



## HALF-YEAR REVIEW OF OPERATIONS

JUNE 2014



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This document is a free translation into English of the "Rapport semestriel d'activité", originally prepared in French, and has no other value than an informative one. Should there be any difference between the French and the English version, only the French language version shall be deemed authentic and considered as expressing the exact information published by Hermès.



# Key figures

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## Key consolidated figures for the first half of 2014

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in millions of euros

	<b>First half of 2014</b>	<b>Fiscal year 2013</b>	<b>First half of 2013</b>
Revenue	1,906.9	3,754.8	1,767.2
Recurring operating income	621.4	1,218.0	584.1
Operating income	621.4	1,218.0	584.1
Net income attributable to owners of the parent	412.5	790.3	381.7
Operating cash flows	499.1	1,015.9	476.2
Investments (excluding financial investments)	130.3	232.4	74.9
Shareholders' equity <sup>(1)</sup>	2,970.7	2,825.6	2,447.1
Net cash position	945.8	1,022.0	595.9
Restated net cash <sup>(2)</sup>	1,016.6	1,091.0	646.7
Number of employees	11,326	11,037	10,604

(1) Equity excluding non-controlling interests.

(2) Includes non-liquid financial investments and borrowings.





## Half-year review of operations

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### HIGHLIGHTS

For the first half of 2014, the group's consolidated turnover is equal to € 1 906.9 million, an increase of 12% at constant exchange rates. After consideration of the negative currency impact, growth amounts to 8%.

In the second quarter, growth remained sustained (+10% at constant exchange rates), notably in the group's stores despite a high comparison basis in 2013.

As at end of June, the evolution of the exchange rates was unfavourable, resulting in a negative impact on the turnover of €73 million.

In the first half of the year, Hermès International bought back 17,532 shares for €4.4 million, excluding transactions carried out under the liquidity contract.

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### FIRST-HALF SALES

(AT CONSTANT EXCHANGE RATES, UNLESS OTHERWISE INDICATED)

In the first half of 2014, the turnover increased in all regions of the world:

- Europe (+7%) generated a good performance in a particularly difficult economic context,
- Japan (+11%) is continuing to improve after an exceptional first quarter, when it benefited from early purchases linked to increased prices and higher VAT,

– The first half-year was excellent in America (+13%),

– Asia excluding Japan (+17%) is maintaining its dynamism in all countries.

Growth of Leathergoods and Saddlery (+13%) was supported by the ramp-up of the production capacities in the two new sites that opened in 2012, namely in Isère and Charente. The construction projects for two new production units in Franche-Comté were launched.

Ready-to-wear and Accessories (+16%) benefited from the success of its latest collections, notably in fashion accessories.

The Silk & Textiles sector (+11%) is continuing to successfully enhance its offer of exceptional products.

Perfumes (+8%), that in the first half of 2013 benefited from the launch of the new women's perfume *Jour d'Hermès*, generated a good performance with the promising launches of *Jour d'Hermès absolu* and *Terre d'Hermès eau très fraîche*.

Watches (-7%) were penalized by sales to specialized networks in an always difficult market, notably in China.

Other Hermès sectors (+18%), including Jewellery, Art of Living and Hermès Tableware, are continuing with their development and establishing themselves as strong growth relays.

in millions of euros

	First half of 2014	First half of 2013	Evolutions published	Evolutions at constant exchange rates
France	307.9	289.2	6.5%	6.5%
Europe (excl. France)	370.8	346.9	6.9%	7.3%
<b>Total Europe</b>	<b>678.6</b>	<b>636.1</b>	<b>6.7%</b>	<b>6.9%</b>
Japan	220.8	221.4	(0.2)%	11.3%
Asia-Pacific (excl. Japan)	662.3	591.2	12.0%	17.2%
<b>Total Asia</b>	<b>883.1</b>	<b>812.6</b>	<b>8.7%</b>	<b>15.6%</b>
Americas	306.7	286.1	7.2%	12.6%
Other	38.4	32.4	18.5%	18.6%
<b>TOTAL</b>	<b>1,906.9</b>	<b>1,767.2</b>	<b>7.9%</b>	<b>12.0%</b>

in millions of euros

	First half of 2014	First half of 2013	Evolutions published	Evolutions at constant exchange rates
Leathergoods and Saddlery <sup>(1)</sup>	840.7	779.9	7.8%	12.6%
Ready-to-wear and fashion accessories <sup>(2)</sup>	440.6	395.6	11.4%	15.8%
Silk and Textiles	216.0	201.7	7.1%	11.3%
Other Hermès sectors <sup>(3)</sup>	124.5	109.7	13.5%	18.0%
Perfumes	114.6	106.7	7.4%	8.0%
Watches	67.2	74.9	(10.2)%	(6.7)%
Other products <sup>(4)</sup>	103.3	98.6	4.7%	5.8%
<b>TOTAL</b>	<b>1,906.9</b>	<b>1,767.2</b>	<b>7.9%</b>	<b>12.0%</b>

Tableware sales are from now on included in Other Hermès sectors (for La Table Hermès) and in Other products (for Saint Louis and Puiforcat). The effect of this reclassification is presented retrospectively.

(1) Leathergoods & Saddlery include bags & luggages, horse riding, memory holders and small leather goods.

(2) Ready-to-wear and fashion accessories include ready-to-wear, men and women, belts, accessories jewellery, gloves, hats and Hermès shoes.

(3) Other Hermès sectors include jewellery and Hermès Maison products (Art of Living and La Table Hermès).

(4) Other products include John Lobb shoes, Saint-Louis, Puiforcat, Shang Xia as well as production activities realized for third parties (textile printing, perfumes, tanning...).

## FIRST-HALF RESULTS

The gross margin rate reached 68.1%, slightly lower than the level reached in the first half of 2013, due to the negative impact of foreign currency exchange. Selling, marketing and administrative expenses amounted to €612.3 million compared with €569.8 million in June 2013, notably included €93.4 million of advertising and marketing expenses. Other income and expense came to €64.7 million. This includes €57.0 million in depreciation charges, which increased due to the sustained investments and particularly to the number of new store openings and branch renovations over the past years.

Operating income has increased by 6.4% to reach €621.4 million compared to €584.1 million in the first half of 2013. The operational profitability reached 32.6% of sales.

The financial result, which includes the financial income from cash investments as well as the exchange rate results, amounted to an expense of -€7.8 million against -€8.2 million in the first half of 2013.

Non-controlling interests totalled €3.0 million, compared with €5.0 million in the first half of 2013. After income tax expense of €203.7 million and net income from affiliated companies (proceeds of €5.6 million), the Group's consolidated net income came to €412.5 million compared with €381.7 million in the first half of 2013, 8.1% increase.

## INVESTMENTS

During the first half of 2014, operating investments amounted to €130.3 million.

Hermès continued to expand its distribution network, with seven branches opened or renovated.

in millions of euros

	First half of 2014	Fiscal year 2013	First half of 2013
Operating investments	91.4	211.3	74.3
Investments in financial assets	38.9	21.1	0.6
<i>Subtotal (excluding financial investments)</i>	<i>130.3</i>	<i>232.4</i>	<i>74.9</i>
Financial investments <sup>(1)</sup>	0.8	50.5	20.0
<b>Total investments</b>	<b>131.1</b>	<b>282.9</b>	<b>94.9</b>

(1) Financial investments are investments that do not meet the criteria for classification as cash equivalents, primarily because their maturity at inception is more than 3 months.

## FINANCIAL POSITION

With an increase of 5%, the operating cash flow (€499.1 million) served to finance the working capital requirements (€142.5 million), all operating and financial investments (€130.3 million). In the first half of the year, Hermès International bought back 17,532 shares for €4.4 million, excluding transactions carried out within the framework of the liquidity contract.

After payment of the ordinary dividend (€281.4 million), the cash position was equal to €945.8 million as at 30 June 2014, versus €1,022.0 million at the end of 2013. Restated net cash (including non-current financial investments and borrowings) totalled €1,016.6 million as at 30

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June 2014, compared with €1,091.0 million as at 31 December 2013.

Thanks to the improved earnings and after the dividends' distributions, the shareholders equity was equal to €2,970.7 million as at 30 June 2014, versus €2,825.6 million as at 31 December 2013.

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### SUBSEQUENT EVENTS

No significant event incurred as of 28 August 2014, date on which Executive Management approved the financial statements.

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### OUTLOOK FOR THE SECOND HALF

For the overall year, the group is retaining its mid-term objective of revenue growth at constant rates of around 10%. Operating margin should be lower than the all-time high achieved in 2013 (32.4%) due to the negative currency impact.

Hermès will continue its long-term strategy based on creativity, maintaining control over its know-how, expanding its distribution network, strengthening its production capacity and securing its

sources of supply. In 2014, our company will focus on the theme of "metamorphosis", that of precious materials becoming objects in the skilled hands of artisans. Moreover it is our company's unwavering determination to reinvent itself in order to push the limits of excellence.

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### RISKS AND UNCERTAINTIES

The Hermès Group's results are exposed to the risks and uncertainties described in the 2013 Registration Document. The assessment of these risks did not change during the first half of 2014 and no new risk had been identified as of the date of publication of this report. The main risk remains exposure to currency fluctuations.

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### RELATED-PARTY TRANSACTIONS

During the first half 2014, the relationships between the Hermès Group and its related parties were comparable to the relationships that existed in 2013. More specifically, no transaction unusual in its nature or amount was carried out during the period.



## Condensed interim consolidated financial statements

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## Consolidated statement of income for the first half of 2014

in millions of euros

	First half of 2014	Fiscal year 2013	First half of 2013
<b>Revenue</b> (Note 4)	<b>1,906.9</b>	<b>3,754.8</b>	<b>1,767.2</b>
Cost of sales (Note 5)	(608.5)	(1,170.3)	(554.0)
<b>Gross profit</b>	<b>1,298.4</b>	<b>2,584.4</b>	<b>1,213.2</b>
Selling, marketing and administrative expenses (Note 6)	(612.3)	(1,215.2)	(569.8)
Other income and expense (Note 7)	(64.7)	(151.1)	(59.3)
<b>Recurring operating income</b> (Note 4)	<b>621.4</b>	<b>1,218.0</b>	<b>584.1</b>
Other non-recurring income and expense	–	–	–
<b>Operating income</b>	<b>621.4</b>	<b>1,218.0</b>	<b>584.1</b>
Net financial income (Note 8)	(7.8)	(23.5)	(8.2)
<b>Pre-tax income</b>	<b>613.6</b>	<b>1,194.6</b>	<b>575.8</b>
Income tax expense (Note 9)	(203.7)	(397.6)	(191.1)
Net income from associates (Note 16)	5.6	2.0	1.9
<b>CONSOLIDATED NET INCOME</b>	<b>415.5</b>	<b>798.9</b>	<b>386.6</b>
Net income attributable to non-controlling interests (Note 22)	(3.0)	(8.6)	(5.0)
<b>NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT</b> (NOTE 4)	<b>412.5</b>	<b>790.3</b>	<b>381.7</b>
Earnings per share (in euros) (Note 10)	3.96	7.59	3.67
Diluted earnings per share (in euros) (Note 10)	3.94	7.54	3.64

NOTE: 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 variations.



## Consolidated statement of other comprehensive income for the first half of 2014

in millions of euros

	First half of 2014	Fiscal year 2013	First half of 2013
<b>Consolidated net income</b>	<b>415.5</b>	<b>798.9</b>	<b>386.6</b>
Variation of translation differences (Note 21.4)	22.5	(80.6)	(32.5)
Cash flow hedging <sup>(1)</sup> (Note 21.4)	(20.8)	4.5	(3.8)
– fair value variation	9.7	30.5	12.6
– recycling through profit or loss	(30.5)	(26.0)	(16.4)
Assets available for sale <sup>(1)</sup>	–	–	–
– fair value variation	–	–	–
– recycling through profit or loss	–	–	–
Gains and losses recorded in equity and transferable through profit or loss	1.7	(76.1)	(36.3)
Other items <sup>(1)</sup> (Note 21.4)	–	0.3	0.4
Commitments to the personnel: value change linked to actuarial gains and losses <sup>(1)</sup> (Note 21.4)	–	(8.3)	–
Gains and losses recorded in equity and not transferable through profit or loss	–	(8.0)	0.4
<b>Comprehensive income</b>	<b>417.1</b>	<b>714.9</b>	<b>350.7</b>
Attributable to owners of the parent	413.6	707.4	345.9
Attributable to non-controlling interests	3.6	7.5	4.8

(1) Net of taxes.

NOTE: 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 variations.

## Consolidated statement of financial position as at 30 June 2014

### ASSETS

	in millions of euros		
	30 June 2014	31 Dec. 2013	30 June 2013
<b>Non-current assets</b>	<b>1,790.9</b>	<b>1,688.4</b>	<b>1,622.5</b>
Goodwill (Note 11)	53.3	51.4	76.7
Intangible assets (Note 12)	119.0	108.9	102.8
Property, plant & equipment (Note 13)	1,047.5	1,025.1	998.7
Investment property (Note 14)	96.4	94.1	93.3
Financial assets (Note 15)	59.5	59.1	48.0
Investments in associates (Note 16)	79.0	44.5	26.3
Loans and deposits (Note 17)	42.4	41.8	41.3
Deferred tax assets (Note 9.2)	277.0	242.5	234.4
Other non-current assets (Note 19)	17.0	21.1	1.2
<b>Current assets</b>	<b>2,245.3</b>	<b>2,249.2</b>	<b>1,939.7</b>
Inventories and work-in-progress (Note 18)	905.3	813.4	815.6
Trade and other receivables (Note 19)	208.2	193.6	183.2
Current tax receivables (Note 19)	1.6	5.8	1.9
Other current assets (Note 19)	123.5	115.7	102.6
Derivative financial instruments (Note 23)	36.1	67.0	48.8
Cash and cash equivalents (Note 20)	970.6	1,053.7	787.5
<b>TOTAL ASSETS</b>	<b>4,036.2</b>	<b>3,937.6</b>	<b>3,562.2</b>

NOTE: 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 variations.

## EQUITY AND LIABILITIES

in millions of euros

	30 June 2014	31 Dec. 2013	30 June 2013
<b>Equity</b>	<b>2,985.5</b>	<b>2,841.2</b>	<b>2,461.4</b>
Share capital (Note 21)	53.8	53.8	53.8
Shares premium	49.6	49.6	49.6
Treasury shares (Note 21)	(266.7)	(313.9)	(312.4)
Reserves	2,723.3	2,248.7	2,238.5
Foreign currency adjustments (Note 21.3)	(11.5)	(33.4)	13.7
Financial instruments included in equity (Note 21.2)	9.7	30.5	22.2
Net income attributable to owners of the parent (Note 4)	412.5	790.3	381.7
Non-controlling interests (Note 22)	14.8	15.6	14.3
<b>Non-current liabilities</b>	<b>225.3</b>	<b>216.4</b>	<b>183.0</b>
Borrowings and debt	15.9	24.6	25.1
Provisions (Note 24)	14.5	14.7	15.7
Post-employment and other employee benefit obligations (Note 26)	89.5	83.2	68.2
Deferred tax liabilities (Note 9.2)	28.2	25.7	24.1
Other non-current liabilities (Note 27)	77.1	68.2	49.9
<b>Current liabilities</b>	<b>825.4</b>	<b>880.0</b>	<b>917.7</b>
Borrowings and debt (Note 20)	24.8	32.0	196.0
Provisions (Note 24)	26.5	26.6	30.5
Post-employment and other employee benefit obligations (Note 26)	5.3	5.3	3.7
Trade and other payables (Note 27)	303.5	362.1	271.3
Derivative financial instruments (Note 23)	19.0	15.6	13.9
Current tax liabilities (Note 27)	102.6	94.8	100.2
Other current liabilities (Note 27)	343.8	343.6	302.1
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>4,036.2</b>	<b>3,937.6</b>	<b>3,562.2</b>

## Statement of changes in consolidated equity as at 30 June 2014

	Share capital (Note 21)	Shares premium	Treasury shares (Note 21)
<b>As at 31 December 2012</b>	<b>53.8</b>	<b>49.6</b>	<b>(313.3)</b>
Net income attributable to owners of the parent	-	-	-
Other comprehensive income	-	-	-
<i>Sub-total</i>	-	-	-
Change in share capital and share premium	-	-	-
Purchase or sale of treasury shares	-	-	(0.6)
Share-based payment	-	-	-
Dividends paid	-	-	-
Other	-	-	-
<b>As at 31 December 2013</b>	<b>53.8</b>	<b>49.6</b>	<b>(313.9)</b>
Net income attributable to owners of the parent	-	-	-
Other comprehensive income	-	-	-
<i>Sub-total</i>	-	-	-
Change in share capital and share premium	-	-	-
Purchase or sale of treasury shares	-	-	47.2
Share-based payment	-	-	-
Dividends paid	-	-	-
Other	-	-	-
<b>As at 30 June 2014</b>	<b>53.8</b>	<b>49.6</b>	<b>(266.7)</b>

	Share capital (Note 21)	Shares premium	Treasury shares (Note 21)
<b>As at 31 December 2012</b>	<b>53.8</b>	<b>49.6</b>	<b>(313.3)</b>
Net income attributable to owners of the parent	-	-	-
Other comprehensive income	-	-	-
<i>Sub-total</i>	-	-	-
Change in share capital and share premium	-	-	-
Purchase or sale of treasury shares	-	-	0.9
Share-based payment	-	-	-
Dividends paid	-	-	-
Other	-	-	-
<b>As at 30 June 2013</b>	<b>53.8</b>	<b>49.6</b>	<b>(312.4)</b>

NOTE: 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 variations.

in millions of euros

Consolidated reserves and net income – owners of the parent	Financial Instruments (Note 21.2)	Exchange difference (Note 21.3)	Actuarial gains and losses (Note 21.4)	Equity – Group share	Non-controlled equity interests (Note 22)	Equity	Number of shares (Note 21)
<b>2,527.0</b>	<b>26.0</b>	<b>46.0</b>	<b>(44.8)</b>	<b>2,344.4</b>	<b>13.9</b>	<b>2,358.2</b>	<b>105,569,412</b>
790.3	–	–	–	790.3	8.6	798.9	–
0.3	4.5	(79.5)	(8.3)	(82.9)	(1.1)	(84.0)	–
790.7	4.5	(79.5)	(8.3)	707.4	7.5	714.9	–
–	–	–	–	–	–	–	–
–	–	–	–	(0.6)	–	(0.6)	–
42.5	–	–	–	42.5	–	42.5	–
(263.9)	–	–	–	(263.9)	(9.3)	(273.3)	–
(4.1)	–	–	–	(4.1)	3.5	(0.6)	–
<b>3,092.1</b>	<b>30.5</b>	<b>(33.5)</b>	<b>(53.1)</b>	<b>2,825.6</b>	<b>15.6</b>	<b>2,841.2</b>	<b>105,569,412</b>
412.5	–	–	–	412.5	3.0	415.5	–
–	(20.8)	21.9	–	1.1	0.6	1.7	–
412.5	(20.8)	21.9	–	413.6	3.6	417.1	–
–	–	–	–	–	–	–	–
(50.5)	–	–	–	(3.2)	–	(3.2)	–
20.9	–	–	–	20.9	–	20.9	–
(285.1)	–	–	–	(285.1)	(6.0)	(291.1)	–
(1.1)	–	–	–	(1.1)	1.7	0.6	–
<b>3,188.9</b>	<b>9.7</b>	<b>(11.5)</b>	<b>(53.1)</b>	<b>2,970.7</b>	<b>14.8</b>	<b>2,985.5</b>	<b>105,569,412</b>

Consolidated reserves and net income – owners of the parent	Financial Instruments (Note 21.2)	Exchange difference (Note 21.3)	Actuarial gains and losses (Note 21.4)	Equity – Group share	Non-controlled equity interests (Note 22)	Equity	Number of shares (Note 21)
<b>2,527.0</b>	<b>26.0</b>	<b>46.0</b>	<b>(44.8)</b>	<b>2,344.4</b>	<b>13.9</b>	<b>2,358.2</b>	<b>105,569,412</b>
381.7	–	–	–	381.7	5.0	386.6	–
0.4	(3.8)	(32.4)	–	(35.8)	(0.1)	(35.9)	–
382.1	(3.8)	(32.4)	–	345.9	4.8	350.7	–
–	–	–	–	–	–	–	–
–	–	–	–	0.9	–	0.9	–
20.2	–	–	–	20.2	–	20.2	–
(263.9)	–	–	–	(263.9)	(7.2)	(271.1)	–
(0.3)	–	–	–	(0.3)	2.7	2.4	–
<b>2,665.0</b>	<b>22.2</b>	<b>13.7</b>	<b>(44.8)</b>	<b>2,447.1</b>	<b>14.3</b>	<b>2,461.4</b>	<b>105,569,412</b>

## Table of consolidated cash flows for the first half of 2014

	in millions of euros		
	First half of 2014	Fiscal year 2013	First half of 2013
<b>CASH FLOWS USED IN OPERATIONAL ACTIVITIES</b>			
Net income attributable to owners of the parent (Note 4)	412.5	790.3	381.7
Depreciation and amortisation (Notes 12, 13 and 14)	68.3	135.3	62.6
Impairment losses (Notes 11, 12 and 13)	3.6	23.6	0.8
Marked-to-market value of financial instruments	2.4	5.4	3.4
Currency gains/(losses) on fair value adjustments	(11.1)	21.6	9.8
Change in provisions	4.8	(0.2)	(0.1)
Net income from associates (Note 16)	(5.6)	(2.0)	(1.9)
Net income attributable to non-controlling interests (Note 22)	3.0	8.6	5.0
Capital gains/(losses) on disposals	(1.0)	0.6	0.1
Deferred tax	1.4	(9.5)	(5.4)
Accrued expenses and income related to share-based payments (Note 28)	20.9	42.5	20.2
Other	(0.1)	(0.3)	0.1
<b>Operating cash flows</b>	<b>499.1</b>	<b>1,015.9</b>	<b>476.2</b>
Dividend income	(0.7)	–	–
Interest paid/received	(3.1)	(3.5)	8.2
Current tax expense	220.3	429.6	209.5
<b>Operating cash flows before cost of debt, dividends and tax expenses</b>	<b>715.5</b>	<b>1,442.0</b>	<b>694.0</b>
Change in working capital	(156.9)	(73.8)	(155.0)
Interest paid/received	3.1	3.5	(8.2)
Income tax paid	(205.9)	(474.9)	(230.0)
<b>Net cash from operating activities</b>	<b>355.8</b>	<b>896.9</b>	<b>300.7</b>
<b>CASH FLOWS USED IN INVESTING ACTIVITIES</b>			
Purchase of intangible assets (Note 12)	(19.5)	(26.0)	(9.5)
Purchase of property, plant and equipment (Notes 13 and 14)	(71.9)	(185.2)	(64.7)
Acquisitions of subsidiaries and investments in associates	(38.9)	(21.1)	(0.6)
Purchase of other financial assets (Note 15)	(0.8)	(50.5)	(20.0)
Amounts payable relating to fixed assets	(20.3)	2.3	(21.8)
Proceeds from sales of operating assets	1.9	0.7	0.8
Proceeds from sales of other financial assets (Note 15)	–	19.3	0.6
Dividends received	0.2	–	–
<b>Net cash used in investing activities</b>	<b>(149.2)</b>	<b>(260.6)</b>	<b>(115.3)</b>
<b>CASH FLOWS USED IN FINANCING ACTIVITIES</b>			
Dividends paid	(291.1)	(273.3)	(271.1)
Buybacks of treasury shares net of disposals	(3.4)	(0.6)	0.9
Borrowings	–	0.1	1.9
Reimbursements of borrowings	(0.5)	(9.9)	(4.7)
Other increases/(decreases) in equity	(0.0)	3.1	0.6
<b>Net cash used in financing activities</b>	<b>(295.0)</b>	<b>(280.7)</b>	<b>(272.5)</b>
Effect of changes in the scope of consolidation (Note 20)	0.0	0.1	0.2
Effect of foreign currency exchange on intragroup transactions	6.7	(9.7)	(0.6)
Effect of foreign currency exchange (Note 20)	5.5	(10.1)	(2.8)
<b>CHANGE IN NET CASH POSITION (Note 20)</b>	<b>(76.2)</b>	<b>335.9</b>	<b>(90.2)</b>
Net cash position at beginning of period (Note 20)	1,022.0	686.1	686.1
Net cash position at end of period (Note 20)	945.8	1,022.0	595.9
<b>CHANGE IN NET CASH POSITION (Note 20)</b>	<b>(76.2)</b>	<b>335.9</b>	<b>(90.2)</b>

NOTE: 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 variations.

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## Notes to the consolidated financial statements for the first half of 2014

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NOTE: 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 variations.

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## Notes to the consolidated financial statements for the first half of 2014

The condensed interim consolidated financial statements as presented were approved by the Executive Management on 28 August 2014 after review by the Audit Committee at its meeting of 26 August 2014.

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### NOTE 1 - ACCOUNTING POLICIES AND PRINCIPLES

The condensed interim consolidated financial statements of the Hermès Group have been prepared in accordance with IAS 34 - *Interim Financial Reporting*, as endorsed by the European Union, and the selected explanatory notes. The selected explanatory notes do not contain all information contained in annual financial statements. Accordingly, they should be read in conjunction with the consolidated financial statements for the year ended 31 December 2013.

The accounting principles and calculation methods used to prepare these condensed interim financial statements are the same as those used to prepare the consolidated financial statements for the year ended 31 December 2013 and described therein, with the exception of the estimated tax charge for the first half, and the personnel benefits, which are assessed separately (note 1.3), and with the exception of the standards and interpretations applicable for the group as of 1 January 2014 (listed in note 1.1). The standards adopted by the European Union may be consulted at [www.eur-lex.europa.eu](http://www.eur-lex.europa.eu).

#### **1.1. - Mandatory standards and interpretations**

The applicable texts that must be applied to fiscal years beginning as of 1 January 2014 are the following:

- the consolidation standards IFRS 10, IFRS 11, IFRS 12 and the amendments to the IAS 28 R standard;
- amendments IFRS 10, 11, 12 and IAS 27 – Investment entities;
- amendments to IFRS 10, 11 and 12 – Transition guidance;
- amendment to IAS 32 – Presentation – Offsetting financial assets and liabilities;
- amendment to IAS 36 – Recoverable amount disclosures for non-financial assets
- amendment to IAS 39 – Novation of derivatives and continuation of hedge accounting;

These texts had no significant impact on the group's consolidated financial statements.

#### **1.2. - Non-mandatory standards and interpretations as at 1 January 2014**

Moreover, the group has not opted for the early application of the standards and interpretations for which the application is not mandatory on 1 January 2014. These texts are the following:

- IFRS 14 standard – Regulatory deferral accounts;
- amendment to IFRS 11 – Acquisitions of interests in joint operations;
- amendments to IAS 16 and IAS 36 – Clarification of acceptable methods of depreciation and amortisation;
- IFRS 9 – Financial instruments;
- IFRS 15 standard – Revenue from contracts with customers. The impacts from the IFRIC 21 interpretation on levies carried out by public authorities is being analysed. This text, that indicates the date on which the taxes levied by the public authorities must be provisioned, has been approved by the European Union.

#### **1.3. - Particularities specific to the preparation of the interim financial statements**

In compliance with the IAS 34 standard, the half-yearly tax expense is calculated on the basis of an estimated annual average rate.

In the absence of a particular event or significant variation of the actuarial hypotheses during the half-year, the expense relative to post-employment benefits is not the subject of an actuarial assessment. The posted half-yearly expense corresponds with half of the net expense calculated for fiscal 2014, on the basis of the data and actuarial hypotheses used on 31 December 2013.



## NOTE 2 - ANALYSIS OF THE MAIN CHANGES IN THE SCOPE OF CONSOLIDATION

No significant equity investment was carried out in the first half of 2014.

## NOTE 3 - SEASONAL NATURE OF BUSINESS

The group's overall activity remains balanced over the course of the year: in 2013, 47% of the group's turnover was generated during the first half of the year, and

53% during the second. However, second half sales are strongly related to the commercial activities during the year end holidays.

## NOTE 4 - SEGMENT INFORMATION

### 4.1 - Information by operating segment

The activity of the Hermès Group is monitored by the main operational decision-maker (the "Executive Committee") by geographical area and by business sector. Given the Group's current structure, organised into geographical area placed under the responsibility of operational managers in charge of applying the strategy

defined by the Executive Committee, the Group has determined that the geographical area constitute the operating segments in accordance with the fundamental principle of IFRS 8.

The following elements are presented after eliminations and restatements:

in millions of euros

First half of 2014	France	Europe (excl. France)	Japan	Asia-Pacific (excl. Japan)	Americas	Other	Holding	Total
<b>Revenue</b>	<b>307.9</b>	<b>370.8</b>	<b>220.8</b>	<b>662.3</b>	<b>306.7</b>	<b>38.4</b>	<b>-</b>	<b>1,906.9</b>
Selling, marketing and administrative expenses	(92.9)	(112.5)	(81.4)	(177.5)	(104.4)	(9.5)	(34.1)	(612.3)
Depreciation	(8.3)	(10.9)	(5.2)	(16.8)	(10.5)	(0.4)	(4.8)	(57.0)
Operating provisions	(2.3)	(2.2)	(1.2)	(1.1)	0.9	(0.1)	(1.8)	(7.8)
Impairment losses	(2.1)	(1.5)	-	-	-	-	-	(3.6)
Other income/(expenses)	0.2	2.4	0.1	0.4	0.6	-	0.0	3.7
<b>Operating results</b>	<b>99.9</b>	<b>99.6</b>	<b>81.9</b>	<b>275.0</b>	<b>94.7</b>	<b>11.1</b>	<b>(40.7)</b>	<b>621.4</b>
<i>Operating margin by segment</i>	32.4%	26.9%	37.1%	41.5%	30.9%	28.9%		32.6%
Net financial income							(7.8)	(7.8)
Net income from associates							5.6	5.6
Income tax expense							(203.7)	(203.7)
Net income attributable to non-controlling interests							(3.0)	(3.0)
<b>Net income</b>	<b>99.9</b>	<b>99.6</b>	<b>81.9</b>	<b>275.0</b>	<b>94.7</b>	<b>11.1</b>	<b>(249.6)</b>	<b>412.5</b>

## Notes to the consolidated financial statements for the first half of 2014

in millions of euros

<b>Fiscal year 2013</b>	<b>France</b>	<b>Europe (excl. France)</b>	<b>Japan</b>	<b>Asia- Pacific (excl. Japan)</b>	<b>Americas</b>	<b>Other</b>	<b>Holding</b>	<b>Total</b>
<b>Revenue</b>	<b>613.1</b>	<b>737.0</b>	<b>463.2</b>	<b>1,248.1</b>	<b>627.4</b>	<b>66.1</b>	<b>–</b>	<b>3,754.8</b>
Selling, marketing and administrative expenses	(186.7)	(222.0)	(175.7)	(340.1)	(194.0)	(21.7)	(75.0)	(1,215.2)
Depreciation	(15.3)	(24.2)	(10.5)	(34.7)	(20.6)	(0.7)	(9.2)	(115.2)
Operating provisions	(3.6)	(4.2)	(2.5)	(2.7)	(2.5)	(1.1)	(0.4)	(16.9)
Impairment losses	(3.1)	(0.1)	–	–	–	–	–	(3.2)
Other income/(expenses)	(1.2)	(0.2)	0.2	(9.6)	(4.7)	–	(0.3)	(15.9)
<b>Operating results</b>	<b>208.0</b>	<b>202.8</b>	<b>178.1</b>	<b>490.3</b>	<b>210.6</b>	<b>12.0</b>	<b>(83.7)</b>	<b>1,218.0</b>
<i>Operating margin by segment</i>	<i>33.9%</i>	<i>27.5%</i>	<i>38.5%</i>	<i>39.3%</i>	<i>33.6%</i>	<i>18.1%</i>		<i>32.4%</i>
Net financial income							(23.5)	(23.5)
Net income from associates							2.0	2.0
Income tax expense							(397.6)	(397.6)
Net income attributable to non-controlling interests							(8.6)	(8.6)
<b>Net income</b>	<b>208.0</b>	<b>202.8</b>	<b>178.1</b>	<b>490.3</b>	<b>210.6</b>	<b>12.0</b>	<b>(511.4)</b>	<b>790.3</b>

in millions of euros

<b>First half of 2013</b>	<b>France</b>	<b>Europe (excl. France)</b>	<b>Japan</b>	<b>Asia- Pacific (excl. Japan)</b>	<b>Americas</b>	<b>Other</b>	<b>Holding</b>	<b>Total</b>
<b>Revenue</b>	<b>289.2</b>	<b>346.9</b>	<b>221.4</b>	<b>591.2</b>	<b>286.1</b>	<b>32.4</b>	<b>–</b>	<b>1,767.2</b>
Selling, marketing and administrative expenses	(90.3)	(101.7)	(83.8)	(157.6)	(90.2)	(8.6)	(37.7)	(569.8)
Depreciation	(5.0)	(11.5)	(5.0)	(16.5)	(9.2)	(0.3)	(5.5)	(52.9)
Operating provisions	1.0	(1.5)	(1.4)	(1.7)	(0.7)	(0.0)	(1.0)	(5.4)
Impairment losses	(0.8)	(0.0)	–	–	–	–	–	(0.8)
Other income/(expenses)								
<b>Operating results</b>	<b>102.8</b>	<b>96.8</b>	<b>84.0</b>	<b>234.1</b>	<b>95.3</b>	<b>8.3</b>	<b>(37.2)</b>	<b>584.1</b>
<i>Operating margin by segment</i>	<i>35.5%</i>	<i>27.9%</i>	<i>37.9%</i>	<i>39.6%</i>	<i>33.3%</i>	<i>25.7%</i>		<i>33.1%</i>
Net financial income							(8.2)	(8.2)
Net income from associates							1.9	1.9
Income tax expense							(191.1)	(191.1)
Net income attributable to non-controlling interests							(5.0)	(5.0)
<b>Net income</b>	<b>102.8</b>	<b>96.8</b>	<b>84.0</b>	<b>234.1</b>	<b>95.3</b>	<b>8.3</b>	<b>(239.6)</b>	<b>381.7</b>

#### 4.2 - Information by geographical area

The breakdown of non-current assets by geographical area is the following:

	in millions of euros		
	30 June 2014	31 Dec. 2013	30 June 2013
France	728.9	710.3	648.5
Europe (excl. France)	175.8	173.6	173.2
Japan	157.6	153.5	167.3
Asia-Pacific (excl. Japan)	267.3	222.4	215.0
Americas	125.3	125.1	135.7
<b>Non-current assets <sup>(1)</sup></b>	<b>1,455.0</b>	<b>1,384.9</b>	<b>1,339.8</b>

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

#### NOTE 5 - COST OF SALES

All commissions are included in the cost of sales.  
Stock depreciations, losses on stocks and the share of

depreciations included in the production cost of products sold are part of the cost of sales.

#### NOTE 6 - SELLING, MARKETING AND ADMINISTRATIVE EXPENSES

	in millions of euros		
	First half of 2014	Fiscal year 2013	First half of 2013
Advertising and marketing expenses	(93.4)	(211.2)	(89.7)
Other selling and administrative expenses	(518.9)	(1,004.1)	(480.1)
<b>Total</b>	<b>(612.3)</b>	<b>(1,215.2)</b>	<b>(569.8)</b>

#### NOTE 7 - OTHER INCOME AND EXPENSE

	in millions of euros		
	First half of 2014	Fiscal year 2013	First half of 2013
Depreciation (Note 4)	(57.0)	(115.2)	(52.9)
Net change in recurring provisions	(1.4)	(2.4)	0.3
Cost of defined-benefit plans (Note 26.1)	(6.4)	(14.4)	(5.7)
<i>Sub-total</i>	<i>(7.8)</i>	<i>(16.8)</i>	<i>(5.4)</i>
Impairment losses of property, plants and equipment (Note 4)	(3.6)	(3.2)	(0.8)
Other expense (including depreciation of goodwill)	(1.6)	(19.3)	(1.3)
Other income	5.4	3.4	1.0
<i>Sub-total</i>	<i>0.1</i>	<i>(19.0)</i>	<i>(1.0)</i>
<b>Total</b>	<b>(64.7)</b>	<b>(151.1)</b>	<b>(59.3)</b>

Total depreciation and amortisation of tangible and intangible assets included in operating expenses (other income and expense and cost of sales) amounted to

€68.3 million in the first half of 2014 compared with €62.6 million last year.

## Notes to the consolidated financial statements for the first half of 2014

### NOTE 8 - NET FINANCIAL INCOME

in millions of euros

	First half of 2014	Fiscal year 2013	First half of 2013
Income from cash and cash equivalents	2.8	6.2	3.1
Cost of gross debt	(0.3)	(1.0)	(0.5)
– of which: income from hedging instruments	0.0	(0.2)	(0.3)
<b>Cost of net debt</b>	<b>2.5</b>	<b>5.2</b>	<b>2.5</b>
Other financial income and expense	(10.3)	(28.6)	(10.8)
– of which: ineffective portion of cash flow hedges (Note 23)	(10.4)	(29.1)	(11.1)
<b>Total</b>	<b>(7.8)</b>	<b>(23.5)</b>	<b>(8.2)</b>

### NOTE 9 - INCOME TAX EXPENSE

#### 9.1 - Income tax expense

In accordance with IAS 34, the interim income tax expense is calculated based on an estimated average annual rate. The tax rate expected for 2014 is 33.2% (33.2% for the first semester of 2013 and 33.3% for the fiscal year 2013).

For €8.4 million, this tax rate includes the effect of the 3% tax on the distribution of dividends resulting from the second amending finance law for 2012.

#### 9.2 - Deferred tax

in millions of euros

	First half of 2014	Fiscal year 2013	First half of 2013
Deferred tax assets as at 1 January	242.5	217.8	217.8
Deferred tax liabilities as at 1 January	25.7	23.0	23.0
<b>Net deferred tax assets as at 1 January</b>	<b>216.8</b>	<b>194.8</b>	<b>194.8</b>
Impact on the statement of income	16.6	32.0	18.4
Impact on the scope of consolidation	(0.1)	(0.5)	(0.5)
Impact of foreign currency movements	2.7	(14.2)	(5.3)
Other <sup>(1)</sup>	12.8	4.8	2.9
<b>Net deferred tax assets as at end of period</b>	<b>248.8</b>	<b>216.8</b>	<b>210.3</b>
Deferred tax assets as at end of period	277.0	242.5	234.4
Deferred tax liabilities as at end of period	28.2	25.7	24.1

(1) Other items relate to deferred taxes resulting from changes in the portion of revaluation of financial instruments recorded under equity (transferable portion). These changes had no impact on net income for the year.

Deferred taxes mainly related to the following adjustments:

in millions of euros

	First half of 2014	Fiscal year 2013	First half of 2013
Internal margins on inventories and impairment on inventories	171.1	163.1	144.5
Employee obligations	60.2	62.6	54.7
Derivatives instruments	2.9	(7.4)	(3.4)
Impairment losses	6.2	5.4	5.4
Restricted provisions	(35.8)	(35.2)	(28.7)
Other	44.2	28.4	37.7
<b>Total</b>	<b>248.8</b>	<b>216.8</b>	<b>210.3</b>

## NOTE 10 - EARNINGS PER SHARE

Earnings per share are calculated on the basis of the weighted average number of shares outstanding during the fiscal year.

The weighted average number of shares outstanding during the fiscal year as well as those from previous fiscal years is adjusted, if relevant, for operations involving free share allotments and the reduction of the share's face value occurring during the fiscal year, as well as for treasury shares.

Diluted earnings per share is restated for the shares that are to be created as part of the share subscription plans decided upon by Executive Management.

In accordance with the definitions set out in Note 1.20 in the 2013 Registration Document, the calculation and reconciliation of basic earnings per share and diluted earnings per share is as follows:

	First half of 2014	Fiscal year 2013	First half of 2013
<b>Numerator (in millions of euros)</b>			
Basic net income	412.5	790.3	381.7
Adjustments	–	–	–
Diluted net income	412.5	790.3	381.7
<b>Denominator (in number of shares)</b>			
<b>Weighted average number of ordinary shares</b>	<b>104,154,160</b>	<b>104,118,188</b>	<b>104,112,250</b>
<b>Basic earnings per share</b>	<b>3.96</b>	<b>7.59</b>	<b>3.67</b>
Weighted average number of ordinary shares under option	30,353	40,655	42,571
Weighted average number of shares under free share allotment plans	492,294	698,713	651,813
<b>Weighted average number of diluted ordinary shares</b>	<b>104,676,807</b>	<b>104,857,556</b>	<b>104,806,634</b>
<b>Diluted earnings per share</b>	<b>3.94</b>	<b>7.54</b>	<b>3.64</b>
Annual average price per share for the period	€245.97	€255.74	€254.12

The dilutive effect on the calculation of the net profit per share of the allocation of free shares or stock-option is not significant.

## Notes to the consolidated financial statements for the first half of 2014

### NOTE 11 - GOODWILL

in millions of euros

	30 June 2013	31 Dec. 2013	Increases	Decreases	Currency impact	Other	30 June 2014
Goodwill	137.9	122.9	-	-	4.1	-	127.0
<b>Total gross value</b>	<b>137.9</b>	<b>122.9</b>	<b>-</b>	<b>-</b>	<b>4.1</b>	<b>-</b>	<b>127.0</b>
Amortisation booked before 1 January 2004	34.4	27.9	-	-	0.8	-	28.7
Impairment losses	26.9	43.6	-	-	1.4	-	45.0
<b>Total amortisation and impairment losses</b>	<b>61.3</b>	<b>71.6</b>	<b>-</b>	<b>-</b>	<b>2.2</b>	<b>-</b>	<b>73.8</b>
<b>Total net value</b>	<b>76.7</b>	<b>51.4</b>	<b>-</b>	<b>-</b>	<b>1.9</b>	<b>-</b>	<b>53.3</b>

As at 30 June 2014, the largest components of the net value of goodwill were €14.3 million for Hermès Japon and €12.1 million for Hermès Cuir Précieux.

### NOTE 12 - INTANGIBLE FIXED ASSETS

in millions of euros

	30 June 2013	31 Dec. 2013	Increases	Decreases	Currency impact	Other	30 June 2014
Leasehold rights	69.3	68.7	0.9	(1.5)	0.0	-	68.1
Concessions, patents, licences and software	43.5	45.8	1.0	(1.0)	0.5	0.6	46.8
Other intangible assets	129.8	141.0	5.3	(0.5)	(0.1)	1.7	147.4
Fixed assets under construction	3.5	5.3	12.3	-	0.0	(2.0)	15.6
<b>Total gross value</b>	<b>246.1</b>	<b>260.8</b>	<b>19.5</b>	<b>(3.1)</b>	<b>0.4</b>	<b>0.3</b>	<b>277.9</b>
Amortisation of leasehold rights	36.1	37.0	1.4	(1.2)	(0.1)	-	37.2
Amortisation of concessions, patents, licences and software	29.3	30.7	2.0	(1.0)	0.3	0.0	32.0
Amortisation of other intangible assets	76.6	83.1	7.3	(0.5)	(0.0)	(1.4)	88.6
Impairment losses <sup>(1)</sup>	1.3	1.0	0.1	(0.1)	-	-	1.1
<b>Total depreciation and impairment losses</b>	<b>143.4</b>	<b>151.9</b>	<b>10.8</b>	<b>(2.8)</b>	<b>0.2</b>	<b>(1.3)</b>	<b>158.9</b>
<b>Total net value</b>	<b>102.8</b>	<b>108.9</b>	<b>8.7</b>	<b>(0.3)</b>	<b>0.2</b>	<b>1.6</b>	<b>119.0</b>

(1) Impairment losses relate to production operations and stores deemed not to be sufficiently profitable according to the criteria set out in IAS 36 – Impairment of Assets.

Investments made related mainly to setting up integrated management software applications for several subsidiaries.

## NOTE 13 - PROPERTY, PLANT & EQUIPMENT

in millions of euros

	30 June 2013	31 Dec. 2013	Increases ( <sup>(1)</sup> )	Decreases	Currency impact	Other	30 June 2014
Land	152.2	142.8	0.2	–	4.7	0.0	147.8
Buildings	544.3	632.5	1.7	(0.1)	7.7	(1.5)	640.3
Machinery, plant and equipment	204.6	222.9	4.8	(1.5)	1.2	2.9	230.3
Store fixtures and furnishings	345.8	375.4	6.1	(1.7)	3.8	(2.5)	381.1
Other tangible assets	359.2	375.6	7.4	(5.3)	0.7	5.9	384.3
Fixed assets under construction	171.2	90.6	51.5	(0.0)	(0.3)	(13.5)	128.3
<b>Total gross value</b>	<b>1,777.3</b>	<b>1,839.7</b>	<b>71.7</b>	<b>(8.6)</b>	<b>17.8</b>	<b>(8.7)</b>	<b>1,912.0</b>
Depreciation of buildings	195.0	203.1	13.6	(0.1)	3.2	(3.1)	216.8
Depreciation of machinery, plant and equipment	134.7	142.6	7.8	(1.4)	0.7	0.2	149.9
Depreciation of store fixtures and furnishings	216.8	224.3	18.7	(1.7)	2.5	(4.4)	239.4
Depreciation of other tangible assets	215.2	225.7	17.1	(5.1)	0.4	(1.5)	236.6
Impairment losses ( <sup>(2)</sup> )	17.0	19.0	3.5	(0.8)	0.1	–	21.8
<b>Total depreciation and impairment losses</b>	<b>778.6</b>	<b>814.6</b>	<b>60.8</b>	<b>(9.1)</b>	<b>7.0</b>	<b>(8.8)</b>	<b>864.5</b>
<b>Total net value</b>	<b>998.7</b>	<b>1,025.1</b>	<b>11.0</b>	<b>0.5</b>	<b>10.8</b>	<b>0.1</b>	<b>1,047.5</b>

(1) Investments made during the first half of 2014 mainly related to the opening and renovation of stores and capital expenditure to expand production capacity.

(2) The impairment losses relate to the production activities and stores considered to be insufficiently profitable according to the criteria listed in the IAS 36 standard – Impairment of assets. It is stipulated that the cash generating units on which the impairment losses have been booked are not individually significant in view of the group's total activity.

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 14 - INVESTMENT PROPERTY

in millions of euros

	30 June 2013	31 Dec. 2013	Increases	Decreases	Currency impact	Other	30 June 2014
Land	30.9	31.6	–	–	1.1	–	32.8
Buildings	72.4	74.0	0.1	–	2.6	–	76.7
<b>Total gross value</b>	<b>103.4</b>	<b>105.6</b>	<b>0.1</b>	<b>–</b>	<b>3.8</b>	<b>–</b>	<b>109.5</b>
Depreciation	10.1	11.5	1.1	–	0.5	–	13.1
<b>Total net value</b>	<b>93.3</b>	<b>94.1</b>	<b>(1.0)</b>	<b>–</b>	<b>3.3</b>	<b>–</b>	<b>96.4</b>

## Notes to the consolidated financial statements for the first half of 2014

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

not significant nor likely, as far as we know, to change materially in the coming fiscal years. Rental income from investment property amounted to €2.4 million for the first half of 2014.

### NOTE 15 - FINANCIAL ASSETS

	in millions of euros						
	30 June 2013	31 Dec. 2013	Increases	Decreases	Currency impact	Other	30 June 2014
Investments in financial assets and accrued interest <sup>(1)</sup>	40.5	51.9	0.1	(0.1)	–	–	51.9
Liquidity contract	7.4	7.8	0.7	–	–	–	8.4
Other financial assets	5.5	0.7	0.0	(0.2)	0.0	–	0.5
Other non-consolidated investments <sup>(2)</sup>	0.3	0.2	–	–	–	–	0.2
Participating/convertible loan	–	–	–	–	–	–	–
<b>Total gross value</b>	<b>53.7</b>	<b>60.6</b>	<b>0.8</b>	<b>(0.3)</b>	<b>0.0</b>	<b>–</b>	<b>61.1</b>
Impairment	5.7	1.5	0.1	–	–	–	1.6
<b>Total</b>	<b>48.0</b>	<b>59.1</b>	<b>0.7</b>	<b>(0.3)</b>	<b>0.0</b>	<b>–</b>	<b>59.5</b>

(1) Financial investments correspond to investments that do not meet the cash equivalent criteria notably as a result of their original maturity of more than 3 months.

(2) Other available-for-sale non-consolidated investments do not include any listed securities.

### NOTE 16 - INVESTMENTS IN ASSOCIATES

The change in investments in associates is broken down as follows:

	in millions of euros		
	30 June 2014	31 Dec. 2013	30 June 2013
<b>Balance as at 1 January</b>	<b>44.5</b>	<b>25.8</b>	<b>25.8</b>
Impact of changes in the scope of consolidation	27.9	19.3	0.1
Net income from associates	5.6	2.0	1.9
Dividends paid	(0.2)	(0.2)	(0.2)
Change in foreign exchange rates	1.1	(2.4)	(1.4)
Other	(0.0)	–	–
<b>Balance as at the end of the period</b>	<b>79.0</b>	<b>44.5</b>	<b>26.3</b>

The impact of changes in the scope of consolidation during the period relates to a minority equity interest acquired in a company held by one of the group's historical distributors.



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NOTE 17 - LOANS AND DEPOSITS

in millions of euros

	30 June 2013	31 Dec. 2013	Increases	Decreases	Currency impact	Other	30 June 2014
Loans and deposits <sup>(1)</sup>	43.8	44.0	1.1	(1.7)	1.2	–	44.6
Impairment	2.5	2.3	0.0	–	0.0	–	2.3
<b>Total</b>	<b>41.3</b>	<b>41.8</b>	<b>1.1</b>	<b>(1.7)</b>	<b>1.1</b>	<b>–</b>	<b>42.4</b>

(1) As at 30 June 2014, security deposits amounted to €24.7 million compared with €24.9 million as at 31 December 2013.

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NOTE 18 - INVENTORIES AND WORK-IN-PROGRESS

in millions of euros

	30 June 2014			31 Dec. 2013	30 June 2013
	Gross	Impairment	Net	Net	Net
Retail, semi-finished and finished goods	812.3	279.0	533.4	447.9	454.6
Raw materials and work-in-progress	485.3	113.4	372.0	365.5	361.0
<b>Total</b>	<b>1,297.7</b>	<b>392.3</b>	<b>905.3</b>	<b>813.4</b>	<b>815.6</b>
Net income/(expense) from the impairment of retail, intermediate and finished goods	–	(41.1)	–	(51.6)	(38.4)
Net income/(expense) from the impairment of raw materials and work-in-progress	–	(1.1)	–	(20.6)	(10.2)

No inventories were pledged as debt collateral.

## Notes to the consolidated financial statements for the first half of 2014

### NOTE 19 - TRADE AND OTHER RECEIVABLES

in millions of euros

	30 June 2014			31 Dec. 2013	30 June 2013
	Gross	Impairment	Net	Net	Net
Trade and other receivables	213.8	5.5	208.2	193.6	183.2
<i>of which: – amount not yet due</i>	129.9	0.2	129.7	113.8	161.4
<i>– amount payable <sup>(1)</sup></i>	83.8	5.3	78.5	79.8	21.9
Current tax receivables	1.6	–	1.6	5.8	1.9
Other current assets	123.8	0.4	123.5	115.7	102.6
Other non-current assets	17.0	–	17.0	21.1	1.2
<b>Total</b>	<b>356.2</b>	<b>5.9</b>	<b>350.3</b>	<b>336.3</b>	<b>288.9</b>

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

in millions of euros

	30 June 2014			31 Dec. 2013	30 June 2013
	Gross	Impairment	Net	Net	Net
Less than 3 months	70.1	0.8	69.2	76.8	20.2
Between 3 and 6 months	4.1	0.5	3.6	2.9	1.4
Between 6 months and 12 months	9.7	4.0	5.7	0.1	0.2

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

The Group's policy is to recommend securing accounts receivable insurance cover, inasmuch as local conditions

permit it. Consequently, the risk of non-recovery is low, as evidenced by accounts receivable impairment, which amounted to approximately 3% of the gross value on the 30 June 2014, as in 2013. There is no significant concentration of credit risk.

### NOTE 20 - CASH AND CASH EQUIVALENTS

in millions of euros

	30 June 2013	31 Dec. 2013	Cash flows	Currency impact	Impact on the scope of consolidation	Other <sup>(1)</sup>	30 June 2014
Cash and cash equivalents	331.4	306.3	(109.7)	4.2	0.7	(0.4)	201.2
Marketable securities <sup>(2)</sup>	456.8	747.6	19.9	1.9	–	–	769.4
<i>Sub-total</i>	788.2	1,053.9	(89.7)	6.1	0.7	(0.4)	970.6
Bank overdrafts and current accounts in debit	(192.3)	(31.9)	7.7	(0.6)	–	–	(24.8)
<b>Net cash position</b>	<b>595.9</b>	<b>1,022.0</b>	<b>(82.0)</b>	<b>5.5</b>	<b>0.7</b>	<b>(0.4)</b>	<b>945.8</b>

(1) Corresponds to the mark-to-market on cash and cash equivalents.

(2) Primarily invested in money market UCITS and cash equivalents with a duration of less than 3 months.

All of the cash and cash equivalents have a maturity of less than 3 months and a sensitivity of less than 0.5%.

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## NOTE 21 - SHAREHOLDERS' EQUITY

As at 30 June 2014, Hermès International's share capital consisted of 105,569,412 fully-paid shares with a par value of €0.51 each. 1,197,840 of these shares are treasury shares.

There was no change in the company's share capital during the first half of 2014.

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 "shareholders' equity" as shown in the consolidated statement of changes in equity. More specifically, shareholders' equity includes the part of financial instruments that has been transferred to equity as well

as actuarial gains and losses, as defined in Notes 1.9 and 1.17 of the 2013 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. Since last year, the Group made no change in its capital management policy and objectives.

### 21.1 - Dividends

During the first half of 2014, an ordinary dividend of €2.70 per share, representing a total distribution of €281 million, were paid after approval by the shareholders at

the annual General meeting of 3 June 2014 convened to approve the annual financial statements for the year ended 31 December 2013.

### 21.2 - Derivatives included in equity

During the first half of 2014, changes in derivatives were broken down as follows (after tax):

	in millions of euros		
	30 June 2014	31 Dec. 2013	30 June 2013
<b>Balance as at 1 January</b>	<b>30.5</b>	<b>26.0</b>	<b>26.0</b>
Amount transferred to equity during the period for derivatives	(32.3)	(19.8)	(16.4)
Amount transferred to equity during the period for financial investments	–	–	–
Adjustments in the value of derivatives at closing	10.5	32.3	12.6
Other exchange losses/gains deferred through overall profit or loss	1.0	(8.0)	–
<b>Balance as at end of period</b>	<b>9.7</b>	<b>30.5</b>	<b>22.2</b>

## Notes to the consolidated financial statements for the first half of 2014

### 21.3 - Foreign currency adjustments

The change in foreign currency adjustments during the first half of 2014 is analysed below:

	in millions of euros		
	30 June 2014	31 Dec. 2013	30 June 2013
<b>Balance as at 1 January</b>	<b>(33.5)</b>	<b>46.0</b>	<b>46.0</b>
Japanese yen	6.3	(33.2)	(17.4)
US dollar	2.0	(8.8)	1.4
Chinese yuan	(2.3)	(0.3)	2.2
Australian dollar	1.6	(16.3)	(4.4)
Pound sterling	5.9	(2.7)	(6.2)
Swiss franc	1.2	(0.7)	(2.7)
Singapore dollar	5.2	(11.4)	(2.8)
Hong Kong dollar	2.2	(2.9)	1.5
Other currencies	(0.1)	(3.2)	(3.9)
<b>Balance as at end of period</b>	<b>(11.5)</b>	<b>(33.5)</b>	<b>13.7</b>

### 21.4 - Other comprehensive income

In the first half of 2014 other comprehensive income was broken down as follows:

	in millions of euros		
	Gross impact	Tax effect	Net impact
Actuarial gains and losses (Note 26.3)	-	-	-
Foreign currency adjustments (Notes 21.3 et 22)	22.5	-	22.5
Derivatives included in equity (Note 21.2)	(33.6)	12.8	(20.8)
Other items	-	-	-
<b>Balance as at 30 June 2014</b>	<b>(11.1)</b>	<b>12.8</b>	<b>1.7</b>
Actuarial gains and losses (Note 26.3)	(12.6)	4.3	(8.3)
Foreign currency adjustments (Notes 21.3 et 22)	(84.9)	4.4	(80.6)
Derivatives included in equity (Note 21.2)	8.7	(4.2)	4.5
Other items	0.5	(0.2)	0.3
<b>Balance as at 31 December 2013</b>	<b>(88.3)</b>	<b>4.3</b>	<b>(84.0)</b>
Actuarial gains and losses (Note 26.3)	-	-	-
Foreign currency adjustments (Notes 21.3 et 22)	(32.5)	-	(32.5)
Derivatives included in equity (Note 21.2)	(6.3)	2.5	(3.8)
Other items	0.6	(0.2)	0.4
<b>Balance as at 30 June 2013</b>	<b>(38.2)</b>	<b>2.3</b>	<b>(35.9)</b>

## NOTE 22 - NON-CONTROLLED EQUITY INTERESTS

in millions of euros

	30 June 2014	31 Dec. 2013	30 June 2013
<b>Balance as at 1 January</b>	<b>15.6</b>	<b>13.9</b>	<b>13.9</b>
Net income attributable to non-controlling interests	3.0	8.6	4.9
Dividends paid to non-controlling interests	(6.0)	(9.3)	(7.2)
Exchange rate adjustment on foreign entities	0.6	(1.1)	(0.1)
Other changes	1.7	3.5	2.7
<b>Balance as at end of period</b>	<b>14.8</b>	<b>15.6</b>	<b>14.3</b>

## NOTE 23 - EXPOSURE TO MARKET RISKS

The Hermès group's results are exposed to the risks and uncertainties described in the 2013 Registration Document. The assessment of these risks did not change during the first half of 2014 and no new risk had been identified as of the date of publication of this

report. The main risk remains exposure to currency fluctuations. The group's currency exposure management policy is based on the management principles described in the 2013 Registration Document.

The net financial instruments position on the balance sheet is shown below:

in millions of euros

	30 June 2014	31 Dec. 2013	30 June 2013
Derivative financial instrument assets	36.1	67.0	48.8
Derivative financial instrument liabilities	(19.0)	(15.6)	(13.9)
<b>Net position of the derivative financial instruments</b>	<b>17.1</b>	<b>51.4</b>	<b>34.8</b>

The ineffective portion of cash flow hedges recorded in net income was -€10.4 million (including +€0.5 million from overhedging), compared with -€29.1 million

(including +€0.7 million from overhedging) as at 31 December 2013 and -€11.1 million (including -€0.1 million from overhedging) as at 30 June 2013 (see Note 7).

## NOTE 24 - PROVISIONS

in millions of euros

	30 June 2013	31 Dec. 2013	Accruals	Reversals <sup>(1)</sup>	Currency impact	Other and reclassifications	30 June 2014
Current provisions	30.5	26.5	4.8	(5.2)	0.3	–	26.5
Non-current provisions	15.7	14.7	1.9	(2.1)	0.0	–	14.5
<b>Total</b>	<b>46.2</b>	<b>41.2</b>	<b>6.7</b>	<b>(7.2)</b>	<b>0.3</b>	<b>–</b>	<b>41.0</b>

(1) Including €1.8 million of consumed reversals and €5.4 million of non-consumed reversals.

As at 30 June 2014, the provisions involve provisions for returns (€10.1 million) as well as other legal, financial or tax risks resulting from past events that are

undetermined in terms of their amount or due date (€30.9 million). No other type of provision is individually significant.

NOTE 25 - EMPLOYEES

The geographical breakdown of the total number of employees is as follows:

	30 June 2014	31 Dec. 2013	30 June 2013
France	6,864	6,631	6,404
Rest of Europe	1,250	1,234	1,218
Rest of the world	3,212	3,172	2,982
<b>Total</b>	<b>11,326</b>	<b>11,037</b>	<b>10,604</b>

Total personnel costs amounted to €450.0 million in the first half of 2014 compared with €408.0 million in the first half of last year.

NOTE 26 - POST-EMPLOYMENT AND OTHER EMPLOYEE BENEFIT OBLIGATIONS

Hermès group employees are entitled to post-employment benefits awarded either through defined contribution plans or through defined benefit plans. Under defined contribution plans, regular payments are made to outside organisations, which are responsible for administrative and their financial management. Under defined benefit plans, the employer assumes an

obligation *vis-à-vis* its employees. If these plans are not entirely funded in advance, a provision is recorded. A description of these plans as well as the main assumptions used to assess pension benefit obligations are presented in Note 25 of the consolidated financial statements, on pages 206 *et seq.* of the 2013 Registration Document.

**26.1 - Cost of defined benefit plans recognised in the statement of income**

The total expense recognised in respect of defined benefit plans is broken down as follows:

in millions of euros

	Defined benefit pension plans	Other defined benefit plans	First half of 2014	Fiscal year 2013	First half of 2013
Service cost	5.0	0.4	5.4	9.1	4.8
Interest cost	0.9	0.1	0.9	2.9	0.8
Expected return on plan assets	–	–	–	(1.4)	–
(Gains)/losses resulting from change in plan	–	–	–	(0.2)	–
Effect of changes in the scope of consolidation	–	–	–	3.7	–
Unrecognised past service cost	–	–	–	–	0.1
Net actuarial (gains)/losses recognized during the period	–	–	–	0.3	–
Administrative expenses	0.1	–	0.1	0.1	–
<b>Cost of defined-benefit plans</b>	<b>5.9</b>	<b>0.5</b>	<b>6.4</b>	<b>14.5</b>	<b>5.7</b>

## 26.2 - Change in obligations recognised in statement of financial position

The change in defined benefit pension obligations is broken down as follows:

			in millions of euros		
	Defined benefit pension plans	Other defined benefit plans	30 June 2014	31 Dec. 2013	30 June 2013
<b>Provisions as at 1 January</b>	<b>82.0</b>	<b>6.5</b>	<b>88.5</b>	<b>69.3</b>	<b>69.3</b>
Foreign currency adjustments	1.1	0.0	1.1	(6.0)	(3.3)
Pension expense	5.9	0.5	6.4	14.5	5.7
Benefits/contributions paid	(1.2)		(1.2)	(3.9)	(1.0)
Actuarial gains and losses/limits on plan assets	–	–	–	12.7	–
Changes in the scope of consolidation	–	–	–	0.3	0.3
Other	–	–	–	1.6	1.0
<b>Provisions at end of period</b>	<b>87.8</b>	<b>7.0</b>	<b>94.8</b>	<b>88.5</b>	<b>72.0</b>

## 26.3 - Changes in actuarial gains and losses recognised in equity

During the first half of both 2014 and 2013, no actuarial gain or loss was recorded in equity.

## NOTE 27 - TRADE PAYABLES AND OTHER LIABILITIES

	in millions of euros		
	30 June 2014	31 Dec. 2013	30 June 2013
Suppliers	275.5	313.8	249.7
Amounts payable relating to fixed assets	28.0	48.3	21.6
<b>Trade and other payables</b>	<b>303.5</b>	<b>362.1</b>	<b>271.3</b>
Current tax liabilities	102.6	94.8	100.2
Other current liabilities	343.8	343.6	302.1
Other non-current liabilities	77.1	68.2	49.9
<b>Trade payables and other liabilities</b>	<b>826.9</b>	<b>868.7</b>	<b>723.4</b>

## NOTE 28 - SHARE-BASED PAYMENTS

In the first half of 2014, the expense related to the plans for the allocation of bonus shares was equal to €20.9

million, versus €42.5 million at the end of 2013 and €20.2 million in the first half of 2013.

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## Notes to the consolidated financial statements for the first half of 2014

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### NOTE 29 - UNRECOGNISED COMMITMENTS

There was no material change in the group's unrecognised commitments during the first half of the year.

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### NOTE 30 - RELATED-PARTY TRANSACTIONS

During the first half of 2014, the Hermès group and related parties maintained relationships comparable to those that existed in 2013. More specifically, no transaction unusual in its nature or amount was carried out during the period.

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### NOTE 31 - SUBSEQUENT EVENTS

No significant event incurred as of 28 August 2014, date on which Executive Management approved the financial statements.



## **Statutory auditors' report on the interim financial information for the first half of 2014**

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*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.*

In compliance with the assignment entrusted to us by your Annual General Meeting and pursuant to article L.451-1-2 III of the Code Monétaire and Financier:

- ◆ we carried out a partial audit of the condensed interim consolidated financial statements of Hermès International for the six months from 1 January to 30 June 2014, as appended to this report;
- ◆ we reviewed the information provided in the first half management report.

These condensed interim consolidated financial statements have been prepared under the Executive Management's responsibility. Our role is to express an opinion on these financial statements, based on our partial audit.

### **1. Opinion on the consolidated financial statements**

We have conducted our partial audit in accordance with professional standards applicable in France. A partial audit is mainly confined to obtaining information from the senior managers responsible for financial and accounting matters, and to conducting analyses. An

audit of this type does not include performing all the examinations required for a full audit in accordance with the professional auditing standards applicable in France. It therefore does not provide the same assurance that all material items that might have been identified under a full audit have been identified.

Based on our partial audit, we have identified no material misstatements that raise questions over the consistency of the condensed interim consolidated financial statements with standard IAS 34 – an International Financial Reporting Standard (IFRS) as endorsed by the European Union pertaining to interim financial information.

### **2. Specific procedures**

We have also verified the information given in the group management report containing comments on the condensed interim consolidated financial statements on which we conducted our partial audit. We have no matters to report as to its fair presentation and consistency with the condensed interim consolidated financial statements.

Paris and Neuilly-sur-Seine, 28 August 2014

The Statutory Auditors

Didier Kling & Associés  
Christophe Bonte                      Didier Kling

PricewaterhouseCoopers Audit  
Christine Bouvry

## Statement by persons responsible for the interim financial report

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To the best of our knowledge, the condensed financial statements for the first six months of 2014 have been prepared in accordance with the applicable accounting standards and give a fair view of the assets, liabilities and financial position and results of the Company and all the undertakings included in the consolidation,

and that the review of operations for the first half presents a fair view of significant events that occurred during the first six months of the year, of their impact on the financial statements, of the main related-party transactions, as well as a description of the main risks and uncertainties for the last six months of the year.

Paris, 28 August 2014  
The Executive Management

Axel Dumas

Henri-Louis Bauer  
representing Émile Hermès SARL

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