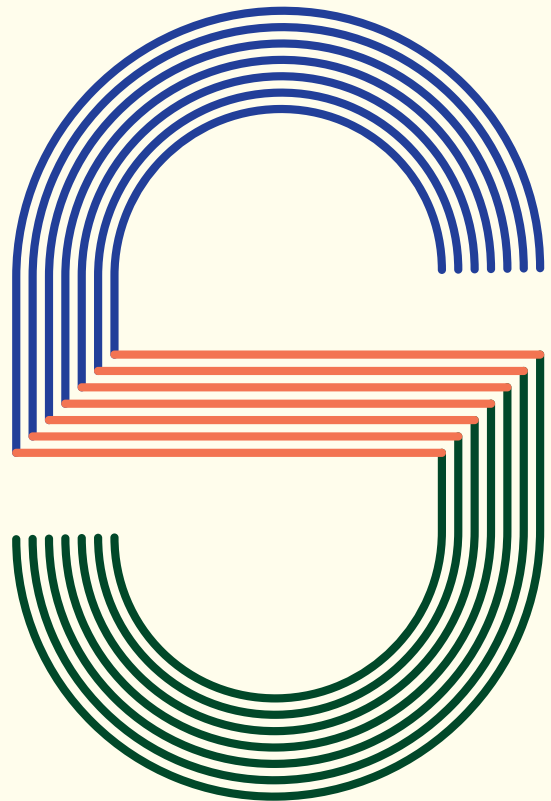


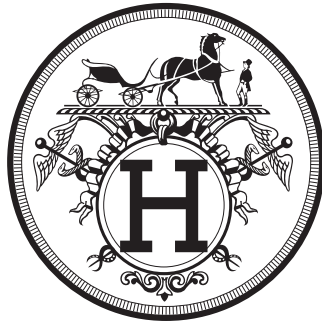
*Half-year
financial
report*

June 2020



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HALF-YEAR FINANCIAL REPORT JUNE 2020



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1. KEY FIGURES

1

KEY CONSOLIDATED DATA FOR THE FIRST HALF OF 2020

<i>In millions of euros</i>	H1 2020	FY 2019	H1 2019
Revenue	2,488	6,883	3,284
<i>Growth at current exchange rates vs. n-1</i>	(24.2)%	15.4%	15.1%
<i>Growth at constant exchange rates vs. n-1</i> ¹	(24.9)%	12.4%	12.0%
Recurring operating income ²	535	2,339	1,144
<i>In % of revenue</i>	21.5%	34.0%	34.8%
Operating income	535	2,339	1,144
<i>In % of revenue</i>	21.5%	34.0%	34.8%
Net profit attributable to owners of the parent	335	1,528	754
<i>In % of revenue</i>	13.5%	22.2%	23.0%
Operating cash flows	634	2,063	971
Operating investments	162	478	170
Adjusted free cash flow ³	27	1,406	618
Equity attributable to owners of the parent	6,340	6,568	5,763
Net cash position IFRS ⁴	3,742	4,372	3,532
Restated net cash position ⁵	3,922	4,562	3,740
Workforce (number of employees)	15,698	15,417	14,751

(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) *Recurring operating income is one of the main performance indicators monitored by the Group's management. It corresponds to operating income excluding non-recurring items having a significant impact that could affect understanding of the Group's economic performance.*

(3) *Adjusted free cash flow is the sum of cash flows related to operating activities, less operating investments and the repayment of lease liabilities recognised in accordance with IFRS 16 (consolidated statement of cash flows).*

(4) *The IFRS net cash position includes cash and marketable securities, less bank overdrafts and short-term debt. It does not include lease liabilities recognised in accordance with IFRS 16.*

(5) *Restated net cash position includes cash investments that do not meet IFRS criteria for cash equivalents as a result of their original maturity of more than three months.*

2. HALF-YEAR BUSINESS REPORT

2.1 HALF-YEAR HIGHLIGHTS

The first half of 2020 was marked by an unprecedented health and economic crisis in scale, duration and geographic extent. As expected, the pandemic intensified in the second quarter in Europe, America and again in certain Asian countries, leading to the temporary closure of the stores in compliance with the various governmental directives, and the stoppage of the production sites in France and Europe to protect all the employees.

The Group's consolidated revenue in the first half of 2020 amounted to €2,488 million, down -24% at current exchange rates and -25% at constant exchange rates. Sales trends in the second quarter (-41% at current exchange rates and -42% at constant exchange rates) reflect the impacts of the health crisis on the network. Recurring operating income

amounted to €535 million (21.5% of sales) at the end of June. Net income reached €335 million (13.5% of sales). Executive Chairman of Hermès, Axel Dumas, said:

"This unprecedented crisis, which began at the start of the year and is still ongoing, allows us to test our business model's strength. True to its values, the Group has preserved jobs and maintained the basic salaries of its employees worldwide without having recourse to the exceptional governmental subsidies provided in various countries. I am proud of the teams' dedication, and the courage, commitment and generosity they have shown. I want to thank them. The loyal clients, desirable collections, agile omnichannel network and independence of the Group are the pillars that give us confidence in the future and will support our recovery."

2

2.2 FIRST-HALF ACTIVITY

(At constant exchange rates unless otherwise indicated)

In the first half 2020, all the geographical areas were impacted by the health crisis and stores' closure. The revenue generated in the Group's stores was down -22% at constant exchange rates, they are gradually recovering.

- ♦ In Asia excluding Japan (-9%), all stores reopened in Mainland China in March, and sales are growing strongly, while activity in Hong Kong and Macao remains down due to border control measures. Several countries in the region experienced a second wave of store closures, including Singapore until mid-June, Australia and Thailand. A new flagship store opened in Sydney in June, and the stores in Guangzhou in Mainland China and Bellavita in Taiwan successfully reopened in April and May after expansions. The rollout of the new digital platform in Asia continued in Hong Kong and Macau in February and in Korea in June, in a context of very strong growth in e-commerce sales.
- ♦ In Japan (-23%), following the Japanese government's announcement of a state of emergency, most stores were closed in April and May for about 6 weeks. The recovery is particularly dynamic thanks to the loyalty of local customers. Sales were especially strong on the new *hermes.jp* platform.
- ♦ America (-42%) was affected by total store closings for more than 10 weeks in the United States, as the other countries in the region, with a very gradual recovery at the end of June. The Montreal store, enlarged and renovated, reopened in June.

- ♦ Europe excluding France (-36%) and France (-38%) have been strongly affected by the reduction in tourist flows. After the closure of the entire European network for an average of nine weeks, stores gradually reopened in Germany late April, in France mid-May, in Italy and Spain late May and in the United Kingdom mid-June.

Leather Goods and Saddlery posted a decrease (-23%) due to the closure of stores in the various geographic areas. Hermès closed its production sites in France mid-March to protect employees for four weeks and reopened gradually, except for the Hermès Perfumes site in Le Vaudreuil which began producing hydro-alcoholic gel. Investments in production capacity have been maintained, with the continuation of the Guyenne and Montereau leather workshops, and the projects in Louviers and in the Ardennes. Hermès continues to strengthen its local integration in France.

The Group's other business lines were also strongly impacted by store closures in the second quarter, after an excellent month of January which had benefited from the favorable dynamics of the Chinese New Year. The Ready-to-wear and Accessories (-29%) and Silk and Textiles (-39%) business lines were further penalized by the traffic declines.

Perfumes were down (-29%), despite the very successful launch of the Beauty line with the first lipstick collection early February, as were Watches (-19%). The other Hermès business lines (-4%) have held up particularly well thanks to Jewellery and Home universe.

<i>In millions of euros</i>	H1 2020	H1 2019	Change as reported	Change at constant exchange rates
France	252.2	405.8	(37.8)%	(37.8)%
Europe (excl. France)	348.9	544.6	(35.9)%	(36.2)%
Total Europe	601.2	950.4	(36.7)%	(36.9)%
Japan	322.2	400.6	(19.6)%	(22.8)%
Asia-Pacific (excl. Japan)	1,183.7	1,299.3	(8.9)%	(9.1)%
Total Asia	1,505.9	1,700.0	(11.4)%	(12.3)%
Americas	336.8	569.2	(40.8)%	(41.7)%
Other	44.1	64.6	(31.7)%	(31.7)%
TOTAL	2,488.0	3,284.2	(24.2)%	(24.9)%

<i>In millions of euros</i>	H1 2020	H1 2019	Change as reported	Change at constant exchange rates
Leather Goods and Saddlery ¹	1,280.1	1,652.4	(22.5)%	(23.3)%
Ready-to-wear and Accessories ²	537.0	754.6	(28.8)%	(29.3)%
Silk and Textiles	165.2	266.6	(38.0)%	(38.5)%
Other Hermès sectors ³	239.2	247.6	(3.4)%	(4.2)%
Perfumes division	112.9	158.7	(28.8)%	(29.1)%
Watches	74.2	90.5	(18.0)%	(18.5)%
Other products ⁴	79.3	113.9	(30.4)%	(30.8)%
TOTAL	2,488.0	3,284.2	(24.2)%	(24.9)%

(1) The "Leather Goods & 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, jewellery accessories, gloves, hats and shoes.

(3) The "Other Hermès business lines" include Jewellery and Hermès Home products (Art of Living and Hermès Tableware).

(4) The "Other products" include 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.

2.3 TREND IN FIRST-HALF RESULTS

The gross margin was 65%, down 3.7 points compared with the first half of 2019. The health crisis linked to the Covid-19 pandemic has resulted in a deterioration in collection turnover rates and lower productivity of production sites.

Selling, marketing and administrative expenses, which represented €769 million, compared with €842 million in the first half of 2019, included €107 million in communication expenditure (compared with €145 million in the previous half-year).

Other income and expenses amounted to €314 million (compared with €269 million in the previous half-year). This figure includes €232 million in depreciation and amortisation expense, an increase which notably reflects the rapid pace of investment in the development and renovation of the distribution network. It also comprises the €67 million cost of free share plans and a €20 million donation to AP-HP (the Parisian public hospital system).

Recurring operating income totalled €535 million, compared with €1,144 million in the first half of 2019. Operating margin, which amounted to 21.5%, compared with 34.8% in the first half of 2019, was impacted by strong vertical integration and the weight of fixed costs, consisting mainly of payroll and depreciation of investments and leases.

Net financial income, which includes interests on lease liabilities, financial income from cash management investments and foreign exchange gains and losses, represented an expense of €43 million, compared with €16 million in the first half of 2019.

After taking into account an income tax expense of €161 million and income from associates (€3 million), consolidated net income attributable to owners of the parent amounted to €335 million, compared with €754 million in the first half of 2019.

2.4 INVESTMENTS

Investments amounted to €171 million in the first half of 2020, including €162 million in operating investments, reflecting the decision to pursue the Group's strategic projects.

<i>In millions of euros</i>	H1 2020	FY 2019	H1 2019
Operating investments	162.2	478.0	169.8
Investments in financial assets	8.6	12.8	0.8
Subtotal – Investments (excluding financial investments)	170.8	490.9	170.6
Financial investments ¹	-	76.6	60.8
TOTAL INVESTMENTS	170.8	567.4	231.4

(1) Financial investments correspond to the investments for which the sensitivity and maturity requires that they be classified as financial assets in accordance with IFRS.

2

2.5 FINANCIAL POSITION

Operating cash flows totalled €634 million, compared with €971 million at end-June 2019. After the change in working capital requirements, taking into account operating investments and the deduction for repayment of lease liabilities, adjusted free cash flow came to €27 million, compared with €618 million in the first half of 2019.

After payment of the ordinary dividend (€474 million) and share buybacks (€123 million for 167,769 shares excluding sales and purchases made under the liquidity contract), net cash amounted to €3,742 million, compared with €4,372 million as of 31 December 2019.

The restated net cash position, which includes financial investments with maturities of more than three months, amounted to €3,922 million at 30 June 2020, compared with €4,562 million at 31 December 2019.

After payment of the ordinary dividend, shareholders' equity attributable to owners of the parent amounted to €6,340 million at 30 June 2020, compared with €6,568 million at 31 December 2019.

2.6 OUTLOOK

As of the date of this financial report, almost all of the Group's stores have reopened, in compliance with strict sanitary measures, even if the recovery in activity remains gradual in several countries. The Group is particularly pleased to welcome its customers, loyal to the Saddler's spirit.

For 2020, the impacts of the Covid-19 pandemic remain difficult to assess today due to the developments that are continuing in the various geographic areas. The craftsmanship model implemented mostly in France, the balanced distribution network and the local customer base are all factors that contribute to the company's resilience. The Group

remains highly involved and mobilized by adapting its systems to protect all its employees and customers.

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.

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.

2.7 RISKS AND UNCERTAINTIES

The Hermès Group's results are exposed to the risks and uncertainties set out in the 2019 Universal registration document. In the health, economic, political and social environment stemming from the Covid-19 epidemic, the Group is exposed in particular to the risks of a major

external crisis, business disruption, damage to the health and safety of people and consumers, and to foreign exchange risk. The economic and financial strength of the Hermès Group gives it the means to face this unprecedented health crisis.

2.8 RELATED-PARTY TRANSACTIONS

Information on the main related-party transactions relating to the six months to 30 June 2020 is provided in Note 31 to the condensed consolidated financial statements for the first half of 2020.

3. CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS AT 30 JUNE 2020

3.1 CONSOLIDATED STATEMENT OF INCOME

<i>In millions of euros</i>	Notes	H1 2020	FY 2019	H1 2019
Revenue	4 and 5	2,488.0	6,883.4	3,284.2
Cost of sales	6	(870.7)	(2,124.9)	(1,029.1)
Gross margin		1,617.3	4,758.5	2,255.1
Selling, marketing and administrative expenses	7	(768.5)	(1,815.7)	(842.2)
Other income and expenses	8	(314.2)	(604.0)	(269.0)
Recurring operating income	5	534.7	2,338.9	1,143.9
Other non-recurring income and expenses		-	-	-
Operating income		534.7	2,338.9	1,143.9
Net financial income	9	(43.4)	(68.6)	(16.3)
Net income before tax		491.3	2,270.3	1,127.6
Income tax	10	(160.7)	(751.0)	(383.4)
Net income from associates	18	3.0	15.9	12.8
CONSOLIDATED NET INCOME		333.6	1,535.3	757.0
Net income attributable to non-controlling interests	24	1.4	(7.0)	(2.7)
NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT		335.0	1,528.2	754.3
Earnings per share in euros	11	3.21	14.66	7.24
Diluted earnings per share in euros	11	3.20	14.55	7.19

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 in the totals or changes.

3.2 CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

<i>In millions of euros</i>	Notes	H1 2020	FY 2019	H1 2019
Consolidated net income		333.6	1,535.3	757.0
Changes in foreign currency adjustments ¹	23.4	(22.9)	50.1	24.4
Future cash flow hedges in foreign currencies ^{1 2}	23.4	19.2	2.8	0.6
♦ change in fair value		(11.6)	(32.9)	(31.5)
♦ recycling through profit or loss		30.8	35.7	32.1
Assets at fair value ²	23.4	-	-	-
Employee benefit obligations: change in value linked to actuarial gains and losses ²	23.4	-	(36.0)	-
Net comprehensive income		329.9	1,552.2	781.9
attributable to owners of the parent		332.9	1,544.4	778.9
attributable to non-controlling interests		(3.0)	7.7	3.0

(1) Transferable through profit or loss.

(2) Net of tax.

3.3 CONSOLIDATED BALANCE SHEET

ASSETS

<i>In millions of euros</i>	Notes	30/06/2020	31/12/2019	30/06/2019
Goodwill	12	19.2	16.2	16.2
Intangible assets	13	194.5	184.1	156.9
Right-of-use assets	14.1	1,346.3	954.3	949.1
Property, plant and equipment	15	1,553.4	1,541.8	1,371.5
Investment property	16	72.2	78.0	75.6
Financial assets	17	351.9	357.4	376.7
Investments in associates	18	79.1	79.3	84.8
Loans and deposits	19	58.2	58.1	50.7
Deferred tax assets	10.2	528.6	510.8	473.4
Other non-current assets	21	6.3	10.5	18.0
Non-current assets		4,209.7	3,790.6	3,572.8
Inventories and work-in-progress	20	1,275.4	1,132.6	1,070.9
Trade and other receivables	21	192.1	317.9	291.8
Current tax receivables	21	43.5	20.7	52.4
Other assets	21	193.2	198.6	200.7
Financial derivatives	25	69.4	36.5	57.6
Cash and cash equivalents	22.1	3,750.3	4,384.2	3,549.9
Current assets		5,523.8	6,090.5	5,223.2
TOTAL ASSETS		9,733.5	9,881.1	8,796.1

LIABILITIES

<i>In millions of euros</i>	Notes	30/06/2020	31/12/2019	30/06/2019
Share capital	23	53.8	53.8	53.8
Share premium		49.6	49.6	49.6
Treasury shares	23	(464.7)	(508.8)	(488.5)
Reserves		6,179.0	5,255.7	5,233.0
Foreign currency adjustments	23.2	117.3	138.7	112.0
Revaluation adjustments	23.3	70.0	50.9	48.7
Net income attributable to owners of the parent		335.0	1,528.2	754.3
Equity attributable to owners of the parent		6,340.1	6,568.1	5,762.9
Non-controlling interests	24	0.4	7.8	4.7
Equity		6,340.5	6,575.9	5,767.6
Borrowings and financial liabilities due in more than one year		29.5	29.6	27.5
Lease liabilities due in more than one year	14.2	1,300.2	896.0	902.4
Non-current provisions	26	31.2	29.0	19.6
Post-employment and other employee benefit obligations due in more than one year	28	279.6	270.0	209.6
Deferred tax liabilities	10.2	22.5	24.6	27.4
Other non-current liabilities	29	30.2	32.5	34.6
Non-current liabilities		1,693.2	1,281.7	1,221.0
Borrowings and financial liabilities due in less than one year		16.3	20.5	26.9
Lease liabilities due in less than one year	14.2	206.1	195.6	179.3
Current provisions	26	85.1	101.4	93.3
Post-employment and other employee benefit obligations due in less than one year	28	18.2	18.2	6.9
Trade and other payables	29	333.1	480.4	409.4
Financial derivatives due in less than one year	25	41.9	47.1	59.5
Deferred tax liabilities	29	264.9	360.1	408.0
Other current liabilities	29	734.1	800.2	624.0
Current liabilities		1,699.8	2,023.6	1,807.4
TOTAL EQUITY AND LIABILITIES		9,733.5	9,881.1	8,796.1

3.4 CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

In millions of euros	Number of shares	Share capital	Share premium	Treasury shares	Consolidated reserves and net income attributable to owners of the parent	Actuarial gains and losses	Foreign currency adjustments	Revaluation adjustments		Future cash flow hedge in foreign currencies	Equity attributable to owners of the parent	Non-controlling interests	Equity
								Financial investments					
Notes	23	23		23		23.4	23.2	23.3	23.3			24	
As at 31 December 2018 – restated*	105,569,412	53.8	49.6	(465.2)	5,792.6	(97.0)	88.0	100.3	(52.3)	5,469.8	4.9	5,474.7	
Net income for the first half of 2019	-	-	-	-	754.3	-	-	-	-	754.3	2.6	756.9	
Other comprehensive income for the first half of 2019	-	-	-	-	-	-	24.0	-	0.6	24.7	0.4	25.0	
Comprehensive income for the first half of 2019	-	-	-	-	754.3	-	24.0	-	0.6	778.9	3.0	781.9	
Change in share capital and share premium	-	-	-	-	-	-	-	-	-	-	-	-	
Purchase or sale of treasury shares	-	-	-	(23.3)	(5.9)	-	-	-	-	(29.2)	-	(29.2)	
Share-based payments	-	-	-	-	26.4	-	-	-	-	26.4	-	26.4	
Dividends paid	-	-	-	-	(482.6)	-	-	-	-	(482.6)	(3.3)	(485.9)	
Other	-	-	-	-	(0.5)	-	-	-	-	(0.5)	0.1	(0.5)	
AS AT 30 JUNE 2019	105,569,412	53.8	49.6	(488.5)	6,084.2	(97.0)	112.0	100.3	(51.7)	5,762.9	4.7	5,767.6	
Net income for the second half of 2019	-	-	-	-	774.0	-	-	-	-	774.0	4.4	778.4	
Other comprehensive income for the second half of 2019	-	-	-	-	-	(36.0)	25.4	-	2.2	(8.5)	0.4	(8.1)	
Comprehensive income for the second half of 2019	-	-	-	-	774.0	(36.0)	25.4	-	2.2	765.5	4.8	770.2	
Change in share capital and share premium	-	-	-	-	-	-	-	-	-	-	-	-	
Purchase or sale of treasury shares	-	-	-	(20.3)	0.5	-	-	-	-	(19.8)	-	(19.8)	
Share-based payments	-	-	-	-	61.2	-	-	-	-	61.2	-	61.2	
Dividends paid	-	-	-	-	(0.0)	-	-	-	-	(0.0)	(0.7)	(0.7)	
Other	-	-	-	-	(3.0)	-	1.3	-	-	(1.7)	(0.9)	(2.5)	
As at 31 December 2019	105,569,412	53.8	49.6	(508.8)	6,917.0	(133.0)	138.7	100.3	(49.5)	6,568.1	7.8	6,575.9	
Net income for the first half of 2020	-	-	-	-	335.0	-	-	-	-	335.0	(1.4)	333.6	
Other comprehensive income for the first half of 2020	-	-	-	-	-	-	(21.3)	-	19.2	(2.2)	(1.6)	(3.8)	
Comprehensive income for the first half of 2020	-	-	-	-	335.0	-	(21.3)	-	19.2	332.9	(3.0)	329.9	
Change in share capital and share premium	-	-	-	-	-	-	-	-	-	-	-	-	
Purchase or sale of treasury shares	-	-	-	44.0	(166.6)	-	-	-	-	(122.6)	-	(122.6)	
Share-based payments	-	-	-	-	46.8	-	-	-	-	46.8	-	46.8	
Dividends paid	-	-	-	-	(485.1)	-	-	-	-	(485.1)	(4.4)	(489.5)	
Other	-	-	-	-	0.0	-	-	-	-	0.0	0.0	0.0	
AS AT 30 JUNE 2020	105,569,412	53.8	49.6	(464.7)	6,647.1	(133.0)	117.3	100.3	(30.3)	6,340.1	0.4	6,340.5	

* Including the impact of IFRS 16 related to leases. In accordance with IAS 8, Hermès has applied the new standard on a full retrospective basis, and has restated the financial statements for the periods ended 31 December 2018.

3.5 CONSOLIDATED STATEMENT OF CASH FLOWS

<i>In millions of euros</i>	Notes	H1 2020	FY 2019	H1 2019
CASH FLOWS RELATED TO OPERATING ACTIVITIES				
Net income attributable to owners of the parent		335.0	1,528.2	754.3
Depreciation of fixed assets	13, 15, 16	128.4	236.2	111.0
Depreciation of right-of-use assets	14.1	125.6	211.5	101.4
Impairment losses	13, 15, 16	5.2	28.5	26.4
Mark-to-Market financial instruments		0.0	(0.3)	(0.1)
Foreign exchange gains/(losses) on fair value adjustments		16.2	(19.0)	(12.8)
Change in provisions		(3.8)	41.0	3.3
Net income from associates		(3.0)	(15.9)	(12.8)
Net income attributable to non-controlling interests	24	(1.4)	7.0	2.7
Capital gains/(losses) on disposals		0.4	1.2	0.7
Deferred tax expense		(14.9)	(29.0)	(13.9)
Accrued expenses and income related to share-based payments		46.8	87.7	26.4
Dividend income		(0.1)	(13.3)	(12.9)
Other		(0.1)	(0.3)	(3.0)
Operating cash flows		634.3	2,063.3	970.8
Change in working capital requirements	22.2	(324.8)	23.9	(88.4)
Change in net cash related to operating activities (A)		309.5	2,087.3	882.5
CASH FLOWS RELATED TO INVESTING ACTIVITIES				
Operating investments	13, 15	(162.2)	(478.0)	(169.8)
Acquisitions of investment securities	17	(8.6)	(12.8)	(0.8)
Acquisitions of other financial assets	17	-	(76.6)	(60.8)
Change in amounts payable to fixed asset suppliers		(39.4)	23.5	(15.7)
Proceeds from disposal of operating assets		0.0	0.3	0.1
Proceeds from disposal of other financial assets	17	10.2	35.0	-
Dividends received		5.5	37.5	18.2
Change in net cash related to investing transactions (B)		(194.4)	(471.1)	(228.7)
CASH FLOWS RELATED TO FINANCING ACTIVITIES				
Dividends paid		(489.5)	(486.6)	(485.9)
Repayment of lease liabilities	14.2	(120.1)	(202.8)	(95.2)
Treasury share buybacks net of disposals		(123.1)	(53.1)	(32.8)
Borrowing subscriptions		2.0	0.0	-
Repayment of borrowings		(0.2)	(0.3)	(0.1)
Change in net cash related to financing activities (C)		(730.9)	(742.8)	(613.9)
Change in scope (D)		-	-	-
Foreign currency translation adjustment (E)		(13.9)	33.1	26.8
CHANGE IN NET CASH (A) + (B) + (C) + (D) + (E)	22.1	(629.8)	906.5	66.6
Net cash at the beginning of the period	22.1	4,371.6	3,465.1	3,465.1
Net cash at the end of the period	22.1	3,741.8	4,371.6	3,531.7
CHANGE IN NET CASH	22.1	(629.8)	906.5	66.6

3.6 NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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The condensed interim consolidated financial statements as presented were approved by the Executive Management on 29 July 2020 after review by the Audit and Risk Committee at its meeting of 28 July 2020.

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 full annual financial statements. They should therefore be read in conjunction with the consolidated financial statements for 2019.

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 2019 and described therein, with the exception of the estimated income tax expense for the first half and employee benefits, which are measured separately (Note 1.1).

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

1.1 Special features of the preparation of interim financial statements

The half-yearly tax expense is calculated on the basis of an estimated average annual rate.

Barring a specific event, the post-employment benefit obligation is not subject to an actuarial valuation in the first half. The expense recognised for the first half-year is one-half of the net expense calculated for 2020 as a whole, based on the data and actuarial assumptions used as at 31 December 2019.

1.2 Impacts of the Covid-19 epidemic

The health crisis resulted in store closures in the first half of 2020, in compliance with the various governmental directives, and the temporary shutdown of production sites in order to all the employees. Against that backdrop, the Group's consolidated revenue for the first half of 2020 amounted to €2,488 million, down -24% at current exchange rates and down -25% at constant exchange rates, compared with the first half of 2019.

True to its values, the Group has preserved jobs and maintained the basic salaries of its employees worldwide without having recourse to the exceptional governmental subsidies provided in various countries.

Operating margin is impacted by strong vertical integration and the weight of fixed costs, consisting mainly of payroll and amortisation of investments and leases.

In addition, Hermès donated €20 million to AP-HP (the Parisian public hospital system), recognised in "Other expenses".

Rent discounts granted by lessors in the context of the Covid-19 epidemic are recognised in "Other income" in an immaterial amount at 30 June 2020.

1.3 Change in accounting standards

The impact of the November 2019 IFRIC decision on the determination of the term of leases and the depreciation period for the fixtures of the properties leased is currently being assessed.

NOTE 2 CHANGES IN THE SCOPE OF CONSOLIDATION

No significant change in the scope of consolidation occurred during the first half of 2020.

NOTE 3 ALTERNATIVE PERFORMANCE MEASURES

This Note aims to present the main Alternative Performance Measures (“APM”) followed by the Group Management, and their reconciliation, where appropriate, with the aggregates of the IFRS consolidated financial statements.

- ◆ Growth in revenue at constant exchange rates: calculated by applying, for each currency, the average exchange rates of the previous period to the revenue for the period.
- ◆ Recurring operating come: operating income exclusive of non-recurring items with a significant impact that may affect understanding of the Group’s economic performance.
- ◆ Net cash position: includes cash and marketable securities, less bank overdrafts and short-term debt. It does not include lease liabilities recognised pursuant to IFRS 16. The reconciliation of this aggregate with items in the consolidated balance sheet is presented in Note 22.1.
- ◆ Restated net cash position: net cash plus cash investments that do not meet IFRS cash equivalents criteria specifically as a result of their original maturity of more than three months.

The reconciliation between net cash and restated net cash is presented below:

<i>In millions of euros</i>	H1 2020	FY 2019	H1 2019
NET CASH POSITION	3,741.8	4,371.6	3,531.7
Cash investments with maturity at outset of over 3 months	180.0	190.0	208.2
RESTATED NET CASH POSITION	3,921.8	4,561.6	3,739.8

For management purposes, the Hermès Group sees all lease payments as items affecting operating activities. IFRS 16 considers fixed lease payments as the sum of the repayment of the principal portion of the lease liability and the payment of financial interest. Consequently, the Group follows the following APM:

- ◆ adjusted free cash flow is the cash flow related to operating activity, less operating investments and the repayment of lease liabilities recognised in accordance with IFRS 16 (consolidated statement of cash flows).

The reconciliation of this indicator with the Group’s statement of consolidated cash flows presented in section 3.5 is as follows:

<i>In millions of euros</i>	H1 2020	FY 2019	H1 2019
Operating cash flows	634.3	2,063.3	970.8
+ Change in working capital requirements	(324.8)	23.9	(88.4)
- Operating investments	(162.2)	(478.0)	(169.8)
- Repayment of lease liabilities	(120.1)	(202.8)	(95.2)
ADJUSTED FREE CASH FLOW	27.2	1,406.4	617.5

NOTE 4 SEASONAL NATURE OF THE BUSINESS

The Group’s overall activity has historically been balanced over the year as a whole (in 2019, 48% of the Group’s revenue was generated during the first half, and 52% during the second).

However, given the health crisis, which has heavily impacted business in the second quarter, seasonality is expected to have a stronger impact in 2020.

NOTE 5 SEGMENT INFORMATION

The information below is shown after consolidation adjustments and eliminations.

<i>In millions of euros</i>	H1 2020							
	France	Europe (excl. France)	Japan	Asia-Pacific (excl. Japan)	Americas	Other	Holding	Total
Revenue	252.2	348.9	322.2	1,183.7	336.8	44.1	-	2,488.0
Recurring operating income	39.4	16.4	80.2	474.8	2.9	8.4	(87.4)	534.7
<i>Recurring operating profitability</i>	15.6%	4.7%	24.9%	40.1%	0.8%	19.1%	-	21.5%
Other non-recurring income and expenses	-	-	-	-	-	-	-	-
Operating income	39.4	16.4	80.2	474.8	2.9	8.4	(87.4)	534.7
Operating investments	88.2	10.6	2.9	27.5	21.9	-	11.1	162.2
Non-current assets ¹	1,045.0	520.9	241.7	632.5	700.1	32.2	171.2	3,343.6

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

<i>In millions of euros</i>	H1 2019							
	France	Europe (excl. France)	Japan	Asia-Pacific (excl. Japan)	Americas	Other	Holding	Total
Revenue	405.8	544.6	400.6	1,299.3	569.2	64.6	-	3,284.2
Recurring operating income	135.4	142.8	157.4	578.1	190.2	14.5	(74.5)	1,143.9
<i>Recurring operating profitability</i>	33.4%	26.2%	39.3%	44.5%	33.4%	22.4%	-	34.8%
Other non-recurring income and expenses	-	-	-	-	-	-	-	-
Operating income	135.4	142.8	157.4	578.1	190.2	14.5	(74.5)	1,143.9
Operating investments	66.7	18.8	3.9	25.8	45.4	-	9.1	169.8
Non-current assets ¹	968.1	386.7	193.9	505.6	516.0	40.3	124.2	2,734.8

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

NOTE 6 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 7 SELLING, MARKETING AND ADMINISTRATIVE EXPENSES

<i>In millions of euros</i>	H1 2020	FY 2019	H1 2019
Communication	(106.7)	(356.9)	(144.8)
Other selling, marketing and administrative expenses	(661.8)	(1,458.7)	(697.4)
TOTAL	(768.5)	(1,815.7)	(842.2)

NOTE 8 OTHER INCOME AND EXPENSES

In millions of euros	Notes	H1 2020	FY 2019	H1 2019
Depreciation of assets		(108.0)	(197.5)	(92.7)
Depreciation of right-of-use assets		(124.4)	(209.4)	(100.4)
Depreciation and amortisation		(232.3)	(406.9)	(193.2)
Net change in provisions		4.8	(14.1)	2.7
Cost of pension plans and other long-term benefits	28	(10.1)	(36.9)	(12.8)
Sub-total		(5.3)	(51.0)	(10.2)
Impairment losses		(5.2)	(28.5)	(26.4)
Expenses linked to free share allocation plans and similar expenses	32	(66.7)	(114.1)	(36.5)
Other expenses ¹		(27.8)	(24.1)	(10.3)
Other products		23.3	20.5	7.5
Sub-total		(76.5)	(146.1)	(65.6)
TOTAL		(314.2)	(604.0)	(269.0)

(1) This item includes a donation of €20 million to AP-HP (the Parisian public hospital system) in the first half of 2020.

Total depreciation and amortisation of fixed assets included in operating expenses ("Other income and expenses" and "Cost of sales") amounted to €128.4 million in the first half of 2020, compared with €111.0 million in the first half of 2019.

Total amortisation of rights-of-use included in operating expenses ("Other income and expenses" and "Cost of sales") amounted to €125.6 million in 2020, compared with €101.4 million in the first half of 2019.

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NOTE 9 NET FINANCIAL INCOME

In millions of euros	H1 2020	FY 2019	H1 2019
Income from cash and cash equivalents	6.0	19.0	9.5
Cost of gross financial debt	(3.5)	1.8	2.7
♦ of which net income/(loss) on interest and exchange rate hedging instruments	(2.6)	2.6	3.1
Net borrowing cost	2.4	20.8	12.2
Interest expense on lease liabilities	(17.9)	(24.4)	(12.6)
Other financial income and expenses	(27.9)	(65.1)	(15.9)
♦ of which ineffective portion of cash flow hedges	(28.7)	(66.9)	(26.2)
TOTAL	(43.4)	(68.6)	(16.3)

The ineffective portion of cash flow hedges includes €4.4 million in over-hedging in the first half of 2020, compared with -€1.2 million in over-hedging in the first half of 2019. The impact of the effective portion of the hedges recorded in equity is shown in Note 23.3.

NOTE 10 INCOME TAX**10.1 Tax rate**

The Group's estimated tax rate in 2020 is 32.7% (33.1% in 2019), based on a projected tax rate in France of 32.02% in 2020 and 28.41% in 2021.

10.2 Deferred taxes

The net change in deferred tax assets and liabilities is broken down as follows:

<i>In millions of euros</i>	H1 2020	FY 2019	H1 2019
Deferred tax assets at 1 January	510.8	462.4	462.4
Deferred tax liabilities at 1 January	24.6	37.3	37.3
Net deferred tax assets at 1 January	486.2	425.1	425.1
Impact on statement of profit or loss	33.8	47.8	24.5
Impact of exchange rate movements	(2.5)	5.5	2.6
Equity impact ¹	(11.4)	7.8	(6.2)
NET DEFERRED TAX ASSETS AT THE END OF THE PERIOD	506.1	486.2	446.0
Balance of deferred tax assets at the end of the period	528.6	510.8	473.4
Balance of deferred tax liabilities at the end of the period	22.5	24.6	27.4

(1) The equity impact primarily involves the deferred tax change resulting from revaluations recorded in equity (investments and financial investments and hedging of future cash flows). These changes had no impact on net income for the half-year (see Note 23.4).

NOTE 11 EARNINGS PER SHARE

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

	H1 2020	FY 2019	H1 2019
Numerator (in millions of euros)			
Net profit attributable to owners of the parent	335.0	1,528.2	754.3
Denominator (in number of shares)			
Average number of shares outstanding during the period	105,569,412	105,569,412	105,569,412
Average number of treasury shares during the period	(1,308,816)	(1,336,179)	(1,324,612)
Average number of shares before dilution	104,260,596	104,233,233	104,244,801
Earnings per share (in euros)	3.21	14.66	7.24
Dilutive effect of free share plans	369,168	822,098	663,127
Average number of shares after dilution	104,629,763	105,055,331	104,907,927
Diluted earnings per share (in euros)	3.20	14.55	7.19
Average share price over the period	€681.13	€607.44	€573.71

NOTE 12 GOODWILL

<i>In millions of euros</i>	30/06/2019	31/12/2019	Increases	Decreases	Exchange rate impact	Other	30/06/2020
Goodwill	140.8	141.2	2.8	-	0.4	-	144.4
TOTAL GROSS VALUES	140.8	141.2	2.8	-	0.4	-	144.4
Amortisation recognised before 1 January 2004	32.1	32.4	-	-	0.2	-	32.7
Impairment losses	92.5	92.6	-	-	0.0	-	92.6
TOTAL AMORTISATION AND IMPAIRMENT	124.7	125.0	-	-	0.2	-	125.3
TOTAL NET VALUES	16.2	16.2	2.8	-	0.2	-	19.2

NOTE 13 INTANGIBLE ASSETS

<i>In millions of euros</i>	30/06/2019	31/12/2019	Increases ¹	Decreases	Exchange rate impact	Other	30/06/2020
Concessions, patents, licences and software	306.7	356.2	21.0	(0.1)	(0.0)	12.5	389.6
Other intangible assets	127.5	136.3	1.8	(0.1)	(2.9)	0.3	135.4
Fixed assets under construction	33.4	32.8	17.3	-	0.0	(11.5)	38.6
TOTAL GROSS VALUES	467.6	525.3	40.1	(0.2)	(2.9)	1.4	563.7
Amortisation of concessions, patents, licences and software	194.6	217.5	25.6	(0.1)	0.0	0.3	243.3
Amortisation of other intangible assets	102.3	103.4	2.8	(0.2)	(2.4)	1.4	105.0
Impairment losses	13.7	20.3	0.9	-	(0.2)	(0.1)	20.9
TOTAL AMORTISATION AND IMPAIRMENT	310.6	341.2	29.3	(0.3)	(2.6)	1.6	369.2
TOTAL NET VALUES	156.9	184.1	10.8	0.1	(0.3)	(0.2)	194.5

(1) Investments mainly concern the acquisition, implementation and/or development of software and ERP.

NOTE 14 LEASES

14.1 Right-of-use assets

The breakdown of right-of-use assets by nature of the underlying asset is as follows:

<i>In millions of euros</i>	30/06/2019 Net	31/12/2019 Net	Gross	Amortisation and impairment	30/06/2020 Net
Stores	782.0	791.7	1,813.9	(684.8)	1,129.1
Offices and other	167.1	162.6	354.2	(137.1)	217.2
TOTAL	949.1	954.3	2,168.2	(821.9)	1,346.3

The change in right-of-use assets during the period is as follows:

<i>In millions of euros</i>	Stores	Offices and other	TOTAL
Gross amount at 1 January	1,449.5	282.5	1,732.0
Implementation of new leases and revisions ¹	481.7	77.9	559.6
Expiry and early termination of leases	(95.9)	(5.2)	(101.0)
Exchange rate impact	(21.5)	(1.0)	(22.5)
GROSS AMOUNT AT THE END OF THE PERIOD	1,813.9	354.2	2,168.2

(1) The "Implementation of new leases" line includes in particular a new commercial lease for a building located at 706 Madison Avenue in New York. It will house the new Maison Hermès. The current Madison Avenue store will remain open until the inauguration of the new address, scheduled for 2022.

<i>In millions of euros</i>	Stores	Offices and other	TOTAL
Amortisation and impairment losses at 1 January	(657.9)	(119.9)	(777.7)
Amortisation and impairment	(102.7)	(22.9)	(125.6)
Expiry and early termination of leases	70.5	5.2	75.7
Exchange rate impact	5.3	0.5	5.7
AMORTISATION AND IMPAIRMENT LOSSES AT END OF PERIOD	(684.8)	(137.1)	(821.9)

14.2 Lease liabilities

<i>In millions of euros</i>	30/06/2019	31/12/2019	30/06/2020
TOTAL LEASE LIABILITIES	1,081.6	1,091.6	1,506.2

The change in liabilities over the half-year is analysed below:

<i>In millions of euros</i>		
Lease liabilities at 1 January		1,091.6
Implementation of new leases and revisions		559.6
Expiry and early termination of leases		(32.1)
Repayments		(120.1)
Exchange rate impact		(18.9)
Other movements and reclassifications		26.1
LEASE LIABILITIES AT END OF PERIOD		1,506.2

At the end of June 2020, rents relating to uncapitalised leases correspond to rents with variable payments in the amount of €96.2 million for the first half of 2020 (compared with €125.7 million in the first half of 2019) and exempted rents (rents on assets with a low

unit value or on leases with a term of less than 12 months) in the amount of €1.8 million (compared with €5.1 million in the first half of 2019).

Financial expenses relating to lease liabilities are presented in Note 9.

NOTE 15 PROPERTY, PLANT AND EQUIPMENT

<i>In millions of euros</i>	30/06/2019	31/12/2019	Increases ¹	Decreases	Exchange rate impact	Other	30/06/2020
Land	157.9	164.0	0.0	-	0.7	0.0	164.8
Buildings	868.3	955.8	2.2	(2.5)	(1.3)	4.6	958.8
Industrial machinery, plant and equipment	349.3	363.4	7.4	(1.6)	(2.2)	11.9	378.9
Store fixtures and furnishings	935.6	1,013.3	18.2	(20.2)	(10.4)	17.8	1,018.8
Other property, plant and equipment assets	389.7	407.5	7.5	(1.6)	(1.2)	7.9	420.1
Fixed assets under construction	115.4	135.9	86.8	(0.3)	(0.5)	(40.7)	181.3
TOTAL GROSS VALUES	2,816.2	3,039.9	122.1	(26.1)	(14.8)	1.6	3,122.7
Depreciation of buildings	354.8	372.7	18.6	(2.5)	0.5	2.3	391.6
Depreciation of plant, machinery and equipment	206.9	214.6	13.0	(1.5)	(1.0)	2.9	228.0
Depreciation of store fixtures and furnishings	517.4	548.2	48.7	(20.2)	(3.8)	0.6	573.4
Depreciation of other property, plant and equipment	247.7	254.1	18.5	(1.6)	(0.7)	(3.9)	266.3
Impairment losses ²	118.0	108.5	4.5	(0.2)	(1.3)	(1.6)	109.9
TOTAL AMORTISATION AND IMPAIRMENT	1,444.7	1,498.1	103.4	(26.0)	(6.4)	0.2	1,569.3
TOTAL NET VALUES	1,371.5	1,541.8	18.7	(0.1)	(8.4)	1.4	1,553.4

(1) Investments made during the first half of 2020 mainly include the opening and renovation of stores and capital expenditure to expand production capacity.

(2) Impairment losses relate to production lines and stores deemed not to be sufficiently 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 16 INVESTMENT PROPERTY

<i>In millions of euros</i>	30/06/2019	31/12/2019	Increases	Decreases	Exchange rate impact	Other	30/06/2020
Land	29.3	30.7	-	-	(1.8)	0.0	28.9
Buildings	69.5	72.8	-	-	(4.4)	(0.0)	68.4
TOTAL GROSS VALUES	98.8	103.4	-	-	(6.2)	-	97.2
Amortisation	23.2	25.4	1.1	-	(1.5)	-	25.0
TOTAL NET VALUES	75.6	78.0	(1.1)	-	(4.7)	-	72.2

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.

Net rental income from investment property amounted to €4.2 million in the first half of 2020, compared with €4.6 million in the first half of 2019.

NOTE 17 FINANCIAL ASSETS

<i>In millions of euros</i>	30/06/2019	31/12/2019	Increases	Decreases ¹	Exchange rate impact	Other ²	30/06/2020
Financial investments and accrued interest	359.9	333.9	-	(10.0)	-	-	323.9
Liquidity contract	12.8	12.0	-	(0.3)	-	-	11.8
Other non-consolidated investments	3.3	15.2	4.3	-	0.0	-	19.5
Other financial assets	14.3	29.1	0.5	(0.1)	0.1	0.0	29.7
TOTAL GROSS VALUES	390.2	390.2	4.6	(10.3)	0.1	0.0	384.8
Impairments	13.5	32.8	-	-	0.1	-	32.9
TOTAL NET VALUES	376.7	357.4	4.6	(10.3)	(0.0)	0.0	351.9

(1) The decrease in financial investments corresponds to the maturity of investments that do not meet the criteria for cash equivalents, notably on account of their original maturity of more than three months.

(2) Changes in the value of financial assets at fair value through equity are recorded in "Revaluation adjustments" in equity.

NOTE 18 INVESTMENTS IN ASSOCIATES

<i>In millions of euros</i>	H1 2020	FY 2019	H1 2019
Balance as at 1 January	79.3	75.1	75.1
Impact of changes in scope of consolidation	-	-	-
Net income from associates	3.0	15.9	14.6
Dividends paid	(5.4)	(24.2)	(5.3)
Exchange rate impact	(1.2)	0.9	0.3
Other ¹	3.3	11.5	-
Balance at end of period	79.1	79.3	84.8

(1) Includes the reclassification in "Provisions" of the share in the losses of equity-accounted associates, when this exceeds the carrying amount of the investments concerned.

NOTE 19 LOANS AND DEPOSITS

<i>In millions of euros</i>	30/06/2019	31/12/2019	Increases	Decreases	Exchange rate impact	Other	30/06/2020
Loans and deposits ¹	70.4	77.4	4.1	(2.1)	(0.0)	-	79.2
Impairments	19.7	19.3	1.8	-	(0.0)	-	21.0
TOTAL	50.7	58.1	2.3	(2.1)	0.0	-	58.2

(1) Security deposits amounted to €56.0 million as at 30 June 2020, compared with €56.1 million as at 31 December 2019.

NOTE 20 INVENTORIES AND WORK-IN-PROGRESS

<i>In millions of euros</i>	30/06/2020		31/12/2019	30/06/2019
	Gross	Impairment	Net	Net
Retail, intermediate and finished goods	1,384.3	560.5	823.8	700.1
Raw materials and work-in-progress	733.3	281.7	451.6	370.8
TOTAL	2,117.6	842.1	1,275.4	1,070.9
Net income/(expense) from impairment of retail, intermediate and finished goods		(110.7)		(10.6)
Net income/(expense) from impairment of raw materials and work in progress		(17.1)		(12.4)

No inventories were offered as collateral to secure financial debt.

NOTE 21 TRADE AND OTHER RECEIVABLES

In millions of euros	30/06/2020		31/12/2019	30/06/2019	
	Gross	Impairment	Net	Net	Net
Trade and other receivables	201.9	(9.8)	192.1	317.9	291.8
of which: ♦ not yet due	154.9		154.9	288.1	230.8
♦ due ¹	47.0	(9.8)	37.2	29.8	60.9
Current tax receivables	43.5	-	43.5	20.7	52.4
Other assets	193.4	(0.0)	193.2	198.6	200.7
Other non-current assets	6.6	(0.0)	6.3	10.5	18.0
TOTAL	445.4	(9.8)	435.1	547.8	562.9

(1) The amount of trade and other receivables due breaks down as follows:

In millions of euros	30/06/2020		31/12/2019	30/06/2019	
	Gross	Impairment	Net	Net	Net
Under 3 months	27.2	0.8	26.4	28.9	55.6
Between 3 and 6 months	13.1	3.9	9.2	0.9	5.2
Over 6 months	6.6	5.0	1.6	-	0.1
TOTAL	47.0	9.8	37.2	29.8	60.9

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

The Group's policy is to take out insurance covering accounts receivable inasmuch as local conditions permit.

Consequently, the expected risk of non-recovery is low, as evidenced by accounts receivable impairment, which amounted to 5% of the gross value as at 30 June 2020 (2% at end of 2019). There is no significant concentration of credit risk.

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NOTE 22 CASH AND CASH EQUIVALENTS

22.1 Change in net cash position

In millions of euros	30/06/2019	31/12/2019	Cash flows	Exchange rate impact	Scope impact	Other ¹	30/06/2020
Cash and cash equivalents	952.8	1,018.3	(6.6)	(8.1)	0.6	0.0	1,004.2
Marketable securities ²	2,597.2	3,365.9	(613.0)	(6.8)	-	-	2,746.0
Cash and cash equivalents	3,550.1	4,384.2	(619.6)	(14.9)	0.6	0.0	3,750.3
Bank overdrafts and short-term liabilities	(18.4)	(12.6)	4.1	(0.0)	-	-	(8.5)
NET CASH POSITION	3,531.7	4,371.6	(615.5)	(14.9)	0.6	0.0	3,741.8

(1) Corresponds to the marked-to-market value of cash and cash equivalents.

(2) Primarily invested in money market UCITS, term accounts, term deposits and other cash equivalents maturing in less than three months.

All cash and cash equivalents have a maturity of less than three months and a sensitivity of less than 0.5%.

Cash and cash equivalents are available for the Group's needs without any particular restrictions.

22.2 Change in working capital requirements

<i>In millions of euros</i>	30/06/2020	31/12/2019	30/06/2019
Net inventories and work-in-progress	(146.8)	(159.6)	(104.0)
Trade and other receivables	108.7	(13.9)	7.6
Trade and other payables	(106.1)	(16.1)	(52.5)
Other receivables and payables	(180.7)	213.5	60.5
TOTAL	(324.8)	23.9	(88.4)

NOTE 23 EQUITY

At 30 June 2020, Hermès International's share capital consisted of 105,569,412 fully paid-up shares with a par value of €0.51 each, of which 968,764 treasury shares.

During the first half of 2020, the following treasury share movements occurred:

- ♦ buyback of 167,769 shares for €122.5 million, excluding movements under the liquidity contract;
- ♦ sale of 118 shares as part of the liquidity contract;
- ♦ delivery of 560,516 free shares allotted to Hermès Group employees.

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 remeasurement of financial instruments and actuarial gains and losses, as defined in Notes 1.10 and 1.18 of the 2019 Universal 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.

23.1 Dividends

In the context of the crisis related to Covid-19, on the proposal of the Executive Management, the Supervisory Board has decided to modify the initial proposal for the payment of an ordinary dividend submitted to the Shareholders' General Meeting, and to reduce the amount from €5.00 to €4.55 per share, i.e. the same amount as paid in 2019.

The General Meeting of 24 April 2020, called to approve the financial statements for the year ended 31 December 2019, therefore approved payment of an ordinary dividend of €4.55 per share for the financial year.

Taking into account the interim cash dividend of €1.50 per share paid on 5 March 2020, a balance of €3.05 was paid in cash on 30 April 2020.

The total amount of the ordinary dividend paid was accordingly €474.1 million.

23.2 Foreign currency adjustments

The change in foreign currency adjustments in the financial year is analysed below:

<i>In millions of euros</i>	30/06/2020	31/12/2019	30/06/2019
Balance as at 1 January	138.7	88.0	88.0
US dollar	2.8	13.3	6.3
Hong Kong dollar	(7.8)	10.5	4.7
Pound sterling	(10.5)	8.9	1.2
Yen	4.5	5.9	6.4
Singapore dollar	(7.4)	6.5	3.2
Yuan	(2.6)	4.8	3.4
Swiss franc	2.3	3.6	1.7
Macao pataca	1.2	1.8	0.8
Rouble	(1.6)	1.5	1.3
Other currencies	(2.2)	(6.0)	(5.0)
Balance at end of period	117.3	138.7	112.0

23.3 Revaluation adjustments

Movements in derivatives (future cash flow hedges in foreign currencies) and financial investments in the first half of 2020 break down as follows (after tax):

<i>In millions of euros</i>	H1 2020	FY 2019	H1 2019
Balance as at 1 January	50.9	48.0	48.0
Amount transferred to equity in the year in respect of derivatives	35.0	37.6	33.3
Revaluation of derivatives	(11.6)	(32.9)	(32.6)
Revaluation of financial investments	0.0	-	-
Other deferred foreign exchange gains/(losses) recognised in comprehensive income	(4.3)	(1.8)	-
Balance at end of period	70.0	50.9	48.7

23.4 Income and expenses recognised in comprehensive income

Income and expenses recognised directly in equity during the first half of 2020 are as follows:

<i>In millions of euros</i>	Notes	Gross impact	Tax impact	Net impact
Actuarial gains and losses	28	-	-	-
Foreign currency adjustments	23.2	(22.9)	-	(22.9)
Revaluation adjustments	23.3	30.6	(11.4)	19.2
Balance as at 30 June 2020				(3.8)

<i>In millions of euros</i>	Notes	Gross impact	Tax impact	Net impact
Actuarial gains and losses	28	(47.8)	11.8	(36.0)
Foreign currency adjustments	23.2	50.1	-	50.1
Revaluation adjustments	23.3	6.8	(4.0)	2.8
Balance as at 31 December 2019				16.9

<i>In millions of euros</i>	Notes	Gross impact	Tax impact	Net impact
Actuarial gains and losses	28	-	-	-
Foreign currency adjustments	23.2	24.4	-	24.4
Revaluation adjustments	23.3	0.6	-	0.6
Balance as at 30 June 2019				25.0

NOTE 24 NON-CONTROLLING INTERESTS

<i>In millions of euros</i>	30/06/2020	31/12/2019	30/06/2019
Balance as at 1 January	7.8	4.9	4.9
Net income attributable to non-controlling interests	(1.4)	7.0	2.7
Dividends paid to non-controlling interests	(4.4)	(4.0)	(3.3)
Foreign currency translation adjustments on foreign entities	(1.6)	0.7	0.4
Other changes	0.0	(0.8)	0.0
Balance at end of period	0.4	7.8	4.7

NOTE 25 EXPOSURE TO MARKET RISKS

The Hermès Group's results are exposed to the risks and uncertainties set out in the 2019 Universal registration document. In the health, economic, political and social environment stemming from the Covid-19 epidemic, the Group is exposed in particular to the risks of a major

external crisis, activity disruption, damage to the health and safety of people and consumers, and to foreign exchange risk. The economic and financial strength of the Hermès Group gives it the means to face this unprecedented health crisis.

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

<i>In millions of euros</i>	30/06/2020	31/12/2019	30/06/2019
Net financial derivative assets	69.4	36.5	57.6
Net financial derivative liabilities	(41.9)	(47.1)	(59.5)
Net position of financial derivatives	27.5	(10.6)	(1.9)

The ineffective portion of cash flow hedges recorded in profit or loss is negative €28.7 million (of which €4.4 million from over-hedging), compared with negative €66.9 million (of which negative €1.5 million from over-hedging) at 31 December 2019 and negative €26.2 million (of which negative €1.2 million from over-hedging) at 30 June 2019 (see Note 9). The impact of the effective portion of the hedges recorded in equity is shown in Note 23.3.

The valuation methods used for financial instruments as at 30 June 2020 are identical to those used at 31 December 2019, as described on page 310 of the 2019 Universal registration document.

NOTE 26 PROVISIONS

<i>In millions of euros</i>	30/06/2019	31/12/2019	Allocations	Reversals ¹	Exchange rate impact	Other and reclassifications ²	30/06/2020
Current provisions	93.3	101.4	5.9	(23.9)	(0.0)	1.8	85.1
Non-current provisions	19.6	29.0	0.3	(1.2)	(0.0)	3.1	31.2
TOTAL	112.9	130.4	6.2	(25.1)	(0.1)	4.8	116.3

(1) Of which €11.0 million reversed and used.

(2) Corresponds essentially to provisions for restoration costs, established or revised during the financial year in return for the right-of-use asset, which is amortised over the term of the leases.

Current provisions concern provisions for risks, disputes and litigation, as well as provisions to cover the share of the negative position of equity-accounted associates (see Note 18).

Non-current provisions mainly include provisions for restoration.

NOTE 27 EMPLOYEES

A geographical breakdown of the workforce is as follows:

	30/06/2020	31/12/2019	30/06/2019
France	9,773	9,522	9,096
Europe (excl. France)	1,662	1,652	1,574
Other geographical areas	4,263	4,243	4,081
TOTAL	15,698	15,417	14,751

Employee expenses totalled €633.0 million in the first half of 2020, compared with €613.5 million in the first half of 2019.

NOTE 28 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 together with the main assumptions used to measure pension benefit obligations are presented in Note 28 to the

consolidated financial statements, starting on page 334 of the 2019 Universal registration document.

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

<i>In millions of euros</i>	Post-employment plans	Other long-term benefits	H1 2020	FY 2019	H1 2019
Provisions as at 1 January	271.1	17.1	288.2	202.9	202.9
Foreign currency adjustments	1.0	(0.1)	0.9	2.4	1.4
Cost according to statement of profit or loss	9.9	1.0	10.9	40.4	14.0
Benefits/contributions paid	(1.6)	(0.5)	(2.1)	(5.9)	(1.9)
Actuarial gains and losses	-	-	-	48.0	-
Other	(0.1)	(0.0)	(0.1)	0.5	-
Provisions at end of period	280.3	17.5	297.8	288.2	216.4

The expense on post-employment and similar benefit obligations is composed of :

<i>In millions of euros</i>	Post-employment plans	Other long-term benefits	H1 2020	FY 2019	H1 2019
Service costs	9.3	0.9	10.1	16.5	12.7
Interest costs	0.5	0.1	0.6	3.0	1.2
Financial income on assets	(0.0)	-	(0.0)	(0.6)	-
(Gains)/Loss related to past service costs ¹	-	-	-	20.1	-
Net actuarial (gains)/losses recognised in the year	-	-	-	1.9	-
Administrative expenses	0.1	-	0.1	0.2	0.1
Expense on post-employment and similar benefit obligations	9.9	1.0	10.9	41.1	14.0

(1) Corresponds mainly to the impact of the vesting of rights under certain plans following the entry into force of the French PACTE law and the Order of 3 July 2019.

NOTE 29 ACCOUNTS PAYABLE AND OTHER LIABILITIES

The breakdown of accounts payable and other liabilities is as follows:

<i>In millions of euros</i>	30/06/2020	31/12/2019	30/06/2019
Accounts payable	297.7	405.5	367.5
Amounts payable to fixed asset suppliers	35.4	74.8	41.9
Trade and other payables	333.1	480.4	409.4
Current tax debts	264.9	360.1	408.0
Other current liabilities	734.1	800.2	624.0
Other non-current liabilities	30.2	32.5	34.6
TRADE PAYABLES AND OTHER LIABILITIES	1,362.3	1,673.1	1,476.0

Other current and non-current liabilities mainly consist of tax and social liabilities.

NOTE 30 OFF-BALANCE-SHEET COMMITMENTS

There was no material change in off-balance sheet commitments during the half-year.

NOTE 31 RELATED-PARTY TRANSACTIONS

Relations between the Hermès Group and related companies during the first half of 2020 were comparable with those of 2019. Specifically, no unusual transaction, by its nature or amount, was carried out during the period.

NOTE 32 SHARE-BASED PAYMENTS

The total expense incurred in the first half of 2020 for all free share allocation plans (including social security contributions) was €66.7 million, compared with €114.1 million at end-2019 and €36.5 million in the first half of 2019.

No new plans were established in the first half of 2020.

NOTE 33 SUBSEQUENT EVENTS

In July, as part of the strengthening of its vertical integration strategy, Hermès acquired 100% of J3L, specialising in metal parts dedicated to leather goods and fashion accessories. Hermès previously held a 30% stake in the capital of the Group's long-standing supplier. The transaction, authorized by French competition authorities, will have no significant impact on the accounts.

4. STATUTORY AUDITORS' REVIEW REPORT ON THE 2020 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 engagement entrusted to us by your General Meeting and pursuant to Article L. 451-1-2 III of the French Monetary and Financial Code (Code monétaire et financier), we performed:

- ♦ a review of the condensed interim consolidated financial statements of Hermès International for the period from 1 January to 30 June 2020, as attached to this report;
- ♦ a 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 on 29 July 2020 based on available information at that date in a changing context due to the Covid-19 crisis and to difficulties to assess its consequences and future outlook. Our role is to express an opinion on these financial statements based on our review.

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1. CONCLUSION ON THE FINANCIAL STATEMENTS

We conducted our review in accordance with professional standards applicable in France. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with professional standards applicable in France and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34, the standard of IFRS as adopted by the European union applicable to interim financial information.

2. SPECIFIC VERIFICATION

We also verified the information given in the interim management report prepared on 29 July 2020 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, 30 July 2020

The Statutory Auditors

PricewaterhouseCoopers Audit
Olivier Auberty

Didier Kling & Associés
Member of Grant Thornton
Vincent Frambourt
Guillaume Giné

5. 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 that they 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 that it describes the main risks and uncertainties for the remaining six months of the year.

Paris, 30 July 2020

Executive Chairmen

Axel Dumas

Henri-Louis Bauer
representative of Émile Hermès SARL

Hermès International

Société en commandité par actions (partnership limited by shares) with share capital of €53,840,400.12

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