KERING

Financial document
2018

CHAPTER 1
Kering in 2018

1. HISTORY

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

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

1963
- François Pinault establishes the Pinault group, specializing in lumber trading.

1988
- Listing of Pinault SA on the Paris Stock Exchange.

1990
- Acquisition of Cfao, a group specializing in trading with Africa and in electrical equipment distribution (activity renamed Rexel in 1993).

1991
- The Group acquires Conforama and enters the retail market.

1992
- Takeover of Au Printemps SA, a department store chain which also held a majority interest in mail order clothing brand La Redoute.

1994
- La Redoute is merged into Pinault-Printemps, renamed Pinault-Printemps-Redoute.
- Takeover of Fnac, a retailer of books, music, films and consumer electronics.

1999
- Acquisition of a 42% stake in Gucci Group NV, marking the Group's entry into the luxury sector.
- First steps toward the creation of a multi-brand Luxury group, with the acquisition by Gucci Group of Yves Saint Laurent, YSL Beauté and Sergio Rossi.

2000
- Acquisition by Gucci Group of high jewelry House Boucheron.

2001
- Gucci Group acquires Italian leather goods brand Bottega Veneta and the House of Balenciaga and signs partnership agreements with Alexander McQueen and Stella McCartney.
- The Group raises its stake in Gucci Group to 53.2%.

2003
- Sale of Pinault Bois & Matériaux to the Wolseley group of the UK.
- The Group raises its stake in Gucci Group to 67.6% (after raising it to 54.4% in 2002).

2004
- The Group raises its stake in Gucci Group to 99.4% further to a tender offer.
- Sale of Rexel.

2005
- Pinault-Printemps-Redoute becomes PPR.
- François-Henri Pinault becomes Chairman and Chief Executive Officer of PPR.

2006
- Sale of a 51% controlling stake in Printemps to RREEF and the Borletti group.

2007
- Sale of the residual 49% stake in Printemps to RREEF and the Borletti group.
- Acquisition of a 27.1% controlling stake in PUMA. This stake was increased to 62.1% further to a tender offer.

2008
- Sale of YSL Beauté to L'Oréal.
- Acquisition of a 23% stake in watchmaker Girard-Perregaux.

2009
- Listing of 58% of Cfao.
- Creation of the Kering Foundation to combat violence against women.

2010
- Acquisition by PUMA of COBRA.

2011
- Closing of the sale of Conforama to Steinhoff.
- Acquisition of Volcom.
- The Group raises its stake in Sowind Group (Girard-Perregaux and JEANRICHARD) to 50.1%.

2012
- Closing of the acquisition of Italian men's tailor Brioni.
- Sale of the remaining 42% stake in Cfao.
- Creation of a joint venture with Yoox S.p.A. dedicated to e-commerce for several of the Group's luxury brands.

2013
- Closing of the acquisition of a majority stake in Chinese fine jewelry brand Qeelin.
- Acquisition of a majority stake in the Christopher Kane brand.
- Acquisition of a majority stake in France Croco – now named Tannerie de Périers – a Normandy-based tannery specializing in precious skins.
- Listing of Groupe Fnac on the Paris Stock Exchange.
- Change of corporate name: PPR becomes **Kering**.
- Acquisition of a majority stake in Italian jewelry group Pomellato.

2014
- Closing of the sale of La Redoute.
- Acquisition of watchmaker Ulysse Nardin.

2015
- Launch of Kering Eyewear.
- Sale of Italian shoemaker Sergio Rossi.
- Publication of the very first Environmental Profit and Loss Account (EP&L) at Group level.

2016
- Sale of Electric by Volcom.
- Kering relocates its headquarters to the former Laennec Hospital, in the heart of Paris' Left Bank.

2017
- Agreement signed between Kering Eyewear and Maison Cartier to develop, manufacture and distribute the Cartier eyewear collections, with Richemont acquiring a minority stake in Kering Eyewear.

2018
- Distribution in kind of PUMA shares to Kering shareholders, confirming the Group's positioning as a luxury pure player while maintaining its financial interest at 15.85% of PUMA's share capital.
- Kering announces its withdrawal from Stella McCartney, Volcom, Christopher Kane and Tomas Maier.
- Publication of the first Integrated Report.
- Kering announces new developments in its digital strategy, aimed at enhancing the Group's omni-channel capabilities and its Houses' digital activities. In particular, Kering will fully internalize the e-commerce activities currently handled through the joint venture with Yoox Net-a-Porter Group (YNAP) in the first half of 2020.

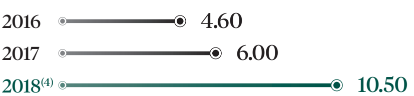
2. KEY CONSOLIDATED FIGURES

In the consolidated statements of income and cash flows, the data for 2017 have been restated in order to present the data for PUMA, Stella McCartney, Volcom and Christopher Kane within discontinued operations (previously presented within continuing operations in reported 2017 figures). However, the data for 2017 have not been restated in the statement of financial position and correspond to reported 2017 figures. This presentation meets the requirements of IFRS 5 with respect to discontinued operations. In addition, certain non-financial metrics for 2017 have been restated in order to provide a *proforma* view of the performance of continuing operations (workforce, etc.).

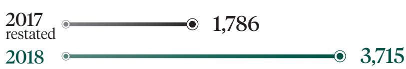
(in € millions)	2018	2017 restated	Change
Revenue	**13,665**	**10,816**	**+26.3%**
EBITDA	**4,436**	**3,123**	**+42.0%**
EBITDA margin (as a % of revenue)	*32.5%*	*28.9%*	*+3.6pts*
Recurring operating income	**3,944**	**2,691**	**+46.6%**
Recurring operating margin (as a % of revenue)	*28.9%*	*24.9%*	*+4.0pts*
Net income attributable to owners of the parent	**3,715**	**1,786**	**+108.1%**
o/w continuing operations excluding non-recurring items	2,817	1,887	+49.3%
Gross operating investments (1)	**828**	**605**	**+36.8%**
Free cash flow from operations (2)	**2,955**	**2,206**	**+34.0%**
Net debt (3)	**1,711**	**3,049** (5)	**-1,337** (5)
Average number of employees *(full time equivalent)*	**30,595**	**25,809**	**+18.5%**

Per share data *(in €)*	2018	2017 restated	Change
Earnings per share attributable to owners of the parent	29.49	14.17	+108.3%
o/w continuing operations excluding non-recurring items	22.36	14.97	+49.4%
Dividend per share	10.50 (4)	6.00	+75.0%

Dividend per share
(in €)



Net income attributable to owners of the parent
(in € millions)



Equity and debt-to-equity ratio* *(in € millions and in %)*

* Net debt(3) / equity.

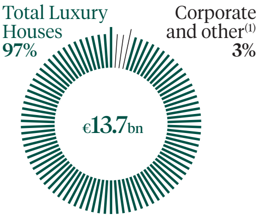
Free cash flow from operations (2) *(in € millions)*

Net debt (3) *(in € millions)*

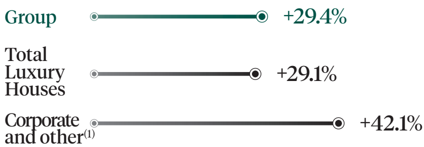
Solvency ratio *(Net debt (3)/EBITDA)*

(1) Purchases of property, plant and equipment and intangible assets.
(2) Net cash flow from operating activities less net acquisitions of property, plant and equipment and intangible assets.
(3) Net debt is defined on page 71.
(4) Subject to the approval of the Annual General Meeting to be held on April 24, 2019.
(5) Non restated.

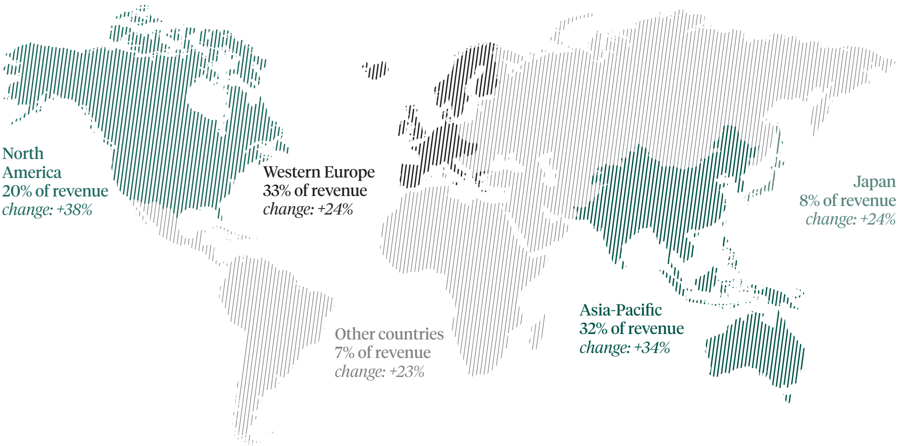
Breakdown of revenue from continuing operations



Group revenue
2018 vs 2017 restated comparable[(2)] change, in %



Revenue breakdown and comparable[(2)] change by region



Recurring operating income: change and margin

(in € millions)	Recurring operating income	Reported change *(in %)*	Recurring operating margin	Change *(in pts)*
Total Luxury Houses	4,191	+44.8%	31.6%	+4.1pts
Corporate and other[(1)]	(247)	-20.9%	N/A	N/A
Group	**3,944**	**+46.6%**	**28.9%**	**+4.0pts**

(1) The "Corporate and other" segment is defined on page 62.
(2) Comparable revenue is defined on page 70.

3. GROUP STRATEGY

VISION
Embracing creativity for a modern, bold vision of Luxury

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

Agility *Balance* *Responsability*

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

Promoting organic growth *Enhancing synergies and integration*

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

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

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

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

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

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

Pronounced "caring", Kering is much more than a play on words – it gives meaning to everything we do.

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

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

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

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

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

- **Constancy**

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

- **Flexibility**

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

- **Clarity**

Kering helps its Houses realize their full growth potential. At each stage of their development, they benefit from the Group's solid integrated value chain and pooled support functions. By encouraging imagination in all its forms, our organization fosters performance while enabling our Houses to unleash the best of their talent and creativity.

The Group ensures that performance is aligned with the brands' long-term visions and objectives. Thanks to our curiosity, capacity for self-reflection and big-picture thinking, we can achieve the clarity necessary to secure the performance of the Group and its Houses.

Balance:
Kering's multi-brand model is reaching optimal efficiency

- **An ensemble of exceptional Houses**

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

- **Multi-brand model**

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

- **Growth prospects**

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

- **Ready to weather adverse market conditions**

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

> ***"Our economic model is built on exceptional Houses, complementary positionings and varied maturity profiles"***

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

- **Towards sustainable Luxury**

Can a responsible economic approach change the very nature of Luxury? For Kering, the answer is a resounding "yes". For our brands, sustainability is an economic opportunity, a source of inspiration and innovation. Methods, materials, resources and products are being reinvented and customer usages and expectations are changing. Having set itself measurable social and environmental performance targets as part of its 2025 strategy, Kering is changing the way it designs luxury products through the inclusion of non-financial criteria to create sustainable value for customers as well as for society.

- **A people-centered approach**

The aim of the responsible model is to rethink Kering's relationships with its stakeholders so as to ensure fair and ethical treatment that constantly takes into account the social and environmental impacts of the Group's operations. The model impacts all dimensions of Kering's ecosystem, from the Group's strategy and the Houses' creative decisions to operational production, processing and distribution choices. Placing people at the heart of the model brings fresh entrepreneurial spirit, inspiring and engaging employees and stakeholders.

- **Creative potential**

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

- **Governance and ethics**

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

> ***"Being a responsible Luxury group means crafting the Luxury of tomorrow – We perceive change as an opportunity and a growth lever"***

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

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

Promoting organic growth

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

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

- **Product innovation**

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

- **Sales efficiency**

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

- **Customer experience**

Improving the quality of in-store customer experience is central to driving sales performance. Personalized customer experience and customization help make each client relationship unique. Support for customers before, during and after the sale – in stores, online or through customer service departments – are what enable our Houses to create and sustain lasting connections. With this in mind, in 2018 Kering rolled out a dedicated application designed with Apple. The Group's sales associates are invited to use the app to consult stock levels in real time, order an out-of-stock product for delivery to the customer's home, and generate personalized style advice for a truly revitalized shopping experience.

- **Omni-channel approach**

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

- **Digital expertise, CRM and innovation**

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

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

Enhancing synergies and integration

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

- **Resource pooling**

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

- **Cross-business expertise**

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

- **Vertical integration**

From 2013, the Group strengthened its upstream positioning in the luxury goods value chain, in particular via the targeted acquisition of leather tanneries to secure raw materials sourcing. Logistics activities for its Couture & Leather Goods brands have been centralized, much like ready-to-wear prototyping, which is pooled in a shared unit.

Kering is constantly improving and adapting its operating model to ensure its structures are always more up-to-date and flexible. The Group recently launched a transformation project focusing on its supply chain with the aim of meeting market needs more quickly and effectively.

- **Talent excellence**

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

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

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

Kering in 2018: A further year of strong profitable growth

In an environment shaped by geopolitical tensions and their economic ramifications, the worldwide luxury goods market enjoyed another year of sustained growth in 2018 (see Chapter 2 for a presentation of the worldwide luxury goods market), following on from a buoyant 2017. However, like the previous year, this growth was not uniform across the sector, with some groups – in particular multi-brand groups – considerably outperforming mono-brand players.

In 2018, Kering once again demonstrated the relevance of its multi-brand model, harnessing the growth of the luxury goods market across the various segments, regions and consumer groups. It was yet another year of record results for the Group, along with the completion of its transformation into a luxury pure player and the distribution to its shareholders of the bulk of its stake in PUMA.

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

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

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

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

Kering remains fully committed to environmental and social sustainability and diversity, which are crucial to its goals and long-term performance.

4. KERING GROUP SIMPLIFIED ORGANIZATIONAL CHART AS OF DECEMBER 31, 2018

Kering

- Kering Americas
- Kering Corporate (1)
- Kering Asia-Pacific

Luxury Activities

- 100% Gucci
- 100% Bottega Veneta
- 100% Yves Saint Laurent
- 100% Alexander McQueen
- 100% Balenciaga
- 100% Boucheron
- 100% Brioni
- 51% (2) Christopher Kane (4)
- 100% Pomellato
- 78% (2) Qeelin
- 100% Sowind (3)
- 50% Stella McCartney (4)
- 100% Ulysse Nardin

Kering Eyewear

Sport & Lifestyle Activities

- Volcom (4) 100%

(1) Corporate is defined on page 62.
(2) Excluding put options.
(3) The Sowind group owns the Girard-Perregaux and JEANRICHARD brands.
(4) Discontinued.

CHAPTER 2
Group activities

WORLDWIDE PERSONAL LUXURY GOODS MARKET OVERVIEW

This section contains information derived from studies conducted by organizations such as Altagamma and Bain & Company. Unless otherwise indicated, all historical and forecast information, including trends, sales, market shares, sizes and growth, comes from the Bain Luxury Study – Altagamma Worldwide Market Monitor, published in November 2018, rounded out with data from the full report published in December 2018. Luxury goods industry segments and product categories correspond to the definitions used in the Bain Luxury Study – Altagamma Worldwide Market Monitor. In this document, the worldwide personal luxury goods market includes the "soft luxury" segment (leather goods, apparel and accessories), the "hard luxury" segment (watches and jewelry) and the "fragrances and cosmetics" segment.

Market overview: size, trends and main growth drivers

Altagamma and Bain & Company have revised their methodology for estimating the market. The figures below have therefore been adjusted to exclude the "art-de-la-table" category.

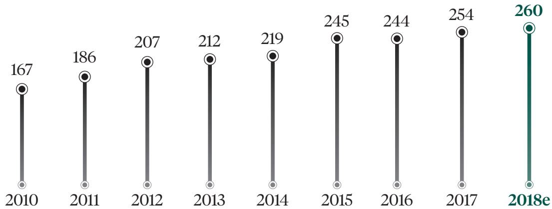
The global personal luxury goods market enjoyed strong growth from 2010 to 2012. The market gradually decelerated from late 2013, with weaker or even soft growth at comparable exchange rates up to and including 2016, when signs of a recovery were nonetheless visible in the second half of the year. 2017 saw the return of solid growth in the market, a trend confirmed in 2018.

The luxury goods market is expected to reach €260 billion in 2018, up 2% as reported and up 6% at comparable exchange rates.

Worldwide personal luxury goods market trend (2010-2018e, *in € billions*)

Annual change at reported or comparable exchange rates:

reported	+14%	+11%	+11%	+2%	+3%	+12%	0%	+4%	+2%
comparable	+8%	+13%	+6%	+6%	+3%	+1%	0%	+5%	+6%



Trends

2018 was characterized by:

- lingering geopolitical tensions, numerous political changes at the national level and rising economic uncertainties likely to have an impact on consumer confidence, tourism flows and consumption trends, such as trade tensions between the United States and China, ongoing Brexit negotiations, and uncertainties in the Middle East;
- persistently high currency volatility in certain key currencies for the luxury industry, with some movements affecting local and tourist consumption patterns, including depreciation of the euro, particularly in the second half of the year, sensitivity of the British pound to each development in the Brexit negotiations, depreciation of the Chinese yuan, the Russian ruble and the Brazilian real, and gradual weakening of the Japanese yen;
- global GDP growth that remained supportive (3.0% in 2018e versus 3.0% in 2017) but progressively became less consistent and less synchronized as interest rates increased incrementally and monetary policies gradually tightened.

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

a. 2018e luxury goods market by nationality

By nationality, the worldwide personal luxury goods market is characterized by the weight of Chinese and American consumers, who together account for more than half of the market in value. In 2018, Chinese and American consumers were the main contributors to market growth, with the former increasing its share by one percentage point versus 2017.

/pts: Market share change (2018e vs 2017).

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

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

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

- Chinese consumers will still drive growth, with the increase mostly coming from the boost provided by the rising middle class;
- management of the generational shift of consumers, whose buying decisions are increasingly influenced by digital technology (online editorial and marketing content, social media, etc.) and whose buying habits require greater use of digital features and tools (online shopping, Internet of Things, virtual reality, artificial intelligence, mobile payment, etc.);
- luxury consumers seeking a creative and differentiated product offering, together with a customer experience that is both personalized and integrated across physical and digital distribution channels;
- rebalancing of local/tourist spending through close management of international pricing strategy and the fluctuation of price differentials across regions.

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

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

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

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

Competitive environment

The worldwide personal luxury goods market is fragmented and is characterized by the presence of a few large global players, often part of so-called "multi-brand groups", and a large number of smaller independent players. These players compete in different segments in terms of both product category and geographic location. Kering operates alongside some of the most global groups in the personal luxury goods market, prominent among which are LVMH, Hermès, Prada, Burberry, Chanel and Richemont. A number of brands with more accessible prices could also compete with established luxury brands.

Regional overview

Worldwide personal luxury goods market: breakdown by region (2018e)

	Size (*in € billions*)	Reported YoY change	YoY change at comparable exchange rates	% of total market
Europe	84	+1%	+3%	32%
Americas	80	-1%	+5%	31%
Mainland China	23	+18%	+20%	9%
Japan	22	+3%	+6%	8%
Rest of Asia	39	+7%	+9%	15%
Rest of the world	12	-6%	0%	5%
TOTAL	**260**	**+2%**	**+6%**	**100%**

In 2018, the eight largest countries in the worldwide personal luxury goods market were as follows (revenue by consumption location and not by nationality):

Rank	Country	Size (*in € billions*)	Reported YoY change	YoY change at comparable exchange rates	% of total market
1	United States	71	-1%	+5%	27%
2	Mainland China	23	+18%	+20%	9%
3	Japan	22	+3%	+6%	8%
4	Italy	18	+1%	+1%	7%
5	France	16	+2%	+2%	6%
6	United Kingdom	16	+3%	+3%	6%
7	South Korea	12	+5%	+6%	5%
8	Germany	11	+1%	+1%	4%

In 2018, the Americas region was the second largest market after Europe, with the United States accounting for the vast majority of revenue (c. 89%). The region was up 5% at comparable exchange rates. In the United States, the local market was boosted by the country's economic vitality but department stores continued to struggle with traffic, affecting wholesale growth. The appreciation of the US dollar during the year spurred a shift in spend to purchases outside the domestic market, with US traveler purchases in Europe growing strongly in the second half. Conversely, the strength of the dollar impacted spending by Asian and Latin American tourists in the United States. The trends were clearly more positive in other countries in the region, especially Canada and Mexico, while the Brazilian market was hampered by political uncertainty.

Europe represented 32% of the total worldwide luxury goods market, with revenue up 3% versus 2017, at comparable exchange rates. In 2018, growth in the region was dampened by a decline in tourist spending, despite positive momentum in local demand. Inside the Eurozone, Italy remained the leading country but recorded a weak performance, with growth of just 1% at comparable exchange rates. France was the top performer, thanks to dynamic local spending combined with still relatively high tourist numbers. Spain also recorded positive growth, while Germany was impacted by flatter consumption among both locals and tourists. Outside the Eurozone, the United Kingdom once again achieved solid growth, despite a very high basis of comparison.

Japan represented 8% of the worldwide personal luxury goods market in 2018. It is the third largest country in terms of personal luxury goods consumption after the United States and China, and was up 6% at comparable exchange rates. Japan benefited significantly from increased spending by Chinese and South Korean tourists, primarily in the first half of the year, while local spending grew at a slower rate.

Mainland China was the fastest growing key country in 2018, up 20% at comparable exchange rates, and represented 9% of the worldwide personal luxury goods market, an increase of one percentage point. The consumption of luxury goods was boosted by an acceleration in the repatriation of local spending, notably driven by exchange rate trends, supportive government policies and the rise of e-commerce. Spending by locals in their domestic market represented 27% of total spending by Chinese nationals, up five percentage points compared to the previous year. The market continued to recover in Hong Kong and Macao, lifted by increased travel among Chinese consumers.

In South Korea, the market was up 6% at comparable exchange rates.

The rest of the world – including the Middle East, Africa and Australia – represented 5% of the personal luxury goods market, with €12 billion in revenue in 2018. In the Middle East, the market remained flat, reflecting lower confidence among local consumers.

Product categories

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

Worldwide personal luxury goods market: breakdown by category (2018e)

	Market value 2018e *(in € billions)*	Reported YoY change	% of total market
Accessories	86	+5%	33%
Apparel	60	-1%	23%
Hard luxury	58	+3%	22%
Fragrances and cosmetics	56	+4%	22%
TOTAL	**260**	**+2%**	**100%**

Accessories

This category includes shoes, leather goods (including handbags and wallets, and other leather products), eyewear and textile accessories.

In 2018, accessories represented 33% of the total personal luxury goods market, with total revenue of €86 billion.

The two main sub-categories were:

a) Leather goods, with estimated revenue of €51 billion in 2018. This sub-category grew at a rate of 5% between 2017 and 2018 (on a reported basis), driven notably by sales of small leather goods. In this category, Kering operates mainly through the Gucci and Saint Laurent brands, as well as Bottega Veneta, Balenciaga and Alexander McQueen;

b) Shoes, with estimated 2018 revenue of €19 billion, up 7% as reported, driven by the current trend of "casualization" (the integration into the luxury goods offering of less formal items, such as sneakers). Kering operates in this product category through most of its Houses, including Gucci, Saint Laurent, Bottega Veneta, Balenciaga and Alexander McQueen.

Apparel

This category includes ready-to-wear for both women and men, and is equally spread between the two. It represented 23% of the total personal luxury goods market in 2018, totaling an estimated €60 billion, down 1% versus 2017. Men's ready-to-wear was driven by the fashion segment, while women's ready-to-wear sales were boosted by strong performances in the fashion segment and in contemporary apparel.

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

Hard luxury

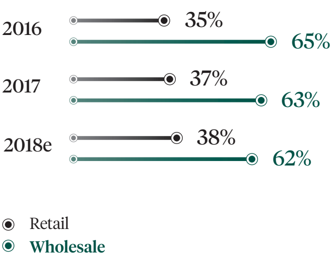
The hard luxury category generated revenue of €58 billion in 2018, representing 22% of the total personal luxury goods market, and was up 3% versus 2017 as reported. This category mainly includes watches and jewelry, representing €37 billion and €18 billion in 2018, respectively. The jewelry sub-category grew at a rate of 7% between 2017 and 2018 (on a reported basis), driven by strong demand in Asia and the emergence of a younger client base. Sales remained stable in the watches sub-category, with trends varying by region (Europe flat, Asia more dynamic) and the women's jewelry watch segment gaining market share. Kering operates in this category across different price points with Gucci Timepieces, Girard-Perregaux, Boucheron and Ulysse Nardin for watches, and Boucheron, Pomellato, Dodo and Qeelin for jewelry.

Fragrances and cosmetics

The fragrances and cosmetics category represented 22% of the total personal luxury goods market in 2018 and was worth an estimated €56 billion. Kering operates in this product category through licensing agreements between its main brands and leading industry players such as L'Oréal, Coty and Interparfums to develop and sell fragrances and cosmetics.

Distribution channels

Worldwide personal luxury goods market: breakdown by distribution channel (2016-2018e)



Retail channel

A strong directly operated store network is important for the success of a luxury brand as it allows greater control over the consumer shopping experience and over the product assortment, merchandising and customer service. In 2018, the retail channel accounted for sales amounting to 38% of the total worldwide personal luxury goods market.

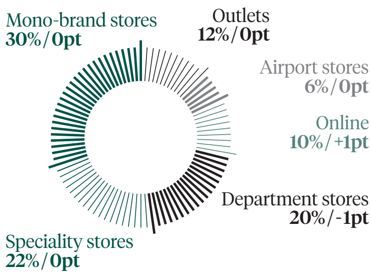
In the case of Kering's Houses, the share of retail sales is far higher (77%), reflecting both the maturity of some of the brands and Kering's strategic commitment to grow its directly operated network. This also reflects the Group's product mix, as the higher share of leather goods and accessories typically translates into a more prominent share of retail sales in the channel mix.

Wholesale channel

The wholesale channel typically includes department stores, independent high-end multi-brand stores and franchise stores, and accounted for approximately 62% of the total worldwide personal luxury goods market in 2018. This channel can thus be multi-brand or mono-brand. The share of wholesale sales is typically higher in ready-to-wear, watches and jewelry, and is also more important than retail in the channel mix for brands that stand at an earlier stage of maturity.

Sales formats

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



/pts: Market share change (2018e vs 2017).

E-commerce

Online sales of luxury goods reached a new record of around €27 billion in 2018 (up 22% at comparable exchange rates), representing about 10% of total worldwide personal luxury goods sales. This includes sales made through brand and department store websites and by e-tailers. Online is the fastest growing channel globally, driven by Asia and by a younger cohort of generation Y and generation Z consumers. Within e-commerce, brands and e-tailers are the top performers. Brands are accelerating their development of online activities, expanding both their geographical reach and the assortment offered on their e-stores, while e-tailers are seeing strong momentum due to their customer proposition – an integrated offer of appealing content (sometimes supported by exclusive partnerships with brands), combined with strong e-commerce execution.

Kering's Houses are present online and propose e-commerce, either operated fully internally, as is the case for Gucci, or through a joint venture with Yoox Net-a-Porter (YNAP). When the e-commerce partnership expires in the first half of 2020, these activities will be internalized.

Kering brands are also distributed online by selected partners.

Market outlook

For 2019, Bain and Altagamma forecast overall growth of 5% excluding currency effects for the personal luxury goods market.

Key trends for 2019 include:

- a global economic outlook that has been revised downward due to fears about the trade war between China and the United States, uncertainty surrounding Brexit and the forecast slowdown in growth in both China and the United States;
- a deceleration in demand (whose scale is still difficult to quantify) in China, a key country in today's luxury goods market, notably driven by a slowdown in the country's economic growth and by the consequences of the China-US trade war;
- continued repatriation of Chinese spending to the domestic market, and the corresponding impact on spending among Chinese tourists, spurred by a reduction in the luxury goods price gap with Europe, partly due to the decline of the Chinese yuan, and government measures implemented to encourage local consumption;
- uncertainty about the strength of US spending due to the gradual slowdown expected in the country's economic growth. A further decline in the US financial markets would also have a negative impact on the wealth effect among US consumers.

According to the forecasts by Bain and Altagamma, the personal Luxury goods market is expected to reach €320-365 billion in 2025, at a compound annual growth rate (CAGR) of 3-5% from 2018, driven by:

- emerging countries: in addition to Southeast Asian countries (Indonesia, Thailand, etc.), Brazil, Australia, Africa and India are expected to make a greater contribution to the growth of the worldwide personal luxury goods market;
- emerging consumers: a booming upper-middle class especially benefiting the "accessible" luxury segment, particularly in China. In fact, according to McKinsey, by 2022, the Chinese upper-middle class is expected to account for 54% of urban households and 56% of urban private consumption (up from 14% and 20% in 2012 respectively);
- generations Y and Z: estimated to have fueled all of the market growth in 2018, they are expected to account for 55% of the market by 2025 versus c. 32% in 2018;
- the development of distribution channels such as discount outlets, travel retail and e-commerce. The latter is expected to account for 25% of total personal luxury goods sales by 2025;
- an increase in high-spending consumer classes such as high-net-worth individuals (HNWIs);
- the development of new high-end products and services;
- the potential of the American market due to its relative under-penetration by European luxury brands.

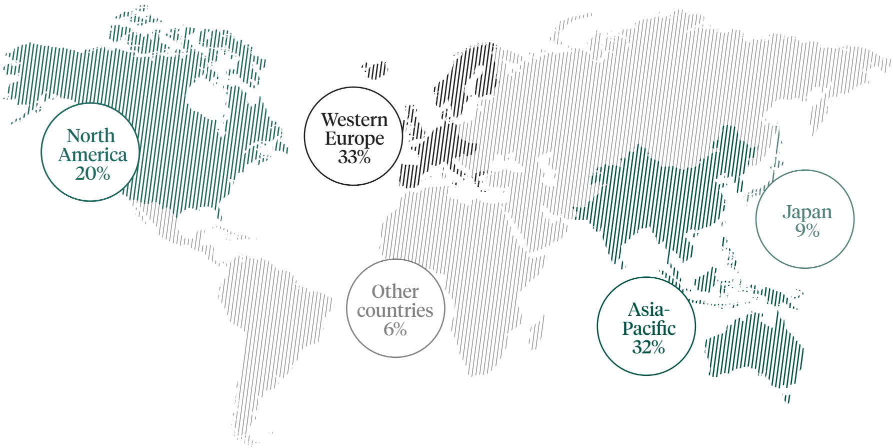
LUXURY ACTIVITIES (TOTAL HOUSES)

2018 key figures

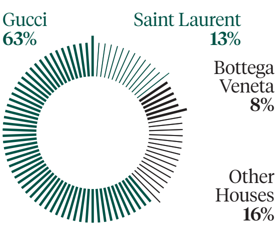
€13,247 million
in revenue

Revenue
(in € millions)

Breakdown of revenue by region

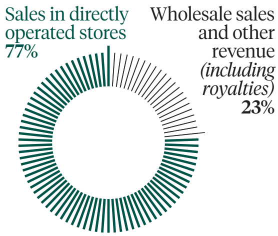


Breakdown of revenue by brand



Breakdown of revenue by product category

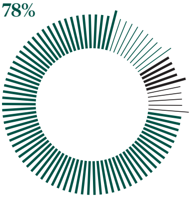
Breakdown of revenue by distribution channel



€4,191 million

in recurring operating income

Breakdown of recurring operating income by brand



Recurring operating income
(in € millions)

2017 restated	2,895
2018	4,191

27,057

average number of employees
(full time equivalent)

1,439

directly operated stores

	2017 restated	2018
Western Europe	350	362
North America	210	220
Japan	242	251
Emerging countries	533	606
Total	1,335	1,439

GUCCI

2018 key figures

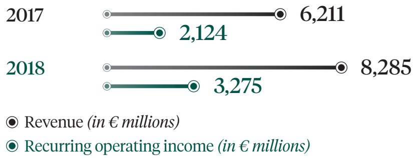
€8,285 million
in revenue

€3,275 million
in recurring operating income

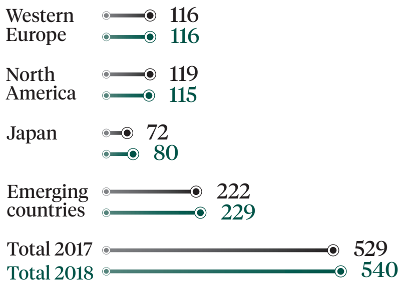
14,628
average number of employees
(full time equivalent)

540
directly operated stores

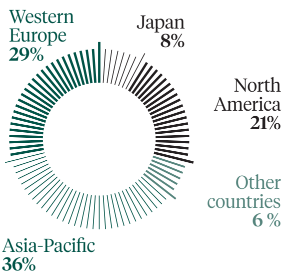
Revenue and recurring operating income



Number of directly operated stores by region



Breakdown of revenue by region



Breakdown of revenue by product category

Breakdown of revenue by distribution channel

Business concept

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

At the beginning of 2015, Gucci embarked on a new chapter in its history under the direction of a new management team led by President and CEO Marco Bizzarri and Creative Director Alessandro Michele. Their new, contemporary vision for Gucci rapidly re-established its reputation as one of the world's most influential luxury fashion brands.

Four years on, the indisputable success achieved by Gucci, from both an esthetic and a business perspective, has confirmed that the turnaround was not merely a "fashion moment". Thanks to a profound understanding of the brand's values and essence, the management team has given Gucci a new contemporaneity by prioritizing creativity, taking up the mantle as the voice of self-expression.

The driving force behind Gucci's reinvention is to be found in a new, contemporary corporate culture of employee empowerment and open communication, built on key values that feed into the whole organization through the encouragement of innovation and risk taking, a sense of responsibility and respect, an appreciation for diversity and inclusion, and a commitment to excellence in execution.

Gucci products continue to represent the pinnacle of Italian craftsmanship and are unsurpassed in terms of their quality and attention to detail. They are sold exclusively through a network of 540 directly operated boutiques, a directly operated online store (active in 34 markets), a limited number of franchises and selected department and specialty stores.

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

Competitive environment

Gucci is one of the few luxury brands with truly worldwide operations, alongside Hermès, Christian Dior, Chanel, Louis Vuitton and Prada. In 2018, Gucci confirmed its leadership position as one of the world's leading luxury fashion brands both in terms of revenue and profitability.

Strategy

Gucci's willingness to challenge traditions and conventions has created significant disruption, delivering an important and sustained competitive advantage.

The focus on creating an increasingly emotional bond between the brand and its clients has been one of the key drivers of Gucci's industry-leading performance over the past four years. Deepening engagement with clients across all of the brand's touchpoints is critical for its long-term success, especially in a technologically connected society. This is achieved through the careful implementation of a content strategy centered on creating an emotional and engaging narrative, which is authentic and always consistent, season after season.

In 2018 Gucci continued to deliver outstanding growth, substantially above the industry average, as a result of the successful implementation of its innovative and bold strategy. This performance was achieved by the continued optimization and excellence of the business model, rather than relying on the expansion of its retail footprint or product category extension.

In terms of products, all categories have now fully transitioned to the new brand esthetic, while optimizing the offer in terms of the number of product models, price clusters and store network distribution. The collections are structured to sustain organic growth by ensuring a well-balanced mix between carry-over and new designs and maximizing the efficiency of the product assortment.

From a distribution perspective, the roll-out of the new store concept has been fundamental in reflecting the brand's new esthetic and creative vision, giving substance and expression to the notion of customer inclusivity, while enhancing cross-selling opportunities.

Given the stability of the retail network footprint during the past few years, the new store concept has played a key part in the significant increase in sales density, achieved across all regions. A selective approach continued to characterize the wholesale channel, while online sales grew strongly during the year, reflecting greater penetration in a higher number of countries and thanks to the seamless blend of e-commerce functionalities and rich storytelling, and a continuous focus on delivering a best-in-class experience.

2018 highlights and outlook for 2019

In 2018, revenue growth in all quarters was impressive, despite the basis of comparison becoming increasingly challenging throughout the year. Growth was driven by full-price sales across all product categories, regions and distribution channels, and this success is testament to the impact of the new vision for the brand.

In terms of products, the offer has been built to reach an equilibrium between creativity and more commercial market desires. A balanced mix between carry-over and new designs guaranteed a sustainable, healthy performance. The continuous development of the offer, with the injection of new designs accounting for approximately 30%, was accomplished through the introduction of fashion-driven products (to stimulate the interest of opinion leaders) and functionality-driven items (to complete the offer in terms of function and price points).

With the aim of further simplifying structures and processes and generating additional synergies between functions, a new organizational structure, designed to maintain and sustain momentum, was introduced in March 2018. It is based on four pillars: Merchandising & Global Markets; Indirect Channels, Outlet and Travel Retail; Brand & Customer Engagement; and Digital Business & Innovation.

As further explorations of the House's imagination and creativity, 2018 marked the openings of both the Gucci Garden, a lively and interactive experience in the heart of Florence, and Gucci Wooster, a hub for creativity, culture and innovation in SoHo, New York, created to offer a new way to experience the eclectic spirit of the brand.

In order to meet demand for Gucci's products, which has more than doubled in the last four years, Gucci ArtLab, the company's futuristic center for the development of industrial craftsmanship and an experimental laboratory for leather goods and shoes, was unveiled in April 2018. The center represents an important investment designed to help sustain the brand's moment.

Gucci's momentum was outlined in the 2018 Interbrand Best Global Brands ranking, seeing the brand climb from number 51 to 39 and positioning Gucci among the Top Growing Brands, alongside Amazon, Salesforce and Netflix.

In a rapidly evolving, global e-commerce landscape with shifting consumer expectations, Gucci's leadership in this area was endorsed by the Digital IQ Index®: Fashion. Thanks to a perfect blending of site functionality, a seamless shopping experience, integrated content and robust search and navigation, the brand was declared the Top Genius brand for the third year in a row.

In line with Kering's long-lasting commitment to sustainability, and the introduction of the "Culture of Purpose" ten-year sustainability plan, Gucci launched Gucci Equilibrium, a new portal designed to promote and broadcast the brand's perspective on environmental and social impact change.

In 2019, in line with the strategic update presented at the Capital Markets Day held in June 2018, Gucci will continue to unleash its full potential across all product categories.

The main drivers of the mid-term revenue evolution, which aims to double market growth, include continuous sales-density improvement, full roll-out of the new store concept, organic growth of the wholesale business and tripled e-commerce volumes. The progressive expansion of operating margin will be achieved by ongoing optimization of gross margin (in terms of channel mix, production internalization and efficiency) and operating leverage.

SAINT LAURENT

2018 key figures

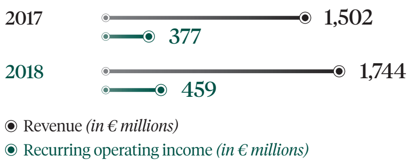
€1,744 million
in revenue

€459 million
in recurring operating income

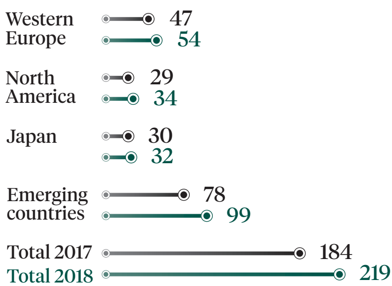
3,087
average number of employees
(full time equivalent)

219
directly operated stores

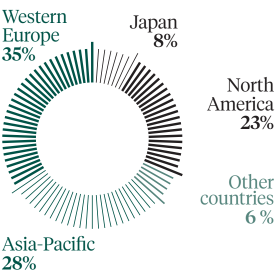
Revenue and recurring operating income



Number of directly operated stores by region

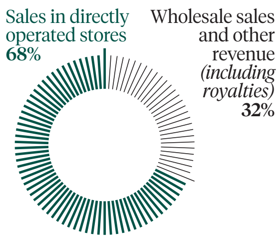


Breakdown of revenue by region



Breakdown of revenue by product category

Breakdown of revenue by distribution channel



Business concept

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

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

Anthony Vaccarello has been the Creative Director of the House since 2016. His modern, pure esthetic, which impeccably balances elements of provocative femininity and sharp masculinity in his silhouettes, is the perfect fit for the House.

As of December 31, 2018, the Saint Laurent retail network consisted of 219 directly operated boutiques, which together generated 68% of the total revenue for the year and included flagship stores in Paris, London, Dubai, New York, Hong Kong, Shanghai, Beijing, Tokyo, Miami and Los Angeles.

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

At the end of 2018, the Saint Laurent business was very well balanced in terms of both geographic markets and product categories, with strong positions in leather goods, shoes and ready-to-wear.

Competitive environment

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

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

Strategy

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

At the helm of Saint Laurent since 2016, Creative Director Anthony Vaccarello's mastery of tailoring techniques and influences are remarkably in line with the House style. With a great understanding of the brand's core values such as youth, capacity to bring couture to the street, and ability to create a style that resonates in modern times, he has strongly empowered a highly desirable and sophisticated vision, which has been very well received both by the historical customer base and by new clients worldwide.

The execution of the strategy will continue to focus on achieving well-balanced growth between product categories and distribution channels, a best-in-class retail and customer experience and a unique desirability of both iconic lines and novelty.

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

2018 highlights and outlook for 2019

Under the leadership of Francesca Bellettini, the Company's CEO, 2018 was another year of expansion for Saint Laurent.

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

Back in September, under the Eiffel Tower, Anthony Vaccarello reaffirmed his mastery of tailoring techniques, pushing the brand forward with clarity and modernity in a sophisticated show featuring a water runway. A tribute to Paris and the ultimate *savoir-faire* of Saint Laurent, the Creative Director showcased an acclaimed collection that was conceived with a modern perspective naturally merging with the legacy (DNA) of the brand.

In June, Anthony Vaccarello chose New York as the perfect backdrop for his menswear collection, which was about freedom, energy and possibilities – values that also capture the House spirit. The pure esthetic applied by the Creative Director impeccably balanced elements of masculinity and audacious femininity in all silhouettes – crossing wardrobe gender boundaries.

During the year, the brand's sales were fueled by strong growth across all main product categories.

Saint Laurent also made 2018 another year of investment, enhancing its retail network with selective store openings worldwide, in both emerging and mature markets, and key refurbishments and relocations. Throughout the year, the brand opened 35 directly operated stores worldwide and reinforced its presence in China with 10 new points of sale.

In a world where high-tech is key to evolution and growth, Saint Laurent's e-commerce business, as part of the overall cross-channel strategy, was particularly successful during the year following the launch of the fourth version of YSL.com. The redesign modernized the website and created a more immersive experience while improving e-commerce functionality. Fully implemented new features include a newsfeed section, product sheet improvements, adherence to the requirements to meet the American Disabilities Act, integrated Google maps in the store locator, and new shipping currencies.

As of December 2018, Saint Laurent was present online in more than 50 countries worldwide, including the US, all major European countries, South Korea and Hong Kong.

Also as part of its omni-channel development, Saint Laurent announced that it will be the first brand to benefit from Farfetch's enhanced e-commerce platform in Greater China, following the partnership set up between Farfetch and JD.com.

In an increasingly competitive environment, the brand's priority is to offer an exceptional, coherent experience across all distribution channels, including online (services, ergonomics, etc.), while maintaining a privileged relationship with customers in store.

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

Since his appointment, Anthony Vaccarello has introduced a new digital strategy, pushing the House to become the fastest growing brand on Instagram, Weibo and YouTube, with high triple-digit growth on all three social networks, and clearly reaffirming his sharp 360° vision for Saint Laurent.

Social media initiatives met with strong success as social platforms were fully integrated into global communications practices and strategies. As of December 2018, Saint Laurent had more than 2.9 million fans on Facebook and was one of the most popular luxury brands on Twitter with close to 5.5 million followers, as well as the fastest growing brand on Instagram, with a following of 4.2 million people.

In line with its current strategy, Saint Laurent will continue to expand its retail distribution network in 2019, while reinforcing its online presence and focusing on building an excellent experience for its customers in every touchpoint with the brand.

BOTTEGA VENETA

2018 key figures

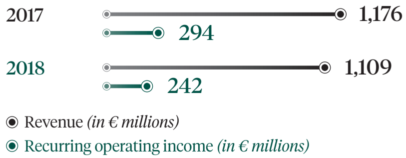
€1,109 million
in revenue

€242 million
in recurring operating income

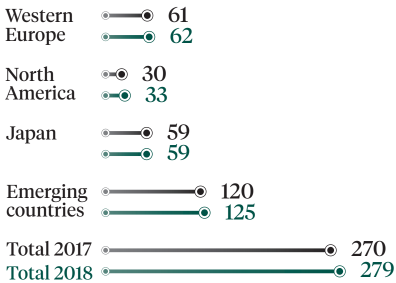
3,574
average number of employees
(full time equivalent)

279
directly operated stores

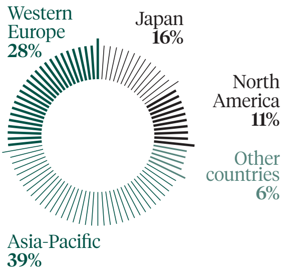
Revenue and recurring operating income



Number of directly operated stores by region



Breakdown of revenue by region



Breakdown of revenue by product category

Breakdown of revenue by distribution channel

Business concept

Founded in 1966 in the Veneto Region of Italy, Bottega Veneta began as a leather goods House. The brand became well-known for its signature *intrecciato*, a distinctive, woven leather design developed by its artisans with luxury and understated elegance in mind. *Intrecciato* is eminently adaptable, reinterpreted each season in different colors and materials. Bottega Veneta led the way in introducing soft, deconstructed handbags – in contrast with the rigid, structured leather goods that originated with the French school – and quickly became recognized and appreciated in the market. An absolute luxury lifestyle brand, Bottega Veneta has for many years applied its understated philosophy to a range of products for women and men, including leather goods (bags, small leather goods and a full luggage collection), ready-to-wear, shoes, jewelry and furniture.

The brand has also engaged in collaborations with partners who have brought their know-how and commitment to quality and craftsmanship to some of its product categories, namely Kering Eyewear for frames and sunglasses, Coty Prestige with a licensing agreement for fragrances, and Poltrona Frau and KPM with supply partnerships for seating and porcelain, respectively.

Bottega Veneta's products are sold through a distribution network of directly operated stores, complemented by exclusive franchise stores and selected department and specialty stores worldwide. In addition, Bottega Veneta's products are now available through the brand's online store in 67 countries, including mainland China.

Competitive environment

Bottega Veneta is one of the only Italian brands to offer truly handcrafted products made with the expert know-how of its master artisans. It is a rare example of an absolute luxury lifestyle brand that never compromises on quality while always providing an unsurpassed level of service to clients. This places Bottega Veneta at the top of the luxury pyramid, and puts it in competition with a limited number of other brands.

Strategy

Bottega Veneta appointed Daniel Lee as its Creative Director as of July 1, 2018. British-born Lee, 32, has a thorough understanding of Bottega Veneta's current challenges both in terms of creation and development. Armed with a new creative vision, he will help the House evolve while maintaining its outstanding craftsmanship, quality and sophistication and bringing a fresh perspective and sense of modernity.

The strategy implemented under the business leadership of CEO Claus-Dietrich Lahrs is designed to increase brand awareness globally and take the House in a new creative direction, by targeting a younger and broader audience, as well as local clients. The business and creative sides are working together to deploy this strategy across the globe, with a particular focus on the Asian market.

Historically, the brand's core business has been leather goods – which accounted for 84% of sales in 2018 – characterized by the use of the highest quality materials and attention to detail. A wider range of products appealing to an international clientele of men and women has gradually been integrated, all featuring Bottega Veneta's signature discreet, sophisticated and pared-down style.

The brand's exclusivity extends to its distribution network. Through its worldwide expansion, Bottega Veneta has reinforced its presence in both emerging and mature markets, particularly the United States and Japan.

Moreover, the company continues to nurture exclusivity within the store network by refreshing key locations across markets. Bottega Veneta's products are also going through a phase of revitalization, retaining the *intrecciato* as an essential element of their visual identity, but imbued with a fresh, modern perspective.

2018 highlights and outlook for 2019

In the first half of 2018, Bottega Veneta continued to invest in communications and to focus on consolidating its high-end positioning and exclusivity.

In the second half, the closure of the collaboration with previous Creative Director Tomas Maier and the arrival of Daniel Lee marked the start of a new chapter in the House's history. Daniel Lee is currently transforming the Bottega Veneta universe with a new contemporary vision.

A revitalization process was launched for the key category of leather goods, with fresh offerings in the shapes and functions of full *intrecciato* products already in stores, alongside innovative new seasonal items that provide an alternative to the *intrecciato* pieces and enrich the overall selection. The product mix is evolving to offer a broader range of styles that are more relevant to a younger consumer without sacrificing the high level of quality and design that define the brand. The brand is investing significantly to expand the categories of shoes and ready-to-wear.

In terms of distribution, Bottega Veneta focused on reinforcing its existing retail network throughout 2018 and continuing its efforts to enhance boutiques through both refurbishments and expansions to ensure the best possible customer experience. The brand also pursued selective store openings, bringing its total network up to 279 at the end of the year. A number of investments in the distribution network have been finalized and more are ongoing to rejuvenate the brand's stores, especially in key markets such as Europe and Asia-Pacific.

In February, Bottega Veneta celebrated the opening of its third Maison, at 740 Madison Avenue in New York. Set on five floors with nearly 15,000 square feet, it is the biggest Bottega Veneta store in the world, showcasing the most extensive range of women's and men's ready-to-wear, handbags, small leather goods, luggage, eyewear, shoes, watches, fragrances, jewelry and the Home and Furniture collections. Bottega Veneta marked this significant moment by showcasing its Fall/Winter 2018 collection at New York Fashion Week – a one-season only event.

In March, the House opened its largest store in the Middle East at the Dubai Mall Fashion Avenue, with the store's façade featuring a design that echoes the iconic *intrecciato* weave. This architectural innovation is the largest of its kind created by Bottega Veneta globally.

In September, Bottega Veneta revealed its men's and women's Spring/Summer 2019 collections to press and wholesale partners via showroom appointments. Because of the transitional period between Creative Directors – the collection was a team effort by the design studio – there was no runway show and it has not been shown to the public. The collection includes the first designs by Creative Director Daniel Lee: the Pouch and the *Maxi Cabat*. The two bags will be available in store in various sizes, finishes and materials from February 2019.

During the fall, Bottega Veneta presented "Masters of Craft", a traveling event featuring demonstrations by artisans that takes guests on an immersive and interactive journey through the brand's heritage of craftsmanship. Staged in Spain and Australia, the event was held to celebrate the recent openings of new stores on Calle Serrano in Madrid and Collins Street in Melbourne.

In November, Bottega Veneta opened its biggest store in Asia in Tokyo at 5-6-1 Ginza Chuo-Ku, generating significant traffic. Set on six floors and spanning 800 square meters, the flagship boutique was celebrated with an exclusive in-store preview of the Pre-Fall 2019 collection. It is Daniel Lee's first full collection, which was also showcased during press presentations in Milan and New York in December and January, respectively. Lee's runway debut will be staged in Milan in February 2019 during Women's Fashion Week.

In 2019, Bottega Veneta will embark on its next chapter. The introduction of a new visual language and contemporary vision for the House will re-establish its reputation as one of the world's most exclusive luxury lifestyle brands and give it far greater relevance globally within the industry. The brand's leather products will continue to represent the best of Italian craftsmanship, in terms of both quality and attention to detail. The existing retail network will be refreshed in key locations and reinforced with further selected investments, continuing to build on Bottega Veneta's reputation for excellence.

The brand will continue to cultivate its strategy based on innovation in the product range and on 360° communication. It will speak with a new creative language to both existing clients and new, younger clients, providing them all with an engaging omni-channel experience.

OTHER LUXURY HOUSES

2018 key figures

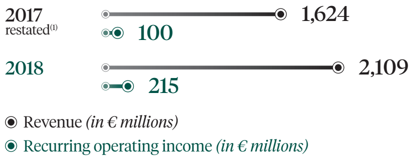
€2,109 million
in revenue

€215 million
in recurring operating income

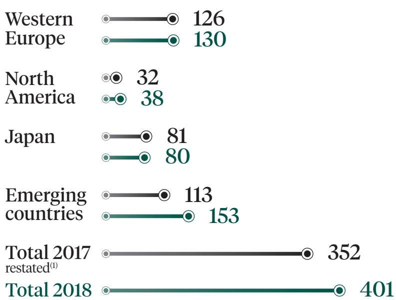
5,769
average number of employees
(full time equivalent)

401
directly operated stores

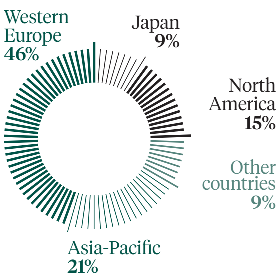
Revenue and recurring operating income



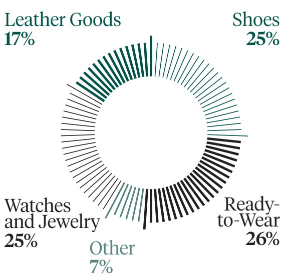
Number of directly operated stores by region



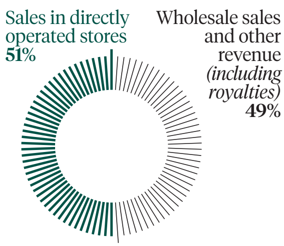
Breakdown of revenue by region



Breakdown of revenue by product category



Breakdown of revenue by distribution channel



(1) *See page 6.*

Alexander McQUEEN

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

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

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

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

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

The Alexander McQueen brand is sold in over 50 countries worldwide, through a network of 63 directly operated boutiques, a limited number of franchises and selected department and specialty stores. In 2018 the network was reinforced with seven net openings, culminating in the relocation of the London flagship store in December. At nearly 11,000 square feet, the Old Bond Street store unveils a new retail concept developed by Sarah Burton in collaboration with the architect Smiljan Radic, which translates the brand's powerful story-telling into a unique customer journey through a physical space.

At the same time, the House continues to enhance its visibility and reach with strategic openings of shop-in-shops in high traffic locations, direct entry in new, high potential markets (Malaysia and Thailand in 2018) and by further developing its online presence. The Alexander McQueen e-commerce store became the brand's number one store in terms of revenue contribution in 2018. Directly operated concessions created during the year with JD.com (Toplife) and Farfetch have extended the company's footprint in the digital eco-system.

The Alexander McQueen brand has a strong social media presence, with 7 million followers on Instagram and approximately 1.9 million followers on Twitter and Facebook as of the end of 2018. To increase honest and direct connections with its customers and build a true sense of community, Alexander McQueen continues to invest in digital communication, including through heightened engagement across Chinese social media such as Weibo and WeChat.

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

The company has also successfully developed McQ, which was re-launched as an in-house brand in 2011 and is today well established in the popular contemporary market. The McQ brand is currently distributed in many countries, primarily as an international wholesale business across a total of more than 500 doors. Franchises also represent an important part of McQ's business. At the end of 2018, McQ had 22 franchise stores located in Asia.

In 2018, the company moved into new headquarters in the center of London's Clerkenwell district, bringing both brands under one roof.

In 2019, Alexander McQueen will pursue its growth strategy through increased investment in communication, further penetration in accessories, and an acceleration in the expansion of the network. The roll-out of the new store concept is set to gain momentum in 2019 with the opening of key flagships in Dubai, Shanghai and Hong Kong.

BALENCIAGA

Founded in 1917 by Cristóbal Balenciaga, the Balenciaga brand was established in Paris in 1936, where it defined many of the greatest movements in fashion from the 1930s to the 1960s. Balenciaga's exquisite technique, masterful cut and constant innovation in its use of fabrics has helped it carve out a special place in the hearts and minds of its clients.

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

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

The brand has signed a licensing agreement with Coty Prestige to develop fragrances and, in 2018, established a partnership with Kering Eyewear to design new eyewear collections for both women and men, which will be available from early 2019.

In recent years, Balenciaga has been consolidating its directly operated store network worldwide. Today, the House has a network of 156 stores in both mature markets (Western Europe, the US and Japan) and Asia (Greater China and South Korea). Balenciaga is also distributed through franchises and in leading multi-brand stores.

In 2018, Balenciaga pursued its retail expansion strategy with several net openings, including its first store in Miami's Design District and the takeover of franchise stores in Southeast Asia and the United Arab Emirates. Over the year, a number of stores were renovated in line with the new concept developed by Demna Gvasalia. The brand also extended its retail presence in upscale department stores with the opening of new shop-in-shops in Europe and Asia. And in December, Balenciaga relocated its flagship store in Milan to Via Montenapoleone.

The online store Balenciaga.com confirmed its position in 2018 as one of Balenciaga's top-performing directly operated stores, and traffic continued to increase strongly. All regions are enjoying outstanding results and the web experience is perfectly in line with the brand's audience and their shopping preferences. Mobile continues to be the preferred method for both browsing and shopping. Today there are nine local versions of Balenciaga.com in different languages, including Chinese, Korean and Russian. The Balenciaga website is e-commerce enabled in nearly 100 markets, such as the Middle East, South Korea and China.

On social media, Balenciaga had more than 1.4 million fans on Facebook in December 2018 and is increasingly popular on Instagram, counting over 8 million followers at the end of the year. This reflects growing interest for all the collections and a significant gain in brand awareness and visibility.

In 2019, the brand will continue to benefit from the momentum generated by the new creative vision and new product launches. While wholesale distribution will remain an important contributor to the brand's activity, retail and e-commerce development will continue to be the priority. To this end, new store openings are planned during the year in strategic locations both in mature markets and in Asia. In its roadmap for 2019, Balenciaga also plans to further develop its men's collection, with dedicated spaces in the new stores, and to continue to enlarge its online product and services offering, forming part of the overall cross-channel retail strategy.

BOUCHERON
PARIS

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

The brand is focusing its expansion through its directly operated stores (47 at the end of 2018) and franchise network in key locations worldwide.

In 2018, Boucheron opened seven new boutiques, mainly in Asia. As well as making a comeback in Beijing, it also opened its first store in Shanghai and in Macao, two new stores in Hong Kong and one in Taiwan. In addition, the House transformed three of its existing boutiques – in London, Cannes and Paris – in line with its new store concept.

In January, the House launched celebrations for its 160th anniversary with an innovative take on exhibiting jewelry. Much more than a retrospective presentation, *Vendôrama* was a new kind of immersive experience. Combining the natural environment with contemporary staging, the exhibition was a chance for visitors to explore the timeless nature of jewelry.

In July, the House turned a dream into reality, pushing the boundaries of High Jewelry to create pieces that embody the beauty and energy of nature. This vision came to life in the *Nature Triomphante* collection, which pairs cutting-edge scientific techniques with the ancestral expertise of Boucheron jewelers to usher in a new era of creative High Jewelry. After several years of research and innovation, Boucheron has successfully created jewelry that captures the ephemeral beauty of flowers. The nine *Fleurs Éternelles* rings that complete the *Nature Triomphante* collection are a first for the House and for High Jewelry as a whole.

In December, Boucheron reopened the emblematic Hôtel de Nocé at 26 Place Vendôme in Paris, after 18 months of renovations. The building, which has been the House's historical location since 1893, hosts the creative studio and the workshops. Under the supervision of the Kering group, this very ambitious refurbishment project aims to highlight the architecture and original volumes of the space.

In 2019, Boucheron will launch a new global advertising campaign on the theme of freedom to wear jewelry. Focused on audacious creativity, the campaign will consist of a series of visuals tailored to the needs and expectations of local markets. It will be supported by a media investment plan designed to increase awareness of the brand.

Boucheron will also be launching a new jewelry collection, *Jack de Boucheron*. Following in the footsteps of *Quatre* and *Serpent Bohème*, these new pieces have no rules. Rather than being divided into the usual categories of necklaces, bracelets and earrings, the collection is designed for each woman to choose how she wants to wear the pieces, imbuing them with her own sense of style and movement.

In 2019, Léa Seydoux will join Laetitia Casta and Zhou Dongyu as one of the House's ambassadors.

Boucheron also intends to continue refurbishments across its retail network as it rolls out its new store concept, all the while pursuing its international expansion with franchises in the Middle East and Asia and renovations of its directly operated boutiques in Japan and Monaco.

Brioni ROMA

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

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

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

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

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

At the end of 2018, Brioni had 40 directly operated stores, mainly located in Western Europe and, to a lesser extent, in North America, Japan and Asia.

In 2019 and beyond, Brioni will continue to optimize its store network, all the while leveraging its long tradition of Italian tailoring, to anchor the brand as a leading player in the world of luxury menswear.

GP
GIRARD-PERREGAUX
HAUTE HORLOGERIE SUISSE DEPUIS 1791

JR
JEANRICHARD
1681

Girard-Perregaux is based in La Chaux-de-Fonds, Switzerland, a town recognized by UNESCO as one of the birthplaces of watchmaking. Founded in 1791, the brand is one of the oldest high-end watch manufacturers.

The House's history is marked by watches that combine sharp design with innovative technology, such as the iconic *Tourbillon with Three Gold Bridges*, which has embodied these values since it was first introduced in 1889. The complication won a gold medal at the Paris Universal Exhibition and has featured in the brand's catalog ever since.

Combining complete dedication to state-of-the-art Haute Horlogerie and a relentless quest for innovation, Girard-Perregaux is one of the few Swiss watchmakers that designs and manufactures its own movements and cases in-house.

Girard-Perregaux has been part of the Kering group since 2011.

In terms of products, the brand is reinventing itself while staying true to its heritage. In 2017, 42 years after the launch of the original *Laureato*, Girard-Perregaux revealed a fresh take on the iconic timepiece with a whole new collection of sport-chic, contemporary watches, featuring different sizes, materials and designs. In 2018, Girard-Perregaux fitted the emblematic case with its self-winding chronograph movement.

Drawing on its long tradition of Haute Horlogerie, the watchmaker presented a new piece in 2018, the *Minute Repeater Tri-Axial Tourbillon*, combining two of the most advanced complications to be developed in recent years.

The prestigious SIHH international luxury watch show, held in the first half of the year, was an opportunity for the brand to present the cutting-edge developments it is known for in the key pieces of its collections. Girard-Perregaux also continued to expand its *Neo Bridges* line, first introduced in 2017, which has already become a cornerstone of the watchmaker's collections, unveiling a more classic version in gold at SIHH. These developments confirmed the brand's dedication to seamlessly combining tradition, expertise, distinctive design and modernity.

In terms of communications, the second half of 2018 was fully dedicated to the launch of the *Laureato Chrono*. Thanks to the 3D and 360° project that was presented at SIHH, the product launch became a physical exploration of the brand and its identity, particularly through the use of immersive virtual reality technology. The experience was mainly showcased in Southeast Asia, Japan and Greater China.

Regarding distribution, Girard-Perregaux is currently present in over 60 countries through independent points of sale, upscale department stores and specialist boutiques. The watchmaker also operates a network of eight mono-brand franchise stores and two multi-brand boutiques located primarily in Asia. In 2018, Girard-Perregaux pressed ahead with the reorganization of its retail network, particularly through selective, high-end targeting to attract major and renowned partners in the distribution of watches, including WEMPE in Germany and RABAT in Spain.

In 2019, the brand will continue to add to its range of watches, focusing even more on unexpected and surprising creations to strengthen its position as a watchmaker with a distinctly avant-garde flair.

Also based in La Chaux-de-Fonds, JEANRICHARD sells its collections through independent points of sale and specialist multi-brand boutiques. Its main markets are located in Asia and Europe.

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

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

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

In 2018, Pomellato greatly accelerated brand recognition with the expansion of both its digital and product activities. As part of its digital approach, the brand sought greater visibility with its fashion-oriented core target market as well as with Millennials. This was achieved thanks to the revamp of its website and by increasing its social media presence, but also through its #PomellatoForWomen global advertising campaign, launched as a celebration of the brand's fiftieth anniversary. #PomellatoForWomen features real-world, strong-willed, independent women of all ages and walks of life. Its 360° communication platform encompasses digital, social media, public relations and events, and celebrates the diversity and authenticity of womanhood.

Pomellato introduced Chiara Ferragni, the Italian blogger, stylist and businesswoman, as the quintessential face of the #PomellatoForWomen campaign, as she embodies a contemporary version of female beauty. The social media influencer inspires women across the globe and is simultaneously enhancing the brand's visibility worldwide.

Regarding product initiatives, in 2018 the brand consolidated the architecture of its products within each design, invested primarily in new pieces incorporating gold and diamonds, focused on upscaling its pillar collections, and increased the stackability of its entry-level products.

With an eye toward the future, Pomellato has further invested in the sustainability and social responsibility of its products. In 2018, the brand achieved 100% responsible gold sourcing, a first within the industry, and designed an entire collection, *Nuvola*, from 100% Fairmined gold. In order to preserve its traditions, Pomellato established a partnership with the Galdus Goldsmith Academy, providing programs, seminars and apprenticeships to promising young local artisans in Milan.

In 2019, Pomellato plans to increase its presence in China and other Asian markets. In addition, the House will further invest in brand communications, especially by developing greater social media prominence, to enhance visibility and build on existing market opportunities. As for products, the brand will continue to roll out its pillar strategy.

Following its strategic international expansion, the Pomellato brand currently has a distribution network that includes 43 directly operated stores, 18 franchise boutiques and approximately 560 wholesale points of sale.

DoDo is an Italian luxury charms brand created in 1994 as the first jeweler to offer composable, high-end jewelry to a broad unisex audience by coupling playful esthetics with a personal message. DoDo combines sustainably sourced precious metals and stones, high-end artisanal know-how, and the creativity of Italian design.

In 2018, DoDo reconnected with its key themes, including love, and also launched collections dedicated to dogs in January, and to nature, with models inspired by sustainability for Spring-Summer, both of which were very successful. The brand then capitalized on the launch of the highly awaited *Horoscope* collection with a special tone unique to DoDo.

A new advertising campaign, shot by Pierpaolo Ferrari, was also launched in May characterized by a modern, energetic and colorful style distinctive to the brand, marking a major step forward and making a powerful statement.

The DoDo distribution network currently includes 24 directly operated stores, 22 franchise boutiques and over 490 wholesale partners.

In 2019, DoDo's strategy will focus on boosting awareness of the brand and growing its network beyond Italy, while further strengthening the clarity of its product offering of fully composable, personalizable, and easy-to-wear jewelry.

qeelin

Created in 2004 by Dennis Chan its designer, Qeelin has embraced the evocative myths of the East, creating lavish fine jewelry that is rich in symbolism. In each collection, iconic designs, carefully selected materials and exceptional craftsmanship deliver a combination of playfulness and enchanting oriental beauty.

The brand's identity is reflected in its name, a reference to the *Qilin*, a Chinese mythical animal and rooted symbol of love, understanding and protection. The brand's iconic *Wulu* collection is inspired by the legendary Chinese gourd filled with auspicious associations. Qeelin is also well known for its *Bo Bo* collection, featuring an articulated and playful representation of a diamond panda, China's treasured national hero.

2018 was a year of strong expansion for Qeelin's retail (including the online business) and wholesale distribution networks.

While mainland China remains the core market, with the opening of six stores in 2018, including three directly operated stores in Guangzhou, Xian and Changsha, Qeelin also reinforced its international presence by opening new boutiques in Macau and Kuala Lumpur, as well as wholesale points of sale, notably in Canada. In addition, the brand's travel retail activities grew significantly thanks to existing business in Korea and new shop-in-shops opened in Japan (Ginza, Tokyo) and China (Sanya).

At the end of 2018, Qeelin counted 24 directly operated stores, including 21 in its priority region of Greater China, as well as 12 franchises, mostly located in Asia.

During the year, Qeelin appointed a new brand ambassador, the popular young Chinese actress Nazha, who expresses the unique personalities of modern women with the esthetic appeal of both East and West. Nazha participated in various activities throughout the year, including Qeelin's launch on Tmall's invitation-only platform Luxury Pavilion. The platform's vast, premium online shopper base represents an opportunity for Qeelin to increase its reach and upgrade its level of service across China. Qeelin is the first fine jewelry brand and also the first of Kering's brands to join Luxury Pavilion.

Among the main product launches of the year was Qeelin's dazzling new collection of *Wulu* diamond necklaces introduced in April, with a cut shaped to the contours of the House's modern classic *Wulu* design. In fall 2018, a new line of bracelets was added to the collection, with interchangeable straps featuring jeweled buckles to transform the *Wulu* from a trendy bracelet in the day to a statement piece at night. The first ever *Wulu Denim* pendant in 18K gold with diamonds was also launched at the end of the year, highlighting the brand's capacity to innovate and surprise.

Qeelin has always felt an affinity with pandas, as shown by its iconic *Bo Bo* collection, and in 2018 launched a three-year initiative with the World Wide Fund for Nature (WWF) to restore and protect ravaged bamboo forests, the panda's natural habitat.

In 2019, Qeelin will continue to invest in its expansion and enhance brand awareness with an important milestone in the first quarter of the year, in celebration of the Jeweler's fifteenth anniversary.

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

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

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

2018 was the year of the *Freak*, with the launch of the *Freak Vision*, supported by a new advertising campaign featuring a shark in various urban landscapes. Boldness, exploration, freedom and disruption were the leading mottos of the brand statement, which attracted attention within the trade and from end consumers thanks to a strong online advertising campaign.

Later in the year, the new *Diver* range was launched, revisiting the brand's existing collection of genuine diving chronometers with a contemporary design and sporty features.

Remarkable work was completed over the year in the area of visual merchandising with more than 50 new corners and shop-in-shops installed throughout the world, while the total number of points of sale decreased from 500 to 485, to focus on the best locations. The brand distribution network includes 12 mono-brand boutiques, one of which is directly operated.

Plans for 2019 include the opening of Ulysse Nardin's first directly operated boutique in China, to be located in Shanghai, as well as a second store in Dubai, in partnership with its distributor. The efforts to enhance the quality of the distribution network will continue. With this in mind, a brand new visual merchandising concept for flagships has been developed.

In terms of products, Ulysse Nardin will introduce the X factor in the watchmaking industry with the launch of *Freak X* and *Skeleton X*. The *X* collections will reveal the inner design and mechanics of the watches, with a price positioning accessible to a younger client base, especially in China.

WORLDWIDE EYEWEAR MARKET OVERVIEW

This section contains information derived from data compiled by Euromonitor, an independent provider of market research. The global eyewear market covers the following product categories: sunglasses, spectacle frames, spectacle lenses, contact lenses and optical accessories.

The estimates of the size of the global eyewear market are based on Euromonitor's methodology, as follows: at national level, in 80 countries, using a "bottom-up" approach including desk research, store checks and trade surveys; at regional and global level using a "top-down" approach, where the 125 countries not covered at national level are mathematically modeled.

According to Euromonitor, the global eyewear market generated revenue of €105 billion in 2017 (retail price value) and could reach €130 billion in 2020, representing an 8% annual increase over the next three years.

Rounded figures *(in billions of euros)*	2017	2020e	CAGR (1)
Spectacle lenses, contact lenses and optical accessories	60	72	6%
as a % of total market	*58%*	*56%*	
Spectacle frames	30	38	8%
as a % of total market	*28%*	*29%*	
Sunglasses	15	20	10%
as a % of total market	*14%*	*15%*	
TOTAL	**105**	**130**	**8%**

The spectacle frames and sunglasses segment was estimated at €45 billion in 2017, of which approximately €30 billion corresponded to premium and high-end products.

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

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

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

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

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

(1) Compound annual growth rate.

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

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

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

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

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

Kering Eyewear's first collection was unveiled on June 30, 2015, for 11 Kering brands: Bottega Veneta, Saint Laurent, Alexander McQueen, Stella McCartney, McQ, Boucheron, Pomellato, Brioni, Tomas Maier, Christopher Kane and PUMA. Since then, more brands have been added to the portfolio, starting with Gucci, for which the first collection was presented in October 2016.

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

As of January 2019, with the recent addition of Courrèges, Montblanc and Balenciaga – the last Kering brand with an eyewear category not managed by Kering Eyewear – the company will design, develop and distribute a complete and well-balanced portfolio of 15 brands.

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

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

Along with the design, strong attention is also paid to sustainability and to material research and development. In July 2017, Kering Eyewear started a collaboration with Bio-on, an Italian company that researches and develops renewable materials, to create the first 100% biodegradable frame and, in 2018, the company published its first EP&L for 2017.

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

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

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

Kering Eyewear has built an extensive distribution system serving over 16,000 customers and 30,000 doors worldwide in around 100 countries, directly operating in more than 25 markets through 14 subsidiaries (France, the UK, Germany, Spain, the US, Hong Kong, Japan, Singapore, Taiwan, China, Korea, Australia, India and Malaysia) and a network of carefully selected distributors.

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

During 2018, Kering Eyewear established important partnerships and developed innovative tools to further expand its distribution in new channels, such as online. In March, the company opened a flagship store on JD.com, one of China's largest e-tailers reaching more than 290 million customers. The store has already achieved very strong results, making this collaboration the first in a series of important steps to further strengthen Kering Eyewear's online presence in China and worldwide.

Kering Eyewear also developed a new shop-in-shop concept as an innovative marketing tool for retailers, to be rolled out in key cities and locations. The first shop-in-shops opened in May 2018 at Coterie, China's most famous distributor of designer glasses, located in Beijing Sanlitun.

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

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

CHAPTER 3
Financial information

1. ACTIVITY REPORT

1.1 Changes in Group structure and highlights of 2018

Strategic redeployment and discontinued operations

PUMA

Following the approval of the transaction by Kering shareholders at the Annual General Meeting on April 26, 2018, the distribution of PUMA shares to Kering shareholders took effect on May 16, 2018, the payment date for the stock dividend. The distribution to Kering shareholders was made on the basis of a ratio of 1 PUMA share for 12 Kering shares held, in accordance with the terms of the transaction announced by Kering on February 13, 2018, and valued at the opening price of the PUMA share on the Xetra trading platform in Frankfurt (€429.00).

PUMA's results up to May 16, 2018 have therefore been reclassified in the consolidated income statement to "Net income from discontinued operations". A gain resulting from the relinquishment of control of PUMA following the distribution was recognized in the consolidated income statement in "Net income from discontinued operations". Cash flows relating to PUMA's operations up to May 16, 2018 have been reclassified in the consolidated statement of cash flows to "Net cash from (used in) discontinued operations" (see Note 4 – Discontinued operations, to the consolidated financial statements).

Following the distribution, Kering held 15.70% of PUMA's share capital and 15.85% of its outstanding shares and voting rights, subject to a six-month lock-up period that ended on November 16, 2018. Since Kering continues to have a significant influence on PUMA's governance, its investment in this company is included in "Investments in equity-accounted companies" in the 2018 consolidated financial statements. The Group's share of PUMA's earnings since May 16, 2018 is presented in the 2018 consolidated income statement in "Share in earnings (losses) of equity-accounted companies" (see Note 20 – Investments in equity-accounted companies, to the consolidated financial statements).

Stella McCartney

On March 28, 2018, Ms. Stella McCartney and Kering jointly announced that they had entered into an agreement for the sale and purchase of Kering's 50% stake in Stella McCartney Ltd to Ms. Stella McCartney, who will thus become the sole owner of her brand.

The cooperation between Stella McCartney and Kering will continue with the aim of guaranteeing a smooth transition in order to minimize disruptions and maintain the brand's momentum. Kering and Stella McCartney will also continue their close cooperation in the domain of sustainable fashion, with Ms. Stella McCartney remaining a Board member of the Kering Foundation.

The results of the Stella McCartney brand have therefore been reclassified to "Net income from discontinued operations" in the consolidated income statement for the fiscal periods presented. Cash flows relating to the brand's operations have been reclassified in the consolidated statement of cash flows to "Net cash from (used in) discontinued operations". Since March 28, 2018, the brand's assets and liabilities have been presented in the 2018 consolidated statement of financial position under "Assets held for sale" and "Liabilities associated with assets held for sale", and they will continue to be recorded in these lines until the date of their effective sale, which is expected to take place in the first quarter of 2019 (see Note 4 – Discontinued operations, to the consolidated financial statements).

Volcom

On April 6, 2018, Kering announced that preparations had commenced for the disposal of Volcom, as the brand no longer constitutes a core asset. This move is consistent with the Group's strategy to fully dedicate itself to the development of its Luxury Houses.

Volcom's results have therefore been reclassified to "Net income from discontinued operations" in the consolidated income statement for the fiscal periods presented. Cash flows relating to the brand's operations have been reclassified in the consolidated statement of cash flows to "Net cash from (used in) discontinued operations". Since April 6, 2018, the brand's assets and liabilities have been presented in the 2018 consolidated statement of financial position under "Assets held for sale" and "Liabilities associated with assets held for sale", and they will continue to be recorded in these lines until the date of their effective sale (see Note 4 – Discontinued operations, to the consolidated financial statements).

Christopher Kane

On June 21, 2018, Kering announced that discussions were underway with Mr. Christopher Kane about the conditions in which the British designer could take back full control of his eponymous brand. Christopher Kane and Kering wish to continue to collaborate with the aim of achieving a gradual and harmonious transition.

The results of the Christopher Kane brand have therefore been reclassified to "Net income from discontinued operations" in the consolidated income statement for the fiscal periods presented. Cash flows relating to the brand's operations have been reclassified in the consolidated statement of cash flows to "Net cash from (used in) discontinued operations". Since June 21, 2018, the brand's assets and liabilities have been presented in the 2018 consolidated statement of financial position under "Assets held for sale" and "Liabilities associated with assets held for sale", and they will continue to be recorded in these lines until the date of their effective sale (see Note 4 – Discontinued operations, to the consolidated financial statements).

The put options granted to Mr. Christopher Kane on 29% of the brand's capital, initially recognized in "Other financial liabilities" with an offsetting entry to "Equity attributable to owners of the parent", have been derecognized and Kering's interest in Christopher Kane has been reduced to 51% (from 80% previously).

Changes in scope of consolidation during 2018 are presented in full in Note 36 – List of consolidated subsidiaries as of December 31, 2018, to the consolidated financial statements.

Creative changes at Bottega Veneta

On June 15, 2018, Bottega Veneta announced that it had appointed Daniel Lee as its new Creative Director with effect from July 1, 2018, replacing Tomas Maier who had been with the Italian House since 2001.

Bond redemptions

On March 26, 2018, Kering announced the success of its offer to redeem bonds maturing in 2019, 2021 and 2022 for an aggregate nominal amount of €405 million (excluding accrued interest). On September 28, 2018, Kering redeemed more bonds maturing in 2019, 2020, 2021 and 2022, for an aggregate nominal amount of €370 million (excluding accrued interest). The bonds were redeemed as part of the Group's strategy to actively manage its liquidity and optimize its financing structure (see Note 29 – Borrowings and debt, to the consolidated financial statements).

Stock repurchase program

On October 29, 2018, Kering announced that it intended to repurchase up to 1.0% of its share capital over the following 12 months under the stock repurchase program authorized at the April 26, 2018 Annual General Meeting (see Note 25 – Equity, to the consolidated financial statements). An agreement was signed with an investment services provider to put in place a first tranche of the repurchase program covering a maximum volume of 631,000 shares (corresponding to approximately 0.5% of the share capital), up to an amount of €300 million and at a maximum price per share of €480. The purchases will be carried out over a period not exceeding four months, and the purchased shares will subsequently be canceled.

E-commerce internalization strategy

As part of new developments in its digital strategy, Kering announced on November 26, 2018 that after a highly successful and fruitful seven-year partnership with Yoox Net-à-Porter (YNAP), the e-commerce activities handled since 2012 through the YNAP joint venture will transition back to the Group during the first half of 2020.

Appointments and corporate governance at Kering

During 2018, Kering's Board of Directors appointed two new members: Ginevra Elkann, replacing Laurence Boone following her appointment as Chief Economist of the OECD; and Financière Pinault, a corporate director represented by Héloïse Temple-Boyer, replacing Patricia Barbizet. Kering's shareholders will be invited to ratify these two appointments at the next Annual General Meeting on April 24, 2019.

On August 20, 2018, Kering appointed Patrick Pruniaux, Chief Executive Officer of Ulysse Nardin, as CEO of Girard-Perregaux. In his new role, Mr. Pruniaux, who continues to serve as CEO of Ulysse Nardin, heads up the Group's Swiss Luxury Watches Houses and reports to Albert Bensoussan, Chief Executive Officer of Kering's Watches and Jewelry Division.

Also during the year, Kering strengthened its organization in Greater China by appointing Jinqing Cai as President of Kering Greater China, effective from September 10, 2018.

1.2 2018 business review

Definitions of Kering's non-IFRS financial indicators are presented at the end of this chapter on page 70.

Key figures

Condensed consolidated income statement

(in € millions)	2018	2017 (1)	Change
Revenue	13,665.2	10,815.9	+26.3%
Recurring operating income	3,943.8	2,690.7	+46.6%
as a % of revenue	*28.9%*	*24.9%*	*+4.0 pts*
EBITDA	4,435.7	3,122.8	+42.0%
as a % of revenue	*32.5%*	*28.9%*	*+3.6 pts*
Other non-recurring operating income and expenses	(222.4)	(164.2)	+35.4%
Finance costs, net	(207.3)	(220.2)	-5.9%
Income tax expense	(867.7)	(550.8)	+57.5%
Share in earnings (losses) of equity-accounted companies	11.9	(3.6)	N/A
Net income from continuing operations	2,658.3	1,751.9	+51.7%
o/w attributable to owners of the parent	*2,630.6*	*1,728.7*	*+52.2%*
o/w attributable to non-controlling interests	*27.7*	*23.2*	*+19.4%*
Net income from discontinued operations	1,095.2	113.2	N/A
Net income attributable to owners of the parent	3,714.9	1,785.6	+108.1%
Net income from continuing operations (excluding non-recurring items) attributable to owners of the parent	2,816.7	1,886.6	+49.3%

(1) Income and expense items relating to PUMA, Stella McCartney, Volcom and Christopher Kane for 2017 have been reclassified to "Net income from discontinued operations", in accordance with IFRS 5.

Earnings per share

	2018	2017 (1)	Change
Earnings per share attributable to owners of the parent	€29.49	€14.17	+108.1%
Earnings per share from continuing operations (excluding non-recurring items) attributable to owners of the parent	€22.36	€14.97	+49.4%

(1) The 2017 earnings per share figures have been adjusted to exclude the earnings of PUMA, Stella McCartney, Volcom and Christopher Kane in accordance with IFRS 5.

Operating investments

(in € millions)	2018	2017 (1)	Change
Gross operating investments	(828.0)	(605.2)	+36.8%

(1) Gross operating investments for PUMA, Stella McCartney, Volcom and Christopher Kane for 2017 have been reclassified to "Net cash from (used in) discontinued operations", in accordance with IFRS 5.

Free cash flow from operations

(in € millions)	2018	2017 (1)	Change
Free cash flow from operations	2,955.2	2,205.5	+34.0%

(1) Free cash flow from operations for PUMA, Stella McCartney, Volcom and Christopher Kane for 2017 has been reclassified to "Net cash from (used in) discontinued operations", in accordance with IFRS 5.

Revenue

(in € millions)	2018	%	2017 (1)	%	Reported change	Comparable change (2)
Total Houses	13,246.7	97%	10,513.3	97%	+26.0%	+29.1%
Corporate and other	418.5	3%	302.6	3%	+38.3%	+42.1%
Total revenue	**13,665.2**	**100%**	**10,815.9**	**100%**	**+26.3%**	**+29.4%**

(1) Revenue generated by PUMA, Stella McCartney, Volcom and Christopher Kane in 2017 has been reclassified to "Net income from discontinued operations", in accordance with IFRS 5.
(2) On a comparable Group structure and exchange rate basis.

Consolidated revenue for 2018 amounted to €13,665 million, up 26.3% on 2017 as reported and 29.4% based on a comparable Group structure and exchange rates.

Exchange rate fluctuations shaved €258 million off the overall 2018 revenue figure, due to the depreciation of the US dollar (€93 million negative effect), and, to a lesser extent, the Hong Kong dollar (€29 million), the Japanese yen (€27 million) and the Chinese yuan (€25 million).

Revenue by region

(in € millions)	2018	%	2017 (1)	%	Reported change	Comparable change (2)
Western Europe	4,471.5	33%	3,625.0	33%	+23.4%	+23.7%
North America	2,704.7	20%	2,050.5	19%	+31.9%	+37.8%
Japan	1,157.5	8%	961.3	9%	+20.4%	+23.9%
Sub-total – mature markets	**8,333.7**	**61%**	**6,636.8**	**61%**	**+25.6%**	**+28.0%**
Eastern Europe, Africa and the Middle East	725.1	6%	624.5	6%	+16.1%	+19.4%
South America	186.1	1%	147.1	1%	+26.5%	+37.1%
Asia-Pacific (excluding Japan)	4,420.3	32%	3,407.5	32%	+29.7%	+33.8%
Sub-total – emerging markets	**5,331.5**	**39%**	**4,179.1**	**39%**	**+27.6%**	**+31.7%**
Total revenue	**13,665.2**	**100%**	**10,815.9**	**100%**	**+26.3%**	**+29.4%**

(1) Revenue generated by PUMA, Stella McCartney, Volcom and Christopher Kane in 2017 has been reclassified to "Net income from discontinued operations", in accordance with IFRS 5.
(2) On a comparable Group structure and exchange rate basis.

Revenue generated outside the eurozone represented 78% of the consolidated total in 2018.

Quarterly revenue data

Consolidated revenue by quarter

	First quarter	Second quarter	Third quarter	Fourth quarter	
2018	**3,106.2**	**3,325.7**	**3,402.0**	**3,831.3**	**€13,665.2m**
2017	**2,442.6**	**2,630.4**	**2,665.2**	**3,077.7**	€10,815.9m

Quarterly revenue by activity

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

(in € millions)	First quarter (1)	Second quarter (1)	Third quarter (1)	Fourth quarter (1)	Total 2017 (1)
Gucci	1,354.0	1,478.5	1,553.8	1,824.9	6,211.2
Yves Saint Laurent	364.4	346.4	383.7	406.9	1,501.4
Bottega Veneta	280.4	310.0	280.7	305.2	1,176.3
Other Houses	350.9	408.6	390.7	474.2	1,624.4
Total Houses	**2,349.7**	**2,543.5**	**2,608.9**	**3,011.2**	**10,513.3**
Corporate and other	**92.9**	**86.9**	**56.3**	**66.5**	**302.6**
KERING TOTAL	**2,442.6**	**2,630.4**	**2,665.2**	**3,077.7**	**10,815.9**

(1) Revenue generated by PUMA, Stella McCartney, Volcom and Christopher Kane in 2017 has been reclassified to "Net income from discontinued operations", in accordance with IFRS 5.

(comparable change(1))	First-quarter change	Second-quarter change	Third-quarter change	Fourth-quarter change	Full-year 2018
Gucci	+48.7%	+40.1%	+35.1%	+28.1%	+36.9%
Yves Saint Laurent	+19.6%	+19.8%	+16.1%	+19.4%	+18.7%
Bottega Veneta	+0.7%	-2.3%	-8.4%	-3.2%	-3.4%
Other Houses	+38.6%	+34.7%	+32.2%	+25.5%	+32.1%
Total Houses	**+36.9%**	**+31.3%**	**+27.1%**	**+23.3%**	**+29.1%**
Corporate and other	**+27.2%**	**+37.7%**	**+43.7%**	**+64.9%**	**+42.1%**
KERING TOTAL	**+36.6%**	**+31.5%**	**+27.5%**	**+24.2%**	**+29.4%**

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

Recurring operating income

The Group's gross margin for 2018 amounted to €10,198 million, up €2,282 million or 28.8% on 2017 as reported. Recurring operating expenses increased by 19.7% year on year as reported.

Kering's recurring operating income totaled €3,944 million in 2018, up 46.6% on 2017 as reported. Consolidated recurring operating margin came to 28.9%, fueled by the margin for the Group's Houses, which widened by 4.1 points to 31.6%.

(in € millions)	2018	2017 (1)	Change
Total Houses	4,191.0	2,895.2	+44.8%
Corporate and other	(247.2)	(204.5)	-20.9%
Recurring operating income	**3,943.8**	**2,690.7**	**+46.6%**

(1) Recurring operating income generated by PUMA, Stella McCartney, Volcom and Christopher Kane in 2017 has been reclassified to "Net income from discontinued operations", in accordance with IFRS 5.

EBITDA

(in € millions)	2018	2017 (1)	Change
Recurring operating income	**3,943.8**	**2,690.7**	**+46.6%**
Net recurring charges to depreciation, amortization and provisions on non-current operating assets	491.9	432.1	+13.8%
EBITDA	**4,435.7**	**3,122.8**	**+42.0%**

(1) EBITDA generated by PUMA, Stella McCartney, Volcom and Christopher Kane in 2017 has been reclassified to "Net income from discontinued operations", in accordance with IFRS 5.

(in € millions)	2018	2017 (1)	Change
Total Houses	4,598.5	3,251.6	+41.4%
Corporate and other	(162.8)	(128.8)	-26.4%
EBITDA	**4,435.7**	**3,122.8**	**+42.0%**

(1) EBITDA generated by PUMA, Stella McCartney, Volcom and Christopher Kane in 2017 has been reclassified to "Net income from discontinued operations", in accordance with IFRS 5.

EBITDA margin widened by 3.6 points on a reported basis to 32.5% in 2018 from 28.9% in 2017.

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.

This item represented a net expense of €222 million in 2018 and primarily corresponded to €140 million in asset impairment losses, of which €88 million is related to the write down of goodwill and a brand within the Group's Other Houses. The overall net expense figure also includes all of the costs related to the departure of Tomas Maier, Bottega Veneta's Creative Director, as well as restructuring costs incurred within the Other Houses.

In 2017, "Other non-recurring operating income and expenses" represented a net expense of €164 million and primarily corresponded to €149 million in asset impairment losses, of which €115 million related to write-downs within the Group's Other Houses of goodwill and a brand (see Note 10 – Other non-recurring operating income and expenses, to the consolidated financial statements).

Finance costs, net

(in € millions)	2018	2017 (1)	Change
Cost of net debt	(77.4)	(110.7)	-30.1%
Other financial income and expenses	(129.9)	(109.5)	+18.6%
Finance costs, net	**(207.3)**	**(220.2)**	**-5.9%**

(1) The net finance costs of PUMA, Stella McCartney, Volcom and Christopher Kane have been reclassified to "Net income from discontinued operations", in accordance with IFRS 5.

The Group's cost of net debt was €77 million in 2018, 30.1% lower than the €111 million recorded for 2017. This sharp year-on-year decrease primarily stemmed from the positive impact of the reduction in its average outstanding bond debt.

Other financial income and expenses represented a net expense of €130 million in 2018, up 19% on the €110 million net expense recorded for 2017. This increase notably reflects a €28 million non-recurring expense incurred in connection with the partial redemption of four bond issues maturing in 2019, 2020, 2021 and 2022. The redemptions took place in April and October 2018 and represented aggregate nominal amounts of €405 million and €370 million respectively (see Note 11 – Finance costs, net, to the consolidated financial statements).

Income tax expense

(in € millions)	2018	2017 [(1)]	Change
Income tax expense	(867.7)	(550.8)	+57.5%
Effective tax rate	24.7%	23.9%	+0.8 pts
Tax income on other non-recurring operating income and expenses	**36.3**	**6.3**	**N/A**
Tax expense on recurring income	**(904.0)**	**(557.1)**	**+62.3%**
Effective tax rate on recurring income	**24.2%**	**22.6%**	**+1.6 pts**

(1) Income tax data for PUMA, Stella McCartney, Volcom and Christopher Kane for 2017 have been reclassified to "Net income from discontinued operations", in accordance with IFRS 5.

In connection with the tax investigation opened in Milan in 2017, an audit unit of the Italian tax authorities completed a tax audit and delivered a report on January 25, 2019 alleging that Luxury Goods International (LGI), a Swiss subsidiary of Kering, had conducted business activities in Italy that should have resulted in payment of Italian income tax, an assertion that Kering contests.

The audit report covers earnings for the years 2011 through 2017 and the estimated claimable tax represents approximately €1,400 million. The report will now be reviewed by the tax authority unit in charge of assessing the report's findings, which will make its final determination. Kering contests the findings of the audit report in terms of both substance and amount. The Group is confident about the proceedings currently underway and will continue to fully cooperate with the Italian tax authorities in complete transparency in order to defend all of its rights.

At this stage of the proceedings, Kering does not have the necessary information to record a specific accounting provision based on a reliable estimate of the tax exposure. The Group strictly monitors its tax positions and adopts a prudent approach to assessing its tax exposure, particularly regarding its transfer pricing policy (see Note 12 – Income taxes, to the consolidated financial statements).

Net income from discontinued operations

In accordance with IFRS 5, income and expense items relating to PUMA, Stella McCartney, Volcom and Christopher Kane have been reclassified to "Net income from discontinued operations" in the 2018 financial statements and the data for 2017 have been restated for comparability purposes.

"Net income from discontinued operations" breaks down as follows:

(in € millions)	2018	2017
Revenue	**1,949.5**	**4,661.8**
Cost of sales	(979.7)	(2,444.9)
Gross margin	**969.8**	**2,216.9**
Payroll expenses	(275.2)	(645.8)
Other recurring operating income and expenses	(547.0)	(1,313.8)
Recurring operating income	**147.6**	**257.3**
Other non-recurring operating income and expenses	(175.2)	(77.5)
Operating income (loss)	**(27.6)**	**179.8**
Finance costs, net	(26.4)	(22.5)
Income (loss) before tax	**(54.0)**	**157.3**
Income tax	(29.1)	(40.2)
Share in earnings (losses) of equity-accounted companies	(0.9)	1.6
Net gain (loss) on disposal of discontinued operations	1,179.2	(5.5)
Net income	**1,095.2**	**113.2**
o/w attributable to owners of the parent	1,084.3	56.9
o/w attributable to non-controlling interests	10.9	56.3

The Group's relinquishment of control of PUMA following the distribution of the stock dividend gave rise to a net gain of €1,181 million in 2018. "Other non-recurring operating income and expenses" includes impairment losses relating to Volcom and Christopher Kane.

In 2018, PUMA accounted for the greatest share of "Net income from discontinued operations":

PUMA

(in € millions)	2018 [1]	2017
Revenue	**1,462.0**	**4,151.7**
Recurring operating income	**130.0**	**243.9**
as a % of revenue	***8.9%***	***5.9%***
EBITDA	154.3	314.4
as a % of revenue	*10.6%*	*7.6%*
Gross operating investments	29.4	124.3

(1) Contribution from January 1 up to the date on which the Group relinquished control over PUMA, i.e., May 16, 2018.

See Note 4 – Discontinued operations, to the consolidated financial statements.

1.3 Operating performances by brand

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

Luxury Houses

(in € millions)	2018	2017 [1]	Change
Revenue	**13,246.7**	**10,513.3**	**+26.0%**
Recurring operating income	**4,191.0**	**2,895.2**	**+44.8%**
as a % of revenue	***31.6%***	***27.5%***	***+4.1 pts***
EBITDA	4,598.5	3,251.6	+41.4%
as a % of revenue	*34.7%*	*30.9%*	*+3.8 pts*
Gross operating investments	610.3	471.0	+29.6%
Average FTE headcount	27,057	22,781	+18.8%

(1) Data relating to Stella McCartney and Christopher Kane for 2017 have been reclassified to "Discontinued operations", in accordance with IFRS 5.

In 2018, the worldwide luxury market (as presented and defined in Chapter 2 of this Reference Document) grew 6% at constant exchange rates (2% as reported) according to the 17th edition of Bain & Company/Altagamma's annual study of the luxury market. 2018 was therefore the second year of very robust growth for the luxury industry following on from 2017 when it picked up sharply, growing 5% at constant exchange rates.

However, these figures mask highly divergent performances for the industry's different players, following the same clear polarization of performance that was previously apparent.

Sales trends by region for full-year 2018 were generally in line with those seen in the last quarter of 2017 and the first half of 2018.

The industry's robust performance in 2018 was fueled by spending on luxury goods by Chinese customers, which accounted for around a third of the year's total sales. Overall, sales for Mainland China jumped 20% at constant exchange rates. This strong momentum drove performance for the whole of the Asia-Pacific region (where sales rose 9% at constant exchange rates, excluding Japan and Mainland China) in a context where domestic demand remained generally high.

Growth in the Americas – where the United States accounts for 89% of the market – held firm throughout 2018, reaching 5% at constant exchange rates (a negative 1% as reported). The top sales performances were from e-commerce and stores directly operated by luxury brands, whereas business in multi-brand department stores remained highly dependent on sales promotions and special offers.

The market in Western Europe saw 3% growth at constant exchange rates in 2018 (1% as reported), weighed down by lower sales to tourists, although domestic demand continued to trend upwards. Based on Global Blue data, tourist sales contracted by some 4% year on year, with no marked improvement in the second half despite a lower basis of comparison with the previous year.

Conversely, tourist sales in Japan continued the same upward pattern begun in the second half of 2017, with overall growth reaching 6% at constant exchange rates (3% as reported).

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

As in 2017, the picture was mixed across product categories in 2018. Accessories fared well, particularly shoes, as did jewelry. However, sales of watches, after showing signs of a recovery at the beginning of the year (albeit remaining volatile depending on delivery schedules to distributors) ended up stagnating in 2018. Ready-to-wear did not have an easy year, particularly in the second half, with sales edging down by 1% for 2018 as a whole.

In addition, certain defined market trends already apparent in 2017 intensified during 2018. For example, e-commerce for luxury brands expanded rapidly and travel retail sales rose sharply. Millennials continued to fuel the industry's growth, as luxury goods purchased by generations Y and Z represented at least a third of the market in value terms (based on Bain & Company data). This younger customer base is clearly reflected in the performances of the industry's different segments, with streetwear and sneakers outperforming the rest of the market, which in turn has led all luxury brands to adapt their offerings.

In terms of the currency effect, the first half of 2018 was impacted by the euro gaining strength (which began in the second half of 2017 and continued into the first few months of 2018), but currency volatility was less pronounced in the second half of the year. Accordingly, for Kering's Luxury Houses, reported growth was 710 basis points lower than growth at constant exchange rates for the first six months of 2018, but the effect reversed in the second half, with the reported figure coming in 30 basis points higher than growth at constant exchange rates.

Revenue

The scope of the Group's Luxury Houses underwent changes during 2018 with the decision to account for Stella McCartney and Christopher Kane as discontinued operations in accordance with IFRS 5. This accounting treatment was applied following the decisions announced by Kering on March 28 and June 21, 2018, respectively, that it intended to relinquish control of these brands. Consequently, the Group's income statement headings (from "Revenue" down to "Net income from continuing operations") do not include any contribution from Stella McCartney or Christopher Kane for either 2017 or 2018. This means that the Luxury Houses' performance for 2018 is fully comparable with that for 2017.

The Group's Luxury Houses posted exceptional revenue growth of 29.1% based on a comparable Group structure and exchange rates (26.0% as reported) and once again significantly outperformed their market. This propelled revenue to €13,247 million.

Despite very high bases of comparison – particularly for Gucci, whose sales began accelerating in the second half of 2016 and continued throughout 2017 – revenue generated by the Group's Luxury Houses climbed 25.1% in the second half of 2018 on a comparable basis (25.2% as reported). In first-half 2018, the comparable and reported growth figures were 33.9% and 26.9%, respectively.

Retail sales in directly operated stores and online topped the €10 billion mark, coming in at €10,233 million. This represented a year-on-year jump of 31.0%, propelled by excellent retail performances from Gucci, Yves Saint Laurent and Balenciaga, and by the ongoing rise in online sales, which surged more than 70% during the year.

Directly operated stores accounted for 77.2% of total revenue generated by the Group's Luxury Houses in 2018, versus 76.1% in 2017. This increase reflects three main factors. First, Gucci's greater weighting within the total revenue figure. Second, the strategy implemented by all of the brands to more effectively control their distribution and strengthen their exclusivity while prudently managing the expansion of the directly operated store network. And third, the Group's objective of retaining or developing a network of high-quality wholesalers for a select number of brands and product categories and in certain regions.

Wholesale sales for 2018 were 24.1% higher year on year on a comparable basis, with all of the Group's main wholesale markets registering brisk growth, including the United States. This performance reflects the strong appeal of the Group's brands, resulting in them being showcased by wholesalers, which have generally become increasingly selective in their purchasing choices. Consequently, the brands were able to win further market share during the year.

Revenue by region

The Group's Luxury Houses posted sharp revenue rises across all of their principal regions in 2018.

Sales in emerging markets advanced 31.7% year on year, with the Asia-Pacific region posting a 34.1% rise. All of the main markets in this region – which accounts for almost 88% of total sales in emerging markets – saw very strong growth, largely fueled by the fact that Chinese customers shifted their purchases to the region from Western Europe. In particular, revenue in Greater China jumped 29.1% despite an extremely high basis of comparison with 2017.

In mature markets – which represent almost 61% of Luxury Houses' sales – revenue was up 27.4%, breaking down as follows by region:

- a 23.0% rise in Western Europe, with robust growth for all of the main markets despite lower tourist numbers in the region;
- a 37.3% rise in North America, chiefly driven by excellent showings from Gucci, Yves Saint Laurent and Balenciaga, spurred by their successful direct distribution channels (both online and offline);
- a 23.7% rise in Japan, led by a sharp upturn in sales to Chinese customers.

Revenue by product category

There were no significant changes in the breakdown of sales between the various product categories in 2018. The proportion of revenue contributed by shoes increased by 0.9 percentage points, reflecting this category's strong momentum during the year, particularly for sneakers. The revenue contribution from Jewelry and Watches declined by a similar proportion, reflecting the difference in this division's growth figures compared with the other product categories.

Revenue from royalties rose steeply in 2018 – more than 10% – mainly powered by the successful development of eyewear licenses.

Recurring operating income

Recurring operating income for the Group's Luxury Houses totaled €4,191 million in 2018, up by a steep 44.8% on 2017 as reported. Recurring operating margin topped 30%, coming in at 31.6%. This sharp 410 basis-point increase as reported was achieved thanks to a very favorable operating leverage effect, with sales growth exceeding increases in cost bases, particularly for Gucci, Yves Saint Laurent and Balenciaga.

Exchange rate fluctuations and currency hedges negatively affected recurring operating income in absolute value terms, although this impact was mostly felt in the first half of the year. These factors also had a dilutive effect on recurring operating margin. The intrinsic growth in the recurring operating income and margin figures (before the currency effect) was therefore all the more impressive.

EBITDA jumped 41.4% year on year to €4,599 million, and the EBITDA margin widened by 380 basis points to 34.7%.

Store network and operating investments

The Luxury Houses' operating investments – which do not include certain investments in logistics and information systems centralized by the Corporate entity for all of the brands – totaled €610 million in 2018, €139 million higher than in 2017. Approximately 64% of these investments were paid out in the second half of the year, representing a seasonality more or less unchanged from 2017 (when some 62% of operating investments were paid out in the second half). As a proportion of revenue, operating investments represented 4.6% in 2018, on a par with the 4.5% figure for 2017.

As of December 31, 2018, the Luxury Houses had a network of 1,439 directly operated stores, including 833 (58%) in mature markets and 606 in emerging markets. Net store additions during the year totaled 104, largely attributable to the scheduled expansion of the Yves Saint Laurent and Balenciaga networks. The year-on-year increase in the total network can also be explained by the Group's drive to raise its brands' presence in travel retail and duty-free stores, including by taking operations that were previously controlled by a franchisee back under direct management. This particularly concerns the Gucci network.

Gucci

(in € millions)	2018	2017	Change
Revenue	**8,284.9**	**6,211.2**	**+33.4%**
Recurring operating income	**3,275.2**	**2,124.1**	**+54.2%**
as a % of revenue	***39.5%***	***34.2%***	***+5.3 pts***
EBITDA	3,514.6	2,331.0	+50.8%
as a % of revenue	*42.4%*	*37.5%*	*+4.9 pts*
Gross operating investments	312.7	248.5	+25.8%
Average FTE headcount	14,628	11,543	+26.7%

Following on from its very strong showing in 2017, which was an exceptional year in all respects, Gucci delivered an excellent performance in 2018. The House far outperformed the personal luxury goods market and continued to methodically roll out action plans geared to supporting its long-term growth.

Gucci's strategy was once again centered on ensuring the quality and exclusivity of its distribution in order to continuously enhance customer experience and raise the productivity levels of all distribution channels. The measures taken to achieve these goals included ramping up the new store concept (with 84 stores created or converted to this concept during the year), recruiting and training sales staff, developing the brand's online offering and adopting new customer relationship management tools. Nearly, all of these actions required investments.

Having more or less completed the reworking of its product offering in 2017, Gucci's creative and merchandising teams are now working on maximizing the growth potential of each product category by constantly honing the overall offering. The focus is on segmenting in order to meet the needs of a wide-ranging, diversified customer base and on optimizing the mix between carry-over and new products. Alessandro Michele's collections continue to appeal to customers not only for their creativity but also for the unique and consistent narrative thread that runs through them.

Gucci has devised a communication policy designed to sustain the brand's desirability and increase engagement levels of both existing and future customers of all ages and nationalities. It is based on a 360° approach using all types of traditional and innovative media as well as original partnerships with artists. Digital communication is particularly effective for creating a brand universe that is both unique and inclusive, and the investments that Gucci has made in this respect have enabled it to position itself as one of the most advanced luxury brands in this domain.

Finally, the opening in early 2018 of the Gucci ArtLab – a development and excellence center for leather goods and shoes located near Florence in Italy – marks a further step forward in the brand's intense drive to reorganize and rescale its prototyping and production capacities. This work forms part of a wider ambition, which will be pursued in 2019 and over the medium term, to make the brand's supply chain and information systems more agile, responsive, able to absorb the expected rise in demand, and support the omni-channel model.

Revenue

Gucci's revenue topped the €8 billion mark in 2018, reaching €8,285 million. This represents a year-on-year jump of 33.4% as reported and 36.9% based on comparable exchange rates. Revenue growth amounted to 44.1% in the first half of the year and remained extremely robust in the second half despite a very high basis of comparison, coming in at 31.3% at constant exchange rates (versus 45.7% in the second half of 2017).

Retail sales generated in directly operated stores jumped 38.3% at constant exchange rates, fueled by increasingly higher traffic and enhanced productivity in the brand's stores. This pushed up the average sales rise for directly operated stores to around 33% on a comparable basis over the last three years.

Sales generated in the wholesale network advanced 30.7% based on comparable data, with the number of points of sale relatively stable year on year. All of the brand's main markets reported robust growth during the year.

Revenue by region

In view of the proportion of Gucci's sales that are generated in directly operated stores (85.3% in 2018), the following revenue analysis by region only concerns the retail business.

In the brand's mature markets, North America took over from Western Europe as the main growth driver for sales generated in directly operated stores, with a comparable-basis increase of 43.6%. This performance illustrates the brand's success both among Millennials and a more traditional clientele, thanks to the depth and breadth of its product offering. North America was also by far the highest performing region in terms of online sales, which surged by over 60%.

In Japan, in-store sales advanced by an impressive 35.7% on a comparable basis, led by the recovery in tourist numbers seen since the second half of 2017, especially for Chinese tourists, as well as domestic market share gains.

In Western Europe, the brand was still highly attractive to both Europeans and non-Europeans, which helped offset the region's lower number of tourists and drove a 28.5% revenue hike for the region overall.

In emerging markets, revenue vaulted 42.7% at constant exchange rates, with all regions contributing to this excellent performance, including Asia-Pacific, where revenue surged 45.0%. Strong sales momentum with Chinese customers drove very solid growth in Mainland China as well as significant revenue increases in the region's other markets.

Revenue by product category

All of the brand's main product categories recorded very strong sales rises during the year in directly operated stores, giving Gucci a healthy and balanced growth profile.

These excellent sales figures demonstrate the success of both the brand's new collections and carry-over. Following the work carried out to renew and refresh its offering between 2015 and 2017, in 2018 the proportion of carry-over, particularly for leather goods, reached the target level that Gucci had set itself, helping to make the brand's performance even more resilient.

Royalties were up in 2018, primarily due to a robust showing from eyewear, licensed to Kering Eyewear, and a good second half for the fragrances and cosmetics business operated by Coty.

Recurring operating income

In 2018, for the first time in its history, Gucci's recurring operating income topped €3 billion, soaring 54.2% as reported to €3,275 million. Its recurring operating income margin widened by 530 basis points to 39.5%, partly due to a further rise in gross margin achieved on the back of a better distribution mix and optimized production organization. However, the main growth driver was a particularly favorable leverage effect as revenue grew at a much higher rate than operating expenses. This was the case despite the fact that Gucci continued to make the necessary investments during the year to support the brand's development by raising the budget for retail expenses on communications and information systems in line with the industry's accelerating digital transformation. The impact of these initiatives was offset by strict cost control measures for other expense items.

Gucci's EBITDA for 2018 stood at €3,515 million, and the EBITDA margin was over 40%.

Store network and operating investments

As of December 31, 2018, Gucci operated 540 stores directly, including 229 in emerging markets. A net 11 new stores were added during the year. The brand now has an overall network that is adapted to its operations in terms of store numbers, but it has identified opportunities for improving its distribution in certain regions. This is particularly the case for travel retail, which saw the most store openings in 2018. Apart from these targeted openings, Gucci's focus is still on increasing organic growth by pursuing its refurbishment program for existing stores. As of December 31, 2018, around 44% of the store network had adopted the new concept and a large number of stores that have not yet been refurbished were fitted out and furnished along the lines of the brand's new design esthetic.

Gucci's gross operating investments amounted to €313 million in 2018, up 25.8% on 2017. The 2018 figure mostly corresponds to the refurbishment program aimed at introducing the new store concept across the brand's entire network. As anticipated, and in line with 2017, Gucci's operating investments were particularly concentrated on the second half of the year (accounting for some 63% of the total).

Yves Saint Laurent

(in € millions)	2018	2017	Change
Revenue	**1,743.5**	**1,501.4**	**+16.1%**
Recurring operating income	**459.4**	**376.9**	**+21.9%**
as a % of revenue	***26.3%***	***25.1%***	***+1.2 pts***
EBITDA	502.8	422.1	+19.1%
as a % of revenue	*28.8%*	*28.1%*	*+0.7 pts*
Gross operating investments	89.0	73.0	+21.9%
Average FTE headcount	3,087	2,594	+19.0%

Yves Saint Laurent has been the Group's second-largest Luxury House in terms of revenue since 2016, and in 2018 it continued down the growth path both for sales and profitability. After seven consecutive years of over 20% growth, Yves Saint Laurent's sales advanced almost 19% on a comparable basis in 2018.

Yves Saint Laurent's teams – led by its CEO, Francesca Bellettini – are rigorously and effectively implementing the strategy that has been mapped out for the brand and are taking all of the requisite measures to ensure the success of the collections designed by Anthony Vaccarello, Creative Director since April 2016. This work includes managing major projects for the brand such as optimizing information systems, modernizing the supply chain, and increased insourcing of the production development process and production. Improving distribution is also a key strategic objective, notably by expanding the store network and developing online sales.

Revenue

Yves Saint Laurent's sales advanced 18.7% at constant exchange rates in 2018 (16.1% as reported).

Revenue from directly operated stores climbed 18.5% on a comparable basis. This strong performance, which moved up a gear in the second half, was mainly powered by the measures put in place to efficiently allocate and restock items at the brand's points of sale, as well as by actions undertaken to enhance the customer in-store experience, and clienteling.

Sales generated in the wholesale network advanced 20.9% on a comparable basis. The wholesale channel remains strategically important for Yves Saint Laurent as it perfectly complements its retail business. However, the brand is keeping a very close eye on the quality and exclusivity of its distribution and is focusing its wholesale business on a limited number of distributors.

Revenue by region

In view of the proportion of Yves Saint Laurent's sales that are generated in directly operated stores (68.2% in 2018), the following revenue analysis by region only concerns the retail business.

Yves Saint Laurent notched up revenue rises across all major regions in 2018.

Sales in Yves Saint Laurent's heritage markets rose 17.2% based on comparable data.

Year-on-year growth was particularly strong in North America, coming in at 26.8% on a comparable basis – higher than in 2017.

The pace of growth was also robust in Japan where the brisk momentum seen at the end of 2017, thanks partly to the greater number of Chinese tourists, continued into 2018 and drove up sales by 20.2%.

In Western Europe, 2018 sales were hampered by fewer purchases by tourists and changes to the brand's in-store teams, mainly in the early part of the year. Sales nevertheless moved upwards throughout the year, with growth ultimately reaching 10.7% despite a very high basis of comparison (27.1% growth in 2017).

In emerging markets, sales generated in directly operated stores were up 20.8% on 2017. In the Asia-Pacific region (excluding Japan), which once again accounted for more than three-quarters of the brand's total sales in emerging markets, growth remained brisk in all of Yves Saint Laurent's main markets, particularly taking into account the already very strong growth figure of 39.4%

in 2017. This region's performance in 2018 was buoyed by the opening of new stores in line with the brand's expansion plan.

Performances delivered by the wholesale network were very good in most regions, with the brand continuing to outperform market trends in North America and furthering its relationships with certain key accounts in Asia.

Revenue by product category

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

Ready-to-wear – which continued to occupy an essential place in the brand's offering – saw a fairly balanced weighting of sales between women's and men's collections. However, the merchandising work undertaken to make the brand's ready-to-wear offering and price architecture more relevant – notably for men's collections – has not yet fully paid off and the category's performance remained mixed in 2018.

The brand's third leading product category – shoes – was affected by relatively weak sales in the Middle East, which is a key market for women's shoes, as well as by the under-representation of sneakers in the offering.

Licensed product categories delivered good performances during the year in view of their maturity and their already very significant size in their respective markets.

Recurring operating income

Yves Saint Laurent ended 2018 with recurring operating income of €459 million, versus €377 million in 2017, representing a year-on-year increase of 21.9%. Recurring operating margin was 26.3%, up 120 basis points as reported. This further year-on-year improvement is in line with the brand's goals and the growth trajectory it has set itself. It also demonstrates how the brand has now reached critical mass, enabling it to capitalize on its operating leverage without straining its capacity to finance certain operating expenses that are essential for its short- and medium-term expansion.

EBITDA rose by €81 million to €503 million, and the EBITDA margin was 28.8%.

Store network and operating investments

As of December 31, 2018, Yves Saint Laurent directly operated 219 stores, including 99 in emerging markets. There were 35 net store openings during the year, in line with the brand's store network expansion plan.

Yves Saint Laurent's gross operating investments rose €16 million year on year to €89 million in 2018, reflecting the brand's store opening and refurbishment strategy. This expenditure was subject to a strong seasonal effect, with the first half of the year only accounting for 37% of the overall outlay. As a percentage of revenue, gross operating investments remained contained, at approximately 5%.

Bottega Veneta

(in € millions)	2018	2017	Change
Revenue	**1,109.1**	**1,176.3**	**-5.7%**
Recurring operating income	**242.0**	**294.0**	**-17.7%**
as a % of revenue	***21.8%***	***25.0%***	***-3.2 pts***
EBITDA	284.3	337.3	-15.7%
as a % of revenue	*25.6%*	*28.7%*	*-3.1 pts*
Gross operating investments	68.6	51.0	+34.5%
Average FTE headcount	3,574	3,381	+5.7%

The year 2018 was marked by the departure of Tomas Maier, Bottega Veneta's long-standing designer, and the subsequent June 15, 2018 appointment of Daniel Lee as the brand's new Creative Director. This change heralds a new phase in the brand's plan to re-energize its leather goods offering and develop its other product categories.

Various action plans have been set in motion since 2016 and, following on from 2017, 2018 saw further encouraging signs in terms of the popularity of Bottega Veneta's new lines and consumer reaction to its communication campaigns. However, the action plans put in place are designed to cover the long term, and their benefits will only start to be felt in the second half of 2019. They are particularly aimed at rejuvenating and broadening Bottega Veneta's customer base, raising awareness of the brand – especially in mature markets – and enhancing the in-store customer experience.

The first fashion show presenting Daniel Lee's creations will take place at Women's Fashion Week in Milan in February 2019.

Revenue

Bottega Veneta's revenue decreased by 3.4% in 2018 on a comparable basis and 5.7% as reported.

With a view to preserving its high-end positioning and exclusivity, Bottega Veneta's preferred distribution channel is its directly operated stores, which accounted for 81.7% of the brand's total sales in 2018. Revenue generated in directly operated stores contracted 4.7% year on year, with particularly negative trends in Western Europe, where sales were held back by less tourist spending. In addition, taking into account the product mix and average selling price, online sales are increasing very solidly but do not at this stage represent a significant portion of revenue and are therefore not yet a growth vector.

Sales to wholesalers rose 2.8% in 2018, following two years of reorganizing this distribution channel with the twin aims of (i) avoiding the risk of saturation in points of sale and (ii) only working with the highest-quality partners.

Revenue by region

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

In Western Europe, which was Bottega Veneta's best-performing region in 2017, the falloff in tourist numbers that began at the end of 2017 continued and intensified in 2018. This led to lower sales in the region's main markets and revenue was down 12.0% on 2017 at constant exchange rates.

In North America, after a good start to the year fueled by the opening of a new flagship store on New York's Madison Avenue, sales were weighed down by the fact that the brand's offering was not truly renewed during the transition phase between its two Creative Directors. This resulted in revenue edging down 0.8%.

This transition period also impacted Japan, as well as emerging markets, despite Chinese consumers switching their purchases from Europe to Asia. Consequently, sales in Japan contracted 1.0%. In emerging markets, the overall decrease was 2.5%, with the Asia-Pacific region (excluding Japan) registering a 2.9% falloff.

Revenue by product category

The leather goods category – which is still Bottega Veneta's core business, accounting for 84.0% of its total sales, including to wholesalers – posted negative growth for the year. This was due to revenue attrition for the brand's iconic lines (carry-over and seasonal variants), despite another encouraging showing from new lines.

Revenue for all of Bottega Veneta's other categories increased in the first six months of the year, but suffered in the second half due to the transition process. However, ready-to-wear revenue held firm throughout the year, and the Pre-Fall 2019 collection (presented in late 2018 exclusively to the media and buyers) was very well received.

Recurring operating income

Bottega Veneta's recurring operating income for 2018 totaled €242 million, down €52 million (or 17.7%) compared with 2017. Recurring operating margin narrowed by 320 basis points to 21.8%, mainly due to the targeted and controlled increase in certain operating expenses within a context of lower sales. These expenses relate to all of the initiatives put in place to enable Bottega Veneta to enter a new phase in its expansion and ensure that the brand will be in a position to use its current transition period as a springboard for future growth. They were mainly used for managing and running the stores and for communication and marketing campaigns.

EBITDA totaled €284 million, and the EBITDA margin narrowed 310 basis points to 25.6%, which is still a very high margin for the sector.

Store network and operating investments

As of December 31, 2018, Bottega Veneta had 279 directly operated stores, including 125 in emerging markets. There were 9 net store openings during the year. The streamlining program of its store network includes not only store closures but also relocating certain stores, opening a select number of flagship stores, and expanding the brand's presence in a number of regions or networks (such as travel retail).

Against this backdrop and in view of the need to refurbish its existing store network, in 2018 Bottega Veneta increased its operating investment budget. Altogether, gross operating investments totaled €69 million, up €18 million on 2017. This investment drive – which raised gross operating investments as a percentage of revenue to 6.2% – is necessary in view of the relaunch phase that the brand is currently undergoing.

Other Houses

(in € millions)	2018	2017 [1]	Change
Revenue	**2,109.2**	**1,624.4**	**+29.8%**
Recurring operating income	**214.4**	**100.2**	**+114.0%**
as a % of revenue	***10.2%***	***6.2%***	***+4.0 pts***
EBITDA	296.8	161.2	+84.1%
as a % of revenue	*14.1%*	*9.9%*	*+4.2 pts*
Gross operating investments	140.0	98.5	+42.1%
Average FTE headcount	5,769	5,263	+9.6%

(1) Data relating to Stella McCartney and Christopher Kane for 2017 have been reclassified to "Discontinued operations", in accordance with IFRS 5.

Revenue

The scope of the Group's Other Houses underwent changes during 2018. This was due to the decision to account for Stella McCartney and Christopher Kane as discontinued operations in accordance with IFRS 5 in view of Kering's intention to relinquish control of these two brands.

Consequently, the Group's income statement headings (from "Revenue" down to "Net income from continuing operations") do not include any contribution from Stella McCartney or Christopher Kane for either 2017 or 2018. This means that the Other Houses' performance for 2017 is fully comparable with that for 2018.

Overall revenue generated by the Other Houses advanced 32.1% on a comparable basis in 2018, topping €2 billion (€2,109 million). This excellent performance was led by the Couture and Leather Goods Division, although the Watches and Jewelry Division also saw solid revenue growth.

In light of the above-described changes in the scope of consolidation and Balenciaga's robust growth in both 2017 and 2018, the proportion of sales generated in directly operated stores increased significantly, approaching 51%. This distribution channel, which is the main channel used by Balenciaga, Brioni, Boucheron and Qeelin, registered 43.6% sales growth on a comparable basis. This strong showing was driven by excellent performances turned in by Balenciaga and Alexander McQueen. Only Brioni's retail revenue decreased slightly, due to its reduced number of stores.

Sales to the wholesale network rose 23.6% year on year on a comparable basis, with Balenciaga leading the way, as expected. All of the other brands also posted increases at constant exchange rates, apart from Brioni and Girard-Perregaux, whose sales were weighed down by the ongoing overhaul of their distribution network.

Revenue by region

Sales for the Other Houses were up across all of the Group's main regions in 2018, with very balanced performance between mature and emerging markets.

In mature markets, revenue surged 31.1%. In Western Europe, the increase was 31.0% at constant exchange rates, despite certain brands being adversely affected by lackluster tourist numbers during the year. In Japan and North America, the Other Houses delivered resounding performances, with sales jumping 30.8% and 30.6%, respectively, at constant exchange rates, spurred by Balenciaga's strong appeal in those regions.

In emerging markets, year-on-year growth was 34.9%, mirroring trends for the Asia-Pacific region and, to a lesser extent, the Near- and Middle-East. All of the major Asia-Pacific markets were very dynamic during the year and the region's overall growth came to 43.8%, with the majority of the Other Houses reporting double-digit sales rises.

Revenue by product category

All product categories experienced sales growth in 2018.

The categories that saw the briskest momentum were shoes followed by ready-to-wear, although leather goods also had a very good year, with revenue growth topping 20%.

Jewelry and high jewelry turned in a solid showing in the latter part of the year, and sales for the watches brands continued their recovery begun in the second half of 2017, ending 2018 up on the previous year.

Recurring operating income

Recurring operating income for the Other Houses doubled in 2018, reaching €214 million (versus €100 million in 2017).

Recurring operating margin topped the 10% mark, widening by 400 basis points to 10.2%.

This remarkable year-on-year increase was mainly attributable to Balenciaga's rapid expansion and operating leverage. It was particularly impressive given (i) the lack of any significant improvement in recurring operating margin for the watches brands and (ii) the highly dilutive impact of the investments undertaken to develop Boucheron and Pomellato and the costs relating to Brioni's transformation.

EBITDA for the Other Houses totaled €297 million, up 84.1% on 2017 as reported, and the EBITDA margin stood at 14.1%.

Store network and operating investments

The network of directly operated stores owned by the Other Houses totaled 401 units as of December 31, 2018, representing an increase of 49 stores compared with one year earlier. This rise was due to openings carried out mainly by Balenciaga, but also by Alexander McQueen, Boucheron and Qeelin as part of their respective strategies to gradually expand their exclusive distribution networks (which include taking over stores previously operated under franchise agreements). Brioni was the only brand to decrease the number of its stores.

As of December 31, 2018, the network comprised 248 stores in mature markets and 153 in emerging markets.

Overall, gross operating investments for the Other Houses totaled €140 million, up 42.1% on 2017, with 70% of the investments concentrated in the second half of the year. This increase is directly related to the ambitious, but controlled, objective of expanding the Other Houses' store network.

The Other Houses performed as follows in 2018, beginning with the brands in the Couture and Leather Goods Division:

- Alexander McQueen pursued its strategy begun in 2017 to strengthen its shoes and leather goods collections. Ready-to-wear remained at the heart of the offering, with the brand continuing its exacting focus on quality and creativity but at the same time seeking to achieve a better balance between daywear, evening pieces and tailoring. The new points of sale opened in 2018 contributed to good revenue growth for Alexander McQueen's directly operated stores, and momentum for wholesale sales was particularly strong during the year. As a whole, the House – which also includes the McQ line, positioned in the accessible luxury segment – once again posted a very satisfactory recurring operating margin;
- for the second year in a row, Balenciaga achieved record-high revenue growth, and its collections now rank among the most keenly anticipated and highly acclaimed in the industry. Ready-to-wear and shoes were the flag-bearers of the brand's renewed look and their sales rose sharply year on year. In view of its significant revenue increase, Balenciaga enjoyed a particularly strong leverage effect, resulting in a steep rise in recurring operating margin;
- Brioni saw its sales decrease due to the ongoing measures to streamline its distribution channels, both in its network of directly operated stores and its wholesale network. On a same-store basis, however, revenue trends were encouraging. Against this backdrop, and despite a more efficient manufacturing base, the brand's recurring operating margin remained highly eroded.

For the jewelry brands, 2018 was another year of expansion and investment, in line with their respective strategic plans:

- 2018 was a milestone year for Boucheron, which celebrated its 160th anniversary. At the end of the year, the brand reopened its flagship store at Place Vendôme in Paris after more than twelve months of refurbishment works. Also during 2018, Boucheron opened new stores across the globe, with the strategic aim of penetrating new markets and extending awareness of the brand. Boucheron's sales were up year on year but, as expected, the brand development measures it is undertaking are having a short-term negative effect on its recurring operating margin;
- Pomellato reported very solid revenue growth in 2018 whereas Dodo's performance was more mixed. Pomellato grew its sales both in its legacy market (Western Europe) and all of its other operating regions thanks to its contemporary and complementary offering. Combined recurring operating margin for Pomellato and Dodo was up year on year as a result of tight cost control and in spite of all the expenses incurred for sustaining awareness of the two brands, enabling them to reach out to new markets;
- Qeelin had an excellent year in 2018, registering high revenue growth driven by the brand's rapid expansion in Mainland China and growing repute in Greater China;
- for the Girard-Perregaux and Ulysse Nardin watches brands, 2018 was marked by the decision to place both brands under the direction of one Chief Executive Officer and step up the creation of synergies. Work continued on streamlining and renewing the offering of both watchmakers, backed up by marketing and communication campaigns that were better thought out and more targeted. Ulysse Nardin's sales momentum was very satisfactory and the brand saw its recurring operating margin begin to pick up. For Girard-Perregaux, however, 2018 was another year of transition, and the brand is still in the stages of turning itself around.

Corporate and other

(in € millions)	2018	2017	Change
Recurring operating income (excluding corporate long-term incentive plans)	(183.1)	(170.4)	+7.5%
Cost of corporate long-term incentive plans	(64.1)	(34.1)	+88.0%
Recurring operating income (loss)	**(247.2)**	**(204.5)**	**+20.9%**

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 delivered a strong showing in 2018, thanks in particular to the takeover of the Cartier license. Kering Eyewear's sales leapt 43.3% at constant exchange rates to €495 million, and it contributed €391 million to consolidated revenue, after eliminating intra-group sales and royalties paid to the Group's brands. Excluding sales to major international distributors and stores operated by the Group's brands (which, combined, accounted for 39% of Kering Eyewear's sales), EMEA was once again Kering Eyewear's main market, followed by the Americas, with both of these regions each making up around 20% of total revenue. In terms of distribution channels, local chains and the 3Os (Opticians, Optometrists and Ophthalmologists) constitute the main sales channel for Kering Eyewear (representing almost 50% of total sales). This channel is growing fast, testifying to the efficient sales structure put in place by Kering Eyewear.

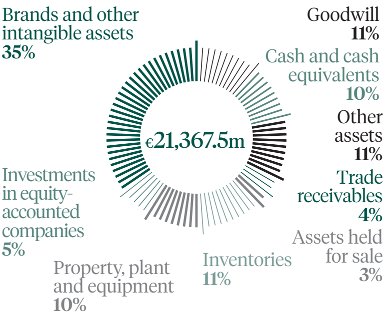
Despite recognizing the amortization expense on the portion of the indemnity paid to Safilo for the early termination of the Gucci license – which was capitalized in the Group's statement of financial position in an amount of €43 million as of December 31, 2017 and is being amortized over a residual period of approximately three years – Kering Eyewear ended 2018 with a recurring operating income figure that was not only positive but was also higher than in 2017.

Overall, net costs recorded by the "Corporate and other" segment in 2018 totaled €247 million, €43 million (or 20.9%) higher than the 2017 figure. Out of the total year-on-year increase, €30 million stemmed from the cost of long-term incentive plans, including those of corporate officers, linked to the rise in Kering's share price. Excluding the cost of long-term incentive plans, net costs recorded by the "Corporate and other" segment were 7.5% higher in 2018 than in 2017. This rise is contained thanks to Kering Eyewear's growing contribution to this segment, but also thanks to the strict financial discipline exercised despite all of the projects carried by the Corporate teams on behalf of the brands.

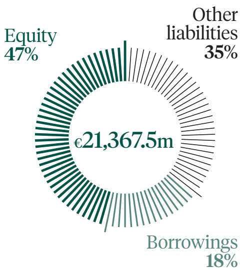
Gross operating investments for the "Corporate and other" segment rose sharply by €84 million year on year to €218 million. Adjusted for the payment in 2018 of the last €30 million installment of compensation paid to Safilo for the early termination of the Gucci license (which was already capitalized), gross operating investments increased by €54 million. This year-on-year rise reflects (i) the acceleration of projects to upgrade IT systems, (ii) measures taken to enhance the Group's logistics capabilities, and (iii) Kering Eyewear's operating investments.

1.4 Financial structure as of December 31, 2018

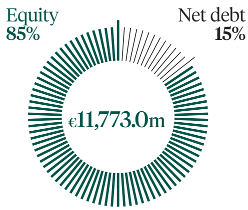
Assets



Equity and liabilities



Capital employed



Condensed statement of financial position

(in € millions)	Dec. 31, 2018	Dec. 31, 2017	IFRS 5 [(1)]	Change
Goodwill	2,399.2	3,421.2	-984.2	-37.8
Brands and other intangible assets	7,393.6	11,159.0	-3,870.6	+105.2
Property, plant and equipment	2,228.5	2,267.6	-327.1	+288.0
Investments in equity-accounted companies	1,074.7	48.6	+999.5	+26.6
Other non-current assets	1,200.6	1,364.3	-364.4	+200.7
Non-current assets	**14,296.6**	**18,260.7**	**-4,546.8**	**+582.7**
Inventories	2,414.7	2,699.1	-846.5	+562.1
Trade receivables	849.5	1,366.5	-560.0	+43.0
Cash and cash equivalents	2,216.6	2,136.6	-446.5	+526.5
Other current assets	1,051.0	1,114.5	-223.9	+160.4
Current assets	**6,531.8**	**7,316.7**	**-2,076.9**	**+1,292.0**
Assets held for sale	**539.1**	-	**+390.0**	**+149.1**
TOTAL ASSETS	**21,367.5**	**25,577.4**	**-6,233.7**	**+2,023.8**
Equity attributable to owners of the parent	9,905.9	11,948.2	-3,248.5	+1,206.2
Equity attributable to non-controlling interests	155.7	678.2	-519.5	-3.0
Total equity	**10,061.6**	**12,626.4**	**-3,768.0**	**+1,203.2**
Non-current borrowings	3,171.6	4,245.5	-32.8	-1,041.1
Other non-current liabilities	1,723.8	2,942.9	-1,186.9	-32.2
Non-current liabilities	**4,895.4**	**7,188.4**	**-1,219.7**	**-1,073.3**
Current borrowings	756.4	939.7	-40.4	-142.9
Other current liabilities	5,465.5	4,822.9	-1,118.3	+1,760.9
Current liabilities	**6,221.9**	**5,762.6**	**-1,158.7**	**+1,618.0**
Liabilities associated with assets held for sale	**188.6**	-	**-87.3**	**+275.9**
TOTAL EQUITY AND LIABILITIES	**21,367.5**	**25,577.4**	**-6,233.7**	**+2,023.8**

(1) All of the assets and liabilities of PUMA, Stella McCartney, Volcom and Christopher Kane were reclassified to "Assets held for sale" and "Liabilities associated with assets held for sale" at their respective classification dates, in accordance with IFRS 5 (see Note 3.1 – Strategic redeployment and discontinued operations, to the consolidated financial statements).

Net debt

(in € millions)	Dec. 31, 2018	Dec. 31, 2017	IFRS 5 (1)	Change
Gross borrowings	3,928.0	5,185.2	-73.2	-1,184.0
Cash	(2,216.6)	(2,136.6)	+446.5	-526.5
Net debt	**1,711.4**	**3,048.6**	**+373.3**	**-1,710.5**

(1) *All of the assets and liabilities of PUMA, Stella McCartney, Volcom and Christopher Kane were reclassified to "Assets held for sale" and "Liabilities associated with assets held for sale" at their respective classification dates, in accordance with IFRS 5 (see Note 3.1 – Strategic redeployment and discontinued operations, to the consolidated financial statements).*

Capital employed

(in € millions)	Dec. 31, 2018	Dec. 31, 2017	IFRS 5 (1)	Change
Total equity	10,061.6	12,626.4	-3,768.0	+1,203.2
Net debt	1,711.4	3,048.6	+373.3	-1,710.5
Capital employed	**11,773.0**	**15,675.0**	**-3,394.7**	**-659.6**

(1) *All of the assets and liabilities of PUMA, Stella McCartney, Volcom and Christopher Kane were reclassified to "Assets held for sale" and "Liabilities associated with assets held for sale" at their respective classification dates, in accordance with IFRS 5 (see Note 3.1 – Strategic redeployment and discontinued operations, to the consolidated financial statements).*

1.5 Comments on the Group's financial position

Brands

As of December 31, 2018, the value of brands net of deferred tax liabilities amounted to €5,269 million, compared with €8,001 million as of December 31, 2017.

Operating infrastructure

	Owned outright	Finance leases	Operating leases	2018	2017 (1)
Stores	3	4	1,432	1,439	1,335
Logistics units	7	-	102	109	91
Production units & other	34	1	66	101	95

(1) *Operating infrastructure data for 2017 have been restated for comparability purposes to show the infrastructure of Continuing Operations only.*

Current assets and liabilities

(in € millions)	Dec. 31, 2018	Dec. 31, 2017	IFRS 5 (1)	Translation adjustments and other	Cash flow
Inventories	2,414.7	2,699.1	-846.5	+39.6	+522.5
Trade receivables	849.5	1,366.5	-560.0	+55.3	-12.3
Trade payables	(745.8)	(1,240.7)	+673.1	+0.1	-178.3
Net current tax receivables (payables)	(1,212.7)	(736.8)	+30.5	+8.3	-514.7
Other current assets (liabilities), net	(2,191.7)	(1,537.8)	+163.1	-223.8	-593.2
Current assets (liabilities)	**(886.0)**	**550.3**	**-539.8**	**-120.5**	**-776.0**

(1) *All of the assets and liabilities of PUMA, Stella McCartney, Volcom and Christopher Kane were reclassified to "Assets held for sale" and "Liabilities associated with assets held for sale" at their respective classification dates, in accordance with IFRS 5 (see Note 3.1 – Strategic redeployment and discontinued operations, to the consolidated financial statements).*

The increase in inventories in 2018 – which was due to higher volumes of purchases made by the Group's main Houses, particularly Gucci, to support sales growth – resulted in a €523 million net cash outflow.

The rise in trade payables in 2018 generated a €178 million cash inflow and was attributable to the Group's higher revenue figures, particularly for Gucci.

The €515 million rise in net current tax payables is due to the steep increase in the Group's profitability.

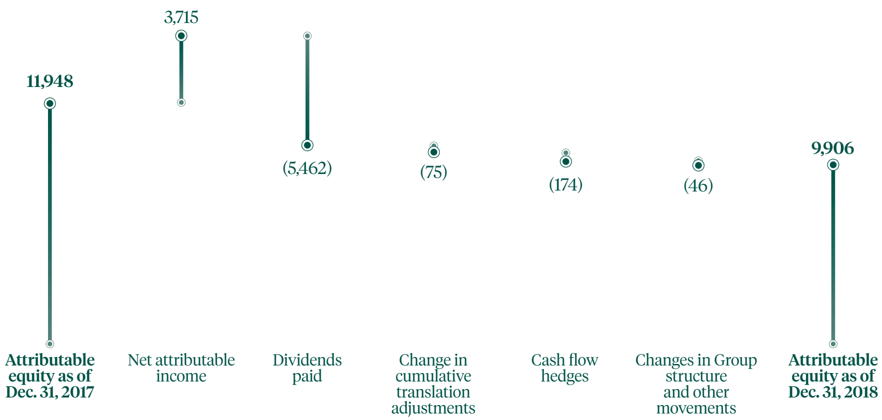
Lastly, net other current liabilities were €593 million higher, reflecting the combined impact of (i) a steep increase in liabilities related to components of variable remuneration linked to the Group's strong performance, (ii) the higher interim dividend, (iii) unfavorable movements in the value of hedging instruments, and (iv) the increase, as expected, in other operating payables.

Equity

As of December 31, 2018, equity attributable to owners of the parent totaled €9,906 million, down by a considerable €2,042 million compared with December 31, 2017. This was due to the fact that the May 16, 2018 dividend payment included not only a €505 million cash dividend but also an exceptional stock dividend in the form of PUMA shares, representing €4,515 million. The interim dividend decided by the Board of Directors in December 2018, which amounted to €442 million and was paid out on January 17, 2019, also impacted equity attributable to owners of the parent for 2018. The effect of these dividend payments was partially offset by the Group's much higher attributable net income figure, which reached €3,715 million and included a €1,181 million capital gain with respect to PUMA.

As of December 31, 2018, 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, 2017. As of December 31, 2018 and December 31, 2017, Kering held no shares in treasury in connection with the liquidity agreement. However, within the scope of the stock repurchase program authorized at the April 26, 2018 Annual General Meeting, Kering purchased 429,017 of its own shares in 2018, which it still held in treasury as of December 31, 2018. These shares will be canceled once the stock repurchase program is completed (see Note 25 – Equity, to the consolidated financial statements).

As of December 31, 2018, equity attributable to non-controlling interests stood at €156 million (versus €678 million as of December 31, 2017), down sharply following the deconsolidation of PUMA on May 16, 2018, which had a €520 million impact.



1.6 Comments on movements in net debt

Breakdown of net debt

The Group's net debt stood at €1,711 million as of December 31, 2018, down significantly on the December 31, 2017 figure of €3,049 million and breaking down as follows:

(in € millions)	Dec. 31, 2018	Dec. 31, 2017	IFRS 5 (1)	Change
Bonds	2,836.2	4,096.1	-	-1,259.9
Bank borrowings	200.0	318.5	-67.1	-51.4
Commercial paper	-	-	-	-
Other borrowings	891.8	770.6	-6.1	+127.3
Gross borrowings	**3,928.0**	**5,185.2**	**-73.2**	**-1,184.0**
Cash and cash equivalents	(2,216.6)	(2,136.6)	+446.5	-526.5
Net debt	**1,711.4**	**3,048.6**	**+373.3**	**-1,710.5**

(1) *The components of the net debt of PUMA, Stella McCartney, Volcom and Christopher Kane were reclassified to "Assets held for sale" and "Liabilities associated with assets held for sale" at their respective classification dates, in accordance with IFRS 5 (see Note 3.1 – Strategic redeployment and discontinued operations, to the consolidated financial statements).*

As of December 31, 2018, the Group's gross borrowings included €393 million concerning put options granted to non-controlling interests (compared with €386 million as of December 31, 2017).

The year-on-year decrease in gross borrowings was notably due to partial redemptions of four bond issues carried out in April and October 2018, each with an initial nominal value of €500 million. The Group redeemed a total of €775 million with the aim of improving its debt structure and cost of debt by using its strong cash generation while optimizing cash and cash equivalents with nil or negative yields. Optimizing the maturities of the Group's debt and the costs of the redemptions was a critical factor in these refinancing operations. Another contributing factor to scaling back the Group's gross borrowings was the redemption at maturity in October 2018 of the bonds issued in 2013.

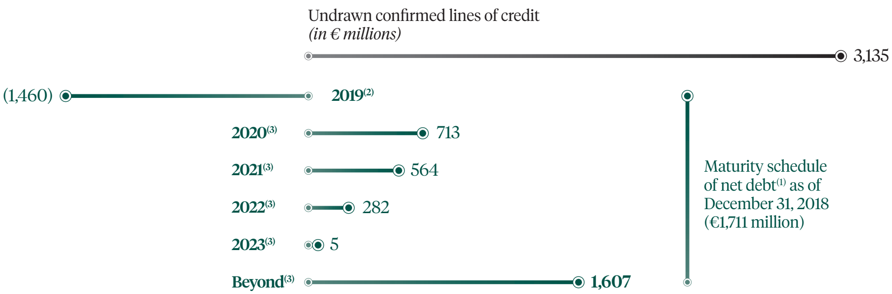
Solvency

The Group has a very sound financial structure and on March 22, 2018 Standard & Poor's upgraded Kering's long-term BBB rating with a positive outlook to BBB+ with a positive outlook.

Liquidity

As of December 31, 2018, the Group had cash and cash equivalents totaling €2,217 million (€2,137 million as of December 31, 2017), as well as confirmed lines of credit totaling €3,135 million (€3,747 million as of December 31, 2017). The balance of confirmed undrawn lines of credit was €3,135 million as of end-December 2018 (€3,690 million as of December 31, 2017).

Maturity schedule of net debt



(1) *Net debt is defined on page 71.*
(2) *Gross borrowings less cash and cash equivalents.*
(3) *Gross borrowings.*

The portion of the Group's gross borrowings maturing within one year corresponded to 19.3% as of December 31, 2018 (18.1% as of December 31, 2017). Consequently, the Group is not exposed to any liquidity risk.

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

The Group's debt contracts do not include any rating trigger clauses (see Note 29 – Borrowings, to the consolidated financial statements).

Changes in net debt

(in € millions)	2018	2017	Change
Net debt as of January 1	**3,048.6**	**4,370.7**	
Restatement of net debt as of January 1 for discontinued operations (IFRS 5)	**367.1**	-	-
Free cash flow from operations	(2,955.2)	(2,205.5)	-749.7
Dividends paid	780.3	597.3	+183.0
Net interest paid and dividends received	187.0	179.5	+7.5
Net acquisitions (disposals) of Kering shares	167.9	(0.2)	+168.1
Other acquisitions and disposals	93.8	367.3	-273.5
Other movements	21.9	(260.5)	+282.4
Net debt at the period end	**1,711.4**	**3,048.6**	**-1,337.2**

Free cash flow from operations

Cash flow from operating activities

(in € millions)	2018	2017 (1)	Change
Cash flow from operating activities before tax, dividends and interest	**4,391.6**	**3,124.9**	**+40.5%**
Change in working capital requirement (excluding tax)	(51.6)	(35.8)	+44.1%
Income tax paid	(562.0)	(316.0)	+77.8%
Net cash from operating activities	**3,778.0**	**2,773.1**	**+36.2%**

(1) Cash flows for PUMA, Stella McCartney, Volcom and Christopher Kane for 2017 have been reclassified to "Net cash from (used in) discontinued operations", in accordance with IFRS 5.

Operating investments

(in € millions)	2018	2017 (1)	Change
Net cash from operating activities	**3,778.0**	**2,773.1**	**+36.2%**
Purchases of property, plant and equipment and intangible assets	(828.0)	(605.2)	+36.8%
Proceeds from disposals of property, plant and equipment and intangible assets	5.2	37.6	-86.2%
Free cash flow from operations	**2,955.2**	**2,205.5**	**+34.0%**

(1) Cash flows for PUMA, Stella McCartney, Volcom and Christopher Kane for 2017 have been reclassified to "Net cash from (used in) discontinued operations", in accordance with IFRS 5.

Gross operating investments by activity

(in € millions)	2018	2017 (1)	Change
Total Houses	610.3	471.0	+29.6%
Corporate and other	217.7	134.2	+62.2%
Gross operating investments	**828.0**	**605.2**	**+36.8%**

(1) Cash flows for PUMA, Stella McCartney, Volcom and Christopher Kane for 2017 have been reclassified to "Net cash from (used in) discontinued operations", in accordance with IFRS 5.

In 2018, 61% of the Group's gross operating investments concerned the store network (versus 55% in 2017). Thirty percent of these investments related to store openings and 31% to conversion and refurbishment work.

Available cash flow

(in € millions)	2018	2017 (1)	Change
Free cash flow from operations	**2,955.2**	**2,205.5**	**+34.0%**
Interest and dividends received	5.4	5.2	+3.8%
Interest paid and equivalent	(192.4)	(184.7)	+4.2%
Available cash flow	**2,768.2**	**2,026.0**	**+36.6%**

(1) Cash flows for PUMA, Stella McCartney, Volcom and Christopher Kane for 2017 have been reclassified to "Net cash from (used in) discontinued operations", in accordance with IFRS 5.

Dividends paid

The cash dividend paid by Kering SA to its shareholders in 2018 amounted to €758 million (including the €253 million interim dividend paid on January 17, 2018). Dividends paid in 2018 also included €23 million paid to non-controlling interests in consolidated subsidiaries.

In 2017, the cash dividend paid by Kering SA to its shareholders amounted to €581 million (including the interim dividend paid on January 18, 2017). Dividends paid in 2017 also included €16 million paid to non-controlling interests in consolidated subsidiaries (after reclassifying PUMA and Stella McCartney dividends to discontinued operations in accordance with IFRS 5).

Other acquisitions and disposals

Other acquisitions and disposals amounted to €94 million in 2018 and mainly included financing transactions carried out with non-controlled or equity-accounted companies, as well as a €17 million impact from remeasurements of put options written over non-controlling interests.

In 2017, other acquisitions and disposals amounted to €367 million and mainly concerned the remeasurement of put options written over non-controlling interests.

Other movements

This item includes an €85 million positive impact of fluctuations in exchange rates in 2018 (€189 million negative impact in 2017).

1.7 Results and share capital of the parent company

The parent company ended 2018 with net income of €1,657 million compared with €3,915 million in 2017. The 2018 figure includes €1,010 million in dividends received from subsidiaries (versus €3,839 million in 2017).

As of December 31, 2018, Kering's share capital comprised 126,279,322 shares with a par value of €4 each.

Payment of a cash dividend

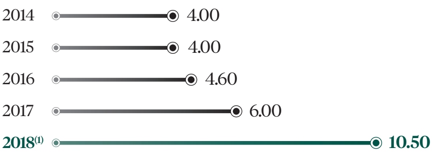
At its February 11, 2019 meeting, the Board of Directors decided that it would ask shareholders to approve a €10.50 per-share cash dividend for 2018 at the Annual General Meeting to be held to approve the financial statements for the year ended December 31, 2018.

An interim cash dividend of €3.50 per share was paid on January 17, 2019 pursuant to a decision by the Board of Directors on December 14, 2018.

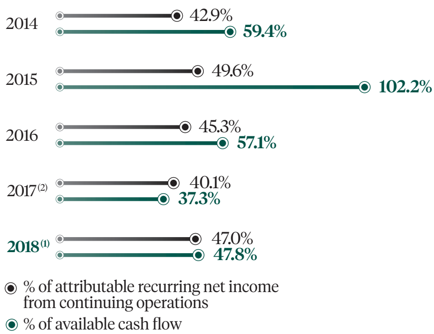
If the final dividend is approved, the total cash dividend payout in 2019 with respect to 2018 will amount to €1,322.0 million, taking into account Kering shares held in treasury for the stock repurchase program.

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

Dividend per share *(in €)*



Payout ratios



(1) Subject to the approval of the April 24, 2019 Annual General Meeting.
(2) Data restated for discontinued operations (PUMA, Stella McCartney, Volcom and Christopher Kane), in accordance with IFRS 5.

1.8 Transactions with related parties

Transactions with related parties in 2018 are described in Note 35 – Transactions with related parties, to the consolidated financial statements.

1.9 Subsequent events

No significant events occurred between December 31, 2018 and February 11, 2019 – the date on which the Board of Directors authorized the consolidated financial statements for issue.

At its meeting on February 11, 2019, the Board of Directors of Kering appointed Ms. Sophie L'Hélias as independent lead director, with a standard role of, among others, speaking on behalf of the Board on ESG (Environmental, Societal, Governance) matters, in coordination with the Chairman of the Board.

1.10 Outlook

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

The Group is continuing to implement its strategy focused on achieving same-store revenue growth while ensuring a targeted and selective expansion of the store network in order to strengthen its Houses' operating margins for the long term.

The Group's operating environment remains unsettled with regards to the macroeconomic and geopolitical uncertainties, national trade policies, and fluctuations in exchange rates, events that could impact consumer trends and tourism.

Against this backdrop, in 2019 the Group plans to pursue the strategic measures that it has successfully implemented in recent years, namely rigorously managing and allocating its resources in order to further enhance its operating performance, maintaining a high level of cash flow generation and continuing to grow its return on capital employed.

1.11 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 2017 revenue adjusted as follows by:

- neutralizing the portion of revenue corresponding to entities divested in 2017;
- including the portion of revenue corresponding to entities acquired in 2018;
- remeasuring 2017 revenue at 2018 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 their nature or frequency, that could distort the assessment of Group entities' financial performance. Other non-recurring operating income and expenses may include impairment of property, plant and equipment, goodwill and other intangible assets, gains or losses on disposals of non-current assets, restructuring costs and costs relating to employee adaptation measures.

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

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

EBITDA

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

Free cash flow from operations and available cash flow

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

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

Net debt

As defined by CNC recommendation no. 2009-R. 03 of July 2, 2009, net debt comprises gross borrowings, including accrued interest, less cash and cash equivalents.

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

Effective tax rate on recurring income

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

2. CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2018

2.1 Consolidated income statement

for the years ended December 31, 2018 and 2017

(in € millions)	Notes	2018	2017 (1)
CONTINUING OPERATIONS			
Revenue	6	**13,665.2**	**10,815.9**
Cost of sales		(3,467.0)	(2,899.8)
Gross margin		**10,198.2**	**7,916.1**
Payroll expenses	7-8	(2,080.4)	(1,797.8)
Other recurring operating income and expenses		(4,174.0)	(3,427.6)
Recurring operating income	9	**3,943.8**	**2,690.7**
Other non-recurring operating income and expenses	10	(222.4)	(164.2)
Operating income		**3,721.4**	**2,526.5**
Finance costs, net	11	(207.3)	(220.2)
Income before tax		**3,514.1**	**2,306.3**
Income tax expense	12	(867.7)	(550.8)
Share in earnings (losses) of equity-accounted companies		11.9	(3.6)
Net income from continuing operations		**2,658.3**	**1,751.9**
o/w attributable to owners of the parent		2,630.6	1,728.7
o/w attributable to non-controlling interests	15	27.7	23.2
DISCONTINUED OPERATIONS			
Net income from discontinued operations	4	**1,095.2**	**113.2**
o/w attributable to owners of the parent		1,084.3	56.9
o/w attributable to non-controlling interests		10.9	56.3
TOTAL GROUP			
Net income of consolidated companies		**3,753.5**	**1,865.1**
o/w attributable to owners of the parent		3,714.9	1,785.6
o/w attributable to non-controlling interests	15	38.6	79.5

(in € millions)	Notes	2018	2017 (1)
Net income attributable to owners of the parent		**3,714.9**	**1,785.6**
Earnings per share *(in €)*	13.1	29.49	14.17
Fully diluted earnings per share *(in €)*	13.1	29.49	14.17
Net income from continuing operations attributable to owners of the parent		**2,630.6**	**1,728.7**
Earnings per share *(in €)*	13.1	20.88	13.72
Fully diluted earnings per share *(in €)*	13.1	20.88	13.72
Net income from continuing operations (excluding non-recurring items) attributable to owners of the parent		**2,816.7**	**1,886.6**
Earnings per share *(in €)*	13.2	22.36	14.97
Fully diluted earnings per share *(in €)*	13.2	22.36	14.97

(1) Income and expense items relating to PUMA, Stella McCartney, Volcom and Christopher Kane for 2017 have been reclassified to "Discontinued operations", in accordance with IFRS 5.

2.2 Consolidated statement of comprehensive income
for the years ended December 31, 2018 and 2017

(in € millions)	Notes	2018	2017
Net income		**3,753.5**	**1,865.1**
Actuarial gains and losses[1]		9.6	20.1
Total items not reclassified to income		**9.6**	**20.1**
Foreign exchange gains and losses		(70.6)	(249.5)
Cash flow hedges[1]		(142.0)	45.2
Financial assets at fair value[1]		(13.3)	3.9
Share in other comprehensive income of equity-accounted companies		12.0	-
Total items to be reclassified to income		**(213.9)**	**(200.4)**
Other comprehensive income (loss), net of tax	**14**	**(204.3)**	**(180.3)**
Total comprehensive income		**3,549.2**	**1,684.8**
o/w attributable to owners of the parent		3,504.8	1,648.7
o/w attributable to non-controlling interests		44.4	36.1

(1) Net of tax.

2.3 Consolidated statement of financial position
as of December 31, 2018 and 2017

ASSETS

(in € millions)	Notes	Dec. 31, 2018	Dec. 31, 2017
Goodwill	16	2,399.2	3,421.2
Brands and other intangible assets	17	7,393.6	11,159.0
Property, plant and equipment	18	2,228.5	2,267.6
Investments in equity-accounted companies	20	1,074.7	48.6
Non-current financial assets	21	336.3	364.3
Deferred tax assets	12.2	830.1	964.6
Other non-current assets		34.2	35.4
Non-current assets		**14,296.6**	**18,260.7**
Inventories	22	2,414.7	2,699.1
Trade receivables	23	849.5	1,366.5
Current tax receivables	12.2	90.6	78.6
Other current financial assets	24-30	60.9	155.6
Other current assets	24	899.5	880.3
Cash and cash equivalents	28	2,216.6	2,136.6
Current assets		**6,531.8**	**7,316.7**
Assets held for sale		**539.1**	-
TOTAL ASSETS		**21,367.5**	**25,577.4**

EQUITY AND LIABILITIES

(in € millions)	Notes	Dec. 31, 2018	Dec. 31, 2017
Share capital		505.2	505.2
Capital reserves		2,428.3	2,428.3
Treasury shares		(168.3)	-
Translation adjustments		(206.7)	(131.7)
Remeasurement of financial instruments		(97.8)	76.0
Other reserves		7,445.2	9,070.4
Equity attributable to owners of the parent	**25**	**9,905.9**	**11,948.2**
Non-controlling interests	15	155.7	678.2
Total equity	**25**	**10,061.6**	**12,626.4**
Non-current borrowings	29	3,171.6	4,245.5
Other non-current financial liabilities	30	3.0	0.7
Provisions for pensions and other post-employment benefits	26	88.0	125.7
Other non-current provisions	27	14.2	55.5
Deferred tax liabilities	12.2	1,578.6	2,712.2
Other non-current liabilities		40.0	48.8
Non-current liabilities		**4,895.4**	**7,188.4**
Current borrowings	29	756.4	939.7
Other current financial liabilities	24-30	553.2	367.6
Trade payables	24	745.8	1,240.7
Provisions for pensions and other post-employment benefits	26	8.6	10.7
Other current provisions	27	255.7	182.4
Current tax liabilities	12.2	1,303.3	815.4
Other current liabilities	24	2,598.9	2,206.1
Current liabilities		**6,221.9**	**5,762.6**
Liabilities associated with assets held for sale		**188.6**	-
TOTAL EQUITY AND LIABILITIES		**21,367.5**	**25,577.4**

2.4 Consolidated statement of cash flows
for the years ended December 31, 2018 and 2017

(in € millions)	Notes	2018	2017 [(1)]
Net income from continuing operations		**2,658.3**	**1,751.9**
Net recurring charges to depreciation, amortization and provisions on non-current operating assets		491.9	432.1
Other non-cash income and expenses		(6.6)	10.3
Cash flow from operating activities	**33.2**	**3,143.6**	**2,194.3**
Interest paid/received		186.6	181.4
Dividends received		(1.0)	(0.2)
Current tax expense	12.1	1,062.4	749.4
Cash flow from operating activities before tax, dividends and interest		**4,391.6**	**3,124.9**
Change in working capital requirement		(51.6)	(35.8)
Income tax paid	12.2.1	(562.0)	(316.0)
Net cash from operating activities		**3,778.0**	**2,773.1**
Purchases of property, plant and equipment and intangible assets		(828.0)	(605.2)
Proceeds from disposals of property, plant and equipment and intangible assets		5.2	37.6
Acquisitions of subsidiaries, net of cash acquired		(15.8)	1.6
Proceeds from disposals of subsidiaries and associates, net of cash transferred		-	-
Purchases of other financial assets		(80.3)	(65.1)
Proceeds from disposals of other financial assets		21.9	31.8
Interest and dividends received		5.4	5.2
Net cash used in investing activities		**(891.6)**	**(594.1)**
Dividends paid to owners of the parent company		(757.6)	(580.9)
Dividends paid to non-controlling interests		(22.8)	(16.4)
Transactions with non-controlling interests		(2.7)	(27.8)
Treasury share transactions		(167.9)	0.2
Debt issues	33.3	73.1	299.4
Debt redemptions/repayments	33.3	(1,404.5)	(410.1)
Increase/decrease in other borrowings	33.3	(27.9)	(364.4)
Interest paid and equivalent		(192.4)	(184.7)
Net cash used in financing activities		**(2,502.7)**	**(1,284.7)**
Net cash from (used in) discontinued operations	4	(379.1)	87.7
Impact of exchange rate variations		(67.6)	159.8
Net increase (decrease) in cash and cash equivalents		**(63.0)**	**1,141.8**
Cash and cash equivalents at beginning of year	**33.1**	**1,899.3**	**757.5**
Cash and cash equivalents at end of year	**33.1**	**1,836.3**	**1,899.3**

(1) Cash flow items relating to PUMA, Stella McCartney, Volcom and Christopher Kane for 2017 have been reclassified to "Net cash from (used in) discontinued operations", in accordance with IFRS 5.

2.5 Consolidated statement of changes in equity
for the years ended December 31, 2018 and 2017

(Before appropriation of net income) *(in € millions)*	Number of shares outstanding (1)	Share capital	Capital reserves	Treasury shares	Cumulative translation adjustments	Remeasurement of financial instruments	Other reserves and net income attributable to owners of the parent	Equity: Owners of the parent	Equity: Non-controlling interests	Equity: Total
As of January 1, 2017	**126,279,322**	**505.2**	**2,428.3**	**-**	**87.8**	**16.8**	**8,231.6**	**11,269.7**	**694.2**	**11,963.9**
Total comprehensive income					**(219.5)**	**59.2**	**1,809.0**	**1,648.7**	**36.1**	**1,684.8**
Share capital increase									50.1	50.1
Treasury shares (2)							(0.1)	(0.1)		(0.1)
Valuation of share-based payment							(1.6)	(1.6)	(0.3)	(1.9)
Dividends paid and interim dividends							(644.1)	(644.1)	(39.1)	(683.2)
Changes in Group structure and other changes (3)							(324.4)	(324.4)	(62.8)	(387.2)
As of December 31, 2017	**126,279,322**	**505.2**	**2,428.3**	**-**	**(131.7)**	**76.0**	**9,070.4**	**11,948.2**	**678.2**	**12,626.4**
Total comprehensive income					**(75.0)**	**(144.1)**	**3,723.9**	**3,504.8**	**44.4**	**3,549.2**
Share capital increase									0.2	0.2
Treasury shares (2)				(168.3)			0.3	(168.0)		(168.0)
Cash dividend paid							(947.1)	(947.1)	(45.0)	(992.1)
Stock dividend paid (PUMA shares)							(4,514.5)	(4,514.5)		(4,514.5)
First-time application of IFRS 9 (2)						(29.7)	29.7			
First-time application of IFRS 15 (2)							(15.4)	(15.4)		(15.4)
Changes in Group structure and other changes (3)							97.9	97.9	(522.1)	(424.2)
As of December 31, 2018	**126,279,322**	**505.2**	**2,428.3**	**(168.3)**	**(206.7)**	**(97.8)**	**7,445.2**	**9,905.9**	**155.7**	**10,061.6**

(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 29 – Borrowings).

Notes to the consolidated financial statements for the year ended December 31, 2018

Note 1 – Introduction

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

The consolidated financial statements for the year ended December 31, 2018 reflect the accounting position of Kering and its subsidiaries, together with its interests in associates and joint ventures.

On February 11, 2019, the Board of Directors approved the consolidated financial statements for the year ended December 31, 2018 and authorized their publication. These consolidated financial statements will only be considered as final after their adoption by the April 24, 2019 Annual General Meeting.

Note 2 – Accounting policies and methods

2.1 General principles and statement of compliance

Pursuant to European Regulation No. 1606/2002 of July 19, 2002, the consolidated financial statements of the Kering group for the year ended December 31, 2018 were prepared in accordance with applicable international accounting standards published and adopted by the European Union and mandatorily applicable as of that date.

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

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

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

2.2 IFRS basis adopted

2.2.1 Standards, amendments and interpretations adopted by the European Union and effective as of January 1, 2018

The Group has applied the following standards, amendments and interpretations in its consolidated financial statements, newly applicable as of January 1, 2018:

- amendments to IAS 28 and IFRS 1 (part of the Annual Improvements to IFRSs 2014-2016 Cycle), and amendments to IAS 40, IFRS 2 and IFRS 4. These amendments have no impact on the consolidated financial statements;
- IFRIC 22 – *Foreign Currency Transactions and Advance Consideration*, which has no impact on the consolidated financial statements;
- IFRS 9 – *Financial Instruments*, which sets out the recognition and disclosure principles for financial assets and liabilities. These principles replace those contained in IAS 39 – *Financial Instruments: Recognition and Measurement*;
- IFRS 15 – *Revenue from Contracts with Customers*, which establishes new revenue recognition principles and supersedes IAS 18 – *Revenue* with effect from January 1, 2018.

IFRS 9 – Financial Instruments

Kering has chosen to apply all chapters of IFRS 9 as of January 1, 2018. The main impacts of each chapter are described below:

- phase 1 – *Classification and measurement of financial assets and liabilities*: based on analyses carried out, this has no impact on the consolidated financial statements;
- phase 2 – *Impairment methodology*: IFRS 9 requires application of an impairment model based on "expected" losses (as opposed to "known" losses under IAS 39). For its trade receivables, the Group chose to adopt the provision matrix approach available under IFRS 9. The bad debt risk on Kering's receivables in its Luxury Houses, which are essentially retail businesses, is extremely low. The Group takes out credit risk insurance covering the majority of trade receivables in its wholesale and department stores business. Accordingly, this phase has no impact on the consolidated financial statements;
- phase 3 – *Hedge accounting*: the Group chose to adopt the hedge accounting provisions set out in IFRS 9 for its Houses with effect from January 1, 2018. The main change with respect to IAS 39 concerns the accounting for foreign currency derivatives classified as cash flow hedges. Under IFRS 9, changes in the time value of options and changes in prices of the underlying on futures transactions are to be recognized in equity over the term of the transactions and taken to net finance costs when the hedged item is settled. A negative impact of €30 million net of deferred taxes was recognized as of January 1, 2018 in "Remeasurement of financial instruments" with an offsetting entry to "Other reserves".

IFRS 15 – ***Revenue from Contracts with Customers***

IFRS 15 does not have a significant impact on the Kering group owing to the nature of its business activities. The Houses are essentially retail businesses, with the exception of the Watches brands and Kering Eyewear. The Group has therefore applied the "cumulative catch-up" transition method, as it considers that this does not distort comparability between 2017 and 2018 data. A negative impact of €15 million net of deferred taxes was recognized as of January 1, 2018 within equity.

Note 2.3 describes the basis of preparation of the financial statements resulting from the application of these new standards.

2.2.2 Standards, amendments and interpretations adopted by the European Union but not mandatorily applicable as of January 1, 2018

The Group has elected not to early adopt the following standards, amendments and interpretations whose application is not mandatory for financial periods beginning on or after January 1, 2018:

- IFRS 16 – *Leases*, published in November 2017, which establishes an accounting model for the recognition of leases and will supersede IAS 17 – *Leases*, IFRIC 4, SIC 15 and SIC 27. IFRS 16 will be mandatorily applicable as of January 1, 2019;
- amendment to IFRS 9 – *Financial Instruments* concerning prepayment features with negative compensation, mandatorily applicable as of January 1, 2019;
- IFRIC 23 – *Uncertainty over Income Tax Treatments*, mandatorily applicable as of January 1, 2019.

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

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

- amendments contained in the Annual Improvements to IFRSs 2015-2017 Cycle and concerning IAS 12, IAS 23, IFRS 3 and IFRS 11, which the IASB indicates will be mandatorily applicable as of January 1, 2019;
- the various amendments to IAS 19 and IAS 28, which the IASB indicates will be mandatorily applicable as of January 1, 2019;
- amendments to IAS 1 and IAS 8 – *Definition of Material*, which the IASB indicates will be mandatorily applicable as of January 1, 2020;
- amendments to IFRS 3 – *Definition of a Business*, which the IASB indicates will be mandatorily applicable as of January 1, 2020;
- changes in the IFRS conceptual framework, which the IASB indicates will be mandatorily applicable as of January 1, 2020;
- IFRS 17 – *Insurance Contracts*, mandatorily applicable as of January 1, 2021.

2.2.4 Expected impacts of future standards, amendments and interpretations

IFRS 16 – ***Leases*****, applicable as of January 1, 2019**

Bases for the application of IFRS 16 by Kering

The application of IFRS 16 as of January 1, 2019 will have a material impact on Kering's consolidated financial statements since the Houses are essentially retail businesses. Virtually all of the Group's leases are property leases.

Accordingly, Kering has been rolling out an IT tool across the Group to manage the operational aspects of its property leases and to calculate the financial impacts thereof, taking into account all operational issues on the ground. A team comprising representatives from different departments (finance, real estate, legal and IT) is responsible for this project.

Following significant changes in Group structure in the first half of 2018, particularly the deconsolidation of PUMA and the classification of Stella McCartney, Volcom and Christopher Kane within discontinued operations in accordance with IFRS 5, the Group decided for practical reasons not to apply the full retrospective transition method, according to which IFRS 16 is also applied to the comparative period presented, in this case 2018.

In accordance with the transitional provisions set out in paragraph C5 (b) of IFRS 16, the Group will therefore apply the modified retrospective approach, which consists in accounting for the cumulative impact of applying IFRS 16 at the date of first-time application, i.e., January 1, 2019.

Pursuant to the transitional provisions set out in paragraph C8 (b) (ii) of IFRS 16, the Group will apply the standard using the simplified cumulative approach and recognize a right-of-use asset for leases previously classified as operating leases (under IAS 17). The right-of-use asset will equal the lease liability, adjusted by the amount of any prepaid or accrued lease payments already recognized in the statement of financial position as of December 31, 2018.

Estimated lease liabilities as of January 1, 2019

In line with the above-described strategy, the Group has conducted simulations to measure the expected amount of lease liabilities at the transition date, resulting in an estimated impact of between €3,400 million and €3,900 million (a median estimated impact of €3,700 million). The final amount of lease liabilities is likely to change between the date of these financial statements and the publication of the financial statements for the first half of 2019 as regards the estimated term of certain leases. This is because market positions in certain countries could still evolve in this period, thereby calling into question some of the assumptions used to date to estimate lease terms.

These estimates should be considered in light of the off-balance sheet commitments relating to operating leases set out in Note 34.2.1 – Contractual obligations, which amounted to €4,148.9 million as of December 31, 2018. The difference between this amount and estimated lease liabilities under IFRS 16 is attributable to the factors described below:

- unlike off-balance sheet commitments, lease liabilities evidently do not include liabilities under contracts already entered into as of December 31, 2018 but which take effect after the date of transition;
- unlike off-balance sheet commitments, lease liabilities do not include liabilities under leases with an initial term of one year or less, pursuant to the recognition exemptions set out in paragraph 5 (a) of IFRS 16;
- unlike off-balance sheet commitments, lease liabilities do not include liabilities under leases with a low-value underlying asset, pursuant to the recognition exemptions set out in paragraph 5 (b) of IFRS 16;
- the estimated term of certain leases under IFRS 16 may differ from that used to calculate off-balance sheet commitments: this may be the case for leases for which the Group is reasonably certain to exercise an extension or termination option;
- lastly, off-balance sheet commitments do not reflect the impact of discounting lease liabilities.

Impacts on the presentation of Kering's consolidated financial statements

The application of IFRS 16 will change the presentation of the consolidated financial statements as from June 30, 2019:

- the consolidated statement of financial position will show:
  - a new "Right-of-use assets" line representing the right to use the leased assets, which will be recorded within non-current assets between "Brands and other intangible assets" and "Property, plant and equipment",
  - a new "Lease liabilities" line representing obligations associated with right-of-use assets, which will be recorded within current and non-current liabilities;
- three lines on the consolidated income statement will be used to reflect the impact of leases:
  - rental expense, which will appear within "Other recurring operating income and expenses" and will include variable lease payments, payments under leases with a low-value underlying asset and payments under leases with an initial term of one year or less, as well as all rental charges under all lease contracts,
  - right-of-use amortization expense, which will be included within "Other recurring operating income and expenses" as part of "Net recurring charges to depreciation, amortization and provisions on non-current operating assets" for the fixed discounted portion of lease payments under all leases with an initial term of more than one year (with the exception of low-value asset leases),
  - interest expense relating to lease liabilities, which will be included within "Finance costs, net";
- two different lines on the consolidated statement of cash flows will be used to reflect the impact of leases:
  - the "Net cash from (used in) operating activities" line, which will include disbursements relating to variable lease payments, to leases with a low-value underlying asset and to leases with an initial term of one year or less, as well as all rental charges under all lease contracts,
  - the "Net cash from (used in) financing activities" line, which will include disbursements relating to fixed lease payments, corresponding to the reimbursement of lease liabilities (including interest).

Impacts on Kering's key performance indicators (KPIs)

The revised presentation of the consolidated financial statements as a result of applying IFRS 16 calls into question the relevance of Kering's key performance indicators (recurring operating income, free operating cash flow and net debt).

Regarding recurring operating income and free operating cash flow, the new financial statement presentation resulting from IFRS 16 will not enable a faithful representation of the Group's full operating performance, i.e., including all operating leases. It should be noted in this respect that for 2018, variable lease payments account for 55% of the Group's total rental expense, while fixed lease payments account for 45%.

Accordingly, the Group is currently working to redefine its main KPIs in order to continue providing financial statement users with the financial metrics needed to effectively monitor the Group's operating performance. In accordance with IFRS 8, as from the first half of 2019, the Group's segment information will include revised operating performance indicators that reflect the full impact of existing operating leases under IAS 17. Net debt will not include lease liabilities.

2.3 Basis of preparation of the consolidated financial statements

2.3.1 Basis of measurement

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

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

2.3.2 Use of estimates and judgment

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

The main estimates made by Group 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 contingency provisions and other provisions relating to operations, and assumptions underlying the calculation of 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 main assumptions made by the Group are detailed in specific sections of the notes to the consolidated financial statements, and in particular:

- Note 8 – Share-based payment;
- Note 12 – Income taxes;
- Note 19 – Impairment tests on non-financial assets;
- Note 26 – Employee benefits;
- Note 27 – Provisions;
- Note 30 – Exposure to interest rate, foreign exchange, equity and precious metals price risk;
- Note 31 – Accounting classification and market value of financial instruments.

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

Put options granted to non-controlling interests

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

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

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

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

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

2.3.3 Statement of cash flows

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

2.4 Consolidation principles

The Kering group consolidated financial statements include the financial statements of the companies listed in Note 36 – List of consolidated subsidiaries. They include the financial statements of companies acquired as from the acquisition date and companies sold up until the date of disposal.

2.4.1 Subsidiaries

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

Subsidiaries are consolidated from the effective date of control.

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

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

2.4.2 Associates

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

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

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

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

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

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

2.4.3 Business combinations

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

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

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

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

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

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

2.5 Foreign currency translation

2.5.1 Functional and presentation currency

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

2.5.2 Foreign currency transactions

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

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

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

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

2.5.3 Translation of the financial statements of foreign subsidiaries

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

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

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

2.5.4 Net investment in a foreign subsidiary

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

2.6 Goodwill

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

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

Impairment tests are described in Note 2.10 – Asset impairment.

2.7 Brands and other intangible assets

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

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

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

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

Impairment tests are described in Note 2.10 – Asset impairment.

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

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

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

2.8 Property, plant and equipment

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

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

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

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

Leases

Agreements whose fulfilment depends on the use of one or more specific assets and which transfer the right to use the asset are classified as leases.

Leases that transfer to the Group substantially all the risks and rewards incidental to ownership of an asset are classified as finance leases.

Assets acquired under finance leases are recognized in property, plant and equipment against the corresponding debt recognized in borrowings for the same amount, at the lower of the fair value of the asset and the present value of minimum lease payments. The corresponding assets are depreciated over a useful life identical to that of property, plant and equipment acquired outright, or over the term of the lease, whichever is shorter.

Leases that do not transfer substantially all the risks and rewards incidental to ownership are classified as operating leases. Payments made under operating leases are recognized in recurring operating expenses on a straight-line basis over the term of the lease.

Capital gains on the sale and leaseback of assets are recognized in full in income at the time of disposal when the lease qualifies as an operating lease and the transaction is performed at fair value.

The same accounting treatment is applied to agreements that, while not presenting the legal form of a lease, confer on the Group the right to use a specific asset in exchange for a payment or series of payments.

2.9 Inventories

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

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

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

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

2.10 Asset impairment

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

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

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

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

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

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

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

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

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

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

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

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

2.11 Financial assets and liabilities

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

2.11.1 Financial assets

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

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

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

1. Financial assets at fair value through the income statement

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

This category includes:

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

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

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

2. Financial assets at amortized cost

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

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

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

Impairment allowances are recognized in the income statement based on the expected loss model:

- for its trade receivables, the Group applies a provision matrix for each country/brand based on historical loss data. Credit insurance that may be taken out by the Group is taken into account in the evaluation of the risk and therefore of the provision;
- for its other financial assets, an analysis is carried out taking into account the probability of counterparty default.

3. Financial assets at fair value through other comprehensive income

Financial assets are carried at fair value. Changes in fair value are recognized through other comprehensive income if the financial assets are held as part of a business model whose objective is achieved both by (i) collecting contractual cash flows (corresponding solely to payments of principal and interest on the principal amount outstanding) and (ii) selling these financial assets.

This category includes debt instruments meeting the contractual cash flow and business model characteristics set out above.

It also includes shares where the Group has elected to classify shares in this category, in which case changes in the fair value of the shares are recognized directly in other comprehensive income until the shares are sold, with the exception of dividends received in respect of these shares, which are systematically recognized in the income statement.

2.11.2 Financial liabilities

The measurement of financial liabilities depends on their IFRS 9 classification. Excluding put options granted to non-controlling interests, derivative liabilities and financial liabilities accounted for under the fair value option, the Group recognizes all financial liabilities and particularly borrowings, trade payables and other liabilities initially at fair value less transaction costs and subsequently at amortized cost, using the effective interest method.

The effective interest rate is determined for each transaction and corresponds to the rate that would provide the net carrying amount of the financial liability by discounting its estimated future cash flows until maturity or the nearest date the price is reset to the market rate. The calculation includes transaction costs and any premiums and/or discounts. Transaction costs correspond to the costs directly attributable to the acquisition or issue of a financial liability.

The net carrying amount of financial liabilities that qualify as hedged items as part of a fair value hedging relationship and are valued at amortized cost is adjusted with respect to the hedged risk.

Hedging relationships are described in Note 2.11.4 – Derivative instruments.

Financial liabilities accounted for under the fair value option, other than derivative liabilities, are carried at fair value. Changes in fair value are taken to the income statement. Transaction costs incurred in setting up these financial liabilities are recognized immediately in expenses.

2.11.3 Hybrid instruments

Certain financial instruments have both a standard debt component and an equity component.

For the Group, this concerns in particular OCEANE bonds (bonds convertible or exchangeable into new or existing shares).

Under IAS 32, convertible bonds are considered hybrid instruments insofar as the conversion option provides for the repayment of the instrument against a fixed number of equity instruments. There are several components:

- a financial liability (corresponding to the contractual commitment to pay cash), representing the debt component;
- the option converting the bonds into a fixed number of ordinary shares, offered to the subscriber, similar to a call option written by the issuer, representing the equity component;
- potentially one or more embedded derivatives.

The accounting policies applicable to each of these components, at the issue date and at the end of each subsequent reporting period, are as follows:

- debt component: the amount initially recognized as debt corresponds to the present value of the future cash flows arising from interest and principal payments at the market rate for a similar bond with no conversion option. If the convertible bond contains embedded derivatives closely related to the borrowing within the meaning of IFRS 9, the value of these components is allocated to the debt in order to determine the value of the equity component. The debt component is subsequently recognized at amortized cost;
- embedded derivatives not closely related to the debt are recognized at fair value with changes in fair value recognized in income;
- equity component: the value of the conversion option is determined by deducting the value of any embedded derivatives from the amount of the issue less the carrying amount of the debt component. The conversion option continues to be recorded in equity at its initial value. Changes in the value of the option are not recognized;
- transaction costs are allocated pro rata to each component.

2.11.4 Derivative instruments

The Group uses various financial instruments to reduce its exposure to foreign exchange, interest rate and equity risk. These instruments are listed on organized markets or traded over the counter with leading counterparties.

All derivatives are recognized in the statement of financial position under other current or non-current assets and liabilities depending on their maturity and accounting classification, and are valued at fair value as of the transaction date. Changes in the fair value of derivatives are always recorded in income except in the case of cash flow and net investment hedges.

Derivatives designated as hedging instruments are classified by category of hedge based on the nature of the risks being hedged:

- a cash flow hedge is used to hedge the risk of changes in cash flow from recognized assets or liabilities or a highly probable transaction that would impact net income;
- a fair value hedge is used to hedge the risk of changes in the fair value of recognized assets or liabilities or a firm commitment not yet recognized that would impact net income;
- a net investment hedge is used to hedge the foreign exchange risk arising on foreign activities.

Hedge accounting can only be applied if all of the following conditions are met:

- the hedged instrument and the hedging instrument are both eligible;
- there is a formal designation and documentation of the hedging relationship as of the date of inception;
- there is an economic relationship between the hedged item and the hedging instrument.

Any hedge ineffectiveness must be recognized in the income statement at each reporting date.

The accounting treatment of financial instruments qualified as hedging instruments, and their impact on the income statement and the statement of financial position, depends on the type of hedging relationship:

- for cash flow and net investment hedges, fair value gains and losses attributable to the effective portion of the hedging instrument are recognized directly in other comprehensive income. For foreign currency derivatives, changes in the time value of the options and changes in premiums and discounts are also recognized in other comprehensive income. These amounts are reclassified to the income statement to match the recognition of the hedged items, mainly in gross margin for the effective portion of commercial transaction hedges, and in net finance costs for financial hedges and the time value of commercial hedges;
- for fair value hedges, the hedged component of these items is measured in the statement of financial position at fair value with respect to the hedged risk. Fair value gains and losses are recorded in the income statement and are offset, to the extent effective, by matching fair value gains and losses on the hedging instrument.

2.11.5 Cash and cash equivalents

The "Cash and cash equivalents" line item recorded on the assets side of the consolidated statement of financial position comprises cash, mutual or similar funds, short-term investments and other highly liquid instruments that are readily convertible to known amounts of cash, subject to an insignificant risk of changes in value, and have a maximum maturity of three months as of the purchase date.

Investments with a maturity exceeding three months, and blocked or pledged bank accounts, are excluded from cash. Bank overdrafts are presented in borrowings on the liabilities side of the statement of financial position.

In the statement of cash flows, cash and cash equivalents include accrued interest receivable on assets presented in cash and cash equivalents and bank overdrafts. A schedule reconciling cash in the statement of cash flows and in the statement of financial position is provided in Note 33 – Statement of cash flows.

2.11.6 Definition of consolidated net debt

The definition of net debt used by Group companies comprises gross debt including accrued interest receivable, less net cash as defined by French accounting standards authority (*Autorité des normes comptables* – ANC) recommendation no. 2013-03. Net debt includes fair value hedging instruments recorded in the statement of financial position relating to bank borrowings and bonds, on which the interest rate risk is fully or partly hedged as part of a fair value hedging relationship.

2.12 Treasury shares

Treasury shares, whether specifically allocated for grant to employees or allocated to the liquidity agreement or in any other case, as well as directly related transaction costs, are deducted from equity attributable to owners of the parent. On disposal, the consideration received for these shares, net of transaction costs and the related tax impacts, is recognized in equity attributable to owners of the parent.

2.13 Treasury share options

Treasury share options are accounted for as derivative instruments, equity instruments or non-derivative financial liabilities, as appropriate based on their characteristics.

Options classified as derivatives are recognized at fair value through the income statement. Options classified as equity instruments are recorded in equity for their initial amount, and any changes in their value are not recognized. The accounting treatment of financial liabilities is described in Note 2.11.2 – Financial liabilities.

2.14 Share-based payment

The Group may award free share plans, stock purchase plans and stock subscription plans settled in shares. In accordance with IFRS 2 – *Share-based Payment*, the fair value of these plans, determined by reference to the fair value of the services rendered by the beneficiaries, is assessed at the grant date.

During the rights vesting period, the fair value of options and free shares calculated as described above is amortized in proportion to the vesting of rights. This expense is recorded in payroll expenses with an offsetting increase in equity.

The Group may also award share-based payment plans systematically settled in cash, which result in the recognition of payroll expenses spread over the rights vesting period and a matching liability which is measured at fair value through income at the end of each reporting period.

2.15 Income taxes

Income tax expense for the year comprises the current and deferred tax expense.

Deferred tax is calculated using the liability method on all temporary differences between the carrying amount recorded in the consolidated statement of financial position and the tax value of assets and liabilities, except for goodwill that is not deductible for tax purposes and certain other exceptions. The valuation of deferred tax balances depends on the way in which the Group intends to recover or settle the carrying amount of assets and liabilities, using tax rates that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax assets and liabilities are not discounted and are classified in the statement of financial position within non-current assets and liabilities.

A deferred tax asset is recognized on deductible temporary differences and for tax loss carry-forwards and tax credits to the extent that their future offset is probable.

A deferred tax liability is recognized on taxable temporary differences relating to investments in subsidiaries, associates and joint ventures unless the Group is able to control the timing of the reversal of the temporary difference, and it is probable that the temporary difference will not reverse in the foreseeable future.

2.16 Provisions

Provisions for litigation, disputes and miscellaneous contingencies and losses are recognized as soon as a present obligation arises from past events, which is likely to result in an outflow of resources embodying economic benefits, the amount of which can be reliably estimated.

Provisions maturing in more than one year are valued at their discounted amount, representing the best estimate of the expense necessary to extinguish the current obligation at the end of the reporting period. The discount rate used reflects current assessments of the time value of money and specific risks related to the liability.

A provision for restructuring costs is recognized when there is a formal and detailed restructuring plan and the plan has begun to be implemented or its main features have been announced before the end of the reporting period. Restructuring costs for which a provision is made essentially represent employee costs (severance pay, early retirement plans, payment in lieu of notice, etc.), work stoppages and compensation for breaches of contract with third parties.

2.17 Post-employment benefits and other long-term employee benefits

Based on the laws and practices of each country, the Group recognizes various types of employee benefits.

Under defined contribution plans, the Group is not obliged to make additional payments over and above contributions already made to a fund, if the fund does not have sufficient assets to cover the benefits corresponding to services rendered by personnel during the current period and prior periods. Contributions paid into these plans are expensed as incurred.

Under defined benefit plans, obligations are valued using the projected unit credit method based on agreements in effect in each entity. Under this method, each period of service gives rise to an additional unit of benefit entitlement and each unit is measured separately to build up the final obligation. The obligation is then discounted. The actuarial assumptions used to determine the obligations vary according to the economic conditions of the country where the plan is established. These plans are valued by independent actuaries on an annual basis. The valuations take into account the level of future compensation, the probable active life of employees, life expectancy and staff turnover.

Actuarial gains and losses are primarily due to changes in assumptions and the difference between estimated results based on actuarial assumptions and actual results. All actuarial differences in respect of defined benefit plans are recognized immediately in other comprehensive income.

The past service cost, designating the increase in an obligation following the introduction of a new plan or changes to an existing plan, is expensed immediately whether the benefit entitlement has already vested or is still vesting.

Expenses relating to this type of plan are recognized in recurring operating income (service cost) and net finance costs (net interest on the net defined benefit liability or asset). Curtailments, settlements and past service costs are recognized in recurring operating income. The provision recognized in the statement of financial position corresponds to the present value of the obligations calculated as described above, less the fair value of plan assets.

2.18 Non-current assets (and disposal groups) held for sale and discontinued operations

The Group applies IFRS 5 – *Non-current Assets Held for Sale and Discontinued Operations*. This requires the separate recognition and presentation of non-current assets (or disposal groups) held for sale and discontinued operations.

Non-current assets, or groups of assets and liabilities directly associated with those assets, are considered as held for sale if it is highly probable that their carrying amount will be recovered principally through a sale rather than through continuing use. Non-current assets (or disposal groups) held for sale are measured and recognized at the lower of their net carrying amount and their fair value less the costs of disposal. These assets are no longer depreciated from the time they qualify as assets (or disposal groups) held for sale. They are presented on separate lines in the consolidated statement of financial position, without restatement for previous periods.

A discontinued operation is defined as a component of a group that generates cash flows that can be clearly distinguished from the rest of the group and represents a separate major line of business or geographical area of operations. For all periods presented, the net income or loss from these activities is shown on a separate line of the income statement ("Discontinued operations"), and is restated in the statement of cash flows.

2.19 Revenue recognition

Revenue mainly comprises sales of goods, together with income from associated services, and income from royalties and operating licenses.

Sales of goods and associated services

Sales of goods, whether through a retail network or wholesale operations, are recognized when the Group satisfies its performance obligation to its customers, typically upon delivery.

Sales of goods are measured:

- at the fair value of the consideration received;
- excluding taxes;
- net of any rebates or discounts;
- net of any returned goods, when a wholesaler has a contractual right of return or routinely makes returns, in which case a specific provision is set aside. When such returns are not contractual, the provision for returns is estimated based on historical data. Provisions for returns are presented in the statement of financial position under liabilities in respect of future refunds. A corresponding asset (with an offsetting adjustment to cost of sales) representing the right to recover the goods from the customer is also recognized;
- in the event of deferred payment beyond habitual credit terms that is not backed by a financing institution, the revenue from the sale corresponds to the discounted price. The difference between the discounted price and the cash value is recognized under "Other financial income and expenses".

Warranties in connection with certain product categories are recognized under "Other provisions" and have no impact on revenue recognition.

Revenue from services directly related to the sale of goods is recognized in the period in which such services are rendered.

Income from royalties and operating licenses

Income from royalties and operating licenses is recognized in accordance with the contractual obligations specific to each agreement, over time as the performance obligation is satisfied, for example, when calculated based on the value of the underlying sales generated by the licensee under the agreement.

2.20 Operating income

Operating income includes all revenue and expenses directly related to Group activities, both recurring revenue and expense items and revenue and expenses arising from non-recurring decisions or transactions.

Recurring operating income is an analytical balance intended to facilitate the understanding of the entity's operating performance.

Other non-recurring operating income and expenses consist of items which by their nature, amount or frequency could distort the assessment of Group entities' operating performance. Other non-recurring operating income and expenses may include:

- impairment of goodwill and of other intangible assets and property, plant and equipment;
- gains or losses on disposals of non-current assets;
- restructuring costs and costs relating to employee retraining measures.

2.21 Earnings per share

Earnings per share are calculated by dividing net income attributable to owners of the parent by the weighted average number of outstanding shares during the period, after deduction of the weighted average number of treasury shares held by consolidated companies.

Fully diluted earnings per share are calculated by adjusting net income attributable to owners of the parent and the number of outstanding shares for all instruments granting deferred access to the share capital of the Company, whether issued by Kering or by one of its subsidiaries. Dilution is determined separately for each instrument based on the following conditions:

- when the proceeds corresponding to potential future share issues are received at the time dilutive securities are issued (e.g., convertible bonds), the numerator is equal to net income before dilution plus the interest expense that would be saved in the event of conversion, net of tax;
- when the proceeds are received at the time the rights are exercised (e.g., stock subscription options), the dilution attached to the options is determined using the treasury shares method (theoretical number of shares purchased at market price [average price over the period] based on the proceeds received at the time the rights are exercised).

In the case of material non-recurring items, earnings per share excluding non-recurring items are calculated by adjusting net income attributable to owners of the parent for non-recurring items net of taxes and non-controlling interests. Non-recurring items taken into account for this calculation correspond to all of the items included under "Other non-recurring operating income and expenses" in the income statement.

2.22 Operating segments

In accordance with IFRS 8 – *Operating Segments*, segment information is reported on the same basis as used internally by the Chairman and Chief Executive Officer and the Group Managing Director – the Group's chief operating decision makers – to allocate resources to segments and assess their performance.

An operating segment is a separate component of the Group that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the entity's chief operating decision maker, and for which discrete financial information is available.

Each operating segment is monitored separately for internal reporting purposes, according to performance indicators common to all of the Group's segments.

The segments presented are operating segments or groups of similar operating segments.

Note 3 – Changes in Group structure and other highlights

3.1 Strategic redeployment and discontinued operations

PUMA

Following the approval of the transaction by Kering shareholders at the Annual General Meeting on April 26, 2018, the distribution of PUMA shares to Kering shareholders took effect on May 16, 2018, the payment date for the stock dividend. The distribution to Kering shareholders was made on the basis of a ratio of 1 PUMA share for 12 Kering shares held, in accordance with the terms of the transaction announced by Kering on February 13, 2018, and valued at the opening price of the PUMA share on the Xetra trading platform in Frankfurt (€429.00).

PUMA's results up to May 16, 2018 have therefore been reclassified in the consolidated income statement to "Net income from discontinued operations". A gain resulting from the relinquishment of control of PUMA following the distribution was recognized in the consolidated income statement in "Net income from discontinued operations". Cash flows relating to PUMA's operations up to May 16, 2018 have been reclassified in the consolidated statement of cash flows to "Net cash from (used in) discontinued operations" (see Note 4 – Discontinued operations, to the consolidated financial statements).

Following the distribution, Kering held 15.70% of PUMA's share capital and 15.85% of its outstanding shares and voting rights, subject to a six-month lock-up period that ended on November 16, 2018. Since Kering continues to have a significant influence on PUMA's governance, its investment in this company is included in "Investments in equity-accounted companies" in the 2018 consolidated financial statements. The Group's share of PUMA's earnings since May 16, 2018 is presented in the 2018 consolidated income statement in "Share in earnings (losses) of equity-accounted companies" (see Note 20 – Investments in equity-accounted companies, to the consolidated financial statements).

Stella McCartney

On March 28, 2018, Ms. Stella McCartney and Kering jointly announced that they had entered into an agreement for the sale and purchase of Kering's 50% stake in Stella McCartney Ltd to Ms. Stella McCartney, who will thus become the sole owner of her brand.

The cooperation between Stella McCartney and Kering will continue with the aim of guaranteeing a smooth transition in order to minimize disruptions and maintain the brand's momentum. Kering and Stella McCartney will also continue their close cooperation in the domain of sustainable fashion, with Ms. Stella McCartney remaining a Board member of the Kering Foundation.

The results of the Stella McCartney brand have therefore been reclassified to "Net income from discontinued operations" in the consolidated income statement for the fiscal periods presented. Cash flows relating to the brand's operations have been reclassified in the consolidated statement of cash flows to "Net cash from (used in) discontinued operations". Since March 28, 2018, the brand's assets and liabilities have been presented in the 2018 consolidated statement of financial position under "Assets held for sale" and "Liabilities associated with assets held for sale", and they will continue to be recorded in these lines until the date of their effective sale, which is expected to take place in the first quarter of 2019 (see Note 4 – Discontinued operations, to the consolidated financial statements).

Volcom

On April 6, 2018, Kering announced that preparations had commenced for the disposal of Volcom, as the brand no longer constitutes a core asset. This move is consistent with the Group's strategy to fully dedicate itself to the development of its Luxury Houses.

Volcom's results have therefore been reclassified to "Net income from discontinued operations" in the consolidated income statement for the fiscal periods presented. Cash flows relating to the brand's operations have been reclassified in the consolidated statement of cash flows to "Net cash from (used in) discontinued operations". Since April 6, 2018, the brand's assets and liabilities have been presented in the 2018 consolidated statement of financial position under "Assets held for sale" and "Liabilities associated with assets held for sale", and they will continue to be recorded in these lines until the date of their effective sale (see Note 4 – Discontinued operations, to the consolidated financial statements).

Christopher Kane

On June 21, 2018, Kering announced that discussions were underway with Mr. Christopher Kane about the conditions in which the British designer could take back full control of his eponymous brand. Christopher Kane and Kering wish to continue to collaborate with the aim of achieving a gradual and harmonious transition.

The results of the Christopher Kane brand have therefore been reclassified to "Net income from discontinued operations" in the consolidated income statement for the fiscal periods presented. Cash flows relating to the brand's operations have been reclassified in the consolidated statement of cash flows to "Net cash from (used in) discontinued operations". Since June 21, 2018, the brand's assets and liabilities have been presented in the 2018 consolidated statement of financial position under "Assets held for sale" and "Liabilities associated with assets held for sale", and they will continue to be recorded in these lines until the date of their effective sale (see Note 4 – Discontinued operations, to the consolidated financial statements).

The put options granted to Mr. Christopher Kane on 29% of the brand's capital, initially recognized in "Other financial liabilities" with an offsetting entry to "Equity attributable to owners of the parent", have been derecognized and Kering's interest in Christopher Kane has been reduced to 51% (from 80% previously).

Changes in scope of consolidation during 2018 are presented in full in Note 36 – List of consolidated subsidiaries as of December 31, 2018, to the consolidated financial statements.

3.2 Creative changes at Bottega Veneta

On June 15, 2018, Bottega Veneta announced that it had appointed Daniel Lee as its new Creative Director with effect from July 1, 2018, replacing Tomas Maier who had been with the Italian House since 2001.

3.3 Bond redemptions

On March 26, 2018, Kering announced the success of its offer to redeem bonds maturing in 2019, 2021 and 2022 for an aggregate nominal amount of €405 million (excluding accrued interest). On September 28, 2018, Kering redeemed more bonds maturing in 2019, 2020, 2021 and 2022 for an aggregate nominal amount of €370 million (excluding accrued interest). The bonds were redeemed as part of the Group's strategy to actively manage its liquidity and optimize its financing structure (see Note 29 – Borrowings and debt, to the consolidated financial statements).

3.4 Stock repurchase program

On October 29, 2018, Kering announced that it intended to repurchase up to 1.0% of its share capital over the following 12 months under the stock repurchase program authorized at the April 26, 2018 Annual General Meeting (see Note 25 – Equity, to the consolidated financial statements). An agreement was signed with an investment services provider to put in place a first tranche of the repurchase program covering a maximum volume of 631,000 shares (corresponding to approximately 0.5% of the share capital), up to an amount of €300 million and with a maximum price per share of €480. The purchases will be carried out over a period not exceeding four months, and the purchased shares will subsequently be canceled.

3.5 E-commerce internalization strategy

As part of new developments in its digital strategy, Kering announced on November 26, 2018 that after a highly successful and fruitful seven-year partnership with Yoox Net-à-Porter (YNAP), the e-commerce activities handled since 2012 through the YNAP joint venture will transition back to the Group during the first half of 2020.

3.6 Appointments and corporate governance at Kering

During 2018, Kering's Board of Directors appointed two new members: Ginevra Elkann, replacing Laurence Boone following her appointment as Chief Economist of the OECD; and Financière Pinault, a corporate director represented by Héloïse Temple-Boyer, replacing Patricia Barbizet. Kering's shareholders will be invited to ratify these two appointments at the next Annual General Meeting on April 24, 2019.

On August 20, 2018, Kering appointed Patrick Pruniaux, Chief Executive Officer of Ulysse Nardin, as CEO of Girard-Perregaux. In his new role, Mr. Pruniaux, who continues to serve as CEO of Ulysse Nardin, heads up the Group's Swiss Luxury Watches Houses and reports to Albert Bensoussan, Chief Executive Officer of Kering's Watches and Jewelry Division.

Also during the year, Kering strengthened its organization in Greater China by appointing Jinqing Cai as President of Kering Greater China, effective from September 10, 2018.

Note 4 – Discontinued operations

In accordance with IFRS 5, the Group measured these disposal groups at the lower of their carrying amount and fair value less disposal costs.

For all periods presented, the net income or loss from discontinued operations is shown on a separate line of the income statement within "Net income from discontinued operations". Similarly, cash flows relating to discontinued operations are shown on a separate line of the statement of cash flows. Discontinued operations include PUMA, Stella McCartney, Volcom and Christopher Kane.

In the statement of financial position as of December 31, 2018, the assets and liabilities relating to the discontinued operations are presented on separate lines, without restatement for previous periods. Discontinued operations include PUMA, Stella McCartney, Volcom and Christopher Kane.

4.1 Impact on the consolidated income statement

(in € millions)	2018	2017
Revenue	**1,949.5**	**4,661.8**
Cost of sales	(979.7)	(2,444.9)
Gross margin	**969.8**	**2,216.9**
Payroll expenses	(275.2)	(645.8)
Other recurring operating income and expenses	(547.0)	(1,313.8)
Recurring operating income	**147.6**	**257.3**
Other non-recurring operating income and expenses	(175.2)	(77.5)
Operating income (loss)	**(27.6)**	**179.8**
Finance costs, net	(26.4)	(22.5)
Income (loss) before tax	**(54.0)**	**157.3**
Income tax	(29.1)	(40.2)
Share in earnings (losses) of equity-accounted companies	(0.9)	1.6
Net gain (loss) on disposal of discontinued operations	1,179.2	(5.5)
Net income	**1,095.2**	**113.2**
o/w attributable to owners of the parent	1,084.3	56.9
o/w attributable to non-controlling interests	10.9	56.3

The Group's relinquishment of control of PUMA following the distribution of the stock dividend gave rise to a net gain of €1,181 million in 2018. The "Other non-recurring operating income and expenses" line includes impairment losses relating to Volcom and Christopher Kane.

In 2018, PUMA accounted for the greatest share of "Net income from discontinued operations":

PUMA

(in € millions)	2018 (1)	2017
Revenue	**1,462.0**	**4,151.7**
Recurring operating income	**130.0**	**243.9**
as a % of revenue	***8.9%***	***5.9%***
EBITDA	154.3	314.4
as a % of revenue	*10.6%*	*7.6%*
Gross operating investments	29.4	124.3

(1) Contribution from January 1 up to the date on which the Group relinquished control over PUMA, i.e., May 16, 2018.

4.2 Impact on the consolidated statement of cash flows

(in € millions)	2018	2017
Net cash from (used in) operating activities	(193.8)	238.2
Net cash used in investing activities	(71.2)	(131.1)
Net cash from (used in) financing activities	98.0	(14.1)
Impact of exchange rate variations	2.6	(7.7)
Net change in cash and cash equivalents	**(164.4)**	**85.3**
Opening cash and cash equivalents and changes in intra-Group cash flows	(214.7)	2.4
Net cash from (used in) discontinued operations	**(379.1)**	**87.7**

4.3 Impact on the consolidated statement of financial position

As of December 31, 2018, "Assets held for sale" and "Liabilities associated with assets held for sale" concern the operations of Stella McCartney, Volcom and Christopher Kane, which are in the process of being sold.

(in € millions)	2018	2017
Assets held for sale	539.1	-
Liabilities associated with assets held for sale	188.6	-

Note 5 – Operating segments

The policies applied to determine the operating segments presented are set out in Note 2.22 – Operating segments.

Information provided on operating segments is prepared in accordance with the same accounting rules as used for the consolidated financial statements and set out in the notes thereto.

The performance of each operating segment is measured based on recurring operating income, which is the approach used by the Group's chief operating decision maker.

Net recurring charges to depreciation, amortization and provisions on non-current operating assets reflect net charges to depreciation, amortization and provisions on intangible assets and property, plant and equipment recognized in recurring operating income.

Purchases of property, plant and equipment and intangible assets correspond to gross non-current asset purchases, including cash timing differences but excluding purchases of assets under finance leases.

Non-current segment assets comprise goodwill, brands and other intangible assets, property, plant and equipment and other non-current assets.

Segment assets comprise non-current segment assets, inventories, trade receivables and other current assets.

Segment liabilities comprise deferred tax liabilities on brands, trade payables and other current liabilities.

5.1 Information by segment

(in € millions)	Gucci	Yves Saint Laurent
2018		
Revenue[1]	8,284.9	1,743.5
Recurring operating income (loss)	**3,275.2**	**459.4**
Recurring charges to depreciation, amortization and provisions on non-current operating assets	239.4	43.4
Other non-cash recurring operating income and expenses	(199.0)	(38.3)
Purchases of property, plant and equipment and intangible assets, gross	312.7	89.0
Segment assets as of December 31, 2018	**9,401.3**	**1,758.5**
Segment liabilities as of December 31, 2018	**2,812.0**	**505.4**
2017[2]		
Revenue[1]	6,211.2	1,501.4
Recurring operating income (loss)	**2,124.1**	**376.9**
Recurring charges to depreciation, amortization and provisions on non-current operating assets	206.9	45.2
Other non-cash recurring operating income and expenses	(95.9)	0.4
Purchases of property, plant and equipment and intangible assets, gross	248.5	73.0
Segment assets as of December 31, 2017[2]	**8,790.0**	**1,534.9**
Segment liabilities as of December 31, 2017[2]	**2,307.8**	**399.0**

(1) Non-Group.
(2) The data shown for 2017 have been restated for PUMA, Stella McCartney, Volcom and Christopher Kane, in accordance with IFRS 5.

5.2 Information by geographic area

The presentation of revenue by geographic area is based on the geographic location of customers. Non-current segment assets are not broken down by geographic area since these assets largely consist of goodwill and brands, which are analyzed based on the revenue generated in each region, and not based on their geographic location.

(in € millions)	2018	2017[1]
Western Europe	4,471.5	3,625.0
North America	2,704.7	2,050.5
Japan	1,157.5	961.3
Sub-total – mature markets	**8,333.7**	**6,636.8**
Eastern Europe, Middle East and Africa	725.1	624.5
South America	186.1	147.1
Asia-Pacific (excluding Japan)	4,420.3	3,407.5
Sub-total – emerging markets	**5,331.5**	**4,179.1**
Revenue	**13,665.2**	**10,815.9**

(1) Revenue data by geographic area for 2017 have been restated for PUMA, Stella McCartney, Volcom and Christopher Kane, which were reclassified to "Net income from discontinued operations", in accordance with IFRS 5.

Bottega Veneta	Other Houses	Total Houses	Corporate and other	Total
1,109.1	2,109.2	13,246.7	418.5	13,665.2
242.0	**214.4**	**4,191.0**	**(247.2)**	**3,943.8**
42.3	82.4	407.5	84.4	491.9
(38.4)	(39.9)	(315.6)	246.8	(68.8)
68.6	140.0	610.3	217.7	828.0
868.6	**2,921.1**	**14,949.5**	**1,269.7**	**16,219.2**
244.0	**717.0**	**4,278.4**	**587.2**	**4,865.6**
1,176.3	1,624.4	10,513.3	302.6	10,815.9
294.0	**100.2**	**2,895.2**	**(204.5)**	**2,690.7**
43.3	61.0	356.4	75.7	432.1
(32.0)	(17.3)	(144.8)	122.2	(22.6)
51.0	98.5	471.0	134.2	605.2
859.7	**2,757.4**	**13,942.0**	**1,076.9**	**15,018.9**
241.3	**583.7**	**3,531.8**	**470.0**	**4,001.8**

5.3 Reconciliation of segment assets and liabilities

(in € millions)	Dec. 31, 2018	Dec. 31, 2017 [1]
Goodwill	2,399.2	2,436.9
Brands and other intangible assets	7,393.6	7,282.5
Property, plant and equipment	2,228.5	1,939.2
Other non-current assets	34.2	15.2
Non-current segment assets	**12,055.5**	**11,673.8**
Inventories	2,414.7	1,848.1
Trade receivables	849.5	788.2
Other current assets	899.5	708.8
Segment assets	**16,219.2**	**15,018.9**
Investments in equity-accounted companies	1,074.7	48.6
Non-current financial assets	336.3	364.3
Deferred tax assets	830.1	964.6
Current tax receivables	90.6	78.6
Other current financial assets	60.9	155.6
Cash and cash equivalents	2,216.6	2,136.6
Assets held for sale [1]	539.1	6,810.2
TOTAL ASSETS	**21,367.5**	**25,577.4**

(1) *For the purposes of presenting the segment information, the segment assets of PUMA, Stella McCartney, Volcom and Christopher Kane for 2017 are shown on the line "Assets held for sale".*

(in € millions)	Dec. 31, 2018	Dec. 31, 2017 [1]
Deferred tax liabilities on brands	1,520.9	1,526.1
Trade payables	745.8	554.2
Other current liabilities	2,598.9	1,921.5
Segment liabilities	**4,865.6**	**4,001.8**
Total equity	10,061.6	12,626.4
Non-current borrowings	3,171.6	4,245.5
Other non-current financial liabilities	3.0	0.7
Other non-current liabilities	40.0	48.8
Non-current provisions for pensions and other post-employment benefits	88.0	125.7
Other non-current provisions	14.2	55.5
Other deferred tax liabilities	57.7	86.8
Current borrowings	756.4	939.7
Other current financial liabilities	553.2	367.6
Current provisions for pensions and other post-employment benefits	8.6	10.7
Other current provisions	255.7	182.4
Current tax liabilities	1,303.3	815.4
Liabilities associated with assets held for sale [1]	188.6	2,070.4
TOTAL EQUITY AND LIABILITIES	**21,367.5**	**25,577.4**

(1) *For the purposes of presenting the segment information, the segment liabilities of PUMA, Stella McCartney, Volcom and Christopher Kane for 2017 are shown on the line "Assets held for sale".*

Note 6 – Revenue

(in € millions)	2018	2017 (1)
Net sales of goods	13,488.4	10,649.8
Net sales of services	15.1	-
Revenue from concessions and licenses	134.1	123.3
Other revenue	27.6	42.8
TOTAL	**13,665.2**	**10,815.9**

(1) Revenue data relating to PUMA, Stella McCartney, Volcom and Christopher Kane for 2017 have been reclassified to "Net income from discontinued operations", in accordance with IFRS 5.

Note 7 – Payroll expenses and headcount

7.1 Payroll expenses by activity

Payroll expenses primarily include fixed and variable remuneration, payroll taxes, charges relating to employee profit-sharing and other incentives, training costs, share-based payment expenses (as detailed in Note 8 – Share-based payment) and expenses relating to employee benefits recognized in recurring operating income (as detailed in Note 26 – Employee benefits).

(in € millions)	2018	2017 (1)
Total Houses	(1,732.7)	(1,515.4)
Corporate and other	(347.7)	(282.4)
TOTAL	**(2,080.4)**	**(1,797.8)**

(1) Payroll expense items relating to PUMA, Stella McCartney, Volcom and Christopher Kane for 2017 have been reclassified to "Net income from discontinued operations", in accordance with IFRS 5.

7.2 Average headcount on a full-time equivalent basis by activity

	2018	2017 (1)
Total Houses	27,057	22,781
Corporate and other	3,538	3,028
TOTAL	**30,595**	**25,809**

(1) Average headcount on a full-time equivalent basis for 2017 has been restated for PUMA, Stella McCartney, Volcom and Christopher Kane, in accordance with IFRS 5.

7.3 Headcount on the payroll at year-end by activity

	Dec. 31, 2018	Dec. 31, 2017 (1)
Total Houses	30,925	25,549
Corporate and other	3,870	3,348
TOTAL	**34,795**	**28,897**

(1) Headcount on the payroll at year-end for 2017 has been restated for PUMA, Stella McCartney, Volcom and Christopher Kane, in accordance with IFRS 5.

Note 8 – Share-based payment

Kering Monetary Units (KMUs)

Since 2013, the Group has granted certain employees Kering Monetary Units (KMUs), namely long-term incentive plans based on synthetic shares that are systematically settled in cash.

The Group recognizes its obligation as services are rendered by the beneficiaries, over the period from the grant date to the vesting date:

- the grant date is the date on which the plans were individually approved by the relevant decision-making body (Board of Directors or other) and corresponds to the initial measurement date of the plans;
- as from the grant date, the rights vesting period is the so-called "lock-in" period during which the specified vesting conditions are to be satisfied (service conditions for all beneficiaries, and performance conditions for executive corporate officers);
- the exercise date is the date at which all of the specified vesting conditions have been satisfied, and as of which the beneficiaries are entitled to ask for payment of their rights.

The unit value of the KMUs awarded is determined and changes based on intrinsic movements in the Kering share and in comparison with the average increase in a basket of seven stocks from the luxury industry only (since the deconsolidation of PUMA in first-half 2018).

The terms and conditions of outstanding KMU plans, with respect to both continuing operations and discontinued operations (PUMA, Stella McCartney, Volcom and Christopher Kane), are as follows:

Plans based on Kering Monetary Units	2014 Plan	2015 Plan	2016 Plan	2017 Plan	2018 Plan
Grant date	04/22/2014	05/22/2015	05/20/2016	05/29/2017	05/18/2018
Vesting period	3 years	3 years	3 years	3 years	3 years
Exercise period[(1)]	2 years	2 years	2 years	2 years	2 years
Number of beneficiaries	301	316	323	319	331
Number initially granted	122,643	114,997	126,974	111,000	64,281
Number of existing KMUs as of Jan. 1, 2018	27,647	92,160	131,790	108,382	-
Number awarded in 2018					64,281
Number forfeited in 2018	13	5,271	17,863	14,256	
Number exercised in 2018	27,458	83,682			
Number of existing KMUs as of Dec. 31, 2018	176	3,207	113,927	94,126	64,281
Number exercisable as of Dec. 31, 2018	176	3,207	N/A	N/A	N/A
Fair value at grant date *(in €)*	144.00	167.00	166.00	249.00	581.0
Weighted average price of KMUs paid *(in €)*	459.71	719.26	N/A	N/A	N/A

(1) Vested rights may be exercised over a period of two years, during which beneficiaries can opt to cash out some or all of their KMUs in April or October, at their discretion, based on the most recently determined value.

In 2018, the Group recognized a €102.8 million payroll expense within recurring operating income in respect of vested KMUs (€106.2 million recognized in 2017 for continuing operations). The 2014 and 2015 KMU plans also gave rise to a cash outflow of €100.7 million in 2018 (€17.3 million in 2017 for continuing operations).

Note 9 – Recurring operating income

Recurring operating income and EBITDA are key indicators of the Group's operating performance.

9.1 Recurring operating income by activity

(in € millions)	2018	2017 (1)
Total Houses	4,191.0	2,895.2
Corporate and other	(247.2)	(204.5)
TOTAL	**3,943.8**	**2,690.7**

(1) Operating income relating to PUMA, Stella McCartney, Volcom and Christopher Kane for 2017 has been reclassified to "Net income from discontinued operations", in accordance with IFRS 5.

9.2 Reconciliation of recurring operating income with EBITDA

(in € millions)	2018	2017 (1)
Recurring operating income	3,943.8	2,690.7
Net recurring charges to depreciation, amortization and provisions on non-current operating assets	491.9	432.1
EBITDA	**4,435.7**	**3,122.8**

(1) EBITDA relating to PUMA, Stella McCartney, Volcom and Christopher Kane for 2017 has been reclassified to "Net income from discontinued operations", in accordance with IFRS 5.

Note 10 – Other non-recurring operating income and expenses

(in € millions)	2018	2017 (1)
Non-recurring operating expenses	**(227.8)**	**(205.6)**
Asset impairment	(140.4)	(148.5)
Restructuring costs	(53.2)	(25.7)
Capital losses on disposals	(0.4)	-
Other	(33.8)	(31.4)
Non-recurring operating income	**5.4**	**41.4**
Capital gains on disposals	0.6	31.2
Other	4.8	10.2
TOTAL	**(222.4)**	**(164.2)**

(1) Other non-recurring operating income and expense items relating to PUMA, Stella McCartney, Volcom and Christopher Kane for 2017 have been reclassified to "Net income from discontinued operations", in accordance with IFRS 5.

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

Other non-recurring operating income and expenses represented a net expense of €222.4 million in 2018, chiefly comprising:

- impairment of goodwill relating to Ulysse Nardin and Brioni (Other Houses) for €88.3 million, with no impact on consolidated cash;
- impairment of assets for €52.1 million, mainly relating to Houses within the Couture and Leather Goods Division;
- costs of restructuring industrial and sales operations for €53.2 million, mainly relating to Houses within the Couture and Leather Goods Division;
- other costs, including costs associated with the departure of Tomas Maier, Bottega Veneta's Creative Director.

In 2017, other non-recurring operating income and expenses represented a net expense of €164.2 million, chiefly comprising:

- impairment of a brand and certain items of goodwill with respect to Other Houses (Ulysse Nardin, Sowind and Brioni) for €115.0 million, with no impact on consolidated cash;
- impairment of assets for €33.5 million, mainly within the Houses;
- a net capital gain on a building amounting to €31.2 million;
- costs of restructuring industrial and sales operations, mainly within the Houses, for €25.7 million.

Note 11 – Finance costs, net

(in € millions)	2018	2017 [1]
Cost of net debt	**(77.4)**	**(110.7)**
Income from cash and cash equivalents	6.4	4.4
Finance costs at amortized cost	(84.2)	(114.3)
Gains and losses on cash flow hedging derivatives	0.4	(0.8)
Other financial income and expenses	**(129.9)**	**(109.5)**
Net gains and losses on financial assets measured at fair value	(0.3)	(6.3)
Foreign exchange gains and losses	(6.2)	(3.7)
Ineffective portion of cash flow and fair value hedges	(89.8)	(79.3)
Gains and losses on derivative instruments not qualifying for hedge accounting (foreign exchange and interest rate hedges)	0.0	0.8
Impact of discounting assets and liabilities	(2.1)	(2.1)
Other finance costs	(31.5)	(18.9)
TOTAL	**(207.3)**	**(220.2)**

(1) Net finance costs for PUMA, Stella McCartney, Volcom and Christopher Kane for 2017 have been reclassified to "Net income from discontinued operations", in accordance with IFRS 5.

Note 12 – Income taxes

12.1 Analysis of income tax expense

12.1.1 Income tax expense and effective tax rate

(in € millions)	2018	2017 [1]
Income before tax	**3,514.1**	**2,306.3**
Current tax expense	(1,062.4)	(744.1)
Deferred tax income (expense)	194.7	193.3
Income tax expense	**(867.7)**	**(550.8)**
Effective tax rate	**24.7%**	**23.9%**
Other non-recurring operating income and expenses	(222.4)	(164.2)
Recurring income before tax	**3,736.5**	**2,470.5**
Tax income on other non-recurring operating income and expenses	**36.3**	**6.3**
Tax expense on recurring income	**(904.0)**	**(557.1)**
Effective tax rate on recurring income	**24.2%**	**22.6%**

(1) The data shown for 2017 are restated for PUMA, Stella McCartney, Volcom and Christopher Kane, which have been reclassified to "Net income from discontinued operations", in accordance with IFRS 5.

The increase in the effective tax rate on recurring income is broadly the result of significantly overhauling supply chain and logistics structures and processes in order to adapt the brands' business models to new constraints arising from the Group's development of the omnichannel approach and the reduction in lead times for designing and manufacturing products.

In future periods, this operational reorganization is expected to lead to a gradual increase in the effective tax rate on recurring income.

In connection with the tax investigation opened in Milan in 2017, an audit unit of the Italian tax authorities completed a tax audit and delivered a report on January 25, 2019 alleging that Luxury Goods International (LGI), a Swiss subsidiary of Kering, had conducted business activities in Italy that should have resulted in payment of Italian income tax, an assertion that Kering contests.

The audit report covers earnings for the years 2011 through 2017 and the estimated claimable tax represents approximately €1,400 million. The audit report will now be reviewed by the tax authority unit in charge of assessing the report's findings, which will make its final determination. Kering contests the findings of the audit report in terms of both substance and amount. The Group is confident about the proceedings currently underway and will continue to fully cooperate with the Italian tax authorities in complete transparency in order to defend all of its rights.

At this stage of the proceedings, Kering does not have the necessary information to record a specific accounting provision based on a reliable estimate of the tax exposure. The Group strictly monitors its tax positions and adopts a prudent approach to assessing its tax exposure, particularly regarding its transfer pricing policy.

12.1.2 Reconciliation of the tax rate

(as a % of pre-tax income)	2018	2017 (1)
Tax rate applicable in France	**34.4%**	**34.4%**
Impact of taxation of foreign subsidiaries	-20.4%	-21.6%
Theoretical tax rate	**14.0%**	**12.8%**
Effect of items taxed at reduced rates	0.0%	0.0%
Effect of permanent differences	0.0%	1.1%
Effect of unrecognized temporary differences	0.4%	0.4%
Effect of unrecognized tax losses carried forward	-1.9%	0.0%
Effect of changes in tax rates	-0.4%	-1.6%
Other	12.6%	11.2%
Effective tax rate	**24.7%**	**23.9%**

(1) *The data shown for 2017 are restated for PUMA, Stella McCartney, Volcom and Christopher Kane, which have been reclassified to "Net income from discontinued operations", in accordance with IFRS 5.*

In 2018, the income tax rate applicable in France was the standard rate of 33.33%, plus a social surtax of 3.3%, bringing the overall rate to 34.43%.

In 2018 and 2017, "Other" relates mainly to the CVAE tax on value-added in France, the IRAP regional production tax in Italy, and tax reassessments.

12.2 Tax assets and liabilities

12.2.1 Current tax receivables/liabilities

(in € millions)	Dec. 31, 2017	Income tax expense	Cash outflows relating to operating activities	Cash flow relating to discontinued operations (1)	Assets held for sale (2)	Other (3)	Dec. 31, 2018
Current tax receivables	78.6						90.6
Current tax liabilities	(815.4)						(1,303.3)
Net current tax liabilities	**(736.8)**	**(1,062.4)**	**562.0**	**(14.3)**	**30.5**	**8.3**	**(1,212.7)**

(1) Corresponding to cash flow items relating to PUMA, Stella McCartney, Volcom and Christopher Kane until their respective dates of classification as discontinued operations.
(2) All of the assets and liabilities of PUMA, Stella McCartney, Volcom and Christopher Kane were reclassified to "Assets held for sale" and "Liabilities associated with assets held for sale" at their respective classification dates, in accordance with IFRS 5 (see Note 3.1 – Strategic redeployment and discontinued operations, to the consolidated financial statements).
(3) "Other" includes changes in Group structure and exchange rates, and reclassifications of statement of financial position items.

12.2.2 Deferred tax assets and liabilities

(in € millions)	Dec. 31, 2017	Income tax expense	Assets held for sale (1)	Other (2)	Other items recognized in equity	Dec. 31, 2018
Brands	(2,625.4)	7.2	1,097.8	(0.5)		(1,520.9)
Other intangible assets	24.7	(12.9)	(8.3)	(8.5)		(5.0)
Property, plant and equipment	30.2	(8.9)	1.4	1.3		24.0
Other non-current assets	58.3	7.2	(24.6)	(28.0)		12.9
Other current assets	467.6	100.3	(45.8)	3.9		526.0
Equity	(0.4)					(0.4)
Borrowings	(12.3)	1.0	12.4	(4.2)		(3.1)
Provisions for pensions and other post-employment benefits	105.0	43.7	(1.6)	(5.2)	(2.4)	139.5
Other provisions	9.1	4.1	(12.9)	25.3		25.6
Other current liabilities	107.8	5.7	(133.1)	(1.7)	6.8	(14.5)
Recognized tax losses and tax credits	87.8	47.3	(63.1)	(4.6)		67.4
Net deferred tax assets (liabilities)	**(1,747.6)**	**194.7**	**822.2**	**(22.2)**	**4.4**	**(748.5)**
Deferred tax assets	964.6					830.1
Deferred tax liabilities	(2,712.2)					(1,578.6)

(1) All of the assets and liabilities of PUMA, Stella McCartney, Volcom and Christopher Kane were reclassified to "Assets held for sale" and "Liabilities associated with assets held for sale" at their respective classification dates, in accordance with IFRS 5 (see Note 3.1 – Strategic redeployment and discontinued operations, to the consolidated financial statements).
(2) "Other" includes changes in Group structure and exchange rates, and deferred tax item reclassifications.

12.3 Unrecognized deferred tax assets

Changes in and maturities of tax losses and tax credits in respect of continuing operations for which no deferred tax assets were recognized in the statement of financial position can be analyzed as follows:

(in € millions)

As of January 1, 2017	**2,240.9**
Losses generated during the year	497.0
Losses utilized and time-barred during the year	(78.7)
Effect of changes in Group structure and exchange rates	(148.1)
As of December 31, 2017	**2,511.1**
Losses generated during the year	212.4
Losses utilized and time-barred during the year	(279.8)
Assets held for sale	(380.5)
Effect of changes in Group structure and exchange rates	(56.7)
As of December 31, 2018	**2,006.5**
Ordinary tax loss carry-forwards expiring in	**617.4**
Less than five years	423.9
More than five years	193.5
Indefinite tax loss carry-forwards	**1,389.1**
TOTAL	**2,006.5**

There are no unrecognized deferred taxes in respect of temporary differences relating to investments in subsidiaries, associates and joint ventures.

Note 13 – Earnings per share

Basic earnings per share are calculated on the basis of the weighted average number of shares outstanding, after deduction of the weighted average number of shares held by consolidated companies.

Fully diluted earnings per share are based on the weighted average number of shares as defined above, plus the weighted average number of potentially dilutive ordinary shares, which may be granted to employees as part of equity-settled share-based payment plans (see Note 8 – Share-based payment). Earnings are adjusted for the theoretical interest charge, net of tax, on convertible and exchangeable instruments.

13.1 Earnings per share

2018

(in € millions)	Consolidated Group	Continuing operations	Discontinued operations
Net income attributable to ordinary shareholders	**3,714.9**	**2,630.6**	**1,084.3**
Weighted average number of ordinary shares outstanding	126,332,226	126,332,226	126,332,226
Weighted average number of treasury shares	(376,188)	(376,188)	(376,188)
Weighted average number of ordinary shares	**125,956,038**	**125,956,038**	**125,956,038**
Basic earnings per share *(in €)*	**29.49**	**20.88**	**8.61**
Net income attributable to ordinary shareholders	**3,714.9**	**2,630.6**	**1,084.3**
Convertible and exchangeable instruments	-	-	-
Diluted net income attributable to owners of the parent	**3,714.9**	**2,630.6**	**1,084.3**
Weighted average number of ordinary shares	125,956,038	125,956,038	125,956,038
Potentially dilutive ordinary shares	-	-	-
Weighted average number of diluted ordinary shares	**125,956,038**	**125,956,038**	**125,956,038**
Fully diluted earnings per share *(in €)*	**29.49**	**20.88**	**8.61**

2017

(in € millions)	Consolidated Group	Continuing operations	Discontinued operations [(1)]
Net income attributable to ordinary shareholders	**1,785.6**	**1,728.7**	**56.9**
Weighted average number of ordinary shares outstanding	126,332,226	126,332,226	126,332,226
Weighted average number of treasury shares	(332,715)	(332,715)	(332,715)
Weighted average number of ordinary shares	**125,999,511**	**125,999,511**	**125,999,511**
Basic earnings per share *(in €)*	**14.17**	**13.72**	**0.45**
Net income attributable to ordinary shareholders	**1,785.6**	**1,728.7**	**56.9**
Convertible and exchangeable instruments	-	-	-
Diluted net income attributable to owners of the parent	**1,785.6**	**1,728.7**	**56.9**
Weighted average number of ordinary shares	125,999,511	125,999,511	125,999,511
Potentially dilutive ordinary shares	-	-	-
Weighted average number of diluted ordinary shares	**125,999,511**	**125,999,511**	**125,999,511**
Fully diluted earnings per share *(in €)*	**14.17**	**13.72**	**0.45**

(1) Income and expense items relating to PUMA, Stella McCartney, Volcom and Christopher Kane for 2017 have been reclassified to "Discontinued operations", in accordance with IFRS 5.

13.2 Earnings per share from continuing operations excluding non-recurring items

Non-recurring items presented below consist of the income statement line "Other non-recurring operating income and expenses" (see Note 10 – Other non-recurring operating income and expenses), reported net of tax and non-controlling interests.

(in € millions)	2018	2017 [(1)]
Net income attributable to ordinary shareholders	**2,630.6**	**1,728.7**
Other non-recurring operating income and expenses	(222.4)	(164.2)
Income tax on other non-recurring operating income and expenses	36.3	6.3
Net income excluding non-recurring items	**2,816.7**	**1,886.6**
Weighted average number of ordinary shares outstanding	126,332,266	126,332,226
Weighted average number of treasury shares	(376,188)	(332,715)
Weighted average number of ordinary shares	**125,956,038**	**125,999,511**
Basic earnings per share excluding non-recurring items *(in €)*	**22.36**	**14.97**
Net income excluding non-recurring items	**2,816.7**	**1,886.6**
Convertible and exchangeable instruments	-	-
Diluted net income attributable to owners of the parent	**2,816.7**	**1,886.6**
Weighted average number of ordinary shares	125,956,038	125,999,511
Potentially dilutive ordinary shares	-	-
Weighted average number of diluted ordinary shares	**125,956,038**	**125,999,511**
Fully diluted earnings per share *(in €)*	**22.36**	**14.97**

(1) Income and expense items relating to PUMA, Stella McCartney, Volcom and Christopher Kane for 2017 have been reclassified to "Discontinued operations", in accordance with IFRS 5.

Note 14 – Other comprehensive income

The main components of other comprehensive income are:

- gains and losses arising from translating the financial statements of foreign operations;
- gains and losses on cash flow hedging instruments;
- gains and losses on the remeasurement and disposal of financial assets at fair value;
- components relating to the measurement of employee benefit obligations: unrecognized surplus of pension plan assets and actuarial gains and losses on defined benefit plans.

(in € millions)	Gross	Income tax	Net
Foreign exchange gains and losses	(70.6)		(70.6)
Cash flow hedges	(148.8)	6.8	(142.0)
– change in fair value	*(53.3)*		
– gains and losses reclassified to income	*(95.5)*		
Financial assets at fair value (IFRS 9)	(13.3)		(13.3)
– change in fair value	*(13.7)*		
– gains (losses) on financial assets at fair value (IFRS 9)	*0.4*		
Share in other comprehensive income of equity-accounted companies	12.0		12.0
Actuarial gains and losses	12.0	(2.4)	9.6
Other comprehensive income (loss) for 2018	**(208.7)**	**4.4**	**(204.3)**

(in € millions)	Gross	Income tax	Net
Foreign exchange gains and losses	(249.5)		(249.5)
Cash flow hedges	49.4	(4.2)	45.2
– change in fair value	*21.8*		
– gains and losses reclassified to income	*27.6*		
Available-for-sale financial assets (IAS 39)	3.9		3.9
– change in fair value	*3.9*		
– gains and losses reclassified to income (IAS 39)	-		
Actuarial gains and losses	22.6	(2.5)	20.1
Other comprehensive income (loss) for 2017	**(173.6)**	**(6.7)**	**(180.3)**

A negative amount on the “Gains and losses reclassified to income” line item corresponds to a gain recognized in the income statement. Conversely, a positive amount on the “Gains and losses reclassified to income” line item corresponds to a loss recognized in the income statement.

Gains and losses on cash flow hedging instruments reclassified to income are recognized under gross margin.

Note 15 – Non-controlling interests

15.1 Net income attributable to non-controlling interests

(in € millions)	2018	2017
Continuing operations	**27.7**	**23.2**
Luxury Houses	27.7	25.9
Corporate and other	-	(2.7)
Discontinued operations(1)	**10.9**	**56.3**
TOTAL	**38.6**	**79.5**

(1) Net income and expense items attributable to the non-controlling interests in PUMA, Stella McCartney and Christopher Kane have been reclassified to “Discontinued operations”, in accordance with IFRS 5.

15.2 Non-controlling interests in equity

(in € millions)	Dec. 31, 2018	Dec. 31, 2017
Luxury Houses	130.2	129.8
Sport & Lifestyle	-	523.4
Corporate and other	25.5	25.0
TOTAL	**155.7**	**678.2**

Note 16 – Goodwill

16.1 Changes in goodwill

(in € millions)	Gross	Impairment losses	Net
Goodwill as of January 1, 2017	**4,480.0**	**(946.5)**	**3,533.5**
Disposals	(10.5)		(10.5)
Impairment losses		(85.4)	(85.4)
Impact of put options granted to non-controlling shareholders	3.5		3.5
Translation adjustments	(65.8)	45.5	(20.3)
Other movements	0.7	(0.3)	0.4
Goodwill as of December 31, 2017	**4,407.9**	**(986.7)**	**3,421.2**
Assets held for sale[1]	(1,612.9)	628.7	(984.2)
Acquisitions	16.4		16.4
Impairment losses		(60.6)	(60.6)
Translation adjustments	13.5	(5.9)	7.6
Other movements	(21.3)	20.1	(1.2)
Goodwill as of December 31, 2018	**2,803.6**	**(404.4)**	**2,399.2**

(1) All of the assets and liabilities of PUMA, Stella McCartney, Volcom and Christopher Kane were reclassified to "Assets held for sale" and "Liabilities associated with assets held for sale" at their respective classification dates, in accordance with IFRS 5 (see Note 3.1 – Strategic redeployment and discontinued operations, to the consolidated financial statements).

The Group did not carry out any material acquisitions in 2018 or 2017. Note 19.2 – Impairment losses recognized during the period provides details of goodwill impairment recognized in 2018 and 2017.

16.2 Goodwill by activity

(in € millions)	Dec. 31, 2018	Dec. 31, 2017
Luxury Houses	2,394.5	2,439.3
Sport & Lifestyle	-	977.2
Corporate and other	4.7	4.7
TOTAL	**2,399.2**	**3,421.2**

Note 17 – Brands and other intangible assets

17.1 Changes in brands and other intangible assets

(in € millions)	Brands	Internally generated intangible assets	Other intangible assets	Total
Carrying amount as of January 1, 2018	**10,626.0**	**63.2**	**469.8**	**11,159.0**
Assets held for sale[(1)]	(3,813.2)		(57.4)	(3,870.6)
Acquisitions		58.1	189.4	247.5
Amortization			(121.2)	(121.2)
Impairment losses	(31.2)			(31.2)
Translation adjustments	8.1		2.9	11.0
Other movements	0.1	0.5	(1.5)	(0.9)
Carrying amount as of December 31, 2018	**6,789.8**	**121.8**	**482.0**	**7,393.6**
Gross value as of December 31, 2018	6,934.8	121.8	1,138.2	8,194.8
Accumulated amortization and impairment as of December 31, 2018	(145.0)		(656.2)	(801.2)

(1) All of the assets and liabilities of PUMA, Stella McCartney, Volcom and Christopher Kane were reclassified to "Assets held for sale" and "Liabilities associated with assets held for sale" at their respective classification dates, in accordance with IFRS 5 (see Note 3.1 – Strategic redeployment and discontinued operations, to the consolidated financial statements).

(in € millions)	Brands	Internally generated intangible assets	Other intangible assets	Total
Carrying amount as of January 1, 2017	**10,807.1**	**23.9**	**441.7**	**11,272.7**
Acquisitions		39.3	153.0	192.3
Disposals			(5.5)	(5.5)
Amortization			(114.2)	(114.2)
Impairment losses	(100.2)			(100.2)
Translation adjustments	(81.1)		(10.5)	(91.6)
Other movements	0.2		5.3	5.5
Carrying amount as of December 31, 2017	**10,626.0**	**63.2**	**469.8**	**11,159.0**
Gross value as of December 31, 2017	10,798.9	63.2	1,098.8	11,960.9
Accumulated amortization and impairment as of December 31, 2017	(172.9)		(629.0)	(801.9)

Note 19.2 – Impairment losses recognized during the period provides details of goodwill impairment recognized in 2018 and 2017.

17.2 Brands by activity

(in € millions)	Dec. 31, 2018	Dec. 31, 2017
Luxury Houses	6,789.8	6,812.9
Sport & Lifestyle	-	3,813.1
TOTAL	**6,789.8**	**10,626.0**

Note 18 – Property, plant and equipment

(in € millions)	Land and buildings	Plant and equipment	Other PP&E	Total
Carrying amount as of January 1, 2018	**771.5**	**1,205.0**	**291.1**	**2,267.6**
Assets held for sale[1]	(104.6)	(124.3)	(98.2)	(327.1)
Changes in Group structure	-	1.6	0.6	2.2
Acquisitions	18.4	484.9	115.8	619.1
Disposals	(3.2)	(4.8)	(0.5)	(8.5)
Depreciation	(26.4)	(354.0)	(1.4)	(381.8)
Translation adjustments	17.4	22.8	1.9	42.1
Other movements	40.2	160.7	(186.0)	14.9
Carrying amount as of December 31, 2018	**713.3**	**1,391.9**	**123.3**	**2,228.5**
o/w gross value	942.6	3,117.3	126.4	4,186.3
o/w depreciation and impairment	(229.3)	(1,725.4)	(3.1)	(1,957.8)
Carrying amount as of December 31, 2018	**713.3**	**1,391.9**	**123.3**	**2,228.5**
o/w assets owned outright	647.9	1,392.9	123.3	2,164.1
o/w assets held under finance leases	65.4	(1.0)		64.4

(1) All of the assets and liabilities of PUMA, Stella McCartney, Volcom and Christopher Kane were reclassified to "Assets held for sale" and "Liabilities associated with assets held for sale" at their respective classification dates, in accordance with IFRS 5 (see Note 3.1 – Strategic redeployment and discontinued operations, to the consolidated financial statements).

(in € millions)	Land and buildings	Plant and equipment	Other PP&E	Total
Carrying amount as of January 1, 2017	**784.2**	**1,224.1**	**198.2**	**2,206.5**
Changes in Group structure	(1.2)	9.3	0.2	8.3
Acquisitions	25.0	374.3	177.4	576.7
Disposals	(47.5)	(3.9)	(0.5)	(51.9)
Depreciation	(28.2)	(364.5)	(23.2)	(415.9)
Translation adjustments	(35.2)	(79.3)	(12.2)	(126.7)
Other movements	74.4	45.0	(48.8)	70.6
Carrying amount as of December 31, 2017	**771.5**	**1,205.0**	**291.1**	**2,267.6**
o/w gross value	1,020.8	2,999.0	415.0	4,434.8
o/w depreciation and impairment	(249.3)	(1,794.0)	(123.9)	(2,167.2)
Carrying amount as of December 31, 2017	**771.5**	**1,205.0**	**291.1**	**2,267.6**
o/w assets owned outright	699.8	1,205.9	291.1	2,196.8
o/w assets held under finance leases	71.7	(0.9)	-	70.8

Charges to depreciation are recognized under "Cost of sales" and "Other recurring operating income and expenses" in the income statement.

Note 19 – Impairment tests on non-financial assets

The principles governing the impairment of non-financial assets are set out in Note 2.10 – Asset impairment.

The main items of goodwill, brands and other intangible assets are broken down by activity in Note 16 – Goodwill, and Note 17 – Brands and other intangible assets.

19.1 Impairment tests and main assumptions adopted

	Goodwill		Brands			
2018	Net carrying amount *(in € millions)*	Discount rate (before tax)	Net carrying amount *(in € millions)*	Discount rate (before tax)	Perpetual growth rate	Business plan time frame
Gucci	1,593.9	9.3%	4,800.0	9.3%	3.0%	5 years
Other Houses	800.6	8.8%-10.9%	1,989.8	8.6%-11.1%	3.0%	5 or 10 years
Corporate and other	4.7	N/A	N/A	N/A	N/A	N/A
TOTAL	**2,399.2**		**6,789.8**			

	Goodwill		Brands			
2017	Net carrying amount *(in € millions)*	Discount rate (before tax)	Net carrying amount *(in € millions)*	Discount rate (before tax)	Perpetual growth rate	Business plan time frame
Gucci	1,590.5	8.3%	4,800.0	8.1%	3.0%	5 years
Other Houses	848.8	7.3%-11.4%	2,012.9	8.8%-11.7%	3.0%	5 or 10 years
Sport & Lifestyle	977.2	12.5%-12.9%	3,813.1	12.2%-13.2%	2.25%	5 or 10 years
Corporate and other	4.7	N/A	N/A	N/A	N/A	N/A
TOTAL	**3,421.2**		**10,626.0**			

The growth rates are appropriate in view of the country mix (the Group now operates in regions whose markets are enjoying faster-paced growth than in Europe), the rise in the cost of raw materials and inflation.

As discussed in Note 2.10 – Asset impairment, the business plans for certain CGUs are drawn up over a longer time frame, namely ten years. These CGUs currently being repositioned are Boucheron, Brioni, Pomellato, Sowind, Qeelin and Ulysse Nardin.

In the case of the Gucci brand, the value based on future royalty revenue receivable on the assumption that the brand will be operated under license by a third party was calculated using a royalty rate of 15.0%.

Sensitivity to changes in key assumptions is shown below:

(in € millions)		Impairment loss due to:		
	Value of net assets tested	10 basis-point increase in post-tax discount rate	10 basis-point decrease in perpetual growth rate	10 basis-point decrease in cash flows
Total Houses (including Gucci)	11,117	(12)	(8)	-
Gucci brand	4,800	-	-	N/A

19.2 Impairment losses recognized during the period

Based on the impairment tests carried out by the Group in 2018, an impairment loss amounting to €88.3 million was recognized against a brand and an item of goodwill within Other Houses.

Despite improved performances from the Group's watchmaking brands, the write-down was taken against Ulysse Nardin to reflect the growth outlook for the Watches segment. Ongoing restructuring at Brioni also had a short-term impact on revenue and margins, which led to the recognition of a further impairment loss.

Asset impairment tests carried out in 2017 had already led the Group to recognize an impairment loss against Sowind, Ulysse Nardin and Brioni in a total amount of €115.0 million. In Sport & Lifestyle activities, the Group had also recognized a €60.0 million impairment loss against the Volcom brand.

This expense is recognized in the income statement under "Other non-recurring operating income and expenses" (see Note 10 – Other non-recurring operating income and expenses).

Based on events foreseeable within reason at the date of this report, the Group considers that any changes impacting the key assumptions described above would not lead to the recognition of material impairment loss against other CGUs.

Note 20 – Investments in equity-accounted companies

(in € millions)	Dec. 31, 2018	Dec. 31, 2017
PUMA (15.85%)	1,044.7	-
Other investments in equity-accounted companies	30.0	48.6
TOTAL	**1,074.7**	**48.6**

The market value of the Group's interest in PUMA amounts to €1,011.4 million, based on a closing share price of €427 as of December 28, 2018.

As of December 31, 2018, other investments in equity-accounted companies mainly comprised shares in Altuzarra, WG Alligator Farm and Wall's Gator Farm.

Note 21 – Non-current financial assets

(in € millions)	Dec. 31, 2018	Dec. 31, 2017
Non-consolidated investments	67.0	84.1
Derivative financial instruments	1.5	0.7
Financial assets at fair value	-	30.0
Loans and receivables due from non-consolidated investments	11.4	10.8
Deposits and guarantees	175.5	171.9
Other	80.9	66.8
TOTAL	**336.3**	**364.3**

Note 22 – Inventories

(in € millions)	Dec. 31, 2018	Dec. 31, 2017
Commercial inventories	3,142.4	3,269.4
Industrial inventories	687.4	585.1
Gross amount	**3,829.8**	**3,854.5**
Allowances	(1,415.1)	(1,155.4)
Carrying amount	**2,414.7**	**2,699.1**

Movements in allowances	2018	2017
As of January 1	**(1,155.4)**	**(942.1)**
Additions	(360.4)	(388.4)
Reversals	38.6	124.2
Assets held for sale(1)	79.7	-
Changes in Group structure	0.2	(0.5)
Translation adjustments	(16.1)	51.4
Other movements	(1.7)	-
As of December 31	**(1,415.1)**	**(1,155.4)**

(1) All of the assets and liabilities of PUMA, Stella McCartney, Volcom and Christopher Kane were reclassified to "Assets held for sale" and "Liabilities associated with assets held for sale" at their respective classification dates, in accordance with IFRS 5 (see Note 3.1 – Strategic redeployment and discontinued operations, to the consolidated financial statements).

No inventories were pledged to secure liabilities as of December 31, 2018 or December 31, 2017.

Changes in gross inventories recognized during the period under "Cost of sales" represented an increase of €845.3 million (increase of €553.4 million in 2017).

Note 23 – Trade receivables

(in € millions)	Dec. 31, 2018	Dec. 31, 2017
Trade receivables	877.4	1,442.9
Allowances	(27.9)	(76.4)
Carrying amount	**849.5**	**1,366.5**

Movements in allowances	2018	2017
As of January 1	**(76.4)**	**(82.3)**
Net (additions)/reversals	2.2	1.9
Assets held for sale(1)	46.7	-
Changes in Group structure	-	-
Translation adjustments	(0.4)	4.0
Other movements	-	-
As of December 31	**(27.9)**	**(76.4)**

(1) All of the assets and liabilities of PUMA, Stella McCartney, Volcom and Christopher Kane were reclassified to "Assets held for sale" and "Liabilities associated with assets held for sale" at their respective classification dates, in accordance with IFRS 5 (see Note 3.1 – Strategic redeployment and discontinued operations, to the consolidated financial statements).

Allowances are calculated based on the probability of recovering the receivables concerned. Trade receivables break down by age as follows:

(in € millions)	Dec. 31, 2018	Dec. 31, 2017
Not past due	719.4	1,183.5
Less than one month past due	115.7	142.6
One to six months past due	23.0	59.8
More than six months past due	19.3	57.0
Allowance for doubtful receivables	(27.9)	(76.4)
Carrying amount	**849.5**	**1,366.5**

No trade receivables were pledged to secure liabilities during the periods presented.

Given the nature of its activities, the Group's exposure to customer default would not have a material impact on its business, financial position or net assets.

Note 24 – Other current assets and liabilities

(in € millions)	Dec. 31, 2017	Working capital cash flows	Other cash flows	Cash flows relating to discontinued operations [(1)]	Assets held for sale [(2)]	Changes in Group structure	Translation adjustments and other	Dec. 31, 2018
Inventories	2,699.1	526.2		(3.7)	(846.5)	5.0	34.6	2,414.7
Trade receivables	1,366.5	5.1		(17.4)	(560.0)		55.3	849.5
Other financial assets and liabilities	(212.0)		(192.2)		50.8		(138.9)	(492.3)
Current tax receivables/payables	(736.8)		(500.4)	(14.3)	30.5	(0.1)	8.4	(1,212.7)
Trade payables	(1,240.7)	(191.5)		13.2	673.1	(0.1)	0.2	(745.8)
Other	(1,325.8)	(292.8)	(81.9)	(26.3)	112.3	(0.3)	(84.6)	(1,699.4)
Other current assets and liabilities	**550.3**	**47.0**	**(774.5)**	**(48.5)**	**(539.8)**	**4.5**	**(125.0)**	**(886.0)**

(1) Corresponding to cash flow items relating to PUMA, Stella McCartney, Volcom and Christopher Kane until their respective dates of classification as discontinued operations.

(2) All of the assets and liabilities of PUMA, Stella McCartney, Volcom and Christopher Kane were reclassified to "Assets held for sale" and "Liabilities associated with assets held for sale" at their respective classification dates, in accordance with IFRS 5 (see Note 3.1 – Strategic redeployment and discontinued operations, to the consolidated financial statements).

Note 25 – Equity

As of December 31, 2018, 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, 2017).

25.1 Kering treasury shares

Liquidity agreement

In 2018, the Group purchased 209,253 shares and sold 209,253 shares under the liquidity agreement. Accordingly, it held no treasury shares under this liquidity agreement as of December 31, 2018 or December 31, 2017.

The liquidity agreement was entered into with a financial broker on May 26, 2004 in order to improve the liquidity of the Group's shares and ensure share price stability. It complies with the Professional Code of Conduct drawn up by the French Association of Financial and Investment Firms (*Association française des marchés financiers* – AMAFI) and approved by the French financial markets authority (*Autorité des marchés financiers* – AMF). The agreement was initially endowed with €40.0 million, half of which was provided in cash and half in Kering shares. An additional €20.0 million in cash was allocated to the agreement on September 3, 2004, and a further €30.0 million on December 18, 2007. Since the amendment dated December 15, 2016, Kering has maintained a credit balance of €5.0 million in the liquidity account with the financial broker.

Moreover, given the limit set by AMF declaration 2018-01 of July 2, 2018, effective as of January 1, 2019, the funds allocated to the liquidity agreement were reduced to €50.0 million as of January 1, 2019.

Stock repurchase program

Within the scope of the stock repurchase program authorized at the Annual General Meeting of April 26, 2018, the Group set up a stock repurchase agreement with an investment services provider on October 29, 2018. The agreement concerns a first tranche of up to 631,000 shares, representing approximately 0.5% of the share capital, up to an amount of €300 million and at a price not exceeding €480 per share. These purchases will be carried out over a maximum period of four months, and the purchased shares will subsequently be canceled.

In 2018, the Group purchased 429,017 shares, which it still held in treasury as of December 31, 2018.

25.2 Appropriation of 2018 net income and distribution of dividend

At its February 11, 2019 meeting, Kering's Board of Directors decided that it would ask shareholders to approve a €10.50 per-share cash dividend for 2018 at the Annual General Meeting to be held on April 24, 2019 to approve the financial statements for the year ended December 31, 2018.

An interim cash dividend of €3.50 per share was paid on January 17, 2019 pursuant to a decision by the Board of Directors on December 14, 2018.

If the final dividend is approved, the total cash dividend payout in 2019 with respect to 2018 will amount to €1,322.0 million, taking into account Kering shares held in treasury for the stock repurchase program.

The cash dividend paid for 2017 amounted to €6.00 per share (€757.7 million). The dividend payout for 2017 also included an exceptional stock dividend in the form of PUMA shares amounting to €4,514.5 million, corresponding to the number of PUMA shares distributed (10,523,276) valued at the opening share price on May 16, 2018 (€429.00).

Note 26 – Employee benefits

26.1 Description of the main pension plans and other post-employment benefits

In accordance with the laws and practices in each country, Group employees receive long-term or post-employment benefits in addition to their short-term remuneration. These additional benefits take the form of defined contribution or defined benefit plans.

Under defined contribution plans, the Group is not obliged to make any additional payments beyond contributions already made. Contributions to these plans are expensed as incurred.

An actuarial valuation of defined benefit plans is carried out by independent experts. These benefits primarily concern mandatory supplementary pension plans (LPP) in Switzerland, statutory dismissal compensation (TFR) in Italy, and retirement termination payments and long-service bonuses in France.

- **Mandatory supplementary pension plans (LPP) – Switzerland**

In Switzerland, pension plans are defined contribution plans that guarantee a minimum yield and provide for a fixed salary conversion rate on retirement. However, the pension plans operated by the Group's entities in Switzerland offer benefits over and above those stipulated in the LPP/BVG pension law. Consequently, a provision is booked in respect of defined benefit plans for the amounts that exceed LPP/BVG pension law requirements.

These pension plans are generally operated as separate legal entities in the form of a foundation, which may be a collective institution or affiliated to a specific plan. The Board of Trustees of these foundations, comprising an equal number of employer and employee representatives, is responsible for administering the plan and bears the investment and longevity risks. Collective foundations insure some of their risk with an insurance company.

- **Statutory dismissal compensation (TFR) – Italy**

The TFR (*Trattamento di Fine Rapporto*) plans in Italy were created by Law no. 297, adopted on May 29, 1982, and are applicable to all workers in the private sector on termination of employment for whatever reason (resignation, termination at the employer's initiative, death, incapacity or retirement).

Since 2007, companies with at least 50 employees have had to transfer their TFR funding to an external fund manager. This concerns the large majority of plans operated by Kering group companies.

- **Retirement termination benefits and long-service bonuses – France**

In France, retirement termination benefits are fixed and paid by the company to the employee on retirement. The amount paid depends on the years of service on retirement, and is defined in the collective bargaining agreement. The payments do not confer any vested entitlement to employees until they reach retirement age. Retirement termination benefits are not related to other statutory retirement benefits such as pensions paid by social security bodies or top-up pension funds such as ARRCO and AGIRC in France, which are defined contribution plans.

Long-service bonuses are not compulsory in France (there is no legal obligation to pay such awards to employees), but hold a symbolic value. Nevertheless, some of Kering's French entities choose to pay long-service bonuses after 20, 30, 35 and 40 years of service.

26.2 Changes in provisions for pensions and other post-employment benefits

(in € millions)	2018				
				Change of the period	
	Present value of obligation	Fair value of plan assets	Financial position	Other comprehensive income	Income statement
As of January 1	**292.0**	**155.6**	**136.4**	**53.7**	
Assets held for sale[1]	**(83.8)**	**(52.6)**	**(31.2)**		
Current service cost	12.5		12.5		(12.5)
Interest cost	2.0		2.0		(2.0)
Interest income on plan assets		0.8	(0.8)		0.8
Past service cost	(2.4)		(2.4)		2.4
Actuarial gains and losses	(12.6)	(0.6)	(12.0)	(12.0)	
Impact of changes in demographic assumptions	*(3.4)*		*(3.4)*	*(3.4)*	
Impact of changes in financial assumptions	*(6.1)*		*(6.1)*	*(6.1)*	
Impact of experience adjustments	*(3.1)*		*(3.1)*	*(3.1)*	
Return on plan assets (excluding interest income)		*(0.6)*	*0.6*	*0.6*	
Benefits paid	(10.0)	(6.9)	(3.1)		
Contributions paid by beneficiaries	5.0	5.0			
Contributions paid by employer		5.4	(5.4)		
Changes in Group structure	0.1		0.1		
Insurance contract	(0.9)	(0.9)			
Administrative expense		(0.4)	0.4		(0.4)
Translation adjustments	4.9	4.8	0.1		
As of December 31	**206.8**	**110.2**	**96.6**	**41.7**	**(11.7)**

(1) All of the assets and liabilities of PUMA, Stella McCartney, Volcom and Christopher Kane were reclassified to "Assets held for sale" and "Liabilities associated with assets held for sale" at their respective classification dates, in accordance with IFRS 5 (see Note 3.1 – Strategic redeployment and discontinued operations, to the consolidated financial statements).

As of December 31, 2018, the present value of the benefit obligation amounted to €206.8 million, (end-2017: €292.0 million), breaking down as:

- €54.0 million in respect of wholly unfunded plans (€64.3 million as of end-2017);
- €152.8 million in respect of fully or partially funded plans (€227.7 million as of end-2017).

(in € millions)	2017				
				Change of the period	
	Present value of obligation	Fair value of plan assets	Financial position	Other comprehensive income	Income statement
As of January 1	**304.9**	**154.1**	**150.8**	**76.3**	
Current service cost	17.5		17.5		(17.5)
Curtailments and settlements	0.1		0.1		
Interest cost	2.9		2.9		(2.9)
Interest income on plan assets		1.5	(1.5)		1.5
Past service cost	(0.1)		(0.1)		0.1
Actuarial gains and losses	(18.0)	4.6	(22.6)	(22.6)	
Impact of changes in demographic assumptions	*0.2*		*0.2*	*0.2*	
Impact of changes in financial assumptions	*(12.6)*		*(12.6)*	*(12.6)*	
Impact of experience adjustments	*(5.6)*		*(5.6)*	*(5.6)*	
Return on plan assets (excluding interest income)		*4.6*	*(4.6)*	*(4.6)*	
Benefits paid	(14.1)	(8.9)	(5.2)		
Contributions paid by beneficiaries	5.1	5.1			
Contributions paid by employer		8.3	(8.3)		
Changes in Group structure	6.9	2.2	4.7		
Insurance contract	(1.1)	(1.1)			
Administrative expense		(0.5)	0.5		(0.5)
Translation adjustments	(12.1)	(9.7)	(2.4)		
As of December 31	**292.0**	**155.6**	**136.4**	**53.7**	**(19.3)**

26.3 Breakdown of the present value of the benefit obligation by country

(in € millions)	Dec. 31, 2018	Dec. 31, 2017
Supplementary pension plans (LPP) – Switzerland	148.2	152.2
Supplementary pension plans – United Kingdom	-	41.5
Statutory dismissal compensation (TFR) – Italy	31.8	31.8
Retirement termination benefits – France	21.5	23.3
Other	5.3	43.2
Present value of benefit obligations as of December 31	**206.8**	**292.0**

26.4 Contributions payable in 2019 by country

(in € millions)	Total	Switzerland	Italy	France	Other
Contributions for 2019	6.0	5.6	-	0.4	-

26.5 Fair value of plan assets by type of financial instrument

(in € millions)	Dec. 31, 2018	%	Dec. 31, 2017	%
Debt instruments	41.1	37.3%	40.7	26.2%
Equity instruments	28.9	26.2%	27.1	17.4%
Real estate	21.5	19.5%	21.7	13.9%
Investment funds	-	-	18.5	11.9%
Insurance contracts	0.4	0.4%	17.2	11.1%
Derivatives	8.2	7.4%	15.6	10.0%
Cash and cash equivalents	2.6	2.4%	3.1	2.0%
Other assets	7.5	6.8%	11.7	7.5%
Fair value of plan assets as of December 31	**110.2**		**155.6**	

26.6 Actuarial assumptions

	France		Switzerland		Italy		United Kingdom	
	2018	2017	2018	2017	2018	2017	2018	2017
Average maturity of plans	12.0	13.8	13.4	17.4	12.5	12.8	-	24.6
Discount rate	1.75%	1.75%	1.00%	0.70%	1.75%	1.75%	-	2.60%
Expected rate of increase in salaries	2.40%	3.17%	1.28%	1.14%	3.00%	3.00%	-	1.00%
Inflation rate	1.75%	1.75%	0.70%	0.70%	1.75%	1.75%	-	2.40%

Based on the sensitivity tests of actuarial assumptions, the impact of a 50 basis-point increase or decrease in the discount rate would not be material and would represent less than 0.2% of consolidated equity.

Note 27 – Provisions

(in € millions)	Dec. 31, 2017	Assets held for sale [(1)]	Charge	Reversal (utilized provision)	Reversal (surplus provision)	Translation adjustments	Other	Dec. 31, 2018
Provision for claims and litigation	8.9	(4.2)	0.6	(0.9)	(0.3)	-	0.1	4.2
Other provisions	46.6	(36.0)	3.2	(2.2)	(0.1)	(0.4)	(1.1)	10.0
Other non-current provisions	**55.5**	**(40.2)**	**3.8**	**(3.1)**	**(0.4)**	**(0.4)**	**(1.0)**	**14.2**
Provision for restructuring costs	21.5	(5.5)	52.3	(8.0)	(0.6)	0.4	0.5	60.6
Provision for claims and litigation	54.9	(13.8)	19.6	(6.1)	(6.8)	0.1	9.0	56.9
Other provisions	106.0	(8.4)	60.2	(14.9)	(3.1)	0.1	(1.7)	138.2
Other current provisions	**182.4**	**(27.7)**	**132.1**	**(29.0)**	**(10.5)**	**0.6**	**7.8**	**255.7**
Total	**237.9**	**(67.9)**	**135.9**	**(32.1)**	**(10.9)**	**0.2**	**6.8**	**269.9**
Impact on income	**(81.7)**	N/A	**(135.9)**	N/A	**10.9**	N/A	N/A	**(125.0)**
– on recurring operating income	(60.2)		(29.5)		7.3			(22.2)
– on other non-recurring operating income and expenses	(21.3)		(55.0)		1.5			(53.5)
– on net finance costs	(0.1)		-		-			-
– on income taxes	1.4		-		-			-
– on earnings (losses) of equity-accounted companies	-		(1.5)		-			(1.5)
– on income from discontinued operations	(1.5)		(49.9)		2.1			(47.8)

(1) *All of the assets and liabilities of PUMA, Stella McCartney, Volcom and Christopher Kane were reclassified to "Assets held for sale" and "Liabilities associated with assets held for sale" at their respective classification dates, in accordance with IFRS 5 (see Note 3.1 – Strategic redeployment and discontinued operations, to the consolidated financial statements).*

"Other provisions" mainly corresponds to vendor warranties granted within the scope of disposals.

Note 28 – Cash and cash equivalents

28.1 Breakdown by category

Cash and cash equivalents break down as follows:

(in € millions)	Dec. 31, 2018	Dec. 31, 2017
Cash	1,686.6	1,588.8
Cash equivalents	530.0	547.8
TOTAL	**2,216.6**	**2,136.6**

As of December 31, 2018, cash equivalents include UCITS, certificates of deposit, and term deposits and accounts with a maturity of less than three months.

The items classified by the Group as cash and cash equivalents strictly comply with the AMF's position published in 2008 and updated in 2011 and 2013. In particular, cash investments are reviewed on a regular basis in accordance with Group procedures and in strict compliance with the eligibility criteria set out in IAS 7 and with the AMF's recommendations. As of December 31, 2018, no reclassifications were made as a result of these reviews.

28.2 Breakdown by currency

(in € millions)	Dec. 31, 2018	%	Dec. 31, 2017	%
EUR	969.2	43.7%	1,065.4	49.9%
CNY	344.7	15.6%	274.0	12.8%
USD	134.5	6.1%	142.8	6.7%
HKD	131.8	5.9%	72.4	3.4%
GBP	91.0	4.1%	63.2	2.9%
AUD	89.8	4.0%	47.4	2.2%
KRW	44.2	2.0%	118.7	5.6%
Other currencies	411.4	18.6%	352.7	16.5%
TOTAL	**2,216.6**		**2,136.6**	

Note 29 – Borrowings

29.1 Breakdown of borrowings by maturity

(in € millions)	Dec. 31, 2018	Y+1	Y+2	Y+3	Y+4	Y+5	Beyond
Non-current borrowings	**3,171.6**		**713.1**	**563.7**	**282.4**	**5.2**	**1,607.2**
Bonds	2,592.1		490.5	474.9	273.7	-	1,353.0
Other bank borrowings	160.0		117.9	30.5	1.1	1.0	9.5
Obligations under finance leases	42.8		5.4	5.5	7.6	4.2	20.1
Other borrowings	376.7		99.3	52.8	-	-	224.6
Current borrowings	**756.4**	**756.4**					
Bonds	244.1	244.1					
Drawdowns on unconfirmed lines of credit	7.6	7.6					
Other bank borrowings	40.0	40.0					
Obligations under finance leases	35.9	35.9					
Bank overdrafts	380.3	380.3					
Commercial paper	-						
Other borrowings	48.5	48.5					
TOTAL	**3,928.0**	**756.4**	**713.1**	**563.7**	**282.4**	**5.2**	**1,607.2**
%		**19.3%**	**18.2%**	**14.3%**	**7.2%**	**0.1%**	**40.9%**

(in € millions)	Dec. 31, 2017	Y+1	Y+2	Y+3	Y+4	Y+5	Beyond
Non-current borrowings	**4,245.5**		**609.3**	**769.1**	**699.6**	**539.7**	**1,627.8**
Bonds	3,596.6		498.7	623.9	623.1	497.0	1,353.9
Other bank borrowings	190.6		49.2	127.1	3.1	1.0	10.2
Obligations under finance leases	76.8		35.8	5.3	5.3	7.2	23.2
Other borrowings	381.5		25.6	12.8	68.1	34.5	240.5
Current borrowings	**939.7**	**939.7**					
Bonds	499.5	499.5					
Drawdowns on unconfirmed lines of credit	20.5	20.5					
Other bank borrowings	127.9	127.9					
Obligations under finance leases	7.1	7.1					
Bank overdrafts	237.3	237.3					
Commercial paper	-	-					
Other borrowings	47.4	47.4					
TOTAL	**5,185.2**	**939.7**	**609.3**	**769.1**	**699.6**	**539.7**	**1,627.8**
%		**18.1%**	**11.8%**	**14.8%**	**13.5%**	**10.4%**	**31.4%**

All gross borrowings as of December 31, 2018 are recognized at amortised cost based on an effective interest rate determined after taking into account any identified issue costs and redemption or issue premiums relating to each liability.

Bond issues represented 72.2% of gross borrowings as of December 31, 2018 versus 79.0% as of end-2017.

Borrowings with a maturity of more than one year represented 80.7% of total gross borrowings as of December 31, 2018 and 81.9% as of December 31, 2017.

The total amount of confirmed lines of credit was €3,135.0 million at the end of the reporting period, all of which was undrawn as of December 31, 2018.

Short-term drawdowns on facilities backed by confirmed lines of credit maturing in more than one year are included in non-current borrowings.

As of December 31, 2018, the Group's other borrowings also included €393.4 million concerning put options granted to non-controlling interests (compared with €386.3 million as of December 31, 2017), and accrued interest.

29.2 Breakdown by repayment currency

(in € millions)	Dec. 31, 2018	Non-current borrowings	Current borrowings	%	Dec. 31, 2017	%
EUR	3,188.3	2,714.5	473.8	81.2%	4,403.3	84.9%
JPY	362.8	146.3	216.5	9.2%	377.3	7.3%
USD	315.8	296.8	19.0	8.0%	303.0	5.9%
CHF	29.5	13.8	15.7	0.8%	31.2	0.6%
TWD	9.8		9.8	0.2%	9.6	0.2%
Other currencies	21.8	0.2	21.6	0.6%	60.8	1.1%
TOTAL	**3,928.0**	**3,171.6**	**756.4**		**5,185.2**	

Borrowings denominated in currencies other than the euro are distributed to Group subsidiaries for local financing purposes.

29.3 Breakdown of gross borrowings by category

The Kering group's gross borrowings break down as follows:

(in € millions)	Dec. 31, 2018	Dec. 31, 2017
Bonds	2,836.2	4,096.1
Other bank borrowings	200.0	318.5
Drawdowns on unconfirmed lines of credit	7.6	20.5
Commercial paper	-	-
Obligations under finance leases	78.7	83.9
Bank overdrafts	380.3	237.3
Other borrowings	452.2	428.9
TOTAL	**3,928.0**	**5,185.2**

Group borrowings primarily consist of bonds and bank borrowings, which accounted for 88.1% of gross borrowings as of December 31, 2018 (93.4% as of December 31, 2017).

As of December 31, 2018, the Group's other borrowings included €393.4 million in respect of put options granted to non-controlling interests, mainly concerning the Eyewear activity (€386.3 million as of December 31, 2017) (see Note 2.3.2 – Use of estimates and judgment).

29.4 Description of the main bond issues

Kering bond issues

The Group has a Euro Medium Term Notes (EMTN) program capped at €6,000 million as of December 31, 2018.

This program was signed and approved by the French financial markets authority (AMF) on December 10, 2018. The program existing as of December 31, 2018 expires on December 10, 2019.

As of December 31, 2018, the bonds issued under this program totaled €2,837.0 million, of which €262.0 million issued in US dollars (€4,100.2 million as of December 31, 2017, of which €250.2 million issued in US dollars).

All of these borrowings are covered by the rating assigned to the Kering group by Standard & Poor's ("BBB+" with a positive outlook) and are not subject to any financial covenants.

Kering euro bond issues

(in € millions)

Par value	Issue interest rate	Effective interest rate	Issue date	Documented/ non-documented hedge	Maturity	Dec. 31, 2018	Dec. 31, 2017
245.0(1)	3.125% fixed	3.31%	04/23/2012	-	04/23/2019	244.1	498.7
360.0(2)	2.50% fixed	2.58%	07/15/2013	-	07/15/2020	359.6	499.0
500.0(3)	1.875% fixed	2.01%	10/08/2013	-	10/08/2018	-	499.5
500.0(4)	2.75% fixed	2.81% & 2.57% & 2.50% & 2.01% & 1.87%	04/08/2014 & 05/30/2014 & 06/26/2014 & 09/22/2015 & 11/05/2015	-	04/08/2024	509.4	511.0
345.0(5)	1.375% fixed	1.47%	10/01/2014	-	10/01/2021	344.0	498.2
275.0(6)	0.875% fixed	1.02%	03/27/2015	-	03/28/2022	273.7	497.0
50.0(7)	1.60% fixed	1.66%	04/16/2015	-	04/16/2035	49.6	49.6
500.0(8)	1.25% fixed	1.35%	05/10/2016	-	05/10/2026	496.5	496.1
300.0(9)	1.50% fixed	1.61%	04/05/2017	-	04/05/2027	297.5	297.2

(1) Issue price: bond issue, comprising 245,000 bonds with a par value of €1,000 each under the EMTN program, with 500,000 bonds issued on April 23, 2012. A total of 200,000 of these bonds were redeemed on April 9, 2018 and a further 55,000 on October 9, 2018. Redemption: in full on April 23, 2019.

(2) Issue price: bond issue, comprising 3,600 bonds with a par value of €100,000 each under the EMTN program, with 5,000 bonds issued on July 15, 2013. A total of 1,400 of these bonds were redeemed on October 9, 2018. Redemption: in full on July 15, 2020.

(3) Issue price: bond issue on October 8, 2013, comprising 5,000 bonds with a par value of €100,000 each under the EMTN program. Redemption: in full on October 8, 2018.

(4) Issue price: bond issue on April 8, 2014, comprising 1,000 bonds with a par value of €100,000 each under the EMTN program, with 1,000 additional bonds issued on May 30, 2014, 1,000 additional bonds issued on June 26, 2014, 1,500 additional bonds issued on September 22, 2015 and 500 additional bonds issued on November 5, 2015, thereby raising the issue to 5,000 bonds. Redemption: in full on April 8, 2024.

(5) Issue price: bond issue, comprising 3,450 bonds with a par value of €100,000 each under the EMTN program, with 5,000 bonds issued on October 1, 2014. A total of 1,000 of these bonds were redeemed on April 9, 2018 and a further 550 on October 9, 2018. Redemption: in full on October 1, 2021.

(6) Issue price: bond issue, comprising 2,750 bonds with a par value of €100,000 each under the EMTN program, with 5,000 bonds issued on March 27, 2015. A total of 1,052 of these bonds were redeemed on April 9, 2018 and a further 1,198 on October 9, 2018. Redemption: in full on March 28, 2022.

(7) Issue price: bond issue on April 16, 2015, comprising 500 bonds with a par value of €100,000 each under the EMTN program. Redemption: in full on April 16, 2035.

(8) Issue price: bond issue on May 10, 2016, comprising 5,000 bonds with a par value of €100,000 each under the EMTN program. Redemption: in full on May 10, 2026.

(9) Issue price: bond issue on April 5, 2017, comprising 3,000 bonds with a par value of €100,000 each under the EMTN program. Redemption: in full on April 5, 2027.

Kering USD bond issues

(in € millions)

Par value	Issue interest rate	Effective interest rate	Issue date	Documented/ non-documented hedge	Maturity	Dec. 31, 2018	Dec. 31, 2017
131.0[1]	Floating 3-month USD Libor +0.73%	2.32%	03/09/2015	2.589% fixed-rate swap for the full amount Documented under IFRS	03/09/2020	**130.9**	124.9
131.0[2]	2.887% fixed	2.94%	06/09/2015	-	06/09/2021	**130.9**	124.9

(1) Issue price: bond issue on March 9, 2015 in the form of floating-rate notes, comprising 150 notes with a par value of USD 1,000,000 each under the EMTN program, i.e., representing a total of USD 150 million.
Redemption: in full on March 9, 2020.
(2) Issue price: bond issue on June 9, 2015, comprising 150 bonds with a par value of USD 1,000,000 each under the EMTN program, i.e., representing a total of USD 150 million.
Redemption: in full on June 9, 2021.

The bonds issued between 2012 and 2017 within the scope of the EMTN program are all subject to change-of-control clauses entitling bondholders to request early redemption at par if Kering's rating is downgraded to non-investment grade following a change of control.

The corresponding amounts are recognized in the statement of financial position at amortized cost based on the effective interest rate, taking account of the fair value adjustment resulting from the hedging relationship documented in accordance with IFRS 9.

Accrued interest is recorded in "Other borrowings".

29.5 Main bank borrowings and confirmed lines of credit

29.5.1 Breakdown of the main bank borrowings

The Group's bank borrowings include the following:

Long- and medium-term borrowings

(in € millions)

Par value	Issue interest rate	Effective interest rate	Issue date	Documented/ non-documented hedge	Maturity	Dec. 31, 2018	Dec. 31, 2017
31.8[1]	Floating JPY Tibor +0.40%	-	12/14/2014	-	12/14/2018		29.6
39.7[2]	Floating JPY Tibor +0.40%	-	04/15/2015	-	04/15/2020	**39.7**	37.0
15.9[3]	Floating JPY Tibor +0.35%	-	03/31/2016	-	03/31/2020	**15.9**	14.8
15.9[4]	Floating JPY Tibor +0.25%	-	03/31/2016	-	03/31/2021	**7.9**	10.4
30.0[5]	Floating JPY Tibor +0.29%	-	09/30/2016	-	09/30/2019	**17.4**	21.2
23.8[6]	Floating JPY Tibor +0.27%	-	03/31/2017	-	03/31/2020	**23.8**	22.2
24.8[7]	Floating JPY Tibor +0.29%	-	04/17/2017	-	04/15/2020	**15.8**	19.7
23.8[8]	Floating JPY Tibor +0.29%	-	11/27/2017	-	11/27/2020	**23.8**	22.2
15.9[9]	Floating JPY Tibor +0.20%	-	09/28/2018	-	09/30/2021	**15.9**	

(1) Loan contracted in December 2014 for JPY 4,000 million (€31.8 million).
(2) Loan contracted in April 2015 for JPY 5,000 million (€39.7 million).
(3) Loan contracted in March 2016 for JPY 2,000 million (€15.9 million).
(4) Redeemable loan contracted in March 2016 for JPY 2,000 million (€15.9 million). The outstanding balance on this loan was JPY 1,000 million (€7.9 million) as of December 31, 2018.
(5) Redeemable loan contracted in September 2016 for JPY 3,771 million (€30.0 million). The outstanding balance on this loan was JPY 2,184 million (€17.4 million) as of December 31, 2018.
(6) Loan contracted in March 2017 for JPY 3,000 million (€23.8 million).
(7) Redeemable loan contracted in April 2017 for JPY 3,120 million (€24.8 million). The outstanding balance on this loan was JPY 1,986 million (€15.8 million) as of December 31, 2018.
(8) Loan contracted in November 2017 for JPY 3,000 million (€23.8 million).
(9) Loan contracted in September 2018 for JPY 2,000 million (€15.9 million).

29.5.2 Confirmed lines of credit available to the Group

As of December 31, 2018, the Group had access to €3,135.0 million in confirmed lines of credit versus €3,747.1 million as of December 31, 2017.

Confirmed lines of credit as of December 31, 2017 included PUMA lines of credit totaling €297.1 million, of which €56.8 million had been drawn down.

29.5.3 Breakdown of confirmed lines of credit

Kering and Kering Finance SNC: €3,135.0 million breaking down by maturity as follows:

(in € millions)	Dec. 31, 2018	Less than one year	One to five years	More than five years	Dec. 31, 2017
Confirmed lines of credit	**3,135.0**		3,135.0		3,450.0

The confirmed lines of credit include a syndicated facility for €2,385 million signed on December 20, 2018 and initially maturing in December 2023. This facility provides for two one-year loan extension options.

This December 2018 syndicated loan with an initial five-year term had not been drawn by the Group as of December 31, 2018. Total confirmed undrawn credit lines available to Kering and Kering Finance SNC as of December 31, 2018 amount to €3,135.0 million.

The Group's confirmed bank lines of credit are governed by the standard commitment and default clauses customarily included in this type of agreement: *pari passu* ranking, a negative pledge clause that limits the security that can be granted to other lenders, and a cross-default obligation.

The Group was in compliance with all of these covenants as of December 31, 2018 and there is no foreseeable risk of breach.

The undrawn balance on these confirmed lines of credit as of December 31, 2018 was €3,135.5 million (€3,690.3 million as of December 31, 2017).

The undrawn confirmed lines of credit guarantee the Group's liquidity and mainly back the commercial paper issue program, which remained undrawn as of December 31, 2018 and December 31, 2017.

Note 30 – Exposure to interest rate, foreign exchange, equity and precious metals price risk

The Group uses derivative financial instruments to manage its exposure to market risks.

30.1 Exposure to interest rate risk

To manage interest rate risk on its financial assets and liabilities, and particularly on its borrowings, the Kering group uses instruments with the following outstanding notional amounts:

(in € millions)	Dec. 31, 2018	Y+1	Y+2	Y+3	Y+4	Y+5	Beyond	Dec. 31, 2017
Swaps: fixed-rate lender								400.0
Swaps: fixed-rate borrower	138.9		131.0		7.9			134.3
Other interest rate instruments								
TOTAL	**138.9**		**131.0**		**7.9**			**534.3**

In accordance with the interest rate risk hedging policy, these instruments are typically designed to convert fixed interest rates on negotiable debt securities, fixed-rate borrowings and credit line drawdowns into floating rates.

These instruments also convert floating-rate bonds into fixed-rate debt.

As of December 31, 2018, fixed-rate borrower swaps for a notional amount of USD 150 million convert all USD bond debt initially issued at floating rates into fixed-rate debt.

In accordance with IFRS 9, these financial instruments were analyzed with respect to hedge accounting eligibility criteria.

As of December 31, 2018, documented and non-documented financial instruments can be analyzed as follows:

(in € millions)	Dec. 31, 2018	Fair value hedges	Cash flow hedges	Non-documented hedges
Swaps: fixed-rate lender				
Swaps: fixed-rate borrower	138.9		138.9	
TOTAL	**138.9**		**138.9**	

These interest rate derivatives are recognized in the statement of financial position at their market value as of the end of the reporting period.

The accounting treatment of fair value movements depends on the purpose of the derivative instrument and the resulting accounting classification.

In the case of interest rate derivatives designated as fair value hedges, fair value movements are recognized in net income for the year, fully or partly offsetting symmetrical changes in the fair value of the hedged debt. The ineffective portion impacts net finance costs for the year.

In the case of interest rate derivatives designated as cash flow hedges, the effective portion of changes in fair value is initially recognized in other comprehensive income and subsequently taken to income when the hedged position itself affects income. The ineffective portion impacts net finance costs for the year.

Movements in the fair value of non-documented derivative instruments are recognized directly in income, with an impact on net finance costs for the year.

The Group's exposure to interest rate risk **before the impact** of hedging is presented below, with a distinction made between:

- fixed-rate financial assets and liabilities, exposed to a price risk before hedging:

(in € millions)	Dec. 31, 2018	2018 maturities: Less than one year	One to five years	More than five years	Dec. 31, 2017
Fixed-rate financial assets	**48.8**	**16.6**	**32.2**		**55.3**
Bonds	2,705.2	244.1	1,108.1	1,353.0	3,971.1
Commercial paper	-				-
Other borrowings	21.1	9.1	11.8	0.3	13.5
Fixed-rate financial liabilities	**2,726.4**	**253.2**	**1,119.9**	**1,353.3**	**3,984.6**

- floating-rate financial assets and liabilities, exposed to a cash flow risk before hedging:

(in € millions)	Dec. 31, 2018	2018 maturities: Less than one year	One to five years	More than five years	Dec. 31, 2017
Floating-rate financial assets	**2,263.9**	**2,226.6**	**6.2**	**31.1**	**2,198.0**
Bonds	131.0		131.0		125.0
Commercial paper	-				-
Other borrowings	1,070.6	503.2	313.5	253.9	1,075.6
Floating-rate financial liabilities	**1,201.6**	**503.2**	**444.5**	**253.9**	**1,200.6**

The Group's exposure to interest rate risk **after the impact** of hedging is presented below, with a distinction made between:

- fixed-rate financial assets and liabilities, exposed to a price risk after hedging:

(in € millions)	Dec. 31, 2018	2018 maturities: Less than one year	One to five years	More than five years	Dec. 31, 2017
Fixed-rate financial assets	**48.8**	**16.6**	**32.2**		**55.3**
Bonds	2,836.2	244.1	1,239.1	1,353.0	3,696.1
Commercial paper	-				-
Other borrowings	29.1	10.5	18.3	0.3	22.7
Fixed-rate financial liabilities	**2,865.3**	**254.6**	**1,257.4**	**1,353.3**	**3,718.8**

- floating-rate financial assets and liabilities, exposed to a cash flow risk after hedging:

(in € millions)	Dec. 31, 2018	2018 maturities: Less than one year	One to five years	More than five years	Dec. 31, 2017
Floating-rate financial assets	**2,263.9**	**2,226.6**	**6.2**	**31.1**	**2,198.0**
Bonds	-				400.0
Commercial paper	-				-
Other borrowings	1,062.7	501.8	307.0	253.9	1,066.4
Floating-rate financial liabilities	**1,062.7**	**501.8**	**307.0**	**253.9**	**1,466.4**

Financial assets and liabilities consist of interest-bearing items recorded in the statement of financial position.

The breakdown of gross borrowings by type of interest rate before and after hedging transactions is as follows:

(in € millions)	Dec. 31, 2018	Before hedging		After hedging	
		Fixed-rate	Floating-rate	Fixed-rate	Floating-rate
Gross borrowings	**3,928.0**	**2,726.4**	**1,201.6**	**2,865.3**	**1,062.7**
%		69.4%	30.6%	72.9%	27.1%

(in € millions)	Dec. 31, 2017	Before hedging		After hedging	
		Fixed-rate	Floating-rate	Fixed-rate	Floating-rate
Gross borrowings	**5,185.2**	**3,984.6**	**1,200.6**	**3,718.8**	**1,466.4**
%		76.8%	23.2%	71.7%	28.3%

Analysis of sensitivity to interest rate risk

Based on the fixed/floating rate mix after hedging, a sudden 50 basis-point increase or decrease in interest rates would have a full-year impact of €4.8 million on pre-tax consolidated net income. As of December 31, 2017, the impact of a sudden 50 basis-point increase or decrease in interest rates was estimated at €3.2 million (assumption consistent with relative interest rate levels observed as of December 31, 2018).

Based on market data as of December 31, 2018, and the particularly low benchmark interest rates for the Group, the impact of interest rate derivatives and financial liabilities carried at fair value through income was determined assuming a sudden increase or decrease of 50 basis points in the euro and US dollar yield curve as of December 31, 2018.

(in € millions)	Impact on remeasurement of financial instruments	Impact on net finance costs
As of December 31, 2018		
Increase of 50 basis points	0.7	
Decrease of 50 basis points	(0.7)	
As of December 31, 2017		
Increase of 50 basis points	1.3	(0.4)
Decrease of 50 basis points	(1.4)	0.4

All other market variables were assumed to remain unchanged for the purpose of the sensitivity analysis.

The impact on remeasurement of financial instruments in equity is generated by interest rate instruments eligible for cash flow hedge accounting.

The impact on net finance costs in the income statement is generated by interest rate instruments not eligible for hedge accounting.

These amounts are shown before tax.

30.2 Exposure to foreign exchange risk

The outstanding notional amounts of instruments used by the Kering group to manage its foreign exchange risk are shown below:

(in € millions)	Dec. 31, 2018	Dec. 31, 2017
Currency forwards	(5,036.4)	(2,800.4)
Cross currency swaps	(105.7)	(98.5)
Currency options – export tunnels	(160.7)	(406.7)
Currency options – purchases	(92.1)	(13.5)
TOTAL	**(5,394.9)**	**(3,319.1)**

The Group primarily uses forward currency contracts and/or currency/cross currency swaps to hedge commercial import/export risks and to hedge the financial risks stemming in particular from inter-company refinancing transactions in foreign currencies.

The Group may also implement plain vanilla option strategies (purchases of options or tunnels) to hedge future exposures.

These derivative financial instruments were analyzed with respect to IFRS 9 hedge accounting eligibility criteria. The Group has no derivatives eligible for net investment hedge accounting.

As of December 31, 2018, documented and non-documented derivative instruments were as follows:

(in € millions)	Dec. 31, 2018	USD	JPY	GBP
Cash flow hedges				
Forward purchases and forward purchase swaps	28.3	27.5	0.8	
Forward sales and forward sale swaps	(3,302.0)	(1,224.9)	(439.8)	(322.5)
Currency options – purchases of export tunnels	(160.7)	(49.8)	(33.8)	(62.0)
Currency options – purchases	(92.1)			
Fair value hedges				
Forward purchases and forward purchase swaps	514.0	167.1	54.9	42.4
Forward sales and forward sale swaps	(1,600.6)	(316.2)	(121.2)	(224.9)
Not documented				
Forward purchases and forward purchase swaps	937.2	615.8	77.9	76.6
Forward sales and forward sale swaps	(1,613.3)	(843.1)	(149.6)	(140.2)
Cross currency swaps	(105.7)		(105.7)	
Maturity				
Less than one year				
Forward purchases and forward purchase swaps	1,479.5	810.4	133.6	119.0
Forward sales and forward sale swaps	(6,491.2)	(2,379.4)	(690.7)	(687.6)
Cross currency swaps				
Currency options – purchases of export tunnels	(160.7)	(49.8)	(33.8)	(62.0)
Currency options – purchases	(92.1)			
More than one year				
Forward purchases and forward purchase swaps				
Forward sales and forward sale swaps	(24.7)	(4.8)	(19.9)	
Cross currency swaps	(105.7)		(105.7)	

Foreign exchange derivatives are recognized in the statement of financial position at their market value at the end of the reporting period.

Derivatives qualifying as cash flow hedges are used to hedge highly probable future cash flows (not yet recognized) based on a budget for the current budget period (season, quarter, half-year, etc.) or certain future cash flows not yet recognized (firm orders).

As of December 31, 2018, the majority of foreign exchange derivatives qualifying as cash flow hedges had a residual maturity of less than one year and are used to hedge cash flows expected to be realized and recognized in the coming reporting period.

Derivatives qualifying as fair value hedges are used to hedge items recognized in the consolidated statement of financial position at the end of the reporting period, or certain future cash flows not yet recognized (firm orders).

Certain foreign exchange derivatives treated as hedges for management purposes are not documented in accordance with IFRS 9 hedge accounting and are therefore recorded as derivatives, with any changes in their fair value impacting net finance costs.

These derivatives mainly hedge items recorded in the statement of financial position and future cash flows that do not satisfy the “highly probable” criteria required by IFRS 9.

CHF	HKD	CNY	SGD	TWD	KRW	Other	Dec. 31, 2017
							1,347.0
	(321.7)	(393.0)	(50.0)	(42.2)	(306.4)	(201.5)	(2,930.4)
	(15.1)						(406.7)
		(92.1)					(13.5)
21.4	43.5	62.3	7.3	6.4	42.6	66.1	675.9
(21.1)	(189.9)	(257.3)	(35.1)	(26.5)	(73.3)	(335.1)	(1,271.4)
2.2	11.5	37.6	3.9	6.1	16.0	89.6	118.8
(315.7)	(11.5)	(37.6)	(3.9)	(6.1)	(16.0)	(89.6)	(740.3)
							(98.5)
23.6	55.0	99.9	11.2	12.5	58.6	155.7	1,896.7
(336.8)	(523.1)	(687.9)	(89.0)	(74.8)	(395.7)	(626.2)	(4,795.2)
							(98.5)
	(15.1)						(406.7)
		(92.1)					(13.5)
							245.0
							(146.9)

As of December 31, 2018, the exposure to foreign exchange risk on the statement of financial position was as follows:

(in € millions)	Dec. 31, 2018	USD	JPY	GBP
Monetary assets	3,494.7	883.2	281.0	337.3
Monetary liabilities	988.4	438.4	396.6	9.5
Gross exposure in the statement of financial position	2,506.3	444.8	(88.6)	327.8
Forecast exposure	3,559.4	1,247.2	472.8	384.5
Gross exposure before hedging	**6,065.7**	**1,692.0**	**384.2**	**712.3**
Hedging instruments	(5,394.9)	(1,623.6)	(716.5)	(630.6)
Gross exposure after hedging	**670.8**	**68.4**	**(332.3)**	**81.7**

Monetary assets comprise loans and receivables, bank balances, and investments and cash equivalents maturing within three months of the acquisition date.

Monetary liabilities comprise borrowings, operating payables and other payables.

Most of these monetary items are denominated in the functional currencies in which the subsidiaries operate, or are converted into the Group's functional currency using foreign exchange derivatives in accordance with applicable procedures.

Analysis of sensitivity to foreign exchange risk

This analysis excludes the impact of translating the financial statements of each Group entity into the presentation currency (euro) and the measurement of the foreign exchange position on the statement of financial position, not considered material as of the end of the reporting period.

Based on market data as of December 31, 2018, the impact of foreign exchange derivative instruments in the event of a sudden 10% increase or decrease in the euro exchange rate against the principal currencies to which the Group is exposed (USD, JPY and CNY) would be as follows:

As of December 31, 2018	Impact on remeasurement of financial instruments		Impact on net finance costs	
(in € millions)	10% increase	10% decrease	10% increase	10% decrease
USD	111.4	(136.2)	0.6	(0.7)
JPY	42.0	(51.9)		
CNY	42.4	(44.9)		

As of December 31, 2017	Impact on remeasurement of financial instruments		Impact on net finance costs	
(in € millions)	10% increase	10% decrease	10% increase	10% decrease
USD	(35.7)	52.2	0.5	(4.3)
JPY	43.8	(48.8)	(0.7)	(1.6)
CNY	43.5	(53.2)	(0.7)	0.8

All other market variables were assumed to remain unchanged for the purpose of the sensitivity analysis.

The impact on remeasurement of financial instruments in equity is generated by interest rate instruments eligible for cash flow hedge accounting.

The impact on net finance costs in the income statement is generated by foreign exchange instruments not eligible for hedge accounting and from the change in the ineffective portion of cash flow hedges.

These amounts are shown before tax.

CHF	HKD	CNY	SGD	TWD	KRW	Other	Dec. 31, 2017
386.5	256.2	485.1	54.1	29.9	81.4	700.0	3,419.3
48.9	17.4	58.3		12.4	7.6	26.3	1,650.8
337.6	238.8	426.8	54.1	17.5	73.8	673.7	1,768.5
	336.8	485.1	50.0	42.2	306.3	234.5	2,001.2
337.6	**575.6**	**911.9**	**104.1**	**59.7**	**380.1**	**908.2**	**3,769.6**
(313.2)	(483.2)	(680.1)	(77.8)	(62.3)	(337.1)	(470.5)	(3,319.1)
24.4	**92.4**	**231.8**	**26.3**	**(2.6)**	**43.0**	**437.7**	**450.5**

30.3 Exposure to equity risk

In the normal course of its business, the Group enters into transactions involving shares in consolidated companies or shares issued by Kering.

Naturally, the value of Kering's investment in PUMA, which is treated as an equity-accounted investment as of December 31, 2018, could vary depending on changes in PUMA's share price.

Shares held in connection with non-consolidated investments represent a low exposure risk for the Group and are not hedged.

As of December 31, 2018, no equity risk hedging transaction had been recognized as a derivative instrument in accordance with IFRS 9.

30.4 Exposure to precious metals price risk

The Group may be exposed to fluctuations in the price of certain precious metals, particularly gold, within the scope of its brands' activities in the Watches and Jewelry segments. Hedges may therefore be put in place by contracting derivative financial instruments to fix the production cost or by negotiating prices with refiners or manufacturers of semi-finished products.

As of December 31, 2018, these hedging transactions with a residual maturity of less than one year are treated as forward purchases for a notional amount of €12.2 million. Their market value is not material (notional amount of €10.4 million as of December 31, 2017).

A sudden 1% increase or decrease in precious metals prices would have an impact of €0.1 million, excluding the tax impact on remeasurement of financial instruments in equity.

30.5 Other market risks – Credit risk

The Group uses derivative instruments solely to reduce its overall exposure to foreign exchange, interest rate and equity risk arising in the normal course of business. All transactions involving derivatives are carried out on organized markets or over the counter with leading firms.

As the Group has a large number of customers in a wide range of business segments and realizes a significant portion of its sales directly with the end customer, direct sales do not expose the Group to any credit risk. For sales through wholesalers, there is no strong dependency or concentration whereby the loss of one or more wholesalers might have a significant impact on the Group's earnings. Credit risk with respect to wholesalers is also minimized by appropriate credit insurance coverage.

30.6 Derivative instruments at market value

As of December 31, 2018, and in accordance with IFRS 9, the market value of derivative financial instruments is recognized in the statement of financial position, in assets under the headings "Non-current financial assets" and "Other current financial assets", and in liabilities under the headings "Other non-current financial liabilities" and "Other current financial liabilities".

The fair value of derivatives hedging interest rate risk is recognized in non-current or current assets or liabilities depending on the maturity of the underlying debt.

The fair value of derivatives hedging the foreign exchange risk on commercial transactions is recognized in other current financial assets or liabilities.

The fair value of derivatives hedging the foreign exchange risk on financial transactions is recognized in non-current financial assets or liabilities if their term exceeds one year.

(in € millions)	Dec. 31, 2018	Interest rate risk	Foreign exchange risk	Other market risks	Dec. 31, 2017
Derivative assets	**54.1**	**1.5**	**52.0**	**0.6**	**149.2**
Non-current	**1.5**	**1.5**			**0.7**
At fair value through income					
Cash flow hedges	1.5	1.5			0.7
Fair value hedges					
Current	**52.6**		**52.0**	**0.6**	**148.5**
At fair value through income	31.7		31.7		7.0
Cash flow hedges	16.8		16.2	0.6	127.6
Fair value hedges	4.1		4.1		13.9
Derivative liabilities	**114.1**	**0.5**	**113.6**		**111.8**
Non-current	**3.0**	**0.5**	**2.5**		**0.7**
At fair value through income	2.5		2.5		
Cash flow hedges	0.5	0.5			0.7
Fair value hedges					
Current	**111.1**		**111.1**		**111.1**
At fair value through income	33.7		33.7		10.0
Cash flow hedges	73.0		73.0		84.0
Fair value hedges	4.4		4.4		17.1
TOTAL	**(60.0)**	**1.0**	**(61.6)**	**0.6**	**37.4**

The effective portion of derivatives hedging future cash flows is recorded against equity, in “Remeasurement of financial instruments”. Changes in this line item are presented in Note 14 – Other comprehensive income.

In accordance with IFRS 13, derivatives were measured as of December 31, 2018 taking into account credit and debit value adjustments (CVA/DVA). The probability of default used is based on market data where this is available for the counterparty. The impact of this revised measurement was not material for the Group as of the end of the reporting period.

30.7 Liquidity risk

Liquidity risk management for the Group and each of its subsidiaries is closely monitored and periodically assessed by Kering within the scope of Group financial reporting procedures.

In order to guarantee its liquidity, the Group holds confirmed lines of credit totaling €3,135.0 million. As of December 31, 2018, this includes an amount of €3,135.0 million not yet drawn and available cash of €2,216.6 million.

The following table shows contractual commitments relating to borrowings and trade payables. It includes accrued interest payable and excludes the impact of netting agreements. The table also shows Group commitments relating to derivative instruments recorded in assets or liabilities in the statement of financial position.

Projected cash flows relating to accrued interest payable are included in “Other borrowings” and calculated up to the maturity of the borrowings to which they relate. Future floating-rate interest is set by reference to the last coupon for the current period, based on fixings applicable as of the end of the reporting period for flows associated with subsequent maturities.

The future cash flows presented have not been discounted.

Based on data available as of the end of the reporting period, the Group does not expect that the cash flows indicated will materialise before the scheduled date or that the amounts concerned will differ significantly from those set out in the maturity schedule.

This analysis excludes non-derivative financial assets in the statement of financial position and in particular, the cash and cash equivalents and trade receivables line items, which amounted to €2,216.6 million and €849.5 million, respectively, as of December 31, 2018.

(in € millions)	Dec. 31, 2018 Carrying amount	Dec. 31, 2018 Cash flow	Less than one year	One to five years	More than five years
Non-derivative financial instruments					
Bonds	2,836.2	(2,837.0)	(245.0)	(1,242.0)	(1,350.0)
Commercial paper					
Other borrowings	1,091.8	(1,335.6)	(544.4)	(471.0)	(320.2)
Trade payables	745.8	(745.8)	(745.8)		
Derivative financial instruments					
Interest rate hedges	**(1.0)**				
Interest rate swaps		1.1	1.1		
Other interest rate instruments					
Foreign exchange hedges	**61.6**				
Currency forwards and currency swaps					
Outflows		(7,325.9)	(7,301.2)	(24.7)	
Inflows		7,210.2	7,186.0	24.2	
Other foreign exchange instruments					
Outflows		(220.8)	(114.6)	(106.2)	
Inflows		218.2	114.7	103.5	
TOTAL	**4,734.4**	**(5,035.6)**	**(1,649.2)**	**(1,716.2)**	**(1,670.2)**

(in € millions)	Dec. 31, 2017 Carrying amount	Dec. 31, 2017 Cash flow	Less than one year	One to five years	More than five years
Non-derivative financial instruments					
Bonds	4,096.1	(4,100.2)	(500.0)	(2,250.2)	(1,350.0)
Commercial paper					
Other borrowings	1,089.1	(1,422.3)	(482.1)	(577.0)	(363.2)
Trade payables	1,240.7	(1,240.7)	(1,240.7)		
Derivative financial instruments					
Interest rate hedges					
Interest rate swaps		(1.2)	(0.4)	(0.8)	
Other interest rate instruments					
Foreign exchange hedges	**(37.4)**				
Currency forwards and currency swaps					
Outflows		(6,562.4)	(6,199.7)	(362.7)	
Inflows		6,579.4	6,214.4	365.0	
Other foreign exchange instruments					
Outflows		(461.4)	(461.4)		
Inflows		467.6	467.6		
TOTAL	**6,388.5**	**(6,741.2)**	**(2,202.3)**	**(2,825.7)**	**(1,713.2)**

Note 31 – Accounting classification and market value of financial instruments

The basis of measurement for financial instruments and the market value of these instruments as of December 31, 2018 are presented below:

(in € millions)	Dec. 31, 2018		Breakdown by accounting classification					
	Carrying amount	Market value	Fair value through income	Fair value through OCI	Loans and receivables	Amortized cost	Derivatives qualifying for hedge accounting	Derivatives not qualifying for hedge accounting
Non-current assets								
Non-current financial assets	336.3	336.3		67.0	267.8		1.5	
Current assets								
Trade receivables	849.5	849.5				849.5		
Other current financial assets	60.9	60.9			8.3		20.9	31.7
Cash and cash equivalents	2,216.6	2,216.6	530.0			1,686.6		
Non-current liabilities								
Non-current borrowings	3,171.6	3,261.3				3,171.6		
Other non-current financial liabilities	3.0	3.0					0.5	2.5
Current liabilities								
Current borrowings	756.4	759.7				756.4		
Other current financial liabilities	553.2	553.2				442.1	77.4	33.7
Trade payables	745.8	745.8				745.8		

(in € millions)	Dec. 31, 2017		Breakdown by accounting classification					
	Carrying amount	Market value	Fair value through income	Available-for-sale financial assets	Loans and receivables	Amortized cost	Derivatives qualifying for hedge accounting	Derivatives not qualifying for hedge accounting
Non-current assets								
Non-current financial assets	364.3	364.3		114.1	249.5		0.7	
Current assets								
Trade receivables	1,366.5	1,366.5				1,366.5		
Other current financial assets	155.6	155.6			7.1		141.5	7.0
Cash and cash equivalents	2,136.6	2,136.6	547.8			1,588.8		
Non-current liabilities								
Non-current borrowings	4,245.5	4,423.1				4,245.5		
Other non-current financial liabilities	0.7	0.7					0.7	
Current liabilities								
Current borrowings	939.7	948.3				939.7		
Other current financial liabilities	367.6	367.6				256.5	101.1	10.0
Trade payables	1,240.7	1,240.7				1,240.7		

As of December 31, 2018, the following methods were used to price financial instruments:

- Financial instruments other than derivatives recorded in assets in the statement of financial position:

  Carrying amounts are based on reasonable estimates of market value, with the exception of marketable securities and investments in non-consolidated companies, whose market value was determined based on the last known stock market price as of December 31, 2018 for listed securities.

- Financial instruments other than derivatives recorded in liabilities in the statement of financial position:

  The market value of listed bonds was determined on the basis of the last market price as of the end of the reporting period.

  The market value of other borrowings was calculated using other valuation techniques such as discounted future cash flows, taking into account the Group's credit risk and interest rate conditions as of the end of the reporting period.

- Derivative financial instruments:

  The market value of derivative financial instruments was provided by the financial institutions involved in the transactions or calculated using standard valuation methods that factor in market conditions as of the end of the reporting period.

The Group has identified three financial instrument categories based on the two valuation methods used (listed prices and valuation techniques). In accordance with IFRS, this classification is used as a basis for presenting the characteristics of financial instruments recognized in the statement of financial position at fair value through income as of the end of the reporting period:

Level 1 category: financial instruments quoted on an active market;

Level 2 category: financial instruments whose fair value is determined using valuation techniques drawing on observable market inputs;

Level 3 category: financial instruments whose fair value is determined using valuation techniques drawing on non-observable inputs (inputs whose value does not result from the price of observable market transactions for the same instrument or from observable market data available as of the end of the reporting period) or inputs which are only partly observable.

The table below shows the fair value hierarchy by financial instrument category as of December 31, 2018:

(in € millions)	Fair value hierarchy			Dec. 31, 2018
	Market price = Level 1	Models based on observable inputs = Level 2	Models based on non-observable inputs = Level 3	
Non-current assets				
Non-current financial assets		1.5	334.8	336.3
Current assets				
Trade receivables			849.5	849.5
Other current financial assets		52.6	8.3	60.9
Cash and cash equivalents		530.0	1,686.6	2,2 16.6
Non-current liabilities				
Non-current borrowings			3,17 1.6	3,17 1.6
Other non-current financial liabilities		3.0		3.0
Current liabilities				
Current borrowings			756.4	756.4
Other current financial liabilities		111.1	442.1	553.2
Trade payables			745.8	745.8

(in € millions)	Fair value hierarchy			Dec. 31, 2017
	Market price = Level 1	Models based on observable inputs = Level 2	Models based on non-observable inputs = Level 3	
Non-current assets				
Non-current financial assets	30.0	0.7	333.6	364.3
Current assets				
Trade receivables			1,366.5	1,366.5
Other current financial assets		148.5	7.1	155.6
Cash and cash equivalents		547.8	1,588.8	2,136.6
Non-current liabilities				
Non-current borrowings			4,245.5	4,245.5
Other non-current financial liabilities		0.7		0.7
Current liabilities				
Current borrowings			939.7	939.7
Other current financial liabilities		111.1	256.5	367.6
Trade payables			1,240.7	1,240.7

Note 32 – Net debt

(in € millions)	Dec. 31, 2018	Dec. 31, 2017
Gross borrowings	3,928.0	5,185.2
Cash and cash equivalents	(2,216.6)	(2,136.6)
Net debt	**1,711.4**	**3,048.6**

Note 33 – Statement of cash flows

33.1 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)	Dec. 31, 2018	Dec. 31, 2017
Cash and cash equivalents as reported in the statement of financial position	2,216.6	2,136.6
Bank overdrafts	(380.3)	(237.3)
Cash and cash equivalents as reported in the statement of cash flows	**1,836.3**	**1,899.3**

33.2 Breakdown of cash flow from operating activities

(in € millions)	2018	2017 [(1)]
Net income from continuing operations	**2,658.3**	**1,751.9**
Net recurring charges to depreciation, amortization and provisions on non-current operating assets	491.9	432.1
Other non-cash income and expenses:	(6.6)	10.3
o/w:		
Recurring operating income and expenses (Note 5):	(68.8)	(24.6)
– *Fair value of operating foreign exchange rate hedges*	*(93.2)*	*(72.2)*
– *Other*	*24.4*	*47.6*
Other income and expenses:	62.2	34.9
– *Asset impairment*	*140.4*	*148.5*
– *Fair value of foreign exchange rate hedges in net finance costs*	*98.5*	*61.5*
– *Deferred tax expense (income)*	*(194.8)*	*(193.3)*
– *Share in earnings (losses) of equity-accounted companies*	*(11.9)*	*3.6*
– *Other*	*30.0*	*14.6*
Cash flow from operating activities	**3,143.6**	**2,194.3**

(1) Operating cash flow items relating to PUMA, Stella McCartney, Volcom and Christopher Kane for 2017 have been reclassified to "Net cash from (used in) discontinued operations", in accordance with IFRS 5.

33.3 Debt issues and redemptions/repayments

(in € millions)	Dec. 31, 2018	Dec. 31, 2017 [(1)]
Debt issues	73.1	299.4
Debt redemptions/repayments	(1,404.5)	(410.1)
Increase/decrease in other borrowings	(27.9)	(364.4)
TOTAL	**(1,359.3)**	**(475.1)**

(1) Debt issues and redemptions/repayments relating to PUMA, Stella McCartney, Volcom and Christopher Kane for 2017 have been reclassified to "Net cash from (used in) discontinued operations", in accordance with IFRS 5.

Bond redemptions reflect partial redemptions in the total amount of €775 million of four bond issues carried out in April and October 2018, each with an initial nominal value of €500 million.

Following the first offer, three partial redemptions were carried out on April 9, 2018. The Group redeemed a total of €405.2 million, comprising: (i) €200 million relating to the issue maturing in April 2019; (ii) €100 million relating to the issue maturing in October 2021; and (iii) €105.2 million relating to the issue maturing in March 2022.

Following the second offer, four partial redemptions were carried out on October 9, 2018. The Group redeemed a total of €369.8 million, comprising: (i) €55 million relating to the issue maturing in April 2019; (ii) €140 million relating to the issue maturing in July 2020; (iii) €55 million relating to the issue maturing in October 2021; and (iv) €119.8 million relating to the issue maturing in March 2022.

Bond redemptions also include the redemption on October 8, 2018 of the €500 million worth of five-year bonds issued in October 2013 with an annual coupon of 1.875%.

Changes in other borrowings chiefly reflect issues and redemptions of borrowings denominated in Japanese yen.

33.4 Reconciliation of changes in borrowings with net cash flows from (used in) financing activities

(in € millions)

	Bonds	Other bank borrowings	Confirmed lines of credit	Drawdowns on unconfirmed lines of credit
As of January 1, 2018	**4,096.1**	**318.5**	-	**20.5**
Increase/decrease in share capital and other transactions with owners				
Treasury share transactions				
Dividends paid to owners of the parent company				
Dividends paid to non-controlling interests				
Debt issues	15.2	57.9		
Debt redemptions/repayments	(1,275.1)	(129.4)		
Increase/decrease in other borrowings		(3.6)		(2.8)
Interest paid and equivalent				
Net cash from (used in) financing activities	(1,259.9)	(75.1)	-	(2.8)
Changes in Group structure				
Translation adjustments		15.2		0.2
Changes in put options granted to non-controlling interests				
Changes related to discontinued operations		(58.6)		
Other movements				
As of December 31, 2018	**2,836.2**	**200.0**	-	**17.9**

(in € millions)

	Bonds	Other bank borrowings	Confirmed lines of credit	Drawdowns on unconfirmed lines of credit
As of January 1, 2017	**4,180.9**	**335.1**	-	**23.4**
Increase/decrease in share capital and other transactions with owners				
Treasury share transactions				
Dividends paid to owners of the parent company				
Dividends paid to non-controlling interests				
Debt issues	297.2	24.5		
Debt redemptions/repayments	(349.6)	(60.5)		
Increase/decrease in other borrowings				2.1
Interest paid and equivalent				
Net cash from (used in) financing activities	(52.4)	(36.0)	-	2.1
Changes in Group structure		12.0		
Translation adjustments	(34.5)	(30.1)		(1.4)
Changes in put options granted to non-controlling interests				
Other movements	2.1	37.5		(3.6)
As of December 31, 2017	**4,096.1**	**318.5**	-	**20.5**

Borrowings					Equity		Total
Commercial paper	Finance lease liabilities	Bank overdrafts	Other borrowings		Equity attributable to owners of the parent	Non-controlling interests	
-	**83.9**	**237.3**	**428.9**				
					(2.7)		(2.7)
					(167.9)		(167.9)
					(757.6)		(757.6)
						(22.8)	(22.8)
							73.1
							(1,404.5)
			(21.5)				(27.9)
	(3.0)	(1.2)	(188.2)				(192.4)
-	(3.0)	(1.2)	(209.7)		(928.2)	(22.8)	(2,502.7)
		0.3					
	1.8	11.4	0.5				
			11.4				
			4.8				
	(4.0)	132.5	179.0				
-	**78.7**	**380.3**	**414.9**				

Borrowings					Equity		Total
Commercial paper	Finance lease liabilities	Bank overdrafts	Other borrowings		Equity attributable to owners of the parent	Non-controlling interests	
350.1	**96.9**	**292.1**	**141.8**				
					(27.8)		(27.8)
					0.2		0.2
					(580.9)		(580.9)
						(35.0)	(35.0)
							321.7
							(410.1)
(350.1)		(15.4)					(363.4)
	(3.5)	(10.4)	(189.6)				(203.5)
(350.1)	(3.5)	(25.8)	(189.6)		(608.5)	(35.0)	(1,298.8)
	(5.6)	(16.5)	(1.2)				
			292.2				
	(3.9)	(12.5)	185.7				
-	**83.9**	**237.3**	**428.9**				

Note 34 – Contingent liabilities, contractual commitments not recognized and other contingencies

34.1 Commitments given or received following asset disposals

Vendor warranties given or received by the Group on sales of companies in prior years are summarized below as of December 31, 2018:

Disposals	Vendor warranties
December 2010 Sale of Conforama	Vendor warranty covering tax-related claims expiring when the period becomes time-barred, capped at €120 million. This disposal is related to an ancillary commitment by Kering to continue commercial relations between Conforama and the BNP Paribas group as regards customer loans.
December 2012 Sale of The Sportsman's Guide and The Golf Warehouse	Vendor warranties covering (i) certain fundamental representations (with respect to organization, title ownership, and capacity) which survive indefinitely, (ii) employment and benefit plans, and (iii) tax-related claims; (ii) and (iii) expiring when the period becomes time-barred. These warranties are capped at USD 21.5 million.
February 2013 Sale of OneStopPlus	Specific vendor warranty covering an identified tax-related claim, expiring when the period becomes time-barred.
March 2013 Sale of the Children and Family Division	Specific warranty covering an occupancy fee capped at €400,000.
June 2013 Sale of Ellos	Customary vendor warranty covering certain fundamental representations (with respect to capacity, existence, title ownership and capitalization), which survives indefinitely and is capped at the sale price. Vendor warranty covering tax-related claims, which expires on June 2, 2019 and is capped at SEK 350 million. This was accompanied by a commitment received as regards the continuation of commercial relations with Finaref, covered by a €70 million bank guarantee expiring in 2023.
June 2014 Sale of La Redoute and Relais Colis	Customary vendor warranty covering certain fundamental representations (particularly with respect to the existence of the companies sold, the availability of the shares sold and the capacity and power to complete the sale), which expires when the period becomes time-barred and is capped at € 10 million. Vendor warranty covering tax-related claims and capped at €10 million, expiring when the period becomes time-barred. Specific vendor warranties covering (i) the group's restructuring operations prior to its sale, which expire on December 31, 2021 and are not capped, and (ii) environmental risks, which expire on December 31, 2020 and are capped at €37 million.
December 2015 Sale of Sergio Rossi	Vendor warranties covering (i) tax-related or similar claims expiring when the period becomes time-barred in each jurisdiction concerned and (ii) certain fundamental representations (particularly with respect to organization, capitalization, titles and authority) which survive indefinitely. These warranties are capped at €15 million with the exception of (ii), which is capped at the sale price. Specific vendor warranties covering (i) tax audits of the years 2010 to 2014; (ii) the tax impact of the group's restructuring operations prior to its sale; and (iii) intellectual property claims and potential disputes with certain managerial-grade employees (*cadres*), which survive indefinitely. These warranties are not capped.
March 2016 Disposal of Electric	Customary vendor warranty covering certain fundamental representations, particularly with respect to organization, capitalization and authority. The vendor warranties are limited to the seller's knowledge of insurance, litigation and tax-related matters. These warranties are not capped.

In addition to the vendor warranties described above, minor vendor warranty agreements with standard terms were set up for the purchasers of the other companies sold by the Group.

34.2 Other commitments given

34.2.1 Contractual obligations

The table below shows all the Group's contractual commitments and obligations, excluding employee benefit obligations presented in Note 26 – Employee benefits.

(in € millions)	Payments due by period: Less than one year	One to five years	More than five years	Dec. 31, 2018	Dec. 31, 2017 (1)
Borrowings (Note 29)	756.4	1,564.4	1,607.2	3,928.0	5,185.2
Operating lease agreements	621.6	1,945.7	1,581.6	4,148.9	3,232.3
Binding purchase commitments	103.0	66.6	5.2	174.8	252.1
Total commitments given	**1,481.0**	**3,576.7**	**3,194.0**	**8,251.7**	**8,670.2**

(1) *For comparison purposes, contractual obligations as of December 31, 2017 have been restated for discontinued operations, i.e., PUMA, Stella McCartney, Volcom and Christopher Kane.*

Operating leases

The amount of contractual obligations presented on the "Operating lease agreements" line represents future minimum lease payments under operating lease agreements for the year, which cannot be canceled by the lessee. These mainly include non-cancelable rental payments in respect of stores, logistics hubs and other buildings (headquarters and administrative offices).

As of December 31, 2018, total future minimum lease payments which the Group expects to receive under non-cancelable sub-lease agreements amounted to €113.2 million (€14.5 million as of December 31, 2017).

The rental expense for 2018 corresponding to minimum lease payments amounts to €701.2 million (€635.5 million in 2017). The contingent consideration expense, calculated on the basis of actual revenue, was €855.2 million (€675.5 million in 2017).

Sub-lease revenue totaled €3.1 million in 2018 and €3.3 million in 2017.

Finance leases

The present value of future lease payments included in "Borrowings" and relating to capitalized assets meeting the definition of a finance lease set out in IAS 17 is as follows:

(in € millions)	Dec. 31, 2018	Dec. 31, 2017
Less than one year	40.7	9.3
One to five years	34.0	61.4
More than five years	26.2	27.0
	101.0	**97.7**
Finance costs included	(22.2)	(13.8)
Present value of future minimum lease payments	**78.7**	**83.9**

As of December 31, 2018, the Group does not expect to receive future minimum lease payments under non-cancelable sub-lease agreements.

34.2.2 Guarantees and other collateral

(in € millions)	Pledge start date	Pledge expiry date	Amount of assets pledged as of Dec. 31, 2018	Statement of financial position total (carrying amount)	Corresponding %	Amount of assets pledged as of Dec. 31, 2017
Intangible assets			-	7,393.6	-	-
Property, plant and equipment	06/08/2001	03/31/2028	32.2	2,228.5	1.4%	31.1
Non-current financial assets			-	336.3	-	-
Total non-current assets pledged as collateral			**32.2**	**9,958.4**	**0.3%**	**31.1**

34.2.3 Other commitments

(in € millions)	Payments due by period: Less than one year	One to five years	More than five years	Dec. 31, 2018	Dec. 31, 2017 (1)
Confirmed lines of credit (see Note 29)	-	3,135.0	-	3,135.0	3,450.0
Letters of credit	14.0	-	-	14.0	13.5
Other guarantees received	4.8	1.6	2.0	8.4	19.9
Total commitments received	**18.8**	**3,136.6**	**2.0**	**3,157.4**	**3,483.4**
Guarantees given to banks responsible for cash pooling arrangements	1.9	0.6	3.5	6.0	4.5
Rent guarantees, property guarantees	0.2	5.2	1.8	7.2	14.2
Other commitments	27.8	7.8	1.5	37.1	37.8
Total commitments given	**29.9**	**13.6**	**6.8**	**50.3**	**56.5**

(1) For comparison purposes, commitments as of December 31, 2017 have been restated for discontinued operations, i.e., PUMA, Stella McCartney, Volcom and Christopher Kane.

Other commitments given primarily include customs warranties and operating guarantees.

34.3 Contingent liabilities

To the best of the Group's knowledge, there are no significant contingent liabilities other than the tax risk described in Note 12.1.1 – Income tax expense and effective tax rate.

34.4 Dependence on patents, licenses and supply contracts

The Group is not significantly dependent on any patents, licenses or supply contracts.

34.5 Litigation and disputes

Group companies are involved in a number of lawsuits or disputes arising in the normal course of business, including with various authorities. Provisions have been set aside for the probable costs, as estimated by the Group's entities and their counsel.

According to the Group's legal counsel, no disputes currently in progress are likely to have a material impact on normal or foreseeable operations or the planned development of the Group or any of its subsidiaries.

The Group believes there are no known disputes likely to have a potential material impact on its net assets, earnings or financial position that are not adequately covered by provisions recorded as of the end of the reporting period. No individual claim against the Company and/or against any of its subsidiaries is material to the Company or the Group.

The Group is not aware of any other dispute or arbitration, which has had in the recent past, or is likely to have in the future, a material impact on the financial position, activity or earnings of the Company or Group.

Note 35 – Transactions with related parties

35.1 Related party controlling the Group

Kering SA is controlled by Artémis, which in turn is wholly owned by Financière Pinault. As of December 31, 2018, the Artémis group held 40.9% of Kering's share capital (40.9% as of end-2017) and 57.8% of its voting rights (57.6% as of December 31, 2017).

The main transactions carried out between Kering's consolidated companies and Artémis in 2018 are described below:

- payment on January 17, 2019 of an interim dividend in respect of 2018 totaling €180.8 million, approved on December 14, 2018;
- payment of the balance of the cash dividend for 2017 of €206.5 million, further to the payment of an interim dividend of €103.2 million in January 2018 (€237.6 million for the full 2016 dividend);
- payment of an exceptional stock dividend for 2017 in the form of PUMA shares amounting to €1,845.3 million;
- recognition of fees totaling €5.1 million in 2018 (€4.0 million in 2017) 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.

35.2 Associates

In the normal course of business, the Group enters into transactions with associates on an arm's length basis.

These transactions are not material.

35.3 Remuneration paid to members of the Board of Directors and the Group's Executive Committee

(in € millions)	2018	2017
Short-term benefits	37.7	69.8
Payroll taxes	5.0	4.3
Termination indemnities	-	1.9
Post-employment benefits	2.0	2.0
Other long-term benefits	103.3	40.0
Share-based payment	85.5	53.9
TOTAL	**233.5**	**171.9**

Short-term benefits, payroll taxes and termination benefits correspond to amounts paid during the year. Post-employment benefits, other long-term benefits and share-based payment correspond to amounts recognized as expenses in the period.

Note 36 – List of consolidated subsidiaries as of December 31, 2018

Consolidation method:
Full consolidation: C
Equity method: E

Company	% interest			
	Dec. 31, 2018		Dec. 31, 2017	
Kering SA	**Parent company**			
CONTINUING OPERATIONS				
LUXURY HOUSES				
France				
ALEXANDER McQUEEN FRANCE SAS	C	100.00	C	100.00
ARCADES PONTHIEU SA	C	95.00	C	95.00
BALENCIAGA SA	C	100.00	C	100.00
BOTTEGA VENETA FRANCE SAS	C	100.00	C	100.00
BOUCHERON HOLDING SAS	C	100.00	C	100.00
BOUCHERON PARFUMS SAS	C	100.00	C	100.00
BOUCHERON SAS	C	100.00	C	100.00
BRIONI FRANCE SAS	C	100.00	C	100.00
C. MENDES SAS	C	100.00	C	100.00
DODO PARIS SAS	C	99.99	C	99.99
FRANCE CROCO SAS	C	100.00	C	100.00
GG FRANCE SERVICES SAS	C	100.00	C	100.00
GPO HOLDING SAS	C	100.00	C	100.00
GUCCI FRANCE SAS	C	100.00	C	100.00
LES BOUTIQUES BOUCHERON SAS	C	100.00	C	100.00
POMELLATO PARIS SA	C	99.99	C	99.99
QEELIN FRANCE SARL	C	100.00	C	100.00
SOWIND FRANCE SAS	C	100.00	C	100.00
TANNERIE DE PERIERS SAS	C	100.00	C	100.00
YSL VENTES PRIVEES FRANCE SAS	C	100.00	C	100.00
YVES SAINT LAURENT BOUTIQUE FRANCE SAS	C	100.00	C	100.00
YVES SAINT LAURENT PARFUMS SAS	C	100.00	C	100.00
YVES SAINT LAURENT SAS	C	100.00	C	100.00
Germany				
BALENCIAGA GERMANY GmbH	C	100.00	C	100.00
BOTTEGA VENETA GERMANY GmbH	C	100.00	C	100.00
BRIONI GERMANY GmbH	C	100.00	C	100.00
DODO DEUTSCHLAND GmbH	C	100.00	C	100.00
GG LUXURY GOODS GmbH	C	100.00	C	100.00
KW LUXURY DISTRIBUTION GmbH	C	100.00	C	100.00
POMELLATO DEUTSCHLAND GmbH	C	100.00	C	100.00
KERING WATCHES LUXURY DIVISION GmbH	C	100.00	C	100.00
YVES SAINT LAURENT GERMANY GmbH	C	100.00	C	100.00
Austria				
ALEXANDER McQUEEN GmbH	C	100.00	C	100.00
BOTTEGA VENETA AUSTRIA GmbH	C	100.00	C	100.00
BRIONI AUSTRIA GmbH	C	100.00	C	100.00
GUCCI AUSTRIA GmbH	C	100.00	C	100.00
YVES SAINT LAURENT AUSTRIA GmbH	C	100.00	C	100.00
Belgium				
GUCCI BELGIUM SA	C	100.00	C	100.00
Cyprus				
BOWLINE INVESTMENTS Ltd	Liquidation		C	100.00
PROPERTY4LIFE INVESTMENTS Ltd	Liquidation		C	100.00
Spain				
BALENCIAGA SPAIN SL	C	100.00	C	100.00
BOTTEGA VENETA ESPAÑA SL	C	100.00	C	100.00
BRIONI RETAIL ESPAÑA SL	C	100.00	C	100.00
DODO SPAIN SA	C	100.00	C	100.00
LUXURY GOODS SPAIN SL	C	100.00	C	100.00
LUXURY TIMEPIECES ESPAÑA SL	C	100.00	C	100.00
SOWIND IBERICA SL	C	100.00	C	100.00
YVES SAINT LAURENT SPAIN SA	C	100.00	C	100.00
United Kingdom				
ALEXANDER McQUEEN TRADING Ltd	C	100.00	C	100.00
AUTUMNPAPER Ltd	C	100.00	C	100.00
BALENCIAGA UK Ltd	C	100.00	C	100.00
BIRDSWAN SOLUTIONS Ltd	C	100.00	C	100.00
BOTTEGA VENETA UK CO. Ltd	C	100.00	C	100.00
BOUCHERON UK Ltd	C	100.00	C	100.00
BRIONI UK Ltd	C	100.00	C	100.00

Company	% interest Dec. 31, 2018		% interest Dec. 31, 2017	
DODO (UK) Ltd	C	100.00	C	100.00
GUCCI Ltd	C	100.00	C	100.00
LUXURY TIMEPIECES UK Ltd	C	100.00	C	100.00
LUXURY TIMEPIECES & JEWELLERY OUTLETS Ltd	C	100.00	C	100.00
PAINTGATE Ltd	C	100.00	C	100.00
POMELLATO (UK) Ltd	C	100.00	C	100.00
YVES SAINT LAURENT UK Ltd	C	100.00	C	100.00
Greece				
LUXURY GOODS GREECE AE	C	99.80	C	99.80
Hungary				
GUCCI HUNGARY KFT	C	100.00	C	100.00
Ireland				
GUCCI IRELAND Ltd	C	100.00	C	100.00
Italy				
ACCADEMICA DELLA PELLETTERIA SRL	C	51.00	Formation	
ALEXANDER McQUEEN ITALIA SRL	C	100.00	C	100.00
BALENCIAGA LOGISTICA SRL	C	100.00	C	100.00
BALENCIAGA RETAIL ITALIA SRL	C	100.00	C	100.00
BRIONI SpA	C	100.00	C	100.00
BRIONI OUTLET SRL	Merger		C	100.00
BRIONI GERMANICS HOLDING SRL	C	100.00	C	100.00
BRIONI ITALIA SRL	C	100.00	C	100.00
BRIONI SERVIZI SRL	C	100.00	Formation	
B.V. LUXURY SRL	C	100.00	Formation	
B.V. ITALIA SRL	C	100.00	C	100.00
B.V. SERVIZI SRL	C	100.00	C	100.00
BOTTEGA VENETA SRL	C	100.00	C	100.00
CALZATURIFICIO FLORA SRL	C	100.00	C	100.00
CARAVEL PELLI PREGIATE SpA	C	100.00	C	100.00
CONCERIA BLUTONIC SpA	C	51.00	C	51.00
DESIGN MANAGEMENT SRL	C	100.00	C	100.00
DESIGN MANAGEMENT 2 SRL	C	100.00	C	100.00
E_LITE SpA	C	51.00	C	51.00
GARPE SRL	C	100.00	C	100.00
GUCCI GARDEN SRL	C	100.00	C	100.00
G COMMERCE EUROPE SpA	C	100.00	C	100.00
G.F. LOGISTICA SRL	C	100.00	C	100.00
G.F. SERVICES SRL	C	100.00	C	100.00
GGW ITALIA SRL	C	100.00	C	100.00
GJP SRL	C	100.00	C	100.00
GPA SRL	C	100.00	C	100.00
GT SRL	C	100.00	C	100.00
GUCCI IMMOBILLARE LECCIO SRL	C	100.00	C	100.00
GUCCI LOGISTICA SpA	C	100.00	C	100.00
GUCCIO GUCCI SpA	C	100.00	C	100.00
K RETAIL ROMA SRL	C	100.00	-	
LECCIO SRL	C	100.00	C	100.00
LGM SRL	C	73.30	C	73.30
LUXURY GOODS ITALIA SpA	C	100.00	C	100.00
LUXURY GOODS OUTLET SRL	C	100.00	C	100.00
MANIFATTURA VENETA PELLETERIE SRL	C	100.00	C	100.00
PIGINI SRL	C	100.00	C	100.00
POMELLATO SpA	C	100.00	C	100.00
POMELLATO EUROPA SpA	C	100.00	C	100.00
ROMAN STYLE SpA	C	100.00	C	100.00
SAMMEZZANO OUTLET SRL	C	100.00	C	100.00
SOWIND ITALIA SRL	C	100.00	C	100.00
SL LUXURY RETAIL SRL	C	100.00	C	100.00
THE MALL SRL	Merger		C	100.00
TIGER FLEX SRL	C	100.00	C	100.00
TOMAS MAIER ITALIA SRL	E	51.00	E	51.00
TRAMOR SRL	C	100.00	C	100.00
ULYSSE NARDIN ITALIA SRL	C	100.00	C	100.00
SAINT LAURENT SHOES SRL	C	100.00	C	100.00
YVES SAINT LAURENT LOGISTICA SRL	C	100.00	C	100.00
Luxembourg				
BOTTEGA VENETA INTERNATIONAL SARL	C	100.00	C	100.00
CASTERA SARL	C	100.00	C	100.00
GUCCI GULF INVESTMENTS SARL	C	100.00	C	100.00
QEELIN HOLDING LUXEMBOURG SA	C	100.00	C	100.00
Monaco				
BOUCHERON SAM	C	100.00	C	100.00
GUCCI SAM	C	100.00	C	100.00
KERING RETAIL MONACO SAM	C	100.00	C	100.00
SMHJ SAM	C	99.79	C	99.79
YVES SAINT LAURENT OF MONACO SAM	C	100.00	C	100.00

Company	% interest			
	Dec. 31, 2018		Dec. 31, 2017	
Netherlands				
BOTTEGA VENETA NETHERLANDS BV	C	100.00	C	100.00
G DISTRIBUTION BV	C	100.00	C	100.00
GG MIDDLE EAST BV	C	51.00	C	51.00
GG OTHER TERRITORIES BV	C	100.00	C	100.00
KERING ASIAN HOLDING BV	C	100.00	C	100.00
GUCCI NETHERLANDS BV	C	100.00	C	100.00
YVES SAINT LAURENT NETHERLANDS BV	C	100.00	C	100.00
Czech Republic				
BRIONI CZECH REPUBLIC SRO	C	100.00	C	100.00
LUXURY GOODS CZECH REPUBLIC SRO	C	100.00	C	100.00
Romania				
SIFA INTERNATIONAL SRL	C	100.00	-	
Russia				
BOUCHERON RUSSIA OOO	C	100.00	C	100.00
GUCCI RUS OOO	C	100.00	C	100.00
ULYSSE NARDIN RUSSIA LLC	C	100.00	C	100.00
Serbia				
LUXURY TANNERY DOO	C	51.00	C	51.00
Switzerland				
BALENCIAGA SWITZERLAND SA	C	100.00	Formation	
BOTTEGA VENETA SA	C	100.00	C	100.00
BOUCHERON (SUISSE) SA	C	100.00	C	100.00
BRIONI SWITZERLAND SA	C	100.00	C	100.00
DONZE CADRANS SA	C	100.00	C	100.00
FABBRICA QUADRANTI SA	C	100.00	C	100.00
GT SILK SA	C	100.00	C	100.00
GUCCI SWISS RETAIL SA	C	100.00	Formation	
LUXURY GOODS INTERNATIONAL SA	C	100.00	C	100.00
LUXURY GOODS OUTLETS EUROPE SAGL	C	100.00	C	100.00
OCHS UND JUNIOR SA	E	32.80	E	32.80
SIGATEC SA	E	50.00	E	50.00
SOWIND GROUP SA	C	100.00	C	100.00
SOWIND SA	C	100.00	C	100.00
THE MALL LUXURY OUTLET SA	C	100.00	C	100.00
ULYSSE NARDIN LE LOCLE SA	C	100.00	C	100.00
UNCA SA	E	50.00	E	50.00
YVES SAINT LAURENT SWITZERLAND SA	C	100.00	C	100.00

Company	% interest			
	Dec. 31, 2018		Dec. 31, 2017	
Aruba				
GEMINI ARUBA NV	C	100.00	C	100.00
Brazil				
BOTTEGA VENETA HOLDING Ltda	C	100.00	C	100.00
GUCCI BRASIL IMPORTACAO E EXPORTACAO Ltda	C	100.00	C	100.00
SAINT LAURENT BRASIL IMPORTACAO E EXPORTACAO Ltda	C	100.00	C	100.00
Canada				
BALENCIAGA CANADA Inc.	C	100.00	Formation	
BOTTEGA VENETA CANADA Ltd	C	100.00	C	100.00
G. BOUTIQUES Inc.	C	100.00	C	100.00
SAINT LAURENT CANADA BOUTIQUES Inc.	C	100.00	C	100.00
Chile				
LUXURY GOODS CHILE SpA	C	51.00	C	51.00
United States				
ALEXANDER McQUEEN TRADING AMERICA Inc.	C	100.00	C	100.00
741 MADISON AVENUE Corp.	C	100.00	C	100.00
BALENCIAGA AMERICA Inc.	C	100.00	C	100.00
BOTTEGA VENETA Inc.	C	100.00	C	100.00
BOUCHERON JOAILLERIE (USA) Inc.	C	100.00	C	100.00
BRIONI AMERICA Inc.	C	100.00	C	100.00
BRIONI AMERICA HOLDING Inc.	C	100.00	C	100.00
E_LITE US Inc.	C	51.00	C	51.00
G GATOR USA LLC	C	100.00	C	100.00
GUCCI AMERICA Inc.	C	100.00	C	100.00
GUCCI CARIBBEAN Inc.	C	100.00	C	100.00
GUCCI GROUP WATCHES Inc.	C	100.00	C	100.00
JOSEPH ALTUZARRA	E	40.54	E	40.54
LUXURY HOLDINGS Inc.	C	100.00	C	100.00
LUXURY TIMEPIECES AND JEWELRY USA, Inc.	C	100.00	Formation	
POMELLATO USA Inc.	C	100.00	C	100.00
TOMAS MAIER LLC	E	51.00	E	51.00
TOMAS MAIER DISTRIBUTION LLC	E	51.00	E	51.00
TOMAS MAIER HOLDING LLC	E	51.00	E	51.00
TRADEMA OF AMERICA Inc.	C	100.00	C	100.00
ULYSSE NARDIN Inc.	C	100.00	C	100.00
WALL'S GATOR FARM II LLC	E	40.00	E	40.00
WG ALLIGATOR FARM LLC	E	40.00	E	40.00

Company	% interest	
	Dec. 31, 2018	Dec. 31, 2017
YVES SAINT LAURENT AMERICA HOLDING Inc.	C 100.00	C 100.00
YVES SAINT LAURENT AMERICA Inc.	C 100.00	C 100.00
Mexico		
BOTTEGA VENETA MEXICO, S. DE R.L. DE C.V.	C 100.00	C 100.00
BOTTEGA VENETA SERVICIOS S. DE R.L. DE C.V.	C 100.00	C 100.00
D ITALIAN CHARMS S.A. DE C.V.	C 100.00	C 100.00
GUCCI IMPORTACIONES S.A. DE C.V.	C 100.00	C 100.00
GUCCI MEXICO S.A. DE C.V.	C 100.00	C 100.00
RETAIL LUXURY SERVICIOS S.A. DE C.V.	C 100.00	C 100.00
SAINT LAURENT MEXICO, S. DE R.L. DE C.V.	C 100.00	C 100.00
SAINT LAURENT SERVICIOS S. DE R.L. DE C.V.	C 100.00	C 100.00
Panama		
LUXURY GOODS PANAMA S DE RL	C 51.00	C 51.00
Australia		
BALENCIAGA AUSTRALIA PTY Ltd	C 100.00	Formation
BOTTEGA VENETA AUSTRALIA PTY Ltd	C 100.00	C 100.00
GUCCI AUSTRALIA PTY Ltd	C 100.00	C 100.00
SAINT LAURENT AUSTRALIA PTY Ltd	C 100.00	C 100.00
New Zealand		
GUCCI NEW ZEALAND Ltd	C 100.00	C 100.00
China		
1921 (SHANGHAI) RESTAURANT Ltd	C 100.00	C 100.00
ALEXANDER McQUEEN (SHANGAI) TRADING Ltd	C 100.00	C 100.00
BALENCIAGA FASHION SHANGAI Co. Ltd	C 100.00	C 100.00
BOTTEGA VENETA (CHINA) TRADING Ltd	C 100.00	C 100.00
KERING (SHANGHAI) WATCHES AND JEWELRY Ltd	C 100.00	C 100.00
BRIONI (SHANGAI) TRADING Ltd	C 100.00	C 100.00
GUCCI (CHINA) TRADING Ltd	C 100.00	C 100.00
GUCCI WATCHES MARKETING CONSULTING (SHANGHAI) Ltd	C 100.00	C 100.00
LGI (SHANGHAI) ENTERPRISE MANAGEMENT Ltd	C 100.00	C 100.00

Company	% interest	
	Dec. 31, 2018	Dec. 31, 2017
POMELLATO SHANGHAI Co. Ltd	C 100.00	C 100.00
QEELIN TRADING (SHANGHAI) Co. Ltd	C 100.00	C 100.00
YVES SAINT LAURENT (SHANGHAI) TRADING Ltd	C 100.00	C 100.00
Korea		
ALEXANDER McQUEEN KOREA Ltd	C 100.00	C 100.00
BALENCIAGA KOREA Ltd	C 100.00	C 100.00
BOTTEGA VENETA KOREA Ltd	C 100.00	C 100.00
BOUCHERON KOREA Ltd	C 100.00	C 100.00
GUCCI KOREA Ltd	C 100.00	C 100.00
YVES SAINT LAURENT KOREA Ltd	C 100.00	C 100.00
Guam		
BOTTEGA VENETA GUAM Inc.	C 100.00	C 100.00
GUCCI GROUP GUAM Inc.	C 100.00	C 100.00
Hong Kong		
ALEXANDER McQUEEN (HONG KONG) Ltd	C 100.00	C 100.00
BALENCIAGA ASIA PACIFIC Ltd	C 100.00	C 100.00
BOTTEGA VENETA HONG KONG Ltd	C 100.00	C 100.00
BOUCHERON HONG KONG Ltd	C 100.00	C 100.00
BRIONI HONG KONG Ltd	C 100.00	C 100.00
GUCCI (HONG KONG) Ltd	C 100.00	C 100.00
GUCCI ASIA COMPANY Ltd	C 100.00	C 100.00
LUXURY TIMEPIECES (HONG KONG) Ltd	C 100.00	C 100.00
MOVEN INTERNATIONAL Ltd	C 100.00	C 100.00
POMELLATO CHINA Ltd	C 100.00	C 100.00
POMELLATO PACIFIC Ltd	C 100.00	C 100.00
QEELIN Ltd	C 100.00	C 100.00
ULYSSE NARDIN (ASIA PACIFIC) Ltd	C 100.00	C 100.00
YVES SAINT LAURENT (HONG KONG) Ltd	C 100.00	C 100.00
India		
GUCCI INDIA PRIVATE Ltd	Liquidation	C 100.00
LUXURY GOODS RETAIL PRIVATE Ltd LGR	C 51.00	C 51.00
Japan		
BALENCIAGA JAPAN Ltd	C 100.00	C 100.00
BOTTEGA VENETA JAPAN Ltd	C 100.00	C 100.00
BOUCHERON JAPAN Ltd	C 100.00	C 100.00
BRIONI JAPAN & Co. Ltd	C 100.00	C 100.00
E_LITE JAPAN Ltd	C 51.00	C 51.00

Company	% interest Dec. 31, 2018		% interest Dec. 31, 2017	
LUXURY TIMEPIECES JAPAN Ltd	C	100.00	C	100.00
POMELLATO JAPAN Co. Ltd	C	100.00	C	100.00
SOWIND JAPAN KK	C	100.00	C	100.00
Macau				
ALEXANDER McQUEEN (MACAU) Ltd	C	100.00	C	100.00
BALENCIAGA MACAU Ltd	C	100.00	C	100.00
BOTTEGA VENETA MACAU Ltd	C	100.00	C	100.00
BRIONI MACAU Ltd	C	100.00	C	100.00
GUCCI MACAU Ltd	C	100.00	C	100.00
KERING (MACAU) WATCHES AND JEWELRY Ltd	C	100.00	C	100.00
QEELIN MACAU Ltd	C	100.00	C	100.00
YVES SAINT LAURENT MACAU Ltd	C	100.00	C	100.00
Vietnam				
GUCCI VIETNAM Co. Ltd	C	100.00	C	100.00
Bahrain				
FLORENCE 1921 WLL	C	49.00	C	49.00
United Arab Emirates				
ATELIER LUXURY GULF LLC	C	49.00	C	49.00
FASHION LUXURY MIDDLE EAST	C	49.00	Acquisition	
LUXURY GOODS GULF LLC	C	49.00	C	49.00
LUXURY FASHION GULF LLC	C	49.00	C	49.00
Kazakhstan				
ULYSSE NARDIN KAZAKHSTAN LLP	E	50.00	E	50.00
Kuwait				
LUXURY GOODS KUWAIT WLL	C	26.01	C	26.01
YSL KUWAIT FOR READYMADE CLOTHES AND ACCESSORIES WLL	C	49.00	Formation	
Qatar				
SAINT LAURENT PARIS LLC	C	24.00	C	24.00
LUXURY GOODS QATAR LLC	C	25.50	C	25.50
Malaysia				
AUTUMNPAPER MALAYSIA SDN BHD	C	100.00	Formation	
BALENCIAGA SEA MALAYSIA SDN BHD	C	100.00	Formation	
BOTTEGA VENETA MALAYSIA SDN BHD	C	100.00	C	100.00
GUCCI (MALAYSIA) SDN BHD	C	100.00	C	100.00
KERING WATCHES AND JEWELRY (MALAYSIA) SDN BHD	C	100.00	Formation	
SAINT LAURENT (MALAYSIA) SDN BHD	C	100.00	C	100.00

Company	% interest Dec. 31, 2018		% interest Dec. 31, 2017	
Mongolia				
ULYSSE NARDIN MONGOLIA LLC	E	50.00	E	50.00
Singapore				
ALEXANDER McQUEEN (SINGAPORE) PTE Ltd	C	100.00	C	100.00
BALENCIAGA SINGAPORE PTE Ltd	C	100.00	C	100.00
BOTTEGA VENETA SINGAPORE PTE Ltd	C	100.00	C	100.00
GUCCI SINGAPORE PTE Ltd	C	100.00	C	100.00
SAINT LAURENT (SINGAPORE) PTE Ltd	C	100.00	C	100.00
Taiwan				
BOUCHERON TAIWAN Co. Ltd	C	100.00	C	100.00
GUCCI GROUP WATCHES TAIWAN Ltd	C	100.00	C	100.00
ULYSSE NARDIN (TAIWAN) Ltd	C	100.00	C	100.00
Turkey				
POMELLATO MUCEVHERAT VE AKSESUAR DAGITIM VE TICARET Ltd SIRKETI	C	100.00	C	100.00
Thailand				
ALEXANDER McQUEEN (THAILAND) Ltd	C	100.00	Formation	
BALENCIAGA THAILAND Ltd	C	100.00	Formation	
BOTTEGA VENETA (THAILAND) Ltd	C	75.00	C	75.00
CLOSED-CYCLE BREEDING INTERNATIONAL Ltd	C	48.00	C	48.00
G OPERATIONS FRASEC Ltd	C	49.00	C	49.00
GUCCI THAILAND Co. Ltd	C	100.00		
GUCCI SERVICES (THAILAND) Co. Ltd	C	100.00	Formation	
LUXURY GOODS (THAILAND) Ltd	C	75.00	C	75.00
SAINT LAURENT (THAILAND) Co.	C	100.00	C	100.00
South Africa				
GG LUXURY RETAIL SOUTH AFRICA PTE Ltd	C	62.00	C	62.00
CORPORATE AND OTHER				
France				
CONSEIL ET ASSISTANCE	C	100.00	C	100.00
DISCODIS SAS	C	100.00	C	100.00
GG FRANCE 13 SAS	C	100.00	C	100.00
GG FRANCE 14 SAS	C	100.00	C	100.00
GG FRANCE HOLDING SAS	C	100.00	C	100.00
KERING EYEWEAR FRANCE SAS	C	63.00	C	63.00

Company	% interest	
	Dec. 31, 2018	Dec. 31, 2017
KERING FINANCE SNC	C 100.00	C 100.00
KERING SIGNATURE	C 100.00	C 100.00
MANUFACTURE CARTIER LUNETTES SAS	C 63.00	C 63.00
SAPARDIS	Merger	C 100.00
SAPRODIS SERVICES SAS	C 100.00	C 100.00
Germany		
KERING EYEWEAR DACH GmbH	C 63.00	C 63.00
Spain		
KERING EYEWEAR ESPAÑA SA	C 63.00	C 63.00
KERING SPAIN SL	C 100.00	C 100.00
United Kingdom		
KERING EYEWEAR UK Ltd	C 63.00	C 63.00
KERING INTERNATIONAL Ltd	C 100.00	C 100.00
KERING UK SERVICES Ltd	C 100.00	C 100.00
Italy		
KERING EYEWEAR SpA	C 63.00	C 63.00
KERING ITALIA SpA	C 100.00	C 100.00
ALEXANDER McQUEEN LOGISTICA SRL	C 100.00	C 100.00
KERING SERVICE ITALIA SpA	C 100.00	C 100.00
Luxembourg		
KERING RE	C 100.00	C 100.00
KERING LUXEMBOURG SA	C 100.00	C 100.00
E-KERING LUX SA	C 100.00	C 100.00
PPR DISTRI LUX SA	Liquidation	C 100.00
Netherlands		
K OPERATIONS BV	C 100.00	C 100.00
GUCCI INTERNATIONAL NV	C 100.00	C 100.00
GUCCI PARTICIPATION BV	C 100.00	C 100.00
KERING HOLLAND NV	C 100.00	C 100.00
KERING INVESTMENTS EUROPE BV	C 100.00	C 100.00
Switzerland		
LUXURY GOODS SERVICES SA	C 100.00	C 100.00
LUXURY GOODS LOGISTICS SA	C 51.00	C 51.00
LUXURY GOODS OPERATIONS SA	C 51.00	C 51.00
China		
GUANGZHOU KGS CORPORATE MANAGEMENT & CONSULTANCY Ltd	C 100.00	C 100.00
KERING (CHINA) ENTERPRISE MANAGEMENT Ltd	C 100.00	C 100.00

Company	% interest	
	Dec. 31, 2018	Dec. 31, 2017
KERING EYEWEAR SHANGHAI TRADING ENTERPRISES Ltd	C 63.00	C 63.00
REDCATS COMMERCE ET TRADING (SHANGHAI) CO Ltd	C 100.00	C 100.00
REDCATS SOURCING (SHANGHAI) Ltd	C 100.00	C 100.00
Korea		
KERING EYEWEAR KOREA Ltd	C 63.00	C 63.00
KERING KOREA Ltd	C 100.00	C 100.00
Hong Kong		
KERING ASIA PACIFIC Ltd	C 100.00	C 100.00
KERING EYEWEAR APAC Ltd	C 63.00	C 63.00
KGS GLOBAL MANAGEMENT SERVICES Ltd	C 100.00	C 100.00
KGS SOURCING Ltd	C 100.00	C 100.00
India		
KERING EYEWEAR INDIA Ltd	C 63.00	Formation
KGS SOURCING INDIA PTE Ltd	C 100.00	C 100.00
Japan		
GUCCI YUGEN KAISHA	C 100.00	C 100.00
KERING EYEWEAR JAPAN Ltd	C 63.00	C 63.00
KERING JAPAN Ltd	C 100.00	C 100.00
KERING TOKYO INVESTMENT Ltd	C 100.00	C 100.00
Malaysia		
KERING EYEWEAR MALAYSIA SDN BHD	C 63.00	Formation
KERING SERVICES MALAYSIA SDN BHD	C 100.00	Formation
Singapore		
KERING EYEWEAR SINGAPORE PTE Ltd	C 63.00	C 63.00
KERING SOUTH EAST ASIA PTE Ltd	C 100.00	C 100.00
Taiwan		
KERING EYEWEAR TAIWAN Ltd	C 63.00	C 63.00
Turkey		
KGS SOURCING TURKEY Ltd	C 100.00	C 100.00
United Arab Emirates		
KERING SERVICES MIDDLE EAST	C 100.00	Formation
Australia		
KERING AUSTRALIA PTY Ltd	C 100.00	Formation
KERING EYEWEAR AUSTRALIA PTY Ltd	C 63.00	Formation

Company	% interest	
	Dec. 31, 2018	Dec. 31, 2017
United States		
KERING AMERICAS Inc.	C 100.00	C 100.00
KERING EYEWEAR USA Inc.	C 63.00	C 63.00
Mexico		
KERING MEXICO S. DE R.L. DE C.V.	C 100.00	C 100.00
DISCONTINUED OPERATIONS		
PUMA		
PUMA SE (GERMANY)	E 15.85	C 86.25
Volcom		
VOLCOM LLC	C 100.00	C 100.00
LS&S RETAIL LLC	C 100.00	C 100.00
VOLCOM RETAIL LLC	C 100.00	C 100.00
VOLCOM RETAIL OUTLET LLC	C 100.00	C 100.00
VOLCOM LUXEMBOURG HOLDING SA	C 100.00	C 100.00
VOLCOM INTERNATIONAL SARL	C 100.00	C 100.00
WELCOM DISTRIBUTION SARL	C 100.00	C 100.00
VOLCOM DISTRIBUTION SPAIN SL	C 100.00	C 100.00
VOLCOM SAS	C 100.00	C 100.00
VOLCOM DISTRIBUTION (UK) Ltd	C 100.00	C 100.00
VOLCOM RETAIL (UK) Ltd	C 100.00	C 100.00
VOLCOM AUSTRALIA HOLDING COMPANY PTY Ltd	C 100.00	C 100.00
VOLCOM AUSTRALIA PTY Ltd	C 100.00	C 100.00

Company	% interest	
	Dec. 31, 2018	Dec. 31, 2017
VOLCOM CANADA Inc.	C 100.00	C 100.00
VOLCOM NEW ZEALAND Ltd	C 100.00	C 100.00
VOLCOM JAPAN GODOGAISHIYA	C 100.00	C 100.00
VOLCOM ASIA PACIFIC Ltd	C 100.00	C 100.00
Stella McCartney		
STELLA McCARTNEY FRANCE SAS	C 50.00	C 50.00
STELLA McCARTNEY Ltd	C 50.00	C 50.00
STELLA McCARTNEY SPAIN SL	C 50.00	C 50.00
STELLA McCARTNEY ITALIA SRL	C 50.00	C 50.00
LUXURY FASHION SA	C 50.00	C 50.00
LUXURY FASHION LUXEMBOURG SA	C 50.00	C 50.00
STELLA McCARTNEY AMERICA Inc.	C 50.00	C 50.00
STELLA McCARTNEY (SHANGHAI) TRADING Ltd	C 50.00	C 50.00
STELLA McCARTNEY HONG KONG Ltd	C 50.00	C 50.00
STELLA McCARTNEY JAPAN Ltd	C 50.00	C 50.00
STELLA McCARTNEY TAIWAN Ltd	C 50.00	Formation
Christopher Kane		
CHRISTOPHER KANE FRANCE SA	C 51.00	C 80.00
CHRISTOPHER KANE Ltd	C 51.00	C 80.00
CHRISTOPHER KANE SRL	C 51.00	C 80.00
CHRISTOPHER KANE Inc.	C 51.00	C 80.00

Note 37 – Statutory Auditors' remuneration

Fees for fiscal year 2018	KPMG				Deloitte			
	Statutory Auditor: KPMG SA		Network		Statutory Auditor: Deloitte & Associés		Network	
(in € thousands)	Amount	%	Amount	%	Amount	%	Amount	%
Statutory audit and interim review of the parent company and consolidated financial statements								
– Issuer	327.8	20%	N/A	N/A	300.2	57%	N/A	N/A
– Fully-consolidated subsidiaries	1,109.6	69%	3,071.5	81%	167.3	31%	1,700.0	81%
Sub-total	**1,437.4**	**89%**	**3,071.5**	**81%**	**467.5**	**88%**	**1,700.0**	**81%**
Non-audit services								
– Issuer	143.0	9%	-	-	62.0	12%	-	-
– Fully-consolidated subsidiaries	39.8	2%	736.3	19%	-	-	391.4	19%
Sub-total(1)	**182.8**	**11%**	**736.3**	**19%**	**62.0**	**12%**	**391.4**	**19%**
TOTAL	**1,620.2**	**100%**	**3,807.8**	**100%**	**529.5**	**100%**	**2,091.4**	**100%**

(1) *Non-audit services provided by KPMG SA to the reporting entity and to its controlled subsidiaries chiefly concerned comfort letters, statements on financial information and agreed-upon procedures relating to financial data.*
Non-audit services provided by Deloitte & Associés to the reporting entity and to its controlled subsidiaries chiefly concerned comfort letters and CSR procedures.

Note 38 – Subsequent events

No significant events occurred between December 31, 2018 and February 11, 2019 – the date on which the Board of Directors authorized the consolidated financial statements for issue.

At its meeting on February 11, 2019, the Board of Directors of Kering appointed Ms. Sophie L'Hélias as independent lead director, with a standard role of, among others, speaking on behalf of the Board on ESG (Environmental, Societal, Governance) matters, in coordination with the Chairman of the Board.

3. STATUTORY AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

This is a translation into English of the Statutory Auditors' report on the consolidated financial statements of the Company issued in French and it is provided solely for the convenience of English speaking users.

This Statutory Auditors' report includes information specifically required by French law, such as information about the appointment of the Statutory Auditors or verification of the Management Report and other documents provided to shareholders.

This report should be read in conjunction with, and construed in accordance with French law and professional auditing standards applicable in France.

To the Kering General Shareholders' Meeting,

Opinion

In compliance with the engagement entrusted to us by the Shareholders' Meetings, we have audited the accompanying consolidated financial statements of Kering SA for the year ended December 31, 2018.

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the Group as of December 31, 2018 and of the results of its operations for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

The audit opinion expressed above is consistent with our report to the Audit Committee.

Basis for Opinion

Audit Framework

We conducted our audit in accordance with professional standards applicable in France. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the "Statutory Auditors' Responsibilities for the Audit of the Consolidated Financial Statements" section of our report.

Independence

We conducted our audit in compliance with independence rules applicable to us, for the period from January 1, 2018 to the issue date of our report and in particular we did not provide any prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No 537/2014 or in the French Code of ethics for Statutory Auditors.

Emphasis of matter

We draw attention to Note 2.2.1 to the consolidated financial statements, "Standards, amendments and interpretations adopted by the European Union and effective as of January 1, 2018", setting out the adoption as of January 1, 2018 of IFRS 9, *Financial Instruments* and IFRS 15, *Revenue from contracts with customers*. Our opinion is not modified in respect of this matter.

Justification of Assessments – Key Audit Matters

In accordance with the requirements of Articles L. 823-9 and R. 823-7 of the French Commercial Code (*Code de commerce*) relating to the justification of our assessments, we bring your attention to the key audit matters relating to risks of material misstatement that, in our professional judgment, were of most significance in the audit of the consolidated financial statements of the current period, as well as our responses to those risks.

These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon. We do not provide a separate opinion on specific elements, accounts or items of the consolidated financial statements.

Tax risks

Notes 12.1.1 and 34 to the consolidated financial statements

Risk identified	Our response
The Group's operations are subject, in the normal course of business activities, to regular audits by the tax authorities in each of the countries in which the Group's different subsidiaries operate. These tax audits can result in revised assessments and litigation with the tax authorities concerning income tax, other taxes and duties and similar payments. The estimate of the impacts of these tax risks and any related provisions recorded, require Management to make significant judgments, notably to assess the outcome of the litigation underway or the probability of the occurrence of identified risks. We have therefore considered these items to be a key audit matter.	We conducted interviews with Management and assessed the procedures implemented to identify tax risks and potentially sensitive uncertain tax positions. We have also with the assistance of our international tax specialist: • conducted interviews with the Group's tax management and local management to assess, if necessary, the current state of investigations carried out and revised assessments notified by the local tax authorities and monitor developments in current litigation; • consulted the recent decisions and correspondence of Group companies with the tax authorities, and familiarized ourselves with the correspondence between the companies concerned and their tax advisors; • analyzed the responses of these tax advisors to our requests for information or the analyses that these advisors produced as part of current litigation; • carried out a critical review of the estimates and positions adopted by Management; • assessed if the latest developments have been taken into consideration in the provision estimates recognized in the balance sheet. We have examined the procedural elements and/or the legal or technical opinions provided by law firms chosen by Management concerning the ongoing procedure in Italy involving Luxury Goods International (LGI), to assess the merits of an absence of a provision.

Impairment tests on goodwill and intangible assets with indefinite lives

Notes 2.6, 2.7, 2.10, 16, 17 and 19 to the consolidated financial statements

Risk identified	Our response
As of December 31, 2018, goodwill and brands are recorded on the balance sheet for a net carrying amount of €2,399.2 million and €6,789.8 million, respectively, or 11% and 32% of the total consolidated assets as at December 31, 2018. The CGUs or groups of CGU holding goodwill and/or intangible assets with indefinite lives, such as certain brands, are subject to systematic impairment tests during the second half of the year and when events or circumstances indicate that an impairment loss is likely to occur. When the recoverable amount of a CGU is less than the net carrying amount, an impairment is recorded. The recoverable amount of a CGU is the higher of its fair value less disposal costs and value in use. Value in use is determined based on expected future cash flow projections and taking account of the time value of money and risks specific to the asset, CGU or CGU group. During each period, Management confirms that the carrying value of the goodwill and the brands does not exceed the recoverable amount and does not show any risk of impairment loss. Any unfavorable change in the expected returns from activities to which the goodwill and brands have been allocated, due to internal or external factors related to the economic and financial environment in which the activity operates, may possibly impact the recoverable amount and result in the recognition of an impairment. Such a change would require a re-assessment of the pertinence of all the assumptions adopted to determine this amount as well as the reasonableness and consistency of the calculation parameters. Given the significant amount of goodwill and brands in the consolidated financial statement as at 31 December 2018 consolidated assets and uncertainties inherent in certain assumptions and notably, the probability of achieving forecasts used to calculate the recoverable amount, we considered the valuation of goodwill and intangible assets with indefinite lives to be a key audit matter.	We have examined the compliance of the impairment testing methodology adopted by the company with prevailing accounting standards. We have also carried out a critical review of the implementation of this methodology. Our procedures consisted in: • examining the items comprising the carrying amount of the CGUs to which the goodwill and brands have been allocated by the Group; • reviewing the consistency of cash flow projections with Management assumptions and the economic environments in which the Group operates; • assessing the consistency of the growth rates adopted for projected cash flows with available external analyses; • assessing the reasonableness of discount rates applied to estimated cash flows, verifying notably that the different parameters comprising the weighted average cost of capital (WAAC) of each CGU enable the return expected by market participants for similar activities to be reached; • assessing Management analyses of the sensitivity of the value in use to a change in the main assumptions; • assessing the royalty rates applied to brands in the calculation of future revenue; • compare the projected cash flows of previous business plans with the actual cash flows to assess the reason bless of the assumptions; • confirming that Note 19 to the consolidated financial statements provides appropriate disclosures on sensitivity analyses performed on the recoverable amount of goodwill and intangible assets with indefinite lives to changes in the main assumptions adopted.

Valuation of inventories

Notes 2.9 and 22 to the consolidated financial statements

Risk identified	Our response
As of December 31, 2018, inventories appear on the consolidated balance sheet for a net amount of €2,414.7 million and represent 11% of consolidated assets. As disclosed in Note 2.9 to the consolidated financial statements, inventories are valued at the lower of cost and net realizable value: • cost is determined according to the retail method or weighted average cost, depending on the Group business; • net realizable value is the estimated sale price in the normal course of operations, net of costs incurred to complete the sale. The Group may recognize an inventory allowance based on the expected turnover if inventory items are damaged, if the selling price has declined, or if the estimated costs to completion or to be incurred to make the sale have increased. The performance of the Houses, determined by the frequency of collections and turnover of inventory, depends heavily on the commercial success of product portfolios within each brand of the Group. Given the significant amount of inventories in the consolidated assets land the degree of judgment inherent in certain assumptions underlying the valuation of provisions for inventory allowances, we considered this topic to be a key audit matter.	Our procedures consisted in: • assessing the methods used to value inventories and confirming the consistency of accounting methods; • testing the effectiveness of the controls set up by Management to prevent or detect possible errors in the valuation of inventories; • assessing the data and assumptions adopted by Management to determine the prospects for inventory turnover and the resulting provisions; • assessing forecast and budget figures which may impact the depreciation; • assessing the retained assumptions and the implementing measures to determine the specific provisions.

Application of IFRS 5 following the distribution of PUMA shares to Kering shareholders on May 16, 2018

Notes 3.1 and 4 to the consolidated financial statements

Risk identified	Our response
The distribution of the majority of PUMA shares to Kering shareholders, approved by the General Shareholders' Meeting of April 25, 2018, took effect on May 16, 2018, the payment date for the dividend in kind. This distribution led to a loss of control of PUMA and generated a net capital gain recorded in the Consolidated Income Statement in "Net income from discontinued operations" in the amount of €1,181 million. It also led to the transfer to "Net income from discontinued operations" in the Consolidated Income Statement of PUMA's activity up to May 16, 2018, in accordance with IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*. Given that the distribution of PUMA shares to Group shareholders led to a significant change in the consolidation scope in 2018 and had a material impact on Group net income, we considered the accounting recognition of this transaction and the resulting loss of control to be a key audit matter.	Our procedures consisted in: • assessing the compliance of the accounting treatment of this distribution and the resulting loss of control in accordance with the IFRS standards as adopted by the European Union; • substantiating the date of deconsolidation of PUMA's assets and liabilities with the effective date of loss of control; • verifying the arithmetical accuracy of the net capital gains calculation, both for the PUMA shares distributed and for the share capital retained; • verifying that the PUMA net income from discontinued operations presented on a separate line of the Consolidated Income Statement, correctly includes the following components: - the net capital gain on the PUMA shares sold and retained, - the net income from PUMA's activities for the period January 1 to the date of loss of control, for fiscal year 2018 and fiscal year 2017 comparative figures; • confirming that Notes 3.1 and 4 to the consolidated financial statements contain the appropriate disclosures.

Specific Verification Concerning the Group Presented in the Management Report

As required by French law, we have also verified in accordance with professional standards applicable in France the information concerning the Group presented in the Board of Directors' Management Report.

We have no matters to report as its fair presentation and its consistency with the consolidated financial statements.

We hereby attest that the consolidated non-financial information statement required by Article L. 225-102-1 of the French Commercial Code (*Code de commerce*) is included in the Group information presented in the Management Report. Pursuant to Article L. 823-10 of this Code, we have not verified the fair presentation or consistency of the information contained in this statement with the consolidated financial statements. A report will be issued on this information by an independent third-party.

Report on Other Legal and Regulatory Requirements

Appointment of the Statutory Auditors

We were appointed Statutory Auditors of Kering SA by the Shareholders' Meeting of June 18, 1992 for KPMG S.A. and May 18, 1994 for Deloitte & Associés.

As of December 31, 2018, KPMG S.A. was in its 27th year of uninterrupted engagement and Deloitte & Associés in its 25th year.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is expected to liquidate the Company or to cease its operations.

The Audit Committee is responsible for monitoring the financial reporting process and the effectiveness of internal control and risk management systems and, where applicable, its Internal Audit, regarding the accounting and financial reporting procedures.

The consolidated financial statements have been approved by the Board of Directors.

Statutory Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Objective and audit approach

Our role is to issue a report on the consolidated financial statements. Our objective is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As specified by Article L. 823-10-1 of the French Commercial Code (*Code de commerce*), the scope of our statutory audit does not include assurance on the future viability of the Company or the quality with which Company's management has conducted or will conduct the affairs of the entity.

As part of an audit conducted in accordance with professional standards applicable in France, the statutory auditor exercises professional judgment throughout the audit and furthermore:

- identifies and assesses the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtains an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control;
- evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management in the consolidated financial statements;
- assesses the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Ccompany's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of his audit report. However, future events or conditions may cause the Company to cease to continue as a going concern. If we conclude that a material uncertainty exists, we draw attention in our audit report to the related disclosures in the consolidated financial statements or, if such disclosures are not provided or inadequate, we modify our opinion;
- evaluates the overall presentation of the consolidated financial statements and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtains sufficient appropriate audit evidence regarding the financial information of the entities included in the consolidation scope to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit of the consolidated financial statements. We remain solely responsible for our audit opinion.

Report to the Audit Committee

We submit a report to the Audit Committee which includes in particular a description of the scope of the audit and the audit program implemented, as well as significant audit findings. We also report, if any, significant deficiencies in internal control regarding the accounting and financial reporting procedures that we have identified.

Our report to the Audit Committee includes the risks of material misstatement that, in our professional judgment, were of most significance in the audit of the consolidated financial statements of the current period and which are therefore the key audit matters that we are required to describe in this report.

We also provide the Audit Committee with the declaration referred to in Article 6 of Regulation (EU) no 537/2014, confirming our independence pursuant to the rules applicable in France as defined in particular by Articles L. 822-10 to L. 822-14 of the French Commercial Code (*Code de commerce*) and in the French Code of ethics for Statutory Auditors. Where appropriate, we discuss with the Audit Committee the risks that may reasonably be thought to bear on our independence, and the related safeguards.

Paris-La Défense, February 12, 2019

The Statutory Auditors

KPMG Audit Division of KPMG S.A.		Deloitte & Associés	
Isabelle Allen	Grégoire Menou	Frédéric Moulin	Stéphane Rimbeuf

4. EXTRACTS FROM THE FINANCIAL STATEMENTS OF KERING SA

The financial statements are prepared in accordance with regulation no. 2014-03 of the French accounting standards authority (*Autorité des normes comptables* – ANC).

4.1 Balance sheet – assets

as of December 31, 2018 and 2017

(in € millions)	Dec. 31, 2018	Dec. 31, 2017
Investments	8,183.6	9,417.9
Other long-term investments[1]	450.6	270.5
Other non-current assets	209.4	135.1
NON-CURRENT ASSETS	**8,843.6**	**9,823.5**
Receivables[2][3]	219.7	244.0
Marketable securities	-	0.0
Cash[3]	1,032.3	4,859.4
CURRENT ASSETS	**1,252.0**	**5,103.4**
TOTAL ASSETS	**10,095.6**	**14,926.9**
(1) o/w due in less than one year:	*187.9*	*19.6*
(2) o/w due in more than one year:	*6.3*	*0.0*
(3) o/w concerning associates:	*1,215.5*	*5,024.1*

4.2 Balance sheet – shareholders' equity and liabilities

as of December 31, 2018 and 2017

(in € millions)	Dec. 31, 2018	Dec. 31, 2017
Share capital	505.1	505.1
Additional paid-in capital	2,052.4	2,052.4
Reserves	1,585.5	1,585.5
Retained earnings	613.4	2,160.0
Net income for the year	1,656.6	3,915.0
SHAREHOLDERS' EQUITY	**6,413.0**	**10,218.0**
Provisions	**129.1**	**109.1**
Bonds[1]	2,837.0	4,100.1
Other borrowings[1][3]	31.1	42.6
Other liabilities[2][3]	685.4	457.1
TOTAL LIABILITIES	**3,553.5**	**4,599.8**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**10,095.6**	**14,926.9**
(1) o/w due in more than one year:	*2,592.0*	*3,600.2*
(2) o/w due in more than one year:	*0.0*	*0.0*
(3) o/w concerning associates:	*116.2*	*83.1*

4.3 Income statement
for the years ended December 31, 2018 and 2017

(in € millions)	2018	2017
Operating income (loss)	**(35.3)**	**(21.5)**
Dividends	1,010.3	3,839.4
Other financial income and expenses	(73.2)	(95.6)
Net financial income	**937.1**	**3,743.8**
Recurring income before tax	**901.8**	**3,722.3**
Net non-recurring income	725.7	67.4
Employee profit-sharing	(7.3)	(3.9)
Income tax	36.3	129.2
Net income for the year	**1,656.6**	**3,915.0**

4.4 Statement of cash flows
for the years ended December 31, 2018 and 2017

(in € millions)	2018	2017
Dividends received	1,010.3	3,839.4
Interest on borrowings	(71.5)	(95.0)
Income tax paid/received	44.8	105.1
Other	2.9	(63.2)
Change in cash resulting from operating activities	**986.5**	**3,786.3**
(Acquisitions)/disposals of operating assets	(118.0)	(69.5)
Change in long-term investments	(2,647.4)	(0.1)
Change in cash resulting from investing activities	(2,765.4)	(69.6)
Net change in borrowings	(1,290.5)	(55.6)
Share capital increases	-	-
Dividends paid by Kering	(757.7)	(580.9)
Change in cash resulting from financing activities	**(2,048.2)**	**(636.5)**
Change in cash and cash equivalents	**(3,827.1)**	**3,080.2**
Cash and cash equivalents at beginning of year	**4,859.4**	**1,779.2**
Cash and cash equivalents at end of year	**1,032.3**	**4,859.4**

Kering

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