HALF-YEAR REVIEW OF OPERATIONS

JUNE 2016

Hermès International
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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

Key consolidated figures for the first half of 2016

in million of euros

	First half of 2016	2015 financial year	First half of 2015
Revenue	2,440.4	4,841.0	2,299.4
Operating income	826.8	1,540.7	748.2
Net income attributable to owners of the parent	545.4	972.6	482.5
Operating cash flows	699.4	1,218.2	573.9
Investments (excluding financial investments)	107.6	266.6	101.4
Shareholders equity (1)	3,863.3	3,742.0	3,227.8
Net cash position	1,513.4	1,571.2	951.9
Restated net cash (2)	1,625.4	1,614.0	1,018.3
Number of employees	12,510	12,244	11,857

(1) Corresponds to equity excluding non-controlling interests.
(2) The restated net cash includes non-liquid financial investments for the purposes of the IAS 39 standard, and borrowings.

Half-year review of operations

HALF-YEAR HIGHLIGHTS

The Group's consolidated revenues amounted to €2,440 million in the first half of 2016, up 7% at constant exchange rates [1]. After adjustment for the negative currency effect, growth was 6%.

In the second quarter, the growth was sustained (+8% with constant exchange rates and +6% with current exchange rates).

At the end of June, the evolution of the exchange rates was unfavourable, resulting in a negative impact on the turnover of €25 million.

FIRST-HALF SALES

(AT CONSTANT EXCHANGE RATES, UNLESS OTHERWISE INDICATED)

Over the first half of 2016, revenues rose in all the regions worldwide:

– Japan (+10%) achieved an excellent performance thanks to its selective distribution network, despite the strengthening of the Yen and a particularly high comparison basis;

– Asia excluding Japan (+5%), which re-opened the Liat Towers store in Singapore in May after extension and renovation, pursued its growth. In continental China, sales continued to rise even though the context remains challenging in Hong Kong and Macao;

– America (+8%) is developing in a still uncertain context and benefits particularly from last year's extensions and renovations;

– Europe (+8%) posted growth, performing well in the Group's stores which confirm their resistance, despite the impact of recent events, particularly in France.

In a more adverse context, growth was driven by the success of Leather Goods and Saddlery which confirmed its role as the mainstay of the Group.

Growth in Leather Goods and Saddlery (+16%) was remarkable, thanks to the success of the collections and the models' diversity, in particular the bags *Constance*, *Halzan* and *Lindy*, together with *Birkin* and *Kelly*. The development was supported by the sustained pace of production and the increase in capacities at the three sites in Charente, Isère and Franche-Comté. Investments for a third site in this latter region continue.

The Ready-to-wear and Accessories division (-2%) was down slightly, in contrast with the success of the latest women's ready-to-wear and shoe collections.

The Silk and Textiles business line (-7%) was penalized in the first semester by events in Europe, and by slowing sales in Greater China and America.

The Perfumes division (+4%) posted an increase, driven by the success of *Terre d'Hermès* and by the latest creations with the launch of colognes, *Eau de néroli doré* and *Eau de rhubarbe écarlate*.

Watches (+1%) remained stable, penalized by a still challenging market, particularly in Asia excluding Japan.

Other Hermès business lines (-2%) which encompass Jewellery, Art of Living and Hermès Table Arts, continued their development.

(1) Growth at constant exchange rates: the restatement of the exchange effect involves the calculation of the increase of the revenue from the current year using the exchange rate of the previous year.

in million of euros

	First half of 2016	First half of 2015	Evolutions published	Evolutions at constant exchange rates
France	352.3	328.3	7.3%	7.3%
Europe (excluding France)	433.8	406.7	6.6%	9.1%
Total Europe	**786.1**	**735.1**	**6.9%**	**8.3%**
Japan	329.8	279.7	17.9%	10.0%
Asia-Pacific (excluding Japan)	856.1	842.2	1.7%	5.3%
Total Asia	**1,185.9**	**1,121.9**	**5.7%**	**6.5%**
Americas	431.6	403.8	6.9%	8.3%
Other	36.7	38.7	(4.9)%	(4.9)%
TOTAL	**2,440.4**	**2,299.4**	**6.1%**	**7.2%**

in million of euros

	First half of 2016	First half of 2015	Evolutions published	Evolutions at constant exchange rates
Leather Goods and Saddlery (1)	1,231.2	1,067.4	15.3%	16.3%
Ready-to-wear and Fashion accessories (2)	517.5	534.1	(3.1)%	(1.7)%
Silk and Textiles	230.3	250.6	(8.1)%	(6.9)%
Other Hermès sectors (3)	150.6	154.9	(2.8)%	(1.5)%
Perfumes	124.6	120.3	3.5%	3.7%
Watches	74.6	75.0	(0.5)%	0.7%
Other (4)	111.8	97.1	15.1%	15.8%
TOTAL	**2,440.4**	**2,299.4**	**6.1%**	**7.2%**

(1) The “Leather Goods and Saddlery” business line includes bags, riding, diaries and small leather goods.
(2) The “Ready-to-wear and Accessories” business line includes Hermès Ready-to-wear for men and women, belts, costume jewellery, gloves, hats and shoes.
(3) The “Other Hermès business lines” include Jewellery and Hermès home products (Hermès 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…), as well as the John Lobb, Saint-Louis, Puiforcat and Shang Xia products.

FIRST-HALF RESULTS

The gross margin rate reached 68,4%, an increase of 1.9 points relative to first half 2015, primarily due to the favourable impact of the exchange rate hedging set up the previous year.

Selling, marketing and administrative expenses amounted to €724.2 million compared with €693.9 million at the end of June 2015, notably including €99.6 million of advertising and marketing expenses (compared with €97.1 million in the previous half-year).

Other income and expense came to €119.1 million. This includes €77 million of depreciation charges, which increased due to the sustained investments in the expansion and renovation of the distribution network. This item also includes the expense relative to the allocations of free shares that, until the end of the first half of 2015, had been included in the selling, marketing and administrative expenses.

Operating income rose 11% to reach €826.8 million compared to €748.2 million in the first half of 2015. The operational profitability represents 33.9% of sales, an increase compared to the level reached at the end of June 2015 (32.5%).

The financial result, which includes the financial income from cash investments as well as the exchange rate results, amounted to an expense of -€20.3 million compared with -€24.7 million in the first half of 2015.

Non-controlling interests totalled €1.7 million, compared with €2.2 million at the end of June 2015.

After an income tax expense of €267.8 million and net income from affiliated companies (proceeds of €8.4 million), the Group's consolidated net income came to €545.4 million compared with €482.5 million at the end of June 2015, a 13% increase.

INVESTMENTS

During the first half of 2016, operating and financial investments amounted to €107.6 million.

in million of euros

	First half of 2016	2015 financial year	First half of 2015
Operating investments	107.6	252.4	100.4
Investments in financial assets	–	14.2	1.0
Sub-total (excluding financial investments)	*107.6*	*266.6*	*101.4*
Financial investments [1]	86.8	0.2	0.5
Total investments	**194.4**	**266.7**	**102.0**

(1) Financial investments correspond to the 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

Cash flow from operations reached €699.4 million, up by 22% and financed all operational investments (€107.6 million), the change in working capital needs (€117.9 million) and the payment of the ordinary dividend (€350.4 million). In the first semester, Hermès International bought back 164,924 shares for €53.6 million, outside of transactions as part of the liquidity contract.

The net cash position amounted to €1,513.4 million as at 30 June 2016, compared to €1,571.2 million as at 31 December 2015. Restated net cash (including non-current financial investments for more than 3 months and borrowings) totalled €1,625.4 million as at 30 June 2016, compared with €1,614.0 million as at 31 December 2015.

After the the ordinary dividends distribution, shareholders' equity reached €3,863.3 million on 30 June

2016 (Group shareholding), against €3,742.0 million on 31 December 2015.

SUBSEQUENT EVENTS

No significant event occurred between 30 June 2016 and 13 September 2016, when the Executive Management authorised the condensed consolidated interim financial statement for issue.

2016 OUTLOOK

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

For the full year 2016, Hermès confirms its outlook of sales growth at constant exchange rates as announced when the Q2 2016 Revenues were published. Operating margin should be slightly higher than in 2015 given the favourable impact of foreign exchange hedges taken out last year.

In the medium term, despite growing economic, geopolitical and monetary uncertainties around the world, the Group confirms an ambitious goal for sales growth at constant exchange rates but not quantified anylonger [1].

RISKS AND UNCERTAINTIES

The Hermès Group's results are exposed to the risks and uncertainties exposed in the 2015 Reference Document. The assessment of these risks did not change during the first half of 2016 and no new risk had been identified since the annual report publication. The main risks remain the exposure to currency fluctuations, and the changing economic situation in some parts of the world.

RELATED-PARTY TRANSACTIONS

Transactions with related parties in the first half of 2016 are comparable to the relationships that existed in 2015. More specifically, no transaction unusual in its nature or amount was carried out during the period.

(1) Compared to the medium-term goal of around 8% revenue growth at constant exchange rates (communicated on the 4th Quarter 2014 Revenues publication), the group will no longer communicate any quantified goal due to the reinforcement of economic, geopolitical and monetary uncertainties around the world, but maintains an ambitious goal for sales growth.

Condensed interim consolidated financial statements

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 income for the first half of 2016

in million of euros

	First half of 2016	2015 financial year	First half of 2015
Revenue (Note 4)	**2,440.4**	**4,841.0**	**2,299.4**
Cost of sales (Note 5)	(770.3)	(1,642.5)	(770.6)
Gross profit	**1,670.1**	**3,198.5**	**1,528.8**
Selling, marketing and administrative expenses (Note 6)	(724.2)	(1,418.9)	(693.9)
Other income and expenses (Note 7)	(119.1)	(238.9)	(86.7)
Recurring operating income (Note 4)	**826.8**	**1,540.7**	**748.2**
Other non-recurring income and expenses	–	–	–
Operating income	**826.8**	**1,540.7**	**748.2**
Financial result (Note 8)	(20.3)	(45.6)	(24.7)
Pre-tax income	**806.5**	**1,495.1**	**723.5**
Income tax expense (Note 9)	(267.8)	(535.6)	(248.0)
Net income from associates (Note 16)	8.4	17.7	9.2
CONSOLIDATED NET INCOME	**547.1**	**977.2**	**484.7**
Net income attributable to non-controlling interests (Note 22)	(1.7)	(4.6)	(2.2)
NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT (Note 4)	**545.4**	**972.6**	**482.5**
Net earnings per share (in euros) (Note 10)	5,22	9,32	4,62
Diluted net earnings per share (in euros) (Note 10)	5,20	9,26	4,59

Consolidated statement of other comprehensive income for the first half of 2016

in million of euros

	First half of 2016	2015 financial year	First half of 2015
Consolidated net income	**547.1**	**977.2**	**484.7**
Variation of translation differences (Note 21.4)	(16.5)	117.6	120.7
Cash flow hedging [1] (Note 21.4)	(16.0)	35.7	(0.7)
– fair value variation	*(38.2)*	*22.2*	*(14.2)*
– recycling through profit or loss	*22.2*	*13.5*	*13.5*
Assets available for sale [1]	–	–	–
– fair value variation	–	–	–
– recycling through profit or loss	–	–	–
Gains and losses recorded in equity and transferable through profit or loss	*(32.5)*	*153.3*	*119.9*
Other items [1] (Note 21.4)	–	–	–
Commitments to the personnel: value change linked to actuarial gains and losses [1] (Note 21.4)	–	(9.2)	–
Gains and losses recorded in equity and transferable through profit or loss	–	*(9.2)*	–
Comprehensive income	**514.6**	**1,121.2**	**604.6**
attributable to owners of the parent	512.9	1,115.2	600.6
attributable to non-controlling interests	1.7	6.0	4.0

(1) Net of tax

Consolidated statement of financial position as at 30 June 2016

ASSETS

in million of euros

	30 June 2016	31 Dec. 2015	30 June 2015
Non-current assets	**2,181.3**	**2,092.4**	**2,098.2**
Goodwill (Note 11)	40.0	37.9	37.2
Intangible assets (Note 12)	126.4	122.3	119.8
Property, plant and equipment (Note 13)	1,297.0	1,287.4	1,245.6
Investment property (Note 14)	88.7	100.2	104.5
Financial assets (Note 15)	106.0	42.4	61.3
Investments in associates (Note 16)	84.9	85.4	103.6
Loans and deposits (Note 17)	53.8	50.6	48.9
Deferred tax assets (Note 9.2)	381.8	360.3	368.5
Other non-current assets (Note 19)	2.8	5.9	8.9
Current assets	**3,066.3**	**3,095.2**	**2,450.5**
Inventories and work in progress (Note 18)	993.6	949.2	1,006.4
Trade and other receivables (Note 19)	263.6	303.0	262.9
Current tax receivables (Note 19)	23.4	31.8	19.8
Other current assets (Note 19)	196.9	183.0	141.2
Derivative financial instruments (Note 23)	60.9	39.0	51.9
Cash and cash equivalents (Note 20)	1,527.9	1,589.2	968.2
TOTAL ASSETS	**5,247.6**	**5,187.6**	**4,548.7**

LIABILITIES

in million of euros

	30 June 2016	31 Dec. 2015	30 June 2015
Equity	**3,867.3**	**3,748.7**	**3,235.2**
Share capital (Note 21)	53.8	53.8	53.8
Share premium	49.6	49.6	49.6
Treasury shares (Note 21)	(231.7)	(271.8)	(270.1)
Reserves	3,291.0	2,750.3	2,758.1
Foreign currency adjustments (Note 21.2)	149.0	165.3	168.1
Financial instruments included in equity (Note 21.3)	6.2	22.2	(14.2)
Net income attributable to owners of the parent (Note 4)	545.4	972.6	482.5
Non-controlling interests (Note 22)	4.0	6.7	7.4
Non-current liabilities	**281.5**	**281.7**	**267.9**
Borrowings and debt	16.3	11.4	20.5
Provisions (Note 24)	2.6	2.6	2.6
Post-employment and other employee benefit obligations (Note 26)	167.5	155.0	133.4
Deferred tax liabilities (Note 9.2)	32.1	50.7	30.7
Other non-current liabilities (Note 27)	62.9	62.0	80.7
Current liabilities	**1,098.9**	**1,157.2**	**1,045.5**
Borrowings and debt	21.1	30.2	22.3
Provisions (Note 24)	60.9	58.8	38.6
Post-employment and other employee benefit obligations (Note 26)	4.8	4.8	5.1
Trade and other payables (Note 27)	374.1	440.3	351.1
Derivative financial instruments (Note 23)	68.5	37.1	88.9
Current tax liabilities (Note 27)	133.0	115.0	116.6
Other current liabilities (Note 27)	436.3	471.1	423.0
TOTAL EQUITY AND LIABILITIES	**5,247.6**	**5,187.6**	**4,548.7**

Consolidated statements of changes in equity as at 30 June 2016

	Share capital (Note 21)	Share premium	Treasury shares (Note 21)
As at 31 December 2014	**53.8**	**49.6**	**(266.9)**
Net income attributable to owners of the parent	–	–	–
Other comprehensive income	–	–	–
Sub-total	–	–	–
Change in share capital and share premium	–	–	–
Purchase or sale of treasury shares	–	–	(4.9)
Share-based payment	–	–	–
Dividends paid	–	–	–
Other	–	–	–
As at 31 December 2015	**53.8**	**49.6**	**(271.8)**
Net income attributable to owners of the parent	–	–	–
Other comprehensive income	–	–	–
Sub-total	–	–	–
Change in share capital and share premium	–	–	–
Purchase or sale of treasury shares	–	–	40.2
Share-based payment	–	–	–
Dividends paid	–	–	–
Other	–	–	–
As at 30 June 2016	**53.8**	**49.6**	**(231.7)**

	Share capital (Note 21)	Share premium	Treasury shares (Note 21)
As at 31 December 2014	**53.8**	**49.6**	**(266.9)**
Net income attributable to owners of the parent	–	–	–
Other comprehensive income	–	–	–
Sub-total	–	–	–
Change in share capital and share premium	–	–	–
Purchase or sale of treasury shares	–	–	(3.2)
Share-based payment	–	–	–
Dividends paid	–	–	–
Other	–	–	–
As at 30 June 2015	**53.8**	**49.6**	**(270.1)**

in million of euros

Consolidated net income attributable to owners of the parent	Financial instruments (Note 21.3)	Foreign currency adjustments (Note 21.2)	Actuarial gains and losses (Note 21.4)	Shareholders' equity - Group share	Non-controlling interests (Note 22)	Equity	Number of shares (Note 21)
3,651.5	**(13.5)**	**47.7**	**(73.3)**	**3,449.0**	**9.5**	**3,458.5**	**105,569,412**
972.6	–	–	–	972.6	4.6	977.2	–
0.0	35.7	116.2	(9.2)	142.6	1.4	144.0	–
972.6	*35.7*	*116.2*	*(9.2)*	*1,115.2*	*6.0*	*1,121.3*	–
–	–	–	–	–	–	–	–
0.3	–	–	–	(4.6)	–	(4.6)	–
36.4	–	–	–	36.4	–	36.4	–
(833.9)	–	–	–	(833.9)	(6.3)	(840.2)	–
(21.4)	–	1.4	–	(20.0)	(2.5)	(22.6)	–
3,805.4	**22.2**	**165.3**	**(82.5)**	**3,742.0**	**6.7**	**3,748.7**	**105,569,412**
545.4	–	–	–	545.4	1.7	547.1	–
–	(16.0)	(16.5)	–	(32.5)	(0.0)	(32.5)	–
545.4	*(16.0)*	*(16.5)*	–	*512.9*	*1.7*	*514.6*	–
–	–	–	–	0.0	–	–	–
(92.8)	–	–	–	(52.6)	–	(52.6)	–
20.5	–	–	–	20.5	–	20.5	–
(356.0)	–	–	–	(356.0)	(3.5)	(359.6)	–
(3.7)	–	0.1	–	(3.6)	(0.8)	(4.3)	–
3,918.9	**6.2**	**149.0**	**(82.5)**	**3,863.3**	**4.0**	**3,867.3**	**105,569,412**

Consolidated net income attributable to owners of the parent	Financial instruments (Note 21.3)	Foreign currency adjustments (Note 21.2)	Actuarial gains and losses (Note 21.4)	Shareholders' equity - Group share	Non-controlling interests (Note 22)	Equity	Number of shares (Note 21)
3,651.5	**(13.5)**	**47.7**	**(73.3)**	**3,449.0**	**9.5**	**3,458.5**	**105,569,412**
482.5	–	–	–	482.5	2.2	484.7	–
–	(0.7)	118.8	–	118.1	1.9	119.9	–
482.5	*(0.7)*	*118.8*	–	*600.6*	*4.0*	*604.7*	–
–	–	–	–	*0.0*	–	–	–
0.4	–	–	–	(2.8)	–	(2.8)	–
17.7	–	–	–	17.7	–	17.7	–
(833.9)	–	–	–	(833.9)	(6.4)	(840.4)	–
(4.5)	–	1.6	–	*(2.9)*	0.2	(2.5)	–
3,313.9	**(14.2)**	**168.1**	**(73.3)**	**3,227.8**	**7.4**	**3,235.2**	**105,569,412**

Consolidated statement of cash flows for the first half of 2016

in million of euros

	First half of 2016	2015 financial year	First half of 2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income attributable to owners of the parent (Note 4)	545.4	972.6	482.5
Depreciation and amortisation (Notes 12, 13 and 14)	92.0	178.6	82.9
Impairment losses (Notes 11, 12 and 13)	15.1	27.9	5.0
Marked-to-market value of financial instruments	0.5	(2.1)	(1.0)
Currency gains / (losses) on fair value adjustments	44.1	(23.0)	(18.0)
Change in provisions	10.9	19.9	7.2
Net income from associates (Note 16)	(8.4)	(17.7)	(9.2)
Net income attributable to non-controlling interests (Note 22)	1.7	4.6	2.2
Capital gains / (losses) on disposals	(1.9)	(3.7)	0.2
Deferred tax	(20.3)	25.0	4.6
Accrued expenses and income related to share-based payments (Note 28)	20.5	36.4	17.7
Other	(0.1)	(0.2)	(0.1)
Operating cash flows	**699.4**	**1,218.2**	**573.9**
Dividend income	(11.5)	(1.5)	(0.8)
Financial expenses and interest income	(9.2)	(5.7)	(0.4)
Current tax expense	295.3	539.6	265.9
Operating cash flow before financial interest, dividends and taxes	**974.1**	**1,750.6**	**838.7**
Change in working capital	(142.7)	2.0	(108.0)
Financial expenses and interest income	9.2	5.7	0.4
Income tax paid	(270.5)	(572.6)	(287.7)
Net cash from operating activities	**570.1**	**1,185.7**	**443.3**
CASH FLOWS USED IN INVESTING ACTIVITIES			
Purchase of intangible assets (Note 12)	(23.0)	(39.1)	(16.0)
Purchase of property, plant and equipment (Notes 13 and 14)	(84.5)	(213.3)	(84.4)
Investments in associates	–	(14.2)	(1.0)
Purchase of other financial assets (Note 15)	(86.8)	(0.2)	(0.5)
Amounts payable relating to fixed assets	(17.5)	(21.3)	(20.0)
Proceeds from sales of operating assets	0.1	10.4	0.7
Proceeds from sale of investments and subsidiaries and associates	9.1	–	–
Proceeds from sales of other financial assets (Note 15)	22.8	17.8	–
Dividends received	14.9	18.5	0.3
Net cash used in investing activities	**(164.9)**	**(241.3)**	**(120.9)**
CASH FLOWS USED IN FINANCING ACTIVITIES			
Dividends paid	(359.6)	(840.2)	(840.4)
Purchase of treasury shares	(52.7)	(5.2)	(3.2)
Borrowings	–	10.7	6.5
Reimbursements of borrowings	(6.4)	(2.2)	(0.6)
Other increases / (decreases) in equity	–	0.3	–
Net cash used in financing activities	**(418.6)**	**(836.7)**	**(837.7)**
Change in the scope of consolidation	(0.0)	1.9	0.0
Effect of foreign currency exchange on intragroup transactions	(31.1)	11.6	0.3
Effect of foreign currency exchange (Note 20)	(13.3)	28.4	45.2
CHANGE IN NET CASH POSITION (Note 20)	**(57.8)**	**149.6**	**(469.7)**
Net cash at the beginning of period (Note 20)	1,571.2	1,421.6	1,421.6
Net cash at end of period (Note 20)	1,513.4	1,571.2	951.9
CHANGE IN NET CASH POSITION (Note 20)	**(57.8)**	**149.6**	**(469.7)**

Notes to the condensed interim consolidated financial statements for the first half of 2016

The condensed interim consolidated financial statements as presented were approved by the Executive management on 13 September 2016 after review by the Audit Committee at its meeting of 8 September 2016.

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. The selected explanatory notes do not contain all information included in annual financial statements. Accordingly, they should be read in conjunction with the consolidated financial statements for FY 2015.

The accounting principles 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 2015 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 2016 (listed in Note 1.1).

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

1.1. - Mandatory standards and interpretations in 2016

The following amendments to published standards and interpretations are mandatorily applicable to financial periods beginning on or after 1 January 2016:

– the amendments contained in the IFRS annual improvement procedure, 2010-2012 cycle, published in December 2014 ;

– the amendments contained in the IFRS annual improvement procedure, 2012-2014 cycle, published in December 2015.

These standards and amendments did not have significant impact on the Group's consolidated financial statements.

1.2. - Standards, amendments and interpretations applicable after 1 January 2016

The IFRS 15 standard which establishes new review recognition principles – the effects of the application of this standard as of 1 January 2018 should be of little significance in view of the nature of the group's activities.

The IFRS 9 standard relative to principles for financial assets and liabilities applicable as of 1 January 2018 and the IFRS 16 standard relative to leasing contracts applicable as of 1 January 2019 – the effects of the application of these two standards are currently being analysed.

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

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

Barring a specific event or material change in actuarial assumptions during the period, no actuarial valuations are performed for the preparation of the condensed interim financial statement. The post-employment benefits expense for the first half of 2016 is one-half of the net charge calculated for full year 2016, based on the data and actuarial assumptions used on 31 December 2015.

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

No significant equity investment or disposal was carried out in the first half of 2016.

NOTE 3 - SEASONAL NATURE OF THE BUSINESS

The group's overall activity remains balanced over the course of the year (in 2015, 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 following elements are presented after eliminations and restatements:

in million of euros

First half of 2016	France	Europe (excl. France)	Japan	Asia-Pacific (excl. Japan)	Americas	Other	Holding	Total
Revenue	**352.3**	**433.8**	**329.8**	**856.1**	**431.6**	**36.7**		**2,440.4**
Selling, marketing and administrative expenses	(96.0)	(129.0)	(104.9)	(214.0)	(131.2)	(10.0)	(39.1)	(724.2)
Depreciation and amortisation	(12.3)	(13.7)	(7.0)	(21.9)	(16.4)	(0.5)	(5.1)	(77.0)
Operating provisions	(2.9)	(2.0)	(1.3)	(2.6)	(0.1)	0.1	(5.7)	(14.6)
Impairment losses	(1.9)	(0.7)	–	(0.0)	(6.9)	–	(5.6)	(15.1)
Other income/(expenses)	(3.0)	(2.1)	0.5	(3.7)	(2.1)	(0.2)	(1.7)	(12.3)
Operating income	**112.8**	**113.3**	**129.7**	**380.4**	**139.6**	**8.2**	**(57.2)**	**826.8**
Operating margin by sector	*32.0%*	*26.1%*	*39.3%*	*44.4%*	*32.3%*	*22.4%*		*33.9%*
Net financial result							(20.3)	(20.3)
Net income from associates							8.4	8.4
Income tax expense							(267.8)	(267.8)
Net income attributable to non-controlling interests							(1.7)	(1.7)
Net income	**112.8**	**113.3**	**129.7**	**380.4**	**139.6**	**8.2**	**(338.6)**	**545.4**

in million of euros

2015 financial year	France	Europe (excl. France)	Japan	Asia-Pacific (excl. Japan)	Americas	Other	Holding	Total
Revenue	**683.8**	**905.8**	**600.2**	**1,694.0**	**884.1**	**73.2**		**4,841.0**
Selling, marketing and administrative expenses	(175.9)	(259.2)	(204.3)	(427.8)	(261.8)	(23.7)	(66.1)	(1,418.9)
Depreciation and amortisation	(21.6)	(26.5)	(12.3)	(44.7)	(28.0)	(0.8)	(13.3)	(147.3)
Operating provisions	(9.9)	(7.8)	(2.9)	(7.4)	(2.4)	(1.1)	(7.1)	(38.6)
Impairment losses	(11.9)	(3.0)	0.1	(0.8)	–	–	–	(15.5)
Other income / (expenses)	(10.6)	(10.8)	(5.2)	(3.7)	(4.7)	(0.5)	(2.2)	(37.5)
Operating income	**226.0**	**238.3**	**203.7**	**667.6**	**278.9**	**14.8**	**(88.7)**	**1,540.7**
Operating margin by sector	*33.1%*	*26.3%*	*33.9%*	*39.4%*	*31.5%*	*20.2%*		*31.8%*
Financial result							(45.6)	(45.6)
Net income from associates							17.7	17.7
Income tax expense							(535.6)	(535.6)
Net income attributable to non-controlling interests							(4.6)	(4.6)
Net income	**226.0**	**238.3**	**203.7**	**667.6**	**278.9**	**14.8**	**(656.8)**	**972.6**

in million of euros

First half of 2015	France	Europe (excl. France)	Japan	Asia-Pacific (excl. Japan)	Americas	Other	Holding	Total
Revenue	**328.3**	**406.7**	**279.7**	**842.2**	**403.8**	**38.7**	**–**	**2,299.4**
Selling, marketing and administrative expenses	(97.9)	(119.7)	(96.6)	(204.8)	(123.3)	(9.3)	(42.4)	(693.9)
Depreciation and amortisation	(10.1)	(12.6)	(5.9)	(22.5)	(12.4)	(0.5)	(5.5)	(69.5)
Operating provisions	(2.4)	(2.0)	(1.2)	(0.7)	(0.6)	(0.0)	(6.1)	(13.0)
Impairment losses	(1.1)	(2.1)	–	(0.6)	–	–	–	(3.8)
Other income/(expenses)	(0.6)	(0.2)	(0.5)	0.2	0.7	0.0	(0.1)	(0.4)
Operating income	**110.6**	**107.0**	**100.6**	**342.5**	**131.6**	**10.0**	**(54.2)**	**748.2**
Operating margin by sector	*33.7%*	*26.3%*	*36.0%*	*40.7%*	*32.6%*	*25.8%*		*32.5%*
Financial result	–	–	–	–	–	–	(24.7)	(24.7)
Net income from associates	–	–	–	–	–	–	9.2	9.2
Income tax expense	–	–	–	–	–	–	(248.0)	(248.0)
Net income attributable to non-controlling interests	–	–	–	–	–	–	(2.2)	(2.2)
Net income	**110.6**	**107.0**	**100.6**	**342.5**	**131.6**	**10.0**	**(319.8)**	**482.5**

4.2 - Information by geographical area

The breakdown of the non-current assets [1] by geographical area is the following:

in million of euros

	30 June 2016	31 Dec. 2015	30 June 2015
France	804.0	806.9	796.8
Europe (excl. France)	181.7	188.5	190.4
Japan	183.7	170.0	158.1
Asia-Pacific (excl. Japan)	281.6	276.6	282.6
Americas	204.8	215.6	189.2
Rest of the world	38.3	32.4	51.5
Non-current assets [1]	**1,694.0**	**1,689.9**	**1,668.6**

(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 million of euros

	First half of 2016	2015 financial year	First half of 2015
Advertising and marketing expenses	(99.6)	(214.6)	(97.1)
Other selling and administrative expenses	(624.7)	(1,204.3)	(596.8)
Total	**(724.2)**	**(1,418.9)**	**(693.9)**

(1) On 30 June 2016, to enhance the understanding of the income statement, the Group decided to recognise free share plan expense at €21.1 million under the item "Other operating incomes & expenses". If this expense had been classified in "Selling, marketing and administrative expenses" in June 2015, the "Other operating incomes & expenses" would have amounted to €104.3 million instead of €86.7 million, and the "Selling, marketing and administrative expenses" to €676.3 million instead of €693.9 million.

NOTE 7 - OTHER INCOME AND EXPENSES

in million of euros

	First half of 2016	2015 financial year	First half of 2015
Depreciation	(77.0)	(147.3)	(69.5)
Net change in recurring provisions	(4.8)	(21.8)	(4.5)
Cost of defined benefit plans (Note 26)	(9.9)	(16.8)	(8.5)
Sub-total	*(14.6)*	*(38.6)*	*(13.0)*
Reversible impairment losses	(15.1)	(15.5)	(3.8)
Expense related to free shares plans and associated taxes [1]	(21.1)	(36.4)	–
Other expense (including impairment of goodwill)	(3.0)	(19.6)	(3.3)
Other income	11.8	18.5	3.0
Sub-total	*(27.4)*	*(53.0)*	*(4.2)*
Total	**(119.1)**	**(238.9)**	**(86.7)**

(1) On 30 June 2016, to enhance the understanding of the income statement, the Group decided to recognise free share plan expense at €21.1 million under the item "Other operating incomes & expenses". If this expense had been classified in "Selling, marketing and administrative expenses" in June 2015, the "Other operating incomes & expenses" would have amounted to €104.3 million instead of €86.7 million, and the "Selling, marketing and administrative expenses" to €676.3 million instead of €693.9 million.

Total depreciation of tangible and intangible assets included in operating expenses (Other income and expense and Cost of sales) amounted to €92.0 million in the first half of 2016 compared with €82.9 million at the end of June 2015.

NOTE 8 - NET FINANCIAL INCOME

in million of euros

	First half of 2016	2015 financial year	First half of 2015
Income from cash and cash equivalents	2.7	7.3	3.8
Cost of gross debt	(0.7)	(0.7)	(0.5)
– of which: income from hedging instruments	*0.1*	*0.4*	*0.2*
Cost of net debt	**2.0**	**6.6**	**3.3**
Other financial income and expenses	(22.3)	(52.2)	(28.0)
– of which: ineffective portion of cash flow hedges (Note 23)	*(32.1)*	*(49.2)*	*(26.6)*
Total	**(20.3)**	**(45.6)**	**(24.7)**

NOTE 9 - TAXES

9.1 - Income tax expense

The tax rate expected for 2016 is 33.2% (34.3% for the first half of 2015 and 35.8% for the 2015 financial year). This variance can be explained by the effect of the 3% tax rate on exceptional dividends paid in 2015 and amounted to €17 million.

9.2 - Deferred tax

in million of euros

	First half of 2016	2015 financial year	First half of 2015
Deferred tax assets as at 1 January	360.3	335.8	335.8
Deferred tax liabilities as at 1 January	50.7	31.3	31.3
Net deferred tax assets as at 1 January	**309.6**	**304.4**	**304.4**
Impact on the statement of income	27.5	3.9	17.9
Impact on the scope of consolidation	–	–	–
Impact of foreign currency movements	4.3	15.8	14.2
Other [(1)]	8.2	(14.7)	1.2
Net deferred tax assets at period end	**349.7**	**309.6**	**337.8**
Balance of deferred tax assets at period end	381.8	360.3	368.5
Balance of deferred tax liabilities at period end	32.1	50.7	30.7

(1) Other items relate to deferred taxes resulting from changes in the portion of financial instruments revaluation recorded under equity (transferable portion). These changes had no impact on net income for the period (see Note 21.4).

Deferred tax assets mainly related to the following adjustments:

in million of euros

	First half of 2016	2015 financial year	First half of 2015
Internal margins on inventories and impairment on inventories	248.9	231.0	228.5
Employee obligations	63.2	59.6	54.1
Derivative instruments	13.4	(4.0)	13.4
Impairment losses	14.3	9.9	8.4
Restricted provisions	(44.1)	(20.8)	(40.3)
Other	54.0	33.7	73.6
Total	**349.7**	**309.6**	**337.8**

NOTE 10 - EARNINGS PER SHARE

In accordance with the definitions set out in Note 1.20 of the 2015 Reference Document, the calculation and reconciliation of basic earnings per share and diluted earnings per share is as follows:

	First half of 2016	2015 financial year	First half of 2015
Numerator (in millions of euros)			
Basic net income	545.4	972.6	482.5
Adjustments	–	–	–
Diluted net income	545.4	972.6	482.5
Denominator (in number of shares)			
Weighted average number of ordinary shares	**104,498,788**	**104,395,884**	**104,398,607**
Basic earnings per share	**5,22**	**9,32**	**4,62**
Weighted average number of shares under option			
Weighted average number of shares under free share allotment plans	442,024	692,884	671,619
Weighted average number of diluted ordinary shares	**104,940,812**	**105,088,768**	**105,070,227**
Diluted earnings per share	**5,20**	**9,26**	**4,59**
Average price per share	€314.50	€325.14	€317.90

The dilutive effect on the calculation of the net profit per share of the allocations of free shares is not significant.

NOTE 11 - GOODWILL

in million of euros

	30 June 2015	31 Dec. 2015	Increases	Decreases	Currency impact	Others	30 June 2016
Goodwill	131.4	143.9	–	–	3.7	–	147.6
Total gross value	**131.4**	**143.9**	**–**	**–**	**3.7**	**–**	**147.6**
Depreciation booked before 1 January 2004	30.6	31.6		–	2.3		33.9
Impairment losses	63.5	74.4	–	–	(0.6)	–	73.8
Total depreciation and impairment losses	**94.2**	**106.0**	**–**	**–**	**1.7**	**–**	**107.6**
Total net value	**37.2**	**37.9**	**–**	**–**	**2.1**	**–**	**40.0**

On 30 June 2016, the net value of goodwill was €40.0 M and mainly concerned the CGU of the distribution entities (€30.7 M) and the group's various production CGUs (€9.2 M). Within the CGU of the distribution entities, the principal goodwill is that of Hermès Japan which amounts to €17.3 M and shows no indicator of impairment losses.

NOTE 12 - INTANGIBLE ASSETS

in million of euros

	30 June 2015	31 Dec. 2015	Increases (1)	Decreases	Currency impact	Others	30 June 2016
Leasehold rights	71.6	69.9	–	–	0.5	(0.4)	70.0
Concessions, patents, licences and software	49.9	72.0	2.0	(0.1)	1.1	1.9	76.9
Other intangible assets	152.9	151.9	11.2	(0.6)	2.4	2.8	167.8
Work in progress	15.0	13.1	9.9	–	0.0	(5.1)	17.9
Total gross value	**289.4**	**306.9**	**23.0**	**(0.7)**	**4.1**	**(0.7)**	**332.6**
Depreciation of leasehold rights	39.9	40.7	1.4	–	0.4	(1.6)	40.9
Depreciation of concessions, patents, licences and software	36.3	50.5	4.1	(0.1)	0.8	1.2	56.6
Depreciation of other intangible assets	91.3	90.6	8.9	(0.6)	1.7	(0.3)	100.4
Impairment losses (1)	2.1	2.7	5.7	–	0.0	(0.0)	8.3
Total amortisation and impairment losses	**169.7**	**184.6**	**20.1**	**(0.7)**	**2.9**	**(0.7)**	**206.2**
Total net value	**119.8**	**122.3**	**2.9**	**(0.0)**	**1.2**	**(0.0)**	**126.4**

(1) The completed investments mainly include the acquisition and/or set-up of integrated management software programs in compliance with the IAS 38 standard.

NOTE 13 - PROPERTY, PLANT AND EQUIPMENT

in million of euros

	30 June 2015	31 Dec. 2015	Increases (1)	Decreases	Currency impact	Others	30 June 2016
Lands	160.4	162.5	0.3	–	14.1	–	176.9
Buildings	766.8	784.6	4.1	(2.0)	12.0	10.6	809.2
Machinery, plant and equipment	268.8	293.0	8.5	(2.2)	(3.7)	(11.2)	284.4
Store fixtures and furnishings	549.8	709.3	22.4	(29.9)	(6.7)	24.3	719.4
Other tangible assets	415.2	320.2	8.8	(1.7)	0.3	4.7	332.2
Fixed assets under construction	78.9	60.9	40.5	(0.2)	(0.1)	(29.2)	72.0
Total gross value	**2,240.0**	**2,330.5**	**84.5**	**(36.0)**	**15.9**	**(0.9)**	**2,394.0**
Depreciation of buildings	248.4	265.9	16.4	(1.6)	9.1	0.3	290.1
Depreciation of machinery, plant and equipment	156.8	167.6	10.3	(2.2)	(1.6)	(8.9)	165.2
Depreciation of store fixtures and furnishings	311.3	382.7	34.8	(29.8)	(2.8)	10.9	395.8
Depreciation of other tangible assets	247.9	188.8	15.0	(1.6)	0.1	(2.9)	199.3
Impairment losses (2)	30.0	38.1	9.4	(0.1)	(0.3)	(0.5)	46.6
Total depreciation and impairment losses	**994.4**	**1,043.1**	**85.9**	**(35.4)**	**4.4**	**(1.1)**	**1,097.0**
Total net value	**1,245.6**	**1,287.4**	**(1.4)**	**(0.7)**	**11.5**	**0.2**	**1,297.0**

(1) Investments made during the first half of 2016 mainly include the opening and renovation of stores and capital expenditure to expand production capacity.
(2) The impairment losses include the production operation and stores deemed not to be sufficiently profitable. The cash generating units on which the impairment losses have been recognized are not individually material 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 million of euros

	30 June 2015	31 Dec. 2015	Increases	Decreases	Currency impact	Others	30 June 2016
Lands	36.3	35.2	–	–	(3.6)	–	31.6
Buildings	85.4	83.2	–	–	(8.4)	–	74.8
Total gross value	**121.8**	**118.4**	**–**	**–**	**(12.0)**	**–**	**106.4**
Depreciation	17.3	18.2	1.1	–	(1.7)	–	17.6
Total net value	**104.5**	**100.2**	**(1.1)**	**–**	**(10.3)**	**–**	**88.7**

It is specified 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 significantly in the coming financial years.
Rental income from investment property amounted to €3.4 million for the first half of 2016 (compared with €2.5 million during the first half of 2015).

NOTE 15 - FINANCIAL ASSETS

in million of euros

	30 June 2015	31 Dec. 2015	Increases	Decreases	Currency impact	Others	30 June 2016
Investments in financial assets (1)	52.0	34.5	86.8	(23.0)	0.5	–	98.7
Liquidity contract	10.7	9.3	–	(0.4)	–	–	8.9
Other non-consolidated investments (2)	0.3	0.3	–	–	–	0.4	0.6
Total gross value	**63.0**	**44.1**	**86.8**	**(23.5)**	**0.5**	**0.4**	**108.3**
Impairments	1.7	1.7	0.3	–	–	0.3	2.3
Total net value	**61.3**	**42.4**	**86.6**	**(23.5)**	**0.5**	**0.0**	**106.0**

(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.
(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 million of euros

	30 June 2016	31 Dec. 2015	30 June 2015
Balance as at 1 January	**85.4**	**91.3**	**91.3**
Impact of changes in the scope of consolidation	(6.3)	0.1	0.2
Net income from associates	8.4	17.7	9.2
Dividends paid	(3.5)	(15.7)	(0.3)
Change in foreign exchange rates	0.9	2.8	3.3
Other	–	(10.8)	–
Balance at period end	**84.9**	**85.4**	**103.6**

NOTE 17 - LOANS AND DEPOSITS

in million of euros

	30 June 2015	31 Dec. 2015	Increases	Decreases	Currency impact	Others	30 June 2016
Loans and deposits [1]	54.1	55.9	6.0	(2.2)	0.5	0.2	60.4
Impairments	5.2	5.3	1.4	(0.1)	(0.0)	–	6.6
Total	**48.9**	**50.6**	**4.6**	**(2.2)**	**0.5**	**0.2**	**53.8**

(1) As at 30 June 2016, security deposits amounted to €38.6 million compared with €35.9 million as at 31 December 2015.

NOTE 18 - INVENTORIES AND WORK IN PROGRESS

in million of euros

	30 June 2016			31 Dec. 2015	30 June 2015
	Gross	Impairment	Net	Net	Net
Retail, semi-finished and finished goods	1,050.0	438.3	611.7	570.4	607.5
Raw materials and work in progress	539.9	157.9	381.9	378.9	398.9
Total	**1,589.9**	**596.3**	**993.6**	**949.2**	**1,006.4**
Net income/expense from the impairment of retail, semi-finished and finished goods	–	(32.0)	–	(79.1)	(50.6)
Net income/expense from the impairment of raw materials and work in progress	–	(3.9)	–	(10.1)	(9.3)

It is stipulated that no inventories were pledged as debt collateral.

NOTE 19 - TRADE AND OTHER RECEIVABLES

in million of euros

	30 June 2016			31 Dec. 2015	30 June 2015
	Gross	**Impairment**	**Net**	**Net**	**Net**
Trade and other receivables	268.9	5.2	263.6	303.0	262.9
of which: – amount not yet due	*225.2*	*0.3*	*224.9*	*269.5*	*220.8*
– amount payable [(1)]	*43.7*	*4.9*	*38.8*	*33.5*	*42.1*
Current tax receivables	23.4	–	23.4	31.8	19.8
Other current assets	197.1	0.2	196.9	183.0	141.2
Other non-current assets	3.0	0.3	2.8	5.9	8.9
Total	**492.3**	**5.7**	**486.7**	**523.8**	**432.8**

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

in million of euros

	30 June 2016			31 Dec. 2015	30 June 2015
	Gross	**Impairment**	**Net**	**Net**	**Net**
Less than 3 months	32.7	0.7	32.0	28.9	38.4
Between 3 and 6 months	3.8	0.6	3.2	3.3	2.1
Between 6 months and 1 year	7.2	3.7	3.5	1.3	1.6

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

The risk of non-recovery is low, as illustrated by accounts receivable impairment, which amounted to less than 2% of the gross value on 30 June 2016 (compared with 2% at the end of 2015). There is no significant concentration of credit risk.

NOTE 20 - CASH AND CASH EQUIVALENTS

in million of euros

	30 June 2015	**31 Dec. 2015**	**Cash flows**	**Currency impact**	**Impact on the scope of consolidation**	**Other [(1)]**	**30 June 2016**
Cash and cash equivalents	469.8	535.7	58.6	(3.9)	(0.0)	0.5	590.8
Marketable securities [(2)]	499.1	1,053.1	(106.7)	(9.3)	–	–	937.1
Sub-total	*968.9*	*1,588.8*	*(48.1)*	*(13.3)*	*(0.0)*	*0.5*	*1,527.9*
Bank overdraft and current accounts in debit	(17.0)	(17.6)	3.1	(0.0)	–	–	(14.5)
Net cash position	**951.9**	**1,571.2**	**(44.9)**	**(13.3)**	**(0.0)**	**0.5**	**1,513.4**

(1) Corresponds to 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%.

NOTE 21 - SHAREHOLDERS EQUITY

As at 30 June 2016, Hermès International's share capital consisted of 105,569,412 fully-paid shares with a par value of €0.51 each. 926,325 of these shares are treasury shares.
There was no change in the company's share capital during the first half of 2016.
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 2015 Reference 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

At the General Meeting of 31 May 2016, held to approve the financial statements for the year ended 31 December 2015, it was decided to pay a dividend of €3.35 per share for the year.
The balance of the cash dividend of €1.85 was paid on 6 June 2016, following the payment of an interim cash dividend of €1.50 per share on 26 February 2016.
The total dividend payout therefore amounted to €350 million.

21.2 - Foreign currency adjustments

The change in foreign currency adjustments during the first half of 2016 is analysed below:

in million of euros

	30 June 2016	31 Dec. 2015	30 June 2015
Balance as at 1 January	**165.3**	**47.7**	**47.7**
Japanese yen	28.8	22.7	14.0
US dollar	(7.2)	38.0	27.4
Chinese yuan	(3.7)	4.1	5.8
Australian dollar	(0.6)	(0.2)	0.1
Pound sterling	(11.6)	4.5	7.4
Macao pataca	(1.3)	6.3	4.9
Swiss franc	0.2	16.0	23.8
Singapore dollar	3.3	17.9	11.0
Hong Kong dollar	(6.8)	15.3	11.5
South Korean won	(5.7)	(1.8)	1.6
Other currencies	(11.7)	(5.4)	12.7
Balance at period end	**149.0**	**165.3**	**168.1**

21.3 - Financial instruments

During the first half of 2016, changes in derivatives and financial investments were broken down as follows (after tax) :

in million of euros

	30 June 2016	31 Dec. 2015	30 June 2015
Balance as at 1 January	**22.2**	**(13.5)**	**(13.5)**
Amount transferred to equity during the period for derivatives	(1.9)	17.4	17.5
Amount transferred to equity during the period for financial investments	0.0	0.0	0.0
Adjustment in the value of derivatives at closing	(1.1)	1.9	(23.7)
Other deferred losses / gains on exchange in the comprehensive income	(12.9)	16.3	5.5
Balance at period end	**6.2**	**22.2**	**(14.2)**

21.4 - Other comprehensive income

In the first half of 2016, other comprehensive income was broken down as follows:

in million of euros

	Gross impact	Tax effect	Net impact
Actuarial gains and losses	–	–	–
Foreign currency adjustments (Notes 21.2)	(16.5)	–	(16.5)
Financial instruments included in equity (Note 21.3)	(24.3)	8.3	(16.0)
Other items	–	–	–
Balance as at 30 June 2016	**(40.7)**	**8.3**	**(32.5)**
Actuarial gains and losses	(14.0)	4.8	(9.2)
Foreign currency adjustments (Notes 21.2)	117.6	–	117.6
Financial instruments included in equity (Note 21.3)	55.3	(19.6)	35.7
Other items	–	–	–
Balance as on 31 December 2015	**158.9**	**(14.9)**	**144.0**
Actuarial gains and losses	–	–	–
Foreign currency adjustments (Notes 21.2)	120.7		120.7
Financial instruments included in equity (Note 21.3)	(1.5)	0.8	(0.7)
Other items	–	–	–
Balance as at 30 June 2015	**119.1**	**0.8**	**119.9**

NOTE 22 - NON-CONTROLLING INTERESTS

in million of euros

	30 June 2016	31 Dec. 2015	30 June 2015
Balance as at 1 January	**6.7**	**9.5**	**9.5**
Net income attributable to non-controlling interests	1.7	4.6	2.2
Dividends paid to non-controlling interests	(3.5)	(6.3)	(6.4)
Exchange rate adjustment on foreign entities	(0.0)	1.4	1.9
Other changes	(0.8)	(2.5)	0.2
Balance at period end	**4.0**	**6.7**	**7.4**

NOTE 23 - EXPOSURE TO MARKET RISKS

The Hermès Group's results are exposed to the risks and uncertainties described in the 2015 Reference Document. The assessment of these risks did not change during the first half of 2016 and no new risk had been identified as of the publication date of this report. The main risks remain the exposure to currency fluctuations, and the changing economic situation in certain areas of the world. The group's currency exposure management policy is based on the management principles described in the 2015 Reference document.

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

in million of euros

	30 June 2016	31 Dec. 2015	30 June 2015
Derivative financial instrument assets	60.9	39.0	51.9
Derivative financial instrument liabilities	(68.5)	(37.1)	(88.9)
Net position of the derivative financial instruments	**(7.6)**	**2.0**	**(37.0)**

The ineffective portion of cash flow hedges recorded in net income was -€32.1 million (including +€0.1 million from overhedging), compared with -€49.2 million (including -€11.5 million from overhedging) as at 31 December 2015 and -€26.6 million (including -€4.1 million from overhedging) as at 30 June 2015 (see Note 8). The impact of the effective portion of the hedges recorded in equity is shown in Note 21.

On 30 June 2016, the valuation methods used for financial instruments remain unchanged compared to 31 December 2015, as described on page 208 of the 2015 Reference Document.

NOTE 24 - PROVISIONS

in million of euros

	30 June 2015	31 Dec. 2015	Accruals	Reversals [1]	Currency impact	Other and reclassifications	30 June 2016
Current provisions	38.6	58.8	6.4	(5.7)	0.9	0.4	60.9
Non-current provisions	2.6	2.6	0.4	(0.5)	(0.0)	0.1	2.6
Total	**41.2**	**61.4**	**6.8**	**(6.1)**	**0.9**	**0.5**	**63.5**

(1) Including €4.3 million of used reversals and €1.8 million of unused reversals.

As at 30 June 2016, the provisions involve provisions for returns (€16.3 million) as well as other risks concerning legal, financial and tax matters not specified in terms of their amount or due date (€47.2 million). No other class of provision is individually significant.

NOTE 25 - EMPLOYEES

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

	30 June 2016	31 Dec. 2015	30 June 2015
France	7,683	7,461	7,164
Europe (excl. France)	1,326	1,308	1,288
Rest of the world	3,501	3,475	3,405
Total	**12,510**	**12,244**	**11,857**

Total personnel costs amounted to €489 million in the first half of 2016 compared with €484 million in the first half of 2015.

NOTE 26 - POST-EMPLOYMENT AND OTHER EMPLOYEE BENEFIT OBLIGATIONS

Hermès group employees are eligible for post-employment benefits awarded either through defined contribution plans or through defined benefit plans. 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 212 et seq. of the 2015 Reference 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 million of euros

	Defined benefit pension plans	Other defined benefit plans	First half of 2016	2015 financial year	First half of 2015
Service costs	7.8	0.8	8.6	14.1	7.5
Interest costs	1.0	0.1	1.1	3.0	0.9
Financial income on assets	–	–	–	(1.0)	–
(Gains)/loss resulting from change in plan	–	–	–	0.4	–
Change in the scope of consolidation	–	–	–	–	–
Net actuarial (gains) / losses recognised during the period	–	–	–	0.6	–
Administrative expenses	0.1		0.1	0.2	0.1
Cost of defined benefit plans	**8.9**	**0.9**	**9.9**	**17.3**	**8.5**

26.2 - Change in obligations recognised in statement of financial position

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

in million of euros

	Defined benefit pension plans	Other defined benefit plans	First half of 2016	2015 financial year	First half of 2015
Provisions as at 1 January	**149.0**	**10.8**	**159.8**	**128.9**	**128.9**
Foreign currency adjustments	4.5	0.0	4.5	4.5	2.6
Cost according to income statement	8.9	0.9	9.9	17.3	8.5
Benefits/contributions paid	(1.5)	(0.4)	(1.9)	(5.1)	(1.5)
Actuarial gains and losses / Limits on plan assets	–	–	–	12.7	–
Change in the scope of consolidation	–	–	–	1.1	–
Other	–	–	–	0.4	–
Provisions of end of period	**160.9**	**11.4**	**172.3**	**159.8**	**138.4**

NOTE 27 - TRADE PAYABLES AND OTHER LIABILITIES

in million of euros

	30 June 2016	31 Dec. 2015	30 June 2015
Suppliers	353.6	402.5	311.8
Amounts payable relating to fixed assets	20.6	37.8	39.3
Trade and other payables	**374.1**	**440.3**	**351.1**
Current tax liabilities	133.0	115.0	116.6
Other current liabilities	436.3	471.1	423.0
Other non-current liabilities	62.9	62.0	80.7
Trade payables and other liabilities	**1,006.4**	**1,088.4**	**971.5**

NOTE 28 - SHARE-BASED PAYMENTS

28.1 - New plans of the period

In compliance with the authorisations granted by the Combined General Meeting of the shareholders on 31 May 2016, in its 15th resolution, the Executive Management on that same date decided to carry out the allocations of free shares described below.

1) Democratic plan involving an overall allocation of 452,960 conditional rights to receive free shares for the benefit of the group's 11,324 employees.

This allocation is structured with two tranches, each involving 50% of the allocated rights, with respective vesting periods of 4 and 5 years. The definitive acquisition of each tranche's shares is also subject to a presence condition – the beneficiary must be present within the group's workforce at the end of the vesting period.

The main allocation conditions and the hypotheses used for the calculation of the IFRS expense of the democratic plan are the following:

– share price on award date: €324.7 (average weighted price);
– dividend rate of 1.15% per year;
– fair value of one share: from €306.6 to €310.1;
– discounted average turnover rate over the benefit

vesting period: from 11.5% to 14.1% for French residents and from 28.4% to 34.1% for foreign residents.
The IFRS expense (excluding employer's tax) paid during the first half of 2016 for the issuing of the plan is equal to €2.1 million.

2) Selective plan involving an overall allocation of 353,100 conditional rights to receive free shares for the benefit of certain of the group's executives. The vesting period for the rights allocated under this plan is 4 years. The transfer of ownership of all of the shares is subject to a present condition of the beneficiaries amongst the group's workforce at the end of the vesting period. Moreover, for 50% of the allocated rights, performance criteria (depending on the group results in 2016 and 2017) must be reached. For the purposes of determining the expense posted in the first half of 2016, the performance conditions have been considered as satisfied for the 2016 and 2017 financial years.
The main allocation conditions and the hypotheses used for the calculation of the IFRS expense of the selective plan are the following:
– share price on award date: €324.7 (average weighted price);
– dividend rate of 1.15% per year;
– fair value of one share: €310.1;
– discounted average turnover rate over the benefit vesting period: 3.9%.
The IFRS expense (excluding employer's tax) paid during the first half of 2016 for the issuing of the plan is equal to €2.2 million.

28.2 - Expense for the period

The expense incurred in the first half of 2016 for all of the free share allocation plans (undergoing acquisition) amounted to €20.5 million, against €36.4 million at the end of 2015 and €17.7 million in the first half of 2015.

NOTE 29 - UNRECOGNISED COMMITMENTS

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

NOTE 30 - RELATED-PARTY TRANSACTIONS

Transactions with related parties in the first half of 2016 are comparable to the relationships that existed in 2015. More specifically, no transaction unusual in its nature or amount was carried out during the period.

NOTE 31 - SUBSEQUENT EVENTS

No significant event occurred between 30 June 2016 and 13 September 2016, when the Executive Management authorised the condensed consolidated interim financial statements for issue.

Statutory auditors’ report on the interim financial information for the first half of 2016

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":

- the review of the accompaying condensed consolidated interim financial statements of Hermès International for the six months ended 30 June 2016;
- the review of the information provided in the first half management report.

These condensed consolidated interim financial statements are the responsability of the Executive Management. Our role is to express an opinion on these financial statements, based on our reviews.

1. Opinion on the financial statements

We conducted our review in accordance with professional standards applicable in France. A review of interim financial information mainly consists of making inquiries, primarly 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 consolidated interim financial statements have not been prepared, in all material respects, in accordance with IAS 34 – Interim Financial Reporting, as adopted by the European Union.

2. Specific verification

We have also verified the information provided in the first half management report, containing comments on the condensed consolidated interim financial statements subject to our review. We have no matters to report as to its fair presentation and consistency with the condensed consolidated interim financial statements.

Paris and Neuilly-sur-Seine, 13 September 2016
The Statutory auditors

PricewaterhouseCoopers Audit
Christine Bouvry

Didier Kling & Associés
Christophe Bonte
Didier Kling

Statement by persons responsible for the interim financial report

To the best of our knowledge, the condensed consolidated financial statements for the past six months 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 remaining six months of the year.

Paris, 13 September 2016
The Executive Management

Axel Dumas

Henri-Louis Bauer
representing Émile Hermès SARL

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