



2018 REGISTRATION DOCUMENT
CSR EXTRACT
NON-FINANCIAL
PERFORMANCE STATEMENT (NFPS)

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The sections of the Annual Financial Report are identified in the contents with the *AFR* pictogram.

Elements constituting the statement of non-financial performance are clearly identified in the contents with the *NFPS* pictogram.

Great game! What a match!



In 2018, Hermès encouraged us to play, invited us to not take ourselves seriously, to be creative, and to demonstrate agility while remaining ambitious. While the global social, political, economic and financial environment remains uncertain, playing one's cards right is a complex undertaking.

This year's results once again reflect the strength of our growth model: a model of craftsmanship with humanist values, which has at its heart the creativity and inventiveness of each one of us.

Creative freedom combined with exceptional know-how, the constant quest for exceptional materials, as well as the desire to offer outstanding services to our customers are our major assets.

The points scored owe nothing to the luck of the draw. The opening of the Manufacture de l'Allan and the 250 jobs it will ultimately create, the success of the women's and men's ready-to-wear and home collections, the acclaimed launch of *Enchaînements libres*, the new high jewellery line, the confirmation of the *Twilly d'Hermès* success, and the dynamism of silk, leather and footwear are the milestones of a well-executed game, played out on embellished, enlarged and now digital playing fields.

Once we have crossed the finish line, we can congratulate ourselves on these successes which enable us to share the fruits of this growth with those who contribute to it on a daily basis, to strengthen our territorial roots, and to develop employment opportunities.

Thank you for the great game. Now, in 2019, it's time to dream.

Axel Dumas
EXECUTIVE CHAIRMAN

Émile Hermès SARL Gérant
REPRESENTED BY ITS EXECUTIVE
CHAIRMAN, HENRI-LOUIS BAUER

1

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1.1 STAGES OF THE GROUP'S HISTORY

Hermès holds a unique position in the luxury market, which was valued at €260 billion in 2018 (source: Bain & Company's Global Luxury Study). The Group is therefore, relatively speaking, less exposed to general changes in the sector.

Today, the Group employs 14,284 people worldwide and has 310 exclusive stores, 219 of which are directly operated. Although it has achieved international stature, Hermès has never lost its human touch and continues its tradition of fine craftsmanship.

The history of *Maison Hermès* began in a harness-making workshop opened in 1837 by Mr Thierry Hermès, in rue Basse-du-Rempart, a stone's throw from a Paris district that was awakening to modern life and its breath-taking pace. Gradually, generation after generation, the House followed this dual thread – the painstaking, patient work of the craftsman in his workshop, and the busy, active lifestyles of its customers.

In 1880, Mr Charles-Émile Hermès, son of the founder, moved the workshops to 24, Faubourg Saint-Honoré, closer still to the economic, cultural and social pulse of Paris, and added a store where private customers could order bespoke harnesses and saddles.

When his son Adolphe, soon joined by his brother Émile, took over in the early 20th century, the House was temporarily renamed Hermès Frères. Émile nurtured a great love for the history of humanity, the arts and craftsmanship, as illustrated by his collection of curiosities, in which objects related to sophistication, travel and transport feature prominently. The Hermès emblem was also born of a piece in his collection: *Duc attelé, groom à l'attente* (Hitched carriage, waiting groom), a drawing by Alfred de Dreux, a minor 19th century master and student of Géricault, depicting a *duc*, or phaeton, a sporty carriage intended mainly for women. The stylised image, registered as a trademark, has identified the House since 1945.

In the interwar years, lifestyles changed and the House innovated, for example retaining exclusive rights to the zip fastener, which was used for luggage and clothing, in 1922. While remaining loyal to the equestrian world, Hermès expanded its activities into other fields, skilfully negotiating the hurdle of diversification through its mastery of raw materials and culture of craftsmanship. These were all passions of Mr Robert Dumas, one of Mr Émile Hermès' sons-in-law. At the helm of the House from 1951, he was a frequent visitor to the workshops and designed objects with mechanisms (buckles, clasps, saddle nails, small chains and anchor chains) of great elegance, which in no way detracted from their practicality and utility.

In 1978, his son Mr Jean-Louis Dumas steered the House towards a more international outlook and opened it up to the spirit that permeated the age of communication. More than ever before, Hermès felt the need to proclaim its inherent attachment to *savoir-faire*. *Le Monde d'Hermès* was introduced in France in 1975 and became biannual in 1992, with increased contributions from designers. With the same ambition for an inspired and inspirational House, in 1987 Mr Jean-Louis Dumas organised a 150th anniversary party that culminated with a firework display

on the Pont Neuf bridge in Paris. Ever since, a new theme has each year illuminated the House's activities with the same celebratory and forward-looking focus. In 2006, Mr Patrick Thomas continued this expansion and provided the transition to the sixth generation of the family: after his cousin Mr Pierre-Alexis Dumas, the son of Mr Jean-Louis Dumas, was appointed Artistic Director in 2009 and had opened up a whole new chapter by founding the Fondation d'entreprise Hermès, Mr Axel Dumas became Executive Chairman in 2013.

Hermès, which for over 150 years has been synonymous with saddlery, has enriched its métiers without deviating from its strict quality standards. The list is long, and includes leather goods, watches, boot making, jewellery, silk, crystal, precious metals and fragrances, as well as men's and women's ready-to-wear, tableware, furnishing fabrics, wallpapers and petit h, one of the most recent enterprises of this family-run House whose industrial expansion takes on its full meaning when it extends the reach of the values of craftsmanship.

1837

- ◆ Harnesses

1867

- ◆ Saddles

Around 1900

- ◆ *Haut courroies* bag, designed by Émile Hermès

1903

- ◆ *Rocabar* blanket

1922

- ◆ Belts

1923

- ◆ Two-handled bag

1924

- ◆ Gloves with zipper

Starting in 1925

- ◆ First sports jacket, followed by the development of women's and men's fashions
- ◆ *Mallette à coins rapportés*

1927

- ◆ Wristwatches
- ◆ *Filet de selle* bracelet

1928

- ◆ *Ermeto* watch
- ◆ *Sac à dépêches*

1930

- ◆ Diaries

1937

- ◆ 1st silk scarves

1938

- ◆ *Chaîne d'ancre* bracelet, designed by Mr Robert Dumas
- ◆ First garments with silk scarf patterns

1949

- ◆ Printed silk ties
- ◆ Belt and bracelet
- ◆ *Collier de chien*

1951

- ◆ *Eau d'Hermès* fragrance

1954

- ◆ Beach towels in printed terry towelling

1956

- ◆ The bag designed by Mr Robert Dumas in the 1930s is officially named *Kelly*

1961

- ◆ *Twillaine*: garments in knit and silk twill
- ◆ *Calèche* fragrance for women

1967

- ◆ *Constance* bag

1970

- ◆ *Équipage* fragrance for men

1971

- ◆ *Nausicaa* bracelet

1972

- ◆ 1st Hermès shoes for women

1974

- ◆ *Amazone* fragrance for women

1975

- ◆ *Passe-Guide* bag
- ◆ *Kelly* watch
- ◆ John Lobb shoes

1978

- ◆ 1st complete men's ready-to-wear collection
- ◆ Highland Ghillie shoes
- ◆ *Enamel* bracelets

1979

- ◆ *Eau de Cologne Hermès*, renamed *Eau d'orange verte* in 1997
- ◆ Pleated scarves

1981

- ◆ *Clipper* watch

1984

- ◆ *Pivoines* porcelain tableware
- ◆ *Birkin* bag, created by Mr Jean-Louis Dumas

1985

- ◆ *Gavroche* scarves in silk twill

1986

- ◆ *Bel Ami* fragrance for men
- ◆ *Toucans* porcelain tableware
- ◆ *Pippa* furniture

1991

- ◆ *Cape Cod* watch
- ◆ *Nantucket* watch

1993

- ◆ *Oxer* saddle
- ◆ *Médor* watch

1995

- ◆ *24 Faubourg* fragrance for women
- ◆ *Fourre-tout* bag

1996

- ◆ *Harnais* watch
- ◆ *Heure H* watch

1997

- ◆ 1st Hermès shoes for men
- ◆ *Oran* sandal

1998

- ◆ *Herbag* bag
- ◆ Twice-round leather watchstraps
- ◆ *Quick* trainers

1999

- ◆ *Hiris* fragrance for women

2000

- ◆ *Corlandus* dressage saddle
- ◆ *Tandem* watch
- ◆ *Nil* porcelain tableware
- ◆ *Rouge Hermès* fragrance for women

2002

- ◆ *Picotin* bag
- ◆ *Plein cuir* desk line, a reissue of a range originally created in the 1930s
- ◆ *Quark* ring

2003

- ◆ *Un Jardin en Méditerranée* fragrance
- ◆ *Twilly* in silk twill
- ◆ Automatic gold watch
- ◆ *Dressage*
- ◆ *Étrivière* briefcase

2004

- ◆ *Eau des Merveilles* fragrance for women
- ◆ *Brasilia* jumping saddle
- ◆ First fragrance collection
- ◆ *Hermessence*

2005

- ◆ *Un Jardin sur le Nil* fragrance
- ◆ Porcelain tableware
- ◆ *Balcon du Guadalquivir*

2006

- ◆ *Terre d'Hermès* fragrance for men
- ◆ Porcelain tableware
- ◆ *Cheval d'Orient*

2007

- ◆ *Lindy* bag
- ◆ 70 scarves in vintage silk
- ◆ *Kelly Calèche* fragrance for women
- ◆ *Fil d'argent* porcelain tableware
- ◆ Jewellery in rose gold and brown diamonds

2008

- ◆ *Jypsière* bag
- ◆ *Horizon* diary
- ◆ 1st Hermès Éditeur scarf
- ◆ *Un Jardin après la Mousson* fragrance

2009

- ◆ *Victoria* saddle
- ◆ Dip-dye scarves
- ◆ *Colognes Hermès*
- ◆ Porcelain tableware
- ◆ *Mosaïque au 24*
- ◆ *Cape Cod Tonneau* watch

2010

- ◆ 1st *haute bijouterie* collection
- ◆ *Les Maisons enchantées faïence* tableware
- ◆ *Talaris* saddle
- ◆ *Voyage d'Hermès* fragrance
- ◆ Occasional furniture
- ◆ Jean-Michel Frank furniture reissued by Hermès
- ◆ *Toolbox* bag

2011

- ◆ *Bleus d'Ailleurs* porcelain tableware
- ◆ *Berline* bag
- ◆ *Un Jardin sur le Toit* fragrance
- ◆ *Arceau Le Temps Suspendu* watch
- ◆ 1st collection of furnishing fabrics and wallpapers

2012

- ◆ *Jour d'Hermès* fragrance for women
- ◆ 8 cm ties in heavy silk twill

2013

- ◆ *Hermès Cavale* saddle
- ◆ *Maxibox* bag
- ◆ *Le Flâneur d'Hermès* bicycle
- ◆ *Rallye 24* porcelain tableware
- ◆ Occasional furniture

- ◆ *Les Nécessaires d'Hermès*

2014

- ◆ *Oxer bag*
- ◆ *Nautilus pen*
- ◆ *Faubourg watch*
- ◆ *Third haute bijouterie collection*
- ◆ *Le Parfum de la maison*
- ◆ *H-Déco tea and dessert service*
- ◆ *Lighting collection*

2015

- ◆ *Octogone bag*
- ◆ *Cherche-Midi bag*
- ◆ *Slim d'Hermès watch*
- ◆ *Le Jardin de Monsieur Li fragrance*
- ◆ *Porcelain tableware*
- ◆ *Voyage en Ikat*
- ◆ *Cityhall briefcase*

2016

- ◆ *Verrou bag*
- ◆ *Bâton de Craie bag*
- ◆ *Hermès Arpège dressage saddle*
- ◆ *Carnets d'Équateur porcelain tableware*
- ◆ *Galop d'Hermès fragrance for women*

- ◆ *4th HBIV Continuum haute bijouterie collection*

2017

- ◆ *Hermès Cinhetic bag*
- ◆ *Twilly d'Hermès fragrance for women*
- ◆ *Chaîne d'ancre Punk jewellery collection*
- ◆ *Tie-Set porcelain tableware*
- ◆ *Liens d'Hermès range of Maison objects*

2018

- ◆ *Endless Road Haut à Courroies bag*
- ◆ *Surfboard*
- ◆ *Carré 90 La Serpentine by Pierre Charpin*
- ◆ *Carré H watch*
- ◆ *Kelly Chaîne Or necklace with diamonds*

1.2 GROUP GOVERNANCE

1

The Executive Management ensures the management of Hermès International. The role of the Executive Chairman is to manage the Group and act in its general interest, within the scope of the corporate purpose and subject to those powers expressly granted by law or by the Articles of Association to the Supervisory Board, to the Active Partner and to Shareholders' General Meetings.

The Executive Chairmen distributed their roles as follows: Mr Axel Dumas is in charge of strategy and operational management, and Émile Hermès SARL, through its Executive Management Board, is responsible for the vision and strategic areas.

The Group management is comprised of the Executive Chairman and the Executive Committee, which consists of managing directors, each of whom has well-defined areas of responsibility. Its role is to oversee the Group's strategic and operational management. Its composition reflects the Group's main areas of expertise.

The Operations Committee, which reports to the Executive Management, is made up of the Executive Committee and the Senior Executives of the main *métiers* and geographical areas of the Group.

Its duties are:

- ♦ to involve Senior Executives in the Group's major issues and strategic orientations;
- ♦ to promote communication, sharing and reasonable exchanges amongst its members in their area of responsibility;
- ♦ to enable the Executive Committee to make certain decisions.

Detailed information on the administrative and management bodies is provided in Chapter 3, on pages 139 to 148.

The Supervisory Board exercises ongoing control over the Company's management. For this purpose, it has the same powers as the Statutory Auditors and receives the same documents, at the same time. Detailed information on the composition and the work of the Supervisory Board is provided in Chapter 3, on pages 149 to 190.



1

The members of the Executive Committee, from left to right
Mr Pierre-Alexis Dumas, Mr Wilfried Guerrand, Mr Olivier Fournier, Ms Charlotte David,
Mr Axel Dumas, Mr Guillaume de Seynes, Mr Florian Craen and Mr Éric du Halgouët.

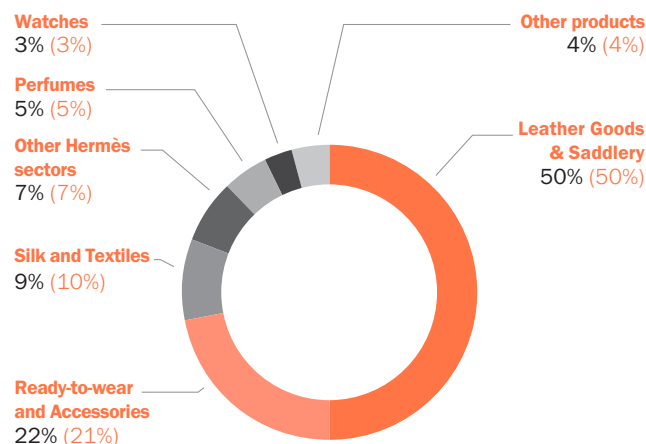


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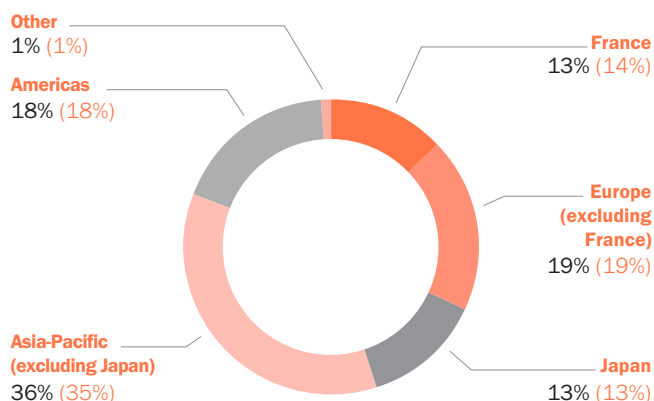
Eric de Seynes
Chairman of the Supervisory Board

1.3 KEY FIGURES

1.3.1 BREAKDOWN OF REVENUE BY MÉTIER 2018 VS. 2017



1.3.2 BREAKDOWN OF REVENUE BY GEOGRAPHICAL AREA 2018 VS. 2017

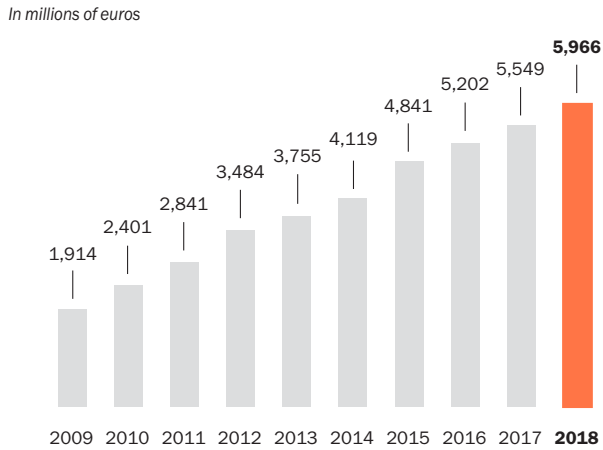


1.3.3 KEY CONSOLIDATED DATA

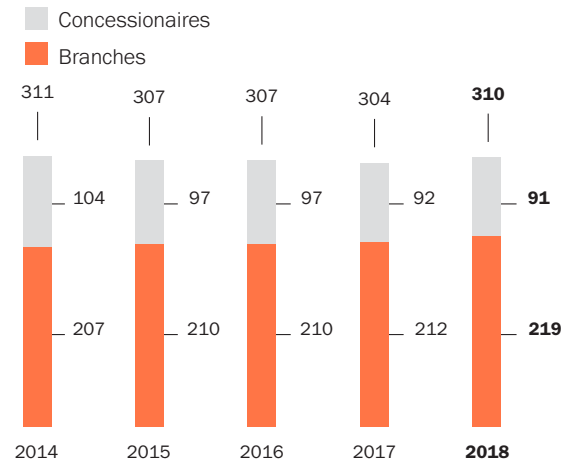
(In millions of euros)	2018	2017	2016	2015	2014
Revenue	5,966	5,549	5,202	4,841	4,119
Growth at current exchange rates vs. n-1	7.5%	6.7%	7.5%	17.5%	9.7%
Growth at constant exchange rates vs. n-1 ¹	10.4%	8.6%	7.4%	8.1%	11.1%
Recurring operating income ²	2,045	1,922	1,697	1,541	1,299
in % of revenue	34.3%	34.6%	32.6%	31.8%	31.5%
Operating income	2,098	1,922	1,697	1,541	1,299
in % of revenue	35.2%	34.6%	32.6%	31.8%	31.5%
Net income attributable to owners of the parent	1,405	1,221	1,100	973	859
in % of revenue	23.5%	22.0%	21.2%	20.1%	20.9%
Operating cash flows	1,683	1,580	1,427	1,217	1,047
Free cash flow ³	1,447	1,340	1,212	933	688
Operating investments	312	265	262	252	279
Equity attributable to owners of the parent	5,503	5,039	4,383	3,742	3,449
Net cash position IFRS	3,465	2,912	2,320	1,571	1,422
Restated net cash position ⁴	3,615	3,050	2,345	1,614	1,494
Workforce (number of employees)	14,284	13,483	12,834	12,244	11,718

- (1) Growth at constant exchange rates is calculated by applying, for each currency, the average exchange rates of the previous period to the revenue for the period.
(2) Recurring operating income is one of the main performance indicators followed by the Group's management. It excludes non-recurring items having a significant impact that could affect understanding of the Group's economic performance.
(3) Free cash flow = operating cash flows + change in working capital requirement - operating investments.
(4) Restated net cash includes cash investments that do not meet IFRS cash equivalent criteria as a result of their original maturity of more than three months.

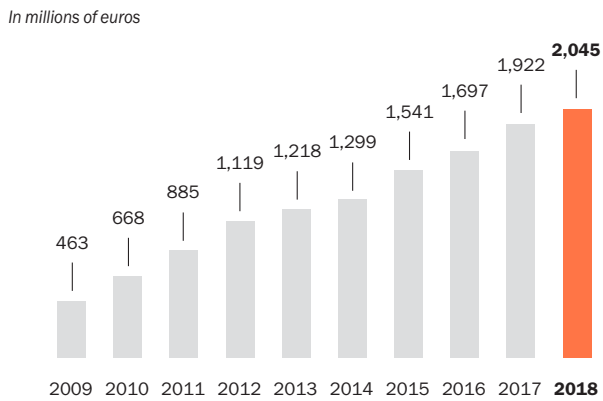
1.3.4 CHANGE IN CONSOLIDATED REVENUE



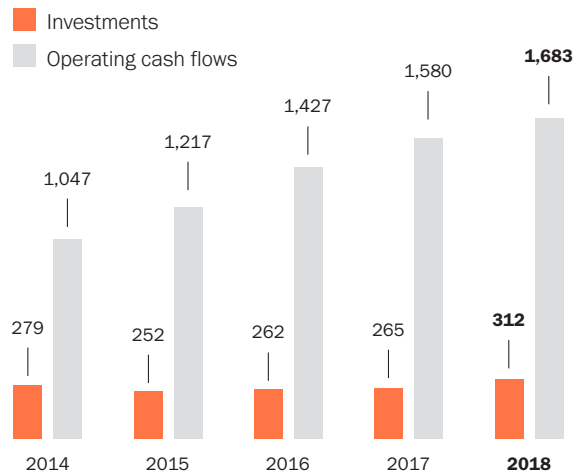
1.3.6 CHANGE IN THE NUMBER OF EXCLUSIVE RETAIL STORES



1.3.5 CHANGE IN RECURRING OPERATING INCOME



1.3.7 OPERATING INVESTMENTS AND OPERATING CASH FLOWS



1.5.4 HERMÈS POINTS OF SALE WORLDWIDE

Hermès products are available worldwide through a network of 310 exclusive stores. See page 17.

Hermès watches, perfumes and tableware are also sold through networks of specialised stores.

Europe

Austria: 2

2 concessionaires

Belgium: 3

3 branches:

- ◆ Anvers
- ◆ Brussels
- ◆ Knokke-le-Zoute

Czech Republic: 1

1 branch:

- ◆ Prague

Denmark: 2

1 branch:

- ◆ Copenhagen

1 concessionaire

France: 31

14 branches:

- ◆ Aix-en-Provence
- ◆ Biarritz
- ◆ Bordeaux
- ◆ Cannes
- ◆ Deauville
- ◆ Lille
- ◆ Lyon
- ◆ Marseille
- ◆ Paris Faubourg Saint-Honoré
- ◆ Paris George-V
- ◆ Paris Sèvres
- ◆ Rennes
- ◆ Saint-Tropez
- ◆ Strasbourg

17 concessionaires

Germany: 17

10 branches:

- ◆ Baden-Baden
- ◆ Berlin KaDeWe
- ◆ Berlin West
- ◆ Cologne
- ◆ Düsseldorf
- ◆ Frankfurt
- ◆ Hamburg
- ◆ Hanover
- ◆ Munich
- ◆ Nuremberg

7 concessionaires

Greece: 1

1 branch:

- ◆ Athens

Ireland: 1

1 branch:

- ◆ Dublin

Italy: 15

11 branches:

- ◆ Bologna
- ◆ Capri
- ◆ Florence
- ◆ Milan
- ◆ Naples
- ◆ Padova
- ◆ Palermo
- ◆ Porto Cervo
- ◆ Roma
- ◆ Turin
- ◆ Venice

4 concessionaires

Luxembourg: 1

1 concessionaire

Netherlands: 4

2 branches:

- ◆ Amsterdam De Bijenkorf
- ◆ Amsterdam P.C. Hoofstraat

2 concessionaires

Norway: 1

1 concessionaire

Portugal: 1

1 branch:

- ◆ Lisbonne

Principality of Monaco: 1

1 branch:

- ◆ Monte Carlo

Russia: 2

2 branches:

- ◆ Moscow Gum
- ◆ Moscow Stoleshnikov

Spain: 5

5 branches:

- ◆ Barcelona Diagonal
- ◆ Barcelona Paseo de Gracia
- ◆ Madrid Castellana
- ◆ Madrid Ortega y Gasset
- ◆ Marbella

Sweden: 1

1 concessionaire

Switzerland: 11

9 branches:

- ◆ Basel
- ◆ Bern
- ◆ Crans
- ◆ Geneva
- ◆ Gstaad
- ◆ Lausanne
- ◆ Lugano
- ◆ St Moritz
- ◆ Zurich

2 concessionaires

Turkey: 4

3 branches:

- ◆ Istanbul Nisantasi
- ◆ Istanbul Istinye Park
- ◆ Istanbul Emaar

1 concessionaire

United Kingdom: 9

7 branches:

- ◆ Glasgow
- ◆ London Bond Street
- ◆ London Harrods
- ◆ London Royal Exchange
- ◆ London Selfridges
- ◆ London Sloane Street
- ◆ Manchester Selfridges

2 concessionaires

Americas

Argentina: 1

1 branch:

- ◆ Buenos Aires

Brazil: 3

3 branches:

- ◆ Rio de Janeiro
- ◆ Sao Paulo Cidade Jardim
- ◆ Sao Paulo Iguatemi

Canada: 5

4 branches:

- ◆ Calgary
- ◆ Montreal
- ◆ Toronto
- ◆ Vancouver

1 concessionaire

Caribbean: 1

1 branch:

- ◆ Saint-Barthélemy

Chile: 1

1 concessionaire

Mexico: 7

7 branches:

- ◆ Cancun
- ◆ Mexico Guadalajara
- ◆ Mexico City Masaryk
- ◆ Mexico Moliere
- ◆ Mexico Monterrey
- ◆ Mexico Artz
- ◆ Mexico City Santa Fe

Panama: 1

1 concessionaire

USA: 34

27 branches:

- ◆ Atlanta
- ◆ Bergen County
- ◆ Beverly Hills
- ◆ Boston
- ◆ Chicago
- ◆ Dallas
- ◆ Denver
- ◆ Greenwich
- ◆ Hawaii Ala Moana
- ◆ Hawaii Waikiki
- ◆ Houston
- ◆ Las Vegas Bellagio
- ◆ Las Vegas City Center
- ◆ Las Vegas Wynn
- ◆ Miami
- ◆ New York Madison
- ◆ New York Men on Madison
- ◆ New York Wall Street
- ◆ Palm Beach
- ◆ Palo Alto
- ◆ Philadelphia King of Prussia
- ◆ San Diego
- ◆ San Francisco
- ◆ Seattle
- ◆ Short Hills
- ◆ South Coast Plaza
- ◆ Washington

7 concessionaires

Asia

China: 26

25 branches:

- ◆ Beijing China World
- ◆ Beijing ParkLife
- ◆ Beijing Peninsula
- ◆ Beijing Shinkong
- ◆ Changsha
- ◆ Chengdu Swire
- ◆ Chongqing Mixc
- ◆ Dalian
- ◆ Guangzhou La Perle
- ◆ Guangzhou Taikoo Hui
- ◆ Hangzhou Hubin
- ◆ Hangzhou Tower
- ◆ Harbin Mykal
- ◆ Kunming Ginko
- ◆ Nanjing Deji
- ◆ Ningbo Heyi Avenue
- ◆ Qingdao Hisense Plaza
- ◆ Shanghai IFC
- ◆ Shanghai Maison
- ◆ Shanghai Plaza 66
- ◆ Shenyang Mixc
- ◆ Shenzhen City Crossing
- ◆ Suzhou Matro
- ◆ Wuhan International Plaza
- ◆ Xi'An

1 concessionaire

Hong Kong: 7

7 branches:

- ◆ Hong Kong Elements
- ◆ Hong Kong Harbour City
- ◆ Hong Kong International Airport
- ◆ Hong Kong Landmark Prince's
- ◆ Hong Kong Lee Gardens
- ◆ Hong Kong Pacific Place
- ◆ Hong Kong Sogo

India: 2

2 branches:

- ◆ Mumbai
- ◆ New Delhi

Indonesia: 2

2 concessionaires

Japan: 39

31 branches:

- ◆ Chiba Sogo
- ◆ Fukuoka Hakata Hankyu
- ◆ Fukuoka Iwataya
- ◆ Hiroshima Sogo
- ◆ Kobe Daimaru
- ◆ Kyoto Takashimaya
- ◆ Nagoya JR Takashimaya
- ◆ Nagoya Matsuzakaya
- ◆ Nagoya Mitsukoshi
- ◆ Okayama Takashimaya
- ◆ Osaka Hilton
- ◆ Osaka Midotsuji
- ◆ Osaka Pisa Royal
- ◆ Osaka Takashimaya
- ◆ Osaka Umeda Hankyu
- ◆ Sapporo Daimaru
- ◆ Sendai Fujisaki
- ◆ Tokyo Tachikawa Isetan
- ◆ Tokyo Ginza
- ◆ Tokyo Ikebukuro Seibu
- ◆ Tokyo Marunouchi
- ◆ Tokyo Nihombashi Mitsukoshi
- ◆ Tokyo Nihombashi Takashimaya
- ◆ Tokyo Shibuya Seibu
- ◆ Tokyo Shibuya Tokyu
- ◆ Tokyo Shinjuku Isetan
- ◆ Tokyo Shinjuku Takashimaya
- ◆ Tokyo Tamagawa Takashimaya
- ◆ Urawa Isetan
- ◆ Yokohama Sogo
- ◆ Yokohama Takashimaya

8 concessionaires

Kazakhstan: 1

1 concessionaire

Macao: 4

4 branches:

- ◆ Macao Four Seasons
- ◆ Macao One Central
- ◆ Macao Wynn
- ◆ Macao Wynn Palace

Malaysia: 3

2 branches:

- ◆ Kuala Lumpur Pavilion
 - ◆ Kuala Lumpur The Gardens
- 1 concessionaire

Philippines: 1

1 concessionaire

Singapore: 7

7 branches:

- ◆ Singapore Changi Airport T1
- ◆ Singapore Changi Airport T2
- ◆ Singapore Changi Airport T3
- ◆ Singapore Liat Towers
- ◆ Singapore Marina Bay Sands
- ◆ Singapore Scotts Square
- ◆ Singapore Takashimaya

South Korea: 19

10 branches:

- ◆ Busan Shinsegae
- ◆ Seoul Dosan Park
- ◆ Seoul Galleria
- ◆ Seoul Hyundai Apjung
- ◆ Seoul Hyundai Coex
- ◆ Seoul Hyundai Daegu
- ◆ Seoul Lotte
- ◆ Seoul Shilla
- ◆ Seoul Shinsegae Gangnam
- ◆ Seoul Shinsegae North

9 concessionaires

Taiwan: 9

6 branches:

- ◆ Kaohsiung Hanshin
- ◆ Taichung FE21
- ◆ Tainan Mitsukoshi
- ◆ Taipei Bellavita
- ◆ Taipei Regent
- ◆ Taipei Sogo Fuxing

3 concessionaires

Thailand: 4

3 branches:

- ◆ Bangkok Central Embassy
- ◆ Bangkok Icon Siam
- ◆ Bangkok Siam Paragon

1 concessionaire

Vietnam: 2

2 concessionaires

Middle East

Bahrain: 1
1 concessionaire

Kuwait: 1
1 concessionaire

Lebanon: 1
1 concessionaire

Qatar: 2
2 concessionaires

United Arab Emirates: 5
5 concessionaires

Oceania

Australia: 6
5 branches:
◆ Brisbane
◆ Chadstone
◆ Gold Coast Pacific Fair
◆ Melbourne Collins Street
◆ Sydney
1 concessionaire

Guam: 1
1 branch

Saipan: 1
1 branch

1.6 SIMPLIFIED GROUP ORGANISATIONAL CHART

1.6.1 SUMMARY DESCRIPTION OF THE GROUP AS AT 31 DECEMBER 2018

HERMÈS INTERNATIONAL



HERMÈS BRAND				
				
RETAIL			WHOLESALE PRODUCTION AND DISTRIBUTION	PRODUCTION
<ul style="list-style-type: none"> • Argentina • Australia • Belgium • Brazil • Canada • China • Czech Republic • Denmark • France • Germany • Greece 	<ul style="list-style-type: none"> • Guam • Hong Kong • India • Italy • Japan • Malaysia • Mexico • Principality of Monaco • Portugal • Russia 	<ul style="list-style-type: none"> • Singapore • South Korea • Spain • Switzerland • Taiwan • Thailand • Turkey • United Kingdom • USA 	<ul style="list-style-type: none"> • Perfumes division • Watches division • Home division 	<ul style="list-style-type: none"> • Leather Goods division • Tanning and Precious Leathers division • Textile division
				BESPOKE DESIGN
			<ul style="list-style-type: none"> • Petit h 	<ul style="list-style-type: none"> • Hermès Horizons
OTHER BRANDS				
<ul style="list-style-type: none"> • John Lobb shoes 	<ul style="list-style-type: none"> • Cristalleries Saint-Louis 	<ul style="list-style-type: none"> • Puiforcat 	<ul style="list-style-type: none"> • Shang Xia 	
<ul style="list-style-type: none"> • Créations Métaphores¹ 	<ul style="list-style-type: none"> • Verel de Belval¹ 	<ul style="list-style-type: none"> • Bucol¹ 	<ul style="list-style-type: none"> • Le Crin¹ 	

(1) Furnishing fabrics

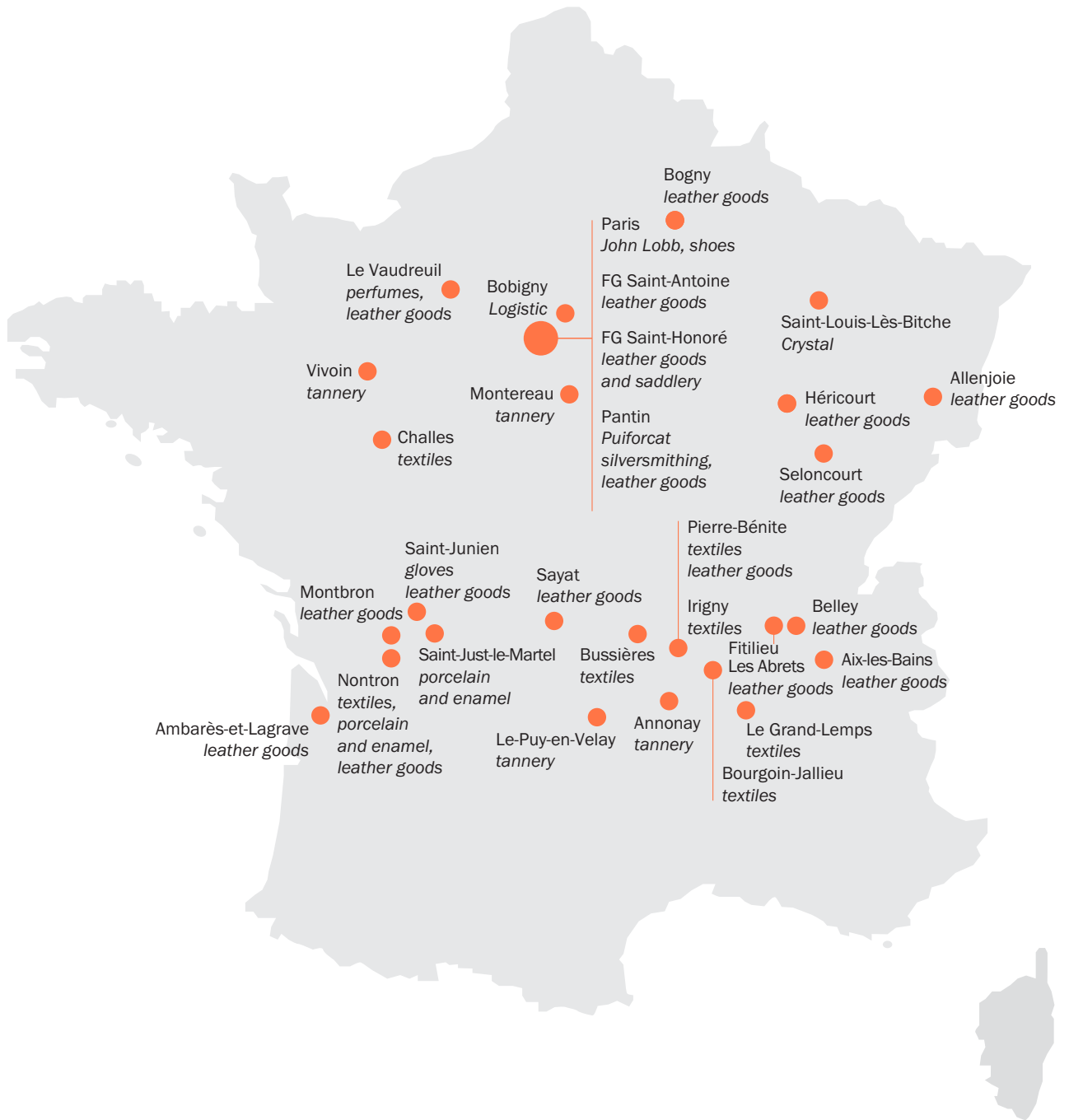
The main consolidated companies as at 31 December 2018 (distribution subsidiaries and holding companies of the divisions) are listed in Note 33 of the consolidated financial statements.

1.6.2 PRODUCTION FACILITIES

1

The Hermès Group operates 54 production sites, including 42 in France. The Group also operates production sites in Switzerland, the United States, Australia, Italy and the United Kingdom.

Métiers	Company (production sites)
Leather Goods	Hermès Sellier (<i>Paris Faubourg-Saint-Honoré, Pantin-Pyramide, Pantin-CIA, Pierre-Bénite</i>)
	Maroquinerie de Saint-Antoine (<i>Paris</i>)
	Maroquinerie de Belley (<i>Belley</i>)
	Maroquinerie des Ardennes (<i>Bogny-sur-Meuse</i>)
	Maroquinerie de Sayat (<i>Sayat</i>)
	Manufacture de Franche-Comté (<i>Seloncourt, Héricourt, Allenjoie</i>)
	Manufacture de Haute Maroquinerie (<i>Aix-les-Bains</i>)
	Maroquinerie du Sud Ouest (<i>Nontron, Saint Junien, Montbron</i>)
	Maroquinerie de Normandie (<i>Val de Reuil</i>)
	Maroquinerie Iséroise (<i>Fitilieu, Les Abrets</i>)
	Maroquinerie de Guyenne (<i>Ambarès-et-Lagrave</i>)
	Maroquinerie de Montereau (<i>Montereau</i>)
	Tanneries and Precious Leathers
Tannerie de Vivoin (<i>Vivoin</i>)	
Tannerie d'Annonay (<i>Annonay</i>)	
Conceria di Cuneo (<i>Cuneo/Italy</i>)	
Tanneries du Puy (<i>Le Puy-en-Velay</i>)	
United States division, including Reptile Tannery of Louisiana (RTL) (<i>Lafayette</i>), Australia division	
Perfumes	Comptoir Nouveau de la Parfumerie (CNP) (<i>Le Vaudreuil</i>)
Textiles	Créations Métaphores (<i>Bourgoin-Jallieu</i>)
	Société d'Impression sur étoffes du Grand-Lemps (SIEGL) (<i>Le Grand-Lemps</i>)
	Ateliers A.S. (<i>Pierre-Bénite</i>)
	Holding Textile Hermès (HTH) (<i>Pierre-Bénite, Bourgoin-Jallieu</i>)
	Établissements Marcel Gandit (Gandit) (<i>Bourgoin-Jallieu</i>)
	Ateliers de Tissage de Bussièeres et de Challes (ATBC) (<i>Bucol, Le Crin</i>) (<i>Bussièeres, Challes</i>)
	Société Novatrice de Confection (SNC) (<i>Nontron, Bourgoin-Jallieu</i>)
Ateliers d'Ennoblement d'Irigny (AEI) (<i>Irigny</i>)	
Crystal	Les Cristalleries de Saint-Louis (<i>Saint-Louis-lès-Bitche</i>)
Silversmithing and Jewellery	Puiforcat (<i>Pantin-CIA</i>)
Porcelain and Enamel	Compagnie des Arts de la Table et de l'Émail (CATE) (<i>Nontron</i>)
	Beyrand (<i>Saint-Just-le-Martel</i>)
Watches	La Montre Hermès (LMH) (<i>Bienne/Switzerland</i>)
	Les Ateliers Hermès Horloger (<i>Noirmont/Switzerland</i>)
Footwear	John Lobb (<i>Paris Mogador, Northampton/United Kingdom</i>)
	Atelier HCI (<i>Milan/Italy</i>)
Logistics	Hermès Sellier (<i>Bobigny</i>)



1.8 FONDATION D'ENTREPRISE

1

In creating the Foundation in 2008, the House's Senior Executives wanted to reinforce the impact of its sponsorship programme while ensuring its durability. Expand it, definitely, but how? The issue was to delineate our areas of intervention and equally the way in which we take action. Promoting savoir-faire, supporting creativity and encouraging the transfer of knowledge therefore became imperatives for us, while we decided to prioritise training in our métiers and the implementation of inventive and innovative projects in each of these areas. We are perpetuating the humanist values of Hermès by offering responses to the needs that we identify and that serve the public interest. Gradually, the shape of the Foundation and its methods of action were clarified, which led us to prepare very focused programmes that we designed and, for some of them too, became the operators on the ground.

For several years we have been giving thought to the actions we could take to promote craftsmanship within the Company and notably among the youngest generations. In 2016, we were therefore able to put in place our *Manufacto* programme, *la fabrique des savoir-faire* for which the agreement of the Paris board of education was decisive. The success of this first edition supported our wish to continue it in years to come. Experiencing the "pleasure of doing" acts as a driver for discovering the *métiers* of craftsmanship while being a school for expression. In parallel, the third edition of the *Skills Academy*, dedicated to metal working, again brought together a large audience around the contemporary challenges related to expertise in the material. By addressing schools and profes-

sional audiences, each of these programmes expresses our belief that craftsmanship represents a *métier* that is both able to thrive and focused on the future. Although it is undeniably handed down as our heritage, savoir-faire is also undergoing constant change and is attentive to innovation: it forms a *de facto* part of the contemporary world.

In a complementary way, the Foundation is involved in the field of artistic creation. The cornerstone of our activity is encouraging freedom of expression by giving artists the time to create the methods that serve their purpose and by giving the public access to a sensitive, critical and political understanding. We have chosen to support contemporary forms – those that will be tomorrow's cultural heritage – by supporting the creation of new works. Whether it be *New Settings*, the *Foundation's exhibitions*, *Artist's Residencies*, *Artists in the Community*, *Immersion*, a Franco American photographic commission, all programmes engage artists in working in environments that change the places where they are carried out. Taking artistic risks – whether on the stage of a theatre or production unit workshops – contributes to the emergence of original forms. For ten years many creators have ventured successfully into new artistic and geographical territories thanks to the Foundation's support. Many spectators and visitors have been moved, stimulated or even shaken by works of enormous intensity. The Foundation is pleased to contribute not only to the emergence of the most daring creations, but also to making them available to an increasingly large audience.

1.9 RISK FACTORS

The Group has implemented a system to anticipate and control risk. This system is constantly updated to allow for regulatory, legislative, economic, corporate, geopolitical and competitive developments.

The main risk factors to which the Group is exposed, together with a detailed description of the risk management system, are presented in this chapter.

Risks linked to the operational strategy	Limiting industrial and environment risks
	Control over and protection of supplies
	Balancing and safeguarding our distribution
	Minimising risks to property assets
	IT risk monitoring and prevention
	Protecting the health and safety of consumers
	Recruiting and training employees and craftsmen in the standards of excellence required by the Group
Legal and regulatory risks	Compliance with applicable laws and regulations in all areas
	Protecting and defending intellectual property rights and combating counterfeiting
Risks bearing on social, societal and environmental responsibility	Preventing the risk of serious violations of human rights, fundamental freedoms, and the health and safety of people
	Preventing risks associated with our natural materials, supply chain, regulatory compliance on environmental matters and carbon emissions
Financial risks	Conservative cash management
	Control over exchange rate risk
	Control over counterparty risk
	Financial risks related to changes in, complexity and interpretation of tax regulations
	Financial risks related to climate change

1.9.1 RISKS RELATED TO STRATEGY AND OPERATIONS

1.9.1.1 Limiting industrial and environment risks

Description of the risk

The control of industrial and environmental risks is built on a joint approach developed by the sustainable development department and the industrial affairs department. It relies on a specific “HSE” network and the local Sustainable Development Committees as described in chapter 2.1.2.

Risk management

Hermès implements initiatives designed to protect our manufacturing assets, our employees and the environment on all of the house’s production sites. The Group industrial affairs department relies on the *Métiers*’ industrial departments and Site Managers to make internal diagnostics, audits conducted by external specialists and establish operational improvement plans. The recommendations resulting from these analyses in the areas of organisation, procedures, training or investment are subject to careful follow-up. Safety-related expenditure and investment are considered to be a priority when making budget choices.

Hermès Group manufactures the majority of its products internally, principally in France, and does not adopt a cost optimisation approach, particularly with regards to labour and the location of production units. It is not therefore seeking suppliers established in countries at risk. Finally, Hermès Group has long been committed to a responsible partnership approach with its suppliers. It enters into special partnerships with suppliers and producers based on ADVICE and trust, notably by promoting long-term relationships with them (see section 2.6 The communities: suppliers and partners).

Hermès’ actions and achievements in the fields of social, societal and environmental responsibility are described in the sustainable development section (chapter 2) of this report.

1.9.1.2 Controlling and securing supplies

Description of the risk

Most of Hermès’ production is integrated, in line with its strategy of preserving unique savoir-faire and securing supplies. However, the ability of the Hermès Group to grow is also linked to the development of its suppliers, whose exceptional savoir-faire and future successes will contribute to those of the Group. Most of our subcontractors and suppliers have been partners for many years, and these stable relationships mean that we can work closely and sustainably with our partners on a wide range of matters.

Risk management

The Group’s approach is based upon knowledge of the supply channels. Supplier risk is addressed cross-functionally by the Direct Purchasing Manager on the one hand, and the Indirect Purchasing Manager on the other hand. Their roles notably involve managing the community of purchasers and supporting them on a day-to-day basis in managing supplier risk using a range of complementary tools, as described on pages 113 to 119.

Hermès has developed long-term relationships with its partners and suppliers, thereby better protecting its supplies and critical know-how.

Hermès is committed to providing long-term support for all our partners, and maintaining balanced relationships characterised by goodwill and high standards, and we ensure that our partners share and respect our social, environmental and ethical ambitions. Supplier audits, conducted using internal resources as well as independent external firms, serve notably to ensure that their operations meet the Group’s expectations.

Drawing up *Métier* risk mapping enables action plans to be identified, assessed and prepared in response to the risks identified wherever necessary. Significant work has also been carried out to optimise and secure the supply chain. The Group is strengthening supply protection, implementing a policy of diversification and limitation of supplier dependence, and building up strategic inventories. In some cases, it will buy into carefully selected companies to ensure the stability of these relationships.

1.9.1.3 Balancing and safeguarding our distribution

Description of the risk

The Group operates 310 points of sale under the Hermès banner, including 219 branches generating over 85% of revenue. A list of stores owned by the Group can be found on page 35. Certain Hermès products are also distributed through a network of multi-brand sales outlets carefully selected on the basis of qualitative and/or quantitative criteria. This is especially so of perfumes and watches, as well as some products from the Home universe. Lastly, the Group also owns other brands that distribute their products under their own name or through their own selective network. The details of these brands are presented on page 32.

Risk management

Hermès holds a unique position in the luxury market. Its broad portfolio of products reduces the risk of dependence on any particular range and its distribution is well balanced geographically.

Hermès relies on a distribution structure that significantly reduces client risk.

Sales are also slightly exposed to seasonal trends, with the second half of 2018 accounting for 52% of total sales (51% in 2017).

The balance of the geographical portfolio reduces risks related to geographical areas, with results obtained throughout all the Group's areas and a controlled investment policy.

1.9.1.4 Minimising risks to property assets

Description of the risk

The presence of Hermès Group in the best locations for its distribution activities and the construction of quality buildings, living environments and work tools for its craftsmen and employees are a major challenge for the Group.

Risk management

The management of the Group's real estate operations is centralised within the construction development department which monitors quality, cost and deadlines. This contributes to the judicious control of critical issues:

- ◆ identifying and assessing the viability of locations for distribution and production facilities and administrative offices based on qualitative and technical criteria;
- ◆ securing our key locations through a detailed analysis of our rental commitments and associated risks;
- ◆ project management (direct or by delegation) of key building projects to ensure that the work is properly carried out;
- ◆ supervising inspection plans for the Group's main sites, to ensure they conform to construction, safety and fire safety regulations. These inspections are supplemented by prevention system reviews carried out by the Group's insurers. In addition, the construction development department monitors potential risks, notably by formalising property risk mapping for major projects. It also verifies the proper application of the Group's rules in this area and carries out systematic follow-up of all action plans.

1.9.1.5 IT risk monitoring and prevention

Description of the risk

Information systems are of prime importance for the proper performance of the Group's daily operations, whether in relationships with clients, suppliers or employees but also with regards to the processing and storage of Group data.

Risk management

Hermès' expenditure on IT systems (capital and operational expenditures) is comparable with that of its peers in the sector. The aim is to bring the technology infrastructure and systems in line with the increasing needs of users and the Group's métiers, to guarantee good operational performance, to keep IT-related risks under control and to prepare systems for the future, especially for new digital services.

The Group's IT systems department works under an information technology governance charter and has drawn up a corpus of procedures that apply to all Group companies. Audits of IT security and compliance

with Group procedures are carried out periodically by all subsidiaries, in collaboration with the audit and risk management department and with the help of external service providers independent of the Group ISD, where appropriate.

Work to further enhance the security of IT systems also entailed continuing to harmonise the different systems in use using a standard ERP system and a single Group accounting system.

In the field of IT risk prevention, IT risk mapping is regularly updated and presented to the Audit and Risk Management Committee. The work carried out in 2018 was focused chiefly on reinforcing the security of central systems, the control of workstations for the Group as a whole, the centralisation of access rights to facilitate their management, the security of internal and external accesses and the protection of confidential data, the protection of cloud applications, the physical security of data centres and the improvement of back-up and fault-tolerance mechanisms for critical systems to ensure continued operation in the event of an incident.

Intrusion tests via internal, Wi-Fi and external networks were carried out, as were IT disaster simulations, and action plans were formalised. The continuity of IT operations is also tested regularly.

The Group also ensures compliance with various standards and regulations, for example in the field of payment card data management (PCI-DSS) and the protection of personal data (GDPR).

1.9.1.6 Protecting the health and safety of consumers

Description of the risk

Hermès Group is committed to respecting the regulations in the countries where it operates. The quality of products sold and their compliance with high safety standards is one of the Group's priorities.

Risk management

Hermès products are regularly tested throughout the supply and production chains. Finished product testing is also conducted by independent laboratories in Europe, Asia and the United States to verify compliance with the world's most stringent regulations, and to ensure their safety. Monitoring is carried out to analyse the development of regulations before drawing up product specifications.

1.9.1.7 Recruiting and training employees and craftsmen in the standards of excellence required by the Group

Description of the risk

The *savoir-faire* of our craftsmen, and more widely that of our staff form the foundation of our sustainable development. Our uniqueness comes from preserving, enriching and passing on these often exclusive skills in a period of growth for our métiers and our workforce.

Risk management

The house is continuing to perfect craftsmen's skills and expertise through a range of training and professional qualification programmes. These programmes are delivered within the dedicated in-house Hermès schools, (including the Leather Goods, Tanners and Textiles schools), and as part of numerous collaborations with external training organisations (as described on page 61).

1.9.2 LEGAL AND REGULATORY RISKS

1.9.2.1 Compliance with applicable laws and regulations in all areas

Description of the risk

The Hermès Group is committed to complying with the laws and regulations to which it is subject in France and internationally. These laws and regulations are increasingly numerous and complex.

Risk management

The Group keeps abreast of developments in regulations and case law in all relevant areas to ensure that it complies with French and foreign laws and regulations. This monitoring is carried out by in-house and external firms:

- ◆ in view of the increasing complexity of each legal area, the in-house legal department is split into speciality areas, with departments or divisions specialising in a specific field of law (Corporate and Stock Market law, Real Estate law, Merger and Acquisitions law, Anti-Counterfeiting), divisions with general-purpose teams in charge of certain métiers (Métiers and Selective Brands, Métiers Hermès Sellier and Métiers Holding & Support) and regional divisions, with legal teams in China, Japan, Singapore, India and the United States. The compliance department and the department in charge of Personal Data Protection law also report to it. Employment and tax matters are respectively handled by the Group's human resources and finance departments, which work in conjunction with the legal department;
- ◆ externally, in each region where the Group operates, Hermès is advised by leading local independent law firms, renowned and specialised in each of the numerous areas covered. The Group continues to be involved in ongoing litigation, but there are no pending settlements that are expected to have an impact on its business or on its financial results. The Company is not aware of any other pending or potential governmental, legal or arbitration proceedings that may have, or that over the last twelve months have had, a significant impact on its financial condition or profitability and/or on the financial position or profitability of the Group.

1.9.2.2 Protecting and defending intellectual property rights and combating counterfeiting

Description of the risk

The Group places great importance on the protection and defence of its intellectual property rights. It is very active in the area of combating counterfeiting. All of the Group's métiers are affected by the scourge and, most particularly, the Leather Goods sector.

Risk management

The Group has a particularly comprehensive portfolio of brands, models, patents and domain names, which is regularly expanding.

Within each *métier* legal division, teams are specifically dedicated to these issues and ensure that all of the Group's creations are protected effectively.

Finally, the Group ensures that its rights are respected and pursues an active anti-counterfeiting policy involving both preventive measures (training and lobbying) and coercive measures (administrative, civil and criminal proceedings) across the world and particularly on the Internet. These measures are initiated by the anti-counterfeiting department with the support of external advisers and in collaboration with the competent local authorities in the fields of intellectual property and the fight against counterfeiting. They are carried out both in traditional markets and on the Internet (online sales platform, social networks, retail websites, etc.).

These actions enable hundreds of thousands of counterfeit products to be seized and destroyed each year, the source of these products to be identified and the Group's rights to be recognised, and the payment of damages to compensate for the prejudice suffered.

1.9.3 RISKS BEARING ON SOCIAL, SOCIETAL AND ENVIRONMENTAL RESPONSIBILITY

The Group's social, societal and environmental responsibility challenges are described in detail in section 2 of this document, and are articulated around the Hermès Group's six strategic sustainable development pillars:

- ◆ savoir-faire;
- ◆ teams;
- ◆ raw materials;
- ◆ environment;
- ◆ suppliers and partners;
- ◆ stakeholders.

1.9.3.1 Preventing the risk of serious violations of human rights, fundamental freedoms, and the health and safety of people

Description of the risk

The Group is committed to respecting human rights and fundamental freedoms, the health and safety of people and the environment in relation to its activities and the activities of its subcontractors or suppliers. All of the Group's Métiers are vigilant, and more specifically our fabrics and raw materials supply chains.

Risk management

In accordance with French law 2017-399 of 27 March 2017 relating to the duty of care of parent companies and contractors, the Hermès Group has drawn up a vigilance plan to identify risks and prevent serious violations of human rights and fundamental freedoms, and the health and safety of people, resulting from its activities as well as the activities of its subcontractors and suppliers. The mitigation and prevention mechanisms for these risks are addressed specifically on pages 69 to 84 as regards employees and pages 117 to 119 as regards suppliers.

1.9.3.2 Preventing risks associated with our natural materials, supply chain, regulatory compliance on environmental matters and carbon emissions

Description of the risk

The Group seeks to secure quality supplies of renewable materials, obtained with respect for biodiversity and ethics in the treatment of animals. More broadly, it seeks to control the risks associated with its subcontractors and suppliers. Compliance with increasingly stringent environmental regulatory obligations is an ongoing challenge, as is the issue of controlling carbon emissions.

Risk management

In accordance with the law on the duty of care, under the coordination and active control of the Directorate of Industrial Affairs, the main métiers of the House that are involved have undertaken efforts to (i) improve their understanding of supply chains and to modify operating practices, and (ii) ensure compliance with environmental regulations. Audits are carried out regularly with specialised service providers, or with the WWF on certain channels (alligator, cashmere, wood). Action plans are then implemented.

In 2018, the Group strengthened its analysis of the carbon impacts of its activities, took measures to reduce its emissions (property, transport, etc.), initiated studies to establish renewable energy supplies, and increased its investment in the Livelihoods fund, which provides carbon credits with high societal value.

Mitigation and prevention mechanisms for these risks are addressed specifically on pages 92 to 110.

1.9.4 FINANCIAL RISKS

1.9.4.1 Conservative cash management

Description of the risk

The Group has put in place an organisational structure which allows financial risks related to its business to be managed centrally. As the Group has a positive cash flow, it is not exposed to liquidity risk and applies a conservative policy in managing interest rate risks.

Risk management

Treasury and currency management is centralised by the Group's treasury management department and adheres to strict management and monitoring rules. Administrative management and operational control are ensured by the middle & back office department, notably via the use of integrated cash flow software.

Furthermore, the audit and risk management department (A&RMD) oversees proper compliance with risk monitoring and management procedures.

The Treasury Security Committee regularly checks that these procedures have been applied and that any risks identified have been addressed. The Group follows a conservative investment policy, designed to avoid the risk of capital loss and maintain liquidity in order to be able to implement rapid and independent strategic changes. The Group deals with leading banks and financial institutions only. In addition, counterparty risks on financial transactions are monitored on an ongoing basis by Hermès International's Treasury Management department. Most available cash is invested for the short term, mainly in money-market mutual funds offered by leading financial institutions, in term deposits and in deposit certificates issued by top-rated banks, with very low sensitivity.

Quantitative information on interest rate risk impacts is provided in Note 23.3 to the consolidated financial statements.

The treasury management department constantly monitors changes in legal regulations with regard to investment transactions to ensure that the Group conforms to current regulations. Furthermore, the finance department adjusts its procedures and tools on an ongoing basis to accommodate changes in its environment.

1.9.4.2 Control over exchange rate risk

Description of the risk

The Group is naturally exposed to foreign exchange risk because the bulk of its production is located in the eurozone, but the majority of its sales revenue is received in currencies other than the euro (American dollars, Japanese yen and other Asian currencies, etc.). It hedges this exposure in order to anticipate and minimise the impact of currency fluctuations on the Group's profits.

Risk management

The Group's foreign exchange risk exposure management policy is based on the following principles:

- ◆ the manufacturing subsidiaries invoice the distribution subsidiaries in their local currency, applying an annual exchange rate on the scales established in euros. This means that the distribution subsidiaries mainly concentrate most of the foreign exchange risk;
- ◆ the Group's foreign exchange risk is systematically hedged by Hermès International on an annual basis, based on future internal operating cash flows between the companies in the Group;
- ◆ no speculative transactions in the economic meaning of the term are authorised;
- ◆ these hedges are provided through firm foreign exchange transactions and/or optional transactions eligible for hedge accounting;
- ◆ other non-operating transactions are hedged against foreign exchange risk as soon as the commitment is firm and final. It corresponds to financial risks arising from intra-group loans and dividends in foreign currencies.

These management rules have been validated by the Executive Committee and have also been endorsed by the Supervisory Board.

The administrative management and control of these transactions are provided by the Middle & Back Office department, notably by means of an integrated cash software program. In addition, Hermès International's Internal Audit department ascertains compliance with the risk control and management procedures.

Within this set of rules, management's decisions are validated by the Executive Committee, via a Treasury Security Committee that meets on a regular basis.

The Group's foreign exchange risk is hedged annually by Hermès International, based on highly probable future cash flows derived from budget projections. In practical terms, at 31 December, the hedging of internal transactions in currencies for the next following year is close to 100%.

As such, the Group uses purchases and sales of put and call options as well as currency swaps and forward currency agreements.

Quantitative information on foreign exchange risk impacts is provided in Note 23.2 to the consolidated financial statements.

The treasury management department constantly monitors changes in legal regulations with regard to derivative transactions to ensure that the Group conforms to current regulations. Furthermore, the finance department adjusts its procedures and tools on an ongoing basis to accommodate changes in its environment.

1.9.4.3 Control of counterparty risk

Description of the risk

As the Group has a positive cash flow and because of its other transactions with banks (exchange rate hedging), the Group is exposed to counterparty risk that is mainly banking-related and is appropriately monitored.

Risk management

Pursuant to the applicable internal control procedures, the Group only deals with leading banks and financial institutions that have signed FBF and ISDA agreements on trading in forward financial instruments, and it is not exposed to any material counterparty risk. In addition, counterparty risks on financial transactions are monitored on an ongoing basis by Hermès International's Treasury Management department. Finally, the Group breaks down investment transactions, currency risk hedging transactions and transactions involving deposits in selected banks within the defined limits of amount and maturity.

Moreover, the impact of the credit risk as recommended by IFRS 13 in the fair value of derivatives is close to 0 for the Group, given that all of the derivatives have a maturity of less than 12 months.

1.9.4.4 Financial risks related to changes in, complexity and interpretation of tax regulations

Description of the risk

The Group is exposed to financial risks related to changes in tax regulations or their interpretation in the countries where it operates. Any change in tax regulations involving an increase in existing taxes and duties or the instauration of new taxes in particular in the area of tax rates, transfer pricing, dividends ... could have a negative impact on the Group's results.

Risk management

The Group provides regulatory oversight and defines its tax policy by relying on a team of tax experts under the supervision of the Executive Vice President Finance, assisted by external advisers if necessary. The Group is committed to respecting all the laws and regulations in each of the countries where it operates. It relies on transparent and simple organisation. The Group's tax policy is not based on any tax optimisation or evasion scheme and complies with the principles laid down by the OECD. In the case of a dispute or differences in interpretation, the Group may have to challenge reassessments with the tax authorities and to seek redress using the means available to it for its defence.

1.9.4.5 Financial risks related to climate change

Hermès believes that the financial risks to its business related to climate change are not currently significant (Article L. 225-100-1 of the French Commercial Code (*Code de commerce*)). The Group is implementing a low carbon strategy and is applying a certain number of measures to reduce its energy consumption and emissions, from supplies, manufacturing sites and its stores. In addition to these in-house efforts, Hermès has been implementing since 2012 a voluntary Group carbon offsetting scheme (Funds Livelihoods).

1.9.5 INSURANCE POLICY AND RISK HEDGING

The Hermès Group's policy regarding insurance is to transfer any exposure that is liable to produce a material impact on profits to the insurance market. The Group insurance programmes represent most of the insurance coverage for the subsidiaries. They are placed via the intermediary of brokers who are amongst the ten largest French brokers and with first-rate insurance companies. The main international insurance programmes favour an "all risks except" approach and cover:

- 1) property damage and operating losses that may affect production sites, logistics centres, distribution centres or premises in France and in other countries. The policy underwritten by FM Global was renewed for a one-year term. The upper cover limit is €500 million. The deductibles for direct damage vary from €15,000 to €250,000 and from €70,000 to three days' gross profit for operating losses. In Japan, the Group has had an earthquake insurance policy for several years covering €40 million in direct damage and operating losses. This insurance is accompanied by a prevention/engineering component: 57 production and distribution sites were the subject of a prevention inspection in 2018. The recommendations issued are monitored using a stringent, formally documented system. This policy has been renewed for 2019, with the same levels of coverage;
- 2) civil liability for damages to persons, property and intangibles caused to third parties in the conduct of business operations or by products. These policies were taken out for three years at 1 January 2016 with AIG Europe and Zurich Insurance for cover amounts which take into account the nature of the Group's operations; the maximum cover per event is €70 million, and the deductibles vary from €1,000 to €10,000; This policy was renewed from 1 January 2019 for a period of two years, with the ceiling raised to €100 million;
- 3) the transport of products between the production sites and to the distribution network. A policy has been taken out with Chubb;
- 4) responsibilities in relation to the environment. This policy was taken out with AIG Europe on 1 January 2017 for a period of 24 months. The coverage limit is €10 million per claim and €20 million for the period, and the deductible thresholds are €25,000; This policy was renewed from 1 January 2019 for a period of three years, with the guarantee ceiling raised to €15 million per claim and €25 million for the period;
- 5) cyber risks. Like each year since 1 January 2013, the policy with Zurich Insurance was renewed for a period of one year, covering the reconstruction of data, operating losses following a security incident, civil liability, and costs, notably defence and notification costs.

Other contracts had been subscribed to fulfil specific requirements, particularly in the context of building operations (new work or renovation) carried out as project managers. Moreover, the Hermès Group has for many years subscribed to third-party liability insurance for Corporate Officers with AIG Europe and other prominent insurers, in amounts deemed appropriate for our business.

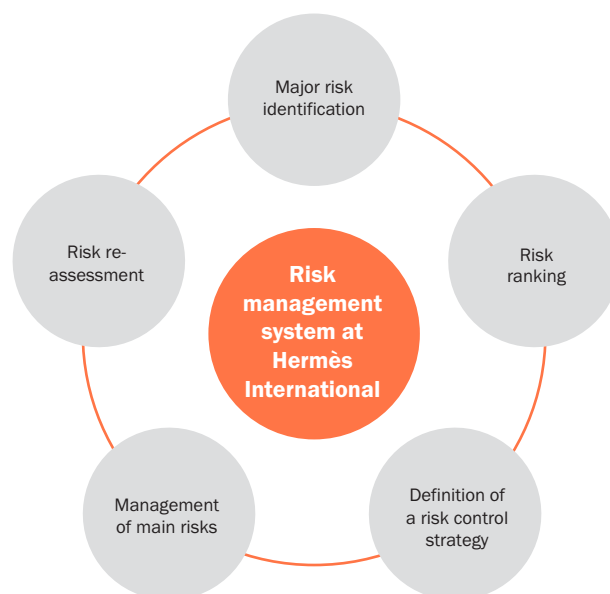
In 2018, these policies were not the subject of significant claims.

1.9.6 INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS ESTABLISHED BY THE COMPANY

The internal control and risk management systems relating to the preparation and processing of accounting and financial information are described in section 1.10.

1.9.6.1 Objectives of risk management at Hermès International

Risk management systems are designed to frequently examine the major risks. This includes methods for identifying and prioritising risks and for handling the main internal and external risks at the appropriate operating level in order to reduce the Company's exposure.



1.9.6.2 Control environment

While Hermès has attained the stature of an international group, it has also retained its human dimension, with family ideals. The Company is dedicated to a culture and spirit of craftsmanship and seeks to cultivate strong values among its employees.

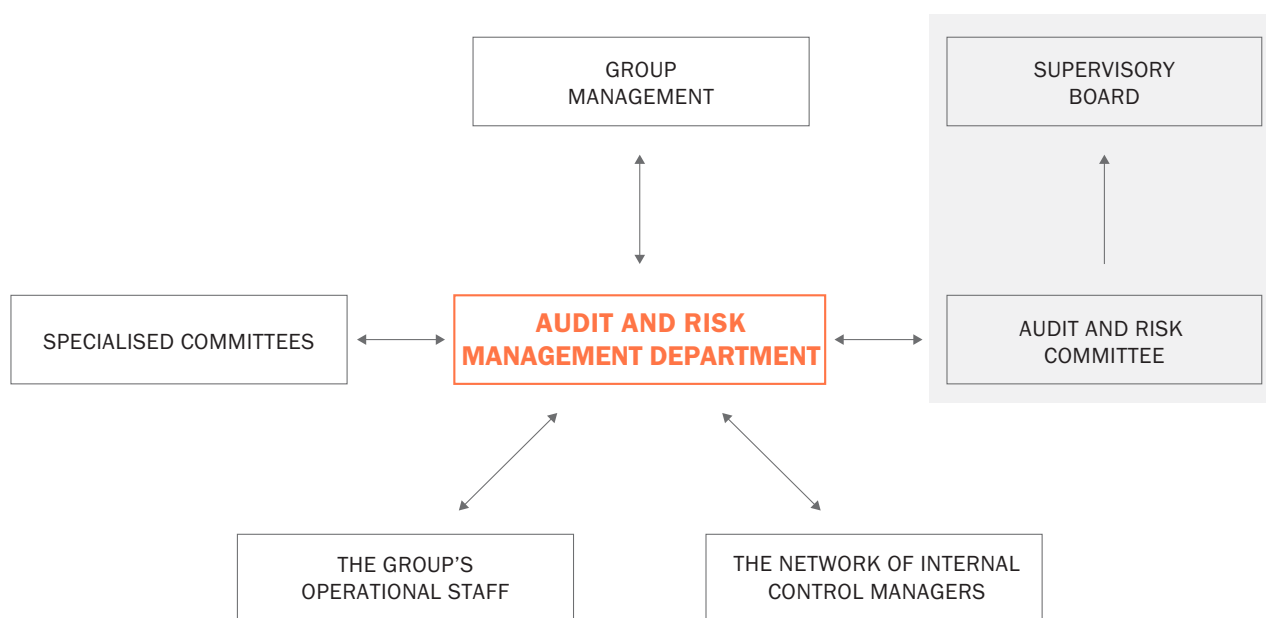
Among these values, quality is paramount - the very essence of Hermès' business. The Group's commitment to quality applies not only to its products and services, but also to its management methods. Hermès attaches great importance to its Senior Executives' Managerial skills. The Hermès culture, which is propagated mainly through integration programmes for new managers and special training, imparts to each individual a thorough understanding of their role in the organisation and the need to abide by the Group's code of conduct and rules of behaviour. The quality-oriented values and mentality shared by all employees serve as a solid foundation to underpin behaviours and observance of stringent internal control policies and procedures. The way in which these values work together and their balance are contingent on the

control environment which forms their common base, and more specifically, on the Company's ingrained risk management and internal control culture, management style and corporate values. With this in mind, to underpin the risk management culture promoted by the Group, a formal ethical charter was adopted and disseminated to its employees in 2009. In 2013, it was completed by the business code of conduct, that sets out the behaviour expected from Group employees. Both documents were updated in 2016. They are available on the Company intranet and have been subject to formal acknowledgement of receipt when given to employees. Additional training sessions on anti-corruption laws have also been organised for operational staff. However, no risk management and internal control system, no matter how well-designed and applied, can provide absolute certainty that the Company will achieve its objectives.

1.9.6.3 Scope of the risk management and internal control systems

The Group's risk management and internal control mechanisms are applicable to the parent company and to the controlled subsidiaries, as they are presented in the notes to the consolidated financial statements.

1.9.6.4 Parties responsible for risk management and internal control



Group management

The Group management designs risk management and internal control procedures commensurate with the Company's size, business operations, geographical footprint and organisation. In addition to establishing procedures for delegating authority established at different hierarchical levels, Group management has ultimate responsibility for guaranteeing the effectiveness of the risk management system and its adequacy for meeting the Group's strategy objectives. To this end, it is provided with audit reports and the risk mapping of subsidiaries and Métiers and regularly meets with the Audit and Risk Management Department (A&RMD) It therefore oversees the system as a whole to safeguard its integrity and, where applicable, initiate any corrective measures needed to remedy any failures.

Audit and Risk Committee

The Audit and Risk Committee was established in 2005 within the Supervisory Board pursuant to Article L.823-19 of the French Commercial Code (Code de commerce), and without prejudice to the powers of the Supervisory Board, which it does not supersede.

The roles and duties of the Audit and Risk Committee were formally documented in rules of procedure drawn up by the Supervisory Board in 2010 and regularly updated. The latest version appears on pages 212 and 213. In 2017, the rules of procedure were amended, in order to incorporate the procedure for approving services other than the certification of financial statements, and submitted for the approval of Audit and Risk Committee.

Each meeting of the Audit and Risk Committee gives rise to written minutes that must be approved. At each meeting of the Supervisory Board, the Chairman of the Audit and Risk Committee gives the Board a report of the work of the Audit and Risk Committee. A list of the work carried by the Audit and Risk Committee in 2018 is provided on pages 189 to 190.

In 2016, the Audit and Risk Committee also conducted a self-assessment as part of the triennial formal self-assessment of the Supervisory Board.

Since 2017 the updated IT risk mapping is also shared with the Audit and Risk Committee every year. In 2018, the presentation was made during the session of 14 November 2018.

Audit and risk management department (A&RMD)

The department reports to the Group's Executive Vice-President of Governance and Organisational Development, which guarantees its independence, and has unlimited authority to review any matter at their discretion.

The A&RMD consists of a core team of experienced auditors, and runs a decentralised network of internal controllers. It performs three main roles for the Group:

- ◆ it performs internal audits and monitors the implementation of the recommendations;
- ◆ it identifies and analyses risks;
- ◆ it ensures the deployment of internal controls suited to Group ventures.

The auditors work on the basis of an annual audit plan, validated by the Executive Management and the Audit and Risk Committee, which is adapted every six months, if necessary. The audit plan is powered by comprehensive risk analysis, including financial, operational and compliance, by the proposals of the Executive Committee and by the audit trails. It must allow a regular review of all Group entities and processes, with a frequency appropriate to the magnitude of the risks and the relative weight of the various Group entities. The A&RMD also carries out support assignments for the internal control roll-out within newly acquired entities. In order to conduct specialised audits, A&RMD may call upon outside firms or use appropriate analysis tools which are used notably in the context of preventing accounting fraud. The A&RMD regularly conducts integrated audits with Group experts.

The A&RMD carries out a continuous improvement initiative as regards the internal control and risk management systems. It notably monitors the practices of other companies in such matters.

It works alongside the Group's various departments in order to promote the upstream handling of the main risks, as well as emerging risks, and runs the risk mapping approach of the main businesses, retail subsidiaries and support functions. The methodology for risk mapping is regularly updated in the light of best practice. In 2017, this methodology was entirely revised by a specialist external firm.

The A&RMD coordinates a network of around 60 employees responsible for internal control, in France and abroad, within the métiers, in distribution and in support activities. This coordination includes awareness-raising about best internal control practices. Lastly, it also participates in the Group training sessions in order to promote an awareness of risk management and internal control best practices amongst the management.

An audit charter formalising the duties and responsibilities of the internal auditors and their professional conduct and detailing their audit engagements was released and circulated in 2010. In 2013, the system was completed by a risk charter that formalises the principles and rules implemented with regard to risk management, and by an internal control charter that formalises the roles and responsibilities of the people involved in internal control. These charters are reviewed regularly. The Head of audit and risk management attends Audit and Risk Committee meetings. He meets with the Audit and Risk Committee six times a year, including once without the presence of third parties. He presents a report on the Audit and Risk Committee's activity each year.

Internal control managers

Internal control managers oversee the implementation of the internal control system within their scope, businesses, distribution subsidiaries or support functions. They report to the CFO of their entity.

They work according to an annual plan, shared with their department and A&RMD, taking into account the Group's internal control priorities and the risks specific to their company. Within their entity, their main tasks are to:

- ◆ review the key risks and the organisation of internal control;
- ◆ verify the implementation of Group procedures in accordance with local regulations;
- ◆ participate in self-assessment of internal control work;
- ◆ spread the culture of internal control to all employees;
- ◆ perform monitoring of the action plans of risk mapping;
- ◆ follow up on the audit recommendations of the A&RMD.

Specialised committees

Hermès Group has deployed specific processes to monitor certain risks through specialised committees or working groups. These committees meet on a regular basis. For example, committees focusing on real estate risks, safety, IT risks and treasury risks analyse the issues, and study the appropriate corrective measures so that they are deployed in the entities. They also check that existing control systems comply with Group procedures. The main operational contacts involved take part in these committees, as does A&RMD, whose role is to facilitate the identification of risks and of the associated action plans.

Since 2016, the Group Security Committee has been arbitrating on cross-functional topics of security and monitoring the functioning of the specialised committees. In addition, an ad hoc committee on the safety of transport, comprising the Group Safety Department, Transport Department, Insurance Department, Audit and Risk Management Department and the departments of the Métiers concerned is also held on a regular basis to define actions to improve the transportation safety of products at Hermès.

In 2017, Hermès Group introduced the «Compliance and Vigilance Committee», comprising representatives of the Compliance Department, Legal Department, Sustainable Development Department, Industrial Affairs Department, Audit and Risk Management Department, Marketing Department and Human Resources Department, in order to prepare a vigilance plan for all Group subsidiaries. A Director of Legal Compliance and Public Affairs was appointed in 2017. His duties are detailed in paragraph 3.2.2.2.

The Group's operational staff

The Senior Executives, the major functional and operating departments, and members of the Management Committees of the Group's various entities serve as the main conduits for applying internal control and risk management; they are the main beneficiaries of the system and also key contributors to its proper operation.

Control activities carried out at the level of each entity fall under the joint responsibility of the Executive Vice-President and Financial Executive Vice-President, as established by the signature of a letter of representation relating to the knowledge of the Hermès internal control objectives and of the quality of the controls implemented within the entity. To this end, they rely on the results of an annual self-assessment questionnaire on the implementation of the internal control system.

1.9.6.5 Risk management system

The Group's risk management process is based upon the preparation of risk maps as well as a range of complementary tools that facilitate the identification of risks and help to define the actions necessary to best deal with them.

Set up in 2004, the mapping initiative has been rolled out to the main entities under the supervision of the A&RMD.

These maps serve to identify, evaluate and systematically rank the main risks. They represent a lever for performance improvement, as they contribute to the protection of company value and assets. These are effective management tools that provide a comprehensive and shared vision of the risks and define operational action plans and responsibilities of stakeholders. The risk maps are updated periodically by each company under the supervision of the A&RMD.

The internal control managers within the entities are the local relays for the mapping initiative. They participate in the initial risk analysis, while updating and monitoring the action plans.

Group risk mapping is updated annually. The subsidiaries' risk mapping and individual assessments by Executive Committee members feed into it. This risk mapping is shared on a collective basis with them and action plans are circulated. It is also shared with the Audit and Risk Committee. The Group risk mapping is also used as a starting point for A&RMD's audit plan and the internal auditors' work programmes. It also feeds in to the internal control priorities of the internal control managers. Prioritisation of risks carried out by Group management is also shared with the entities in order to be included in the mapping carried out locally.

In the areas of fraud and corruption:

- ◆ The A&RMD carried out a specific mapping exercise concerning the risk of fraud, with action plans monitored. Awareness-raising campaigns for functions most at risk are conducted on a regular basis. Awareness-raising, identified as an effective fraud prevention tool, is rolled out and adapted to the types of fraud (risk of systems intrusion, «CEO fraud», etc.). An ad hoc security system has also been introduced and is monitored by the Group Security Department.

- ◆ A corruption risk mapping has been drawn up with the help of a specialist external firm and with the collaboration of the Director of Legal Compliance and Public Affairs, who is responsible for its management, as described in section 3.2.3.1.2.

The A&RMD is also able to modify its work programme and carry out ad hoc assignments in order to deal with new risks, particularly in the event of an alert issued by a Group division. A&RMD may also perform cross-functional audits.

Finally, an IT platform for the sharing of incidents not only enables assessment of the changes of certain risks, but also the apprehension, early on, of any possible signs of weakness. It's a preventive tool that allows for the constant improvement of the control system, to correspond to actual conditions as closely as possible.

1.9.6.6 Internal control system in response to risks

Organisation

The Company's management is organised into an Executive Committee and several specialised committees, and ensures that strategic directions are followed consistently and that information is disseminated effectively. Detailed organisational charts and memoranda outlining strategic directions give staff members a thorough understanding of their role in the organisation and a way to periodically evaluate their performance by comparing it with stated targets. The Group's organisation is based on an approach designed to foster a high level of accountability among local managers, whose duties and responsibilities are clearly defined.

In its human resources processes, Hermès has established hiring, training and skills development programmes designed to enable each individual to perform their duties effectively, now or in the future. Within Hermès International, the finance department has primary responsibility for preparation and control of financial information (see below).

Information systems

Hermès uses effective IT tools tailored to its requirements in preparing and controlling information. Integrated applications are used to centralise data reported to Hermès International by the subsidiaries, for account consolidation and for cash management. Managers have access to data generated the management systems on a weekly and monthly basis, giving them the information they need to manage business operations effectively, to monitor performance consistently, and to identify any irregularities.

The information systems are designed to ensure that the accounting and financial information produced complies with security, reliability, availability and relevance criteria. Specific rules on the organisation and operation of all IT systems have been defined, applying to system access, validation of processing and year-end closing procedures, data archiving and record verification.

Furthermore, procedures and controls have been set up to ensure the quality and security of operation, maintenance and upgrading of accounting and management systems and all systems that directly or indirectly send data to these systems.

As a supplement to the detailed reviews performed by the information systems department within the main subsidiaries, the A&RMD verifies the implementation of the general IT controls during the audits. In this context, A&RMD may call upon external firms specialising in information systems.

Internal control procedures

The internal control processes are described in the Group procedures. They are defined on a Group level, then rolled out and adapted to the specific contexts and local regulations by each division. All Group employees have access to them via a secure intranet site.

The Group procedures cover the Company's main cycles (purchases, sales, treasury, inventory management, fixed assets, human resources, information systems, security and safety, closing of financial statements, etc.). The A&RMD updates them on a regular basis, alongside the various experts in their respective domains.

More specifically, extremely stringent cash management procedures have been put in place. The treasury security rules manual details the following procedures:

- ◆ a treasury management procedure that defines the roles and responsibilities between the Group treasury and the subsidiaries;
- ◆ rules for opening and operating bank accounts, called «prudential rules», for each of the Group's companies, which are constantly updated and include monitoring of the authorised signatories, inter alia;
- ◆ a foreign exchange policy approved by the Group's Supervisory Board (this policy describes all authorised financial instruments and sets limits on their use by members of the Hermès International treasury management department);
- ◆ a foreign exchange risk management agreement with each relevant subsidiary, which provides a framework for the relationships between the Hermès Group and its subsidiaries, sets out cash management

policy and rules, and defines the terms and conditions for calculating and applying the annual guaranteed exchange rates;

- ◆ a Group cash investment policy, which is approved by the Supervisory Board of Hermès International and sets out the criteria for investing the Group's cash and limits on its use by members of the Hermès International treasury management department.

A full audit of payment flows was carried out by an external firm in 2017. The implementation of the action plan continued in 2018.

Self-assessment of internal control work

Self-assessment of internal control, which began in 2005, is now an established process within the Group, and relies upon questionnaires completed by all controlled subsidiaries. This system helps to disseminate an internal control-oriented culture throughout the Group and serves as a tool for assessing the level of internal control within the subsidiaries and determining how operational and functional risks are handled at the appropriate level. If the control processes assessed are found to be ineffective, the subsidiaries are required to draw up an action plan to remedy the situation.

Subsidiaries perform self-assessment on an annual basis using three questionnaires available on the intranet, in the dedicated IT tool «CHIC» («Check your Hermès Internal Control») run by the A&RMD. The self-assessment focuses on a general internal control questionnaire (CHIC Practices), whose framework is prepared in line with the AMF's «reference framework», a specific questionnaire on treasury management (CHIC Treasury) and a questionnaire on distribution network operating procedures (CHIC Boutique). The industrial safety questionnaire is now completed by the Group security department in its site visits. These questionnaires are updated on an annual basis, in order to include any new risks and controls identified as key on the Group level. The results are reported in a dedicated IT tool where they are centralised and analysed, in order to identify areas for improvement and internal control priorities for the following year.

CHIC Questionnaires	Number of themes *	Examples of themes addressed
Stores	6	Customer relationship management, Cash management, Stocktaking, safety/security, etc.
Practices	10	Finance, Human Resources, Control environment, Information systems, Communication, etc.
Cash	5	Management of bank accounts, processes and payment means, regulatory compliance, etc.

(*) The themes are then sub-divided into several questions addressing all related procedures in an exhaustive manner.

The internal control managers are involved in the self-assessment, and are in charge of monitoring the action plans. The A&RMD checks and compares the responses given by subsidiaries to the questionnaires with

its own assessment when performing audits. It ensures that the controls have been correctly appropriated, as well as the implementation of the corrective action plans.

Internal control system monitoring

Regular reviews are carried out by internal control at a local level and are completed by the A&RMD depending on the stakes of each entity. The network of internal control managers is responsible for ensuring that the principal risks related to distribution and production operations, as well as to support functions, are covered by suitable controls, notably regarding the security and traceability of assets. This network has become more dense and now provides fine-meshed internal control within the main entities. As part of its role as coordinator for the network of internal control managers, the A&RMD is involved in their appointment; it reviews the subsidiaries' annual plans, disseminates best practices, notably through a collaborative, company information sharing platform, communicates internal control priorities, and encourages experience sharing between all network members.

The audit assignments represent the third control level. There are several types of audits including:

- ◆ audit of distribution subsidiaries including the audit of stores,
- ◆ audit of production sites,
- ◆ audit of upstream or downstream support departments, etc.
- ◆ special audit conducted with the help of external firms, in particular on information systems
- ◆ support to investments in the setting up of the internal control system

Upon completion of the audits, reports are prepared containing the audit findings, identifying risks and recommending solutions to remedy any problems. Proper implementation of the recommendations is verified during follow-up audits. The audit reports are sent to the managers of the audited subsidiaries or departments and to Group management.

2

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2.1 BUSINESS MODEL

For more than six generations, the values inherent in craftsmanship have flowed through Hermès. Since the Company's founding, they have shaped its development and, in parallel, its relationship with the wider world. These values, embodied and conveyed by the Company's Senior Executives, as well as all its employees, are constantly being enriched by the lessons learned from craftsmen. Hermès is a genuine "land of hands", employing over 5,180 craftsmen in production activities. It has fostered in everyone the spirit of craftsmanship that makes the House so unique in many respects, not least in terms of sustainable development. Through daily proximity and internal networking, this living concept inspires all employees, suppliers and partners. This model is mainly rooted in the *savoir-faire* of men and women in France. It is based on geographic and cultural proximity between our designers and the craftsmen and women in our production units. It is backed by our French regional industrial know-how, which we enhance and develop through in-house training for the acquisition of all our métiers, in the aim of passing on our exceptional *savoir-faire*.

The Hermès Group's Statement of Non-Financial Performance covers all of its subsidiaries and sites (scope detailed in sections 1.5 and 1.6). Hermès operates 54 production sites (of which 42 are in France), spread over 47 geographical locations, (including 35 in France, five in Australia, two in Italy, two in Switzerland, two in the United States and one in the United Kingdom). Hermès goods are available worldwide through a network of 310 exclusive stores.

Hermès is an integrated company whose activities (its "métiers") are described in section 1.4 and can be summarised as follows:

- ◆ **Leather Goods and Saddlery** (50% of Group sales and more than 3,400 craftsmen and women), with collections of bags and luggage, diaries, small leather goods, writing objects, and saddlery products;
- ◆ **Ready-to-wear and Accessories** (22% of Group sales): ready-to-wear clothing for men and women, and fashion accessories (accessories, jewellery, belts, hats, gloves, shoes, and the Internet of Things);
- ◆ **Silk and Textiles** (9% of Group sales): Women's silk (scarves including the Hermès 90 scarf in silk twill, long scarves, shawls and cashmere items) and Men's silk (ties, scarves, etc.);
- ◆ **Other Métiers:** Perfumes, Watches, Jewellery, Art of Living and Tableware;
- ◆ **Other products and brands:** cristallerie Saint-Louis, Puiforcat (jewellery), John Lobb (footwear), tanneries (Hermès *Cuir précieux*), Hermès Horizons (bespoke objects), petit h, Shang Xia (Chinese craftsmanship house).

2.1.1 A SET OF SHARED VALUES SINCE 1837

Sustainable development at Hermès is based on a constant determination "to do things well". The characteristics of craftsmanship enable a better understanding of this state of mind and the meaning of Hermès's actions in this area:

- ◆ **responsibility:** handmade leather objects are the work of a single person who masters all the steps necessary for their fabrication and is responsible for their final quality. This sense of responsibility also extends to the materials used, which must not only be the most beautiful but also of indisputable origin: they must be worthy of serving to create objects of exception. This accountability remains throughout the product's future life: each craftsman or woman takes a view that extends well beyond the production process. The keen awareness of the consequences of our actions accordingly begins upstream and reaches far into the future. This value of responsibility, which stems from the crafting of products by hand, is one of the catalysts of the Company's approach to sustainable development. Responsibility is an internal requirement that is even more important since the House controls a large number of the parameters of its activity;
- ◆ **authenticity:** craftsmen and women take pleasure in highlighting the "authenticity" of beautiful raw materials, those that show themselves as they are, hiding nothing from the hand or eye. They eschew the use of less than perfect materials, even when the end result may seem acceptable. This attitude to quality, this demanding outlook, is reflected in the attention paid to all the aspects that comprise an artisanal object and its craftsmanship. Linings are given the same attention as exteriors, pieces that are hidden from view have the same importance as those that are on view. Just as they are scrupulous with their materials and their work, the Hermès craftsman or woman – like all employees who work for the House – has a clear-eyed, engaged view of their relationship with their economic, social and ecological environment. They are aware of their limitations and imperfections, but also of the need to constantly question the status quo in order to continue to achieve the House's values of excellence. Sustainable development is pursued in this spirit of sincerity, excellence and continuous improvement. It is built on achievements more than on abstract commitments. It pursues long-term effectiveness rather than self-promotion;
- ◆ **time to work well, together:** Hermès craftsmen and women, and the entire House, have come to take the same view over the years – seeing time as an ally, something that allows them to work well, to absorb a subject's internal or external perspectives and to cultivate the qualities of each and every one. Ultimately, time enables things to be put into perspective. When learning the *savoir-faire* needed

to craft an object, it is unthinkable to skip a step to save time. Each step is part of a continuum; they are all essential. This approach also serves to learn to complete what we have begun. This way of working has guided us and encourages us to implement responsible policies and practices in a collaborative approach, focusing on the quality of the end result, happily taking the necessary time, while taking account of the pace needed for sustainable change for employees, our partners and the natural ecosystems.

This is how sustainable development echoes the House's founding values. These values constitute a powerful engine for a family group that produces more than 70% of its goods in-house and therefore controls most of its value chain. Hermès' corporate social responsibility (CSR) is the way in which the Group integrates social, environmental and economic concerns into its activities and its interactions with its stakeholders on a voluntary basis.

2.1.2 A STRATEGY OF CONTROLLED GROWTH

The Group's craftsmanship model is one of measured growth, in line with sustainable development requirements. Hermès crafts high-quality objects in limited quantities. It's a human-size company with 14,284 employees worldwide, including 8,846 in France.

The attention paid to **people** is at the heart of the House's business model, both those at its sites as well as partners and suppliers. Hermès is attentive to working conditions, respecting a balance in terms of diversity and stringently applying the fundamental principles of the United Nations and OECD. With the bulk of its operations in France, it contributes to regional development through the creation of long-term, high-quality jobs.

Our **supplies** mainly consist of renewable natural raw materials, obtained in ways that have a low impact on biodiversity. For example, since cattle hide is a by-product of livestock breeding for human consumption, the production of leather goods consists in the recycling and transformation of something that could otherwise be considered as waste.

Our **manufacturing activity**, being manual, emits little pollution, and our craftsmen parsimoniously manage the raw materials they render sublime through their *savoir-faire*. Leather Goods and Saddlery account for half of the Group's sales, while the silk, textile (clothing) and accessories *métiers* generate one-third of the total. A dozen other *métiers* round off our revenue. **Outsourcing** is limited: more than 70% of Hermès objects are made in-house, a proportion which is particularly high for the luxury sector. Relations with most of our subcontractors – mainly based in France or other European countries – consist of long-term partnerships which are highly controlled in terms of quality, ethics, labour aspects and the environment.

While our products are made in France, they are **distributed** worldwide. Our distinctive approach in this area is the freedom given to store managers to compose their own offerings as they see fit, during the four annual meetings held for the presentation of the new Hermès métiers' collections. This method makes it possible to meet local demand closely and reduce waste.

Crafted from the best available materials using the best *savoir-faire*, the objects that meet Hermès' high standards are, by nature, objects made to last. Most of them improve over time, as the patina and signs of use that mark their passage through time give them a unique character. Hermès objects are often passed on from one generation to the next, and can be repaired.

Hermès, which is currently managed by the sixth generation of family shareholders, is aware of its **social responsibility** and strives to give back to the world part of what it gives to the Company. The development of production activities in France, where we have 42 sites, contributes to creating sustainable value in the country's numerous rural areas. Developing in France (62% of our workforce) is a strategic choice, underpinned by the conviction that there can be no creation of economic value without the creation of value for employees and society. Each site gives us the opportunity to fulfil our responsibility through local initiatives to improve our social and economic environment. Hermès also shows its generosity through the initiatives of its *Fondation d'entreprise*, founded in 2008 and provided with a five-year budget of €35.8 million (excluding skills sponsorship) (2018-2023, see section 1.8).

2.1.3 IMPASSIONED WOMEN AND MEN

Since 1837, Hermès has based its long-term project on the quality of the men and women who join the Company, often for a lengthy period of time (more than 60% of the employees working for the Company 10 years ago are still there). Participating in the collective adventure, they make a successful contribution to Hermès' activities through their sense of belonging, their commitment and the ability they are given to develop every day thanks to the diversity of their responsibilities and the quality of management.

With 14,284 employees worldwide, of whom 62% are in France, Hermès is continuing to develop its creativity, craftsmanship and trade projects around diversified teams, comprising 68% women. Almost half of its employees work in the French production sector.

With a presence in more than 50 countries, our Group provides close support to its managers so they can embody, on a daily basis, a responsible management style, capable of conveying the House's values and culture and a dynamic vision of continuous renewal. Relationships with its people are as important as economic success. Exercising enlightened leadership is not a matter for improvisation. Management is a demanding job, which can be learned through in-house training and by forging ties with other managers. It needs to be cultivated over a whole lifetime, through confrontation and experimentation.

Communicating our corporate culture to all employees, throughout their careers, is combined with a raft of development and leadership initiatives. These measures help to increase employee commitment and their pride in contributing to the Group's growth. They underpin our labour relations and ensure the success of our initiatives in the areas of diversity and disability.

In this context, scrupulous attention is paid to everyone's health and safety, with an uncompromising and pragmatic approach, site by site and *métier* by *métier*.

The attention given to nurturing a positive and inclusive environment at all workplaces, and to investing in acquiring *savoir-faire* and developing skills, enables each individual to find his or her place, to be committed, and to develop and flourish throughout the course of their missions and positions. We are convinced that our customers are only happy when our employees are happy.

Numerous internal communication initiatives enable the corporate project and the Group's values to be shared and this attitude, which is so characteristic of the House, to be nurtured.

2.1.4 MAIN RESOURCES

Hermès manufactures high-quality products, mainly from renewable raw materials. The House's most emblematic raw materials are leather, silk and cashmere.

Leather Goods

All leathers used for manufacturing are directly purchased from tanneries, with no intermediaries. The vast majority of the needs are covered by the House's own tanneries, and by French, Italian, German and Spanish tanneries, all of which must adhere to European standards, which are some of the highest in the world for the industry.

Being of animal origin, leather reflects the animal's life. You will only get a good hide from an animal that has been well-treated. Hence, the Group's demand for high quality helps to improve the industry by encouraging livestock farming methods that respect the animals' welfare.

Hermès uses more than 30 different types of leather to make its goods. Most of the leather comes from calves raised in France (including our flagship "Box" leather, made using an English tanning technique), but also natural cowhide (in our saddlery leather products line) and "exotic" leathers. Other than these exotic leathers, the hides used by Hermès come almost exclusively from small, sustainable farms in Europe, particularly in France. As a by-product of meat production, the calfskin is collected from abattoirs in the European Union, in practice almost exclusively in France. The farming activities help to preserve essential vitality in these rural areas, creating local revenues, and contributing to the management of the territories and preservation of our regions' landscapes and ecosystems.

Before it becomes leather, the hide is specially tanned and made imputrescible, either in a "mégisserie" for lamb, sheep, and goatskin or in traditional tanneries for hides from cattle or reptiles. Hermès uses only full-grain leather, the top part of the skin, without altering it in order to improve its appearance. To maintain consistency in the finished product it also only uses entire hides. Hermès works together with its tannery partners, with a view to long-term cooperation, and has a dedicated annual budget to organise programmes to improve the quality of the industry, working together with farmers, their cooperatives and their professional associations.

These exotic leathers include the skins of crocodiles, alligators, lizards and ostriches. Exotic tanneries essentially use the skins of crocodilians. The vast majority of the skins come from farms located in the United States, Africa, and Australia. All Hermès partner farms must comply scrupulously with the rules drawn up under the aegis of the UN for the Washington Convention, which defines protection for endangered species and very stringent conditions (see section 2.4.1). In addition, Hermès requires that its partners meet the highest standards for the ethical treatment of alligators and crocodiles following recommendations by expert veterinarians and local authorities such as the United States Fish and Wildlife Service, the federal nature protection agency.

Silk and cashmere

The Silk division essentially uses two materials – silk and cashmere. Long-standing partnerships have been developed with a small number of suppliers for these two precious fabrics.

A supply chain for high-quality silk thread has thus been developed for more than 20 years in Brazil. The use of Japanese *savoir-faire* enabled cultivation of the mulberry tree, whose leaves are used to feed silkworms, to be sustainably established in the state of Paraná. This industry preserves low-chemical hardwood biotopes (silkworms eat only non-polluted mulberry leaves). It preserves soil fertility through a circular economy mechanism (silkworms produce several kilos of natural fertilizer per kilo of raw silk). It also generates income for small local farms and thousands of families, as silkworm farming is labour-intensive.

The cashmere used by our textile departments mainly comes from Inner Mongolia (People's Republic of China). It is supplied to us via a specialised European partner with whom Hermès has had a relationship of trust for nearly 20 years. The farms from which we source most of our supplies apply extremely stringent standards, overseen by local authorities, in terms of treatment of the herds and preservation of plant biodiversity.

Other materials

Hermès essentially uses renewable natural raw materials, often in small quantities. It seeks the best characteristics and high-quality supply sources that meet its environmental and social standards. The Group thus uses only small quantities of cotton, wood, precious metals and gemstones (for which we have a certification from the Responsible Jewellery Council – RJC).

There is a dedicated annual budget to develop the knowledge, techniques and sustainability of our partners' supply chains. Programmes to improve the quality of their products are also carried out and we maintain high levels of discussion and sharing.

Since 2016, with the backing of an international NGO (WWF France), Hermès has been auditing supply chains (alligator in the United States, cashmere in China, and wood in Asia and Africa) in order to assess their environmental and social footprints. In addition, in 2017, the House conducted a full review of the ostrich farming industry. The review, which was led by a specialised veterinarian, placed emphasis on the ethical treatment of the animals, like in other audits.

2.1.5 MAIN ACTIVITIES

Hermès' distinctive feature is a highly integrated form of production, which is based in France. Indeed, most of our products (80%) are made in France, essentially in our own production units (over 70%). By nature, the House's craftsmanship model implies operational sobriety: control of supplies of noble and expensive materials, optimisation of the use of these resources by craftsmen who are aware of the value of objects, opting for decentralised target-specific distribution where store managers buy according to their respective markets.

A company focused on creation

A Hermès object expresses the House's creativity. Working within an artistic department headed by Mr Pierre-Alexis Dumas – a sixth-generation member of the Hermès family – our creative talents are either Hermès employees or engaged in a long-term commitment with the Company. They feed on Hermès' values, its rich past, its present, and the diverse artistic trends that inspire the style, in order to uphold shared aesthetic values. Their mission is to create, innovate, put forward new concepts and collections whose forms, materials and colours will astound our customers and be enhanced by our craftsmen. Creative freedom of production, is asserted while respecting the harmony and consistency of the collections, evinced by an annual theme. It is counterbalanced by the stores' free choice of purchases.

Hand-crafted in France

In all our métiers, Hermès' craftsmanship model is based on the exceptional *savoir-faire* of men and women established in France. To ensure their growth and development in our production units and territories, we provide them with in-house training aimed at passing on skills.

Practically all of our production takes place in France, where we have 42 production sites in 8 of France's 13 regions, and grouped to create regional clusters. All of these production sites are human-size. For example, our leather workshops employ a little over 250 people. A simulation-based recruitment method, developed with the Job Centre (National Employment Agency) enables us to recruit people locally on the basis of their aptitudes rather than formal qualifications, irrespective of age or experience. We invest significant amounts in in-house training (65 trainers and some 200 tutors in our Leather Goods division).

This production approach is consistent with the craftsmen's need to manage resources parsimoniously, while managing the teams in a benevolent and conscientious way.

This craftsmanship model holds part of the solution to the challenges of sustainable development in social and environmental matters.

Limited subcontracting

The Group's use of suppliers and partners is limited. It establishes long-term relationships with them, in a spirit of cooperation and excellence. With our top 50 tier one industrial suppliers, the average length of our trading relationship is 21 years. Some of them even date back to the 1950s. This outsourcing has limited risks (70% of our objects are produced in-house). In absolute value terms, outsourcing only represents a fraction of our cost of sales, but with the same high standards and level of control as for in-house production. An analysis of the top 50 tier one leading industrial suppliers shows that 56% of purchases come from France, 30% from elsewhere in Europe, and only 14% from the rest of the world (where they mainly consist of raw materials, for which our operational involvement and vigilance are extremely high, given the implications).

Centralised logistics

Since its production is based in France, Hermès' logistics is centralised in the Paris region, thus rationalising its distribution (85% of which is outside France). Its main logistics centre in Bobigny covers almost 30,000 m². A limited number of intermediary logistics centres optimise flows across the Group's main markets (Japan, China, United States). This centralisation reduces the supply chain's environmental footprint.

"Multi-local" distribution

Present worldwide, Hermès is committed to the principle of giving purchasing freedom to its distribution subsidiaries and stores. Market managers and store managers thus meet several times a year in France to select a local product assortment specifically suited to their clientele, thereby reducing waste. This purchasing freedom is a strong value at Hermès. This model ensures variety in the offering, makes every player accountable and allows specific targeting, thus reducing the Group's ecological footprint. Out of our 310 exclusive points of sale, 219 are operated as branches in rented premises (except for certain stores in Paris, Tokyo-Ginza, Seoul, Beverly Hills and Geneva). Hermès stores are designed as showcases for our products. During their construction, reno-

vation and operation, close attention is paid to their architectural quality, their social footprint (quality of life of our sales teams) and their ecological footprint. For day-to-day operation, we opt for low-energy solutions, such as led lighting.

2.1.6 MAIN ACHIEVEMENTS

- ◆ **Solid economic growth.** Through Hermès' creativity, craftsmanship model and selective distribution, along with its prudent management, the Company's revenue has grown by a factor of 3.4 over the past 10 years, with a 4.4-fold increase in recurring operating income over the same period. The workforce has grown by a factor of 1.8 over that period.
- ◆ **Preservation and development of *savoir-faire*.** To support its growth policy, which is mainly focused on organic growth, Hermès has developed skills for the in-house recruitment and training of its craftsmen and women, whose *savoir-faire* is often exclusive. Over 4,800 craftsmen in France share this *savoir-faire* and pass it on to the next generations as the House develops. This *savoir-faire* is also that of our designers, traders and managers, who gradually integrate sustainable development in their ways of working.
- ◆ **Stable, meaningful jobs.** Hermès develops its activities with a view to creating permanent jobs and employment security. The Group has never closed down sites and wants its human investments to be long-term and enable its employees to fulfil their potential through long careers. The House's values and its corporate project give meaning to the jobs, as each employee can proudly grasp the implications of their missions within the broader organisation. According to an employee survey conducted by Glassdoor in December 2018, Hermès was ranked No. 1 employer in France on a number of criteria: pride in belonging to the Company, smooth employee relations, tight-knit teams, training provided, attractive compensation.
- ◆ **Contributing to ecosystem management.** The search for excellence in the choice of our raw materials (a well-treated animal will have a more beautiful hide) and our ethics promote the development of local farming (in France and nearby European countries), thereby contributing to the perpetuation of an essential activity for the preservation of our rural landscapes. In the case of precious hides — as recently reiterated by the IUCN — the sustainable, controlled farming of alligators and crocodiles has made it possible to save these species from extinction, contribute to their development, and strengthen biodiversity in wetlands, while providing income to local populations.
- ◆ **Objects made to last.** As Mr Robert Dumas used to say, "a luxury product is one that can be repaired". Hermès objects are made to last, to be passed on, and to be repaired if needed. This long lifespan is to be put in perspective with the Group's limited impact on its ecological environment. It runs counter to the excesses of consumerism and rapid obsolescence.
- ◆ **Firm regional roots.** Our French *savoir-faire* is strengthened by the geographic and cultural proximity between our designers and the craftsmen and women in our production units. It capitalises on the rich production capabilities in our regions, which we enhance and develop through the provision of in-house training for the acquisition of all our métiers, with the aim of passing on our exceptional *savoir-faire*. On average, over the past six years, we opened one production site per year, creating a total of 2,000 direct jobs.
- ◆ **A company with a strong contribution to society.** Hermès is a responsible player and is committed to the development of the communities within which it operates. For the development of our sites in France, our recent experiences have prompted us to seek partnerships with local public and administrative authorities, who have a strong interest in economic development and are keen to find solutions. Employment is the main challenge for these regions. As a rural mayor told us, "Employment is what enables us to focus on social, cultural, and solidarity-based initiatives". We have been able to assess that one direct job created in a rural area indirectly leads to at least 1.5 other jobs. Our sites make it possible to support local shops as well as real estate, and to keep classes open in schools. In addition, they often serve as bridgeheads, helping to create skill clusters and attract other economic players. Furthermore, we strive to contribute to social and cultural development and enhance the biodiversity around our sites. This social responsibility approach, at the level of our activities, is pragmatic but systematic.
- ◆ **Sharing the value we create.** The Group's profits are divided as follows: one-third goes to investments, one-third goes to shareholders, and one-third is put in reserve. The effective income tax rate of the consolidated Hermès' Group is 32.5%. The Group's successes thus contribute to the State's budget. Employees share in the Group's growth through recurring shareholding plans, targeting over 11,300 employees across the Group. Since 2007, they involved a total of 806,060 shares. The *Fondation d'entreprise Hermès*, which has a five-year budget of €35.8 million (excluding skills sponsorship), was recognised in 2017 as France's most generous foundation on the basis of its budget/revenue ratio.

2.1.7 MAIN CSR CHALLENGES

In 2018, the Group updated its analysis of its main risks and CSR challenges.

A materiality analysis, conducted in 2015 (on the impact for the Group and impact for stakeholders), was updated. The Group's risk maps, produced in-house by the audit and risk management department, were analysed and specific risk mappings (including supplier risks, and ethics/compliance risks) were taken into account. During the summer, the data was compared with that of major CAC 40 groups. The distribution subsidiaries' CSR Officers were consulted in order to take into account our customers' perceptions. In addition, a study on major societal trends (in particular the relationships between living things) was included in the analysis.

On these bases, in September 2018, the Sustainable Development Committee, in the presence of two Executive Committee members, validated a list of the main risks and challenges for Hermès. This list is used as a framework for the Statement of Non-Financial Performance. To take account of the fact that the identified risks also provide opportunities, the term "challenge" was chosen for this report.

Given the subjectivity inherent in the rating of these challenges, the Group has decided not to prioritize them in a specific way.

These challenges are summarised hereunder. They are described in more detail in the next sections of the document.

- ◆ **Savoir-faire:** the challenge is to ensure the perpetuation of the craftsmanship model, which rests on exceptional *savoir-faire*. This goal entails exacting recruitment, the sharing of the House's culture, training, and the development of the creative *savoir-faire*, craftsmanship and trading know-how. It involves the integration of sustainable development challenges in our operations, and our capacity to communicate more extensively on our achievements.
- ◆ **Teams:** people have been at the heart of our approach since 1837. The challenge is to maintain favourable conditions for the well-being and fulfilment of our employees over the long term and in their daily activities, through meaningful high-quality jobs and by sharing the fruits of our growth. Increasing diversity in all its forms (gender balance, generations, profiles, origins, and people with disabilities) is an asset and necessary to ensure vitality. Gender balance is a priority. We will also achieve this by sharing our values and our ethical principles with our employees.
- ◆ **Raw Materials:** the challenge is to safeguard high-quality renewable supplies that respect biodiversity and the ethical treatment of animals, and to manage these materials parsimoniously throughout their life cycle (reducing waste, and recycling).
- ◆ **Environment:** the challenge is to comply scrupulously with regulatory requirements and do better whenever possible (practically all of the Group's production is based in highly regulated countries). It involves the controlled use of natural resources (water and energy) and improvement of our processes. The key points are use of the cleanest technologies and the most environmentally-friendly substances; control of the carbon footprint of our activities (and implementation of carbon

offset initiatives) control of waste (by reducing waste production and by recovery); and preservation of biodiversity.

- ◆ **Suppliers and partners:** the challenge is to maintain the existing *savoir-faire* through close long-term partnerships with our suppliers. It also involves increasing diversity in our collaborations, for example by placing work with socially supported organisations in France, while exercising our duty of care over our supply chain. These relationships are governed by a suppliers' policy drawn up in line with our duty of care over our supply chain.
- ◆ **Stakeholders:** the challenge is to assume our territorial responsibility and fulfil our ambition of being a socially responsible company. This is reflected in the development of our sites in France, by being a committed player within local communities around the world, and by pursuing initiatives through the *Fondation d'entreprise* and the Livelihoods Fund.

These challenges are the foundations of the six pillars of the Group's CSR strategy.

2.1.8 GOVERNANCE AND CRS POLICY

Since 2007, the House's sustainable development actions have been overseen by a Sustainable Development Committee, in which two members of the Executive Committee play an active role alongside the heads of the human resources, industrial affairs and distribution departments, as well as the heads of two métiers (Leather Goods and Silk) and the management of the *Fondation d'entreprise* Hermès. The Committee, which is organised by the sustainable development department, met five times during the year, with each meeting providing an opportunity to take stock of strategic challenges, to decide on the implementation of operational projects and to hear reports by managers on the progress of their sustainable development initiatives. The minutes of the committees are submitted to the Executive Committee. The Committee reports to the Supervisory Board's CAG-CSR Committee twice a year. The Supervisory Board (see chapter 3) approved the implementation of a variable compensation component for the Executive Chairman of Hermès based on three CSR criteria (environmental, social and societal) that will be applicable starting in 2019.

The **Group sustainable development department**, which reports to a member of the Executive Committee, implements strategy, oversees the approach taken by all operating departments and Group subsidiaries, both in France and internationally. It monitors accomplishments, coordinates the operation of various committees (the Sustainable Development Committee and a Group Operations Committee), assists local committees and manages cross-functional projects. In 2018, it hosted 15 in-house seminars in France and internationally. It ensures the cohesion of the entire system, manages internal communications, takes part in external communication and helps share best practices.

The **Group Operations** Committee meets every two months; it comprises the heads of the House's main corporate functions (approximately 15 people). It analyses and validates projects' technical and functional aspects, facilitates information sharing and serves as a collective decision-making body providing a pragmatic perspective on sustainable

development challenges. The involvement of its members is essential to projects' concrete implementation. It met four times in 2018 and organised a learning expedition in a pioneering company in this field in France.

Each of the House's main métiers and key subsidiaries has its own **local Sustainable Development Committee**. These committees, formed to launch and monitor initiatives, share their achievements at regional meetings and through the best practice observatory on the Group intranet. As specified in the "environment" chapter, initiatives in this area are driven more specifically by an "**HSE network**" run by the industrial department. These committees carry out operational initiatives, and play a role in internal management and communication with teams.

Throughout the year, the Group's subsidiaries and entities initiate and monitor numerous sustainable development projects overseen by their Management Committees or by *ad hoc* committees. Cross-functional committees, led by Hermès' head office departments, manage issues that are of common interest and often of a medium-term nature. They focus in particular on issues relating to recycling, materials innovation, sustainable construction and logistics.

For example, since 2017, Hermès China has taken a proactive approach, with the creation of a strategic Sustainable Development Committee (which includes three Management Committee members), a Sustainable Development Committee (with 11 members in Shanghai) and a network of 23 ambassadors in stores. Again in Asia, for the fifth consecutive year, members of the Sustainable Development Committees in Japan, Korea, China, Taiwan, Singapore and Hong Kong met for three days in 2018 to share their operational practices. They are thus gradually becoming a regional repository of skills in this area.

CSR Strategy

The "all artisans of our sustainable development" **strategic framework**, signed by the Group's Executive Chairman, has been distributed to all employees since 2015 and serves as a basis for the work of each individual. It focuses on the most significant issues in terms of the values of the House, the Company's durability, and its responsibility towards its social and ecological environments and towards its stakeholders. It sets priorities in accordance with a materiality principle. It ensures that objectives are consistent and provides a framework for decentralised initiatives. The métiers and subsidiaries are invited to report on their initiatives and their ambitions annually on the basis of this document, during the half-year budgetary exercise, and are interviewed by the Sustainable Development Committee about their major challenges.

This strategic framework is organised around six pillars which signpost the footprint that Hermès wishes to leave on the world. They concern People, the Planet, and the Communities in which we operate.

People:

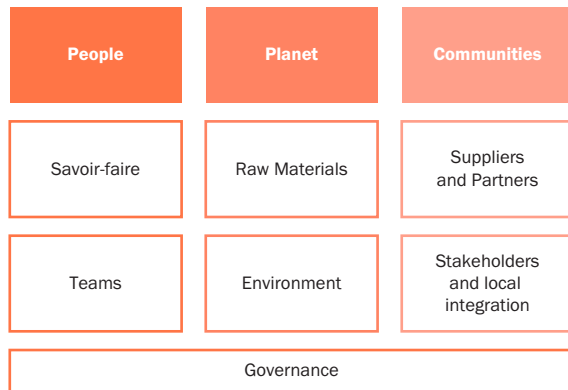
- ◆ Hermès oversees the development and transmission of the **savoir-faire** of its craftsmen and women, and more widely, that of its teams, who form the foundation of its sustainable development approach. The framework sets out in particular the priorities in the areas of training, skills development, and the sharing of *savoir-faire* within teams and between generations. The development of production methods that are respectful of craftsmen and women and of the environment is one of the major focuses of work;
- ◆ special attention is given to the satisfaction and professional fulfilment of **employees**, and to promoting their diverse talents, which are drivers of sustainable growth. The framework has highly ambitious goals in the areas of working conditions, human relationships, the scrupulous attention to be paid to the health and safety of our employees, harmonious labour relations, employee well-being and work-life balance. It asserts a strong commitment to diversity and solidarity, particularly towards those who are experiencing difficulties or have a disability.

Planet:

- ◆ the durability of the Group's business depends primarily on the future availability of the high quality **raw materials** that are key to Hermès' unique character. Hermès protects and respects the exceptional natural resources that are used to produce its objects. The framework sets out major ambitions for our supply chains, particularly for natural materials, and their environmental and social footprints. It emphasises our ambition to improve the way we use these materials, all of which are precious, in order to avoid waste. Significant attention is paid to managing waste from the point of manufacture to the product end-of-life;
- ◆ Hermès is constantly seeking long-term and ambitious but pragmatic solutions to better preserve the **environment**. The framework confirms our ambition to control our impacts throughout the value chain, from the upstream agricultural sector, to manufacturing, to distribution. This section sets out our challenges in the areas of controlling industrial consumption (water, energy, etc.), managing waste emissions and industrial waste, reducing the environmental footprint of sites, reducing the carbon footprint and the carbon offset policy.

Communities:

- ◆ the Group's ability to grow is linked to the development and durability of its **suppliers and partners**, who are leading players in the field of high quality products and services, but also in social and environmental endeavours. The framework specifies the concepts developed in the ethical charter (see 3.2.1.2), with ambitious objectives to improve our knowledge of and continue to support our partners in confronting quality issues as well as ethical, social and environmental challenges that they may encounter, with the required level of vigilance;
- ◆ Hermès ensures dialogue and the development of harmonious relations with its **stakeholders** and is determined to play a role as a responsible company wherever it operates. The Group reaffirms this objective for our corporate regional responsibility. In particular, it involves its stakeholders, skills sponsorship activities, support for local and disadvantaged communities, for example, through the Livelihoods project.



Hermès supports the UN's commitment to sustainable development. The Group is a signatory to the Global Compact, at the "Advanced" level. This agenda of actions hinges on 10 universally recognised principles to build stable and inclusive societies. These principles cover topics including human rights, international labour standards, environmental protection and the fight against corruption. Since 2015, the UN's sustainable development programme, featuring 17 Sustainable Development Goals (SDGs) for 2030, serves as a common reference for governments, civil society and private organisations. Hermès' ambitions are aligned with these 17 goals, which are summarised in the six parts of this report. The Group's actions, while not covering all the areas included in the SDGs, are accordingly part of a broader objective. The Group's goal is to make a tangible contribution in these important areas, on the scale of our activities.

Tools

The Group develops and regularly updates a number of tools to support and implement its sustainable development approach. Committee work and operational decentralisation are facilitated by the dissemination of these tools, all constructed using a participatory approach that facilitates their adoption.

The House's ethics are enshrined in a forty-page **ethical charter** published in 10 languages and distributed to all employees. It aims to promote the corporate project and reaffirm the Group's commitment to certain fundamental principles in Hermès' relations with its stakeholders and wider society. It is given to all new employees when they join the House. The Director of Legal Compliance and Public Affairs oversees this area. A **code of business conduct**, available in ten languages and updated in 2018, sets out the House's guiding principles on a range of operational matters. It lays out an external matrix alert system. The content and

operating modes in relation to these two documents are set out in section 3.2.1 of this document.

The teams are also provided with other tools, such as:

- ◆ specific technical guidelines, whether in terms of construction, supplier relations, guidance on applying the ethical charter in specific contexts, or eco-actions;
- ◆ a dedicated page, launched in 2018 in the new "HermèSphère" intranet, to inform employees and share best practices. It also includes all useful documents for local teams;
- ◆ a collaborative platform called "Agora", launched in 2017, to share day-to-day initiatives. Over 250 sustainable development ambassadors have subscribed to the platform;
- ◆ a "sustainable development" section created on the new hermes.com site at the beginning of 2018. It shares our initiatives with our employees, customers and various stakeholders, through media such as a series of illustrated articles and films on our "Footsteps across the World".

Facilitation of initiatives

The sustainable development department coordinates the activities conducted by the Paris sites and manages a schedule of internal activities in France that involves regular events held throughout the year, such as donation drives for clothing and toys, participation in sporting events and Earth Hour (a worldwide movement for the planet organized by WWF), a honey harvest, social support baskets, and so on.

In 2018, the Group strengthened its commitments in the area of local charitable initiatives through a memorandum circulated to the distribution subsidiaries abroad, which sets out the operating and financial methods that they must follow.

During the European Sustainable Development Week, all French sites and subsidiaries organise operations with their employees. This is an opportunity to share the challenges in this area more widely with employees, along with the Group's strategy and achievements, and to open up to the wider world. In 2018, the Ile-de-France sites participated in events focused on disabilities, eco-actions and the circular economy. Moreover, around 100 employees and their children had an opportunity to attend a private screening of the film "On a 20 ans pour changer le monde" (we have 20 years to change the world), which was also attended by its director. The discussion that followed gave the audience a better understanding of the challenges posed by environmentally-friendly agriculture.

In recent years, the distribution subsidiaries outside France have also embraced Sustainable Development Week, which has become a special event throughout the House.



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2.2 PEOPLE: SAVOIR-FAIRE

Hermès corporate culture, which helps Group employees to bond together, is widely shared through onboarding sessions for new employees in Paris and worldwide. The corporate culture is also passed on through various *ad hoc* programmes that enable employees to put it into practice through their actions and attitudes. It ensures the consistency of all training initiatives.

Throughout the year, team-building initiatives take place to bring the teams together so they can soak in Hermès' craftsmanship spirit and develop a spirit of curiosity through shared discovery. The programmes rolled out – Tandem, Tilbury, Parcours d'Adresse and Prix de l'Adresse – are all opportunities for employees to come together, to discover one another's *métier* and universe, and to bring them together around a strong human culture in which exchanges are beneficial for everyone.

Training programmes are tailor-made for our production and distribution activities. They are either deployed locally (regional centres or subsidiaries) or provided in Paris (Ex-Libris University). This employee training commitment is reflected in the acquisition of *savoir-faire* in an employee's first job as a leather worker, in an engineering incubator within the School of Tanners and the School of Silk, or the recognition of the qualifications gained through on-the-job training, experience validation and diplomas (CAP, etc.). Retail Academies help sales associates, store managers and product selection teams to develop their product expertise as well as their customer relations skills. The in-house training of those who pass on our culture, *savoir-faire* and expertise has taken on an important place, turning this endeavour into a long human chain. In Leather Goods, a network of specialised *métier* trainers has been created. It holds regular meetings in which trainers exchange new techniques on the transmission of knowledge. In all French regions where Hermès has leather workshops, partnerships are immediately forged with local schools so that training in the *savoir-faire* linked to our *métier* can be combined with hands-on practice. Training programmes are also available to stimulate the advancement of managers identified as future management committees members. The Service Academy offers programmes mainly dedicated to acquiring the right behaviours in public speaking, leading meetings and managing projects, with the priority objective of creating collective harmony and good relations among individuals.

Through this steady investment in training, aimed at the acquisition and development skills, the Group intends to perpetuate its economic and cultural model and facilitate the implementation of its ambitions.

The Group organises awareness-raising and training sessions on sustainable development within the central departments (sales, construction, manufacturing, and human resources), as well as within the *métiers* and distribution subsidiaries.

2.2.1 CHALLENGE: PRESERVING AND DEVELOPING SAVOIR-FAIRE

Preserving and developing *savoir-faire*, its acquisition and ensuring it is passed on to all our employees whatever their occupation (craftsmen and women, sales people, etc.) is essential for our long-term development on sustainable foundations.

2.2.1.1 Policy

Our ambition is to ensure that this often exclusive *savoir-faire* is preserved, enriched and passed on in a context of strong growth for our activities and our workforce.

The priority is to consolidate and develop individual expertise, increase versatility, establish knowledge-sharing within teams and ensure that this is passed on from generation to generation, and preserve our talents. The excellence of all this *savoir-faire* is expressed not only through the quality of the objects but also through our ability to craft them in a way that respects both the craftsmen and women (see section 2.3.1.2.1 "Improving the conditions for well-being in the workplace") and the environment.

The human resources department conducts a systematic training policy for new hires, with a dedicated training programme. This policy is mainly carried out *via* internal training but also has recourse to external training when appropriate.

Hermès is **developing training schools internally** for its major craftsmanship *métiers* - leather goods, textiles, tannery - enabling this *savoir-faire* to be perpetuated and handed on. The House works upstream in **promoting the art and craftsmanship *métiers* to young generations**, through local actions (open days, links with schools) or with the support of the *Fondation d'entreprise* Hermès (for example, the *Manufacto* programme). Allowing young people to discover and become involved in a manual *métier* is essential; these *métiers* are often misunderstood and yet offer excellent prospects. Hermès contributes **to maintaining, or even developing craftsmanship and manufacturing *savoir-faire***, in a context where this *savoir-faire* is being lost (and not only that of craftsmen in the arts area). For example, Holding Textile Hermès has one of the largest textile divisions in France in the Rhône-Alpes region (nearly 750 people); the division is the home of many unique forms of weaving and silk printing *savoir-faire*, which we are working hard to maintain.

2.2.1.2 Measures implemented

Bringing new employees on board

Mosaïque – the onboarding programme for new employees in France – has enabled 335 people to feel warmly welcomed in 2018 and become immersed in the corporate culture through visits, testimonials and presentations giving a broad picture of Hermès. In the distribution subsidiaries, the *H Immersion* onboarding programme, lasting one to four days, was delivered in a local version to over 1,100 participants through 91 sessions.

The 3-day programme *Au fil d'HTH* integrated 60 new employees in the Silk *métier*.

Within their first six months at Hermès Parfums, new employees are brought on board through the *Premier pas* programme with 4-day sessions involving sales training and an experience in the Vaudreuil production line.

Developing Talents to build tomorrow's Hermès

The Group HR department is in charge of identifying and developing Talents in order to lay the groundwork for the next generation of senior managers. The management of Talents, which is at the heart of the corporate project, is based on personalised career paths at every level, according to individual needs. Executive MBA programmes, as well as short programmes (programmes from Danone, Colbert Labo, Insead, London Business School, etc.), and in-house events offer a wide range of opportunities to develop the skills of those who are building the Hermès of tomorrow. Moreover, some employees are sent from France to a foreign subsidiary, or vice versa, for a 6-month assignment to enhance their cultural awareness and see their *métier* from another cultural standpoint.

Developing skills and helping people flourish

Training, along with internal mobility, is one of the major levers to support employees throughout their careers in the House. Hermès has the strong conviction that each person's potential must be stimulated through the constant development of their skills, all the more so in this era of major changes and upheavals. Training promotes the onboarding of new employees, manager development, the acquisition of skills and expertise in changing *métiers*, adaptation to the changes brought about by major transformation projects, the dissemination of the corporate culture, and personal development.

The activities of the Ex-Libris University

The in-house university activities managed by the Group HR department – were numerous in 2018. Over 1,250 people (vs. over 1,000 in 2017) benefited from the programmes, which were mainly focused on the dissemination of the corporate culture and the development of managerial skills.

A variety of sessions were organised, based on the managers' levels within the organisation and their experience. They enabled 538 managers to get a better grasp of their responsibilities by adopting behaviours and practices in keeping with the Company's values and their key role in guiding employees and developing our activities. Moreover, the culture dissemination programmes for new employees, Senior Executives, and the entire workforce were rolled out with over 570 employees.

In addition, the Ex-Libris University manages the community of *métier* and market trainers, in charge of product training for sales associates. Twice a year, Train the Trainer sessions bring together some fifteen trainers.

Savoir-faire schools

Through the School of Silk, the **Silk Division** continued to roll out the "Management in Practice" programme targeting all managers since 2017. Managers of all levels were provided with four days of training on

"how to unite people". HR officers were trained in new digital applications, in particular to improve in-house communication. A certification programme called "via Technè" was defined for expert profiles in order to offer them advancement prospects and alternative careers to management. Some ten employees improved their supply chain expertise through an Apics external training programme awarding certifications.

At Société Novatrice de Confection, two seamstresses obtained professional qualification certificates (CQP Point Main). AEI created a customised training session with Cepitra concerning chemical and mechanical finishing for ten people. Ateliers AS welcomed the 13th cohort of 12 printing apprentices on 2-year work/study programmes leading to an inter-division professional qualification in printing (CQPI). Through this programme, they acquire general and textile skills.

In the Silk *métier*, senior employees were paired up with young people to facilitate the passing-on of *savoir-faire* and the transmission of the high-quality experience gained over many years.

In the **Tanneries division**, a major innovation programme was rolled out to foster a culture of innovation that stimulates inventiveness, agile thinking and curiosity. Since innovation is based on a specific methodology, eight coaches were trained in innovation and creativity techniques. The supervisory teams were introduced to new digital tools. The initiative was reinforced by a 2-day session on innovation with multi-*métier*, multi-site teams. It fostered the emergence of numerous sustainable ideas, subsequently short-listed by the Innovation Governance team. A *savoir-faire* training programme called *Demain le savoir-faire* was rolled out for local managers in Europe in the Hermès *Cuir précieux* tanneries. A training session on leather and tanning called "*La peau et le tannage*" was introduced.

Hermès recruits craftsmen and women for its **Leather Goods Division**, few of whom have received initial training in leather goods. Its responsibility is to train them in their new *métiers*, for which it has 65 trainers and 200 tutors.

In 2018, 1,104 people were trained using 10 programmes delivered by the Leather School as part of the continuous training of craftsmen and women in Hermès' Leather Goods & Saddlery division.

The Leather School pursues an active policy of training leading to a certified qualification, aimed both at employees in post and new arrivals, in order to recognise the value of their expertise and to maintain their employability.

Moreover, as initial training, the Leather School's activities have supported the awarding of 253 CAP vocational qualifications in leather working, 74 people received the saddler and leather worker *Sellier Maroquinièrs d'Art* diploma, six people the Brevet des *Métiers d'Art du Cuir & de la Maroquinerie* diploma, and, as part of the Assessment of Vocational Experience (VAE) scheme, 25 people received CAP vocational qualifications in leather working and six received the saddler and leather worker *Sellier Maroquinièrs d'Art* diploma. As a result, more than 370 certified qualifications were obtained by our employees this year. A total of 278 employees were awarded a CAP diploma as part of a strategy to recognise professional skills and maintain artisanal *savoir-faire*.

The various Leather Goods divisions (Franche-Comté, Val de Seine, Savoie-Dauphiné, Sud-Ouest, Maroquinerie de Sayat; Maroquinerie de Guyenne) are piloting a number of projects aimed at supporting the strengthening of *savoir-faire* in the leather métiers. This can be seen in partnerships with the École Boudard and the Fongecif de Bourgogne, where a new training programme for cutters is being launched; co-development workshops to enable managers to share and solve delicate managerial situations: the creation of a booklet of best sewing practices; a preservation plan covering glove *savoir-faire* (sewing, hand-stitching and shaping of gloves).

Hermès Maison created a training programme on materials and finishes for a wide audience (Collections Development personnel, Technical personnel, Sales personnel) in order to disseminate general knowledge in this field. Beyrand focused on the development of employee versatility to give flexibility to the organisation. The printer's "Entreprise du Patrimoine Vivant" certification was renewed, confirming its status as a living heritage company.

La Cristallerie de Saint-Louis made significant efforts to boost managerial skills through co-development workshops, training for annual evaluation interviews, and local manager training.

At Puiforcat, the transmission of *savoir-faire* is accompanied by a more detailed and progressive follow-up. This process was set up in 2018 to improve the passing-on of knowledge between masters and apprentices. It currently covers the métiers of Planisher, Silversmith, Polisher and Engraver. This year, one of the young craftsmen was awarded a Silversmithing diploma (CAP d'Orfèvre), marking a new step in his development. External training continued through the renewal of the Engraving course at Ecole Boulle.

Hermès Commercial introduced operators to all aspects of the supply chain through a programme called "La logistique de A à Z" in which three sessions were offered to all those working in the preparation of orders on a daily basis. The division also set up the Switch programme, dedicated to developing the logistics operators' versatility so they can broaden their range of skills in order to meet the logistics department's needs and diversify their activities.

Retail Academies

Providing our customers in each of our stores with service that matches the quality of our products is a constant goal. The sales associates are trained via the Sales & Service Ambassadors programme created by the Group HR department and rolled out locally. In 2018, 59 sessions enabled 706 employees to improve their customer welcoming skills and adopt elegant and positive attitudes towards all people entering the stores.

The Sales & Service Leader programme, launched in 2017 by the Group HR department, continued to be rolled out in Europe and Latin America. Through a set of two sessions focused on team management and the manager's relationship with each employee, the programme gives store managers the means to become the real bosses and entrepreneurs of their local projects. This is a way of reasserting the importance of their role and the commercial strategy.

This programme was also provided to the Travel Retail teams of the Boissy Retail Korea branch in Korea and in the rest of Asia. The Sales & Service Leader programme was also rolled out in the Japan Academy for the 60 store managers.

In Latin America, all store managers were able to improve their managerial skills through Sales & Service Leader training sessions. In the United States, HOP organised six training sessions, following the first wave of rollouts in 2018.

The Hermès Greater China Academy organised six sessions of the Sales & Service Leader programme in various cities in Greater China. The H Change programme enabled 15 sales associates to spend two weeks in a store on another market to learn from another team and a different context. Such exchanges of viewpoints are beneficial for both the host store and the visiting sales associate. Some 100 managers of Hermès Greater China met in Shanghai at a seminar on the topic of "emotion".

Through ten sessions of the Retail Developer métier programme – which is linked to the Sales & Service Leader programme, also initiated by the Group HR department in 2017 – 266 store managers and assistant store managers from most of our regions were able to improve their specific technical skills: coordination of customer relations and customer services, management of the product offering, key performance indicators, etc.

In 2018, Hermès Parfums created the Perfume & Beauty Academy to support the métier's growth strategy and to use training as a real employee development lever. A 2-day seminar brought together 90 Hermès Parfums managers to raise their awareness of its values, the métier's ambition, and their role as active players in its transformation.

John Lobb placed special emphasis on the way customers are welcomed in the stores by making mystery visits to assess the quality of the service. In addition, a 4-module customised training programme was provided to sales associates.

In Asia, the teams in charge of Visual Merchandising shared their practices and were stimulated with new ideas at a seminar.

2.2.1.3 Results

In 2018, Hermès Group devoted 243,781 hours to training, including 108,256 in France (excluding apprenticeships and apprentice contracts). Some 36,550 training activities took place (this figure corresponds to the total number of trainings followed; any one employee may have followed several training activities during the year), i.e. an average of 6.7 hours per training activity. Training costs in France (invoicing in 2018 of external and intra-group training) amounted to €3,264 thousand. This number does not reflect the entire training effort, since it does not include *métier* training directly at the workspace.

Hermès is continuing to develop its growth model based on a culture of continuous progress. In particular, this involves supporting employee development in order both to nurture excellence and efficiency in terms of *savoir-faire* and operations, and to preserve employability, ensure a solid understanding of the Company's culture and provide a consistent managerial culture that is a source of value.

Every year, the Executive Vice Presidents of the subsidiaries and their HR directors oversee the annual performance reviews, which are based on annual interviews that provide an opportunity to take stock of the past year and build the objectives for the coming year, especially in terms of training. The HR teams collect all of the roadmaps, on which the major points of the reviews are transcribed, and use them to put the training plan in place.

In France (62% of employees), this update on employee skills and professional development takes place in the form of a professional interview, which by law must take place every two years. Hermès has chosen to conduct this every year and to discuss the subjects reviewed during the professional interview at the annual interview.

In our subsidiaries outside France, the annual interviews are conducted according to a process overseen by each subsidiary's HR Department, based on the guidelines given every year by the Group HR Department via a guide and other support materials for the annual interview of employees, managers and leaders. All interviews involve a moment of discussion and the joint completion of the document reporting on the discussion and covering the following aspects: the achievement of the targets, performance, the managerial relationship, work/life balance, ethics and compliance, training requirements, and the targets set for the upcoming year. Certain subsidiaries adapt the Group formats in keeping with cultural requirements (e.g. HOP, Hermès Japan).

The support given to employees throughout their career is informed by these annual interviews. Once a year, the subsidiaries also organise a Careers Committee, in which the Management Committees share individual situations and stimulate internal mobility, which is the first lever for personal development. The biannual Talent Reviews are also a way of learning more about employees and following their trajectories closely. In 2018, the Talent Review was conducted in all subsidiaries and consolidated by the Group HR department. This enables Executive development to be followed closely through the adoption of individualised approaches.

Internal mobility

Internal mobility is a way of developing employees' skills by offering them the possibility to learn something new in another job, and a way of encouraging their loyalty.

In 2018, the Intranet site "My way in Hermès" published 695 offers. It promotes internal mobility and makes it possible to share in-house job opportunities in a transparent way. The site records an average of 43,606 visits per month.

Hermès Women recorded seven incoming transfers and seven outgoing transfers.

At HTH, 30 permanent jobs were filled through internal mobility in 2018.

At Hermès Leather Goods & Saddlery, 17 incoming transfers and ten outgoing transfers were recorded.

In the Franche-Comté Leather Goods division, the opening of Manufacture de l'Allan resulted in 58 transfers. In the Paris Val-de-Seine Leather Goods division, 18 craftsmen moved from Pantin to other sites in France. For the new site of Montereau, ten employee transfers helped

to launch operations. 100% of the site's managerial positions were filled through internal mobility. At Maroquinerie de Sayat, four incoming transfers and five internal transfers attest to the Company's resolve to provide opportunities to our talents so they can grow.

Maroquinerie des Ardennes recorded seven outgoing transfers and one promotion.

The Savoie-Dauphiné Leather Goods division recorded seven outgoing transfers and eight incoming transfers, as well as five leather craftsmen expatriations.

At Maroquinerie du Sud-Ouest, five outgoing transfers and five incoming transfers took place, including a reskilling from the métier of porcelain to leather work. A total of nine employees were given an internal promotion to another job.

At the Hermès Of Paris subsidiary in the United States, 66 people benefited from internal mobility.

Prix de l'Adresse

This in-house prize for excellence is awarded every three years, with the aim of motivating people to push back their limits while boosting team spirit. A competition for the 4th Prix de l'Adresse took place in 2018. Over 100 craftsmen and women, divided into 19 teams, put all their skills into their projects. Seven lines of *savoir-faire* were represented: leather goods, silk, crystal, watches, footwear, men's ready-to-wear and silversmithing. Volunteer craftsmen and women get together to form a team and choose to produce either an object stemming from the Conservatoire des Créations Hermès or an object of their own creation. They then have several months to produce the object. A jury composed of members of the Hermès family and House personalities deliberated in November. The technical dossier and aesthetic qualities of the object are taken into account in the final appraisal. After nine months of work and an exceptional human adventure, one team received the jury's special prize, while nine teams were awarded the highly coveted *Pièce de Maîtrise Hermès* prize at the end-of-year event held in Paris.

Entreprise du Patrimoine Vivant (Living Heritage Company) - EPV

The Group is proud to have 12 EPVs amongst its ranks: the following Group companies were certified "Entreprises du Patrimoine Vivant" in 2018: Hermès Sellier, Holding Textile Hermès, Établissements Marcel Gandit, Ateliers A.S., Siegl, Ateliers de Tissage de Bussières et de Challes, Beyrand, cristallerie Saint-Louis, Puiforcat, John Lobb and Les Tanneries du Puy.

Meilleurs Ouvriers de France (MOF)

This prestigious title is solely awarded in France, by métier category, following a professional competition which takes place every three years. The goal is to reward excellence and *savoir-faire*, which are the required criteria for the awarding of the title.

In 2018, the House had four employees in the cristal, saddlery and leather goods *métiers* who were named *Meilleur Ouvrier de France*, rewarding France's best craftsmen and women.

2.2.2 CHALLENGE: PASSING ON A CULTURE

The Company's craftsmanship model rests on the transmission of Hermès' corporate culture, which underpins the development of skills and *savoir-faire*, based on a mentoring approach: «what we receive, we give back».

Sharing the House's values ensures the consistency of its business model in a context of decentralisation and strong growth. Our culture makes it possible to understand expectations in terms of *savoir-faire*. It also allows the creation of bridges between the various métiers and activities by reinforcing the capacity for dialogue among all employees.

2.2.2.1 Policy

All new employees undergo training, part of which is dedicated to the House's history and to the various aspects of its corporate culture (see Training section above). In addition, Hermès organises programmes to broaden knowledge of its corporate culture through the discovery of the Group's diversity.

2.2.2.2 Measures implemented and results

Creating fruitful exchanges and bringing people together are the principles behind the programmes offered.

Tandem programme

Since 2008, Hermès has continued to offer craftsmen and sales associates an original exchange experience through a one-week immersion in the craftsman's workshop, shortly followed by one week in the sales associate's store, or vice versa. The goal of the Tandem programme is to bring together two worlds connected by their shared purpose, which involves serving our customers with beautiful objects and high-quality service. The programme involves travel in France or abroad to discover one of our 50 production units and the surrounding area, and travel to one of our stores to discover the local market and culture. In 2018, 56 people benefited from the Tandem programme through 28 two-person teams, who returned to their sites with a broader vision and enriching, lasting ties. Since its launch, the programme has benefited 496 employees.

The experience gained from the Tandem programme, launched in 2008, continues to demonstrate, year after year, that exchanges, sharing and encounters between the complementary worlds of craftsmanship and sales are virtuous, enriching and stimulating.

Tilbury

The Tilbury programme was launched this year, in the footsteps of the Tandem programme. A production site Manager and a store manager share their expertise and experience through one week in a production site, followed by one week in a store. Through human encounters, this programme promotes a strong, engaging and solid learning experience that can foster the development of new managerial practices and expertise through exchanges of such practices. Participants will be able to expand their knowledge of the House's craftsmanship and trade culture by finding out about their respective challenges and levers, and looking

at other management and leadership methods in a context of increasing complexity of the roles of Site Manager and store manager (growth constraints, regulations, managerial expectations, increased professional requirements within Hermès). In 2018, two Site Managers and two store managers benefited from the Tilbury experience.

Parcours d'Adresse

Since 2011 – the year of celebration of “Hermès, contemporary craftsmanship since 1837” – groups of 10 people composed of seven craftsmen and women and three production site employees have been chosen at random to take part in discovery experiences called “Parcours d'Adresse”. Their purpose is to discover a métier, from the raw material to the production of the finished object and its final quality control. Over a one-week period, participants are invited to learn about the different production stages of a particular division's product, while getting hands-on experience through a one or 2-day initiation to the *savoir-faire*. This period of intense discovery is enhanced by discussions among participants with the same mindset, namely a passion for their métier made up of numerous gestures, techniques and details, and the drive to achieve the same high level of excellence in their craftsmanship. In 2018, 84 people took part in one of the nine “Parcours d'Adresse” programmes, organised with care and hospitality by the host production sites, thus reinforcing their pride in sharing the same spirit of craftsmanship.. Since 2011, 821 people have benefited from 85 Parcours d'Adresse events.

2.2.3 CHALLENGE: RECRUITING TALENTS

The House's sustainable development rests on its ability to recruit talents that will be expressed throughout their careers. In a context of business growth, the development of these talents is of major importance, which implies exacting recruitment.

2.2.3.1 Policy

Recruitment is managed by each *métier* and subsidiary to ensure the perfect match with the environment. The policy for recruitment and relations with partners is defined by the holding company. In France, it also manages relationships with schools, communication and pooling of recruitments. In this way, the Group hopes to make our candidates more aware of the *métiers* and the uniqueness of the House, attract candidates who believe in our business model and select the best profiles.

2.2.3.2 Measures implemented

Relations with schools

Hermès has long maintained close, high-quality relations with the world of education, in line with our métiers and our development and recruitment requirements. This involves acting as a socially responsible company wishing to contribute to the initial training of young people, as well as raising awareness of the company and its métiers, supporting the development of the métiers, and fulfilling needs in terms of interns, work/study trainees and jobs.

Schools offering applied arts *métier* programmes and those offering programmes focused on craftsmanship *métiers* are the two main targets of our school initiatives. The institutions involved represent the *métiers* in which our recruitment needs are the strongest.

For leatherwork, special relations exist with Ecole Boudard and Lycée des Huisselets in Franche-Comté, Ecole de l'Abbé Grégoire in Paris, Lycée Professionnel Casanova in Savoie-Dauphiné, Lycée Jean Monnet in Montereau, and Lycée Jean Rostand in Angoulême.

Specific subjects – sometimes *via* competitions – are submitted to art college students for the construction of window displays in our Distribution subsidiaries. Our involvement in these schools also includes participation in examination panels. In 2018, case studies were entrusted to ECAL students in Switzerland.

In parallel, every year we open our doors to cohorts of school pupils, in response to requests, in a spirit of hospitality and to provide a glimpse of our operations, some of which are little-known. Such visits give us the opportunity to present Hermès.

In 2018, we entered into a novel type of partnership with the Web School Factory – a digital *métiers* management school. For one academic year, four Hermès employees are taking part in a part-time apprenticeship experience, as part of a group composed of students from the school, students from Paris Sciences et Lettres, and professionals. This 10-month programme is aimed at training them in areas such as project management, design thinking, collaborative approaches, etc. All the better to get them involved in our digital transformations.

In 2018, Hermès also entered into agreements with HEC and Sciences Po Paris, two of France's most prestigious higher education institutions. These agreements entail Hermès' presence in certain forums to recruit interns, the involvement of students in case studies, and support for Sciences Po's "Accessible" programme, which provides special assistance to students with disabilities.

Recruitment

Hermès dedicates special attention to recruitment. It must enable new recruits to harmoniously fit into the Company's long-term project and contribute effectively to its activities.

The Hermès employer website (www.hermesemployeur.com: «l'esprit artisan») presents the House's unique character and enables candidates to apply online. Hermès published 6,650 jobs offers on its site in 2018, of which 1,650 were permanent positions, 1,057 intern positions and 250 work-study positions for students following courses that combine practical work in a company with theory at college or university. It attracted over 610,530 visitors in 2018, who applied for positions speculatively or in response to job offers. New visitors accounted for 18.8% of the total, while 81.2% were regular visitors. In 2018, the number of visits recorded on the recruitment site exceeded 1 million. In 2018, the recruitment site evolved, allowing users to apply from a tablet or a smartphone.

On LinkedIn – a major social media network for employer communications and recruitment – Hermès had over 287,000 followers in 2018, i.e. 100,000 more than in 2017, a great achievement in our industry. The average number of visits per month stands at 17,497.

In 2018, numerous recruitments took place in the **Silk sector**: 100 positions were filled (permanent employment contracts, fixed-term contracts, work/study contracts and internships). This dynamic recruitment activity was boosted by the Company's participation in various recruitment fairs in the Lyon area, Forum Emploi and Handiagora (a day dedicated to employment and disability). Close ties were established with ITECH through the Company's participation in the Jobdating event for young graduates, the apprenticeship and traineeship forum, examination panels, etc.

Hermès Parfums held two collective recruitment sessions aimed at attracting the top candidates through a collective event highlighting our Company's distinctive character embodied by its players, and presenting its diverse *métiers*. Moreover, a new method for recruiting packaging operators was tested in the Vaudreuil production unit: interviews were supplemented with technical tryouts to assess technical aptitudes.

The Franche-Comté division of **Hermès Leather Goods & Saddlery** *métier* has experienced intense recruitment activity. Indeed, every six months, 40 leather craftsmen have been recruited for Table work, while another ten have been recruited under a professional qualification programme for Leather Cutting (CQP Coupe).

In 2018, the Paris Val de Seine division took in 137 professional training contracts under 9-month vocational training contracts, as well as 96 people under the AFPR programme (a pre-recruitment training programme operated by the Job Centre). A total of 233 people thus joined one of the division's six sites on initial training programmes. To raise awareness of its leather *métiers*, Hermès participated in the Recruitment Forum of Montereau (where a new site was set up in 2018), the Recruitment Forum of Val de Reuil, and the Forum of craftsmanship *métiers*, in collaboration with the Paris job centres.

In the Savoie-Dauphiné division, 100 people were recruited and trained for five and a half months. Those who successfully completed all of the *savoir-faire* validation stages were hired under permanent contracts by one of the division's four sites.

Operations were launched at the new leather goods Maroquinerie de Guyenne thanks to 18 internal transfers, including 11 employees from Hermès Leather Goods & Saddlery. In 2018, 28 new people were recruited to train in the leather crafts *métier*.

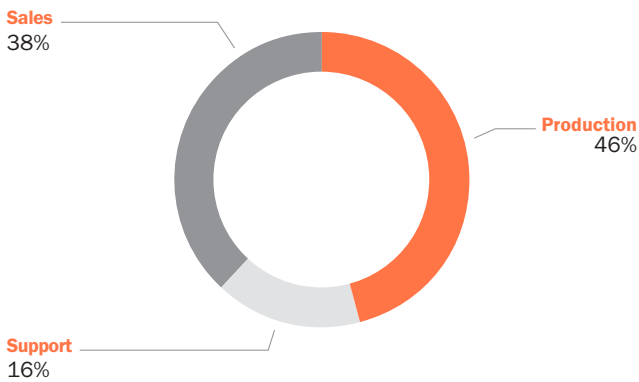
The Maroquinerie du Sud-Ouest Leather Goods division continued to recruit its future leather craftsmen and women, *inter alia* through the Job Centre's AFPR pre-recruitment training programme involving 400 hours of training and using a simulation-based recruitment method. Following this AFPR programme, 40 people were taken in under vocational training contracts for a period of nine months. Likewise, future multi-skilled Mechanics and Cutters were recruited in a similar way. Following the AFPR programme, four people were taken in under vocational training contracts for a period of six months. In March 2018, the division took part in the Charente Recruitment Forum to focus attention on leather *métiers*.

Our subsidiary in the United States – **Hermès Of Paris** – recruited 106 employees under permanent contracts in 2018.

2.2.3.3 Results

In December 2018, Hermès was awarded the title of **Glassdoor Best Place to Work 2019**, a strong recognition of our status as an employer that is attentive to the fulfilment of its teams. Glassdoor is a recruitment platform that is considered to be the “Google of recruitment”. It aggregates the job offers of certain job boards and companies’ career sites. Created to share authentic employee experience, Glassdoor collects the opinions of current and former employees on companies, and the opinions of candidates on job interviews. Delighted with this rating, Hermès proudly intends to continue to encourage its employees to cultivate their passion for their métier and their common interest in a fervent team spirit.

RECRUITMENT BY SECTOR



The Group’s human resources department oversees talent development programmes based on the specific nature of our activities (artisans, merchants, managers, etc.). Be they for recruitment, training, or personal development (see below), action plans are put in place to enable employees to flourish within the group and give the best of themselves.

Each employee is evaluated every year. In France, for example, the HR department oversees the conducting of two interviews: annual reviews (which include assessments of performance and the work environment, skills analysis, objectives for the following year, and a discussion of compensation) and career interviews, to discuss medium-term prospects with employees (professional assessment, professional project, skills development plan, training).

In addition to a culture that is open to discussions between employees and their line management, in 2018, Hermès established more systematic feedback initiatives for «pilot» métiers, with the assistance of a consultant who is an expert on the subject and with the use of survey tools in web mode. These experiences had high levels of participation and will be gradually extended to other Group entities. The (confidential) results of these analyses led to targeted consultations and the launch of improvement projects among the teams.

2.2.4 CHALLENGE: INTEGRATING SUSTAINABLE DEVELOPMENT IN OUR SAVOIR-FAIRE

Integrating sustainable development in our *savoir-faire* in all our métiers and all our subsidiaries by raising awareness and involving our employees.

2.2.4.1 Policy

Our sustainable development strategy rests on raising the awareness of our employees. The adoption of the best practices within their area of responsibility involves the dissemination of a sustainable development culture, best practices, and specific training.

2.2.4.2 Measures implemented and results

Transmission of the Group’s sustainable development strategy

The sustainable development strategy is set by the sustainable development department and relayed by a network of over 200 ambassadors worldwide: the EHS network, dedicated committees, ambassadors in stores, etc.

In 2018, this network was still being structured. The Sustainable Development Committee was strengthened this year by the participation of the senior management of Hermès Commercial and Hermès Soie & Textiles. The (expanded) Operations Committee took part in a 1-day learning expedition in a BCorp based in the Niort area. This stimulating immersion was a source of inspiration for participants and opened new avenues for discussions in their respective activities.

Moreover, the métiers and subsidiaries continued to play an active role, with the creation of specific Sustainable Development Committees at Hermès Leather Goods & Saddlery, in the construction department, and at HSG (General Services, France).

The Group’s strategy is explained in each of the general modules of the Ex-Libris University’s in-house training courses (Mosaïque, IFH, Happy culture). In 2018, 2,500 employees discovered the House’s sustainable development ambitions through Forum H. Numerous events in France and abroad provided the opportunity to share the Group’s ambitions and news: the store Windows seminar (150 people in Europe, the Americas and Asia), the Internal Control seminar (70 people), the Hermès Women seminar in Thailand and the United States (30 participants and the 5th Asia seminar in Tokyo (70 people). This annual meeting in Asia is a special moment in which the participating countries (China, Hong Kong, Taiwan, Korea, Singapore, Japan, United States, and Europe) share their achievements and their roadmap for the year ahead. These roadmaps include projects throughout the year relating to commitments for employee well-being (warm-up exercises, food, etc.) and training (including sustainable development issues), saving energy (lighting, etc.), consumables (paper, cups, bottles, etc.), sponsorships (support to local associations) and biodiversity (participation in local actions for the preservation of the environment). In France, the *métiers*, such as leather, also share their action plans, which include, among other things, optimised use of materials and energy consumption.

In addition, the sustainable development department produced a series of four educational films accessible to all employees via the Intranet, focused on sustainable development at Hermès.

Facilitation of initiatives

The sustainable development department coordinates the activities conducted by the Paris sites and manages a schedule of internal activities in France that involves regular events held throughout the year, such as donation drives for clothing and toys, participation in sporting events and Earth Hour (a worldwide movement for the planet organized by WWF and other NGOs), a honey harvest, social support baskets, and so on.

Since 2017, the Group has strengthened its commitments in the area of local charitable initiatives through a memorandum circulated to the distribution subsidiaries abroad, setting out the operating and financial methods that they must follow.

During the European Sustainable Development Week, all French sites and subsidiaries organise operations with their employees. This symbolic week provides an opportunity to share the challenges in this area more widely with employees, along with the Group's strategy and achievements, and to open up to the wider world. In 2018, the Ile-de-France sites participated in events focused on disabilities and eco-actions. Moreover, around 100 employees and their children had an opportunity to attend a private screening of the film "On a 20 ans pour changer le monde", which was also attended by its director. The discussion that followed gave viewers a better understanding of the challenges posed by the agricultural transition.

In recent years, the distribution subsidiaries outside France have also embraced Sustainable Development Week, which has become a special event throughout the House.

Communication

Since October 2018, the new HermèsSphère Intranet, accessible to all employees, includes a section dedicated to sustainable development, with information on the Group's strategy and news from the entities. It also allows employees to submit questions, share information on local initiatives, set up projects and share feedback (see page 123).

In March 2018, the retail website Hermès.com was redesigned. It now includes a page dedicated to sustainable development. On that occasion, a series of ten films was produced by an external reporter, focusing on the footprint that Hermès wants to leave on the world. This series of films called "Empreintes sur le Monde" (Footsteps across the World) was shown to the teams during special screenings organised in cinemas located near each production unit. Thus, more than 1,160 employees from the sites of Paris, Pantin, Val de Reuil, Ardennes, the Franche-Comté and Sud-Ouest divisions, and Manufacture de Haute Maroquinerie were able to attend the screenings, along with their family members, to get a better grasp of the House's sustainable development challenges.

Laurent Goblet – saddle-making expertise for the 21st century

Hermès has been making saddles continually since its initial creation in 1837. In his fifth-floor workshop above the Hermès store at 24 Faubourg in Paris, Laurent Goblet enhances this savoir-faire which has been one of the House's hallmarks for some forty years. While attentive exchanges with riders are at the root of the saddler's métier, the use of the most modern materials and technologies puts it at the cutting-edge. With his state-of-the-art technical expertise, the saddler can thus closely meet the requirements of the rider, and those of the

horse. The creation of the Arpège saddle with German dressage champion Jessica Von Bredow-Werndl illustrates this work process: drawing, prototype, followed by trials prior to the production of the rider's dream saddle, which she wanted thin and lightweight to suit her way of riding. On average, a saddle requires 25 to 40 hours of work and, above all, extensive saddle-making experience.



2.2.5 CONTRIBUTION TO THE UN'S SUSTAINABLE DEVELOPMENT GOALS (SDGs)

The Group's accomplishments in relation to "savoir-faire" are in line with the following SDGs. (The numbers refer to the UN's official typology):

No. 4: Quality Education

- ◆ 4.3: "Ensure equal access for all women and men to quality vocational education".

Access to vocational training for women and men within the House is encouraged by the internal Ex-Libris University and internal schools for the métiers, as well as by more specialised external training.

- ◆ 4.4: "Increase the number of youth and adults who have relevant skills, including technical and vocational skills, for employment".

Know-how is enhanced through training plans during the entire professional life, and are reinforced by specific initiatives. Employees participate in both external contests (Meilleurs Ouvriers de France (Best Workers in France)), and internal challenges, in order to achieve qualifications, so as to sustain existing savoir-faire and revive any

knowledge that is declining. Hermès also provides support to schools through the apprenticeship tax, and by offering apprenticeships.

- ◆ 4.7: "Education to promote sustainable development".

Raising employees' awareness of sustainable development takes place throughout the year, through the efforts of the sustainable development department (see 2.1.2), and locally by the Sustainable Development Ambassadors' network (EHS, Sustainable Development Committees, local committees, etc.).

No. 11: Sustainable cities and communities:

- ◆ 11.4: "Strengthen efforts to protect and safeguard the world's cultural and natural heritage".

Hermès is a house of creation, that collaborates with many artists, thereby promoting the development of our creative heritage. Each collection involves the Artistic Director and the House's métiers, resulting in a profusion of creativity. These actions, recognised by the Entreprise du Patrimoine Vivant (Living heritage enterprise), for example, contribute to the Group's efforts to protect and maintain artisanal savoir-faire. Moreover, the Fondation d'entreprise is committed to supporting live performances and contemporary photography.





© Photographer: Vanessa Winship

2.3 PEOPLE: TEAMS

Introduction

The family business model that has been driving Hermès for six generations places people at the heart of its work.

The Group strives to create the right conditions for responsible management and to foster the fulfilment of employees. Management is trained in best practices for team development and aimed at increasingly promoting accountability, providing meaning and autonomy.

To create beautiful objects, Hermès is convinced that a beautiful working environment is essential. In order to adapt the workplace to changes in cooperation patterns, which have become more horizontal and rely on proximity, the Group prefers production units and workshops on a human scale. Special attention is paid to their architecture and ergonomics. The same care is given to the stores and offices.

Health and safety at work are a priority. In addition to long-standing initiatives in this area, specific actions are implemented to foster well-being at work. In an effort to protect the physical and mental health of its employees, the Group has launched a structuring and empowering approach in these areas and aims to strengthen the quality of working life.

Harmonious social relationships are strengthened by the Group's agreement on social dialogue and the exercise of union rights, which is regularly coordinated at the local level and centrally. New agreements aimed at improving the quality of working life and taking diversity into consideration (disabilities, senior citizens, etc.) are regularly signed and/or renewed.

Sharing the company's strategy, involving employees in the life of Hermès across all its dimensions and living environments, and communicating results bring a unique tone to our Internal Communication, reflecting the House's creativity and vitality. In 2018, a new global intranet – HermèsSphère – was rolled out. A digital workplace provides information several times a day, together with access for everyone to its collaborative tools.

Hermès' economic success is regularly shared in various forms. The aim is to acknowledge the contribution made by employees to the House's development, regardless of their role, in order to share the benefits of our growth and involve them in our projects over the long term.

Hermès pursues a strategy with integrity, where ethical compliance and proper business conduct ensure responsible and sustainable performance. The ethical charter, code of business conduct (available at <https://finance.hermes.com>) and anti-corruption code of conduct, together with its alert system, set out the framework that employees must comply with. In addition, an Ethics Committee has been set up to receive and process alerts, and to provide advice and recommendations on the Group's ethics culture. These ambitions are presented in section 3.2 Ethics and compliance.

2.3.1 CHALLENGE: THE WELL-BEING AND FULFILMENT OF EMPLOYEES

Creating conditions that foster the well-being and fulfilment of employees in their daily activities, at work and over the long term.

2.3.1.1 Policy

The Group's policy is to integrate health, safety and well-being challenges in its operational strategy as a priority, in particular for its manufacturing activities. Social dialogue is a priority and is organised in each country according to local laws and regulations. In addition, faithful to its family tradition, the House involves all employees in the Group's long-term growth through generous programmes.

2.3.1.2 Measure implemented and results

2.3.1.2.1 Improving conditions for well-being at the workplace: health, safety and working environment

The Group Human Resources Department has launched a Health and Well-Being initiative that relies on a review and internal survey conducted amongst all employees on a multi-year basis. In 2018, eight sites were involved in this approach, representing over 2,900 employees, who participated actively with a response rate of 82%. Following this diagnostic phase, the sites were invited to create an Observatory on health and well-being in the workplace in order to implement corrective actions in response to the improvements identified and expected by employees.

The Group's diverse métiers require the integration of health, safety and working environment challenges in various ways.

The Group is highly demanding concerning the working conditions of its employees. The policy applied by the management of the Group's métiers and subsidiaries aims to enable each person to work in an environment that not only preserves their health and safety, but is pleasant to work in, whether in the production sites, stores or offices. At leather production sites, for example, especially close attention is paid to lighting, noise, the seats that the craftsmen and women use (chairs and adjustable workbenches) and areas for common use. In stores, rest areas for employee use (rest areas, locker rooms, etc.) are given special treatment, including where there are building constraints. Certain distribution subsidiaries lease flats next to stores to give employees dedicated rest areas for use while at work.

Industrial activity

Since 2003, the industrial affairs department has been leading an Environmental, Health and Safety (EHS) network comprising EHS managers from the House's different *métiers*. With around 20 members, it meets several times a year to set targets, share results and learn about best practices in each of the *métiers*.

The main actions of the House's various *métiers* are described below. In most cases, they go beyond simple regulatory compliance to achieve true well-being at work. Each *métier* has its specific needs as regards working conditions, so it is logical for each one to create its own arrangements.

Leather goods

The Leather Goods division aims to make its production units safe places, supporting tradition, excellence in *savoir-faire* and innovation. The resources enabling employees to work safely, perform their duties over the long term, and protect their health are a priority within each establishment.

In order to structure the approach, a Health and Safety at the Workplace roadmap was developed by Group management and is organised around six strategic areas for 2018 to 2020:

- ◆ eliminate any risk of serious injury;
- ◆ comply with regulations;
- ◆ protect our employees' health in the long term;
- ◆ aim for zero accidents;
- ◆ take care of our employees' well-being;
- ◆ make workplace health and safety culture a permanent consideration.

Based on this roadmap, 27 action plans were coordinated across all leather goods sites in 2018, resulting in remarkable improvements in this area, which is vital to achieve excellence in the craft industry.

One of the priorities of this roadmap is the fight against musculo-skeletal disorders. Among the 2018 initiatives, we can mention in particular the roll-out across all leather goods sites of an ergo-motricity module provided to more than 1,800 craftsmen and women. These sessions aim to better prepare the body and address the stress inherent in saddlery and leather goods activities.

The division's senior management meets each quarter to discuss issues of health and safety at work. It guides strategy on priority topics, encourages local initiatives and validates the actions of central coordination. An external body evaluates the degree to which the production units have adopted a strong health and safety culture in accordance with Maison Hermès' own guidelines.

An HSE manager is appointed at every Leather Goods division production unit. He/she is responsible for monitoring progress plans agreed with his/her management in accordance with the Group's HSE policy. The HSE manager deals with everyday hygiene, health and safety matters, working closely with the cross-functional maintenance and occupational health departments.

Central coordination ensures the consistency of the improvement plans carried out by each production unit and establishes priorities. It provides

material support to the actions carried out on site, selects experts when their participation is needed, and monitors changes in regulations and technical innovations. It develops and distributes shared training, reporting and regulatory compliance tools.

Multiple actions and considerable resources are implemented to protect the health of our employees and the employees of external companies operating at our sites. These include individual training from a network of partner physiotherapists, offered to craftsmen and women with the aim of preventing problems, or correcting problems for those experiencing pain or discomfort affecting their professional or personal lives. Since 2013, 1,050 craftspeople have followed these individual programmes with convincing results from the measures taken, both objective (i.e. physiological), and more subjective (such as the level of pain felt by the craftsmen and women before and after the programme). As an example of an objective measure: on average, all craftsmen and women having followed this programme gained 16% in the field of motion of the shoulder.

Local events are an opportunity to involve our employees in health & safety matters. In 2018, a "health & well-being" week was, for example, coordinated at the three production units of the Franche-Comté division, focusing on three areas: Prevention, Nutrition & Physical Well-being with 10 different workshops (yoga for eyes, SOS hands, vitamin boost, nutrition, etc.) presented to all employees. Another example is the Maroquinerie de Sayat, where a health day included a shiatsu workshop, a conference on sleep, screening for visual impairment issues, and a round table on diet.

Lastly, at the Maroquinerie Iséroise, an awareness-raising film on workplace health and safety culture was produced jointly by an artisan cutter and the site's HSE manager. The video was broadcast to all employees during an event dedicated to workplace safety in April 2018.

In addition to these *ad hoc* events, the leather goods sites provide financial support and offer daily initiatives to encourage employees to exercise and to foster their well-being:

- ◆ access to exercise classes, for example at the Maroquinerie des Ardennes, which offers stretching and muscle strengthening classes. They are taught by a specially trained craftsperson. Since June 2018, the Maroquinerie de Belley has also been organising two weekly sports sessions enabling employees to exercise at the workplace at the end of their day. The Maroquinerie de Normandie offers its employees a weekly pilates session;
- ◆ each Leather Goods site offers muscular awakening sessions or compensation exercises at the start of and during work;
- ◆ the forming of teams to participate in local sports and charity events is encouraged, such as at the Sayat production unit, which participated in an event supporting an association fighting breast cancer in Clermont-Ferrand, and the Leather Goods division in the South-West, which participated in the Foulées d'Angoulême race and the Marche Rose walk;
- ◆ the Maroquinerie Nontronnaise, which provided a masseur, with the company making a 50% financial contribution.

These initiatives aim to establish a workplace health and safety culture, and more generally, they encourage everyone to take a proactive approach to their health.

As part of the workplace health & safety roadmap, actions commenced in 2014 to improve the fleet of machines are ongoing. Noise reduction is a major objective of this work. Working closely with manufacturers or suppliers of equipment, the central teams are revising the systems for noise reduction at source to ensure greater acoustic comfort in the workshops. Workbench lighting (helping to reduce the visual fatigue of craftsmen and women) and thermal comfort management in workshops are also two issues central to the concerns of leather goods sites and benefit from substantial investments.

In 2018, a soundproofing system for digital cutting equipment was implemented at the Pierre-Bénite production unit to reduce the ambient noise level for artisan cutters by 7 dBA.

Results

Within the Leather Goods division, the frequency index for workplace accidents with stoppage improved by 17% between 2017 and 2018, and by 27% over the last three years. The severity index improved by 54% between 2017 and 2018. No irreversible injury or injury causing permanent disability as a result of a workplace accident was recorded.

Each workplace accident and near-accident with a high severity risk is subject to an investigation analysing the causes, whose findings are systematically shared with the other production units in the Leather Goods division. Thus, a sharing of experiences and best practices is in place, allowing health and safety at work departments to exchange their opinions and think about common solutions to the risks identified.

Tanneries

For several years, the sites have been working to improve health and safety conditions, and many initiatives have already been undertaken, in line with workplace risk assessments. Dedicated Health, Safety and Environment (HSE) managers are responsible for health, safety and working conditions at each production site. They are supported in this by the Site Directors, who are directly involved in these subjects. All of the data is shared within the division, and joint improvements are implemented at the instigation of the industrial department.

To coordinate cross-division duties, quarterly meetings among the HSE managers of the tanneries are held at the division's sites or at other Hermès sites. These meetings are a chance to discuss regulatory updates and share best tanneries practice.

Lastly, since 2017, French sites have been appointing advisers in the safe transport of hazardous goods. They are responsible for helping prevent risks to people, property or the environment.

In order to strengthen the safety culture within the tanneries, a training module on operational safety had been rolled out for craftsmen and women and managers in 2017, and shared during an inter-tanneries seminar. The roll-out of local action plans continued in 2018.

Many annual risk-prevention training sessions were delivered across the sites, to complement regulatory training: chemicals handling, movement and posture, workplace first aiders, fire drills and emergency evacuation exercises with the fire services, and improved inductions for new employees.

Numerous actions were implemented in the tanneries to make work stations more ergonomic. By way of example, the "A Body for Life" MSD (Musculo-Skeletal Disorders) prevention training rolled out for the leather goods métiers was also adapted to the tannery activity in 2018, and the Montereau tannery volunteered to be the pilot site. This training module has been devised to disseminate a better knowledge of one's body. This is a long-term workplace health approach that is based on a national network of experts. It has been provided to all craftsmen and women of the production units, and to employees in the support functions. It constitutes the first step in a commitment to healthy living every day.

The Montereau tannery also continued the ergonomic study of its work stations this year, with the "shaving" workshop. The RTL tannery conducted a collaborative project in the raw alligator skin inspection workshop. Lastly, the Annonay and Vivoin tanneries continued the "MSD Pros" initiative in partnership with the Carsats (health and pension insurance providers) Rhône Alpes and Pays de la Loire.

With respect to regulations aimed at preventing and taking into account the effects of exposure to certain occupational risk factors, the French tanneries have declared which employees were exposed to these factors for the year 2018.

Working environment

All tanneries continued work to optimise the management of chemical products and replace certain substances in order to comply with current regulations and anticipate future changes (REACH and POP [persistent organic pollutants] regulations, biocides, etc.). The programme for measuring employee exposure to certain chemical agents continued at all sites.

The following examples illustrate this:

- ◆ improved machine fleet safety;
- ◆ improved air collection, extraction and renewal mechanisms in the workshops;
- ◆ reduced noise pollution at the workstations;
- ◆ monthly communication campaigns and on-site safety training carried out;
- ◆ improved safety on sites when renovating buildings.

Results

Frequency and severity rates were stable between 2017 and 2018 (for new baseline periods running from 1 November to 31 October) within the tannery division, and far below industry rates. Each workplace accident has its causes analysed. An information note is then distributed to all tanneries so that preventive actions can be implemented.

Silk

In the HTH Silk sector, the ParentHèses programme offers personal and professional development workshops open to all employees during their lunch break, and focuses on non-professional topics related to culture, art, well-being, personal development, managing emotions, philosophy, etc. These opportunities for discussion and sharing coordinated by external service providers are recreational and intellectual moments, very popular for the fun and enriching qualities.

For the HTH Silk sector, 2018 was the year to further implement the changes initiated in 2017. The new organizational structure puts the office manager and local coordinator at the core of HSE projects, thus gradually allowing everyone to be an actor and driver of progress at their own level and take on HSE topics and champion them with confidence.

HSE Silk network half-days are organized every six months to bring together HSE coordinators and Site Managers to discuss progress and difficulties and share any new strategic directions.

The HSE charter for the HTH Silk sector enables sites to have a clear vision for the main priority work areas and in that context to define local action plans for each establishment. As a result, significant progress has been noted for each priority point in the sector.

Each site conducts internal security audits at least once a month. These audits are carried out by the members of the management committees and/or HSE Officers. The results of these audits are communicated and enrich local action plans as part of an ongoing process of continuous improvement; at SIEGL and AEI, the results of these audits are an explicit part of the incentive scheme criteria.

In the Silk sector, we have strong partnerships with physiotherapists and ergonomists. This year, they contributed to changes in workstations, as can be seen at Gandit, where armrests have been developed for graphic designers, as well as at SNC and HTHe, where sit/stand chairs and saddle stools have been proposed. These health professionals have also supported us throughout the roll out of warm-up exercises for each sector site and in "A Body for Life" training at SNC and Gandit.

With MSDs being the major risk, many other actions have been taken to reduce employee exposure. As a result, handling devices and trucks have been developed to reduce handling by HTHe and SIEGL teams. High-risk operations are identified and if possible eliminated. This was the case at Gandit, where the external garage and the associated handling of frames have been discontinued. Finally, the development of versatility (especially for quality control, manufacturing and weaving) is always encouraged to divide up working time and reduce requests.

As regards communication, best practices/behaviours are displayed in the Gandit, HTH and Ateliers AS workshops and health and safety rules were defined at SNC. These rules are displayed, shared and explained by tutors to all new arrivals.

Equipment and machine compliance and verification is the priority area of improvement for the HTH sector for 2018/2019. In September 2018, all Site Managers and maintenance managers gathered together to implement a joint action plan for the supervision of such equipment. The major stages of the project are an exhaustive shared inventory of our machines, assurance that inspection reports have been prepared for all equipment by an external organization and the identification and gradual correction of any non-compliance. This project will enable each item of equipment to have its own tracking document and a more detailed discussion of their compliance.

The implementation of new management software for accidents and occupational illnesses offers all sites a single system for sharing this data, allowing accurate and agile monitoring of accident data.

The number of lost-time accidents was down 38% in the Silk segment compared with 2017. The number and nature of accidents are shared and are the subject of discussion and careful consideration on each site in the segment. Each significant incident is thoroughly investigated, leading to corrective actions.

Hermès Maison

At CATE, the "guaranteeing daily safety" prevention topic has made it possible to remind employees of emergency procedures and to check important safety equipment, such as suction systems and fire detection and fighting systems. In order to ensure everyone knows the risks and related procedures, additional fire notices were created and presented to the craftsmen and women concerned to be put into action with the support of the CHSCT (Health, Safety and Working Conditions Committee). 35 HSE visits were carried out under the supervision of the Health, Safety and Working Conditions Committee members in order to make practical improvements to risk management within the workshops and encourage the reporting of near-accidents. Some of the teams were able to follow training on actual fires using a fire tray and handling fire extinguishers.

The work carried out in 2017 on the prevention of musculo-skeletal disorders was continued in 2018 with:

- ♦ the establishment of an ergonomic assessment within the Enamel and Finishing workshops and the creation of a related action plan;
- ♦ staff training on mobility of the pelvis and recovery exercises;
- ♦ the development of work stations with the addition of removable armrests at decoration workstations.

At Beyrand, since the end of January 2018, an HSE Coordinator reporting to the Head of Human Resources has joined the team and covers all issues related to Health, Safety and the Environment in collaboration with the various departments. Following a Group audit conducted in February, the implementation of an overall action plan made it possible in 2018 to update the main regulatory dossiers (ICPE, ATEX, insurance, asbestos, machine compliance, prevention plans, suction and air sys-

tem checks). Accordingly, safety was strengthened by way of various actions, in particular regarding fire protection, compliance of the fleet of machines, improvements to individual and collective protection equipment, and the signposting of risks.

At the same time, a strong HSE guidance initiative was conducted as part of the renovation of our air conditioning units. Likewise, in order to take HSE considerations into account at the earliest possible stage, a support system was structured for all of the site's investments.

Training provided to employees exposed to MSD risks continued in 2018, in particular with training focused on movement and posture in the office. Workplace first aiders annually renew their knowledge in order to be able to act effectively in case of accident. Awareness-raising actions focusing on chemical risks were conducted among all employees at the beginning of the year, and more comprehensive training will be provided by an external body in December for the relevant employees.

Actions to improve individual protection equipment (choice of new masks) and collective protection equipment (protective grills for shredders and new extractor hoods) implemented in 2018 were led in close collaboration with Operators, Workshop Supervisors and the Head of Production, in order to take all requirements into account.

At Puiforcat, employees were invited to participate in eight workshop sessions this year to discover and learn well-being and preventive techniques and habits based on self-massage and breathing. The goal is to learn how to adjust our movements and/or release muscular tension to prevent MSD.

A multi-disciplinary group bringing together the main workshop métiers (Silversmithing, Polishing, Metal Turning, Head of Planning) worked on a project to relocate the workshop and offices.

Puiforcat offers mindfulness sessions (awareness of the body and its biorhythms) to help employees find the inner resources they need to protect their balance.

Working environment

At the CATE site, the prevention of exposure to chemicals remained a key theme of the risk prevention approach in 2018. A new air quality measurement campaign was conducted in the workshops. All craftsmen and women handling chemicals are trained by a training body.

At Beyrand, the prevention of exposure to chemicals was also one of the priority themes of the HSE approach in 2018. A series of three air quality measurement campaigns was launched in the workshops in 2018. In order to continue the improvements seen, work station suction systems were improved or added to the colour manufacturing workshop (weighing, mixing, shredding), and to the Covercoat deposit stations at the Laboratory and Printing facility.

Furthermore, the renovation of our Air-Conditioning Units enabled us to improve the overall level of air extraction.

At Puiforcat, in the Forging area, a system was installed for the automatic triggering of air extraction where an accumulation of gas is identified (reduced ATEX risk).

The change in the clothing care contract made it possible to use the services of a sheltered work establishment (ESAT) and to renew professional clothing to obtain more resistant clothing better suited to our needs.

Results

Cate and Beyrand

Over the last four years, commuting accidents have shown a positive trend, with two consecutive accident-free years. Cuts are still the main source of first-aid measures, and the employees' hands are still the main area of injury.

Puiforcat

The number of accidents in the period from November 2017 to October 2018 was stable compared with the previous period. Accidents affected the hand (nicks and cuts). Work is carried out constantly to raise awareness of general risk prevention through appropriate behaviour based on systematic self-analysis of working situations and the consideration of risks.

Cristallerie

In 2018, HSE topics at the cristallerie Saint-Louis were coordinated by a safety facilitator, an environmental engineer and a technical Health, Safety and Environment manager.

Several initiatives to improve working conditions were implemented in 2018. The most significant ones were the renovation of the neutralisation workshop for effluents from the chemical polishing workshops, the renovation of the chemical etching workshop with the integration of new, secure workstations, the optimised storage of finished products, the set-up of ergonomic workstations to prepare client orders, and the reduction of exposure to lead.

The appropriation and facilitation of the safety at work theme by the various workshop managers was strengthened in 2018. This project, which relies on a diagnostic made with the help of an external adviser, will continue for several years.

Alongside this approach, working groups dedicated to reducing heat exposure (in particular during specific operations) and lead exposure were created.

In addition, a "lead commission" was created, comprising workshop managers, CHSCT members, the HSE department, and the company's Management, in order to continuously improve employees' level of exposure to lead.

In view of the regulations relating to arduous work, the area of "shift work" factor is still a concern in the production unit (the small number of employees concerned are still those in the melting workshop and cutting workshop).

In order to improve working conditions in "harvesting" stations, a study was conducted in partnership with a specialised company. The means of assistance identified will allow the craftsman or woman to concentrate on the crafting gestures that produce these exceptional pieces.

A budget of €800k has been invested in various projects aimed at improving the performance of production units in terms of health, ergonomics, safety, working and environmental conditions, such as the renovation of the neutralisation workshop for effluents from chemical polishing workshops, the renovation of the chemical etching workshop, the securing of acid disposal areas, the set-up of ergonomic work stations for order preparation, the optimised storage of finished products, the set-up in the hot-part workshop of a system to capture fumes at source, optimised air renewal, and the acquisition of a more efficient burner opening.

The production unit's chemical risk assessment, conducted in 2012, was updated again in 2018. This update, taking into account the results of previous campaigns, has clarified the level of exposure to certain homogeneous exposure groups (HEG). These were sampled during the measurement campaign that was carried out in June and November 2018. Actions aimed at reducing the exposure thresholds observed during these analyses were implemented. Among the most important of these are: suction at the source on burner openings in the "hot-part" workshop, optimisation of process settings, several awareness-raising operations on the use of collective protection in the "hot-part" workshop, improvement of collective protection in the composition workshop.

Comparative measurements taken after these developments confirm the usefulness of these improvements.

Moreover, in order to anticipate future regulatory changes with respect to employees' exposure to chemical risks, the industry, represented by the *Fédération des Cristalleries Verreries à la Main et Mixtes* (Federation of hand-made and mixed glassworks), conducted a study in partnership with a specialised firm to identify optimisation possibilities to be implemented at each site concerned.

Results

The accident situation at the site, which had improved in 2017, deteriorated in 2018, mainly with respect to the frequency rate. The severity rate remains low, despite a slight increase compared with 2017.

The number of reported incidents or risk situations also increased, reflecting the emergence of an approach where the safety aspect within workshops is taken into account.

The diagnostic conducted with the assistance of a specialised firm made it possible to highlight the production unit's strengths and areas for improvement in terms of safety.

A project aimed at involving all those involved in managing safety within their workshop will launch in 2019.

Perfumes

At Hermès Parfums, an HSE-General Services team comprising 11 people is responsible for the site's regulatory watch and compliance, and conducts preventive actions to maintain and improve working conditions, in particular with respect to safety (ATEX, fire safety, safety of works and maintenance teams) and workstation ergonomics.

CNP also recently committed to an approach involving the establishment of an Integrated Management System (IMS) based on the various ISO Quality, Safety and Environment standards. The aim is to implement a robust and reliable risk assessment and control system across all parts of the organisation. It will be useful in developing the foundations of sustainable development and the HSE culture. The IMS is driven by CNP's industrial department and brings together all employees around a shared corporate strategy aimed at meeting its customers' needs, improving its environmental performance, and protecting its employees and external service providers.

In addition to the training sessions provided every year on handling fire extinguishers workplace first aid, certifications (electrical, operating equipment) and evacuation exercises, CNP employees have been made aware of noise-related risks.

Some of the employees have also followed training on ATEX risk, in collaboration with an internal ATEX advisor having also following certified training in this area.

Following the transfer of some of the logistic activities (storage of finished products and order preparation) to a specialised external partner, Hermès Parfums decided to internalise some of the production processes for perfume-related products (bath products). The works for this new workshop began at the end of 2017, with the aim of creating premises to manufacture and package cosmetic products. These works continued until September 2018. The production equipment was installed and is currently being qualified. The cosmetic production activity is due to start in early 2019. It is worth noting that the transferred logistics activity employed 14 people at the Vaudreuil site. Those people have all been transferred to other positions in the company (quality, customer service, physical flows, etc.).

Furthermore, CNP continued its actions aimed at improving existing facilities with respect to ATEX risk (ventilation of the manufacturing premises), improving the sprinkler installations, and changing the Fire Alarm System. A specific ventilation system (laminar flow) has been set up near the manufacturing premises to secure the intake of raw materials and thus protect the operator during handling. The building's first floor offices were rearranged to draw the team closer together. A section of the floor in the packaging workshop was also changed.

Results

The number of workplace accidents with stoppage increased in 2018. This was mainly due to same-level falls. Each accident was investigated using a root cause methodology. However, the frequency and severity rates are still lower than those for the chemical industry.

A new campaign was recently conducted to monitor employees' exposure to chemical agents.

Distribution

Convinced that the Retail activity's development relies on the fulfilment of all employees, the Hermès Of Paris subsidiary in the United States and the Europe region approached their respective teams in parallel to carry out a commitment survey. They were questioned about their involvement at the workplace, their sources of difficulty and those of satisfaction. This resulted in an action plan and the close monitoring of the actions decided on.

In France, the Health, Safety and Security action plan drawn up since 2017 enables all stores to be aligned in terms of Health, Safety and Security practices and implementation.

Every store now has one or two Safety Officers, who are clearly identified. These staff members assist with the implementation of recurring actions and guidance on topics that change on an annual basis.

Annual training is provided for Safety Officers during the administrative staff seminar.

This involves taking stock of specific identified risks or working together on a new topic to be introduced.

The distribution subsidiaries increased their actions to improve comfort in the break rooms for offices and stores. For example, in China and Hong Kong, among other places, break rooms were completely renovated. They are more spacious and were in some cases moved into separate premises, to provide sales associates with an actual space that allows them to take a break, get changed and rest.

Based on the conviction that happy employees make happy customers, the Human Resources Director of Hermès Greater China developed a "Happy@Hermès" programme designed to improve employees' Hermès experience. Four modules are broken down into varied activities, events and training sessions on the themes: "Care for Happiness", "Learn for happiness", "Work for happiness", and "Relationshape your happiness".

In Shanghai, Hermès China offered an "H Family day" for the first time. 150 people representing the families of 60 employees were proud enough to show off their office, the magic of the Shanghai House, and to reveal the Hermès culture and values.

Other functions

To give young parents peace of mind, various subsidiaries in France (Paris and Lyon regions) have reserved nursery places. The number increased in 2018, which enabled more employees to benefit from this service. This system is in addition to the nursery established in our Pantin offices.

Hermès Femme offered all employees in its division Friday Free Times during the second half of 2018. The day is structured around conference activities, a yoga workshop and relaxation activities to enable employees to relax and get to know each other better in a friendly team atmosphere.

Living in beauty to make beauty. With this intention, Hermès strives to create conditions conducive to high-quality work. To that end, new spaces have been designed to foster collaborative work, moments of relaxation, and a friendly atmosphere. The quality of work station ergonomics and respect for the environment are taken into account in a spirit of sustainable and responsible development.

As such, Hermès International has set up a portion of the teams, about 170 employees, in a fully renovated building in Paris with 3,800 m² of spaces designed to improve the comfort and work of everyone in a spirit of collaboration. This new, impeccable space in line with sustainable development principles offers collaborative offices equipped with the best digital tools. It meets the need for more horizontal management, as well as a flexible working organisation in terms of mobility, on account of

increasingly blurred boundaries between our working and private lives, and digital technology. As such, everyone can benefit from both a sweet office and a sweet home.

Hermès International also fully renovated its restaurant facilities in collaboration with a new partner selected for its strong commitment to sustainable development, the use of fresh and seasonal ingredients, local food supplies, and a commitment to the fight against food waste.

After four years of work aimed at developing the site dedicated to Logistics and to the Customer Service teams, Hermès Commercial inaugurated new living spaces. As such, they demonstrate their determination to provide employees with areas conducive to discussions, breaks and collective cooperation.

The Group's health and safety policy is to scrupulously obey the rules applicable in this area and exceed them whenever possible for the well-being of employees. The Group's manufacturing and logistics operations are mainly in France, where regulations for these matters are very strict. The métier and activity Executive Vice Presidents monitor the appropriate indicators (which are collected and audited by industrial managers and more broadly by HR). They are responsible for these indicators.

The goal is zero accidents. For example, in each production unit, a work accident tracking chart is posted and discussed with workshop managers. Specific training is organised for métier risks, as well as meetings with professionals on the subject (physiotherapists, doctors, firefighters). These meetings also make it possible to be more reactive if there is an accident, so that the proper measures can be adopted very quickly and the most appropriate experts and institutions can be determined rapidly. Contingency plans are in place for each site.

2.3.1.2.2 Social dialogue

It is Hermès's policy to create the best conditions for high-quality social dialogue and employee freedom of expression wherever possible. In France (62% of our employees), it is enshrined by law and organised, company by company, through representative bodies and agreements signed each year. In other countries, dialogue takes various forms, according to local practices. The Hermès Group's ethical charter confirms its commitment to the conventions of the International Labour Organisation (ILO), especially with regard to the freedom of association.

Social dialogue is a priority for *Maison Hermès*. This involves both collective bargaining and daily participation by employee representatives in various projects and is essential to the functioning of the Group's various companies. It is organised in each country in accordance with the applicable laws and regulations. In all of these countries, Hermès ensures that each employee can freely decide whether or not to join the union of his or her choice in accordance with local regulations and trade union pluralism, where it exists.

In France, social dialogue is organised at both the Group level and the company level.

At Group level, social dialogue is expressed first and foremost through the annual meeting of the Group Works Council, which fosters discussion with employee representatives and representatives of the five national trade unions present in the Group. This meeting enables dialogue and the sharing of results from the previous year and the outlook for the coming years. Furthermore, a Social Dialogue Monitoring Committee (France) was set up in 2008 pursuant to the agreement on social dialogue and the exercise of union rights within Hermès Group companies, signed in 2008 by all of the representative trade unions. In 2018, in addition to its annual meeting, this Committee had a second exceptional meeting to provide its members with answers regarding the establishment of the Social and Economic Committee, the new employee representative body created by French law that combines the three former representative bodies (Employee Delegates, Works Council, Health and Safety Committee). Social dialogue at the Group level also involves the annual meeting of the Health Expense Reflection and Discussion Group, which is a forum for dialogue organised around the healthcare plan applicable in most of the Group's companies.

Compensation

In millions of euros

	2016	2017	2018
Total payroll	609	639	695

The Group's payroll was €695 million in 2018, compared with €639 million in 2017, plus €228 million in social security charges. In France, €88.8 million was distributed in incentive and profit-sharing schemes, and €3.5 million in employee support activities, compared with €70.7 million and €3.3 million in 2017 respectively.

Payroll costs (excluding exchange rate impact) reflect increases in both workforce and salaries in all geographical areas.

Hermès is committed to rewarding employee performance at both the collective and individual levels, and the development of variable compensation at both levels in recent years reflects this commitment.

Compensation mainly reflects skills, levels of responsibility and local conditions.

Every year, the Group provides its subsidiaries with budgetary guidelines for compensation growth that take into account inflation and local markets. Particular vigilance is required concerning gender equality and market differences (internal and external). Additional budgets may be granted if adjustments are necessary. The compensation paid to Corporate Officers is shown in Note 22 of chapter 6 of this document. Hermès, the vast majority of whose employees work in OECD countries, strictly applies working time and minimum wage regulations in compliance with UN conventions and seeks to exceed such regulations wherever possible. In France the minimum wage is defined by law.

In the various companies, social dialogue also involves the day-to-day functioning of employee representative bodies and a robust and active collective bargaining process. Collective agreements have been signed in all companies that have trade union delegates. As a result, in France in 2018, more than 65 agreements and amendments were signed (including a Group agreement on additional profit-sharing) on topics as varied as salary enhancement, incentive schemes, flat day rates and the right to disconnect, gender equality, and the establishment and functioning of Social and Economic Committees. All of these topics reflect the significant involvement of employee representatives and the relevant management in a constructive and respectful social dialogue. Internationally, labour relations in the distribution operations are supervised by the Human Resources Directors for each area (or country, depending on the size of the local markets), who ensure compliance with local regulations and application of the Group's ethical charter.

2.3.1.2.3 Sharing economic values

The Group's policy is to give employees a share in long-term growth through various measures such as incentive and profit-sharing schemes and a share ownership plan.

The Group's employees are eligible for short-term benefits (paid leave, sick leave, profit-sharing), long-term benefits (long-service awards) and post-employment benefits under defined contribution/defined benefit plans (mainly retirement benefits and supplemental pension plans). As detailed in Note 26 to the consolidated financial statements, the Group's total commitment to pensions and similar items is €196 million.

Profit-sharing and incentive schemes (France)

Since 2012, a special profit-sharing agreement signed with all of the representative unions has enabled all employees of the companies in France to be associated with the profits of the Group in a harmonised manner.

Incentive agreements are also in place at each French company. These agreements have a duration of three years and aim to involve employees with the development of locally-determined indicators that are relevant with regard to the activity and environment of each of these entities, notably quality, safety and productivity.

Employees of foreign entities (38% of all Group employees in 2018) also benefit from a range of regular additional compensation initiatives in line with performance and local customs.

In millions of euros

	Incentive schemes	Profit-sharing	Total
2016	26.9	41.9	68.8
2017	26.1	44.6	70.7
2018	33.4 ¹	55.4	88.8

(1) Including the signing of new agreements.

Free share plan

Faithful to its family tradition and wanting to involve all employees worldwide in the Group's growth, Hermès has historically implemented several employee shareholding plans, notably free share plans in 2007, 2010, 2012 and 2016.

All of these plans send a single message to eligible employees worldwide and their objective is three-fold:

- ♦ to show the confidence of the House in the long-term commitment of its employees and unite them around the Group strategy;
- ♦ to acknowledge the contribution made by employees at all levels to the development of the House, by providing a single compensation component to share the benefits of our growth, enabling employees to identify more closely with the long-term Hermès growth decisions;
- ♦ to consolidate the strong links between the employees and the House at every opportunity.

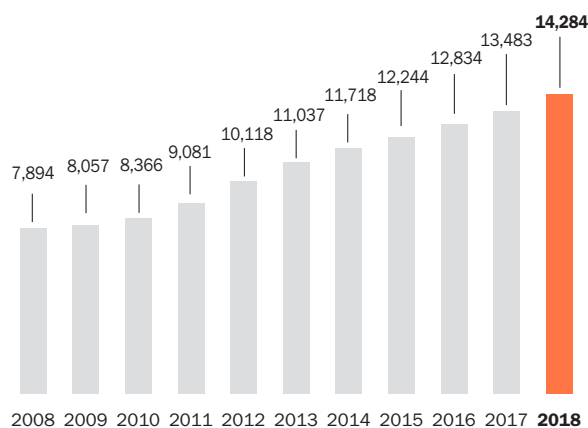
The total rights granted under these free share plans represented 2.1% of the share capital of Hermès International.

Consequently, the last free share allocation plans (introduced in 2016) were allocated to over 11,300 Group employees worldwide and involved a total of 806,060 shares. To promote employee loyalty over the medium and long term, and to boost collective performance, these plans are subject to a vesting period of at least four years, presence conditions and, for some shares, performance conditions.

The Group's ambition is to continue to involve its employees worldwide in its corporate project by increasing the level of employee shareholding.

2.3.1.3 Results

The workforce within the Hermès Group includes active permanent staff members and people on fixed-term contracts of more than nine months, including apprenticeship contracts. The permanent active staff represents 95% of the total workforce. Increasing by roughly 81% over the last 10 years, the Group workforce (page 278) totalled 14,284 people as at 31 December 2018.

**Employment**

The Group created 801 jobs in 2018. As has been mentioned, the Production sector saw the most growth (with the creation of 323 additional jobs) in order to increase production capacity and to protect *savoir-faire* and sources of supply, closely followed by the Sales sector (with 310 additional jobs created).

Employment creation was significant in existing production units, particularly in the South-West, Savoie Dauphiné and Franche-Comté divisions, where two new leather goods facilities were opened.

The last 10 years have not required the Group to undertake any restructuring efforts for economic reasons that had any consequences with regard to jobs. During development operations (site construction), any transfers were on a voluntary basis. In France, individual redundancies involved 91 people in 2018 (72 in 2017).

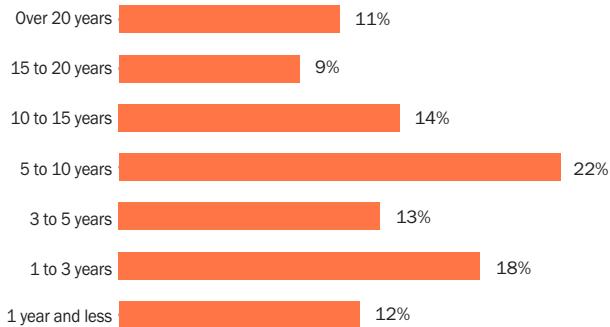
The new stores of Palo Alto (USA), Cancun (Mexico), Chadstone (Australia), Bangkok Icon Siam (Thailand), Changha, Xian (China), Emaar Square Mall (Turkey) and Incheon Shinsegae Airport (Korea) contributed to the growth of the workforce.

Hermès ambition is to ensure jobs security recruiting as much as possible permanent contracts.

Concerning employee turnover, the total number of dismissals represented 1.7% of the Group's average global headcount.

Seniority pyramid

Average seniority is nine years and 43% of the Group's total employees have been with the Group for less than five years, resulting from fast growth in recent years. The Group encourages the development of skills and long careers. More than one-third of the staff have been with the Group for more than 10 years.



Absenteeism (France)

In France, the absenteeism rate was 4.1%, is stable compared to last year. Absenteeism is calculated using the accumulated hours of absence for the following reasons over a period less than or equal to 90 consecutive days: illness and occupational illness; absence as a result of a workplace or commuting accidents; and unjustified or unauthorised absences. Changes in absenteeism are systematically monitored and analysed by entity in order to identify causes and propose action plans. Return-to-work interviews are one of the tools that HR departments use for improvement. This type of measure helps to encourage dialogue and to better understanding of the causes of the absence while respecting medical confidentiality. Managers are also trained in managing returns to work based on the type of absence, which is a key element for limiting their frequency. Moreover, this monitoring system has led certain companies to establish short- and medium-term objectives with regard to absenteeism. These objectives are accompanied by initiatives focusing on an improvement of working conditions, development of versatility or manager training regarding the management of absenteeism. As such, the adopted measures include communication, awareness-raising and prevention actions (vaccinations, presence of a doctor on the sites, etc.), but also control, in order to increase the accountability of the employees and managers. Moreover, based on the demographics of certain sites, specific actions have been implemented in order to support maternity under the best possible conditions. For example, these specific action plans may involve adapting the work station, or implementing prevention measures intended to allow pregnant women to remain at work, if they so desire, until the start of their maternity leave.

Workplace accidents

The diversity of the Group's *métiers* (as it is both a manufacturing and trading company), and its geographic locations (France and overseas) make it difficult to provide overall analyses and comparisons of workplace accident statistics. Health and safety is of course a key priority for all of the House's managers.

In 2018, the frequency rate of workplace accidents with stoppage for the Group as a whole stood at 8.4 for a severity rate of 0.46. This calculation is based on the total number of actual hours worked. It is difficult to interpret because of the variety of *métiers* in the Group.

In France, the frequency rate was 12.37 with a severity rate of 0.55, compared to 14.8 and 0.75 last year. Our industrial workforce represents 69% of our workforce in France, and therefore impacts these rates. The rates for the main *métiers* concerned (leather and crystal) are below the rates for their industries.

Looking at figures for International alone, the frequency rate was 3.2 and the severity rate was 0.3.

Organisation of working time

Each entity manages its working time in compliance with the regulations in force and on the basis of the particularities of its own activity, in an effort to balance private/professional life, in particular by implementing variable working times for French entities. Ninety-five percent of employees work full-time ; there are 704 part-time employees.

Various working time flexibility schemes have been established. For example, for leather goods, (47% of the workforce in France), craftsmen and women organise themselves at each workshop according to flexible schedules.

Given that 80% of employees are either craftsmen and women or work in the stores, teleworking is less significant than in other industries. It is examined on a case-by-case basis, according to the needs of the departments.

2.3.2 CHALLENGE: MAINTAINING DIVERSITY

Maintaining diversity of talents is the foundation of the House's wealth and creativity.

The diversity policy is overseen by a member of the Executive Committee in charge of organisational governance. It is based on the values and ethics of the House and on the actions overseen by the Group's human resources department.

2.3.2.1 Policy

The Hermès Responsible Employer policy implemented in the Group aims to develop actions to enhance its employees' development while boosting the House's economic performance. Attaining these two inter-linked and complementary objectives involves a range of initiatives to promote responsible integration and responsible management.

Drawing on the conviction that diverse talent is a source of wealth, creativity and innovation, Hermès strives to facilitate the integration of diverse talent by developing practical actions in favour of vulnerable people, in particular those with disabilities or the long-term unemployed, senior citizens, and people from visible minorities or disadvantaged areas.

2.3.2.2 Measures implemented and results

The Group is committed to the principles of recognition and respect, irrespective of one's origin, gender, family situation or *métier*. This respect for differences is presented to the employees in the ethical charter that serves as the guarantor of the objectivity, equal opportunity and promotion of diversity without discrimination in recruitment, career development and daily management. There is also a specific training segment on managing diversity for all managers.

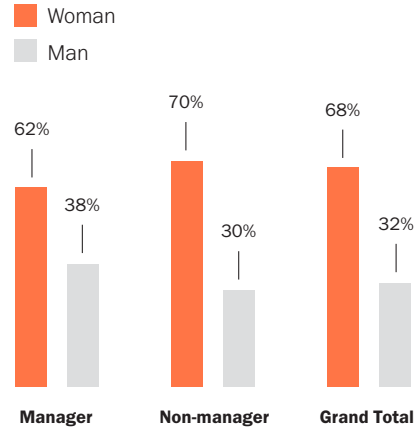
Employee recruitment respects profile diversity wherever Hermès operates.

The Group is very committed to the principle of equality between women and men. Training sessions on the subject are given to management and the subject is specifically discussed in Human Resources meetings.

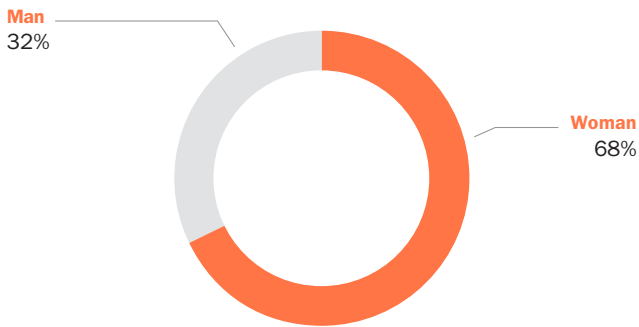
The Group is largely made up of woman (68%), who are represented at all hierarchical levels and in all business activities. The Group's policy is to guarantee total non-discrimination in the treatment of its employees.

GENDER BREAKDOWN BY CATEGORY (MANAGERS/NON-MANAGERS)

Women are in the majority in the different categories, including within management. One of the members of the Group's Executive Committee is a woman.

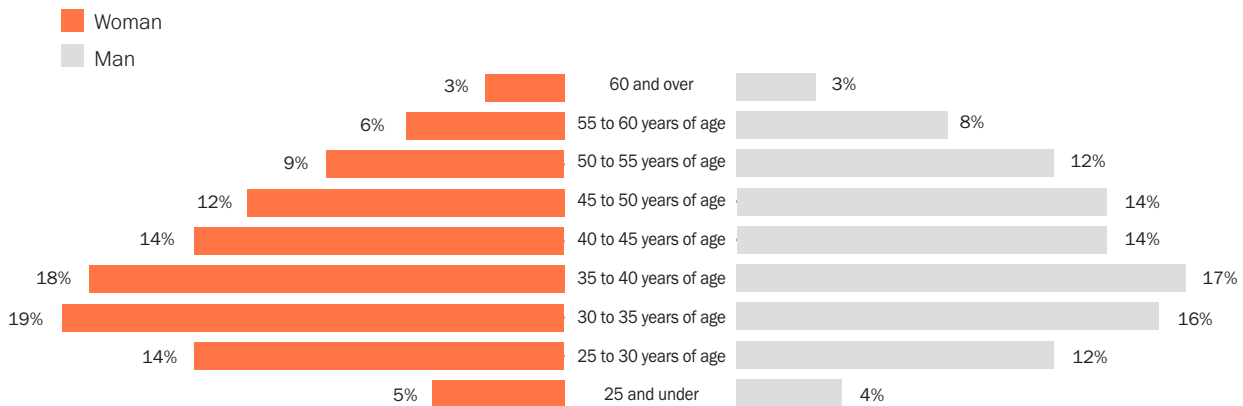


BREAKDOWN BY GENDER



AGE PYRAMID BY GENDER

The age pyramid of Group employees can be broken down as follows:



Diversity management

In order to develop responsible management, the “Alterego” training programme was rolled out in an ambitious way to express the wealth of difference for the company and thereby strengthen equitable management in terms of access to employment and career management, by equipping managers to respond to everyday situations. Started in 2017, this programme continued in 2018 with 35 one-day sessions for 379 divisional and local managers from all entities in France. The objective is to engage them in our responsible employer culture by prompting several discussions about disability, religion, gender equality and inter-generational management.

Disability

Hermès has long been committed to integrating people with disabilities into its different métiers.

Following the signature in 2017 of the first Group Disability Agreement with all representative trade unions within the Group, the Group’s Disability Working Group acted in coordination with a network of 12 Disability Advisors across all métiers (Silk, Leather, Crystal, Perfumes, Hermès Maison, Women, Hermès Services Group, Hermès International, Hermès Commercial, Hermès Distribution France) to help all sites to make progress in integrating and retaining people with a disability, whether temporary or permanent, in employment.

Through this agreement, Hermès confirms its desire to act to support recruitment and integration, keeping people in employment, developing procurement from the socially supported and sheltered sector, and also in the area of communications, awareness and training in these issues.

2018 was the first year of the Group Disability Agreement, representing a decisive step forward.

Significant progress was made, including the establishment of partnerships for hiring, various communication initiatives on disability within teams, and the forum for purchases from socially supported organisations.

At the end of 2018, the employment rate of people with disabilities was 4.93%, up from 3.99% in 2017. It reflects a direct employment rate of 4.21%, up from 3.51% in 2017.

The three-year agreement (2018-2019-2020) involves voluntary targets with respect to recruitment and is already bearing fruit, in particular with the recruitment in 2018 of nine people with disabilities on permanent contracts, three of whom were previously employed by a sheltered work establishment (ESAT), thus complying with the framework commitment of 20 permanent contracts over three years.

In 2018, 59 employees completed their initial disability recognition process, bringing the total number of employees with disabilities to 362 full-time equivalents, up from 283 in 2017. Initiatives of this nature testify to the confidence these employees have in Hermès. The people concerned will benefit from dedicated support in their position and for job retention.

Several divisions have an employment rate above the French target of 6% employees with a disability before the reduction coefficient: HMS, HTH, St Louis, John Lobb.

A total of 21 companies, given their good outcomes, are now completely exempt from the OETH tax ¹ (only nine companies are still subject to it).

Working Groups were formed within each division and each with a Disability Advisor to enable the roll-out of the Disability Agreement as closely as possible to the teams.

Disability Week is an opportunity to conduct various awareness-raising actions among employees, with conferences by autistic people, plays addressing disability, sensory workshops, events around themes like Diabetes or MSD, relaxation massages by visually impaired individuals, etc.

A three-year partnership agreement was signed with Sciences Po Paris including two aspects: supporting access to the Sciences Po Accessible programme dedicated to Sciences Po students with disabilities, and the Sciences Po School of Management and Innovation-EMI to develop exchanges of métiers between Hermès and students completing their Master’s degrees, in particular.

The Group Disability Agreement organised a Market Place in Pantin inviting more than 80 purchasers and directors to share best practices and foster purchasers’ use of socially supported organisations, in particular working with 15 Adapted Companies (EAs) and sheltered work establishments (ESATs), which were there to propose their services.

The Group’s overall purchases from socially supported organisations almost doubled compared with last year, while the Group Disability Agreement had set a target increase of more than 20% per year.

Within the Hermès Leather Goods & Saddlery division, management is showing great ambition with its Disability policy and has for several years been supporting the development of partnerships with ESATs and EAs to perform certain support tasks. This division’s purchases from socially supported organisations more than doubled compared with last year, reaching €1,119k in 2018.

In the Maroquinerie Savoie Dauphiné division, which has a training school in Fitiellieu, a special ambition is driven by the organisation of collective information sessions dedicated to people with disabilities. In 2018, 2 sessions have been organized with more than 40 participants each. This allowed the integration of people with disabilities into each training session.

Hermès Parfums has developed various partnerships with the local ADAPEI (organisation of friends and parents of disabled children) for packaging or laundry services.

Hermès Commercial has established several partnerships with EAs or ESATs for the secondment of employees to logistics workshops. As such, four “external” employees are constantly present, and one of them was recently hired on a permanent contract.

Within HCP, collaboration with socially supported organisations is dynamic, with various tasks focused on sampling, brochure packaging, maintenance of landscaping, and catering.

(1) *Obligation to Employ Disabled Workers.*

John Lobb provided an ESAT with several hundred wooden lasts, initially carved for creating bespoke shoes, to give them a second life.

It is Hermès's policy is to recognise and respect everyone's talents, regardless of race, colour, age, religion, origin, gender, disability status, marital status, pregnancy, sexual identity or métier.

This respect for differences is shared with all employees in the ethical charter distributed to each employee and in the code of business conduct. This policy guarantees objectivity, equal opportunities and the promotion of diversity without discrimination in recruitment, career development and day-to-day management.

It is communicated through specific training sessions for all managers (Alterego training). An alert mechanism (H-Alert!) is being deployed to report any breaches of this policy.

2.3.3 CHALLENGE: ETHICS AND SHARING VALUES

Maintaining a corporate culture based on ethics and shared values.

2.3.3.1 Policy

The Company's ethics policy is put forward by the Executive Committee and its main founding documents are signed by the Executive Management (Ethics Charter, code of business conduct and anti-corruption code of conduct).

The Group is very committed to the principles of acknowledging and respecting differences, presented to the employees in the ethical charter that safeguards objectivity, equal opportunity and the promotion of diversity without discrimination in recruitment, career development and daily management. The charter also includes a specific training segment on managing diversity for all managers. The Group shares its values and business project in different ways: the intranet, dedicated meetings and team initiatives.

2.3.3.2 Measures implemented and results

The House's ethics are enshrined in a forty-page **ethical charter**, published in 10 languages and distributed to all employees. It aims to promote the corporate project and reaffirm the Group's commitment to certain fundamental principles in Hermès' relations with its stakeholders and wider society. It is given to all new employees when they join the House. The Director of Legal Compliance and Public Affairs oversees this area. A **code of business conduct**, available in 10 languages, sets out the House's guiding principles on a range of operational matters. It lays out a matrix alert system by geography and by function. The content and operating modes in relation to these two documents are set out in sections 3.2.1.2 and 3.2.1.3. These documents are published online on <https://finance.hermes.com>.

In 2018, 1,775 copies of the ethical charter were distributed to subsidiaries. At the same time, the Group is continuing its efforts to dematerialise these documents and has distributed electronic versions to all subsidiaries.

Respect for human rights and the fight against corruption (see section 3.2.1.1)

As detailed in section 3.2.1.1, the Hermès Group's ethics policy aligns with the universal framework set down by the major principles, standards and international agreements, and it notably adheres to the Universal Declaration of Human Rights, the Charter of Fundamental Rights of the European Union and the ILO, the OECD Guidelines and the OECD Convention on Combating Bribery of Foreign Public Officials.

The Hermès Group policy is to comply with applicable laws and regulations in all the countries in which they are active as regards the respect of human rights and the fight against corruption. As a reminder, most of the Group's activities are carried out in OECD countries.

The tools

- ◆ Ethical Charter and code of business conduct

The Group's ethical charter, as well as the code of business conduct, described in sections 3.2.1.2 and 3.2.1.3, provide a clear framework for all employees. In 2018, training continued on these subjects.

Training sessions are also organised by and for the House's network of buyers. The training pertains to the Group's purchasing policy, legal rules, and tools, but also relates to raising awareness of risk and how to evaluate it.

- ◆ Supplier undertaking handbooks

On the legal front, Hermès asks suppliers for their formal undertaking that they will comply with their responsibilities, through handbooks on undertakings, which are updated on a regular basis (covering non-disclosure, fair trading and corporate social, environmental and ethical policies). In particular they include the following sections:

- Good labour practices

This section deals mainly with the following subjects: child labour, forced labour, compliance with health and safety rules, respect for freedom of association, non-discrimination, working time, compensation, illegal work.

- Good environmental practices

This section states our expectations in terms of compliance with environmental regulations, management of natural resources and consumption, effluent and waste materials, respect for biodiversity.

- Good ethical conduct

This section covers subjects that include corruption and money laundering, as well as specific requirements for certain sensitive sectors, and recommendations on best practices in relation to subcontracting.

Harassment

Hermès does not tolerate any conduct that manifests itself in particular through behaviour, words, acts, gestures or writings that may infringe on a person's personality, dignity or physical or psychological integrity, thereby jeopardising their personal balance, employment or the social climate.

In France, harassment is a form of behaviour penalised by the Labour Code. If intentional, it may constitute a criminal offence, which exposes the perpetrator to criminal conviction. Many countries have similar regulations on the subject.

The Group's policy is that any employee who feels harassed, or witnesses a situation of that nature must disclose it as soon as possible to his or her superiors and/or a Human Resources Manager and/or report it through the whistleblower representative appointed by Hermès, which guarantees that the conversation will remain confidential (whistleblower protection "H-Alert!"). Group rules provide for investigations tailored to the situation so that each case can be examined and dealt with.

The Group attaches great importance to everyone's professional development and compliance with the rules of ethics. It will therefore be uncompromising in the punishment of both abusive behaviour and bad-faith, unjustified denunciations.

The fight against harassment, whether psychological or sexual, is one of the House's priorities. To achieve this, psychosocial risk prevention training has been in place for managers since 2017. It is led annually by the Group Labour Relations Director. This training makes managers aware of the existence of psychosocial risks (stress, harassment, violence at work, burnout, etc.). It also teaches them how to detect the situations that can lead to these risks and to identify the warning signals. The objective is to be able to detect a difficult situation as soon as possible and provide a rapid and appropriate answer. This training is also an opportunity to raise manager awareness of workplace health and well-being measures, which are collective prevention measures to improve physical and psychological health and well-being at work. Roll-out of these measures began in France, and they will also be implemented internationally.

Social responsibility

Hermès has laid out its social responsibility ambition and policy in a procedure entitled "Hermès – a responsible employer", which was approved by Group management and distributed to the Management Committees.

Through its social responsibility commitments, Hermès implements strategies to develop its employees while boosting its economic performance. Attaining these two interlinked and complementary objectives involves a range of initiatives to promote responsible integration and responsible management.

Responsible integration is the result of a conviction and desire. The conviction that talent diversity is a source of wealth, creativity and innovation for Hermès. Accordingly, Hermès is convinced of the crucial need

to constantly strive towards this diversity of talents and facilitate its integration. To this end, in 2017, the Group finalised and launched a diversity management and anti-discrimination training programme for local managers, which is delivered internally.

Hermès is also affirming its dedication to helping vulnerable people, particularly the long-term unemployed, by implementing social inclusion initiatives. With this in mind, in 2017 Hermès developed and introduced a social responsibility clause in its calls for tenders for general services, leading to the first co-contracting agreements with socially supported and sheltered organisations.

The aim of responsible management is to enable each employee to develop and realise their full potential in a positive, inclusive setting. This involves:

- ◆ increasing efforts in terms of health and safety at work;
- ◆ making employees aware of their responsibilities and supporting them in their work;
- ◆ improving well-being at work (workplace flexibility) and enabling employees to improve their work-life balance;
- ◆ giving a different meaning to commitment by encouraging those who wish to become involved in community projects.

United around a corporate strategy

The Group's internal communication department launched a new internal platform in autumn 2018, following on from Toile H, the previous intranet site on which the life of the House was shared in all its aspects from 2006 to 2018. Significant developments in digital technology, together with the Group's expansion, have created the desire to fundamentally transform employees' digital habits. HermèsSphère is a new digital workplace. With a single point of entry, employees can access all their daily working tools, read the Group and its subsidiaries' latest updates in real time, and contact each other *via* the social network. New entrants can quickly learn more about the company, its organisation, the diversity of the métiers, and its values and culture. By virtue of a mobile app, it will gradually be extended to all employees without access to a computer at work. A real source of inspiration on a daily basis, it widely spreads useful information both through news items and less topical pieces. It aims to generate both collaboration and creativity. Thanks to the contribution of all Group entities, there is abundant information.

Forum H 2018 was held in Paris, bringing together 2,500 employees in order to involve them in the corporate strategy. The main topics covered included sharing the 2017 results, addressing the projects for 2018, and promoting the innovations and major initiatives of the production divisions, métiers and Retail division. This major annual event boosts the sense of belonging to a dynamic project and brings recognition for all players involved.

In Vienna, Austria, the Executive Committee convened all members of the Group's Management Committees for a 3-day seminar. Nearly 300 people were gathered to commit to the fundamentals of the corporate strategy implemented in each of the major areas and consider the decisions to be made regarding the major challenges of the future.

In Vienna, through the Arts & Crafts movement, Hermès discovered a kinship with its idea of designing useful, beautifully made and aesthetic objects. A breath of fresh air for all participants, who particularly appreciated this international event, with a wealth of opportunities and discussions in beautiful, free-spirited and non-conformist Vienna, which is constantly reinventing itself by drawing on its past and adapting to the future.

Celebrating site openings and anniversaries

In 2018, the Allan production unit was inaugurated in the presence of the members of the Executive Committee and all employees of the Franche-Comté division, which has a total of 593 employees together with the Seloncourt and Héricourt production units. In addition, the Haute Maroquinerie production site celebrated its 20th anniversary.

Special events in the teams' working lives

Every month, Hermès Femme, a division of Hermès Sellier, gathers together all employees to share the métier's activity through its results and by focusing on its expertise and certain flagship projects. This is also an opportunity to introduce new employees. During a monthly lunch, new employees are invited to talk with the Executive Vice President and the Director of Human Resources.

Every first Tuesday of the month, Hermès Commercial gathers together all players to involve them in an activity within the division and promote employee moves. This is a way of confirming their commitment to this

area, in line with the Group's mobility policy. Likewise, once every quarter, the Executive Vice President of Hermès Commercial convenes the entire division in a plenary session to report the activity's results and highlight successful initiatives through the testimonials of employees working on dynamic projects; this is a way of recognising the actions accomplished and of promoting an intrapreneurial spirit.

The HTH silk division organised a unifying event, "Carrément nous", bringing together all the division's employees. As part of the traditional annual printers' festival, Ateliers AS employees could enjoy a day focused on the theme of 'play' at the Stade des Lumières, yet another opportunity to promote a strong spirit of belonging and a strong team.

Three times a year, Hermès Parfums organises an information meeting for all employees and held its Garden Barbecue Party in the company of all employees.

The Paris Val de Seine Leather Goods division has set up a quarterly newspaper to communicate on the division's dynamic life, with its employees working in Pantin, Paris and Normandy.

In order to bring management closer to employees, Hermès Russia offers a monthly lunch, which is an opportunity for store and head office employees to ask questions without any taboos and feel more involved in the corporate strategy.

Hermès Greater China continued to publish Hermès Sync and Hermès Echo China as a mouthpiece for staff, exploring the region's many activities and sharing information on projects, life in the stores, and anecdotes told by employees.

Café Orange box is the Hermès Japon intranet site that shares stories and photos of team activities.

The Prudhomme brothers – master craftsmen and instructors

Promoting the emergence of craftsmen and women and stimulating their growth: this is the approach adopted by Hermès in its leather métiers. Indeed, the House does not hesitate to recruit talents from all backgrounds as they will diversify and enhance its sixth generation of leather craftsmen and women. In-house, the task of training, guiding and nurturing these future holders of leather savoir-faire is assumed by experienced master craftsmen like the Prudhomme brothers, who are foremen at the Pantin leather goods site. Lionel and André, who are easily recognised through their white coats, tirelessly pass on the

use of the tools and working methods they master to perfection, after some forty years with the Company. They thus teach the teams all the secrets of a precious and capricious material, as each hide is unique and reacts in its own way. This method of transmission, down to the finest detail, enables Hermès to increase its leather working savoir-faire over the years.



2.3.4 CONTRIBUTION TO THE UN'S SUSTAINABLE DEVELOPMENT GOALS (SDGs)

People are critical to our sustainability project and the initiatives conducted by the Group. They help to publicise the following SDGs (the numbers refer to the UN's official typology):

No. 3: Good health and well-being

- ◆ 3.8: "Achieve universal health coverage".

The House's employees have access to health coverage and social protection based on each country's regulations and practices.

- ◆ 3.9: "Reduce the number of deaths and occupational illnesses".

In addition to our HSE activities (as a reminder, all industrial sites are in OECD zones subject to strict regulations), the management of indicators relating to health, safety and absenteeism led to the introduction of training programmes on well-being and health, or the prevention of MSDs (musculo-skeletal disorders), in order to prevent and reduce the impact of occupational illnesses.

No. 4: Quality Education

- ◆ 4.5: "Eliminate gender disparities in education and ensure equal access, including for persons with disabilities".

Helping people with disabilities access and retain employment is a major issue. The signing of a Group disability agreement in France in 2017 includes ambitious objectives in this regard.

No. 5: Gender Equality

- ◆ 5.1: "End all forms of discrimination against women".

Women have an important place within the Group (68% of employees). They play a proven leadership role, with almost 62% of women holding management positions. At Group level, women managers represent 15.6% of staff, compared to 9.6% for men.

No. 8: Decent work and economic growth

- ◆ 8.5: "Achieve full and productive employment and guarantee equal pay for work of equal value".

Hermès contributes to job creation, especially in France. Hermès strives to guarantee equal pay by taking into consideration each person's positioning in relation to their peers (level of responsibility, male/female). They are also linked to the Group's growth, by means of the allocation of free share plans. The rate of full-time employment is 95%.

- ◆ 8.6: "Promoting the employment of young people".

One-fifth of the Group's employees are younger than 25 years old, consistent with the internal training effort, in particular in the manufacturing métiers.

- ◆ 8.7: "Ethics and fundamental commitments to human rights and labour organisation".

The Group has defined and monitors the implementation of uncompromising standards and practices on these subjects.

- ◆ 8.8: "Health and safety at the workplace".

Hermès is very vigilant on these subjects, and implements a health and safety policy overseen by the EHS network. The production facilities, in the OECD area, are very demanding on these topics.





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2.4 PLANET: RAW MATERIALS

The durability of Hermès' business depends on the availability of the high-quality raw materials that are at the heart of the objects and are key to the House's unique character. Hermès makes a conscious effort to respect, protect and work to achieve the sustainability of the natural resources that it needs, and of the environments in which these materials are developed and enhanced. Our materials - leather, silk, cashmere, wood, and more - are all natural and renewable. They undergo a thorough selection process detailed in specifications and complying with regulations and best practices, in a constant quest for the best quality and ethical integrity.

For decades, the House's approach has been to learn more about its supply chains, to share our requirements with our suppliers (often long-standing partners), and to develop them to achieve the highest quality and thus prepare for future growth. Over time, the search for new materials, the rediscovery of *savoir-faire*, the emergence of new standards and regulations, the development of new products, and growth in volumes were all opportunities to enhance dialogue and improve practices.

The model and values of craftsmanship guiding the House have always promoted the careful and respectful use of these rare and precious materials. Minimising offcuts is already a way of ensuring the most appropriate use of materials, but additionally, with leather, for example, smaller and larger leather goods can also be coordinated to maximise their use. In all *métiers*, the best channels are also identified to recover and recycle manufacturing offcuts.

2.4.1 CHALLENGE: SECURING HIGH-QUALITY SUPPLIES

Securing high-quality supplies and responsible sourcing: the durability of Hermès' business depends on the availability of the high quality raw materials that are at the heart of the products and are key to the House's unique character.

2.4.1.1 Policy

The Group's policy, which has remained constant for decades, involves getting to know our supply chains better, strengthening them to ensure the highest level of quality and ethical compliance, and developing them to prepare for future growth. The main challenges in materials concern the *métiers* of leather, silk and jewellery.

2.4.1.2 Measures implemented and results

Hermès attaches great importance to knowing its supply chains and the applicable regulations:

The attention paid to raw materials begins with compliance with the regulations pertaining to them. This notably means legislative provisions:

respecting the Washington Convention (CITES), an agreement between states for the worldwide protection of species of flora and fauna threatened with extinction, and which can have an impact on the materials used in the Leather Goods division, tanneries, or some ingredients in perfumes.

Each *métier* works to constantly improve the use of these rare and precious materials, consuming only what is necessary and optimising use of the material

Leather

Leather is an animal product, specially tanned and made imputrescible, either in a *mégisserie* for lamb, sheep, and goatskin or in traditional tanneries for hides from cattle or reptiles. Hides used in leather goods are by-products of livestock farming. People sometimes refer to hides as the "5th quarter", which suggests we can consider tanning to be the oldest recycling industry in the world. Hermès uses only full-grain leather, the top part of the skin, without altering it in order to improve its appearance. To maintain consistency in the finished product it also only uses entire hides. Leather reflects the animal's life. It may bear traces of injuries, health issues, like parasites, and other factors. You will only get a good hide from an animal that has been treated well. Hence, the Group's demand for high quality helps to improve the industry by encouraging livestock farming methods that respect the animals' welfare.

All leathers used for manufacturing are directly purchased from tanneries, with no intermediaries. The vast majority of the needs are covered by the House's own tanneries, and by French, Italian, German and Spanish tanneries, all of which must adhere to European standards, which are some of the highest in the world for the industry.

Hermès uses more than 35 different types of leather to make its goods, most of which come from calves raised in France (including our flagship "Box" leather, made using an English tanning technique), but also natural cowhide (in our saddlery leather products line) and "exotic" leathers. These exotic leathers include the skins of crocodiles, alligators, lizards and ostriches.

Raw hides from cattle and members of the sheep family, the raw materials for tanneries, come exclusively from animals that were raised for their meat. Calfskin comes from abattoirs within the European Union, in practice almost exclusively in France. Hermès works together with its tannery and "mégisserie" partners (France mainly, and Europe), with a view to long-term cooperation. It has a dedicated annual budget to organise programmes to improve the quality of the industry, working together with farmers, their cooperatives and their professional associations. These partnerships with suppliers enable the Group to secure supplies of high quality raw hides, while managing growth in demand.

Exotic skins

The exotic tanneries essentially use the skins of crocodylians. The vast majority of the skins come from farms located in the United States, Africa, and Australia. All Hermès partner farms must comply scrupulously with the rules drawn up under the aegis of the UN for the Washington Convention, which defines protection for endangered species. Hermès requires that its partners meet the highest standards for the ethical treatment of alligators and crocodiles following recommendations by expert veterinarians and local authorities such as the United States Fish and Wildlife Service, the federal nature protection agency. In addition to strict compliance with the Washington Convention, Hermès initiated a study in 2016, with the help of an external partner (WWF France), to evaluate the social and environmental footprint of the supply chain for alligator skins in the United States. Work continued in 2018 and a progress plan was established with this partner.

The House also initiated a working group with experts, veterinarians, researchers, regulators, animal well-being consultants and animal protection groups to write the strictest animal well-being conditions into new guidelines (covering the entire supply chain) and to approve the best evaluation methods. It has committed to an approach targeting the systematic certification of the supply chain (see ICFA below).

The Tanneries division regularly develops new partnerships and 100% of its subcontractors have been audited over the last five years.

All of the farming sites with which the division maintains commercial relations have signed a best practices charter and have been audited during the past two years. Progress plans that have been established with suppliers are regularly monitored.

The best farming practices charter, which was established in consultation with veterinary experts, encompasses CITES regulations, the best animal welfare practices, environmental management, employee labour conditions, safety at work and safety of infrastructures.

Regular inspections are also carried out on livestock sites. In addition to these inspections, an audit programme was set up for all crocodylian skin providers, based on the charter of best livestock raising practices.

The “Lizard” (*Varanus salvator* in Malaysia) and “Python” sectors (*Python molurus* and *Python reticulatus* respectively, in Vietnam and Malaysia) were also inspected over the last two years by expert veterinarians in collaboration with our partner. These inspections conducted by our partner, the purchasing department and scientists are designed to ensure compliance with current regulations, traceability of the supply chain and that best practices are in place in the facilities.

In 2017, the House conducted a complete audit of the ostrich breeding sector (an animal raised mainly for its meat and feathers), which is used

in the production of its leather goods. The work continued in 2018 with progress plans developed with its partners.

Animal welfare ethics

The Group’s policy is to scrupulously comply with the laws and regulations in this area and ensure that the same is true for its suppliers and partners. The subject is taken into account in discussions with tanners, megisserie, suppliers of animal hides and, more broadly, the industry’s professional bodies. Within both its direct sphere of responsibility (reptile farms) and for its external suppliers, the Group has implemented a very strict policy, based on an ethics charter and a demanding guide of best practices, drawn up with the help of scientific experts and veterinarians and covering an extensive range of aspects relating to animal welfare, farming and slaughtering practices, transportation, employee working conditions, the environmental performance of farms and their safety. This policy is monitored through regular internal audits, and was also reviewed by WWF France in 2016.

In addition to these efforts, which have been ongoing for over nearly 15 years, the Group contributes to the improvement of professional standards. Since 2016, Hermès has participated in the ICFA (International Crocodylian Farmers Association) alongside the main players in the industry (farmers, tanners, manufacturers, brands). This multi-stakeholder association brings together the experience of its members and a scientific community specialised in crocodiles, which has gathered together all practices and existing scientific studies. Its purpose is to develop and improve crocodylian breeding practices. In 2018 the ICFA accordingly defined a standard aligned with international best practices in the field. A panel of scientists, veterinarians, farmers, brands and specialists in the area of regulations or in ISO compliance thus participated in the approval of this standard. This was then reviewed and amended by the CSG (Crocodile Specialist Group), an NGO member of the IUCN’s Species Survival Commission. The practices defined therein are based on scientific studies and the ICFA has declared its goal of undertaking new research in areas that are not covered, which it will fund. Its founding principle is to verify the welfare of animals in a scientific and quantifiable way throughout their entire life span. These standards are applicable to different species and in different countries and will evolve over the years in line with the results of new scientific research. A certification process for the livestock of its founding members will be put in place in 2019 with the help of external certifying bodies. All farms that join the ICFA will adopt the standard and will therefore be audited. In addition to animal welfare, these audits cover environmental and societal aspects of livestock farming.

In addition, Hermès does not perform animal testing for its products.

Hermès’ actions in favour of biodiversity are presented in detail in section 2.5.5.

Textile

The Textile division's business essentially uses two materials, silk and cashmere. Long-standing partnerships have been developed with a small number of suppliers for these two precious fabrics.

Silk

A supply chain for high-quality silk thread was developed more than twenty years ago in Brazil. The use of Japanese *savoir-faire* enabled cultivation of the mulberry tree, whose leaves are used to feed silkworms, to be sustainably established in the state of Paraná. This industry preserves low-chemical hardwood biotopes (Bombyx Mori silkworms eat only non-polluted mulberry leaves). Silk has the particular characteristic of being a renewable product with a positive impact on the ecosystems, in particular through the planting of trees (mulberry trees), which contribute to soil regeneration. In the cultivation of mulberry trees, our partner does not irrigate because rain is sufficient. The farmers only use natural fertilizers for their crops and regularly analyse the soil to optimise any changes required to grow mulberry trees. Its production helps to generate income for small local farms and thousands of families.

There is a dedicated annual budget to develop the knowledge, techniques and sustainability of the businesses and supply chains of these partners. Programmes to improve the quality of their products are also carried out and we maintain high levels of discussion and sharing.

Cashmere

Cashmere is derived from the "down" developed by the *Capra hircus* laniga goats from High Asia, in reaction to the severely cold winters experienced in these regions with a continental climate. This incredibly delicate hair is "harvested" by manually brushing the animal between April and May, when the temperature rises. The hair does not exceed an average thickness of 15 to 16 microns. We select the most beautiful fibres for our weaving: they are both fine and long to ensure unrivalled softness.

Silk raw materials used in the division are sourced from our long-standing suppliers; the following processing tasks are then mastered and monitored: weaving, printing, finishing and fabrication. This integrated process makes it possible to use exactly the right amount of raw materials, to streamline containers and packaging used to transport products, and to ensure bulk transport. Work on sustainable development in the sector has been initiated with the support of NGOs present on the breeding areas concerned by our sourcing (including WWF France).

The objective is ultimately to monitor and support agro-pastoral practices aimed at preserving the resource and the biotope.

Jewellery

The precious materials used by Hermès are mainly gold, silver and diamonds. All of the diamonds in our creations are natural and chosen with the greatest care for their exceptional purity and brilliance.

Hermès travels the world to identify best practices for its precious materials and make them more sustainable. The House uses recycled gold for part of its production. In addition, Hermès has been certified since 2013 by the Responsible Jewellery Council (RJC), the international reference body for the profession, and is committed to disseminating responsible principles to its partners.

From extraction in the mines to the sale of jewellery in Hermès boutiques, the House's diamond sector abides by the international Kimberley process. At the time of purchase, a certificate attesting to adherence to this ethics guarantee is issued to the customer.

Extraction of the rough diamond, the cutting of its 57 facets, trading and sorting with a magnifying glass, crimping and verification of the quality of the finished jewels and finally their delivery and sale in stores: each of these links constitutes a control point for the Hermès diamond sector. This is how it earns its Kimberley Process Certification (KPCS).

This traceability system for diamonds used in jewellery and watchmaking has been adopted by 81 countries, including France, and it defines the conditions for controlling stone production and trade.

It entered into force in 2003 and has made it possible to impede the arrival on the legal market of "conflict diamonds", the sale of which funded guerrillas in unstable and fragile countries.

This KPCS certification is in turn required to obtain certification (also held by the Hermès diamond sector) from the Responsible Jewellery Council (RJC), another global certification as regards best social, ethical and environmental practices in the jewellery industry.

Office supplies

Internally, since 2016, the General Services Department in France has implemented a «green» purchasing policy with a selection of recommended products (office supplies, etc.). In the USA, Japan, China and Hong Kong, similar policies have been put in place. For paper consumables in particular, considerable work has been done with our suppliers to set up a PEFC-sourced supply and make an internal collection and recycling system more reliable). As a result, in 2018, more than 43,1 tonnes of paper/cardboard were recycled at all of our Paris sites versus 34.2 tonnes in 2017.

2.4.2 CHALLENGE: MANAGING MATERIALS SPARINGLY

Using materials wisely throughout their life cycle, reducing waste and promoting recycling.

2.4.2.1 Policy

In addition to initiatives aimed at limiting the consumption of materials, the House's artisanal model has always included the optimisation of use of materials and the fight against waste in its activities.

The Group's policy evolves around using raw materials wisely. In order to limit its use of all materials, the Group has launched several initiatives to reuse its materials as part of an internal and external circular economy strategy. Hermès regularly examines different ways to reduce the waste generated by its activities.

2.4.2.2 Measures implemented and results

The raw materials used in the manufacture of Hermès products undergo a rigorous selection process to identify those which meet the House's stringent quality and sustainability requirements. This policy helps to ensure that the quantities purchased are appropriate and thereby to reduce waste. Each sector works to constantly improve the use of these rare and precious materials, consuming only what is necessary and optimising use of the material.

As detailed below, the Group has also launched a number of initiatives to reuse its materials on the basis of an internal circular economy for the most representative métiers in terms of material consumption, namely within the Leather Goods division, in the construction department, or externally (Silk, Leather Goods, Perfume Divisions).

Leather Goods

Improving the quality of raw hides is one of the priority drivers helping to reduce the requirements for materials. For our supply chain of calfskin, like the one of reptile skin products, the division is spearheading a number of quality improvement projects. Some of these initiatives happen directly on the farms, and others are partnerships with farmers and cooperatives, professional organisations and independent laboratories.

The leathers used by Hermès are rare and of exceptional quality. Our desire to create sustainable products is guided by very strict parameters when choosing these materials: as Mr Robert Dumas used to say, "a luxury product is one that can be repaired". Hermès leather goods are made to last and be passed on. The cleaning and repair service offering is being developed. As such, a second cleaning and repair workshop was opened at our Pierre Bénite site to meet the growing demand for solutions to prolong the life of leather goods.

The very sparing use of leather is one of the main concerns for production units. As soon as artisan cutters join the House, they are trained to cut exactly the right amount of leather. After taking their first steps, they are supported every day by their foremen to nurture this culture of the material and its optimisation, in particular by matching different models cut from the same skin. Coordination between the production

units is managed on a daily basis to optimise the use of off-cuts. A best practices guideline is assessed every year at each leather goods site. This guideline is gradually supplemented with new best practices tried by artisan cutters with positive results. In addition, the diversity and wealth of our collections represent an unrivalled opportunity for optimal use of our exceptional leathers.

Between 2015 and 2018, these optimisation actions made it possible to make much better use of the leather hides that the tanners put at our disposal. The consumption ratio improved by almost 11% in three years.

In addition, some *métiers* (leather goods, fashion accessories), like petit h (section 1.4.7.7), have designed products that can be made with the aim of improving the utilisation rate of available hides, and reduce waste. In 2018, several thousand products were made in this way.

All leather offcuts from production units are resold to special processors and recycled, to then become new raw material for non-leather goods articles.

Thanks to better sorting quality and increased work upstream to identify the most appropriate sectors in a more relevant way:

- ◆ the fraction of recycled waste rose from 22% to 28% between 2017 and 2018;
- ◆ the overall tonnage of hazardous industrial waste decreased slightly (3%) over the same period, despite growth in activity.

Each type of waste is directed to an appropriate treatment or sorting chain.

Waste generated in the Leather Goods division to 832 tonnes in 2018, an increase of 12% compared with 2017 (see further information on page 104).

Silk

Once the raw materials have been provided (essentially silk and cashmere), the division takes over all processing tasks: weaving, printing, finishing, fabrication. This unique integrated process makes it possible for us to control the use of materials down to the last thread. Programmes minimising waste and spoilage, which make up part of a quality process encompassing the entire product line, are particularly active and involve every manufacturing unit. With the aim of reducing waste, the Textile division has established a production organisation geared towards dealing with "exactly enough" as opposed to "surplus" supplies. As a result, from the autumn/winter 2018 collection the rate of surplus volume production has been cut by 40%.

A detailed analysis of products initially rejected has also resulted in the reuse of silk products for limited series marketed during specific events, adopting a practice implemented by petit h.

The division is working with a number of different service providers to recycle a portion of the silk waste and production offcuts. Twenty-seven percent of our waste is sorted and recycled (excluding exceptional waste collection). A multidisciplinary working group has launched R&D work to make silk and cashmere recycling methodologies operational, together with partners in France and abroad. Several tonnes of materials were used in tests for the recreation of new materials.

In our production models, we always try to maximise the use of materials. For example, that is the case with certain silk accessories for men and women, produced from wide swathes of silk to reduce the amount of silk waste and limit the energy and water required throughout the process. In the same way, the lengthening of printing tables at Ateliers AS enabled substantial savings in dye and silk (offcuts).

In addition to these major areas coordinated by the division, each site also suggests initiatives for the responsible use of its materials and consumables.

The fixing and rinsing workshop has equipped its washing machines with an automatic dosage system. In addition to reducing the teams' exposure, this system helps to optimise the consumption of soap and related products.

For its packaging, the HTH logistics centre uses only boxes derived from recycling facilities that are then reused or recycled by our PAPREC service provider.

Porcelain

Each "blank" or piece of porcelain before decoration has been applied and fired, is different. A process has gradually been implemented via which the blanks are positioned based on their own characteristics, so that they receive the decoration that is best adapted to them. Using this method to position the blanks has enabled us to prevent a significant number of pieces from being rejected each year.

Cristallerie

Thanks to the technology adopted for the new gas melting furnace, which came into operation in the last quarter of 2016, more cullet can be recycled compared with the previous facility, thereby reducing the consumption of raw materials, the waste transportation flows and also the energy required for operation of this furnace.

Waste reduction is a major economic and ecological challenge for the Cristallerie, which monitors this very closely in its operations. Cullet recycling was kept at 65% in 2018 (compared with 2017) despite the difficul-

ties encountered in using the new gas melting furnace. This recycling rate is an area for work and improvement in the coming months.

Petit h (see section 1.4.7.7) and internal reuse of materials

In addition, petit h's and the artistic department efforts have made it possible to create exceptional products and temporary collections from unused materials from the House's various métiers (leather, silk, porcelain, textiles, etc.).

Petit h offers a unique creation process by providing creators and craftsmen and women, working together in the same workshop with materials and objects discarded by the production workshops of the Hermès Group and its brands. These materials are offered a new life.

Drawing inspiration from petit h, the métiers departments (leather goods, fashion accessories) have also designed products that can be made with the aim of improving the utilisation rate of available leathers, reducing waste and reusing offcuts of materials from production. Collections of accessories have been on offer for several seasons to stores around the world, made from stocks of discarded materials or offcuts. In 2018, several thousand products were made in this way.

The sustainability of Hermès products has been at the heart of its success since 1837. Our objects are created and manufactured to last and often to be passed on from generation to generation. The use of the finest natural materials and artisanal craftsmanship also make it possible to repair them. A luxury product is one that can be repaired. This durability is an important point in the assessment of the ecological impact of our manufacturing at every stage, from design to production.

By its nature, a Hermès object is made to be passed on.

Hermès after-sales service mobilises in-house workshops in our main distribution markets in France. Outside France, leather craftsmen from France supervise local teams to ensure quality and fidelity to the House's manufacturing methods.

Silk marbling by Kyoto Marble craftsmen

Silk is one of Hermès' speciality materials, and its silk scarves are world renowned. Hermès thus constantly strives to find new techniques worldwide to sublimate this noble material. Over a period of ten years, Hermès has tracked down a traditional silk marbling technique all the way to Japan from cloth samples kept in a library of textile techniques in Lyon. In Kyoto, it found the Nose family, whose small business called Kyoto Marble still masters this process based on rolls of solid starch which are through-coloured then compressed. This gives fine, glowing

motifs, each of which is unique. After three years of collaboration between Hermès and the family business, some 200 silk scarves have been produced, breathing new life into a craft that we thought had been lost.



2.4.3 CONTRIBUTION TO THE UN'S SUSTAINABLE DEVELOPMENT GOALS (SDGs)

“Materials” constitute one of the main challenges of sustainability strategies, and measures taken by the Group are consistent with the following SDGs (the numbers refer to the UN’s official typology):

No. 8: Decent work and economic growth

- ◆ 8.4: *“Improve global resource efficiency and endeavour to decouple economic growth from environmental degradation”.*

The focus on the use of materials is reflected in particular in efforts to optimize leather cutting processes (reduced material requirements for equivalent production), but also in active management of the by-products generated.

No. 12: Responsible consumption and production

- ◆ 12.2: *“Sustainable management and efficient use of natural resources”.*

Optimising the use of exceptional materials is one of the daily concerns of the Group’s métiers. In a context of rare resources, ethics, security of provisioning and a healthy economic vision contribute to parsimonious management of materials. A dedicated innovation unit is constantly exploring new avenues to maximise the use of materials.

- ◆ 12.5: *“Reduce waste generation”.*

Waste generation is reduced in particular by concrete actions to economise as part of the production and prevention processes, such as promoting eco-actions. The group carefully monitors all waste and ensures, for example, the implementation of selective waste sorting and recycling systems at all of its facilities.

No. 13: Climate action

- ◆ 13.1: *“Strengthen resilience in response to climate change”.*

The various Group entities work to reduce energy consumption and carbon emissions. The craftsmanship mode of production consumes little energy, and the location of industrial sites in France enables upstream reduction of logistical flows. Hermès has been contributing to the Livelihoods Fund since 2012 which offsets part of its carbon emissions.

No. 15: Life on land

- ◆ 15.1: *“Respect for ecosystems”.*

The Group utilises its raw materials in strict compliance with regulations governing the protection of species, such as CITES. Moreover, by supporting certain agricultural sectors, it contributes to their sustainability.

- ◆ 15.2: *“Promote the sustainable management of forests”.*

Hermès monitors its consumption of paper (for services and packaging) and mainly uses certified suppliers. The Livelihoods project supports massive reforestation programmes (over 130 million trees have been replanted);

- ◆ 15.4: *“Ensure the conservation of ecosystems”.*

In view of its procurement of exceptional natural materials, the preservation of ecosystems is an important issue for the Group. The preservation of wetlands in Louisiana, where certain exotic skins originate from, is an example of this.



© Photographer: Benoit Teillet



2.5 PLANET: ENVIRONMENT

Introduction

The respect for nature, the source of its exceptional materials and the living environment of its sites, is one of Hermès's strong and abiding values. Pragmatic but ambitious solutions to preserve the environment in the long-term are systematically sought, trying to go further than required by regulations wherever possible. Our priority is to control our impacts across our entire value chain, from upstream agricultural production to distribution, and from purchasing to internal operations. This commitment is a mindset that requires the involvement of everyone, from everyday eco-actions to a robust Environmental, Health and Safety (EHS) culture on all sites.

Since the Group launched its environmental programme in 2002, and despite the four-fold increase in its industrial output:

- ◆ water consumption by industrial sites increased by only (26%), reflecting the efficiency of the programme and of water-saving actions, in particular within the Tanneries and the Silk division, where water is a precious resource;
- ◆ energy consumption by industrial sites only doubled, testifying to the improved control of consumption, since Les Tanneries and La Cristallerie use half of the energy consumed by the industrial sites.

Work has also been undertaken on low-carbon logistics solutions. The French logistics centres, for example, use hybrid or electric vehicles for deliveries to the Paris sites.

Since 2013, the Group has acquired tools to carry out an annual update of the overall assessment of greenhouse gas emissions from its production and distribution sites. It has also gradually implemented practical initiatives to reduce its water and energy consumption, along with its extended carbon footprint.

In June 2012, Hermès joined the Livelihoods fund, a group of companies financing carbon offset projects with a high social and environmental value enabling the Group to offset 85% of scope 1 and 2 carbon emissions.

Description of risks and challenges

Working with all *métiers* and all players involved in our production entities, the House's industrial affairs and construction departments have implemented programmes to address the House's environmental challenges.

The industrial affairs department, together with the *métiers* and all players in the production entities, is pursuing an environmental policy formally approved by the Executive Committee, whose goals remain unchanged since 2002:

- ◆ to comply with workplace Environmental, Health and Safety (EHS) regulations and to prepare for changes in these regulations whenever possible. The industrial department coordinates a network of Environmental, Health and Safety (EHS) operatives at the manufacturing sites;
- ◆ to respect natural resources, particularly water, and control energy consumption;
- ◆ to enhance production processes by choosing the cleanest, most energy-efficient technologies and the most environmentally-friendly materials available;

- ◆ to minimise waste production and to recover waste whenever possible;
- ◆ to limit the "carbon" impact of activities.

The industrial department, with the support of the sales and construction departments, manages the House's energy programmes (construction, transport). In addition, the House's environmental policy includes the following elements:

- ◆ a commitment in principle for the respect and protection of nature, the source of our raw materials and the conditions at our sites. The Group's commitment to the "Act4Nature" initiative in 2018 has added a focus on biodiversity to this commitment. Our commitment alongside WWF (see page 35) reinforces this policy;
- ◆ the implementation of a *métier*-based environmental management system, coordinated by the industrial affairs department that operates in a network (see EHS network below);
- ◆ a desire to use natural resources sparingly, particularly with regard to energy, water, and, more broadly, all natural materials needed to manufacture our products;
- ◆ the goal of reducing our footprint, especially in terms of discharges, emissions and waste management, which includes seeking to optimise the resources that we use. Since 2012, our policy has incorporated the concept of voluntary carbon offsetting (see "Livelihoods" below);
- ◆ internal monitoring of the results of these policies, through operational dashboards and reporting that is controlled by the Industrial Affairs Department and serves as a basis for external audits;
- ◆ a practice of sharing and discussion with external stakeholders. Since production is mainly in France, a large part of these discussions is carried out in the legal framework of discussions with Dreal, but there are also frequent discussions with the municipalities where our sites are located. In addition, our natural material supply policy (for exotic leathers, for example) includes a discussion with the relevant professional and regulatory associations (such as the crocodile specialists group, CSG or IUCN).

Methodological note

The published figures do not include data from Precious Leathers division entities in Australia and the United States (HCP). Moreover, consumption figures for certain leased sites, for which no data are available, are not taken into account as they are not significant. Since 2012, Hermès has monitored environmental data from its industrial sites using reporting software accessible as a web resource to collect data about consumption at each site. The software also provides access to documentation explaining how the performance indicators are organised and defined. A consistency check is carried out automatically when the figures are entered, and again when the global consolidation is performed by the Industrial Affairs Department. From this year, all industrial environmental indicators have been reported over a period from November to October. For methodological reasons, some of the business data used in the Scope 3 calculation cover a calendar year.

Since 2008, the Group's environmental construction policy, coordinated by the construction development department, has been based on the following principles:

- ◆ the systematic adoption of an environmental stance during building work;
- ◆ helping to protect the environment by ensuring that building projects are properly suited to their setting and the local architecture, while simultaneously preserving ecosystems;
- ◆ the use of renewable energy sources whenever that is possible;
- ◆ employing energy-saving methods;
- ◆ focusing on building quality: design, functionality and sustainability, in a constant effort to ensure the well-being of users, employees and clients;
- ◆ striving for flexible, adaptable construction projects that integrate future developments and running costs from the outset;
- ◆ anticipating regulatory and technical developments whenever possible, to take them into consideration in our projects;
- ◆ monitoring changes in regulations, in close collaboration with stakeholders (architects, engineers and suppliers).

Since 2016, in order to improve coordination and control of environmental activities involving internal staff and external service providers, the Group's construction development department has drawn up a sustainable construction framework based on three main ambitions:

- ◆ reduce the ecological footprint;
- ◆ promote the well-being of users;
- ◆ conserve vital resources.

These sustainable construction policy, which was designed to be adapted to the specific features and functions of the Group's buildings, is more demanding than the main external guidelines on the market (LEED, BREEAM, HQE) and cover around 30% more criteria.

The performance levels required by the Hermès policies are for the most part superior and are flexible and scalable according to the geographical, regulatory and economic environment of the real estate project.

Some themes are specific to it, namely the consideration of non-conventional consumption (processes, kitchen equipment, outdoor lighting, etc.), user comfort through specific internal and external adjustments and the consideration of the environmental impact from the transport of people and building materials.

The Hermès policy apply to all new construction or renovation projects relating to office, production and distribution sites in France and internationally, in collaboration with the Group's project managers and external partners (architects, technical design offices, builders and suppliers) selected by the construction development department.

The Framework serves to:

- ◆ improve the environmental quality for users of construction projects from conception to completion;
- ◆ transcribe the values and characteristics of the Hermès Group internally and among our partners;
- ◆ harmonise and oversee sustainable building practices aimed at achieving ambitious goals;
- ◆ set out scalable and comprehensible goals for all players in the construction process.

Environmental topics are supervised by a member of the Executive Committee in charge of the upstream division and investments, who is supported by his or her Deputy Managing Director, who is in charge of the House's Industrial Affairs Department and the Construction Development Department.

As part of the Group's CSR strategy, an annual analysis is conducted by the main métiers of the House when the strategic plans are being prepared to identify issues in terms of environmental protection. For these various issues, pragmatic objectives are shared with the Group's Executive Committee.

2.5.1 CHALLENGE: COMPLYING WITH REGULATIONS

Strict compliance with regulations in a stringent European environment and exceed regulations whenever possible.

2.5.1.1 Policy

The Group's policy is to put action plans in place that are adapted to the various métiers for better knowledge of and compliance with regulations primarily in a very rigorous European environment. Each *métier* is responsible for monitoring and implementing the applicable regulations. The Industrial Affairs and Construction Departments are responsible for alerts and control in this area.

2.5.1.2 Measures implemented

Experts within each métier form a network.

Everyone's efforts are needed at every site if we are to achieve these goals. Since 2003, there has been an Environmental, Health and Safety network (called the "EHS network") that brings together the EHS managers from the House's different entities and comprises around 20 members. It meets several times a year to set targets, share results and best practices. Training network members on EHS issues represents almost half the meeting time. Training of this nature has subsequently been delivered more widely within the various units.

External controls

Since 2002, EHS audit cycles at our various units have been conducted by a specialist external consultancy, spread over three years. The fifth cycle started in 2018. These audits check the regulatory compliance and assess the safety culture of each site. Audits are also conducted

at the time of construction or acquisitions, enabling full coverage of Hermès' industrial assets over the three-year period. The information system deployed on the sites for the Group's environmental reporting can also be used to coordinate the follow-ups to these audits and monitor changes in environment, health and safety regulations.

2.5.1.3 Results

Several times a year, the Purchasing Committee reviews the results presented by the Industrial Affairs Department. It monitors the number of audits conducted per year as well as the quality of the results. The industrial affairs department (IAD), under the control of the audit and risk management department (A&RMD), crafts action plans with the relevant *métiers* and monitors their progress.

In 2018, no fines or formal notices were handed out to the Group's industrial sites.

Oversight of environmental actions occurs in different ways. The Industrial Affairs Department and its EHS Officers exert a first level of control within the context of a "water, energy, carbon, waste" plan that is updated each year. In the context of this effort, the audit and risk management department conducts audits on the critical topics included in the Group's risk map (see section 2.6.2.3). Finally, external controls are performed to ensure coverage of all entities. The Industrial Affairs Department consolidates the results of these audits as part of an ongoing process of improvement.

Environmental liabilities

The amount of the provisions for environmental liabilities is made up of provisions for the cost of asbestos removal work on the roofs of the buildings at the Tanneries du Puy. This amount is of €3,9 million.

2.5.2 CHALLENGE: LIMITING CONSUMPTION OF NATURAL RESOURCES (WATER, ENERGIES)

Controlled consumption of natural resources is a goal shared by all the House's *métiers*.

The artisanal production model of Maison Hermès is reflected in a low energy and water footprint in absolute terms.

Water is mainly used for industrial consumption in our tanneries and silk units (719,725 m³/year at global level).

Energy consumption (electricity, gas) is 208,682 MWh/year at Group level. The energy is almost entirely consumed by manufacturing activities (the cristallerie, the tanneries, silk, leather) and represents nearly 77% i.e. 161 MWh/year (stores and offices represent 23% of the total).

2.5.2.1 Policy

The House's Industrial Affairs Department runs an environmental programme whose objectives have remained unchanged since 2002 (presented in the description of risks and challenges above). Everyone's efforts are needed at every site if we are to achieve these goals.

The House's policy is based on the following pillars:

- ◆ improve the measurement of consumption and put in place reduction solutions;
- ◆ improve production processes by encouraging the use of the most economical technologies;
- ◆ innovate by using environmentally-friendly solutions (in energy, for example).

The House has a policy of using renewable energies, notably thanks to Construction Development Department in its projects (photovoltaic panels), the supply of green electricity for sites in France, and the use of wood-fired boilers on some sites.

2.5.2.2 Measures implemented and results

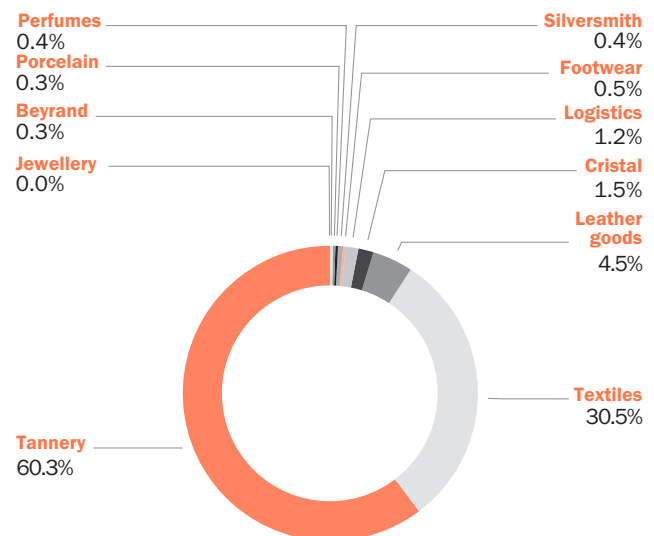
2.5.2.2.1 Water

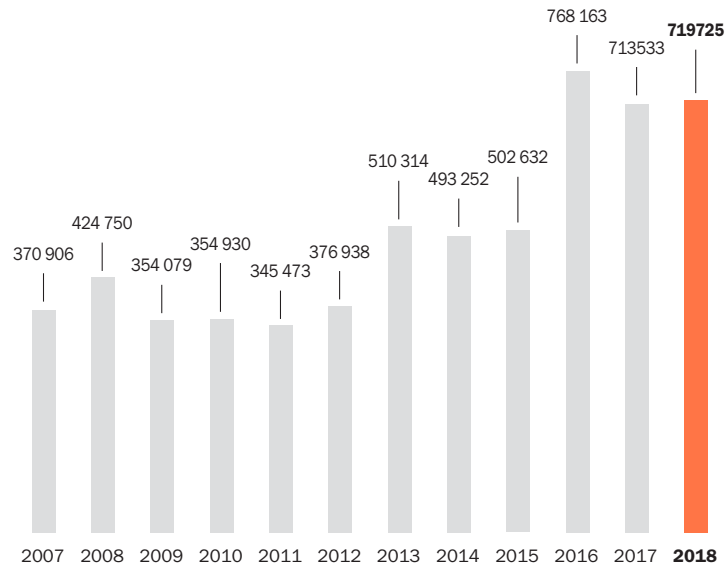
Over the last decade, the Group has maintained its aim of decoupling consumption from growth, with industrial water consumption doubled compared to an increase of 2 times in business volumes.

In 2018, total water consumption increased slightly (+0.9%) compared to 2017.

The efforts of the tanneries and silk teams resulted in the reduced use of water in the process, relative to the high output. This was reflected in the stabilised water consumption of these divisions.

WATER CONSUMPTION BY MÉTIER IN 2018



CHANGE IN WATER CONSUMPTION (IN M³)

	2016	2017	2018
Intensity m ³ /Revenue €M	148	129	121

Tanneries

Hermès operates six tanneries, four of which are in France (Annonay, Tanneries du Puy, Vivoin and Montereau), one in Italy and one in Louisiana.

Water consumption and effluent treatment are major challenges for the Group's tanneries. Historically located close to rivers, they use this water for the purposes of tanning, dyeing and finishing hides. The water of the division's six tanneries comes mainly from rivers or boreholes (68% of the total water consumed in the division). The rest comes from municipal sources.

These water consumption issues are addressed through monthly monitoring of the tanneries' water consumption, preventive maintenance programmes for facilities, regular verification and calibration of meters,

installation of new individual meters, and programmes to raise employee awareness. Significant discrepancies unrelated to production differences are also analysed. The necessary verifications are immediately carried out by the maintenance teams in order to locate and repair any possible leaks. The quality of the effluents discharged is also a central environmental concern for our sites. As a result, each tannery is equipped with an effluent treatment station and verifies that its industrial emissions comply with the applicable standards. Regulatory inspection reports are submitted to the local authorities on a regular basis. To date, almost all tannery effluents (93%) are discharged into the municipal network before further treatment by municipalities. Only the Vivoin tannery discharges its effluents directly into the river, however it is subject to much stricter discharge thresholds.

	2014	2015	2016 ¹	2017	2018 ²
Water in m ³	155,455	184,956	501,775	436,997	433,895

(1) The reporting scope includes Les Tanneries du Puy, acquired in November 2015.

(2) The reference period is the 12-month period from 1 November 2017 to 31 October 2018.

Note: The farms in the United States and Australia are excluded from the reporting scope.

Silk

Water is an essential element in silk ennoblement and a precious resource. We are thus working on a daily basis to minimise our water needs, find innovative solutions to increase the percentage of recycled waste, and control the impact of our actions in quantitative terms.

The following examples illustrate some of the measures implemented within the division to promote water recycling:

- ♦ ITH: the Gandit facilities engraving line, the main water consumer at the site, was configured this year to operate at 57% in a closed circuit.

Since May 2017, the landscaping of the site has been watered using a rainwater harvesting system;

- ♦ ateliers AS installed a much more effective water recycling system on the printing lines than previously. The technical results are being analysed to see how to extend this initiative;
- ♦ at SIEGL, a technical study has been launched (Companies' Consultation Document provided on 25/10/18) to change the existing treatment plant. The specifications include clear targets for reusing our water effluents generated by the processes, with a 5% recy-

cling target for 2020 (year in which the facility will be started up and developed), 20% for 2021 and 30% for 2022;

- ♦ awareness initiatives focused on water consumption at the SIEGL site are also very dynamic: daily water consumption indicators are shared and a maximum target never to be exceeded has been set. The 2018 daily target in m³ consumed per day was achieved and sometimes even exceeded. These indicators and targets have also been rolled out throughout the workshop on a weekly basis, thereby increasing the accountability of each team and managers;
- ♦ at the AEI site, in order to mobilise each employee to achieve our targets, the quantity of water used per kilogram of silk produced is used in the calculation of incentive schemes, alongside production, safety and quality.

In addition, several local actions have been maintained or launched. These actions have delivered practical results, since the division's overall consumption has been down for several years in relation to its output.

Product washing processes were also revised and optimised; these processes aim to remove excess colour from products and account for 40 to 50% of the printing units' water consumption.

	2014	2015	2016	2017	2018
Water in m ³	275,995	256,534	210,577	219,968	219,458

Over a period of five years, the Group has managed to reduce its water consumption by 20.5% in its production of silk scarves and other textile products, despite an increase in business activities.

Stores

Water usage data by stores are not published owing to the insignificant proportion of the Group's overall water use it represents, being mainly water used in washrooms.

2.5.2.2.2 Energy (electricity, gas)

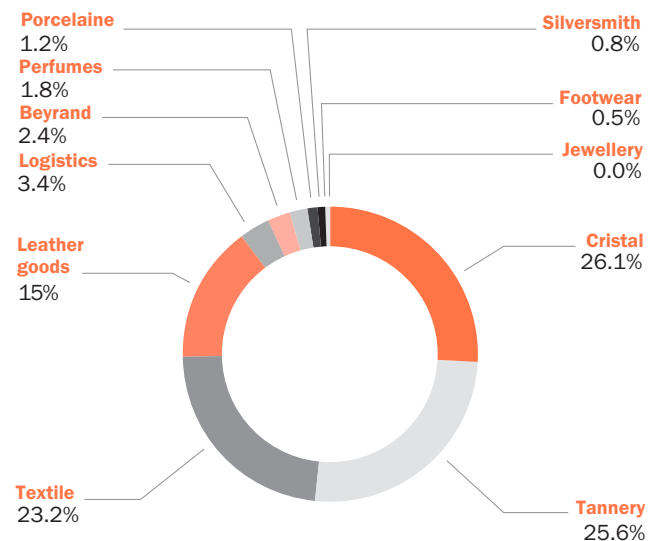
The Group's consumption is distributed as follows, in a context in which the Group manufactures 70% of its objects internally.

MWh	Industry	Stores	Services	Total	Intensity GWh/Revenue €M
2016	154,094	32,318	15,713	202,125	0.039
2017	160,662	31,234	16,510	208,406	0.037
2018	161,531	31,305	15,846	208,682	0.035
2018 in %	77%	15%	8%	100%	

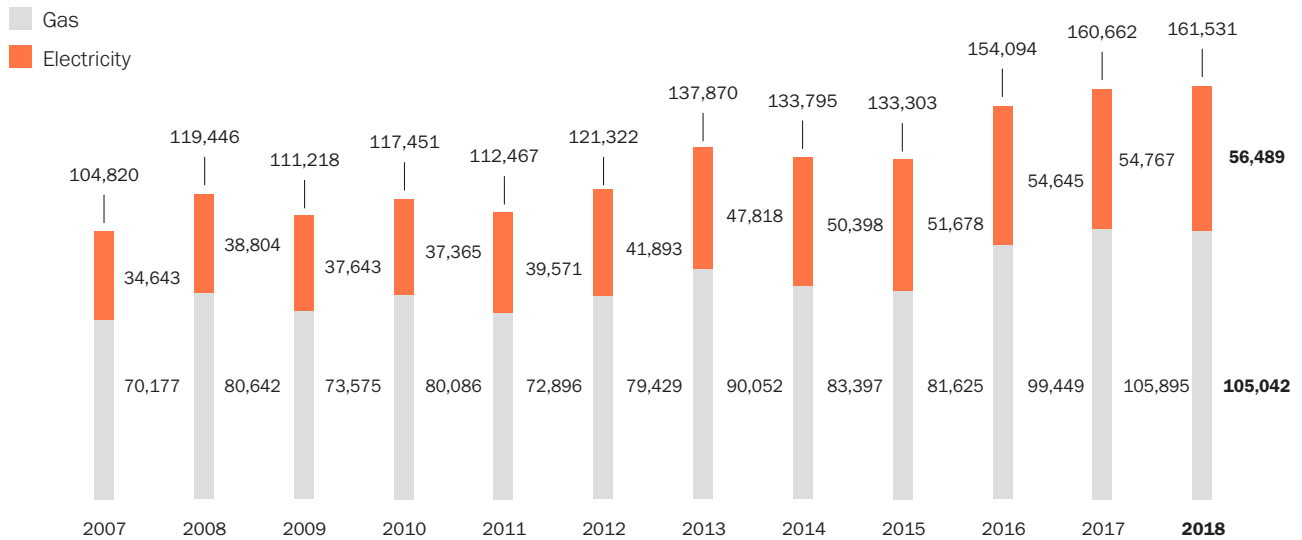
Over the last decade, the Group has maintained its ambition of decoupling consumption from growth with an increase of 1.45 times in industrial energy consumption compared with an increase of 3.4 in business volumes. This result testifies to the improved management of consumption. In 2018, overall energy consumption was stable compared with 2017

Overall, energy consumption in *La Cristallerie* and the Silk, Leather, Tannery and Construction divisions was stable compared with 2017, despite increased activity, marking the efforts made in this area.

ENERGY CONSUMPTION (ELECTRICITY AND GAS) BY MÉTIER IN 2018



CHANGE IN INDUSTRIAL ENERGY CONSUMPTION 2018 (ELECTRICITY, GAS)/MWH



Since 1 November 2015, Hermès has decided to participate actively in the energy transition process. All the French sites (production, services, stores) are now supplied with green electricity, mainly hydro, produced in France. This means that at Group level, 80% of the electricity consumption is supplied from green sources.

Cristallerie

The processes using the most energy at the production unit are melting the material and working with it while hot. During each investment project, research is carried out to ascertain the best available technology in terms of energy efficiency and production volumes, which is then implemented. The last two furnaces renovated (pot furnace and continuous casting furnace) as well as the reorganisation of the hot workshop are good examples of this.

The initiatives implemented in 2018, particularly the optimisation of the operating settings for multipot furnaces and the gradual replacement of high-consumption equipment, notably identified in the energy audit carried out in 2016 (e.g. openings in the hot workshops and multipot units) are helping to improve the production unit's energy efficiency.

In 2018, the production unit's level of activity was up in terms of value and volume, despite major difficulties encountered in the melting process of the new gas melting furnace.

The replacement of the main multipot furnace at the end of 2016 made it possible to change overall energy consumption. The various adjustments made during 2018 to stabilise this new facility have had an impact on the energy consumption profile. The 12-month use of the electric heating equipment installed in the summer of 2017 on the new gas melting furnace led to a slight increase in electricity consumption. Natural gas consumption remained stable compared with last year.

Rationalisation and the gradual replacement of the "openings" of the hot workshops will help reduce the workshop's natural gas consumption. The replacement at end-2018 of a natural gas-fired cellular furnace by an electric energy facility is part of this strategy to optimise the site's energy efficiency.

The site's fuel oil consumption corresponds to that of the generators. The replacement of the generators in 2016 and 2018, combined with the removal of the fuel oil-fired boilers (the latter was removed in 2017) led to a 60% reduction compared with last year.

	2014	2015	2016	2017	2018 ¹
Electricity in MWh	8,584	8,578	7,534	6,599	6,927
Gas in MWh	31,296	27,020	27,303	35,193	35,243
Fuel oil in MWh	142	189.5	95.6	70.9	27.4

(1) The reference period is the 12-month period from 1 November 2017 to 31 October 2018.

Tanneries

The Tanneries are continuously working to improve the energy efficiency of existing facilities and during renovations or the introduction of new premises. By way of example, the following points are receiving special attention: supervision of equipment by GTC ¹, thermal insulation of buildings, insulation of pipes, and the replacement of conventional lamps by LED lights.

The division's power consumption remained stable between 2017 and 2018 (-1.20%). This led to a decline in the average energy consumption to activity ratios within the scope of the calf leather and exotic leather tanneries.

At Cuneo, electricity production from 296 photovoltaic panels installed on the roof of the tannery provided 54 MWh of electricity, representing 6.5% of the site's total electricity consumption in 2018. The production, down slightly compared with 2017, is used entirely for tanning processes during the week and injected into the electric grid on weekends. Gas cogeneration, also installed at the Cuneo site and used to simultaneously produce hot water and electricity, unfortunately did not work throughout the year, due to a system failure.

	2014	2015	2016 ¹	2017	2018 ²
Electricity in megawatt hours	6,143	6,572	10,627	11,031	11,269
Gas in megawatt hours	11,788	15,019	30,085	29,731	30,010
Fuel oil in megawatt hours	35	52	48	59	42

The reporting scope has included the Annonay tannery since 2013 (acquired in December 2012).

(1) The reporting scope includes Les Tanneries du Puy, acquired in November 2015.

(2) The reference period is the 12-month period from ¹ November 2017 to 31 October 2018.

Note: The United States and Australia operations are excluded from the reporting scope.

Silk

Energy consumption (gas and electricity) can be attributed mainly to equipment, which requires high-temperature steam, heating and lighting (workshops and offices). As such, each site has continued the efforts already started in previous years to optimise consumption time and move towards more energy-efficient equipment.

The entire division is continuing its conversion to "all-LED" energy-efficient lighting: the ITH site in Bourgoin Jallieu is taking advantage of works in specific areas to replace the former systems, as are the new offices of *Créations Métaphores* and the workshops of the Gandit graphic designers; at SIEGL, the tables workshop was converted, at Ateliers AS the quality department, at Établissements HTH the offices section, and at ATBC the entire site.

In early 2018, the AEI site set up a local dashboard to monitor the ratio of gas and electricity consumption with respect to the amount of silk produced. This new indicator demonstrates a consistently downward trend over the last three years and is used to produce targeted communications for the teams. The purchase of a new boiler equipped with an exchanger and high-output burner aims to achieve significant energy savings. The boiler was commissioned at end-2018 and represents an investment of €350 thousands. It will enable the use of only one boiler instead of the two currently in operation and will use more energy-efficient equipment. The new boiler has an exchanger positioned in front of the chimney flue, making it possible to heat the boiler feedwater. In addition, it has an O₂ sensor (also placed in the flue) to better regulate the gas/air mixture and thus increase the output of the burner, while optimising the amount of gas used. More generally, the arrival of this new boiler will enable an overhaul of the entire heating plant: asbestos removal, change of the feedwater tank to improve insulation, thereby limiting heat loss in the facility.

At the ITH site in Bourgoin Jallieu, the replacement of old-generation rooftop equipment (single air-conditioning unit placed on the roof) is ongoing. This replacement by modern air-conditioning equipment with optimised settings to offer both comfort and energy-efficiency provides a better output and substantial electricity consumption savings: 6% reduction in KWH consumption. Electricity production via the photovoltaic panels also enables the site to generate energy savings with an annual output of about 16MWH. Lastly, since October 2017, rounds are made through the site every evening to check that all lights have been switched off and to adjust the air-conditioning equipment if necessary.

SIEGL is continuing its efforts to limit its consumption to the strict minimum. Accordingly, the heating of facilities in the winter is optimised to save gas, and programmable electric heating facilities have been positioned in workshops with few or no occupants for energy efficiency while managing frost protection.

At Ateliers AS, seven air-conditioning units were equipped with speed drives (production lines 7 and 8). The air-conditioning units inject "new" air to be heated or cooled depending on the season; accordingly, their operation requires significant energy consumption. The positioning of the speed drives makes it possible to adjust the supply and return air flow, and therefore to maintain an overpressure in the workshops depending on their occupancy.

At ATBC, changes were also made to control gas and electricity consumption. For example, this was the case with the guidelines on air-conditioning, which was limited during the summer to prevent excessive consumption. Roof insulation and cladding replacements also made it possible to lower energy losses over the year.

(1) Centralised Technical Management

	2014	2015	2016	2017	2018 ¹
Electricity in megawatt hours	14,050	13,034	12,856	12,081	12,058
Gas in megawatt hours	27,175	25,407	26,016	25,702	25,389

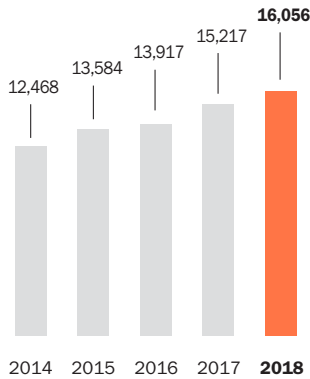
(1) The reference period is the 12-month period from 1 November 2017 to 31 October 2018.

Leather Goods

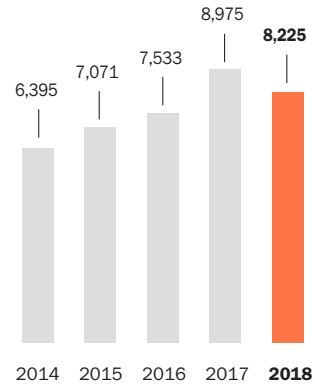
Electricity: electricity is the main power source for tools in the production units, as well as air conditioning equipment in buildings. The ratio, at constant productivity, was stable between 2017 and 2018. This decrease illustrates the focus on energy management in the context of equipment renewal: the criterion of electricity consumption was chosen as one of the decision-making factors in the implementation of the machine investment strategy.

Gas is only used to heat the sites. With a consumption of 8,225 MWh in 2017, the gas ratio decreased compared to 2018. This mainly reflects the implementation of more efficient heating management tools for buildings and greater use of wood for heating the Leather Goods workshops.

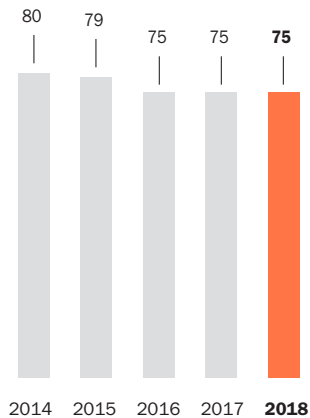
LEATHER AND SADDLERY DIVISION – ELECTRICITY – CHANGE IN CONSUMPTION (IN MWH)



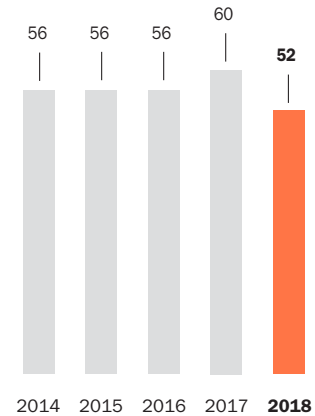
LEATHER AND SADDLERY DIVISION – GAS – CHANGE IN CONSUMPTION (IN MWH)



LEATHER AND SADDLERY DIVISION – ELECTRICITY – CONSUMPTION AS A PROPORTION OF ACTIVITY – (BASE 100 IN 2007)



LEATHER AND SADDLERY DIVISION – GAS – CONSUMPTION AS A PROPORTION OF ACTIVITY



Renewable energies

The two renewable energies used by the Leather Goods division are:

- ♦ wood: it is used to heat the production units of Belley, Les Abrets and Nontron. For the Leather Goods division as a whole, wood represented 14.1 % of energy consumption for the heating of buildings;
- ♦ solar energy: the recently built production unit of L'Allan has solar panels which provide 11% of the electricity used by the site.

For the Hermès Leather Goods & Saddlery division, the renewable energy generated by the production units accounted for 4% of the total energy consumed in 2018.

Moreover, in designing new leather goods, special attention is paid to environmental impacts and, more particularly, to controlling energy consumption in four areas:

- ♦ energy consumption: this parameter is one of the main challenges of the technical programmes for new leather goods. As soon as a project is launched, various solutions are envisaged and thermal simulations are carried out by specialists from design firms commissioned for the project. Based on the results, the solution most suited to the construction project is selected. For example, the building housing the most recent leather goods production unit, commissioned at the end of 2017 (*Maroquinerie de L'Allan* production unit), was constructed to

meet the highly demanding standards of the HQE label, meaning it exceeds the objectives of the 2012 Thermal Regulation standard by 30% (regulation laid down at the Grenelle Environment Forum, which aims to limit the primary energy consumption of new buildings). To do so, reinforced thermal insulation and sealing, solar installations for the production of hot water and optimum output equipment (heat pump, etc.) were installed;

- ♦ energy management tools: as soon as a new leather goods production unit is put into operation, meters are positioned and dedicated software is set up to control energy consumption and the identification of possible drifts as accurately as possible;
- ♦ employing renewable energy production solutions: the most recent leather goods production unit put into operation (*Maroquinerie de L'Allan* production unit) has a park of photovoltaic panels for generating electricity of up to 152 kWc for own use;
- ♦ lowering machinery consumption: the energy impact of machinery was introduced as one of the decision-making criteria in the context of the machinery investment strategy for the leather métier. As such, new equipment introduced in new leather goods production units, but also in existing ones, is more energy-efficient. This approach can be implemented through a partnership with suppliers.

	2014	2015	2016	2017	2018 ¹
Electricity in megawatt hours	12,468	13,581	14,317	15,217	16,056
Gas in megawatt hours	6,395	7,071	7,533	8,975	8,225
Renewable energies in megawatt hours	446	546	495	444	1,247

(1) The reference period is the 12-month period from 1 November 2017 to 31 October 20

Construction

Reporting by stores

Our environmental reporting primarily measures the energy consumption of stores and the offices of distribution subsidiaries around the world. Since 2015, this “reporting” has been further strengthened by the gradual deployment of an automated system to consolidate energy consumption data from all new construction sites.

The energy consumption of exclusive concession stores not operated by the Group is not included, and neither is the consumption of certain branches in shopping centres, for which it is complicated (and in some cases impossible) to obtain information.

- ♦ energy consumption data is only available when it is possible to install individual meters;
- ♦ new sites are included in the reporting from the date of opening, or when they joined the Group;

- ♦ sites that closed or left the Group during the year covered by the reporting are also taken into account on a pro rata basis;
- ♦ primary data are collected from contributors at each distribution subsidiary (through a network of more than 30 contributors worldwide) and are centralised within the construction development department, which runs various checks and analyses - These data are reconciled with the previous year's figures (comparisons with similar sites) and then consolidated;
- ♦ for energy consumption, only the electricity consumption indicator is published;
- ♦ the consumption of other forms of energy, which are very marginal, is excluded from this publication.

Electricity consumption data covers nearly 71% of Hermès branches across the world, as well as the John Lobb, Saint-Louis and Puiforcat branches.

In France, data for 100% of stores are included in the reporting. The same applies to all French branches of John Lobb, Saint-Louis and Puiforcat.

For Faubourg Saint-Honoré, the store accounts for 39% of total consumption in a building that also houses offices and workshops.

In Europe (excluding France) almost 90% of stores are covered. In Asia, over 95% of stores in Greater China (mainland China, Hong Kong and Macao) and 100% of stores in Thailand, Malaysia and Australia are covered. In Japan, the four main stores are also included. For the Americas, 95% of stores are covered, including 90% of stores in the United States.

Optimisation of consumption

Improving energy efficiency in our stores means optimising the main areas of energy consumption, which are lighting and air conditioning.

Lighting – 80% of stores are fitted with LED lighting

Since 2013, an “all-LED” lighting solution for all window displays, shelving and ceiling lights has been extended to all new store projects.

In 2014, the store projects department introduced a range of LED bulbs specially developed for Hermès and suitable for all existing installations and equipment.

In 2018, in addition to the new stores, LED “relamping” operations continued across the global network of existing stores.

These three actions brought the total proportion of Group stores equipped with LED lighting systems to 80% at the end of 2018, with an average reduction in energy consumption of about 20%.

In addition, window and store lighting schedules are controlled across the entire Hermès distribution network in order to reduce energy consumption.

Air conditioning

Lower electricity consumption, coupled with the fact that LED lighting generates far less heat than traditional lighting, has enabled us to consider downsizing in-store air conditioning units.

This programme continued for all new store and renovation projects throughout 2018.

Thermal insulation

Special attention is paid to insulating store façades and industrial buildings by improved external insulation.

Other initiatives (installation of individual electricity consumption meters and motion detector systems in fitting rooms, washrooms and back offices) were taken on all new store projects in 2018. These automated energy consumption consolidation systems offer constant visibility allowing rigorous management of energy use. Increasingly efficient new technical solutions are constantly being evaluated for gradual incorporation into existing stores.

In 2018, thermal diagnostic tests were conducted on structures on two former production sites. These diagnostic tests make it possible to define a multi-annual programme aimed at renovating buildings and technical equipment to improve the sites’ energy efficiency.

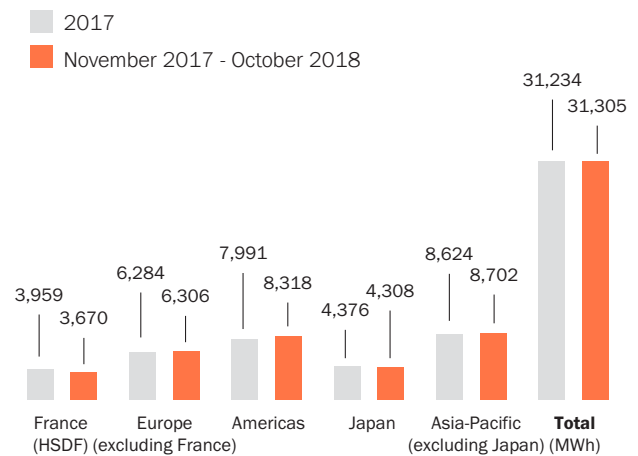
Consumption of stores

Stores consumed 31,305 MWh of electricity in 2018, an increase of approximately 0.20% on 2017. These figures are correlated to a large extent by a balance between sales surface areas, mainly in Asia and the United States, from store closures and openings.

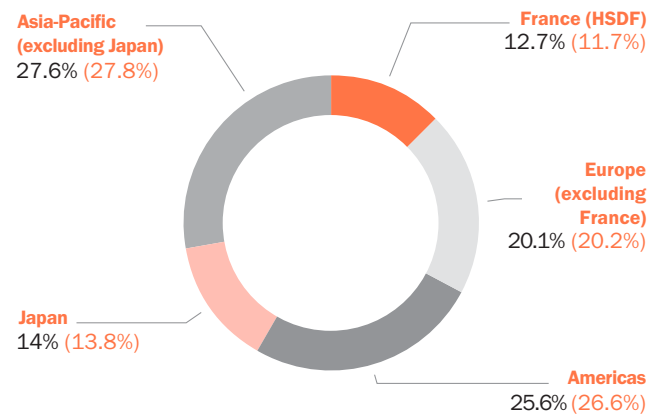
The downward trend in the ratio of energy consumption to sales surfaces (KWh/m²), especially in France, the United States and China, is attributable chiefly to the increase in LED lighting, together with improved management of energy consumption, which continued in 2018.

Offices and ancillary premises consumed 15,846 MWh in 2018, 14,053 MWh of which at the Paris and Pantin sites.

BREAKDOWN OF ELECTRICITY CONSUMPTION OF STORES BY GEOGRAPHICAL AREA IN 2018



ELECTRICITY CONSUMPTION OF STORES BY GEOGRAPHICAL AREA (IN MWH)



Programme for renewable energies

Hermès aims to use energy from renewable sources whenever possible. In France, through supply contracts with its supplier, the electricity that Hermès uses is certified as coming 100% from renewable sources. This means that 80% of the Group’s electricity consumption is of renewable origin (in a context where 70% of production is carried out internally).

In addition, the Group is developing “pilot” initiatives that it aims to expand alongside new investment projects, available technologies and the regulations in force:

- ♦ in Pantin (*Cité des Métiers*, 27,000 m² site), heating is provided using geothermal energy, in ITH, solar panels are in place;
- ♦ in three production sites (Belley, les Abrets and Nontron production units), wood-fired boilers provide heating for the building;
- ♦ in 2018, the new *Maroquinerie de l’Allan* in the municipality of Allenjoie (Montbelliard) produced 11% of its electricity needs using photovoltaic panels installed on the roofs of the building;
- ♦ in the USA, the Dayton logistics centre in New Jersey has been equipped with photovoltaic panels on the roof since 2017, allowing production of the electrical energy required by the site. This Centre received LEED Gold Certification in 2018.

In Italy, HCI’s premises are equipped with solar panels (which will be gradually extended in the next few years) for the production of electricity to cover consumption on the site.

2.5.3 CHALLENGE: MANAGING OUR GREENHOUSE GAS EMISSIONS

Control our greenhouse gas emissions through direct reduction actions across the entire value chain and through a voluntary offset of our emissions.

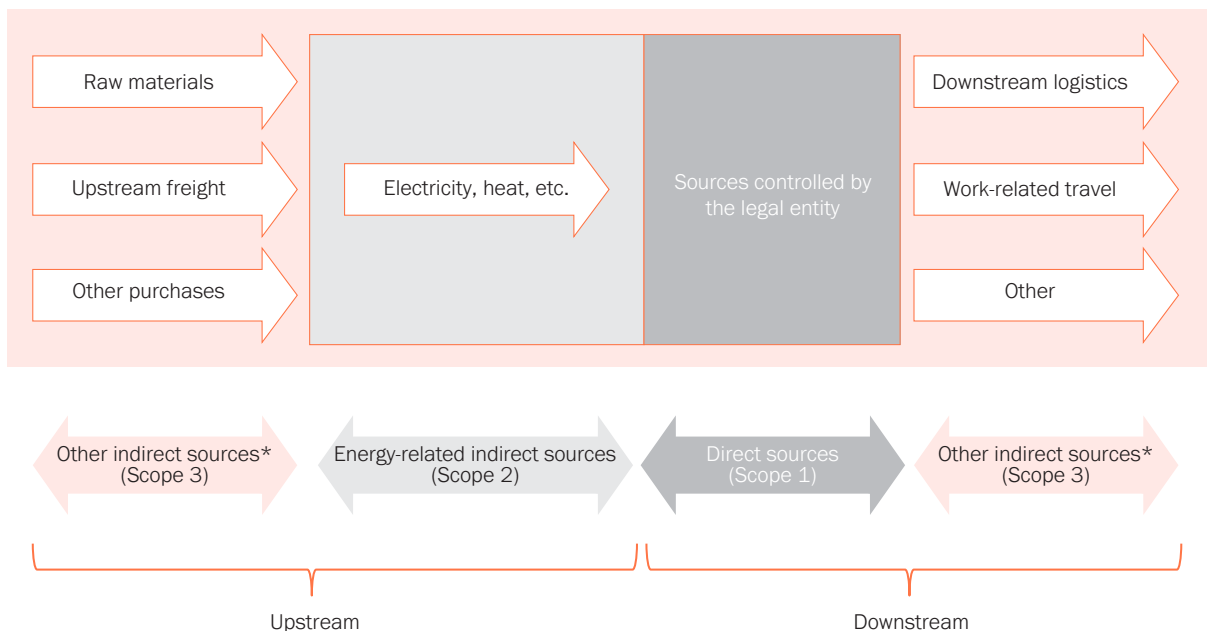
2.5.3.1 Policy

As mentioned above, Hermès is gradually taking practical measures to reduce its energy consumption and carbon footprint from scopes 1 and 2. Group policy is to assess the impact of our activities across all scopes (1, 2 and 3), to launch emission reduction actions in priority on various categories where the Group can take action, and to implement initiatives to offset our Scope 1 and 2 emissions. The Group’s approach is aligned with the COP 21 Paris Agreement.

The GHG policy is overseen by the Sustainable Development Committee, on which two members of the Executive Committee sit, as well as the Executive Vice President in charge of Industrial Affairs and the Executive Vice Presidents directly in charge of the Group’s major emitters (*métiers*, logistics and real estate). The Group’s carbon strategy was approved by the Executive Committee.

2.5.3.2 Measures implemented and results

Since 2013, the Group has been equipped with the tools needed to carry out an annual update of the overall assessment of greenhouse gas emissions from its production and distribution sites. This work is carried out with the help of an independent external specialist, using the Bilan Carbone® method. In compliance with the requirements of the applicable regulations (Article 75 of law 2010-788 of 12 July 2010), in December 2015 Hermès published its Bilan Carbone®, as per the method and scope indicated by the legislation (direct emissions generated by fixed and mobile sources, and indirect emissions associated with the consumption of electricity, heat or steam).



* Sources of emissions unaffected by regulatory requirements
Source: Ministry of the Environment

At the end of 2018, the Carbon Assessment was estimated at 42.2 k tonnes equivalent of CO₂ for scopes 1 and 2, and at 542.2 k tonnes equivalent of CO₂ for scope 3.

Hermès details its Scope 1 & 2 greenhouse gas emissions in this report and on its Hermès Finance website for the scope required by law (Article L. 229-25 of the French Environmental Code).

Scope 1 & 2 emissions are as follows:

kTeq CO ₂	2016	2017	2017 adjusted ¹	2018
Scopes 1 & 2	32.0	32.6	42.3	42.2
Amount of Livelihoods offsets	(21.4)	(21.5)	(21.5)	(35.7)
Carbon intensity Scope 1 & 2 (Teq. CO ₂ €M revenue) not taking into account offset	6.2		7.6	7.1
Change in intensity (%)				(6.6)

(1) Change in scope (scope 1,2 and 3).

Regarding scopes 1 and 2, because the Group's activities are very diverse and the areas responsible for the highest emissions vary widely from one activity to another, each *métier* has drawn up a plan addressing its own challenges. The energy consumption figures published above provide a picture of the main contributing métiers. Special attention is paid to the energy consumption of stores, which account for 15%. Consumption reduction measures are presented above.

Since 1 November 2015, Hermès has decided to participate actively in the energy transition process. All the French sites (production, services, stores) are now supplied with green electricity, mainly hydro, produced in France. This means that at Group level, 80% of the electricity consumption is supplied from green sources.

The GreenHouse Gas Protocol (GHG Protocol) proposes to determine the greenhouse gas emissions of scope 3 from 15 categories. Using the significant categories of the group's activity as described in Chapter 2.1, the calculation of the emissions of scope 3 was carried out with the help of a specialised consultant. It takes into account the most recent emission factors and technical definitions that are best adapted to our specific needs. This approach will be refined as progress is made in this area.

For Hermès, these categories are as follows:

- ◆ raw materials used: all leathers, silk, cashmere, other textiles, metals and precious stones, perfume ingredients (category[1]);
- ◆ packaging: logistics and products (category[1]);
- ◆ transport of goods and products upstream of factories, inter-site transport and downstream transport of products to the stores (categories[4] and[9]);
- ◆ employee travel: commuting to and from work for artisans, national and international business travel (categories[6] and[7]).

In 2018, the total emissions of scope 3 thus defined is estimated at 542.2 kTeq CO₂. On the basis of this perimeter (Scope 1, 2 and 3), the carbon intensity of the group (excluding compensation) is 98 tonnes equivalent CO₂ per euro million of turnover.

Construction

The sustainable construction framework addresses carbon challenges related to new construction, renovation and dismantling projects.

In 2017, a full Bilan Carbone® (Carbon Assessment) was conducted on the project to develop a Hermès store in Asia. This assessment made it possible, on the one hand, to assess the environmental impact of the construction of a store and, on the other hand, to establish a standard layout benchmark to guide our ambition to reduce CO₂ emissions on future projects through a Hermès sustainable construction framework.

In order to improve the Bilan Carbone® assessment of new stores and new buildings, special attention must be paid to the choice of building materials, the reduction of their weight, efforts to source supplies locally, and modes of transport with low carbon emissions.

Transportation

The commercial department is working on projects to improve our logistics footprint. The main projects concern local transport services, favouring electric or hybrid vehicles, for example: where longer-distance transport is necessary, sea or rail are made to replace air transport. Furthermore, optimised deliveries are a recurring subject.

The House's various métiers are aware of the role they have to play in reducing greenhouse gas emissions. As a result, the biennial magazine *Le Monde d'Hermès* is sent by sea to far-flung destinations (Asia, United States). The communications department sends items related to events by sea whenever possible. Transport providers are also involved in the process and deliveries in city centres are made, where possible, using electric vehicles.

The Group is developing the corporate vehicle policy and no longer includes any diesel vehicles in its fleet, preferring to foster the development of electric vehicles in France. The Group operates mainly 'human-scale' sites; only two sites have more than 500 employees, where Company Travel Plans are being studied (under French PDE legislation).

Purchasing

The indirect purchasing department and logistics are working to optimise the carbon footprint of packaging and parcels in order to reduce transported volumes.

Actions to reduce the carbon impact of raw materials concern, on the one hand, the optimisation of purchased volumes and, on the other hand, procedures for transporting these materials (for example, the maritime transport of exotic leather).

The indirect purchasing department prompts the Group's suppliers to integrate the carbon component into our contractual relations as early as possible.

Tanneries

The Bilan Carbone® (Carbon Assessment) for the Tanneries and Precious Leathers division was updated for 2018. Scopes 1, 2 and 3 emissions in the division increased slightly between 2017 and 2018 (+1%). This rise in emissions is mainly due to an increase in emissions related to the supply of raw exotic hides. This source of emissions, together with energy consumption and chemical products, accounts for close to 95% of emissions from production sites, with the energy consumed (gas and electricity) alone accounting for half of these emissions.

In 2010, following repeated tests, a maritime transport system was set up for Alligator mississippiensis from the southern United States, Crocodylus niloticus from Africa and, since 2013, Crocodylus porosus, from Australia. Whereas more than half of the raw crocodilian skins from the United States and Africa received in the tanneries were shipped by sea in 2017, we were unable to maintain that trend this year on account of more stringent supply and production restrictions. Nevertheless, one-quarter of raw crocodilian skins from the United States and Africa were shipped by sea in 2018.

Silk

The division's Bilan Carbone® assessment is revised every year to analyse the impact of our actions on greenhouse gas reductions. The activities producing the most emissions are energy, purchasing (fabrics, chemical products and packaging), inter-site freight, upstream freight and business travel.

The division's efforts to reduce energy consumption, the pooling of transport and purchasing, the reduction of inventories, along with communications setting out travel rules and encouraging remote meetings are all factors that helped reduce our emissions.

Livelihoods

The Group decided to establish a voluntary carbon offset system in order to reduce its overall impact. In June 2012, Hermès joined the Livelihoods Fund, a group of companies financing carbon offset projects with high social and environmental value. Livelihoods' initiatives are described in chapter 2.7.2 concerning relations with stakeholders, notably explaining that more than 130 million trees have already been planted. The fund, whose carbon credits will expand as the trees grow (the projects concerned span periods of 20 years), delivered carbon credits to its shareholders for the fourth time in 2017, after verification from specialised auditors (using the Gold Standard and VCS standard). In 2018, they served to offset 85% of Hermès' scopes 1 and 2 carbon emissions.

2.5.4 CHALLENGE: MANAGING WASTE

Waste management : reduce the production of waste in the House's different métiers, recover or treat it.

2.5.4.1 Policy

The wide range of métiers prevents a single overall waste policy other than the general principle of avoiding the production of waste and working to improve its reuse and recovery. Each manufacturing division works with a specific dual policy of waste reduction and recycling wherever possible. The main contributors are the tanneries, silk, leather, perfumes, crystal and construction.

In tonnes/2018	OIW ¹	HIW ²
Tanneries	3,570	3,831
Silk	1,254	843
Leather Goods	774	58
Perfumes	578	214
Crystal	89	1,157
Porcelain/Enamel	93	32
Logistics	109	4
Watches	11	33

(1) OIW: Ordinary Industrial Waste.
(2) HIW: Hazardous Industrial Waste.

2.5.4.2 Measures implemented and results

As part of its waste and end-of-life product management policy for its objects, the Group is engaged with partners in France and abroad to find them a second life wherever possible. The House's main métiers (leather, silk) have ongoing programs in this area. For example, all the leather offcuts manufactured by production sites is sold to specialised

sectors for reuse. In silk, offcuts are shredded and, whenever technically possible, sent to material recycling sectors. In the Perfumes activity, undistributed inventories are reprocessed in specialised sectors that separate and reprocess liquids and packaging; soaps are reprocessed and donated to charitable associations.

Tanneries

The raw material used in the tanneries is whole hides, referred to as “raw” hides, which are organic putrescible products. Tanning involves processing the hide into finished leather, which is a durable product. The reduction of tannery waste naturally starts with the continuous improvement of the quality of the raw hides. Tanning generates unavoidable waste, associated with trimming the edges of the skins (“trimming”) or preparing the internal surface of the hide (“fleshing”). Processing skins in successive baths also generates waste (in the form of sludge). The tanneries are constantly seeking new reuse channels for this waste and are active participants in the think tanks that we bring together at Hermès to discuss leather waste, and in the work done by the Centre Technique du Cuir (CTC), the French expertise center on leather.

The production of non-hazardous waste in the division was stable in 2018 (+1.7%). However, the amount of hazardous waste produced decreased significantly (-27%). This decrease is due to cleaning effluent treatment sludge accumulated in old, unused reed beds at the Vivoin tannery. This cleaning was carried out in 2017 and generated considerable amounts of sludge.

Generally speaking, the production of hazardous and non-hazardous waste within exotic leather tanneries, on the one hand, and calf leather tanneries, on the other hand, is relatively constant from one year to the next. 100% of the waste produced was evacuated to approved channels and the at-source sorting of paper/cardboard, metal, plastic and glass waste streams was set up at the French and Italian sites. Similar sorting solutions are currently being sought out by the RTL tannery in the United States.

On-site waste storage is optimised to prevent any pollution (sheltered storage areas, retention basins, etc.) and regular awareness-raising initiatives focusing on sorting and the layout of work areas are carried out among employees.

Silk

The division maintains a close relationship with its non-hazardous waste management service provider, PAPREC. Through monthly meetings involving the division’s sites and the main stakeholders of our service provider’s local branch, waste recovery and recycling solutions are always prioritised and the most relevant and responsible solutions for each of our waste streams are approved.

Waste management requires a great deal of flexibility and adaptation on the part of the various stakeholders. Developments in global waste markets, for example China’s changes in this area, or local restrictions (saturation of landfills in Rhône-Alpes), necessitate careful management of these topics.

The service provider visits our production sites to raise employee awareness of sorting and stress the essential gestures and present the various channels of our waste treatment process. These awareness-raising operations were rolled out in 2018 at Établissements HTH, AEI and Ateliers AS.

Despite a situation that is tense at the ends of the hazardous waste treatment channels, the dye waste (accounting for 50% of our waste (all streams included) is still 100% used for the manufacture of alternative fuel.

Leather Goods

The Leather Goods and Saddlery division, with 19 production sites in France, has made a strong commitment in this area. It has, for instance, been using a recycling programme for all leather offcuts for several years.

As explained above, all leather offcuts from the production units are resold to special processors to be reused. Waste generated in the Leather Goods division amounted to 832 tonnes in 2018, an increase of 12% compared with 2017. This rise reflects waste generated during improvement works and the number of events on the Paris sites (sites that are shared but managed by the métier).

Despite this increase in activity, hazardous industrial waste decreased by five tonnes between 2017 and 2018. This was due to better sorting quality and to increased work upstream with our service providers, who helped us identify the most appropriate channels in a more relevant way. Each type of waste is directed to an appropriate treatment or sorting chain.

Perfumes

CNP continues to sort and recover waste. The volume of waste decreased in 2018 (6%) despite a 4% increase in the volume of bottles packaged. The share of recycling/recovery remains stable with 66% recycling and 30% energy recovery. Among this waste, packaged alcoholic products, cosmetics, point-of-sale advertising and packaging items destined for destruction are reused by a specialist external partner.

A new unsold soap recycling operation was conducted during the year with external partners to unpackage, crush and recreate bars of soap that were donated to charitable associations (7 tonnes). A similar operation for 12 tonnes of soap took place in 2017.

Crystal

For the Cristallerie, waste reduction is a major economic and ecological issue, which is closely tracked. In 2018, cullet recycling was maintained at 65% (compared to 2017) despite the difficulties encountered in the operation of the new continuous recuperative furnace. This recycling rate will remain a focus of attention and improvement over the coming months.

The significant increase in the amount of OIW, compared to the previous year, was due to the scrapping of certain wooden elements and pallets stored in the dispatch warehouse. The OIW management system in place since 2015 has made it possible to recycle this waste. The amount of HIW (Hazardous Industrial Waste) and SIW (Special Industrial Waste) also increased compared to the previous year following the recovery of refractory bricks and the renovation of the neutralisation workshop (demolition of a building and outsourced treatment of effluents during the renovation work).

Construction

In partnership with suppliers, architect-designer consultants and local architects, the specification and local sourcing of building materials is systematically sought and recommended whenever possible.

For several years, a thorough analysis has been conducted of the materials used in new or renovated stores and production sites, making it possible to progressively refine their selection and recycling, resulting in a significant reduction in the environmental impact.

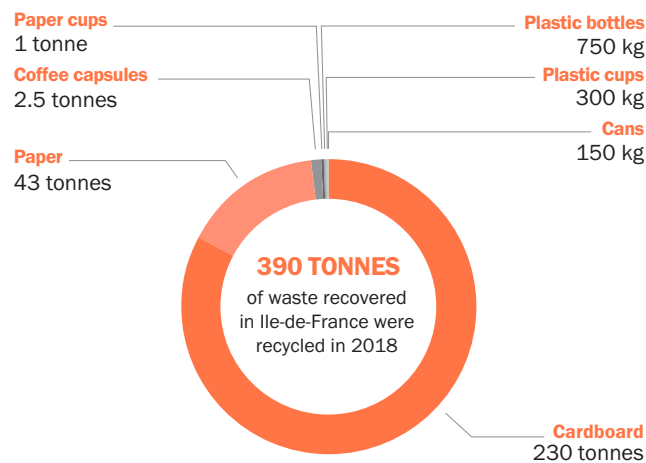
In 2018, renovation of the Bobigny logistics centre included the demolition of a former storage building, of which the entire metal structure and shelving, amounting to 173 tonnes of steel, was recovered through a recycling channel.

In 2018, the renovation of the Hermès store on avenue George V in Paris received special attention: the existing building was demolished in a “clean” way through the selective sorting and recycling using recycling channels of all materials and electrical components (in anticipation of the WEEE regulations applicable from 15 August 2018) with a total volume of 525 m³ and weight of 64 tonnes.

67% of demolition materials were recycled.

Paris sites

For three years, the Paris sites have had a selective waste collection, sorting and recycling policy in place:



Effective solutions for waste management

The manufacturing units, with their very different technical processes, generate a wide variety of emissions: each industrial division is focused on the dual objective of reducing emissions and improving treatment to minimise its environmental footprint. This demands continuous monitoring as new processes or new technologies in this field are invented every year.

Tanneries

Each tannery is equipped with an effluent treatment station and verifies that its industrial emissions comply with the applicable standards. Regulatory inspection reports are submitted to the local authorities on a regular basis.

The division’s tanneries continually work on improving the performance of effluent treatment. Accordingly, the Montereau site continued the research on the sources of pollution started in 2017 and conducted a

second pilot test on complementary treatment. The Vivoin site meanwhile continued its work to develop and secure the treatment of its effluents. After the installation of a new press filter and a new effluent homogenisation tank over the past two years based on the recommendations of the technical and economic study for the treatment plant, an additional pilot treatment trial began in 2018 for a period of nine months. A similar study was conducted at the Tanneries du Puy site in 2017. After the first modernisation work last year, a pilot filter press treatment trial was launched in 2018. Major additional work was also done to the Tannerie d’Annonay treatment plant to make its operation more reliable. This resulted in the installation of additional treatment facilities and improvements to gas collection and treatment systems.

The division’s tanneries’ air emissions primarily result from the operation of the boilers, the dry degreasing activity and the finishing booths. The verifications of such equipment, as identified in the prefectural orders or site permits, are performed in accordance with the applicable regulations. Finally, in keeping with regulations, the French sites prepared a solvent management plan.

Silk

Water emissions at the AEI, Ateliers AS and SIEGL sites are self-monitored on a daily basis. All deviations are analysed and a corrective action plan is launched. To ensure the reliability of these fundamental monitoring data, audit and calibration plans are regularly launched. This was the case this year with the audit of the self-monitoring systems at the AEI sites and AS workshops and the calibration of the internal laboratory at SIEGL, in which our results were compared with results from two external laboratories.

At the SIEGL site, teams have resumed the operation of STEP, which was previously outsourced. An in-depth pilot study resulted in the creation of an additional facility for the activated charcoal treatment of effluents following the membrane microfiltration process. This facility helps to improve the depollution results (COD mostly, but also heavy metals) and has been used as a test to model the future purification plant, on which construction will begin in September 2019.

Ateliers AS have continued their efforts to reduce pollution at source. As a result, stripping products, a source of hydrocarbons, have been recovered more thoroughly. This was accomplished by first setting up pits for the recovery of stripping products from the frames in the printing workshop washing booths, then by the recovery of the products used to wash the Atelier PEPS printing tables.

Cristallerie

Industrial wastewater, pre-separated in the respective workshops and collected at a single point, has been purified by a new phytotreatment facility since 2015. An awareness programme for users of water resources is ongoing with the aim in particular of sustaining performance at treatment facilities.

To further improve the quality of water emissions and anticipate possible changes in regulations, considerable research and optimisation at source (with regard to effluent behaviour and renovation of the workshop for the neutralisation of effluents from the polishing workshops) have significantly reduced the flows emitted.

Regular campaigns to measure water discharges confirm the good performance of purification plants (in particular the compliance of the new neutralisation workshop), enabling discharges to be well below regulatory thresholds.

Moreover, measurements of air emissions were carried out in the third and fourth quarters of 2018. The results obtained confirm the proper functioning of the facilities with regard to atmospheric emissions.

Porcelain

At CATE, wastewater from enamel activity is pre-treated directly onsite following a physical and chemical treatment process. The dehydration sludge is sent to a suitable treatment company, and pre-treated water is discharged into the mains network. An external laboratory carries out monthly analyses.

At Beyrand, the site has a water treatment station at the exit of the washer/scouring sluice. It uses a physical-chemical treatment process. Silver recovery units have been installed at the exit of the film developers. Analysis of the compliance of the wastewater discharge into the public network is carried out every year.

2.5.5 CHALLENGE: RESPECTING AND PRESERVING BIODIVERSITY

Maintaining an environmental setting conducive to the development of activities requires respect for and the protection of biodiversity.

2.5.5.1 Policy

Hermès is working to protect biodiversity in its direct sphere of responsibility, in its extended sphere of influence, and through voluntary commitments reaching beyond its economic spheres of influence.

“Nature has been inspiring us for 181 years. Protecting biodiversity is a wonderful opportunity. We must pass on this wealth to future generations. It’s a challenge we must win today.” Mr Axel Dumas, Executive Chairman of Hermès.

2.5.5.2 Measures implemented

Hermès is committed to integrating biodiversity into its development strategy. The commitments undertaken by Hermès, according to its ability to influence, are presented below:

Commitments in the direct sphere of responsibility of Hermès:

We are developing our actions to foster biodiversity in our French sites by focusing on the following topics:

New constructions: Hermès is determined to develop its French industrial sites in rural environments or urban brownfields to be renovated (Héricourt and Saint Junien, for example). From the outset, it will include a commitment to avoid any threat to existing biodiversity and to respect and develop such biodiversity. All our new projects are based on internal “sustainable construction” guidelines, drawing on best international practices, which set out in particular the requirements we apply:

- ◆ the landscaped portion of the site after works (target: > 70%);
- ◆ the proportion of wastewater treated by phytotreatment or equivalent (target, if applicable: > 80%);
- ◆ the green portion of the building’s roof (> 60%). Currently, for example, we have roof gardens at our three sites in Pantin and at one of our leather goods production units (Nontron, Périgord);
- ◆ the number of local actions: selection of indigenous species, installation of wildlife shelters (nesting boxes, beehives, etc.), configuration of exterior lighting, etc.) promoting biodiversity (target: more than 2);
- ◆ the portion of outdoor areas in shade on the winter solstice (target <30%).

Projects to which these criteria apply were launched in 2017 and are currently being rolled out. The first results are expected from 2019.

Planting initiatives: depending on land availability, our sites have planted fruit trees: conservation orchard in Héricourt (Doubs), apple trees in Sayat (Puy-de-Dôme) and a partnership with a local chestnut conservation group (Puy-de-Dôme), in Nontron (Périgord) and in Tardoire (Charente), planting of protected species in Allan (Doubs). The roof of our historic store at rue du Faubourg St Honoré in Paris also boasts gardens with fruit trees. We aim to continue to develop the planting of trees around our production sites and office buildings.

Bees: We have an internal apiary club, with seven sites in France having beehives: Faubourg St Honoré, Sayat (Puy-de-Dôme), Nontron (Périgord), Le Vaudreuil (Seine / Maritime), La Tardoire (Charente), Belley (Ain) and Annonay (Ardèche). Our goal is to ensure the long-term sustainability of these beehives, to welcome wild hives at these sites, where possible, and to extend this approach to our other sites.

In addition, our local sustainable development committees coordinate local biodiversity-friendly initiatives (promoting organic farming, using sheep for pasture management, carrying out works to maintain communal forest areas, etc.) in coordination with their stakeholders; this provides an opportunity to raise awareness and involve all employees.

Outside of France, our distribution subsidiaries contribute in their own way, for example with rooftop vegetable gardens in Hong Kong and trees planted by the Shanghai teams on the Chongming peninsula, a protected nature reserve. Broadly speaking, biodiversity actions are regularly promoted among employees. During the Sustainable Development Weeks in France and abroad, the films “*Demain*” (Tomorrow, 2016), “*L’Empereur*” (The Emperor, 2017) and “*On a vingt ans pour changer le monde*” (We have 20 years to change the world, 2018) were shown to employees.

Hermès will continue its awareness-raising efforts among employees.

Commitment in the extended sphere of influence of Hermès

Together with the partners supplying us with natural materials, we are continuing constructive efforts incorporating biodiversity protection. We are working with international NGOs in this area, as appropriate, in order to better assess the various biodiversity components that concern us

and to assess our impact on our supply chain. The contribution we wish to pursue covers two aspects in particular:

Alligators in Louisiana: Hermès sources its alligator skins directly and indirectly from farmers in Louisiana. The alligator industry, considerably reorganised in line with the Washington Convention, has contributed (1) to protecting the species and its unprecedented development in the areas in question and, as a result, (2) to protecting and maintaining the marshlands where these animals live and reproduce. According to the US Fish & Wildlife Service, this corresponds to 3 million acres of marshlands that are thus better maintained. Our goal is to continue to support farmers in their development, thereby ensuring the long-term sustainability of effects (1) and (2) above, fostering the protection of flora and fauna biodiversity.

Silkworms in Brazil: For more than 20 years, Hermès has helped to develop a supply chain for high-quality silk thread in Brazil. Located in the state of Paraná and drawing on Japanese expertise, the cultivation of mulberry trees has made it possible to sustainably establish this division. This industry preserves low-chemical hardwood biotopes (silkworms eat only non-polluted mulberry leaves) and generates income for small local farms and, accordingly, thousands of families.

Our goal is to continue to support the division, making it possible to protect these regions' plant biodiversity while also ensuring long-term income for farmers.

Voluntary commitments reaching beyond the economic sphere of influence of Hermès

As a responsible company, Hermès voluntarily undertakes biodiversity-related efforts reaching beyond its business activities. The Fondation d'entreprise Hermès contributes to various biodiversity-related projects and aims to continue its efforts in this area. It also supports a wide-scale project in Africa in partnership with the WWF: Traffic/AfricaTwix. This project aims to improve the fight against the poaching, trafficking and illegal trade of protected species in Africa, through the establishment of IT tools fostering dialogue between the different authorities of the countries in question. The Foundation will continue to support this project.

Livelihoods: since 2012, Hermès has been a shareholder of the Livelihoods Fund, which aims to improve the living conditions of disadvantaged communities in a sustainable manner by developing large-scale projects with real impact against climate change (www.livelihoods.eu).

Investments are made in three types of projects (ecosystems, agroforestry and energy) in Africa, Asia and Latin America. The fund has 10 partners (1) working on these projects over a 20-year period. Overall, the Livelihoods fund will contribute to the replanting of 130 million trees, including 18,000 hectares of mangroves (Casamance, Ganges Delta and Sumatra) and 34,000 hectares of agroforestry (Andhra Pradesh, Guatemala and Kenya). Hermès will continue its commitment to the Livelihoods fund by contributing to current projects, but also with the creation of a new, ever more ambitious fund launched in December 2017, which will have a considerable effect on biodiversity.

Act4Nature

Hermès joined the French project Act4Nature on 10 July 2018 alongside 64 players in the French economy, and confirmed its commitment to integrating biodiversity in its overall development strategy thereby contributing to the biodiversity targets set by the international community. Act4Nature is an initiative launched by EpE (the French association Entreprises pour l'Environnement) and several partners with a view to mobilising companies to protect, promote and restore biodiversity through shared commitments fixed by scientific institutions and associations, and through individual commitments specific to our House:

- ◆ a shared commitment (ten commitments in total) that aims to integrate biodiversity considerations into all activities, from governance and strategy to the most practical operations, to legitimise those considerations among the Company's employees and stakeholders in order to elicit and encourage spontaneous and widespread actions;
- ◆ an individual commitment defined by each company and specific to its activities. This commitment must be adapted regularly, as Act4Nature strives to follow a continuous progress approach.

Measured and reassessed every year, these initiatives must help to set an ambitious course for major forthcoming events in global biodiversity. In 2020, the World Congress of the International Union for Conservation of Nature will be held in Marseille, and COP15 of the Convention on Biological Diversity will be held in Beijing.

2.5.5.3 Results

Through their location in rural areas, the sites are involved in various biodiversity initiatives.

Leather Goods

The Leather Goods division is committed to Biodiversity programmes.

Available land around Leather Goods buildings is always examined with a view to developing such areas with local partners.

The Sayat production unit helped to finance the creation of a conservation chestnut orchard in collaboration with the *Conservatoire des Espaces Naturels* in Riom Limagne. The programme aims to identify remarkable trees, harvest grafts, use them and have 17 varieties of identified chestnut trees cultivated by a nursery for one year. These chestnut trees will then be planted at the leather goods sites. Chestnut trees are emblematic to the Limagne fault line (where the Sayat site is located) and are very widespread locally as they are well suited to the geology of the soil (granite rock). This orchard will perpetuate these tree varieties, carefully selected more than 200 years ago.

The Maroquinerie Iséroise uses sheep to maintain the pastures around the site. This original eco-grazing formula is helping to protect an endangered breed and to practise environment-friendly maintenance. Leather goods craftsmen and women help to guard the flock.

(1) Danone, Crédit Agricole, Caisse des Dépôts et Consignations, Schneider Electric, La Poste, Hermès International, Voyageurs du Monde, SAP, Firmerich and Michelin.

An agreement was signed in November 2018 between the French League for Bird Protection (LPO) and the production unit at l'Allan, with a view to establishing structures to accommodate and protect local bird species.

The Aix-les-Bains leather goods site provides its employees with part of its available green spaces for vegetable gardens.

Lastly, several leather goods sites have planted fruit trees, favouring traditional and local varieties, and have planted green spaces as beautiful flower meadows. Five of them also have beehives.

Silk

The division lends maximum protection to existing biodiversity in and around its production facilities. At the ITH site, for example, the surrounding flora and fauna are left untouched, with very little human involvement. Moreover, it is not uncommon to find moorhens, mallard ducks, herons, coypus and frogs. Amphibians also thrive in the ATBC site's fire extinction pool.

Hermès Maison

At CATE, the 2018 Sustainable Development Week was yet another opportunity to raise the teams' awareness of the site's biodiversity. The activities offered enabled participants to observe the CATE flora and fauna, in particular around the site's pond. Some of the employees participated in a discovery workshop focusing on local plant varieties. The teams benefited from these interactive sessions to develop their knowledge of the biodiversity found at and around the production unit.

Year after year, the flower meadows and insect hotel continue to bring new pollinating insects to the site and to offer shelter for secondary fauna. No plant protection products are used in maintaining the green space, and most plots are maintained using mulching techniques, which protect soil from drought and serve as a natural fertiliser.

Noise and olfactory emissions

A large amount of equipment is replaced each year to improve systems used for the treatment of waste discharged into water and into the atmosphere in order to meet all applicable regulations. Similarly, noise measurements are regularly taken around a small number of sites that may be affected to check that they comply with the standards applicable to them.

Tanneries

In connection with the current production activities, as well as any one-off operations (such as maintenance or civil engineering operations), the sites seek to avoid and/or reduce noise and olfactory pollution as much as possible. Major investments and construction continued in 2018 to improve the odour capturing and treatment system. The installation, which has been in operation since July 2018, has eliminated the malfunctions that caused the odours.

At the Tanneries du Puy, in order to reduce odours, pilot tests began in 2018 to verify the new sludge treatment system. The final investments and construction will be completed in 2019.

In both cases, the search for the causes and the compensatory measures planned were communicated to the French State, the municipal government and the DREAL, and to local residents as well.

Lastly, when required by the regulations, the tanneries may carry out noise measurements at property boundaries. The latest measurements did not bring to light any excessive noise.

Silk

Actions to reduce noise and olfactory emissions are quite specific to the activities and environment of the sites.

The topic of noise was the main theme of the year for the ITH site. During a week dedicated to the subject, employees were invited to report all noise that could be a nuisance on the site and its periphery. The week resulted in many improvements, some of which have considerable impact: firstly, all of the blowguns on the site were replaced with blowguns with noiseless nozzles. The blowguns are calibrated for maximum flow at the lowest setting. This change was implemented in June 2018 and resulted in noise reduction of 14dB or 15% for the operations affected. Several pieces of production equipment (iron press motors at SNC, fans for the engraving line at Gandit) were also converted to reduce ambient noise (August 2018). Finally, several smaller actions were performed by the teams, such as the placing of foam on picking carts, lowering the volume of the reversing alarm on trucks, adjusting the door closers and modifying the compressed air system for the packing machine.

At SIEGL, the air conditioner for the Inkjet workshop was insulated to reduce noise emissions for local residents

Similarly, at the ATBC site, obsolete compressors were replaced and sound filters were added to the compressors already in place to minimise our noise footprint.

Cristallerie

An environmental monitoring programme around the production unit was set up jointly with local authorities and put in place in 2018. The results obtained during these measurement campaigns reflect those observed at the various water and atmospheric emission points and thus underscored the compliance of the production unit's activity with respect to its direct environment.

Beyrand

At Beyrand, during the renovation of our air treatment plants, the relocation of one of our extractions led to an increase in noise pollution. The installation of a soundproofing chamber solved the problem.

Perfumes

The noise and olfactory pollution of the activity on the Vaudreuil site is very limited. Noise measurements are regularly carried out at the property boundaries.

During various site projects, new ventilation equipment was installed on the roof. Compliance with the noise standards in force was one of the criteria for selecting the equipment. The noise impact on the environment was measured again after installation.

Land use

The Group's industrial activities do not contribute to the building-up of land, given the small surface area occupied by its sites and the negligible rate of change in land use for cattle and sheep farms in Europe, from where its supply of raw hides is sourced. An impact study incorporating issues relating to animal and plant life and the preservation of natural environments is carried out prior to establishing any new industrial site.

A long-term commitment to the Livelihoods Carbon Fund

Hermès has extended by 20 years its commitment to the Livelihoods Carbon Fund, with which it has been partnering since 2012, with the aim of reducing carbon emissions through practical initiatives to improve the daily lives of rural communities in India, Guatemala, Indonesia, Peru, Kenya, Senegal and Burkina Faso. In Burkina Faso, the construction of three-stone stoves illustrates the way in which simple and replicable large-scale solutions can be implemented, with immediately measurable effects on the quality of life of local populations and on CO2 emissions. In the village of Kongussi, local NGO Tiipaalga is teaching women how to build these ecological stoves, which use little wood and cause little pollution, using straw and donkey

manure to obtain the refractory material. In return for such projects, the contributing companies, including Hermès, receive carbon credits with high social value, partly offsetting their own emissions. In six years, the nine Livelihoods projects have benefited 1 million people in Africa, Asia and Latin America, and 130 million trees have been planted. Through Livelihoods, Hermès aims to have a positive impact on the quality of life of communities and carbon emissions over time.



2.5.6 CONTRIBUTION TO THE UN'S SUSTAINABLE DEVELOPMENT GOALS (SDGs)

Hermès's environmental commitments are reflected in a significant number of SDGs, including the following (the numbers refer to the UN's official typology):

No. 3: Good health and well-being

- ◆ 3.9: "Reduce the health impacts of activities and pollution".
Hermès operates in countries in which regulations are very stringent on this subject. The Group continues to improve its production processes in order to enhance the management of health risks, including those that may be generated by its products.

No. 6: Clean water and sanitation

- ◆ 6.3: "Improve water quality".
The Group and all of the métiers (tanneries, crystal, silk, and so on) have been actively working on controlling the important issues of water consumption and effluent management since 2002. Hermès is achieving significant results. (section 2.5.2.2.1), having gradually uncoupled growth from consumption, and through the implementation of improved technical systems now available.
- ◆ 6.4: "Water stress".
The main métiers that are concerned (silk, tanneries, crystal) are located in areas with low water stress. Improving discharge levels is a subject to which we pay careful attention, and which is governed by very stringent European or US regulations (section 2.5.4.2).

- ◆ 6.6: "Protecting wetlands".

The Group is participating in the Livelihoods project, which is contributing to the restoration of coastal wetlands totalling nearly 18,000 hectares (Casamance, Sundarbans, Sumatra). In addition, the growth of the alligator farming industry in the United States over the last 20 years, to which the Group contributes, encourages the preservation of the natural habitat of these animals and consequently the protection of wetlands in Louisiana and Florida.

No. 7: Affordable and Clean Energy

- ◆ 7.2: "Increase the share of renewable energy".
In France, 100% of electricity consumed is "green", which represents 4/5 of the Group's electricity consumption. In addition, the Group has installed renewable energy devices (wood-fired boilers at production sites, photovoltaic energy at sites and for the US logistics centre in New Jersey ((section 2.5.2.2.2).
- ◆ 7.3: "Improve energy efficiency".
Our property management guidelines incorporate this concept into all new projects. We have seen a reduction in energy consumption in stores following the replacement of lighting with LED lighting. At the end of 2018, 80% of stores were fitted with this. In the industrial area, the decoupling of consumption and growth has become a reality.

No. 8: Decent work and economic growth◆ 8.4: *“Decouple consumption and growth”*.

As a result of the work carried out, we have been able to decouple growth and energy and water consumption.

No. 12: Responsible consumption and production

The Group strives to manage waste and chemical products throughout their life cycle. A major player in France in several métiers (tanneries, silk, crystal, etc.), the Group strives to implement the best available, reliable and sustainable operating solutions. It endeavours to control its emissions into the air, water and soil, in a context in which its sites are subject to the strictest regulations in this area (OECD).

No. 13: Climate action◆ 13.2: *“Integrate climate change measures”*.

Initiatives have been taken by various departments (Industrial, Construction, Logistics) to contribute to reducing energy consumption and greenhouse gas emissions (see section 2.5.3). In addition, Hermès contributes to the Livelihoods initiative (130 million trees planted), which partly offsets the Group’s carbon emissions.

◆ 13.3: *“Improve awareness-raising among employees on climate change issues”*.

Internal activities conducted throughout the year are an opportunity to raise teams’ awareness about environmental topics and explain our actions (including with Livelihoods, for example during an event held in December 2017 that welcomed over 800 people at Hermès);

No. 14: Life Below Water◆ 14.2: *“Manage marine and coastal ecosystems”*.

Crocodile farming requires the implementation of wetland protection measures, to which the Group and its partners make indirect contributions (see section 2.5.5);

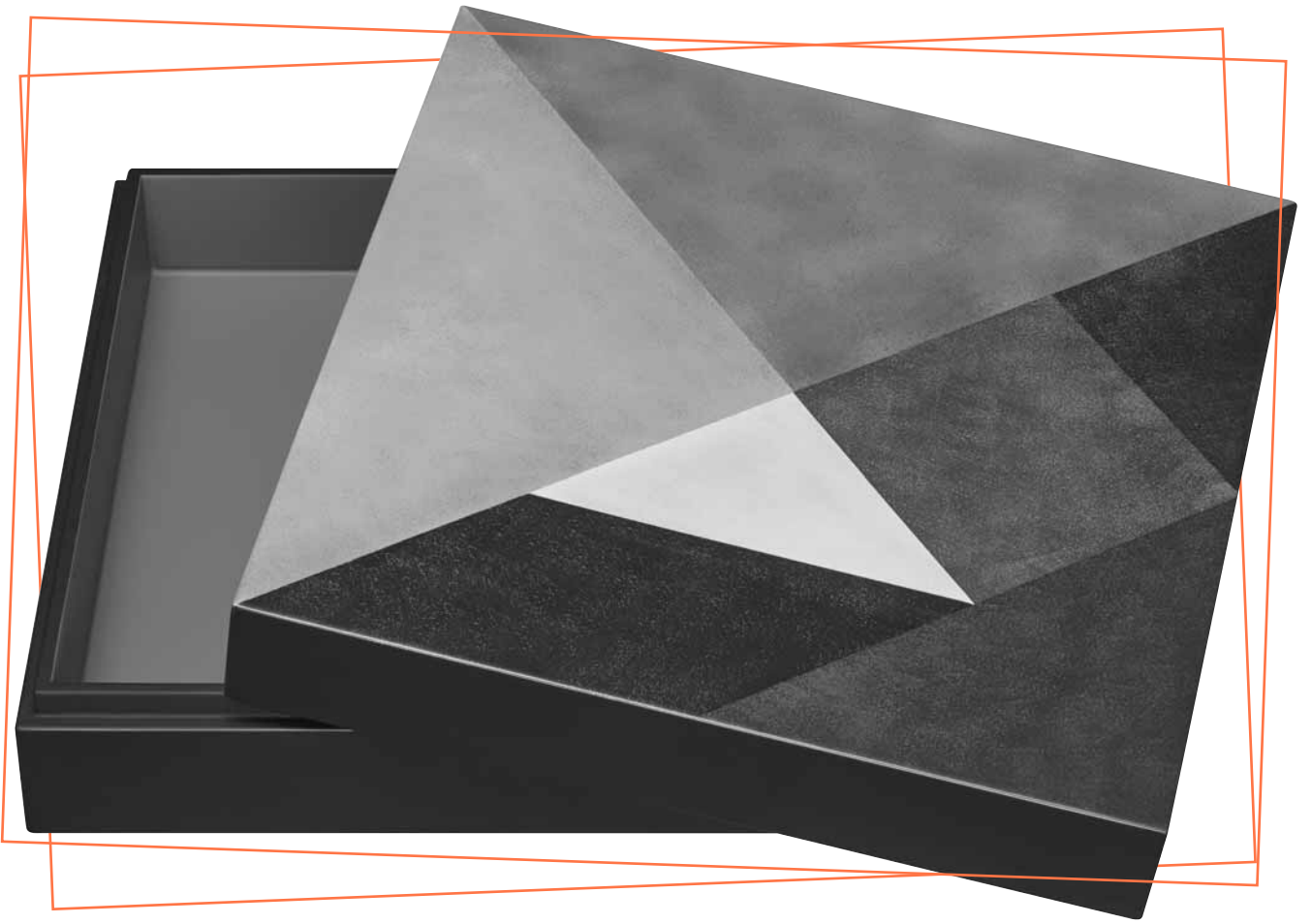
No. 15: Life on land◆ 15.1: *“Protecting biodiversity”*.

The Group strives to preserve ecosystems insofar as it is concerned (sourcing of natural materials). It is studying its impacts to prevent adverse effects.

◆ 15.2: *“Forest Management”*.

Hermès supports the sustainable management of forests through a sustainable purchasing policy on paper, cardboard and wood (bags, boxes, and packaging, etc.). The Group complies with regulations governing wood sourcing. Hides of European origin that are used by the Group for leather goods do not come from farms that contribute to deforestation. The Livelihoods project has also contributed to the replanting of over 130 million trees.





2.6 COMMUNITIES: SUPPLIERS & PARTNERS

Most of Hermès' production is integrated, in line with its strategy of preserving unique *savoir-faire* and securing supplies. Accordingly, 70% of our objects are made in-house. Our ability to grow is, however, also linked to the development of our suppliers, whose exceptional *savoir-faire* and future success will contribute to that of the Group.

The House's subcontractors and suppliers are mainly long-term partners. As such, for direct purchasing (production purchases), the average length of trading relationships with the Group's top 50 largest direct suppliers in 2018 was 21 years within the scope of x These suppliers operate mainly in the Leather Goods division (tanneries, suppliers of metal parts and manufacturers). This stability is especially true for small suppliers, with which our partnership may go back more than 50 years.

For direct purchasing, relations with our suppliers are also based on proximity, facilitated by the fact that they are mainly based in France, or at least in Europe, which makes regular visits possible. For reasons of *savoir-faire*, in the quest for excellence, the Group also works with a few distant suppliers. For example, we can mention lacquer in Vietnam, cashmere spinning in Nepal, and woodwork in Indonesia. These suppliers produce small volumes, but are subject to special monitoring, in particular through audits conducted by an external third party every three years, action plan monitoring by senior purchasers, and regular visits by Hermès (at least once a year).

This stability and proximity of relations with our partners enable us to establish long-term, close collaboration with them in several areas as part of the continuous improvement of our supply chains. Hermès is committed to providing long-term support for all our partners, and maintaining balanced relationships characterised by goodwill and high standards; we ensure that all our partners share and respect our social, environmental and ethics ambitions. We pay special attention to human rights and fundamental freedoms, working conditions (health, safety, working hours, wages, etc.) and the environment - whether at our suppliers' premises or at their own suppliers' and subcontractors' premises, with a view to better understanding all of our supply chains.

Aware of its social responsibility, the Group has also been working with socially supported organisations in France for many years for its direct and indirect purchases, and this practice is growing steadily every year. Accordingly, as part of the first Disability Agreement signed for 2018-2020, Hermès has set itself the ambitious goal of increasing its use of socially supported organisations by 20% every year, and this target was achieved in 2018.

2.6.1 CHALLENGE: LONG-TERM PARTNERSHIPS AND WORK WITH SOCIALLY SUPPORTED ORGANISATIONS

Maintaining *savoir-faire* through long-term partnerships with local suppliers (France, EU) as well as more distant suppliers, and supporting socially supported organisations in France.

2.6.1.1 Policy

Hermès' policy is to cultivate this *savoir-faire* by supporting its suppliers in the long term.

Hermès seeks excellence among various French craftsmen and women with traditional, scarce and precious *savoir-faire*. In so doing, it aims to safeguard and perpetuate our national artisanal heritage. Some creations also rely on *savoir-faire* that is scarce worldwide.

This policy is based on two departments at the headquarters (direct purchasing and indirect purchasing) and decentralised purchasing managers by *métier*.

The Group has had a policy of developing partnerships with socially supported companies (EA ¹, ESAT ²) in France for many years. Through this policy for the disabled, the Group strives to strengthen these partnerships whenever possible, with a target of increasing them by 20% per year by the end of 2020. This is an opportunity for the House to support companies to improve their skills.

In addition, the Group develops long-term partnerships with goodwill and high standards, in particular regarding quality, respect for the environment, and social and ethics commitment.

The management of the Group's suppliers (in an environment where 70% of production is performed internally) is the responsibility of the métiers, which use a pragmatic, long-term approach. It is supervised by two Executive Vice Presidents for direct and indirect purchases, respectively.

It is based on the House's supplier policy (see above), which is explained externally by the "undertaking handbooks", put into operational practice by the buyers (who were specifically trained in the subject in 2018 at an *ad hoc* seminar) and verified by internal and external audits.

Internally and externally, compliance with ethics, environmental and social regulations is mandatory.

(1) EA: Adapted company providing work to people with disabilities.

(2) ESAT: Sheltered work establishments whose purpose is the social and professional integration of adults with disabilities.

2.6.1.2 Measures implemented and results

The definition of the main strategic principles, policies, tools and control systems is the responsibility of two central departments (the Direct Purchasing and Indirect Purchasing Departments), which reports to two Group Executive Vice Presidents. Secondly, each *métier* has a purchasing manager who is a member of the Executive Committee of the *métier* and reports to the Executive Vice President of the *métier*. These functional and operational departments work with shared objectives to strengthen the quality of relationships with our partners and suppliers, both in terms of quality and compliance with major CSR issues.

Our suppliers are partners

The Group's ability to grow is linked to the development of its suppliers and subcontractors, most of which have been our partners for many years. The Group's achievements with respect to these main challenges are driven by the *métiers*.

For the Company's 50 largest direct suppliers, the average length of trading relationships break down as follows: 17% go back more than 30 years (over 40 years for two suppliers and over 60 years for one of them); 27% go back 20 to 30 years; 29% go back 10 to 20 years and 27% go back less than 10 years.

Leather Goods

The Leather Goods division carries out most of its production in-house. It nurtures a very close relationship with its supplier partners: hides, metal parts, etc. Most of them have been supporting Hermès for a long time - relationships are built over time. The teams visit them frequently to initiate and then follow improvement measures, which may relate to the development of new products, or the quality or optimisation of raw materials. Regular audits consolidate these approaches.

Hermès Maison

In its wide range of activities, Hermès Maison collaborates with suppliers with unique *savoir-faire*. The *métier* has set itself the objective of bringing together and facilitating a "whole family of *savoirs-faire* excellence".

We therefore work to find the best artisans, then encourage and develop excellence in *savoirs-faire* wherever they are in the world, and in France if they exist.

When a unique *savoir-faire* is discovered and identified, a partnership is created and the relationship is developed and established over the years. The creative teams of Hermès work directly with the artisans. This relationship reveals these *savoirs-faire* and encourages the artisans towards increased excellence, quality, and uniqueness.

These partnerships are created in ways such as the following:

- ◆ cashmere spun and hand-woven in Nepal: Hermès's "quasi-exclusive" partner for almost 20 years. Its work is present in the collections of blankets in particular. The exploration of the *savoir-faire* of hand dyeing is continuing, with successive dyeing baths, as found in the "Tangram" blanket, for example;
- ◆ lacquer workshop in Vietnam: this collaboration has existed for over 15 years. This hand-painting *savoir-faire* is featured in collections of boxes, for example. Boxes and tea boxes have been designed to revisit drawings that are emblematic of the House (Tangram and *Bleus*

d'ailleurs respectively). Exploration of the virtuoso *savoir-faire* of hand-painting is continuing;

- ◆ high-end woodworking: a partnership of almost 20 years. This workshop, located in Indonesia, is the home of rare *savoir-faire* in the crafting of solid wood. An exceptional piece in the collection, a straight-grain stained wooden sewing box, was also made by these artisans;
- ◆ wicker: this *savoir-faire* was developed as part of a partnership in France. Wickerwork objects in the collection include trays and vases.

These collections consist of small volumes, however they are monitored particularly closely and a third-party audit is carried out regularly (at least every three years).

Silk

For over 10 years, the *métier* has been collaborating with an India-based supplier that uses ancient techniques such as embroidery, indigo dyeing, and regional handcrafted woven fabrics.

Hermès supervises these relations carefully with the dual purpose of creating conditions to perpetuate this *savoir-faire* and ensuring these suppliers apply best practices (protecting the environment, social and ethics rules, etc.).

Hermès carries out regular visits (at least once a year) and organises the monitoring of key points by senior purchasers when necessary.

Societal responsibility and using socially supported organisations

Leather Goods

The Group's overall purchases from socially supported organisations almost doubled year on year, compared with the target increase of more than 20% per year in the Group Disability Agreement.

For 10 years, the Leather Goods division has been partnering with Adapted Companies (EAs) and Sheltered Work Establishments (ESATs): in particular, it has established close relationships with seven of them.

Working, health and safety conditions are formally assessed in these partner institutions to ensure the continuous improvement of these aspects. A personal contact person provides these EAs and ESATs with technical and quality support on a day-to-day basis, but also over the long term, as part of development projects. These projects may involve the development of future premises, the acquisition of new equipment, or *savoir-faire* training to entrust them with tasks with greater added value.

The Leather Goods division thus aims to build a local network of partner EAs or ESATs for each of its regional clusters as they are established.

Integration in our own workshops remains a priority, and Hermès is working in this direction with EAs and ESATs. Accordingly, the Vesoul ADAPEI (organisation of friends and parents of disabled children) proposed the integration of a young, disabled person. Through a three-way agreement with the ESAT and the labour department, this person was seconded to the cutting workshop of the Héricourt production unit on 1 March 2018. In light of their successful integration within an independent team in the workshop, and after this person successfully completed training, a permanent contract was offered (which started on 1 December).

Within the *Maroquinerie de Fitilieu*, an approach was also implemented to integrate people with disabilities in the Leather Goods craftsman métier. This began with the class of January 2018, followed by that of August 2018, when two and then three people respectively were accommodated by way of the “Recognition of the Status of Disabled Worker” (RQTH) system.

The main principles governing this approach are based on:

- ◆ respect for others: “Diversity, a key factor in success, requires a respectful ear”;
- ◆ specific and individualised support;
- ◆ maintaining the high standards expected, “see the skill of the disabled worker”.

Each situation is naturally subject to a unique approach to provide the assistance necessary for successful training.

Tanneries

The Tanneries du Puy, Montereau and Vivoin, use their partnerships with sheltered work establishments (ESATs) to undertake maintenance of green spaces. Until 2017, the Montereau site hired two people from the same ESAT to perform in-house production operations. One of those people was taken on by the tannery at the beginning of the year. The Tannerie d'Annonay also works with an ESAT on an occasional basis for commercial brochure packaging and leather sampling assignments. The *Compagnie des Cuirs Précieux* continued the partnership it entered into in 2017 for catering and meal tray services at seminars and meetings in their head office in 2018.

Perfumes

Several actions were undertaken by CNP with respect to the Group's policy for the disabled:

- ◆ provision of the Handeco platform with awareness-raising and communication initiatives targeting all employees;
- ◆ systematic consulting with a local ESAT (ADAPEI 27) for 100% manual packaging/packaging removal work;
- ◆ work entrusted to the Val de Reuil ESAT in 2018: Travel kits, Fragrance stone kits, 2 ml kits, Discovery kits and soap packaging removal;
- ◆ services such as breakfast and meal trays provided in Pantin.

Cristallerie

The maintenance of landscaped areas has been entrusted to the association APAEIIIE Ingwiller for several years.

A partnership was concluded with the Goetzenbrück branch of this ESAT to manage the secondment of an employee from the sheltered sector to the Cristallerie's shipping department. Within this partnership, a service was also set up for storage and the preparation of finished product packaging.

As part of Disability Week and the “1 jour, 1 métier®” (1 day, 1 métier) project, a disabled employee was hosted to discover one of the production unit's métiers.

Through internal awareness-raising campaigns and using socially supported organisations, Saint-Louis exceeds its requirement to employ disabled workers with a rate of 9.41% in 2018.

Silk

The various entities of the silk industry collaborate with socially supported organisations for various types of operations:

- ◆ purchases from sheltered work establishments (ESATs) for mechanical, carpentry and packaging items, cleaning services and maintenance of green spaces (ATBC). Purchases from the Artisanerie ESAT for small cleaning supplies (rubbish bags, brooms, etc.);
- ◆ uniform cleaning service (AEI and AS);
- ◆ partnership established for more than 10 years for the maintenance of all green spaces around and outside SIEGL;
- ◆ pastry caterer (SIEGL and ITH);
- ◆ sample assembly (HTH Bucol, Créations Métaphores), partnership for over 10 years;
- ◆ recycling of printing frames (Gandit).

Hermès Maison

At Beyrand, we conduct awareness-raising actions every year during the European week for the employment of people with disabilities. We work with an ESAT for catering services.

2.6.2 CHALLENGE: SUPPORTING SUPPLIERS

Accompanying and supporting, métier by métier, suppliers while exercising our duty of care (responsible sourcing).

2.6.2.1 Policy

The Group policy on supplier guidance and support is based on four fundamentals axes:

- ◆ Ensure long-term relationships with suppliers by preserving key skills, securing supplies and services, and establishing balanced and sustainable relationships.
- ◆ Seek the best quality and enrich Hermès' creation with concrete propositions resulting from our partners' innovation.
- ◆ Guarantee ethics throughout our supply chains (including labour rights).
- ◆ Contribute to the economic performance of the House by controlling costs, as a whole, and by providing value to customers.

Operationally, each métier is responsible for the management of its suppliers and subcontractors. The métier-based approach guarantees proximity, understanding of issues and pragmatism of its mechanisms, while complying with the House's rules.

The Group coordinates and monitors the policies, tools and achievements with respect to two departments: direct and indirect purchasing. The current purchasing policy was formally issued in May 2013. It is regularly updated and shared with all employees via the intranet.

2.6.2.2 Measures implemented and results

Since 2017, this coordination of Group purchasing has been reorganised into two divisions: that of direct purchasing, on the one hand, and that of indirect purchasing, on the other hand. The main duties of these two divisions are coordinating the network of purchases, raising their awareness and training them in CSR issues in the supply chain, structuring and strengthening the supplier support and guidance system, and accelerating its implementation in all the House's métiers and subsidiaries. The Group's direct and indirect purchasing departments also coordinate the supplier audit programme conducted with an external firm.

Duty of care

The supplier risk management system, which had already existed in the Hermès Group for many years, was strengthened and accelerated in 2018 as part of the implementation of a reasonable duty of care plan with respect to suppliers. Special attention was given to human rights and fundamental freedoms, the health and safety of people, and more generally their employment conditions, as well as the protection of the environment. The risk of corruption and influence peddling is also carefully monitored.

In accordance with the recommendations of the French law 2017-399 of 27 March 2017 concerning the duty of care of parent companies and contractors, this duty of care plan includes:

- ◆ risk mappings aimed at identifying and assessing the risks generated by the activities of our suppliers and subcontractors, and more generally by all of our divisions;
- ◆ procedures to regularly assess the situation of our suppliers and subcontractors with which we have a trading relationship, but also increasingly to assess the situation of second-level suppliers and subcontractors, in order to gain an ever-stronger understanding of our supply chains;
- ◆ appropriate measures to mitigate the risks identified or prevent serious violations;
- ◆ an alert and reporting mechanism that is consistent with the House's other internal alert mechanisms;
- ◆ a system for monitoring the measures implemented and assessing their effectiveness.

The system was presented to all the Group's purchasers (over 100 people) and internal controllers during a Purchasing day organised on 10 April 2018 on the theme of supplier risk management. After discussing the regulatory environment, the methodology and tools offered for supplier risk management were presented. In particular, a methodology to carry out risk mapping by purchase category, a supplier management analysis framework and a "know-your-supplier questionnaire" were presented, and purchasers were requested to implement them.

This supplier risk management methodology is shown in the following diagram:



During this day, a member of the Executive Committee and the Group's Industrial Affairs Director officially requested purchasers to continue to strengthen their understanding of their supply chains and to better structure and formalise the measures taken. Following this day, several workshops and meetings were organised with direct purchasers on the topic of supplier risk management.

A web market solution has been put in place and will be ramped up over the next few years to allow suppliers to share their successes and substantiating documents on the subject with Hermès.

2.6.2.3 Risk mapping

The Group has produced a risk mapping, into which the mappings produced by each of the main métiers, distribution subsidiaries and support activities are fed. Each of these mappings takes risks related to suppliers and subcontractors into account.

In addition, to guarantee the thorough assessment of each supply chain, the purchasers within each métier formalise a risk mapping for each of their purchasing categories, assessing in particular the risks of the entire supply chain with respect to human rights and fundamental freedoms, the health and safety of people, social aspects, the environment, and corruption risks. These risks are prioritised based on their criticality, on the one hand, calculated as the product of the impact on the Group or its stakeholders by probability of occurrence, and on the level of control, on the other hand.

In 2018, the focus was turned to direct purchasing. With its 13 métiers, the Group recognises about 100 different direct purchasing categories, of which one-third were covered by a mapping formalised in 2018. The target for 2019 is to map 50% of the purchasing categories.

Ensuring the durability of artisanal *savoir-faire* and maintaining our capacity in France are major challenges for several divisions, just like strengthening the traceability of raw materials throughout the supply chain. Conversely, since most suppliers are based in France, the risk of violating human rights and fundamental freedoms is considered very low.

Procedures to regularly assess the situation of suppliers and subcontractors

For each purchasing category previously covered in a risk mapping, the purchasers within each métier carry out a second-level risk analysis of suppliers. It aims to assess the performance (deliveries, quality, etc.) and financial independence of each supplier, but also the risks related to human rights and fundamental freedoms, the health and safety of people, and more generally employment conditions, as well as the protection of the environment. Corruption risks are also assessed depending on the country in which the supplier is based, and on its activity.

If a risk is identified, an audit is organised to confirm or deny this risk, supported by a “know your supplier questionnaire” setting out the various topics included in the previously completed supplier risk analysis framework. This “know your supplier questionnaire” was revised and expanded in 2018 to better assess respect for human rights and fundamental freedoms, employment conditions, in particular the health and safety of people, compliance with environmental regulations, and the risk of corruption and personal data protection.

This “know your supplier questionnaire” is more generally used by purchasers as a supporting document when visiting a supplier, with a view to constantly increasing our understanding of our supply chains. Purchasers also use this questionnaire during pre-accreditation visits before starting to work with a new supplier. These pre-accreditation visits are compulsory within the scope of direct purchasing.

If the risk is confirmed, an audit will be carried out with the support of an external firm recognised for its expertise in environmental, health and safety issues. Audits are also required for strategic suppliers and for suppliers located outside Europe, which are all audited once every three years on average.

These audits make it possible to perform an on-site check of supplier commitments, ensuring that relevant regulations are being complied with, and verifying the actual working conditions and well-being of employees. A feedback meeting is held at the end of these audits to share all findings with the supplier and define the corrective action plan to be implemented to prevent or mitigate the risks identified during the audit. The *métiers*' purchasers are responsible for monitoring each supplier's progress in implementing these action plans.

In keeping with the “know your supplier questionnaire”, these audits cover the following issues in particular:



For direct purchasing, the number of audits conducted in 2018 doubled compared with 2017 and will double again in 2019.

For direct purchases, about 2,300 hours were spent on audits. The three major topics covered, which meet our obligations under the duty of care law, are:

- ◆ Environment (regulatory compliance, emissions/discharge management, wastewater management, waste management, chemical storage, SD policy)
- ◆ Personal health and safety (fire prevention, risk analysis, PPE, training, medical checks, etc.)
- ◆ Social and ethical (child labour, forced labour, labour rights, discrimination, gender equality, undeclared work, employment contracts, wages, working hours, overtime, etc.)

Moreover, purchasers are requested to be involved in the auditing of their suppliers by supporting the process upstream, participating in audits alongside the external firm, and monitoring the progress made in the action plans alongside their suppliers in a more formal manner. This will

ensure that the audits constitute a genuine continuous improvement tool for our partners. It will also help develop the purchasers' CSR expertise, as they are more capable of identifying risks when visiting suppliers.

Risk management and mitigation, or preventing serious violations

The two purchasing divisions, direct and indirect, coordinate the House's network of purchasers and conduct common training initiatives within this network. As such, in 2018, they started developing a training course for purchasers, aimed at strengthening and structuring the training already offered within the Group. In particular, a "Legal and Compliance" course and an "Environment, Health and Safety" course were developed in 2018 to be rolled out in the second half of 2019. These courses, which target purchasers as a priority, but also all people working with the House's suppliers and subcontractors, will enable everyone to gain sufficient expertise to identify any breaches by the supplier or subcontractor, and help them to implement corrective actions as part of a partnership and continuous improvement strategy.

On the other hand, a direct purchasing network is coordinated by the Group direct purchasing department and meets once every three months. These meetings are an opportunity to review the following issues with the *métiers'* purchasers: the Group's purchasing policy and procedures, regulations, legislation, and the resources available to monitor suppliers and subcontractors. They provide the means to exercise their duty of care with respect to their suppliers and subcontractors, and more generally with respect to all divisions. As opportunities to discuss the risks identified, they make it possible to share the action plans to be rolled out to prevent or mitigate these risks. As detailed in a few operational examples (see section 2.4 Materials), these actions are necessarily specified.

From a legal standpoint, as part of its policy to support and monitor suppliers, Hermès seeks the formal undertaking of each of its suppliers to comply with its social, regulatory and environmental obligations through two undertaking handbooks, signed by both parties, which define the contractual relationships. These are regularly updated, with:

- ◆ Handbook 1 defining undertakings with respect to non-disclosure and fair trading; and
- ◆ Handbook 2 defining undertakings in respect of:
 - social policies (human rights and fundamental freedoms, prohibition of child labour, prohibition of forced labour, respect for health and safety, respect for freedom of association and the right to collective bargaining, non-discrimination, respect for appropriate disciplinary measures, respect for regulated working time, respect for the provisions of mandatory labour laws, respect for adequate compensation),
 - environmental policies (compliance with regulations, control and reduction in water and energy consumption, intensity of resources consumed, respect for the declaration on honour relating to the fight against illegal labour, reuse and recycling rates, low-carbon logistics choices, and emissions, effluent and waste management), and

- ethics policies.

These two handbooks were further developed in 2018, and an extensive campaign is under way to present them to the Group's strategic and sensitive suppliers and encourage them to sign these new enhanced versions.

Contents of the supplier undertaking handbook 2

◆ Good labour practices

This section deals mainly with the following subjects: human rights and fundamental freedom, child labour, forced labour, compliance with health and safety rules, respect for freedom of association, non-discrimination, working time, compensation, and illegal work.

Regarding the fight against illegal work in particular, Hermès collects the following three legal documents for its French suppliers and subcontractors every six months: a company registration certificate, a certificate of coverage issued by URSSAF (a French social taxes body), and a list of the names of all foreign workers, as required by law.

◆ Good environmental practices

This section states our expectations in terms of compliance with environmental regulations, the controlled use of raw materials, energy and natural resources, the proper management of emissions, effluents and waste materials, and the protection of protected species and biodiversity.

◆ Good ethical conduct

This section covers subjects that include corruption and money laundering, as well as specific requirements for certain sensitive sectors, and recommendations on best practices in relation to subcontracting.

◆ Personal data

This section covers personal data protection principles.

By signing handbook 2, suppliers and subcontractors formally undertake to carry out their own duty of care with respect to all suppliers and subcontractors. Moreover, they are responsible for reporting all their subcontractors to Hermès and may not subcontract any production for the Group to a new subcontractor without Hermès' written agreement. This agreement is often tied to a pre-accreditation visit based on the "know your supplier questionnaire", or to an audit by an external firm.

Purchasers must take care to regularly remind their suppliers and subcontractors of the undertakings they have made by signing handbooks 1 and 2. The new, expanded versions published in 2018 were presented to the Group's strategic and sensitive suppliers and discussed with them to check that their undertakings are genuine.

Furthermore, any new supplier is required to sign handbooks 1 and 2 before any partnership can be undertaken, and in particular prior to participating in any call for tenders.

In 2018, of the House's some 1,800 suppliers within the direct purchasing scope, 59% signed handbook 1 and 57% handbook 2. The target for 2019 is to achieve a 65% coverage rate.

2.6.2.4 Alert Mechanism

The close relationships between Hermès and its suppliers are key to identifying suspicious conduct. On-site visits by purchasers and regular assessments are important aspects that make it possible to detect any violations and to alert the Group.

Each *métier* is responsible for monitoring the challenges identified and the proper implementation of corrective actions with suppliers. Similarly, the legal framework of relations with our subcontractors is regularly updated in light of actual experience. In particular, the conclusions of the audits, which bring together the auditors, the *métiers*, the buyers and the industrial department, offer deep insights solidly rooted in the real circumstances of our subcontractors.

In accordance with the code of business conduct, any employee identifying suspicious conduct within the supply chain is encouraged to report it internally through the “H-Alert!” mechanism implemented, as described in section 3.2.4.1.

2.6.2.5 System for monitoring major issues

In addition to monitoring by *métiers* and subsidiaries, the audit department provides a summary of major risks to Group management, and monitors major issues, including by way of audits. In 2018 it continued to audit purchasing functions. These audits enable the correct implementation of the system described above to be verified. First introduced in 2005, self-assessment of internal control by the subsidiaries contributes to the dissemination of an internal control culture in the Group. This system makes it possible to assess the level of internal control and to understand to what extent operational and functional risks are properly addressed, as described in section 1.9.1 Internal control system in response to risks.

In order to fulfil the requirements of law 2017-399 of 27 March 2017, the Hermès Group established a Compliance Committee comprising representatives of the sustainable development department, the audit and risk management department, the industrial affairs department, the human resources department, the sales department, the finance department and the legal department, in order to prepare a vigilance plan applicable to Group companies. A Director of Legal Compliance and Public Affairs was appointed during 2017.

With the application of the Sapin 2 law, we have increased our monitoring of suppliers, particularly the monitoring of their regulatory compliance with respect to corruption prevention (see section 3.2.3.1).

Human rights in the supply chain

◆ Hermès’s internal and external ethics approach is based on the universal framework established by major international principles. The ethics charter, drawn up in 2009, was signed by the Executive Chairman. It is communicated to all employees and available on the website <https://finance.hermes.com>. It states that these principles

apply to Group companies as well as to our suppliers. In particular, explicit reference is made to the Universal Declaration of Human Rights, the Charter of Fundamental Rights of the European Union, the Charter of Fundamental Rights of the International Labour Organisation, which covers freedom of association, the fight against forced labour, child labour and the fight against discrimination, the OECD Guidelines, the United Nations Global Compact (“Advanced” level), which invites companies to adopt, support and implement in their sphere of influence a set of ten core values (human rights, labour standards, environment, the fight against corruption), and the UN Guiding Principles on Business and Human Rights, which commit companies to respect human rights and address the negative impacts of their activities.

- ◆ This approach is regularly shared with the teams and was strengthened in 2018 by the direct and indirect purchasing departments (Paris buyer seminar, implementation of supplier practices monitoring software) and by the work of the legal compliance and public affairs department. It is shared with our suppliers during operational exchanges with buyers, and was formalised in the signing of the C2 undertaking handbook (chapter 1 “Good corporate behaviour”). As described below, a comprehensive control system covers this aspect of Hermès’s relationship with its suppliers.
- ◆ The Hermès artisanal craftsmanship model, in which 70% of objects are manufactured in-house and 80% in France, relies on a network of suppliers based mainly in Europe, where labour practices are stricter than in other environments. Hermès’s exposure to supplier risk is therefore reduced. An analysis of the top 50 direct suppliers shows that 56% of them are in France and 30% in Europe. Just 14% of purchases are made in more distant countries, mainly raw materials (e.g. exotic leathers), where our control and monitoring is extremely strong.
- ◆ Monitoring of practices is primarily the responsibility of the *métiers* and their purchasers, who are in direct contact with our suppliers. The topics that are monitored closely include working conditions (hours, health and safety, compensation, right to organise and representation, disciplinary practices), risks of discrimination, forced labour, child labour, and, more broadly, living conditions (considering the local environment). Industry (for the packaging sector, for example) and geographical discussions are held to help identify the issues more precisely. When a subject is identified, it is discussed with our partner to help it understand why the topic is important to us, examine possible improvement solutions and put in place an action plan. Hermès maintains long-term relationships with its partners (the average relationship among the top 50 industrial suppliers is 21 years old). If this process cannot be put in place, the subject is discussed by the Management Committee of the appropriate *métier*, the industrial affairs department and the sustainable development committee and the relationship is suspended.

2.6.2.6 Evaluation and control

The Hermès Group has put in place an internal control and risk management system to better prevent and control the risks it has to face. As part of this system, the audit and risk management department conducted supply chain audits in 2018 and these will continue into 2019. These audits enable the correct implementation of the system described above to be verified. First introduced in 2005, self-assessment of internal control by the subsidiaries contributes to the dissemination of an internal control culture in the Group. This system makes it possible to assess the level of internal control and to understand to what extent operational and functional risks are properly addressed, as described in section 1.9.1 Internal control system in response to risks.

Operational examples of risk management and mitigation procedures

The following examples concern the supply chain challenges of the main métiers. The supply of raw materials is detailed in section 2.4.1.2 (tanneries, etc.)

RTW

For example, in 2018, the use of two subcontractors working with a men's ready-to-wear manufacturer was refused following an audit that highlighted significant discrepancies between these subcontractors' practices and the House's social and ethical values.

Perfumes

A study on securing the supply of packaging materials and articles was presented to the Group in the first half of 2018, which classified all supply chains based on their level of risk. Following this study, an action plan was drawn up and the related investments made. For example, these actions concern the duplication of certain suppliers of sensitive products (duplication of bottle moulds) or securing the supply chains for certain sensitive materials (double sourcing).

Silk

Following the closing of various Chinese units, which were not environmentally compliant, a watch unit was established in house to monitor the supply of several chemical products and sensitive dyes.

This unit comprises the purchasing, processes and production departments. The first corporate action was the establishment of a risk assessment document targeting sensitive products in terms of production and their shortage risks. This document enabled the establishment of an action plan suited to each site to minimise the risk: use of an alternative product, change in stock management, discontinuing the product, etc.

Hermès Maison

At CATE, the handbooks on undertakings with respect to non-disclosure and fair trading (C1) and for social, environmental and ethics policy (C2) were signed by 98% of suppliers. For our French suppliers, we also implement the obligations pursuant to the 2014 law on undeclared work aimed at combating unfair business competition. In addition, we conduct extensive inspections to ensure that suppliers and/or customs declarations indicating that the components purchased have been "Made in France" are accurate.

At Beyrand, the purchasing and supply department takes care on a daily basis to ensure a good relationship is maintained with all suppliers. Since January 2018, the implementation of a Supply Chain coordination function has been strengthening the management of the supplier relationship. The purchasing and supply department implements sustainability and security action plans with the various suppliers. Furthermore, the system of having strategic and/or sensitive suppliers sign the C1 and C2 handbooks has continued. Today, they have been signed by 60% of suppliers.

In 2018, Puiforcat strengthened its investment in the duty of care by including components such as human rights and fundamental freedoms, health, social aspects and security, and the environment into its supplier risk analysis. At the same time, the collection of legal documents within the scope of the law on undeclared work was entrusted to an external partner for greater effectiveness. The full inventory of our equipment at one of our key suppliers was taken, and a risk audit conducted. The results of this audit were shared with the supplier. Puiforcat continues to have its C1 and C2 handbooks signed before starting any new trading relationship, and has obtained the signatures of more than 85% of suppliers.

Construction

Since 2017, the purchasing policy with our construction partners was gradually rolled out to subsidiaries. With each new relationship, suppliers are asked to make an undertaking to comply with local regulations and accept the fair trading charters and social and environmental responsibility policies prior to working with the Hermès Group.

The contractor's social responsibility forces it to reach beyond legal obligations and to implement all approaches that would benefit society. An internal methodology for analysing and managing supplier risks in construction has been defined. We would like our partners to also drive this ambition. As such, our suppliers are invited to determine their "CSR" profile.

Based on the importance of the risks identified, specialised third-party firms are requested to conduct an on-site audit. They will be responsible for determining action plans that will be shared with the suppliers for actions to be monitored internally by the Hermès Group.

ESAT les Micocouliers, the exclusive supplier of Hermès riding crops

Since 1991, Hermès has been entrusting its entire production of riding crops, dressage sticks and whips to ESAT les Micocouliers, in Sorède (Pyrénées Orientales). In this establishment, which provides employment to people with mental disabilities, some thirty craftsmen perpetuate the tradition involving the braiding of hackberry – a strong and supple wood. At the foot of the Albères mountains, they work with the same dedication as the hundreds of villagers who carried out that work decades before them. With the advent of the motor car, Sorède's famous riding crops and whips became focused on the equestrian

world and the circus universe. Production had almost disappeared when a regional non-profit organisation had the idea of reviving it in the late 1970s through a centre dedicated to providing work to disabled people. The savoir-faire and the objects it generates have thus survived the passage of time and are sold worldwide. Hermès' initial trade relations with ESAT les Micocouliers date back to the 1980s. The House is now one its main clients.



2.6.3 CONTRIBUTION TO THE UN'S SUSTAINABLE DEVELOPMENT GOALS (SDGs)

The relations that Hermès maintains with its suppliers and partners are governed by the following SDGs (the numbers refer to the UN's official typology):

No. 1: No Poverty

Hermès is committed to the financial equilibrium of business relations with its suppliers. By developing local employment, in particular in France, the Group contributes to the business development of its partners. Hermès is also committed to ensuring long-term development and a minimum level of compensation of its partners abroad.

No. 5: Gender Equality

- ◆ 5.1 "End all forms of discrimination against women"
Maintaining the continuity of internal policy on equal opportunity, especially with regard to women (chapter 2.3.2), Hermès strives to apply this principle with respect to its suppliers.

No. 8: Decent work and economic growth

- ◆ 8.5 "Achieve full employment"
By expanding its activities, the Group contributes to the economic development of its supplier network. It extends its activities as a responsible employer and supports its suppliers and partners wherever they operate.
- ◆ 8.5 "Decent work for persons with disabilities"
Hermès places a certain amount of work with socially supported organisations in France.
- ◆ 8.7 "Ethics and vigilance with respect to working conditions, including child labour and forced labour"
The Group has specific demanding requirements in relation to ethics and social and environmental responsibility. They apply in the context of relations that bind the Group to its suppliers, and regardless of their nature, through undertakings with respect to confidentiality, fair trading and social, environmental and ethical policies. These undertakings cover the exercise of vigilance with respect to forced labour and child labour.
- ◆ 8.8 "Health and safety at the workplace"
By continuous monitoring as part of its vigilance plan, Hermès is attentive to whether its suppliers adhere to the best practices in regards to workplace health and safety.

No. 16: Peace, justice and strong institutions

- ◆ 16.5 "Reduce corruption and bribery"
Hermès' policy on ethics and business conduct condemns and prohibits any illicit conduct in this regard, resulting in formalisation efforts and more stringent controls since 2017 in accordance with French law.





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2.7 COMMUNITIES: STAKEHOLDERS AND LOCAL INTEGRATION

Aware of its responsibility in terms of contribution to regional development, Hermès develops its production activities in France.

With more than 400 human-scale sites (production units, stores, logistics sites, offices worldwide), Hermès contributes to regional sustainable development by providing employment (3,247 jobs created over the past five years) and promotes the creation of sustainable value (local recruitment, training of employees, etc.).

Wherever it operates, Hermès acts as a socially responsible company with a long-term outlook through local economic, social, cultural or other initiatives. Such initiatives enable the Group to express its uniqueness, as well as extend its outreach into numerous regions, and create constructive ties with local economic players.

Harmonious relationships with our stakeholders contribute to Hermès' positive impact and strengthen employee pride in belonging to the Company.

The House's subsidiaries and sites organise local charitable operations. The sustainable development training and awareness-raising initiatives conducted by the Group's general management and various entities provide better understanding of the challenges. They encourage employees to become more involved in the various issues, each in their own ways. Giving time, giving of one's self, opening oneself up to others, receiving, and so on. Throughout the world, Hermès is breathing life into a multitude of projects for local populations.

Hermès' founding values are also expressed through the Fondation d'entreprise Hermès, founded in 2008, which supports sponsorship projects that seek to enhance and pass on *savoir-faire*, and promote biodiversity. The budget of the third mandate of the Hermès Fondation d'entreprise (April 2018 – April 2023) is €35.8 million (excluding skills sponsorships).

The Livelihoods project, of which Hermès is a shareholder (see section 2.5.3), has also been contributing to the economic development of communities, i.e. more than one million people since 2011.

2.7.1 CHALLENGE: TERRITORIAL RESPONSIBILITY IN FRANCE

Territorial responsibility in France that mobilizes the resources from the regions in which we are located, enhancing their value, regenerating them, transforming and revealing them.

2.7.1.1 Policy

Hermès chooses to locate its manufacturing sites mainly in France. This is the case for its Leather Goods and Saddlery activity, where the industrial development approach is that of spin-offs: organic development that creates human-scale production sites (approximately 250 people), which start with a core group of experienced workers, who train newcomers.

The ambition of Maison Hermès is to contribute to the development of the regions by creating direct and indirect jobs, as well as by local initiatives.

2.7.1.2 Measures implemented and results

A site location strategy that includes labour-related, societal and environmental aspects

Hermès operates in 12 of the 13 regions of France with close to 80 sites (production units, stores, logistics sites, offices) where 8,846 Group employees work. The craftsmanship model that it employs in France brings with it a regional corporate responsibility. We have never closed a site, and we establish ourselves for the long-term.

Since the launch of the first site in 1837, the choice of the locations for production units has been driven by regional expertise. The Silk division, based in the Lyon region (746 jobs), concentrates Hermès' *savoir-faire* in this domain. The complementary lines of *savoir-faire* – such as weaving, engraving, printing, dyeing, finishing and sewing – are grouped together under the holding company Holding Textile Hermès. The CATE porcelain production site is based in the Limousin region (203 jobs), the cradle of porcelain production, with Beyrand, a colour printer since 1926, and which joined the Group in 2013. Finally, the Cristallerie Saint-Louis, based in the heart of the Lorraine forest that has been the source of all its raw materials since the beginning. In addition, leather goods sites are set up in various regions, depending on local opportunities: the pool of manual workers, existing sites refurbished for a change of activity, or establishment of new sites. The sites are voluntarily set up near schools offering leatherwork training programmes.

62% of the Group's jobs are located in France, bearing witness to our pro-active policy of promoting internal production and management of our upstream sector.

The geographical locations of the sites are distributed throughout France, organised by regional divisions, in particular for leather (see Map of sites in section 1.6.2). This division-based organisation promotes synergies in the recruitment of expertise and upskilling. It also offers internal mobility opportunities, ensuring the sustainability of the model.

Our site locations are chosen in cooperation with the local authorities in order to integrate societal, environmental and human aspects. The establishment of our sites goes hand-in-hand with growth. Out of the 16 Leather manufacturing sites, all in France, six have opened since 2015 (Maroquinerie Iséroise, Tardoire, Héricourt, Normandie, Saint-Junien, Allan).

Projects for new sites undergo an environmental study, submitted to the authorities at the same time as the building permit application. This process covers aspects such as soil surveys and respect for biodiversity. The history of the local architecture and the emblematic materials of the region are also integrated in the thinking and design of new production units.

In addition, the Group ensures compliance with its sustainable construction guidelines, put in place by its Construction Development Department, through collaboration with local economic players (architects, entrepreneurs, etc.).

Moreover, a clause in the calls for tenders requires partners to promote occupational integration and work in collaboration with the local job centre.

In order to contribute to the development of the host regions, site construction projects are prepared in cooperation with the local association of municipalities. This makes it possible to examine impacts on aspects such as mobility (mobility plans, impacts on transport), as well as the industrial risk, in keeping with HSE regulations.

Other criteria are also taken into account in establishing new sites, such as the availability of local labour for the recruitment of our future craftsmen and women. Our projects form part of the history of the region, together with local authorities starting from the exploration phase by analysing the potential for creating connections in the region, developing partnerships, integrating with schools, etc.. The availability of housing for future craftsmen is taken into consideration, so these people can be accommodated properly.

The search for brownfield sites is favoured, with the objective of contributing to revitalising the region's economy. For example, Bordeaux has been chosen as the new region to develop a new Aquitaine division that will ultimately comprise three production sites.

In every project, a temporary workshop is set up 18 to 24 months before the opening of the site, in existing buildings that have been renovated in accordance with our internal standards. Recruitment is carried out locally. Such temporary workshops are attached to a reference site. In-house trainers are tasked with passing on the *savoir-faire*. The first cohort of some 30 craftsmen and women was recruited on the basis of manual skills using a simulation-based method, devised in collaboration with the Job Centre. Every six months, a new group is brought on board and trained by in-house trainers. The craftsmen and women are then provided with continuous training from tutors. Upon opening, a leather goods production unit comprises some 100 operational workers, growing to 250 employees within an average of three years following the opening date. In order to preserve the craftsmanship approach and maintain close relations between employees and their managers, the sites' workforce will average 250 craftsmen and women (a maximum of 300 people).

The temporary workshops of the two latest leather goods production sites – located in Montereau (Paris region) and Guyenne (Bordeaux region) – opened in 2018. They are now focusing on training new leather craftsmen and women, selected following information campaigns conducted with the Job Centre. In Montereau, Hermès took part in a Recruitment Forum organised by the municipality and is working on the creation of a diploma programme in leatherwork at the local vocational college.

The Maroquinerie de Guyenne will be located in Saint Vincent de Paul. Here too, we look forward to working with the municipality in order to fit into its project and drive certain initiatives such as helping employees settle in the area (helping them find accommodation, nurseries, etc.), seeking to supply our company restaurant with produce from local farmers.

Close relations with local authorities to promote employment

The sites all maintain close relations with local Job Centres and schools. The goal is to help train the new generations of craftsmen and women, as well as showcase our offers and métiers, allow hands-on practice, and explain leatherwork métiers to the young generations. Regardless of the site's activity (leather, silk, or other métier) or its geographical location, this approach consists in:

- ◆ organising information forums with the Job Centre;
- ◆ student visits to the workshops to discover the leather métiers; and
- ◆ talks in secondary schools to present the métiers prior to the pupils' choice of a career path.

This year, we created 527 jobs in France. In addition to this direct impact, our establishments, which are often in rural areas, provide a major local boost to the communities concerned: stimulation of local consumption, real estate support, impact on community needs (maintenance of classes in schools, public transport support, etc.) and municipal resources via taxation.

Our regional development also promotes the development of schools and local training schemes.

In addition, the following operations were conducted in 2018:

Leather Goods

The *Val de Seine Division* maintains several types of long-term partnerships:

- ◆ with partner secondary schools and GRETA (national education establishments that organise courses for adults in most métiers) within the framework of dedicated courses;
- ◆ with the Job Centre of Seine et Marne, which actively supports recruitment for dedicated courses, including outside the department;
- ◆ these partnerships are reinforced by a strong determination to increase local integration by creating a diploma course in leatherwork at a Montereau vocational college;
- ◆ information provided to the Maroquinerie de Normandie concerning urban community initiatives (housing, leisure, nutrition, etc.).

Along the same lines, in Franche-Comté, the leather goods workshops organise regular visits to three production units – Maroquinerie de Seloncourt, Héricourt and l'Allan – in partnership with employment agencies and associations, as well as school and college visits.

The Leather Goods workshops of the *Savoie Dauphiné* division have thus developed a partnership with Maison Familiale Rurale (Saint-André le Gaz), which involves exchanges to introduce junior secondary school pupils to the leatherwork métier through the creation of an object, and providing funding for two shared classrooms. These rooms serve as classrooms for Maison Familiale Rurale, as well as for some of our diploma training modules, as they are fitted with workbenches and sewing machines.

Furthermore, the division participates in the job/training commission of the Bugey Développement association and the local school/enterprise committee (Comité Local Ecoles Entreprises).

The *Pôle Sud-Ouest* maintains close relations with the municipalities of Montbron, Nontron and Saint Junien, as well as the local Job Centres, Cap Emploi, the occupational health authority, Action Logement and several local training organisations that we regularly support.

Maroquinerie de Sayat helps to provide collective information to secondary schools for the recruitment of the new cohort of leather craftsmen and women. This also involves visits to secondary schools to promote the House's métiers with new leatherwork diploma students.

Maroquinerie des Ardennes also organises experience-sharing events with local businesses and regularly plays host to sponsors of the Local Mission (young people's job and training organisation).

Within the framework of projects to set up *new sites*, we work in close collaboration with local stakeholders to facilitate our integration in the area and recruit employees, and also to increase awareness of Hermès in an area where there is no production site.

Silk

HTH maintains close relations with the textile apprentice training centre (CFA Textile) and Unitex (France's leading regional professional textile organisation). The division participates in the *Alliances et Territoires* community, which meets quarterly to examine current topics and issues relating to recruitment, training and skill development. *Alliances et Territoires* is a network of 16 Lyon-based companies that are committed to developing employee skills and improving their employability through a GPEC-T (forward-looking regional jobs and skills management planning) approach aimed at promoting the development of individual and collective skills throughout the Lyon region. In 2018, collaborative work was organised in partnership with Open Emploi (a socially-oriented temporary employment agency that promotes the employment of people from diverse backgrounds), leading to three recruitments (temporary assignments and fixed-term contracts). People with disabilities were thus hired as Textile Quality Controllers.

At the Bourgoin site in Isère, the forum Initiative Emploi enabled increased visibility (for Gandit, SNC, Créations Métaphores), to work on the employer brand and receive CVs from potential candidates.

Other métiers

The Women's ready-to-wear métier opens its doors to people undergoing reskilling in the warp and weft workshop for some fifteen days each year.

In Perfumes, numerous local employment initiatives are supported through actions such as: participation in the new programme orchestrated by CAP EMPLOI 27 ("30 days to find a job") and the programme conducted by the town of Val de Reuil (participation in a work/study forum scheduled for March 2019), as well as participation in the

Handisup forum that brought together 90 students with disabilities looking for internships, work/study contracts, summer jobs, etc.

Hermès Commercial in Bobigny is supporting a partnership plan for local integration through employment (Plan Local d'Insertion par l'Emploi - PLIE), which helps job seekers find employment. When approached, the stakeholders show great openness and a drive to move forward in a mutually beneficial way during the recruitments conducted.

2.7.2 CHALLENGE: A SOCIALLY RESPONSIBLE COMPANY

A socially responsible company actively involved in the life of local communities with which it builds and develops strong ties.

Hermès seeks to fit harmoniously into the local economic fabric. Its craftsmanship model gives it a territorial corporate responsibility in France, which goes beyond the direct creation of jobs. Giving time, giving of one's self, opening oneself up to others, receiving, and so on: employees. Many different plans are in place at Hermès in its various locations worldwide.

2.7.2.1 Policy

The Group's policy is to ensure that each of the House's production and distribution units maintains a dialogue with local authorities and stakeholders. Through the craftsmanship model that it deploys in France, it bears a regional corporate responsibility, which goes beyond the direct creation of jobs, with the goal of healthy integration in the local community, as a good, trustworthy, civic-minded neighbour.

2.7.2.2 Measures implemented and results

Corporate responsibility

Hermès creates value in France by directly providing 8,846 jobs (62% of the Group's employees), and by recruiting 527 individuals in 2018 to steady jobs. The Group's income tax expense amounted to €670 million (see section 4.1), i.e. an effective tax rate of 32.5% (compared to France's current tax rate of 34.4%). The Group's sales are 87% outside France, thus contributing to the French trade balance.

Hermès moreover acts as a socially responsible company wherever it operates. Its actions take place with a view to the long term, by developing harmonious relationships with stakeholders (municipal authorities, associations of municipalities, associations supporting employment, the Local Mission (young people's job and training organisation), schools, housing associations, etc.), and thereby contributing to Hermès' outreach.

Tangible and generous commitments: financial donations, contributions in-kind and volunteer actions

In 2018, in addition to existing initiatives, and following the call for additional commitments made by the Group's senior management, the international distribution subsidiaries strengthened their actions in the area of charitable activities. Partnerships are developed locally in order to maintain consistency and consolidate our contributions in the areas where Hermès operates. The House's subsidiaries and sites supplement the initiatives taken by the Fondation d'entreprise Hermès by organising these charitable operations.

"Carrés Solidaires" operations continue. Silk scarves or neckties are especially printed and sold in support of local associations, thereby helping promote their projects. The subsidiaries in Hong Kong, China, Taiwan, United Kingdom, Luxembourg, Lebanon, Argentina and Mexico took part in 2018, and ten local associations benefited from this programme.

In France, 12 operations involving financial donations were carried out, providing assistance to associations helping disabled young people and people in situations of economic hardship, helping provide social and professional reinsertion, and assisting students with educational support. These donations also helped safeguard our *savoir-faire*, in particular in the area of silk. In 2018 HTH supported the restoration of textiles for the Bourgoin-Jallieu Museum and a general public initiative for the discovery of weaving techniques. These donations also helped finance the purchase of digital tablets, treatment chairs, and even food for solidarity grocery stores.

In addition, four times per year since 2015, Hermès International has organised operations called "Paniers Solidaires" (Solidarity Baskets) for its employees. These baskets regularly help promote and provide financial support to four locally or nationally associations in the area of sustainable agriculture. The baskets received by employees comprise local products, thereby promoting the local economy.

The involvement of our employees in causes such as breast cancer enabled funds to be raised to support medical research, through their participation in solidarity races. These in-kind donations helped provide school uniforms to primary school students. For several years, a number of sites have supported the local branches of Restaurants du Cœur: the donation of blank porcelain dishes by Hermès Maison's CATE, and a toy drive organised at Maroquinerie de Pierre Bénite and the ITH silk site in Bourgoin-Jallieu. The partnership initially set up by Fondation d'entreprise Hermès with the *Sport dans la Ville* association – which promotes the inclusion of young people from disadvantaged communities in the Lyon area – was taken over by Holding Textile Hermès, the Company's silk production division. Over 7 tonnes of Hermès Parfums soap were repackaged by an ESAT (sheltered work establishment) and distributed via a partner to a network of associations working with disadvantaged beneficiaries (homeless people, families in poverty, elderly persons, students, etc.). In 2018, the petit h team entered into a partnership with a supplier (located in Rhône-Alpes) by helping its teams to develop new skills, enabling diversification and economic development.

Many donation projects involving clothing, shoes, and miscellaneous supplies were carried out in Europe, particularly in the United Kingdom. Six major financial support actions were carried out including support for abused children, assistance for homeless people, two educational programs including an active partnership for five years, and a support programme to encourage the well-being of employees through the practice of sports. Local teams also took part in the Dragon Boat Race to support abused children. The Iberian subsidiary participated in charity donations of silk to support disabled people.

In the USA, in 2018 the subsidiary and stores continued their initiatives in favour of local communities. In addition to the long-term partnerships, major financial support was provided to associations such as Habitat for Humanity in New York, which helps improve housing for people in difficulty and Project Sunshine, which supports sick children through recreational activities. A seminar for the support and promotion of American craftsmanship was initiated, organized and financed solely by the subsidiary.

Throughout America, our employees are very involved in many local and national solidarity actions, such as the preparation and distribution of meals for homeless people or needy families, donations of clothing or health products to isolated women in Los Angeles and Philadelphia, and many solidarity walks and races for medical research. Finally, a number of environmental projects were carried out and made tangible improvements to green spaces, the cleanliness of beaches in Hawaii and Orange County and support to animal sanctuaries.

In total, more than 30 solidarity operations were carried out at the initiative of the subsidiary and/or its employees.

In Asia, China made a multi-year commitment with a substantial financial donation to the China Soong Chong Ling Foundation in support of the Miao village embroiderers, helping to maintain this ancestral art. At the same time, various donation projects were carried out for underprivileged young people. A tree planting project was renewed in 2018, following the first initiative in 2017 at Dongtan Wetland Park.

In Hong Kong and Macau, a number of long-term partnerships have been established, through the extensive involvement of employee volunteers and General management, who give their time to elderly people, plant trees, and distribute meal baskets to the most disadvantaged. A solidarity race allowed to provide financial support to an NGO working to protect biodiversity and build awareness of sustainable food. Employees also collected baby toys and clothing for economically vulnerable migrant women. Charity sales also helped support Benji's centre, which provides assistance to children in families with low resources.

Korea made an annual commitment to make a financial donation to support and safeguard local craftsmanship and thus the cultural heritage of the entire region.

In Japan, three dedicated programmes enabled students from underprivileged environments or with disabilities to be given a work placement. Employees were again made aware of the need to protect coral reefs.

In 2018, 40 solidarity actions were carried out by the local teams in each region of Asia, with very active employee involvement and a determination to make a long-term commitment.

John Lobb and Co employees based at the Northampton production unit work with associations for various types of voluntary actions. In addition, donations of footwear unsuitable for sale were made to a partner association in the United Kingdom. Footwear from this House has also been gifted to several charity events in the United States.

Skills sponsorship

Hermès wishes to develop the commitment of its employees to the social and solidarity economy by promoting local integration. The Group therefore allows employees, during their working hours, to provide support to these organisations' employees in various areas.

A group-wide "Skills Sponsorship" methodology was developed and has been shared since 2017 within the French subsidiaries to promote testing of the scheme.

In 2018, Hermès has in particular helped workers in partner associations. These skills partnerships focused on varied subjects such as human resources, knowledge of IT tools, reporting, communications or management.

Hermès wishes to continue developing its openness and role as a citizen through other upcoming operations.

Foundation (chapter 1.8)

Hermès' founding values are also expressed through the Fondation d'entreprise Hermès, founded in 2008, which supports the women and men who learn, master, transmit and explore the creative actions to build the world of today and invent that of tomorrow.

It has also developed nine major programmes focusing on key areas such as know-how, creation, and transmission. All the diverse actions of the Foundation are guided by a single conviction: we are created by our actions.

Communication

To communicate more about sustainable development actions and its craftsmanship spirit, Hermès opened a dedicated page on the website in March 2018 at www.hermes.com (<https://www.hermes.com/us/en/story/134986-sustainable-development/>) to demonstrate our positive imprint on the world, men and women, and the communities to which we belong. Social networks (Facebook and YouTube) present the special collection of films made in the "Footsteps across the World" collection to show the Group's concrete actions in favour of sustainable development.

In October 2018, Hermès of Paris, a subsidiary with a strong commitment to sustainable development, organised three events to share our vision and our accomplishments in this area with friends of the House, customers, influencers and journalists.

More than 200 invitees from Los Angeles to San Francisco, and New York, discovered the films "Empreintes sur le Monde" (Footsteps across the world), in showings attended by their director Frédéric Laffont, and Olivier Fournier, member of the Executive Committee, who then answered questions from the audience.

Emphasising the richness of our craftsmanship model, the essential role of the men and women who shape our objects, our contribution to the economic and social development of the territories in which we are located, these meetings enabled us to affirm our uniqueness, including our commitment to sustainable development.

Livelihoods

Since 2012, Hermès has been a partner of the Livelihoods Fund, which aims to improve the living conditions of disadvantaged communities in a sustainable manner by developing large-scale projects with real impact against climate change (www.livelihoods.eu).

Livelihoods aim to be a start-up investor (with an entrepreneurial approach and investment risk) in three types of projects (ecosystems, agroforestry and energy) in Africa, Asia and Latin America. The fund has 10 partners: Danone, Crédit Agricole, Caisse des Dépôts et Consignations, Schneider Electric, La Poste, Hermès International, Voyageurs du Monde, SAP, Firmenich and Michelin. The initial term of the fund is 24 years, and the projects run for between 10 and 20 years. On 31 December 2017, the investors together had pledged to invest a total of approximately €38 million in the Livelihoods fund.

The projects generate profits for local communities and ecosystems, as well as for the partners in the fund, which earn carbon credits with a significant environmental and social impact in proportion to their investment over the project development period. These projects, one of the features of which is to expand their coverage to a very large scale and over periods ranging from 10 to 20 years, include:

- ♦ restoration and preservation of natural **ecosystems** such as **man-groves**. Nearly 8,000 hectares were thus replanted in Casamance ("Océanium" project); 4,500 hectares in the Ganges delta ("News" project); 5,000 hectares in Indonesia ("Yagasu" project). These projects secure populations (protection against cyclones or the invasion of salt water) and provide food sources through ecosystem regeneration;
- ♦ **agroforestry** and soil remediation through sustainable agricultural practices. With the support of the Naandi Foundation, tribal Adivasi communities in the Araku valley have planted six million trees (fruit, firewood, construction, etc.), including three million coffee trees, on agroforestry models. In Guatemala, 4,000 hectares of trees and food crops are to be planted in the Cerro San Gil mountain area ("Fundaeo" project), allowing rural families to increase their food security and incomes, while protecting biodiversity. In Kenya (project "VI Agroforestry"), on the slopes of Mount Elgon near Lake Victoria, the livelihoods of 30,000 small farms will improve through the intensification of agriculture respectful of natural resources (Sustainable Agricultural Landscape Management – SALM) and the development of dairy production. The project also contributes to the protection of water resources and generates positive social impacts for women's jobs;

- ◆ **access to rural energy** to reduce deforestation. In Kenya, the “Hifadhi” project equipped 60,000 households with improved wood-burning cooking stoves that significantly reduce wood consumption, thereby reducing pressure on forests, firewood collection time for families, and exposure to the toxic fumes generated by old stoves. In Burkina Faso, with the support of the Tiipaalga NGO, 30,000 improved stoves were installed by inhabitants in their villages, in an effort to secure their use over time in a Sahelian zone. With financial support of the AFD, an agroforestry component has been added to this project. In Peru, the ITYF project (taken from the name of the *Instituto Trabajo y Familia* NGO) has installed 30,000 improved wood-burning cooking stoves and hygiene kits to families in extreme poverty in the Peruvian Andes. At the same time, the project brings training and awareness on health (reduction of toxic fumes, importance of boiling water, basic hygiene gestures, etc.), and will naturally have a significant impact against deforestation.

In 2018, the above nine projects impacted the lives of more than one million people, and helped replant more than 130 million trees, an area equivalent to five times the size of Paris. They also equipped 120,000

families with improved cooking stoves, which reduces deforestation and preserves women’s health, for a total of 10 million tons of CO₂ equivalent captured or avoided (projects last between 10 to 20 years). Thus, they help to offset Hermès’ carbon emissions, on a voluntary basis.

In December 2017, during an event bringing together more than 800 people at Hermès in the Jean Louis Dumas building (Pantin), shareholders, NGO partners and friends of Livelihoods celebrated the 6th anniversary of the fund, praising the quality of the model and the results for the beneficiary communities. The investment model developed by Livelihoods has shown that it is possible to succeed in large-scale projects that link large corporations committed to climate change actions and communities facing the consequences of this change.

The results obtained prompted Livelihoods’ shareholders to launch a second carbon fund in 2018, operating on principles similar to the first fund, with an investment target of €100 million to improve the lives of more than 2 million people and avoid or capture more than 25 million tonnes of CO₂ over the next 20 years. Hermès is participating in this second fund, which is an ambitious long-term project linked to its artisanal roots.

Maroquinerie de la Tardoire, a breath of fresh air for Montbron

In 2015, Hermès chose this Charente municipality of 2,200 inhabitants, located near Angoulême, to set up its new Tardoire leather goods production unit. For Montbron, the opening of the site has resulted in the creation of 300 direct jobs over the past three years. In this former cradle of manufacturing for Charente slippers, the unemployment rate had climbed to 15% in the late 1990s, following the difficulties encountered by the local textile and felt industries. Even though the problems have not all been solved, the jobs created

by Hermès have provided a breath of fresh air, as confirmed by Mayor Gwenhaël François. Indeed, after two decades of business closures and the loss of one class in the local school every four years, positive effects are being felt. Families are returning, a new preschool class has been opened, and local shops and associations are flourishing once again.



2.7.3 CONTRIBUTION TO THE UN’S SUSTAINABLE DEVELOPMENT GOALS (SDGs)

The actions that were taken in relation to our “stakeholders” and in terms of “local integration” refer to the following SDGs (the numbers refer to the UN’s official typology):

No. 1: No Poverty

The Hermès distribution subsidiaries, as part of a Group policy, take part, at their level, in many local actions in favour of disadvantaged communities. Through its contribution to the Livelihoods Fund, Hermès also helps to reduce poverty and hunger in countries where it does not operate. The various projects supported by the Fund improve the living conditions of communities in Africa, Asia and South America, with an impact on almost one million people.

No. 4: Quality Education

◆ 4.4 “Increase vocational skills”

Through its local relations with schools and training centres, and via the payment of the apprenticeship tax, Hermès contributes to skills development. For its part, the Fondation d’Entreprise Hermès (Hermès Foundation), contributes through its programmes to the training of artisans.

No. 8: Decent work and economic growth

◆ 8.1 “Sustain economic growth”

Our business development, and that of the new facilities helps to create local value. Over the last four years, the Group has opened five new production sites and created more than 3,240 jobs.

◆ 8.3 “*Development of employment and local purchasing*”

The work carried out in partnership with French job centres made it possible to hire people, especially at the leather goods workshops, who did not have experience as craftsmen and women. Today, 90% of craftsmen and women that join the House have not received related training. Simulation exercises during the recruitment process give everyone a chance. The Construction division purchases materials locally whenever possible for all new buildings.

No. 12: Responsible consumption and production

◆ 12.8 a “*More sustainable consumption patterns*”

Hermès’s objects are designed to last, and are handed down from generation to generation: they can be repaired. After-Sales services covers all métiers of the House (including exceptional, single or customised products).

No. 15: Life on land

◆ 15.5 “*Restore endangered natural habitats*”

The projects undertaken by the Livelihoods Fund contribute to the restoration of wetlands and also help to limit the impact of climate change. The replanting of mangroves in India or Indonesia, for example, helps to shore up areas that are exposed to monsoon activity or tropical tornadoes.

No. 16: Peace, justice and strong institutions

◆ 16.5 “*Reduce corruption and bribery*”

Hermès’ policy on ethics and business conduct condemns and prohibits any illicit conduct in this regard, resulting in formalisation efforts and more stringent controls since 2017 in accordance with French law.

No. 17: Partnerships for the goals

◆ 17.1 “*Contribute to the development of certain countries, in particular through the payment of tax*”

The Group does not have a significant presence in developing countries. Distribution subsidiaries abroad comply with taxes and specific local charges associated with development.

2.8 REPORT BY ONE OF THE STATUTORY AUDITORS, APPOINTED AS INDEPENDENT THIRD PARTY, ON THE CONSOLIDATED NON-FINANCIAL PERFORMANCE STATEMENT IN THE MANAGEMENT REPORT

This is a free translation into English of the Statutory Auditors' report issued in French and is provided solely for the convenience of English speaking readers. This report includes information specifically required by European regulations or French law. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

For the year ended 31 December 2018

To the Shareholders' General Meeting of Hermès International,

In our capacity as Statutory Auditor of Hermès International (hereinafter the "entity"), appointed as an independent third party and accredited by COFRAC under number 3-1060 rév.2 (whose scope is available at www.cofrac.fr), we hereby report to you on the consolidated non-financial statement for the year ended December 31st, 2018 (hereinafter the "Statement"), included in the management report pursuant to the legal and regulatory provisions of articles L. 225 102-1, R. 225-105 and R. 225-105-1 of the French Commercial Code (*Code de commerce*).

THE ENTITY'S RESPONSIBILITY

Pursuant to legal and regulatory requirements, the Management is responsible for preparing the Statement, including a presentation of the business model, a description of the principal non financial risks, a presentation of the policies implemented considering those risks and the outcomes of said policies, including key performance indicators.

The Statement has been prepared in accordance with the entity's procedures (hereinafter the "Guidelines"), the main elements of which are presented in the Statement and available on request from the company's head office.

INDEPENDENCE AND QUALITY CONTROL

Our independence is defined by the provisions of article L. 822-11-3 of the French Commercial Code and the French Code of Ethics (*Code de déontologie*) of our profession. In addition, we have implemented a system of quality control including documented policies and procedures regarding compliance with the ethical requirements, French professional guidance and applicable legal and regulatory requirements.

RESPONSIBILITY OF THE STATUTORY AUDITOR, APPOINTED AS AN INDEPENDENT THIRD PARTY

On the basis of our work, our responsibility is to provide a report expressing a limited assurance conclusion on:

- ◆ the compliance of the Statement with the provisions of article R. 225-105 of the French Commercial Code;
- ◆ the fairness of the information provided in accordance with article R. 225 105 I, 3 and II of the French Commercial Code, i.e., the outcomes, including key performance indicators, and the measures implemented considering the principal risks (hereinafter the "Information").

However, it is not our responsibility to comment on:

- ◆ the entity's compliance with other applicable legal and regulatory provisions, in particular the French duty of care law, tax legislation and anti-corruption legislation;
- ◆ the compliance of products and services with the applicable regulations.

NATURE AND SCOPE OF OUR WORK

The work described below was performed in accordance with the provisions of articles A. 225-1 et seq. of the French Commercial Code determining the conditions in which the independent third party performs its engagement and with the professional guidance of the French Institute of Statutory Auditors ("CNCC") applicable to such engagements, as well as with ISAE 3000 – Assurance engagements other than audits or reviews of historical financial information.

Our procedures allowed us to assess the compliance of the Statement with regulatory provisions and the fairness of the Information:

- ◆ we obtained an understanding of all the consolidated entities' activities, the description of the social and environmental risks associated with their activities and the impact of these activities on compliance with human rights and anti corruption and tax evasion legislation, as well as the resulting policies and their outcomes;
- ◆ we assessed the suitability of the Guidelines with respect to their relevance, completeness, reliability, objectivity and understandability, with due consideration of industry best practices, where appropriate;
- ◆ we verified that the Statement includes each category of social and environmental information set out in article L. 225 102 1 III, as well as information regarding compliance with human rights and anti corruption and tax evasion legislation;
- ◆ we verified that the Statement presents the business model and the principal risks associated with all the consolidated entities' activities, including where relevant and proportionate, the risks associated with their business relationships and products or services, as well as their policies, measures and the outcomes thereof, including key performance indicators;
- ◆ we verified, where relevant with respect to the principal risks or the policies presented, that the Statement provides the information required under article R. 225-105 II;
- ◆ we assessed the process used to identify and confirm the principal risks;
- ◆ we asked what internal control and risk management procedures the entity has put in place;
- ◆ we assessed the consistency of the outcomes and the key performance indicators used with respect to the principal risks and the policies presented;
- ◆ we verified that the Statement covers the scope of consolidation, i.e., all the companies included in the scope of consolidation in accordance with article L. 233-16 within the limitations set out in the Statement;
- ◆ we assessed the data collection process implemented by the entity to ensure the completeness and fairness of the Information;
- ◆ for the key performance indicators and other quantitative outcomes that we considered to be the most important, and whose list is given in the appendix, we implemented:
 - analytical procedures to verify the proper consolidation of the data collected and the consistency of any changes in those data,
 - substantive tests, using sampling techniques, in order to verify the proper application of the definitions and procedures and reconcile the data with the supporting documents. This work was carried out on a selection of contributing entities ¹ and covers between 23% and 58% of the consolidated data relating to the key performance indicators and outcomes selected for these tests;
- ◆ we referred to documentary sources and conducted interviews to corroborate the qualitative information (measures and outcomes) that we considered to be the most important, and whose list is given in the appendix;
- ◆ we assessed the overall consistency of the Statement based on our knowledge of all the consolidated entities.

We believe that the work carried out, based on our professional judgement, is sufficient to provide a basis for our limited assurance conclusion; a higher level of assurance would have required us to carry out more extensive procedures.

1 *Sample of entities selected: for the Construction Development Department: Brussels store (Belgium), Deauville store, Paris rue de Sèvres (France), Mumbai First Floor store (India), Hamburg store (Germany), Bond Street store (United Kingdom), 755 Burrard Street BC Vancouver BC SL5 store (Canada), Midotsuji store, Ginza store (Japan), Seoul Dosan Park store (Korea), East Coast Corporate Office, NY Madison 691 store, Wall Street, Beverly Hills store (USA), Siam Paragon store (Thailand). For the Industrial Department: Cristallerie Saint-Louis (Crystal), Pyramide (Leather), Logistique Bobigny (Logistics), Comptoir Nouveau de la Parfumerie (Perfumes), Atelier AS, AEI (Silk and Textile), Tannerie du Puy, Tannerie d'Annonay (Tannery). For the Human Resources Department: Cristallerie Saint-Louis (France), Hermès International (France), Hermès Service Groupe (France), Hermès Maroquinerie Sellerie (France), Hermès Italie (Italy), Hermès China (China)*

MEANS AND RESSOURCES

Our work was carried out by a team of 6 people between November 2018 and April 2019 and took a total of 12 weeks.

We were assisted in our work by our specialists in sustainable development and corporate social responsibility. We conducted about 15 interviews with the people responsible for preparing the Statement, representing the Industrial Affairs Department, the Construction Development Department, the Group Human Resources Department and the Sustainable Development Department.

CONCLUSION

Based on our work, nothing has come to our attention that causes us to believe that the consolidated non-financial statement is not in accordance with the applicable regulatory provisions and that the Information, taken as a whole, is not presented fairly in accordance with the Guidelines.

Neuilly-sur-Seine, 9 April 2019

One of the Statutory Auditors
PricewaterhouseCoopers Audit

Olivier Auberty
Partner

Sylvain Lambert
Sustainable Development Partner

APPENDIX: CSR INFORMATION THAT WE CONSIDERED TO BE THE MOST IMPORTANT ¹

Selection of qualitative and quantitative information, associated to the policies, actions and results relating to the eighteen main risks identified for entity's activities, presented in the following sections of the management report

Main risks or opportunities identified	Sections of the management report presenting the associated policies, actions and results reviewed in the context of our work
Savoir-faire	<ul style="list-style-type: none"> ◆ Chapter 2.2.1 ◆ Chapter 2.2.2 ◆ Chapter 2.2.3 ◆ Chapter 2.2.4 <p><i>Including the results and KPIs:</i></p> <ul style="list-style-type: none"> ◆ Number of training hours ◆ Number of employees taking part in the Parcours d'Adresse programme ◆ Breakdown of additional jobs by sector ◆ Number of employees attending Forum H
Teams	<ul style="list-style-type: none"> ◆ Chapter 2.3.1 ◆ Chapter 2.3.2 ◆ Chapter 2.3.3 <p><i>Including the results and KPIs:</i></p> <ul style="list-style-type: none"> ◆ Total workforce and breakdown ◆ Number of dismissals ◆ Workplace accidents, Frequency rate, Severity rate ◆ Theoretical number of hours worked ◆ Number of days of absence ◆ Proportion of subsidiaries that received the Ethics Charter in electronic version
Materials	<ul style="list-style-type: none"> ◆ Chapter 2.4.1 ◆ Chapter 2.4.2 <p><i>Including the results and KPIs:</i></p> <ul style="list-style-type: none"> ◆ Leather consumption ratio ◆ Evolution of the overall tonnage of industrial waste* ◆ RJC certification ◆ Audit of the ostrich breeding sector
Environment	<ul style="list-style-type: none"> ◆ Chapter 2.5.1 ◆ Chapter 2.5.2 ◆ Chapter 2.5.3 ◆ Chapter 2.5.4 ◆ Chapter 2.5.5 <p><i>Including the results and KPIs:</i></p> <ul style="list-style-type: none"> ◆ Provisions for environmental liabilities ◆ Total water consumption of industrial sites* ◆ Total gas consumption of industrial sites* ◆ Electricity consumption for industrial sites* and for stores and offices ◆ Fuel consumption for industrial sites* ◆ Renewable energy consumption for industrial sites* ◆ Total energy consumption for industrial sites* ◆ Weight of Ordinary Industrial Waste (OIW)* ◆ Weight of Hazardous Industrial Waste (HIW)* ◆ Scope 1 and scope 2 carbon emissions for industrial site* ◆ Scope 3 carbon emissions ◆ List of sites involved in actions to preserve biodiversity
Suppliers and partners	<ul style="list-style-type: none"> ◆ Chapter 2.6.1 ◆ Chapter 2.6.2 <p><i>Including the results and KPIs:</i></p> <ul style="list-style-type: none"> ◆ Average length of our trading relationship with some suppliers ◆ Share of overall Group purchases from socially supported organisations ◆ Share of direct purchase categories on which have been performed formalised risk mapping ◆ Time spent on supplier audits
Stakeholders and local integration	<ul style="list-style-type: none"> ◆ Chapter 2.7.1 ◆ Chapter 2.7.2 <p><i>Including the results and KPIs:</i></p> <ul style="list-style-type: none"> ◆ Percentage of employment in France and number of jobs created ◆ Number of hires in France, of which permanent jobs ◆ Effective tax rate ◆ Number of Livelihoods projects

(1) At the request of the company Hermès International we performed more extensive procedures enabling us to express a conclusion of reasonable assurance on a selection of results and key performance indicators presented with the sign "*" in this table. Our reasonable assurance report is available on request from the company's head office

REPORT OF REASONABLE ASSURANCE BY ONE OF THE STATUTORY AUDITORS ON A SELECTION OF ENVIRONMENTAL INFORMATION PUBLISHED IN THE EXECUTIVE MANAGEMENT REPORT

For the financial year ended 31 December 2018

To the Shareholders of Hermès International,

2

Following the request made to us and in our capacity as Statutory Auditors of Hermès International (hereafter «the Company»), we conducted work enabling us to express a reasonable assurance on a selection of environmental information published in the 2018 Executive Management Report.

The environmental information selected by Hermès International is as follows:

- ◆ Total water consumption for the industrial sites;
- ◆ Gas consumption for the industrial sites;
- ◆ Electricity consumption for the industrial sites;
- ◆ Fuel oil consumption for the industrial sites;
- ◆ Renewable energy consumption for the industrial sites;
- ◆ Total energy consumption for the industrial sites;
- ◆ Mass of non-hazardous waste for the industrial sites;
- ◆ Mass of hazardous waste for the industrial sites;
- ◆ Scope 1 and scope 2 carbon dioxide emissions for the industrial sites.

This information was prepared under the responsibility of the Industrial Affairs Department and the Sustainable Development Department in accordance with Company procedures, available on request from the Company's registered office.

Our responsibility is to express a conclusion of reasonable assurance on the selected information based on our work. The conclusions formulated below only cover the selected information and not all the CSR information contained in the Executive Management Report.

NATURE AND SCOPE OF OUR WORK

We conducted the work described below in accordance with the professional standards of the Compagnie nationale des commissaires aux comptes on this intervention, and the international ISAE 3000 standard (Assurance engagements other than audits or reviews of historical financial information).

We performed the following work leading to a reasonable assurance that the environmental information selected by the Company was prepared, in all material respects, in accordance with the Company's procedures:

- ◆ We examined, at Group level, the appropriate nature of the reporting procedures prepared by the Company, in terms of their relevance, completeness, reliability, neutrality and understandability;
- ◆ We verified the implementation of a data collection, compilation, processing and control process to achieve completeness and consistency of the information and noted the internal control and risk management procedures used to prepare the information;
- ◆ We implemented analytical procedures and verified, based on surveys, the calculations and data consolidation. This work was notably supported by interviews with staff from the Industrial Affairs Department responsible for preparing, applying the procedures and consolidating the data;
- ◆ We selected a sample of entities: Compagnie des Cristalleries de Saint-Louis (Crystal), Pyramide (Leather Goods), Logistique Bobigny (Logistics), Comptoir nouveau de la Parfumerie (Perfumery), Atelier AS, AEI (Silk and Textile), Tannerie du Puy, Tannerie d'Annonay (Tannery);

◆ At the level of the selected entities:

- Based on interviews with the people responsible for preparing the data, we verified the correct understanding and application of the procedures;
- We conducted tests, based on samples, to verify the calculations and reconcile the data with the supporting documents.

These Company entities represent between 52% and 58% of the selected environmental information.

We were assisted in our work by our CSR experts.

CONCLUSION

In our opinion, the environmental information selected by the Company and recalled above, published in the 2018 Management Report, was prepared in all significant material respects, in accordance with the Company's Guidelines applicable in 2018.

Neuilly-sur-Seine, 9 April 2019

One of the Statutory Auditors
PricewaterhouseCoopers Audit

Olivier Auberty
Partner

Sylvain Lambert
Partner Sustainable Development Department

3

CORPORATE GOVERNANCE

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3.1 SUPERVISORY BOARD'S REPORT ON CORPORATE GOVERNANCE

This report was drawn up in accordance with Article L. 226-10-1 of the French Commercial Code and the recommendations issued by the Financial Markets Authority (AMF). It was jointly prepared by the Chairman of the Supervisory Board, the CAG-CSR Committee, the Board Secretary and the functional departments concerned. It was approved by the Supervisory Board at its meeting of 19 March 2019.

3.1.1 THE COMPANY'S CORPORATE GOVERNANCE CODE

3.1.1.1 Corporate governance principles applied

The Supervisory Board officially adopted the AFEP-MEDEF recommendations on corporate governance in 2009, as it deemed these recommendations to be entirely in keeping with the Group's corporate governance policy. The guidelines include the AFEP-MEDEF Corporate Governance Code for listed companies, revised in June 2018, and the recommendations from the HCGE (Corporate Governance High Committee), which further elaborate this code's recommendations.

With each revision of the AFEP-MEDEF Code, the CAG-CSR Committee performs an exhaustive comparative analysis of the Company's application of the AFEP-MEDEF Code's recommendations, and reports to the Supervisory Board.

3.1.1.2 Provisions of the AFEP-MEDEF Corporate Governance Code, revised in June 2018, not applied by virtue of the Company's legal form or other reasons - newly complied with

The table below lists the provisions of the AFEP-MEDEF Code not applied by the Company. In line with the recommendations of the AMF, the provisions not applied on account of the Company's legal form are singled out from those not applied for other reasons, with the corresponding explanations. We have also listed the changes made since the last revision of the AFEP-MEDEF Code in June 2018 to ensure compliance therewith.

Provisions of the AFEP-MEDEF Code not applied due to the Company's legal form

Explanations

Board meetings and committee meetings (Article 10.3)

It is recommended that at least one meeting not attended by the Executive Corporate Officers be organized each year.

In view of the role of the Supervisory Board (described on page 153) in a *société en commandite par actions* (SCA – a partnership limited by shares), this provision of the AFEP-MEDEF Code does not apply.

Succession plan for Executive Corporate Officers (Article 16.2.2)

The Appointments Committee (or an *ad hoc* committee) should design a plan for replacement of Executive Corporate Officers. This is one of the committee's most important tasks even though it can, if necessary, be entrusted by the Board to an *ad hoc* committee. The Chairman may take part or be involved in the Committee's work during the conduct of this task.

The Company's CAG-CSR Committee (see description starting on page 183) is not in charge of establishing the succession plan for the Executive Chairmen, a task that does not fall within the remit of the Supervisory Board in an SCA. In accordance with its rules of procedure, since 2016 the CAG-CSR Committee has been tasked with ensuring the existence of a succession plan for the Executive Chairmen, which it first did in 2017 with annual reviews thereafter (see page 139). In 2018, the CAG-CSR Committee also ensured there was a succession plan for the Chairman of the Supervisory Board and added this duty to its rules of procedure (see page 149).

Composition of the Compensation Committee (Article 17.1)

It is recommended that the Chairman of the Committee be independent and that one of its members be an employee director.

The Company's CAG-CSR Committee (see description starting on page 183) is not tasked with setting the compensation of the Executive Chairmen, a task which falls within the remit of the Active Partner and not the Supervisory Board. The Supervisory Board therefore decided that it was not relevant for an employee representative to be a member.

Provisions of the AFEP-MEDEF Code not applied for other reasons	Explanations
<p>Proportion of independent members on the Supervisory Board (Article 8.3) Independent directors should account for at least one-third of Supervisory Board members.</p>	<p>Mr Robert Peugeot had served for 12 years of office on 24 January 2019. He has therefore lost his status as independent Board member of the Supervisory Board according to the criteria set out in Article 8.5 of the AFEP-MEDEF Code.</p> <p>He was reappointed at the General Meeting of 5 June 2018 for a period of one year so as to replace him under the best possible conditions with a new independent member of the Supervisory Board at the General Meeting to be held in 2019. In 2018, the Supervisory Board deemed it better to have a slightly lower proportion of independent members on the Board and Audit and Risk committee than required by the AFEP-MEDEF Code for a few months rather than to waive one of the independence criteria with regard to Robert Peugeot.</p> <p>Ms Sharon MacBeath resigned from her post as a member of the Supervisory Board as of 20 March 2019 for personal reasons.</p> <p>With Mr Robert Peugeot losing his independent member status and Ms Sharon MacBeath resigning, the proportion of independent members on the CAG-CSR Committee falls below the levels required by the AFEP-MEDEF Code.</p> <p>On the publication date of this Registration Document, the Board, in conjunction with the CAG-CSR Committee, is continuing its selection process that will enable it to propose, at the General Meeting to be held on 4 June 2019, the appointment of two new independent members to replace Mr Robert Peugeot and Ms Sharon MacBeath, and thereby restore the proportion of independent members on the Board to one-third.</p>
<p>Proportion of independent members on the Audit Committee (Article 15.1) Independent directors should account for at least two-thirds of Audit Committee members and the Committee should not include any Executive Corporate Officers.</p>	<p>The Supervisory Board determined that in 2018 slightly less than two-thirds of the Audit and Risk committee members are independent (60%, i.e. three out of five members). This situation enables the Audit and Risk committee to carry out its duties in an appropriate manner. In the Audit and Risk committee rules of procedure, which were adopted on 24 March 2010, the Supervisory Board stipulates that at least one-half of the seats on the Audit and Risk committee be held by members who qualified as independent at the time of their appointment and throughout their term of office. In its 2014 report, the HCGE considers "that an Audit Committee with, for example, three independent members out of five remains compliant with the spirit of the Code, provided that the Chairman is an independent member", as is the case for this Company. There are no immediate plans to increase the proportion of independent members of the Audit and Risk committee to two-thirds, however the Board will review the matter at each annual assessment.</p> <p>As set out above, the proportion of independent members on the Audit and Risk committee had been reduced temporarily, since the beginning of 2019, to 25%, owing to the loss of the independent member status of Mr Robert Peugeot and by the resignation of Ms Sharon MacBeath from the Supervisory Board.</p> <p>The ongoing selection of two new independent members should result in the proportion of independent members on the Audit and Risk committee being restored to 60%.</p>
<p>Proportion of independent members on the Compensation Committee (Article 17.1) It must not include any Executive Corporate Officers and must be formed by a majority of independent directors.</p>	<p>As set out above, the proportion of independent members on the CAG-CSR Committee had been reduced temporarily, since the beginning of 2019, to one-third, owing to the loss of the independent member status of Mr Robert Peugeot and by the resignation of Ms Sharon MacBeath from the Supervisory Board.</p> <p>The ongoing selection of two new independent members should result in the proportion of independent members on the CAG-CSR Committee being restored to 50%.</p>
<p>Severance payment (Article 24.5.1) The performance requirements set out by the Board for these benefits must be assessed over at least two financial years. They must be demanding and may not allow for the indemnification of a director unless his or her departure is forced, regardless of the form of this departure.</p>	<p>The Company has undertaken to make a severance payment to Mr Axel Dumas under the conditions described in the explanatory statement on page 372 <i>et seq.</i></p> <p>Given the importance of the Active Partner's role in an SCA including the power to appoint and dismiss any Executive Chairman and, in the case of a legal entity, its legal representative, it was decided that any termination of Mr Axel Dumas' duties as Executive Chairman resulting from the replacement of the Executive Chairman of Émile Hermès SARL should be deemed a forced departure.</p> <p>The Supervisory Board accordingly considered that the deferred compensation undertaking made for the benefit of Mr Axel Dumas complied with the requirements of the AFEP-MEDEF Corporate Governance Code.</p> <p>In its November 2018 report on corporate governance and senior executive officer compensation, the AMF recommends that the Board carry out a regular review of the components of compensation that may be due at the time of or subsequent to the departure of an officer and that it question the possibility and desirability of compliance with new code provisions.</p> <p>At the beginning of 2019, the CAG-CSR Committee reviewed this undertaking. It concluded that alignment with the new provisions of the AFEP-MEDEF Code was not necessary.</p>

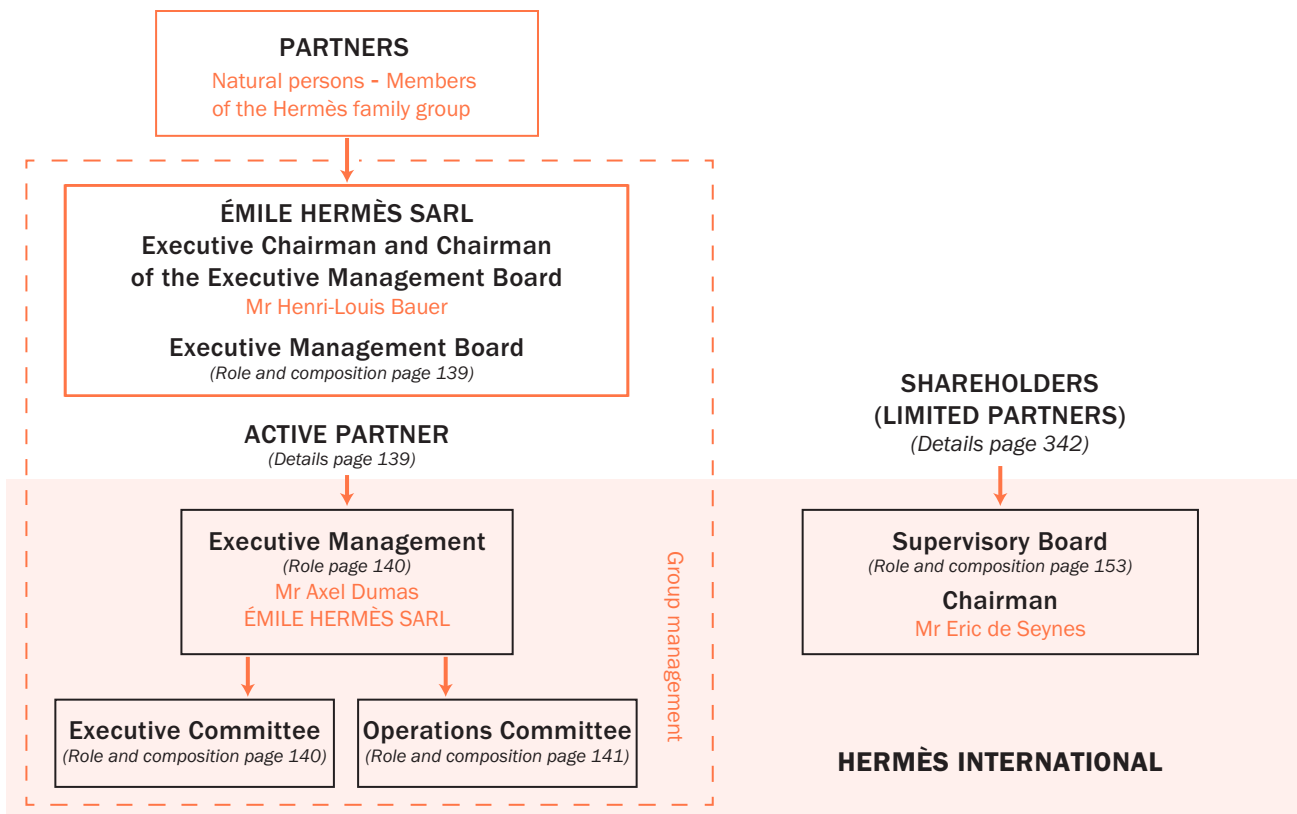
Provisions of the AFEP-MEDEF Code not applied for other reasons	Explanations
<p>Consultation of shareholders on the compensation of the Chairman of the Supervisory Board (Article 26.2)</p>	<p>It did not seem relevant for the Executive Management to ask shareholders to vote on the compensation of the Chairman of the Supervisory Board insofar as he:</p> <ul style="list-style-type: none"> ◆ receives fixed compensation of €140,000 as set out in the Supervisory Board's rules of procedure, deducted from the total amount of directors' fees approved by the General Meeting; ◆ receives no other compensation of any kind whatsoever. <p>Shareholders have previously been made aware of this information.</p>
<p>Changes made since the revision of the AFEP-MEDEF Code in June 2018 to ensure compliance therewith</p>	<p>Explanations</p>
<p>Duties of the Board (Article 1.1 to 1.6) Commitments of companies to non-discrimination and diversity (Article 1.7) Communication between shareholders and the Board (Article 4.4) The Board's diversity policy (Article 6.2) Duties of the Audit Committee (Article 15.2) Business ethics of directors (Article 19)</p>	<p>On 11 September 2018 the Supervisory Board's rules of procedure (see page 207 for the full text) were updated in order to:</p> <ul style="list-style-type: none"> ◆ update the date of revision of the AFEP-MEDEF Code (§ 1.1.2.1.); ◆ include the new provisions of Articles 1.4 to 1.7, 6.2 and 4.4 of the AFEP-MEDEF Code (§ 1.2.4.); ◆ include the new provisions of Article 19 of the AFEP-MEDEF Code (§ 1.1.3.6.). <p>The CAG-CSR Committee's rules of procedure were updated on 16 November 2018 to:</p> <ul style="list-style-type: none"> ◆ rename it "Compensation, Appointments, Governance and CSR Committee" or "CAG-CSR Committee"; ◆ assign new duties to it relating to social and environmental responsibility: <ul style="list-style-type: none"> ● assist the Supervisory Board in monitoring issues relating to CSR so that the Hermès Group can better foresee and tackle opportunities, challenges and the related risks, ● assist the Supervisory Board in monitoring the Hermès Group's social policy and the non-discrimination and diversity policy. <p>The Audit Committee's rules of procedure were updated on 16 November 2018 and 19 March 2019, in order to:</p> <ul style="list-style-type: none"> ◆ rename it the "Audit and Risk committee"; ◆ two new duties relating to risk exposure and the prevention of corruption: <ul style="list-style-type: none"> ● regularly review opportunities and exposure to risks such as financial, legal, operational, social and environmental risks, as well as the measures taken in the light of these, ● ensure the implementation of a system for the prevention and detection of corruption and influence-peddling; ◆ include the new provisions of Articles 1 and 15.2 of the AFEP-MEDEF Code (§ 2.1) <p>At its meeting of 20 March 2018, the Supervisory Board had already assigned to the Chairman the responsibility for communicating with shareholders on behalf of the Board (see page 178).</p> <p>The policy on diversity in the composition of the Board already featured in the Registration Document (see page 170).</p>
<p>Independence criteria (Article 8.5.3)</p>	<p>A new review of the independence of members of the Supervisory Board was carried out by the CAG-CSR Committee in early 2019, by checking that independent members did not act in an «advisory» capacity for the Hermès Group.</p>
<p>Individual participation of Directors (Article 10.1)</p>	<p>No alignment necessary as the individual attendance of members of the Supervisory Board already featured in the Registration Document (see page 177).</p>
<p>Reason for which the appointment or reappointment of a member of the Board is proposed to the General Meeting (Article 13.4)</p>	<p>The presentation of resolutions proposing the reappointment or appointment of members of the Supervisory Board was supplemented (see page 378 <i>et seq.</i>) by the reasons for which they are proposed.</p>
<p>Inclusion of a CSR-related criterion in Senior Executive compensation (Article 24.1.1)</p>	<p>On the proposal of the CAG-CSR Committee, the Executive Management Board of Émile Hermès SARL of 19 March 2019 decided to subject part of the variable compensation of the two Executive Chairmen to a new CSR criterion, representing the Group's stated and constant commitments to sustainable development, as set out on page 202.</p>
<p>Standardised presentation of information on the Board and Committees</p>	<p>The brief presentation of the Board and committees, the presentation sheets of the Executive Chairman and members of the Supervisory Board, the table of changes made in the composition of the Board and the presentation of the independence of members have been fine-tuned.</p>

Corporate Governance Award

Since 2009, the *Grands Prix de la Transparence* (Transparency Awards) reward the quality of regulated information of French SBF 120 companies. The aim of these *Grands Prix* is to allow issuers to measure their performance every year in terms of transparency and to identify best practices among listed companies. Every year the level of requirements increases (from 40 criteria in 2009 to over 165 criteria in 2018).

At the 9th Edition of the *Grands Prix de la Transparence* on 3 October 2018, Hermès International received the *Grand prix de la Meilleure Progression* (special award for the best improvement). This award is based on the following criteria: accessibility, precision, comparability and availability of four key materials (registration document, ethical charter, financial website and notice of meeting).

This award is a recognition of the work of all our teams who work together to prepare our regulated information documents.

3.1.2 ORGANISATIONAL STRUCTURE OF HERMÈS INTERNATIONAL

3.1.3 ADMINISTRATIVE AND MANAGEMENT BODIES

3.1.3.1 Changes in 2018

No changes took place in the Executive Management or the Executive Committee in 2018.

3.1.3.2 Succession plan for Senior Executives

Every two years, a 360° Human Resources review known as the "Talent Review" is performed in each subsidiary to:

- ◆ identify, according to demanding and selective criteria, talent capable of holding the highest responsibilities within the House;
- ◆ support the development of talent through targeted and ambitious initiatives to create conditions fostering their performance, motivation and loyalty;
- ◆ anticipate and manage potential staff moves (between/within subsidiaries) and succession plans, to ensure the continuity of the organisation and take Hermès into the future.

This Talent Review covers the succession of the members of the Executive Committee. A summary of, and the action plans stemming from, the 2018 Talent Review were presented to the CAG-CSR Committee at end-2018.

In addition, a succession plan has been drawn up for Executive Management. In 2016, this plan was submitted orally to the CAG-CSR Committee, which commended its quality and its appropriateness. In 2017, the CAG Committee carried out an annual review of this plan and noted that no changes had been made to it.

This succession plan covers:

- ◆ temporary interim succession (temporary absence of an Executive Chairman, e.g. due to illness or accident);
- ◆ unplanned succession (permanent impairment, death or resignation of an Executive Chairman in the short or medium term), normal succession (medium and long term).

In early 2019, the CAG-CSR Committee was informed of a written memo setting out the details of the succession plan for Executive Management. This plan was given to the Active Partner.

It should be noted that the existence of two Executive Chairmen, one of which is a legal entity, guards against the Executive Management falling vacant unexpectedly.

The CAG-CSR Committee has requested that the Talent Review be presented to it every two years and that the succession plan for Executive Management and the Chairman of the Supervisory Board is presented to it annually.

For the succession plan of the Chairman of the Supervisory Board, refer to section 3.1.4.2 (page 149).

3.1.3.3 The Group's management (role and composition, list of offices and functions performed)

The Active Partner and its Executive Management Board

Role	Composition at 31/12/2018	
The Active Partner is jointly and severally liable for all the Company's debts, for an indefinite period of time. The Active Partner has the authority to appoint or revoke the powers of the Executive Chairman, after receiving the reasoned opinion of the Supervisory Board. The Active Partner makes all decisions pertaining to the Group's strategic options, consolidated operating and investment budgets, and recommendations to the General Meeting with respect to the distribution of share premiums, reserves and retained earnings, on the recommendation of the Supervisory Board. It may submit recommendations to the Executive Management on any matter of general interest to the Group. It authorises all company loans, sureties, endorsements and guarantees, any pledges of collateral and encumbrances on the Company's property, as well as the creation of any company or acquisition of an interest whenever the investment amounts to more than 10% of the Group's consolidated net worth.	◆ Émile Hermès SARL represented by its Executive Management Board:	
	◆ Mr Henri-Louis Bauer	Active Partner
	◆ Mr Frédéric Dumas	Executive Chairman, Chairman and Member of the Executive Management Board
	◆ Ms Pascale Mussard	Vice-Chairman and member of the Executive Management Board
	◆ Ms Sandrine Brekke ◆ Ms Capucine Bruet ◆ Ms Alice Charbin ◆ Mr Édouard Guerrand ◆ Mr Laurent E. Momméja ◆ Mr Jean-Baptiste Puech ◆ Mr Guillaume de Seynes	Vice-Chairwoman and member of the Executive Management Board Other members of the Executive Management Board

Executive Management

Role	Composition at 31/12/2018								
<p>The Executive Management ensures the management of Hermès International.</p> <p>The role of the Executive Chairman is to manage the Group and act in its general interest, within the scope of the corporate purpose and subject to those powers expressly granted by law or by the Articles of Association to the Supervisory Board, to the Active Partner and to Shareholders' General Meetings. The Executive Chairmen distributed their roles as follows: Mr Axel Dumas is in charge of strategy and operational management, and Émile Hermès SARL, through its Executive Management Board, is responsible for the vision and strategic areas.</p>	<p>The Executive Chairmen are appointed by the Active Partner, after consultation with the Supervisory Board. In accordance with the Articles of Association, the Executive Management comprises one or two Executive Chairmen, who are natural persons, Active Partners or from outside the Company, each having the same powers and duties. The term of office of the Executive Chairmen is open-ended.</p> <table border="1"> <tbody> <tr> <td>♦ Mr Axel Dumas</td> <td>Executive Chairman</td> </tr> <tr> <td colspan="2">appointed by the Active Partner on 4 June 2013 (effective 5 June 2013).</td> </tr> <tr> <td>♦ The company Émile Hermès SARL</td> <td>Executive Chairman</td> </tr> <tr> <td colspan="2">(represented by Henri-Louis Bauer) appointed by the Active Partner on 14 February 2006 (effective 1 April 2006).</td> </tr> </tbody> </table>	♦ Mr Axel Dumas	Executive Chairman	appointed by the Active Partner on 4 June 2013 (effective 5 June 2013).		♦ The company Émile Hermès SARL	Executive Chairman	(represented by Henri-Louis Bauer) appointed by the Active Partner on 14 February 2006 (effective 1 April 2006).	
♦ Mr Axel Dumas	Executive Chairman								
appointed by the Active Partner on 4 June 2013 (effective 5 June 2013).									
♦ The company Émile Hermès SARL	Executive Chairman								
(represented by Henri-Louis Bauer) appointed by the Active Partner on 14 February 2006 (effective 1 April 2006).									

Shareholding obligations

At its meeting of 21 March 2017, the Supervisory Board decided that the Executive Chairmen should each be required to hold a minimum of 1,000 Hermès International shares pursuant to Article 22 of the AFEP-MEDEF Code. The two Executive Chairman comply with this requirement.

Executive Committee

Role	Composition at 31/12/2018																
<p>The Group management is comprised of the Executive Chairman and the Executive Committee, which consists of managing directors, each of whom has well-defined areas of responsibility.</p> <p>It comprises eight members.</p> <p>Its role is to oversee the Group's strategic and operational management.</p> <p>The Executive Committee meets every two weeks.</p> <p>Its composition reflects the Group's main areas of expertise.</p>	<table border="1"> <tbody> <tr> <td>♦ Mr Axel Dumas</td> <td>Executive Chairman</td> </tr> <tr> <td>♦ Mr Florian Craen</td> <td>Executive Vice-President Sales & Distribution</td> </tr> <tr> <td>♦ Ms Charlotte David</td> <td>Executive Vice-President Communication</td> </tr> <tr> <td>♦ Mr Pierre-Alexis Dumas</td> <td>Artistic Executive Vice-President</td> </tr> <tr> <td>♦ Mr Olivier Fournier</td> <td>Executive Vice-President of Governance and Organisational Development</td> </tr> <tr> <td>♦ Mr Wilfried Guerrand</td> <td>Executive Vice-President of Digital Projects and E-commerce</td> </tr> <tr> <td>♦ Mr Éric du Halgouët</td> <td>Executive Vice-President Finance</td> </tr> <tr> <td>♦ Mr Guillaume de Seynes</td> <td>Executive Vice-President Manufacturing division & Equity Investments</td> </tr> </tbody> </table>	♦ Mr Axel Dumas	Executive Chairman	♦ Mr Florian Craen	Executive Vice-President Sales & Distribution	♦ Ms Charlotte David	Executive Vice-President Communication	♦ Mr Pierre-Alexis Dumas	Artistic Executive Vice-President	♦ Mr Olivier Fournier	Executive Vice-President of Governance and Organisational Development	♦ Mr Wilfried Guerrand	Executive Vice-President of Digital Projects and E-commerce	♦ Mr Éric du Halgouët	Executive Vice-President Finance	♦ Mr Guillaume de Seynes	Executive Vice-President Manufacturing division & Equity Investments
♦ Mr Axel Dumas	Executive Chairman																
♦ Mr Florian Craen	Executive Vice-President Sales & Distribution																
♦ Ms Charlotte David	Executive Vice-President Communication																
♦ Mr Pierre-Alexis Dumas	Artistic Executive Vice-President																
♦ Mr Olivier Fournier	Executive Vice-President of Governance and Organisational Development																
♦ Mr Wilfried Guerrand	Executive Vice-President of Digital Projects and E-commerce																
♦ Mr Éric du Halgouët	Executive Vice-President Finance																
♦ Mr Guillaume de Seynes	Executive Vice-President Manufacturing division & Equity Investments																

As at 31 December 2018

Average seniority on the Executive Committee	6 years
Average seniority in their positions:	5 years
Average age:	51 years
Percentage of women ¹	14.29%

(1) Excluding Executive Chairman.

Changes to the Executive Committee after 31 December 2018

A reorganisation took place on 1 April 2019:

1) Ms Catherine Fulconis, Executive Vice-President in charge of the Leather Goods - Saddlery (which also includes the Hermès Horizons and Equestrian *métiers*) and petit h *métiers* joined the Executive Committee.

2) Mr Wilfried Guerrand was appointed Executive Vice-President of the *Métiers* (Hermès Woman, Hermès Man, Hermès Jewellery, Hermès Silk and Textiles, and Hermès Home), Information Systems and Data.

3) Digital communication is now headed up by Ms Charlotte David, Executive Vice-President Communication, and e-commerce by Mr Florian Craen, Executive Vice-President, Sales.

Operations Committee

Role	Composition at 31/12/2018	
<p>The Operations Committee, which reports to the Executive Management, is made up of the Executive Committee and the Senior Executives of the main <i>métiers</i> and geographical areas of the Group.</p> <p>It comprises 22 members (25 members from 1 April 2019).</p> <p>Its duties are:</p> <ul style="list-style-type: none"> to involve Senior Executives in the Group's major issues and strategic orientations; to promote communication, sharing and reasonable exchanges amongst its members in their area of responsibility, to enable the Executive Committee to take certain decisions. <p>The Operations Committee meets for a full day three times a year.</p>	<ul style="list-style-type: none"> ♦ Mr Axel Dumas 	Executive Chairman and Chairman of the Committee
	<p>Members of the Executive Committee (see page 140)</p> <p>Senior Executives of the <i>métiers</i></p> <ul style="list-style-type: none"> ♦ Ms Agnès de Villers ♦ Mr Laurent Dordet ♦ Ms Catherine Fulconis ♦ Mr Wilfried Guerrand ♦ Ms Antoinette Louis ♦ Ms Véronique Nihanian ♦ Ms Anne-Sarah Panhard ♦ Ms Laurence Reulet <p>Senior Executives of the Geographical areas</p> <ul style="list-style-type: none"> ♦ Mr Masao Ariga ♦ Mr Robert Chavez ♦ Ms Hélène Dubrule ♦ Mr Eric Festy ♦ Mr Luc Hennard ♦ Ms Juliette Streichenberger ♦ Ms Ségolène Verdillon 	
Percentage of women ¹ :		47.61%
Percentage of foreigners ¹ :		9.52%

(1) Excluding Executive Chairman.

Changes to the Operations Committee after 31 December 2018

On 1 April 2019, three new members – Managers of the *métiers* – were appointed to the Operations Committee:

- ♦ Ms Hinde Pagani: Deputy Managing Director – Digital Sales and Service;
- ♦ Ms Ambre Pulcini: Executive Vice-President - Women's Ready-to-Wear and Shoes *Métier*;
- ♦ Ms Elodie Potdevin: Executive Vice-President - Fashion Accessories *Métier* and IoT ("Internet of Things").

Policy of non-discrimination and diversity, in particular concerning the balanced representation of men and women on the governing bodies and results in terms of gender balance in the 10% of key management positions

Whether appointments to governing bodies, recruitment or the appointment of any employee, the Hermès Group is particularly committed to compliance with the principle of non-discrimination.

Whenever possible, all employees are reminded of the importance of this principle.

The "Hermès - a Responsible Employer" policy insists on compliance with two essential principles: the principle of non-discrimination and the principle of gender equality.

The Group has instituted an "Alterego" training programme which focuses on integration and diversity management. The Alterego programme is attended by all Management Committees and the Group's local managers. It goes at great length into identifying and combatting all forms of discrimination (direct, indirect or even accidental) and puts the emphasis on the Group's zero tolerance policy as regards such types of practice.

The Group has also made commitments to professional integration and retaining people with a disability in employment (see pages 80 and 81 and pages 111, 112 and 113).

In accordance with the provisions of Article L. 225-37-4, 6° of the French Commercial Code, as amended by the law "for the freedom to choose one's professional future", adopted on 1 August 2018, we describe how the Company seeks balanced representation of men and women on the committee established, where relevant, by Executive Management in order to regularly assist it in exercising its general duties and the results in terms of gender balance in the 10% of key management positions.

Two committees were set up by Executive Management several years ago to regularly assist it in exercising its general duties:

- ♦ The Executive Committee (role and composition page 140)
- ♦ The Operations Committee (role and composition above)

The table below illustrates gender balance on the governance bodies and in the senior executives category:

Proportion of women	As at 31 December 2018	In 2019 ³
Supervisory Board ¹	50.00%	45.45%
Executive Committee ²	14.29%	25.00%
Operations Committee ²	47.61%	54.16%
Senior executives	44.90%	-

(1) Excluding the Employee representative member of the Supervisory Board.

(2) Excluding the Executive Chairman.

(3) On the publication date of this Registration Document.

European Women on Boards (EWoB) and Ethics & Boards have published their first European gender diversity index. This comparative classification highlights the best practices of European companies in terms of gender diversity and was created in order to measure the change in gender balance at the highest levels of European corporates. It analyses the situations of the 200 largest Stoxx Europe 600 companies registered in nine European countries (Belgium, Czech Republic, Finland, France, Germany, Italy, Netherlands, Spain, United Kingdom).

It is based on three indicators:

- ◆ Female representation on Boards of Directors/Supervisory Boards;
- ◆ Chairwomen of Boards of Directors/Supervisory Boards;
- ◆ Female CEOs or Chairwomen of Boards of Directors.

In 2018 Hermès International ranked 16th in this classification.

Moreover, in accordance with the AFEP-MEDEF Corporate Governance Code, revised in June 2018 (§ 1.7), the duties set out in the Supervisory Board's rules of procedure were supplemented on 11 September 2018. Henceforth the Supervisory Board must ensure that the Executive Chairmen implement a non-discrimination and diversity policy in the governing bodies.

This policy was presented to the Supervisory Board in late 2018.

3.1.4.5 Diversity policy applied within the Supervisory Board

Changes in the composition of the Supervisory Board since 2011

Pursuant to Article L. 225-37-4 (6) of the French Commercial Code, we hereby report to you on the diversity policy applied to members of the Supervisory Board based on criteria such as age, gender or qualifications and professional experience, and provide a description of the objectives of this policy, its means of implementation and the results obtained in the year ended.

Since 2011, the CAG-CSR Committee has been assigned the duty to advise the Supervisory Board of its recommendations as to the changes in the Board's composition.

In order to make these recommendations to the Supervisory Board, the CAG-CSR Committee has organised its duties in three stages:

1. determine the "Supervisory Board's target makeup";
2. draw up a shortlist, with the help of an external expert, of potential candidates meeting identified requirements;
3. set up a schedule of changes in the Supervisory Board's composition.

The work carried out has been presented in each subsequent registration document as follows:

Work carried out	Registration Document
from 2011 to 2013	2013 (part 2, pages 21 and 22)
in 2014 and 2015	2014 (part 2, page 19)
in 2016	2015 (part 2, page 19)
in 2017	2016 (page 113)
in 2018	2017 (page 142)

The Supervisory Board's target makeup covers a range of objectives or principles regarding the optimal size of the Board, age limits, the number of independent members and diversity (e.g. gender parity, variety of nationalities, international experience, expertise).

In accordance with Article L. 225-37-4 of the French Commercial Code, their means of implementation and the results achieved at the end of 2018 are as follows:

Criteria used	Objectives set in 2014	Means of implementation and results at 31 December 2018
<p>Optimal size (number of Board members)</p> <p>The Board comprised 10 members within a range of 3 to 15 members set out by the Articles of Association (the decision is made by the Active Partner).</p>	<p><u>Objective:</u> maintain the number of members insofar as the Board's size is consistent with market recommendations and works satisfactorily. This can be reconsidered later if other constraints (proportion of women and independent members on the Board and the Committees) require an increase in the size of the Board.</p>	<p>The number of members gradually rose to 11 in 2012 (with the addition of a member representing employees) and then to 13 in 2017 (with the appointment of two new women).</p>
<p>Age limit</p>	<p>Article 18.3 of the Articles of Association states that the number of members aged over 75 cannot exceed one-third of the total. <u>Objective:</u> make no changes as the current rule under the Articles of Association is satisfactory.</p>	<p>Unchanged.</p>
<p>Gender parity</p>	<p>End of 2011: 20% women and 80% men. <u>Objective:</u> reach at least 40% of each gender by 2017 in accordance with Article L. 226-4-1 of the French Commercial Code.</p>	<p>Appointments of Ms Dominique Senequier in 2013 and Ms Monique Cohen in 2014. End-2014: 40% women and 60% men. Appointment of Ms Sharon MacBeath in 2016 and Ms Dorothee Altmayer and Ms Olympia Guerrand in 2017. Since end-2017: 50% women and 50% men.</p>
<p>Number of independent members</p>	<p>The Board's rules of procedure state that at least one-third of its members must be independent. Proportion in 2011: more than one-third (40% or four independents out of 10 members). <u>Objectives:</u></p> <ul style="list-style-type: none"> ◆ replace the two independent members (Mr Ernest-Antoine Sellière and Mr Maurice de Kervenoaël) who would be over 75 years old at the end of their respective terms in 2013 and 2014; ◆ find a suitable female candidate to be an independent member of the Audit and Risk Committee in 2014. 	<p>Appointment of Ms Dominique Senequier to the Board in 2013. Appointment of Ms Monique Cohen to the Board and the Audit Committee (now the Audit and Risk Committee) in 2014. Appointment of Ms Sharon MacBeath to the Board and the Audit Committee (now the Audit and Risk Committee) in 2016 and to the Compensation, Appointments and Governance Committee in 2017 (now the CAG-CSR Committee). End-2018: 1/3 independent members.</p>
<p>Nationalities, international experience, expertise (highlighting the missing talents/typical profiles needed to improve the running of the Board).</p>	<p><u>Objectives:</u></p> <ul style="list-style-type: none"> ◆ The House's culture being quintessentially French, maintain a French-speaking Board; ◆ International experience is important; ◆ Experience in the luxury sector is not necessarily desirable given the specific nature of Hermès and potential conflicts of interest; ◆ Experience or membership of a family group should be decisive (collective and not individual ambition); ◆ The absence of a conflict of interest is difficult to define and will be examined on a case-by-case basis; ◆ Financial expertise is desirable; ◆ Integrity and compatibility with the Hermès values is a prerequisite; ◆ Simultaneously holding offices in other listed companies is not in itself a handicap but must be taken into account for good governance. 	<p>Appointment of Ms Dominique Senequier to the Board in 2013 (financial profile). Appointment of Ms Monique Cohen in 2014 (financial profile, Audit Committee experience). Appointment of Ms Sharon MacBeath in 2016 (experience in human resources and British nationality). Appointment in 2017 of Ms Dorothee Altmayer (experience in human resources and psychology) and Ms Olympia Guerrand (international experience and dual nationality).</p>
<p>Possibility of appointing a non-voting member</p>	<p><u>Objective:</u> unfavourable because this role can be entrusted to a Board member without the need to appoint a non-voting member.</p>	<p>Unchanged.</p>

Criteria used	Objectives set in 2014	Means of implementation and results at 31 December 2018
Employee representative members	<p>Amend Article 18 of the Articles of Association to determine the terms and conditions for appointing members of the Supervisory Board representing the Group's employees in accordance with the law of 14 June 2013 on employment security.</p> <p>The member(s) representing employees will be appointed by the Group works council, taking into account the role of this employee representation body, which is the primary point of contact for management and whose members hail from the various works councils or single staff delegations of the companies comprising the Group.</p>	<p>Amendment of the Articles of Association at the 2014 General Meeting.</p> <p>Appointment of an employee representative to the Board at the end of 2014.</p>

Pursuant to Article L. 225-37-4 of the French Commercial Code, the objectives set in 2019 and the achievements to date are as follows::

Criteria used	Objectives set in 2019	Current achievements
<p>Nationalities, international experience, expertise (highlighting the missing talents/typical profiles needed to improve the running of the Board).</p> <p>Number of independent members</p>	<p>Mr Robert Peugeot had served for 12 years of office on 24 January 2019. He has therefore have lost his status as independent Board member of the Supervisory Board according to the criteria set out in the AFEP-MEDEF Corporate Governance Code.</p> <p>He was reappointed at the General Meeting of 5 June 2018 for a period of one year so as to replace him under the best possible conditions with a new independent member of the Supervisory Board at the General Meeting to be held in 2019. In 2018, the Supervisory Board deemed it better to have a slightly lower proportion of independent members on the Board (25%) and Audit and Risk committee (40%) than required by the AFEP-MEDEF Code for a few months rather than to waive one of the independence criteria with regard to Robert Peugeot.</p> <p>Upon the planned replacement of Mr Robert Peugeot in 2019, the Supervisory Board has set itself the objective of taking on a new independent Board member.</p> <p>Ms Sharon MacBeath resigned from her post as a member of the Supervisory Board with effect from 20 March 2019 for personal reasons. The Supervisory Board set itself the goal of replacing her with a new independent member of the Supervisory Board.</p>	<p>At the publication date of this Registration Document, the selection process is continuing in order to be able to propose, at the General Meeting of 4 June 2019, the appointment of two new independent members to replace Mr Robert Peugeot and Ms Sharon MacBeath.</p> <p>The selection process is being conducted as follows:</p> <ul style="list-style-type: none"> ♦ a recruitment advisor is tasked with identifying candidates (male and/or female) in addition to those proposed by the Executive Management Board and Supervisory Board; ♦ the profiles of around thirty male or female candidates, from a variety of backgrounds, but likely to be interested in joining the Supervisory Board, are then preselected by the recruitment advisor; ♦ on the basis of a detailed report and an oral presentation from the Recruitment advisor, the Chairman of the Supervisory Board and a member of the CAG-CSR Committee draw up a shortlist of candidates whom they will meet individually; ♦ the selected candidates then meet the other members of the CAG-CSR Committee and the Executive Chairmen; ♦ the CAG-CSR Committee discusses the results of these interviews and submits its recommendations to the Émile Hermès SARL Management Board and the Supervisory Board; ♦ finally, the Émile Hermès SARL Management Board and Supervisory Board decide on the appointments to propose to the General Meeting. <p>Proposals will also be made to the General Meeting of 4 June 2019 to reappoint Mr Charles-Éric Bauer, Ms Julie Guerrand and Ms Dominique Senequier for a period of three years as set out in the Articles of Association.</p> <p>Information regarding these persons is provided on pages 159, 163 and 156.</p> <p>Subject to the identification of candidates, male or female, and approval by the Combined General Meeting of 4 June 2019, these appointments and reappointments would restore:</p> <ul style="list-style-type: none"> ♦ the proportion of independent members on the Supervisory Board ¹ and committees in accordance with the requirements of the AFEP-MEDEF Code; ♦ a balanced representation of men and women on the Supervisory Board ¹, i.e. 50% and 50% respectively.

(1) Only Board Members appointed by the General Meeting are included in the calculation of these percentages, and not Board members representing employees, in application of the AFEP-MEDEF Code.

Number of Supervisory Board members and gender parity (excluding the employee representative)

31/12	2011	2012	2013	2014	2015	2016	2017	2018	2019 ¹
Number	10	11	11	10	10	10	12	12	11
F	20%	18%	27%	40%	40%	40%	50%	50%	45.45%
M	80%	82%	73%	60%	60%	60%	50%	50%	54.55%
Employee rep.	n/a	n/a	n/a	1	1	1	1	1	1

n/a: not applicable.

(1) At the date of publication of this Registration Document.

3.1.4.6 Independence of the members of the Supervisory Board

Independence criteria

In 2009 the Supervisory Board formally adopted the following criteria for its members to be deemed independent:

- ◆ Comply with the criteria set out in the AFEP-MEDEF Code (Article 8.5 of the version revised in June 2018):

Criterion 1:	Employee or Corporate Officer in the previous five years Not to be and not to have been during the course of the previous five years: <ul style="list-style-type: none"> ◆ an employee or Executive Corporate Officer of the Company; ◆ an employee, Executive Corporate Officer or a director of a company consolidated by the Company; ◆ an employee, Executive Corporate Officer or a director of the Company's parent company or a company consolidated by this parent.
Criterion 2:	Cross-directorships Not to be an Executive Corporate Officer of a company in which the Company holds a directorship, directly or indirectly, or in which an employee appointed as such or an Executive Corporate Officer of the Company (currently in office or having held such office during the last five years) is a director.
Criterion 3:	Significant business relationships Not to be a customer, supplier, commercial banker, investment banker or consultant: <ul style="list-style-type: none"> ◆ that is material to the Company or its group; ◆ or for which the Company or its group represents a significant part of its business. The assessment of the significant or non-significant relationship with the Company or its group must be debated by the Board and the quantitative and qualitative criteria that lead to the assessment (continuity, economic dependence, exclusivity, etc.) must be explicitly stated in the annual report.
Criterion 4:	Family ties Not to be related by close family ties to a Corporate Officer.
Criterion 5:	Statutory Auditor Not to have been a Statutory Auditor of the Company within the previous five years.
Criterion 6:	Term of office exceeding twelve years Not to have been a Director of the company for more than twelve years. The status of independent director is lost on the anniversary date of the twelve years.
Criterion 7:	Status of the non-Executive Corporate Officer A non-Executive Corporate Officer cannot be considered as independent if he/she receives variable compensation in cash or in shares or any compensation linked to the performance of the Company or the Group.
Criterion 8:	Status of main shareholder Directors representing main shareholders of the Company or its parent company can be considered as independent provided that they do not contribute to the control of the Company. However, beyond the threshold of 10% shareholding or voting rights, the Board, based on the report of the Appointments Committee, systematically reviews the qualification of independence, by taking into account the share ownership in the Company and the existence of a potential conflict of interest.
	◆ Comply with an additional criterion specific to Hermès International:
Criterion 9:	Status of Partner or member of the Executive Management Board of the Active Partner. Not to be a partner or member of the Executive Management Board of Émile Hermès SARL, Active Partner.

Situation of each member of the Supervisory Board, as at 31 December 2018, in respect of the above criteria

On 31 December 2018, the Board examined the situation of each of its members in respect of the above criteria on a case-by-case basis and deemed four of them to be "independent": Ms Monique Cohen, Ms

Dominique Senequier, Ms Sharon MacBeath, and Mr Robert Peugeot. In particular, the Board identified no significant business relationships between its members and the Company. This review is performed each year on the basis of a questionnaire sent to all Supervisory Board members (see page 177 below).

Criteria	Éric de Seynes (Chairman)	Monique Cohen (Vice-Chairwoman)	Dominique Senequier (Vice-Chairwoman)	Frédéric Afriat (Employee representative)	Dorothee Altmayer	Charles-Éric Bauer	Matthieu Dumas	Blaise Guerrand	Julie Guerrand	Olympia Guerrand	Sharon MacBeath	Renaud Momméja	Robert Peugeot
Criterion 1 : Employee or Corporate Officer in the previous five years		√	√								√		√
Criterion 2 : Cross-directorships	√	√	√	√	√	√	√	√	√	√	√	√	√
Criterion 3 : Significant business relationships	√	√	√	√	√	√	√	√	√	√	√	√	√
Criterion 4 : Family ties		√	√	√							√		√
Criterion 5 : Statutory Auditor	√	√	√	√	√	√	√	√	√	√	√	√	√
Criterion 6 : Term of office exceeding twelve years	√	√	√	√	√	√	√	√		√	√		√
Criterion 7 : Status of the non-Executive Corporate Officer	√	√	√	√	√	√	√	√	√	√	√	√	√
Criterion 8 : Status of main shareholder		√	√	√							√		√
Criterion 9 : Status of Partner or member of the Executive Management Board of the Active Partner		√	√	√							√		√
Independent		√	√								√		√

In accordance with Article 8.3 of the AFEP-MEDEF Code revised in June 2018, independent members must make up at least one-third of the Supervisory Board in controlled companies as defined by Article L. 233-3 of the French Commercial Code.

Article 1.1.2.3 of the Supervisory Board's rules of procedure states that at least one-third of Board members must be independent.

Employee representative Board members are not included in the calculation of this percentage.

The Supervisory Board has complied with this proportion since it was introduced in 2009.

On 24 January 2019, Robert Peugeot's term of office reached 12 years.

He was reappointed at the General Meeting of 5 June 2018 for a period of one year so as to replace him under the best possible conditions with a new independent member of the Supervisory Board at the General Meeting to be held in 2019. The Supervisory Board deemed it better to have a slightly lower proportion of independent members on the

Board (25%) and Audit and Risk Committee (40%) than required by the AFEP-MEDEF Code for a few months, rather than to waive one of the independence criteria with regard to Robert Peugeot.

Ms Sharon MacBeath resigned from her position as a member of the Supervisory Board as of 20 March 2019 for personal reasons.

With Mr Robert Peugeot losing his independent member status and Ms Sharon MacBeath resigning, the proportion of independent members on the CAG-CSR Committee falls below the level required by the AFEP-MEDEF Code.

On the publication date of this Registration Document, the Board, in conjunction with the CAG-CSR Committee, is continuing its selection process in order to propose the appointment, at the General Meeting to be held on 4 June 2019, of two new independent members to replace Mr Robert Peugeot and Ms Sharon MacBeath. These new members will be appointed members of the CAG-CSR Committee and Audit and Risk Committee.

3.1.4.11 Specialised committees

Two specialised committees were created in 2005:

- ◆ the Audit Committee on 26 January 2005, whose duties the Board then decided to expand and which was renamed the "Audit and Risk Committee" (19 March 2019);
- ◆ the Compensation Committee (26 January 2005), subsequently assigned new duties and responsibilities by the Board and renamed the Compensation, Appointments (18 March 2009), Governance (20 January 2010) and CSR (16 November 2018) Committee or the "CAG-CSR Committee".

These committees act under the collective and exclusive responsibility of the Supervisory Board. Their role is to research and to prepare for certain deliberations of the Board, to which they submit their opinions, proposals or recommendations.

The Company's CAG-CSR Committee is not tasked with setting the compensation of the Executive Chairmen, a task governed by the provisions of the Articles of Association and which falls within the remit of the Active Partner and not the Supervisory Board. It was therefore not relevant to create a Compensation Committee separate from the Appointments Committee.

Table of changes in the composition of the Committees over the year

At its meeting of 5 June 2018 the Supervisory Board:

- ◆ reappointed Ms Monique Cohen (Chairwoman), Ms Sharon MacBeath, Mr Charles-Éric Bauer, Mr Renaud Momméja and Mr Robert Peugeot to the Audit and Risk Committee;
- ◆ reappointed Ms Dominique Senequier (Chairwoman), Ms Sharon MacBeath, Mr Matthieu Dumas and Mr Robert Peugeot to the CAG-CSR Committee.

	Departures	Appointments	Renewals
Audit and Risk Committee			Ms Monique Cohen (05/06/2018) Mr Charles-Éric Bauer (05/06/2018) Ms Sharon MacBeath (05/06/2018) Mr Renaud Momméja (05/06/2018) Mr Robert Peugeot (05/06/2018)
CAG-CSR Committee			Ms Dominique Senequier (05/06/2018) Mr Matthieu Dumas (05/06/2018) Ms Sharon MacBeath (05/06/2018) Mr Robert Peugeot (05/06/2018)

CAG-CSR COMMITTEE

Composition and functioning of the CAG-CSR Committee at 31 December 2018

The CAG-CSR Committee comprised the following members:

- ◆ Ms Dominique Senequier, Chairwoman (independent);
- ◆ Mr Matthieu Dumas, member;
- ◆ Ms Sharon MacBeath, member (independent);
- ◆ Mr Robert Peugeot, member (independent).

Ms Sharon MacBeath resigned from her position as a member of the Supervisory Board with effect from 20 March 2019, and consequently also resigned from her position as a member of the CAG-CSR Committee on the same date.

The composition rules, duties and operating provisions of the CAG-CSR Committee are described in detail in the rules of procedure approved by the Supervisory Board and have existed since 24 March 2010.

These rules of procedure are revised on a regular basis to be in line with revisions of the AFEP-MEDEF Code and the regulatory environment.

The CAG-CSR Committee's rules of procedure were updated on 20 March 2018 as follows:

- ◆ a new and clearer format was adopted;

- ◆ a new governance duty was added, namely to ensure the existence of a succession plan for the Chairman of the Supervisory Board.

The CAG-CSR Committee's rules of procedure were updated on 16 November 2018 to:

- ◆ rename it "Compensation, Appointments, Governance and CSR Committee" or "CAG-CSR Committee";
- ◆ assign new duties to it relating to social and environmental responsibility:
 - assist the Supervisory Board in monitoring issues relating to CSR so that the Hermès Group can better foresee and tackle opportunities, challenges and the related risks,
 - assist the Supervisory Board in monitoring the Hermès Group's social policy and the non-discrimination and diversity policy.

The third version of the rules of procedure dated 16 November 2018 is set out in full on page 210 and each update is made available online at <https://finance.hermes.com/en/Corporate-Governance/Management-Bodies/The-Specialized-Committees-of-the-Supervisory-Board>.

These rules of procedure provide that at least half of the members of the CAG-CSR Committee must, at the time of their appointment and for the duration of their mandate, be qualified as independent under the Supervisory Board's rules of procedure.

The Chairman of the Supervisory Board can be invited to certain CAG-CSR Committee meetings in order to hear its opinion in matters of appointments or governance, which was not the case in 2018.

The Executive Chairmen are only invited for that part of meetings relating to the compensation of Executive Committee members (excluding the Executive Chairmen).

Summary presentation of the members of the CAG-CSR Committee at 31 December 2018

Name	Independent	Date of appointment	Term of office on the Board	Length of service on the Committee
Dominique Senequier (Chairwoman)	√	04/06/2013	2019 GM	6 years
Matthieu Dumas		03/06/2008	2021 GM	11 years
Sharon MacBeath	√	06/06/2017	2019 GM	2 years
Robert Peugeot	√	03/06/2008	2019 GM	11 years

Changes to the CAG-CSR Committee after 31 December 2018

Mr Robert Peugeot had served in his post for 12 years on 24 January 2019 and accordingly lost his independent member status of the Board under the criteria of the AFEP-MEDEF Corporate Governance Code.

Ms Sharon MacBeath resigned from her office as a member of the Supervisory Board as of 20 March 2019, meaning that she also resigned from her office as a member of the CAG-CSR Committee on the same date.

On the publication date of this Registration Document, the Board, in conjunction with the CAG-CSR Committee, is continuing its selection process in order to propose the appointment, at the General Meeting to

be held on 4 June 2019, of two new independent members to replace Mr Robert Peugeot and Ms Sharon MacBeath. These new members will be appointed members of the CAG-CSR Committee.

Duties and activities of the CAG-CSR Committee in 2018

In 2018 the CAG-CSR Committee met five times (as opposed to six times in 2017).

Individual and average rates of attendance are indicated in the table on page 177.

Duties of the CAG-CSR Committee

The CAG-CSR Committee studies and prepares certain proceedings of the Supervisory Board and submits to the Supervisory Board its opinions, proposals and recommendations. Without prejudice to the powers of the Supervisory Board, which it does not replace, the duties of the CAG-CSR Committee are to:

With respect to compensation

- ♦ be consulted and draw up recommendations from the Supervisory Board to the Executive Management on the terms governing the compensation paid to Executive Committee members;
- ♦ be consulted and draw up recommendations from the Supervisory Board to Executive Management on the terms and conditions of granting any stock options and free shares to Executive Committee members;
- ♦ draw up proposals and opinions on the total amount and distribution, in particular on the basis of attendance of Supervisory Board members at meetings, of directors' fees and other compensation and benefits awarded to members of the Supervisory Board and its Committees;
- ♦ review proposals for stock options and free share awards to Senior Executives to enable the Supervisory Board to determine the aggregate or individual number of options or shares allotted and the terms and conditions of allotment;
- ♦ review proposals for stock options and free share awards to employees and draw up recommendations thereon to Executive Management;
- ♦ assist the Board in determining the conditions and performance criteria to be applied to awarding stock options, performance-based shares and/or additional pensions to the Executive Chairmen;
- ♦ ensure that the compensation of and other commitments made to the Executive Chairmen complies with the Articles of Association and the decisions made by the Active Partner;
- ♦ acquaint itself with and make recommendations to the management or supervisory bodies of the main French subsidiaries within the Hermès Group on the compensation of Executive Corporate Officers;
- ♦ acquaint itself with and make recommendations to the management or supervisory bodies of the main French subsidiaries within the Hermès Group on the terms and conditions of the award of stock options to Executive Corporate Officers;
- ♦ carry out specific assignments entrusted to it by the management or supervisory bodies of the main French subsidiaries within the Hermès Group.

With respect to appointments

- ♦ prepare the Board's proposals to the Active Partner after examining all the elements which it must take into account in its deliberation: balance to be sought in the composition of the Board in light of the composition of, and changes in, the Company's shareholders, search for and appraisal of possible candidates and opportunity for reappointments;
- ♦ organise a selection procedure in conjunction with the Executive Chairmen for future independent members of the Board and carry out its own research on potential candidates;
- ♦ ensure a succession plan for Executive Corporate Officers (the Executive Chairmen) drawn up by the Active Partner;
- ♦ ensure the existence of a succession plan for the Chairman of the Supervisory Board (*new mission since 20 March 2018*).

Activities of the CAG-CSR Committee in 2018

In 2018, as in the previous year, the CAG-CSR Committee used a dashboard to plan and prepare its work in a balanced way over the year. In 2018 the CAG-CSR Committee was required to examine and/or make recommendations on many subjects and in particular to:

With respect to compensation

- ♦ review chapter 3 "Corporate Governance" of the 2017 Registration Document, the sections on compensation of Senior Executives (executive management report) and the description of the proposed resolutions relative to the advisory opinion ("Say on Pay") regarding Senior Executive compensation;
 - ♦ propose the distribution of directors' fees and compensation payable to Board and Committee members for 2017;
 - ♦ present company policy regarding gender equality and equal pay;
 - ♦ present the two-yearly Talent review process and summary of results;
 - ♦ compensation for 2018 of the Hermès International Executive Chairmen and the press release to be put up on the financial website;
 - ♦ review compensation in respect of 2018, bonuses paid in respect of 2017 and target bonuses in respect of 2018 for Executive Committee members;
 - ♦ confirm compensation in respect of 2018, bonuses paid in respect of 2017 and target bonuses in respect of 2018 for the Corporate Officers of French subsidiaries who receive compensation for their term of office;
 - ♦ review the performance in 2017 and the impact on the number of free share rights awarded to beneficiaries subject to performance conditions under the 2016 selective free share plan.
- The CAG-CSR Committee reviewed current events in matters of compensation:
- ♦ 2018 AFEP-MEDEF study on Hermès International's application of the Code with regard to compensation;
 - ♦ AFEP Study on the performance criteria of compensation for Senior Executives (June 2018);
 - ♦ IFA - Document on taxation of directors' fees and the 2018 finance act.

With respect to appointments

- ♦ assess changes in the composition of the Board and examine the candidatures of members of the Supervisory Board;
 - ♦ setting by the Board of diversity targets for the composition of the Board.
- The CAG-CSR Committee reviewed the latest reports on appointments: n/a in 2018

With respect to corporate governance

- ◆ recommend revisions to corporate governance rules as needed;
- ◆ periodically verify that independent Supervisory Board members meet the independence and objectivity criteria set out in the Supervisory Board's rules of procedure;
- ◆ review the composition of the specialised committees;
- ◆ oversee the annual evaluation of Supervisory Board practices;
- ◆ ensure that the management bodies apply the Supervisory Board's rules of procedure and the recommendations of the current AFEP-MEDEF Corporate Governance Code in their operations.

With respect to corporate governance

- ◆ examine the individual situation of Supervisory Board members and Executive Chairmen (independence, conflicts of interest, plurality of offices, number of shares) and Committee members (specific skills with regard to finance or accounting);
- ◆ update and circulate Supervisory Board documents (master file, rules of procedure, 2018 calendar of blackout periods);
- ◆ review the Corporate Governance chapter of the 2017 Registration Document;
- ◆ governance in the United States;
- ◆ update of the rules of procedure of the Supervisory Board;
- ◆ conduct an annual review of the Executive Management succession plan (in the presence of CAG-CSR Committee members only);
- ◆ succession plan for the Chairman of the Supervisory Board;
- ◆ proposal on strengthening the role of the Audit and Risk Committee and the CAG-CSR Committee to assist the Supervisory Board in its new duties;
- ◆ proposal on amendments to the rules of procedure of the Audit and Risk Committee and the CAG-CSR Committee to add the new duties assigned;
- ◆ information on the *Grand Prix de la Transparence* "Best improvement" awarded to Hermès International;
- ◆ 2018 transparency criteria: review of Hermès International's practices and follow up actions;
- ◆ conduct an informal annual evaluation of the work of the Board (areas of improvement identified at the end of 2017, state of play at the end of 2018, changes in governing texts to be monitored);
- ◆ update the rules of procedure of the Board to include the new conditions for the distribution of directors' fees decided in June 2017;
- ◆ self-assessment of the work of the CAG-CSR Committee (areas for improvement).

The CAG-CSR Committee reviewed the latest reports on governance:

- ◆ *Palmarès 2017 de la Féminisation des Grandes Entreprises* – SBF 120;
- ◆ 2017 AMF report on corporate governance and Senior Executive compensation of listed companies (November 2017);
- ◆ AMF – AMF recommendation "Corporate governance and Senior Executive compensation in companies referring to the AFEP-MEDEF Code – Consolidated presentation of the recommendations contained in the AMF – DOC -2012-02 annual reports " (November 2017);
- ◆ CLUB DES JURISTES – Report of the commission on communication between directors and shareholders (December 2017);
- ◆ MEDEF – Methodological guide CSR Reporting Non-financial performance reporting (September 2017) ;
- ◆ MEDEF – Integrated reporting; feedback (November 2017);
- ◆ AFEP – Table of voting policies AFG / PROXINVEST / ISS / GLASS LEWIS (February 2018);
- ◆ IFA – Role of the Chairman of the Board (January 2018);
- ◆ NOTAT SENARD Report – «L'entreprise, objet d'intérêt collectif» (9 March 2018);

- ♦ IFA / ETHICS & BOARD – First barometer on the composition of the Boards of CAC 40 listed companies after general meetings (June 2018);
- ♦ IFA – Document on the Sapin II law, the sections relating to combating corruption, whistle blowers and voting on Senior Executive compensation (April 2018);
- ♦ CLUB DES JURISTES – «Le rôle sociétal de l'entreprise» (April 2018);
- ♦ IFA – Document on GDPR (April 2018);
- ♦ AFEP – Assessment of GMs (July 2018);
- ♦ FINANCIAL ANALYSIS – «Gouvernance le 2ème âge de la transparence» (July 2018);
- ♦ IFA – Revision of the UK corporate governance code (July 2018);
- ♦ BASIC – «L'impact sociétal des grandes entreprises françaises» (June 2018);
- ♦ AFEP-MEDEF – Corporate Governance Code revised in June 2018;
- ♦ AFG Recommendations on Corporate Governance (January 2018);
- ♦ AFEP-MEDEF 2018 study on Hermès International's application of the code (governance);
- ♦ AMF – Report of the working group on the rights of shareholders and voting at general meetings (July 2018);
- ♦ AMF – General meetings of listed companies – DOC -2012-05 amended on 5 October 2018: review of Hermès International's practices and follow up actions;
- ♦ IFA – Practical guide for directors regarding their legal liability;
- ♦ 2018 AFEP-MEDEF HCGE annual report on Hermès International's practices (analysis and recommendations);
- ♦ France Board Index 2018 – SpencerStuart;
- ♦ 2018 EY LABRADOR governance overview: Hermès International's rating.

With respect to CSR

- ♦ assist the Supervisory Board in monitoring issues relating to CSR so that the Hermès Group can better foresee and tackle opportunities, challenges and the related risks;
- ♦ assist the Supervisory Board in monitoring the Hermès Group's social policy and the non-discrimination and diversity policy.

With respect to CSR

- ♦ n/a in 2018 (the new missions of the CAG-CSR Committee in CSR matters were granted to it on 16 November 2018 and no meeting of this committee was held prior to 31 December 2018.
- ♦ In early 2018 the CAG-CSR Committee conducted a self-assessment of its work and functioning and deemed them very satisfactory overall.

3.2 ETHICS – COMPLIANCE

3.2.1 COMMITMENTS

“Hermès is a mosaic of women and men who work hard daily for its development throughout the world. Beyond their uniqueness, the people who bring the group to life have a common desire to share certain unifying and founding values of the spirit that has characterised Hermès since 1837.

Even though these values are experienced and transmitted above all through personal adherence, the code of ethics reaffirms our common desire to respect certain fundamental principles that facilitate relations both internally and with customers, suppliers and, more generally, with the environment in which Hermès operates.”

Mr Henri-Louis Bauer – Chairman of the Executive Management Board of Emile Hermès SARL Mr Axel Dumas – Executive Chairman

This code does not replace the laws and regulations applicable in the countries where the group operates, but rather aims to promote compliance with them and ensure their proper application. It is of course in line with fundamental principles such as the Universal Declaration of Human Rights, and the rules of the ILO, the OECD and the Global Compact governing sustainable development.

It is an instrument of progress and dialogue: any employee of the group who encounters difficulties in understanding or applying it must inform his or her manager.

We are counting on your contribution to continue to embody the values it conveys and to nourish them with your own mark.”

Mr Henri-Louis Bauer – Chairman of the Executive Management Board of Emile Hermès SARL Mr Axel Dumas – Executive Chairman

3.2.1.1 Promotion of and compliance with conventions on human rights and fundamental rights

The Hermès Group's ethics policy aligns with the universal framework set down by the major principles, standards and international agreements, and it notably adheres to:

- ◆ the Universal Declaration of Human Rights;
- ◆ the Charter of Fundamental Rights of the European Union;
- ◆ the Charter of Fundamental Rights of the International Labour Organization, the principles of which are grouped under the following themes: freedom of association, forced work, child labour, discrimination;
- ◆ the OECD guidelines;
- ◆ the OECD convention on combating the corruption of public officials;
- ◆ the Global Compact under the aegis of the UN.

The Hermès Group and its employees endeavour to comply with the laws and regulations applicable in all countries where they operate.

These principles are clearly set out in the Group's Ethical Charter and its code of business conduct, available on the Group intranet and given to all employees since 2009 and 2012 respectively, as well as in the "Les Essentiels" section of the Group's public website.

3.2.1.2 Ethics Charter

“The Ethical Charter serves to enrich the corporate project around the genuineness of the Group's purpose and ethics. It guarantees respect for the debt of gratitude that we owe to our employees and partners.

The House's ethics have been enshrined, since 2009, in a 40-page Ethical Charter, available in 10 languages and updated in 2016, distributed to all employees worldwide. It is also available on our intranet, HermèSphère, in the section "Our ethics". It serves to inform the corporate purpose and to reaffirm the Group's determination to uphold certain fundamental principles in relations with its stakeholders and society. Signed by the Executive Management, it is sent to all new employees as soon as they enter the House. The document "Les Essentiels" of the Group's Ethics Charter is available on the website <https://finance.hermes.com/>

The Ethical Charter aims to promote compliance and to ensure the proper application of applicable laws, regulations and key principles. It is intended as an instrument of progress and dialogue, and encourages employees to seek guidance from their line managers in cases where the principles are difficult to apply or are open to misunderstanding. It is structured around the following points:

- ◆ relations between Hermès and its employees.

These relations are based on humanistic and responsible management inspired notably by a desire to preserve the physical and emotional health of employees. This chapter sets out a number of the House's unifying values: trust, exemplarity, excellence, uncompromising standards, recognition, respect, enthusiasm, solidarity, discretion and the search for harmony;

- ◆ relations between Hermès and its suppliers.

These relations entail adherence to the Company's enduring standards of excellence based on suppliers' ability to follow the House's fundamental principles. This chapter outlines the main principles of our relationships: trust and consideration, selectivity on quality criteria but also in terms of social and environmental issues, long-term and balanced relationships, fair treatment and impartiality, absolute respect of ethical and integrity criteria, transparency in the relationship.

- ◆ relations between Hermès and its customers.

Hermès seeks to astonish its customers and take them into another world with exceptional creations, products, services and stores. This chapter stresses the need to give everyone the warmest possible welcome, with respect for diversity and culture, to be discreet and to respect the confidentiality of information about our customers, as well as ethics with our business partners.

- ◆ relations between Hermès and its shareholders.

These relations are based on transparent disclosure and rigorous management. Hermès wishes to share with its shareholders, without distinction and in the respect of shareholder equality, its long-term strategy and its values as well as the results of the business. Hermès strives to harmoniously develop its business and results, protect the Company's assets, ensure governance in line with market best practices, and transparently report on its activities.

- ◆ uncompromising principles of Hermès objects.

This is identifiable by the style, the savoir-faire and the quality of its objects: a highly demanding approach to materials, savoir-faire and attention to detail, among others, applied internally and externally. The authenticity of materials (including their provenance), as well as their crafting, guarantee the enduring nature of Hermès objects;

- ◆ relations between Hermès and society.

Hermès is an attentive and concerned member of society committed to its ecological, social, economic and cultural environment. This chapter notably sets out our values on the following issues:

- the House takes care to respect the environment and fit into it as seamlessly as possible. It complies with regulatory requirements and aims to anticipate their development whenever possible. It seeks to enhance its production processes by choosing the cleanest possible technologies and the most environmentally friendly products, respecting natural resources and minimising the use of energy resources. It keeps waste to a minimum, recycling it whenever possible. Hermès equips its manufacturing sites so as to blend them into the landscape, to prevent accidental pollution and to limit noise and other nuisances,
- as regards its stakeholders, Hermès also aims to ensure dialogue and consultation with all stakeholders in order to contribute to the economic and social development of the regions and employment areas where its manufacturing and commercial sites are located. Hermès invests in each of the company's manufacturing or commercial sites, using local resources as much as possible, so as to contribute to local economic life and play a role of corporate citizen in the local economy, in a spirit of responsibility towards the community.

3.2.1.3 Code of business conduct

"To help make sure that everyone is on the same page, we have formalised this "code of business conduct". Its role is to raise awareness of certain risks and to instil Group employees with behavioural reflexes in response to frequently raised issues.

The sheets below, each of which must act as a safeguard for the proper application of the code, are instruments of progress and dialogue. We are counting on your personal involvement in following these guidelines."

Mr Axel Dumas – Executive Chairman

A 20-page Code of Business Conduct, available in 10 languages and updated in 2018, is distributed to all employees worldwide. It sets out the House's guiding principles on a number of operational topics. The Code is signed by the Management, and is given to all employees as soon as they join the House. The Code of Business Conduct is available on the website <https://finance.hermes.com>

The purpose of the Code of Business Conduct is to raise employees' awareness about certain risks and to instil behavioural and alert reflexes. It consists of factsheets, dealing with key issues:

- ◆ the code sets out alert mechanisms as part of a Group system called "H-Alert!". Employees confronted with situations that raise ethical issues, or who believe, in good faith and in a disinterested way, that a serious and obvious violation of a code, charter, procedure, law or regulation, of which they are personally aware, has been committed, are encouraged to report the irregularities or breaches, as soon as possible, using the following reporting channels:
- ◆ via the line management/managerial route or via Human Resources or the Ethics Committee; or
- ◆ via a technical system specially designed for this purpose and which protects the person reporting, operated by an external provider chosen by the Hermès Group, whose details can be accessed on the Group's intranet site (Our House/Our Ethics) and which are also posted.

These reports are treated confidentially and in line with the applicable legal framework.

The Code addresses the following topics:

- ◆ **extra-professional activities:**

These must be exercised outside the framework of the Company, not lay claim to belonging to the Hermès Group and not compete with our activities;

The Group's policy is to not support any political party and to prohibit any political activism in the name of Hermès.

- ◆ **acceptable benefits and gifts:**

This sheet outlines the principles regarding the offering and receiving of gifts, in accordance with local regulations, ethical rules and transparency;

◆ **money laundering:**

This sheet aims to make employees aware of this illegal practice and its risks. It gives examples of concrete cases to monitor and refers readers to the Group's mandatory procedures on the subject;

◆ **confidentiality:**

This sheet aims to encourage employees to take the necessary measures to protect the confidentiality of the information that they hold as a result of their professional activity, or that of their colleagues.

It defines the notion of confidential information, gives examples concerning data security, the control of communication and specific prohibitions in view of our activity. Among other things, it deals with the subject of social networks, financial information and customer data;

◆ **conflicts of interest:**

This sheet explains the notion of conflict of interest, and specifies the types of behaviour to avoid. It emphasises the duty of transparency and loyalty;

◆ **corruption:**

The Group's policy is clear: zero tolerance for corruption of any form and whatever the status of the beneficiary.

This sheet summarises, and offers examples of, the key principles of business relationships, the main regulations on the subject, and potential impact for the Company and for employees.

Each employee must refer back to the rules set out on the matter in the Anti-corruption code of conduct;

◆ **stock market ethics – prevention of market abuse:**

This sheet summarises the issues, risks and behaviour to avoid on this subject, in application of the law and French rules in this area. Any employees with access to inside information as a result of their professional duties, must not buy or sell Hermès International shares, until such information is made public;

◆ **discrimination:**

This sheet reminds employees that the Group does not tolerate any form of discrimination;

◆ **personal data:**

This sheet reminds employees that the Group is particularly sensitive to personal data protection and respect for privacy. All employees, whatever their role, must ensure that they process the personal data to which they have access in accordance with rules set out by the Group and pursuant to applicable laws and regulations;

◆ **human rights and fundamental freedoms:**

This sheet describes the Group's ethics policy within the context of the universal framework set down by the major principles, standards and international agreements to which it adheres;

◆ **environment:**

Respect for nature, the source of its exceptional materials and the living environment surrounding its sites, is one of the Group's strong and unwavering values.

This sheet urges all employees to do their utmost to prevent, or minimise, the consequences of their activity on the environment. All Group employees pay great attention when it comes to protecting nature, preserving biodiversity and ecosystems and managing waste;

◆ **harassment (moral or sexual):**

Reaffirming the Group's commitment to fight against harassment, this sheet sets out elements serving to identify such issues;

◆ **international sanctions:**

The Group, including its employees, is committed to complying with the international sanctions programmes imposed by the United Nations, the European Union, the United States and by any national legislation to which it is subject;

◆ **health and safety:**

Employee health and safety is a priority for the Group. The Group endeavours to constantly improve its employees' working conditions and pursues the same objectives with its external partners;

◆ **terrorism:**

This sheet aims to raise employees' awareness and to increase their vigilance, particularly with regard to money laundering and funding terrorism;

◆ **influence peddling:**

The Group prohibits any act of influence peddling;

◆ **use of Group resources:**

This sheet highlights the objective of protecting the Group's resources and their use for professional purposes. It lists certain prohibitions (notably from the Group's IT charter).

Echoing the Ethical Charter, the code of business conduct states in its preamble that Hermès men and women must also act in strict compliance with the laws and regulations applicable in the countries where the Group operates, as well as within the framework of fundamental principles such as the Universal Declaration of Human Rights, the ILO conventions and the OECD guidelines.

3.2.1.4 Personal data protection and respect for privacy

Personal data protection and respect for the privacy of individuals are major issues for the Hermès Group and are key to maintaining relationships of trust, particularly with its customers and employees.

The Hermès Group's objective is to ensure an appropriate level of data protection across all its subsidiaries, in accordance with applicable laws and regulations. The Hermès Group has set up the organisational structure and the protection and control measures detailed in sections 3.2.2 to 3.2.4 below.

3.2.2 ORGANISATION

3.2.2.1 Ethics Committee

An Ethics Committee was created in 2018 to (i) advise on the Group's ethics culture and make recommendations, (ii) receive alerts (alongside other reporting channels) and (iii) direct and monitor the way in which alerts are handled.

It comprises the Executive Vice-President, Governance and Organisational Development, who is a member of the Executive Committee and chairs the meetings, the Group Legal Director, the Human Resources Director and the Director of Legal Compliance and Public Affairs.

The Ethics Committee meets in plenary session with anyone who is duly authorised to deal with alerts, as often as is necessary and at least once every six months.

3.2.2.2 General Counsel Compliance and Public Affairs

The General Counsel Compliance and Public Affairs' main task is to design, develop and implement compliance programmes worldwide, to identify, evaluate and control the risks to which the Hermès Group is exposed, to verify compliance with the various laws and regulations, and ensure the coordination, implementation and updating of compliance programmes, in close cooperation with the Group's various departments. This position reports to the Group's Chief Legal Officer, who reports to the Executive Vice-President, Governance and Development of Organisations, member of the Executive Committee, who in turn reports to the Group's Executive Chairman.

The General Counsel Compliance and Public Affairs' independence is ensured by direct reporting, on a regular basis, to the Executive Vice-President, Governance and Organisational Development. Meetings are accordingly held on a regular basis.

The General Counsel Compliance and Public Affairs chairs and oversees the "Compliance and Vigilance Committee". He or she reports on the actions and decisions of the Compliance and Vigilance Committee to the Executive Vice-President, Governance and Organisational Development. He or she is also a member of the Ethics Committee, chaired by the Executive Vice-President, Governance and Organisational Development.

The General Counsel Compliance Department and Public Affairs relies on the lawyers in the Hermès International Legal Department, based in Paris, on subsidiaries' legal departments (in Lyon, New York, Mumbai, Shanghai, Singapore and Tokyo) and on the Group's network of internal controllers, to deploy compliance programmes within the Group.

These employees are involved in implementing and leading compliance programmes, including the corruption prevention plan, across all Group *métiers* and entities. They check in particular that operational and *métiers* staff apply the policies and procedures put in place.

3.3.2.2 Compliance and Vigilance Committee

The Compliance and Vigilance Committee is composed of the following functions:

- ◆ General Counsel Compliance and Public Affairs;
- ◆ Group General Counsel;
- ◆ Audit and Risk Director;
- ◆ Sustainable Development Director;
- ◆ Consolidation and Management Control Director;
- ◆ Group Labour Relations Director;
- ◆ Group Direct Purchasing Coordination Manager;
- ◆ Group Indirect Purchasing Manager;
- ◆ Group Retail Activities Director.

The Compliance and Vigilance Committee meets regularly.

Its duties include in particular to:

- ◆ define compliance guidelines;
- ◆ design and implement prevention and monitoring actions in terms of supplier vigilance, fraud and the fight against corruption for all Group entities;
- ◆ manage the deployment of awareness-raising and training campaigns for employees most at risk.

Generally speaking, the Compliance and Vigilance Committee:

- ◆ provides expertise by analysing regulatory and legislative requirements;
- ◆ fosters a culture of compliance;
- ◆ ensures programme coordination and consistency;
- ◆ develops the Group's policies in this area.

3.3.2.4 Group Data Protection Officer

A Group Data Protection Officer was appointed on 1 March 2018, with the task of informing and advising the Company on its legal and regulatory obligations with regard to personal data, and steering and monitoring data processing and ensuring its compliance with these obligations. The Group Data Protection Officer is the point of contact for the people concerned and for authorities in charge with the protection of personal data.

The position is part of the Group Legal Department, reporting to the Executive Vice-President, Governance and Development of Organisations, member of the Executive Committee, who in turn reports to the Group's Executive Chairman.

3.3.2.5 Personal data protection governance

The Data Protection Officer's work is reliant upon a Group-wide network of people, primarily members of the Legal Department and internal controllers. This network enables the officer to be informed of personal data processing-related issues, to ensure that these are handled consistently by subsidiaries and to be alert to local legal and regulatory changes, as applicable.

3.2.3 IMPLEMENTATION

3.2.3.1 Corruption

“Combatting corruption is an evident commitment for the Hermès Group.

Combatting corruption is part of an ethical approach to which the Hermès Group is fundamentally attached. It involves a determined commitment to comply strictly with laws and regulations applicable in all of the countries in which the Group operates. This commitment applies to all of the Group’s internal ethics and compliance policies and procedures.

Combatting corruption further means forbidding any conduct contrary to these rules and principles and promoting within the firm an ethical culture that leaves no place for dishonest conduct.

Combatting corruption thus also means including this ethical culture in all of the Group’s policies, actions and decisions. As ethics is a matter that concerns everyone, these principles must govern Hermès Group’s daily operations including managerial, commercial and operational activities.”

Mr Axel Dumas, Executive Chairman

Corruption is in contradiction with the values of the Hermès Group. The Group has a dual requirement: zero tolerance for breaches of probity on the one hand, and a determined commitment to an ethical culture on the other.

The Group’s policies on ethical conduct and the fight against corruption are clearly set out in the code of business conduct, available on the Group intranet as well as in the "Les Essentiels" section of the Group’s public website.

The Hermès Group continues to improve its corruption prevention plan, in accordance with the requirements of French Law no. 2016-1691 of 9 December 2016 on transparency, the fight against corruption and the modernisation of economic life.

Furthermore, the Group conducts global legal monitoring of legislative changes on the fight against corruption and complies with current legislative and regulatory requirements both in France and abroad, such as the Foreign Corrupt Practices Act in the United States, the United Kingdom Bribery Act. This monitoring is carried out in-house and by external firms.

3.2.3.1.1 Commitment of the governing body

The governing body’s commitment can be seen at the Group’s highest level. Alongside other members of the Executive Committee, Mr Axel Dumas, Executive Chairman, drives compliance with ethical rules, applying a firm policy of zero tolerance of any act of corruption.

Corruption risk mapping, initiated by the governing body and presented by the General Counsel Compliance and Public Affairs in the first half of 2018, was signed by all the members of the Executive Committee, thus clearly demonstrating the importance placed on analysing and identifying Group-specific risks.

The fight against corruption in all these forms irrigates all the Group’s policies and procedures.

3.2.3.1.2 Risk mapping

“We are committed to promoting a culture of compliance, integrity and transparency that is vital for risk assessment. This anti-corruption risk map, as well as a whole range of recommendations made within the context of mechanisms to control these risks, are part of this approach. They will feed into action plans to improve the prevention of, and the fight against, all forms of corruption within our Group.”

Mr Axel Dumas – Executive Chairman

A Group corruption risk map was produced jointly by the Compliance Department and the Audit and Risk Management Department and was approved by the Group’s Executive Committee.

Risk mapping covers all of the Group’s activities in all the geographical areas where it operates. Each main risk identified corresponds to a potentially risky behaviour or situation in terms of corruption or influence peddling and specifies the geographical areas and *métiers* that are most affected so as to determine the priority measures to be taken as part of the corruption prevention plan.

The participation of a number of key contacts has ensured that a good cross-section of the Group’s main activities are represented at various levels of responsibility (management and operational staff).

The methodology used for the Group’s risk mapping is as follows:

- ◆ identification of Group risks arising from an audit of existing mechanisms and interviews with Senior Executives and operating functions;
- ◆ prioritisation of these risks: the importance of each risk was measured according to the impact that its occurrence would have as well as the likelihood of its occurrence (its probability of occurrence), weighted by the control mechanism in place, resulting in a distinction between gross and net risks.

This approach identifies individual risks to be dealt with as a priority and assesses the efficiency of mechanisms to control these same risks with the aim of making constant improvements.

Métiers, entities and countries have the necessary tools to identify and hierarchise their own risk of corruption and influence peddling.

3.2.3.1.3 Anti-corruption code of conduct

A Anti-corruption code of conduct was drafted in 2018 from the results of the Group's corruption risk mapping. This code of conduct was approved by the Group's governing bodies.

This Anti-corruption code of conduct has a global reach and applies to all Group employees.

"This Anti-corruption code of conduct (the "Code of Conduct") is in continuity with the commitments taken by the Hermès Group in the area of ethics and integrity. It sets forth the personal commitment of the Hermès Group's managers and forms an integral part of the values and principles that unite all Hermès Group employees."

Mr Axel Dumas, Executive Chairman

This code:

- ◆ defines corruption, its challenges and forms;
- ◆ describes and illustrates, with clear examples and case studies that are relevant to the corruption risk mapping, the types of behaviour that are prohibited;
- ◆ sets out the commitment of the Group and its governing bodies in terms of the fight against corruption and influence peddling;
- ◆ enables all Group employees to identify risky situations and adopt appropriate behaviours;
- ◆ defines offences;
- ◆ introduces the whistleblowing system which is covered by a separate procedure.

In particular, this code describes rules on gifts and invitations, the ban on facilitation payments, management of conflicts of interest, patronage and sponsorship, representation of interests, etc.

3.2.3.1.4 An internal whistleblowing system

The Group's internal alert system is described in section 3.2.4.1 below.

3.2.3.1.5 Procedures for monitoring clients, key suppliers and intermediaries

The Group's business model primarily consists of purchasing raw materials from suppliers and manufacturing most of its products in-house, which are then sold via stores, the majority of which are owned by the Company (branches), to customers who visit said stores. Upstream, i.e. relationships with goods suppliers and service providers, accounts for most of the Group's relationships with third parties. To a lesser extent, the Group also has downstream relationships, with concessionaires, distributors and commercial intermediaries in some *métiers*.

The Group develops long-term relationships with its partners, thereby protecting its sources of supply and business relationships.

The commitments given by the Group and its partners focus on the following points:

1. good labour practices: prohibition of child labour, prohibition of forced labour, compliance with health and safety rules, respect for freedom of association, non-discrimination, working time, appropriate compensation, prohibition of illegal work;
2. best environmental practices: compliance with environmental regulations, management of natural resources and consumption, effluent and waste, respect for biodiversity;
3. good ethical conduct: the fight against corruption and money laundering and recommendations on best practices in relation to subcontracting.

On an operational level, each *métier* or entity is responsible for managing its relations with third parties, monitoring the challenges identified and the implementation of corrective actions with third parties. Experience has shown that adopting a *métier* or entity approach guarantees customer proximity, awareness of the challenges ahead and realistic systems that comply with the Group's rules. Nevertheless, to ensure that the Group's anti-corruption system is available well implemented in *métiers*, entities and subsidiaries, the Group coordinates procedures, tools, training and controls.

To ensure their partners' integrity and compliance with anti-corruption regulations, the *métiers* and entities have the following tools at their disposal:

- ◆ risk mapping;
- ◆ procedures for entering into business relationships with third parties;
- ◆ analysis grids and questionnaires to assess third party risk levels;
- ◆ a Suppliers' Charter, a Business Ethical Charter for the selling of products and compliance clauses to ensure third parties' commitment to complying with social, environmental and ethics policies and, in particular, with anti-corruption regulations;
- ◆ rights of access and right to request documentation;
- ◆ the right to conduct internal and external on-site audits and, if necessary, to implement corrective measures.

The *métiers* and entities are required to monitor their relationships with third parties and to update their assessments and engagement policies on a regular basis. The Group ensures that *métiers* and entities comply with to these third party assessment policies via internal control and internal audits conducted by the Audit and Risk Management Department, as well as through controls carried out by the Compliance Department.

3.2.3.1.6 Audit procedures

Internal control and risk management procedures relating to the preparation and processing of accounting and financial information, as described in section 1.10, form an integral part of the Group's anti-corruption system and, in particular, are aimed at preventing and detecting any act of corruption. Furthermore, annual self-assessment campaigns (see section 1.9.6.6.) are an important tool when it comes to the process of applying audit procedures across all the Group's entities.

The Audit and Risk Management Department monitors the proper application of these procedures during its internal audits.

3.2.3.1.7 Training system intended for executives and employees most at risk

The training system is described in section 3.2.4.4 below.

3.2.3.1.8 Disciplinary measures to sanction violations of the anti-corruption code of conduct

The sanctions system is described in section 3.2.4.2 below.

3.2.3.1.9 Internal monitoring and assessment system

Internal and external audits of the Group's companies and *métiers* as well as of its main suppliers and partners are conducted regularly relating to the application of the Group's procedures. Among other areas, these audits cover the fight against corruption, combatting money laundering, the protection of personal data, respect for the environment, respect for human rights and fundamental freedoms, and employee hygiene, health and safety. The methodology of these controls and audits is described in section 1.9 "Risk factors" (see pages 36 *et seq.*).

3.2.3.2 Vigilance

In accordance with French Law 2017-399 of 27 March 2017, the Hermès Group has drawn up its own reasonable vigilance plan designed to identify risks and prevent serious harm in respect of human rights and fundamental freedoms, health and safety of persons and the environment, resulting from its activities and the activities of subcontractors and suppliers.

The risk mapping to identify, analyse and prioritise risks, procedures for the regular monitoring of subsidiaries, subcontractors and suppliers, appropriate measures to mitigate the risks identified or prevent serious violations; and the

system for monitoring the measures implemented and assessing their effectiveness, are described in the section 2.6 "Suppliers and partners" (see pages 111 *et seq.*).

The whistleblowing mechanism for reporting violations is described in section 3.2.4.1 Professional whistleblowing system below.

3.2.3.3 Personal data protection and respect for privacy

Hermès is particularly sensitive to personal data protection and respect for privacy. All employees must ensure that they process the personal data to which they have access in accordance with rules set out by the Group and pursuant to applicable laws and regulations. The Group procedures specifically state that it is compulsory:

- ♦ to collect and process personal data solely for a specific, lawful and legitimate occupational purpose determined by Hermès Group and to restrict data collected to what is strictly relevant, fair and not excessive with regard to this purpose;

- ♦ to be transparent about how these data are processed. As regards customers for example, the Confidentiality Policy is publicly available and can be found on the Group's digital platforms (websites, mobile applications) and must also be provided to any person who so requests at a point of sale;
- ♦ to ensure that personal data are protected and secured by an appropriate means, in compliance with the standards established by the Group and by the applicable laws and regulations. The objective in particular is to consider any relationship with customers as strictly confidential and to only use and disclose their personal data with their express consent and/or in compliance with the Group's rules and the applicable laws and regulations. The objective is also to report, as soon as possible, any security incident relating to data in accordance with the rules established by the Group;
- ♦ to respect the rights of the persons whose data are processed by responding to their requests as soon as possible with the help of the contact points identified by the Group and the Data Protection Officer, if necessary;
- ♦ to keep the data of the concerned persons for an adequate period with regard to the purposes for which they are collected, in compliance with the applicable laws and regulations.

The Hermès Group has adopted Binding Corporate Rules (BCR) for managing the personal data of its customers. These stringent BCRs have been validated since 2012 by the European authorities in charge of the protection of personal data, and have since been integrated by all Group companies dealing with customer data. They ensure an adequate level of protection for customers' personal data when transferred within the Group.

In addition, to meet the requirements of the European Union's General Data Protection Regulation (GDPR) no. 2016/679 of 27 April 2016, actions were taken, in particular, to identify personal data processing within the Group, to increase transparency in terms of the way in which the Hermès Group processes its customers' personal data and to educate and train personal data processing teams in data protection principles and practices.

The personal data protection systems are under the responsibility of the Executive Vice-President of Governance and Organisational Development, member of the Group's Executive Committee.

Audits are conducted by the Audit and Risk Management Department to ensure the proper application of data protection policies and procedures.

3.2.4 CONTROL

3.2.4.1 Professional whistleblowing system

To ensure compliance with laws and regulations, as well as to step up the fight against breaches of ethics and integrity, the Group has strengthened its global alert system "H-Alert!" designed to enable its employees worldwide, as well as its external and occasional workforce, to report any issues of which they have been personally made aware.

The information notice regarding the whistleblowing system reminds employees that they are protected from any type of retaliation if the reporting is done in accordance with the "H-Alert!" system. Employees are encouraged to report the aforementioned irregularities or breaches, as soon as possible, using the following reporting channels:

- ◆ to their direct or indirect line manager or above, to Human Resources, or to the Ethics Committee;
- ◆ to the whistleblowing service provider appointed by Hermès to collect alerts via an independent technical system, available 7 days a week and round the clock.

This technical system is available in French (64% of the Group's workforce is in France) and in English. It will eventually be deployed out in ten languages.

The Group has introduced effective measures guaranteeing the confidentiality of information and processing of reports at all times. The whistleblowing system also allows Group employees to report an incident anonymously. Local whistleblowing systems are also in place in major subsidiaries such as the United States, the United Kingdom and China.

3.2.4.2 Sanctions system

The sanctions system in place for compliance programmes corresponds to the system of sanctions described in the rules of procedure, any breach of ethics and integrity being contrary to the Group's intrinsic values and internal rules laid down in this area.

In accordance with existing law, all of the Group's French entities with more than 20 employees have rules of procedure that devote a chapter to disciplinary law and the right of defence.

On an international level, depending on the local applicable law, either the rule of procedure sets out rules on disciplinary matters, or an employee handbook contains rules on disciplinary law; both include anti-corruption measures.

3.2.4.3 Audit of the application of ethical values

- ◆ To check that our compliance system and our ethics and integrity policies are being properly implemented, the Hermès Group has a three-level audit plan:
- ◆ the first level of control is implemented directly by operational staff. It involves applying, on a daily basis, the principles and steps described in Group and entities' ethics and integrity procedures and, in

particular, those relating to the fight against corruption and influence peddling;

- ◆ the second level of control involves internal controllers and lawyers in each entity/*métier*, working in close collaboration with the Compliance Department, in particular, on the proper application of procedures;
- ◆ the third level of control is operated by the Audit and Risk Management Department when it audits the *métiers* and entities. This control assesses the implementation of the anti-corruption and influence peddling policy of the *métier* or entity in question.

3.2.4.4 Training on ethical issues

Several Group internal departments offer staff training, particularly, the Compliance Department, the Legal Department, the Human Resources Department, the Purchasing Department the Industrial Department and the Audit and Risk Management Department.

All these departments invest heavily in this training initiative.

1) Training provided by the Compliance Department

Specific classroom training modules on the Group's anti-corruption policy, the contents of which are adapted to the teams, subsidiaries, *métiers* in question, are delivered and operated by the Compliance Department to those employees who are most exposed to the risks of corruption, as identified and prioritised in the Group risk mapping. They aim to provide employees with the know-how and tools needed to prevent and detect at-risk situations and to determine the behaviour to adopt in such cases.

In 2018, a number of classroom training sessions were delivered in the Group's entities, *métiers* and subsidiaries, both in France (*métiers*, subsidiaries, central services, management committees, purchasing and sales departments) and abroad (e.g.: China, the United States, India, Thailand, Malaysia, and the United Kingdom).

2) Other anti-corruption training

An "Ethics, integrity and anti-corruption" module, introduced by the Human Resources Department, is designed for all in-store sales staff in Group entities. In 2018, 870 people followed this training. The aim of this module is to present the risks of corruption to sales staff. They learn about different forms of corruption and how to effectively combat risks of corruption in their daily tasks. Lastly, they learn about the tools and procedures that sales staff can use in case of doubt. Attendance at these training sessions is monitored by the signing of an attendance sheet. This module continues to be deployed in all subsidiaries worldwide including China, America, India, Korea and Thailand, etc.

The objective is to train all distribution subsidiary employees: whether their contract is fixed-term, permanent, temporary or as an intern, etc. and whatever their role (Group management, Management Committee, support, sales associates, stockists, cashiers, managers, etc.).

Furthermore, two anti-corruption e-learning modules for sales teams have been introduced by subsidiaries in the United States and China. Sales associates can access an IT tool that clearly sets out what constitutes an act of corruption, what the risks of corruption are in their duties and how to deal with them. These e-learning sessions are followed by a comprehension and simulation exercise to ensure that sales staff have fully understood the risks of corruption and how to manage them.

The Purchasing Department provides training for buyers and, in particular, makes them aware of the risks of corruption in their daily tasks.

The Audit and Risk Management Department trains its internal controllers and participates in the Group training sessions in order to promote an awareness of risk management and internal control best practices amongst the management.

3.2.4.5 Network of compliance liaison officers within the Group

Legal teams located internationally, in particular in the United States, China, Japan, Singapore and India constitute the network of Compliance Liaison Officers and some of the Data Protection Liaison Officers. They act with the Group Compliance Department and with the Group Data Protection Officer in order to develop, facilitate, coordinate and monitor compliance programmes within the Group.

Internal controllers and auditors also play a role in the implementation and monitoring of procedures on these subjects (see Risk Factors on page 36).

5

CONSOLIDATED FINANCIAL STATEMENTS

Note 25 Employees

278

NOTE 25 EMPLOYEES

A geographical breakdown of the workforce is as follows:

	31/12/2018	31/12/2017
France	8,846	8,319
Europe (excl. France)	1,510	1,421
Other geographical areas	3,928	3,743
TOTAL	14, 284	13,483

The breakdown by category is as follows:

	31/12/2018	31/12/2017
Production	6,572	6,249
Sales	5,440	5,130
Other (design, communication and administration)	2,272	2,104
TOTAL	14, 284	13,483

Employee expenses in 2018 totalled €1,126.3 million, compared with €1,050.1 million in 2017.

9

ADDITIONAL INFORMATION

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9.5.5 CROSS-REFERENCE TABLE DECLARATION OF NON-FINANCIAL PERFORMANCE

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Environmental consequences of the activity			
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124		Livelihoods	2.7.2.2
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88	Circular economy	Manage materials sparingly throughout their life cycle, reduce waste	2.4.2
85	Respect animal welfare	Protect high-quality supplies	2.4.1
	Food waste	The Group monitors the use of all natural resources, including food destined for its employees, even though this issue is not material in view of the Group's activity. For sites in Paris, the collective catering provider has set up a system of selective food waste sorting and recycling	
	Fight against food insecurity	In view of the Group's activities, the fight against food insecurity has not been identified as a CSR risk.	
	Respect for responsible, fair and sustainable food	In view of the Group's activities, this subject has not been identified as a CSR risk.	
Respect for human rights			
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Hermès International

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