

LETTER TO SHAREHOLDERS

SEPTEMBER 2018

Playing like Hermès

Play is a serious business, as we often say at Hermès. Far from a distraction, fun opens the way for creativity, agility and innovation – all qualities that forge the spirit of the house and the performance of its model in a complex and uncertain international context. Because the game is never easily won.

Not taking ourselves seriously so as to preserve our artisanal identity – that which leads us to the truth behind the gestures, the demanding nature of the materials, the excellence of our know-how, and the pleasure in passing it on – is our everyday concern.

Imagining objects that are playful, light-hearted and ingenious, whose use and function are naturally in tune with our times, objects that can surprise those who wear or carry them, or objects simply to play with, this is the strength of our teams at Hermès. This year once again, our collections testify to this reality.

We work hard to make each store a joyous playground where the abundance of new products and the quality of service strengthen the exceptional bonds that we cultivate with our customers. Continually inventing unique experiences and sharing special moments is what guides us, as if to better rediscover the energy behind our creations.

Is not using play to drive our action a fine way to go about our business?

Axel Dumas
Executive Chairman



EXCELLENT PERFORMANCE IN SALES AND RESULTS IN THE FIRST HALF OF 2018

Recurring operating profitability reached 34.5% of sales, an all-time high. Net income amounted to €708m, an increase of 17%.

"Hermès achieved exceptional performance in the first half-year. Our attachment to the quality of know-how and the spirit of innovation, as well as to the constantly-renewed creativity and commitment of the men and women at Hermès, are the basis of the uniqueness and integrity of our economic model, which has proved its solidity in a global context that remains uncertain and unstable."

Axel Dumas, Executive Chairman

KEY CONSOLIDATED DATA (IN €M)

	1 st half of 2018	1 st half of 2017
Revenue	2,853	2,713
Current operating income	985	931
Current operating profitability	34.5%	34.3%
Net income attributable to owners of the parent	708	605
Investments (excluding financial investments)	128	105
Net cash position	2,713	2,434

The group's consolidated revenue for the first half of 2018 amounted to €2.8 billion, an increase of 11% at constant exchange rates. Current operating income, up 6%, amounted to €985 million (34.5% of sales). After taking into account a capital gain from property of €53 million, operating income amounted to €1,037 million (36.3% of sales).

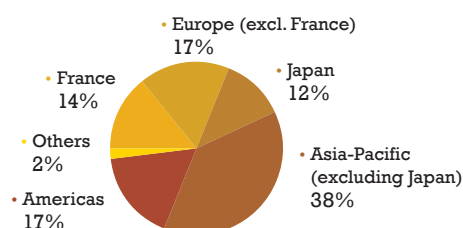
Sales have grown in all regions of the world. Hermès has continued to improve the quality of its distribution network. Activity was very strong in the group's stores, up 11%.

First-half performance was driven by strong growth across all métiers. The Clothing and Accessories, and Silk and Textiles divisions were driven by sustained demand and by the success of the collections. The Leather Goods and Saddlery division, whose production capacities are growing, has inaugurated a new production site in April, the Manufacture de l'Allan, and continues its implementation projects in Saint-Vincent-de-Paul, Gironde, and in Montereau, Seine-et-Marne, by 2020.

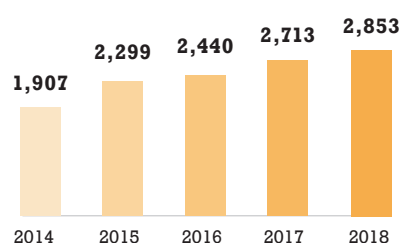
Operating cash flow totalled €849 million, an increase of 7%. It enabled the financing of all operational investments and the distribution of dividends. **The net cash position reached €2.7 billion** at 30 June 2018 compared with €2.9 billion at 31 December 2017.

The Hermès group continues its recruitment drive and increased its workforce by nearly 280 people in the first half. At the end of June 2018 the group employed 13,764 people, of which 8,476 are based in France.

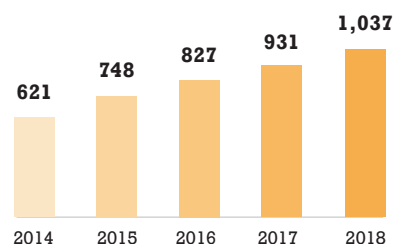
REVENUE BY REGION



REVENUE (IN €M)



OPERATING INCOME (IN €M)



AN ENTREPRENEURIAL SPIRIT

In an international context marked by great instability, Hermès stands out for the strength of its model and its consistent growth. A performance based on the excellence of its know-how, creativity in motion and a solid distribution network.

HERMÈS, THE LEADING CREATOR OF JOBS FOR ARTISANS IN FRANCE

The strong demand for leather goods has led Hermès to further develop its manufacturing capabilities. In the first half of 2018, Hermès thus inaugurated its 16th leather goods workshop, the **Manufacture de L'Allan**, which is the third facility in the Franche-Comté artisanal hub. Intended ultimately to employ **260 leatherworkers**, this new site will bring the total number of artisans working in the Franche-Comté region to **780**. With this in mind, the long-standing partnership between Hermès and the École Boudard (in Bethoncourt, Doubs) has been strengthened in order to provide training for these future artisans and enable them to acquire the expert know-how required to manufacture a bag in its entirety. After completing fifteen months of training, the students receive a diploma in the art of saddlery-leatherwork and can join the manufacture.

A CONTEMPORARY COMPANY PROUD OF ITS ROOTS

The values that shape Hermès are also brought to bear at major international events. From one continent to another, Hermès shares with an international public “the richness of a truly living heritage,” in the words of artistic director Pierre-Alexis Dumas, through the **Hermès Heritage** series of travelling exhibitions. Three instalments (*Harnessing the Roots* in Los Angeles, *Rouges Hermès* in Jakarta, and *In Motion* scheduled for the second half of the year in Shanghai) enable a wider public to rediscover the fundamentals of the house: its equestrian roots, its expression of colour, and its aspiration to travel.

Each Parisian spring brings with it the latest **Saut Hermès**, combining sport, daring and excellence. For the ninth consecutive year, this most challenging of horse shows took place within the splendid walls of the Grand Palais. Three days of competition – including the prestigious Prix du 24 Faubourg CSI 5* held after nightfall – brought the world's best riders together to compete in front of an audience of 16,000 spectators. In parallel, seventy Welsh foals took to the arena for a show mischievously entitled *Récréation*, directed by Bartabas. Their watchword? “Let's play!”



“The opening of the Manufacture de L'Allan demonstrates our attachment to craftsmanship and to the creation of jobs in France. It reveals the talent of our artisans, the appeal of our high-quality know-how and the creative success of our leather goods collections.”

Axel Dumas, Executive Chairman



The ninth Saut Hermès at the Grand Palais, in Paris.

CREATIVITY AT OUR CORE

The resounding success of the creations of the first half of 2018 is testament to the house's ability to continually renew the spirit of Hermès through contemporary offerings. This year, the artistic direction has answered the particularly stimulating call of its annual theme: "Let's play!".

Among the innovations in leather goods, driven by Bali Barret, the mischievous games played with the house's emblematic models are particularly worthy of note: the *Kelly sellier 28* bag became the *Kellygraphie*, adorned with one of the letters of the word Hermès in leather marquetry; while the *Kelly retourné 28* donned Toile de Camp canvas, printed with *Lettres au carré*, drawn from the house's archives. Meanwhile, the *Birkin 35* stood out thanks to two bands of colour running along its contours, creating a visual illusion of graphic contrast. In another reinterpretation, the *Hermès 2002* revisited a model from 1972 whose clasp functions by simply tilting the central square. Created by Hermès Horizons to echo the annual theme, a *table football table* in maple and Swift calfskin reflects the excellence of Hermès' know-how in the creation of unique objects.

The spring-summer 2018 *women's ready-to-wear collection* designed by Nadège Vanhée-Cybulski, artistic director of women's ready-to-wear, proposes garments that accompany movement: folding, unfolding, transforming and playing with transparency and layering. Thus illusion and paradox combine in pieces with multiple identities and contrasting tones.

Enchaînements libres, the new collection of fine jewellery designed around the leitmotif of the anchor chain link, by Pierre Hardy, creative director of Hermès jewellery, affirms *une joaillerie de la forme* of extraordinary architectural forms.

In *men's ready-to-wear*, the summer 2018 wardrobe designed by Véronique Nichanian, artistic director of the men's universe, conveys easy-going sophistication, graphic effects and digressions in volumes.

In spring 2018, the Hermès collection of fragrances expanded to embrace *Eau de citron noir*. Christine Nagel, creative director of perfumery for Hermès Parfums, chose black lime, a paradoxical and unexpected citrus fruit with a unique imprint, long-lasting freshness and a surprising colour! This Cologne blends the zestful liveliness of lemons with the depth of the smoky notes of black lime.

Among the collections for the home presented in Milan this spring, a new table service blossomed under the artistic direction of Charlotte Macaux Perelman and Alexis Fabry. Like a herbarium planted in porcelain, *A Walk in the Garden* displays its colourful motifs with the delicate touch of the artist Nigel Peake. Featuring twenty pieces, it forms an entire garden on the table.



Kellygraphie bag.



Women's ready-to-wear, spring-summer 2018.



WE ARE ALL ARTISANS

Hermès is nourished by the values of craftsmanship: a sense of responsibility, authenticity and sustainability are all components of the house's commitment to a sustainable and humanitarian world.

PRESERVING THE ENVIRONMENT

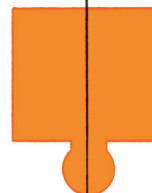
The entrepreneurial spirit that characterises and drives the house is coupled with the desire to control its impact on the environment. The new 5,800m² building of the Manufacture de l'Allan was designed in collaboration with local partners to be environmentally sensitive: preserving fruit trees growing on the site, collecting rainwater, and installing solar heating panels and photovoltaic solar panels which produce all of the site's hot water and 20% of its electricity.

Through its own programmes, the **Fondation d'entreprise Hermès** is also involved in preserving biodiversity, notably through its support of the **Africa-TWIX** project led by the NGO **WWF**, which aims to combat the illegal trade in wild fauna and flora. Facilitating cooperation between the project's five partner countries in Africa, this internet platform enables the exchange of information and provides agents in the field with technical and legal resources. Mobilising and circulating collective intelligence therefore contributes to saving wild animals and tropical species from the scourge of trafficking.

PASSING ON KNOW-HOW

Following the success of its pilot year, the **Manufacto**, the skills factory programme established by the Fondation d'entreprise Hermès was extended to new schools for the 2017-2018 academic year. Five hundred pupils in the Paris, Créteil and Nice areas each made an object by applying the techniques used by leather craftsmen, saddler-upholsterers or joiners. An artisan, an assistant and a teacher supervised each participating class (from primary to secondary school) in order to teach the students the required know-how and raise their awareness of professions in craftsmanship.

A corporate citizen, Hermès actively supports the custodians of artisanal know-how and is committed to the sustainable use of the planet's resources, as well as to establishing long-term relationships with communities wherever Hermès operates. These commitments have been the subject of a collection of short films, entitled **Footsteps Across the World**. Recorded in all four corners of the planet by the filmmaker Frédéric Laffont, these films bear witness to the house's mission "to leave a positive imprint on the communities in which we operate and on the ecological environment and biodiversity of our planet, and to give back to the world a little of what it gives us", in the words of Axel Dumas.



MANUFACTO DURING THE 2017-2018 ACADEMIC YEAR

480 dedicated sessions
500 pupils, **500** objects made
20 schools across **3** geographical areas
3 métiers (leatherwork, saddlery-upholstery and joinery)
10 beautifully crafted objects designed
 by the Studio Brichet-Ziegler
25 teachers
www.fondationdentreprisehermes.org



The Prudhomme brothers, foremen at the leather workshop in Pantin, pass the secrets of an impeccable finish on to leatherworkers.
 Image taken from *Footsteps Across the World* directed by Frédéric Laffont.

HERMÈS AROUND THE WORLD

Ours is a unique distribution model on an international scale. By bringing together all of the house's métiers under one roof, Hermès stores are able to offer their customers an inspirational experience.

HERMÈS ON THE INTERNET

After launching in Canada and the United States, the new **hermes.com** website has been operational in Europe since 28 March 2018, where it has been extremely successful. Even ahead of the launch of the site in China, Hermès has become an e-commerce actor on the Chinese digital market. From October 2017 to June 2018, five **WeChat pop-up stores** were launched in order to test online product offerings, to discover this digital environment, and to better understand the needs of Chinese customers.

HERMÈS IN THE FOUR CORNERS OF THE WORLD

The year 2018 began with the opening of the Landmark Prince's store in **Hong Kong** on 10th January. The three-storey copper-coloured aluminium façade of this new flagship store is evocative of a certain orange box, and inspired by the rhythmic verticality of bamboo.

In the spring, Hermès unveiled a new store in **Dubai**, the first of this size in the region. In the heart of the Dubai Mall, its generous space offers all of the house's métiers, as well as an exclusive bespoke service. This event was joyously marked by a "Hermès Fantasy" fairground on the theme of play, which was then opened to the public for two days. Finally, Hermès celebrated the opening of a new store in the United States, in Silicon Valley in California, within the Stanford Shopping Center of **Palo Alto**.

During this first half-year, Hermès also opened stores in **Cancún** in Mexico, **Changsha** in China and **Istanbul** in Turkey, while the stores in **Nice**, France, and in the Principality of **Monaco** reopened after renovations and enhancements.

HERMÈS IN MOTION

In keeping with its desire to offer its customers unique experiences, Hermès schedules special events with a playful spirit, so as to shine a light on its creativity in fresh new ways. The presentation of the men's collections in Shanghai, on 19th April, thus took the form of a veritable journey into the future. With its interstellar stage design, the **Fast Forward Men** event showed the men's universe to its best advantage. During the evening, visitors were invited to join a game of role-play, somewhere between science fiction and virtual reality. As Axel Dumas asserted at the event, "We are not here to talk about the last 180 years; we're here to create the next 180."



The Landmark Prince's store in Hong Kong.

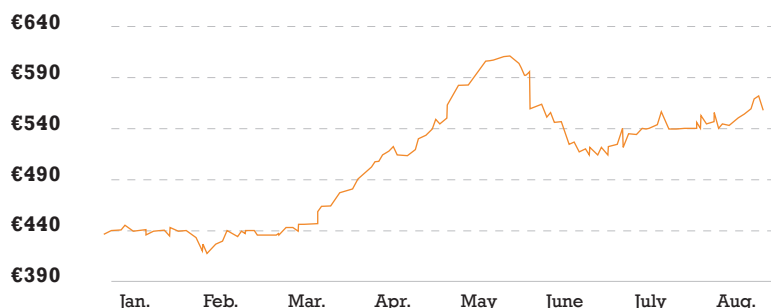


Véronique Nichanian, artistic director of the men's universe at the Fast Forward Men event in Shanghai.



THE HERMÈS SHARE

HERMÈS SHARE PRICE IN 2018



HERMÈS JOINS THE CAC 40 INDEX

Hermès International's entry into the CAC 40 on 18 June 2018, decided by the *Conseil Scientifique des Indices* (Scientific Advisory Board) and announced by Euronext, twenty-five years after being first listed on the Paris stock exchange, demonstrates the solidity of its business model in an international environment that remains uncertain and unstable.

This model is based more than ever on the house's attachment to creativity, innovation, high standards and desirability to support our customers. It is focused on the diversity of our objects and our long-term vision, in a spirit of independence and conquest, artisanal production and the commitment of the house's employees.

KEY STOCK MARKET DATA

Number of shares as at 30 June 2018

105,569,412

Highest price in the first half of 2018
(Euronext)

€612.40

Cours le plus bas au premier semestre 2018
(Euronext)

€422.60

DIARY

Wednesday 7 November 2018*
3rd quarter 2018 revenue

Friday 8 February 2019*
2018 revenue

Wednesday 20 March 2019*
2018 results

Tuesday 4 June 2019
General Meeting of shareholders

*Published in the morning, before stock market opening

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