good footing, with double-digit sales growth in January and a very solid performance in all regions, although it is true that there was a favorable calendar effect due to Chinese New Year being earlier in 2020 than in 2019. The lack of visibility about how the worldwide personal luxury goods market will evolve in the next few months makes it impossible to forecast the Group's second-half sales with any sufficient degree of reliability. However, the loss in revenue experienced in the first six months of the year should not be offset in the second half.

Against this backdrop, Kering has put in place all the necessary measures to adapt its cost base and contain its working capital requirement, without cutting back on expenditure and investments required to protect its Houses' market positions and safeguard their potential to grow and bounce back in the short and medium term. One of the most important steps taken was to renegotiate lease payments in order to lower stores' break-even point during lockdown. These negotiations with the stores' owners mostly proved fruitful and resulted in substantial cost savings. More generally, all of the stores' running costs were reduced, and a number of specific events within the store network were pushed back to the second half of the year or to 2021. Marketing spend was also cut drastically, due to the lack of in-store footfall and certain customers' faint receptiveness to the brands' communication actions during lockdown. Payroll was contained during the period, as there was more or less a freeze on salaries and hiring.

However, despite the decrease in variable costs in proportion with revenue and the fixed cost savings achieved, the reduction in operating costs was not sufficient to offset the drastic fall in revenue and slight dilution in gross margin. As a result, the Group's recurring operating margin was pushed down by around 12 points, to 17.7% in first-half 2020 from 29.5% in the first half of 2019. If the pandemic and ensuing revenue drop had not happened, the Group's recurring operating margin for the first six months of 2020 would very likely have been the same as or higher than in first-half 2019. As the Group cannot forecast its revenue levels for the coming months, it is not reasonably possible to project its recurring operating margin for 2020. The cost-saving measures implemented in the first half should, however, benefit results in the second half of the year. In addition, the Group will continue to exercise the same financial discipline as in prior years in order to contain the contraction in recurring operating margin in 2020.

This financial discipline was already applied to the management of capital expenditure in the first half of the year, which involved redefining the brands' priorities in terms of operating investments. These investments decreased by 24.3% year on year and represented 4.0% of the Houses' revenue (versus 3.7% in the first half of 2019). The strategic programs managed by the Corporate function on behalf of the brands in logistics, e-commerce and information systems were continued, however, albeit with a few delays caused by the lockdown measures. These investments therefore rose significantly year on year. Altogether, the Group's operating investments for the first six months of 2020 were 4.1% lower than in first-half 2019 and represented 6.8% of the Group's sales (versus 5.0% in first-half 2019).

The fact that operating results were lower but operating investments remained high naturally weighed on operating free cash flow. It was still in positive territory though and its year-on-year contraction (of €967 million) was lower than the decline in EBITDA.

Impacts of the COVID-19 pandemic on the Group's 2020 interim financial statements

Other than the items mentioned below – which were accounted for as non-recurring operating expenses – all of the impacts arising from the COVID-19 pandemic described in the paragraphs

above have been recognized in the income statement for first-half 2020 and essentially affect recurring operating income.

In particular, the costs related to health measures put in place (purchases of hand sanitizer and face masks, exceptional measures for regularly disinfecting premises, etc.) have been accounted for as recurring expenses.

The rent concessions negotiated with lessors due to the consequences of the COVID-19 pandemic were immediately recognized in the income statement as negative variable lease payments rather than as an amendment to the associated leases. This accounting method complies with the simplification measure provided for in the Amendment to IFRS 16 – *Leases*, issued by the IASB on May 28, 2020, although this amendment had not been formally endorsed by the European Union at the date the condensed consolidated interim financial statements were prepared.

Impairment losses on current assets (inventories and trade receivables) – caused indirectly by the pandemic due to slow-moving inventory items from the Spring/Summer collections and the difficulties suffered by many wholesale accounts – have been recognized as recurring expenses.

Other non-recurring operating income and expenses represented a net expense of €320 million in first-half 2020 (versus a €42 million net expense in first-half 2019). Excluding the impacts of COVID-19 – notably asset impairment losses resulting from the crisis – the net expense was €60 million.

The COVID-19 impact recognized as non-recurring expenses therefore amounted to €260 million, breaking down as €14 million in exceptional donations to support various organizations in their fight against the pandemic and €246 million in asset impairment losses.

The asset impairment losses were recognized following impairment tests performed by estimating the recoverable amount of the Houses' assets that had already been written down in 2019. The Houses concerned were Brioni and the watches brands (Girard-Perregaux and Ulysse Nardin), which were hit particularly hard by the pandemic. The impairment losses recognized in the first half of 2020 were mostly for brands (€201 million), as well as a right-of-use asset related to a lease held by Brioni (€35 million).

To date, the Group considers that the contraction in business in the first half of 2020 and the outlook for the luxury goods market are not sufficient indicators that the recoverable amount of the assets of the Group's other brands may be impaired, except those mentioned in the above paragraph.

(See Note 6 – Other non-recurring operating income and expenses and Note 11 – Impairment tests on non-financial assets, to the condensed consolidated interim financial statements).

The impacts of the COVID-19 pandemic have also been taken into consideration for calculating the Group's corporate income tax. The global decrease in profits for the vast majority of multinational groups has raised the question of how profits and losses should be allocated by country. The OECD has launched a review process on this matter, which is likely to result in transfer pricing recommendations in view of these unprecedented circumstances. Pending the OECD's findings, the Group has made its best estimate of its taxation on a country-by-country basis in light of its current documented transfer pricing policy and the initial guidance issued by the OECD and national tax authorities. The Group is confident that its estimates at June 30, 2020 are fair and prudent.

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

Lastly, the Group has analyzed its exposure to the financial risks set out in its 2019 Universal Registration Document.

In particular, it found no significant escalation of credit risk across the Group. In fact, as it has a large number of customers in a wide range of business segments and realizes a significant portion of its sales directly with the end customer, direct sales do not expose the Group to any credit risk. For sales through wholesalers, there is no strong dependency or concentration whereby the loss of one or more wholesalers could significantly affect the Group's earnings. Credit risk with respect to wholesalers is also minimized by taking out credit insurance and implementing an appropriate and prudent credit risk strategy managed Group-wide by a dedicated team.

Concerning liquidity risk, the Group took action very early on in the pandemic, when countries started going into lockdown after China. In order to ensure liquidity, the Group now has €4,835 million in total confirmed credit lines (versus €3,035 million as of December 31, 2019), of which €4,835 million is undrawn. As of June 30, 2020, the Group had €2,802 million in available cash. In addition, in order to pro-actively manage the Group's liquidity, in first-half 2020 Kering carried out a €1.2 billion dual-tranche bond issue comprising (i) a €600 million tranche with a three-year maturity and a 0.25% coupon, and (ii) a €600 million tranche with an eight-year maturity and a 0.75% coupon.

(See Note 15 – Borrowings, to the condensed consolidated interim financial statements).

Significant events of first-half 2020 related to the COVID-19 pandemic

The significant events below have already been disclosed by the Group in press releases related to regulated information.

Postponement of the Annual General Meeting to June 16, 2020

In view of the circumstances, on March 30, 2020, Kering's Board of Directors decided to postpone the 2020 Annual General Meeting initially scheduled for Thursday April 23, 2020. On April 21, 2020, the Board set the new Meeting date as June 16, 2020.

Revised dividend per share for 2019

In light of the COVID-19 pandemic and its impact on economic activity, on April 21, 2020 the Board of Directors decided to revise the amount allocated to the 2019 dividend payment and to recommend to shareholders at Kering SA's Annual General Meeting on June 16, 2020 that the total dividend payout should amount to €1,010 million, corresponding to €8 per share. This is €442 million lower than the amount announced when the Group released its 2019 results on February 12, 2020 (€1,452 million, or €11.50 per share).

Reduction in remuneration for 2020 for Kering's executive corporate officers

In light of the COVID-19 pandemic and its impact on business activity, François-Henri Pinault, Chairman and CEO of Kering, decided to reduce the fixed portion of his salary by 25% from April 1, until the end of 2020. In addition, François-Henri Pinault and Jean-François Palus, Group Managing Director, decided to waive the entirety of the variable portions of their annual remuneration for 2020. These decisions were approved by Kering's Board of Directors on April 21, 2020. The Board therefore submitted a revised 2020 remuneration policy to the vote of the shareholders at the Annual General Meeting held on June 16, 2020.

Support given by the Group to help the fight against COVID-19

Kering has contributed to the fight against COVID-19 in France, Italy, China and the United States.

In France, Kering purchased 3 million surgical masks from China for the French health service. At the same time, the Balenciaga and Yves Saint Laurent workshops began manufacturing officially approved face masks. Kering also made a financial donation to the Institut Pasteur for its research into COVID-19, and to Cochin hospital in Paris for its "3D COVID" project to purchase 60 3D printers in order to rapidly produce large quantities of medical equipment. In Italy, Kering and its Houses made donations to four major hospital foundations in Lombardy, Veneto, Tuscany and Lazio. Gucci responded to the appeal launched to the fashion industry by the Tuscany regional authorities, supplying 1.1 million surgical masks and 55,000 medical overalls to health workers. In China, as early as the end of January, Kering and its Houses announced a donation to the Hubei Red Cross Foundation to help fight the spread of the virus. In the United States, Kering and its Houses entered into a partnership with the CDC Foundation, giving a $1 million donation to provide personal protection equipment and other essential supplies to health workers. This donation helped support front-line health workers in the United States – and particularly the hardest hit States such as New York, New Jersey, California and Florida – as well as in a number of regions in Latin America.

Pro-active management of the Group's liquidity – a new bond issue and extension of syndicated loan facilities

In May 2020, Kering carried out a €1.2 billion dual-tranche bond issue comprising (i) a €600 million tranche with a three-year maturity and a 0.25% coupon, and (ii) a €600 million tranche with an eight-year maturity and a 0.75% coupon. In line with the Group's pro-active liquidity management approach, this issue enables Kering to diversify its sources of financing and enhance its funding flexibility through refinancing of existing debt and extending the maturity of its financing facilities. Investors' high take-up rate of the issue confirmed the market's confidence in the Group's creditworthiness. Kering's long-term debt is rated "A-" with a stable outlook by Standard & Poor's.

Also during first-half 2020, the Group extended its credit facilities from its banks in an aggregate amount of €1,800 million, giving it €4,835 million in total confirmed credit lines as of June 30, 2020, versus €3,035 million as of December 31, 2019 (see Note 15 – Borrowings to the condensed consolidated interim financial statements).

First-half 2020 business review

Key figures

Condensed consolidated income statement

(in € millions)	First-half 2020	First-half 2019	Change
Revenue	5,378.3	7,638.4	-29.6%
Recurring operating income	952.4	2,252.7	-57.7%
as a % of revenue	*17.7%*	*29.5%*	*-11.8 pts*
EBITDA	1,675.0	2,809.3	*-40.4%*
as a % of revenue	*31.1%*	*36.8%*	*-5.7 pts*
Other non-recurring operating income and expenses	(319.6)	(42.2)	-657.3%
Finance costs, net	(144.9)	(133.7)	+8.4%
Income tax expense	(193.7)	(1,449.4)	-86.6%
Share in (earnings) losses of equity-accounted companies	(7.8)	20.7	-137.7%
Net income from continuing operations	286.4	648.1	-55.8%
o/w attributable to owners of the parent	*283.8*	*623.4*	*-54.5%*
o/w attributable to non-controlling interests	*2.6*	*24.7*	*-89.5%*
Net income (loss) from discontinued operations	(11.2)	(60.0)	+81.3%
Net income attributable to owners of the parent	272.6	579.7	-53.0%
Net income from continuing operations (excluding non-recurring items) attributable to owners of the parent	569.3	1,556.1	-63.4%
Earnings per share			
Earnings per share attributable to owners of the parent	€2.18	€4.61	-52.7%
Earnings per share from continuing operations (excluding non-recurring items) attributable to owners of the parent	€4.55	€12.37	-63.2%

Operating investments

(in € millions)	First-half 2020	First-half 2019	Change
Gross operating investments	367.8	383.7	-4.1%

Free cash flow from operations

(in € millions)	First-half 2020	First-half 2019	Change
Free cash flow from operations	565.6	1,532.7	-63.1%

Revenue

(in € millions)	First-half 2020	%	First-half 2019	%	Reported change	Comparable change[1]
Total Luxury Houses	5,175.5	96%	7,364.4	96%	-29.7%	-30.2%
Corporate and other	*202.8*	*4%*	*274.0*	*4%*	*-26.0%*	*-26.7%*
Total revenue	**5,378.3**	**100%**	**7,638.4**	**100%**	**-29.6%**	**-30.1%**

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

Consolidated revenue for the first half of 2020 amounted to €5,378 million, a sharp 29.6% decrease on first-half 2019 as reported and 30.1% based on a comparable Group structure and exchange rates.

Exchange rate fluctuations had a €57 million positive effect on revenue during the period, of which €38 million related to the US dollar.

Revenue by region

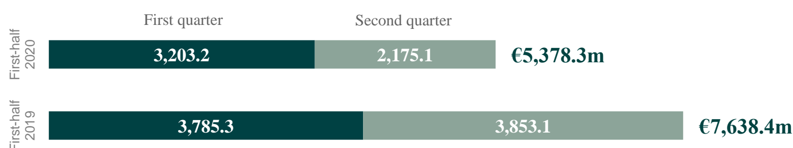
(in € millions)	First-half 2020	%	First-half 2019	%	Reported change	Comparable change[1]
Western Europe	1,670.6	31.1%	2,355.0	30.8%	(684.4)	(688.3)
North America	955.5	17.8%	1,408.4	18.4%	(452.9)	(485.4)
Japan	399.0	7.4%	638.6	8.4%	(239.6)	(266.3)
Sub-total – mature markets	**3,025.1**	**56.3%**	**4,402.0**	**57.6%**	**(1,376.9)**	**(1,440.0)**
Eastern Europe, Africa and the Middle East	255.2	4.7%	392.3	5.1%	(137.1)	(139.8)
South America	50.0	0.9%	100.3	1.4%	(50.3)	(40.7)
Asia-Pacific (excluding Japan)	2,048.0	38.1%	2,743.8	35.9%	(695.8)	(696.5)
Sub-total – emerging markets	**2,353.2**	**43.7%**	**3,236.4**	**42.4%**	**(883.2)**	**(877.0)**
Total revenue	**5,378.3**	**100%**	**7,638.4**	**100%**	**(2,260.1)**	**(2,316.9)**

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

Revenue generated outside the eurozone represented 80% of the consolidated total in first-half 2020.

Quarterly revenue data

Consolidated revenue by quarter



Quarterly revenue by activity

(in € millions)	First-quarter 2020	Second-quarter 2020	First-half 2020
Gucci	1,804.1	1,268.1	3,072.2
Yves Saint Laurent	434.6	246.5	681.1
Bottega Veneta	273.7	229.4	503.1
Other Houses	553.3	365.8	919.1
Total Luxury Houses	**3,065.7**	**2,109.8**	**5,175.5**
Corporate and other	*137.5*	*65.3*	*202.8*
Kering total	**3,203.2**	**2,175.1**	**5,378.3**

(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**

(comparable change)	Change First-quarter 2020	Change Second-quarter 2020	Change First-half 2020
Gucci	-23.2%	-44.7%	-33.8%
Yves Saint Laurent	-13.8%	-48.4%	-30.6%
Bottega Veneta	+8.5%	-24.4%	-9.5%
Other Houses	-5.4%	-44.0%	-25.8%
Total Luxury Houses	**-16.9%**	**-43.4%**	**-30.2%**
Corporate and other	-1.3%	-52.5%	-26.7%
Kering total	**-16.4%**	**-43.7%**	**-30.1%**

Recurring operating income

(in € millions)	First-half 2020	First-half 2019	Change
Total Luxury Houses	1,063.0	2,370.0	-55.1%
Corporate and other	*(110.6)*	*(117.3)*	*+5.7%*
Recurring operating income	**952.4**	**2,252.7**	**-57.7%**

The Group's gross margin for the first half of 2020 amounted to €3,903 million, €1,749 million, or 30.9%, lower than in first-half 2019. Recurring operating expenses fell by 13.2% year on year.

Kering's recurring operating income totaled €952 million in the first six months of 2020, down 57.7% on first-half 2019. Recurring operating margin declined by 11.8 percentage points to 17.7% for the Group as a whole, and by 11.7 points to 20.5% for the Luxury Houses.

For the purposes of comparison and pursuant to IAS 17, which was superseded by IFRS 16 as from January 1, 2019, recurring operating income for first-half 2020 (adjusted for IAS 17) would have totaled €914 million, down 59.0% year on year (data adjusted for IAS 17). Recurring operating margin would thus have narrowed by 12.2 percentage points to 17.0% for the Group as a whole. Recurring operating income (adjusted for IAS 17) is defined on page 50.

EBITDA

(in € millions)	First-half 2020	First-half 2019	Change
Recurring operating income	**952.4**	**2,252.7**	**-57.7%**
Net recurring charges to depreciation, amortization and provisions on non-current operating assets	722.6	556.6	+29.8%
o/w depreciation of right-of-use assets (IFRS 16)	*408.7*	*316.6*	*+29.1%*
EBITDA	**1,675.0**	**2,809.3**	**-40.4%**

(in € millions)	First-half 2020	First-half 2019	Change
Total Luxury Houses	1,686.0	2,850.1	-40.8%
Corporate and other	*(11.0)*	*(40.8)*	+73.0%
EBITDA	**1,675.0**	**2,809.3**	**-40.4%**

EBITDA margin narrowed by 5.7 percentage points compared with the first half of 2019, coming in at 31.1% (36.8% in first-half 2019).

For the purposes of comparison and pursuant to IAS 17, which was superseded by IFRS 16 as from January 1, 2019, EBITDA margin for first-half 2020 (adjusted for IAS 17) would have narrowed by 9.5 percentage points year on year (data adjusted for IAS 17) to 22.8% (32.3% in first-half 2019). EBITDA (adjusted for IAS 17) is defined on page 50.

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 first-half 2020, other non-recurring operating income and expenses represented a net expense of €320 million and primarily corresponded to €201 million in impairment charged against the Ulysse Nardin, Girard-Perregaux and Brioni brands, and €35 million in impairment recognized against a right-of-use asset related to a lease held by Brioni.

Restructuring costs relate primarily to the watches brands amid a complete restructuring of their business models.

Other non-recurring operating expenses include €14 million in donations made by Kering and by its Houses as part of efforts to combat the COVID-19 pandemic.

Excluding non-recurring items directly or indirectly relating to the pandemic, other non-recurring operating income and expenses represent a net expense of €60 million.

In the first six months of 2019, other non-recurring income and expenses represented a net expense of €42 million and primarily concerned the costs of restructuring the Group's logistics activities and the watches brands.

(See Note 6 – Other non-recurring operating income and expenses and Note 11 – Impairment tests on non-financial assets, to the condensed consolidated interim financial statements).

Finance costs, net

(in € millions)	First-half 2020	First-half 2019	Change
Cost of net debt	30.0	25.6	+17.2%
Other financial income and expenses	57.6	59.0	-2.4%
Finance costs, net (excluding leases)	**87.6**	**84.6**	+3.5%
Interest expense on lease liabilities	57.3	49.1	+16.7%
Finance costs, net	**144.9**	**133.7**	**+8.4%**

The Group's cost of net debt was €30 million in first-half 2020, 17.2% higher than the €26 million figure recorded for the same period of 2019. This primarily reflects the cost of the financing arranged by the Group to address lower cash generation in the context of the economic crisis caused by the COVID-19 pandemic. However, the rise in the cost of net debt was partially countered by lower expenses on bonds, which benefited from extremely low interest rates.

Other financial income and expenses represented a net expense of €58 million in first-half 2020, down 2.4% on the €59 million net expense recorded for the first half of 2019. This improvement includes the favorable impact of remeasuring the optional component on bonds exchangeable into PUMA shares issued in 2019 (€24 million), partially offset by a negative currency effect of €21 million.

Income taxes

(in € millions)	First-half 2020	First-half 2019	Change
Income before tax	**487.9**	**2,076.8**	**-76.5%**
Current tax expense	(307.1)	(1,864.5)	-83.5%
o/w			
Tax expense relating to the tax settlement in Italy	N/A	(895.9)	N/A
Deferred tax income (expense)	113.4	415.1	-72.7%
Income tax expense	**(193.7)**	**(1,449.4)**	**-86.6%**
Effective tax rate	**39.7%**	**69.8%**	**-30.1 pts**

(in € millions)	First-half 2020	First-half 2019	Change
Other non-recurring operating income and expenses	(319.6)	(42.2)	+657.3%
Recurring income before tax	**807.5**	**2,119.0**	**-61.9%**
Tax income on other non-recurring operating income and expenses	34.1	5.4	+531.5%
Tax expense relating to the tax settlement in Italy	N/A	(895.9)	N/A
Tax expense on recurring income (excluding impact of tax settlement in Italy	**(227.8)**	**(558.9)**	**-59.2%**
Effective tax rate on recurring income (excluding impact of tax settlement in Italy)	**28.2%**	**26.4%**	**+1.8 pts**

The global decrease in profits for the vast majority of multinational groups has raised the question of how profits and losses should be allocated by country. The OECD has launched a review process on this matter, which is likely to result in transfer pricing recommendations in view of these unprecedented circumstances. Pending the OECD's findings, the Group has made its best estimate of its taxation on a country-by-country basis in light of its current documented transfer pricing policy and the initial guidance issued by the OECD and national tax authorities.

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

Operating performance

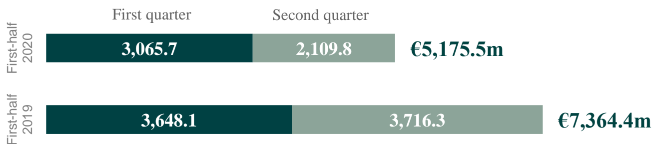
LUXURY HOUSES

(in € millions)	First-half 2020	First-half 2019	Change
Revenue	**5,175.5**	**7,364.4**	**-29.7%**
Recurring operating income	**1,063.0**	**2,370.0**	**-55.1%**
as a % of revenue	***20.5%***	***32.2%***	***-11.7 pts***
EBITDA	1,686.0	2,850.1	-40.8%
as a % of revenue	*32.6%*	*38.7%*	*-6.1 pts*
Gross operating investments	205.3	271.3	-24.3%
Average FTE headcount	32,685	30,217	+8.2%

The main trends affecting the worldwide personal luxury goods market and the operations of the Group's Houses are described in the introductory section above, which sets out the impacts of the COVID-19 pandemic on the Group's business and its interim financial statements as of June 30, 2020.

Regarding the impact of exchange rates on the Group's performance during the period, despite volatility in the world's major currencies both in the first half of 2019 and the first half of 2020, there were no significant changes between those two periods in the average exchange rate of the euro against the other major currencies. Consequently, reported growth for Kering's Luxury Houses was only 50 basis points higher than growth at constant exchange rates. In absolute value terms, the difference was approximately €54 million.

Revenue



Total revenue generated by the Group's Luxury Houses came to €5,175 million in first-half 2020, down 30.2% year on year based on a comparable Group structure and exchange rates (down 29.7% as reported). The revenue drop was particularly marked in the second quarter (43.4%), with April falling deeply into negative territory. This followed a 16.9% decline in the first quarter after a very good start to the year.

First-half 2020	
Reported change	-29.7%
Comparable change	-30.2%

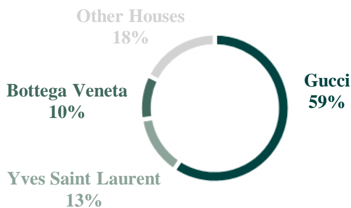
All of the Houses saw sales contractions over the full six months. Gucci and Yves Saint Laurent – whose store networks are among the most developed and the most exposed to tourist numbers – recorded the steepest falls (33.8% and 30.6% respectively). In addition, Yves Saint Laurent suffered in the second quarter from store closures in North America, where the brand is particularly strong. The decline in business at Bottega Veneta, Balenciaga and Alexander McQueen was more contained.

Sales in directly operated stores and online fell 30.9% in first-half 2020 despite a 47.2% surge in online sales, which accounted for 12.8% of overall direct sales. E-commerce growth was negatively impacted, however, by the temporary closure of the Group's and Yoox Net-A-Porter's logistics centers, as well as delivery restrictions at the height of the lockdown periods.

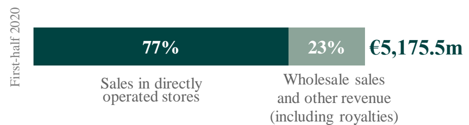
Sales in directly operated stores represented 77.2% of total revenue generated by the Group's Luxury Houses in the first half of 2020, compared with 77.9% in the corresponding prior-year period. This apparent year-on-year stability reflects the unprecedented conditions that affected the Houses' operations in first-half 2020 rather than the long-term strategy implemented by all of the brands, which is aimed at more effectively controlling their distribution, including online, and strengthening their exclusivity while prudently managing the expansion of the directly operated store network and the related investments.

Wholesale sales retreated 27.0% in first-half 2020, based on comparable data. The decrease was particularly pronounced in North America in light of the financial and operational difficulties encountered by the region's distributors. Bottega Veneta was the only fashion and leather goods House to record growth in sales with wholesalers, boosted by the brand recapturing market share thanks to its new creative direction. Nevertheless, the Group's strategy for all of its Houses is to continue to focus its wholesale business on the highest-quality distributors.

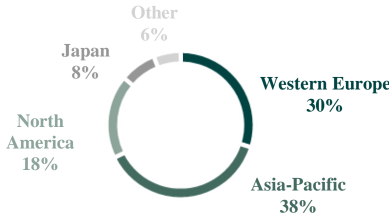
Breakdown of revenue by brand



Breakdown of revenue by distribution channel



Revenue by region[1]

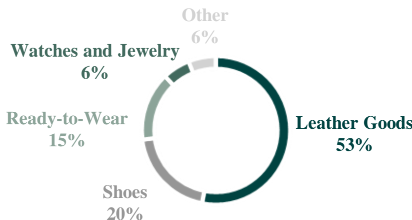


Sales for the Group's Luxury Houses dropped sharply in all operating regions in the first half of 2020.

Total revenue in emerging markets fell 26.9% year on year, with the Asia-Pacific region posting a 25.1% decrease. Mainland China was the only market in the Asia-Pacific region where sales rose (by 6.4%), as the second quarter more than offset the poor sales performance in the first quarter, which was severely impacted by the lockdown measures imposed in China's major cities. Growth in Mainland China was also boosted by the repatriation of spending to the domestic market to the detriment of other markets, notably in Asia. The sales drop in Hong Kong and Macao was particularly marked.

In mature markets, revenue fell 32.7%, with a very steep 54.4% decline in the second quarter. The sales contractions were fairly even across the various regions.
In Western Europe, sales retreated 29.7%, suffering from the lack of tourists as from mid-February. However, since stores have begun to reopen, targeted clienteling actions and numerous in-store events have supported sales to local customers.
In North America, the 34.1% sales decrease was highly correlated to store closures and the declining consumer confidence index. Since stores have begun to reopen in the region, however, overall sales trends have been very encouraging. Additionally, although the e-commerce market has reached maturity in the region, online sales rose by almost 50% during the period.
Sales in Japan were down 40%, extremely affected by the COVID-19 crisis, particularly in the second quarter, reflecting a lack of Chinese tourists and a very subdued local consumer environment.

Revenue by product category



All of the main product categories registered sharp revenue falls in the first half of 2020.

However, the quality of the Group's brand portfolio and the effective strategies put in place by the Houses helped to evenly spread the declines across the different product categories. For example, contrary to market trends, ready-to-wear sales decreased in comparable proportions to the other categories thanks to the appeal of the Houses' fashion and leather goods offering. Similarly, in line with the good trends observed in 2019, jewelry saw a less pronounced sales decline than the average of the other categories, thanks to strong market momentum in Asia and Qeelin's successful business development in China. For both Girard-Perregaux and Ulysse Nardin, however, sales were heavily impacted by the COVID-19 pandemic, as was the case for the watchmaking industry as a whole.

[1] *The geographical breakdown of revenue is calculated as a % of the total sales (applicable throughout the report).*

Royalties and other revenues dived by 38.4%, hampered by a much lower performance from Gucci's fragrances and cosmetics license managed by Coty.

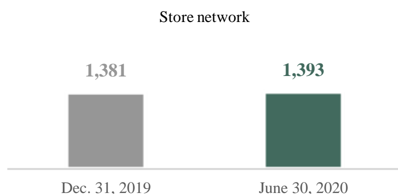
Recurring operating income

Recurring operating income for the Group's Luxury Houses totaled €1,063 million in the first half of 2020, down by €1,307 million on the first six months of 2019. Recurring operating margin narrowed by 11.7 points year on year to 20.5%, due to an unfavorable operating leverage effect after several years of margin accretion. Rather than the contraction in gross margin, this dilution of recurring operating margin was more a reflection of the very sharp fall in sales, which led to lower absorption of fixed costs (despite lower expenditure). The dilution was fairly even across the brands (ranging from 10.2 to 10.9 points for the main Houses), but was more pronounced for brands that are emerging or close to break-even, which is logical.

The combined effect of exchange rate fluctuations and currency hedges had virtually no impact on recurring operating income compared with the first half of 2019.

EBITDA for the first six months of 2020 came in at €1,686 million versus €2,850 million in the equivalent prior-year period. At 32.6%, EBITDA margin was still significantly above the 30% mark.

Store network and operating investments



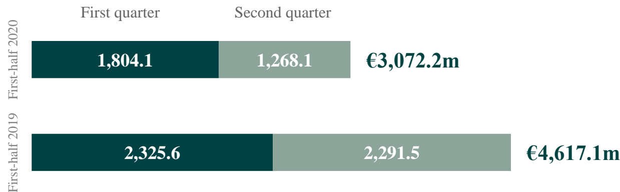
At €205 million, the Luxury Houses' gross operating investments – which do not include the vast majority of investments in logistics and information systems centralized by the Corporate entity for all of the brands – were considerably reduced, down €66 million (24.3%) on the same period of 2019. As a proportion of revenue for the period, gross operating investments represented 4.0%. This very slight increase, compared to the 3.7% figure for first-half 2019, reflects the Houses' ability to adapt by allocating their resources to the highest priority and most strategic projects. The seasonal effect for operating investments should be less pronounced than in previous years, as the second six-month period of 2020 is expected to account for just over half of the full-year total.

As of June 30, 2020, the Group's Luxury Houses had a network of 1,393 directly operated stores, including 767 (55%) in mature markets and 626 in emerging markets. Net store additions during the period totaled 12 (representing a 0.9% increase compared with December 31, 2019), with openings mainly taking place at the beginning of the year. The new stores are primarily located in China and South Korea, whereas the network in mature countries remained more or less the same (a net decrease of three stores).

GUCCI

(in € millions)	First-half 2020	First-half 2019	Change
Revenue	**3,072.2**	**4,617.1**	**-33.5%**
Recurring operating income	**929.0**	**1,876.1**	**-50.5%**
as a % of revenue	***30.2%***	***40.6%***	***-10.4 pts***
EBITDA	1,236.2	2,106.0	-41.3%
as a % of revenue	*40.2%*	*45.6%*	*-5.4 pts*
Gross operating investments	98.4	125.1	-21.3%
Average FTE headcount	18,208	16,739	+8.8%

Revenue



First-half 2020

Reported change	-33.5%
Comparable change	-33.8%

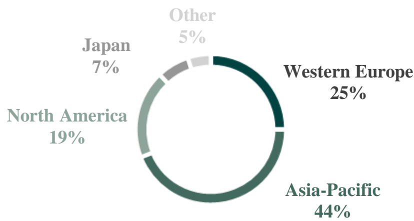
Gucci posted €3,072 million in revenue in the first half of 2020, down 33.8% year on year at comparable exchange rates. In the first quarter, the decrease came to 23.2%, reflecting the brand's exposure to Chinese customers and the lockdown measures affecting those customers as from late January. The second quarter saw a decline of 44.7%.

Retail sales generated in directly operated stores retreated 33.4% at constant exchange rates in first-half 2020. This revenue level is closely correlated to the number of stores closed during the period. Gucci had a robust start to the year, with double-digit revenue growth in January. As stores reopened, the House regained a favorable momentum with local customers in its main markets. In addition, as Gucci was already one of the Group's front-running brands in terms of e-commerce development, growth in online sales was particularly robust during the period, topping 50%.

Sales generated in the wholesale network contracted 36.1% on a comparable basis. This decrease obviously stemmed from lower numbers of orders from key accounts, especially in the United States, but it was also due to choices that had to be made in allocating products between directly operated stores and the wholesale network, given the tense situation for the supply chain and logistics operations. Additionally, it reflects the brand's objective of embarking on a new phase in the transformation of its distribution with a view to making it more exclusive. Revenue

generated with wholesalers is expected to contract further in 2020, with a reduction in the number of active accounts and volumes delivered.

Revenue by region

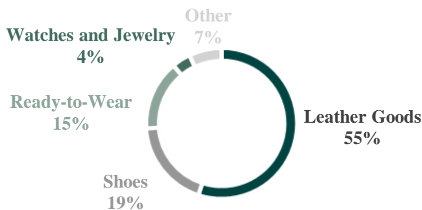


In view of the proportion of Gucci's sales that are generated in directly operated stores (86.3% in the first half of 2020), the following revenue analysis by region only concerns in-store business.

In mature markets, revenue was down 39.2% year on year. North America saw the lowest decrease (27.9%), as actions taken to re-energize Gucci's business in the United States began to pay off as from the end of last year. This region posted very robust online sales, with another significant increase in the brand's market penetration rate. Conversely, in Western Europe and Japan, sales struggled due to the lack of tourists and sluggish local demand following lockdown, dropping 47.3% and 40.5% respectively.

In emerging markets, revenue declined 27.3% at constant exchange rates. Gucci's sales in the Asia-Pacific region contracted 24.6% but rose robustly in Mainland China, the region's main market. Sales growth in China has accelerated since mid-April with the gradual easing of the country's lockdowns. Over the last three months, South Korea has also been a very dynamic market for Gucci's stores, except for Duty Free, which the brand integrates into its network of directly operated stores and whose sales decreased sharply due to the lack of Chinese tourists. The low numbers of Chinese tourists had a significant effect on the performance of most markets in the Asia-Pacific region during the period.

Revenue by product category



All of the brand's main product categories registered sales decreases in directly operated stores during the first half of 2020. The proportion of carryovers – which had been kept stable for several quarters at the target level set by Gucci for all of its product categories – increased slightly over the period due to a more restricted offering of new products.

Apart from the effects of the COVID-19 crisis, the trends for the brand's main product categories are encouraging, illustrating a very favorable reception from customers for the latest collections marked by a stylistic evolution.

Royalties were much lower than in first-half 2019, primarily due to the weak sales recorded in connection with the license granted to Coty for fragrances and cosmetics.

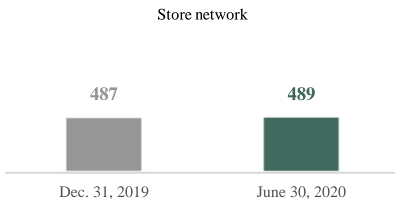
Recurring operating income

Gucci's recurring operating income totaled €929 million in first-half 2020, down 50.5% on the first six months of 2019. The brand's recurring operating margin narrowed by 10.4 basis points but remained above 30%.

The dilution of recurring operating margin was attributable to a leverage effect that was logically unfavorable as a result of the year-on-year revenue decline. Gross margin narrowed by a few basis points in light of inventory write-downs and the temporary rise in unit production costs. At the same time, the cost base was considerably reduced due to the automatic decrease in variable costs combined with systematic optimization of fixed costs. This agile cost management enabled Gucci to continue making the investments required to drive its upturn going forward by reallocating resources to clienteling activities, in-store events, targeted communications actions and upgrading information systems in line with the sector's fast-paced digital transformation.

Gucci's EBITDA for first-half 2020 stood at €1,236 million, with an EBITDA margin of 40.2%, down 5.4 basis points.

Store network and operating investments



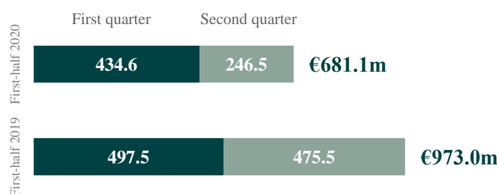
As of June 30, 2020, Gucci operated 489 stores directly, including 211 in emerging markets. A net two new stores were added during the period. Gucci's focus is still on increasing organic growth by pursuing its refurbishment program for existing stores, even though this had to be largely put on hold in first-half 2020 due to the COVID-19 lockdown measures. As of June 30, 2020, around 60% of the store network had adopted the new concept.

Gucci's gross operating investments amounted to €98 million in first-half 2020, 21.3% lower than in the first six months of 2019.

YVES SAINT LAURENT

(in € millions)	First-half 2020	First-half 2019	Change
Revenue	**681.1**	**973.0**	**-30.0%**
Recurring operating income	**102.1**	**251.7**	**-59.4%**
as a % of revenue	***15.0%***	***25.9%***	***-10.9 pts***
EBITDA	192.4	332.4	-42.1 pts
as a % of revenue	*28.2%*	*34.2%*	*-6.0 pts*
Gross operating investments	26.2	55.3	-52.6%
Average FTE headcount	3,817	3,490	+9.4%

Revenue



First-half 2020	
Reported change	-30.0%
Comparable change	-30.6%

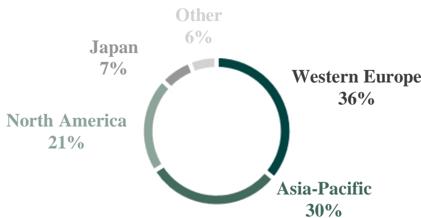
Yves Saint Laurent's sales amounted to €681 million in first-half 2020, down 30.6% year on year at constant exchange rates. In the first quarter, sales contracted 13.8% following an excellent start to the year in all of the brand's markets. The second quarter then saw a 48.4% slump in view of the brand's exposure to local customers in Western Europe and North America. Together, these two regions made up almost 60% of Yves Saint Laurent's revenue in 2019 (versus an average 51% for the Houses as a whole).

Revenue from directly operated stores retreated 33.3% year on year, with a 48.2% fall in the second quarter, in close correlation with the proportion of stores that were closed during the period.

Sales generated in the wholesale network contracted by 23.7% on a comparable basis in the semester, with contained revenue losses in Europe but a severe erosion of sales to US distributors. The wholesale distribution channel remains strategically important for Yves Saint Laurent in the long term as it perfectly complements its retail business. However, the brand is

keeping a very close eye on the quality and exclusivity of its distribution network and is continuing to focus its wholesale business on a limited number of distributors.

Revenue by region



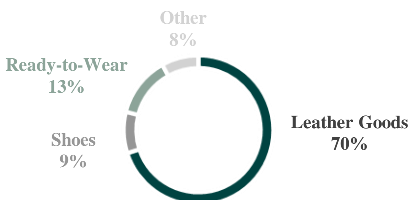
In view of the proportion of Yves Saint Laurent's sales that are generated in directly operated stores (66.3% in the first half of 2020), the following revenue analysis by region only concerns the retail business.

Yves Saint Laurent experienced revenue declines across all of its main regions in the first half of 2020.

Sales in the brand's historical markets fell 36.5%, with the decreases fairly evenly balanced from one region to another (ranging from 33% to 39%). Although Yves Saint Laurent is less exposed to tourism in Western Europe and Japan than the Group's other brands, the collapse in tourist numbers weighed on sales in both of these regions. In North America, strong online sales helped contain, to some degree, the negative impact of store closures.

In emerging markets, sales generated in directly operated stores retreated 28.3% year on year. In the Asia-Pacific region (which accounts for most of the brand's sales in emerging markets), Yves Saint Laurent was penalized by the size of its network in Mainland China, which prevented it from fully capitalizing on the repatriation of Chinese spending to the domestic market and from offsetting its revenue losses in Hong Kong and Macao. The brand did however enjoy double-digit growth in South Korea for the full six months of first-half 2020.

Revenue by product category



Given the unprecedented situation in the first half of 2020, all of Yves Saint Laurent's product categories recorded negative performances. Leather goods was once again the brand's leading category and was the most resilient. This reflects the initiatives taken by Yves Saint Laurent over the last several years to constantly renew and refresh its leather goods offering, with a specially dedicated creative team, which has helped it to both attract new customers and retain existing customers in all of its markets.

Ready-to-wear and shoes saw fairly similar revenue trends during the period.

Licensed product categories (L'Oréal and Kering Eyewear) posted revenue declines but these were relatively contained.

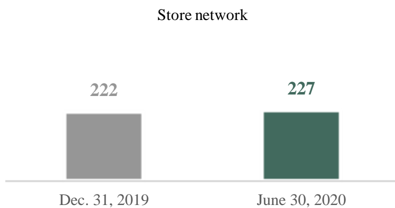
Recurring operating income

Yves Saint Laurent ended first-half 2020 with recurring operating income of €102 million, versus €252 million in the same period of 2019, representing a year-on-year decrease of 59.4%. Recurring operating margin narrowed by 10.9 basis points to 15.0%.

As was the case for the Group's other brands, the cost base was reduced in order to limit the dilution of profitability without too drastically cutting the operating expenses needed to pursue Yves Saint Laurent's business development in the medium term. Another reason for the brand's lower profitability is its higher exposure to mature markets, where fixed costs represent a larger proportion of overall store expenses.

EBITDA decreased by €140 million, coming in at €192 million, and EBITDA margin was 28.2%, versus 34.2% as reported in first-half 2019.

Store network and operating investments



As of June 30, 2020, Yves Saint Laurent had 227 directly operated stores, including 105 in emerging markets. There were five net store openings during the period, reflecting both the brand's store network expansion plan implemented over the past few years and the restrictions on building work and store openings caused by lockdown measures.

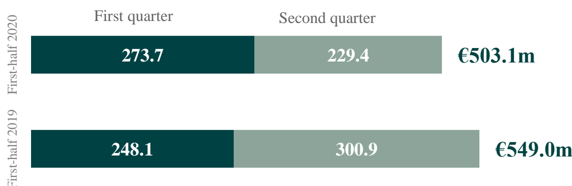
The House's investments were particularly well managed after major decisions were taken in terms of prioritizing capital expenditure projects. Altogether, they totaled €26 million, down €29 million (52.6%) on first-half 2019.

BOTTEGA VENETA

(in € millions)	First-half 2020	First-half 2019	Change
Revenue	**503.1**	**549.0**	**-8.4%**
Recurring operating income	**43.6**	**103.9**	**-58.0%**
as a % of revenue	***8.7%***	***18.9%***	***-10.2 pts***
EBITDA	131.8	178.0	-26.0%
as a % of revenue	*26.2%*	32.4%	*-6.2 pts*
Gross operating investments	19.2	29.2	-34.2%
Average FTE headcount	3,815	3,716	+2.7%

Since the appointment of Daniel Lee as Creative Director in June 2018 and then Bartolomeo Rongone as Chief Executive Officer from September 1, 2019, Bottega Veneta has embarked on a new chapter in its history, launching a radical transformation process. This process intensified in 2019, with major investments undertaken to action measures aimed at developing Bottega Veneta's offerings in all product categories, rejuvenating and broadening its customer base, raising brand awareness – especially in mature markets – and enhancing customers' in-store experience. The strategy implemented already began to pay off during 2019, but is also part of a long-term roadmap. It enabled the brand to hold firm to some extent in the first half of 2020 even though it is weighing on profitability in the short and medium term.

Revenue



First-half 2020

Reported change	-8.4%
Comparable change	-9.5%

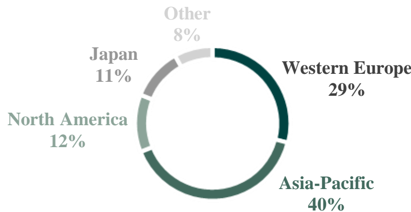
In the first half of 2020, Bottega Veneta's revenue decreased 9.5% year on year on a comparable basis. After rising 8.5% in the first quarter, sales contracted 24.4% in the second quarter.

With the aim of preserving its high-end positioning and exclusivity, Bottega Veneta's preferred distribution channel is its directly operated stores. However, as was the case in 2019, in first-half 2020, the brand's growing appeal among wholesale purchasers enabled Bottega Veneta to regain market share with wholesalers. Directly operated stores accounted for

73.5% of the brand's total sales in the first half of 2020 and their overall revenue retreated 18.6% year on year on a comparable basis. After remaining more or less stable in the first quarter (edging down just 0.9%), sales generated via this distribution channel decreased by a contained 33.7% in the second quarter thanks to the brand's robust momentum in stores that were open during the period and a recovery in business in Mainland China and South Korea.

Wholesale sales surged 31.9%, fueled by orders taken for new collections whose success has led to high inventory turnover for wholesalers. This excellent performance was due to the in-depth reorganization work carried out for this distribution channel over the past several years in order to avoid the risk of saturation at points of sale and only working with best-in-class partners.

Revenue by region



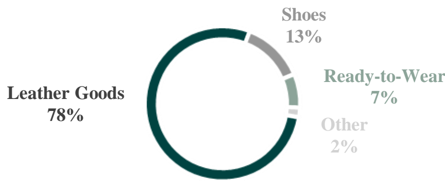
In view of the proportion of Bottega Veneta's sales that are generated in directly operated stores, the following revenue analysis by region only concerns the retail business.

In Western Europe, where tourist numbers were practically zero, the brand's appeal with local customers allowed it to contain its sales decline to 23.5% in first-half 2020. The situation was similar in North America, where the sales contraction was limited to 26.6%. However, Japan saw a more pronounced 39.7% decrease during the period, with performance hampered by (i) the fact that the brand's new creative aesthetic is taking longer to be accepted in Japan than in other countries (which was also the case for Gucci in 2016 and 2017 when it carried out its stylistic revolution) and (ii) a difficult consumer spending environment (lockdown, negative macro-economic trends and a lack of Chinese tourists).

In emerging markets, Bottega Veneta's sales contracted by 5.1% year on year based on comparable data, but rose 1.8% in the second quarter. Revenue growth was very robust in Mainland China and South Korea – the brand's two main emerging markets – both in the second quarter and in the full six-month period.

Revenue by product category

The leather goods category – which is still Bottega Veneta's core business, accounting for around 78% of its total sales – posted a revenue decrease in first-half 2020, but the positive trends noted in 2019 continued during the period, with new lines registering very solid performances and reaching carryover status while the decline of previous collections is accelerating.



Total revenue for all of the brand's other categories rose in first-half 2020, buoyed by the success of its women's ready-to-wear and shoes collections.

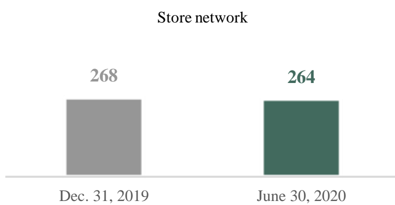
However, the outbreak of the COVID-19 pandemic meant that Bottega Veneta was delayed in actioning all of its planned measures to re-energize its Men's collections, whereas its Women's collections were the first to benefit from Daniel Lee's revamping of the brand's offering as from 2019. Consequently, driving up sales of its Men's collections constitutes an opportunity for Bottega Veneta in the mid-term.

Recurring operating income

Bottega Veneta's recurring operating income came to €44 million in the first six months of 2020, down €60 million on first-half 2019. Recurring operating margin fell 10.2 basis points to 8.7%, mainly due to the unfavorable leverage effect resulting from the overall decrease in sales. Despite the COVID-19 crisis, Bottega Veneta pursued the investments needed to make the brand's revamp a lasting success. Certain operating expenses aimed at helping Bottega Veneta in its transformation and relaunch processes (e.g., costs related to increasing the number of flagship stores, and communication and design costs) therefore continued to rise, whereas priorities were set and cost-saving plans launched for other types of expenditure as part of an overall financial discipline strategy. In the medium term, the brand's profitability is expected to continue to be impacted by this heavier cost structure, but the increases are necessary and are being carefully controlled.

EBITDA totaled €132 million and the EBITDA margin narrowed by 6.2 basis points to 26.2%.

Store network and operating investments



As of June 30, 2020, Bottega Veneta had 264 directly operated stores, including 123 in emerging markets. There were four net store closures during the period.

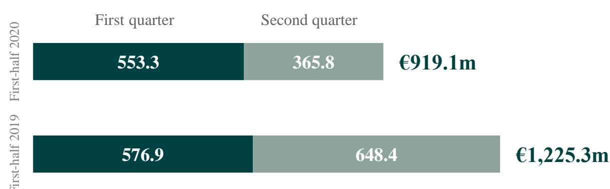
The streamlining program for the store network – which was put on hold during lockdown – includes not only store closures but also relocating certain stores, opening a select number of flagship stores, and expanding the brand's presence in a number of regions and networks.

As projects were postponed and building works temporarily stopped during the lockdown periods, Bottega Veneta's operating investments amounted to €19 million in first-half 2020, down by €10 million (or 34.2%) on the first half of 2019.

OTHER HOUSES

(in € millions)	First-half 2020	First-half 2019	Change
Revenue	**919.1**	**1,225.3**	**-25.0%**
Recurring operating income (loss)	**(11.7)**	**138.3**	**-108.5%**
as a % of revenue	***-1.3%***	***11.3%***	***-12.6 pts***
EBITDA	125.6	233.7	-46.3%
as a % of revenue	*13.7%*	*19.1%*	*-5.4 pts*
Gross operating investments	61.5	61.7	-0.3%
Average FTE headcount	6,844	6,273	+9.1%

Revenue



First-half 2020	
Reported change	-25.0%
Comparable change	-25.8%

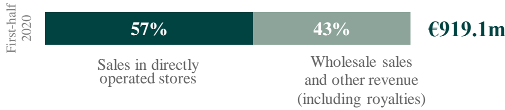
Overall revenue generated by the Other Houses contracted 25.8% on a comparable basis (exchange rates and scope) in first-half 2020, coming in at €919 million. Thanks to a good start to the year, revenue was eroded by just 5.4% in the first quarter, but it decreased by 44.0% in the second quarter.

Following on from their excellent 2019 performances, Balenciaga and Alexander McQueen held firm during first-half 2020 and managed to contain their revenue losses. Qeelin was the only Group brand to report revenue growth, buoyed by a sales recovery in China. Boucheron posted a very solid performance in Asia but suffered from its exposure to the Japanese market and, like Pomellato, from its extensive, long-standing presence in the Western European market. Sales for the Houses that have launched in-depth transformation processes – such as Brioni and the watches brands – were hit hard by the COVID-19 crisis. This was even more the case for Girard-Perregaux and Ulysse Nardin given that the global watches market has been fragile for several years now and contracted sharply in the first half of 2020.

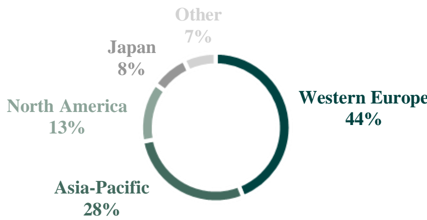
Despite the store closures in recent months, the proportion of sales generated in directly operated stores increased significantly. This rise was partly due to the brands' focus on exclusive distribution, which led them to open new stores during previous quarters. The rapid growth in

online sales during the COVID-19 pandemic was also a contributing factor. Overall, revenue generated in directly operated stores (offline and online) retreated 20.6% year on year.

Sales in the wholesale network retreated 29.2% on a comparable basis versus first-half 2019, reflecting the combined effect of the difficulties suffered by distributors in North America and the impacts of the pandemic on franchisees and the distributors of the watches and jewelry brands in Europe and the Middle East.



Revenue by region

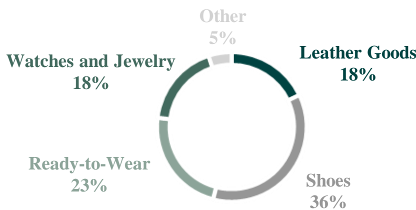


Sales for the Other Houses decreased across all of the Group's main regions in first-half 2020.

In mature markets, revenue was down 29.6% year on year at constant exchange rates. Business in Western Europe seemed to be slightly more resilient, with revenue decreasing by a more contained 25.8% on account of a very good start to the year and the fact that several of the Other Houses have a long-standing presence in their domestic markets. Performances in Japan and North America were on a par with one another (with revenue down between 36% and 37%) as the market environment in these countries was tougher for brands that are less well established than Gucci or Yves Saint Laurent.

In emerging markets, the overall revenue decline was 17.3% but the picture was different depending on the brands and countries concerned. The Other Houses' performance in the Asia-Pacific region particularly stood out as the sales decline was limited to 11.8% thanks to very solid showings in several of the region's markets, including Mainland China and South Korea. In Mainland China, the Other Houses reaped the full benefits of the repatriation of Chinese spending to the domestic market and reported very strong revenue growth during the period.

Revenue by product category



Leather goods was the most resilient product category in first-half 2020, with the success of Balenciaga's offering helping to partially offset the decline in sales.

The appeal of Balenciaga and Alexander McQueen's collections also helped contain revenue losses for the shoes category and, to a lesser extent, ready-to-wear.

Performances for the jewelry brands were mixed across the various regions. Good momentum in emerging markets, combined with the development of e-commerce (which is still marginal for these brands) was not sufficient to offset the revenue falls in Boucheron and Pomellato's historical markets.

Lastly, revenue for the watches brands plunged during the period.

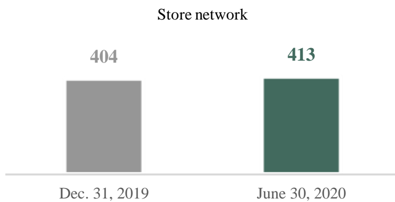
Recurring operating income

The Other Houses ended the first half of 2020 with a recurring operating loss of €12 million, representing a €150 million negative swing compared with first-half 2019.

The revenue declines had a particularly heavy impact on certain brands that were close to break-even in 2019 and that are exposed to regions where fixed costs represent a high proportion of the overall cost base. The size of Balenciaga and Alexander McQueen, however, meant that these two brands were able to adjust the amount of their operating costs to limit the dilution of their profitability. Balenciaga's operating margin therefore remained relatively high. Conversely, Brioni and the watches brands saw their losses worsen during the period despite the cost-saving measures put in place.

EBITDA for the Other Houses came to €126 million, down €108 million on first-half 2019, but EBITDA margin remained very positive at 13.7%.

Store network and operating investments



The network of directly operated stores owned by the Other Houses totaled 413 units as of June 30, 2020, i.e., nine stores more than as of December 31, 2019. This rise was primarily attributable to store openings by Balenciaga in Asia before and after the lockdowns.

As of June 30, 2020, the network comprised 226 stores in mature markets and 187 in emerging markets.

Gross operating investments for the Other Houses totaled €62 million, more or less unchanged from first-half 2019. Many projects had been launched in the last few months of 2019 that could not be stopped in the first half of 2020, particularly because they were largely concentrated in Asia where market momentum for the Other Houses is strong. The investment program for the second half of the year has been reviewed in order to allocate resources to the most strategic projects.

CORPORATE AND OTHER

(in € millions)	First-half 2020	First-half 2019	Change
Recurring operating income (excluding corporate long-term incentive plans)	(86.6)	(88.6)	+2.3%
Cost of corporate long-term incentive plans	(24.0)	(28.7)	-16.4%
Recurring operating income (loss)	**(110.6)**	**(117.3)**	**+5.7%**

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

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

Kering Eyewear posted sales of €243 million for first-half 2020, down 24.9% year on year at constant exchange rates. After a slight 1.5% decrease in the first quarter – reflecting a year-on-year high comparison base due to the launch of the Balenciaga and Montblanc licenses in early 2019 – in the second quarter Kering Eyewear's business was heavily impacted by the brands' store closures, the almost total stoppage of travel retail, and distributors' prudent buying behavior. This resulted in a 49.3% second-quarter sales decline.

Kering Eyewear's contribution to consolidated revenue for the first half of 2020 totaled €192 million (after eliminating intra-group sales and royalties paid to the Group's brands), representing a 26.6% year-on-year decrease at constant exchange rates.

Despite lower sales volumes and the amortization expense recognized 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 (€14 million as of December 31, 2019), most of which will be amortized in 2020 – Kering Eyewear ended the first six months of 2020 with positive recurring operating income but the figure was much lower than in first-half 2019.

Overall, net costs recorded by the "Corporate and other" segment for the first six months of 2020 totaled around €111 million, €7 million lower than the first-half 2019 figure.

The cost of long-term incentive plans, including those of corporate officers, decreased by €5 million to €24 million, in line with the change in Kering's share price.

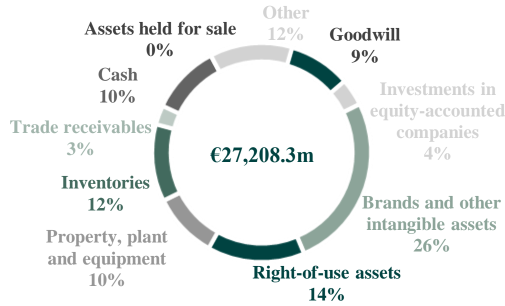
Although they were still positive, the contributions of KGS and Kering Eyewear to recurring operating income were significantly down on first-half 2019. The 2.3% improvement in recurring operating result excluding long-term incentive plans does not fully reflect the efforts made to contain Corporate organization costs despite the Group stepping up its digital and innovation initiatives. Excluding KGS and Kering Eyewear, Corporate costs were 16.4% lower year on year.

Gross operating investments amounted to €163 million, up €50 million on first-half 2019 due to the continued acceleration of projects to upgrade all of the Group's information systems and, above all, the logistics operations managed by the Corporate teams on behalf of the Group's

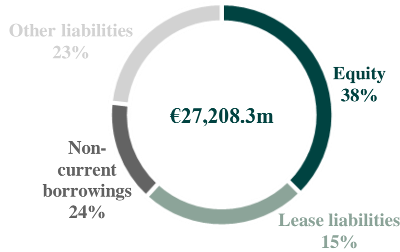
brands. These investments, which are of strategic importance to the Group, were maintained despite the COVID-19 pandemic.

Financial structure as of June 30, 2020

Assets



Equity and liabilities



Capital employed

Condensed statement of financial position

(in € millions)	June 30, 2020	Dec. 31, 2019	*Change*	June 30, 2019
Goodwill	2,510.6	2,525.9	*(15.3)*	2,402.1
Brands and other intangible assets	7,071.4	7,260.5	*(189.1)*	7,276.1
Right-of-use assets	3,915.6	4,246.7	*(331.1)*	3,852.0
Property, plant and equipment	2,626.9	2,619.3	*7.6*	2,236.9
Investments in equity-accounted companies	1,096.0	1,105.3	*(9.3)*	1,084.7
Other non-current assets	1,891.9	1,844.8	*47.1*	1,828.1
Non-current assets	**19,112.4**	**19,602.5**	***(490.1)***	**18,679.9**
Inventories	3,108.3	2,959.2	*149.1*	2,726.0
Trade receivables	777.7	996.0	*(218.3)*	956.7
Cash and cash equivalents	2,801.7	2,285.9	*515.8*	2,450.9
Other current assets	1,405.2	1,298.5	*106.7*	1,056.4
Current assets	**8,092.9**	**7,539.6**	***553.3***	**7,190.0**
Assets held for sale	**3.0**	**6.1**	***(3.1)***	**193.2**
Total assets	**27,208.3**	**27,148.2**	***60.1***	**26,063.1**
Equity attributable to owners of the parent	10,003.1	10,278.1	*(275.0)*	9,276.2
Equity attributable to non-controlling interests	204.1	160.5	*43.6*	172.5
Total equity	**10,207.2**	**10,438.6**	***(231.4)***	**9,448.7**
Non-current borrowings	4,182.9	3,122.2	*1,060.7*	2,910.2
Non-current lease liabilities	3,360.1	3,598.6	*(238.5)*	3,259.8
Other non-current liabilities	1,792.6	1,841.3	*(48.7)*	1,782.5
Non-current liabilities	**9,335.6**	**8,562.1**	***773.5***	**7,952.5**
Current borrowings	2,434.3	1,975.9	*458.4*	1,675.3
Current lease liabilities	709.1	720.0	*(10.9)*	613.5
Other current liabilities	4,522.0	5,450.8	*(928.8)*	6,292.1
Current liabilities	**7,665.4**	**8,146.7**	***(481.3)***	**8,580.9**
Liabilities associated with assets held for sale	**0.1**	**0.8**	***(0.7)***	**81.0**
Total equity and liabilities	**27,208.3**	**27,148.2**	***60.1***	**26,063.1**

Net debt

(in € millions)	June 30, 2020	Dec. 31, 2019	*Change*	June 30, 2019
Gross borrowings	6,617.2	5,098.1	*1,519.1*	4,585.5
Cash and cash equivalents	(2,801.7)	(2,285.9)	*(515.8)*	(2,450.9)
Net debt	**3,815.5**	**2,812.2**	***1,003.3***	**2,134.6**

Capital employed

(in € millions)	June 30, 2020	Dec. 31, 2019	*Change*	June 30, 2019
Total equity	10,207.2	10,438.6	*(231.4)*	9,448.7
Net debt	3,815.5	2,812.2	*1,003.3*	2,134.6
Capital employed	**14,022.7**	**13,250.8**	***771.9***	**11,583.3**

Comments on the Group's financial position

Goodwill and brands

As of June 30, 2020, brands net of deferred tax liabilities amounted to €5,060 million, compared with €5,226 million as of December 31, 2019.

Current assets and liabilities

(in € millions)	June 30, 2020	Dec. 31, 2019	*Change in cash flows*	*Translation adjustments and other*	June 30, 2019
Inventories	3,108.3	2,959.2	*158.7*	*(9.6)*	2,726.0
Trade receivables	777.7	996.0	*(229.4)*	*11.1*	956.7
Trade payables	(616.8)	(808.7)	*205.3*	*(13.4)*	(796.4)
Net current tax receivables (payables)	(1,201.8)	(1,080.8)	*(115.1)*	*(5.9)*	(2,885.6)
Lease liabilities	(709.1)	(720.0)	*402.1*	*(391.2)*	(613.5)
Other current assets (liabilities), net	(1,098.5)	(2,037.9)	*811.5*	*127.9*	(1,344.1)
Net current assets (liabilities)	**259.8**	**(692.2)**	***1,233.1***	***(281.1)***	**(1,956.8)**

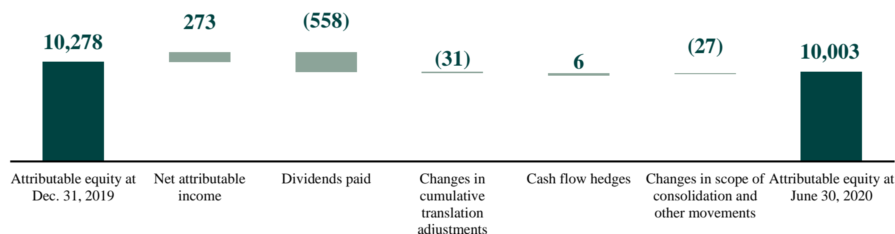
Fluctuations in exchange rates during first-half 2020 had an overall €29 million negative impact on the value of net current assets, essentially attributable to inventories.

Changes in the value of net non-current assets reflect the contraction in business in first-half 2020 as a direct result of the COVID-19 pandemic (see Introduction).

The €438 million interim dividend decided by the Board of Directors in December 2019 was paid out on January 16, 2020 and led to a reduction in net other current liabilities.

Equity

As of June 30, 2020, equity attributable to owners of the parent totaled €10,003 million, €275 million lower than at December 31, 2019.



As of June 30, 2020, 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, 2019. As of June 30, 2020, Kering held 3,325 shares in treasury under the liquidity agreement, as well as 1,261,406 shares purchased as part of the 2018-2019 stock repurchase program, which are to be canceled (1,261,406 shares held as of December 31, 2019).

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

As of June 30, 2020, equity attributable to non-controlling interests stood at €204 million (versus €161 million as of December 31, 2019).

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, 2020, the Group's net debt stood at €3,815 million (€2,812 million as of December 31, 2019).

(in € millions)	June 30, 2020	Dec. 31, 2019	*Change*	June 30, 2019
Bonds	4,208.2	3,147.8	*1,060.4*	2,593.8
Bank borrowings	299.5	211.6	*87.9*	219.7
Commercial paper	1,188.5	804.6	*383.9*	876.2
Other borrowings	921.0	934.1	*(13.1)*	895.8
Gross borrowings	**6,617.2**	**5,098.1**	***1,519.1***	**4,585.5**
Cash and cash equivalents	(2,801.7)	(2,285.9)	*(515.8)*	(2,450.9)
Net debt	**3,815.5**	**2,812.2**	***1,003.3***	**2,134.6**

As of June 30, 2020, the Group's gross borrowings included €424 million concerning put options granted to non-controlling interests (€444 million as of December 31, 2019).

Lease liabilities represented a total of €4,069 million at June 30, 2020 (€4,319 million at December 31, 2019).

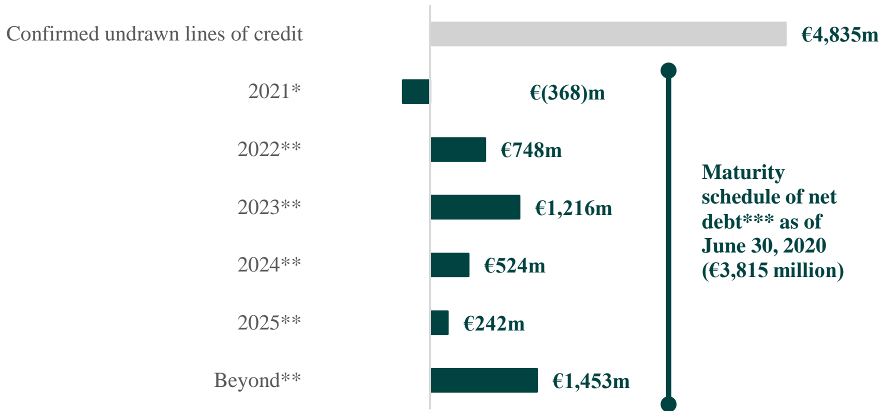
Solvency

The Group has a very sound financial structure and since April 18, 2019 has had a long-term A- rating with a stable outlook with Standard & Poor's.

Liquidity

As of June 30, 2020, the Group had cash and cash equivalents totaling €2,802 million (€2,286 million as of December 31, 2019), as well as confirmed lines of credit amounting to €4,835 million (€3,135 million as of December 31, 2019). The balance of confirmed undrawn lines of credit was €4,835 million as of June 30, 2020, versus 3,135 million as of December 31, 2019.

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 36.8% as of June 30, 2020 (38.8% as of December 31, 2019). 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 that would lead to early repayment.

(See Note 15 – Borrowings, to the condensed consolidated interim financial statements).

Changes in net debt

(in € millions)	June 30, 2020	Dec. 31, 2019	*Change*	June 30, 2019
Net debt as of January 1	**2,812.2**	**1,711.4**	***1,100.8***	**1,711.4**
First-time application of IFRS 16	N/A	(78.7)	*78.7*	(78.7)
Free cash flow from operations	(565.6)	(1,520.7)	*955.1*	(1,532.7)
Dividends paid	1,001.6	1,342.1	*(340.5)*	1,332.7
Net interest paid and dividends received	142.4	161.2	*(18.8)*	115.3
Net acquisitions (disposals) of Kering shares	2.0	402.1	*(400.1)*	152.7
Repayment of lease liabilities	386.9	749.6	*(362.7)*	284.6
Other acquisitions and disposals	39.1	323.2	*(284.1)*	95.1
Other movements	(3.1)	(278.0)	*274.9*	54.2
Net debt at the period end	**3,815.5**	**2,812.2**	***1,003.3***	**2,134.6**

Free cash flow from operations

Cash flow from operating activities

(in € millions)	First-half 2020	First-half 2019	*Change*
Cash flow from operating activities before tax, dividends and interest	**1,595.7**	**2,727.1**	***-41.5%***
Change in working capital requirement	(470.3)	(437.0)	*+7.6%*
Income tax paid	(192.1)	(374.6)	*-48.7%*
Net cash from operating activities	**933.3**	**1,915.5**	***-51.3%***

Operating investments

(in € millions)	First-half 2020	First-half 2019	*Change*
Net cash from operating activities	**933.3**	**1,915.5**	***-51.3%***
Purchases of property, plant and equipment and intangible assets	(367.8)	(383.7)	*-4.1%*
Proceeds from disposals of property, plant and equipment and intangible assets	0.1	0.9	*-88.9%*
Free cash flow from operations	**565.6**	**1,532.7**	***-63.1%***

Gross operating investments by activity

(in € millions)	First-half 2020	First-half 2019	Change
Total Luxury Houses	205.3	271.3	-24.3%
Corporate and other	*162.5*	*112.4*	*+44.6%*
Gross operating investments	**367.8**	**383.7**	**-4.1%**

In the first six months of 2020, 42% of the Group's gross operating investments concerned the store network (versus 53% in first-half 2019). 54% of these investments related to store opening programs and 46% to store conversions and refurbishments.

Available cash flow

(in € millions)	First-half 2020	First-half 2019	Change
Free cash flow from operations	**565.6**	**1,532.7**	**-63.1%**
Interest and dividends received	2.5	14.8	-83.1%
Interest paid and equivalent	(144.9)	(130.1)	+11.4%
Available cash flow	**423.2**	**1,417.4**	**-70.1%**

Dividends paid

The cash dividend paid by Kering SA to its own shareholders in first-half 2020 amounted to €1,000 million (including the €438 million interim dividend paid on January 16, 2020).

Dividends paid in first-half 2020 included €2 million paid to non-controlling interests in consolidated subsidiaries (€13 million in first-half 2019).

Other acquisitions and disposals

In the first half of 2020, transactions with non-controlling interests amounted to €31 million. Other acquisitions and disposals in first-half 2020 also included financing transactions carried out with non-controlled or equity-accounted companies.

Other movements

This item includes a €4 million negative impact of fluctuations in exchange rates in the first half of 2020 (€21 million in first-half 2019).

Results and share capital of the parent company

The parent company ended first-half 2020 with net income of €47 million, compared with €19 million for the first six months of 2019.

The first-half 2020 figure includes €29 million in dividends received from subsidiaries (versus €30 million in first-half 2019).

As of June 30, 2020, 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 2020 are described in Note 22 – Transactions with related parties, to the condensed consolidated interim financial statements.

Subsequent events

No significant events occurred between June 30, 2020 and July 28, 2020, 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 2020 are described in the Risk Management chapter of the 2019 Universal Registration Document as well as in Note 31 to the 2019 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 the targeted and selective expansion of the store network in order to sustainably grow its Houses, strengthen the exclusivity of their distribution and consolidate their profitability profiles. The Group is also pro-actively investing to develop cross-business growth platforms in the areas of e-commerce, omni-channel distribution, logistics and IT infrastructure, expertise, and innovative digital technologies.

This long-term strategy is set against a backdrop characterized by many uncertainties and a difficult macro-economic context, although this does not threaten the structural growth drivers for the Group or the luxury sector as a whole.

The health and subsequent economic crisis caused by the COVID-19 pandemic in the first six months of 2020 have had major consequences on consumption trends, tourism flows and global economic growth. Like all other luxury sector players, during the first half of the year the Group was deeply impacted by the effects of the pandemic, both in terms of its customers and its overall business operations.

The lack of visibility about how the worldwide personal luxury goods market will evolve in the next few months makes it impossible to forecast the Group's second-half sales with any sufficient degree of reliability. However, the loss in revenue experienced in the first six months of the year should not be offset in the second half. Against this backdrop, Kering has put in place all the necessary measures to adapt its cost base and contain its working capital

requirement, without cutting back on expenditure and investments required to protect its Houses' market positions and safeguard their potential to grow and bounce back in the short and medium term.

As the Group cannot forecast its revenue levels for the coming months, it is not reasonably possible to project its recurring operating margin for 2020. The cost-saving measures implemented in the first half should, however, benefit results in the second half of the year. In addition, the Group will continue to exercise the same financial discipline as in prior years in order to contain the contraction in recurring operating margin in 2020.

Over the longer term, Kering plans to pursue its strategy of rigorously managing and allocating its resources in order to support its operating performance, maintain high cash flow generation and optimize return on capital employed. Thanks to its strong business model and structure, along with its robust financial position, Kering remains confident in its growth potential for the medium and long term.

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 2019 revenue adjusted as follows by:

- neutralizing the portion of revenue corresponding to entities divested in 2019;
- including the portion of revenue corresponding to entities acquired in 2020;
- remeasuring 2019 revenue at 2020 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".

IAS 17-adjusted financial indicators

Certain key indicators such as recurring operating income and EBITDA may be presented on an adjusted IAS 17 basis, i.e., as if IAS 17 had been applied instead of IFRS 16. In such cases, the indicator will be followed by the phrase "adjusted for IAS 17" in brackets.

2. CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2020

Consolidated income statement

(in € millions)	Notes	First-half 2020	First-half 2019	2019
CONTINUING OPERATIONS				
Revenue	5	**5,378.3**	**7,638.4**	**15,883.5**
Cost of sales		(1,474.8)	(1,986.3)	(4,108.5)
Gross margin		**3,903.5**	**5,652.1**	**11,775.0**
Payroll expenses		(1,026.7)	(1,140.5)	(2,290.8)
Other recurring operating income and expenses		(1,924.4)	(2,258.9)	(4,705.9)
Recurring operating income	5	**952.4**	**2,252.7**	**4,778.3**
Other non-recurring operating income and expenses	6	(319.6)	(42.2)	(168.5)
Operating income		**632.8**	**2,210.5**	**4,609.8**
Finance costs, net	7	(144.9)	(133.7)	(309.5)
Income before tax		**487.9**	**2,076.8**	**4,300.3**
Income tax expense	8	(193.7)	(1,449.4)	(2,133.7)
Share in earnings (losses) of equity-accounted companies		(7.8)	20.7	41.8
Net income from continuing operations		**286.4**	**648.1**	**2,208.4**
o/w attributable to owners of the parent		283.8	623.4	2,166.9
o/w attributable to non-controlling interests		2.6	24.7	41.5
DISCONTINUED OPERATIONS				
Net income from discontinued operations		**(11.2)**	**(60.0)**	**125.4**
o/w attributable to owners of the parent		(11.2)	(43.7)	141.7
o/w attributable to non-controlling interests		-	(16.3)	(16.3)
Net income of consolidated companies		**275.2**	**588.1**	**2,333.8**
o/w attributable to owners of the parent		272.6	579.7	2,308.6
o/w attributable to non-controlling interests		2.6	8.4	25.2

(in € millions)	Notes	First-half 2020	First-half 2019	2019
Net income attributable to owners of the parent	9.1	**272.6**	**579.7**	**2,308.6**
Earnings per share *(in €)*		2.18	4.61	18.40
Fully diluted earnings per share *(in €)*		2.18	4.61	18.40
Net income from continuing operations attributable to owners of the parent	9.1	**283.8**	**623.4**	**2,166.9**
Earnings per share *(in €)*		2.27	4.96	17.27
Fully diluted earnings per share *(in €)*		2.27	4.96	17.27
Net income from continuing operations (excluding non-recurring items) attributable to owners of the parent	9.2	**569.3**	**1,556.1**	**3,211.5**
Earnings per share *(in €)*		4.55	12.37	25.59
Fully diluted earnings per share *(in €)*		4.55	12.37	25.59

Consolidated statement of comprehensive income

(in € millions)	Notes	First-half 2020	First-half 2019	2019
Net income		**275.2**	**588.1**	**2,333.8**
Actuarial gains and losses[(1)]		6.0	(10.4)	(16.1)
Total items not reclassified to income		**6.0**	**(10.4)**	**(16.1)**
Foreign exchange gains and losses		(31.3)	(2.6)	33.6
Cash flow hedges[(1)]		67.9	21.3	17.8
Financial assets at fair value[(1)]		-	(0.1)	(0.1)
Share in other comprehensive income (loss) of equity-accounted companies		2.1	(5.1)	(7.0)
Total items to be reclassified to income		**38.7**	**13.5**	**44.3**
Other comprehensive income, net of tax	10	**44.7**	**3.1**	**28.2**
Total comprehensive income		**319.9**	**591.2**	**2,362.0**
o/w attributable to owners of the parent		316.8	582.5	2,335.4
o/w attributable to non-controlling interests		3.1	8.7	26.6

[(1)] Net of tax.

Consolidated statement of financial position

ASSETS *(in € millions)*	Notes	June 30, 2020	Dec. 31, 2019	June 30, 2019
Goodwill		2,510.6	2,525.9	2,402.1
Brands and other intangible assets	11	7,071.4	7,260.5	7,276.1
Right-of-use assets		3,915.6	4,246.7	3,852.0
Property, plant and equipment		2,626.9	2,619.3	2,236.9
Investments in equity-accounted companies	12	1,096.0	1,105.3	1,084.7
Non-current financial assets	16	426.2	458.4	372.8
Deferred tax assets		1,423.5	1,367.6	1,381.9
Other non-current assets		42.2	18.8	73.4
Non-current assets		**19,112.4**	**19,602.5**	**18,679.9**
Inventories		3,108.3	2,959.2	2,726.0
Trade receivables		777.7	996.0	956.7
Current tax receivables		362.9	280.7	109.3
Other current financial assets	16	101.4	38.4	58.4
Other current assets		940.9	979.4	888.7
Cash and cash equivalents	14	2,801.7	2,285.9	2,450.9
Current assets		**8,092.9**	**7,539.6**	**7,190.0**
Assets held for sale		**3.0**	**6.1**	**193.2**
TOTAL ASSETS		**27,208.3**	**27,148.2**	**26,063.1**

EQUITY AND LIABILITIES *(in € millions)*	Notes	June 30, 2020	Dec. 31, 2019	June 30, 2019
Share capital	13	505.2	505.2	505.2
Capital reserves		2,428.3	2,428.3	2,428.3
Treasury shares	13.1	(575.3)	(573.6)	(322.4)
Translation adjustments		(205.7)	(174.5)	(209.4)
Remeasurement of financial instruments		(12.1)	(80.0)	(76.5)
Other reserves		7,862.7	8,172.7	6,951.0
Equity attributable to owners of the parent		**10,003.1**	**10,278.1**	**9,276.2**
Equity attributable to non-controlling interests		204.1	160.5	172.5
Total equity		**10,207.2**	**10,438.6**	**9,448.7**
Non-current borrowings	15	4,182.9	3,122.2	2,910.2
Non-current lease liabilities		3,360.1	3,598.6	3,259.8
Other non-current financial liabilities	16	25.3	47.9	5.4
Provisions for pensions and other post-employment benefits		108.1	106.5	101.7
Other non-current provisions		17.0	15.1	14.9
Deferred tax liabilities		1,487.6	1,530.4	1,573.7
Other non-current liabilities		154.6	141.4	86.8
Non-current liabilities		**9,335.6**	**8,562.1**	**7,952.5**
Current borrowings	15	2,434.3	1,975.9	1,675.3
Current lease liabilities		709.1	720.0	613.5
Other current financial liabilities	16	40.1	503.2	69.3
Trade payables		616.8	808.7	796.4
Provisions for pensions and other post-employment benefits		8.8	8.9	8.7
Other current provisions		190.9	216.0	200.9
Current tax liabilities		1,564.7	1,361.5	2,994.9
Other current liabilities		2,100.7	2,552.5	2,221.9
Current liabilities		**7,665.4**	**8,146.7**	**8,580.9**
Liabilities associated with assets held for sale		**0.1**	**0.8**	**81.0**
TOTAL EQUITY AND LIABILITIES		**27,208.3**	**27,148.2**	**26,063.1**

Consolidated statement of cash flows

(in € millions)	Notes	First-half 2020	First-half 2019	2019
Net income from continuing operations		**286.4**	**648.1**	**2,208.4**
Net recurring charges to depreciation, amortization and provisions on non-current operating assets	5	722.6	556.6	1,245.3
Other non-cash income and expenses	19.2	136.7	(465.2)	(392.4)
Cash flow from operating activities	19.2	**1,145.7**	**739.5**	**3,061.3**
Interest paid/received		142.9	123.1	277.1
Dividends received		-	-	-
Net income tax payable	8	307.1	1,864.5	2,597.9
Cash flow from operating activities before tax, dividends and interest		**1,595.7**	**2,727.1**	**5,936.3**
Change in working capital requirement		(470.3)	(437.0)	(557.5)
Income tax paid		(192.1)	(374.6)	(2,903.5)
Net cash from operating activities		**933.3**	**1,915.5**	**2,475.3**
Purchases of property, plant and equipment and intangible assets	5	(367.8)	(383.7)	(955.8)
Proceeds from disposals of property, plant and equipment and intangible assets		0.1	0.9	1.2
Acquisitions of subsidiaries and associates, net of cash acquired		12.5	-	(42.4)
Proceeds from disposals of subsidiaries and associates, net of cash transferred		0.7	-	0.8
Purchases of other financial assets		(28.1)	(101.7)	(285.6)
Proceeds from disposals of other financial assets		12.2	16.9	76.6
Interest and dividends received		2.5	14.8	19.1
Net cash used in investing activities		**(367.9)**	**(452.8)**	**(1,186.1)**
Dividends paid to owners of the parent company	13.2	(1,000.1)	(1,320.1)	(1,320.1)
Dividends paid to non-controlling interests		(1.6)	(12.6)	(21.9)
Transactions with non-controlling interests		(51.6)	(17.7)	(19.2)
Treasury share transactions	13.1	(2.0)	(152.7)	(402.1)
Debt issues	19.3	1,423.0	34.8	644.6
Debt redemptions/repayments	19.3	(234.0)	(264.2)	(287.6)
Increase/decrease in other borrowings	19.3	321.6	861.6	798.8
Repayment of lease liabilities		(385.3)	(284.6)	(639.6)
Interest paid and equivalent		(144.9)	(130.1)	(289.9)
Net cash used in financing activities		**(74.9)**	**(1,285.6)**	**(1,537.0)**
Net cash from (used in) discontinued operations		(1.4)	(73.9)	132.7
Impact of exchange rate variations		5.5	28.3	116.4
Net increase (decrease) in cash and cash equivalents		**494.6**	**131.5**	**1.3**
Cash and cash equivalents at beginning of period	19.1	**1,837.6**	**1,836.3**	**1,836.3**
Cash and cash equivalents at end of period	19.1	**2,332.2**	**1,967.8**	**1,837.6**

Consolidated statement of changes in equity

									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	Owners of the parent	Non-controlling interests	Total
As of December 31, 2018	**125,850,305**	**505.2**	**2,428.3**	**(168.3)**	**(206.7)**	**(97.8)**	**7,445.2**	**9,905.9**	**155.7**	**10,061.6**
Total comprehensive income for first-half 2019					(2.8)	21.3	564.0	582.5	8.7	**591.2**
Treasury shares[2]	(323,839)			(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							(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	**125,526,466**	**505.2**	**2,428.3**	**(322.5)**	**(209.5)**	**(76.5)**	**6,951.2**	**9,276.2**	**172.5**	**9,448.7**
Total comprehensive income for second-half 2019					35.0	(3.5)	1,721.4	1,752.9	17.9	**1,770.8**
Treasury shares[2]	(508,550)			(251.1)				(251.1)		**(251.1)**
Share capital increase									0.4	**0.4**
Cash dividend paid and interim dividend							(442.0)	(442.0)	(3.5)	**(445.5)**
Changes in Group structure and other changes[3]							(57.9)	(57.9)	(26.8)	**(84.7)**
As of December 31, 2019	**125,017,916**	**505.2**	**2,428.3**	**(573.6)**	**(174.5)**	**(80.0)**	**8,172.7**	**10,278.1**	**160.5**	**10,438.6**
Total comprehensive income for first-half 2020					(31.2)	67.9	280.1	316.8	3.1	**319.9**
Treasury shares[2]	(3,325)			(1.7)				(1.7)		**(1.7)**
Share capital increase								-	25.0	**25.0**
Cash dividend paid							(558.2)	(558.2)	(4.3)	**(562.5)**
Changes in Group structure and other changes[3]							(31.9)	(31.9)	19.8	**(12.1)**
As of June 30, 2020	**125,014,591**	**505.2**	**2,428.3**	**(575.3)**	**(205.7)**	**(12.1)**	**7,862.7**	**10,003.1**	**204.1**	**10,207.2**

(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).

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Note 1 – Introduction

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

The condensed consolidated interim financial statements for the six months ended June 30, 2020 reflect the accounting position of Kering and its subsidiaries, together with its interests in associates and joint ventures.

On July 28, 2020, the Board of Directors approved the condensed consolidated interim financial statements for the six months ended June 30, 2020 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, 2019 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, 2020 have been prepared in accordance with IAS 34 – *Interim Financial Reporting*, which allows entities to present selected explanatory notes. The aim of these statements is to analyze the main events that occurred during the first half of 2020 and their impact on the Group's financial performance and position.

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, 2019.

2.2. Changes to the IFRS basis

Amendment to IFRS 16 – *Leases – COVID-19-Related Rent Concessions*

The Group has chosen to early adopt the amendment to IFRS 16 – *Leases*, which was adopted by the IASB on May 28, 2020. Following favorable endorsement advice, the amendment is still in the process of being adopted by the European Union, with final endorsement expected before December 31, 2020.

This amendment aims to simplify certain provisions of IFRS 16, enabling lessees to recognize concessions granted due to the health crisis on rent initially due up to the end of 2021 as negative variable lease payments (i.e., directly in the income statement), without having to assess whether the concessions were granted pursuant to contractual or legal clauses governing the performance of the lease in question.

2.3. Use of estimates and judgment

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

The main estimates made by management in the preparation of the financial statements concern the valuations and useful lives of operating assets, property, plant and equipment, intangible assets and goodwill, the amount of uncertain tax positions, contingency provisions and other provisions relating to operations, and assumptions underlying the calculation of lease liabilities, obligations relating to employee benefits, share-based payment, deferred tax balances and financial instruments. The Group notably uses discount rate assumptions based on market data to estimate the value of its long-term assets and liabilities. The Group also exercises judgment to determine whether any lease extension or termination options are reasonably certain to be exercised or not.

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

Note 3 – Impact of the Covid-19 pandemic on the condensed consolidated interim financial statements for the six months ended June 30, 2020

Other than the items mentioned below – which were accounted for as non-recurring operating expenses – all of the impacts arising from the COVID-19 pandemic have been recognized in the income statement for first-half 2020 and essentially affect recurring operating income.

In particular, the costs related to health measures put in place (purchases of hand sanitizer and face masks, exceptional measures for regularly disinfecting premises, etc.) have been accounted for as recurring expenses.

The rent concessions negotiated with lessors due to the consequences of the COVID-19 pandemic were immediately recognized in the income statement as negative variable lease payments rather than as an amendment to the associated leases. This accounting method complies with the simplification measure provided for in the Amendment to IFRS 16 – *Leases*, issued by the IASB on May 28, 2020, although this amendment had not been formally endorsed by the European Union at the date the condensed consolidated interim financial statements were prepared.

Impairment losses on current assets (inventories and trade receivables) – caused indirectly by the pandemic due to slow-moving inventory items from the Spring/Summer collections and the difficulties suffered by many wholesale accounts – have been recognized as recurring expenses.

Other non-recurring operating income and expenses represented a net expense of €319.6 million in first-half 2020 (versus a €42.2 million net expense in first-half 2019). Excluding the impacts of COVID-19 – notably asset impairment losses resulting from the crisis – the net expense was €60.0 million.

The COVID-19 impact recognized as non-recurring expenses therefore amounted to €259.6 million, breaking down as €14.4 million in exceptional donations to support various organizations in their fight against the pandemic and €245.2 million in asset impairment losses.

The asset impairment losses were recognized following impairment tests performed by estimating the recoverable amount of the Houses' assets that had already been written down in 2019. The Houses concerned were Brioni and the watches brands (Girard-Perregaux and Ulysse Nardin), which were hit particularly hard by the pandemic. The impairment losses recognized in the first half of 2020 were mostly for brands (€201.0 million), as well as a right-of-use asset related to a lease held by Brioni (€35.1 million).

To date, the Group considers that the contraction in business in the first half of 2020 and the outlook for the luxury goods market are not sufficient indicators that the recoverable amount of the assets of the Group's other brands may be impaired, except those mentioned in the above paragraph.

(See Note 6 – Other non-recurring operating income and expenses and Note 11 – Impairment tests on non-financial assets).

The impacts of the COVID-19 pandemic have also been taken into consideration for calculating the Group's corporate income tax. The global decrease in profits for the vast majority of

multinationals has raised the question of how profits and losses should be allocated by country. The OECD has launched a review process on this matter, which is likely to result in transfer pricing recommendations in view of these unprecedented circumstances. Pending the OECD's findings, the Group has made its best estimate of its taxation on a country-by-country basis in light of its current documented transfer pricing policy and the initial guidance issued by the OECD and national tax authorities. The Group is confident that its estimates at June 30, 2020 are fair and prudent.

(See Note 8 – Income taxes).

Lastly, the Group has analyzed its exposure to the financial risks set out in its 2019 Universal Registration Document.

In particular, it found no significant escalation of credit risk across the Group. In fact, as it has a large number of customers in a wide range of business segments and realizes a significant portion of its sales directly with the end customer, direct sales do not expose the Group to any credit risk. For sales through wholesalers, there is no strong dependency or concentration whereby the loss of one or more wholesalers could significantly affect the Group's earnings. Credit risk with respect to wholesalers is also minimized by taking out credit insurance and implementing an appropriate and prudent credit risk strategy managed Group-wide by a dedicated team.

Concerning liquidity risk, the Group took action very early on in the pandemic, when countries started going into lockdown after China. In order to ensure liquidity, the Group now has €4,835.0 million in total confirmed credit lines (versus €3,035.0 million as of December 31, 2019), of which €4,835.0 million is undrawn. As of June 30, 2020, the Group had €2,801.7 million in available cash. In addition, in order to pro-actively manage the Group's liquidity, in first-half 2020 Kering carried out a €1.2 billion dual-tranche bond issue comprising (i) a €600 million tranche with a three-year maturity and a 0.25% coupon, and (ii) a €600 million tranche with an eight-year maturity and a 0.75% coupon.

(See Note 15 – Borrowings).

Note 4 – Significant events of first-half 2020 related to the COVID-19 pandemic

The significant events below have already been disclosed by the Group in press releases related to regulated information.

4.1. Postponement of the Annual General Meeting to June 16, 2020

In view of the circumstances, on March 30, 2020, Kering's Board of Directors decided to postpone the 2020 Annual General Meeting initially scheduled for Thursday April 23, 2020. On April 21, 2020, the Board set the new Meeting date as June 16, 2020.

4.2. Revised dividend per share for 2019

In light of the COVID-19 pandemic and its impact on economic activity, on April 21, 2020 the Board of Directors decided to revise the amount allocated to the 2019 dividend payment and to recommend to shareholders at Kering SA's Annual General Meeting on June 16, 2020 that the total dividend payout should amount to €1,010 million, corresponding to €8 per share. This is €442 million lower than the amount announced when the Group released its 2019 results on February 12, 2020 (€1,452 million, or €11.50 per share).

4.3. Reduction in remuneration for 2020 for Kering's executive corporate officers

In light of the COVID-19 pandemic and its impact on business activity, François-Henri Pinault, Chairman and CEO of Kering, decided to reduce the fixed portion of his salary by 25% from April 1, until the end of 2020. In addition, François-Henri Pinault and Jean-François Palus, Group Managing Director, decided to waive the entirety of the variable portions of their annual remuneration for 2020. These decisions were approved by Kering's Board of Directors on April 21, 2020. The Board therefore submitted a revised 2020 remuneration policy to the vote of the shareholders at the Annual General Meeting held on June 16, 2020.

4.4. Support given by the Group to help the fight against COVID-19

Kering has contributed to the fight against COVID-19 in France, Italy, China and the United States.

In France, Kering purchased 3 million surgical masks from China, which it supplied to the French health service. At the same time, the Balenciaga and Yves Saint Laurent workshops began manufacturing officially approved face masks. Kering also made a financial donation to the Institut Pasteur for its research into COVID-19, and to Cochin hospital in Paris for its "3D COVID" project to purchase 60 3D printers in order to rapidly produce large quantities of medical equipment. In Italy, Kering and its Houses made donations to four major hospital foundations in Lombardy, Veneto, Tuscany and Lazio. Gucci responded to the appeal launched to the fashion industry by the Tuscany regional authorities, supplying 1.1 million surgical masks and 55,000 medical overalls to health workers. In China, as early as the end of January, Kering and its Houses announced a donation to the Hubei Red Cross Foundation to help fight the spread of the virus. In the United States, Kering and its Houses entered into a partnership with the CDC Foundation, giving a $1 million donation to provide personal protection equipment and other

essential supplies to health workers. This donation helped support front-line health workers in the United States – and particularly the hardest hit States such as New York, New Jersey, California and Florida – as well as in a number of regions in Latin America.

4.5. Pro-active management of the Group's liquidity – a new bond issue and extension of syndicated loan facilities

In May 2020, Kering carried out a €1.2 billion dual-tranche bond issue comprising (i) a €600 million tranche with a three-year maturity and a 0.25% coupon, and (ii) a €600 million tranche with an eight-year maturity and a 0.75% coupon. In line with the Group's pro-active liquidity management approach, this issue enables Kering to diversify its sources of financing and enhance its funding flexibility through refinancing of existing debt and extending the maturity of its financing facilities. Investors' high take-up rate of the issue confirmed the market's confidence in the Group's creditworthiness. Kering's long-term debt is rated "A-" with a stable outlook by Standard & Poor's.

Also during first-half 2020, the Group extended its credit facilities from its banks in an aggregate amount of €1,800 million, giving it €4,835 million in total confirmed credit lines as of June 30, 2020, versus €3,035 million as of December 31, 2019 (see Note 15 – Borrowings).

Note 5 – Operating segments

(in € millions)	Gucci	Yves Saint Laurent	Bottega Veneta	Other Houses
First-half 2020				
Revenue[1]	3,072.2	681.1	503.1	919.1
Recurring operating income (loss)	**929.0**	**102.1**	**43.6**	**(11.7)**
Recurring charges to depreciation, amortization and provisions on non-current operating assets	(307.2)	(90.3)	(88.2)	(137.3)
Other non-cash recurring operating income and expenses	(71.9)	(26.2)	(12.9)	(16.0)
Purchases of property, plant and equipment and intangible assets, gross	98.4	26.2	19.2	61.5
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**
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
2019				
Revenue[1]	9,628.4	2,049.1	1,167.6	2,537.5
Recurring operating income (loss)	3,946.9	562.2	215.2	317.7
Recurring charges to depreciation, amortization and provisions on non-current operating assets	516.7	171.5	159.1	232.3
Other non-cash recurring operating income and expenses	(155.2)	(29.2)	(16.7)	0.8
Purchases of property, plant and equipment and intangible assets, gross	337.3	98.0	57.8	158.8
Segment assets as of December 31, 2019	**11,619.8**	**2,523.4**	**1,614.1**	**3,842.9**
Segment liabilities as of December 31, 2019	**4,380.6**	**1,245.9**	**925.1**	**1,550.4**

[1] Non-Group.

(in € millions)	Total Houses	Corporate and other	Total
First-half 2020			
Revenue[1]	5,175.5	202.8	5,378.3
Recurring operating income (loss)	**1,063.0**	**(110.6)**	**952.4**
Recurring charges to depreciation, amortization and provisions on non-current operating assets	(623.0)	(99.6)	722.6
Other non-cash recurring operating income and expenses	(127.0)	151.8	**24.8**
Purchases of property, plant and equipment and intangible assets, gross	205.3	162.5	367.8
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**
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
2019			
Revenue[1]	15,382.6	500.9	15,883.5
Recurring operating income (loss)	**5,042.0**	**(263.7)**	**4,778.3**
Recurring charges to depreciation, amortization and provisions on non-current operating assets	1,079.6	165.7	1,245.3
Other non-cash recurring operating income and expenses	(200.3)	300.5	100.2
Purchases of property, plant and equipment and intangible assets, gross	651.9	303.9	955.8
Segment assets as of December 31, 2019	**19,600.2**	**2,005.6**	**21,605.8**
Segment liabilities as of December 31, 2019	**8,102.0**	**1,081.3**	**9,183.3**

Note 6 – Other non-recurring operating income and expenses

(in € millions)	First-half 2020	First-half 2019
Non-recurring operating expenses	**(320.1)**	**(44.8)**
Asset impairment	(256.7)	(9.9)
Restructuring costs	(33.9)	(24.8)
Capital losses on disposals	(0.3)	-
Other	(29.2)	(10.1)
Non-recurring operating income	**0.5**	**2.6**
Capital gains on disposals	-	0.1
Other	0.5	2.5
Total	**(319.6)**	**(42.2)**

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

In first-half 2020, other non-recurring operating income and expenses represented a net expense of €319.6 million and primarily concerned the €201.0 million in impairment charged against the Ulysse Nardin, Girard-Perregaux and Brioni brands, and €35.1 million in impairment recognized against a right-of-use asset related to a lease held by Brioni (see Note 11 – Impairment tests on non-financial assets).

Restructuring costs relate primarily to the watches brands amid a complete restructuring of their business models.

Other non-recurring operating expenses include €14.4 million in donations made by Kering and by its Houses as part of efforts to combat the COVID-19 pandemic.

Excluding non-recurring items directly or indirectly relating to the pandemic, other non-recurring operating income and expenses represent net expense of €60.0 million.

In the first six months of 2019, other non-recurring income and expenses represented a net expense of €42.2 million and primarily concerned the costs of restructuring the Group's logistics activities and the watches brands.

Note 7 – Finance costs, net

(in € millions)	First-half 2020	First-half 2019
Cost of net debt	**(30.0)**	**(25.6)**
Income from cash and cash equivalents	4.1	6.1
Finance costs at amortized cost	(34.1)	(32.3)
Gains and losses on cash flow hedging derivatives	-	0.6
Other financial income and expenses	**(57.6)**	**(59.0)**
Net gains and losses on financial assets measured at fair value	0.6	(0.3)
Foreign exchange gains and losses	(17.9)	(4.1)
Ineffective portion of cash flow and fair value hedges	(61.9)	(54.8)
Gains and losses on derivative instruments not qualifying for hedge accounting (foreign exchange and interest rate hedges)	24.0	0.3
Impact of discounting assets and liabilities	(0.4)	(0.6)
Other finance costs	(2.0)	0.5
Total finance costs, net (excluding leases)	**(87.6)**	**(84.6)**
Interest expense on lease liabilities	(57.3)	(49.1)
Total	**(144.9)**	**(133.7)**

The Group's cost of net debt was €30 million in first-half 2020, 17.2% higher than the €25.6 million figure recorded for the same period of 2019. This primarily reflects the cost of the financing arranged by the Group to address lower cash generation in the context of the economic crisis caused by the COVID-19 pandemic. However, the rise in the cost of net debt was partially countered by lower expenses on bonds, which benefited from extremely low interest rates.

Other financial income and expenses represented a net expense of €57.6 million in first-half 2020, down 2.4% on the €59.0 million net expense recorded for the first half of 2019. This improvement includes the favorable impact of remeasuring the optional component on bonds exchangeable into PUMA shares issued in 2019 (€23.9 million), partially offset by a negative currency effect of €20.9 million.

Note 8 – Income taxes

(in € millions)	First-half 2020	First-half 2019
Income before tax	**487.9**	**2,076.8**
Current tax expense	(307.1)	(1,864.5)
o/w		
Tax expense relating to the tax settlement in Italy	N/A	(895.9)
Deferred tax income (expense)	113.4	415.1
Income tax expense	**(193.7)**	**1,449.4**
Effective tax rate	**39.7%**	**69.8%**

(in € millions)	First-half 2020	First-half 2019
Other non-recurring operating income and expenses	(319.6)	(42.2)
Recurring income before tax	**807.5**	**2,119.0**
Tax income on other non-recurring operating income and expenses	34.1	5.4
Tax expense relating to the tax settlement in Italy	N/A	(895.9)
Tax expense on recurring income (excluding impact of tax settlement in Italy)	**(227.8)**	**(558.9)**
Effective tax rate on recurring income (excluding impact of tax settlement in Italy)	**28.2%**	**26.4%**

In the exceptional context of the COVID-19 pandemic and the consequent decrease in the profitability of multinationals, the OECD launched a review of how profits and losses should be allocated by country, which is likely to result in transfer pricing recommendations. Pending the OECD's findings, Kering has estimated its tax expense for first-half 2020 on a country-by-country basis in light of its current documented transfer pricing policy and the initial guidance issued by the OECD and the national tax authorities.

Note 9 – Earnings per share

9.1. Earnings per share

Earnings per share in first-half 2020

(in € millions)	Consolidated Group	Continuing operations	Discontinued operations
Net income (loss) attributable to ordinary shareholders	**272.6**	**283.8**	**(11.2)**
Weighted average number of ordinary shares outstanding	126,279,322	126,279,322	126,279,322
Weighted average number of treasury shares	(1,265,920)	(1,265,920)	(1,265,920)
Weighted average number of ordinary shares	**125,013,402**	**125,013,402**	**125,013,402**
Basic earnings per share *(in €)*	**2.18**	**2.27**	**(0.09)**
Net income (loss) attributable to ordinary shareholders	**272.6**	**283.8**	**(11.2)**
Convertible and exchangeable instruments	-	-	-
Diluted net income (loss) attributable to owners of the parent	**272.6**	**283.8**	**(11.2)**
Weighted average number of ordinary shares	126,279,322	126,279,322	126,279,322
Potentially dilutive ordinary shares	-	-	-
Weighted average number of diluted ordinary shares	**125,013,402**	**125,013,402**	**125,013,402**
Fully diluted earnings per share *(in €)*	**2.18**	**2.27**	**(0.09)**

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 2019

(in € millions)	Consolidated Group	Continuing operations	Discontinued operations
Net income attributable to ordinary shareholders	**2,308.6**	**2,166.9**	**141.7**
Weighted average number of ordinary shares outstanding	126,332,226	126,332,226	126,332,226
Weighted average number of treasury shares	(833,460)	(833,460)	(833,460)
Weighted average number of ordinary shares	**125,498,766**	**125,498,766**	**125,498,766**
Basic earnings per share *(in €)*	**18.40**	**17.27**	**1.13**
Net income attributable to ordinary shareholders	**2,308.6**	**2,166.9**	**141.7**
Convertible and exchangeable instruments	-	-	-
Diluted net income attributable to owners of the parent	**2,308.6**	**2,166.9**	**141.7**
Weighted average number of ordinary shares	125,498,766	125,498,766	125,498,766
Potentially dilutive ordinary shares	-	-	-
Weighted average number of diluted ordinary shares	**125,498,766**	**125,498,766**	**125,498,766**
Fully diluted earnings per share *(in €)*	**18.40**	**17.27**	**1.13**

9.2. 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 2020	First-half 2019	2019
Net income attributable to ordinary shareholders	**283.8**	**623.4**	**2,166.9**
Other non-recurring operating income and expenses	(319.6)	(42.2)	(168.5)
Income tax on other non-recurring operating income and expenses	34.1	5.4	27.9
Tax expense relating to the tax settlement in Italy	N/A	(895.9)	(904.0)
Net income excluding non-recurring items	**569.3**	**1,556.1**	**3,211.5**
Weighted average number of ordinary shares outstanding	126,279,322	126,332,226	126,332,226
Weighted average number of treasury shares	(1,265,920)	(526,197)	(833,460)
Weighted average number of ordinary shares	**125,013,402**	**125,806,029**	**125,498,766**
Basic earnings per share excluding non-recurring items *(in €)*	**4.55**	**12.37**	**25.59**
Net income excluding non-recurring items	**569.3**	**1,556.1**	**3,211.5**
Convertible and exchangeable instruments	**-**	**-**	**-**
Diluted net income attributable to owners of the parent	**569.3**	**1,556.1**	**3,211.5**
Weighted average number of ordinary shares	125,013,402	125,806,029	125,498,766
Potentially dilutive ordinary shares	-	-	-
Weighted average number of diluted ordinary shares	**125,013,402**	**125,806,029**	**125,498,766**
Fully diluted earnings per share *(in €)*	**4.55**	**12.37**	**25.59**

Note 10 – Other comprehensive income

(in € millions)	Gross	Income tax	Net
Foreign exchange gains and losses	(31.3)		(31.3)
Cash flow hedges	71.2	(3.3)	67.9
- change in fair value	*59.1*		
- gains and losses reclassified to income	*12.1*		
Financial assets at fair value	-	-	-
- change in fair value			
- gains (losses) on financial assets at fair value			
Share in other comprehensive income of equity-accounted companies	2.1	-	2.1
Actuarial gains and losses	6.9	(0.9)	6.0
Other comprehensive income for first-half 2020	**48.9**	**(4.2)**	**44.7**
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	33.6		33.6
Cash flow hedges	18.8	(1.0)	17.8
- change in fair value	*(85.0)*		
- gains and losses reclassified to income	*103.8*		
Financial assets at fair value	(0.1)	-	(0.1)
- change in fair value	*(0.1)*		
- gains (losses) on financial assets at fair value			
Share in other comprehensive income (loss) of equity-accounted companies	(7.0)	-	(7.0)
Actuarial gains and losses	(19.9)	3.8	(16.1)
Other comprehensive income for 2019	**25.4**	**2.8**	**28.2**

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 11 – Impairment tests on non-financial assets

In the first half of 2020, Kering tested its CGUs for impairment in light of the COVID-19 pandemic and its impacts. These tests led the Group to recognize asset impairment losses totaling €245.2 million (€203.4 million net of tax), reflected on the "Other non-recurring operating income and expenses" line of the income statement (see Note 6 – Other non-recurring operating income and expenses).

These impairment losses concerned the Brioni Houses and the watches brands (Girard-Perregaux and Ulysse Nardin), against which impairment losses had already been recognized in 2019 and which were hit particularly hard by the pandemic in the first half of 2020. The impairment losses recognized were mostly for brands within these three Houses (€201.0 million) as well as a right-of-use asset related to a lease held by Brioni (€35.1 million).

The following main assumptions were used to test the Brioni Houses and the watches brands (Girard-Perregaux and Ulysse Nardin) for impairment:

- discount rate (before tax): between 10.0% and 10.9% (between 9.5% and 9.8% at December 31, 2019);
- perpetual growth rate: 3.0% (unchanged versus December 31, 2019);
- business plan time frame: 10 years (unchanged versus December 31, 2019).

The Group considers that the contraction in business in the first half of 2020 and the outlook for the luxury goods market are not sufficient indicators that the recoverable amount of the assets of the Group's other brands may be impaired.

Note 12 – Investments in equity-accounted companies

(in € millions)	June 30, 2020	Dec. 31, 2019	June 30, 2019
PUMA (15.70%)	1,055.7	1,071.2	1,053.6
Other investments in equity-accounted companies	40.3	34.1	31.1
Total	**1,096.0**	**1,105.3**	**1,084.7**

The market value of Kering's PUMA shares amounts to €1,628.2 million, based on a closing share price of €68.74 as of June 30, 2020. As PUMA's earnings for first-half 2020 were not available at the end of the period, the corresponding share in earnings (losses) was estimated based on the latest Vara consensus.

Note 13 – Equity

As of June 30, 2020, 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, 2019).

13.1. Kering treasury shares

Liquidity agreement

Kering and Rothschild Martin Maurel entered into a new liquidity agreement with effect from February 13, 2019. The 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. Transactions under the liquidity agreement are carried out on Euronext Paris.

In first-half 2020, the Group purchased 45,759 shares and sold 42,434 shares under the liquidity agreement. Accordingly, it held 3,325 treasury shares under the agreement as of June 30, 2020 (no shares were held under the liquidity agreement as of December 31, 2019).

Stock repurchase program

Pursuant to the stock repurchase program announced on October 29, 2018 covering up to 1% of the share capital over a 12-month period, Kering purchased 1,261,406 shares between October 29, 2018 and July 31, 2019. These shares are to be canceled.

13.2. Dividends

At the Ordinary General Meeting of June 16, 2020, held to approve the financial statements for the year ended December 31, 2019, Kering's shareholders decided to pay a cash dividend of €8.00 per share in respect of 2019.

The balance of the cash dividend for 2019 of €4.50 per share was paid on June 25, 2020 in a total amount of €562.5 million, following the payment of an interim cash dividend of €3.50 per share on January 16, 2020 in a total amount of €437.6 million. The total cash dividend payout therefore amounted to €1,000.1 million.

Note 14 – Cash and cash equivalents

(in € millions)	June 30, 2020	Dec. 31, 2019	June 30, 2019
Cash	2,195.3	2,233.8	2,269.6
Cash equivalents	606.4	52.1	181.3
Total	**2,801.7**	**2,285.9**	**2,450.9**

As of June 30, 2020, cash equivalents include certificates of deposit and term deposits and accounts with a maturity of less than three months.

Note 15 – Borrowings

(in € millions)	June 30, 2020	Y+1	Y+2	Y+3	Y+4	Y+5	Beyond	Dec. 31, 2019	June 30, 2019
Non-current borrowings	**4,182.9**		**748.0**	**1,216.3**	**524.5**	**241.6**	**1,452.5**	**3,122.2**	**2,910.2**
Bonds	3,714.3		618.8	1,148.9	506.8		1,439.8	2,654.5	2,462.0
Other bank borrowings	159.3		57.9	67.4	17.7	3.6	12.7	83.0	102.9
Other borrowings	309.3		71.3			238.0		384.7	345.3
Current borrowings	**2,434.3**	**2,434.3**						**1,975.9**	**1,675.3**
Bonds	493.9	493.9						493.3	131.8
Drawdowns on unconfirmed lines of credit	8.3	8.3						15.2	8.2
Other bank borrowings	140.2	140.2						128.6	116.8
Bank overdrafts	469.5	469.5						448.3	483.1
Commercial paper	1,188.5	1,188.5						804.6	876.2
Other borrowings	133.9	133.9						85.9	59.2
Total	**6,617.2**	**2,434.3**	**748.0**	**1,216.3**	**524.5**	**241.6**	**1,452.5**	**5,098.1**	**4,585.5**
%	**100.0%**	**36.8%**	**11.3%**	**18.4%**	**7.9%**	**3.7%**	**21.9%**		

Bond issues represented 63.6% of gross borrowings as of June 30, 2020 (61.7% of gross borrowings as of December 31, 2019 and 56.6% as of June 30, 2019).

Borrowings with a maturity of more than one year represented 63.2% of total gross borrowings as of June 30, 2020 (61.2% as of December 31, 2019 and 63.5% as of June 30, 2019).

As of June 30, 2020, the Group has access to confirmed lines of credit totaling €4,835.0 million. The undrawn balance on these confirmed lines of credit as of June 30, 2020 was €4,835.0 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, 2020, the Group's other borrowings included €423.9 million in put options granted to non-controlling interests (compared with €444.6 million as of December 31, 2019 and €385.5 million as of June 30, 2019), and accrued interest.

Note 16 – Derivative instruments at market value

(in € millions)	June 30, 2020	Interest rate risk	Foreign exchange risk	Other market risks	Dec. 31, 2019	June 30, 2019
Derivative assets	**84.3**		**84.3**		**30.9**	**50.7**
Non-current						
At fair value through income						
Cash flow hedges						
Fair value hedges						
Current	**84.3**		**84.3**		**30.9**	**50.7**
At fair value through income					2.9	4.8
Cash flow hedges	82.9		82.9		23.2	43.2
Fair value hedges	1.4		1.4		4.8	2.7
Derivative liabilities	**62.6**	**0.3**	**44.3**	**18.0**	**109.1**	**68.6**
Non-current	**25.3**	**0.3**	**7.0**	**18.0**	**47.9**	**5.4**
At fair value through income	25.0		7.0	18.0	47.6	4.9
Cash flow hedges	0.3	0.3			0.3	0.5
Fair value hedges						
Current	**37.3**		**37.3**		**61.2**	**63.2**
At fair value through income	5.9		5.9		1.1	7.8
Cash flow hedges	26.8		26.8		51.6	50.6
Fair value hedges	4.6		4.6		8.5	4.8
TOTAL	**21.7**	**(0.3)**	**40.0**	**(18.0)**	**(78.2)**	**(17.9)**

In accordance with IFRS 13, derivatives were measured as of June 30, 2020 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, 2020 are presented below:

	June 30, 2020		Breakdown by accounting classification			
(in € millions)	Carrying amount	Market value	Fair value through income	Fair value through OCI	Loans and receivables	Amortized cost
Non-current assets						
Non-current financial assets	426.2	426.2		60.4	365.8	
Current assets						
Trade receivables	777.7	777.7				777.7
Other current financial assets	101.4	101.4			17.1	
Cash and cash equivalents	2,801.7	2,801.7	606.4			2,195.3
Non-current liabilities						
Non-current borrowings	4,182.9	4,333.4				4,182.9
Other non-current financial liabilities	25.3	25.3				
Current liabilities						
Current borrowings	2,434.3	2,437.0				2,434.3
Other current financial liabilities	40.1	40.1				2.8
Trade payables	616.8	616.8				616.8

(in € millions)	Derivatives qualifying for hedge accounting	Derivatives not qualifying for hedge accounting	**Dec. 31, 2019** Carrying amount	**Dec. 31, 2019** Market value	**June 30, 2019** Carrying amount	**June 30, 2019** Market value
Non-current assets						
Non-current financial assets			458.4	458.4	372.8	372.8
Current assets						
Trade receivables			996.0	996.0	956.7	956.7
Other current financial assets			38.4	38.4	58.4	58.4
Cash and cash equivalents			2,285.9	2,285.9	2,450.9	2,450.9
Non-current liabilities						
Non-current borrowings			3,122.2	3,302.7	2,910.2	3,079.0
Other non-current financial liabilities			47.9	47.9	5.4	5.4
Current liabilities						
Current borrowings			1,975.9	1,981.4	1,675.3	1,675.5
Other current financial liabilities			503.2	503.2	69.3	69.3
Trade payables			808.7	808.7	796.4	796.4

Note 18 – Net debt

(in € millions)	June 30, 2020	Dec. 31, 2019	June 30, 2019
Gross borrowings	6,617.2	5,098.1	4,585.5
Cash and cash equivalents	(2,801.7)	(2,285.9)	(2,450.9)
Net debt	**3,815.5**	**2,812.2**	**2,134.6**

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, 2020	Dec. 31, 2019	June 30, 2019
Cash and cash equivalents as reported in the statement of financial position	2,801.7	2,285.9	2,450.9
Bank overdrafts	(469.5)	(448.3)	(483.1)
Cash and cash equivalents as reported in the statement of cash flows	**2,332.2**	**1,837.6**	**1,967.8**

19.2. Breakdown of cash flow from operating activities

(in € millions)	First-half 2020	First-half 2019
Net income from continuing operations	**286.4**	**648.1**
Net recurring charges to depreciation, amortization and provisions on non-current operating assets	722.6	556.6
Other non-cash income and expenses:	136.7	(465.2)
o/w		
Recurring operating income and expenses (Note 5):	24.8	(6.8)
Fair value of operating foreign exchange rate hedges	*9.1*	*44.6*
Other	*15.7*	*(51.4)*
Other income and expenses:	111.9	(458.4)
Asset impairment	*257.5*	*9.9*
Fair value of foreign exchange rate hedges in net finance costs	*(33.7)*	*(43.2)*
Deferred tax (income) expense	*(113.5)*	*(415.1)*
Share in (earnings) losses of equity-accounted companies	*7.8*	*(20.7)*
Other	*(6.2)*	*10.7*
Cash flow from operating activities	**1,145.7**	**739.5**

19.3. Debt issues and redemptions/repayments

(in € millions)	First-half 2020	First-half 2019
Debt issues	1,423.0	34.8
Debt redemptions/repayments	(234.0)	(264.2)
Increase/decrease in other borrowings	321.6	861.6
Total	**1,510.6**	**632.2**

In the first half of 2020, debt issues mainly related to the bond issued in two tranches, settled and delivered on May 13, 2020. The first tranche was issued for €600 million with a three-year maturity and a 0.25% coupon. The second tranche was also for €600 million, with an eight-year maturity and a 0.75% coupon.

The bonds were issued as part of the Group’s strategy to actively manage its liquidity and extend the maturity of its debt.

Debt redemptions/repayments notably included the redemption on March 9, 2020 of USD 150 million in floating-rate notes (FRN) issued in March 2015 for a term of five years.

Changes in debt and other borrowings essentially concern issues and redemptions/repayments of commercial paper by Kering Finance, and also include changes in bank loans denominated in Japanese yen.

Note 20 – Share-based payment

At the Combined General Meeting of June 16, 2020, within the scope of the sixteenth resolution, the shareholders authorized the Board of Directors to purchase, retain or transfer the Company’s shares. In the seventeenth resolution, the shareholders also authorized the Board of Directors to make free grants of ordinary shares of the Company (existing or to be issued), subject, where applicable, to performance conditions, to beneficiaries or categories of beneficiaries among the employees and executive corporate officers of the Company and affiliated companies, entailing the waiver by shareholders of their pre-emptive subscription rights.

In this context and with respect to its long-term incentive plans, Kering is planning to introduce performance share plans for senior executives and certain Group employees. Furthermore, Kering could include share-based payments in plans specifically introduced for key executives from the Houses, reflecting the creation of value at their respective brands.

In first-half 2020, a long-term incentive plan with the following key characteristics was put in place:

- Term of the plan: 5 years;
- Kering share-based payment at the end of the five-year vesting period;
- Fair value of the benefit at the grant date: €20 million, as assessed by an independent expert applying the Black & Scholes and Monte Carlo methods.

In accordance with IFRS 2 – *Share-based Payment*, subsequent changes in the fair value will be recognized in consolidated equity.

The plan’s impact on recurring operating income in the first six months of 2020 amounted to €0.7 million.

Note 21 – Contingent liabilities, contractual commitments not recognized and other contingencies

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

Note 22 – Transactions with related parties

Kering SA is controlled by Artémis, which in turn is wholly owned by Financière Pinault. As of June 30, 2020, the Artémis group held 41.0% of Kering's share capital and 58.1% of its voting rights.

The main transactions carried out between Kering's consolidated companies and Artémis in first-half 2020 are described below:

- payment of the cash dividend for 2019 of €413.9 million, including an interim dividend in the amount of €181.1 million paid in January 2020 (€542.4 million for the full 2018 dividend);
- recognition of fees totaling €2.4 million in the first half of 2020 (€2.6 million in the first half of 2019) 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 23 – Subsequent events

No significant events occurred between June 30, 2020 and July 28, 2020, when the Board of Directors authorized the condensed consolidated interim financial statements for issue.

3. STATUTORY AUDITORS' REVIEW REPORT ON THE HALF-YEARLY FINANCIAL INFORMATION

For the period from January 1 to June 30, 2020

This is a free translation into English of the Statutory Auditors' review report on the half-yearly financial information issued in French and is provided solely for the convenience of English-speaking readers. This report includes information relating to the specific verification of information given in the Group's half-yearly management report. This report should be read in conjunction with and construed in accordance with French law and professional standards applicable in France.

To the Shareholders of Kering S.A.,

In compliance with the assignment entrusted to us by your Shareholders' Meetings 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 half-yearly consolidated financial statements of Kering S.A., for the period from January 1 to June 30, 2020,
- the verification of the information presented in the half-yearly management report.

These condensed half-yearly consolidated financial statements are the responsibility of the Board of Directors prepared on July 28, 2020 based on the information available at that date in the evolving context of the COVID-19 crisis and related difficulties to apprehend its impacts and outlooks. 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.

As mentioned in the note "2.2 Changes to the IFRS basis" to the condensed half-yearly consolidated financial statements, the Company has applied the amendment to the norm IFRS 16 – *Leases* published by the IASB on May 28, 2020 and has recognized in its income statement rent reliefs granted by landlords before June 30, 2020. However, at the date of preparation of the condensed half-yearly consolidated financial statements, this amendment had not yet been adopted by the European Union.

Based on our review, with the exception of the matter described in the preceding paragraph, nothing has come to our attention that causes us to believe that the accompanying condensed half-yearly consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34 - standard of the IFRSs as adopted by the European Union applicable to interim financial information.

II. Specific verification

We have also verified the information presented in the half-yearly management report commenting the condensed half-yearly consolidated financial statements prepared on July 28, 2020 subject to our review.

With the exception of the point described in the Conclusion on the financial statements section, we have no matters to report as to its fair presentation and consistency with the condensed half-yearly consolidated financial statements.

Paris La Défense, July 28, 2020

The Statutory Auditors

French original signed by

KPMG Audit		Deloitte & Associés
A division of KPMG S.A.		
Isabelle Allen	Grégoire Menou	David Dupont-Noël

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 28, 2020

Jean-François Palus, Group Managing Director

Jean-Marc Duplaix, Chief Financial Officer

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

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