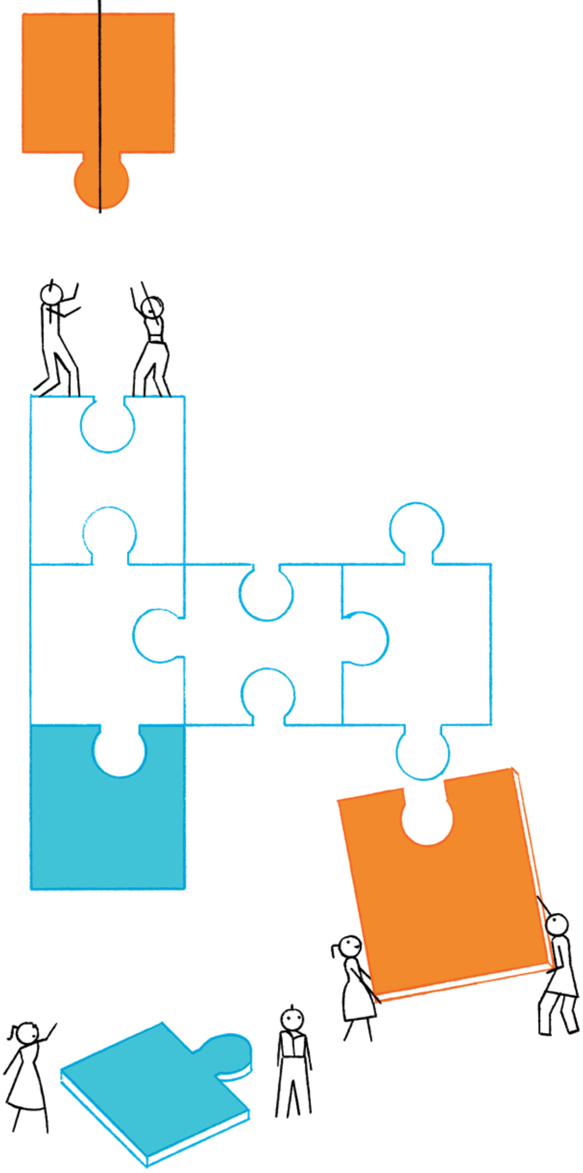
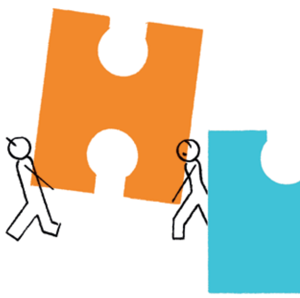
HERMÈS
PARIS

HALF-YEAR FINANCIAL REPORT

JUNE 2018





HALF-YEAR FINANCIAL REPORT JUNE 2018

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KEY FIGURES

KEY CONSOLIDATED DATA FOR THE FIRST HALF OF 2018

In millions of euros	H1 2018	FY 2017	H1 2017
Revenue	2,853	5,549	2,713
Growth at current exchange rates vs. n-1	*5.2%*	*6.7%*	*11.2%*
Growth at constant exchange rates vs. n-1 [1]	*11.2%*	*8.6%*	*9.7%*
Recurring operating income	985	1,922	931
in % of revenue	*34.5%*	*34.6%*	*34.3%*
Operating income	1,037	1,922	931
in % of revenue	*36.3%*	*34.6%*	*34.3%*
Net income attributable to owners of the parent	708	1,221	605
in % of revenue	*24.8%*	*22.0%*	*22.3%*
Operating cash flows	849	1,598	794
Investments (excluding financial investments)	128	270	105
Equity attributable to owners of the parent [2]	4,789	5,039	4,564
Net cash position	2,713	2,912	2,434
Restated net cash position [3]	2,798	3,050	2,530
Workforce (number of employees)	13,764	13,483	13,059

(1) Growth at constant exchange rates is calculated by applying, for each currency, the average exchange rates of the previous period to the revenue for the period.
(2) Equity excluding non-controlling interests.
(3) The restated net cash includes cash investments that do not meet IFRS criteria for cash and cash equivalents, notably as a result of their original maturity being greater than three months.

HALF-YEAR BUSINESS REPORT

HALF-YEAR HIGHLIGHTS

The Group's consolidated revenue amounted to €2,853 million in the first half of 2018, up 11% at constant exchange rates and up 5% at current exchange rates. Recurring operating income increased by 6% to reach €985 million (34.5% of sales). After inclusion of €53 million in capital gains on disposal of property, operating income amounted to €1,037 million (36.3% of sales) and net profit increased by 17% to €708 million.

FIRST-HALF REVENUE

(At constant exchange rates unless otherwise indicated)

In the first half of 2018, revenue increased in all geographical areas worldwide:

- Asia excluding Japan (+15%) continued its outstanding performance, with positive momentum in continental China and the whole region. The group also benefitted from the January opening of the Landmark Prince's store in Hong Kong. The Changsha store in China opened in May;
- Japan (+7%) confirmed its robust growth with no price effect;
- America (+12%) progressed well with high demand. In May, the group opened its 34th store in the USA, at Palo Alto in the heart of Silicon Valley. The Cancùn store opened in Mexico at the end of March;
- Europe excluding France (+7%) and France (+8%) achieved good performances despite the strengthening of the Euro. The Monaco and Nice stores reopened in June, and the third store in Istanbul, in Emaar Square, opened in May. The new website *hermes.com* was successfully deployed in Europe at the end of March, offering a one-stop address for both editorial content and products, reflecting the diversity of the Maison's creations.

The performance in the first half was driven by solid growth across all business lines.

Growth in Leather Goods and Saddlery (+8%) was sustained over the first half of the year, based on collections combining style, know-how, diversity of materials and functionality. Demand remains high, both for the Maison's classics and other models, such as the *Roulis*, *Lindy* and *Cinhetic* bags. Production capacities continued to increase, with the opening of the *Manufacture de l'Allan* in April, completing the craftsmanship production capacities in Franche-Comté around the Seloncourt and Héricourt sites, and the start of the Guyenne and Montereau production site projects, scheduled for completion in 2020.

The Ready-to-Wear and Accessories division (+17%) pursued its growth, thanks to the pertinence and boldness of our men's and women's ready-to-wear collections and the success of fashion accessories and footwear. A men's universe event was staged in Shanghai in April.

The Silk and Textiles business line (+7%) confirmed its favourable momentum with sustained demand, thanks to the diversity of materials and wealth of creations, particularly around silk twill and cashmere.

Driven by the successes of *Terre d'Hermès* and of *Twilly d'Hermès*, Perfumes (+15%) recorded a sharp increase.

The Watches business line (+9%) posted a good sales performance in the group's stores.

Other Hermès business lines (+24%), which encompass Jewellery, Art of Living and Hermès Table Arts, recorded strong growth over the period.

In millions of euros	H1 2018	H1 2017	Reported change	Change at constant exchange rates
France	390.3	360.7	8.2%	8.2%
Europe (excl. France)	500.7	475.5	5.3%	7.4%
Total Europe	**891.1**	**836.2**	**6.6%**	**7.8%**
Japan	344.8	348.7	(1.1)%	6.8%
Asia-Pacific (excluding Japan)	1,072.8	998.5	7.4%	14.9%
Total Asia	**1,417.6**	**1,347.2**	**5.2%**	**12.8%**
Americas	489.9	482.4	1.5%	12.4%
Other	54.8	47.2	16.1%	16.2%
TOTAL	**2,853.4**	**2,713.1**	**5.2%**	**11.2%**

In millions of euros	H1 2018	H1 2017	Reported change	Change at constant exchange rates
Leather Goods and Saddlery [1]	1,425.1	1,404.0	1.5%	8.0%
Ready-to-wear and Accessories [2]	637.3	579.2	10.0%	16.7%
Silk and Textiles	249.4	246.3	1.3%	7.1%
Other Hermès sectors [3]	201.7	172.3	17.0%	24.1%
Perfumes	153.2	134.4	14.0%	14.9%
Watches	77.0	75.0	2.7%	9.0%
Other products [4]	109.8	101.9	7.8%	10.3%
TOTAL	**2,853.4**	**2,713.1**	**5.2%**	**11.2%**

(1) The "Leather Goods and Saddlery" business line includes bags, riding, diaries and small leather goods.
(2) The "Ready-to-wear and Accessories" business line includes Hermès Ready-to-wear for men and women, belts, costume jewellery, gloves, hats and shoes.
(3) The "Other Hermès" business line includes Jewellery and Hermès home products (Art of Living and Hermès Tableware).
(4) The "Other products" includes the production activities carried out on behalf of non-group brands (textile printing, tanning, etc.), as well as the John Lobb, Saint-Louis, Puiforcat and Shang Xia products.

FIRST-HALF RESULTS TREND

The gross margin was 69.9%, down 0.2 points compared with H1 2017, due to the negative impact of foreign exchange hedges partially offset by the accretive effect of the appreciation of the euro. In addition, the Group benefitted from high levels of productivity at the production facilities and the success of the collections.

Selling, marketing and administrative expenses, which represented €830 million, compared with €807 million at the end of June 2017, included in particular €120 million in communication expenditure (compared with €120 million in the previous half-year).

Other income and expenses came to €180 million. This figure includes €90 million of depreciation and amortisation charges, the rise in which is due to the rapid pace of investment in the development and renovation of the distribution network, as well as the cost of free share allocation plans.

Recurring operating income increased by 6% to €985 million, compared to €931 million in the first half of 2017. Thanks to a particularly sound growth and the accretive impact of foreign exchange over the first six months, the recurring operating margin gained 0.2 point to reach 34.5% of sales.

After inclusion of €53 million in capital gains resulting from the sale of the former Galleria store premises in Hong Kong, operating income amounts to €1,037 million, up +11%, reaching 36.3% of sales.

Net financial income, notably financial income from cash management investments and foreign exchange gains and losses, represented an expense of €4 million, compared with an expense of €10 million in the first half of 2017.

Net income attributable to non-controlling interests totalled €2 million, compared with €1 million at the end of June 2017.

After taking into account a tax expense of €336 million and income from associates (€12 million), consolidated net income attributable to owners of the parent amounted to €708 million, compared with €605 million in the first half of 2017, an increase of 17%.

INVESTMENTS

Operating investments amounted to €120 million in the first half of 2018.

In millions of euros	H1 2018	FY 2017	H1 2017
Operating investments	119.9	265.2	104.8
Investments in financial assets	8.4	4.9	0.4
Subtotal – Investments (excluding financial investments)	**128.3**	**270.1**	**105.2**
Financial investments [1]	14.7	142.7	84.4
TOTAL INVESTMENTS	**143.0**	**412.8**	**189.6**

(1) Financial investments correspond to cash investments for which the original maturity of more than three months requires that they be classified as financial assets in accordance with IFRS.

FINANCIAL POSITION

Operating cash flows totalled €849 million, up by 7%. This enabled the Group to finance all capital expenditure (€120 million), the change in working capital requirements (€38 million) and the distribution of the ordinary dividend (€428 million). After payment of the extraordinary dividend (€521 million), net cash amounted to €2,713 million at 30 June 2018, against €2,912 million at 31 December 2017.

After taking into account financial investments with maturity greater than three months, the restated net cash position stood at €2,798 million at 30 June 2018, against €3,050 million at 31 December 2017.

During the first six months, Hermès International redeemed 88,039 shares for €51 million, outside transactions completed within the framework of the liquidity contract.

Following the payment of the ordinary and extraordinary dividends, shareholders' equity (Group share) totalled €4,789 million at 30 June 2018, compared with €5,039 million at 31 December 2017.

SUBSEQUENT EVENTS

No significant event occurred between 30 June 2018 and 11 September 2018, date on which the Executive Management approved the condensed consolidated interim financial statements.

OUTLOOK

In the medium term, despite growing economic, geopolitical and monetary uncertainties around the world, the Group confirms an ambitious goal for revenue growth at constant exchange rates.

In 2018, Hermès is celebrating the theme “Let’s play!”. Beyond mere recreation, this guiding vision reminds us of the importance of enjoyment as a driver of creativity, innovation and agility.

Thanks to its unique business model, Hermès is pursuing its long-term development strategy based on creativity, maintaining control over know-how and singular communication.

RISKS AND UNCERTAINTIES

The Hermès Group’s results are exposed to the risks and uncertainties set out in the 2017 registration document. The assessment of these risks did not change during the first half of 2018, and no new risks had been identified at the date of publication of this report. The main risks are exposure to currency fluctuations and changing economic conditions in some parts of the world.

RELATED-PARTY TRANSACTIONS

Relations between the Hermès Group and related companies during the first half of 2018 were comparable with those of 2017. In particular, no unusual transaction, by its nature or amount, was carried out during the period.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS AT 30 JUNE 2018

N.B: the values shown in the tables are generally expressed In millions of euros. In certain cases, the effects of rounding up/down can lead to a slight discrepancy on the level of the totals or changes.

CONSOLIDATED STATEMENT OF INCOME

In millions of euros	Notes	H1 2018	FY 2017	H1 2017
Revenue	4	**2,853.4**	**5,549.2**	**2,713.1**
Cost of sales	5	(859.2)	(1,659.3)	(809.9)
Gross margin		**1,994.1**	**3,889.9**	**1,903.2**
Selling, marketing and administrative expenses	6	(830.0)	(1,656.3)	(807.1)
Other income and expenses	7	(179.6)	(311.6)	(164.8)
Recurring operating income	4	**984.5**	**1,922.0**	**931.3**
Other non-recurring income and expenses	8	52.7	-	-
Operating income		**1,037.2**	**1,922.0**	**931.3**
Net financial income	9	(4.2)	(32.2)	(9.8)
Net income before tax		**1,033.0**	**1,889.8**	**921.5**
Income tax	10	(335.7)	(669.3)	(322.5)
Net income from associates		12.3	5.3	7.6
CONSOLIDATED NET INCOME		**709.5**	**1,225.8**	**606.5**
Net income attributable to non-controlling interests	23	(1.8)	(4.3)	(1.4)
NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT		**707.8**	**1,221.5**	**605.2**
Earnings per share *in euros*	11	6.79	11.70	5.79
Diluted earnings per share *in euros*	11	6.75	11.62	5.75

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

In millions of euros	Notes	H1 2018	FY 2017	H1 2017
Consolidated net income		**709.5**	**1,225.8**	**606.5**
Changes in foreign currency adjustments [1]	22.4	51.2	(149.6)	(84.6)
Future cash flow hedges in foreign currencies [1,2]	22.3	(51.3)	55.8	47.6
◆ *change in fair value*		*(12.6)*	*58.7*	*44.8*
◆ *recycling through profit or loss*		*(38.8)*	*(2.8)*	*2.8*
Assets measured at fair value [2]		27.6	72.7	-
Employee benefit obligations: change in value linked to actuarial gains and losses [2]	22.4	-	(8.6)	-
Net comprehensive income		**737.0**	**1,196.1**	**569.5**
◆ attributable to owners of the parent		735.2	1,192.0	567.7
◆ attributable to non-controlling interests		1.8	4.2	1.8

(1) Transferable through profit or loss.
(2) Net of tax.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS

In millions of euros	Notes	30/06/2018	31/12/2017	30/06/2017
Non-current assets		**2,284.5**	**2,297.6**	**2,220.8**
Goodwill	12	15.4	32.9	35.9
Intangible assets	13	129.3	131.9	125.0
Property, plant and equipment	14	1,279.2	1,283.3	1,282.4
Investment property	15	78.7	79.8	83.6
Financial assets	16	249.8	270.9	99.7
Investments in associates	17	77.2	72.5	89.7
Loans and deposits	18	47.3	47.6	46.9
Deferred tax assets	10.2	377.6	349.8	424.7
Other non-current assets	20	30.1	29.0	33.0
Current assets		**4,238.7**	**4,470.6**	**3,940.0**
Inventories and work-in-progress	19	953.3	896.2	930.9
Trade and other receivables	20	247.9	255.9	257.1
Current tax receivables	20	24.9	32.6	37.0
Other assets	20	213.2	253.0	172.1
Financial derivatives	24	81.1	101.1	100.6
Cash and cash equivalents	21	2,718.3	2,931.9	2,442.3
TOTAL ASSETS		**6,523.3**	**6,768.2**	**6,160.8**

LIABILITIES

Before allocation

In millions of euros	Notes	30/06/2018	31/12/2017	30/06/2017
Equity		**4,792.5**	**5,045.5**	**4,570.2**
Share capital		53.8	53.8	53.8
Share premium		49.6	49.6	49.6
Treasury shares		(457.2)	(453.6)	(277.5)
Reserves		4,296.4	4,022.3	4,004.7
Foreign currency adjustments	22.2	65.0	13.8	78.3
Revaluation adjustments	22.3	73.5	131.4	50.4
Net income attributable to owners of the parent		707.8	1,221.5	605.2
Non-controlling interests	23	3.5	6.6	5.7
Non current liabilities		**406.3**	**365.2**	**362.3**
Borrowings and financial liabilities		25.6	23.5	22.3
Provisions	25	56.1	7.1	3.2
Post-employment and other employee benefit obligations	27	200.7	188.2	191.3
Deferred tax liabilities	10.2	21.4	46.8	48.7
Other non-current liabilities	28	102.6	99.5	96.9
Current liabilities		**1,324.6**	**1,357.5**	**1,228.2**
Borrowings and financial liabilities		13.7	30.1	17.6
Provisions	25	144.9	151.7	132.9
Post-employment and other employee benefit obligations	27	6.0	6.0	5.6
Trade and other payables	28	425.8	481.0	381.1
Financial derivatives	24	41.1	18.8	25.7
Current tax liabilities	28	171.1	141.1	148.1
Other current liabilities	28	522.0	528.8	517.1
TOTAL EQUITY AND LIABILITIES		**6,523.3**	**6,768.2**	**6,160.8**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

In millions of euros	Share capital	Share premium	Treasury shares	Consolidated reserves and net income attributable to owners of the parent
Notes				
As at 1 January 2017	**53.8**	**49.6**	**(287.8)**	**4,494.6**
Net income for the first half of 2017	-	-	-	605.2
Other comprehensive income for the first half of 2017	-	-	-	-
Comprehensive income for the first half of 2017	**-**	**-**	**-**	**605.2**
Change in share capital and share premium	-	-	-	-
Purchase or sale of treasury shares	-	-	10.2	(21.8)
Share-based payments	-	-	-	32.3
Dividends paid	-	-	-	(399.3)
Other	-	-	-	(7.2)
AS AT 30 JUNE 2017	**53.8**	**49.6**	**(277.5)**	**4,703.8**
Net income for the second half of 2017	-	-	-	616.3
Other comprehensive income for the second half of 2017	-	-	-	-
Comprehensive income for the second half of 2017	**-**	**-**	**-**	**616.3**
Change in share capital and share premium	-	-	-	-
Purchase or sale of treasury shares	-	-	(176.1)	-
Share-based payments	-	-	-	29.7
Dividends paid	-	-	-	-
Other	-	-	-	(3.5)
As at 31 December 2017	**53.8**	**49.6**	**(453.6)**	**5,346.4**
Net income for the first half of 2018	-	-	-	707.8
Other comprehensive income for the first half of 2018	-	-	-	-
Comprehensive income for the first half of 2018	**-**	**-**	**-**	**707.8**
Change in share capital and share premium	-	-	-	-
Purchase or sale of treasury shares	-	-	(3.6)	(47.4)
Share-based payments	-	-	-	28.6
Dividends paid	-	-	-	(953.9)
IFRS 9 first application	-	-	-	34.2
Other	-	-	-	(8.9)
AS AT 30 JUNE 2018	**53.8**	**49.6**	**(457.2)**	**5,106.7**

		Revaluation adjustments					
Actuarial gains and losses	Foreign currency adjustments	Financial investments	Future cash flow hedge in foreign currencies	Equity attributable to owners of the parent	Non-controlling interests	Equity	Number of shares
22.4	22.2	22.3	22.3		23		22
(93.8)	**163.3**	**-**	**2.8**	**4,382.6**	**2.2**	**4,384.8**	**105,569,412**
-	-	-	-	605.2	1.4	606.5	-
-	(85.0)	-	47.6	(37.4)	0.5	(37.0)	-
-	**(85.0)**	**-**	**47.6**	**567.7**	**1.8**	**569.5**	**-**
-	-	-	-	-	-	-	-
-	-	-	-	(11.5)	-	(11.5)	-
-	-	-	-	32.3	-	32.3	-
-	-	-	-	(399.3)	(2.6)	(401.9)	-
-	-	-	-	(7.2)	4.3	(2.9)	-
(93.8)	**78.3**	**-**	**50.4**	**4,564.5**	**5.7**	**4,570.2**	**105,569,412**
-	-	-	-	616.3	2.9	619.2	-
(8.6)	(64.4)	72.7	8.3	8.0	(0.6)	7.4	-
(8.6)	**(64.4)**	**72.7**	**8.3**	**624.2**	**2.4**	**626.6**	**-**
-	-	-	-	-	-	-	-
-	-	-	-	(176.0)	-	(176.0)	-
-	-	-	-	29.7	-	29.7	-
-	-	-	-	-	-	-	-
-	(0.1)	-	-	(3.6)	(1.5)	(5.1)	-
(102.5)	**13.8**	**72.7**	**58.7**	**5,039.0**	**6.6**	**5,045.5**	**105,569,412**
-	-	-		707.8	1.8	709.5	-
-	51.2	27.6	(51.3)	27.5	-	27.5	-
-	**51.2**	**27.6**	**(51.3)**	**735.2**	**1.8**	**737.0**	**-**
-	-	-	-	-	-	-	-
-	-	-	-	(51.1)	-	(51.1)	-
-	-	-	-	28.6	-	28.6	-
-	-	-	-	(953.9)	(3.6)	(957.5)	-
-	-	-	(34.2)	-	-	-	-
-	-	-	-	(8.9)	(1.3)	(10.2)	-
(102.5)	**65.0**	**100.3**	**(26.8)**	**4,789.0**	**3.5**	**4,792.5**	**105,569,412**

CONSOLIDATED STATEMENT OF CASH FLOWS

In millions of euros	Notes	H1 2018	FY 2017	H1 2017
CASH FLOWS RELATED TO OPERATING ACTIVITIES				
Net income attributable to owners of the parent		707.8	1,221.5	605.2
Depreciation and amortisation	13, 14, 15	106.4	201.1	100.3
Impairment losses	12, 13, 14	32.8	41.9	16.7
Mark-to-Market financial instruments		14.7	(1.4)	0.6
Foreign exchange gains/(losses) on fair value adjustments		(18.8)	19.7	13.7
Change in provisions		50.9	78.6	49.0
Net income from associates		(12.3)	(5.3)	(7.6)
Net income attributable to non-controlling interests	23	1.8	4.3	1.4
Capital gains/(losses) on disposals		(51.7)	1.3	(0.9)
Deferred tax expense		(11.1)	(25.3)	(16.4)
Accrued expenses and income related to share-based payments		28.6	62.0	32.3
Other		(0.1)	(0.3)	(0.1)
Operating cash flows		**849.0**	**1,598.1**	**794.2**
Dividend income		(9.9)	(17.9)	(18.0)
Interest income and expenses		(8.9)	(8.6)	(4.2)
Current tax expense		355.3	689.7	353.2
Operating cash flows before financial interest, dividends and taxes		**1,185.5**	**2,261.3**	**1,125.2**
Change in working capital requirements related to the activity		(73.8)	34.7	(27.1)
Interest income and expenses		8.9	8.6	4.2
Income tax paid		(319.3)	(698.9)	(366.6)
Change in net cash related to operating activities		**801.2**	**1,605.6**	**735.7**
CASH FLOWS RELATED TO INVESTING ACTIVITIES				
Purchase of intangible assets	13	(27.0)	(49.3)	(21.2)
Purchase of property, plant and equipment	14 & 15	(92.9)	(216.0)	(83.7)
Purchase of investment securities		(8.4)	(4.9)	(0.4)
Purchase of other financial assets	16	(14.7)	(142.7)	(84.4)
Amounts payable to fixed asset suppliers		(13.3)	15.8	(7.8)
Proceeds from sale of operating assets		69.0	3.6	3.5
Proceeds from sale of investments in associates		-	-	-
Proceeds from sale of other financial assets	16	67.4	10.7	11.4
Dividends received		9.7	36.0	21.6
Change in net cash related to investing activities		**(10.2)**	**(346.7)**	**(160.8)**
CASH FLOWS RELATED TO FINANCING ACTIVITIES				
Dividends paid		(957.5)	(401.9)	(401.9)
Treasury share buybacks net of disposals		(51.7)	(187.9)	(11.9)
Proceeds from borrowings		0.2	0.7	1.1
Repayment of borrowings		(1.7)	(1.8)	(3.1)
Other increases/(decreases) in equity		-	-	-
Change in net cash related to financing activities		**(1,010.7)**	**(590.9)**	**(415.7)**
Change in scope		-	-	-
Change in foreign currency translation adjustment on intra-group transactions		3.4	(23.5)	(6.2)
Foreign currency translation adjustment		17.9	(52.7)	(38.5)
CHANGE IN NET CASH POSITION		**(198.5)**	**591.8**	**114.5**
Net cash at the beginning of the period	21	2,911.7	2,319.8	2,319.8
Net cash at the end of the period	21	2,713.2	2,911.7	2,434.3
CHANGE IN NET CASH POSITION	**21**	**(198.5)**	**591.8**	**114.5**

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

DETAILED SUMMARY

The condensed interim consolidated financial statements as presented were approved by the Executive Management on 11 September 2018 after review by the Audit Committee at its meeting of 7 September 2018.

NOTE 1 ACCOUNTING PRINCIPLES AND POLICIES

The Hermès Group's condensed interim consolidated financial statements were prepared in accordance with IAS 34 *Interim financial reporting* as adopted by the European Union. The accompanying notes do not contain all of the information required for the complete annual financial statements. They should therefore be read in conjunction with the consolidated financial statements for 2017.

The accounting policies and calculation methods used to prepare these condensed interim financial statements are the same as those used to prepare the financial statements for the year ended 31 December 2017 and described therein, with the exception of the estimated tax expense for the half-year and employee benefits, which are assessed separately (Note 1.3), and the first application from 1 January 2018 of IFRS 9 *Financial instruments* and IFRS 15 *Recognition of revenue.*

The standards adopted by the European Union may be consulted at www.eur-lex.europa.eu.

1.1 Standards, amendments and interpretations mandatory in 2018

- IFRS 9 *Financial Instruments* that establishes the principles governing the recognition of and financial disclosures relating to financial assets and liabilities. These principles replace those previously covered by IAS 39 *Financial instruments*.

The Group is largely concerned with the change in the treatment of hedge accounting. For cash flow hedges, the effective portion of changes in fair value of derivatives is recognised directly in other elements of comprehensive income under «Revaluation adjustments». Moreover, the change in fair value associated with the swap points of forward currency agreements as well as the time value (premium) of foreign currency options classified as cash flow hedges is also recognised in other elements of comprehensive income under the same item as the effective portion. When the hedged cash flows materialise, the amounts recorded up to that point under equity are transferred to the statement of profit and loss in the same way as the hedged item; under operating income for the effective portion and under financial income for the swap points and time value.
The impact of this new accounting method concerning the time value of options and the swap points of forward currency agreements led to the reclassification at 1 January 2018 of an amount of €34 million net of deferred tax from «Consolidated reserves» to «Revaluation adjustments». The impact on the income of comparative periods is not deemed to be significant (around €9 million). Consequently this has not been restated.

The Group is also concerned with the change in accounting treatment of investment securities and their reclassification in profit or loss or as an option in non recyclable equity. The option of reclassification in equity was adopted for securities held in the portfolio at 31 December 2017.

Finally, the changes brought about by IFRS 9 in terms of the impairment of trade receivables (the «expected loss» model) have no significant impact, the risk being low due to the nature of the «Retail» activity and the Group's insurance policy for the «Wholesale» activity when local conditions allow.

- IFRS 15 *Recognition of revenue* replaces IAS 18 *Revenue*.

The application of this standard has no significant impact on the consolidated financial statements.

1.2 Standards, amendments and interpretations applicable from the 2018 financial year

The Group monitors changes to standards that were not yet applicable as of 30 June 2018, notably:

- IFRS 16 *Leases*, applicable in 2019. In 2017, the Group initiated its project for the implementation of the standard that almost exclusively concerns real estate rentals. The inventory of contracts and the collection of the data necessary to precisely estimate the impact on the balance sheet of the first application of IFRS 16 are in progress. In view of the Group's activity, the application of this standard is expected to have a significant impact.

1.3 Special features of the preparation of interim financial statements

The half-yearly tax expense corresponds to half of the expense calculated for the full year.

Barring a specific event during the period, the post-employment benefit obligation is not subject to an actuarial valuation in the first half. The post-employment benefit expense for the first half of 2018 is one-half of the net expense calculated for 2018 as a whole, based on the data and actuarial assumptions used as at 31 December 2017.

NOTE 2 ANALYSIS OF THE MAIN CHANGES IN SCOPE

The Group did not make any significant acquisitions or disposals during the first half of 2018.

NOTE 3 SEASONAL NATURE OF THE BUSINESS

The Group's overall activity is evenly balanced over the year as a whole (in 2017, 49% of the Group's revenue was generated during the first half, and 51% during the second).

However, second-half sales are heavily reliant on trading during the year-end festive season.

NOTE 4 SEGMENT INFORMATION

Information by operating segment

The following information is presented after eliminations and adjustments:

	June 2018							
In millions of euros	France	Europe (excluding France)	Japan	Asia-Pacific (excluding Japan)	Americas	Other	Holding	Total
Revenue	390.3	500.7	344.8	1,072.8	489.9	54.8	-	2,853.4
Recurring operating income	117.6	129.0	131.0	499.1	165.2	8.9	(66.3)	984.5
Recurring operating profitability by segment	*30.1%*	*25.8%*	*38.0%*	*46.5%*	*33.7%*	*16.2%*		*34.5%*
Other non-recurring income and expenses	-	-	-	52.7	-	-	-	-
Operating income	117.6	129.0	131.0	551.8	165.2	8.9	(66.3)	1,037.2
Operating investments	61.1	11.0	3.5	17.2	20.3	-	6.7	119.9
Non-current assets [1]	814.8	162.5	161.8	244.9	207.4	35.5	40.1	1,667.1

	June 2017							
In millions of euros	France	Europe (excluding France)	Japan	Asia-Pacific (excluding Japan)	Americas	Other	Holding	Total
Revenue	360.7	475.5	348.7	998.5	482.4	47.2	-	2,713.1
Recurring operating income	116.5	143.6	130.2	458.4	157.5	7.5	(82.4)	931.2
Recurring operating profitability by segment	*32.3%*	*30.2%*	*37.3%*	*45.9%*	*32.6%*	-	-	*34.3%*
Other non-recurring income and expenses	-	-	-	-	-	-	-	-
Operating income	116.5	143.6	130.2	458.4	157.5	7.5	(82.4)	931.2
Operating investments	47.3	15.8	1.0	18.9	17.2	-	4.6	104.8
Non-current assets [1]	793.1	187.7	171.3	275.1	228.0	32.9	35.5	1,723.7

(1) Non-current assets other than financial instruments and deferred tax assets.

NOTE 5 COST OF SALES

Cost of sales mainly comprises purchases, the cost of labour for production, the portion of depreciation that is allocated to the production cost, impairment of inventories, losses on inventories and variable selling expenses.

NOTE 6 SELLING, MARKETING AND ADMINISTRATIVE EXPENSES

In millions of euros	H1 2018	FY 2017	H1 2017
Communication	(120.4)	(275.5)	(119.6)
Other selling, marketing and administrative expenses	(709.6)	(1,380.9)	(687.5)
TOTAL	**(830.0)**	**(1,656.3)**	**(807.1)**

NOTE 7 OTHER RECURRING INCOME AND EXPENSES

In millions of euros	Note	H1 2018	FY 2017	H1 2017
Amortisation		**(89.8)**	**(167.1)**	**(82.8)**
Net change in provisions		(11.5)	(32.2)	(12.5)
Cost of defined-benefit plans	27	(11.7)	(16.6)	(10.6)
Sub-total		**(23.2)**	**(48.8)**	**(23.2)**
Impairment losses		(32.9)	(41.9)	(16.7)
Expenses linked to bonus share allocation plans and similar expenses	29	(40.2)	(74.8)	(38.7)
Other expenses		(1.2)	(25.9)	(18.5)
Other products		7.7	47.0	15.1
Sub-total		**(66.6)**	**(95.7)**	**(58.8)**
TOTAL		**(179.6)**	**(311.6)**	**(164.8)**

Total depreciation and amortisation of property, plant and equipment and intangible assets included in operating expenses ("Other income and expenses" and "Cost of sales") amounted to €106.4 million in the first half of 2018, compared with €100.3 million in the same period in 2017.

NOTE 8 OTHER NON-RECURRING INCOME AND EXPENSES

In millions of euros	H1 2018	FY 2017	H1 2017
Non-recurring operating expenses	**-**	**-**	**-**
Other expenses	-	-	-
Non-recurring operating income	**52.7**	**-**	**-**
Gains on disposals of assets	52.7	-	-
Other products	-	-	-
TOTAL	**52.7**	**-**	**-**

Other non-recurring income and expenses correspond to the net gain on the sale of the premises of the former Galleria store in Hong Kong for €52.7 million.

NOTE 9 NET FINANCIAL INCOME

In millions of euros	Note	H1 2018	FY 2017	H1 2017
Income from cash and cash equivalents		6.6	7.0	3.6
Cost of gross financial debt		2.4	1.6	0.6
◆ *of which net income/(loss) on hedging instruments*		*2.9*	*3.4*	*1.6*
Cost of net financial debt		**8.9**	**8.6**	**4.2**
Other financial income and expenses		(13.1)	(40.8)	(14.0)
◆ *of which ineffective portion of cash flow hedges*	24	*(21.6)*	*(57.8)*	*(31.5)*
TOTAL		**(4.2)**	**(32.2)**	**(9.8)**

NOTE 10 TAXES

10.1 Tax rate

The tax rate expected in 2018 is 32.5% (35.4% in financial year 2017).

10.2 Deferred taxes

In millions of euros	H1 2018	FY 2017	H1 2017
Deferred tax assets at 1 January	349.8	430.4	430.4
Deferred tax liabilities at 1 January	46.8	49.0	49.0
Net deferred tax assets at 1 January	**303.0**	**381.4**	**381.4**
Impact on statement of profit or loss	20.1	20.4	30.7
Impact on scope of consolidation	-	-	-
Impact of exchange rate movements	3.2	(18.5)	(11.3)
Others [1]	29.9	(80.3)	(24.7)
NET DEFERRED TAX POSITION AT THE END OF THE PERIOD	**356.2**	**303.0**	**376.0**
Balance of deferred tax assets at the end of the period	377.6	349.8	424.7
Balance of deferred tax liabilities at the end of the period	21.4	46.8	48.7

(1) Other items relate to deferred taxes resulting from changes in the portion of the revaluation of financial instruments recorded in equity (recyclable portion). These changes had no impact on net income for the period (see Note 22.4).

Deferred taxes mainly related to the following adjustments:

In millions of euros	H1 2018	FY 2017	H1 2017
Internal margins on inventories and provisions for inventories	260.0	247.8	271.6
Employee benefits	55.5	55.9	64.5
Derivatives	(22.1)	(51.9)	(10.7)
Impairment losses	25.2	20.4	22.5
Regulated provisions	(39.9)	(42.9)	(40.9)
Other	77.5	73.7	69.0
TOTAL	**356.2**	**303.0**	**376.0**

NOTE 11 NET EARNINGS PER SHARE

The calculation and reconciliation of basic earnings per share and diluted earnings per share is as follows:

	H1 2018	FY 2017	H1 2017
Numerator *In millions of euros*			
Basic net income	707.8	1,221.5	605.2
Adjustments	-	-	-
Diluted net income	707.8	1,221.5	605.2
Denominator *in number of shares*			
Weighted average number of ordinary shares	**104,195,611**	**104,435,755**	**104,505,864**
Basic earnings per share	**6.79**	**11.70**	**5.79**
Dilutive effect of stock option plans			
Dilutive effect of free share plans	607,717	725,045	677,456
Weighted average number of diluted ordinary shares	**104,803,328**	**105,160,800**	**105,183,320**
Diluted earnings per share	**6.75**	**11.62**	**5.75**
Average share price	€498.82	€433.02	€427.90

NOTE 12 GOODWILL

In millions of euros	30/06/2017	31/12/2017	Increases	Decreases	Exchange rate impact	Other	30/06/2018
Goodwill	143.2	139.0	-	-	0.7	-	139.7
TOTAL GROSS VALUES	**143.2**	**139.0**	**-**	**-**	**0.7**	**-**	**139.7**
Amortisation recognised before 1 January 2004	31.4	29.9	-	-	1.0	-	30.9
Impairment losses	75.9	76.1	18.0	-	(0.7)	-	93.4
TOTAL AMORTISATION AND IMPAIRMENT	**107.3**	**106.0**	**18.0**	**-**	**0.3**	**-**	**124.3**
TOTAL NET VALUES	**35.9**	**32.9**	**(18.0)**	**-**	**0.4**	**-**	**15.4**

At 30 June 2018, the Group had reviewed the allocation of goodwill to the various CGUs, resulting in the offsetting of historical goodwill in the amount of €18 million.

At 30 June 2018, the net value of goodwill amounted to €15.4 million and concerned the Hermès Japan CGU.

NOTE 13 INTANGIBLE ASSETS

In millions of euros	30/06/2017	31/12/2017	Increases	Decreases	Exchange rate impact	Other	30/06/2018
Leasehold rights	66.5	65.5	-	-	(0.1)	0.8	66.2
Concessions, patents, licences and software	193.0	215.9	11.7	-	0.5	17.3	245.4
Other intangible assets	84.4	84.7	0.9	-	(0.7)	(10.2)	74.7
Assets under construction	24.5	15.8	14.4	-	-	(6.1)	24.1
TOTAL GROSS VALUES	**368.4**	**381.9**	**27.0**	**-**	**(0.4)**	**1.8**	**410.5**
Amortisation of leasehold rights	42.0	39.5	7.4	-	(0.1)	-	46.8
Amortisation of concessions, patents, licences and software	124.8	134.0	14.1	-	0.4	9.4	157.9
Amortisation of other intangible assets	66.1	69.9	2.0	-	(0.6)	(9.6)	61.7
Impairment losses	10.4	6.5	6.9	-	0.1	1.1	14.6
TOTAL AMORTISATION AND IMPAIRMENT	**243.4**	**250.0**	**30.4**	**-**	**(0.3)**	**0.9**	**281.0**
TOTAL NET VALUES	**125.0**	**131.9**	**(3.4)**	**-**	**(0.2)**	**1.0**	**129.3**

NOTE 14 PROPERTY, PLANT AND EQUIPMENT

In millions of euros	30/06/2017	31/12/2017	Increases [1]	Decreases	Exchange rate impact	Other	30/06/2018
Land	164.9	158.4	-	(11.6)	3.9	0.7	151.4
Buildings	832.6	820.3	2.3	(8.6)	6.6	4.7	825.3
Industrial machinery, plant and equipment	302.3	301.9	4.9	(0.8)	0.4	5.8	312.3
Store fixtures and furnishings	753.6	769.4	25.0	(12.8)	8.1	27.9	817.5
Other property, plant and equipment assets	335.7	341.5	4.4	(4.7)	0.7	4.2	346.1
Assets under construction	53.1	91.3	56.3	(0.1)	(0.1)	(48.4)	99.0
TOTAL GROSS VALUES	**2,442.2**	**2,482.8**	**92.9**	**(38.6)**	**19.7**	**(5.2)**	**2,551.6**
Depreciation of buildings	301.0	302.6	16.1	(3.6)	3.8	(1.7)	317.2
Depreciation of plant, machinery and equipment	171.6	174.8	10.3	(0.6)	0.3	1.7	186.5
Depreciation of store fixtures and furnishings	406.2	427.6	37.5	(12.7)	4.6	(1.0)	456.0
Depreciation of other property, plant and equipment	209.8	213.1	17.6	(4.7)	0.6	(1.2)	225.5
Impairment losses [2]	71.2	81.3	8.1	(0.1)	(0.2)	(2.0)	87.2
TOTAL AMORTISATION AND IMPAIRMENT	**1,159.8**	**1,199.5**	**89.6**	**(21.7)**	**9.0**	**(4.1)**	**1,272.4**
TOTAL NET VALUES	**1,282.4**	**1,283.3**	**3.3**	**(16.8)**	**10.7**	**(1.1)**	**1,279.2**

(1) *Investments made during the first half of 2018 mainly include the opening and renovation of stores and capital expenditure to expand production capacity.*
(2) *Impairment losses include production activities and stores deemed to be insufficiently profitable. It is noted that the cash generating units on which impairment losses have been recognised are not individually material when compared with the Group's overall business.*

No item of property, plant or equipment has been pledged as debt collateral. Furthermore, the amount of such assets in temporary use is not material when compared with the total value of property, plant and equipment.

NOTE 15 INVESTMENT PROPERTY

In millions of euros	30/06/2017	31/12/2017	Increases	Decreases	Exchange rate impact	Other	30/06/2018
Land	30.5	29.7	-	-	-	(0.1)	29.6
Buildings	72.6	70.1	-	-	0.1	0.1	70.2
TOTAL GROSS VALUES	**103.1**	**99.8**	**-**	**-**	**0.1**	**-**	**99.9**
Amortisation	19.5	20.0	1.1	-	0.1	-	21.2
TOTAL NET VALUES	**83.6**	**79.8**	**(1.1)**	**-**	**0.1**	**-**	**78.7**

It is stipulated that the Group and its subsidiaries are not bound by any contractual obligation to buy, build or develop investment properties, existing or not.

Moreover, the costs incurred for the upkeep, maintenance and improvement of the investment assets are neither significant nor likely, as far as we know, to change materially in the coming financial years.

Rental income from investment property amounted to €4 million in the first half of 2018, compared with €3 million in the first half of 2017.

NOTE 16 FINANCIAL ASSETS

In millions of euros	30/06/2017	31/12/2017	Increases [1]	Decreases	Exchange rate impact	Other [2]	30/06/2018
Financial investments and accrued interest	97.6	267.3	14.2	(67.4)	(0.3)	23.0	236.9
Liquidity contract	10.3	10.6	0.5	-	-	-	11.2
Other non-consolidated investments	0.3	1.1	8.4	-	-	0.4	9.8
TOTAL GROSS VALUES	**108.2**	**278.9**	**23.1**	**(67.4)**	**(0.3)**	**23.4**	**257.9**
Impairments	8.5	8.1	-	-	-	-	8.1
TOTAL NET VALUES	**99.7**	**270.8**	**23.1**	**(67.4)**	**(0.3)**	**23.4**	**249.8**

(1) Financial investments correspond to cash investments that do not meet the cash equivalent criteria, notably as a result of their original maturity being greater than three months.
(2) Changes in the value of financial assets measured at fair value are recorded as “Revaluation adjustments” in equity.

NOTE 17 INVESTMENTS IN ASSOCIATES

The change in investments in associates breaks down as follows:

In millions of euros	H1 2018	FY 2017	H1 2017
Balance as at 1 January	**72.5**	**87.3**	**87.3**
Impact of changes in scope of consolidation	-	(0.1)	-
Net income from associates	14.1	5.3	7.6
Dividends paid	(9.7)	(18.1)	(3.6)
Exchange rate fluctuations	0.3	(2.0)	(1.5)
Other	-	-	(0.1)
Balance at end of period	**77.2**	**72.5**	**89.7**

NOTE 18 LOANS AND DEPOSITS

In millions of euros	30/06/2017	31/12/2017	Increases	Decreases	Exchange rate impact	Other	30/06/2018
Loans and deposits [1]	61.3	61.8	3.3	(3.4)	0.4	-	62.0
Impairments	14.5	14.2	1.0	(0.4)	(0.1)	-	14.7
TOTAL	**46.9**	**47.6**	**2.3**	**(3.0)**	**0.5**	**-**	**47.3**

(1) At 30 June 2018, security deposits amounted to €40.3 million, compared with €39.1 million at 31 December 2017.

NOTE 19 INVENTORIES AND WORK IN PROGRESS

	30/06/2018			31/12/2017	30/06/2017
In millions of euros	Gross	Impairment	Net	Net	Net
Retail, intermediate and finished goods	1,017.5	410.2	607.3	534.4	570.6
Raw materials and work-in-progress	569.5	223.6	345.9	361.8	360.3
TOTAL	**1,587.0**	**633.7**	**953.3**	**896.2**	**930.9**
Net income/(expense) from impairment of retail, intermediate and finished goods	-	5.8	-	-	(16.3)
Net income/(expense) from impairment of raw materials and work in progress	-	(13.8)	-	-	(7.6)

It is stipulated that no inventories have been pledged as collateral to secure borrowings.

NOTE 20 TRADE AND OTHER RECEIVABLES

In millions of euros	30/06/2018 Gross	30/06/2018 Impairment	30/06/2018 Net	31/12/2017 Net	30/06/2017 Net
Trade and other receivables	253.7	5.8	247.9	255.9	257.1
of which: ◆ not yet due	*211.1*	*0.3*	*210.8*	*227.4*	*204.8*
◆ due [1]	*42.6*	*5.5*	*37.1*	*28.5*	*52.3*
Tax receivables	24.9	-	24.9	32.6	37.0
Other assets	213.5	0.3	213.2	253.0	172.1
Other non-current assets	30.4	0.3	30.1	29.0	33.0
TOTAL	**522.5**	**6.3**	**516.1**	**570.4**	**499.2**

(1) The amount of trade and other receivables payable is broken down as follows:

	30/06/2018 Gross	30/06/2018 Impairment	30/06/2018 Net	31/12/2017 Net	30/06/2017 Net
Under 3 months	38.5	1.4	37.1	25.2	40.6
Between 3 and 6 months	1.0	1.0	-	3.2	7.1
Over 6 months	3.1	3.1	-	-	4.6
TOTAL	**42.6**	**5.5**	**37.1**	**28.5**	**52.3**

With the exception of other non-current receivables, all receivables are due within one year. There were no significant payment deferrals that would justify the discounting of receivables.

The risk of non-recovery is low, as evidenced by the amount of impairment of trade receivables, which represents 2% of the gross value as of 30 June 2018 (2% at the end of 2017). There is no significant concentration of credit risk.

NOTE 21 CASH AND CASH EQUIVALENTS

In millions of euros	30/06/2017	31/12/2017	Cash flows	Exchange rate impact	Impact on scope of consolidation	Others [1]	30/06/2018
Cash and cash equivalents	1,028.3	1,005.9	72.4	12.9	-	(0.2)	1,090.9
Marketable securities [2]	1,414.2	1,926.5	(304.0)	5.0	-	-	1,627.6
Sub-total	**2,442.3**	**2,932.4**	**(231.5)**	**17.9**	**-**	**(0.2)**	**2,718.5**
Bank overdrafts and current accounts in debit	(8.1)	(20.7)	15.3	-	-	-	(5.4)
NET CASH POSITION	**2,434.3**	**2,911.7**	**(216.2)**	**17.9**	**-**	**(0.2)**	**2,713.2**

(1) Corresponds to the mark-to-market on cash and cash equivalents.
(2) Primarily invested in money market UCITS and cash equivalents maturing in less than three months.

All cash and cash equivalents mature in less than three months and have sensitivity of less than 0.5%.

NOTE 22 EQUITY

As at 30 June 2018, Hermès International's share capital consisted of 105,569,412 fully paid-up shares with a par value of €0.51 each, of which 1,301,216 treasury shares.

During the first half of 2018, the following movements occurred in respect of treasury shares:

- buyback of 88,039 shares for €51.3 million, excluding movements under the liquidity contract;
- resale of 1,185 shares as part of the liquidity contract;
- delivery of 201,340 bonus shares allotted to Hermès Group employees.

There was no change in the Company's share capital during the first half of 2018.

It is specified that no shares are reserved for issuance under put options or agreements to sell shares.

For management purposes, the Hermès Group uses the notion of "equity attributable to owners of the parent" as shown in the consolidated statement of changes in equity. More specifically, equity includes the revaluation of financial instruments and actuarial gains and losses, in accordance with the definitions set out in Notes 1.9 and 1.17 of the 2017 registration document.

The Group's objectives, policies and procedures in the area of capital management are in keeping with sound management principles designed to ensure that operations are well-balanced financially and to minimise the use of debt. As its surplus cash position gives it some flexibility, the Group does not use prudential ratios such as "return on equity" in its capital management. During the current year, the Group made no change in its capital management policy and objectives.

22.1 Dividends

At the General Meeting of 5 June 2018, held to approve the financial statements for the financial year ended 31 December 2017, it was decided to pay an ordinary dividend of €4.10 per share and an extraordinary dividend of €5.00 per share for the year.

Taking into account the interim dividend of €1.50 per share paid on 22 February 2018, a cash balance of €7.60 was paid on 12 June 2018.

The total dividend payment accordingly amounted to €948.7 million.

22.2 Foreign currency adjustments

The change in foreign currency adjustments during the first half of 2018 breaks down as follows:

In millions of euros	30/06/2018	31/12/2017	30/06/2017
Balance as at 1 January	**13.8**	**163.3**	**163.3**
Yen	10.0	(15.8)	(3.9)
US dollar	18.0	(64.0)	(39.0)
Yuan	2.3	(6.2)	(2.7)
Rouble	(0.3)	(1.0)	(0.6)
Pound sterling	1.2	(8.0)	(4.9)
Macao pataca	0.5	(7.7)	(3.5)
Swiss franc	1.1	(10.2)	(1.8)
Singapore dollar	9.9	(10.9)	(9.0)
Hong Kong dollar	16.9	(30.1)	(27.0)
Other currencies	(8.4)	4.4	7.4
Balance at end of period	**65.0**	**13.8**	**78.3**

22.3 Revaluation adjustments

Changes in derivatives and financial investments during the first half of 2018 break down as follows (after tax):

In millions of euros	H1 2018	FY 2017	H1 2017
Balance as at 1 January	**131.4**	**2.8**	**2.8**
Amount transferred to equity in the year in respect of derivatives	(34.9)	6.3	6.3
Revaluation of derivatives	(12.6)	59.4	48.3
Revaluation of financial investments	27.6	72.7	-
Other deferred foreign exchange gains/(losses) recognised in comprehensive income	(3.9)	(9.9)	(7.0)
IFRS 9 first application	(34.2)	-	-
Balance at end of period	**73.5**	**131.4**	**50.4**

22.4 Income and expenses recognised in comprehensive income

Income and expenses recognised directly in equity during the first half of 2018 are as follows:

In millions of euros	Notes	Gross impact	Tax effect	Net impact
Actuarial gains and losses		-	-	-
Foreign currency adjustments	22.2	51.2	-	51.2
Revaluation adjustments	22.3	(54.1)	30.4	(23.7)
Balance as at 30 June 2018				**27.5**

In millions of euros	Notes	Gross impact	Tax effect	Net impact
Actuarial gains and losses		3.4	(12.0)	(8.6)
Foreign currency adjustments	22.2	(149.6)	-	(149.6)
Revaluation adjustments	22.3	196.2	(67.6)	128.6
Balance as at 31 December 2017				**(29.6)**

In millions of euros	Notes	Gross impact	Tax effect	Net impact
Actuarial gains and losses		-	-	-
Foreign currency adjustments	22.2	(84.6)	-	(84.6)
Revaluation adjustments	22.3	72.3	(24.7)	47.6
Balance as at 30 June 2017				**(37.1)**

NOTE 23 NON-CONTROLLING INTERESTS

In millions of euros	30/06/2018	31/12/2017	30/06/2017
Balance as at 1 January	**6.6**	**2.2**	**2.2**
Net income attributable to non-controlling interests	1.8	4.3	1.4
Dividends paid to non-controlling interests	(3.6)	(2.6)	(2.6)
Foreign currency translation adjustments on foreign entities	-	(0.1)	0.5
Other changes	(1.3)	2.8	4.3
Balance at end of period	**3.5**	**6.6**	**5.7**

NOTE 24 EXPOSURE TO MARKET RISKS

The Hermès Group's results are exposed to the risks and uncertainties set out in the 2017 registration document. The assessment of these risks did not change during the first half of 2018, and no new risks had been identified at the date of publication of this report. The main risks are exposure to currency fluctuations and changing economic conditions in some parts of the world. The Group's foreign exchange policy is based on the management principles described in the 2017 registration document.

The net position of financial instruments on the balance sheet is as follows:

In millions of euros	30/06/2018	31/12/2017	30/06/2017
Net financial derivative assets	81.1	101.1	100.6
Net financial derivative liabilities	(41.1)	(18.8)	(25.7)
Net position of derivative financial instruments	**40.0**	**82.3**	**74.9**

The ineffective portion of cash flow hedges recorded in profit or loss is negative €21.6 million (of which €0.8 million from over-hedging), compared with -€57.8 million (of which €0.9 million from over-hedging) at 31 December 2017 and -€31.5 million (of which -€0.4 million from over-hedging) at 30 June 2017 (see Note 8). The impact of the effective portion of the hedges recorded in equity is shown in Note 22.

The valuation methods used for financial instruments as at 30 June 2018 are identical to those used at 31 December 2017, as described on page 205 of the 2017 registration document.

NOTE 25 PROVISIONS

In millions of euros	30/06/2017	31/12/2017	Depreciations	Reversals [1]	Exchange rate impact	Other and reclassifications	30/06/2018
Current provisions	132.9	151.7	20.9	(14.5)	0.7	(14.0)	144.9
Non-current provisions	3.2	7.1	34.0	(0.5)	-	15.6	56.1
TOTAL	**136.1**	**158.8**	**54.8**	**(15.0)**	**0.7**	**1.6**	**201.0**

(1) Of which €5.0 million reversed and used.

The provisions correspond to the estimated consequences to assets of actual or probable risks, litigation and disputes on the Group's activities.

Current provisions concern risks, disputes and litigation (tax, legal, social) as well as provisions for returns of goods in the normal course of operations.

In particular, certain French companies of the Group are subject to tax audits and received reassessment proposals for the years 2013 and 2014 at the end of December 2017, mainly relating to corporate income tax. After consulting its legal advisors, Hermès has challenged these reassessments and intends to seek redress using the means available to it for its defence.

Hermès considers that risks, disputes and litigation are the subject of appropriate provisions the amounts of which are reviewed, in coordination with its legal advisors, and in accordance with the criteria of IAS 37 and IAS 12.

As of 30 June 2018, the Group considers that it is not exposed to risks liable to have a material impact, on an individual basis, on its financial position and profitability.

NOTE 26 EMPLOYEES

A geographical breakdown of the workforce is as follows:

	30/06/2018	31/12/2017	30/06/2017
France	8,476	8,319	8,060
Europe (excl. France)	1,492	1,421	1,395
Other geographical areas	3,796	3,743	3,604
TOTAL	**13,764**	**13,483**	**13,059**

Personnel expenses totalled €561 million in the first half of 2018, compared with €536 million in the first half of 2017.

NOTE 27 POST-EMPLOYMENT AND OTHER EMPLOYEE BENEFIT OBLIGATIONS

Hermès Group employees are eligible for post-employment benefits through either defined-contribution plans or defined-benefit plans. A description of these plans as well as the main assumptions used to measure pension benefit obligations are presented in Note 25 to the consolidated financial statements, starting on page 229 of the 2017 registration document.

In millions of euros	Post-employment plans	Other long-term benefits	H1 2018	FY 2017	H1 2017
Provisions as at 1 January	**180.7**	**13.5**	**194.2**	**189.0**	**189.0**
Foreign currency adjustments	1.9	0.1	2.0	(5.4)	(2.0)
Cost according to statement of profit or loss	11.6	1.2	12.8	19.8	11.8
Benefits/contributions paid	(2.0)	(0.3)	(2.3)	(5.8)	(1.9)
Actuarial gains and losses	-	-	-	(3.4)	-
Change in scope	-	-	-	-	-
Other	-	-	-	(0.1)	-
Provisions at end of period	**192.2**	**14.5**	**206.7**	**194.2**	**196.9**

The expense recognised in respect of defined-benefit plans was €12.8 million in the first half of 2018, compared with €11.8 million in the first half of 2017.

No changes were made to plans during the first half of the year.

In millions of euros	Post-employment plans	Other long-term benefits	H1 2018	FY 2017	H1 2017
Service costs	10.7	1.1	11.7	17.1	10.8
Interest costs	0.8	0.1	0.9	2.2	0.9
Financial income on assets	-	-	-	(0.5)	-
(Gains)/losses resulting from a plan change	-	-	-	0.8	-
Change in scope	-	-	-	-	-
Net actuarial (gains)/losses recognised in year	-	-	-	-	-
Administrative expenses	0.1	-	0.1	0.2	0.1
Cost of defined-benefit plans	**11.6**	**1.2**	**12.8**	**19.8**	**11.8**

NOTE 28 TRADE PAYABLES AND OTHER LIABILITIES

In millions of euros	30/06/2018	31/12/2017	30/06/2017
Accounts payable	383.8	425.8	350.0
Amounts payable to fixed asset suppliers	42.0	55.2	31.0
Trade and other payables	**425.8**	**481.0**	**381.1**
Current tax liabilities	171.1	141.1	148.1
Other current liabilities	522.0	528.8	517.1
Other non-current liabilities	102.6	99.5	96.9
TRADE PAYABLES AND OTHER LIABILITIES	**1,221.5**	**1,250.5**	**1,143.2**

NOTE 29 SHARE-BASED PAYMENTS

The total expense incurred in the first half of 2018 for all free share plans (including social security contributions) was €40.2 million, compared with €74.8 million in 2017 and €38.7 million in the first half of 2017.

No new plans were established in the first half of 2018.

NOTE 30 UNRECOGNISED COMMITMENTS

There was no material change in the Group's unrecognised commitments during the half-year.

NOTE 31 RELATED-PARTY TRANSACTIONS

Relations between the Hermès Group and related companies during the first half of 2018 were comparable with those of 2017. In particular, no unusual transaction, by its nature or amount, was carried out during the period.

NOTE 32 SUBSEQUENT EVENTS

No significant event occurred between 30 June 2018 and 11 September 2018, date on which the Executive Management approved the condensed consolidated interim financial statements.

STATUTORY AUDITORS' REPORT ON THE INTERIM FINANCIAL INFORMATION

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

To the shareholders,

In accordance with the assignment entrusted to us by your annual General Meeting and pursuant to Article L. 451-1-2 III of the French Monetary and Financial Code, we performed:

- a limited review of the interim consolidated financial statements of Hermès International for the period from 1 January to 30 June 2018, as attached to this report;
- verification of the information given in the half-year business report.

These condensed interim consolidated financial statements were prepared under the responsibility of the Executive Management. Our role is to express an opinion on these financial statements based on our limited review.

1. OPINION ON THE FINANCIAL STATEMENTS

We conducted our review in accordance with professional standards applicable in France. A limited review consists primarily of interviewing the members of management in charge of accounting and financial matters, and implementing analytical procedures. This work is less extensive than that required for an audit carried out in accordance with professional standards applicable in France. As a result, the assurance obtained in a limited review that the financial statements, taken as a whole, are free of material misstatements is a moderate assurance, less than that obtained in an audit.

Our limited review did not bring to light any significant misstatements liable to call into question the compliance of the condensed interim consolidated financial statements with IAS 34 *Interim financial reporting* as adopted by the European Union.

2. SPECIFIC VERIFICATION

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

Neuilly-sur-Seine, 11 September 2018

The Statutory Auditors

PricewaterhouseCoopers Audit

Olivier Auberty

Didier Kling & Associés
Member of Grant Thornton International

Didier Kling

Guillaume Giné

STATEMENT BY THE PERSONS RESPONSIBLE FOR THE INTERIM FINANCIAL REPORT

We hereby certify that, to the best of our knowledge, the condensed interim consolidated financial statements were prepared in accordance with the applicable accounting standards, and give a true and fair view of the assets, financial position and results of the Company and of all companies within its scope of consolidation, and that the half year business report on page 5 presents a fair view of the significant events occurring during the first six months of the year, their impact on the financial statements, the main related-party transactions and a description of the main risks and uncertainties for the remaining six months of the year.

Paris, 11 September 2018

Executive Chairmen

Axel Dumas

Henri-Louis Bauer
representing Émile Hermès SARL

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