

LETTER TO SHAREHOLDERS

SEPTEMBER 2019

Beyond our wildest dreams!

Under the auspices of our annual theme, *the Dream of Hermès*, 2019 held the promise of boldness and ambition, despite an unpredictable international economic, social and political context. But it is when the certain becomes uncertain that dreams are most welcome.

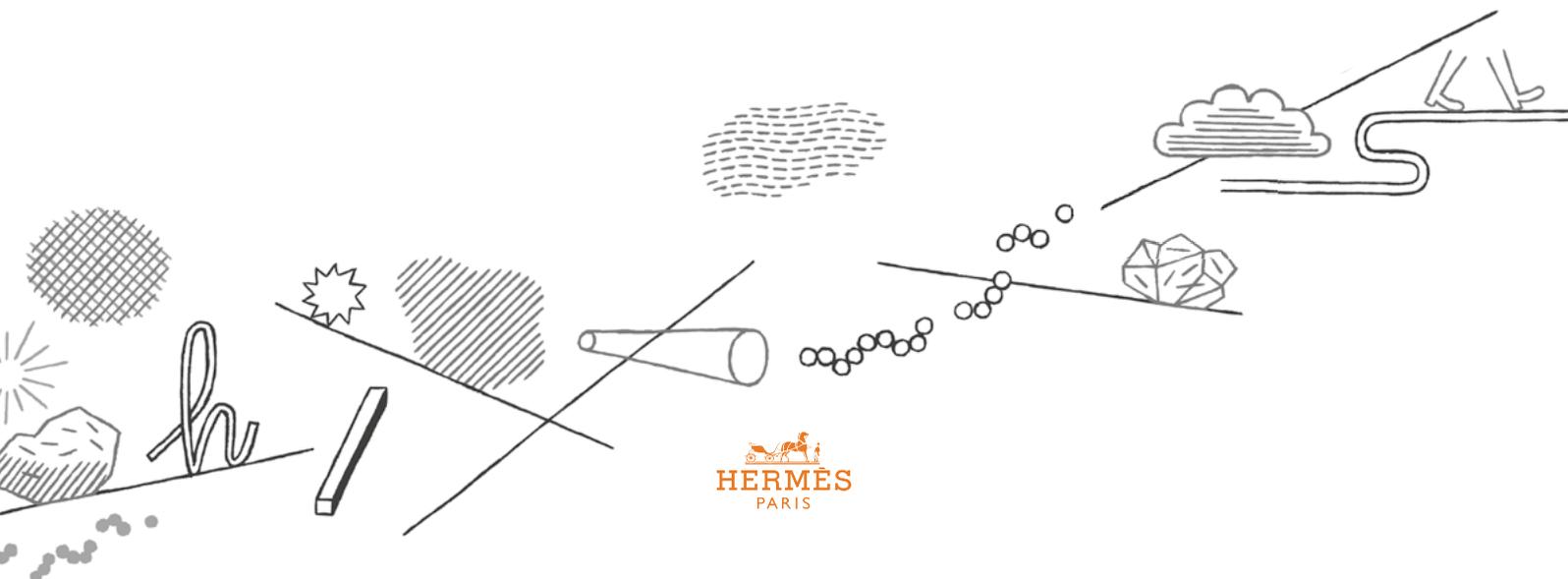
Like Thierry Hermès, who left his home town to realise his dream in Paris, our dreams have taken us on a journey.

A journey through history first of all, starting in January, for the men's collection by Véronique Nichanian, where young men paraded among seats used by France's greatest names at the Mobilier national. Then, in Venice, we discovered *Un Jardin sur la lagune*, the new fragrance created by Christine Nagel, while Nadège Vanhée-Cybulski imagined an assertive and ultra-feminine look that took us far beyond the manège of the Garde républicaine. Simon Delestre made our dreams his reality by winning a second consecutive Grand Prix at the tenth Saut Hermès at the Grand Palais; then in April we travelled down the Hudson River to the Meatpacking district in the south of Manhattan, where until quite recently the paths of craftsmen, artists and night owls would still cross in the early hours of the morning. From there we travelled to Milan, where dry stones and colours defined a new interior space; and lastly, with Pierre Hardy and his haute bijouterie collection, we dared to affirm our reality in jewellery as *artisans of enlightenment*.

Our dreams drive us forward, their force of excellence carrying the know-how of Hermès craftsmen who diligently apply their skills to giving substance to what could otherwise remain imaginary. It is this ability to invent and stimulate our creativity, our shared desire not to limit ourselves to the known, which unites the community of Hermès men and women. It is this passion for high-quality objects that fosters our customers' loyalty and underpins the strength of our model of artisanal growth. This is once again demonstrated in the buoyancy of our sales in the first half-year.

Dreaming of success for success's sake is seldom the way to achieve it.

Axel Dumas
Executive Chairman



STRONG GROWTH IN SALES AND RESULTS⁽¹⁾ IN THE FIRST HALF OF 2019

Recurring operating income increased by 15%, at the same pace as sales.
Recurring operating profitability reached 34.8%.

“Hermès registered strong earnings growth over the first half of 2019, reflecting our customers’ loyalty in all markets and the creative excellence that drives all business lines.”

Axel Dumas, Executive Chairman

KEY CONSOLIDATED DATA (IN €M)

	1 st half of 2019	1 st half of 2018 (restated)
Revenue	3,284	2,853
Recurring operating income ⁽¹⁾	1,144	996
Recurring operating profitability ⁽¹⁾	34.8%	34.9%
Net profit -Group share	754	706
Investments (excluding financial investments)	170	120
Restated net cash position	3,740	2,798

The group’s consolidated revenue for the first half of 2019 amounted to €3.3 bn, an increase of 12% at constant exchange rates and 15% at current exchange rates. Current operating income⁽¹⁾, up by 15%, amounted to €1.1 bn (34.8% of sales).

Sales are growing in all regions worldwide. Hermès has continued to improve the quality of its distribution network. Activity was very high in the group’s stores, increasing by 13%.

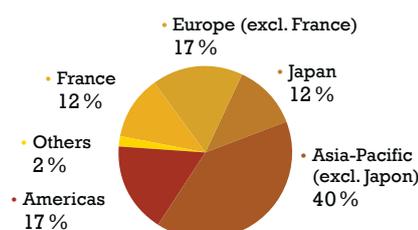
First half-year performance was driven by strong growth across all métiers. Recurring operating income⁽¹⁾ increased +15%, at the same pace as revenue. Thanks to the leverage effect generated by strong sales growth, the recurring operating margin⁽¹⁾ (34.8%) is close to the all-time high posted in the first half 2018 (34.9%), despite the negative impact of foreign exchange hedges.

Cash generation was strong at the end of June 2019, with adjusted free cash flow of €618 million. After payment of the ordinary dividend of €474 million, the restated net cash position is at €3,740 million, compared to €3,615 million as at 31 December 2018.

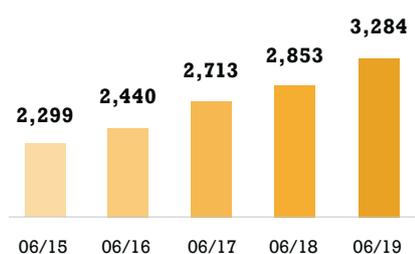
The Hermès group continues its recruitment drive and increased its workforce by nearly 500 in the first half-year. At the end of June 2019, the group employed 14,751 people, of which 9,096 are based in France.

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

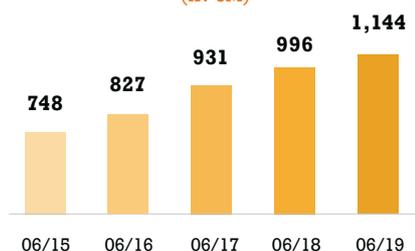
REVENUE BY REGION



REVENUE (IN €M)



RECURRING OPERATING INCOME⁽¹⁾ (IN €M)



¹ Including the impact of the IFRS 16 Leases standard. In accordance with IAS 8, Hermès applied this new standard retrospectively in full and restated the financial statements as at 31 December and 30 June 2018.

AN ENTREPRENEURIAL SPIRIT

The creation of new production sites in several regions of France strengthens the house's regional anchors.

NEW PRODUCTION SITES DEDICATED TO LEATHER GOODS

On 17 May 2019, Hermès inaugurated a seventeenth leather goods workshop in **Fitilieu** (Isère), which includes a training school for the professions of saddler-leatherworker, cutter and mechanic. Its workshops will ultimately accommodate one hundred craftsmen.

In parallel, Hermès is announcing the creation of a new production site in **Louviers** (Eure) by 2021, which will expand the leather goods and saddlery cluster in Normandy. The opening of this manufacture – a low-energy building, in line with the house's commitment to sustainable development – will ultimately create 250 jobs.

To support the growth in sales of objects in leather, Hermès plans to move the leather and glove-making workshop from **Saint-Junien** (Haute-Vienne) to an entirely renovated industrial brownfield site in 2022. Close to the current manufacture, this new site will offer a surface area of 5,000 m² and will house 260 leather goods craftsmen and glovers, creating 130 new jobs. This project testifies to the expansion of the south-western artisanal cluster.

Finally, work on the future leather goods manufactures in **Guyenne** (Gironde), the first stone of which was laid on 7 June, and **Montereau** (Seine-et-Marne) has begun. Currently operating out of temporary workshops, both sites are scheduled to open in 2020.

INCREASING PRODUCTION CAPACITY IN TEXTILES

The **Pierre-Bénite** site (Rhône) is expanding to support the growth of the Holding Textile Hermès and to integrate two additional printing lines. Within the next three years, new modular workspaces designed to facilitate cross-functional activities will open their doors.



The new leather goods workshop in Fitilieu (Isère), inaugurated on 17 May 2019



The Pierre-Bénite site (Rhône)



Laying the first stone of the future leather goods workshop in Guyenne (Gironde)

CREATIVITY AT OUR CORE

For the artistic direction of Hermès and its community of customers, 2019 was designated the year of dreams. This theme continues to guide the creativity of our métiers, in total freedom.

SURPRISING AND INSPIRING CREATIONS

Leather goods have created ingenious and elegant new pieces, such as the modular *Hermès Twins* bag, the clean lines of the *Hermès Clic-H* bag, and the *Hermès Ultrapla* clutch to be worn close to the body. Reinterpreted objects include a summery *Picnic* version of the *Kelly mini* bag, while each *Haut à courroies Cosmos* is made unique through the random, manual application of two series of iridescent colours.

In the equestrian department, the house has revealed the new *Hermès Vivace* jumping saddle, which offers an unparalleled sensation of comfort and proximity between the horse and its rider. This innovative saddle was launched in March at the tenth Saut Hermès at the Grand Palais in Paris.

For dreams of the great outdoors and nature, *Hermès Horizons* offers fishing enthusiasts a rod – with case and basket – a box containing a collection of flies, and a canoe. Meanwhile, board sports enthusiasts are invited to discover new models of surfboards, skateboards and longboards.

The *Enchaînements libres* haute bijouterie collection continued its travels, stopping off in Shanghai then Hong Kong at the beginning of the year.

Combining the energy of pure colour with the poetry of washed-out shades, the spring-summer collections of *men's ready-to-wear* dialogue freely with each other, without line or design constraints. These creations met with great success at the event dedicated to the men's universe, *Step into the Frame*, held in London on 21 March.



Plume Cosmos bag

After a spring-summer collection hailed by the press, the autumn-winter looks in *women's ready-to-wear* were unveiled at the headquarters of the Garde Républicaine in Paris, featuring pieces combining sensuality and equestrian references.

Silk has created some illustrated dreams, such as the *Sweet Dreams* scarf and its intriguing bestiary imagined by Jan Bajtlik, and the *Kawa Ora* scarf designed by the tattoo artist Te Rangitu Netana. At the start of the year, the *Hermès Carré Club* stopped off in Hangzhou, and *Silk Mix* continued its world tour with visits to Dubai, Melbourne and Taiwan.

A first in the history of the house: the **Grand Prix du Carré Hermès was launched on 8 March 2019**. Open to all talent, the winners of this international scarf design competition will see their design used in a future collection.

Inspired by a Venetian garden, Christine Nagel designed *Un Jardin sur la Lagune*, the fragrance of a dreamlike garden with a floral theme, carried on a breeze of wood and musks, flowering trees and Madonna lilies.

CREATIONS EXHIBITED IN EUROPE AND WORLDWIDE

Hermès Horloger was present at the *Salon International de la Haute Horlogerie* (SIHH) in Geneva from 14 to 17 January with two new creations: the *Arceau L'heure de la lune* timepiece, which displays the moon's cycle in both northern and southern hemispheres, and *Galop d'Hermès*, a stirrup transformed into a refined watch.

In a mineral setting, the collections **for the home** presented in Milan in April paid tribute to the material that determines the object.

Finally, from 25 April to 19 May, *petit h* visited China with a vast exhibition entitled *A Creation in Reverse*, which transformed the Chengdu store.

WE ARE ALL ARTISANS

In keeping with the humanist values born of craftsmanship, Hermès is committed to sharing the fruits of its growth, while ensuring that it has a positive impact on our planet and our communities..

PRESERVING THE ENVIRONMENT

As part of its efforts to protect our ecosystem, Hermès intends to be **carbon neutral by 2020**, by limiting scopes 1 and 2 of its greenhouse gas emissions. With the Fondation d'entreprise Hermès, the group has supported the WWF since 2017 with its application to nominate **the Mont Blanc massif for UNESCO World Heritage status**. This procedure aims to give the site a legal framework and a sustainable management model to preserve its exceptional biodiversity.

SUPPORTING PEOPLE

At its new leather goods workshop in **Fitilieu** (see page 3), Hermès has inaugurated a regional training centre open to people with disabilities. The artisan-instructors have developed specific skills to adapt training and production to a range of disabilities. In addition, on 28 June, alongside 30 other businesses that have signed innovative agreements in this field, Hermès participated in a **Successful Social Dialogue day** chaired by the Employment Minister. Hermès' Group disability agreement, signed in 2017, proposes a noteworthy method of joint co-construction that will inspire the next agreement on social dialogue.

In the field of skills transmission, the Fondation d'entreprise Hermès launched its **fourth Skills Academy**, this time dedicated to textiles (after wood, earth and metal). This first half-year was punctuated by seven morning conferences in Paris, open to the public, to explore the numerous aspects of this multifaceted subject.

A training workshop at the new leather goods workshop in Fitilieu (Isère)



In Italy, **Hermès at Work** stopped off in the light-filled setting of the Ara Pacis in Rome from 7 to 16 March. This demonstration of craftsmanship from ten Hermès métiers was a great success, attracting 15,000 visitors.

PROMOTING COMMUNITY SPIRIT

The H³ – **Heart, Head, Hand** programme launched in 2013 by the Fondation d'entreprise Hermès encourages Hermès employees to get involved in charity work.

Since 2018, H³ has enabled volunteers from the same Hermès entity to collectively support a project in their region, which will receive the support of the Foundation for three years. It is now up to employees to determine the cause they wish to support, whether the preservation of know-how, integration through culture, raising awareness of craft professions, the preservation of ecosystems, or territorial solidarity.

On 1 July 2019, a **fifth free share allocation plan** for all Group employees was implemented. By sharing the value created by all, the executive management recognises the collective success of the house and once again involves its employees in vision for the long term.



The H³ "Preserving the traditional oyster-farming ecosystem" project, in partnership with The Nature Conservancy, Hong Kong

HERMÈS AROUND THE WORLD

Through its stores and its online presence, Hermès is expanding its international network and strengthening links with its community of customers around the world.

A NEW ONLINE OFFER FOR JAPAN

On 5 June 2019, Hermès launched the new version of the **hermes.com platform in Japan**. More online services are now available to the archipelago's customers, including order tracking from the customer's account, a "Web-to-shop" service, a choice of home delivery slot, the addition of a gift card with personalised message for all online orders, and access to the latest news from the Maison Ginza and its archives.

NEW ADDRESSES TO DISCOVER

The United States has had two new stores since the beginning of the year. After Miami and Palm Beach, **Orlando** is the third city in Florida to have a Hermès store. Located in the Mall at Millenia, its palette of materials is reminiscent of the verdant tropical character of the Sunshine State.

The new store in a listed building in the **Meatpacking district of New York** echoes the industrial atmosphere of the neighbourhood. Taking the number of stores on US soil to 36, this expansion of our retail network attests to the group's confidence in the US market.

The island of **Phuket** in Thailand now has a Hermès store, located at the entrance to the Central Phuket Floresta shopping centre. This first store outside Bangkok elegantly combines Thai tradition with some of the house's iconic details.

In **Amsterdam**, a larger store was inaugurated a stone's throw from its former address. Behind a spectacular façade of glass bricks is a pleasant open space in shades reminiscent of the city's emblematic brick buildings.



RENOVATED STORES TO REDISCOVER

A 730 m² store in the Royal Hawaiian Center in **Waikiki** now welcomes the Hermès community in the heart of the Pacific. Its architecture, respectful of local tradition, plays with the tropical sunlight. To celebrate this reopening, exclusive objects featuring drawings by Brazilian illustrator Filipe Jardim were created.

In Europe, the extended store in Puerto Banús, **Marbella**, adopts a refined architectural style in a contemporary oceanic atmosphere.

Finally, in the historic heart of **Moscow**, Hermès reopened its Stoleshnikov Lane store within the original building, offering lounges and comfortable alcoves. Colours and materials are inspired by the warmth of traditional Muscovite houses.



Left:
The new Hermès store in the Meatpacking district of New York, USA

Right:
The new Hermès store in Amsterdam, the Netherlands

THE HERMÈS SHARE

A strong and singular growth model.

HERMÈS SHARE PRICE HISTORY IN 2019



KEY STOCK MARKET DATA IN 2019

Number of shares as at 30 June 2019

105,569,412

Highest price in the first half of 2019

(Euronext)

€638.40

Lowest price in the first half of 2019

(Euronext)

€462.40

GENERAL MEETING

The general meeting was held on 4 June 2019 at the Palais des Congrès in Paris. It was an opportunity to review the major events of the year, and to reassert the values of the House of Hermès: creativity, know-how, strengthening the distribution network, and social and environmental responsibility.

One of the resolutions concerned the incorporation of a new CSR criterion into the variable remuneration of the two Executive Chairmen beginning in 2019.

It also enabled the appointment of two new directors, Estelle Brachlianoff who joined the Compensation Committee and the Audit and Risk Committee, and Alexandre Viros, who joined the Audit and Risk Committee.

All of the resolutions were adopted by a very high number of votes. The voting results and the webcast of the General Meeting are available on the website <https://finance.hermes.com> (Shareholder's Guide section).

AGENDA

As of 1 January 2020, the Hermès Group will simultaneously report sales and results for annual and half-yearly publications.

24 October 2019

3rd quarter turnover

26 February 2020

2019 turnover and results

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