

2019 UNIVERSAL 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.

MESSAGE FROM THE EXECUTIVE MANAGEMENT



2019 bears witness to the solidity of our artisanal model based on balanced development across our métiers and regions.

Though the decade has come to an end amid intense uncertainties and a general awakening to environmental and public health concerns, it is clear that Hermès' offering remains relevant and well-liked.

This offering is based on the simple idea of creating objects designed to last. They are the fruit of mastering tried-and-tested know-how that is passed down and enriched through the generations, crafted from exceptional materials that embrace time and are nourished by it, objects whose aesthetics are born of function.

This reality is one that we cherish and uphold. In the second half-year of 2019, we laid the foundation stone of our future Montereau manufacture, and we are preparing to open the Guyenne workshop later this year. Our collections have been a great success with our customers both long-standing and new, as confirmed by our results; our commitments have become more visible with the signature of the Fashion Pact; and we continue to extend and embellish our exclusive distribution network with confidence in our own future and that of our markets, which, with the recent addition of Poland, now total forty-five.

So we are right to stay confident, while remaining firmly anchored in our reality. Without distracting us from our path, but adjusting to our environment, our dreams – since this was our theme for 2019 – drive us ever onwards and contribute to the desirability and performance of our business model.

Axel Dumas
EXECUTIVE CHAIRMAN

Émile Hermès SARL
EXECUTIVE CHAIRMAN
REPRESENTED BY HENRI-LOUIS BAUER

1

OVERVIEW OF THE GROUP

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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 €281 billion in 2019¹. The Group is therefore, relatively speaking, less exposed to general changes in the sector.

Today, the Group employs 15,417 people worldwide and has 311 exclusive Hermès stores, 223 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, rue Basse-du-Rempart in Paris. Gradually, from one generation to the next, the House followed this dual thread – the painstaking, patient work of the craftsman in his workshop, and the busy, active lifestyles of its customers, always keeping true to the spirit of freedom and creation.

In 1880, Mr Charles-Émile Hermès, son of the founder, moved the workshops to 24, Faubourg Saint-Honoré, and added a store where customers could order bespoke harnesses and saddles. The company had already earned a reputation for the care it took to personalise its creations.

In the interwar years, lifestyles changed and the House innovated, under the leadership of the founder's grandson, Émile Hermès. In 1922, it gained exclusive rights to the zipper, used for luggage and clothing. While remaining loyal to the equestrian world, Hermès expanded into other *métiers*, leveraging its mastery of raw materials and its culture of craftsmanship.

At the helm of the House from 1951, Robert Dumas, one of Émile Hermès' sons-in-law, was a frequent visitor to the workshops and designed objects with mechanisms of great elegance (buckles, clasps, saddle nails, and anchor chains) which in no way detracted from their utility. Hermès objects were remarkable for the nobility of their materials, the mastery of *savoir-faire*, and creative boldness – the silk *métier* was then commissioning artists to create original motifs.

From 1978, his son, Jean-Louis Dumas, devoted himself to really making the House stand out. In 1987, for the saddler's 150th anniversary, a memorable firework display inspired the first theme of a tradition that continues to today: to nourish each year's creations with a shared inspiration. Jean-Louis Dumas drove the Group's international expansion, gradually opening a series of Maisons Hermès, on Madison Avenue in New York in 2000, in the Ginza district of Tokyo in 2001 – an edifice in glass bricks designed by Renzo Piano – then in Dosan Park, Seoul in 2006.

From 2006, Patrick Thomas developed a decentralised organisation structure for the *métiers* and managed the transition with the sixth generation of the family. Appointed Artistic Director in 2005, Pierre-Alexis Dumas, Jean-Louis Dumas' son, opened a whole new chapter by establishing the Fondation d'entreprise Hermès. Axel Dumas, Executive Chairman since 2013, boosted the house's growth dynamic with the opening of the fifth Maison Hermès in 2014 in Shanghai. Amongst others, he drove the group's digital strategy, which culminated in the revamping of the hermes.com website in 2018.

For more than 150 years, Hermès has developed its *métiers* without ever losing sight of its high quality standards, and the entrepreneurial model that has emerged is quite unique today. Going against the tide of industrial and global standardisation, Hermès endeavours to offer a unique selection of objects in each of its 311 stores.

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 fashion
- ◆ *Mallette à coins rapportés*

1927

- ◆ Wristwatches
- ◆ *Filet de selle* bracelet

1928

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

1930

- ◆ Diaries

1937

- ◆ First silk scarves

1. Source: *Luxury Goods Worldwide Market Study* by Bain & Cie.

1938

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

1949

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

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

- ◆ First Hermès shoes for women

1974

- ◆ *Amazone* fragrance for women

1975

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

1978

- ◆ First 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

- ◆ First 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 *Hermessence* fragrance collection

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

- ◆ *Jypsyère* bag
- ◆ *Horizon* diary
- ◆ First *Hermès Éditeur* scarf
- ◆ *Un Jardin après la Mousse* fragrance

2009

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

2010

- ◆ First *Haute bijouterie* collection
- ◆ *Les Maisons enchantées faïence* tableware
- ◆ *Talaris* saddle
- ◆ *Voyage d'Hermès* fragrance
- ◆ 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
- ◆ First 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
- ◆ *Les Nécessaires d'Hermès* occasional furniture

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
- ◆ Fourth 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

2019

- ◆ Simone bag
- ◆ Animapolis scarf
- ◆ Un jardin sur la lagune fragrance
- ◆ Arceau Heure de la Lune watch
- ◆ Niloticus Lumière jewellery collection
- ◆ Vivace saddle

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 take certain decisions.

Detailed information on the administrative and management bodies is provided in chapter 3.

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 that they do, at the same time. Detailed information on the composition and the work of the Supervisory Board is provided in chapter 3.



1

The members of the Executive Committee in the Hermès store on Avenue George-V, Paris. From left to right: Éric du Halgouët, Catherine Fulconis, Wilfried Guerrand, Axel Dumas, Olivier Fournier, Charlotte David, Guillaume de Seynes, Pierre-Alexis Dumas and Florian Craen.

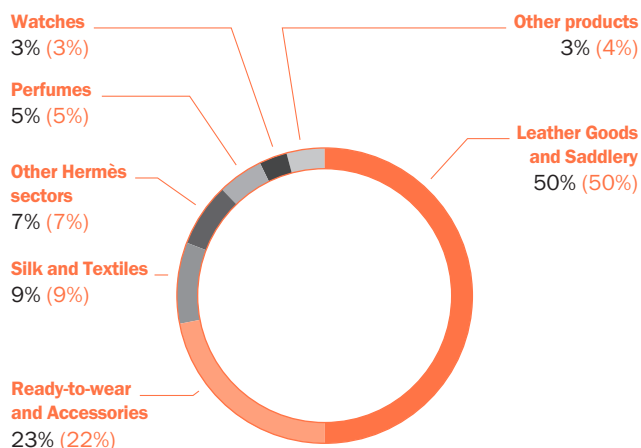


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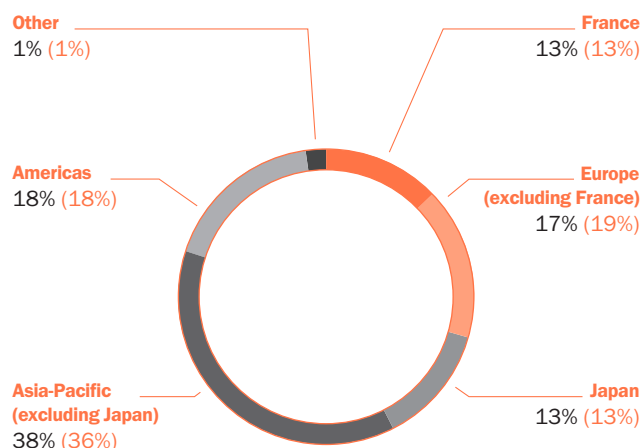
*Eric de Seynes
Chairman of the Supervisory Board*

AFR 1.3 KEY FIGURES

1.3.1 BREAKDOWN OF REVENUE BY MÉTIER
2019 VS. 2018



1.3.2 BREAKDOWN OF REVENUE BY
GEOGRAPHICAL AREA 2019 VS. 2018



1.3.3 KEY CONSOLIDATED DATA

| In millions of euros | 2019 | 2018 restated* | 2017 | 2016 | 2015 |
|--|--------|----------------|--------|--------|--------|
| Revenue | 6,883 | 5,966 | 5,549 | 5,202 | 4,841 |
| Growth at current exchange rates vs. n-1 | 15.4% | 7.5% | 6.7% | 7.5% | 17.5% |
| Growth at constant exchange rates vs. n-1 ¹ | 12.4% | 10.4% | 8.6% | 7.4% | 8.1% |
| Recurring operating income ² | 2,339 | 2,075 | 1,922 | 1,697 | 1,541 |
| In % of revenue | 34.0% | 34.8% | 34.6% | 32.6% | 31.8% |
| Operating income | 2,339 | 2,128 | 1,922 | 1,697 | 1,541 |
| In % of revenue | 34.0% | 35.7% | 34.6% | 32.6% | 31.8% |
| Net profit attributable to owners of the parent | 1,528 | 1,405 | 1,221 | 1,100 | 973 |
| In % of revenue | 22.2% | 23.6% | 22.0% | 21.2% | 20.1% |
| Operating cash flows | 2,063 | 1,863 | 1,580 | 1,427 | 1,217 |
| Operating investments | 478 | 312 | 265 | 262 | 252 |
| Adjusted free cash flow ³ | 1,406 | 1,447 | 1,340 | 1,212 | 933 |
| Equity attributable to owners of the parent | 6,568 | 5,470 | 5,039 | 4,383 | 3,742 |
| Net cash position IFRS ⁴ | 4,372 | 3,465 | 2,912 | 2,320 | 1,571 |
| Restated net cash position ⁵ | 4,562 | 3,615 | 3,050 | 2,345 | 1,614 |
| Workforce (number of employees) | 15,417 | 14,284 | 13,483 | 12,834 | 12,244 |

* Including the impact of IFRS 16 on leases. In accordance with IAS 8, Hermès has applied the new standard on a full retrospective basis, and has restated the financial statements for the period ended 31 December 2018.

(1) Growth at constant exchange rates is calculated by applying, for each currency, the average exchange rates of the previous period to the revenue of the period.

(2) Recurring operating income is one of the main performance indicators monitored by the Group's management. It corresponds to operating income excluding non-recurring items having a significant impact that could affect understanding of the Group's economic performance.

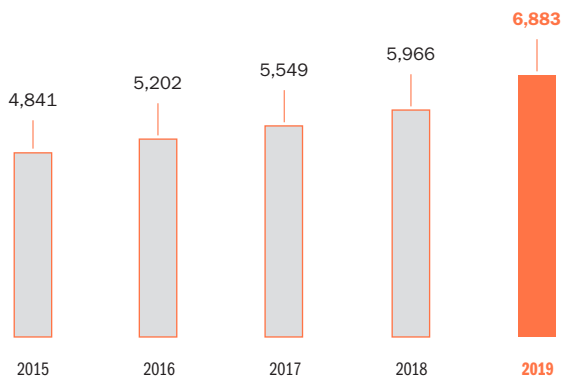
(3) Adjusted free cash flow is the sum of cash flows related to operating activities, less operating investments and the repayment of lease liabilities recognised in accordance with IFRS 16 (consolidated statement of cash flows).

(4) The IFRS net cash position includes cash and marketable securities, less bank overdrafts and short-term debt. It does not include lease liabilities recognised in accordance with IFRS 16.

(5) Restated net cash includes cash investments that do not meet IFRS criteria for cash equivalents as a result of their original maturity of more than three months.

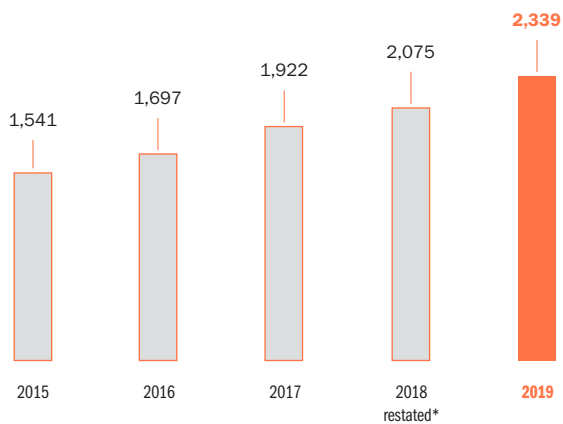
1.3.3.1 CHANGE IN CONSOLIDATED REVENUE

In millions of euros



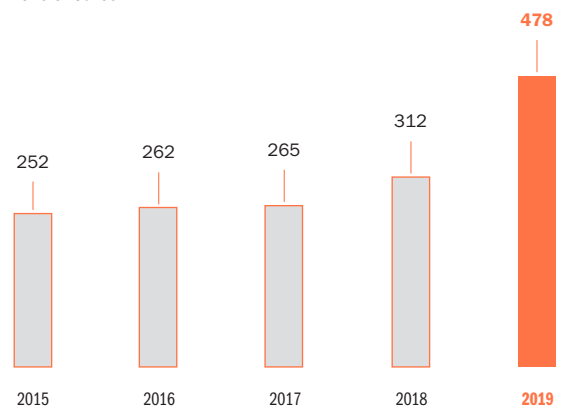
1.3.3.2 CHANGE IN RECURRING OPERATING INCOME

In millions of euros



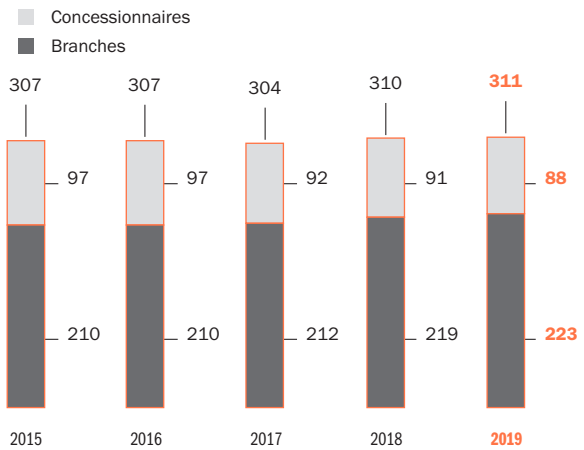
1.3.3.3 CHANGE IN THE NUMBER OF OPERATING INVESTMENTS

In millions of euros



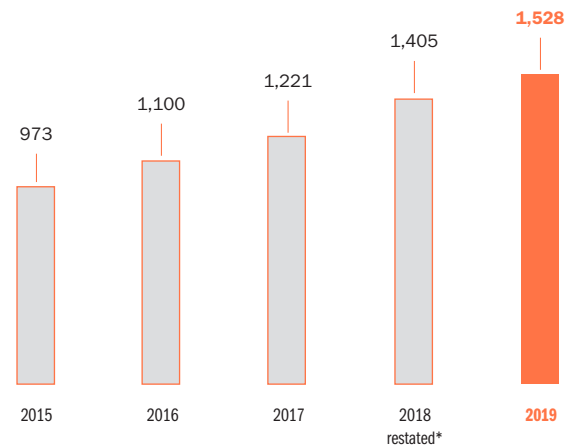
1.3.3.4 CHANGE IN THE NUMBER OF EXCLUSIVE HERMÈS STORES

In millions of euros



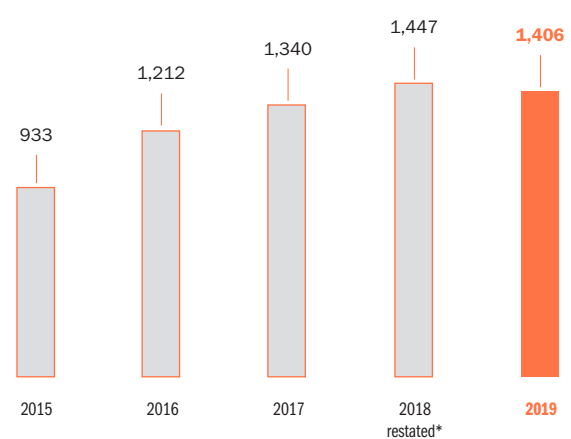
1.3.3.5 NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT

In millions of euros



1.3.3.6 CHANGE IN ADJUSTED FREE CASH FLOW

In millions of euros



1.4 STRATEGY

The Hermès strategy revolves around our values: spirit of conquest, creativity, craftsmanship, quality, authenticity and independence. Creation hinges on two pillars: our craftsmanship activities and our exclusive distribution network.

CREATION AT THE CORE OF HERMÈS'S STRATEGY

The Hermès strategy is underpinned by the freedom of creation, championed by its designers and artistic directors around a given theme, which shines a common far-reaching light on all activities of the House. Every year, this theme inspires the collections presented to country managers and store managers at the *podiums*. “*In the pursuit of dreams*” was the theme for the year 2019. Celebrating the dream of Hermès means asserting the need to dare to see even further, to open the field of the imagination that stimulates creation. This creativity revolving around traditional know how is coupled with innovative processes to revisit timeless models and create exceptional pieces, without departing from Hermès' trademark humour and imaginative flair. This is true of the House's 16 *métiers* and of its other products and brands, in particular bootmaker John Lobb, *cristerie* Saint-Louis and silversmith Puiforcat. This unbridled creativity is present in each *métier*, as reflected in the numerous scarf designs printed every year. It is expressed through over 50,000 references, developed around a unique identity and a style blending exceptional quality, innovation, surprise, elegance and simplicity.

Hermès's mission is to create unique and original objects to elegantly satisfy the needs and desires of its customers. Its goal is the pursuit of excellence, in each of its *métiers* and services, with craftsmanship at the heart of its model.

UNIQUENESS AND PERFORMANCE OF THE CRAFTSMANSHIP MODEL

Hermès leverages its craftsmanship activities, the first pillar of its strategy, with nearly 5,200 craftsmen in France. A House of over 180 years, backed by a rich history shaped by six generations of craftsmen, Hermès draws from its past through its *savoir-faire*, and is geared to the future through its values that address the concerns of our modern societies. Hermès moves with its times, but always respecting tradition, transmission and innovation. The quest for excellence and quality, the search for precision and elegance are the values that guide its action. It is over this long period of time that the House has forged its *savoir-faire* and its values, and that the Hermès strategic vision has developed.

The craftsmanship model is one of the pillars of Maison Hermès, and ensuring that it lasts is key to its strategy. The House thus works alongside those who master, preserve and transmit craftsmanship know how through their knowledge of materials and their exceptional techniques. With each new leather workshop, around 250 new jobs are created, promoting a pleasant working environment on a human scale.

The House attaches great importance to the continuous improvement of its artisans' skills and *savoir-faire*, as evidenced by its *école du cuir*. The craftsmanship model is at the heart of all the *métiers* of Maison Hermès, using exceptional materials.

To guarantee the long term excellence of this craftsmanship model, the House takes particular care to secure its supplies of materials. Vertical integration, through partnerships and acquisitions, supports the development strategy, with regards to materials as well as techniques and *savoir-faire*.

THE DYNAMICS OF AN EXCLUSIVE DISTRIBUTION NETWORK

The exclusive distribution network, consisting primarily of branches run by the Group around the Hermès brand, is the second pillar of Hermès's strategy. Each of the 311 stores across the world offers a personalised selection of objects, to exceed the specific expectations of its customers and offer a distinct purchasing experience in each and every store. Each store enables our customers to explore and discover the most beautiful products, and extends the House's lustre worldwide.

Customers are placed at the core of the multi-channel and integrated network, so as to best meet their expectations and offer them a unique experience. Across the world, Hermès stores are veritable “object homes”, offering customers a unique experience, complementary to its website *hermes.com*. This offer is backed by innovative services aimed at welcoming and serving them at all times in the best possible manner. The House also offers special occasions that strengthen the bonds among Hermès' stakeholders, revolving around events in the world and dynamic and animated set designs. Each opening or reopening is an opportunity for the House to bring together customers that value its creativity and *savoir-faire*. Hermès's unique way of communicating ensures that the House is recognised in France and worldwide.

The development of new technologies has incited Hermès to boost the omni-channel dynamics of its organisation and to improve the customer experience in its stores and online.

Maison Hermès, present in 45 countries following the opening of a store in Poland at the end of 2019, thus has a geographically balanced network of stores, with a steady pace of development and the constant search for prime locations.

AN ENTREPRENEURIAL SPIRIT AND FREEDOM OF PURCHASE

Beyond its history, the right times for action and the spirit of conquest set the tempo at Hermès, drawing inspiration from the work and talent of all employees driving its corporate vision. This opportune time for action means the art of understanding one's time and capturing the essence of it.

The entrepreneurial spirit has been at the heart of Maison Hermès since its creation, never leaving its side and guiding all aspects of its development. It is illustrated by creative synergies, the capacity for continuous innovation, new *métiers*, such as the Beauty line launched in early 2020, the establishment of manufacturing units and new store openings. An entrepreneurial and innovative spirit underlies the creation of every object.

The strategy offers store managers freedom of purchase, to meet the specific needs of their customers. Two *podiums* are organised every year, presenting the autumn-winter and the spring-summer collections. These bring together all store and country managers, managers of the different *métiers* as well as designers, to present all collections to the sales teams in all regions of the world. They are thus responsible for their own collections and make their store unique with a special mix of products. This freedom means that in each country where Hermès is present, the Group's customers are thus presented with a diversified and unique mix of products resulting from this flurry of creativity, blending iconic products and the House's new references, created by its designers, artists, colourists and artistic directors, to best meet local expectations and dedicated to the elegance of its customers.

AN INDEPENDENT HOUSE

Hermès continues to assert its independence, underpinned by a strong family-based shareholding structure committed to retaining most of its production in France and perpetuating its *savoir-faire* to serve creativity and its long-term vision.

Hermès's strong and sustained development is the result of sound and rigorous management, a resilient business model, and prudent financial management. They contribute to preserving the uniqueness of the House, part of the CAC 40 index since June 2018, in a context of strong growth. This is achieved by maintaining the Group's profitability, its high cash level, its operating cash flows, targeted and qualitative investments, and the security of its assets. Financial independence ensures that its long-term strategy is safeguarded.

VIRTUOUS AND RESPONSIBLE GROWTH UNDERPINNED BY HUMANIST VALUES

The majority of Hermès' production takes place in France, at 43 production sites grouped to create regional clusters. Hermès's strategy is to pursue this sustainable, responsible and social value-based growth

model, with commitment to regions where there is a high level of manufacturing *savoir-faire* to create quality jobs.

Through its engagement with local authorities and communities where its production sites are located, Hermès contributes to revitalising regions, and provides working conditions that offer proximity and stable employment. Control and security of supply are at the heart of the strategy. Through its integrated production, Hermès can produce most of its objects in its internal and exclusive workshops.

Hermès is a humanist company, deeply respectful of all those who, with their hands, commitment, *savoir-faire* and passion, are working to make the House a success.

Hermès's craftsmanship model leaves a careful environmental footprint. In its direct sphere of influence, biodiversity in particular is systematically taken into account in the construction of its production sites, and in its indirect sphere, the Group has a positive impact on its supply chain, by preserving autonomous ecosystems and by participating in global initiatives.

As regards sustainable development, Hermès is determined to leave a positive global footprint, by paying utmost attention to the performance of corporate social responsibility, in keeping with the House's DNA and its craftsmanship model. Hermès's objects are created, designed and made to last, using the most beautiful and robust natural materials and the best craftsmanship *savoir-faire*. A Hermès object acquires a beautiful patina over time and frequently improves with age. Craftsmanship of excellence means a piece that can be repaired. The House has therefore always had craftsmen dedicated to this activity, in France as well as abroad. Offering long lasting, repairable objects, which are meant to be handed down is also a way to reduce the impacts of over-consumption and the wasting of resources, one of the principles to which Maison Hermès is particularly attached. There is a strong commitment to the creation of social value, both collectively through job creation in communities, and individually through bonus share awards, profit-sharing and incentives to employees, testimony to the Group's desire to share the fruits of its growth with those who make it happen on a daily basis. Hermès's commitment also implies strong signals from management. For example, since 2019, 10% of the Executive Chairmen's variable compensation is subject to CSR criteria, such as industrial energy consumption, the local integration of our sites and gender equality.

Hermès's remarkable growth is the fruit of this strategy. It is the result of the high standards of a House founded on craftsmanship and independence and driven by its exceptional *savoir-faire* to serve unbridled creativity. Hermès' strategy hinges on historical *savoir-faire* while remaining resolutely forward-looking, through its regular transformations, creativity and innovation, and its ability to understand and anticipate the aspirations of its customers today. For Hermès, craftsmanship is a sustainable and human adventure, in a constantly changing world.

AFR 1.5 ACTIVITY BY MÉTIER

| | 2019 Revenue in millions of euros | 2019 mix in% | 2018 Revenue in millions of euros | 2018 mix in% | Changes | |
|-------------------------------|---|-----------------|---|-----------------|---------------------------------|----------------------------------|
| | | | | | At current exchange rates | At constant exchange rates |
| Leather Goods & Saddlery | 3,414 | 50% | 2,976 | 50% | 14.7% | 11.3% |
| Ready-to-wear and Accessories | 1,574 | 23% | 1,310 | 22% | 20.1% | 17.1% |
| Silk and Textiles | 592 | 9% | 537 | 9% | 10.3% | 7.5% |
| Other Hermès sectors | 525 | 7% | 425 | 7% | 23.6% | 20.4% |
| Perfumes | 326 | 5% | 312 | 5% | 4.6% | 4.1% |
| Watches | 193 | 3% | 169 | 3% | 14.7% | 11.6% |
| Other products | 258 | 3% | 238 | 4% | 8.5% | 7.0% |
| CONSOLIDATED REVENUE | 6,883 | 100.0% | 5,966 | 100% | 15.4% | 12.4% |

AFR 1.6 ACTIVITY BY GEOGRAPHIC AREA

| | 2019 Revenue in millions of euros | 2019 mix in% | 2018 Revenue in millions of euros | 2018 mix in% | Changes | |
|----------------------------------|---|-----------------|---|-----------------|---------------------------------|----------------------------------|
| | | | | | At current exchange rates | At constant exchange rates |
| Europe | 2,069 | 30% | 1,909 | 32% | 8.4% | 8.1% |
| ♦ France | 867 | 13% | 802 | 13% | 8.1% | 8.1% |
| ♦ Europe (excl. France) | 1,202 | 17% | 1,106 | 19% | 8.6% | 8.1% |
| Asia-Pacific | 3,454 | 51% | 2,891 | 49% | 19.5% | 15.3% |
| ♦ Japan | 864 | 13% | 748 | 13% | 15.5% | 8.2% |
| ♦ Asia-Pacific (excluding Japan) | 2,590 | 38% | 2,142 | 36% | 20.9% | 17.8% |
| Americas | 1,241 | 18% | 1,059 | 18% | 17.2% | 12.0% |
| Other | 120 | 1% | 108 | 1% | 11.0% | 10.9% |
| CONSOLIDATED REVENUE | 6,883 | 100% | 5,966 | 100% | 15.4% | 12.4% |

1.6.4 HERMÈS POINTS OF SALE WORLDWIDE

Hermès objects are available worldwide through a network of 311 exclusive stores. Hermès watches, perfumes and tableware are also sold through networks of specialised stores. The branches are located in the following geographical areas: 73 in Europe (including 14 in France), 45 in the Americas (including 29 in the US), 98 in Asia (including 31 in Japan), and 7 in Oceania.

Europe

Germany: 15

10 branches:

- ◆ Baden-Baden
- ◆ Berlin KaDeWe
- ◆ Berlin Kurfürstendamm
- ◆ Cologne
- ◆ Düsseldorf
- ◆ Frankfurt
- ◆ Hamburg
- ◆ Munich
- ◆ Nuremberg
- ◆ Stuttgart

5 concessionaires

Austria: 2

2 concessionaires

Belgium: 3

3 branches:

- ◆ Antwerp
- ◆ Brussels
- ◆ Knokke-le-Zoute

Denmark: 2

1 branch:

- ◆ Copenhagen
- 1 concessionaire

Spain: 5

5 branches:

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

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

United Kingdom: 9

7 branches:

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

2 concessionaires

Greece: 1

1 branch:

- ◆ Athens

Ireland: 1

1 branch:

- ◆ Dublin

Italy: 15

11 branches:

- ◆ Bologna
- ◆ Capri
- ◆ Florence
- ◆ Milan
- ◆ Naples
- ◆ Padua
- ◆ Palermo
- ◆ Porto Cervo
- ◆ Rome
- ◆ Turin
- ◆ Venice

4 concessionaires

Luxembourg: 1

1 concessionaire

Norway: 1

1 concessionaire

Netherlands: 3

2 branches:

- ◆ Amsterdam De Bijenkorf

- ◆ Amsterdam P.C. Hooftstraat
- 1 concessionaire

Poland: 1

1 branch:

- ◆ Warsaw

Portugal: 1

1 branch:

- ◆ Lisbon

Principality of Monaco: 1

1 branch:

- ◆ Monte Carlo

Czech Republic: 1

1 branch:

- ◆ Prague

Russia: 2

2 branches:

- ◆ Moscow Gum
- ◆ Moscow Stoleshnikov

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

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

Asia**Mainland China: 28**

26 branches:

- ◆ Beijing China World
- ◆ Beijing ParkLife
- ◆ Beijing Peninsula
- ◆ Beijing ShinKong
- ◆ Changsha
- ◆ Chengdu
- ◆ Chongqing
- ◆ Dalian
- ◆ Guangzhou La Perle
- ◆ Guangzhou Taikoo Hui
- ◆ Hangzhou Hubin
- ◆ Hangzhou Tower
- ◆ Harbin
- ◆ Kunming
- ◆ Nanjing
- ◆ Ningbo
- ◆ Qingdao
- ◆ Shanghai IFC
- ◆ Shanghai Maison
- ◆ Shanghai Plaza 66
- ◆ Shenyang
- ◆ Shenzhen
- ◆ Suzhou
- ◆ Wuhan
- ◆ Xi'An
- ◆ Xiamen

2 concessionaires

Chile: 1

1 concessionaire

USA: 36

29 branches:

- ◆ Atlanta
- ◆ Bergen County
- ◆ Beverly Hills
- ◆ Boston
- ◆ Chicago
- ◆ Dallas
- ◆ Denver
- ◆ Greenwich
- ◆ Hawaii Ala Moana
- ◆ Hawaii Waikiki
- ◆ Houston
- ◆ Las Vegas Bellagio
- ◆ Las Vegas Crystals
- ◆ Las Vegas Wynn
- ◆ Miami
- ◆ New York Madison
- ◆ New York Meatpacking
- ◆ New York Men on Madison
- ◆ New York Wall Street

- ◆ Orlando
- ◆ Palm Beach
- ◆ Palo Alto
- ◆ Philadelphia King of Prussia
- ◆ San Diego
- ◆ San Francisco
- ◆ Seattle
- ◆ Short Hills
- ◆ South Coast Plaza
- ◆ Washington

7 concessionaires

Mexico: 7

7 branches:

- ◆ Cancùn
- ◆ Mexico Artz
- ◆ Mexico Guadalajara
- ◆ Mexico Masaryk
- ◆ Mexico Moliere
- ◆ Mexico Monterrey
- ◆ Mexico Santa Fe

Panama: 1

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

Macao: 4

4 branches:

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

Taiwan: 9

6 branches:

- ◆ Kaohsiung
- ◆ Taichung
- ◆ Tainan
- ◆ Taipei Bellavita
- ◆ Taipei Regent
- ◆ Taipei Sogo Fuxing

3 concessionaires

South Korea: 19

10 branches:

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

9 concessionaires

India: 2

2 branches:

- ◆ Mumbai
- ◆ New Delhi

Indonesia: 2

2 concessionaires

Japan: 38

31 branches:

- ◆ Chiba
- ◆ Fukuoka Hakata Hankyu
- ◆ Fukuoka Iwataya

- ◆ Hiroshima
- ◆ Kobe
- ◆ Kyoto
- ◆ Nagoya JR Takashimaya
- ◆ Nagoya Matsuzakaya
- ◆ Nagoya Mitsukoshi
- ◆ Nigata
- ◆ Okayama
- ◆ Osaka Hilton
- ◆ Osaka Midosuji
- ◆ Osaka Takashimaya
- ◆ Osaka Umeda Hankyu
- ◆ Sapporo
- ◆ Sendai
- ◆ 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
 - ◆ Tokyo Tachikawa Isetan
 - ◆ Urawa
 - ◆ Yokohama Sogo
 - ◆ Yokohama Takashimaya
- 7 concessionnaires

Kazakhstan: 1

1 concessionaire

Malaysia: 3

2 branches:

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

Philippines: 1

1 concessionaire

Singapore: 6

- ◆ 6 branches:
- ◆ Singapore Changi Airport T1
- ◆ Singapore Changi Airport T2
- ◆ Singapore Changi Airport T3
- ◆ Singapore Liat Tower
- ◆ Singapore Marina Bay Sands
- ◆ Singapore Takashimaya

Thailand: 5

4 branches:

- ◆ Bangkok Central Embassy
 - ◆ Bangkok Icon Siam
 - ◆ Bangkok Siam Paragon
 - ◆ Phuket
- 1 concessionaire

Vietnam: 2

2 concessionaires

Middle East

Bahrain: 1

1 concessionaire

United Arab Emirates: 5

5 concessionaires

Kuwait: 1

1 concessionaire

Lebanon: 1

1 concessionaire

Qatar: 2

2 concessionaires

Oceania

Australia: 6

5 branches:

- ◆ Brisbane
 - ◆ Gold Coast Pacific Fair
 - ◆ Melbourne Chadstone
 - ◆ Melbourne Collins Street
 - ◆ Sydney
- 1 concessionaire

Guam: 1

1 branch:

Saipan: 1


1 branch:

1.7 SIMPLIFIED GROUP ORGANISATIONAL CHART

1.7.1 SUMMARY DESCRIPTION OF THE GROUP AS AT 31 DECEMBER 2019

HERMÈS INTERNATIONAL



| HERMÈS BRAND | | | | |
|--|--|---|--|--|
|  | | | | |
| RETAIL | | | WHOLESALE PRODUCTION AND DISTRIBUTION | PRODUCTION |
| <ul style="list-style-type: none"> • Argentina • Australia • Belgium • Brazil • Canada • China, Hong Kong, Taiwan • Czech Republic • Denmark • France | <ul style="list-style-type: none"> • Germany • Greece • Guam • India • Italy • Japan • Malaysia • Mexico • Poland • Portugal | <ul style="list-style-type: none"> • Principality of Monaco • Russia • Singapore • South Korea • Spain • Switzerland • 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 |

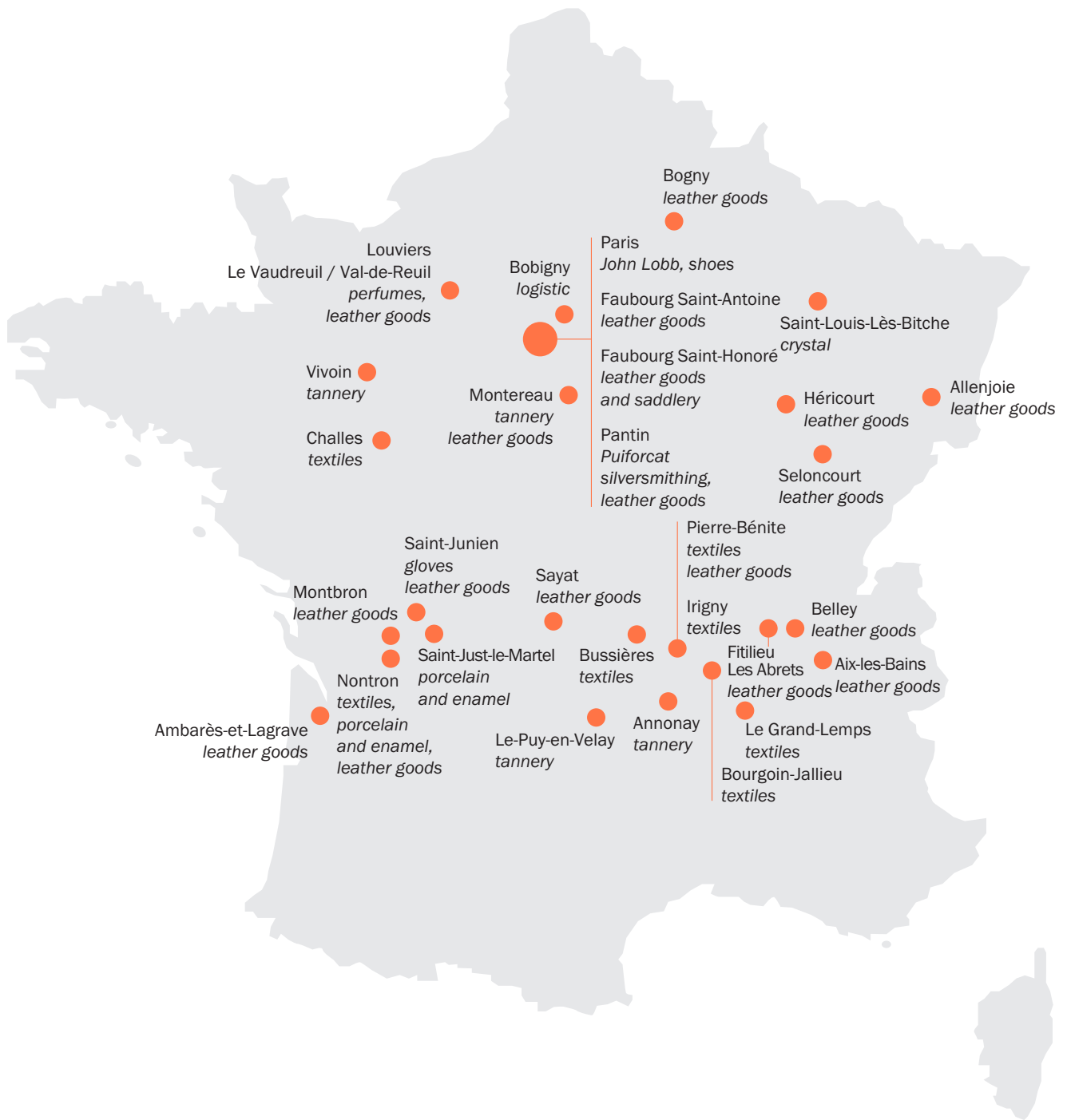
(1) Furnishing fabrics

The main consolidated companies as at 31 December 2019 (distribution subsidiaries and holding companies of the divisions) are listed in Note 35 of the consolidated financial statements.

1.7.2 PRODUCTION FACILITIES

The Hermès Group operates 55 production sites, including 43 in France. The Group also operates production sites in Switzerland, The United States, Australia, Italy and the United Kingdom.

| Métiers | Company (production sites) |
|---|---|
| Leather | 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, Louviers</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 Montereau (<i>Montereau</i>) |
| | 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>) |
| Textile | 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 Bussièrès et de Challes (ATBC) (<i>Bucol, Le Crin</i>) (<i>Bussièrès, 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>) |
| Silversmith | 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>) |



1.9 FONDATION D'ENTREPRISE

Having passed the 10-year milestone in 2018, the Foundation proved itself to be fully engaged in 2019 on its third mandate, with the renewed confidence of the House's senior executives. Backed by a decade of actions, support and production initiatives, it now enjoys full recognition, giving it a pivotal role in social, cultural, and environmental sponsorship in France. This is a role it is keen to assume quietly: not tied to a specific place of operation, it works pro-actively *in situ*, alongside its beneficiaries focusing on the precise needs of each project. In this, the Foundation further upholds the humanist values of Hermès, paying special attention to the world around it and the fulfilment of everyone through public interest initiatives. At the same time, it takes ownership, in the name of the House, of the bold choices made and sets itself to its task with conviction, whether this implies demanding creative efforts or societal causes of clear urgency.

In 2019, it was a natural move for the Foundation to be more in touch with society, and work with those who are active on the ground. For this purpose, programmes have been intensified, such as its work for the preservation of biodiversity and ecosystems. In addition to its continued support for WWF France, the Foundation is now assisting two major projects on which it can take effective action at two levels: Atelier Paysan, to support operators in the agro-ecology sector in designing environmentally friendly tools, and Vigie-Nature École, a project for the Muséum National d'Histoire Naturelle, involving data collection for researchers and awareness creation among young people about the fragility of the living species around us. It is this same concern for efficiency that led the Foundation to launch, as part of the Artists in the Community, a scholarship scheme for students enrolled on a higher education course in dance or theatre so that they can pursue their studies in better living conditions. Another example is Manufacto, the Skills Factory, in partnership with the Paris education board and the Compagnons du Devoir et du Tour de France, being rolled out in France to increase awareness of pupils of craftsmanship *métiers*, and extending to rural areas. Whether the objective is to protect the future of our planet or to ensure the fulfilment of everyone, it is more important than ever to act now and in a targeted manner for future generations.

In order to align our actions with the needs of beneficiaries, the Foundation assisted other existing programmes that have gained momentum this year.

H₃ - Heart, Head, Hand, a programme conducted in-house, has just started its third year enriched by new projects that demonstrate the increasing and collective mobilisation of staff on public interest projects, of which they make the Foundation aware through this programme. Based on the exchange of cross-cutting and forward-looking knowledge, the Skills Academy has expanded its activities, both for a wide, resolutely loyal audience (with an additional morning meeting plus side events), and for academics. This year, 23 craftsmen, designers and engineers were present to brainstorm on the theme of textiles under an enhanced format with more discussion time, visits and a workshop over several sessions to go even further in this collective reflection. A strong impetus was also given to Immersion, a French-American photography commission, thanks to the partnership developed this year with the San Francisco Museum of Art (SFMOMA) and Fondation Henri Cartier-Bresson.

Winners are now given the opportunity to display their photographs at an exhibition in each of the two institutions, giving them significant visibility both in France and in the US.

Well-known in the world of visual and performing arts, the other Artists Residencies, Exhibitions and New Settings programmes remain unchanged. All three offer support, in different ways, to essential creation in the form of production assistance. This is a unique feature of the Foundation's work: to act proactively, offering artists the best creative conditions and supporting them over the long term. In other words, to be truly engaged alongside those who actually create the works.

All of these actions illustrate the Foundation's ability to adapt to the needs of its beneficiaries and to provide appropriate solutions to meet these needs. With nine programmes established, it is taking its place as a dynamic sponsorship vehicle, ready to adapt to the realities of the modern world. In 2019, an intense and busy year, we continued to focus on the need for high quality philanthropic initiatives, by acting with altruism, with an open mind and in favour of future generations, continuously driven by the same conviction: "Our gestures define us". More than ever, they help us move forward and make us better.

The full report on the activities of the Fondation d'entreprise Hermès is available at: www.fondationentreprisehermes.org, in "The Foundation" section.

AFR 1.11 RISK FACTORS

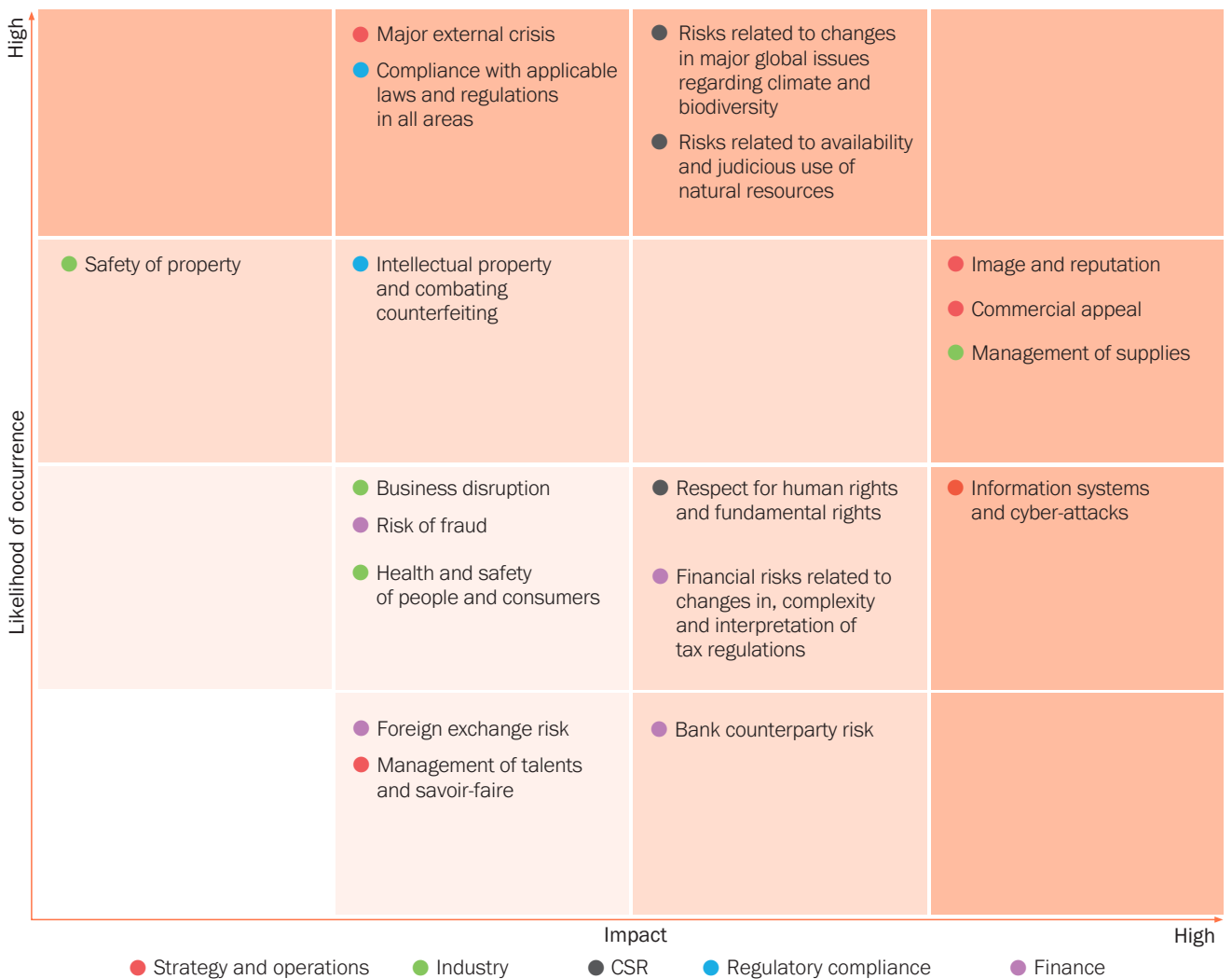
The main risk factors faced by the Group are presented below under five broad categories. These are risks specific to Hermès Group, identified in the Group risk mapping drawn up in 2017 and ranked on the basis of their potential impact and the likelihood of occurrence.

The risk mapping below reflects the exposure of Hermès Group, after taking into account the control measures implemented in order to mitigate their likelihood of occurrence and impact.

The Audit and Risk Committee was involved in determining this matrix.

The risk factors are presented in a limited number of categories depending on their nature. In each category, the most significant risks are presented first.

The Group has implemented a system to anticipate and control risk. This system is periodically updated to take into account regulatory, legislative, economic, societal, geopolitical and competitive developments. Every three years, Hermès Group’s main risk exposures are reassessed with the participation of all stakeholders. The detailed description of the risk management system is presented in this chapter.



RISK RANKING BY CATEGORY (FROM MOST TO LEAST SIGNIFICANT)

| | | |
|--|--|---------|
| ● 1.11.1 Risks related to strategy and operations | 1.11.1.1 Image and reputation | Page 42 |
| | 1.11.1.2 Commercial appeal | Page 43 |
| | 1.11.1.3 Information systems and cyber-attacks | Page 44 |
| | 1.11.1.4 Major external crisis | Page 45 |
| | 1.11.1.5 Management of talents and <i>savoir-faire</i> | Page 46 |
| ● 1.11.2 Industrial risks | 1.11.2.1 Management of supplies | Page 47 |
| | 1.11.2.2 Business disruption | Page 48 |
| | 1.11.2.3 Health and safety of people and consumers | Page 49 |
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| | 1.11.3.2 Intellectual property and combating counterfeiting | Page 52 |
| ● 1.11.4 Risks related to social, societal and environmental responsibility | 1.11.4.1 Risks related to changes in major global issues regarding climate and biodiversity | Page 53 |
| | 1.11.4.2 Risks related to availability and judicious use of natural resources | Page 53 |
| | 1.11.4.3 Respect for human rights and fundamental freedoms | Page 54 |
| ● 1.11.5 Financial risks | 1.11.5.1 Risk of fraud | Page 55 |
| | 1.11.5.2 Foreign exchange risk | Page 56 |
| | 1.11.5.3 Bank counterparty risk | Page 57 |
| | 1.11.5.4 Financial risks related to changes in, complexity and interpretation of tax regulations | Page 58 |

1.11.4 RISKS RELATED TO SOCIAL, SOCIETAL AND ENVIRONMENTAL RESPONSIBILITY

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

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

A materiality analysis was conducted in 2019 with four internal working groups and a panel of external stakeholders. The detailed results are presented in chapter 2. This study confirms and sets out the analysis conducted more widely at Group level in 2017 on three main themes:

- ◆ risks related to changes in major global issues regarding climate and biodiversity;
- ◆ risks related to availability and judicious use of natural resources (water, energy, raw materials, waste management and recycling);
- ◆ risks related to human rights and fundamental freedoms, and in particular, as regards the ethical aspect of our relations and more broadly the well-being of our employees.

More details by type of risk, and the mitigation and prevention mechanisms for these risks are addressed specifically in chapter 2 of this report.

1.11.4.1 RISKS RELATED TO CHANGES IN MAJOR GLOBAL ISSUES REGARDING CLIMATE AND BIODIVERSITY ●

| | |
|---|--|
| <p>♦ DESCRIPTION OF THE RISK</p> <p>Major climatic deterioration (more intense natural disasters, substantial rise in temperatures, loss of habitats due to the rise in water levels and desertification).</p> <p>Change in regulatory requirements related to these issues (taxation, restriction of operations).</p> | <p>♦ RISK MANAGEMENT</p> <p>Hermès' French craftsmanship model, through its presence across France, reduces its vulnerability to extreme events already experienced in certain parts of the world. The diversity of <i>métiers</i> and supplies (by type and by geography) is also a factor reducing potential impacts.</p> <p>The industrial affairs department, in coordination with the <i>métiers</i> concerned, and other Group departments (audit and risk management department, sustainable development department) factor in these issues in the strategic monitoring of operations, through diagnostics, such as on the issue of control of our carbon emissions and on the impact of climate change on our operations, and by contributing to the preparation of operational action plans (the work conducted in-house was rated B by the agency CDP).</p> <p>The Group is working to better understand the precise impacts on its operations of these potential risks and to be better prepared. In addition, it has undertaken an active greenhouse gas emission offset policy, as detailed in chapter 2 of this report.</p> |
| <p>♦ POTENTIAL IMPACTS ON THE GROUP</p> <p>Rapid changes could impact our supply chains, operations (production, logistics or distribution) and the behaviour of our customers.</p> | |

1.11.4.2 RISKS RELATED TO AVAILABILITY AND JUDICIOUS USE OF NATURAL RESOURCES ●

| | |
|---|---|
| <p>♦ DESCRIPTION OF THE RISK</p> <p>The Group seeks to secure quality supplies of natural and renewable materials, obtained while fully respecting biodiversity. The Group also pays particular attention to the impacts of climate change on its supply chains in order to ensure the durability of activities in a rapidly changing environment.</p> <p>The risk relates to access and availability of materials, as well as the conditions to procure them: social & environmental impact; and impact of their societal acceptability (animal welfare).</p> | <p>♦ RISK MANAGEMENT</p> <p>The Group works at different levels, under the coordination and active control of the industrial affairs department, and involves the main <i>métiers</i> of the House in an initiative aimed at improving the understanding of supply chains and developing operating practices in order to jointly develop the resilience of these channels. These measures are complemented by audits, which are carried out regularly by specialised service providers, or with the WWF on certain channels, in order to address in the best possible manner the risks related to these materials (alligators, cashmere, wood, natural essences). Action plans are then implemented.</p> <p>With a view to continuous improvement, these processes are reviewed on a regular basis and action plans are implemented.</p> <p>The mitigation and prevention mechanisms for these risks are addressed specifically on pages 112 to 120. The <i>métiers</i>, with the support of the industrial affairs and property department, are working on the optimised use of resources in our operations.</p> <p>Projects focusing on recycling and the circular economy have been launched with the <i>métiers</i> or the distribution network (see in particular chapter 2 of the report).</p> |
| <p>♦ POTENTIAL IMPACTS ON THE GROUP</p> <p>Reduction in the quality and volumes of very high quality natural raw materials, increase in costs.</p> <p>Inappropriate management of waste or of the end-of-life of our products and materials could impact the Group's reputation.</p> | |

1.1.1.4.3 RESPECT FOR HUMAN RIGHTS AND FUNDAMENTAL FREEDOMS ●

| | |
|---|--|
| <p>◆ DESCRIPTION OF THE RISK</p> <p>Although 80% of production is carried out in France, the risks of serious violations of human rights, fundamental freedoms, and the health and safety of persons nevertheless exist. Moreover, the diversity of our <i>métiers</i> and our supply chains, coupled with our objective of using exceptional raw materials where they are produced, lead us to work in partnership with suppliers in countries that are sometimes far afield. In these countries the risks of violation of human rights, fundamental freedoms, and the health and safety of persons must also be managed.</p> | <p>◆ RISK MANAGEMENT</p> <p>Hermès respects fundamental conventions on human rights and fundamental freedoms (Universal Declaration of Human Rights, and the fundamental freedoms of the ILO, the OECD Guidelines and the Global Compact).</p> <p>Furthermore, this Group commitment is promoted at the internal level through the ethics charter, which defines Hermès' relations with its employees and suppliers, and the code of business conduct, which contains a specific section on human rights and fundamental freedoms. All Hermès employees regularly take part in a survey on well-being and have access to an alert system "H-Alert" available in 17 languages to report any breach of our commitments.</p> |
| <p>◆ POTENTIAL IMPACTS ON THE GROUP</p> <p>A violation of human rights and fundamental freedoms would be contrary to the Group's ethical and moral values and would have a strong impact on its reputation and image.</p> | <p>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 and the environment, resulting from its activities as well as the activities of its subcontractors and suppliers. Identification, mitigation and prevention mechanisms for these risks have been put in place for employees, suppliers and subcontractors and are detailed in chapter 2 of this report.</p> |

2

CORPORATE SOCIAL RESPONSIBILITY

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Through their sustainable development approaches, the companies implement practices that reconcile economic and social progress with the preservation of the planet's natural balances, in a long-term vision. Linked to the 17 United Nations Sustainable Development Goals¹ for 2030, these societal and environmental challenges provide the framework for Hermès' action in this area.

For more than six generations, the values inherent in craftsmanship have flowed through Hermès. These values have shaped its development and, at the same time, its relationship with the wider world. Tangible and woven into daily life, these values inspire all employees, suppliers and partners, through their existence all around as well as through internal networking actions. They form the platform for the actions of the House in matters of sustainable development by appropriating the notions of individual and group responsibility, authenticity in the search for excellence, or acceptance of the long-term approach as a factor influencing performance.

The Hermès Group's craftsmanship model of manufacturing is primarily anchored in the creativity and *savoir-faire* of the men and women in France and is rooted in the four essential heritages of the House: creation, *savoir-faire*, exceptional raw materials (often exclusive) and the retail universe. It is based on geographic and cultural proximity between our designers and the craftspeople in our production units. It relies on the manufacturing culture that we enhance and develop, with a desire to ensure the transmission of our exceptional *savoir-faire*. It is deployed in a spirit of balance and sobriety in the use of raw materials and a commitment to a low environmental footprint.

The Hermès Group's ambition for sustainable development is to contribute to the longevity of its craftsmanship model by enhancing the value of its heritage and to enable virtuous economic and social development, not only for employees and shareholders, but more broadly for its stakeholders, and thus contribute to the future for the next generations. To achieve this objective, the Hermès Group must also control and reduce its impacts, however moderate, on the planet. This goal is also accompanied by a deep humanistic desire to give back to the world some of what the world has given to Hermès.

This statement of non-financial performance (SNFP) covers all of the Hermès subsidiaries and Group sites (scope detailed in section 1.7), all

métiers and all regions included. Given that Hermès manufactures 61% of its objects in its exclusive and internal workshops, this statement is very representative of its overall footprint. Several changes modify the presentation of disclosures related to the 2019 financial year, in order to improve clarity:

- ◆ the business and value-creation model provides a summary visual presentation (section 2.1) for the first time, with details in the subsequent sections;
- ◆ the materiality matrix (part 2.1.3.1), illustrates the alignment of the priorities defined by Hermès as part of its CSR strategy and the expectations of its stakeholders;
- ◆ the Ethics and Compliance section is integrated with the societal and environmental information (section 2.8).

Methodological note

This statement of non-financial performance (SNFP) is based on the qualitative and quantitative contributions of the *métiers*, subsidiaries, and central departments consolidated by the following Group corporate departments: human resources, industrial affairs, construction, legal, finance and sustainable development. From the end of the first half-year, the various contributors came together to rank the subjects they wished to discuss and prepare a schedule extending to the end of the year. Given the time frames, certain annual data is reported at end October (industrial affairs department). Each department uses digital tools to consolidate the information related to their activities. These main contributors rely on their respective networks in order to summarise and highlight the most significant progress and the work carried out on the major strategic sustainable development challenges. This operating mode enables a fairer reflection of operating reality, in an environment in which the activities of the House are very diversified. Finally, the verification work is carried out by an independent third-party (PricewaterhouseCoopers), with audits conducted prior to publication and the issuance of a reasonable assurance report, which is a significantly higher level of certification than the moderate assurance required by law (verification diligence covering around 50% of the workforce, more extensive than that required by French law, at only 20%) (section 2.9).

1. This sets objectives in matters of justice and social inclusion, human rights, international labour standards, respect for the environment and the fight against corruption

2.1 BUSINESS MODEL

The Hermès Group presents its value creation model in visual form (see the following page) in order to present the distinctive features of the French craftsmanship manufacturing model. This approach helps explain the activities of the House, its footprint and contribution to a more sustainable world in its economic, social, societal and environmental dimensions.

The Hermès Group's model is unique in many ways:

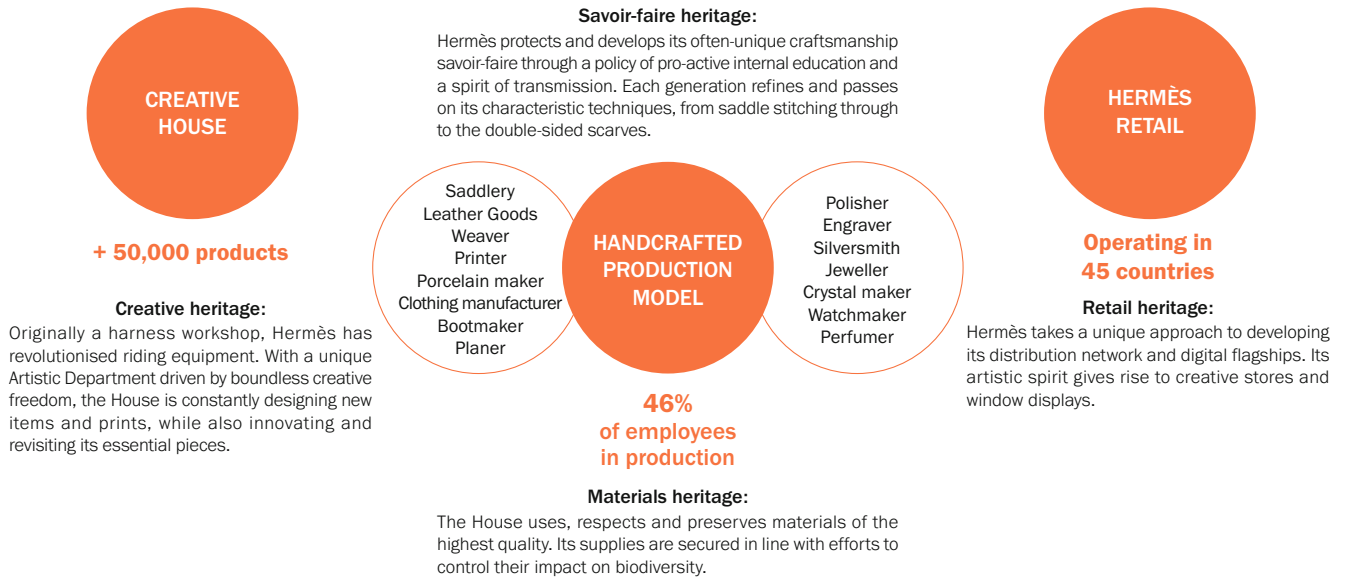
- ◆ a family-run business rooted in a tradition of craftsmanship, the foundations of an eagerness to ensure transmission of skills and durability;
- ◆ fundamental heritages, sources of sustainability, that are continuously reinvented: creation, *savoir-faire*, materials and retailing;
- ◆ objects designed to last: rigour and responsibility that are the life force of the House's 15 *métiers* (see section 1.5);
- ◆ a French House with an international reach: an integrated manufacturing model conducted principally in France, with distribution throughout the world tailored to local situations;
- ◆ controlled development and solid results;
- ◆ a contribution to a more sustainable world through its humanist vision of its activity and a desire to give back to the world some of what the world has given it.

A FRENCH MODEL OF CRAFTSMANSHIP THAT IS SUSTAINABLE AND CREATES VALUE

OUR ROOTS AND VALUES

An independent creative House since 1837, guided by the qualities of craftspeople: responsibility, authenticity and a long-term view. An integrated model of French manufacturing, which educates and develops its craftspeople in-house. The humanistic management of employees. Useful and long-lasting objects that combine functionality, aesthetics and high-quality materials, and are passed down from one generation to the next. A diverse product range reconciling creative freedom with the stores' freedom of purchase. The determination to give back to the world.

UNIQUE HERITAGE



EXCEPTIONAL OBJECTS DESIGNED TO LAST



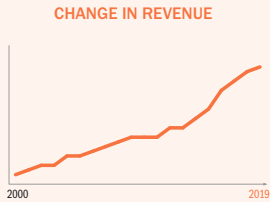
A FRENCH HOUSE WITH A GLOBAL REACH



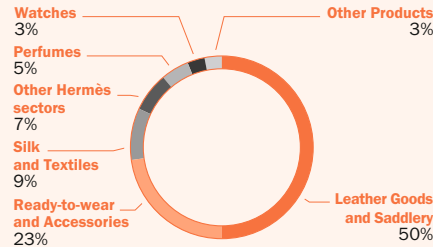
CONTROLLED DEVELOPMENT & STRONG RESULTS IN 2019

Economic Design and grow

- ◆ €6.9 bn in revenue
- ◆ 12.4% growth at constant exchange rates
- ◆ €2.3 bn in recurring operating income
- ◆ €478 m in operating investments
- ◆ €70 bn in market capitalisation as at 31 December 2019



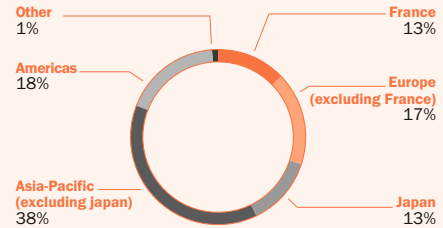
BREAKDOWN OF REVENUE BY MÉTIER



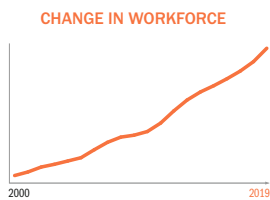
CONTRIBUTING TO A MORE SUSTAINABLE WORLD

- ◆ 7 stores opened in 2019
- ◆ 1 production site opened in 2019
- ◆ 33.1% consolidated tax rate
- ◆ Over 13,000 employees members of the employee shareholding plan in 2019

BREAKDOWN OF REVENUE BY GEOGRAPHICAL AREA

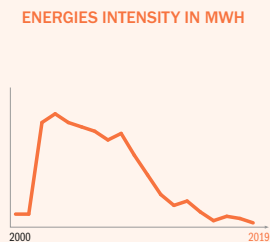


Social Value and transmit



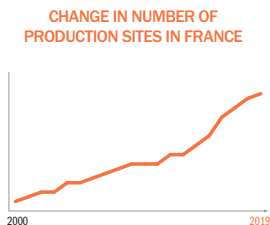
- ◆ 15,417 employees in 2019, of which 5,200 are craftspeople
- ◆ 8 production sites opened in France since 2015
- ◆ Internal education schools for the craftsmanship and sales professions
- ◆ Leather Goods division: 82 trainers and 200 tutors educate the craftspeople in their new profession for 17 production units
- ◆ Hermès voted "2nd best Glassdoor employer in 2019"
- ◆ 54.2% of women in governing bodies
- ◆ 463,750 hours of education in 2019
- ◆ 676 jobs created in France in 2019, 3,699 in the last five years
- ◆ 5 600 employees educated by École du Cuir since 2011
- ◆ 197 CAP vocational qualifications in leatherwork & 76 saddler and leather worker (Sellier Maroquinières d'Art) diplomas in 2019
- ◆ Partnership with the French Job Centre and education in the craftsmanship professions
- ◆ Disability: employment rate, 7.42% (legal threshold of 6%)

Environmental Respect and preserve



- ◆ Over the last 10 years, decoupling of energy consumption (x1.34) and industrial water consumption (x1.9) from activity growth (x3.6)
- ◆ Offsetting of 100% of carbon emissions from production, administrative and logistics sites, and stores (scopes 1 and 2) with *Livelihoods*
- ◆ Collaboration with NGOs such as WWF (France) in the sustainable development of certain channels (leather, cashmere, wood, etc.)
- ◆ Nearly 100,000 repair requests per year
- ◆ 78% green electricity supply
- ◆ Publication of standards on Animal Welfare and creation of a monitoring committee in 2019
- ◆ 95% of leathers are by-products of human food (recycling)
- ◆ 100% recycled gold for jewellery
- ◆ Launch of an internal supply chain management tool (within 11 sectors) in 2019
- ◆ Act4Nature commitment

Societal Develop and participate



- ◆ Presence in 12 of the 13 French regions with nearly 80 sites (production units, stores, logistics sites, offices)
- ◆ Creation of regional divisions of excellence
- ◆ 19-year average relationship with the main direct suppliers
- ◆ 52% of purchases made in France (Top 50 direct suppliers)
- ◆ 100% of leather goods made in France
- ◆ 1 direct job created in a rural area indirectly leads to at least 1.5 other jobs
- ◆ 4 editions of Hermès at Work
- ◆ Organisation of unique events around the world (exhibitions, etc.)
- ◆ €40 m allocated to the budget of Fondation d'entreprise Hermès
- ◆ 76% of direct suppliers committed to a CSR policy

Governance

WE SUPPORT



- ◆ Inclusion of CSR criteria in the variable compensation of the two Executive Chairmen
- ◆ A SD committee every two months with two Executive Committee members
- ◆ Sustainability: 72/100 (outperformer)
- ◆ ISS-Oekom: C (prime threshold: C+)
- ◆ CDP: B (Carbon, Forest, Water. Sector average rating on Carbon: C)
- ◆ A CSR Committee within the Supervisory Board
- ◆ Contribution to 14 of the 17 United Nations SDGs
- ◆ Global Compact Advanced Level
- ◆ Signature of the Fashion Pact in 2019
- ◆ Positivity index: 75.6% (B+), CAC 40 average: 51%
- ◆ Internal and external ethics whistleblowing systems

2.1.1 A FRENCH MODEL OF CRAFTSMANSHIP

2.1.1.1 OUR ROOTS AND VALUES

Hermès has remained true to its values since 1837 and continues to thrive as a house where craftspeople are at the fore. Selecting the most beautiful materials, it produces exceptional useful and aesthetic objects, designed to be passed on to the future. Hermès now has a world-wide reputation, but the House has always been and remains today, an independent company supported by family shareholders, the sign of stability and longevity. Promoting French manufacturing, its project is based on the excellence of the craftsmanship *métiers*; human hands, and quality are the keys.

The characteristics of craftsmanship, from the founding of the Company, nurture its development and, in parallel, its relationship with the wider world. Naturally imprinted with respect and humility, these attributes, over time, have become company values. Lived and embodied by the Senior Executives and all employees, today they represent the federating pillars of the corporate social responsibility (CSR) approach that Hermès shares with its stakeholders:

- ◆ **responsibility:** a handmade leather object, for example, is the work of a single person. Following the original principle “one person, one bag”, a single person masters all of the steps necessary for an object’s creation, and is accordingly responsible for its 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 also requires a commitment the product’s future life: each craftsman has a view that transcends beyond the production process. This heightened awareness of responsibility by the craftsman, who stamps the bag with his or her “mark”, nourishes the individual and group sustainable development practices;
- ◆ **authenticity:** the craftspeople are passionate about emphasizing the “authenticity” of beautiful materials and eschews the use of imperfect materials, even when the end result may seem acceptable. This demanding attitude is reflected in the attention paid to all the aspects that comprise the handmade object and its craftsmanship. The inside is given just as much care and attention as the outside. The Hermès craftspeople, and all employees of the House, are nonetheless aware of their limits and imperfections, and constantly question each stage, so as to perpetuate the values of excellence. Sustainable development is pursued in this spirit of sincerity, excellence and continuous improvement. It is built on accomplishments rather than abstract commitments, without fanfare but with the goal of long-term efficiency;

- ◆ **acting with urgency while taking the time to do well:** the craftspeople do not like to put off today what they can accomplish now. Hermès’ craftspeople House, see time as an ally, that enables them to work well, to integrate the internal or external challenges of all stakeholders to see things in a balanced perspective. In the making of an object by hand, it is impossible to skip a step to save time, everything flows in continuity, everything is necessary. These modes of operation shape and determine the way projects are conducted. They encourage the implementation of responsible policies and practices, using a participative approach, blending exacting requirements and efficiency to obtain a high-quality end result. While considering changing and accelerating contexts, projects take into account the necessary rhythm for sustainable change among employees, partners and natural ecosystems. Urgency to act and hasty execution should not be confused.

2.1.1.2 UNIQUE HERITAGES

The Hermès integrated model is distinguished by its different tangible and intangible heritages. Creative freedom, manufacturing expertise and retailing freedom are the operating modes. Their perpetual abundance, balancing preserved tradition and renewed modernity, is a source of continuous innovation and progress. There are four types of heritage:

- ◆ **creative heritage:** the Artistic department invents new pieces, objects and patterns, and revisits its timeless models, unfettered by limits or constraints. There is no marketing department, there are no market studies. Creation is king;
- ◆ **savoir-faire heritage:** in addition to the emblematic saddle stitch, Hermès’ craftspeople are masters of characteristic skills tools that are often unique and rare techniques. The preservation of knowledge, its transmission through apprenticeships and a proactive internal training policy play key roles. This *savoir-faire* is also that of creative designers and managers. They progressively integrate the challenges of sustainable development in the way they work;
- ◆ **materials heritage:** only the most noble materials are used. Hermès monitors its supply chain very closely, chooses renewable materials carefully from responsible industries and manages their environmental impact, in particular on biodiversity;
- ◆ **retail heritage:** Hermès has developed an exclusive distribution network, – both physical and digital – a reflection of the uniqueness of the House and its creativity. The stores are oases of exceptional customer experience, freely and locally adapted to each market.

2.1.1.3 LUXURY ITEMS DESIGNED TO LAST

From the original idea to manufacture, from purchasing to the customer's use, the Hermès object follows a life cycle that reflects the uniqueness of the House and its model of sobriety in its craftsmanship. This is characterised by a reasoned development at each stage.

Creative freedom

Supervised by Pierre-Alexis Dumas, a sixth generation member of the Hermès family and member of the Group's Executive Committee, the Artistic department remains true to the inventiveness that has always characterised the House's success. Based on an annual theme, it unpretentiously proposes and renews the collection and objects. The creative designers imagine new items or revisit the classics and propose collections with unique style, while the craftspeople innovate, improving their procedures, pushing the limits of materials and ensuring they use only the necessary resources. Creative freedom, balanced by the stores' freedom to purchase as they choose, is asserted while respecting harmony and consistency.

Exceptional materials

Hermès manufactures high quality products, mainly from renewable natural resources. The House's most emblematic raw materials are leather, silk and cashmere. The Hermès Group has a tangible influence over its entire value chain, a major portion of which is managed internally, and promotes the adoption of best practices. The use of materials is optimised from creation to production, with careful use of only the essential resources, avoiding unnecessary waste and surplus materials.

Leather and exotic hides. Most leathers used by Hermès (cattle, sheep, goat) are by-products from livestock for food, to which the House is giving a second life. The most beautiful hides come from ethically raised animals. Exquisite hides only come from animals that have been treated well. Hermès uses more than 35 different types of leather to make its objects. All leathers needed are purchased directly from tanneries, without intermediaries, and come mainly from European livestock with controlled production. The vast majority of its requirements are covered by the six tanneries owned by the House, as well as by other French and European tanneries, all subject to rigorous standards. For exotic hides, such as crocodile, alligator, lizard and ostrich, Hermès is supplied by livestock farms in the United States, Africa and Australia. These farms all comply with the rules established under the supervision of the United Nations by the Washington Convention for the protection of species, and rigorous internal standards and are routinely audited.

Silk and cashmere. For these two precious materials, the Hermès Group has long-established partnerships with a small number of suppliers. For the past 20 years, this method has promoted the development of a sustainable silk worm industry in Brazil (state of Paraná) and contributed to the environmental preservation of habitats while generating activities providing regular income to thousands of families. Concerning cashmere, the wool comes mostly from China (inner Mongolia). In this specific case,

Hermès relies on an expert European partner to select farmers who operate under the most rigorous standards, controlled by local authorities and regular audits.

Other materials. Hermès uses mainly natural raw materials, often in small quantities, favouring the best sources with very high-quality materials, from producers concerned about their environmental and social impacts. The House dedicates time and resources to the knowledge, qualitative management and durability of the supply chains of its partners. Programs for improvement of the quality of their manufacturing are also carried out.

Purchasing freedom

Present worldwide, Hermès is strongly committed to the principle of giving purchasing freedom to its retail subsidiaries and stores. In this Group's distinctive mode of operation, each store directly chooses an assortment of products tailored to their local customers, based on "Podiums", the internal high points of the year at which the items and collections are presented. This has many effects – the quality of service of the logistics of the 311 exclusive points of sale is optimised, the offering is varied and appropriate, and the environmental footprint and waste are reduced.

Craftsmanship manufacturing

The uniqueness of Hermès is based on a mode of production in France that confers responsibility and is highly integrated: the Hermès Group produces more than 61% of its objects in its exclusive and internal workshops. The manufacturing sites are mainly established in France (78%), in eight of the 13 mainland regions of the country. Organised in regional hubs and by *métiers*, the leather goods sites in particular, are of human size (between 250 and 300 employees). In terms of employment, these sites promote local access to jobs, in particular through the process of recruiting "by simulation", without Curriculum Vitae, based on aptitude, in partnership with the "Pôle Emploi" employment centres. The focus is then on internal training, which guarantees the transmission of exceptional *savoir-faire* (200 trainers and 82 tutors for 17 leather goods workshops). A similar mindset prevails in the relations with service providers and suppliers: assistance, support, cooperation, long-term partnerships, in a spirit of collaboration and excellence. The average seniority of relations with the top 50 direct suppliers is 19 years. Accordingly, the vast majority of the Hermès Group's main industrial purchases (direct) continue to be conducted in France (52%) and more broadly in Europe outside of France (42%).

Exclusive distribution

Mainly manufactured in France, the products are distributed from the Hermès Group's integrated logistics platforms, the largest of which is in Bobigny (Île-de-France) on a 30,000 m² site. Some 87% of distribution is to international locations. The choice of a centralised logistical model allows optimisation of flows and reduces the environmental footprint linked to the transport of goods.

Hermès has 311 exclusive stores, including 223 branches. Online commerce, first launched in 2002, continues its stellar growth, complementing the physical network. Hermès favours qualitative development of its network, combining the embellishment and sometimes expansion of its existing stores. Special attention is given to architectural quality, social effects (quality-of-life of sales teams) and their environmental footprint during construction, including the materials, renovation and operations (lighting, etc.).

Sustainable objects

Hermès objects are designed to withstand the rigours of time. They are maintained, repaired and renovated by specially trained craftspeople in the Hermès Group's exclusive and internal workshops in France or abroad, regardless of their date of manufacture. Product longevity – inseparable from the spirit of craftsmanship – allows Hermès objects to be passed on from one generation to the next (nearly 80 employees handle a volume of 100,000 requests each year). The design and manufacture of the objects reflect a sustainable and reasonable model, a world away from excessive consumerism. Buying a sustainable product is a responsible action.

2.1.2 CONTRIBUTIVE, SOLID AND SUSTAINABLE GROWTH

2.1.2.1 CONTROLLED GROWTH FOR SOLID RESULTS

For more than 10 years, the Hermès Group has seen regular growth. This trajectory is the outcome of the House's assets: its creativity, the uniqueness of its craftsmanship model and its selective distribution, accompanied by a controlled development strategy and prudent management. The success of this model led to a 3.6-fold increase in the House's revenue over 10 years; recurring operating income grew 5-fold over the same period, while the workforce grew 1.9-fold. In 2019, the Company confirmed its robust economic health, with net income attributable to owners of the parent of €1,528 million. At the same time, the international expansion of Hermès continues. With a commercial presence in 45 countries, the Hermès Group is strengthening its network by opening seven points of sale in 2019.

Facing economic, social and environmental challenges worldwide, this craftsmanship growth model is part of the solution to the challenges of more sustainable development. It creates jobs, uses renewable raw materials that allow the creation of sustainable objects made with a small environmental footprint. For example, Hermès has one of the lowest carbon intensities of CAC 40 companies.

The development strategy is built upon:

- ♦ the attention paid to **people**, the heart of the House's business model, both those at its sites as well as its 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 the Hermès Group's activity located in France, it contributes to regional development through the creation of long-term, high-quality jobs;

- ♦ **supplies**, mainly consisting of renewable natural raw materials obtained primarily in Europe, in ways that have a low impact on biodiversity;
- ♦ **manufacturing activity**, emitting very little pollution. Craftspeople manage parsimoniously the raw materials they render sublime through their *savoir-faire*. The Leather Goods & Saddlery division account for half of the Hermès Group's sales, while the Silk, Textile (clothing) and Accessories *métiers* generate one-third of the total. More than a dozen other *métiers* round off Group revenue. The use of **subcontracting** is limited and relies on long-term partnerships. Most of its subcontractors – mainly based in France or other European countries – are closely monitored in terms of quality, ethics, labour procedures and their impact on the environment;
- ♦ while its products are made in France, they are **distributed** worldwide. Its distinctive approach in this area is the freedom we give to store managers to compose their own offerings as they see best, during the four annual meetings held for the presentation of the new Hermès *métiers'* collections (the Podiums). This method makes it possible to meet local demand closely and reduce waste;
- ♦ crafted from the most beautiful materials available and using the best *savoir-faire*, the objects that meet Hermès' high standards are, by nature, objects made to last. **Hermès objects are often passed on** from one generation to the next and can be repaired ;
- ♦ currently managed by the sixth generation of family shareholders, Hermès is aware of its **responsibility to pass on a sustainable company to future generations.**

2.1.2.2 CONTRIBUTION TO A MORE SUSTAINABLE WORLD

Buoyed by its earnings, by its financial results, sustained growth and dynamic outlook, the Hermès Group is committed to sharing the fruits of its success, always motivated by the conviction that it should give back to the world some of what the world has given it. Several examples of its accomplishments are set out below, with an exhaustive presentation of its actions detailed in the remainder of this chapter 2:

- ♦ **craftsmanship savoir-faire:** nearly 5,200 craftspeople in France pass on to future generations skills and techniques that are often exclusive, taking part in the preservation of the *métiers* and this heritage of French *savoir-faire*;
- ♦ **long-term employment:** creating jobs, within Hermès' strategy of investment, Hermès provides long-term jobs. In 2019, the Group obtained second place in the Glassdoor classification of French employers, based on the opinion of the employees;
- ♦ **biodiversity and ecosystems:** ethical purchasing of raw materials contributes to its reasonable production. This has a positive effect on some sectors, with impacts extending to the protection of threatened species, habitats and the living conditions of local communities;
- ♦ **vitality of regions:** with more than 676 direct jobs created in France in 2019 and the opening of an average of one production site each year for six years, Hermès is active in the creation of dynamic regions, especially in rural France;

- ◆ **contributive enterprise:** a responsible player committed to the communities in which it is established, Hermès believes in the importance of developing partnerships with all regional players in an approach that is economic and civic-minded, pragmatic but systematic. Each direct job created in a rural setting indirectly leads to at least 1.5 additional regional jobs. Its established sites allow us to support, and even to re-energise, economic activity and promote, by creating economic value, local, social, civic, environmental and cultural benefits. As such, 80% of production takes place in France, thus demonstrating its positive social impact there;
- ◆ **value sharing:** the allocation of the Hermès Group's net income is constant over time: one-third goes to investments, one-third goes to shareholders, and one-third is put in reserve. The Hermès Group's effective tax rate is 33.1%. The amounts distributed to employees have been rising at the same pace as added value. Employees also share in the benefits of growth through an ambitious wage rise policy, incentives, profit-sharing and recurring shareholding plans, available to more than 13,000 employees (out of a total workforce of 15,417 employees at 31st December, 2019). The Fondation d'entreprise Hermès has a five-year budget of €40 million (2018-2023) which allows it to support new general interest projects. These projects are, moreover, in addition to more than 280 local initiatives (human and financial sponsorship, etc.), carried out directly by the subsidiaries in France and abroad.
- ◆ **improving operating practices** to achieve greater sobriety, resilience and integration of societal changes and environmental and climate urgency, based on the strengths of the craftsmanship model and the values of the House.
- ◆ Examples of this include:
 - ensuring the durability of the model by highlighting its assets (see 2.1);
 - continuing a high level of recruitment and training in France;
 - continuing the decoupling of energy and water consumption from activity growth;
 - launching initial actions as part of the Fashion Pact (carbon, plastic, renewable energies, biodiversity);
 - long-term societal actions.
- ◆ **advocating for different modes of production:** against the tide of mass consumption, the craftsmanship model, like low-intensity agriculture, is an approach that in itself gives voice to more responsible, sustainable and open solutions, and can help face the challenges of future transitions. For Hermès, the results of the model bear witness to its success. By identifying the distinctive features of its approach and sharing them, Hermès wishes to take part in debates and contribute to defining a future path for the necessary economic and environmental changes. This ambition echoes the transmission of values so dear to the House.

2.1.3 COMMITMENTS THAT DRIVE DURABILITY

Hermès works to ensure sustainable development by seeking to maintain a positive contribution towards its employees, its stakeholders, and more broadly, to economic and social development, while continuing its efforts to minimise its environmental footprint, in relative and absolute value. The House, mindful of its legitimacy, also wishes to contribute to debates and serve the common interest in areas in which it may have a real impact or take concrete action. This approach has two major focuses:

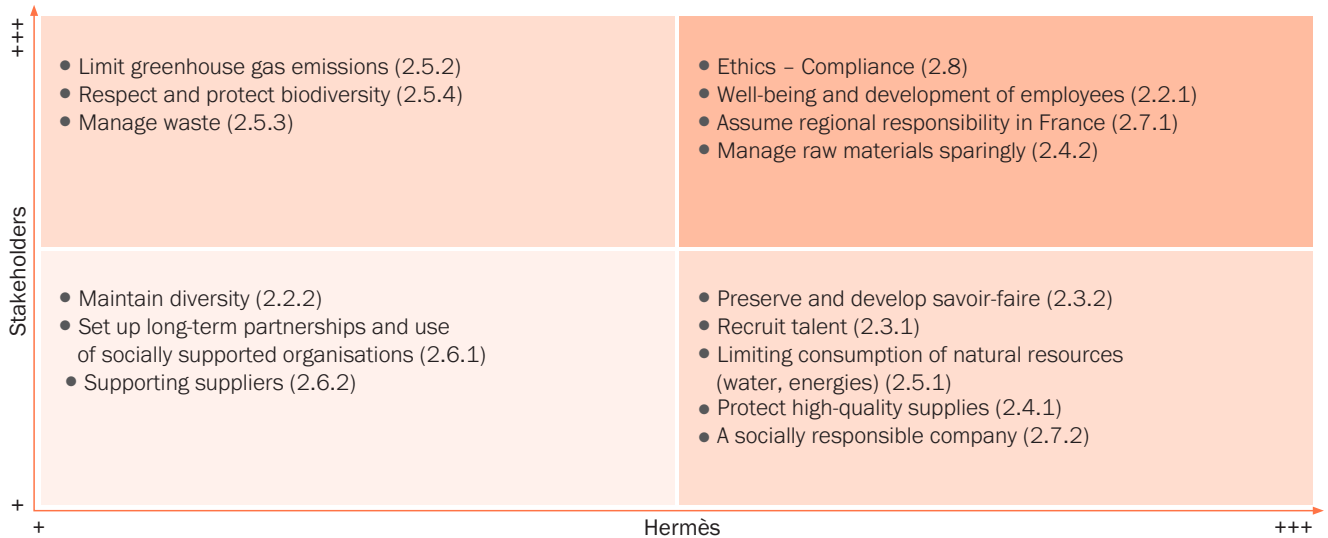
2.1.3.1 CSR CHALLENGES

In 2019, Hermès updated the materiality analysis of its principal CSR challenges. The matrix below shows the main results of this update. This materiality matrix, follow up on the work carried out for several years by the Sustainable Development Committee and the sustainable development department, together with the Executive Committee, and in collaboration with the audit and risk management department. It is consistent with the risk analyses conducted at Group level (section 1.11 "Risk factors").

A tool for structuring the CSR strategy, the matrix maps out the sustainable development challenges, taking into account the interests of each of the stakeholders with which Hermès interacts (suppliers, non-governmental organisations, regional authorities, professional networks, analysts, customers, shareholders), as well as the importance of these challenges for the Company and its business model.

Identification, assessment and ranking of challenges

This 2019 analysis involved four internal work groups reflecting the different functions of the House (production, support, retail, *métiers*) and the contribution of qualified external observers (elected officials, non-governmental organisations, specialised firms, companies, professional networks). These five groups ranked the challenges according to a dual scale of importance (for the Hermès model and more broadly for the world), as summarised in the four quadrants below (numbers refer to sections in the report):



Use of results

- ◆ the upper right quadrant of the matrix shows the subjects considered most important both by stakeholders, and for the development of Hermès. These include subjects related to ethics, human resources (employee development), society (regional responsibility) and the environment (management of raw materials);
- ◆ the major global challenges, considered foremost by the stakeholders, are in the upper left quadrant: climate change, biodiversity, waste. These themes are moreover the major focuses of the Fashion Pact that Hermès joined in 2019;
- ◆ the subjects assessed (in a relative manner) as most important for the Hermès model (lower right quadrant) are linked to its uniqueness and its original model, including human aspects (talents and *savoir-faire*), environmental frugality (purchasing and consumption), and society (*giving back to the world as a responsible citizen*).

These challenges are linked to the five categories of specific risks identified in the Hermès Group risk mapping presented in section 1.11 "Risk factors".

Understanding that the notion of risk itself contains an opportunity factor, Hermès uses the term "challenges" to qualify its CSR approach in this statement of non-financial performance. These challenges are summarised as part of its CSR strategy, and described in more detail in the next sections of the document.

2.1.3.2 CSR STRATEGY

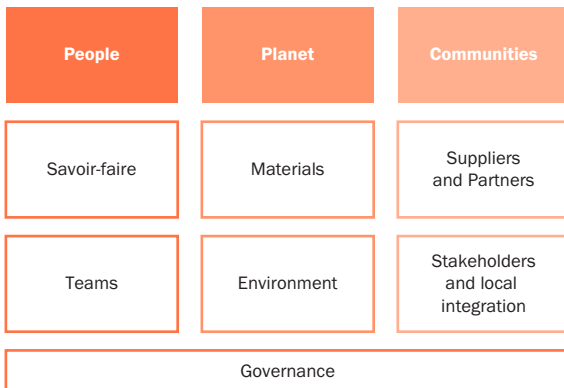
Since 2015, Hermès has adopted a CSR strategy entitled "*All artisans of our sustainable development*", the framework of our CSR strategy applicable to all employees. This is based on appropriation and implementation of the topic at a collective level, a key factor in its sustainability. The Sustainable Development Committee (see below) and the sustainable development department assist and supervise the subsidiaries and *métiers* of the Hermès Group to ensure its proper application. Three major focuses, further divided into six themes characterise this strategy:

- ◆ **people.** At the heart of its humanistic values since 1837, human fulfilment is a priority for Hermès: long-term jobs with a sense of purpose, inclusiveness, diversity and solidarity; health, safety and well-being at work; balance in labour relations, these are all factors deployed by the Hermès Group on a daily basis within the Company. The preservation and transmission of employees' exceptional *savoir-faire* is a strategic challenge to secure the durability of our craftsmanship model. The development of production methods that are respectful of craftspeople and of the environment is one of the major focuses of our work. These two challenges contribute to the Group's sustainability;
- ◆ **planet.** The durability of the Hermès Group's activities is based on the availability of high quality, mostly renewable materials, that are at the heart of the distinctive identity of the House, the primary condition for the high quality of its products. Hermès is constantly seeking ambitious but pragmatic solutions, with a long-term vision, to better preserve the environment. Demanding requirements and audits of the supply channels, with continuous support for their improvement; careful use of materials to prevent waste; waste management, etc., the Hermès Group is committed to improving control of its impacts

over the entire value chain, from upstream agriculture to the processes of manufacturing and distribution, until the end of life of the products. The Hermès Group pays special attention to controlling its consumption and industrial waste (water, energy, etc.), as well as to the reduction of its carbon footprint and the environmental footprint of its sites;

- ◆ **communities.** Hermès is a partner to its suppliers and the regions or communities in which they are established, strengthening its actions and enhancing its sustainability in response to the quality, ethics, employee relations, economic and environmental challenges. Although suppliers represent just a small part of its activity, they are essential to its sustainable development. More broadly, Hermès operates as a socially responsible company in the regions in which it operates, taking into account the interests of the local populations, in various forms, from investment to skills sponsorship.

The Hermès Group CSR strategy tangibly contributes to most of the 17 United Nations sustainable development goals to the year 2030. Its actions incorporate the sustainable principles of the Advanced programme of the UN Global Compact, to which the Hermès Group adheres. Details on this are provided at the end of the sections for each challenge.



2.1.3.3 GOVERNANCE OF THE CSR APPROACH

The actions of the House with respect to sustainable development are steered by a Group sustainable development department and have been supervised by the Sustainable Development Committee since 2007. They involve various functions of the Company.

Executive Management and Executive Committee: the Hermès Group management plays an active role in the implementation and rollout of the approach. Axel Dumas, Executive Chairman, is involved in many initiatives, the most visible of which in 2019 was the Fashion Pact. He also worked alongside Jacques Attali for the Positive Economy Institute, and with Entreprises pour l'Environnement (EpE). In 2019, 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). Two members of the Executive Committee sit on the Sustainable Development Committee, and are able to share key challenges within both committees.

Sustainable Development Committee: this committee validates the strategy, conducts governance and oversees CSR activities. Composed of 11 members including two members of the Executive Committee, it met five times in 2019. It includes managers from the human resources department, the industrial affairs department, distribution, two *métiers* (Leather and Textiles), and the Fondation d'entreprise Hermès. It reports to the CAG-CSR Committee of the Supervisory Board twice per year, and its meeting minutes are provided to the Executive Committee.

Group's sustainable development department: reporting to a member of the Executive Committee, it proposes and implements the strategy, and oversees the approach taken by all operating departments and the Hermès 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.

Group Operations Committee: composed of 34 representatives from the different corporate functions. It analyses and validates projects' technical and functional aspects and facilitates information sharing between its members. It met eight times in 2019.

Local Sustainable Development Committees: maintained by the main *métiers* and subsidiaries, they initiate and track the actions launched, and share them during regional meetings. For example, the Sustainable Development Committee of the Leather Goods division met four times in 2019. The managers of these Sustainable Development Committees in the Greater China, South Asia and Japan regions met for the 6th time, spending three days in South Korea. The environmental initiatives are driven more specifically by an "HSE network" in France, run by the industrial affairs department.

These bodies may be supplemented by management and *ad hoc* committees when new sustainable development projects are implemented by subsidiaries and entities. 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.

6th Asian sustainable development seminar in Seoul



2.2 PEOPLE: TEAMS

Introduction

The family business type that has been driving Hermès for six generations places people at the heart of its model. The Hermès 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 sense of purpose and autonomy. The Group human resources department makes the employee experience central to its work, and has articulated its ambition: "Contribute to Hermès' sustainable growth. Nurture its unique culture by offering an employee experience that promotes individual achievement and collective success. Through development opportunities and recognition, enable our employees to participate in the Hermès journey."

To create beautiful objects, Hermès wants to provide an attractive environment. In order to adapt the workplace to changes in cooperation patterns, which have become more horizontal and rely on proximity, the Hermès 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 on this topic, specific actions are implemented to foster well-being at work. In an effort to protect the physical and mental health of its employees, the Hermès Group has launched a diagnostic in these areas in order to create a structuring and empowering approach and continue the objective of improving the quality of working life.

Harmonious labour relations are strengthened, in France, by the Hermès Group's agreement on social dialogue and the exercise of union rights, which sees regular activity at both 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. A Groupwide maternity agreement was signed in 2019.

Sharing the company's strategy, involving employees in the life of Hermès across all its dimensions and all its living environments, and communicating results bring a unique tone to our Internal Communication, reflecting the House's creativity and vitality. As of 2018, a new global intranet – HermèsSphère – was rolled out. This new intranet provides information on life at the House several times a day, gives everyone access to collaborative tools and can be set up to provide each person with the right amount of information.

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 corporate strategy where ethics, compliance and proper business conduct are the pillars and guardians of a responsible

and sustainable performance. Thus, the Hermès Group's code of ethics, the code of business conduct (available at <https://finance.hermes.com>), the anti-corruption code of conduct, and the whistleblowing system provide to employees the framework to follow. 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 2.8 "Ethics and compliance".

Diversity is also an ingredient in the House's success, and takes different forms. The EVE programme spotlights women's leadership. For the third year, the Group disability agreement has exceeded its targets.

2.2.1 CHALLENGE: THE WELL-BEING AND DEVELOPMENT OF EMPLOYEES

The durability of the House rests on the men and women who contribute to its functioning and development. It is therefore essential to create the conditions for their well-being and development. Hermès is very demanding when it comes to the quality of its employees' working conditions and strives to enable each employee to work, develop and fulfil his or her potential and to give meaning to his or her actions, not only by safeguarding health and safety, but also within a pleasant working environment, whether at production sites, in stores or in offices. Achieving this objective involves various initiatives to improve the quality of life at work and reconcile professional and personal life, and which are most demanding and vigilant in the areas of health and safety at work.

2.2.1.1 POLICY

The Hermès 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. This policy is applied by the top management of the Group's métiers and subsidiaries. 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 its employees in the Group's long-term growth through generous programmes. As regards employee benefits, all employees are protected against the major risks of everyday life. Benefits cover the risks of mortality (accidental and all other reasons) and long-term illness, but also medical and maternity care, and retirement.

2.2.1.2 MEASURES IMPLEMENTED AND RESULTS

The diversity of the Hermès Group's métiers, from sales to production, to support functions, involves managing extremely different issues. Consequently, the Group's vision of health, safety and working environment issues involves adapting to the specificities of its activities and to local differences.

Hermès is very well ranked by Glassdoor during these two years (1st and 2nd employer respectively, according to the employee satisfaction).

In 2018, the Group human resources department launched a Health and Well-Being initiative based on a review conducted through an internal survey amongst all employees on a multi-year basis in France. The questionnaire, designed by the INRS (National Institute for Research and Safety) and the University of Lorraine, enables employees to anonymously express their feelings on various topics relating to physical and mental health, stress, the work environment, activity and organisation.

In 2019, 13 sites were involved in this approach, representing over 3,800 employees, who participated actively in this survey with a response rate of 83%. This response rate is very high and reflects high employee satisfaction.

More specifically, 88% of employees stated that they enjoy their work, and 82% stated that they are happy at the Company. In addition, 83% said they envision themselves being in the same position in two years with a similar level of health. A sizeable majority believes that the content of their work (81%) and employment relationships (89%) play a role in their sense of satisfaction. A large majority finds interest, usefulness and variety in their work, and are satisfied overall with the responsibilities they are given. Since the initiative began, 24,600 verbatim accounts on employees' likes or dislikes in their jobs have been recorded. The content of the duties is the chief asset when it comes to attachment to their work: employees like their jobs and often speak passionately about them. The areas for improvement cited relate to workload, the physical environment and fatigue, for example. Nevertheless, two-thirds of physical environment situations received satisfactory ratings.

Since the initiative was launched in 2018, a total of 6,292 employees at 21 sites have taken part, representing 66% of the workforce in France. Similar initiatives have also been rolled out in Europe, China, the United States and Japan. A total of 2,889 employees in these four geographical areas also had the opportunity to share their opinions on all topics relating to health and well-being at work. These questionnaires were sent to a total of 64% of the Hermès Group employees.

Following this diagnostic phase, the French sites set up an Observatory of Health and Well-being at Work. This determines the priorities and lines of work and coordinates the action plan via working groups, working with the Management Committee and the Health, Safety and Working Conditions Commission (CSSCT) (Commission Santé Sécurité et Conditions de Travail) of each site. The work themes selected locally are varied: time management, fatigue and physical well-being, warming-up/stretching, hazard management, repetitive strain injury (RSI), emotion management, communication, etc. Recurring themes that may fall within the Group's field of action have been identified and are dealt with in parallel on a collegial basis. Long term, this Observatory remains a reference point in the prevention and identification of risk situations relating to health or well-being. Similar approaches of analysing well-being at work, explained below, are carried out within our retail subsidiaries.

For a number of years, Hermès has also developed a policy to prevent workplace accidents, occupational illnesses and repetitive strain injury, as well as an active policy to maintain employment and prevent people being unable to work, based on a number of awareness-raising campaigns (nutrition, physical activity, etc.).

Lastly, in order to prevent the risk of road accidents during business or personal travel, a Group program has been prepared to set up a multi-year plan of practical training and awareness-raising workshops being rolled out in France.

Industrial activity

Since 2003, the industrial affairs department has been leading a Health, Safety and Environment (HSE) network comprising HSE managers from the House's different *métiers*. With around 20 members, this network 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. They go beyond simple regulatory compliance whenever necessary to aim for true well-being at work. Each *métier* has specific needs as regards working conditions, so it is logical for each one to create its own particular arrangements.

The *métiers* conduct their actions within a budgetary framework, but any useful improvement in occupational health and safety conditions, and also for environmental issues, is financed off-budget if necessary. As the Hermès Group produces 61% of its objects in Hermès exclusive and internal workshops, these actions have a significant impact on the entire value chain.

External controls

Since 2002, HSE audit cycles at the 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 Hermès Group's environmental reporting is also used to coordinate the follow-ups to these audits and monitor changes in environment, health and safety regulations, with the assistance of a specialist external body.

Leather Goods division

The Leather Goods division has the objective 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 site.

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 audits 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. This manager monitors the progress plans defined with his management in accordance with the Leather Goods & Saddlery divisions' policy. The HSE manager deals with everyday occupational Health and Safety matters, working closely with the cross-functional teams (maintenance, occupational health, etc.).

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.

In order to structure the approach, a Health and Safety at the Workplace roadmap was developed by the Hermès Group management and is based on six strategic areas for 2018 to 2022:

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

With this in mind, 26 action plans, covering all leather goods workshops, were piloted in 2019.

One of the priorities of this roadmap is the fight against repetitive strain injury (RSI). Among the 2019 initiatives, it is worth highlighting the roll-out of new tools to reduce physical stress in strict compliance with *savoir-faire*, as well as the implementation of an innovative protocol using new technologies to measure the bio-mechanical impact of each gesture made by craftspeople on a daily basis. For the second consecutive year, the ergo-motricity module, whose objective is to better prepare the body and to accompany the demands inherent in the specific activities of the saddler and leather worker, was used and given to 890 craftspeople. For the record, there are assistance systems (exoskeleton) in place in some workspaces that require it.

Moreover, in 2019, special attention was given to the prevention of workplace accidents linked to interventions by outside companies on leather goods sites. New methodologies were developed and more than 75 Leather Goods & Saddlery division's employees were trained through a two-day module.

Among the many actions implemented to protect the health of employees and external workers, individual support by a network of partner physiotherapists is offered to craftspeople suffering from detrimental pain or discomfort in their professional or personal life, within a preventive or corrective framework. In 2019, more than 1,150 craftspeople followed these individualised 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 craftspeople before

and after the programme). As an example, the craftspeople who followed this programme saw an average 16% increase in the range of motion of their shoulders.

A long-term occupational health approach has been built with a network of experts at national level, through a training module introduced in 2015 called "A Body for Life" which aims to disseminate a better understanding of one's body. This module was given to all craftspeople at the production units and to the employees of the support functions (more than 3,800 employees). It constitutes the founding step in a commitment to healthy living every day. Each new employee joining the Leather Goods & Saddlery division follows this module: 234 people took this module in 2019.

Several local events allow employees to get involved in health and safety issues. For example, a "Health & Well-being" week was carried out at the three production units of the Franche-Comté division, focusing on three areas: Prevention, Nutrition and Physical Well-being, with 10 different workshops (yoga for eyes, SOS hands, vitamin boost, nutrition, etc.) presented to all employees. At the production unit in Sayat, a health day included a shiatsu workshop, a conference on sleep, screening for visual impairment issues, and a round table on diet.

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. For example, stretching and muscle-building courses, the provision of masseurs (leather goods site in Nontron) or the organisation and constitution of teams to take part in local sporting and charitable events. Equally, each leather goods site offers muscular awakening sessions or compensation exercises at the start of and during work.

Lastly, actions to improve the machine fleet, which began in 2014, are continuing, with noise reduction as a major objective. 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. In 2018, a soundproofing system for digital cutting equipment was introduced on the Pierre-Bénite site, making it possible to reduce the ambient noise level, for the artisan cutter, by 7 dBA in the spectral bands between 1,000 Hz and 4,000 Hz. In 2019, it was rolled out in five other leather goods sites.

Workbench lighting, which contributes to reducing the visual fatigue of craftspeople, and thermal comfort management in workshops are also two issues central to the concerns of the Leather Goods division's workshops and benefit from substantial investments.

Tanning and Precious Leathers division

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. These actions are overseen by dedicated Environment, Health and Safety (HSE) officers at each production site, with the support of Site Managers. 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 external advisers in the safe transport of hazardous goods. They are responsible for helping prevent risks to people, property or the environment.

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.

These training sessions complement the risk prevention initiatives carried out by site management teams as well as the various initiatives to improve working conditions carried out during the year. By way of example:

- ◆ improved workspace ergonomics with modifications to production equipment (e.g. mechanically driven dry hide hooking and unhooking devices) or testing of exoskeletons in order to facilitate the carrying of loads;
- ◆ roll-out of long-term occupational health programmes with "Pro RSI" approaches (Repetitive Strain Injury), in collaboration with regional Carsats (*Caisse d'Assurance Retraite et de la Santé au Travail*), and training modules by physiotherapists on the prevention of RSIs;
- ◆ improved machine fleet safety;
- ◆ improved air collection, extraction and renewal mechanisms in the workshops;
- ◆ reduced noise pollution in workspaces;
- ◆ regular communication campaigns on site;
- ◆ improved safety on sites when renovating buildings.

This year, all tanneries continued to optimise the management of chemicals and the substitution of certain substances in order to not only take into account but in particular to anticipate future developments REACH (Registration Evaluation Authorisation and restriction of CHemicals) regulations, POPs (persistent organic pollutants), biocides, etc.) as well as programmes to measure employee exposure to certain chemical agents.

In addition, performance criteria for occupational health and safety at work are included in the tanneries' incentive scheme agreements in order to underline their importance and to support team motivation.

Farms (United States and Australia)

Actions relating to environmental, health and safety issues are steered by local management teams, assisted, if necessary, by specialist consultants. They also benefit from the expertise of the Tanning and Precious Leather division's industrial department.

Furthermore, in order to strengthen the safety culture and the prevention of occupational risks on livestock farms and processing sites, external audits with specialised consultants and the widespread roll-out of "safety moments" by management were introduced in 2019.

During the year, livestock farms continued their work on assessing occupational risks, creating operational instructions, training employees, designing work and storage areas, managing chemicals, formalising controls or holding meetings to raise awareness of HSE issues.

Textile division

2019 was a year for the sector to consolidate the changes initiated since 2017. The new organisational structure puts the office manager and local coordinator at the core of HSE projects, thus allowing everyone to be an actor and driver of progress at their own level and take on HSE topics and champion them with confidence. In order to strengthen this organisation, the workforce has evolved, with two new nurses at Société d'Impression sur étoffes du Grand-Lemps (SIEGL) and for ITH/HTH as well as the appointment of an HSE officer for the HTH establishment.

HSE network half-days are organised every six months to bring together HSE coordinators and Site Managers to discuss progress and difficulties and share any new strategic directions. During these meetings, the establishments assess their level of adherence to the HSE charter for the sector in order to determine future priority areas of work.

The sector's HSE charter enables sites to have a clear vision of the key rules and fundamental values to be developed in order to improve their performance in terms of safety and the environment. It is based on four fundamental pillars:

- ◆ strengthening and anchoring the HSE culture through training days for Management Committees and establishment managers, and by workshops to exchange ideas with teams. Various complementary actions have been implemented within the establishments: safety information points, integration of Health and safety criteria into incentive scheme plans, display of best practices, postures and golden rules;
- ◆ risk management and control: the sectoral prevention plan was reviewed and improved in 2019. It is based, notably, on chemical risk assessment software used on all sites in the sector, audits carried out by an external firm, the involvement of insurers who also participate in risk anticipation, and an external consultant for the transport of Hazardous Materials. Training or awareness-raising activities were provided during the year and the sector offers awareness sessions on life-saving gestures to employees other than Workplace First Aiders;

- ♦ control of regulatory compliance: monitoring the compliance of equipment and machinery in the sector was the priority for 2018/2019. In September 2018, all site directors and maintenance managers were brought together to set up a joint action plan for the long-term monitoring of the upgrading of this equipment. The first stages of the project took place in the first half of 2019: completion of an exhaustive and shared inventory, drawing up of all control reports by an external body, identification of any anomalies. The second phase consists of dealing with each of the possible cases of non-compliance and drawing up a single equipment tracking document. More broadly, a monthly digital newsletter on regulatory changes and significant innovations has been developed with the HTH monitoring unit and is distributed to all HSE players;
- ♦ RSI prevention (Repetitive Strain Injury): the sector works with physiotherapists and ergonomists who have made a major contribution to the development of workspaces (assistance in handling printing frames at Ateliers Gandit, redevelopment of storage and picking areas at ATBC and Créations Métaphores, modification of schedules and optimisation of production flows at the AEI site). Numerous other local initiatives have made it possible to limit employee exposure and improve the ergonomics of their workspaces (handling equipment and trolleys, tracks, hoists, posture review, height-adjustable desks, etc.).

Home

At CATE, as part of a renovation project at the Nontron production unit in Périgord, all activities were transferred to a temporary site. When the activity resumed after the move, a new HSE reception desk was set up for all employees to support the change.

At Beyrand, the global HSE action plan, implemented in 2018 to update the main regulatory files, was continued with various measures aimed at strengthening safety in terms of fire protection, compliance of the machine fleet, improvement of individual and collective protective equipment, and highlighting of risks.

Furthermore, a new "Inkjet on Leather" printing line was set up in 2019 with strong HSE support, from the development work stage (prevention plans, partial asbestos removal, declaration of modification to an ICPE – Installation Classified for Environmental Protection) to the launch of production (machine specifications and compliance, job descriptions and operator certification).

Among the priorities and actions carried out by the *métier* in 2019 to continue to improve health and safety conditions for its employees, it is worth highlighting the following:

- ♦ development of the HSE culture: through numerous actions to mobilise management and train operators;
- ♦ RSI prevention (Repetitive Strain Injury): continuation of work to improve workspace ergonomics, and RSI risk training in all of the division's companies;

- ♦ limiting the exposure of employees to hazardous chemicals: research into substitute products (study launched at Beyrand on screen cleaning solvents during printing operations, significant reduction in ethanol consumption in the finishing division workshop at CATE), improvement of storage in accordance with the recommendations of the insurer and ICPE regulations (Beyrand), air quality monitoring campaigns (at Beyrand, as a result of measures taken since 2017, employee exposure levels have been significantly reduced to an average of around 10% of the Occupational Exposure Limit Values), as well as chemical risk training on the shop floor (CATE).

Cristallerie

Management's commitment to health, safety and the environment is formalised in a policy. In 2019, HSE topics at the Cristallerie Saint-Louis were coordinated by a safety facilitator, a nurse, an environmental engineer, and a technical Health, Safety and Environment manager.

In 2018, the Cristallerie Saint-Louis launched a diagnostic process with the help of an external consultant. This diagnostic involved all the company's employees and the conclusions were submitted at the end of 2019. It resulted in the preparation of a roadmap that will be rolled out in 2020.

Several initiatives to improve working conditions were implemented. The most significant are the renovation of the composition workshop, the renovation of the "paperweight" workshop, the installation of ergonomic workspaces for packaging customer orders, the improvement of restrictive and repetitive operations in the hot-part sector, assistance in carrying loads and the reduction of lead exposure. A "lead committee" was set up on this theme, made up of workshop managers, members of the Health, Safety and Working Conditions Committee, the HSE team and the company's management. As regards the regulations relating to arduous working conditions, production units are still affected by the "alternating shift work" factor, in particular the fusion workshop and the tailoring workshop.

The update of the chemical risk assessment of the production units made it possible to specify the level of exposure of certain homogeneous exposure groups (HEG). A sampling campaign carried out in June revealed the positive results of the actions previously carried out and made it possible to identify additional actions to be implemented (vacuuming of workspaces in the "hot-part" workshop, optimisation of process settings, suction dedicated to the "cold-part" sanding workspace, new operating instructions for raw materials from the composition workshop, etc.).

Perfumes

In 2018, CNP began to set up an integrated management system (IMS) based on ISO Quality, Safety and Environment standards in order to improve the reliability of risk assessment and control in all departments of the organisation. This IMS is supported by the industrial department of CNP and brings together all employees around a common company project. As part of its implementation, 15 employees were trained on the IMS (ISO 9001, 14001 and 45001) and BPF (Best Manufacturing Practices) standards and the audit methodology, with the aim of acting as internal auditors.

The main actions carried out in 2019 were the definition and communication of a QSE policy associated with objectives defined according to four pillars: the quality of products and services, the quality of life at work, the safety of installations and transportation, environmental concern.

As every year, all employees underwent training in the handling of fire extinguishers. In addition to annual refresher courses, an initial training session was held to recruit new Workplace First Aiders.

The launch in January 2019 of a new activity (the cosmetics workshop dedicated to the production and packaging of bath products), was accompanied by work on topics related to BMP (Best Manufacturing Practices) requirements, in particular on flows (materials and personnel) and changing and hygiene measures. All employees were trained in these new rules.

Actions to promote well-being at work include: the launch of an initiative to improve the quality of life at work for all employees through a survey on psychosocial risks and disorders. This work will lead to the organisation of focus groups and proposals for action. CNP has also embarked on the development of a Mobility Plan aimed at analysing current employee practices and reducing and optimising the use of private cars by proposing alternative solutions (provision of five electrically-assisted bicycles, participation in the setting up of a future inter-company car-sharing platform). To improve everyone's comfort, soundproofing work was carried out in the company kitchen and restaurant, the floor of the perfume packaging workshop was covered with antistatic tiles, and a changing room with air lock and a communication area were added.

Among the health and prevention actions, the nurse has set up seated massages and, as a tobacco addiction specialist, offers personalised support to employees who wish to stop smoking.

Furthermore, CNP continued its efforts to improve existing facilities with regard to the Atex risk (explosive atmospheres) and the ventilation of premises, to reinforce sprinkler installations and to modify the Fire Safety System.

The Jewellery division, faced with strong growth, has launched a major project on workspaces to invent new ways of working and creating, while prioritising quality of life at work, health and safety.

Retail operations and other functions

Support

In order to promote a better balance between personal and professional life and to ensure the right to disconnect, an awareness-raising campaign entitled "Find time – making good use of e-mails and meetings" was rolled out in France. Based on a communication kit, this approach aims to help define common communication methods, rethink the format of meetings and allow everyone to save time. Aware of employees' housing difficulties, Hermès signed a national agreement in 2019 with "*Mieux loger vos salariés*" (Better housing for your employees). Various

measures are offered to employees in order to provide the best possible support for their daily work. At Pierre-Bénite, a concierge service has been making life easier for the Leather Goods and Textiles divisions' employees for several years. At Hermès Femme, "Friday Free Time" continued with 10 monthly sessions open to all employees on a variety of themes (philosophical and cultural conferences, culinary workshops, yoga, massages, etc.), reaching a total of more than 500 participants.

Distribution

At Hermès Distribution France, a training module entitled "Balance and Energy", piloted by 27 employees, provides guidelines and fundamentals for understanding stress levels and identifying limits. In the same division, in order to promote relaxation among sales associates, 150 massages given by blind people were offered in seven stores. At the initiative of the subsidiary's sustainable development ambassadors, wellness briefings have been organised in certain stores (initiation to meditation, breathing exercises, stretching, etc.).

In Spain, an internal study analysed the operating methods of the stores and headquarters to identify the levers for a better work/life balance, and resulted in the granting of two additional days of leave.

Massages were also introduced in December at Hermès Benelux Nordics to support the heavy workload inherent to this period.

In Germany, an occupational health programme is rolled out through various actions.

Within Hermès Distribution Europe, a Europe-wide commitment survey led to the creation of working groups on various topics. A right to disconnect campaign is also being rolled out there. Organic and seasonal fruit baskets are also offered regularly.

Hermès Of Paris, in the United States, as part of a global vision of well-being, ensures physical, mental and financial fulfilment through various yoga programmes, meditation, self-defence classes, flu shots, and a "health fair" in New York (nutrition, aromatherapy, ergonomics, fruit and teas, massages, mini-seminars, etc.). In October, a month dedicated to the health and well-being of employees, the subsidiary co-finances any individual action taken in this regard.

In Japan, all employees have a mandatory annual medical check-up (exceeding regulatory requirements). They were also asked to participate in two surveys. The first was on their commitment to work (94% response, 718 employees) and the second, already conducted in 2018, on managing stress in the workplace (98% response). Yoga classes are offered in many departments and relaxation areas have been introduced in offices.

Construction

In 2019, the Hermès Group initiated a process aimed at gradually providing all occupied buildings with air quality that guarantees concentrations below the levels recommended by the WHO in respect of the main pollutants.

In China, the Hermès stores in Shanghai IFC, Xiamen, Qingdao Hisenze Plaza and Harbin Charter are the first in the country to be equipped with systematic pollutant measurement systems and high-performance air filtration systems, enabling a reduction of approximately 90% in incoming particles.

In 2018, an office building in Paris was collectively redesigned. This new location was an opportunity to introduce a pro-active approach to “well-being”. The building houses 166 employees from the digital teams, sales departments, real estate, sustainable development, general services, the Fondation d'entreprise Hermès and Cultural and solidarity action.

The aim was to design the space in such a way as to make it a pleasure to come and work together in the offices, and to ensure that the building serves the organisation. Co-development workshops on well-being were held to:

- ♦ identify what the employees needed to feel well, and their answers showed that they expected warm materials, colour, spaces to meet, and unique spaces;
- ♦ define how furnishings could help them in their daily work and their responses called for more flexible, personalised spaces that respond to the diversity of uses, with particular attention paid to furniture and IT tools.

The aim was therefore to make offices a living space. In the HQE renovation-certified building, the refurbishment took into account:

- ♦ local sourcing, the furniture and fittings are made in France;
- ♦ the use of recyclable materials, including wood from the fair trade sector;
- ♦ eco-actions: responsible management of energy (LED lighting, presence detectors) was put in place with general affairs department, together with waste sorting and collection, a “zero paper” approach facilitated by shared printers, and recycling (with some office accessories designed from leather recovered offcuts).

In order to make the collaborative approach comprehensive, a feedback questionnaire was distributed among users five months after installation. Overall, 90% of employees expressed general satisfaction with the new workspaces, 84% were proud of their new spaces, and 93% considered that the objectives had been achieved.

Organisation of working time and schedules

Each entity manages its working time in compliance with the applicable regulations 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 worldwide work full time; there are 779 part-time employees. The Hermès Group respects working-time limits and minimum breaks for the various activities and in line with local regulations.

Various working time flexibility schemes have been established. For example, for leather goods, (47% of the workforce in France), craftspeople organise themselves at each workshop according to flexible schedules. Many production units benefit from flexible working hours,

giving employees more versatility, for example allowing parents to pick up their children from school (Sayat). These time slots are extended in the event of external constraints (heatwaves, strikes, etc.).

Agreements on flexible working hours (Beyrand) and the introduction of individualised flexitime (Hermès Commercial) have been signed. At CATE, it is possible to accumulate working hours to benefit from additional days off. In addition, an agreement allows senior employees and people with disabilities to be exempted from overtime.

In order to take into account the impact of staggered working hours at certain production sites, a Sleep and Food training course has been provided at ATBC. Following the introduction of 2x8 working shifts, group feedback with an occupational psychologist was encouraged at AEI.

Given that 84% of employees are either craftspeople or work in stores, teleworking is less significant than in other industries. It is examined on a case-by-case basis, according to need, particularly in France. In Switzerland, teleworking is regularly used by half of the employees at headquarters, within a limit of three days per month. In England, teams also benefit from home office opportunities.

At Hermès Of Paris, all employees with more than 10 years' seniority are now eligible for five weeks' vacation.

In Asia, subsidiaries such as Hermès Asia Pacific encourage employees to take time off and ensure that they do not accumulate overtime. A “Well-being” program is also offered to employees there, as well as in Taiwan. In South Korea, annual training is provided to limit the risk of burnout. Bearing witness to this, Hermès Asia-Pacific was awarded the “Caring Company” for the second year by the Hong Kong Council of Social Service in recognition of its socially responsible employer practices.

In Japan, working hours are monitored monthly and employees whose cumulate too much working hours are offered an appointment with the subsidiary's doctor. Relaxation rooms have been set up at the Tokyo headquarters, and a relaxation room was set up this year at the Tokyo Shinjuku Isetan store. Employees are encouraged to take time off work, with a minimum they must respect.

Social dialogue

It is Hermès' policy to constantly ensure that it implements and guarantees both qualitative social dialogue and freedom of expression for its employees. This involves both collective bargaining and daily participation by employee representatives in various projects and is essential to the functioning of the Hermès Group's various companies.

In France (62% of employees), social dialogue is organised on a company-by-company basis, through representative bodies and through agreements signed each year. In other countries, dialogue takes various forms, depending on local customs and regulations. The Hermès Group's code of ethics confirms Hermès' commitment to the conventions of the International Labour Organization (ILO), especially with regard to the freedom of association. In all the countries concerned, the policy is to ensure that the principles of freedom of association and collective bargaining are implemented, in compliance with local regulations. Hermès does not interfere with these fundamental employee rights.

With regard to retail operations, labour relations are supervised internationally by Human Resources Directors in the regions (or countries, depending on the size of local markets), who ensure compliance with these principles, local regulations and the application of the Hermès Group's code of ethics.

In France, 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 Hermès 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 2019, in addition to its annual meeting, this committee met several times to engage with the Hermès Group's labour relations department as part of a process to renew social dialogue. The aim of this initiative is to better support employee representatives in the exercise of their mandate in order to make them known and recognised partners. After initially working on the barriers and levers related to the various mandates, anonymous questionnaires drawn up on an equal footing with the members of the Social Dialogue Monitoring Committee were sent to all employee representatives (full and alternate representatives), managers of representatives and a panel of employees. The results of these questionnaires will make it possible to set up working groups in early 2020 to provide answers to the concerns and difficulties identified. All of these proposals will serve as a basis for the discussions undertaken in the framework of the renegotiation of the Hermès Group agreement on social dialogue and the exercise of trade union rights. Meanwhile, all companies concerned set up their SECs (Social and Economic Committees) on December 31st 2019, taking into account the reality of the organisation of the various divisions or sites. This tailor-made approach has made it possible to structure things differently according to the needs and social and operational realities of each entity. The Social and Economic Committee has replaced the elected employee representatives in the Company. It merges all the employee representative bodies, Employee Delegates, Works Council and the Health, Safety and Working Conditions Committee.

Social dialogue in France is also nourished by the annual meeting of the Reflection and Exchange Group on Healthcare Costs, a forum for dialogue set up on a voluntary basis to allow constructive exchanges on the balance and evolution of the healthcare cost regime applicable within the majority of the Group's companies.

In the various French companies, social dialogue also involves permanent 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 2019, more than 100 agreements and amendments were signed (including a Group agreement on setting up a purchasing-power bonus) 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 (SEC).

The vitality of social dialogue at Hermès was recognised on June 28th 2019 by the Ministry of Labour during a day-long event dedicated to "Successes in social dialogue". On this occasion, which was devoted to highlighting innovative agreements, Hermès was invited to speak with its union representatives about the innovative and empowering way in which its Group agreement on Disability was negotiated with all of its trade unions.

Sharing economic values

Compensation

The Hermès Group's employees compensation policy is ambitious and is based on a wide range of individual and collective compensation tools. This policy includes both short-term items and benefits, through fixed salaries, individual and collective bonuses, paid holidays and profit-sharing, and long-term items and benefits, such as employee shareholding plans granted to all Group's employees worldwide, as well as post-employment benefits (retirement benefits, supplementary pension schemes, etc.). Hermès' employees compensation policy is part of the fight against forced labour, by systematically complying with the requirement to issue a pay slip at regular intervals, explaining all legitimate deductions, and prohibiting the payment of recruitment fees paid by employees regardless of their location in the world.

Compensation levels within the various entities mainly reflect the skills and *savoir-faire*, level of responsibility and the needs of the subsidiaries and the local employment and compensation markets.

The Hermès Group's policy, both in France and abroad, is that all its employees should receive compensation that is at least equal to the local minimum. This is the case whenever required by law, and at the discretion of each country's Director of Human Resources when this is not the case.

Every year, the Hermès Group provides its subsidiaries with budgetary guidelines for compensation growth that take into account both inflation and changes in compensation levels in local markets. Particular vigilance with regard to compliance with the principle of gender equality and possible discrepancies with the market (internal and external) is systematically recommended for the performance of salary reviews. Specific budgets are granted if adjustments are necessary.

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.

Moreover, in 2019, the Hermès Group wanted to recognise the contribution of all employees to its excellent results on a daily basis through additional and exceptional measures:

- ♦ a general revaluation of €100 gross per month was granted to all 8,800 French employees; and
- ♦ an exceptional bonus in support of purchasing power amounting to €1,000 was paid to all eligible employees within the meaning of the French law, according to the agreement signed with the labour partners;
- ♦ eligible employees of foreign entities also benefited from equivalent measures with the payment of a bonus of up to €1,300, implemented in accordance with local customs and legislation.

| <i>In millions of euros</i> | 2017 | 2018 | 2019 |
|-----------------------------|------|------|------|
| Total payroll | 639 | 695 | 777 |

The Hermès Group's payroll (excluding profit-sharing and incentive schemes) was €777 million in 2019, compared with €695 million in 2018, plus €242 million in social security charges.

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

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 Hermès Group in a harmonised manner.

Incentive agreements are also in place at each French Group companies. These agreements, concluded for a period of three years, aim to involve employees in 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, as well as sustainable development objectives.

In France, €87.3 million was distributed in incentive and profit-sharing schemes, and €3.2 million in employee support activities, compared with €81.6 million and €3.5 million in 2018 respectively.

| <i>In millions of euros</i> | Incentive schemes | Profit-sharing | Total |
|-----------------------------|-------------------|----------------|-------|
| 2017 | 26.1 | 44.6 | 70.7 |
| 2018 | 33.4 | 48.2 | 81.6 |
| 2019 | 34.2 | 53.1 | 87.3 |

Employees of foreign entities (38% of all Group employees in 2019) also benefit from a range of regular additional compensation initiatives in line with performance and local customs.

The compensation paid to Corporate Officers is shown in chapter 3 of this document.

1. Subject to fulfilling the eligibility criteria, in particular in terms of seniority.
2. Condition of uninterrupted seniority on the date of grant.

Other employee benefits

Hermès, the vast majority of whose employees work in OECD countries, applies at the very least regulations on working hours and minimum wages in compliance with ILO conventions.

In addition to the fixed and variable compensation paid to employees, the Hermès Group provides health insurance and welfare benefits not only in France but also in other countries where it operates.

In 2019, the Hermès Group put a comprehensive maternity policy in place, which includes maintaining full basic pay for at least 16 weeks' maternity leave and covering 100% of maternity-related healthcare costs.

In terms of social protection, the Hermès Group's policy is to encourage the implementation of voluntary coverage that supplements the required legal schemes, based on local market practices.

Furthermore, several years ago, Hermès set up a supplementary defined-contribution pension plan under a collective agreement for all eligible employees¹ in France. This plan enables employees to build up individual savings for retirement. It represents a total volume of €6.7 million in contributions, over 90% of which financed by the employer.

In addition, for the Hermès Group as a whole, as detailed in Note 28 of the consolidated financial statements, the Group's total commitment in terms of post-employment and similar benefits was €288 million in 2019.

Employee shareholding plans

Faithful to its family tradition and wanting to involve all employees worldwide in the Group's medium- and long-term growth, Hermès has historically implemented several employee² shareholding plans, notably free share plans in 2007, 2010, 2012 and 2016.

The desire to recognise the commitment of employees, who are key to the success and outreach of the House, by sowing the seeds of its long-term success and cultivating the exceptional *savoir-faire* preserved and developed within the Hermès Group, led Executive Management to decide to set up a fifth free share allocation plan on July 1st 2019 (pursuant to the authorisation granted by the Combined General Meeting of Shareholders of May 31st 2016, in its 15th resolution). Under the 2019 collective plan, each eligible employee² throughout the world thus received rights to free shares.

All of these plans send a single message to 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 Hermès Group strategy;
- ♦ to acknowledge the contribution made by all employees, whatever their role, 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.

Moreover, the free share allocation plans implemented in 2019 were aimed at more than 13,000 Group employees across all of the House's entities around the world and involved a total of 500,544 shares. In order to promote, on the one hand, the loyalty of employees over the medium and long term, and on the other, collective performance, these plans are accompanied by:

- ◆ vesting periods of at least four years;
- ◆ conditions of presence;
- ◆ performance conditions (for a portion of the allocation).

The Hermès Group's ambition is to continue to associate all its employees in a unique way with its corporate project by strengthening employee shareholding with the award of five free share plans since 2007. The vast majority of employees who become shareholders through these employee shareholding plans keep their shares well beyond the mandatory vesting and holding periods (in France, where applicable). At the end of 2019, more than 80% of employees held rights that were vesting. Accordingly, they continue to be involved in the Hermès Group's governance and operations over the long term, in a spirit of mutual trust with the House.

Sharing corporate values

A pillar of Hermès' coherence and uniqueness, this desire to share values, which strengthens the sense of belonging and enhances understanding of the business model, is driven by three main challenges: facilitating adherence to the corporate project, informing and enriching the employee experience, bringing the culture to life and driving collective dynamics.

Facilitating the adherence of employees to the corporate project

Hermès International designs a number of internal communications initiatives with the aim of mobilising people around a vision of transformation and accompanying projects in the craftsmanship and retail divisions, as well as in the *métiers* and support functions. On these important occasions, recognition of each individual's contribution is emphasised, thereby reinforcing pride in belonging to the Hermès Group. Some 2,500 French employees were brought together in this way in Paris in June for a Forum H.

In March 2019, the Hermès China Forum brought together 500 employees from North Asia in Chengdu to share the Group's 2018 review and its development ambitions, as well as the region's major achievements and projects.

In 2019, a seminar in Athens brought together more than 200 people involved in the creation and collections' development. The aim was to unite them around Hermès' vocation as a creative house and around the new challenges in the collection development process.

Support

Each month, Hermès Commercial offers "Les Mardis d'Hermès Commercial" lectures on topics related to the division's activity in order to closely involve the teams. A quarterly plenary session provides an opportunity to present the division's results and to highlight current projects. Within the division, programmes such as "Discovering Hermès Commercial" and "Logistics from A to Z" give employees a broader view of the activity in which they work. The division also hosted 22 people from Hermès Distribution France teams for a day.

Every year, Hermès Services Groupe invites all its employees, i.e. over 200 people, to the "Printemps des Services" seminar, an important opportunity to share the life of this division, whose mission is to make life easier for operational departments by offering them a wide range of services. In addition, Hermès Services Groupe shares information with its employees through quarterly plenary meetings.

Craftsmanship and métiers

In 2019, the Leather Goods & Saddlery division celebrated the laying of the first stone of the Maroquinerie de Guyenne, the 30th anniversary of the production unit in Pierre-Bénite, and the 100th anniversary of the Ganterie de Saint-Junien, in the presence of one or more members of the Executive Committee and the division's Management Committee. In the Textile division, which organises an annual luncheon for new managers, Holding Textile Hermès celebrated the laying of the first stone of the Passerelles project, a programme to redesign the premises dedicated to the teams in charge of running the sector in Pierre-Bénite. Ateliers AS took advantage of the *Fête des imprimeurs* to celebrate the seniority of 33 employees. Furthermore, two internal newsletters promote the sharing of information with employees: "*Papier de Soie*" for the ITH site, which brings together the companies Gandit and SNC in Bourgoin Jallieu, and "*L'imprimé des terres froides*" for SIEGL. Within the Tannery division, the Tannerie d'Annonay allows craftspeople in the shoes of another craftsman to discover their *métier*, thereby fostering discussions and mutual understanding of the other's world. In Montereau, the tannery and the new leather goods site work closely together to streamline information channels. The managers of the Montereau and Vivoin workshops regularly travel to their respective sites to nurture their expertise and practices. Every month, Hermès Femme brings all employees together for a general information meeting. The subsidiary also organises a monthly luncheon for new employees to meet with the managers of the *métiers*. Lastly, an annual day to share and explore the division's *métiers* brings together all of the employees. The Perfumes division ensures that internal information flows smoothly, in particular through three annual information meetings. The end of 2019 was marked by a meeting in Paris with all Pantin and Vaudreuil employees, a total of approximately 400 employees. Twice a year, the Watches division brings all its employees together in Bienne to present its strategy, projects and events, and new product launches. In addition, the subsidiary publishes the newsletter "*Au fil du temps*" twice a year, distributed to all employees. The Hermès Chaussures Italie site, a 4,000 m² workshop dedicated to the development and production of prototypes and samples of shoes, as well as the manufacture of certain models, was inaugurated on June 19th and welcomed 80 members of the Hermès family in October. The team at the petit h division celebrated its 10th anniversary together in Paris. Finally, the Home division brings the teams together every six weeks for a communication morning.

Retail

In France, Hermès Distribution France employees participate in Opentime@HDF, a quarterly event that offers a time for dialogue and cultural openness for all, with conferences followed by discussions. Hermès China organises four meetings a year to launch in-house projects, celebrate the two traditional Chinese festivals and thus cultivate a sense of belonging. Members of the employees' families are also involved in the life of Hermès through "H Family Day": for the second edition, in 2019, 200 participants in Shanghai attended a festival of

music played by employees. Hermès Asia-Pacific has set up the “HR in Touch” programme, which enables each member of the human resources team to experience sales to gain a better understanding of the retail métiers, and to be available on the ground to answer employees’ questions. Hermès Asia South encourages exchanges between store managers through the “H Change” programme, through which they can enrich their practices by drawing inspiration from those of another team or market, while enhancing their own experience of retail and team leadership. The “Happy culture” internal communication system is designed to recognise the loyalty of employees who have been working directly with customers for more than 10 years. In 2019, 37 employees were celebrated.

Every month, the Hermès GB subsidiary brings its employees together for a “What the Hermès?” breakfast during which each department informs the others of what it is doing.

The annual Hermès Of Paris meeting was held in New York over a day and a half. It brought together 700 employees from all over the country for a moment of sharing and celebration. Particular attention was given to people who were newly hired or promoted during the year.

Hermès Italie’s Hermès Day brought together 165 employees for a day that was entertaining, cultural and focused on the subsidiary’s results, with discussions on the present and the future.

Hermès Russia maintains close ties with its employees through round-table discussions with the sales teams.

Bringing culture to life and animating collective dynamics

Each year, 80 craftspeople from the different divisions in France are invited to discover the new collections presented at “podium” (an internal trade show attended by all the store managers and the métiers presenting their collections). This is an opportunity for them to develop their understanding of the House, complemented by a visit to the Conservatoire des Collections Hermès, the Collection Émile Hermès and the Faubourg Saint-Honoré store.

In March, 800 employees from the Paris region, as well as horse-riding enthusiasts from sites in the provinces, were invited to the Saut Hermès and were able to attend the first rounds of the competition.

In December, 2,500 French employees were invited to a large party at the Centre Pompidou. It was an excellent way to bring people together and recognise their achievements. On this occasion, 124 employees were celebrated for their 25, 30, 35 or 40 years’ seniority in the House (long-service medals).

Informing and enriching the employee experience

It is key for Hermès, in a context of strong growth that risks leading to compartmentalisation of departments, divisions and subsidiaries, to foster and cultivate cross-functionality through exchanges within activities to ensure quality relationships are forged between people and that the work they undertake is meaningful. These events, communication resources and networking operations concern all métiers.

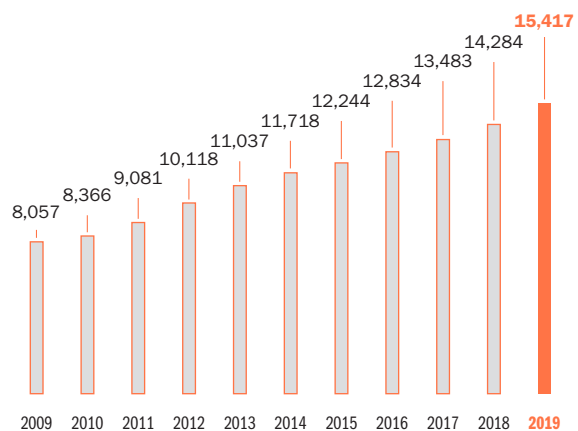
HermèsSphère, the intranet launched in autumn 2018, has spread the news of its arrival widely. This entry point enables more rapid access for employees to tools that save time and boost work efficiency. As a place that presents the Hermès Group’s organisation, métiers and professions, it helps to integrate new hires. News articles are published there every day in order to involve employees in the life of the House in real time. With the launch of the Mobile Application in January 2019, access to HermèsSphère has been expanded. A registration portal has been made available to craftspeople, who are gradually discovering the platform.

In 2019, Hermès of Paris also joined the HermèsSphère ecosystem with the introduction of local editorial content aimed at American employees.

Lastly, newsletters published to keep employees informed of their subsidiary’s latest news include Hermès Iberica’s quarterly newsletter *Hpeople* and Hermès Australia’s *Flash* real-time service.

2.2.1.3 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 nearly 91% over the last 10 years, the Group’s global workforce totalled 15,417 people as at December 31st 2019.



Employment

The Hermès Group created a net 1,133 jobs in 2019, including 676 in France. As has been mentioned, the Production sector saw the most growth, with the creation of 481 additional jobs (323 in 2018), in order to increase production capacity and to protect *savoir-faire* and sources of supply, closely followed by the Retail sector, with 388 additional jobs created (310 in 2018).

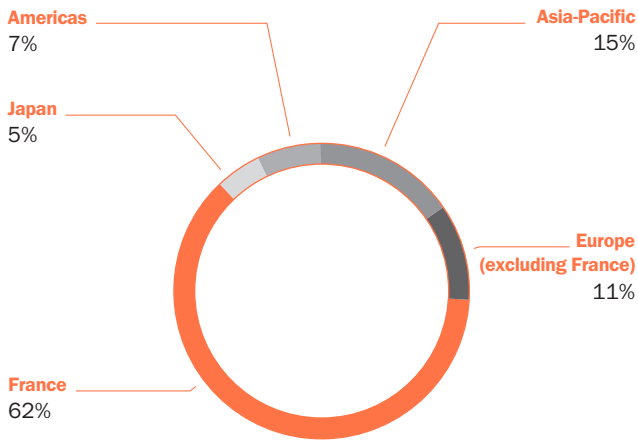
Employment creation was significant in existing production regions, particularly in the South-West, Savoie Dauphiné and Franche-Comté divisions, where two new leather goods facilities were opened.

The last 10 years have not required the Hermès 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 193 people in 2019 (91 in 2018).

The seven new stores in Tokyo Niigata Isetan (Japan), Orlando (United States), Phuket Floresta (Thailand), New York Meatpacking (United States), Xiamen (China), Stuttgart (Germany) and Warsaw (Poland) contributed to headcount growth in 2019.

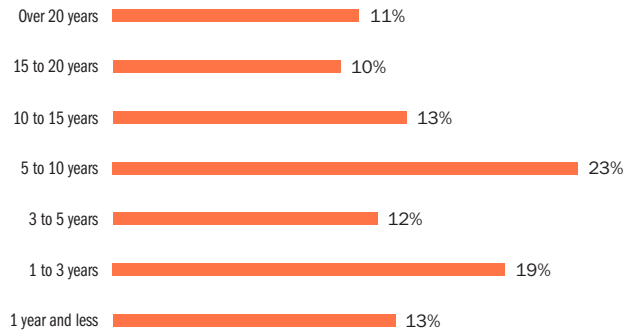
Hermès ambition is to ensure jobs security recruiting as much as possible permanent contracts. Concerning employee turnover, the total number of dismissals represented 1.3% of the Group's average global headcount.

BREAKDOWN OF JOB CREATIONS BY GEOGRAPHICAL AREA



Seniority pyramid

Average seniority is nine years and 44% of the Hermès 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% (4.1% in 2018). 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 or 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 understand 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. These specific action plans consist, for example, in adapting workspaces, or putting in place preventive measures aimed at enabling pregnant women to remain in employment, if they so wish, until the start of their maternity leave (see gender equality chapter 2.2.2.2).

Workplace accidents

The diversity of the Hermès 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 are a key priority for all of the House's managers.

In 2019, the frequency rate of workplace accidents with stoppage for the Group as a whole stood at 10 for a severity rate of 0.45. 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 14.35 with a severity rate of 0.71, compared to 12.37 and 0.55 last year. Our industrial workforce represents 68% 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 4.3 and the severity rate was 0.11.

Leather Goods division

In the Leather Goods division, the frequency indicator for workplace accidents with and without stoppage in relation to activity improved by 3% between 2018 and 2019.

A study is carried out with an analysis of the causes, and the conclusions 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.

Textile division

The Textile division ended financial year 2019 with a frequency rate (rolling 12 months) of 12.32 and a severity rate of 0.86. These results spur efforts to continue vigilance by increasing cross-cutting communications on the number and nature of accidents. Currently, each significant incident is thoroughly investigated, leading to corrective actions. In due course, these actions will be shared among sites so they can all benefit from each other's experience. Lastly, the recent roll-out of the new accident and occupational illness management software offers all sites a single system to declare and share this data, which will allow us to monitor and communicate our accident rate accurately.

2.2.2 CHALLENGE: MAINTAINING DIVERSITY

Maintaining diversity in terms of people and talents is the foundation of the House's wealth and creativity. The Hermès Group is committed to the principles of recognition and respect, irrespective of one's origin, gender, family situation or *métier*. The diversity policy is overseen by a member of the Executive Committee in charge of Governance and Organisational Development. It is based on the values and ethics of the House and on the actions overseen by the Group's human resources department.

2.2.2.1 POLICY

The Responsible Employer policy implemented in the Hermès Group aims to further actions to enhance the development of its employees', the foundation of the House's economic performance. Attaining these two interlinked 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 employees in all their diversity by developing practical actions in favour of vulnerable people, in particular those with disabilities or the long-term unemployed, senior workers, and people from visible minorities or disadvantaged neighbourhoods and areas.

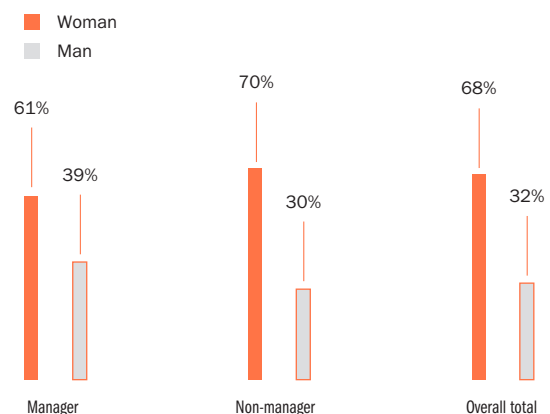
The policy consists of establishing conditions that provide equal opportunity in terms of recruitment and employment, under its various components, and refraining from any form of discrimination. You are reminded that, under French law, this means avoiding any situation in which, on the basis of origin, gender, family situation, pregnancy, physical appearance, particular vulnerability resulting from a person's economic situation, apparent or known, name, place of residence or bank domiciliation, state of health, loss of autonomy, disability, genetic characteristics, morals, sexual orientation, gender identity, age, political opinions, trade union or mutualist activities, exercise of a local elective mandate, ability to express themselves in a language other than French, membership or non-membership, real or supposed, of a particular ethnic group, nation, race or religion, a person is treated less favourably than another is, has been or will be treated in a comparable situation. These elements are adapted in the subsidiaries in accordance with applicable laws.

2.2.2.2 MEASURES IMPLEMENTED AND RESULTS

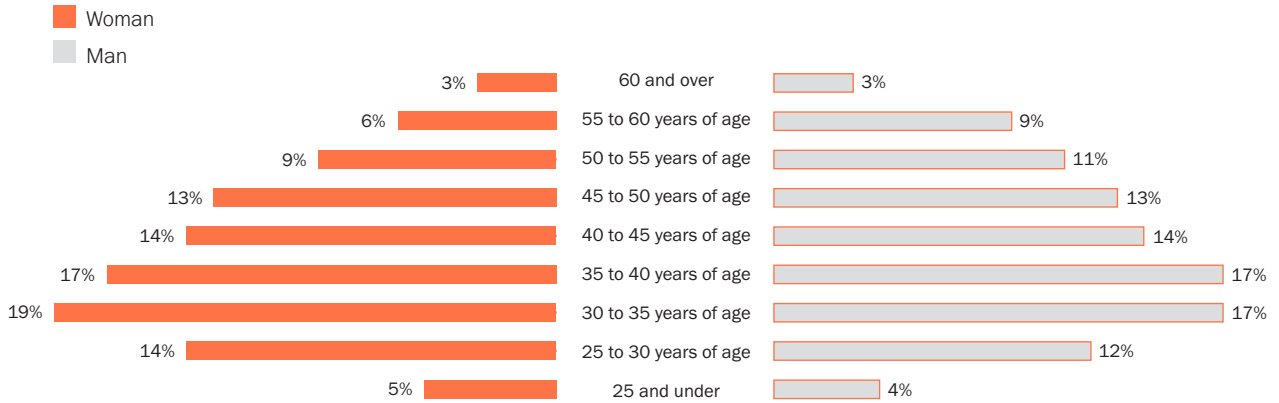
Diversity management

This respect for differences is presented to the employees in the code of ethics, formalised in 2009, that serves as the guarantor of objectivity, equal opportunity and promotion of diversity without discrimination in recruitment, career development and daily management.

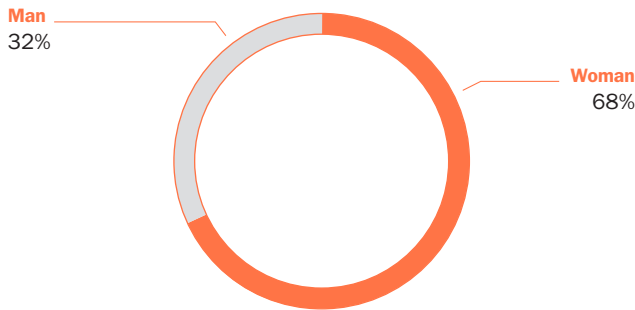
GENDER BREAKDOWN BY CATEGORY (MANAGERS/NON-MANAGERS)



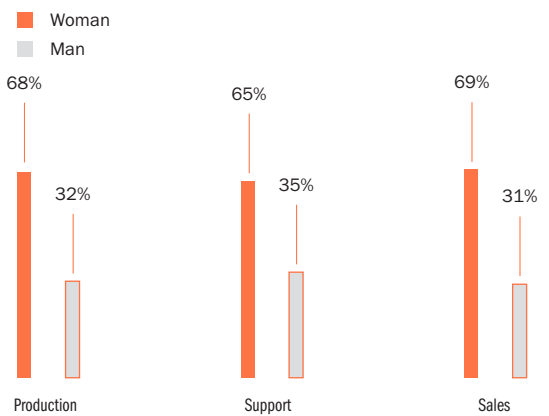
AGE PYRAMID BY GENDER



BREAKDOWN BY GENDER



BREAKDOWN BY GENDER BY SECTOR



To develop responsible management, the “Alterego” training programme highlights the richness of diversity for the company and thus reinforces fair management in access to employment and career management. Started in 2017, this programme continued in 2019 with 12 one-day sessions for 153 divisional and local managers from all entities in France. The objective is to involve them in a responsible employer culture by prompting several discussions about disability, religion, gender equality and inter-generational management.

Social diversity

Employee recruitment respects profile diversity wherever Hermès operates. To foster this diversity, certain sites work with specialised partners. Holding Textile Hermès chose Open Emploi, which specialises in employment diversity, as its partner to hire long-term job seekers and senior workers. Ateliers AS uses the Alterego programme to support its managers in terms of inclusion in its workshops. At the Leather Goods division and CATE, recruitment is only carried out through aptitude tests and not using CVs, a system which favours a diversity of profiles.

In the United States, all Hermès Of Paris employees receive diversity training. In 2019, 715 of them were trained in “Understanding unconscious bias” and 192 managers were trained in “Overcoming unconscious bias in the workplace”. To raise awareness of and prevent harassment in the workplace, Hermès Of Paris has placed harassment awareness modules online. These modules have been taken by 522 employees and 196 managers (the subsidiary employs 876 people). This pilot training will be used as a base for the roll-out of similar training on an international scale.

In the Retail Europe division, teams that are multicultural in terms of nationality are multiplying. The Hermès Italie team took part in a Diversity Day to recruit people from diverse backgrounds.

Gender equality

Gender equality is one of the fundamental principles promoted by the Hermès Group. Special attention is paid to equality, particularly in the awarding of equal pay for equal work and ensuring equal opportunities at all levels of employment. Training is provided to management and the subject is specifically addressed in the framework of human resources department meetings.

The gender equality index was created in 2019 to eliminate gender inequality in the companies. In companies with more than 250 employees, it is calculated based on five indicators: the gender pay gap, the gap in the breakdown of individual pay increases, the gap in the breakdown of promotions, the number of employees receiving pay increases upon returning from maternity leave, and parity among the 10 highest packages. At Hermès, in the scope of relevant companies, the weighted average of the pay equality index is 94 out of 100. The indices of the different companies fall into a range between 79 and 100. The index of the holding company, Hermès International, is 99 out of 100; this is the same as for Hermès Sellier, which has the largest workforce.

The Hermès Group is largely made up of women (68%), who are represented at all hierarchical levels (54.2% in top management positions - see chapter 3.3.2.4) and in all activities. The Hermès Group's policy is to guarantee a total non-discrimination in the treatment of its employees.

In early 2019, Hermès harmonised its international maternity leave practices by defining a minimum maternity leave period of 16 weeks, maintaining 100% basic pay and making 100% coverage of childbirth expenses available to all employees in addition to those paid by public bodies.

In order to develop women's leadership, 19 managers in France and 26 Hermès managers in Europe and Asia (chosen because they were identified as employees with potential) benefited from the EVE programme in 2019: 12 women in 2019, compared with seven in 2018. The proportion of women identified as Talents and able to benefit from internal mobility was deemed satisfactory. Among Future Leaders, 11 internal transfers were made, including seven women, and among Confirmed Talents, 23 internal transfers were made, including 13 women. These are potential employees called upon to take on high level positions in the organisation over the long term and identified in the biennial Talent review, a process steered by the Group and conducted locally by the human resources departments alongside Managers.

In France, agreements or action plans relating to professional equality have been renewed with various provisions such as the granting of rest days for parents or spouses with a seriously ill child or spouse, the authorised absence of the future mother's spouse for mandatory examinations, and the implementation of parenting interviews upon return from paternity or maternity leave.

At the Watches division, an internal survey on gender equality was conducted. Hermès Suisse offers each pregnant employee a meeting with a midwife to discuss her rights, best practices and recommended postures.

At Holding Textile Hermès companies, pension contributions for part-time employees are paid by the employer on a full-time basis and parents are authorised to be absent from work in the event of serious illness of the child (for up to 10 hours per week), to be adjusted in agreement with their manager. Women in managerial roles and positions of responsibility at production sites benefit from personalised coaching support.

At Hermès Sellier, in addition to the crèche in Pantin for the children of employees, the number of additional crèche places reserved by Hermès International and Hermès Sellier has increased in Paris, Pantin and Lyon to facilitate work-life balance (more than 60 places reserved instead of 40 last year, enabling employees to benefit from places in inter-company crèches).



94 / 100*
**in the gender pay
equality index**

* global index of weighted averages

Disability

Hermès has long been committed to integrating people with disabilities into its different *métiers*. Thus, the first Disability agreement was signed in 2017 with all the representative trade unions within the Group. For 2018-2020, Hermès set itself the ambitious goal of increasing its use of socially supported organisations by 20% per year, and the target was met in 2019.

The Hermès Group's Disability agreement team joined forces with a network of 12 Disability Officers in each *métier* (Textile, Leather, Crystal, Perfumes, Home, Women, Hermès Services Groupe, Hermès International, Hermès Commercial, Hermès Distribution France) to help all sites make progress in integrating and maintaining the employment of those who are temporarily or permanently disabled. The network of Disability Officers meets on a regular basis to share best practices, visit sheltered work establishments (Esat) and promote skills development. In 2019, the network received training on mental disabilities from Club House, an association that works to combat the stigmatisation and isolation of people with mental disabilities and facilitate their social and professional reintegration.

This overall mobilisation around disability in France was recognised twice in 2019 by the Ministry of Labour, with participation in the Successes in Social Dialogue Day for the co-construction methods used for the Disability agreement, and then during the disability workshops organised as part of the "France, a chance, companies commit" operation.

After an initial year that saw the employment rate of people with disabilities rise from 3.99% to 4.93%, Hermès continued its efforts in 2019. The 2019 employment rate was 5.68%.

The employment rate (excluding the various reductions that can be applied) is based primarily on a direct employment rate of 4.90% compared with 4.21% in 2018 and 3.51% in 2017. The overall employment rate, including reductions, is 7.48% exceeding the legal threshold of 6% at the Group level, as in 2018.

In 2019, taking into account the results achieved, Hermès reaffirmed its efforts and its commitment to disability issues by allocating a matching contribution in excess of €0.15 million per year to enable the Hermès Group's Disability agreement team to continue its work over the three years of the agreement with the same budget.

In 2019, the Hermès Group's Disability agreement team took part in 10 employment forums dedicated to disability. Discussions have begun with Défense Mobilité and Cabat – *Cellule d'aide aux blessés de l'armée de terre* (Aid Unit for Wounded Army Personnel) to develop the reclassification of injured soldiers. The three-year partnership with Sciences Po Paris on the Accessible programme dedicated to students with disabilities continued.

The commitment to 20 permanent contracts initially set for December 31st 2020, the date on which the first Disability agreement expires, was reached in 2019 with the hiring of 13 people with disabilities, in addition to the nine new hires made in 2018. The Leather Goods division accounts for the majority of these permanent employment contracts, in view of the volume of annual recruitment, but also of management's objectives and the adoption of the Simulation Recruitment Method (SRM).

The Fitolieu site, a production site and training school for the Savoie Dauphiné division, is particularly involved. The multi-year partnership with the Ohé Prométhée association made it possible to organise two recruitment sessions in 2019 dedicated to people with disabilities, each bringing together around 30 participants and with the presence of a French sign language translator. Each of the two sessions resulted in the integration of two people with disabilities. This same partnership enabled SNC to organise a dedicated recruitment session and to integrate a person with a disability into the intake of seamstresses.

The integration of different types of disability provides opportunities to improve the training of managers, tutors and colleagues, such as the DIS plan (for DISORDER, all specific cognitive disorders and the learning disorders that accompany them) rolled out at the Leather Goods division – Pantin to promote the integration of a young work-study student.

On a day-to-day basis, workers provided by EAs/Esats contribute to various activities (cutting, order preparation, logistics, security, concierge services, mail dispatch, etc.) at various *métiers* (Hermès International, Hermès Services Groupe, the Leather Goods division, the Perfumes division, etc.). These collaborations provide opportunities to encourage new long-term hires.

In 2019, over 40 employees completed their initial disability recognition process, bringing the total number of employees with disabilities to 516 full-time equivalents, compared to 362 in 2018. 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. Over 50% of the Disability agreement budget was devoted to workspace adaptation, the financing of individual equipment or the granting of Cesu compensation for people with disabilities.

The Handi'Cap 2019 Forum, organised by the House at the Espace Jean Louis Dumas in Pantin, brought together, around 12 themed booths, around 100 internal stakeholders, all of whom are essential levers for the effective implementation of the Disability policy.

Nearly 28 "duodays" were organised, inviting a change of perspective by welcoming a student with a disability for a day to help him or her discover a *métier*. The Perfumes division and Cristallerie Saint-Louis were particularly involved in this nationwide initiative, which enabled people with disabilities from outside the Company, whether job-seekers or from Esat-type support structures, to spend a day sharing the daily lives of employees and thereby discovering the behind-the-scenes workings of production or support *métiers*.

In November, the European Week for the Employment of People with Disabilities provided an opportunity to organise various events to change perceptions and combat stereotypes. Numerous events were held at sites in France, enabling employees and by extension their families to learn more about disability (Christmas market with products made by Esats at Hermès Commercial, inspiring lectures by Dorine Bourneton, a disabled aerobatics pilot, lectures by Equiphoria on the benefits of equine therapy for people with disabilities, massages given by the visually impaired, etc.).

The members of the SECs of Cristallerie Saint Louis, Ateliers AS and the Tannerie du Puy benefited from training on disability.

The Perfumes division's Vaudreuil site took part in World Down Syndrome Day in March.

At Hermès Distribution France, in order to better welcome people with disabilities in the stores, sales associates were trained to better take into account the specificities related to each type of disability, with the acquisition of *savoir-faire* and interpersonal skills for reception, accessibility and safety on the premises.

Hermès also supported the co-financing of three training courses (€5,000) in office automation *via* the HandiPlume training centre, enabling 30 EA/Esat workers to receive a professional certificate (PCIE and Facilitexte).

In Italy, a specific programme for the integration of people with disabilities was set up in the Milan and Rome stores, while disability awareness actions were carried out at the Cunéo Tannery.

The Prudhomme brothers – master craftsmen and instructors

Promoting the emergence of craftspeople 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 craftspeople. 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.

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

People are critical to our sustainability project and the initiatives conducted by the Hermès 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. This coverage is the subject of a specific reflection and discussion group on healthcare costs. This body, set up on a voluntary basis, enables constructive discussions on the balance and development of the healthcare cost regime applicable in the majority of the Hermès Group’s companies. Lastly, in addition to the fixed and variable compensation paid to employees, the Hermès Group also offers health insurance and welfare benefits, not only in France but also in the other countries where it operates.
- ◆ 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 RSIs (repetitive strain injuries), in order to prevent and reduce the impact of occupational illnesses.



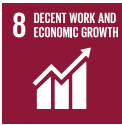
No. 4: Quality Education

- ◆ 4.5: “Eliminate gender disparities in education and ensure equal access, including for people with disabilities”.
Helping people with disabilities access and retain employment is a major issue. With the signature in France of a Group agreement for 2018-2020, Hermès set itself the ambitious goal of increasing its use of socially supported organisations by 20% per year. This target was met in 2019. As part of social dialogue in France, an agreement was signed on gender equality in 2019. In addition, during salary reviews, compliance with the principle of equality is systematically executed. Lastly, specific training in diversity management has been provided since 2017.



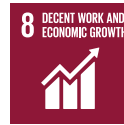
No. 5: Gender equality

- ◆ 5.1: “End all forms of discrimination against women”.
Women represent an important part within the Hermès Group (68% of employees). At Group level, women managers represent 61% of employees.



No. 8: Decent work and economic growth

- ◆ 8.5: *“Achieve full and productive employment and guarantee equal pay for work of equal value”.*
The Hermès Group contributes to job creation, especially in France. The Hermès Group 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 Hermès 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”.*
Partnerships and agreements with schools make it possible to recruit future employees, while welcome sessions for schoolchildren and students within the various entities are opportunities to present the diversity of the *métiers*.



No. 8: Decent work and economic growth

- ◆ 8.7: *“Ethics and fundamental commitments to human rights and labour organisation”.*
The Hermès 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 HSE network. The production facilities, in the OECD area, are very demanding on these topics. Surveys have been carried out as part of the well-being approach, in collaboration with professionals, so that employees can express their feelings on the related themes. The results are used to set up corrective working groups.

Passing on *savoir-faire* with trainers and mentors

2



© Photographer: Benoît Teillet

2.3 PEOPLE: SAVOIR-FAIRE

Introduction

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

This commitment to employee training is reflected in all *métiers*. For production and distribution activities, training programmes are tailor-made and rolled out locally (regional hubs, subsidiaries) or by the Group in Paris (ExLibris University). This can be seen 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, and the recognition of the qualifications gained through on-the-job training ¹, experience validation ² and diplomas (CAP, etc.).

In the Leather Goods division, where the transmission of culture and *savoir-faire* is of vital importance, a network of specialised *métier* trainers has been created. It holds regular meetings where trainers exchange new techniques on the transmission of knowledge. In all French regions where Hermès opens leather workshops, partnerships are immediately forged with local schools so that training in the *savoir-faire* linked to the *métier* can be combined with hands-on practice. For the distribution activities, Retail Academies help sales associates, store managers and support teams develop both their product expertise and their customer relationships skills. From a cross-cutting perspective, 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. *Savoir-faire* must be combined with *savoir-être*.

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

1. Professional qualification certificate.

2. Validation of acquired experience.

2.3.1 CHALLENGE: RECRUITING TALENTS

To grow, Hermès needs to be able to strengthen its teams in all *métiers* in the short and medium term, from craftspeople, sales associates and producers to experts in cross-functional functions, namely IT, supply chain, finance, human resources, legal and digital, etc. In the coming five years, Hermès' workforce could increase from more than 15,000 to 20,000 employees and the Hermès Group is preparing for this scenario.

In this context of sustained growth in activity, the House's sustainable development rests on its ability to recruit people who will be able to express their talents throughout their careers. Their profiles, expertise and *savoir-faire* will be essential in supporting the House's development. That is why Hermès pays particularly attention to relationships with schools and keeps a very close eye on recruitment. The goal is to enable new recruits to fit harmoniously into the Company's long-term project and contribute effectively to its activities.

2.3.1.1 POLICY

Recruitment is managed by each *métier* and subsidiary to ensure the perfect match with the local context. 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 Hermès Group hopes to make applicants more aware of the *métiers* and the uniqueness of the House, attract candidates who believe in the business model and its values and will then be able to select the best profiles, capable of feeling at home within teams for a long time.

2.3.1.2 MEASURES IMPLEMENTED AND RESULTS

Employer brand

Hermès' image given as an employer is as important as the one transmitted by its objects, stores and services. The employer brand serves to attract the best applicants, who will make a lasting contribution to the House's development.

In 2019, Hermès gave its employer brand a new identity. In tight job markets in most of the countries where Hermès operates, the challenge is to strengthen its visibility and better enhance the sources of its attractiveness. That is what allows Hermès to grow and also to change. Driven by the success of its collections and growth in demand, it needs to be able to keep pace with the increase in the activity.

That is why the new employer brand identity conveys the message “All artisans”. The aim is to express the idea that all Hermès employees embody an artisan spirit, one that contributes by the creation of a beautiful object with humility, passion and the love of fine work to making customers’ dreams a reality. This identity places the value of the men and women of Hermès in their authenticity, while highlighting the fact that they create objects crafted from high-quality materials. In addition to the two main channels – the Hermès career site and the Hermès LinkedIn page – communication materials have been developed to promote the new employer brand in school forums, recruitment fairs and applicant interviews.

A two-week nationwide communication campaign was rolled out in France in the autumn of 2019, with the ambition of enhancing Hermès’ appeal as a recruiter of talent, as well as its legitimacy as a creator of social value. It was aired in the national press through double page spreads in *Le Monde* and *Le Figaro*, but also in the regional daily press (*Le Progrès*, *La Montagne*, *l’Est Républicain*, *Sud-Ouest* and *Normandie*) to highlight the Company’s local roots. The campaign was also widely aired in the Facebook and LinkedIn social networks and in targeted media in the areas of News, Business, Culture, Entertainment and Music through video clips. It generated nearly 6,200 clicks on LinkedIn and attracted more than 473,600 unique visitors, a good performance spurred by the videos, which received a high level of engagement.

Throughout 2019, Hermès managed its presence on LinkedIn in a selective but more intensive way, through 86 posts. This resulted in the doubling of the number of followers, from over 285,500 to more than 475,750, over the year. The year’s posts dealt with such subjects as the opening of manufacturing sites, store openings and renovations, recruitment events, relationships and partnerships with schools, initiatives for the disabled and more. LinkedIn was behind more than 1,800 recruitments in 2019. The number of applications received via the network rose to more than 276,800 (up from nearly 153,000 in 2018). Lastly, the Hermès LinkedIn page logged more than 432,800 visits (up from nearly 309,200 in 2018).



In December 2019, Hermès once again ranked among the best employers, coming second in Glassdoor’s rankings, the sole representative of the luxury industry. This ranking (Glassdoor) covers companies with more than 1,000 employees and more than 20 employee reviews on each of the eight attributes. A mark of recognition of

the quality of working life in the Company in terms of management, pay, applicant experience and benefits, Glassdoor is a job platform widely seen as the “Google for jobs”, which aggregates the job offers of certain job boards and corporate 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.

Hermès also received the prize for the best employer, raking third in the luxury industry – in the Epoka-Harris Interactive ranking prepared with input from students and young graduates. Lastly, Hermès Australia was named “Best Retail Employer of the Year” in the Retail world.

In 2020, Hermès will continue its employer communication initiatives with events on a larger scale aimed at facilitating a dynamic recruitment activity.

An initiative revolving around five pillars has been mapped out and involves articulating the employer promise, which is backed by tangible elements and benefits for candidates.

Relations with schools

Hermès maintains close relationships with the world of education, driven by both its duty as a responsible company contributing to the training of young people and the need to welcome young people to round out their classroom training with practical experience.

The House opens its doors to many classes of students to let them see the workshops and a store and to give them an overview of Hermès in order to promote and underscore its reality as a responsible employer.

Relationships with schools are focused mainly on art schools and those teaching the artisan *savoir-faire* that has a place at Hermès, but on a very broad spectrum taking into account the diversity of activities and *métiers* practised within the Hermès Group.

This approach also symbolises the House’s determination to maintain a close dialogue with the rising generations. Work will continue to nurture these relationships. The Hermès Group’s materiality analysis also involved these representatives of future generations. Lastly, the screenings of the *Empreintes sur le Monde* (Footsteps across the world) series of films is a special time for intergenerational exchanges.

Support

In 2019, Hermès continued its partnership with HEC. This gave rise to numerous initiatives, including presence at a student forum in March, a student-led study on meaning at Hermès, an assignment offered to students of the Entrepreneurs Master’s programme and participation in a panel.

The partnership with Sciences Po Paris also continued, resulting in practical meetings with students with disabilities, the recruitment of interns and work-study students.

Local initiatives including a human resources/Manager breakfast with students of the Finance Master’s programme and events held for students of the Marketing and Communication Master’s programme gave body to the House and helped share living testimonies of our actors.

Sponsorship of the IAE Gustave Eiffel Innovation Luxury and Design Master 2 programme was the opportunity to open the doors to a class of 30 students, allowing them to discover the Pantin leather workshops and the Faubourg Saint-Honoré store and to interact with alumni of their school now working at Hermès.

The Group artistic department team maintains close links with leading art schools in their respective fields. It uses practical initiatives to pursue the goal of identifying young talents for future collaborations and supporting them in their learning journey through case studies and by opening up the world of Hermès creation to them. In 2019, a group of students from the Penninghen school in Paris was tasked with conjuring up a “Dream showcase and showcase dream”, consisting of creating a season’s decorations for the windows of the George V Store in Paris. Students from the Accademia Belle Arti also designed display cases called “The sky in the room” to mark the Milan International Furniture Show. In 2019, students from the same school proposed “The dream collector” display cases for the Venice store to mark the Art Biennale. Students from Ecal in Switzerland worked on the design of watch faces, sponsored by graphic designer Philippe Apeloig. A proposal for a communication event was imagined by students from the Colbert Chair-ENSAAMA.

Craftsmanship and métiers

Hermès was present at the Forum CentraleSupélec in Paris with the aim of presenting its manufacturing division and its more than 55 production units – 43 of which in France – and enhancing the attractiveness of the careers that can be offered to engineers in this industry-come-artisan universe. Job and internship offers aroused great interest. In addition, a group of managers held a half-day for first year students at Centrale Paris, giving them mini case studies. The session’s aim was to give students a window on to the multidisciplinary nature of the world of business and the design of products and services, and to make them aware of the scientific and technological barriers around processes (innovation, design, production, logistics, etc.).

The Leather Goods & Saddlery division is continuing existing partnerships and forging new ones with vocational schools Jean Rostand (Angoulême), Boismard (Brionne), Casanova (Givors) dating back 30 years, Boudard (Montbéliard), Desaix (Saint-Eloi les Mines) and a new CFA in Bordeaux (Le Vigean in Eysines). It has opened a professional baccalaureate in leather goods with the Flora Tristan vocational school in Montereau to promote new leather goods creation. A professional certificate featuring a cutting option has also been launched at the lycée Jean Monnet in the Paris region. It also took part in the local Savoie-Dauphiné system of the Local Business Schools Committee organised with two lycées in Bugéy. In Franche-Comté, a qualifying training course in cutting was created in partnership with École Boudard.

The Leather Goods & Saddlery division also supported the Manufacture programme piloted by the Fondation d’entreprise Hermès, which aims to introduce children and adolescents to the *métier* of crafts by showing them how to manufacture an object in several stages. This support was reflected notably in talks by craftspeople to several middle and senior school classes in the Paris region, Lyon and Franche-Comté, and by the

hosting of classes on certain sites of the Savoie-Dauphiné, South-West and Franche-Comté divisions.

The textile division maintains close links with the lycée Aubry, ITECH, the Cepitra textile school, lycée La Martinière Diderot, lycée André Paillot and ENSAIT.

The Tanning and Precious Leathers division has approached the IUT Chimie du Mans to launch a Young Tanning Technician Programme and ITECH to present the Young Tanner Programme, a 24-month course to integrate young chemical engineers, broken down into four sequences of six months, in four different tanneries.

As part of the partnership undertaken by the Perfumes division – at the instigation of Christine Nagel – and École Supérieure du Parfum, a creative project was entrusted to the 38 fifth-year students of the “Creation and Management of the Perfume Industry” Master’s programme. The chosen theme was “When the world of selective perfumery goes green: (re)invent the world of perfume of tomorrow!”

Hermès Femme contributed to the overhaul of the IFM/Haute Couture Syndical Chamber’s programmes for fashion workshop *métiers*.

Crystallerie Saint-Louis continued its collaborations and partnerships with training establishments preparing students to work in the artisan *métiers* of crystal glass making (lycée Jean Monnet in Yzeure, lycée Dominique Labroise in Sarrebourg, European Centre for Training in Glass Arts in Vannes le Châtel), notably by hosting students on internship and apprenticeship contracts.

Retail

To hire reinforcements for the summer and the end-of-year festive season, Hermès Distribution France holds collective recruitment sessions. These sessions, held in unique venues, are also an opportunity to present the House and the subsidiary, its values and its history, and to offer an opportunity for networking between the applicants and the store teams. In 2019, events held in Paris, Nice and Lyon resulted in the recruitment of 67 seasonal employees. The subsidiary also took part in the recruitment forums of the Essca, Ieseg, Isefac and IFM management schools.

The Retail division, international by nature, carries out various initiatives with students around the world. Hermès of Paris has established a partnership with the Luxury Education Foundation, a non-profit organisation that offers exchanges and meetings with industry leaders. The Foundation works closely with Columbia Business School, Parsons School of Design and the Hong Kong University of Science and Technology. Hermès Mexico has established a partnership with IES de Moda and Casa de Francia to offer internships to some students and recruit others.

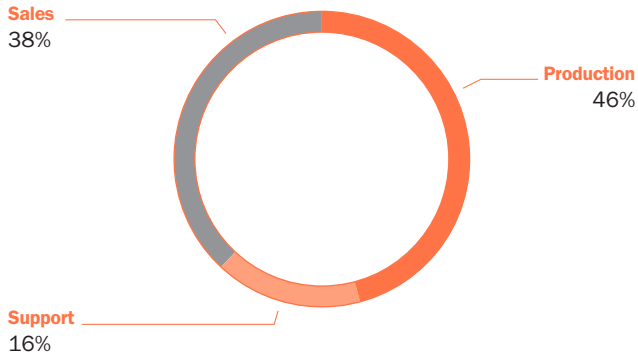
Hermès GB has established a four-day programme consisting of bringing in eight students to familiarise them with the subsidiary, its activity and its stores.

Hermès Asia-Pacific welcomed 50 students to a job campus, which helped fill sales positions.

Recruitment

When recruiting, a particular focus is placed on the personality of the candidate: a sense of teamwork, a spirit of curiosity, a commitment to quality and attention to results are key criteria because they play a determining role in the future employee's ability to bring something to the corporate project while participating in the strong team spirit that informs the internal experience.

RECRUITMENT BY SECTOR



Recruitment activity was particularly strong in 2019.

The careers website was revisited in 2019 to adopt the new employer brand identity:

<https://www.hermes.com/fr/fr/story/221096-hermes-employeur/>. In 2019, 2,019 job offers were posted (up from 1,710 in 2018), testifying to the vitality of activity, in which 888 permanent employment contracts and 1,131 fixed-term employment contracts, work-study contracts and internships were proposed. The site registered more than 175,500 applications in 2019 (up from nearly 150,000 in 2018). 826 hires – all jobs combined – were made *via* the website (compared with 721 in 2018).

The Hermès employer site attracted more than 677,000 visitors to the offer pages in 2019, up from nearly 535,000 in 2018, an increase of 27%.

Support

Hermès Commercial organised collective recruitment sessions for interns and work-study students for the customer services department, a first *Handi'mat* collective recruitment session in a spirit of inclusion and collective sessions to recruit logistics operators. The human resources department, in charge of recruitment for Hermès Sellier and several subsidiaries in France, also established collective recruitment sessions to select and recruit trainees and work-study students.

The Hermès IT systems department recruited more than 40 people in 2019, notably through a recruitment campaign designed to attract scarce profiles in a market experiencing hiring difficulties.

Several subsidiaries are revisiting the way they hire people in order to create a sense of closeness and firmer bonds with applicants and to establish the relationship in a shorter time.

Craftsmanship and métiers

The Leather Goods & Saddlery division took part in several fairs and forums, including the Charente recruitment forum, the recruitment fairs in Evreux and Val-de-Reuil, Bugey Expo, the Pont-de-Beauvoisin job forum, the World Trades Fair in Lyon, the Art Trades Fair in Belley and Portes du Cuir in Saint-Junien.

Collective recruitment sessions accompanied the hiring of trainees for the Leather Goods division's Central Services.

The Textile division launched a Provisional Management of Jobs and Skills process dubbed "Outlook" to prepare for the 109 departures anticipated by 2022. It features project structuring, individual interviews with each potential retiree, data analysis, a support plan and early recruitments to ensure transmission and tutoring. Two project groups are working to redesign the training course for Printers and to organise "quality control". They will entail 30 hirings by 2022.

The segment participated in the 1000 Entreprises pour l'Emploi forum in Lyon. Société Novatrice de Confection (SNC) participated in the Périgueux job forum.

Again in this segment, the engineers' incubator continues to recruit and train junior engineers, who are offered in-house immersion courses to ease them into fixed positions and prepare them to take over from future retirees.

The Perfumes division invites students looking for internships to Pantin twice a year. In 2019, 140 students immersed themselves in the universe and experienced the company's managerial culture first hand. Around 60 trainees were recruited in this way.

In its recruitment policy for craftspeople, Cristallerie Saint-Louis uses the services of Pôle Emploi to find staff living near the town of Bitche. After the pre-selection stages carried out by Pôle Emploi and then the human resources department, job seekers join the production unit for a period of immersion in the professional environment governed by an agreement with Pôle Emploi. This immersion allows Saint-Louis teams to assess the applicants' aptitude for the *métier* in terms of the requisite skills. For applicants, the process is a means of confirming their projection on to a new professional path. As of November 18th 2019, 25 agreements had been signed, leading to the signing of seven employment contracts.

Retail

To recruit reinforcements for the end-of-year holiday period and for the summer period in seaside resorts, Hermès Distribution France brought together shortlisted candidates in Paris, Lyon and Nice. Meetings of this nature are opportunities to identify future talents who could join the House.

Hermès Distribution Europe innovated by using the Easyrecrue tool to carry out on-demand video interviews, thus putting modern methods into practice. Language tests were also conducted by the tool Easyspeaking.



3 699

**jobs created in
the last five years**

Developing Talents to build tomorrow's Hermès

Hermès intends to facilitate the construction of rich professional and personal paths within the Group to bring out the leaders and managers of tomorrow. The challenge is to build the Hermès of tomorrow with the men and women of today.

Each employee has an annual performance appraisal. The Managing Directors of the subsidiaries and their Directors of Human Resources 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, 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. The Director of Human Resources supervises the organisation of both interviews:

- ◆ the annual appraisal including performance reviews, the work environment, skills analysis and objectives for the coming year;
- ◆ the professional interview, to discuss medium-term perspectives with the employee (professional assessment, professional project, skills development plan and training).

In subsidiaries abroad, the annual interviews are conducted according to a process overseen by each subsidiary's human resources department, based on the guidelines given every year by the Group human resources 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 (the United States, Japan, etc.) adapt the Group formats in keeping with cultural requirements. 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 in-house mobility, which is the first lever for employee development. The annual "Talent Reviews" are also a way of

learning more about employees and following their trajectories closely. This enables individual Executive development to be followed closely.

More specifically, the Group human resources department monitors the development of talents, in close cooperation with the divisional human resources departments, and offers a range of programmes for them, working closely with the divisional Directors of Human Resources. In 2019, the "Cavaliers" programme gave six groups of young talents the chance to reflect on a topic representing a strategic challenge defined by the Executive Committee. One of the themes submitted to participants in 2019 was "Hermès Green". The "Colbert Labo" was an opportunity for six young people to develop thinking with their luxury industry peers on "How to reinvent and enhance the profession of sales associate in a luxury house". A number of external programmes have been offered to more than 50 – including 37 in the "Eve" and "Octave" programmes rolled out by Danone – employees whom the House wishes to support on leadership issues in particular and in their personal development more broadly. For the second consecutive year, four employees were able to join the *Campus Formation Étudiants Entreprises* programme, which adopts the combined work-study approach to provide trainees with the digital skills necessary to support ongoing changes in areas including design thinking, project management, digital techniques and collaborative working. They will ultimately earn a Master 2 degree, thereby increasing their employability.

2.3.2 CHALLENGE: PRESERVING AND DEVELOPING SAVOIR-FAIRE

Hermès has built its growth model on a culture of continuous improvement, in a context of sustained growth in its activities and its workforce. It is a model in which the preservation and development of *savoir-faire*, often exclusive, and its acquisition by and transmission to all employees regardless of their function (artisan, retail or support function) are essential. 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.

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.

2.3.2.1 POLICY

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 craftspeople 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* in-house training but also has recourse to external training when appropriate. Hermès is developing in-house training schools for its major craftsmanship *métiers* – Leather Goods, Textile division and Tannery – enabling this *savoir-faire* to be perpetuated and handed on. The House works upstream in promoting the arts 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 craftspeople 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 to many unique forms of weaving and silk printing *savoir-faire*, which Hermès works hard to maintain.

2.3.3.2 MEASURES IMPLEMENTED

Training, along with in-house 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 Group's training catalogue reflects the House's cumulative needs in terms of supporting growth, and satisfying the need for in-house mobility and the wishes of employees raised during the annual appraisal.

Bringing new employees on board

Hermès pays particular attention to integration to ensure a suitable welcome, allowing new employees to find their feet, measure the uniqueness of the Hermès project and grasp the Company's identity, get a feel for its history and come to grips with its codes, its organisation and its challenges as a multi-dimensional company through the diversity of its businesses, its employees, its geographic locations and its cultures.

As an example:

"Mosaïque" – the onboarding programme for new employees in France – has enabled 345 people to feel warmly welcomed in 2019 and become immersed in the corporate culture through visits, testimonials and presentations giving a broad picture of Hermès. And "H Immersion", the onboarding programme for new employees in retail subsidiaries, lasting one to four days, delivered in a local version to over 1,100 participants through 110 sessions.

The new "Hkeys" group programme welcomes new managers for three days within six months of their arrival in order to give them the keys necessary to adopt a managerial posture in keeping with the values of the House and to forge links between managers of various entities.

Within the central services of Leather Goods & Saddlery division, 38 employees completed the new "Tous en Selle!" onboarding programme, exclusively designed and run by Managers of the division, in two distinct sessions. In addition, new non-artisan employees are given the chance to learn to sew in a four-day internship in the leather workshops. A total of 28 leather working courses were organised in 2019.

"Au fil d'HTH", a three-day onboarding programme for the Textile division, grew with the addition of practical workshops (devoted to rolling and quality control), a visit to the Hermès store in Lyon and a visit and presentation of all the business units in the segment. An integration morning for trainees and interns was also launched in October.

Hermès Femme held the inaugural "Premiers Regards" integration day, held twice a year for all new employees on permanent contracts or fixed-term contracts of over six months. They are invited to a day-long presentation featuring entertaining workshops addressing the segment's challenges and strategy. Some 95 employees attended.

At the Tanneries du Puy, in the Tanning and Precious Leathers division, new craftspeople in all production positions follow an extensive training integration course over a period of eighteen months.

The Perfumes division is continuing to roll out "Premiers Pas" integration programmes for all new permanent employment contracts and "Découvrons Hermès Parfum & Beauté" for fixed-term employment contracts, work-study students and interns.

The Home division held its first integration day in September, allowing new employees to discover the *métier* and gain a vision of the Group.

The activities of the Ex-Libris University

Hermès considers managerial skills to be a *savoir-faire* in their own right, in the same way as technical *savoir-faire*. That is why Ex-Libris University, an in-house university run by the Group's Human Resources department, delivers programmes focused mainly on the development of Managers and the dissemination of the corporate culture. It had a particularly busy year in 2019, with more than 1,268 people trained in total (compared with more than 1,250 in 2018).

The three-day "Happy Culture" programme for employees with more than three years' seniority in the Company gave 202 people the chance to enrich their knowledge of Hermès and learn more about the House's new dimensions. The "IFH" programme for members of the Management Committees of sites or subsidiaries enabled 52 employees to share the vision and strategy of the Group and the various *métiers*, and to gain a broad overview of the House.

Management training sessions are also organised. They enabled 267 managers to get a better grasp of their responsibilities by adopting behaviours and practices by keeping with the Company's values and to play a key role in guiding employees and developing activities.

At the Group's initiative, two programmes are in place in the various entities: "Alterego", which aims to make managers aware of the challenges of diversity and disability management, and "Alchimie", which aims to share the vision and challenges in terms of recruitment and to become more professional in conducting recruitment interviews.

In December, in partnership with Artips, the "Culturiosité" platform was launched with 8,000 French-speaking employees (France, Benelux and Switzerland) in order to help build their general knowledge.

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 trainers from all of our countries. Each season, this five-day technical training course is dedicated to seasonal collections. It is a ritual in which the business trainers share their knowledge and expertise with the market trainers, who in turn pass it on to the teams in our stores.

Savoir-faire schools

In the **Leather Goods division**, the École du Cuir has enriched its programmes to support the key challenges of development and transmission of skills.

Training for new entrants:

- ◆ Table initial training;
 - the programme is rolled out on all sites;
- ◆ Cutting – preparation initial training;
 - the programme is rolled out on all sites;
 - launch of a digital training tool for trainers (100 "cutting questions");
- ◆ Piquage initial training;
 - construction and rollout of an initial training programme.

The School of Leather's activities have supported the award of 197 CAP vocational qualifications in leather work, 76 Sellier Maroquiers d'Arts (saddler and leather worker) diplomas and 21 CQP Cutting diplomas. As part of the validation of acquired experience (VAE) scheme, nine people received CAP vocational qualifications in leather work, eight people the Sellier Maroquiers d'Arts (saddler and leather worker) diploma and 10 people the CQP Cutting diploma.

As a result, more than 320 certified qualifications were obtained by our employees this year. A total of 206 employees were awarded a CAP diploma as part of a strategy to recognise professional skills and maintain artisanal *savoir-faire*.

This year, Hermès introduced a training division within its new Maroquinerie Iséroise. The Ateliers de Fitilieu, which has a school dedicated to the métiers of saddle maker and leather goods craftsman, cutter and mechanic, will eventually host around 100 craftspeople. The craftspeople trainers have honed unique skills, such as sign language fluency, to adapt learning and production to people with different disabilities.

Continuous training

The rollout of the 12 continuous training programmes at the School of Leather continued (5,600 people trained since 2011), with in particular,

a new programme for cutters entitled "Profession: Cutter II" complementing the existing programme. This training allows cutters to acquire the specificities of the prestigious and rare skins of the House, giving them the tools to identify the constraints linked to prestigious and rare skins and making them aware of the concepts of consumption and being frugal with materials, etc.

Developing artisans' versatility and multi-skilling

Numerous programmes have been established on all sites to support the development of versatility and multi-skilling among artisans, such as leather workers trained to work as cutters or mechanics, or mechanics and cutters trained in the craft of leatherwork.

The development of versatility is also encouraged by training artisans in the manufacture of other products. For example, at the:

- ◆ Maroquinerie du Sud-Ouest: four small leather goods artisans were trained in the manufacture of bags and glove-makers were trained in small supple leather goods;
- ◆ Maroquinerie de Normandie: six small leather goods artisans were trained in the manufacture of bags.

The **Textile division** – through the School of Textiles – has launched two working groups dedicated to training set up as part of the "Outlook" approach, anticipating retirements:

- ◆ one group is working on the redesign of the Printers' training course with, among other things, a local partnership initiative with an artisan fabric printing workshop in Lyon;
- ◆ the other, on the "quality control" organisation, for which 30 recruitments are planned by 2022: redesign of the target function of the quality control role/inspection role, work on boosting the attractiveness of the position, different possible channels of recruitment and integration/training course.

The subsidiary also continued:

- ◆ the "Management in Practice" programme targeting all managers since 2017;
- ◆ the "digitisation" approach of the HR function, with training in new digital tools, a collaborative approach to better communicate and work together and awareness of new ways of communicating. Process supported by the IT and business intelligence services;
- ◆ the "Résonances" approach, a programme designed to sharpen artistic and cultural skills among development, colouring, creation and similar teams. 2019 also featured a day devoted to Indigo (the basics of indigo dyeing and an exhibition devoted to colour at the Musée d'Orsay), a workshop on engraving and other events.

In the **Tanning and Precious Leathers division**, an innovation programme continues to foster a culture of innovation that stimulates inventiveness, agile thinking and curiosity.

Petit h engaged in exchanges with certain production units, such as John Lobb and the Textile division at Pierre-Bénite, to learn about their specific *savoir-faire*.

Hermès Commercial revisited the “Logistics from A to Z” programme over two days with a comprehensive and detailed visit of flows on the Bobigny site and a visit to the service provider. The division has also developed the “Switch” programme, dedicated to encouraging multi-skills among logistics operators so that they can meet the needs of logistics management and diversify their activities. The division has also created an “All leather repair craftpeople” product training course for after-sales product managers and *métier* commercial relations. This is a three-day immersion in the Leather Goods division's workshops and the Tannerie de Montereau.

Retail Academies

The Group human resources department has designed, developed and deployed several programmes intended to train employees in the business world.

As such, the “Sales & Service Ambassadors” programme for sales associates is run at a local level, throughout the world. Its ambition is to train them in customer service that matches the quality of the objects. In 2019, 65 sessions enabled 730 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, continued to be rolled out in the various regions. 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.

The “Retail Developer” programme, also initiated in 2017 and linked to the “Sales & Service Leader” programme, continued its rollout in 2019. In total, 137 participants in 2019 joined the 341 people already trained in 2018. This very popular training course aims to strengthen the technical expertise of the teams, covering areas including management of the customer relationship and experience, management of purchases and the product offer and key performance indicators.

The Perfumes division designed the “Digital Workshops” programme to raise awareness of digital culture among all employees through various thematic workshops.

Discovering and passing on the wealth of *savoir-faire*, stories and collections to customers remains central to the challenges of product knowledge. That is why, in addition to the “One day, one job” and “Major *métiers*” face-to-face training, sales associates now benefit from an application on their iPads thanks to which they are only ever just a few clicks away from total immersion in the universe of a *métier*, allowing them to grasp the structure of the various collections, to appropriate materials and *savoir-faire* and to adopt the correct ceremonial product presentation. The Leather Goods, Women's Ready-to-Wear and Jewellery Accessories businesses were the first to join the initiative in June 2018.

Fostering the transmission of a culture

The House'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. This culture makes it possible to understand expectations in terms of

savoir-faire. It also builds bridges between the various *métiers* and activities by reinforcing the capacity for dialogue among all employees.

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

Tandem

Tandem is a programme that brings together a craftspeople and a sales associate, encouraging them to put themselves in each other's shoes. In practical terms, a sales associate plays host to a craftspeople in a store; a few weeks later, the craftsman or woman welcomes the sales associate in his or her workshop (or vice versa). In that way, each can in turn find out what the other one does. The programme is carried out in a generous spirit of sharing, curiosity, reciprocity and commitment.

This networking programme links Hermès' two essential dimensions of craftsmanship and sales, and brings professional and personal enrichment through immersion in closely related professions. They are quality experiences for each pair and have an enriching impact on the other employees working on the sites in question, forging strong new ties.

Launched in 2008, 273 tandems have been formed since the start, representing 546 participants. In 2019, 25 craftspeople and 25 sales associates participated in the programme.

Tilbury

In the same spirit as Tandem, *Tilbury* is a programme for exchanging experiences and sharing practices between a store manager and a production Site Manager, launched in 2018. Over a five-day period, each participant slips on the other person's shoes, participating in the daily life of the host (meetings, exchanges with the teams) and gaining field experience, spending time in the workshop with craftspeople for the store manager, and time in stores among sales associates and customers for the Site Manager.

This human encounter is synonymous with a strong learning experience, one that is engaging, structuring and useful for the development of new practices and skills. This mutual enrichment allows everyone to become aware of the challenges and resources mobilised on both sides, and to grasp other ways of managing and leading.

Eight *Tilbury* programmes took place in 2019, between directors of Leather or Textile production units and store managers from countries including France, the United Kingdom, Spain, the United States and Japan.

Parcours d'Adresse

In a week-long journey, employees from the manufacturing sites set off to explore one of the House's *métiers*. It provides immersion in the *métiers* (porcelain, watchmaking, perfumery, leather, silk, women's ready-to-wear, ready-to-wear and crystal), finely balancing discovery and practical aspects and allowing participants to learn about a *savoir-faire* by exploring the whole life of a product, from the raw material to the final result, following quality control.

Launched in 2011, *Parcours d'Adresse* has already benefited more than 900 employees.

In 2019, nine *Parcours d'Adresse* were organised, allowing 86 participants, craftspeople and support functions to discover the House's production lines.

Integration of sustainable development into our *savoir-faire*

Integrating sustainable development into the *savoir-faire* of all *métiers* and all employees is a key challenge.

The sustainable development strategy is set by the sustainable development department at Group level with retail subsidiaries, production sites, *métiers* and support functions. It rests on raising the awareness of our employees and empowering them.

Given the diversity of *métiers*, management is decentralised, relying on a network of more than 200 ambassadors worldwide. The ambassadors hail from different levels of expertise, some operational, others less so, to ensure that all employees are involved in (advanced) projects and informed of new developments. The network includes sustainable development managers in certain entities (Leather Goods division – including a director appointed in 2019, Hermès Femme, Jewellery division, etc.), the HSE network liaisons, and ambassadors in stores and production sites. It continued to grow in 2019.

In addition, the *métiers* and subsidiaries run specific Sustainable Development Committees that continue to take shape, particularly at the Leather Goods division, the Perfumes division, Hermès Femme, Hermès Distribution France, Hermès of Paris, Hermès China and Cristallerie de Saint-Louis.

Understanding and practical application of challenges locally require:

- ♦ the structuring and monitoring of roadmaps by holding, Management Committee meetings and running dedicated seminars:

In 2019, this was reflected, for example, in participation in the Watches division, Hermès Europe, Cristallerie de Saint-Louis, the Perfumes division, Hermès Soie et Textiles and Hermès Distribution France seminars:

- for the sixth consecutive year, the Asia seminar was held over three days in Seoul (76 people), in the presence of a member of the Executive Committee in charge of Governance and the development of organisations. The event is always a special occasion in which the participating countries (China, Hong Kong, Taiwan, South Korea, Singapore, Japan and Europe) share their achievements and progress on their roadmap, and plan for the years ahead. These roadmaps include projects throughout the year on commitments relating to governance (structuring and leading of local networks), training (including the sustainable development challenges), employee well-being (warming-ups, food), recycling (depending on activity and local specificities), energy saving (lighting), biodiversity (participation in local actions to preserve the environment), and skills and financial sponsorship (support for local associations),

- for the first time this year, the Hermès Distribution France, Hermès Europe and Hermès of Paris subsidiaries brought together their respective ambassadors for a day to present the general and specific challenges facing their activity. It was an opportunity to discuss challenges in the field and to adopt tailored action plans;

- ♦ specific training modules:

The Hermès Group's strategy is explained in each of the Ex-Libris University's in-house training courses (Mosaïque, IFH and Happy Culture), with 13 sessions in 2019. Locally, the subject is presented in training formats ranging from integration programmes to training for new store managers and sales associates (France, Brazil, Mexico, United States, Asia, etc.). The *métiers* encourage employees to learn about the environmental impacts of their activities (eco-textiles, circularity, innovation, plastic, etc.);

- ♦ spreading a sustainable development culture:

Each level has a role to play. A page dedicated to sustainable development, accessible to all employees, has been hosted on the "HermèsSphère" intranet since 2018. A weekly Editorial Committee with the internal communication department ensures regular monitoring and the circulation of strategic and up-to-date news, with 34 publications in 2019. An internal blog dedicated to sustainable development also allows a community of volunteers to share their ideas and bring the "all artisans of sustainable development" culture to life.

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 Hermès Group's strategy and achievements, and to open up to the wider world. In 2019, the Ile-de-France sites got involved in events focusing more specifically on the theme of biodiversity. They included activities focused on the beehives on our sites, as well as planting and composting workshops. They also saw roughly a hundred employees and their children attend a private screening of the film *Les saisons*.

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

In addition, the screenings of the *Empreintes sur le monde* (Footsteps across the world) series of films continued with employees on several sites (Sayat, Strasbourg...), along with their family members, to get a better grasp of the House's sustainable development challenges

<https://www.hermes.com/ca/en/story/135446-footsteps-across-the-world/>

- ♦ sharing best recurring and long-term practices:

The sustainable development department also 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 organised by WWF and other NGOs), waste collections ("World Cleanup day", a honey harvest, social support food baskets, and so on).

2.3.2.3 RESULTS

Training ensures that our *savoir-faire* is passed on

In 2019, the Hermès Group devoted 463,750 hours to training, including 325,916 in France (excluding apprenticeships and apprentice contracts). Some 32,844 training sessions took place (this figure corresponds to the total number of training sessions followed; any one employee may have followed several training sessions during the year), i.e. an average of 14.1 hours per training activity. Average training expenditure per training activity was €58.6 thousand. Training costs in France (invoicing in 2019 of external and intragroup training) amounted to €1,890,831. This number does not reflect the entire training effort, since it does not include *métier* training dispensed directly in the workspace.



In-house mobility

In-house mobility is a powerful way of spreading *savoir-faire* and corporate culture. It remains the primary source of recruitment as soon as a position is vacant – through the internal My way in Hermès platform – and the chief driver of employee development. Allowing the Company's men and women to grow in order to prepare and build the Hermès of tomorrow is a daily concern both for HR teams and for managers keen to develop their teams. More and more temporary assignments are offered to support employee development through a variety of work and experiences in a range of contexts.

Support

Within the Hermès International holding company, 16 internal recruitments were made.

At Hermès Commercial – the Hermès Sellier division in charge of customer service and supply logistics for subsidiaries – 28 internal promotions were completed, both within the division and by movements to or from other subsidiaries.

Craftsmanship and métiers

The Leather Goods & Saddlery division, the Group's largest employer, has enabled more than 100 craftspeople managers and people from the *métiers* support teams to change sites or take up a new position in the context of internal mobility without changing region. In addition, four craftspeople have been offered expatriation. The opening of new leather goods sites is supported by numerous internal transfers, both for craftpeople and for support functions. The opening of the Maroquinerie de Guyenne, for instance, involved 22 internal transfers – 17 artisans of all *métiers* and 5 executives – from 10 manufacturing sites.

The Textile division organised 23 internal transfers.

The dynamics of the Hermès Femme division resulted in 43 transfers, including 35 internal promotions, three internal shifts and five moves to other areas of the Group. Of the 22 talents identified by the division, 18 benefited from career development in 2019.

Retail

14 internal transfers took place within Hermès Distribution France, three of which to international subsidiaries.

The American subsidiary Hermès of Paris carried out 122 internal transfers, including 61 promotions.

Entreprise du Patrimoine Vivant (Living Heritage Company) – EPV

The Hermès Group is proud to have had 12 companies recognised by the *Entreprise du Patrimoine Vivant* label in 2019, namely Hermès Sellier, Holding Textile Hermès (Bucol), Établissements Marcel Gandit, Ateliers A.S., Siegl, Ateliers de Tissage de Bussières et de Challes, Beyrand, Cristallerie de Saint-Louis, Puiforcat, John Lobb and Les Tanneries du Puy (<http://www.patrimoine-vivant.com/>).

These distinctions bear witness to Hermès' commitment to the safeguarding, preserving and promoting heritage *savoir-faire*.

Meilleurs Ouvriers de France (MOF)

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

At the end of 2019, the House had a total of 24 *Meilleurs Ouvriers de France*, as follows: ten at the Cristallerie Saint Louis, three in Leather Goods & Saddlery division, two at John Lobb, four fabric printers at Ateliers A.S. and Siegl, two in *sabrage* at HTH, one in hand drawing at Gandit, one in weaving at ATBC and one in dyeing at AEI.

Concealed in a Hong Kong skyscraper, a quintessence of the House's savoir-faire

If you were to take the lift to the 22nd floor of a skyscraper stretching out from the heart of Hong Kong's Admiralty district, you'd expect to walk out into the offices of a large bank or the headquarters of a multinational. But you'd be wrong. What a surprise it is to discover artisan leather workers and their tools nested incognito in the sky. Welcome to a Hermès repair shop. A concentrate of the House's savoir-faire, hidden behind the scenes in major cities and available to customers around the world.

Here is the domain of Christelle, Farid and Alexandre, leatherwork magicians trained in French leather goods and dispatched to Hong Kong. A bevy of bags with the Hermès label are waiting patiently for a new handle, a colour stitch or a seam stitch at their gifted hands. In this workshop overlooking a city that never sleeps, time stands still. These objects with their individual histories come to life, recover, take on new colours, until they are ready for a new lease of life on the arms of their owners.

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

The Hermès 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 affordable and quality technical, vocational and tertiary education, including university".

Women have an important place within the House, representing 68% of the workforce. Access to vocational training for women and men within the House is encouraged by the in-house Ex-Libris University and internal schools for the *métiers*, as well as by more specialised external training.

- ◆ 4.4: "Substantially increase the number of youth and adults who have relevant skills, including technical and vocational skills, for employment, decent jobs and entrepreneurship".

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: "Ensure that all learners acquire the knowledge and skills needed to promote sustainable development"

Raising employees' awareness of sustainable development takes place throughout the year. The outlines are instilled by the sustainable development department and relayed locally by the network of sustainable development ambassadors (HSE, SD committees, premises, etc.).

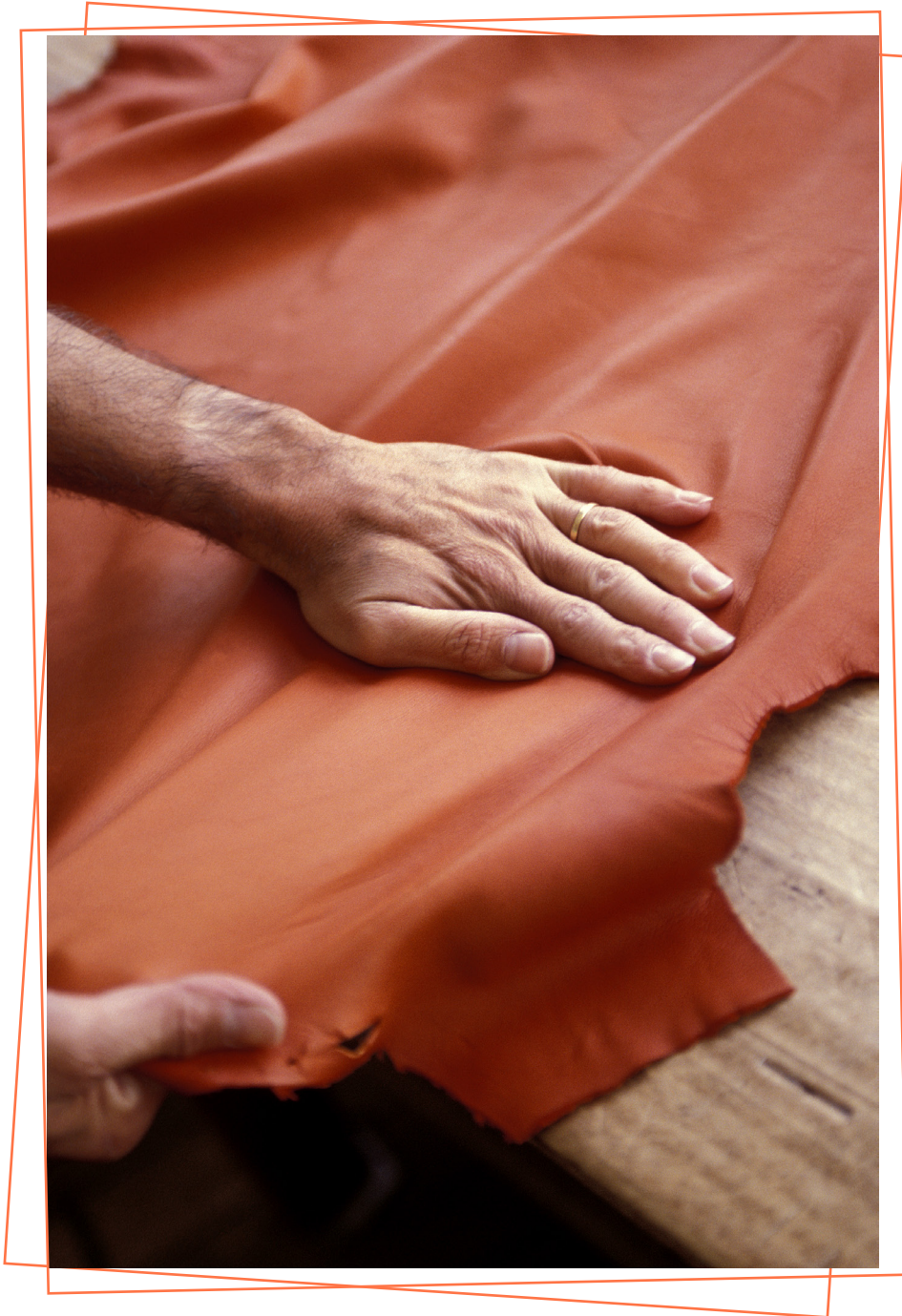
**No. 11: Sustainable Cities and Communities**

- ◆ 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 notably by the *Entreprise du Patrimoine Vivant* (Living heritage enterprise), contribute to the Hermès Group's efforts to protect and maintain artisanal savoir-faire. Moreover, the Fondation d'entreprise is committed to supporting live performances and contemporary photography.

More than 35 different leathers are used in the manufacture of objects

2



© Photographer: Christophe Bornet

2.4 PLANET: RAW MATERIALS

Introduction

The durability of Hermès' activities 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. Hermès' iconic materials – leathers, silk, cashmere and wood – are all natural, renewable and obtained in such a way as to minimise their footprint. 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. Naturally, the Hermès Group does not use materials or species that are threatened with extinction or are sold illegally. For decades, the House's approach has been to learn more about its supply chains, to share its requirements with its 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 the growth in volumes, were all opportunities to enhance dialogue and improved practices.

The model and values of craftsmanship guiding the House have always promoted the careful and respectful use of these rare and precious materials. To minimise offcuts the *métiers* put the materials to the best possible use, for example in leather, by making matching small and large items to use as much of the material as possible. In all *métiers*, channels are also identified to recover and recycle manufacturing offcuts.

2.4.1 CHALLENGE: SECURING HIGH-QUALITY SUPPLIES

The durability of Hermès' activities 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 Hermès Group's policy, which has remained constant for decades, involves getting to know its supply chains better, strengthening them to ensure the highest level of quality and ethical compliance and developing them to prepare for future growth.

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, in the Tanning and Precious Leathers division or some ingredients in perfumes. We must also comply with health regulations (hides from cattle and sheep that were raised for meat) and animal welfare regulations, in a situation where 92% of the hides must meet stringent French or EU legislation.

2.4.1.2 MEASURES IMPLEMENTED AND RESULTS

Leather

Leather is an animal product, specially tanned and made imputrescible, either in a tawery 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. Beautiful skins come from animals that have been well-treated and cared for. Hence, the Hermès 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 such as crocodile, alligator, lizard and ostrich.



One
committee
dedicated to
animal welfare

Calfskin

The House is part of a working group, Interbev (the French interprofessional organisation for meat and livestock), that brings together several French luxury brands as well as abattoirs and integrators. The aim is to define and implement a responsible French calfskin industry by introducing, and ensuring compliance with, skins' full traceability and strict animal welfare standards. This joint study also covers the environmental impact of the farms that breed and feed the animals.

In the firm belief that the traceability of the skins is vital to improving breeding practices and the quality of the skins themselves, the House continued with the laser marking of the raw skins received by the Tanneries d'Annonay and Tanneries du Puy. This laser marking, developed in partnership with the *Centre Technique du Cuir* (CTC - Leather Technical Center), offers traceability of calfskins from the farm to the finished leather. In 2019, 35% of the calfskins tanned in the division's two tanneries were marked. Rolling this equipment out to our suppliers' raw skin sorting lines will be a key challenge over the coming years, as will be the performance of the automatic skin reading devices in the tanneries.

Alongside this working group and our skin marking efforts, in 2019 the House embarked on a study, in conjunction with its partner WWF France, to measure the environmental footprint of the calfskin sector and identify areas for improvement.

Exotic skins

Virtually all of the exotic skins we use come from farms 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 in the United States, such as the Fish and Wildlife Service, the federal nature protection agency. In addition to strict compliance with the Washington Convention, in 2016 Hermès initiated a study with WWF France to assess respect for animal welfare and measure the environmental footprint of the supply chain for alligator skins in the United States. The progress plan drawn up at the end of this study continued to be actioned in 2019.

All the crocodile farming sites the House deals with, including of course those operated by the House, have signed a best practices charter. The charter was introduced in 2009 (an innovation for the profession at the time) and was updated in 2016. These best practices encompass in particular CITES regulations, animal welfare, the farms' environmental

management, employee labour conditions, safety at work and safety of infrastructures. All have undergone one or more internal audits in the last three years.

In 2018, the Tanning and Precious Leathers division took the decision to outsource the audits of the breeding farms and the meat processing and skin inspection sites to secure its relations through independent reviews. Following an initial study and call for tenders, an external consultancy (Bureau Veritas) was selected early 2019 to conduct these audits. The audit protocol linked to the best practices charter was fully reviewed with this partner, capitalising on the latter's expertise in the appraisal of breeding conditions in other animal sectors. The local auditors were also trained in the specifics of crocodile breeding. This audit process is part of a broader "Bureau Veritas Group recognition" of the sites. In 2019, 93% of the crocodile skins purchased by the Tanning and Precious Leathers division came from farms that had undergone an external audit. The farms not audited in 2019 will be audited in 2020. The progress plans drawn up with the farms will be monitored annually with local specialist consultants.

In addition to these efforts, which have been ongoing for over nearly 15 years, the Hermès 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 and brands). This association aims to develop and improve crocodile breeding practices by pooling the experience of its members and a scientific community specialised in crocodiles, which has gathered together all practices and existing scientific studies. 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 thus defined are backed by scientific studies. The founding principle is to evaluate animal welfare throughout the breeding process in a manner that is both objective and measurable. A certification process for the livestock of its founding members was introduced in 2019 with the help of the independent certifying body BSI. All farms that join the ICFA adopt the standard and are thus audited. This means that the division's farms will be audited in 2020. In addition to animal welfare, as defined by the FAWC (Farm Animal Welfare Council) and the Five Freedoms for animals, these audits cover environmental and societal aspects of livestock farming.

In 2019 we paid particular attention to farm biosafety rules which protect the livestock from the introduction of infectious agents. This essentially involved introducing strict requirements for animal transfers on the farms and between farms, writing disinfection instructions and putting in place pest control and animal vaccination programmes. Specialist vets for the species involved guided us in the definition and implementation of appropriate measures.

In the last two years the “lizard” (*Varanus Salvator* in Malaysia) and “python” (*Python Molurus* and *Python Reticulatus* in Vietnam and Malaysia respectively) divisions were also inspected by specialist vets, in collaboration with the Hermès Group’s local partner, the purchasing department and several scientists. These inspections are designed to ensure compliance with current regulations, traceability of the supply chain and that best practices are in place in the facilities.

Each of the aforementioned supply chains also has a system in place to trace individual skins. Thanks to RFID chips on the finished leathers, the areas in the country of collection (Malaysia) or the origin farms (Vietnam) can be traced back, as well as the different stages of animal transport or transit.

To supplement this, a study of the *Varanus Salvator* lizard supply chain in Malaysia was also launched. The goal of this work, which will continue in 2020, is to define best practices regarding: animal welfare (from capture *via* transport to slaughter...), environmental management, employee labour conditions, safety at work including facilities, compliance with CITES regulation and individual skins’ traceability.

Ostrich

In 2017, the House conducted a complete audit of the ostrich breeding sector (animals raised mainly for their meat and feathers), which are used in the production of its leather goods. Based on the conclusions of this audit, since 2018 Hermès has partnered with the South African Ostrich Business Chamber (SAOBC) to promote responsible ostrich breeding. This industry employs 15,000 people and contributes significantly to the social and economic well-being of rural communities. Hermès and the SAOBC were thus the forerunners of a working group which brings together a representative selection of ostrich breeders, processors, scientists, government regulatory bodies, ISO compliance specialists, veterinary specialists in animal protection, NGOs (RSPCA UK) and customers from the ostrich breeding sector. Hermès helped to finance this project which has led to the implementation of a standard, has also provided training for ostrich professionals and has piloted a certification system. The sites certification process will begin in 2020, led by an independent certifying body and steered by the SAOBC. The aim is for the whole sector to be certified by the end of 2022.

Other industries

Finally, the Tanning and Precious Leathers division regularly builds new partnerships and 100% of its subcontractors for leather processing have been audited or undergone HSE inspections over the last five years.

Animal welfare ethics

The Hermès Group policy is to do more than strictly adhering to the laws and regulations in this area. It works constantly with its tanner, tawer and skin supplier partners and, more broadly, with the professional industry bodies. It has put in place a very strict animal welfare policy covering its specific areas of direct responsibility at the reptile farms, extending also to its external partners. The policy is based on the following principles:

- ◆ a commitment to the fundamental principles of animal welfare (Five Freedoms) based on the most recent information supported by the best universities in the world. This essentially involves observing the animals and their behaviour, unlike more traditional practices which overlook the animal in the welfare assessment and focus solely on a physical analysis of resources;
- ◆ a multi-party collaboration to ensure that the animal welfare results obtained meet the requirements of a broad range of stakeholders, primarily the World Wildlife Fund (WWF), Royal Society for the Prevention of Cruelty to Animals (RSPCA UK), South African Ostrich Business Chamber (SAOBC), International Crocodylian Farmers Association (ICFA), Crocodile Specialist Group (IUCN-CSG), South East Asian Reptile Conservation Alliance (SARCA) and other professional organisations in France such as Interveau and Interbev;
- ◆ a formal governance framework: the House has set up an Animal Welfare Committee. An independent welfare expert is a member of this committee which meets at least every six months to update the policy and standards, measure progresses and ensure that resources are in place;
- ◆ implementation of strict best practices, specific to each animal supply, representing local community expectations and covering a broad range of areas such as farming and slaughtering practices, transportation, traceability, employee working conditions, the environmental performance of farms and their safety, the promotion of biodiversity, conservation of species and assistance to communities and populations. These standards aim to eliminate controversial animal welfare practices in these animal supply chains, limit the excessive use of antibiotics (only on prescription from a vet) and prohibit the use of growth hormones;
- ◆ an adapted monitoring system allowing progression of good practices by conducting regular internal, or external, controls and audits in the supply chains. Several audits were conducted in all our supplies in 2019 and are thus representative of all our animal material supplies;

- ◆ Hermès also continued to support the International Crocodilian Farmers Association (ICFA) initiative to draw up and introduce an international certification framework for crocodile welfare and sustainable farming practices at farms (see above). The Group will continue to work with the ICFA to support scientific research and the ongoing improvement of crocodile farming systems.

In addition to animal welfare, these audits cover environmental and societal aspects of livestock farming.

In 2019, 96% (by weight) of the skins used for the manufacture of our products came from by-products of meat production.

It is also important to mention that Hermès does not test its products on animals.

Textile division

The Textile division's activity essentially uses two materials: silk and cashmere. For these two precious fabrics, partnerships have been established for a long time with preferred suppliers.

Silk

The supply chain for high-quality silk relies on a collaboration of more than 20 years with a partner established for over 40 years in the state of Paraná in Brazil, because of the local climate particularly suited to silk farming. This partnership controls the whole production cycle, from silk worm farming, to cocoons production and their raw silk spinning, as well as the mulberry bushes growing from which the leaves are used to feed the silk worms. Silk is special in that it is a renewable product that has a positive impact on the ecosystems, primarily because planting mulberry bushes helps to regenerate the soil and consumes very little water. As the Bombyx Mori silk worm is particularly sensitive to all forms of agrochemicals (they only eat untreated, unpolluted mulberry leaves), they are very good indicators of the quality of the environment: so naturally the mulberry fields have a very rich biodiversity. There is adequate rainwater for growing mulberry bushes so no irrigation is required. The ecosystem sustained by silk production generates revenues for small local farms and over 2,500 families.

There is a dedicated annual budget to develop knowledge, qualitative techniques, sustainable activities and supply chains of these partners. There are many discussions and exchanges, not only between the division and these farms regarding programmes to improve production quality, but also between the division and universities to develop polyculture and permaculture.

Cashmere

Cashmere comes from the Capra Hircus Laniger goat, known as the cashmere goat, which lives in semi-arid regions of Upper Asia where winters are hard and temperatures can fall to -35 °C. The cashmere goat is particularly suited to this climate as it develops an extremely fine thick down under its permanent fleece at the start of winter, which provides effective insulation from the cold. When temperatures rise again, this down is shed naturally during the spring moulting season. When the time

comes – between April and May – the farmers comb the animals by hand to collect this down before it is blown away in the wind. It is this extremely soft fine down that is commonly known as cashmere. For weaving, Hermès selects the most beautiful fine, long and extremely white fibres from the best farms to achieve incomparable softness. The House's historic yarn manufacturer has built strong, long-standing relationships of trust with raw material suppliers, thereby ensuring supplies of an exceptional quality.

The HTH division has direct control over all the processing operations such as weaving, printing, finishing and manufacturing. This integrated process makes it possible to use exactly the right amount of raw materials, to streamline containers and packaging, facilitating the transport of products, and to optimise transport. Fundamental work on sustainable development in the supply chain has been initiated with the support of NGOs present in the breeding areas from which we source our materials. In 2019, an audit of practices was conducted with notably the support of the WWF France. Its conclusions reflected positively on the local practices in place, and led to an improvement action plan that we have already begun to monitor and which will continue in 2020. The objective is ultimately to monitor and support breeders' agro-pastoral practices aimed at preserving the resource and the biotope.

Precious materials

The precious materials used by the Watches division, Jewellery division and Leather Goods division are mainly gold, palladium and diamonds.

Hermès travels France and the world to identify best practices for its precious materials and make them more sustainable. The Hermès Group has had Responsible Jewellery Council (RJC) certification since 2013. The RJC is an international benchmark body for the profession. The audit to renew this certification (Code of Practices), which took place in 2019, was based on increasingly stringent criteria. Initially covering only gold, platinum and diamonds, the new certification rules now include silver and certain precious stones (rubies, emeralds and sapphires). In addition, supply chain management must take account of the OECD recommendations. To this end, the House promises its partners that it will promote the responsibility principles. This does not mean simply taking action with our first tier suppliers but also going further along the chain, as far as mining, for stones, and recycling or refining for metals. Significant transparency and audit work is already bearing fruit, especially for gold and diamonds.

Most of the jewellery is made from gold and silver, using pellets or primed materials such as plates or wires. This gold and silver is 100% recycled (from the European metal recycling chain of the jewellery industry itself or other industries such as electronics). In 2019, the Jewellery division teams visited the sites of half of the smelters in question, covering the vast majority of our volumes. These have CoC ("Chain of Custody") or RJC certification, which set strict requirements in terms of transparency and provenance of the gold, specifically drawing a distinction between industrial recycling and the recycling of bank ingots.

Precious watches are made primarily from gold and platinum using bulk material or primed materials from plates. This gold and platinum are recycled, and provided by a Swiss network that recycles metals from the watchmaking/jewellery sector. The smelter that covers the vast majority of our volumes provides 100% recycled materials. It is certified by the RJC against the CoC standard. In 2019, the watches division teams and two external auditors visited our supplier's site. As of the end of 2019, 100% of the gold and platinum used for the production in the workshops of the Wathches division in Noirmont was recycled. The next stage, already underway, is to complete the mapping of the supply chain for some other components such as clasps and metal bracelets.

The promotion of the CoC standard across the supply chain is a priority for all the *métiers*.

From extraction in the mines to the sale of jewellery, watches or other leather objects in Hermès stores, the House's diamond sector abides by the Kimberley Process and its corollary, the World Diamond Council System of Warranties. All diamonds used by the House are natural and selected in accordance with the Hermès Group criteria. At the time of purchase, the client receives a certificate attesting to this compliance. This certificate traces the diamond from extraction of the raw diamond, to the cutting of its 57 facets, and its trading. Moreover, it also covers the setting in watches, their quality control, their delivery and their in-store sale.

The Kimberley Process, which came into force in 2003 and has been adopted by 81 countries including France, has prevented the arrival on the legal market of "conflict diamond", the sale of which funded guerrillas in unstable countries. The World Diamond Council (WDC) System of Warranties incorporates broader problems, such as working conditions.

Lastly, the gems or "coloured stones" market is more complex with a huge diversity of materials, provenances and players. These supply chains continue to be monitored in 2020, and since 2019 the RJC certification, which has been extended to ruby, emerald and sapphire, can also be promoted. For this category, the Jewellery division has created its own risk analysis grid to guarantee that social and environmental responsibility is a purchasing criterion as equally important as quality. Even if this could lead sometimes to reject certain stones by lack of traceability information.



100 %
recycled gold
and silver in
Jewellery

Home division

At Hermès CATE, orders of plain porcelain and colour prints have been grouped and forecasted to meet the needs of a growing activity. This is key to provide visibility to Beyrand and different partners. A new initiative is in place to obtain commitments to sustainable supplies, over a minimum period of two years, with a requirement to provide advance warning if the situation changes. Regular audits of raw materials suppliers, especially dye suppliers, have continued focusing mainly on HSE (Health, Safety, Environment) and production capacity criteria. In parallel, a plan to secure supply in necessary quality and quantity has been emplaced in collaboration with partners.

In 2019, Puiforcat committed to improve its quality specifications toward its suppliers and subcontractors. As a result, a quality control grid has been created and roll out for semi-finished or finished solid silver cutlery products, including more than 300 products references.

Perfumes division

In 2019, the CNP drew up a code of ethics which translates its CSR commitments in terms of product development. This charter offers guidelines on formula and products development for all players. This charter aims to be a stringent innovation and challenging path for suppliers, a source of inspiration for creation and a trust agreement with customers.

The charter sets out commitments for the full product value chain, from creation *via* production to distribution. CNP objectives are to increase the percentage of natural ingredients in new products, to guarantee the responsibility and sustainability of its sectors and to reduce excessive packaging.

2.4.2 CHALLENGE: MANAGING RAW MATERIALS SPARINGLY

In addition to the House's initiatives aiming at limiting the consumption of materials, its artisanal model has always included usage optimisation and measures against materials waste in its activities. Each *métier* and production unit commits to use materials wisely throughout their lifecycle, to reduce waste and to promote recycling.

2.4.2.1 POLICY

The Hermès Group's policy evolves around using raw materials wisely. Inspired by circular economy principles, the Hermès Group has launched initiatives promoting materials reuse, internally or externally, in order to limit overall materials consumption. Besides, 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 the sustainable use of product requirements. . This policy helps to best align purchases with needs and thereby reduce waste. Each *métier* works to constantly improve the use of these rare and precious materials, consuming only what is necessary.

As detailed below, the Group has also launched a number of initiatives to reuse its material, following a circular economy logic, for the most representative métiers in terms of materials consumption.

Leather

The leathers used by Hermès are rare and of exceptional quality. Our rigorous selection process is guided by our desire to create sustainable products. As Robert Dumas said: “a luxury product is one that can be repaired”. Hermès leather goods are made to last and to be passed on. As such, our cleaning and repairing service is being developed with the opening of a second dedicated workshop at our Pierre-Bénite production 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 cutter's artisan 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 optimisation, in particular by matching different models cut out of the same skin. Coordination among production units is managed on a daily basis to optimise the use of offcuts and skins. A Best Practices Guide is reviewed annually at each leather goods manufacturing site and optimisation is monitored monthly with all sites. This guide is gradually supplemented with new best practices tried out by cutter's artisans with positive results. In 2019, in support of these common standards, 69% of the sites were assessed by the central team (Leather Goods & Saddlery division's production management) on the enforcement of best practices in leather goods. In addition, the sites hides' consumption target, managed on a monthly basis, makes it possible to achieve 98.8% optimisation. This helps to ensure that the quantity of hides used, measured in surface area, continues to improve from one year to the next. In addition, the diversity and wealth of our collections represent an unrivalled opportunity for optimal use of our exceptional leathers.

Textile division

Once the raw materials have been provided (essentially silk and cashmere), the Textile 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. All manufacturing units in the division are involved in very active waste and offcut minimisation programmes, part of the quality initiative that drives the whole sector. To further reduce waste, in 2018 the division introduced a new production logic that involves working with “exactly enough” as opposed to “surplus” supplies.

Optimum use of materials is an ongoing objective of the division production model. For example, certain silk accessories are 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 textiles, by reducing offcuts. Finally, a working group of

representatives from each HTH division unit was launched at the beginning of the year to optimise cashmere use. This led to a reduction in samples taken for quality control. In 2019, we also began to define optimal cashmere use to ensure the surface used in printing is as close as possible to the woven surface without comprising on quality. This work will continue in 2020.

Through the close monitoring of products initially discarded, and a strong development dynamic with the métiers, up-cycling has led to the design of new products, including one-of-a-kind items, overdyed products or uniforms for sales associates. Rejects were thus reduced by 30% this year.

The division is also working with a number of different service providers to find ways to re-use and recycle textile waste and production offcuts. A multidisciplinary working group has begun to work with partners in France and abroad to research methodologies for recycling silk and cashmere. Several tonnes of materials were used in tests for the recreation of new materials or clothes. This has led to a project for jumpers with 20% recycled silk, bobbins of recycled silk and cashmere thread are being trialled by the manufacturers, silk/cashmere covers have been piloted and we are currently testing sound insulation panels also made from silk and cashmere offcuts in HTH's temporary premises. This proliferation of initiatives is aimed at putting in place industrial processes to up-cycle most of our production waste.

Since June 2018, a multidisciplinary team from the Ateliers AS and SIEGL production sites and process departments has been seeking ways to reduce adhesive consumption at the printing sites. Adhesive is vital for this process because it holds the textile in place during printing but it contains solvents which are harmful to health or dangerous when emitted into the atmosphere. The Group's work is twofold: finding substitutes for the adhesives currently used and improving the placing procedure to reduce consumption.

In addition to these major areas coordinated by the division, each site also suggests initiatives for the responsible use of its materials and reduction of its consumables. For example, the AEI site is analysing the quantity of materials not used for packaging items, alongside modifications to its packing machines and has also reviewed delivery conditions with some of its clients. At Gandit, despite more stringent material quality requirements, the number of printing frames recycled is constantly growing (17% in 2019 compared to 10% in 2018). Recycling is also a priority for ATBC Challes (horsehair weaving) where warping cones are systematically re-used. In a similar vein, the fixing and rinsing workshops at Ateliers AS and SIEGL have equipped their 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 the service provider Paprec.

Home Division

A process has gradually been implemented whereby the “blanks” (porcelain pieces before application and firing of the decor) are positioned based on their own characteristics, all different, so that they receive the decoration that is best adapted to them. Using this method has enabled us to prevent a significant number of pieces from being rejected each year.

At Beyrand, the introduction of CTS (Computer-to-Screen) digital engraving of the printing frames has reduced the use of traditional film and the consumption of water and development products (fixer and developer).

To optimise the use of its material resources, in 2019 Puiforcat began to re-organise the storage of the different raw materials to make the best possible sizes and quantities available and, thereby, avoid superfluous waste.

Cristallerie

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

Waste reduction, a major economic and ecological challenge for Cristallerie Saint-Louis, is closely tracked operationally. Cullet recycling increased by 65% in 2019 despite the difficulties encountered in the operation of the new gas melting furnace. This recycling rate, which is high compared with the sector average, remains an area to be worked on and stabilised over the coming months.

Wood

For Hermès, wood is a noble material that must be managed in the best possible way. The House gathers information about the wood used, primarily for the Home *métier* and shop's furniture. For the purposes of supply chain traceability all the countries of origin, species used, forest types (plantation or natural forest) and supplier certificates are monitored and recorded. The risk assessment checks for corruption in the country and the species appearing on the IUCN and CITES red lists. Recently, the Hermès Group commissioned the WWF to conduct a full analysis of the wood and paper supply chain, including the risk criteria applied to suppliers. There is ongoing commitment towards our suppliers and we are also seeking FSC certification for 100% of our paper bags. To demonstrate our commitment, Hermès completed the CDP Forest questionnaire for the first time in 2019 and obtained a B rating, demonstrating the success of its efforts.

Petit h (see section 1.5.7.7) and internal reuse of materials

In addition, the efforts of Petit h and the artistic department 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 craftspeople, 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 division, 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. Petit h is also a lab used by the *métiers* to identify novel up-cycling solutions which are then sold on a wider scale.

After-sales

The use of skilled craftsmanship to create Hermès objects means that they boast the advantage – a rare feature in today's world – that they can be repaired. This prolongs their life and delights our customers. This expert service is provided by a dedicated team of 45 people and 33 expatriate craftspeople. The After-Sales service covers all the House's *métiers*. These experienced craftspeople are seconded through an in-house mobility scheme.

The training for an expatriate craftspeople lasts seven months during which they learn to work on all types of products (bags, small leather goods, leather jewellery accessories or belts). They also take language lessons and are trained on the IT systems.

The presence of these craftspeople in five European cities, including France, six cities in Asia and three in the United States, places us closer to our customers to handle their requests, most of which are due to product wear and tear.

In 2019 After-Sales department received almost 100,000 requests, mainly for bags and luggage, jewellery accessories, belts, jewellery, footwear and silk. After-Sales also offered new services in 2019, such as over-dyeing of silk scarves and cleaning sneakers, which extend the life of the products. All repair requests are examined, without exception, as are all small repairs to extend product life: in this way the House accompanies the daily wear and tear of its products over time.

This service to customers marks the House's uniqueness and promotes product durability to customers, with 700 different services offered, no time limit on repairs, personalised, tailored solutions and the regular launch of new services.

Management of unsold stock

The Hermès business model, based on the stores' freedom to purchase and the desirability of the products, means unsold stock volumes are naturally very low. Local subsidiaries arrange inter-store transfers to optimise sales at regional level. The retail subsidiaries hold special sales to the public to offer products which have not been sold in the stores to a wider audience. This happens twice a year in France, at the Paris Palais des Congrès, but also in all parts of the world. There is a year-round staff sale system for employees, another channel to limit wastage. In addition, for several years now, donations of de-branded products have been made to different partner associations. In France, for example, these donations are considerable. The House will comply with the French regulations on recycling of unsold stocks by 2022.

In Japan, a love passed on from mother to daughter

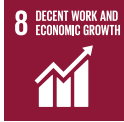
Eriko will never part with the Kelly she was given by her mother. Contemplating it, with the patina of the years and habits of the person who carried it and loved it before her, she feels this emotion so accurately described by the Japanese writer Jun'ichir Tanizaki, who wrote: "To a superficial brilliant shine we have always preferred deep, slightly muted glints, this gently altered brilliance which irresistibly evokes the passage



of time." To this young woman, a secretary at Tokyo university, there is no object more precious in the world than this bag that has been refurbished and repaired several times. She knows where her long-time companion came from and what it has lived through. Every scratch, every replaced stud, holds so many images and memories. Its dark contours hold much more than her simple everyday objects. Like a diary, it contains a story passed on from mother to daughter.

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

“Raw Materials” constitute one of the main challenges of the sustainable development strategy, and measures taken by the Hermès 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 progressively global resource efficiency in consumption and production and endeavour to decouple economic growth from environmental degradation”.
The focus on the use of materials is reflected in particular in efforts to optimise leather-cutting processes (reduced material requirements for equivalent production) but also in active management of the by-products generated.



No. 13: Climate Action

- ◆ 13.1: “Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries”.
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. 12: Responsible Consumption and Production

- ◆ 12.2: “Achieve the sustainable management and efficient use of natural resources”.
Optimising the use of exceptional materials is one of the daily concerns of the Hermès Group's *métiers*. In a context of scarcity of resources, ethics, security of supply 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: “Substantially reduce waste generation”.
Waste generation is reduced by implementing concrete actions not only to economise at production level but also to prevent waste generation by promoting eco-actions notably. The Hermès Group carefully monitors all waste and ensures, for example, the implementation of selective waste sorting and recycling systems at all of its facilities.



No. 15: Life on Land

- ◆ 15.1: “Ensure the conservation, restoration and sustainable use of terrestrial and inland freshwater ecosystems”.
The Hermès 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 implementation of sustainable management of all types 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 Hermès Group. Several leather goods sites have planted fruit trees, favouring traditional and local varieties, and have planted green spaces as beautiful flower meadows. A beekeeping club looks after the hives at the French production sites. The preservation of wetlands in Louisiana, where certain exotic skins originate from, is another example of this.

The filter gardens at the Cristallerie de Saint-Louis

2



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. In 2002, the Group launched an environmental programme aiming at limiting the impact of its activity across all areas. Pragmatic but ambitious solutions to preserve the environment in the long-term are systematically sought, trying to go further than what is required by regulations wherever possible. The priority is to control our impacts across the entire value chain, from upstream agricultural production to distribution, and from purchases to internal operations. This commitment is a mindset that requires the involvement of everyone, from investment decisions to everyday eco-actions, together with a robust Environmental, Health and Safety (HSE) culture on all sites. It is structured around policies, procedures and tools. Since 2012 in particular, the Group has set up digital management systems to measure the environmental footprint of its sites. In 2013, the approach was extended to include a greenhouse gas emissions calculation; since 2015, the environmental impacts of the Hermès Group's construction have also been measured using an automated process. These efforts drive improvements in our operational practices.

Accordingly, since the Hermès Group launched its environmental programme in 2002, and despite the six-fold increase in its industrial output:

- ◆ water consumption by industrial sites increased by only 18%, reflecting the efficiency of the programme and the water-saving actions, in particular within the tanneries and the Textile division, where water is a precious resource;
- ◆ energy consumption by industrial sites increased by 1.9, testifying to the improved control of consumption, since tanneries and La Cristallerie use half of the energy consumed by the industrial sites.

Environmental topics are supervised by a member of the Executive Committee in charge of the Manufacturing division & Equity Investments, who is supported by his Deputy Managing Director, in charge of the House's industrial affairs department, and by the construction development department. 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. These various challenges go hand-in-hand with practical objectives shared with the Executive Committee.

From a regulatory perspective, the Hermès Group's policy is to establish action plans that are adapted to the various *métiers*, in order to understand and comply with regulations (primarily adapted to a very rigorous European environment) but also to monitor progresses made.. Each *métier* is responsible for monitoring and implementing the applicable regulations. The industrial affairs and construction departments are responsible for alerts, oversight and control in this area.

Description of risks and challenges

The House's industrial affairs and construction departments have implemented programmes to address the House's environmental challenges.

1) *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 (HSE) regulations and to prepare for changes in these regulations whenever possible. The industrial department coordinates a network of HSE 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 the activities, prepare the energy transition and adapt to climate change.

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 to the principle of respecting and protecting nature. The Hermès Group's commitment to the "Act4Nature" initiative in 2018 has added a focus on biodiversity to this commitment. The partnership with WWF France supports this commitment;
- ◆ the implementation of a *métier*-based environmental management system, coordinated by the industrial affairs department and operating on a network basis (see network of HSE operatives above);
- ◆ a desire to use natural resources sparingly, particularly with regard to energy, water, and, more broadly, all natural materials needed to manufacture products;
- ◆ reduction of the Houses's environmental footprint, especially, especially in terms of discharges, emissions and waste management, which includes seeking to optimise the resources used. Since 2012, the Hermès Group's policy has incorporated the concept of voluntary carbon offset (see "Livelihoods" 2.5.2 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;

- ◆ external stakeholders dialogue. Since production is mainly in France, a large part of these discussions is carried out in the legal framework of the DREALs (Regional Directorates for the Environment, Development and Housing), but there are also frequent discussions with the municipalities where our sites are located. In addition, the natural material supply policy (for exotic leathers, for example) includes a discussion with the relevant professional and regulatory associations (such as the WWF, Crocodile Specialists Group, CSG or IUCN);
- ◆ more recently, Hermès has signed the Fashion Pact, committing for clear environmental goals, such as: 100% renewable energy by 2030 in direct operations and 30% reduction in carbon emissions by 2030;
- ◆ lastly, the House is committed to recycling by securing sustainable recycling processes and sector specific developments, to use these new materials .

2) *Construction assets*: since 2008, the Hermès Group's environmental construction policy has been coordinated by the construction development department, based on the following principles:

- ◆ the systematic adoption of an environmental stance during building work;
- ◆ helping to protect the environment by integrating buildings with their surroundings and the local architecture, while simultaneously respecting the ecosystem;
- ◆ the use of renewable energy sources whenever possible (Maroquinerie de l'Allan, Manufacture de Haute Maroquinerie, Maroquinerie de Belley, Les Abrets, Nontron);
- ◆ 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, as far as possible, and monitoring changes in regulations and techniques to take them into account in projects, in close collaboration with stakeholders, architects, engineers and suppliers.

Since 2016, in order to improve the coordination and control of environmental actions involving internal staff and external service providers, the Hermès 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.

This sustainable construction framework is designed to adapt to the specific characteristics and functions of the Hermès Group constructions. More stringent than the main frameworks existing on the market (LEED, BREEAM, HQE), it covers about 30% more criteria.

The performance levels required by the Hermès construction framework mostly stricter and take into account the geographical, regulatory and economic environment of the construction project.

Some themes are specific to it, namely the consideration of non-conventional consumptions (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 construction materials.

In 2019, the Hermès Sustainable Construction Framework included ambitions in line with Hermès Group's commitments to respect Biodiversity (Act4Nature) and to reduce emissions generated by construction.

This framework applies to all new construction or renovation projects relating to office, production and distribution sites in France and abroad. It involves Group's project managers and external partners selected by the construction department.

Industrial activities

Since 2012, in order to monitor environmental data from its industrial sites, Hermès has used 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. Since 2018, all industrial environmental indicators are reported for a period running from November through October. For methodological reasons, some of the activity data used in the Scope 3 carbon emissions calculation cover a calendar year.

For the sake of precision, the consumption (water, energy) of farms in the Precious Leathers division in Australia and the United States is presented specifically in this document.

The energy consumption of some stores for which information is not available (e.g. those located in shopping malls) is not included in this document.

Moreover, consumption figures for certain leased sites, for which no data are available, are not taken into account either as they are not significant.

Analysis and monitoring of environmental performance

Oversight of environmental actions occurs in different ways. The industrial affairs department and its HSE 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 (section 1.10 in the "Risk factors" section). Lastly, external controls are performed on the Hermès Group's suppliers to ensure coverage of all entities. The industrial affairs department consolidates the results of these audits as part of an ongoing process of improvement.

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 2019, no fines or formal notices were handed out to any of the Hermès Group's industrial sites.

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 €3.8 million.

Financial guarantees

In accordance with Article R. 516-1 of the French Environmental Code, the tanneries located in France fall within the scope of the framework for providing financial guarantees. These guarantees aim to ensure the site's supervision, the continued safety of the installation, any interventions in the event of an accident and/or pollution before or after closing, and the site's restoration after discontinuing the activity. Moreover, they also allow public bodies and local authorities to guard against any insolvency and/or default by an operator and, accordingly, to prevent the creation of orphan sites. The files relating to the tanneries have been submitted to the respective DREAL/DRIEEs responsible for the sites. The Tannerie d'Annonay is currently the only site which has received its additional prefectural order to implement these financial guarantees. The other files are still being reviewed and should be approved in the course of 2020.

2.5.1 CHALLENGE: LIMITING CONSUMPTION OF NATURAL RESOURCES (WATER, ENERGIES)

The use of natural resources and their long-term availability are fundamental challenges for human development and the sustainability of the House's activities. The control of water and energy consumption, inseparable from ecological and economic responsibility with respect to the major global challenges facing us today, is therefore a goal shared by all the House's divisions. Thanks to its artisanal model, Maison Hermès is distinguished by a low energy and water footprint in absolute terms. Its footprint is even lower in relative terms (the Hermès Group has one of the lowest carbon intensities of the CAC 40 companies in France). The métiers are working to limit their respective consumptions. Their efforts are described in more detail below.

2.5.1.1 POLICY

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 resources efficient technologies;
- ♦ innovate by using environmentally-friendly solutions (in energy, for example).

The House has a policy of using renewable energies. In particular, it works with the construction development department for the installation of photovoltaic panels, the supply of green electricity for sites in France, and the use of wood-fired boilers on some sites.

Everyone's efforts are needed at every site if we are to achieve these goals.



- 7%
**industrial
water consumption**



- 2%
**industrial energies
consumption**

2.5.1.2 MEASURES IMPLEMENTED AND RESULTS

Water

Water for industrial use is mainly used for industrial consumption in the tanneries and textile units (668,469 m³/year at global level).

Over the last 10 years, the Hermès Group has maintained its aim of decoupling, with industrial water consumption changing by a factor of 1.9 while activity grew 3.6-fold.

In 2019, global water consumption for industrial use fell significantly (down 7%) compared to 2018, despite a rise in activity at constant rates of 12.4%. This was thanks to the efforts of the tanneries and textile teams in particular, which reduced their water use in industrial processes.

In 2017, the general services department implemented an initiative to optimise consumption over the 140,000 m² of the buildings in Île-de-France. Between 2017 and 2019, despite an increase in surface area, this approach helped us reduce our electricity consumption by 9%, gas consumption by 17% and district cooling by 12%. These significant declines were achieved thanks to a new, powerful tool that enables centralised data collection, analysis and alerts, thus making it possible to identify specific sources of progress, optimise the programming of our buildings and pinpoint which equipment needs to be updated. This initiative will be fully rolled out by the end of 2019 across 56 sites, covering a total of 220,000 m² in France.

In addition, the farms (United States, Australia) use water in the crocodile breeding tanks, representing a volume of 4,513 k m³/year (water withdrawal including recycled volumes from the cane sugar production plant).

As mentioned under section 2.5.2 “Adapting to climate change”, a water risk assessment was conducted alongside WWF in 2019 using the Water Risk Filter and Acqueduct tools, the latter being developed by the WRI (World Resources Institute). The findings will be gradually incorporated into the sites’ action plans.

Water usage data by stores are not published owing to the insignificant proportion of the Hermès Group’s overall water use it represents, being mainly water used in washrooms.

Access to water

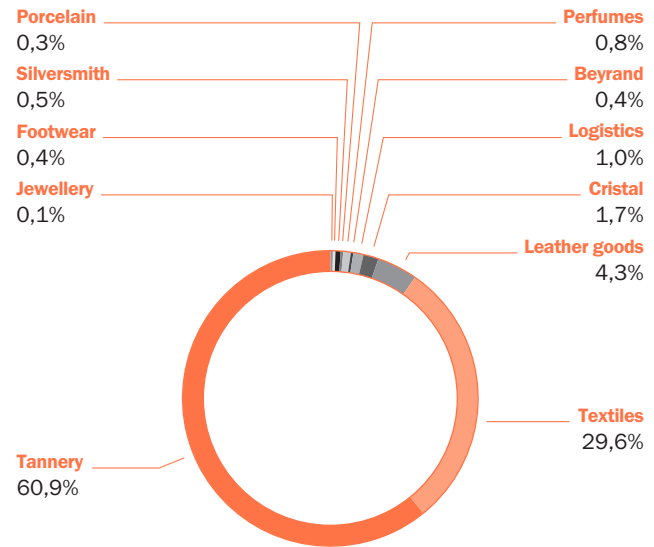
It should be noted that Hermès is committed to providing all its employees with access to drinking water and sanitation and hygiene facilities at their workplace.

INDUSTRIAL WATER

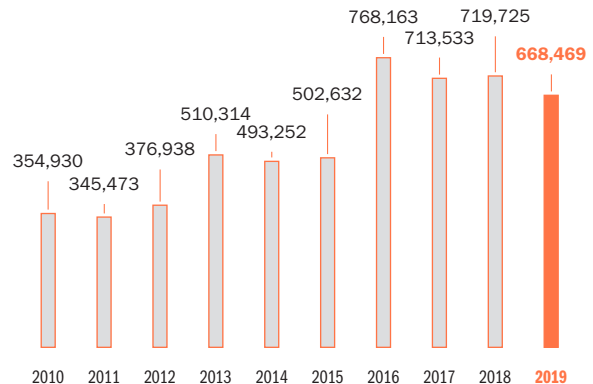
| IN THOUSANDS OF M ³ | 2018 | 2019 |
|--------------------------------|------|------|
| Tanneries | 434 | 407 |
| Textile | 219 | 198 |
| Leather | 33 | 29 |
| Cristallerie | 11 | 11 |
| Other | 23 | 23 |
| Total | 720 | 668 |

Note: figures for farms in the United States and Australia, whose consumption is by nature different, are not included in these charts.

INDUSTRIAL WATER BY MÉTIER IN 2019



CHANGE IN INDUSTRIAL WATER CONSUMPTION (IN M³)



| GROUP | 2017 | 2018 | 2019 |
|--------------------------------------|------|------|------|
| Intensity m ³ /Revenue €M | 129 | 121 | 97 |

Tanneries

Hermès operates six tanneries, four of which are in France (Annonay, Le Puy-en-Velay, Vivoin and Montereau), one in Italy and one in the United States.

Water consumption and effluent treatment are major challenges for the Hermès 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.

Water consumption control is based on monthly monitoring of 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 analysed and verified in order to locate and repair any possible leaks. The division's total water consumption was down 7% in 2019 for production activity very similar to that of 2018. This decline was driven by all the daily efforts described above and in particular the measures implemented in the Puy tannery to optimise water consumption for process requirements (2016 consumption: 315 K m³, 2019: 204 K m³).

| TANNERIES (FROM NOVEMBER 1 ST N-1 TO OCTOBER 31 ST N) | 2015 | 2016 ¹ | 2017 | 2018 ² | 2019 ² |
|---|---------|-------------------|---------|-------------------|-------------------|
| Water in m ³ | 184,956 | 501,775 | 436,997 | 433,895 | 407,231 |

(1) The reporting scope includes Les Tanneries du Puy, acquired in November 2015.

(2) The reference period is the 12-month period from November 1st of the previous year to October 31st of the current year.

N.B.: figures for farms located in the United States and Australia, whose consumption is by nature different, are not included in these figures.

Farms

The Farms division comprises an alligator farm in the United States (*Alligator mississippiensis*), three crocodile farms in Australia (*Crocodylus porosus*) and two hide processing and inspection sites in Australia. They represent a strategic link in the crocodile hide supply chain.

Water consumption and effluent treatment are major challenges for the farms. Water is a vital component in the breeding of crocodilians, which are aquatic reptiles. Their body temperature varies according to external factors (air and water temperature, in particular). As such, they require breeding tanks with the right water temperature and satisfactory bacteriological quality, which contribute to the thermoregulation process and their well-being.

The water used in the farms of the Australia division comes mainly from boreholes (63%) whereas the use of municipal sources is limited (11.38%). The balance (25%) corresponds to recycled process water used in a sugarcane production plant located near a farm. The water from this sugarcane production plant alone covers half the neighbouring farm's requirements throughout the greater part of the dry season (from June to December), while also saving energy. The sugarcane extraction process produces a high amount of steam. Some of this steam, converted into water with a temperature of between 50 and 60 °C, is then channelled to the farm via a 10 km-long pipe. The temperature and flow achieved at the farm's entrance are then adjusted so that the water can be used in the tanks immediately. Use of this water doubled between 2015 and 2018, thus requiring a storage basin to be built in 2016 to absorb these additional volumes and allow the water to cool down slightly before directing it to the tanks. Depending on climate conditions and the stage in the breeding cycle, the water can be pre-heated or the

temperature kept stable by way of boilers. In addition, as is discussed below in section 2.5.3.2, an industrial ecological system has been implemented locally as wastewater from this farm is then used to irrigate the sugarcane fields.

The American farm uses only borehole water derived from hot water sources, enabling it to substantially limit its energy requirements.

Water consumption control relies on the monthly monitoring of the farms' water consumption and the water quality of the tanks and effluents (in accordance with applicable standards). Each farm is thus equipped with biological effluent treatment tanks (see "Effective waste management solutions" below). In 2019, the farms abstracted 4,513 k m³ of water. The water sample data from the Pinnacle farm in the United States contains significant uncertainties related to the measurement equipment installed in 2019.

Textile division

Water is an essential and precious element in silk ennoblement, whether used in washing, dyeing or dye preparation processes. The Silk division makes daily efforts to minimise its water requirements, find innovative solutions to increase the proportion of recycling, and quantitatively monitor the impact of the actions carried out.

By way of example:

At the AEI site, in order to mobilise each employee to achieve the targets, the quantity of water used per kilogram of silk produced is included in the calculations for incentive schemes. The division's water consumption is also a sector-specific incentive criterion for all HTH employees.

The ITH and AEI sites have conducted campaigns to identify and treat leakages in water used for sanitary installations. These actions helped reduce the consumption of municipal water by 2,000 m³ (i.e. 30%) at both sites.

The Gandit facilities engraving line, the main water consumer at the site, was reconfigured this year to operate at 57% in a closed circuit. Since 2017, the site's green space has been watered using a rainwater harvesting system.

At Ateliers AS, the total decline in water consumption (domestic and borehole) was 4.6%. These results were achieved thanks to the continued implementation of the daily water consumption monitoring plan, and the full-year effect of the investment made in 2018 on the washing machine for several printing lines, allowing water to be recycled by decantation, which is much more effective than the previous system. The commissioning this year of a new printing line that incorporates the latest water recycling improvements should make it possible to continue these positive results in the long term.

At SIEGL, a technical study was launched to improve the performance of the existing treatment plant. After several tests involving various possible processes, the construction of a new plant started in October and is due for completion at the end of 2020. The specifications include clear targets for reusing the water effluents generated by the processes, with a first target of 5% recycling as from 2020 (year in which the facility will be started up and developed). Furthermore, the process for washing digital printing machines has been changed.

Maintaining or launching these various local initiatives has delivered practical results, since the sector's overall consumption has been declining for several years in relation to its activity.

Over a period of five years, the sector has managed to reduce its water consumption by 22.7% in its production of silk scarves and other textile products, despite the activity's growth.

TEXTILE (FROM NOVEMBER 1ST N-1 TO OCTOBER 31ST N)

| | 2015 | 2016 | 2017 | 2018 | 2019 |
|-------------------------|---------|---------|---------|---------|---------|
| Water in m ³ | 256,534 | 210,577 | 219,968 | 219,458 | 198,300 |

Leather

The production units of the Leather Goods division have a low environmental impact in terms of water, which is used only for sanitary purposes. No water is used in production processes.

With consumption of 28,802 m³ in 2019, the Leather division's water consumption declined by 4,005 m³ compared with 2018. The ratio measuring water consumption (at constant activity scope) improved by 21% compared with 2018.

There are three main reasons for these results:

- ♦ the implementation of management tools enabling more precise management and earlier identification of any leakages;

- ♦ water-saving actions. The Sayat production unit, for example, has introduced flow rate restrictors in the sanitary facilities;
- ♦ the implementation of communication and operational control actions among employees.

The "Water" environmental impact is taken into account when designing new production units: in the most recent Leather Goods division's units built (Tardoire, Iséroise & L'Allan), a rainwater harvesting system has been installed to supply the sanitary facilities with water (main source of water consumption in our production units).

LEATHER (FROM NOVEMBER 1ST N-1 TO OCTOBER 31ST N)

| | 2015 | 2016 | 2017 | 2018 | 2019 |
|-------------------------|--------|--------|--------|--------|--------|
| Water in m ³ | 27 929 | 24 590 | 27 274 | 32 810 | 28 802 |

Cristallerie

Water consumption totalled 11,358 m³ in 2019. In comparison to previous years and with respect to the activity level, this consumption is stable. The savings made with respect to the previous year were mainly due to technical optimisations applied to the melting and finalisation

processes, with new installations enabling water recycling, together with organisational efforts to reduce water consumption.

Moreover, a study was carried out to identify a solution to recycle the wastewater treated by the neutralisation station.

CRISTALLERIE (FROM NOVEMBER 1ST N-1 TO OCTOBER 31ST N)

| | 2015 | 2016 | 2017 | 2018 | 2019 |
|-------------------------|--------|--------|--------|--------|--------|
| Water in m ³ | 11,662 | 10,578 | 12,275 | 11,088 | 11,358 |

Energy (electricity, gas)

Energy consumption (electricity, gas) is 203,640 MWh/year at Group level. The energy is almost entirely consumed by manufacturing activities (the cristallerie, the tanneries, textile, leather), which represent nearly 78%, i.e. 158k MWh/year (stores and offices represent 22% of the total). The consumption of renewable energy generated by the Group

(photovoltaic panels, wood-burning furnaces, geothermal energy, biomass, etc.) is not consolidated due to its low materiality.

The Group's consumption is distributed as follows, in a context in which the Hermès Group manufactures 61% of its objects in Hermès exclusive and internal workshops.

| GROUP IN MWH | Industry | Stores | Services | Total | Intensity in GWh/Revenue €M |
|---------------------|-----------------|---------------|-----------------|--------------|--|
| 2017 | 160,662 | 31,234 | 16,510 | 208,406 | 0.038 |
| 2018 | 161,531 | 31,305 | 15,846 | 208,682 | 0.035 |
| 2019 | 158,117 | 31,952 | 13,952 | 203,640 | 0.030 |
| 2019 in% | 78% | 16% | 6% | 100% | |

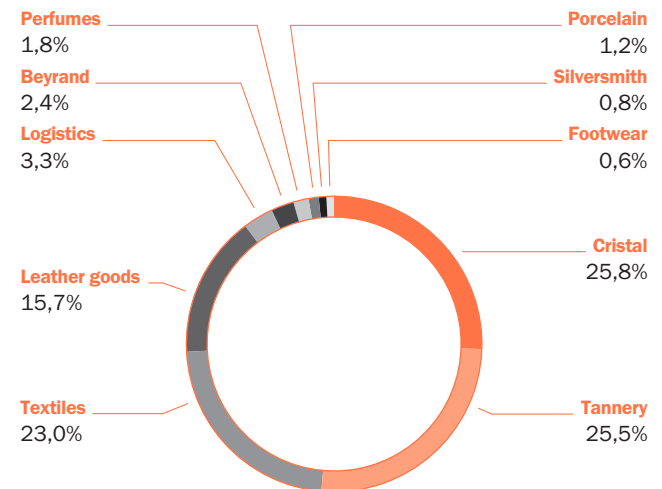
Over the last decade, the Hermès Group has maintained its ambition of decoupling consumption from growth with an increase in industrial energy consumption of 1.34 times compared with an increase of 3.6 in activity volumes. This result testifies to the improved management of consumption. In 2019, total energy consumption decreased slightly (-2.1%) compared to 2018.

Overall, energy consumption in La Cristallerie, Textile, Leather, Tannery and Construction divisions was down slightly compared with 2018, despite increased activity, marking the efforts made in this area.

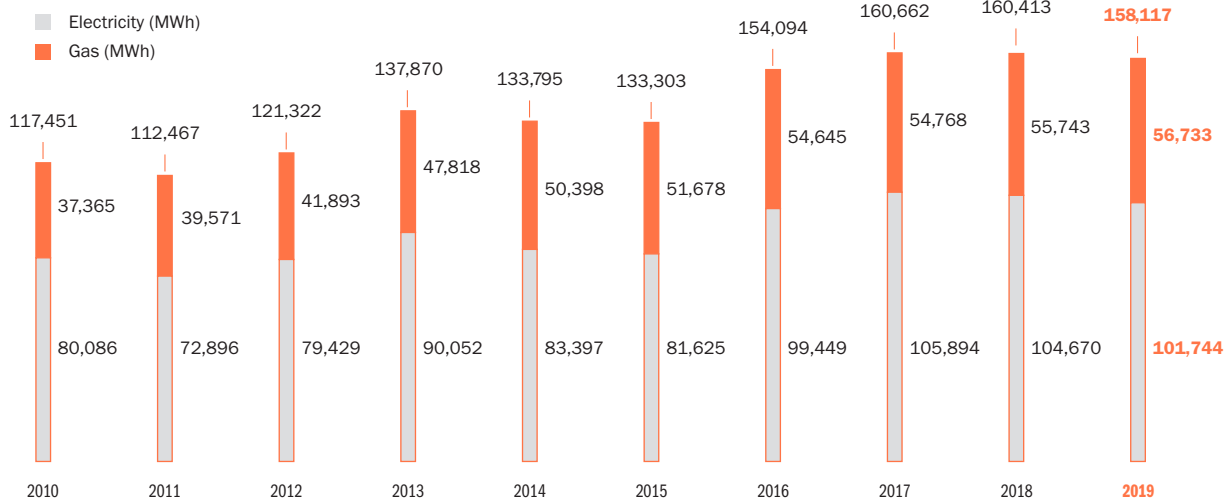
INDUSTRIAL ENERGY

| IN GWH | 2018 | 2019 |
|---------------|-------------|-------------|
| Cristallerie | 42 | 41 |
| Tanneries | 41 | 41 |
| Textile | 37 | 35 |
| Leather | 24 | 22 |
| Other | 18 | 19 |
| TOTAL | 162 | 158 |

ENERGY CONSUMPTION (GAS, ELECTRICITY) BY MÉTIER 2019



CHANGE IN ENERGY CONSUMPTION (ELECTRICITY, GAS) IN 2019



INDUSTRIAL - GROUP

| | 2017 | 2018 | 2019 |
|-----------------------------|------|------|------|
| Intensity in MWh/Revenue €M | 29 | 27 | 23 |

Since November 1st 2015, Hermès has decided to participate actively in the energy transition process. All the French sites (production, services, stores) are now 100% supplied with green electricity (hydro) produced in France. Worldwide, the Group was 78% supplied with green electricity in 2019.

In signing the Fashion Pact, the Hermès Group has committed to lead its companies towards actions that are compatible with the Paris agreement 1.5°C trajectory, through a "fair transition" to achieve net zero CO2 emissions in 2050. Since 2002, the Hermès Group has been decoupling energy consumption from the growth of its activity: the energy consumption of the industrial sites has only doubled, while industrial activity has quadrupled, testifying to improved management of its consumption. In 2019, this indicator was included in the calculation of the Executive Chairman's compensation. To continue these efforts, since September 2019 Hermès has been auditing energy consumption on all industrial sites, office sites and stores in France. The audit results have provided data for the energy sobriety action plans for each of these sites. For its new sites, particular attention is paid to environmental impacts and more specifically to energy consumption. New production units are built with future energy efficiency in mind. This entails advance work structured around priorities: adjusted construction measures, energy consumption, energy management tools, sobriety of the equipment installed and implementation of renewable energy production solutions.

The general services department has established an energy Management System that includes water consumption. This tool has triggered a dramatic drop in water consumption (down 10% from 2017 to 2019) thanks to the management of alerts through remote meter reading and the replacement or improvement of certain equipment in the Île-de-France buildings.

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 gas melting furnace) as well as the reorganisation of the hot-part workshop are good examples of this.

Although the production unit's output increased by volume, the initiatives implemented in 2019, particularly the optimisation of the operating settings for multipot furnaces and the gradual replacement of high-consumption equipment, helped to improve the production unit's energy efficiency.

Total energy consumption changed following the replacement of the main multipot furnace at the end of 2016. The various operations and adjustments made during 2019 to stabilise this new facility have had a positive impact on the energy consumption profile. Electricity consumption has stabilised, whereas natural gas consumption decreased compared with 2018. The replacement at end-2018 of a natural gas-fired cellular furnace by an electric energy facility, and the replacement at end-2019 of two openings, are part of this strategy to optimise the site's energy efficiency.

The site's fuel oil consumption corresponds to that of the generators, especially during their periodic testing. The replacement of the generators in 2016 and 2018 has substantially reduced the site's fuel oil consumption.

Lastly, a new energy audit was conducted in 2019 with a focus on the production unit's process and buildings, and energy savings and recovery. The findings of this audit will be used in projects conducted in

the coming year, in particular the renovation of the Logistics division, which will be carried out in 2020 and 2021.

CRISTALLERIE (FROM NOVEMBER 1ST N-1 TO OCTOBER 31ST N)

| | 2015 | 2016 | 2017 | 2018 | 2019 |
|--------------------|---------------|---------------|---------------|---------------|---------------|
| Electricity in MWh | 8,578 | 7,534 | 6,599 | 6,927 | 6,954 |
| Gas in MWh | 27,020 | 27,303 | 35,193 | 35,243 | 34,251 |
| Fuel oil in MWh | 190 | 96 | 71 | 27 | 32 |
| TOTAL | 35,788 | 34,933 | 41,863 | 42,197 | 41,237 |

Tanneries

The division's power consumption remained stable between 2018 and 2019.

The Tanneries are continuously working to improve the energy efficiency of existing facilities, during renovations or during the construction of new premises. By way of example, the following points are receiving special attention: supervision of equipment by centralised technical management system (GTC), thermal insulation of buildings, insulation of pipes, and the replacement of conventional lamps by LED lights.

Moreover, the Tannerie de Vivoin benefited from an energy audit in 2019 as part of the energy audit programme initiated by the Hermès Group. This audit is not directly covered by the regulatory framework governing the performance of an energy audit (Decree No. 2013-1121 of December 4th 2013 and Article L. 223-1 of the French Energy Code), since the Tanning and Precious Leathers division's tanneries are not subject to the regulation. However it includes the same regulatory requirements and supplements them with a thorough analysis of the buildings and technical equipment. This programme will be rolled out in the Tanning and Precious Leathers division's other tanneries in 2020.

The Paris headquarters of the Tannery division conducted a regulatory energy audit of its premises during the year.

TANNERIES (FROM NOVEMBER 1ST N-1 TO OCTOBER 31ST N)

| | 2015 | 2016 ¹ | 2017 | 2018 ² | 2019 ² |
|--------------------|---------------|-------------------|---------------|-------------------|-------------------|
| Electricity in MWh | 6,572 | 10,627 | 11,031 | 11,269 | 11,438 |
| Gas in MWh | 15,019 | 30,085 | 29,690 | 30,010 | 29,808 |
| Fuel oil in MWh | 52 | 48 | 59 | 42 | 30 |
| TOTAL | 21,643 | 40,760 | 40,780 | 41,321 | 41,276 |

(1) The reporting scope includes the Le Puy tanneries, acquired in November 2015.

(2) The reference period is the 12-month period from November 1st of the previous year to October 31st of the current year.

Note: The farms located in the United States and Australia are excluded from the reporting scope.

Textile division

Energy consumption (gas and electricity) can be attributed mainly to equipment that 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: SIEGL has thus invested €50,000 in changing the lighting in its kitchen, fixing rinsing and inkjet workshops; at Ateliers AS, two printing lines are now fully lit with LED lamps, as are two pedestrian walkways.

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. These indicators are communicated to all employees each month, accompanied by a commentary. The purchase of a new boiler in 2018, fitted with an exchanger and a high-output burner as well as the installation of thermal insulating mattresses for steam pipes reduced gas consumption by 13.7%.

On the Bourgoin-Jallieu site, electricity consumption, which is the main source of energy both for heating and cooling of buildings, continued to drop in spite of the 8% increase in the workforce. This was achieved through a combination of investments in equipment, programming adjustments and awareness-raising initiatives. Electricity production via photovoltaic panels also enables the site to generate energy savings with an annual output of about 15 MWh. Lastly, there are patrols every evening on the site to check that all lights have been switched off and to adjust the air-conditioning equipment if necessary.

At Ateliers AS, next-generation burners and an economiser were installed on the steam production boilers to reduce natural gas consumption. This modification, which was recommended after an energy audit conducted in 2018, should increase output by 3% in the long term.

On the ATBC site, changes have been made to reduce gas and electricity consumption. For example, air conditioning set-points are blocked during the summer to prevent excessive consumption. In the older part of the building, the insulation and sealing of the roof was entirely renovated to substantially reduce energy losses.

| TEXTILE (FROM NOVEMBER 1 ST N-1 TO OCTOBER 31 ST N) | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---------------|---------------|---------------|---------------|---------------|
| Electricity in MWh | 13,034 | 12,856 | 12,081 | 12,058 | 11,754 |
| Gas in MWh | 25,407 | 26,016 | 25,702 | 25,389 | 23,511 |
| TOTAL | 38,441 | 38,872 | 37,783 | 37,447 | 35,279 |

Leather Goods division

Electricity is the main source of energy for the production units. The main areas of consumption are lighting, air-conditioning, ventilation, office automation and sometimes heating (depending on the site).

Consumption in 2019 was 6% lower than in 2018 and the ratio of electricity consumption to the level of activity improved by 15%. These improvements are primarily due to:

- ♦ the installation of LED lamps, which consume less energy, at most production units;
- ♦ changing air-handling units (AHU) and the improvement of management and time-control systems;

- ♦ the installation of motion sensors with time-delay switches for turning lights on and off;
- ♦ improvements to the insulation of building structures;
- ♦ improvements to the compressor management system.

Gas is only used to heat 12 of the Hermès leather goods workshops.

Consumption in 2019 was 11% lower than in 2018 and the ratio of gas consumption to the level of activity improved by 20%. These improvements are primarily due to insulation works, process optimisation of boilers and technical operations on these boilers.

| LEATHER (FROM NOVEMBER 1 ST N-1 TO OCTOBER 31 ST N) | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---------------|---------------|---------------|---------------|---------------|
| Electricity in MWh | 13,581 | 14,317 | 15,217 | 16,056 | 15,140 |
| Gas in MWh | 7,071 | 7,533 | 8,975 | 8,225 | 7,354 |
| TOTAL | 20,652 | 21,850 | 24,192 | 24,281 | 22,494 |
| Electricity – Consumption as a proportion of activity | 77 | 75 | 75 | 75 | 63 |
| Gas – Consumption as a proportion of activity | 55 | 56 | 60 | 52 | 42 |

Construction

Our environmental reporting primarily measures the energy consumption of stores and the offices of distribution branches around the world. Since 2015, this reporting has been further strengthened by the gradual deployment of an automated system to consolidate energy consumption data on all new construction sites.

The energy consumption of exclusive concession stores, not operated by the Group, is not included, neither is the consumption of certain branches in shopping centres, because of the difficulty (even impossibility in some cases) to obtain currently information.

Energies consumptions data are only available when it is possible to install individual meters.

Methodological note

New sites are included in the reporting from the date of opening, or when they are consolidated by Group; sites that close or leave the Group during the year covered by the reporting are also taken into account on a *prorata* basis. Primary data are collected from contributors at each distribution subsidiary (through a network of over 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 are then consolidated. For energy consumption, only the electricity consumption indicator is published. The consumption of other forms of energy, which is very marginal, is excluded from this publication.

Electricity consumption data from the distribution grid covers nearly 79% of Hermès branches across the world, as well as the John Lobb, cristallerie 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 34% of total consumption of the building, hosting also offices and workshops. Total consumption at Faubourg-St-Honoré dropped 12% in 2019 with the switch to LED lighting, the optimisation of air-handling units and a reduction in equipment operating hours.

In Europe (excluding France) almost 95% of stores are included in the reporting. 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, 72% of stores are covered, including 79% of stores in the United States.

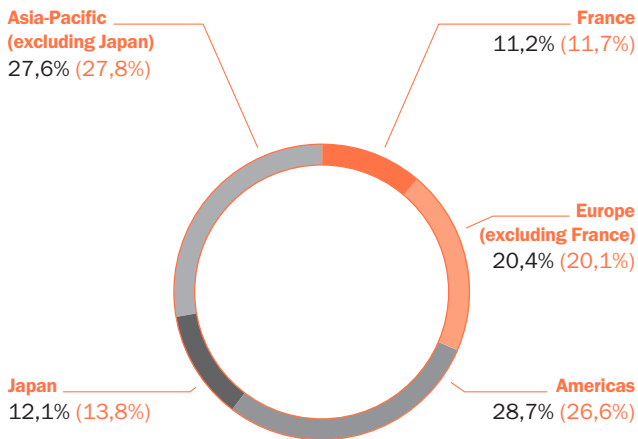
Consumption of stores

Stores consumed 31,952 MWh of electricity in 2019, making an increase of 2% compared to 2018. These figures are correlated to a large extent by a balance between sales surface areas, mainly in Asia and the United States, and store closures and openings.

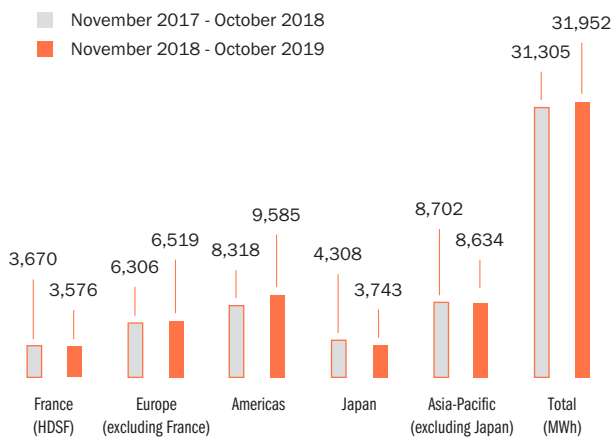
The downward trend in the ratio of energy consumed by unit of sales surface (KWh/m²), especially in France and Asia, is attributable chiefly to the increase in LED lighting, together with improved management of energy consumption, which continued in 2019.

Offices and ancillary premises consumed 13,571 MWh in 2019, 11,679 MWh of which at the Paris and Pantin sites.

ELECTRICITY CONSUMPTION OF STORES BY GEOGRAPHICAL AREA (IN MWH)



BREAKDOWN OF ELECTRICITY CONSUMPTION OF STORES BY GEOGRAPHICAL AREA IN 2018/2019



Optimisation

Improving energy efficiency in our stores means optimising the main areas of energy consumption, which are lighting and air conditioning.

Lighting

Since 2013, an “all-LED” lighting solution for all window displays, shelving and ceiling lights has been extended to all new store projects.

From 2014, the store projects department developed a range of LED bulbs specially developed for Hermès and adapted to all existing installations and equipment.

In 2019, 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 the Hermès Group stores equipped with LED lighting systems to 80% at the end of 2019, with an average reduction in energy consumption of about 20%.

In addition, window and store lighting schedules continue to be deployed 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 projects and store renovations throughout 2019.

Thermal insulation

Special attention is paid to insulating store façades and industrial buildings by improved external insulation.

In 2019, other initiatives (installation of individual electricity consumption meters and motion detector systems in fitting rooms, washrooms and back offices) were continued in all new store projects. These automated energy consumption consolidation systems offer constant visibility which allows rigorous management of energy use. Increasingly efficient new technical solutions are constantly being evaluated for gradual incorporation into existing stores.

In 2019, energy and thermal audits campaign was carried out on all industrial and distribution sites in France. These audits made it possible to assess and schedule the improvements and the renovation of the building structures needed, as well as the renovation of technical equipment in buildings, in order to keep energy consumption as low as possible.

Measures to improve energy efficiency

In the conception phase of new leather goods production units, a special attention is paid to environmental impacts and more particularly, to energy consumption. New production units are built with future energy efficiency in mind. This proactive work focuses on four priority areas:

- ♦ energy consumption: this parameter is one of the main challenges of the technical programmes for new leather goods production units. 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 most suited solution for the construction project is selected. For example, the most recent leather goods production unit, commissioned at the end of 2017 (l'Allan production unit), was constructed to meet the very demanding standards of the HQE label, meaning it exceeds the 2012 Thermal Regulation objectives 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 commissioned (l'Allan production unit) has a park of photovoltaic panels for generating electricity of 152 kWp 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, are more energy-efficient. This approach can be implemented through a partnership with suppliers.

In 2018, the two least-efficient production units, in terms of energy related to heating and air-conditioning, underwent a thermal audit with a thermographic analysis of the building structure, allowing a specific investment programme to be drawn up for the coming years.

In 2019, in-depth energy audits were conducted on all the leather goods production units in the Leather division, providing a clearer picture of the energy profile of each unit and identifying specific or cross-cutting priority areas.

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 has been certified as coming 100% from renewable sources since 2015. In addition, the Group is developing pilot initiatives which aim at being expanded together with new investment projects, available technologies and regulations in force, when they are coming up.

As part of the Fashion Pact, Hermès has committed to implement a policy of 100% renewable energies in its own operations by 2030.

Leather Goods division

The two renewable energies used by the Leather Goods division are:

- ♦ wood, which is used to heat the production units of Belley, Les Abrets and Nontron;
- ♦ solar energy: the L'Allan production unit has photovoltaic panels that provide 14.8% of the electricity used by the site. In 2019, the MHM leather goods production unit in Aix-les-Bains signed a contract with an electrical power supplier to install a 292 kWp photovoltaic power plant on the roof shades of its car park. This renewable energy production generates approximately 25% of the site's energy needs.

For the Leather Goods & Saddlery division, the renewable energy generated by the production units accounted for 4% of consumption in 2019.

As a reminder, all energy consumed by the division is also green.

| LEATHER | 2015 | 2016 | 2017 | 2018 ⁽¹⁾ | 2019 |
|---------------------------|------|------|------|---------------------|------|
| Renewable energies in MWh | 546 | 495 | 444 | 1,247 | 895 |

(1) The reference period is the 12-month period from November 1st 2017 to October 31st 2018.

Tanneries

At Cuneo in Italy, electricity production from 296 photovoltaic panels installed on the roof of the tannery and through gas cogeneration covered 25% of the site's total electricity consumption in 2019.

Farms

In 2019, the Australia division undertook a study on the installation of photovoltaic panels on all its sites (farms and transformation facilities). The five sites of the division are now fitted with photovoltaic panels installed on the buildings that house offices, storage and technical installations. Although they have already produced their first kilowatt-hours, these installations will be fully operational in 2020, with a target of providing an average of 30% of the electricity used by the sites and, if necessary, to reinject what has not been used by the site into the grid.

Construction

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.

2.5.2 CHALLENGE: MANAGING GREENHOUSE GAS EMISSIONS

As mentioned above, Hermès is gradually taking practical measures to reduce its energy consumption and carbon footprint across all scopes. This involves, in particular, controlling our greenhouse gas (GHG) emissions through direct actions to reduce emissions across the entire value chain, as well as through a voluntary offset of emissions.

2.5.2.1 POLICY

The Hermès Group's policy is to assess the impact of its 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 then implement offset initiatives. The Hermès Group's approach follows the COP 21 Paris Agreement.

As part of the Fashion Pact, Hermès has committed, together with many companies in the fashion industry, to adopt climate science-based targets and to implement actions compatible with a 1.5 degree global warming trajectory through a "fair transition", in order to reach zero net emissions in 2050.

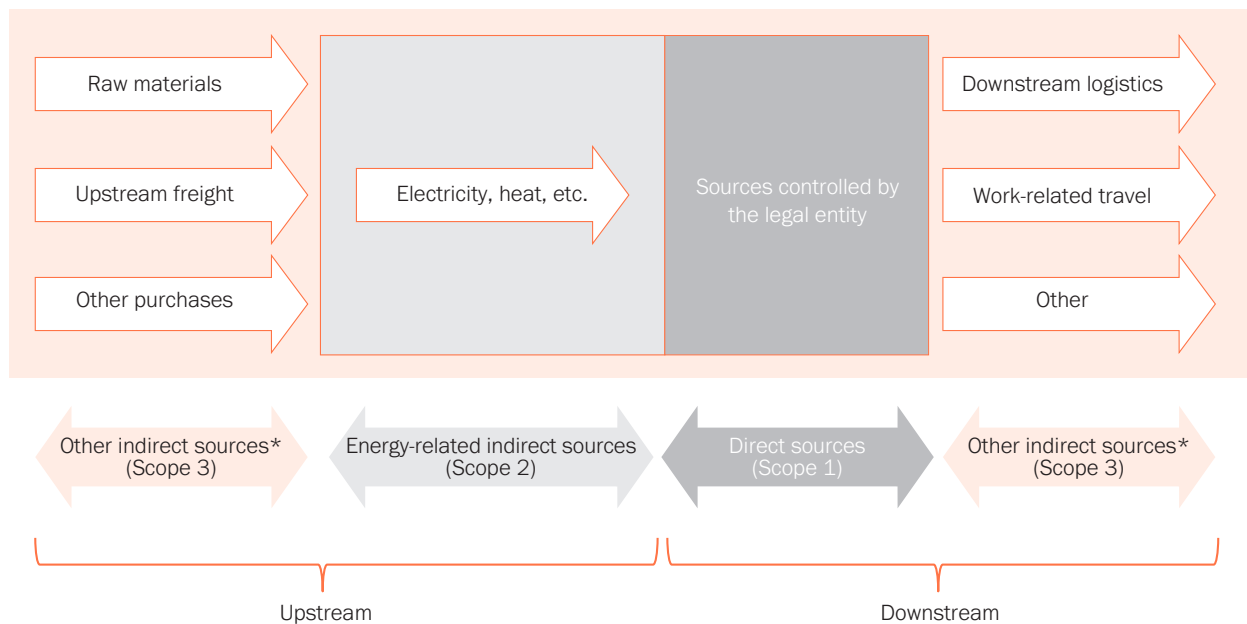
The GHG policy is overseen by the Sustainable Development Committee, on which two members of the Executive Committee sit, as well as the Deputy Managing Director in charge of Industrial Affairs and the Managing Directors directly in charge of the Group's major emitters (*métiers*, logistics and construction). The Hermès Group's carbon strategy was approved by the Executive Committee. Lastly, the climate risk mapping has been drawn up in the framework of the CDP's Climate

Change Project (with a score of B obtained in 2019) and is updated every year in line with the development of knowledge in the field.

2.5.2.2 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 July 12th 2010), Hermès has published its Bilan Carbone® (Carbon Assessment), 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).

Hermès details its scopes 1, 2 and 3 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).



* Sources of emissions unaffected by regulatory requirements
Source: Ministry of the Environment

In 2019, the Hermès Group's Bilan Carbone® (Carbon Assessment) was 543.8 k T CO₂ eq, down 7% from the previous year. The breakdown is as follows:

- ◆ 42.3 k T CO₂ eq for scopes 1 and 2, that are, emissions from production sites, offices, logistics centres and stores. In understanding this figure, it should be recalled that the Company has a business model in which 61% of objects are made in Hermès exclusive and internal workshops;
- ◆ 501.5 k T CO₂ eq for scope 3, which essentially takes into account the carbon footprint of raw materials (73% of scope 3) as well as all purchases, fixed assets, waste, subcontracting, packaging, transport of products and employee's travels. In 2019, scope 3 of the GHG assessment underwent improvement on the scopes and input data. The emission factors were also updated based on internationally recognised baselines.

These figures confirm the merits of a low-environmental-footprint French craftsmanship model: with a carbon intensity of 6.2 (scopes 1 and 2) or 79 (all scopes), Hermès is ranked as one of the least carbon-intensive companies of the CAC 40. The decoupling of the Hermès Group's activity growth from its footprint is being borne out, with a decline in absolute value starting to be seen (see breakdown of actions below).

As an investor in the Livelihoods carbon fund since 2012, Hermès receives carbon credits every year, and the quantity is increasing as it develops initiatives. In 2019, Hermès was eligible for 43,800 credits (compared to 35,700 in 2018), which offset all of its scopes 1 and 2 emissions, ahead of schedule on its targets. This means that the Hermès Group is neutral on its scopes 1 and 2, and the Group's net carbon footprint is 500 k T CO₂ eq after offsetting.

Hermès' scopes 1, 2 & 3 emissions are as follows:

| IN K T CO ₂ EQ | 2017 | 2018 | 2019 | Change |
|--|------|--------------|--------------|------------|
| Scopes 1 and 2 (A) (production sites, offices, logistics centres, stores) | 42.3 | 42.2 | 42.3 | 0.2% |
| Scopes 1 and 2 carbon intensity (in k T CO ₂ eq per € million revenue) | 7.6 | 7.1 | 6.2 | -14% |
| Scope 3 (materials, purchases, fixed assets, waste, subcontracting, packaging, transport, travel) | | 542.2 | 501.5 | -8% |
| Total carbon footprint | | 584.4 | 543.8 | -7% |
| Scopes 1, 2 and 3 carbon intensity (in k T CO ₂ eq per € million revenue) | | 98 | 79 | -24% |

| IN K T CO ₂ EQ | 2017 | 2018 | 2019 | Change |
|---|-------|--------------|------------|-------------|
| Carbon offset (B) | -21.5 | -35.7 | -43.8 | 18% |
| Scopes 1 and 2 net emissions (after offset) (A-B) | 20.8 | 6.5 | -1.5 | |
| Net carbon footprint (all scopes) | | 548.7 | 500 | -10% |

The diversity of the Hermès Group's activities means that the areas responsible for the highest scopes 1 and 2 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 *metiers*. Special attention is paid to the energy consumption of stores, which account for 16% of total consumption. Consumption reduction measures are presented above.

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 the Hermès Group's specific needs. This approach will be refined as progress is made in this area.

For Hermès, the main 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]);
- ♦ purchasing and sub-contracting (category [1]);
- ♦ transport of goods and products upstream of production units, 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 travels (categories [6] and [7]).
- ♦ upstream energy consumed (categories [3]);
- ♦ fixed assets (category [2]);
- ♦ waste generated in operations (category [5]).

Within scope 3, in addition to materials, transportation represents a major share of emissions, which is the trade-off for French production and global distribution. As described below, these items are analysed in detail and subject to operational actions to lessen their impact.

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 Hermès Group's activity as described in



- 14 %
carbon intensity
at production
sites, logistics
centres and
stores
(scopes 1 et 2)

The scope 3 changes observed stem from the reduction of emissions in some categories, the better measurement of other categories (estimates replaced by more precise calculations) and the update of the emissions factors.

Construction

In 2019, the Hermès Group performed two Bilans Carbone® (Carbon Assessments) one on a production site (Maroquinerie Iséroise des Abrêts) and one on a distribution site (George V store in Paris).

These assessments made it possible, on the one hand, to assess the environmental impact of the constructions, on the other hand, to adjust the standard layout and construction benchmark to guide our ambition to reduce CO₂ emissions on future projects through the Hermès sustainable construction framework.

The sustainable construction framework addresses carbon challenges and targets stemming from the Hermès Group's commitments related to new construction, renovation and dismantling projects.

In order to improve the Bilan Carbone® (Carbon Assessment) of new stores and new buildings, special attention must be paid to the choice of building materials, the reduction of their weight, the efforts to source supplies locally, and the modes of transportation with low carbon emissions.

The Hermès International construction department has committed to reducing the carbon footprint/m² of areas built or fitted by 50% between now and 2030. It should be noted that the scope retained for the calculation of the stores' Bilan Carbone® (Carbon Assessment) is the same as that for energy consumption (it only includes stores for which data is available).

Transportation

The commercial department is working on projects to improve the Hermès Group's logistics footprint. The main projects concern local transport services, giving priority to the use of carbon-neutral modes of transport; longer-distance transport, replacing air transport with sea or rail transport to replace air one when possible.

Local transport, i.e. deliveries from local warehouses to city centres, uses electric or hybrid vehicles whenever possible. The French logistics centre, for example, uses hybrid or electric vehicles for deliveries to the Paris sites.

For longer-distance transport (Asia, United States), sea transport is preferred when the nature, volume and quantity of the items to be shipped make it possible. This concerns in particular publications (for example the biannual magazine *Le Monde d'Hermès*), items related to communication events and store layouts. Tests are also conducted for sea (to Asia and the United States) or rail transport (to China) for other categories of items, in particular the uniforms of sales associates, furniture, leather goods and shoes.

Calls for tenders for goods transport systematically include a criterion related to the improvement of the carbon footprint.

Lastly, the optimisation of volumes transported will drive the improvement in our logistics footprint. In 2019, we modernised our order preparation tools: automated pre-packing, optimisation of order

preparation circuits and automated adaptation of the height of transport crates before closing, all contribute to reduce the volumes transported, for an equivalent number of items.

Tanneries

The Bilan Carbone® (Carbon Assessment) for the Tanning and Precious Leathers division was updated for 2019. The division's scopes 1, 2 and 3 emissions (excluding impacts related to livestock farming) increased between 2018 and 2019 (+5%). This increase is primarily due to the increase in emissions related to exotic skin supplies and waste production (see "Waste" below). These two sources of emissions, together with energy consumption and chemical products, accounts for more than 95% of emissions from production sites, with the energy consumed (gas and electricity) alone one-third of these emissions.

Since 2010, a sea transport system was set up for the skins of *Alligator mississippiensis* from the southern United States, *Crocodylus niloticus* from Africa and, since 2013, *Crocodylus porosus*, from Australia. The proportion of sea transport in the supply of raw crocodilian skins remained stable compared with 2018 and accounted for 20% of supplies. The percentage of raw skins from the United States and Africa was slightly higher with a quarter of the skins transported by sea in 2019.

In 2019, the division also began working to make its carbon impact related to crocodile and calf farming more reliable with the help of specialised consultants. This work will be continued in 2020.

Textile division

The Textile division's Bilan Carbone® (Carbon Assessment) is revised every year to analyse the impact of actions on greenhouse gas reductions. The activities producing the most emissions are purchasing (fabrics, chemical products and packaging), energy needs, inter-site freight, upstream freight and business travels.

The division's efforts to reduce energy consumption, the pooling of transportation and purchasing, the reduction of inventories, along with the implementation of travel rules and remote meetings, have helped reduce our emissions.

To reduce employee's travels and to find "soft" transport solutions, the Bourgoin and Pierre Bénite sites are taking part in the definition and organisation of travel plans. Since September, the ITH site has been part of a regional inter-company Mobility Plan in order to study ways of improving employee travel inside the business park. The HTH and Ateliers AS sites joined forces with the Pierre Bénite production unit, located on the same site, to conduct an overall audit on commuting. They have already carried out several actions following this diagnostic: employees receive financial assistance to buy bicycles and mileage allowances are paid. They are also provided with tools to facilitate remote meetings and with specific parking spaces for carpooling vehicles. Lastly, the transport assessment and the issue of the carbon impact are progressively being included in projects as well as in Product Development and Industrialisation Committees. For example, the Heavy Twill material, which used to be prepared at two production units 30 km apart, is now produced on a single site.

Leather Goods division

In the Leather Goods division, the first discussions on the carbon footprint of activities were launched in 2006 with a Bilan Carbone® (Carbon Assessment) process launched in the Pierre Bénite production unit and extended to all the other leather goods production units in 2008. Since then, the regular measurement of carbon emissions has provided concrete actions to progress plans such as the introduction of electric company cars and the increase in the share of renewable energies.

The energy savings made in 2019 (consumption reduced by 2,236 MWh compared with 2018) brought the annual Carbon impact related to scopes 1 and 2 to more than 250 tonnes of CO₂e down.

In 2019, mobility plans were implemented on the leather goods production units in Belley, Aix-les-Bains and Pierre-Bénite (collaborative approach with Textile division for Pierre-Bénite). Thanks to this exercise, we were able to identify concrete improvement actions that fed into a multi-year action plan specific to each site.

In line with the Hermès Group's carbon footprint reduction targets, the Leather Goods division has defined new objectives for the building of future production sites. Production unit construction programmes now include the positive energy building (BEPOS) target.

Cristallerie

The production unit Bilan Carbone® (Carbon Assessment) was updated for 2019. There are slight changes compared with 2018, in particular a drop in natural gas consumption and raw material purchases as well as a slight increase in downstream logistics. The material fusion process is still responsible for the majority of energy use. All the electricity used by the production unit come from "green" sources. The data collection process used for the Bilan Carbone® (Carbon Assessment) has become more structured and reliable, in particular with the use of more detailed data on freight and travel. This analysis approach will be used in future production unit projects and is used in the Water-Energies-Carbon Plan.

Livelihoods

In addition to its actions to reduce its carbon emissions in relative and then absolute values, the Hermès Group has decided to establish a voluntary carbon offset system in order to reduce its global footprint.

In June 2012, Hermès joined the Livelihoods Fund, a coalition of companies¹ financing carbon offset projects with high social and environmental value. Livelihoods' initiatives are described below as well as in the section covering relations with stakeholders, notably explaining that more than 130 million trees have already been planted, for the benefit of more than 1 million people (section 2.7.2.2).

This system functions according to seven defining principles that contribute to its value:

- ◆ reduction first of all: the carbon credits generated by the Livelihoods projects serve to complement internal reduction efforts, and are one of the parameters for achieving carbon neutrality by 2050;
- ◆ principle of additionality: the projects supported by Livelihoods would not have existed without its investments, and this required an in-depth study in complex social and economic contexts. These are not off-the-shelf or standardised projects, as is sometimes the case for certain renewable energy carbon projects. The aim is to help disadvantaged and sometimes marginalised communities to break out of poverty, as formalised in the Livelihoods charter;
- ◆ carbon credits certified to the highest standards, Gold Standard and Verra (formerly VCS), which validate the carbon effectively removed (and not carbon reduction estimates or future projections). Each project also results in a follow-up and calculations of impacts according to the United Nations' Sustainable Development Goals;
- ◆ an entrepreneurial risk to finance projects in the beginning: Livelihoods does not buy credits "on the market" from projects that have already been started, by accepting to pay a margin to an intermediary. It helps disadvantaged communities by investing for them right from the beginning, by taking a risk of €2 million to €6 million on each project, without an absolute guarantee of any return. The communities concerned do not have the means to carry out their projects without this risk-taking. Project financing occurs during the first years, with the results seen, for example, when the trees grow. This can be sometimes five years after the main investments have been made;
- ◆ a coalition of companies driven by the same spirit: all investors in Livelihoods pool their commitment and therefore receive credits from a portfolio of projects that have been developed and discussed together;
- ◆ a long-term approach: companies and project sponsors, as well as communities, are committed to projects lasting between 10 years (energy projects) and 20 years (farming projects). During this period, the fund will help communities, monitor projects and receive credits after few years. Commitments of this length are rare for company coalitions;
- ◆ local communities that benefit directly from projects: thanks to the NGOs that coordinate local projects, communities benefit directly from the advances provided by the projects: increase in soil fertility, regenerative farming, efficient agro-ecological practices, restoration of ecosystems, generation of farming, forestry and fishing income and the improvement of living conditions. This is actually one of the key success factors of the projects: the communities mobilise themselves because they find that there is a direct advantage to the project.

1. Danone, Crédit Agricole, Caisse des Dépôts et Consignations, Schneider Electric, La Poste, Hermès International, Voyageurs du Monde, SAP, Firmenich and Michelin.

The fund, whose carbon deliveries expand as the trees grow (the projects span a period of 20 years), delivered carbon credits to its shareholders for the sixth time in 2019, after verification from specialised auditors

(using the Gold Standard and Verra standards). In 2019, they served to offset all Hermès' scopes 1 and 2 carbon emissions.

Adaptation to climate change

Just as Hermès is striving to reduce the impact of its activities on the climate, the House is examining potential adaptations to its value chain (internal, external) in order to reduce its exposure to the potential effects of climate change.

Depending on the regions and *métiers* concerned, the effects of climate change will have different impacts on Hermès's activity, through:

- ◆ the physical consequences of climate change (extreme climate events, increase in temperatures, increased or decreased rainfall, etc.);
- ◆ the impacts of measures taken for the transition towards a low-carbon world, in particular the fastest measures (transition risks: carbon tax, regulatory changes, client behaviour, etc.).

The impacts will depend on the extent and severity of these changes, in the same way as the various factors such as location, sensitivity of the upstream supply chain, the quality and capacity of local infrastructures and, more generally, the behaviour of the other players in the Hermès Group's ecosystem.

Hermès has based its approach to adapting to climate change on the identification of risks and the assessment of their relevance in order to define action plans within each *métier*, with the help of a consulting firm, if necessary, and the use of authoritative tools.

The physical risks related to global warming are identified for example by using tools such as WRI Aqueduct, Water Risk Filter, Mycris (Carbone 4) and Sea level rise by Alex Tingle.

The exposure to transition risk is studied both by the audit and risk management department in its vertical analysis of the House's main activities (production *métiers*, retail subsidiaries), by the industrial affairs and sustainable development departments and by the Sustainable Development Committee, with a more cross-cutting vision that covers the main challenges (water, climate, etc.).

The following risks were also examined: interruption of activities and continuity plans, changes in technologies and markets; impact of new regulations (or rapid change in current regulations) and lawsuits for the climate. These risks are reviewed under their various components (operating impact, legal impact, reputational impact, etc.).

The Group is implementing actions to identify physical risks. Hermès operates 55 production sites and 311 stores in 49 countries. Despite the fact that most of our products are manufactured in France, our sites are also exposed to acute and chronic extreme climate events. Therefore, the Group is looking at medium-term solutions, in particular for its real estate policy.

In 2019, it carried out a "Water" risk assessment with the WWF using the Water Risk Filter and Aqueduct tools. Aqueduct was developed by the World Resources Institute (WRI). These analyses concern water stress, the risk of drought, water quality, the risk of floods and the health of the ecosystem, for each of the geographical sites where the House has an industrial activity. The results were discussed with Group Management at the end of the year and the main challenges will gradually be integrated into the action plans of sites in order to adapt the contributions of all participants as best as possible to the "Water" risk in their respective water catchment areas.

Other physical risks are being assessed, in particular to estimate the resilience of each supply chain with respect to the various climate scenarios.

A partnership has been created with WWF to carry out in-depth audits on exotic skins, cashmere and the timber supply chain. Each audit enabled us to better understand the risks and to create a specific action plan. Hermès is ready to help its suppliers if they need to adapt to physical risks (technical, material and financial support, as needed).

2.5.3 CHALLENGE: MANAGING WASTE

A major aspect of environmental protection and societal responsibility, waste management means that each of the various *métiers* does all it can to reduce waste production and to recycle or valorise its waste.

2.5.3.1 POLICY

The wide range of *métiers* prevents from a single overall waste policy, other than the general principle of avoiding the production of waste and working to improve its reuse and recovery. Waste management is therefore managed specifically by each manufacturing division by means of a dual policy of waste reduction and recycling wherever possible. The main contributors are the tanneries, textile, leather, perfumes, crystal and construction.

| IN TONNES/2019 | OIW ¹ | HIW ² |
|------------------|------------------|------------------|
| Tanneries | 4,275 | 4,254 |
| Leather | 837 | 63 |
| Perfumes | 581 | 269 |
| Textile | 529 | 798 |
| Logistics | 375 | 0 |
| Porcelain/Enamel | 147 | 31 |
| Watches | 156 | 43 |
| Crystal | 150 | 901 |

(1) OIW: Ordinary Industrial Waste.

(2) HIW: Hazardous Industrial Waste.

CHANGE IN VOLUME OF WASTE (EXCLUDING FARMS) OVER THE LAST THREE YEARS

| WASTE | 2017* | 2018 | 2019 |
|---------|-------|-------|-------|
| OIW (t) | 5,467 | 6,478 | 7,050 |
| HIW (t) | 7,202 | 6,172 | 6,359 |

* excluding logistics site

2.5.3.2 MEASURES IMPLEMENTED AND RESULTS

As part of its waste and end-of-life product management policy for its objects, the Hermès Group is engaged with partners in France and abroad to find them a second life wherever possible. The House's main *métier* (leather, silk) have ongoing programs in this area.

Tanneries

The raw materials used in the tanneries is whole skin, referred to as "raw" skin, which are putrescible organic products. Tanning involves processing the skin into a durable product, finished leather. The reduction of tannery waste naturally starts with the continuous improvement of the quality of the raw skins. Tanning generates unavoidable waste, associated with trimming the edges of the skins ("trimming") or preparing the internal surface of the skin ("fleshing"). Processing skins in successive baths also generates effluents, which are processed at site treatment plants and result in the production 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 centre on leather.

The division's total waste production increased by 15%. This is mainly thanks to the optimisation of sludge extraction at calf leather tannery treatment plants.

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 were 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.

A number of projects to optimise tannery waste management facilities were carried out in 2019 (see "Effective solutions for waste management" below).

Leather Goods division

Total waste generation relative to activity improved by 3% between 2018 and 2019. The amount of hazardous industrial waste increased by 5 tonnes in absolute terms, which is still proportionally lower than the increase in activity.

Recycled and recovered waste represented 88% of total waste by tonnage. Each type of waste is directed to an appropriate treatment or sorting chain.

Leather offcuts from production units, pieces not used within the context of "cutting", are resold to special processors and then turned into new raw materials for products other than leather goods. These by-products of our activity are not counted as waste in this report.

Perfumes division

CNP's waste volume increased by 7% in 2019 as a result of growth in perfume activity and the launch of the new bath product production and packaging activity. The proportion of waste recycling/recovery remained favourable with a recycling rate of 68% and energy recovery of 28%.

During Sustainable Development Week, CNP introduced an office waste collection, sorting, recycling and recovery service (paper and plastic cups, plastic bottles and metal cans) with a local adapted company. The aim is to play an active role in protecting the environment while also creating local and long-term jobs for people finding it difficult to get into work and/or disabled people.

Undistributed inventory is reprocessed in specialised channels that separate and reprocess liquids and packaging, such as the Cèdre platform, which is used by other industry players; soap is reprocessed and donated to charity.

Textile division

Waste management requires a great deal of flexibility and adaptation among the various stakeholders. The complex development of the waste market with saturation of local outlets (landfills and incinerators in the Rhône-Alpes region) requires careful management. Through monthly meetings involving the division's sites and the service provider, the division ensures that waste recovery and recycling solutions are always prioritised and that each new stream is validated.

The situation is also strained in hazardous waste treatment channels, but the métier remains vigilant about ensuring that energy recovery is carried out automatically when the products allow. Therefore, just 0.8% of hazardous waste is processed by elimination. Dye waste, which accounts for more than 50% of waste (all streams included), is 100% used for the manufacture of alternative fuel.

In addition to cross-divisional management, sites are also taking action to reduce and recycle their waste as best possible. Centralised recycling collectors are on trial at ATBC, HTH and ITH, allowing for improved waste sorting and raising awareness about what is thrown away. Plastic cups are gradually being replaced by cups or paper cups.

Cristallerie

Waste reduction, a major economic and ecological challenge for the cristallerie Saint-Louis, is closely tracked operationally. Cullet recycling increased by 65% in 2019 despite the difficulties encountered in the operation of the new gas melting furnace. This recycling rate, which is high compared with the sector average, remains an area to be worked on and stabilised over the coming months.

The proportion of ordinary industrial waste decreased despite renovation works carried out. This large volume remains an area for improvement in 2020, in particular as regards plastic waste. However, 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) decreased relative to 2018 as a result of the higher recycling rate at the main smelter and optimisation of the treatment of all effluents, which is currently done internally. This was made possible in particular thanks to the new neutralisation facility renovated at the end of 2018.

On the occasion of World Cleanup Day, a cleanup campaign in the municipality where the Cristallerie is located was organised jointly between the municipal team and employees of the production unit. This kind of awareness campaign will be repeated in 2020.

Lastly, a partnership with the production unit's workwear supplier to ensure reasonable use of clothing and associated resources was cemented in 2019. New clothing bought in 2015 therefore will only be replaced if needed.

Farms

The quantity of waste generated in 2019 remained stable (OIW: 1,027 tonnes, HIW: 42 tonnes). Ordinary waste, accounting for 96% of annual waste production, consisted of waste from operations (animal by-products, sludge from effluent filtration systems, OIW, wood and cardboard), as well as waste from facility renovation work (inert, plastic or scrap metal waste) and household waste. Salt, used within the context of salting raw skins, is regarded as hazardous waste in view of current regulations in the States in which the hide transformation and inspection facilities are located, and makes up almost all of the division's hazardous waste.

In order to avoid any pollution, this waste is stored in covered storage areas, and retention basins prior to evacuation into local treatment channels in line with regulations.

During the year, the Australia division also looked into the feasibility of composting animal food waste and by-products from processing facilities. The trial, which was successful, will be repeated in 2020.

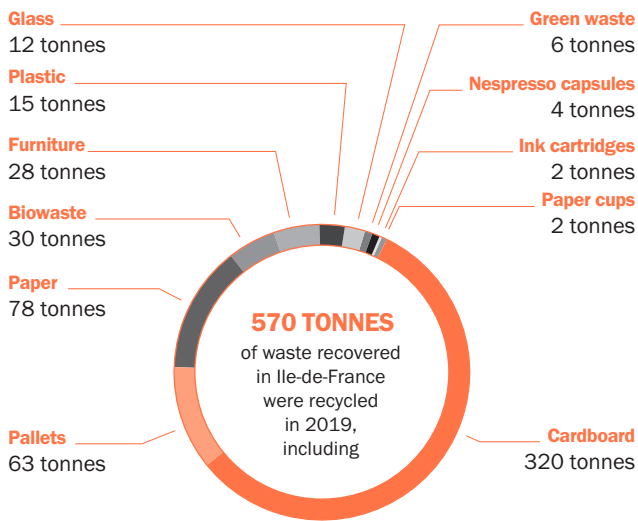
Construction

Since 2019, scrupulous management of demolition waste, deconstruction of a site due to be renovated and construction site waste management have been systematically implemented for all construction projects in France and worldwide. This waste management applies to all of the Hermès Group's construction projects.

Paris sites

In 2019, a new waste sorting and recycling system was rolled out at all Ile-de-France sites. This includes an increase in the number of sorting chains (22 in total) and the introduction of voluntary collection points. This allowed for the recycling of 570 tonnes, 180 tonnes more than in 2018.

In addition, in order to support employees in this process, the following were also deployed during the year: a network of 37 ambassadors, dedicated communications tools giving new recycling instructions, and the installation of 4,000 collectors.



Effective solutions for waste management

Hermès is committed to reduce the use of hazardous substances beyond regulatory requirements. That is why its internal requirements for its own operations and supplier specifications set out limits that in some cases are stricter than applicable regulations.

Leather Goods division

Leather goods production units present limited sources of wastewater discharge thanks to primarily manual production processes that do not require water. The only wastewater discharge concerns water used for sanitary purposes, which does not require on-site treatment and in most cases is directed to public wastewater collection networks.

Tanneries

The quality of effluent discharges is central to sites' environmental concerns. 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. As a reminder, the tanneries are located in France (4), Italy (1) and Louisiana (1).

To date, almost all tannery effluents (92%) 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.

The Tanning and Precious Leathers division's tanneries continually work on improving the performance of effluent treatment. Following pilot trials of evapoconcentration of its effluents, the Montereau site will open an evapoconcentration unit in 2020. A new building housing the current treatment plant and future additional treatment facilities was built in 2019. The Vivoin site carried out a nine-month pilot trial in 2019, which resulted in the adoption of an additional treatment system comprising a biological effluent treatment plant coupled with ultrafiltration and activated carbon filtration. The Le Puy tannery has changed its sludge

treatment process with the construction of a building and a filter press facility. The Annonay tannery has continued with the considerable work initiated in 2018 concerning the treatment plant in order to make its operation more reliable. This resulted in the installation of additional physico-chemical treatment facilities and trials of effluent treatment by ozonation. In addition, studies into the division of chemical compounds present in effluents in various production sectors were carried out at the tanneries in order to better understand the composition of effluents. This work to optimise tannery waste management facilities represented investment of €1.8 million in 2019.

The Tanning and Precious Leathers 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.

Textile division

Discharge to water 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 implemented.

At the SIEGL site, the pilot study launched in 2017 resulted in the creation of an additional facility for the activated charcoal treatment of effluents following the membrane microfiltration process. This facility has helped to improve depollution results and has been used as a test to model the future purification plant. Construction of the new plant began in October 2019 and it will be functional at the end of 2020.

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 (prototypes, small series samples). In order to refine analysis of the impact of each process on end waste, a sector study for each unit was performed by an environmental consulting firm. Following this study, a wastewater pre-treatment project was launched in order to improve the quality of wastewater before sending it to the treatment plant. This study was also carried out at the AEI site and allowed for identification of the process with the greatest impact, which will be treated by a dedicated stream.

Cristallerie

Industrial wastewater, pre-separated in the respective workshops and collected at a single point, has been purified by a phytotreatment facility since 2015. "Filtering gardens" thus serve to naturally treat the site's wastewater, combining environmental efficiency, landscape quality and a contribution to biodiversity. 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 have significantly reduced and stabilised 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), with discharges well below regulatory thresholds.

Moreover, measurements of air emissions were carried out in the third and fourth quarters of 2019. 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 to check that waste meets the required standards. The reduction in quantities of hazardous waste has been achieved primarily thanks to the optimisation of operating parameters at the water pre-treatment plant for the enamel activity. These new parameters have allowed for a reduction in quantities of treatment product and the volume of sludge generated at the end of treatment, without adversely affecting the quality of wastewater in the sewage system.

The Beyrand site has a water treatment station at the exit of the washer/scouring sluice. It uses a physical-chemical treatment process. Analysis of the compliance of the wastewater discharge into the public network is carried out every year.

Farms

A number of effluent re-use projects have been adopted at the Australia division level over the last two years. Effluents from farms, which are rich in organic material, can be used to water and fertilise crops. For example:

- ◆ since September 2018, irrigation of a 10 hectare sandalwood plantation on the property of one of the Australian farms in collaboration with the Hermès Group's Perfumes division. 20% of the farm's effluents were re-used on the plantation in 2019;
- ◆ since July 2019, irrigation of sugarcane plantation on farms neighbouring a farm in Australia. During the first few months of operation of the facility during the dry season, around 15% of the farm's wastewater was re-used on these plantations. As discussed in section 2.5.1, this structure is part of an industrial ecology blueprint as a portion of the water from this farm comes from the sugarcane production plant supplied by these fields.

For all the relevant sites, the compliance of the water discharge is monitored at a frequency suitable for the parameters under supervision: half-yearly, quarterly, daily or continuous measurements. The bulk of these parameters are measured more frequently than the authorities require. The samples from the monitoring are analysed on-site or in accredited outside laboratories. The results of the internal analyses are compared once or twice a year to those obtained by an independent,

certified laboratory. In the event of a discrepancy between requirements, the conservative measures are adopted immediately and actions are implemented to reinstate the defined parameters. All information is sent promptly to the authorities and the managers of the wastewater treatment plants, for the most part through special IT platforms.

2.5.4 CHALLENGE: RESPECTING AND PRESERVING BIODIVERSITY

Maintaining an environmental setting conducive to the development of activities requires respect for and the protection of biodiversity.

2.5.4.1 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.

2.5.4.2 MEASURES IMPLEMENTED AND RESULTS

The commitments undertaken by Hermès, according to its ability to influence, are presented below:

Commitments in the direct sphere of responsibility of Hermès

Outside of France, the retail subsidiaries contribute with initiatives such as 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), "On a vingt ans pour changer le monde" (We have 20 years to change the world, 2018) and "Les Saisons" (The Seasons, 2019) were shown to employees.

Hermès is developing its actions to foster biodiversity at its French sites by focusing on the following topics:

- ◆ new constructions: Hermès is determined to develop its French industrial sites in rural environments or brownfield sites (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 new projects are based on internal sustainable construction framework, drawing on best international practices, which set out in particular the requirements applied (part of untouched vegetation after construction, proportion of wastewater treated by phytoremediation, part of the building's roof planted with vegetation, number of local actions promoting biodiversity, portion of outdoor areas in shade on the winter solstice);

- ◆ projects at the eight production units selected, to which these targets apply, were launched in 2017, to track their applicability and validate their relevance. The results show that in 50% of cases, we managed to retain over 70% of landscape areas on construction sites. Furthermore, the aspects of production units in relation to the sun are such that outdoor areas in shade are limited to less than 30% of the total surface area for six production units out of the eight in the pilot project. Vegetation over 60% of building's roof surface areas is more difficult to achieve, given the energy efficiency target, prompting us to favour the installation of photovoltaic panels in order to benefit from renewable energy rather than planting at this stage. The installation of wastewater phytoremediation facilities was not subject to a priority rollout at the production units in the pilot project, as wastewater from these production units is mainly domestic. This type of treatment has therefore been chosen for industrial waste and therefore chiefly sites, such as the waste produced by the Cristallerie Saint Louis. The high priority given by Hermès to matters relating to biodiversity is reflected in the 100% achievement of the target set for actions to support biodiversity at all Leather Goods & Saddlery division production units. Some concrete examples are given below. On the back of these initial results, the House is therefore preparing to update its biodiversity targets supported by a multi-stakeholder approach for 2020. These targets will be announced within the context of the Hermès Group renewing its commitment to the Act4Nature International initiative.

Through their location in rural areas, the sites are involved in various biodiversity initiatives.

Leather Goods division

Available land around Leather Goods buildings is always examined with a view to enhancing the ecological value, together 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. This orchard will allow the perpetuation of these tree varieties, emblematic of the Limagne fault line where the Sayat site is located.

The *Maroquinerie Iséroise* uses sheep to maintain the pastures around the site. This eco-grazing formula is helping to protect an endangered breed and to practice environmentally-friendly maintenance. Leather goods craftspeople help to guard the flock.

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.

Textile division

A processionary caterpillar trap has been set up at the ATBC Challes site (horsehair weaving) to protect the site's 80-year old cedar tree and vegetation.

At the ITH site, two beehives have been in place since April 2019 in parallel with measures like banning phytosanitary products and moderate mowing of green areas. An initial very productive harvest was shared with all staff and the surplus will be sold for the benefit of the Téléthon. The site has also introduced a closed plastic waste skip, thereby avoiding the risk of polluting the neighbouring watercourse, the Pelud.

Porcelain

At CATE, a number of initiatives to protect biodiversity have continued for a number of years, such as flower meadows, a bug hotel and moderate maintenance of green space. These initiatives will continue.

The project to renovate the production unit includes landscaping of the parkland around the buildings to encourage endemic biodiversity.

Perfumes division

Three beehives have been introduced to the Vaudreuil site since 2017. Regular events are held on the theme of beekeeping, including a workshop on by-products (cosmetics, cleaning, food, medicines) and taking part in harvesting.

On the basis of a study about biodiversity at the Vaudreuil site, CNP has introduced nesting boxes built by staff volunteers. These shelters are intended for creepers and hoopoes, birds to be protected in the Normandy region.

CNP recently integrated Sandalwood Album activities in collaboration with HCP and Australian company Santanol. As part of this commitment, as stated above ("Effective solutions for waste management"), CNP uses wastewater from *Porosus* crocodile breeding pools at the Janamba farm in Australia to irrigate a 10 hectare plot planted with Sandalwood Album trees. The plot will produce CNP's annual sandalwood consumption with renewal scheduled.

John Lobb

A garden project on the roof of the production unit was launched following discussions with the department of Environmental Science at the University of Northampton (UoN). This will be implemented with the cooperation of Workbridge, a charity that provides vocational training opportunities for people with mental illness, learning disabilities or brain injuries, with the aim of enhancing biodiversity at the site and attracting and encouraging pollinating insects in particular. Specific workshops on gardening, plants and biodiversity will be offered to craftspeople.

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 order to reduce odours at the Tanneries du Puy site, a new sludge treatment plant was opened in 2019. In addition, various measures have been taken to optimise processes at the site's treatment plant. Further measures and investments are planned for 2020 and future years.

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 most recent measurements did not indicate that any applicable thresholds had been breached.

Textile division

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 the noise footprint.

Cristallerie

An environmental monitoring programme around the production unit was set up jointly with local authorities and put in place in 2018 and continued in 2019. The results obtained during these measurement campaigns reflect those observed at the various water and atmospheric emission points and underscored the compliance of the production unit's activity with respect to its direct environment.

Changing land use

The Hermès Group's industrial activities do not contribute to the change of land use, 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.

Water management (see 2.5.2 "Adaptation to climate change")

In 2019, the Hermès Group initiated a process to better familiarise itself with its water footprint across all its sites and those of its suppliers, amounting to 75 sites. As part of this study, potential impacts on biodiversity will be taken into account and analysed.

Commitment in the extended sphere of influence of Hermès

Together with the partners supplying it with natural materials, the Hermès Group is continuing constructive efforts incorporating biodiversity protection. The Group is collaborating with international NGOs in this area, as appropriate, in order to better assess the various biodiversity components that concern it and to assess the impact on its supply chain (section 2.4.1).

This contribution 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 to protecting the species and its unprecedented development in the areas in question and, as a result, to protecting and maintaining the marshlands where these animals live and reproduce. According to the US Fish & Wildlife Service, this corresponds to 1.2 million hectares of marshlands that are thus better maintained. The goal is to continue to support farmers in their development, thereby ensuring the long-term sustainability of the effects mentioned above.

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 helps to preserve low-chemical hardwood biotopes (silkworms eat only non-polluted mulberry leaves) and generates income for small local farms and, accordingly, thousands of families.

The aim is to continue to provide this support to the industry.

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 is continuing its efforts in this area. It supports a wide-scale project in Africa, for example, in partnership with the WWF France: 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 Fondation d'entreprise Hermès will continue to support this project. In 2019, the Fondation d'entreprise Hermès increased its commitment in this area, supporting the Natural History Museum's "Vigie Nature" programme, which aims to allow schoolchildren to take part in monitoring our biodiversity, as well as supporting the NGO "L'Atelier Paysan", which with its agro-ecological approach lays the foundations for agricultural development that is more respectful of biodiversity.

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, as presented in sections 2.5.2.2 and 2.7.2.2.

Investments are made in three types of projects (ecosystems, agroforestry and energy) in Africa, Asia and Latin America. The fund has 10 partners working on these projects over a 20-year period. Overall, the Livelihoods fund with its compartment LCF1 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) with major effects on local biodiversity. Hermès is continuing its commitment to the Livelihoods fund by contributing to current projects, but also with the creation of a new, even more ambitious fund, LCF2, launched in December 2017, which will also have a considerable effect on biodiversity (probably twice that of the first fund).

Act4Nature

In 2018, Hermès joined French project Act4Nature alongside 64 members of the French economy, thereby confirming its commitment to supporting factoring biodiversity into its overall development strategy, also contributing to the targets set by the international community concerning biodiversity. Act4Nature is an initiative launched by EpE (the French association *Entreprises pour l'Environnement*) and several partners. It aims to mobilise companies to protect, promote and restore biodiversity through shared commitments set by scientific institutions and associations, and through individual commitments specific to each partner:

- ♦ the shared commitment (ten commitments in total) 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;

- ♦ the individual commitment is defined by each company and specific to its activities. This commitment must be adapted regularly, as Act4Nature strives to follow a continuous progress approach.

At the end of 2019, some companies with international operations committed to this approach, including Hermès, decided to join forces for a next stage in 2020, "Act4Nature International", which protects the characteristics of the voluntary commitment of the first initiative but reinforces the terms of commitment and joins the global "Business for Nature" initiative.

Fashion Pact (2019)

Under the Fashion Pact, Hermès joined a coalition, one of whose goals is to support the development of the Science Based Targets for biodiversity and to help protect and restore ecosystems and protect species.

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. In return for such projects, the contributing companies, including Hermès, receive carbon credits with high social value, partly offsetting their own emissions. In the space of six years, the nine Livelihoods projects have benefited a million people in Africa, Asia and Latin America, and 130 million trees have been planted. Through the Livelihoods scheme, Hermès aims to have a positive impact on the quality of life of rural communities and to neutralise its carbon emissions over the long term.

2.5.5 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 Hermès 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 Hermès Group and all of the *métiers* (tanneries, crystal, textile, 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, having gradually uncoupled growth from consumption, and through the implementation of improved technical systems now available.
- ◆ 6.4: "Water scarcity".
The main *métiers* that are concerned (textile, 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. A study was launched with the WWF in 2019 on this matter (Water Risk Filter). Within the Tanneries and the Silk division's sites, where water is a precious resource, the House has implemented water-saving measures resulting in a reduction in consumption.
- ◆ 6.6: "Protecting wetlands".
The Hermès 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 Hermès 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 comes from "green" sources. Since 2019, 78% of the Hermès Group's worldwide electricity supply comes from renewable sources. In addition, the Hermès Group has installed renewable energy devices (wood boilers at production sites, photovoltaic panels at sites and for the logistics centre in New Jersey in the United States).
- ◆ 7.3: "Improve energy efficiency".
Our sustainable construction framework incorporates this concept into all new projects. Leather goods workshops like *Maroquinerie de l'Allan* and *Maroquinerie MHM* use renewable energy. 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 LEDs. In the industrial area, the decoupling of energy 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 from energy and water consumption.



No. 12: Responsible consumption and production

The Hermès Group strives to manage waste and chemical products throughout their life cycle. A major player in France in several *métiers* (tanneries, textile, crystal etc.), the Hermès 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). Energy consumption ratios relative to selling space (KWh/m²) are falling, particularly in France and Asia, mainly thanks to the development of LED lighting.



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. In addition, Hermès contributes to the Livelihoods initiative (130 million trees planted), which partly offsets the Hermès 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;



No. 14: Life Below Water

- ◆ 14.2: “Manage marine and coastal ecosystems”.
Crocodile farming requires the implementation of wetland protection measures, to which the Hermès Group and its partners make indirect contributions.



No. 15: Life on land

- ◆ 15.1: “Protecting biodiversity”.
The Hermès 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 Hermès Group complies with regulations governing wood sourcing. Hides, used by the Hermès Group for leather goods production, are from European origin and do not come from farms that contribute to deforestation. The Livelihoods project has also contributed to the replanting of over 130 million trees.

Karumi - ancestral *savoir-faire* applied to bamboo in Japan



2.6 COMMUNITIES: SUPPLIERS & PARTNERS

Introduction

Most of Hermès' production is integrated, in line with its strategy of preserving unique *savoir-faire* and securing supplies. 61% of our objects are made in Hermès exclusive and internal workshops. Our ability to grow is, however, also linked to the retention and development of our suppliers and subcontractors, whose exceptional *savoir-faire* and future success will contribute to that of the Hermès Group and whose social and environmental practices must be irreproachable.

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 Hermès Group's top 50 largest direct suppliers in 2019 was 19 years. They operate mainly in the Leather Goods division and Tanning and Precious Leathers division (tanneries, suppliers of metal parts and manufacturers) but also in other *métiers* such as silk and textiles. This stability is also true for small suppliers, some of which may have been working with the House for more than 50 years.



19 year's
average length of
business relations
with the main
industrial suppliers

For direct purchasing, relations with our suppliers are based on proximity, facilitated by the fact that they are mainly based in France, or at least in Europe, good knowledge based on regular visits, and cultural proximity. To find a particular *savoir-faire*, in the quest for excellence, the Group also works with a few distant suppliers. These suppliers produce small volumes that are subject to special monitoring, in particular through audits conducted by an external third party at least once every three years, action plan monitored 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 (tier 2), with a view to better understand all of our supply chains. The Hermès 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. In particular on subjects relating to human rights, which have their own section in an undertaking handbook that suppliers sign.

2.6.1 CHALLENGE: LONG-TERM PARTNERSHIPS AND WORK WITH SOCIALLY SUPPORTED ORGANISATIONS

Maintaining the existing *savoir-faire* through close long-term partnerships with our suppliers, both local (France and the EU) and further afield. The vast majority of these suppliers have been partners of the Hermès Group for many years. Moreover, aware of its social responsibility, Hermès 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.

2.6.1.1 POLICY

Hermès' policy is to cultivate its *savoir-faire* by supporting its suppliers in the long term. Hermès seeks excellence among various French craftspeople 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.

The Hermès Group has a long-standing disability policy, developing partnerships with socially supported organisations (EA ¹, Esat ²) in France, and strives to strengthen these partnerships whenever possible with a target of increasing them by 20% per year. This is an opportunity for the House to support companies to improve their skills.

The *métiers* are responsible for Group suppliers management and favour a pragmatic, long-term approach. It is supervised by two Executive Vice Presidents for direct and indirect purchases, respectively.

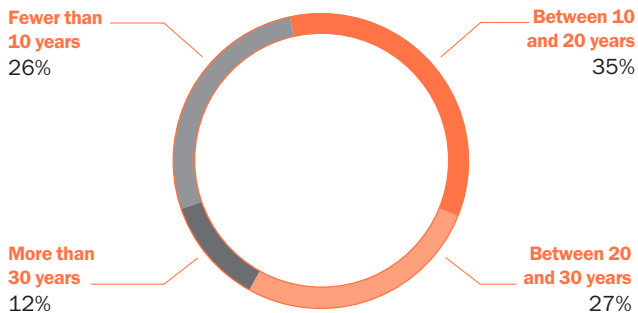
The House's supplier policy, which is explained externally by the two "undertaking handbooks", is put into operational practices by the purchasers (who were specifically trained on the subject in 2018 at an *ad hoc* seminar) and verified by internal and external audits. Internally and externally, compliance with ethics, environmental and social regulations is mandatory.

1. EA: adapted company.
2. Esat: sheltered work establishment.

2.6.1.2 MEASURES IMPLEMENTED AND RESULTS

Our suppliers are partners

For the Group's 50 largest direct suppliers, the average length of trading relationships breaks down as follows:



* Two suppliers' trading relationships are older than 40 years and one of it is 60 years old.

Of these 50 suppliers, 94% of purchases are made in Europe, with 52% in France.

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. To ensure appropriate *savoir-faire* and excellence, the Hermès Group also uses a few suppliers further afield such as Vietnam for lacquer, Nepal for cashmere spinning and Indonesia for woodwork. These suppliers produce small volumes, but are subject to special monitoring, in particular through audits every three years conducted by an external third party, action plan monitoring by senior purchasers, and regular visits by Hermès (at least once a year).

This stability and proximity of relations with partners enable us to establish long-term, close collaboration with them in several areas as part of the continuous improvement of the supply chains.

Leather Goods division

The Leather Goods division carries out most of its production in-house. It nurtures a very close relationship with its partner suppliers of skins, metal parts, etc. Most of these suppliers have been working with Hermès for many years and the 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, the quality or optimisation of raw materials or the management of health, safety and environmental (HSE) issues. Regular audits consolidate these approaches.

Textile division

The *métier* works in collaboration with partners in France who are part of the Lyon textile ecosystem, the birthplace of the "silk" activity. For over 10 years it has also been collaborating with an India-based supplier that uses ancient *savoir-faire* 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.

Construction

In partnership with suppliers, architect-designer consultants and local architects, the specification and local sourcing of building materials and *savoir-faire* is systematically sought and recommended.

To preserve natural resources and reduce the carbon footprint of its buildings, the construction department encourages all stakeholders (subsidiaries, architects, engineers and consultants) to source their construction, interior decor materials and *savoir-faire* locally. This approach is promoted by the Hermès Sustainable Construction Framework. For several years, a thorough analysis has been conducted on 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.

Examples of the use of local materials and *savoir-faire* for store construction in 2019:

- ♦ Thailand: in Phuket the bamboo facade was created by a local craftsman; in Bangkok woven rattan partition walls and local craftsmanship products were used;
- ♦ Japan: in Fukuoka partition and screen walls made from Japanese cypress wood from Hinoki, use of Japanese wall coating techniques; in Chiba Sogo (Tokyo) veneers in local cherry wood and Japanese wall coatings were used;
- ♦ China: in Qingdao and Guanzhou the glazed bricks were made locally.

Societal responsibility and using socially supported organisations

As part of the first Group 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. The final target of this agreement, €1.1 million by the end of 2020, was met in the first year with purchases to the value of €1.5 million made from adapted companies (EAs) and sheltered work establishment (Esats) in 2018. This year again, total Group purchases from socially supported organisations exceeded the objective with €1.7 million spent. Most of these purchases are initiated by Hermès Services Groupe and Hermès Maroquinier Sellier. Regardless of the impact of the Disability reform which will come into effect in 2020 and will restrict the tax impact of purchases from socially supported organisations, the Hermès Group intends to pursue its policy of buying from EAs and Esats by developing new co-contracting collaborations and partnerships. 2020 will also be devoted to preparing a new 2021-2023 Disability Agreement, in a format yet to be decided, a transition agreement which will subsequently require each division to take responsibility for its own inclusion policy.

As part of the “*Hors les Murs*” initiative, sometimes EA/Esat workers carry out work at the various *métier* workshops, and may subsequently be hired by the company.

This ambitious Responsible Purchasing policy is based on allowing EA and Esat workers to exercise a professional activity in a meaningful environment. The current legislation changes of the Disability Reform, which could set a ceiling for the tax reductions generated by purchases from socially supported organisations, will not threaten this policy, which has been reaffirmed to all players and influencers.

Support Métiers and Functions

Hermès Services Groupe

The general services department made a commitment in 2016 to increase purchases from socially supported organisations. Since 2018, the impact of this commitment is measurable with a significant increase in full-time equivalent posts created: 2 UBs (FTE disabled posts entitling the company to tax relief, known as *Unités Bénéficiaires*) in 2017, 10 UBs in 2018, 27 UBs in 2019. The 2020 target is 45 UBs. These results stem from the initial contact made with potential suppliers, when systematically the Hermès disability employment policy is broached. Suppliers are selected and interviewed based on their ability to work with socially supported organisations and the latter features in every stage of the selection process.

Many different *métiers* use socially supported organisations: cleaning, concierge service, mail handling, logistics, printing supplies, catering, management of meeting rooms and green spaces, etc. For example, APF-Association des Paralysés de France runs an entire mail dispatch/receipt service, employing seven people. This leads to regular co-contracting agreements.

More generally, all the existing agreements are reviewed and dedicated clauses for socially supported and sheltered organisations is systematically incorporated.

On a related note, the temporary employment agencies listed by Hermès receive an incentive based on the number of disabled workers they appoint as temporary employees.

Hermès Femme

The partnership with an Esat subcontracted to respond to HR applications continued, as did partnerships with the communications agency (EA Sabooj) and the printer (HandiPrint) for the Hermès Femme Integration Day.

Hermès Distribution

The French subsidiary uses an Esat to handle responses to paper job applications; it also regularly uses their catering and printing services for various in-house events.

Hermès Suisse collaborates with the Foyer Handicap de Genève for envelope stuffing.

Production

Leather Goods division

The Leather Goods division has been in partnerships with EAs and Esats for 10 years and has particularly close links with seven of them. They are called upon to perform different preparatory tasks such as cutting the backing fabric, repairing the cutting dies and making cutting workbenches.

The division aims to build a local network of partner EAs or Esats for each of its regional clusters along with their establishment..

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”.

As part of an ongoing improvement initiative, the working, health and safety conditions of these partners are formally assessed. They are offered 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. For example, manufacturing equipment has been donated to some Esats and also to the “*Les Mains Ouvertes*” in Sayat, an association for the integration of vulnerable people.

Each situation is naturally subject to a unique approach to provide the assistance necessary for successful training. The ultimate integration of disabled workers into the workshops remains a priority and Hermès is working towards this with EAs and Esats.

The first “*Handispensable*” day at the Esat Chantemerle in Aix les Bains attracted almost 50 people from EA/Esat partners and also from various Hermès manufacturers and support functions. This was a day for sharing, getting to know each other better, working on common areas for improvement and reiterating the importance of these partnerships with a view to integrating people with disabilities into the workshops.

Petit h has also forged various long-term partnerships with socially supported organisations, including the Esat Jacques Monod, which assembles and packs small products such as charms (more than 10,000 pieces per annum).

Tanneries

The Tanneries du Puy, Montereau and Vivoin, use their partnerships with sheltered work establishments (Esats) to undertake maintenance of green spaces. The Tannerie d’Annonay also works with an Esat on an occasional basis for commercial brochure packaging and leather sampling assignments. In 2019, the Tanning and Precious Leathers division extended its partnership with the Esat that provides catering services and meal trays for seminars and meetings at its headquarters.

Perfumes division

The Perfumes division has several disability initiatives, including provision of the Handeco platform with awareness-raising and communication initiatives targeting all employees (the platform contains a directory with the contact details of approved EAs and Esats and a targeted search function); systematic consulting with a local Esat (ADAPEI 27) for 100% manual packaging/packaging removal work, and services such as breakfasts and meal trays provided in Pantin. A number of different tasks were entrusted to the Val de Reuil Esat in 2019: Travel kits, Fragrance stone kits, 2 ml kits, Discovery kits and soap packaging removal.

Cristallerie

The maintenance of green space has been entrusted to the association APAEIE Ingwiller for several years. Saint-Louis continues its partnership with the Esat de la Ruhe in Goetzenbruck for the storage of packaging materials and also offers secondments to Esat de la Ruhe employees to work in the despatch warehouse at the production unit. Thanks to this partnership, a brownfield site was rehabilitated in the commune adjacent to Goetzenbruck.

Cristallerie Saint-Louis exceeded its obligation to employ disabled workers with a rate of more than 9% in 2019.

Textile division

Entities in the Textile division collaborate with socially supported organisations for different types of work, namely for mechanical, carpentry, packaging and cleaning services and the maintenance of green spaces (ATBC), the filing and classification of textile archives and brand inventory (HTH), uniform cleaning and repair (AEI and AS), the recycling of printing frames (Gandit) and catering services and the provision of a food truck (SIEGL, ITH, HTH).

A partnership is in place, dating back to more than 10 years, for maintaining the green spaces around and in the areas outside SIEGL. Another Esat partnership of over 10 years is for the assembly of samples and manufacture of silk pouches at ATBC and AEI.

2.6.2 CHALLENGE: SUPPORTING SUPPLIERS

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 the supply chains.

2.6.2.1 POLICY

The Group policy on supplier guidance and support is based on the following fundamental axes:

- ◆ seek the best quality and enrich Hermès' creation with concrete propositions resulting from our partners' innovation;

- ◆ ensure long-term relationships with suppliers by preserving key skills, securing supplies and services, and establishing balanced and sustainable relationships;
- ◆ guarantee ethics throughout the supply chains;
- ◆ contribute to the economic performance of the House by controlling costs, as a whole, and by providing value to customers.

The Group's purchasing policy sets out the principles through four fundamental elements:

- ◆ securing of supplies: Purchasers are responsible for ensuring long-term relationships with suppliers with in particular the preservation of key skills, securing of supplies and services, and the establishment of balanced and sustainable relationships. The House's ethics policy leaves no room for aggressive, unfair purchasing practices;
- ◆ empowerment: 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 Hermès 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 distributed to all employees via the intranet and at training sessions;
- ◆ support for suppliers on environmental issues is a priority at Group level. In partnership with the WWF, a special water analysis was carried out at our main suppliers using the Water Risk Filter. The results will feed into a Group action plan. A WWF review of our main supply chains for exotic skins (crocodile and alligator), cashmere and wood also included environmental dimensions;
- ◆ exercise of a duty of care, in particular in relation to human rights.

2.6.2.2 MEASURES IMPLEMENTED AND RESULTS

Since 2017, the Hermès Group's purchasing has been coordinated by two divisions: direct purchasing and indirect purchasing. 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. The Hermès Group has its own certifications, knows its suppliers well (see the length of partnerships) and has a relationship of trust with its auditor partners. The Hermès Group does not seek to use external audits first and foremost because it prefers to have direct knowledge of its partners' practices.

Duty of care

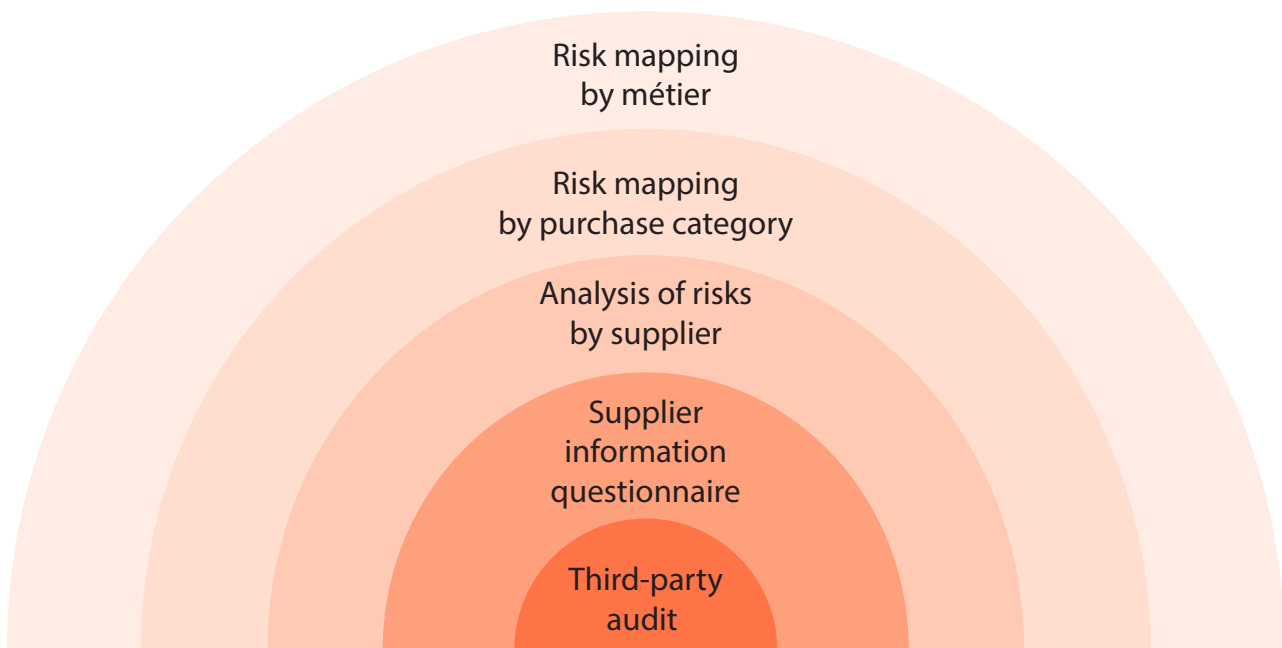
The supplier risk management system, which had already existed in the Hermès Group for many years, was strengthened and accelerated in 2018 as part of the rollout of a reasonable duty of care plan with respect to suppliers and subcontractors as required by French law. The management system applies in a context where most of Hermès' production is in-house and often close to its suppliers, both geographically and in relationship terms. Special attention is given to human rights and fundamental freedoms, the health and safety of people, and more generally their working conditions, as well as the protection of the environment. Ethics, specifically the prevention of corruption and bribery, are also closely monitored.

In accordance with the recommendations of the French law 2017-399 of March 27th 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 suppliers and subcontractors, and more generally by all of the supply chains;
- ◆ procedures to regularly assess the situation of suppliers and subcontractors with which we have a trading relationship, but also to assess the situation of tier 2 suppliers and subcontractors, in order to gain an ever-stronger understanding of the supply chains;
- ◆ appropriate action to mitigate risks identified and prevent serious breaches of human rights, fundamental freedoms and health, safety and environmental regulations;
- ◆ an alert and reporting mechanism;
- ◆ a system for monitoring the measures implemented and assessing their effectiveness.

A methodology for monitoring supplier risks was formalised in 2018 and is applied by the direct purchasing and indirect purchasing divisions at all the House's *métiers*.

The diagram below shows this methodology and the corresponding tools:



The *métier* purchasers must sort their suppliers by purchase category then, for each of these categories, map the global risks and analyse the risks by supplier. For suppliers identified during the analysis as “at-risk” (e.g. corruption, politically exposed persons, negative press, breach of human rights, risk to the health and safety of persons, environmental

risk) and those identified as strategic or sensitive (volume of business, special *savoir-faire*, *intuitu personae*, succession, financial health, etc.), the purchasers must complete a “supplier information questionnaire” to enable them to investigate the risks further. If the risk is confirmed, an external audit is requested.

2.6.2.3 RISK MAPPING

The Hermès Group has produced a risk mapping (see “Risk factors” section in 1.11), into which the mappings produced by each of the main *métiers*, retail 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 in 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 sustainable development, ethics and corruption risks. These risks are prioritised based on their criticality, on the one hand, calculated as the product of the impact on the Hermès Group or its stakeholders by probability of occurrence, and on the level of control, on the other hand.

Since 2018, the emphasis has been on direct purchases (production purchases) for which control of the supply chain is obviously a strategic challenge. The 15 Hermès Group's *métiers* count around 100 direct purchasing categories. The target was to map 50% of these purchasing categories by the end of 2019. The target was exceeded with 66% of the categories risk mapped at the end of 2019. Workshops planned for the first half of 2020 should take the total to 75%.

Among the risks identified, ensuring the durability of artisanal *savoir-faire* and maintaining our capacity in France are major challenges for several divisions, as is improving the traceability of raw materials throughout the supply chain. Issues relating to the environment and the health and safety of people are also identified, but are analysed less critically. Conversely, because the vast majority of suppliers are in France, the risk of violation of human rights and fundamental freedoms is generally assessed as very low.

Procedures to regularly assess the situation of suppliers and subcontractors

For each purchasing category previously covered in a risk mapping, the *métier* purchasers carry out a second-level risk analysis by supplier. 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 environmental risks. Corruption risks are also assessed according to the country in which the supplier is based and its activity.

If a risk is suspected, the purchaser arranges an audit to confirm or rule out this risk, supported by a “supplier information questionnaire” setting out the various topics included in the previously completed supplier risk analysis framework.

This “supplier information questionnaire” is more generally used by the direct purchasers as the basis of visits to a tier 1 or higher supplier with the aim of constantly improving their knowledge of the 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 supplier information questionnaire confirms a significant level of risk, the purchaser alerts the direct purchasing department and their line manager, a member of the *métier*'s Management Committee, and an action plan is drawn up to prevent or mitigate the risks. If the risk is related to the environment, the health and safety of people, social issues or human rights and fundamental freedoms an external body, recognised for its expertise in environment, health and safety of people and social issues, is asked to conduct an audit. The results of these audits and action plans are taken into account for any continuation of relationships.

In pursuit of their responsible purchasing strategy, in late 2018 the two purchasing divisions selected Ecovadis, a company that offers a collaborative platform for the evaluation of the corporate social responsibility (CSR) performance of their suppliers (environment, social & human rights, ethics and responsible purchasing). Each company is assessed on these fundamental issues according to their size, location and sector of activity. The evidence-based appraisals are reported in assessment sheets on the basis of which corrective action plans are put in place.

Since the programme was launched, 106 French and international suppliers have accepted Hermès invitation and shared their sheets. The programme will be stepped up in 2020 to increase the number of campaigns and suppliers covered, particularly those in the indirect purchasing chain.

Hermès' objective is to approach its 100 main suppliers of indirect purchases in France in 2020 and ask them to self-assess or share their EcoVadis score. If all suppliers agreed to take this step, it would represent 46% of indirect purchases in France in 2019.

Audits are also requested for strategic or sensitive suppliers (volume of business, specific *savoir-faire*, *intuitu persona*, located in a country far from France, etc.) Specifically, in terms of direct purchases, the Hermès Group's 50 largest suppliers must be audited at least once and all suppliers outside Europe must be audited regularly, approximately every three years.

These audits permit an on-site check of the supplier's social, environmental and ethical commitments, ensuring that relevant regulations are being complied with, and verifying the actual working conditions and well-being of employees.

In keeping with the supplier information questionnaire, these audits cover the following seven issues in particular:



In 2019, a sustainable development category was added to the Environment category, which was more concerned with compliance with regulations, and a special Ethics and anti-corruption category was created. The three priority topics of the seven covered, which meet our obligations under the duty of care law, are:

- ♦ social, human rights and fundamental freedoms (child labour, forced labour, discrimination, gender equality, undeclared work, employment contracts, wages, working hours, overtime, etc.);
- ♦ health and safety of people (fire prevention, workspace risk analysis, chemical risk, individual protection equipment, training, medical checks, etc.);
- ♦ environment (regulatory compliance, emissions/discharge management, wastewater management, waste management, chemical storage, sustainable development policy).

For direct purchases, the number of supplier audits conducted, which had already doubled between 2017 and 2018 and again more than doubled in 2019. The time devoted to these audits by the audit firm and Hermès teams was over 5,000 hours in 2019. Two-thirds of the audits were of tier 1 suppliers and one-third of tier 2 suppliers (in Europe and Asia principally). To lead this supplier audit programme, a supplier audit and CSR project manager joined the direct purchasing department and a second will be hired in 2020.

SUPPLIER AUDIT

| | 2017 | 2018 | 2019 |
|--|-------|-------|-------|
| Budget <i>(in thousands of euros)</i> | 170 | 230 | 500 |
| Hours | 1,500 | 2,300 | 5,000 |

These audits are a vital component of the supplier and subcontractor appraisal system as well being key for the quality of relationships. This is why purchasers are involved in the auditing of their suppliers, 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. An employee from the direct purchasing department is also involved in most of the audits. This ensures that the audits really do support the ongoing improvement of our partners. It also helps develop the purchasers' CSR expertise, which they can then apply to the identification of risks when visiting their suppliers.

Risk management and mitigation or prevention of serious violations

The two purchasing divisions, direct and indirect, coordinate the House's network of purchasers and conduct common training initiatives. As such, at the end of 2018, they started developing a training course for purchasers, aimed at strengthening and structuring the training already offered within the Hermès Group. An Environment, health and safety training is currently being rolled out. This course, 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. Around 250 people will be trained by the end of 2020.

In addition a Legal and Compliance course is currently being developed with the legal department.

Finally, a Purchases at Hermès training course is under development and comprises two sections – responsible purchasing and supply chain management – still pursuing the same objective of ensuring CSR becomes part of the day-to-day life of purchasers and helping them to identify and prevent potential breaches of human rights and fundamental freedoms, the health and safety of people and the environment anywhere along their supply chains, tier 1 and tier 2 suppliers, and beyond.

On the other hand, a direct purchasing network is coordinated by the Hermès 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 direct purchasing policy and procedures, regulations, legislation, and the tools used 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 supply chains. Alongside this, and with the same objectives, an indirect purchasing network is coordinated by the Group indirect purchasing department and meets once a year. To supplement this, networks specific to certain supply chains were created in 2019 and meet three times a year. These are the textile purchasing network, the metal part purchasing network, the tawer purchasing network and the precious metals network. These purchasing network

meetings provide the opportunity to discuss the risks identified within the chains and steer the action plans to prevent or mitigate these risks. As shown by several operational examples (see section 2.4 “Materials”), these actions are necessarily specific.

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. These handbooks, which define the contractual relationships, are regularly updated, with:

- ◆ handbook 1 defining undertakings with respect to non-disclosure and fair trading;
- ◆ handbook 2 defining undertakings with respect to social, environmental and ethics policies.

These two handbooks were further developed in 2018, and an extensive campaign is under way to present them to the Hermès Group’s strategic and sensitive suppliers and encourage them to sign these new versions.

The supplier undertaking handbook 2, for example, contains the following sections:

- ◆ International standards and agreements

The House reminds all its suppliers that it respects the Universal Declaration of Human Rights, the United Nations Global Compact, the United Nations guiding principles on human rights, and most importantly the International Labour Organization (ILO) declaration on the fundamental principles and right at work, and asks them to do likewise.

- ◆ Good labour practices

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

In its quest to combat child labour Hermès prohibits the employment of anyone under the age of 16. In addition, if a Group employee has not completed their mandatory schooling, the Hermès Group promises to provide the necessary resources so that they may do so.



76 %

of direct purchase suppliers formally committed to social, environmental and ethics policies (handbooks 1 and 2)

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.

To combat harassment and abusive behaviour, the Hermès Group informs its suppliers that it does not tolerate such practices.

In terms of the right to collective bargaining, the Hermès Group demands that its suppliers respect this right with no reprisals against union members and representatives.

In terms of working hours, the suppliers must comply with national and international regulations on working hours, overtime and minimum rest periods.

- ◆ Good environmental practices

This section states Hermès’ 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 their suppliers and subcontractors. Moreover, they are responsible for declaring all their subcontractors to Hermès and may not subcontract any production of Hermès products to a new subcontractor without Hermès’ prior written agreement. This agreement is tied to a pre-accreditation visit based on the supplier information questionnaire.

Purchasers must take care to regularly remind their suppliers and subcontractors of the undertakings they have made by signing handbooks 1 and 2. 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 2019, the target was that at least 65% of suppliers operating in the direct purchasing scope had signed handbooks 1 and 2. This target was exceeded with a 76% handbooks 1 and 2 coverage rate in the direct purchasing scope by the end of 2019.

Finally, audits are a vital component of the supplier risk management system. Thus Audit Committees were set up at the start of 2019 to analyse the various audit reports and identify the priority actions for each of the suppliers audited. The Audit Committee meetings are attended by the purchasing department, the Industrial Affairs Director, the Audit and Risks Director and the purchasers who had taken part in the audits. The Audit Committee met twice a *quarter* in 2019 and will meet twice monthly from 2020 to respond to the increasing number of audits carried out and also dedicate time to following-up past audits. The purchaser of the *métier* in question is responsible for distributing the conclusions of the Audit Committee meetings to each supplier and monitoring action plans. Audit follow-up visits are planned three months, six months and/or one year after the audit, depending on the type and severity of the findings. If necessary, a member of the Group purchasing department can accompany the purchaser on these follow-up visits.

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 Hermès 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, as described in section 2.8.4.1.

Furthermore, in the event of a breach or situation contrary to the ethics, social and environmental principles, the Hermès Group has provided its suppliers and subcontractors with a whistleblowing mechanism in the form of a generic email address. These reports are analysed by the legal compliance department and the purchasing department.

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 the Hermès 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 1.10.7 “Internal control system in response to risks”.

In order to fulfil the requirements of law 2017-399 of March 27th 2017, the Hermès Group established a Compliance and Vigilance 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 the Hermès Group companies. A General Counsel Compliance was appointed during 2017.

Application of the French law known as “Sapin 2” has led us to increase our monitoring of suppliers, particularly the monitoring of their regulatory compliance with respect to corruption prevention (see section 2.8.3.1).

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whistleblowing systems (internal and external) set up in 2019

Human rights in the supply chain

The Hermès craftsmanship model, in which 61% of objects made in Hermès exclusive and internal workshops, 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 52% of them are in France and 42% elsewhere in Europe. Just 7% of purchases are made in more distant countries, mainly raw materials (e.g. exotic leathers), where our control and monitoring is extremely strong:

- ◆ Hermès’s internal and external ethics approach is based on the universal framework established by major international principles. The code of ethics, drawn up in 2009, was signed by the Executive Chairman. Communicated to all employees and available on the intranet and to the public at <https://finance.hermes.com>, it states that these principles apply to the Hermès Group companies and our suppliers. In particular, explicit reference is made to the Universal

Declaration of Human Rights, the charter of fundamental freedoms of the European Union, the charter of fundamental freedoms of the International Labour Organization, which covers freedom of association, the fight against forced labour, child labour and the fight against discrimination, and the OECD Guidelines. It is also a member of the United Nations Global Compact (in which Hermès is “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 (internal training, Paris buyer seminar, implementation of supplier practices monitoring software) and by the work of the legal compliance 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.

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 as part of a long-term relationship. 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

Textile division

In 2019 the Textile division tightened control of its supply chain. 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. It has established a risk assessment document targeting sensitive products in terms of production and their shortage risks, together with an action plan suited to each site to minimise the risk (use of an alternative product, change in stock management, discontinuing the product, etc.).

To supplement this risk analysis, HTH continues to implement its strategic supplier audit policy. The aim is to systematically audit material suppliers and finishers.

As such, in addition to the standard audits each year Hermès works with an external firm to conduct three audits of its most important or most at-risk suppliers to obtain exhaustive information on the suppliers’ HSE and CSR situation: safety of people and property, compliance with standards and regulations, water and waste management, etc.

Based on the results of these audits, corrective action plans are put in place and monitored by the purchasers.

In 2019, the Textile division conducted audits on Tissages Perrin (woven silk and cashmere), Bratac (silk producer), Filatura Di Trivero (cashmere yarn) and TSJ (finisher).

Home division

At CATE, undertakings with respect to non-disclosure and fair trading (handbook 1) and social, environmental and ethics policies (handbook 2) were signed by suppliers accounting for 96% of total volumes purchased in 2019. For our French suppliers, the division also implements the obligations pursuant to the 2014 law on undeclared work aimed at combating unfair business competition. In addition, it conducts extensive inspections to ensure that supplier and/or customs declarations indicating that the components purchased have been “Made in France” are accurate. Finally, in 2019, industrial audits (HSE, quality, capacity, etc.) were conducted at the premises of our strategic metal part suppliers for the enamel activity.

At Beyrand, in January 2019, the purchasing and supply department set up the supply chain coordination function. The purchasing and supply department implements sustainability and security action plans with the various suppliers. An HSE audit of a strategic paper supplier was conducted in 2019 as part of this common action plan. Furthermore, the system of having strategic and/or sensitive suppliers sign handbooks 1 and 2 has continued, with new suppliers a priority. They have been signed by 60% of suppliers.

At Puiforcat, an HSE audit was carried out in 2019 to support the selected supplier on these issues: inventory and action plans monitored on a six-monthly schedule. Of the 45 direct purchasing suppliers, the handbooks 1 and 2 coverage rate is 80%. Alongside this, Puiforcat increased its partner support and presence in 2019. For example, for strategic suppliers such as Odiot and Greggio, Puiforcat staff visited their sites twice a month.

Cristal

The Saint-Louis purchasing department ran a supplier risk analysis and audit initiative in 2019, with supplier audits and HSE training organised with the support of an external adviser. Suppliers of lighting components and raw materials were audited in 2019. The resulting action plans are closely monitored.

Farms

The vast majority of the animals bred on the farms come from eggs collected in the natural environment according to the quotas set each year by the local authorities. Several players enable the smooth operation of the breeding industry in Australia and the United States, primarily the local governments and their nature protection departments, landowners, hunters and the egg collectors and incubators from whom the breeding farms purchase the eggs or newborns.

Any breeding sites which could supply the divisions' farms in the United States and Australia with eggs, newborn animals and sometimes one-year-old animals, undergo regular controls. Until now these have been in-house controls which have also covered the requirements of the Hermès Group's in-house charter. The new audit programme, always run in collaboration with Bureau Veritas and based on more stringent procedures, was rolled out at the division farms in 2019. The resulting progress plans will be monitored annually by Bureau Veritas consultants.

Construction

Since 2017, the construction purchasing policy has been gradually rolled out at subsidiaries. For any new construction, the supplier's undertaking to adhere to local rules and acceptance of the charters on fair trading and good labour and environmental practices are a prerequisite to engagement 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. Hermès would like its partners to also work towards this ambition. In line with the Hermès Group's responsible purchasing strategy, it asks its suppliers to establish their CSR profile with Ecovadis. In 2019, 35 companies in the construction sector agreed to do this and 28 are currently being assessed. Based on the importance of the risks identified, specialised third-party firms are requested to conduct an on-site audit. They are responsible for determining action plans that will be shared with the suppliers for actions to be monitored internally by the Hermès Group.

Any new company that wishes to work with Hermès on a recurrent basis undergoes an Ecovadis audit as part of its qualifying process. They can also receive dedicated support by means of an in-depth site audit supervised by the construction teams.

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 30 craftspeople 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. 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 2.2.2), the Hermès Group 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 Hermès 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”*
The Hermès Group 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 Hermès Group has specific demanding requirements in relation to ethics and social and environmental responsibility. They apply in the context of relations that bind the Hermès 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”*
The Hermès Group's 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.

Mangrove plantation with the Yagasu association in Indonesia, supported by the Livelihoods Fund

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2.7 COMMUNITIES: STAKEHOLDERS AND LOCAL INTEGRATION

Introduction

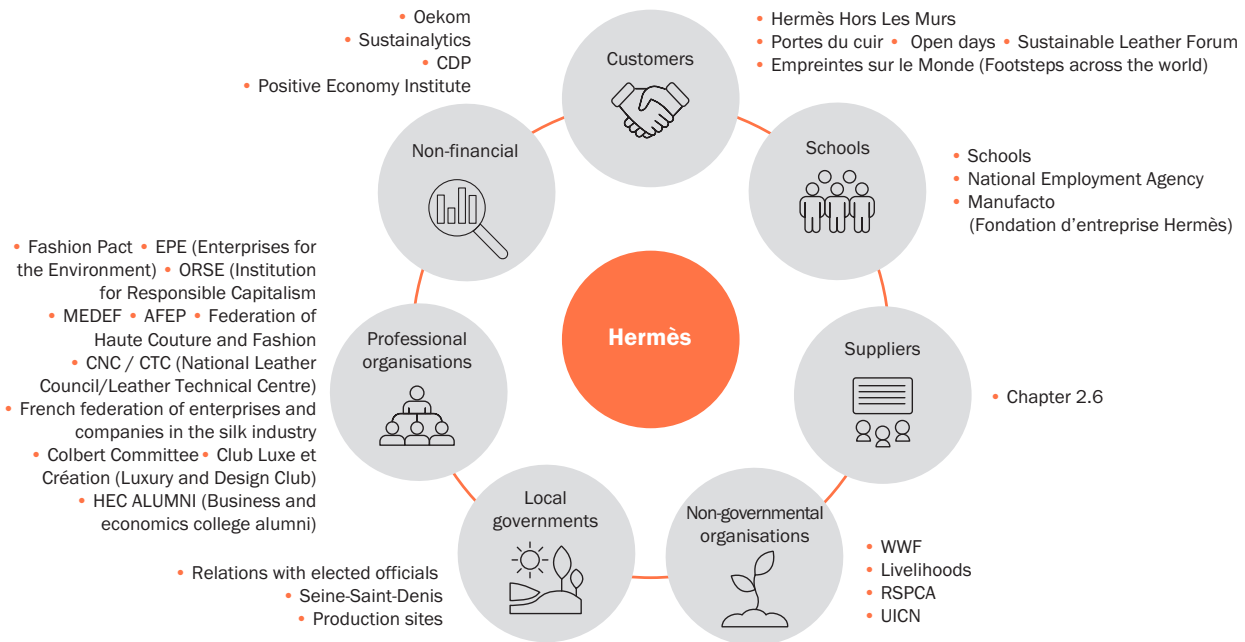
Aware of its responsibility in terms of contribution to regional development, Hermès develops its production activities in France. With more than 400 human-scale sites (production units, stores, logistics sites, offices) worldwide, Hermès contributes to regional sustainable development by providing employment (3,699 jobs created over the past five years) and promotes the creation of sustainable value (local recruitment, training of employees, etc.).

Wherever it operates, the Hermès Group acts as a responsible company with a long-term outlook through local economic, social, cultural or other initiatives. Such initiatives enable Hermès 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.

Moreover, the House's subsidiaries and sites organise local charitable operations. The sustainable development training and awareness-raising initiatives conducted by the Hermès 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, giving back to the world part of what it has received... Throughout the world, numerous local interest projects are alive and active thanks to Hermès.

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 Hermès Group's interactions with its stakeholders illustrated in this chapter break down as follows ¹:



1. List not exhaustive

Hermès, as a responsible company, has been recognized several times by independent agencies, such as specialised ESG rating and ranking agencies, through their 2019 ratings of the House. For its first active participation in several assessments and rankings, Hermès was placed among the most virtuous companies in the subject areas from the outset. These assessments were carefully chosen by Hermès for their credibility, rigour and representativeness of the priority challenges of the sector, including, but not limited to, the following analysts:

| SUBJECT | Assessor | 2018 score | 2019 score |
|-------------------------|------------------|------------|------------|
| Climate change | CDP | F | B |
| Water | CDP | F | B |
| Forest | CDP | F | B |
| ESG risks | ISS Oekom | D | C |
| ESG risks | Sustainalytics | 52 | 72 |
| Positive value creation | Positivity index | 40.90% | 75.60% |

CDP is an international organisation that has been recording the environmental performances, particularly climate actions, of more than 8,400 companies since 2002. The average scores of the "apparel design" segment in Europe are C for Climate & Forest, and B- for Water.

ISS Oekom is a specialised ESG (environment, social and governance) rating agency. The scores it attributes range from D- to A+. To be rated "prime", companies must achieve a level of C+.

Sustainalytics is a rating agency that assesses listed companies based on their ESG performance. Hermès is rated as an "outperformer" and is number 4 in its peer group on a worldwide basis.

The positivity index is a French analysis administered by the Positive Economy Institute to companies on the CAC 40. The average score of the sample group is 51% (C+). With a score of 75.6% (B+), Hermès is among the best-performing French companies according to the criteria examined: working conditions, value-sharing, environmental footprint, education and research, and long-term strategic vision.

2.7.1 CHALLENGE: REGIONAL RESPONSIBILITY IN FRANCE

Hermès' regional responsibility in France makes use of the resources from the regions in which it is 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 & Saddlery division's activity, where the industrial development approach is the one of spin-offs: organic development that creates human-scale production sites (approximately 250 people), which starts with a core group of experienced craftspeople, who train newcomers.

Hermès ambition 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 9,522 Group employees work. The craftsmanship model that it employs in France brings with it a regional corporate responsibility. The establishes itself for the long-term.

Since the launch of the first site in 1837, the locations for production units have been chosen to support hubs of regional expertise. The Silk division has five sites in the Lyon region (761 jobs), concentrating the House's *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 Passerelle extension project, launched in 2019, is the concrete demonstration of the House's desire to contribute to the sustainability of local *savoir-faire*. This large project at Pierre-Bénite (near Lyon) aims to support two new printing lines and eventually create 120 additional jobs. The project is expected to be finalised for 2021.

The CATE porcelain production site is based in the Limousin region (217 jobs), the cradle of porcelain production, with Beyrand, a colour printer since 1926, which joined the Hermès Group in 2013. The renovation and extension work in progress will be delivered for the second half of 2020. In the Périgord region, the Nontron site is a good example of the Group's desire to develop its local footprint. Hermès, thanks to its decision to set up a porcelain production site, was able to hire 200 people impacted by the closing of a manufacturing site. Today, with three companies, Hermès employs 471 people at Nontron. Finally, Maison Saint-Louis, founded in 1586, is located in the heart of the Lorraine forest, the source of all the raw materials necessary for crystal manufacture. It has carefully preserved over 10,000 moulds that can be reused at any time to manufacture the production unit's crystal objects.

The leather goods sites continue to expand according to customer demand. Out of the 17 Leather manufacturing sites, all in France, eight have opened since 2015: Maroquinerie Iséroise, Tardoire, Héricourt, Normandie, Saint-Junien, Allan). Maroquinerie de Fitiellieu opened in

2019. Several new sites are projected to open: the Maroquinerie de Guyenne in Saint-Vincent de Paul and the Maroquinerie de Montereau, which are expected to be completed by the end of 2020. In line with the creation of divisions, the openings of a second leather goods unit in Normandy as well as one in the Ardennes are planned, respectively, for 2021 and 2022.

The choice of new sites responds to a desire for local integration on three levels: respect for local expertise, sustainability of *savoir-faire*, and desire to create local jobs bringing life to the regions.

These sites are built according to several different types of opportunity: the labour pool, the takeover of existing sites and a change of activity, or the establishment of new sites. The sites are voluntarily set up near schools offering leatherwork training programmes. The geographical locations of the sites are distributed throughout France, organised by regional divisions, in particular for leather (see Map of sites in section 1.7.2).

On an environmental level, the Hermès Group's commitments are integrated upstream to obtain buildings that meet its objectives in terms of standards and impact. 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. The choice of construction projects for the two future leather goods production units (at Louviers and in the Ardennes department) reflect this ambition, for example.

The work on the two permanent leather goods sites (Montereau and Guyenne) is in progress, designed to comply with HQE+ (high environmental quality) standards. The work is carried out closely with all stakeholders. Local companies are given priority in competitive bidding when they meet the specifications.

The two sites will include the creation of company restaurants and are examining opportunities for sourcing supplies locally, with nearby vegetable production.

In addition, the creation of sites organised by division (maximum three sites) promotes project synergies, recruitment of experts, skills improvement, and also presents opportunities for internal mobility ensuring the sustainability of the model.

Close relations with local authorities to contribute to life in the region

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.

Special attention will be paid to the potential of the local employment pool, transport infrastructures, possibilities for local housing, and schooling for families. The quality of the partnership with town halls plays a determining role, as for example at Saint-Vincent de Paul (Gironde department), where Hermès is providing assistance to the municipal village transition project, driven by the goal of a true local life for the families that are settling in the community.

The development of craft métiers and job creation

The sites all maintain close relations with local Job Centres and schools. The goal is to help train the new generations of craftspeople, 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 (*Pôle Emploi*);
- ◆ high school student visits to the workshops to discover the artisanal *métiers* (such as leather);
- ◆ talks in secondary schools to present the *métiers* prior to the pupils' choice of a career path;
- ◆ the creation of appropriate local training programmes. Hermès is working on the creation of a professional baccalaureate in leather goods with the vocational school in Montereau.

This year, Hermès created 676 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, construction 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 programmes, from which only a small number will join the Hermès Group.

The following examples illustrate the operations conducted in 2019:

Leather Goods division

In every project, a temporary workshop is set up for a period of 18 to 24 months prior to the opening of the site, in existing buildings that have been renovated in accordance with the Hermès Group's standards. Recruitment is carried out locally. These temporary workshops are attached to a reference site, and in-house trainers ensure the transmission of *savoir-faire*. The first cohort of some 30 craftspeople is recruited on the basis of manual skills using a simulation-based method, devised in collaboration with the Job Centre (*Pôle Emploi*) and emphasising manual aptitude, without CVs. Every six months, a new group is brought on board and trained by in-house trainers. The craftspeople are then provided with continuous training from tutors. Upon opening, about 100 people are already operational and ready to launch the leather goods activity. Ultimately, the workforce will reach an average of around 250 (a maximum of 300 per site) craftspeople three years after the opening date. This number of employees will allow the craftsmanship dimension to be preserved, and quality relations between employees and management.

The development of temporary workshops open in 2018 at Saint-Vincent de Paul, in Gironde, and Montereau, in Seine-et-Marne continued using this method and two groups of approximately 30 people were recruited locally at each of the sites, creating more than 120 jobs at these leather goods sites alone.

This policy of building up regional bases resulted in the creation of a new division in 2019: the Normandy division. A temporary site was opened in September 2019 in Louviers to allow the arrival of new cohorts of workers, near the Maroquinerie du Val de Reuil, inaugurated in 2015. A first group of some 30 people was recruited and started work in September. The Louviers project is carried out in very close cooperation with the town hall, the broader urban community and local stakeholders. The environmental goal of building projects corresponds to the highest level of energy performance and sustainable development goals ever set for a leather goods project.

Finally, in 2019 a decision was made to open a 21st leather goods site in the Ardennes, in order to create an Ardennes division starting in 2020. This project also entails a commitment to ultimately create 300 local jobs, at Tournes, a village near Charleville-Mézières, focusing on helping to energize the region. This new site, which is environmentally friendly and respects the quality of life of the people living nearby, will benefit commercial, recreational, charitable and educational activities through job creation.

In addition, the leather goods sites are carrying out initiatives to help the local communities:

- ♦ the Belley leather goods unit takes part in the monthly local “Commissions Emploi Formation” (job training commissions) with the stakeholders in the Bugey Development;
- ♦ the teams at the Savoie-Dauphiné division volunteer in high schools to present their *métier* and the leather goods industry to students;
- ♦ several divisions (Savoie-Dauphiné, Sud-Ouest, Franche Comté, etc.) host classes of students at their sites to introduce them to the world of craftsmanship;
- ♦ as part of the Fondation d’entreprise Hermès’ Manufacto project (section 1.9) in the Paris region, Lyon and in Franche Comté, several craftspeople took part in initiatives in partner elementary, middle and high schools in 2019;
- ♦ at Pantin, a partnership was developed with the Plaine municipality to host young people from underprivileged neighbourhoods for training, through the Apels, the Association for Education through Sports. Seven young people started in the fall of 2019;
- ♦ many sites give training, maintenance work, etc. to EAs/Esats or other local providers (see section 2.6.1.2).

Textile division

As part of the *Passerelles* project, the Silk division signed an Agreement with the City of Lyon, via the Maison Métropolitaine de l’Insertion par l’Emploi (the city’s integration through employment agency), undertaking to ensure that subcontracting companies involved in the *Passerelles* work sites provide a certain number of hours of integration work for people from priority sectors of society:

- ♦ organising and tracking by the City’s specialised consultants;
- ♦ directly managing and assisting companies for the implementation of their commitments (recruiting assistance, making contact with specialised agencies, etc.).

The division also took part in the Lyon Jobs Forum, with 80 candidates received, as well as in the “1,000 Companies for Jobs Forum” at the Lyon Jobs and Professional Training Institute.

HTH maintains close relations with the silk apprentice training centre (CFA Textile) and FrenchTex, France’s leading regional professional textile organisation. As such, it also sits on the Board of Directors of Cepitra, the Chamber of Apprentices in the Textile *Métiers* and AR2I (OPCO).

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, partnered with ALLIES and the MDEF, 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.

The partnership with Open Emploi (a socially-oriented temporary employment agency that promotes the employment of people from diverse backgrounds) continued, leading to three recruitments (temporary assignments and fixed-term contracts) for people with disabilities for a position of textile visitor.

Tanneries

The setting up and operation of tanneries provide opportunities to develop discussions with stakeholders, in particular on environmental subjects. Accordingly, Tanneries du Puy organised meetings on the water challenges with local residents, town halls of local municipalities, as well as the broader urban community of Le Puy. They also hosted a visit by employees of the water agency, advisors at the Le Puy Job Centre (Pôle Emploi) as well as local students.

The Tannerie de Montereau proposed a meeting with elected officials of the regional government authority on the theme of regional water challenges. It presented its project combining the tannery and leather goods workshop to the Montereau area local association of municipalities (CCPM) and local companies. It is also involved in a working group initiated by the CCPM to re-energize the business park and develop common projects (waste management, energy use, etc.).

The Tannerie de Cuneo, in Italy, set up a partnership with the Consorzio Socio Assistenziale (public agency for assistance to people with disabilities) to fit out a vehicle to transport persons with reduced mobility, used by the Cuneo community network. In return, the Consorzio conducts disability awareness-raising initiatives in the Tannery (services available for people with disabilities, possibilities of insertion, recruitment assistance).

Other métiers

Since 2017, Hermès Femme has developed a partnership with the Jean-Luc François association, in which the *Programme Couture et Métiers* develops the skills of people having great difficulty finding work. In 2019, in this framework, a migrant following a professional integration scheme was given an internship in the Women’s Ready-to-Wear workshop. In all, three people were welcomed for 15-day internships since the start of the partnership, and always successfully.

The Perfumes division works closely with Cap Emploi 27 (“30 days to find my job” scheme) or the city of Val de Reuil (participation in the Jobs Forum on work/study contracts in March 2019). It also took part in the Handisup Forum that included about 100 students with disabilities seeking internships, work/study contracts or summer jobs.

Hermès Commercial in Bobigny has supported 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.

Relations with elected officials

In 2019, Hermès brought together 17 elected officials from municipalities in which the production sites are located, with their respective Directors as well as two members of the Executive Committees and the managing directors of their leather goods, tanneries and sustainable development activities, for one day. The objective was to strengthen dialogue and pursue actions with elected officials in the local authorities of the areas where the House is established. After a presentation by Hermès, working groups discussed sharing of best practices and additional expectations that could be developed together.

Following this day, a number of concrete actions were taken or extended on the themes of assistance in local recruitment, neighbourhood planning, assistance to employees new to the municipalities, actions for environmental protection or increasing the effectiveness of local professional training programmes.

Seine-Saint-Denis

Hermès joined the association Réseau Entreprendre 93 at its creation in 2003. It participates, along with the other members, in the selection, financial support and coaching for start-up projects whose common point is their strong job creation potential. In 16 years, 1,700 jobs were created by 175 new companies under the system. About ten employees of the House are now involved in an advisory role with start-ups fostered by Réseau Entreprendre 93. Between Pantin and Bobigny, the sites located in Seine-Saint-Denis represent a total surface area of 100,000 m² and house 2,000 employees, 400 of whom live in the department. This proportion is expected to increase thanks to link-ups with candidates by the employment agency in Pantin. While Hermès is one of the largest employers in Seine-Saint-Denis, it is also involved in promoting talent from this region.

At Pantin, the House also provided its assistance to the local authority to create the Revel house, a centre for promoting the *métiers* of art and design, and a “*métiers* workshop” at the employment centre. In 2017, Axel Dumas, Executive Chairman of Hermès, strengthened this partnership by signing an “Enterprise-region” charter with Est Ensemble. This association of nine municipalities includes Pantin and Bobigny, where Hermès is also located. Hermès is involved in talent promotion, through various initiatives in Seine-Saint-Denis, beyond its contribution as one of the largest employers in the department. One of the objectives is to strengthen the Company's participation in local economic development and employment, with the result of good conditions and services that support its employees' integration.



Over 280
solidarity
actions
around the world

2.7.2 CHALLENGE: A SOCIALLY RESPONSIBLE COMPANY

Hermès seeks to fit harmoniously into the local economic fabric. The House wants to be a responsible company actively involved in the life of local communities with which it builds and develops strong ties. Its model for the development of craftsmanship in France means Company-based regional responsibility, and extends even further than this, since employees contribute to the development of their communities through simple actions. Giving time, giving of one's self, opening oneself up to others, receiving, and so on... Throughout the world, there are many possibilities at Hermès.

2.7.2.1 POLICY

The Hermès Group's policy is to ensure that each of the House's production and distribution units maintains a dialogue with local authorities and stakeholders, with the goal of healthy integration in the local community, as a good, trustworthy, civic-minded neighbour, poignant examples of which are set out below.

2.7.2.2 MEASURES IMPLEMENTED AND RESULTS

Corporate responsibility

Hermès participates in value creation in France through the direct employment of 9,522 people, and recruited 676 people in 2019 (527 last year) (see chapter 2.7.1). A total of 87% of the Group's sales are made outside France, thus making a positive contribution to the French trade balance.

The Hermès Group's income tax expense amounted to €751 million i.e. a tax rate of 33.1% (compared to France's current tax rate of 34.43% – see note 10 to chapter 5).

Concerning taxes, the Hermès Group follows the recommendations of the CSR GRI 207 reporting standard:

1. The tax strategy of Hermès is based on the following principles: all the Hermès Group's companies comply with the applicable regulations in the countries in which these companies are established.

- ◆ Compliance with the deadlines specified by applicable regulations in each country for filing the required tax statements and the payment of taxes owed.

- ◆ Income is taxable in the place where the income is generated.
- ◆ Absence of creation of legal structure or transactions to meet a primarily tax-related objective.
- ◆ The fight against tax evasion with the absence of use of tax evasion schemes or structures without substance.

This tax strategy is implemented by Group Financial Management, based on internal (the tax department) and external expertise in France and abroad. This strategy is reviewed and approved by the Executive Committee at least once per year;

2. the location of the Hermès Group's activities is based exclusively on operational choices and tax considerations do not modify that approach. That is how the location of production in France, which is an element of the Hermès Group's strategy for sustainable development, impacts the amounts of taxes paid in the country and the Group's effective tax rate. The Hermès Group's income tax expense amounted to €751 million (see section 4.1), i.e. an effective tax rate of 33.1% (compared to France's current tax rate of 34.4%);

3. the Hermès Group's tax positions are tracked and audited by the tax department, which reports directly to a member of the Executive Committee, one of whose objectives is to anticipate, identify, and manage, with the finance department, the tax challenges. It contributes to the identification of any non-compliant or unethical practices, in addition to the H-Alert internal system open to all employees;

4. every year the Group files, as part of its tax obligations, a statement of transfer prices and a country-by-country statement, the Cross-Border Currency Reporting (CBCR) with the French tax administration. The CBCR is created in accordance with the recommendations of the OECD (as interpreted in French tax law). It is subject to an exchange of information between the tax administrations of the countries in which the Group is established. In the countries in which the exchange of information is not operational, the Group has a CBCR program with the local tax administration.

Moreover, Hermès places people at the heart of its activity and its day-to-day operations. In addition to actions linked to its own activities, it is also a responsible company in the places in which it conducts its business, building harmonious and constructive relations with stakeholders. The production sites interact with the municipalities, the local association of municipalities, and local agencies such as Action Logement. Hermès cooperates with partner associations for employment, as well as with junior and high schools (Mission Locale, secondary schools and colleges, Action Logement, etc.), which provides the House with fresh young talent, thereby contributing to its expansion. Hermès also devotes efforts to creating links and supporting the disabled sector: whether for occasional services relating to the daily activity of the sites (maintenance, meal services, etc.) or for long-term partnerships as is the case of with the Micocouliers Esat, the House is building bridges that extend beyond diversity. As a committed and responsible company, a company that is always learning, Hermès shows its desire to give back to the world what the world has given it, through many local initiatives, in connection with their specific contexts on a national and international level.

Tangible and generous commitments: financial donations, contributions in-kind and volunteering actions

Hermès is committed to increasing its meaningful and generous actions in the regions in which it is located, regularly involving the subsidiaries and production units. These initiatives are sometimes driven by the Group, sometimes locally, and managed in a decentralised fashion. Employees' ideas and initiatives on various subjects are frequently positively received. Since 2017, the Group has strengthened its commitments toward local charitable initiatives through a memorandum circulated to the retail subsidiaries abroad, indicating the operating and financial methods that they should follow. These actions strengthen the values of Hermès and the employees' pride in belonging. They are the opportunity for shared moments and the creation of links between employees joining together for a common, concrete purpose, for and with the communities. They illustrate the Group's desire to make a positive contribution to a better world, by supporting projects based on education, support in particular for craftsmanship, solidarity, protection of the environment and cultural development. In 2020, the retail subsidiaries abroad included an investment goal for these operations in their budgets, in addition to the patronage actions by the Fondation d'entreprise Hermès.

In 2019, more than 3,000 employees worldwide were involved outside of their work time in environmental, cultural, and solidarity actions in their local communities. In a wide variety of fields, more than 280 concrete, meaningful initiatives were carried out, totalling more than 4,700 hours in a desire for long-term impact on the multi-local basis of "all artisans for sustainable development".

Among other things, the versions of Carrés Solidaires allow solidarity initiatives throughout the world to be supported and encouraged. In 2019, the Luxembourg, United Kingdom, China, Hong Kong, and U.S. subsidiaries took part in this initiative. Sales of 3,150 items created specifically for the initiatives were made for nine associations

In France, 40 charitable actions were completed in 2019, either by a financial or in-kind donation or by contributing time.

The sustainable development department organises and raises the awareness of the teams, on a regular basis, throughout France and internationally. Its actions are for the long term with associations or other charitable organisations, and are publicised and implemented by a network of ambassadors.

In addition to the initiatives proposed during the Sustainable Development Week, whose program is echoed throughout the region, awareness-raising activities are organised throughout the year. Since 2016, employees of Hermès International have been offered solidarity baskets four times per year, which generate financial contributions to four associations. These associations are active in the areas of sustainable agriculture, student solidarity with universities, and people living in the streets.

For the 3rd consecutive year, a dedicated collection initiative resulted in 1,000 kilograms of toys from 13 sites in France. The partner association that will receive the toys works in workplace reinsertion while emphasizing the circular economy.

Since 2016, the seasonal uniforms of the sales associates are given to associations for professional reinsertion.

Since 2013, the Pantin site has been equipped with collection banks for used personal clothing and textiles. The Paris and Bobigny sites recently introduced such collection banks, and in 2019 nearly 2,700 kilograms of textiles were collected and donated to charity shops or recycled.

Charity races such as the Odyssea in the Paris region or in Alsace, donate the proceeds to medical research and enable participating employees to be actively involved.

Many financial donations are also made to help ensure the preservation of unique *savoir-faire*. In the Lyon region, Hermès provides precious support for museums that protect the exquisite textile arts.

Internationally, many actions are also carried out spontaneously or coordinated by the Hermès Group. For the 4th consecutive year, eight countries participated in Earth Hour, involving 82 stores that symbolically put out their lights for one hour on March 30th 2019. World CleanUp Day, another example, involved 10 countries and nearly 400 employees, who spent an average of half a day collecting, sorting and recycling waste in the office neighbourhoods, parks, and sometimes jointly with the residents of the towns where the production units are located.

In Europe, many subsidiaries are involved in the protection of children, and in 2019, the subsidiaries carried out a total of 68 actions that benefited their local communities.

In Spain, financial donations and guilds involving employees actively contribute to the fight against the exclusion of children in vulnerable situations. Summer camps enable young people to join together for recreational, health-related, and educational activities.

In England, in April 2019, the subsidiary made a three-year commitment to support an association for the prevention of child abuse.

Germany contributed financially to a program promoting the integration of seniors and young people, helping to break their solitude, through the preparation and distribution of balanced breakfasts. 1,400 seniors took part in this regional program. The subsidiary also contributes to financing a therapeutic and social educational program, and to a more global education program dedicated to children living in poverty.

Italy demonstrates its commitment through numerous donations, in particular in the domain of health.

More than 100 charitable actions involved Asian and Australian employees, who contributed actively to supporting and improving the living conditions of local communities, as well as to environmental protection.

In Asia, China undertook an initiative supporting children suffering from leukaemia, involving visits by 37 employees over 10 months, in collaboration with a local partner foundation. In addition to the time donated to this caused by the teams, a financial contribution and charity sale enabled the provision of material assistance to that foundation. The subsidiary actively continued providing support to some Miao embroiderers' villages. The Miao are an ethnic minority in the province of

Guizhou, and this action helps preserve the heritage of exquisite embroidering techniques. A visit to a village as well as an exhibition of creations by the villagers was an opportunity to share the beauty of this art with a great number of people. This initiative involved 33 employees who organised these two events.

Hong Kong confirms its strong support for children suffering from speech disabilities in low income families. The subsidiary also supported a programme for planting trees following disasters caused by the super typhoon of 2018, along with many other actions by employees to promote inclusion in local communities: awareness-raising on sustainable methods and workshops on upcycling, limiting food waste, as well as distributing meal boxes to needy persons.

In Taiwan, for the 3rd consecutive year, 600 charity scarves were sold to an institution specialised in welcoming people with disabilities. In the same context of long-term support, the subsidiary is providing assistance to an association that specialises in educating children living in poverty. Finally, financial support was given to 10 students in vulnerable situations, allowing them to continue their schooling.

Since 2017, Thailand has been supporting a programme for collecting unconsumed food, which is then redistributed to the most disadvantaged people. In 2019, the subsidiary initiated a three-year program dedicated to the social and economic development of women living in vulnerable situations, in the Omkoi district in the province of Chiang Mai.

Finally, the Travel Retail Division, which covers six countries in the Asia-Pacific region, once again made a donation of unbranded "Orange Boxes", containing essential and educational objects for underprivileged young people. Employees were involved in numerous environmental initiatives, such as cleaning beaches, urban areas, or planting vegetable gardens for the most underprivileged.

Hermès Australie partnered with Sydney Ballet to support the next generation of Australian dancers, as part of a pre-professional year program. Twenty-six students received financial support under this program. The subsidiary made a contribution to an international non-governmental organisation for biodiversity, to contribute to the restoration of ecosystems destroyed by fires that devastated the region. It also contributed to a mission of global significance with the Botanic Gardens & Centennial Parklands, dedicated to the digitisation of botanical specimens catalogued in the herb gardens, expanding the network of online resources, and raising awareness of the impact of plant diseases in horticulture and in the natural environment.

The Americas region itself totalled about 100 charitable initiatives for communities, in a large variety of fields of action.

In Brazil, the subsidiary helped an association for providing assistance to children of the Vila Prudente slum. This association welcomes 130 children every day and provides them with educational, sporting, and cultural activities. Items from display windows were used to brighten up the waiting room of a children's hospital, and the teams were able to enlarge the space and open it into a garden that had previously been abandoned. A library and books completed this generous action.

In the United States, the teams were involved in supporting the sick or people with disabilities, making a new commitment with the innovative dedicated organisations, for example through the practice of horse therapy. Employee volunteers also donated time to sick children through play workshops, or were involved in programmes devoted to the homeless: many collections of non-perishable goods, participation in the preparation and the distribution of meals, or financial contributions to an association that provides healthy food to isolated seniors. With the success of the previous years, the teams renewed their personal support and investment by helping renovate housing for people on low incomes, helping them improve their daily life and that of their families. Animal protection associations were not forgotten. Employees also took part in numerous waste collection initiatives in urban environments or on beaches as well as planting flowers in municipal parks.

Canada made a generous financial contribution to hospitals and to research against AIDS, cancer, and autism.

Skills Sponsorship

Hermès wishes to develop the commitment of its employees to the social and solidarity economy by promoting local integration. The Hermès 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. Through this volunteer program, employees in France can benefit from five paid volunteer days to support the development of charitable associations.

In 2019, Hermès notably developed Skills Sponsorships with partner associations. These Skills Sponsorships focused on highly varied subjects such as human resources, knowledge of IT tools, reporting, communications or management. More than 30 Skills Sponsorship ambassadors were trained in France, with the support of the expert partner Pro Bono Lsab to facilitate the deployment of this Skills Sponsorship approach among the teams. This network of ambassadors will be expanded in 2020 to continue these actions.

In 2019, more than 240 French employees dedicated a total of 290 days to skills sponsorships.

Among the broad actions carried out in Skills Sponsorship initiatives, many employees were involved in the "Le Relais" association and its stores dedicated to reselling collected used clothing. A team of 11 visual merchandisers was involved in three second hand stores "Ding Fring" to assist the local teams in the complete makeover of the stores to re-energise their sales. The action involved sharing skills and experience in space management, presentation of accessories and racks, as well as in the design and creation of the window displays.

For the first time, Hermès took part in an Innov'EPA-Entreprendre Pour Apprendre challenge with other member companies of the Alliance & Territoires network, in November 2019 at the Musée des Confluences in Lyon. The event brought together 70 young people of middle and high school ages for a full day, from rural areas and surrounding suburban neighbourhoods. Twelve employees of member companies of the "Alliance & Territoires" volunteered to coach these young people on the theme of "learning through enterprise". Divided into teams, they had to imagine and present a creative project on the theme of "How to act for a better world?".

In December 2019, 12 Hermès' employees spent a week helping the NGO Yagasu's project in Indonesia. Their action involved assisting in a new mangrove planting project, as well as support by expert craftspeople for local economic textile (batik) initiatives and the creation of handcrafted objects (wood). The NGO Yagasu is more broadly supported by the Livelihoods fund, in which Hermès is a shareholder (see below).

In Spain, three employees were involved in two associations devoted to supporting children and their families in danger of social exclusion. They contributed to the organisation of a summer camp, covering the children's different needs: education, recreation, supervision, etc.

In 2019, Hermès Suisse launched a partnership with the ALAYA organisation and took part in various initiatives such as collecting clothing at the Geneva and Zurich sites, sorting and distribution of clothing for Fondation Caritas, cleaning a river near Geneva, helping a permaculture farm, the performance of manual work with people with disabilities, etc. Hermès Suisse grants each employee one full paid day per year to carry out activities as part of Alaya. To date, 63 contributions have been completed, representing 212 hours of volunteering and 320 clothing items collected. Since the month of December, through the Alaya platform, employees can make financial contributions to the organisations or projects selected and audited by Alaya with a matching contribution from the subsidiary.

In England, the Human Resources team devoted the equivalent of one week to train young people and promote professional integration via the charitable organisation NSPCC for the protection of children. More than 20 days were also devoted to supporting the professional development of young people.

In Hong Kong, in connection with the charity Chicken Soup Foundation, three employees from the human resources department organised a recruitment interview simulation workshop for students in secondary school.

Fondation d'entreprise Hermès (see section 1.9)

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.

In 2019, the Fondation d'entreprise Hermès wished to give even more support to those who take action on the ground. Of the nine programmes it leads in support of the creation or promotion of *savoir-faire*, some have been expanded, like the action to preserve biodiversity and ecosystems. In addition to renewing its support for WWF France, the Fondation d'entreprise Hermès now supports Atelier Paysan, which helps agroecology players to develop environmentally friendly tools, and Vigie-Nature École, which is spearheaded by the French National Muséum of Natural History and combines information-gathering for researchers with educating young generations about the fragility of living species. It is this same concern for pragmatism and performance that led the Fondation d'entreprise Hermès to launch, as part of the Artistes dans la Cité programme, a scholarship scheme for students enrolled on a higher education course in dance or theatre so that they can pursue their studies in better living conditions.

The budget of the third mandate of the Fondation d'entreprise Hermès (April 2018 – April 2023) is €40 million (excluding Skills Sponsorships).

This budget (on the basis of revenue) is the highest of French business foundations (source: Carenews study dated February 18th 2018).



€40M
million budget
for the Fondation
d'entreprise
(2018-2023)

Hermès Hors les Murs

In 2019, four Hermès *Hors les Murs* festivals organised in Rome (Italy), Xiamen and Xian (China) and Stuttgart (Germany) allowed a mostly local public to discover the craftsmanship universe of the House. The craftspeople of 10 *métiers* showed their different *savoir-faire*, shared their experience, their passion for their *métier*, and chatted to visitors: Leatherwork, Saddlery, Silk engraving, Silk printing, Rolled hemming, Tie making, Watchmaking, Stonesetting, Porcelain painting, Glovemaking. These events, lasting from six to 10 days, had a total of more than 63,000 visitors who came to watch demonstrations by the craftsman and craftswomen. These events enabled the House to interact with its

stakeholders, and showcase the craftspeople and their *savoir-faire* abroad, as well as their exquisite French craftsmanship.

They have also been an opportunity to tell visitors about Hermès' sustainable development achievements through lectures, discussions and the projection of the "Footsteps across the world" films (see boxes at the end of each chapter).

Footsteps across the world

The commitment of Hermès, a responsible company, to these communities and regions, as well as the planet and its resources, is the subject of a series of films directed by Frédéric Laffont called "*Empreintes sur le Monde*" ("Footsteps across the world"), and is just one of the commitments driven by the House. In 2019, two new films were added to this series. The first, in Saint-Ouen, tells the story of craftspeople who share their *savoir-faire* with pupils as part of the Manufacto programme spearheaded by the Fondation d'entreprise Hermès in schools. The second film, which was made in Hong Kong, offers an inside look into the activity of one of the House's 15 repair shops. Several craftspeople work there to uphold the highest standards in restoring Hermès objects. These objects, made lasting by their first-rate materials and artisanal *savoir-faire*, embody the words of Jean-Louis Dumas: "A luxury product is one that can be repaired." A selection of films from this series has been screened in France (Marseille, Lille, Bordeaux) and internationally (Nashville, New York, Copenhagen, Milan, Stuttgart), and broadcast on television on a Shanghai documentary channel. These are among the mediums used to most widely publicise how Hermès promulgates its artisanal values.

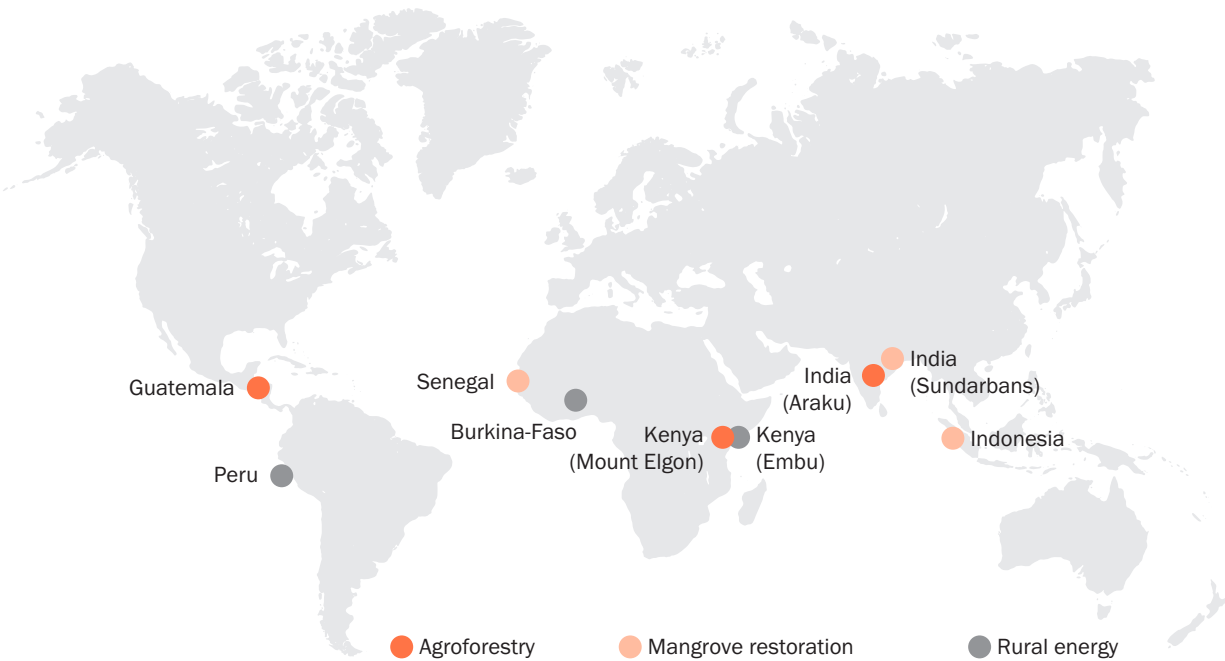
Livelihoods

Since 2012, Hermès has been a partner of the Livelihoods Fund (LH), 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, CDC, Schneider Electric, La Poste, Hermès International, Voyageurs du Monde, SAP, Firmenich and Michelin. The initial term of the LCF1 fund is 24 years, and the projects run for between 10 and 20 years. The fund has two sub-funds (LCF1 and LCF2). LCF1, launched in 2011, is the only one that has generated carbon credits to date. Sub-fund LCF2, launched in 2017 and larger than LCF1, is half-way through its investment process, in particular by the extension of the projects of the LCF1 sub-fund. For the time being it does not deliver any credits.

LIVELIHOODS CARBON FUND #1

Nine extensive projects with concrete social and environmental results



| | | | | | |
|-----------------------|---------------------|---|---|--|-------------------|
| 1 million | 130 million | 120,000 | 10 million | 9 | 40 million |
| project beneficiaries | trees being planted | households being equipped with efficient cookstoves | tons of CO ₂ to be sequestered over 20 years | active projects (Africa, Asia & Latin America) | € invested |

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 whose characteristics is to expand their scope to a very large scale, for periods from 10 to 20 years, are the following:

- ♦ **restoration and preservation of natural ecosystems**, for example mangrove forests. Nearly 8,000 hectares were replanted in the Océanium project in Casamance; 4,500 hectares in the News project in the Ganges delta; 5,000 hectares in the Yagasu project in Indonesia. 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 in India have planted six million trees (fruit, firewood, construction, etc.), including three million coffee bushes, on agroforestry models. In Guatemala, 4,000 hectares of trees and food crops are planted in the Cerro San Gil mountain area (“Fundaeco” 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 the financial support of the French development agency (AFD), an agroforestry component has been added to this project. In Peru, the ITYF project (taken from the name of the Instituto Trabaja 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 2019, the above 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.

The results obtained from the funds’ projects have encouraged the shareholders of Livelihoods, including Hermès, to launch a second carbon fund in 2019, functioning on similar principles to the first fund. In 2020, the shareholders of Livelihoods are working on a third Livelihoods project.

With Manufacto, craftspeople are returning to school to share their métiers

He was a salesman, she was an accountant. Benjamin and Emmanuelle dropped everything to focus on leather goods and saddlery, a passion that they now share even in the classrooms. When school starts up in the fall, they leave home with their tools and rolls of leather to meet students from 9 to 16 years old and their teachers. Like them, dozens of craftspeople who work with leather, wood, or plaster, decided to return to school to teach the younger generations about craft *métiers*, as part of the Manufacto workshops.

This programme, launched in 2016 by the Fondation d’entreprise Hermès with the Rectorat de Paris, the Compagnons du Devoir, the Camondo school and Villa Noailles, takes place in the educational authority areas of Paris, Créteil, Nice, Lyon and Besançon. In December 2019, nearly 1,100 students in 41 schools benefited from this. The career paths taken by Benjamin and Emmanuelle, which initially were not the right ones for them, bear witness to the effort needed to better communicate about manual *savoir-faire* in elementary, middle and high schools.

The approach of Manufacto is to innovate in this area, drawing on the actual experience of the craftspeople: pleasure in doing things comes first and foremost from making things. Students learned about the importance of technique and several hand movements by holding a hammer, polishing a leather, or trying to make a saddle stitch. From a lamp to a stool, a loudspeaker, a pencil case or a wall-mounted change tray, an object is created from A-Z. When the students leave these workshops with their masterpiece in their hand, their attitude toward craftsmanship is transformed. Some students discover a desire, such as Benjamin and Emmanuelle, to eventually find work in crafts.



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 retail subsidiaries, as part of a Hermès 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 a positive 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 development, and that of the new facilities helps to create local value. Over the last five years, the Hermès Group has opened eight new production sites and created 2,471 jobs in France.

◆ 8.3: “Development of employment and local purchasing”

The work carried out in partnership with French job centres made it possible in particular to hire people at the leather goods workshops, who did not have experience as craftspeople. Today, 90% of craftspeople 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’ objects are designed to last. They 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 Hermès Group does not have a significant presence in developing countries. Retail subsidiaries abroad comply with taxes and specific local charges associated with development.

2.8 ETHICS - COMPLIANCE

2.8.1 COMMITMENTS

Hermès is a mosaic of women and men who work hard every day 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

2.8.1.1 PROMOTION OF AND COMPLIANCE WITH CONVENTIONS ON HUMAN RIGHTS AND FUNDAMENTAL FREEDOMS

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 freedoms of the European Union;
- ◆ the Charter of fundamental freedoms of the International Labour Organization, the principles of which are grouped under the following themes: freedom of association, forced labour, 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 have been clearly set out in the Group's ethics charter since 2009 and in its code of business conduct since 2012, available on the Group intranet and given to all employees, as well as in the "Les Essentiels" section, available at <https://finance.hermes.com>.

2.8.1.2 ETHICS CHARTER

The ethics 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.

This charter 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

The House's ethics have been enshrined, since 2009, in a 40-page ethics charter, available in 13 languages and updated in 2016, distributed to all employees worldwide. It is also available on our intranet, HermèSphère, in the section "Our House/Our ethics". It aims to enrich 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 ethics 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 seem 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 mental 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 ethics 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... applied both internally and externally. The authenticity of materials (including their origin), 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 the Group's 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 designs its manufacturing sites so as to blend into the landscape, to prevent accidental pollution and to limit noise and other nuisances;
- regarding its stakeholders, Hermès 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.

2.8.1.3 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 be responsible 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 32-page code of business conduct, available in 13 languages and updated in 2018, is distributed to all employees worldwide along with a verbal explanation. It sets out the House's guiding principles on a number of operational topics. The Code is signed by the Executive 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/>. It was updated in 2018 and redistributed with an explanation of its contents to all Group employees.

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 whistleblowing 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, and whose link is available on the Group's intranet site ("Our House/Our Ethics").

These reports are treated confidentially and in line with the applicable legal framework, protecting the whistleblower.

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 the Group's activities.

The Group's policy is to not support any political party and to prohibit any political activism in the name of Hermès;

◆ **Benefits and gifts**

This sheet outlines the principles governing ethics and transparency with respect to the offering and receiving of gifts, in accordance with local regulations, and Group procedures;

◆ **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 employees 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 conflicts of interest, and specifies the types of behaviour that are prohibited. 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 people concerned.

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 French law and 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 ethics 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.

The opportunity to revise the ethics charter and code of business conduct is reviewed each year by the Compliance and Vigilance Committee described in section 2.8.2.3. Any amendment to these documents must be validated by the relevant member of the Executive Committee.

2.8.1.4 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 incriminated by the Labour Code. If intentional, it may constitute an 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 "H-Alert!" whistleblowing system, which guarantees that conversations will remain confidential. 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 takes action against all abusive behaviour.

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 raises awareness among managers of the existence of these psychosocial risks (stress, harassment, violence at work, burnout, etc.). It also teaches them how to detect situations that can lead to these risks and to identify the warning signals. The objective is to know how 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 on 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 be extended internationally.

2.8.2 ORGANISATION

2.8.2.1 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 treated.

It comprises the Executive Vice President, Governance and Organisational Development, who is a member of the Executive Committee and chairs the meetings, the Group General Counsel, the Human Resources Director and the General Counsel Compliance.

The Ethics Committee meets as often as necessary.

2.8.2.2 GENERAL COUNSEL COMPLIANCE

The main task of the legal compliance department 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. The position of General Counsel Compliance reports to the Group General Counsel, who reports to the Executive Vice President, Governance and Organisational Development, member of the Executive Committee, who in turn reports to the Group's Executive Chairman.

The independence of the General Counsel Compliance 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 chairs and oversees the Compliance and Vigilance Committee. He reports on the actions and decisions of the Compliance and Vigilance Committee to the Executive Vice President, Governance and Organisational Development. He is also a member of the Ethics Committee, chaired by the Executive Vice President, Governance and Organisational Development.

The legal compliance department relies on the lawyers in the Hermès international legal department, based in Paris, on subsidiaries' legal departments (in Lyon, New York, Shanghai, Singapore, Seoul 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.

2.8.2.3 COMPLIANCE AND VIGILANCE COMMITTEE

The Compliance and Vigilance Committee is composed of the following people:

- ◆ General Counsel Compliance;
- ◆ 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.

2.8.2.4 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 data subjects and for data protection authorities.

This position reports to the General Counsel Compliance, who reports to the Group General Counsel, reporting to the Executive Vice President, Governance and Organisational Development, member of the Executive Committee, who in turn reports to the Group's Executive Chairman.

2.8.2.5 PERSONAL DATA PROTECTION GOVERNANCE

In order to carry out its work, the Data Protection Officer relies on 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 alerted to local legal and regulatory changes, as applicable.

2.8.3 IMPLEMENTATION

2.8.3.1 CORRUPTION

Combatting corruption is an obvious 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 ethics culture that leaves no place for dishonest conduct.

Combatting corruption thus also means including this ethics 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 website <https://finance.hermes.com/>.

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 in countries abroad in which it operates, such as the Foreign Corrupt Practices Act in the United States, the United Kingdom Bribery Act and Legislative Decree 231 in Italy. This monitoring is carried out in-house and by external firms.

2.8.3.1.1 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 ethics rules, applying a firm policy of zero tolerance of any act of corruption.

Corruption risk mapping, initiated by the governing body and driven by the General Counsel Compliance, was signed by all the members of the Executive Committee, thus clearly demonstrating the importance put on analysing and identifying Group-specific risks.

The fight against corruption in all these forms permeates all the Group's policies and procedures.

2.8.3.1.2 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 mapping was produced jointly by the legal 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. For each risk, the internal and external causes and aggravating factors are targeted.

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.

The legal compliance department carries out corruption risk analyses on *métiers*, entities and countries, according to the risks identified in the Group's corruption risk mapping.

The Group risk mapping will be updated in 2020.

2.8.3.1.3 Anti-corruption code of conduct

An Anti-corruption code of conduct, drafted in 2018 from the results of the Group's corruption risk mapping, is available in 18 languages. This code of conduct was validated by the Group's governing bodies and communicated to all Group entities and structures. It has also been provided to each Group employee.

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 line 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 Senior Executives and forms an integral part of the values and principles that unite all Hermès Group employees.

Mr Axel Dumas – Executive Chairman

This code:

- ♦ defines offences entailing corruption and influence-peddling, along with the stakes involved and the various forms they may take;
- ♦ 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 at-risk situations and adopt appropriate behaviours;
- ♦ defines offences;
- ♦ introduces the "H-Alert!" whistleblowing system which is described in a separate procedure.

In particular, this code describes rules on gifts and invitations, relations with third parties and public officials, the ban on facilitation payments, management of conflicts of interest, patronage and sponsorship, representation of interests, etc.

2.8.3.1.4 An internal whistleblowing system

The Group's internal whistleblowing system "H-Alert!" is described in section 2.8.4.1 below.

2.8.3.1.5 Procedures for monitoring clients, first-tier 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 mainly sold *via* stores, the majority of which are owned by the Company (branches), to customers who visit the 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 business intermediaries in some *métiers*.

The Group develops long-term relationships with its partners, thereby protecting its sources of supply and business relationships.

The commitments taken 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 third party 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 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;
- ◆ a procedure for "sensitive countries";
- ◆ a procedure to prevent money laundering and corruption;
- ◆ analysis grids and questionnaires to assess third party risk levels;
- ◆ procedures for selecting suppliers and subcontractors, business intermediaries, agents, distributors and concessionaires;
- ◆ a suppliers' charter, a business ethics 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;
- ◆ external evaluations on third-party compliance and integrity risks;
- ◆ 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.

A new electronic tool for evaluating third-party integrity and reputation, set up with the help of an external provider, has been rolled out across the Group.

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 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 legal department.

2.8.3.1.6 Accounting control procedures

Internal control and risk management procedures relating to the preparation and processing of accounting and financial information, as described in section 1.11, form an integral part of the Group's anti-corruption system and, in particular, are aimed at preventing and detecting any act of corruption. In 2019, controls on accounts deemed "more sensitive" as regards to the fight against corruption were reinforced. Furthermore, annual self-assessment campaigns (see section 1.11.7.6.) are an important tool when it comes to the process of applying accounting control procedures across all the Group's entities.

The audit and risk management department monitors the proper application of these procedures during its internal audits.

2.8.3.1.7 Training system intended for executives and employees most at risk

The training system is described in section 2.8.4.4 below.

2.8.3.1.8 Disciplinary measures to sanction violations of the anti-corruption code of conduct

The sanctions system is described in section 2.8.4.2 below.

2.8.3.1.9 Internal monitoring and assessment system

Internal and external audits of the Group's companies and *métiers* as well as of its significant 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, hygiene, health and employee safety. The methodology of these controls and audits is described in section 1.11 "Risk factors". Group procedures have been reinforced to include gifts offered by and to third parties, conflicts of interest, sponsorship, communication, evaluation of third parties and combatting money laundering.

2.8.3.2 VIGILANCE

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 reasonable vigilance plan to identify risks and prevent serious violations of human rights and fundamental freedoms, and the health and safety of people and the environment, resulting from its activities as well as the activities of its subcontractors and suppliers.

The vigilance plan was subjected to an effectiveness assessment in the 2019 financial year. This assessment is set out in the table below and

refers to Group policies, measures implemented in 2019, key performance indicators and their location within this document.

CROSS-REFERENCE TABLE:

HUMAN RIGHTS AND FUNDAMENTAL FREEDOMS

| | Group activities | Suppliers and subcontractors |
|------------------------------------|--|--|
| Risk mapping | <ul style="list-style-type: none"> ◆ CSR risk analysis (2.1.3.1) | <ul style="list-style-type: none"> ◆ Risk mapping by purchase category (2.6.2.3) <p>Indicators: 66% of risk mappings by purchase category completed</p> |
| Regular assessment procedures | <ul style="list-style-type: none"> ◆ Industrial affairs department network: internal diagnostics, audits conducted by external specialists and operational improvement plans (2.2.1.2) ◆ Internal control and risk management systems established by the Company (1.11.7) | <ul style="list-style-type: none"> ◆ Audit and Direct Purchasing Committee – managing audit results and action plans (2.6.2.3) ◆ Coordination of Group policies for direct and indirect purchasing (2.6.2.2) ◆ Tools for analysing supplier and subcontractor risks provided to and applied by purchasers (2.6.2.2) ◆ Audits conducted by specialist service providers in certain channels (alligator, cashmere, wood) WWF (2.4.1.1) ◆ Supplier audits by a third-party organisation (2.6.2.3) <p>Indicators: Total audit hours: 5,000</p> |
| Mitigation and prevention measures | <ul style="list-style-type: none"> ◆ Dissemination of Group values: Code of business conduct (2.8.1.3) and three specific SD training modules included in the internal integration training programmes at Ex-Libris University ◆ Training on ethics issues (2.8.4.4) ◆ Training and development of employee expertise (2.3.2.3) ◆ Maintaining diversity (2.2.2.2) <i>Roll-out of “Alterego” training programme</i> ◆ 16 weeks' maternity leave across the Group (2.2.1.2) ◆ Health and Well-being at work initiative (2.2.1.2) <i>(83% participation rate – 6,600 participants)</i> ◆ Employee questionnaires on monitoring social dialogue (2.2.1.2) | <ul style="list-style-type: none"> ◆ Training for direct and indirect purchasers (2.6.2.3) ◆ Social, environmental and ethics policy (handbook 2) (2.6.2.3) ◆ Monitoring audits (2.6.2.5 and 2.6.2.6) ◆ Recruitment of a “project leader for supplier audits and CSR” to participate in audits and provide formal monitoring (2.6.2.3) <p>Indicators: Signature rate for handbook 2: 76%</p> |
| Alert mechanisms | <ul style="list-style-type: none"> ◆ Professional whistleblowing system (2.8.4.1) | <ul style="list-style-type: none"> ◆ Professional whistleblowing email alert address for suppliers and subcontractors (2.6.2.4) |
| Measuring and monitoring system | <ul style="list-style-type: none"> ◆ Audit and risk management department (1.11.7) ◆ Audit of the application of ethical values (2.8.4.3) <p>Indicators:</p> <ul style="list-style-type: none"> ◆ Employer award received by Hermès (2.3.1.2): ◆ Number of hours devoted to training : 463,514 hours (2.3.2.3) ◆ Breakdown by gender (men/women): 32%/68% (2.2.2.2) | <ul style="list-style-type: none"> ◆ System of monitoring by audit and risk management department (2.6.2.5 and 2.6.2.6) |

HEALTH AND SAFETY

| | Group activities | Suppliers and subcontractors |
|------------------------------------|--|---|
| Risk mapping | <ul style="list-style-type: none"> ◆ CSR risk analysis (2.1.3.1) | <ul style="list-style-type: none"> ◆ Risk mapping by purchase category (2.6.2.3) <p>Indicators: 66% of risk mappings by purchase category completed</p> |
| Regular assessment procedures | <ul style="list-style-type: none"> ◆ HSE audits conducted by an external specialist (2.2.1.2) ◆ Information system rolled out on sites for Group health and safety reporting (2.2.1.2) ◆ Internal safety audits (2.2.1.2) ◆ Internal control and risk management systems established by the Company (1.11.7) | <ul style="list-style-type: none"> ◆ Audit and Direct Purchasing Committee– managing audit results and action plans (2.6.2.3) ◆ Coordination of Group policies for direct and indirect purchasing (2.6.2.2) ◆ Tools for analysing supplier and subcontractor risks provided to and applied by purchasers (2.6.2.2) ◆ Supplier audits by a third-party organisation (2.6.2.3) <p>Indicators: Total audit hours: 5,000</p> |
| Mitigation and prevention measures | <ul style="list-style-type: none"> ◆ Dissemination of Group values: Code of business conduct (2.8.1.3) and three specific SD training modules included in the internal integration training programmes at Ex-Libris University ◆ Training on ethics issues (2.8.4.4) ◆ HSE regulatory monitoring conducted by an external specialist and distributed to each industrial <i>métier</i> (2.2.1.2) ◆ Coordination of the Environmental, Health and Safety network by the industrial affairs department, training and sharing best practices (2.2.1.2) ◆ Health and well-being at work initiative (2.2.1.2) (83% participation rate – 6,600 participants) | <ul style="list-style-type: none"> ◆ Training for direct and indirect purchasers (2.6.2.3) ◆ Social, environmental and ethics policy (handbook 2) (2.6.2.3) ◆ Monitoring audits (2.6.2.5 and 2.6.2.6) ◆ Recruitment of a “project leader for supplier audits and CSR” to participate in audits and provide formal monitoring (2.6.2.3) <p>Indicators: Signature rate for handbook 2: 76%</p> |
| Alert mechanisms | <ul style="list-style-type: none"> ◆ Professional whistleblowing system (2.8.4.1) ◆ Email alerts when reporting workplace accidents in the dedicated information system (2.2.1.2) | <ul style="list-style-type: none"> ◆ Professional whistleblowing email alert address for suppliers and subcontractors (2.6.2.4) |
| Measuring and monitoring system | <ul style="list-style-type: none"> ◆ Audit and risk management department (1.11.7) ◆ Audit of the application of ethical values (2.8.4.3) ◆ External firm specialising in conducting HSE compliance audits in our various units (2.2.1.2) <p>Indicators: Workplace accident rate: 10 with a severity rate if 0.45 (2.2.1.3) Turn-over: 1.3% (2.2.1.3)</p> | <ul style="list-style-type: none"> ◆ System of monitoring by audit and risk management department (2.6.2.5 and 2.6.2.6) |

ENVIRONMENT

| | Group activities | Suppliers and subcontractors |
|------------------------------------|--|--|
| Risk mapping | <ul style="list-style-type: none"> ◆ CSR risk analysis (2.1.3.1) | <ul style="list-style-type: none"> ◆ Risk mapping by purchase category (2.6.2.3) <p>Indicators: 66% of risk mappings by purchase category completed</p> |
| Regular assessment procedures | <ul style="list-style-type: none"> ◆ HSE audits conducted by an external specialist (2.2.1.2) ◆ Water risk assessment with WWF (2.5.2.2) ◆ Tools for updating the overall assessment of greenhouse gas emissions from Group production and distribution sites (2.5.2.2) ◆ Audits of exotic skin supply chains by external parties (WWF, veterinarians, NGOs, etc.) (2.4.1.2) ◆ Internal control and risk management systems established by the Company (1.11.7) | <ul style="list-style-type: none"> ◆ Audit and Direct Purchasing Committee – managing audit results and action plans (2.6.2.3) ◆ Coordination of Group policies for direct and indirect purchasing (2.6.2.2) ◆ Tools for analysing supplier and subcontractor risks provided to and applied by purchasers (2.6.2.2) ◆ Audits conducted by specialist service providers in certain channels (alligator, cashmere, wood) WWF (2.4.1.1) ◆ Supplier audits by a third-party organisation (2.6.2.3) <p>Indicators: Total audit hours: 5,000</p> |
| Mitigation and prevention measures | <ul style="list-style-type: none"> ◆ Three specific SD training modules included in the internal integration training programmes at Ex-Libris University ◆ Group environmental policy (2.5.1.1) ◆ HSE regulatory monitoring conducted by an external specialist and distributed to each industrial <i>métier</i> (2.2.1.2) ◆ Coordination of the Environment network Health and Safety by the industrial affairs department, training and sharing best practices (2.5) ◆ Sustainable development ambassadors: over 200 employees worldwide (2.3.2.2) ◆ Sustainable construction policy for construction development department (2.5) ◆ Managing materials sparingly (2.4.2) ◆ Controlled consumption of natural resources (2.5.1) <i>Programme for renewable energies</i> (2.5.1.2) ◆ Control of the carbon impact in scopes 1, 2 & 3 and carbon offset (2.5.2.2) ◆ Waste management (2.5.3.2) ◆ Respecting and protecting biodiversity (2.5.4) <i>Act4Nature</i> (2.5.4.2) <i>High-quality supplies and work on animal welfare</i> (2.4.1.2) | <ul style="list-style-type: none"> ◆ Training for direct and indirect purchasers (2.6.2.3) ◆ Social, environmental and ethics handbook (folio 2) (2.6.2.3) ◆ Monitoring audits (2.6.2.5 and 2.6.2.6) ◆ Recruitment of a “project leader for supplier audits and CSR” to participate in audits and provide formal monitoring (2.6.2.3) <p>Indicators: Signature rate for handbook 2: 76%</p> |
| Alert mechanisms | <ul style="list-style-type: none"> ◆ Professional whistleblowing system (2.8.4.1.) | <ul style="list-style-type: none"> ◆ Professional whistleblowing email alert address for suppliers and subcontractors (2.6.2.4) |
| Measuring and monitoring system | <ul style="list-style-type: none"> ◆ Audit and risk management department (section 1.11.7) ◆ Audit of the application of ethical values (2.8.4.3) ◆ External firm specialising in conducting HSE compliance audits in our various units (2.2.1.2) <p>Indicators: CDP score: B (2.5.2.1) Water consumption at industrial sites (2.5.1.2) Energy consumption at industrial sites (2.5.1.2)</p> | <ul style="list-style-type: none"> ◆ System of monitoring by audit and risk management department (2.6.2.5 and 2.6.2.6) |

2.8.4 CONTROL AND ASSESSMENT SYSTEM

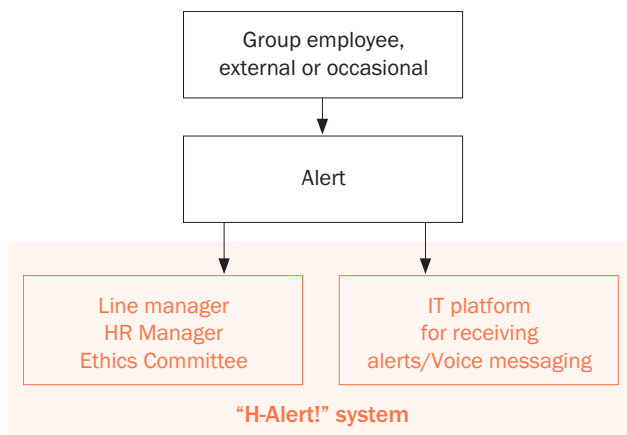
2.8.4.1 PROFESSIONAL WHISTLEBLOWING SYSTEM

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 “H-Alert!” system is used to report serious cases that could constitute a breach of a legal standard as defined in Article 6 of law no. 2016-1691 of 9 December 2016, known as the Sapin II law, a breach of the Group’s codes, procedures and ethics standards and the existence of risks or serious infringements of human rights and fundamental freedoms, health and safety of people or the environment resulting from the Group’s activities and/or those of its subcontractors or suppliers.

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;
- ◆ via an intranet platform, a secure, independent technical system, or by voice messaging, systems available 24/7 and operated by an external service provider. These alerts are forwarded to the Ethics Committee.



Within 15 days following receipt of the alert, the whistleblower will receive a written and dated acknowledgement of receipt by any means. The acknowledgement of receipt will specify a reasonable and foreseeable deadline (about one month) for examining the alert.

This technical system is available in 18 languages. It was validated by the Group’s governing bodies and communicated to all Group entities

and structures. An information notice has been forwarded and explained to all Group employees.

Eight alerts were received in 2019 via the “H-Alert!” system. All alerts are monitored and some cases are still being examined.

Local whistleblowing systems are also in place in major subsidiaries such as the United States and China. In 2019, nine alerts were received and processed in the United States, and three in China.

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.

Furthermore, in the event of a breach or situation contrary to the ethics, social and environmental principles, the Hermès Group has provided its suppliers and subcontractors with an alert mechanism in the form of a generic email address. These alerts are analysed by the legal department and the purchasing department.

The Company undertakes not to impede access to legal or other available mechanisms, including mediation processes, for persons reporting negative impacts, especially on human rights, and undertakes to protect the whistleblower.

2.8.4.2 SANCTIONS SYSTEM

The sanctions system in place for compliance programmes corresponds to the system of sanctions described in the internal 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 internal 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 internal rules of procedure set out rules on disciplinary matters, or an employee handbook contains rules on disciplinary law; both include anti-corruption measures.

2.8.4.3 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 control and assessment 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 procedures on ethics and integrity and, in particular, those relating to the fight against corruption and influence-peddling;
- ◆ the second level of control involves internal controllers in each entity/*métier*, working in close collaboration with the legal 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.

2.8.4.4 TRAINING ON ETHICS ISSUES

Several Group internal departments offer employee training, particularly, the legal 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.

2.8.4.4.1 Training provided by the legal compliance department

Specific face-to-face training modules on the Group's ethics and anti-corruption policy, the contents of which are adapted to the teams, subsidiaries and *métiers* in question, are delivered by the legal 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 knowledge and tools needed to prevent and detect at-risk situations and to determine the behaviour to adopt in such cases.

In the 2019 financial year, the training programme was stepped up and a number of face-to-face 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. Russia, Switzerland, Turkey, South Korea, Singapore, Australia, Hong Kong, Taiwan, the United Kingdom, Germany, Italy and Spain).

The roll-out of these training sessions is closely monitored by the legal compliance department, in collaboration with Internal Control and Human Resources.

In addition, an online Group e-learning system dedicated to ethics and combatting corruption has been set up. Its purpose is to enable all employees worldwide, as well as their external and occasional employees, to be able to prevent risks of corruption and breaches of ethics. This e-learning system includes a comprehension and simulation exercise to ensure that employees have fully understood the risks of corruption and how to manage them.

2.8.4.4.2 Other training aimed at preventing the risks of corruption and breaches of ethics

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 2019, 2,729 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 is regularly delivered in all subsidiaries worldwide. Since the module was set up in 2017, 5,530 persons have received training.

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 Committees, 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.

2.8.4.5 NETWORK OF COMPLIANCE LIAISON OFFICERS WITHIN THE GROUP

Legal teams located in France (Paris and Lyon) and abroad, particularly in the United States, China, Japan, Singapore and South Korea, make up the network of compliance liaison officers. They act with the Group legal compliance department and with the Group Data Protection Officer in order to develop, facilitate, coordinate and monitor compliance programmes within the Group. Legal teams have access to a compliance review framework developed in collaboration with the legal compliance department.

Internal controllers and auditors also play a role in the implementation and monitoring of procedures on these subjects (see 1.11 "Risk factors"). Internal Group controllers have access to a compliance review framework and second-level control plan developed in collaboration with the legal compliance department and the audit and risk management department.

2.9 REPORT BY ONE OF THE STATUTORY AUDITORS, APPOINTED AS AN INDEPENDENT THIRD PARTY, ON THE CONSOLIDATED NON-FINANCIAL INFORMATION STATEMENT INCLUDED IN THE MANAGEMENT REPORT

This is a free translation into English of the Statutory Auditor's report issued in French and is provided solely for the convenience of English speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional standards applicable in France.

For the year ended December 31st 2019

To the Shareholders,

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 non-financial information statement¹ for the year ended... (hereinafter the "Statement"), included in the management report² 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 entity'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 and anti-corruption and tax evasion 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, where applicable, 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 outcomes¹ that we considered to be the most important, 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 entities² and covers between 19% and 51% 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;
- ◆ 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. List quantitative information (key performance indicators and outcomes) in an appendix.

2. Sample of entities selected: for the Construction Department: Stores of Cannes (France), Sèvres (France), Rome - Via Bocca di Leone 23a-27 - Rome (Italy), Milan - Via Monte Napoleone, 12 - Milan (Italy), 100 Bloor Street West, Toronto ON, M5S 3L3, Suite 1100 (Canada), HAWAII - ALA MOANA (United States), NY MADISON 691 (United States), HZ-EU (China), CD-DC (China), Seoul- Hermes Dosan Park (Corea), Midosuji (Japan), Ginza (Japan). For the Industrial Department: Beyrand (Porcelain), Cairns Crocodile Farm (Farm), CIA (Leather goods), Compagnie des Cristalleries de Saint-Louis (Cristal), ITH Bougoin (Textiles), Janamba Crocodile Farm (Farm), Lagoon Crocodile Farm (Farm), SIEGL (Silk and Textile), Tannerie du Puy (Tannery), Vivoin TCIM (Tannery). For the Human Resources Department: Atelier HCI (France), Hermès GB (United Kingdom), Hermès Japon (Japan), Hermès Korea (Corea), Hermès Sellier (France), Hermès Suisse (Switzerland), HOP (United States), Ardennes (France), Sayat (France), Seloncourt (France), Sud Ouest (France), SIEGL (France).

MEANS AND RESOURCES

Our work was carried out by a team of 7 people between November 2019 and March 2020 and took a total of 10 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 non-financial information 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, 4 March 2020

One of the Statutory Auditors

PricewaterhouseCoopers Audit

Olivier Auberty

Partner

Sylvain Lambert

Sustainable Development Partner

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.

APPENDIX: LIST OF THE INFORMATION WE CONSIDERED MOST IMPORTANT¹

Selection of qualitative and quantitative information, associated to the policies, actions and results relating to the 15 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 |
|--|---|
| Teams | <ul style="list-style-type: none"> ◆ Chapter 2.2 <i>Including the results and KPIs:</i> ◆ Total workforce and breakdown* ◆ Number of dismissals* ◆ Workplace accidents, Frequency rate, Severity rate* ◆ Number of deadly work-related accidents ◆ Number of occupational illnesses* ◆ Absenteeism rate in France* ◆ Number of diversity trainings provided to managers |
| Savoir-faire | <ul style="list-style-type: none"> ◆ Chapter 2.3 <i>Including the results and KPIs:</i> ◆ Number of training hours* ◆ Number of permanent, fixed-term, work-study and internships contracts posted on the Hermès Employer site ◆ Number of unique visitors visiting the Hermès website ◆ Number of followers on LinkedIn |
| Raw materials | <ul style="list-style-type: none"> ◆ Chapter 2.4 <i>Including the results and KPIs:</i> ◆ Evolution of the overall tonnage of industrial waste* ◆ Share of sites which have undergone one or more internal audits on leather goods best practices ◆ Reach of the target set on consumption for HMS sites |
| Environment | <ul style="list-style-type: none"> ◆ Chapter 2.5 <i>Including the results and KPIs:</i> ◆ Total water consumption of industrial sites and farms* ◆ Total gas consumption of industrial sites and farms* ◆ Electricity consumption for industrial sites and farms* and for stores and offices ◆ Fuel consumption for industrial sites and farms* ◆ Renewable energy consumption for industrial sites and farms* ◆ Total energy consumption for industrial sites and farms* ◆ Weight of Ordinary Industrial Waste (OIW) for industrial sites and farms* ◆ Weight of Hazardous Industrial Waste (HIW) for industrial sites and farms* ◆ Scope 1 and scope 2 carbon emissions for industrial site and farms* ◆ Scope 3 carbon emissions* ◆ Offsetting of carbon emissions with Livelihoods ◆ Share of Leather Goods and Saddlery division production units having set actions to support biodiversity ◆ Share of Leather Goods and Saddlery division production units having not set actions to support biodiversity |
| Suppliers and partners | <ul style="list-style-type: none"> ◆ Chapter 2.6 <i>Including the results and KPIs:</i> ◆ Average length of our trading relationship with the Top 50 suppliers ◆ Share of direct purchase categories on which have been performed formalised risk mapping ◆ Number of audits time spent on supplier audits for direct and indirect purchase categories ◆ Share of suppliers having signed the handbooks 1 and 2 |
| Stakeholders and local integration | <ul style="list-style-type: none"> ◆ Chapter 2.7 <i>Including the results and KPIs:</i> ◆ Percentage of employment in France and number of jobs created* ◆ Number of hires in France, of which permanent jobs* ◆ Number of solidarity actions carried out by geography ◆ Livelihoods project: number of projects, surface replanted with trees and number of beneficiaries |
| Ethics – Compliance | <ul style="list-style-type: none"> ◆ Chapter 2.8 <i>Including the results and KPIs:</i> ◆ Number of employees trained on ethics |

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.

3

CORPORATE GOVERNANCE

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SUPERVISORY BOARD'S REPORT ON CORPORATE GOVERNANCE

This chapter incorporates, in sections 3.1 to 3.7, the report of the Supervisory Board on corporate governance prepared pursuant to Article L. 226-10-1 of the French Commercial Code (*Code de commerce*) and in accordance with the recommendations of 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 25 February 2020.

3.1 THE COMPANY'S CORPORATE GOVERNANCE CODE

3.1.1 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, updated in January 2020, 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.

3.1.2 PROVISIONS OF THE AFEP-MEDEF CORPORATE GOVERNANCE CODE, UPDATED IN JANUARY 2020, 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 most recent update of the Afep-Medef Code in January 2020 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 11.3) It is recommended that at least one meeting not attended by the Executive Corporate Officers be organised each year. | In view of the role of the Supervisory Board (described on page 213) in a <i>société en commandité par actions</i> (SCA – partnership limited by shares), this provision of the Afep-Medef Code does not apply. |
| Succession plan for Executive Corporate Officers (Article 17.2.2) The Appointments Committee (or an <i>ad hoc</i> 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 <i>ad hoc</i> 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 249 <i>et seq.</i>) 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 197). In 2018, the CAG-CSR Committee also ensured that there was a succession plan for the Chairman of the Supervisory Board, and this mission features in its rules of procedure (see page 209). |
| Composition of the Compensation Committee (Article 18.1) It is recommended that one of its members be an employee director. | The Company's CAG-CSR Committee (see description starting on page 249 <i>et seq.</i>) is not tasked with establishing the compensation policy for the Executive Chairmen, a task that 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. The role of the Supervisory Board in the decision-making process applicable to the compensation policy for the Executive Chairmen is described on page 257. |

Provisions of the Afep-Medef Code not applied due to the Company's legal form

Explanations

Proportion of independent members on the Audit and Risk Committee (Article 16.1)

Independent directors should account for at least two thirds of Audit and Risk Committee members and the Committee should not include any Executive Corporate Officers.

The Supervisory Board determined that 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. The Audit and Risk Committee rules of procedure stipulate that at least one-half of the seats on the Audit and Risk Committee should 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 evaluation.

Severance payment (Article 25.5.1)

The performance requirements set out by Boards for these benefits must be evaluated 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.

The Company has undertaken to make a severance payment to Mr Axel Dumas under the conditions described in the explanatory statement on page 418 *et seq.*

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.

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.

In its November 2018 report on corporate governance and Senior Executive 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 questions the possibility and desirability of compliance with new Code provisions.

No compliance was made necessary by the new provisions of the Afep-Medef Code updated in January 2020.

Changes made since the most recent update of the Afep-Medef Code in January 2020 to ensure compliance therewith

Explanations

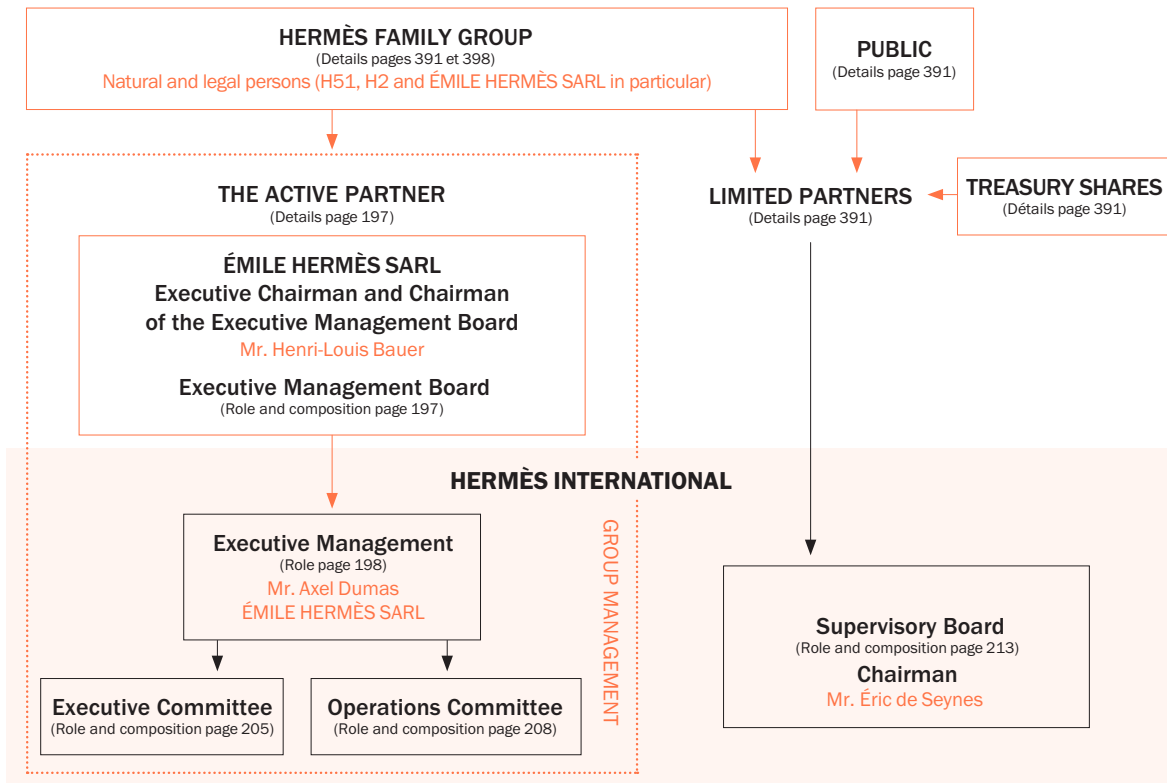
Gender balance policy in governing bodies (Article 7)

The gender balance policy and the resulting objectives are described on page 203. The results obtained in 2020 will be described in the 2020 Universal registration document published in 2021.

Equity ratios (Article 26.2)

It has been decided to adopt the scope referred to in Article L. 227-37-3 of the French Commercial Code (*Code de commerce*) and to establish the ratios on the basis of information about Hermès International. These ratios are presented on page 266 and 267.

3.2 ORGANISATIONAL STRUCTURE OF HERMÈS INTERNATIONAL AS OF 31 DECEMBER 2019



The active partners (Émile Hermès SARL)

In return for unlimited liability, they are involved in the Company's operations and organisation. They have structuring powers, and notably the approval of decisions of the meeting of limited partners (with the exception of those falling within their own powers), and the appointment or dismissal of the Executive Chairmen.

Limited partners (shareholders)

In return for liability limited to the amount of their contributions, their prerogatives are limited.

Their specific powers consist solely of:

- ♦ approving the parent company financial statements;
- ♦ appointing the Statutory Auditors;
- ♦ appointing and dismissing the members of the Supervisory Board.

The law explicitly prohibits them from any interference in the Company's external management, for any reason whatsoever, on pain of being liable under the same conditions as the active partners.

Powers of the Supervisory Board

The Supervisory Board is an offshoot of the meeting of limited partners. The appointment of members of the Board (except for the employees representatives) is solely that body's responsibility.

The role of the Supervisory Board includes the following aspects:

- ♦ an obligation to audit corporate transactions in a similar way to the Statutory Auditors: audit of the parent company financial statements and respect for equality between shareholders;
- ♦ a role in controlling the Company's management.

The law does not confer any other powers on the Supervisory Board. Consequently, it may neither appoint, dismiss nor set the compensation policy of the Executive Chairmen.

3.3 ADMINISTRATIVE AND MANAGEMENT BODIES

3.3.1 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 and of the members of the Operations 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.

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).

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.

In 2019, the CAG-CSR Committee carried out an annual review of this plan. 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.

In early 2020, the CAG-CSR Committee noted that this succession plan remained unaltered.

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 (page 209).

3

3.3.2 THE GROUP'S MANAGEMENT (ROLE AND COMPOSITION, LIST OF OFFICES AND FUNCTIONS PERFORMED)

3.3.2.1 THE ACTIVE PARTNER AND ITS EXECUTIVE MANAGEMENT BOARD

| Role | Composition at 31/12/2019 |
|--|--|
| <p>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.</p> | <p>THE ACTIVE PARTNER Émile Hermès SARL Active partner, represented by its Executive Management Board:</p> |
| | <p>Mr Henri-Louis Bauer Executive Chairman, Chairman and Member of the Executive Management Board</p> |
| | <p>Mr Frédéric Dumas Vice-Chairman and member of the Executive Management Board</p> |
| | <p>Ms Pascale Mussard Vice-Chairwoman and member of the Executive Management Board</p> |
| <p>Other members of the Executive Management Board :</p> | <ul style="list-style-type: none"> ♦ Ms Sandrine Brekke ♦ Ms Capucine Bruet ♦ Ms Alice Charbin ♦ Mr Édouard Guerrand ♦ Mr Laurent E. Momméja ♦ Mr Jean-Baptiste Puech ♦ Mr Guillaume de Seynes |



Mr Henri-Louis Bauer
Executive Chairman, Chairman and Member of the Executive Management Board

Mr Frédéric Dumas
Vice-Chairman and member of the Executive Management Board

Ms Pascale Mussard
Vice-Chairwoman and member of the Executive Management Board

- Other members 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**

3.3.2.2 EXECUTIVE MANAGEMENT

Role

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.

Composition at 31/12/2019

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. The term of office of the Executive Chairmen is open-ended.

**Mr Axel Dumas**

Executive Chairman

Appointed by decision of the Active Partner dated 4 June 2013 (effective 5 June 2013)

**Émile Hermès SARL**

(represented by Mr Henri-Louis Bauer)

Executive Chairman

Appointed by decision of the Active Partner dated 14 February 2006 (effective 1 April 2006)

- ◆ **Changes among the Executive Management in 2019:** None
- ◆ **Changes among the Executive Management since 31 December 2019:** None

- ◆ **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 23 of the Afep-Medef Code updated in January 2020. The two Executive Chairman comply with this requirement.

3.3.2.4 NON-DISCRIMINATION AND DIVERSITY POLICY WITH RESPECT TO THE BALANCED REPRESENTATION OF WOMEN AND MEN IN THE GOVERNING BODIES AND DIVERSITY IN THE 10% OF KEY MANAGEMENT POSITIONS

Gender balance policy in governing bodies

In accordance with the provisions of Article L. 225-37-4, 6° of the French Commercial Code (*Code de commerce*), as amended by law 2018-771 of 5 September 2018 “for the freedom to choose one’s professional future”, we describe how the Company seeks balanced representation of men and women on the committee established, where relevant, by the 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.

Since 2018, the Supervisory Board has been tasked with ensuring 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.

Pursuant to Article 7 of the Afep-Medef Code, updated in January 2020, Boards are recommended to set gender balance objectives within governing bodies.

The HCGE implementation guide published in March 2020 stipulates that in *sociétés en commandite par actions* (partnerships limited by shares):

- ◆ it is the responsibility of the Executive Management to set gender balance objectives and the time frame for attaining them, as well as to determine how these objectives and the action plan are implemented;
- ◆ the Supervisory Board ensures compliance with and monitoring of the this recommendation. It is informed annually by the Executive Management the results obtained so that they can be included in the corporate governance report.

Companies are recommended to do their very best to set and publish gender balance objectives this year.

The Executive Management presented these company gender balance objectives to the Supervisory Board on 25 February 2020.

The scope of the governing bodies selected includes the committees established by the Executive Management several years ago to regularly assist it in exercising its general duties, namely:

- ◆ Executive Committee (role and composition page 205);
- ◆ Operations Committee (role and composition page 208).

Executive Management has set itself the goal of securing gender balance in governing bodies in the long term, so that each gender represents at least 40% of the members. For several years now, the Company has been encouraging female representation among Senior Executives, which should help achieve this goal.

The Supervisory Board noted the gender mix objectives set by the Executive Management as well as its implementation methods (action plan and timeframe within which these actions will be carried out).

The outcomes obtained in financial year 2020 will be described in the corporate governance report to be published in the 2020 Universal registration document in 2021.

Gender balance in governing bodies

The table below illustrates gender balance on the governance bodies, on the Supervisory Board and in the Senior Executives category:

| As at 31 december | 2019 | | 2018 | |
|---|-------|-------|-------|-------|
| Governing bodies (Executive Committee and Operations Committee) | | | | |
| Proportion of women | 13/24 | 54.2% | 10/21 | 47.6% |
| Proportion of men | 11/24 | 45.8% | 11/21 | 52.4% |
| Overall female representation | | | | |
| Supervisory Board (Excluding the employee representative on the Supervisory Board) | | 50.0% | | 50.0% |
| Senior executives ¹ | | 45.8% | | 44.0% |

(1) This category comprises the 83 positions with the highest levels of responsibility according to the classification used by the Group.

Gender equality index

Pursuant to law 2018-771 of 5 September 2018 “for the freedom to choose one’s professional future”, on 5 March 2020 Hermès International published its 2019 gender equality index, with a score of 99/100.

This index measures the gender pay gap within a single company. It takes into account all components of a compensation package and must be calculated each year, thereby serving to identify any points of progress:

- ◆ the gender pay gap;
- ◆ the gap in the breakdown of individual pay increases;
- ◆ the gap in the breakdown of promotions (only for companies with more than 250 employees);

- ◆ the number of employees receiving a pay increase upon their return from maternity leave;
- ◆ parity among the 10 highest packages.

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. This training is attended by all Management Committees and the Group's local managers. It takes the form of a one-day programme, which alternates between a theory-based and more hands-on approach, for preventing and identifying all forms of discrimination (direct, indirect or even involuntary) and reaffirming the Group's zero tolerance with regard to this type of practice.

The Group has also made commitments to professional integration and retaining people with disabilities in employment (see pages 95 and seq).

3.3.2.5 GOVERNING BODIES

Executive Committee

Role

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.

The Executive Committee meets every two weeks.

Its composition reflects the Group's main areas of expertise.

Composition at 31/12/2019

9
MEMBERS

25%
WOMEN
(EXCLUDING EXECUTIVE
CHAIRMAN)

7 years
AVERAGE SENIORITY
ON THE EXECUTIVE
COMMITTEE

19 years
AVERAGE SENIORITY
IN THE GROUP

53
AVERAGE AGE ⁽¹⁾



The members of the Executive Committee in the Hermès store on Avenue George-V, Paris. From left to right: *Éric du Halgouët, Catherine Fulconis, Wilfried Guerrand, Axel Dumas, Olivier Fournier, Charlotte David, Guillaume de Seynes, Pierre-Alexis Dumas and Florian Craen.*

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
- ◆ **Ms Catherine Fulconis**
Executive Vice-President Leather Goods-Saddlery (since 1 April 2019)
- ◆ **Mr Wilfried Guerrand**
Executive Vice-President Métiers, Information Systems and Data

- ◆ **Mr Éric du Halgouët**
Executive Vice-President Finance
- ◆ **Mr Guillaume de Seynes**
Executive Vice-President Manufacturing Division & Equity Investments

Changes in the Executive Committee in 2019

A reorganisation took place on 1 April 2019:

- ◆ Ms Catherine Fulconis, Executive Vice-President Leather Goods-Saddlery (which also includes the Hermès Horizons and Equestrian métiers) and Petit h métiers joined the Executive Committee;
- ◆ Mr Wilfried Guerrand was appointed Executive Vice-President of the Métiers (Hermès Femme, Hermès Homme, Hermès Bijouterie, Hermès Soie et Textiles, and Hermès Maison), Information Systems and Data;
- ◆ 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 & Distribution.

Changes in the Executive Committee after 31 December 2019

None

(1) Average calculated on the basis of the age of the members of the Executive Committee, determined as of the date of filing of this Universal Registration Document, i.e. 25 March 2020.

Profile, experience and expertise of the members of the Executive Committee

The role and a brief presentation of the Executive Committee is provided below.

| Name | | | | |
|---|--|---|--|---|
| Personal details: | | | | |
| Age | Date appointed to the Executive Committee | Education | Positions held in the Hermès Group (date of appointment) | Other positions |
| Date of birth | | | | |
| Nationality | | | | |
| ◆ Axel Dumas 49 years ¹ 03/07/1970 French | 02/05/2011 | See page 199 | | |
| ◆ Florian Craen 49 years ¹ 31/10/1970 French | 01/09/2013 | École Supérieure du Commerce Extérieur de Paris (1992) Harvard Business School (AMP 184) | Executive Vice-President Sales & Distribution of Hermès International (since 1 September 2013) Executive Vice-President Hermès North Asia (2009) Executive Vice-President Hermès Great Britain (2006) International Director of Hermès Travel Retail (2001) | |
| ◆ Charlotte David 44 years ¹ 28/03/1975 French | 12/10/2015 | ESSEC (1997) | Executive Vice-President Communication (since 12/10/2015) | |
| ◆ Pierre-Alexis Dumas 53 years ¹ 04/06/1966 French | 01/10/2005 | Graduate in visual arts from Brown University (1991) | Artistic Executive Vice-President (since 01/10/2005) | Chairman of the Fondation d'entreprise d'Hermès (from 2008 to 2016) Chairman of Arts Décoratifs (since 1 January 2016) |
| ◆ Olivier Fournier 58 years ¹ 10/07/1961 French | 01/06/2015 | EM Lyon (1983) Graduate degree in accounting and finance | Executive Vice-President Governance and Organisational Development, Hermès International (2015) Executive Vice-President Hermès Sellier craftsmanship division (2008) Executive Vice-President Holding Textile Hermès (2001) Executive Vice-President Bucol (1998) Executive Vice-President Sport Soie (1994) Director of Internal Audit and Taxation of Hermès International (1991) | Chairman of the Fondation d'entreprise d'Hermès (since 8 February 2016) |
| ◆ Catherine Fulconis 58 years ¹ 01/09/1961 French | 01/04/2019 | HEC School of Management (1983) | Executive Vice-President Leather Goods-Saddlery (which also includes the Hermès Horizons and Equestrian <i>métiers</i>) and petit h <i>métiers</i> (since 01/04/19) CEO of Hermès Leather Goods & Saddlery and Chairwoman of the Board of Directors of Hermès Parfums (2015) Chairwoman and CEO of Hermès Parfums (2010) CEO and Chairwoman of the Management Board of Hermès Parfums (2006) | Director and Chairwoman of Rallye's Compensation and Appointments Committee (since 13/05/2014) |

(1) The age indicated is determined on the date this Universal registration document is filed, i.e. 25 March 2020.

| Name Personal details: | | | | |
|--|---|---|--|---|
| Age | Date appointed to the Executive Committee | Education | Positions held in the Hermès Group (date of appointment) | Other positions |
| <p>◆ Wilfried Guerrand 49 years¹ 01/02/1971 French</p> | 01/07/2014 | Neoma Business School (1993, Rouen) MBA from London School of Economics, NYU Stern and HEC (2011, TRIUM) | <p>Executive Vice-President of the Métiers (Hermès Femme, Hermès Homme, Hermès Bijouterie, Hermès Soie et Textiles and Hermès Maison), Information Systems and Data (since 01/04/2019)</p> <p>Executive Vice-President of Digital Projects and E-commerce of Hermès International (2014)</p> <p>Executive Vice-President of Hermès Femme (2012)</p> <p>Executive Vice-President Europe Hermès International (2009)</p> <p>Group Director of Sales Hermès International (2007)</p> <p>Executive Vice-President Hermès France for Hermès Sellier (2004)</p> <p>Director of Industrial Development Hermès International (2002)</p> <p>Advisor to the Chairman Hermès Sellier (1999)</p> <p>Financial Controller for Hermès Sellier (1995)</p> | |
| <p>◆ Éric du Halgouët 57 years¹ 14/03/1963 French</p> | 01/06/2015 | Neoma Business School (1986, Rouen) Graduate degree in accounting and finance | <p>Executive Vice-President Finance of Hermès International (2015)</p> <p>Chief Financial Officer (2007)</p> <p>Director of consolidation and financial control (2006)</p> | |
| <p>◆ Guillaume de Seynes 62 years¹ 14/10/1957 French</p> | 01/01/2005 | Graduate in law and political science Paris (1978) and an ESSEC graduate (1982) | <p>Executive Vice-President, Manufacturing & Equity Investments of Hermès International (since 2 May 2011)</p> <p>Chairman of John Lobb (2007)</p> <p>Deputy Managing Director Hermès International (2006)</p> <p>Executive Vice-President Métiers d'Hermès Sellier (2004)</p> <p>Executive Vice-President of La Montre Hermès (1999)</p> <p>Director of Sales and Marketing of La Montre Hermès (1997)</p> | <p>Chairman of Comité Colbert (since 10 June 2016)</p> <p>Chairman of the European Cultural and Creative Industries Alliance (2016-2017)</p> <p>Chairman of the <i>Chambre syndicale du prêt-à-porter des couturiers et des créateurs de mode</i> (2008-2012)</p> <p>Chairman of the Strategic Committee, <i>Mode et Luxe</i> sector (since 2018)</p> |

(1) The age indicated is determined on the date this Universal registration document is filed, i.e. 25 March 2020.

Operations Committee

| Role | Composition at 31/12/2019 | | |
|--|---|--|---|
| <p>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.</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> | 25 MEMBERS | 69% WOMEN <i>(EXCLUDING THE EXECUTIVE CHAIRMAN AND THE EXECUTIVE COMMITTEE)</i> | 13% OF FOREIGN NATIONALITIES |
| <p>Mr Axel Dumas Executive Chairman</p> <p>Executive Committee members (see page 205)</p> | | | |
| Other members | | | |
| Senior Executives of the métiers | | | |
| <ul style="list-style-type: none"> ◆ Ms Agnès de Villers Perfumes ◆ Mr Laurent Dordet Watches ◆ Ms Antoinette Louis Silk and Textiles | <ul style="list-style-type: none"> ◆ Ms Véronique Nichanian Men's Ready-To-Wear ◆ Ms Hinde Pagani Digital Sales and Service (since 1 April 2019) ◆ Ms Anne-Sarah Panhard Home | <ul style="list-style-type: none"> ◆ Ms Élodie Potdevin Fashion Accessories Métier and IoT (since 1 April 2019) ◆ Ms Ambre Pulcini Women's Ready-to-Wear and Shoes (since 1 April 2019) ◆ Ms Laurence Reulet Jewellery | |
| Senior Executives of the Geographical areas | | | |
| <ul style="list-style-type: none"> ◆ Mr Masao Ariga ⁽¹⁾ Japan ◆ Mr Robert Chavez ⁽¹⁾ United States and Latin America ◆ Ms Hélène Dubrule France | <ul style="list-style-type: none"> ◆ Mr Eric Festy South Asia ◆ Mr Luc Hennard China | <ul style="list-style-type: none"> ◆ Ms Juliette Streichenberger Europe ◆ Ms Ségolène Verdillon Travel Retail | |
| Changes in the Operations Committee in financial year 2019 | | | |
| On 1 April 2019, three new members – Managers of the <i>métiers</i> – were appointed to the Operations Committee: | | | |
| <ul style="list-style-type: none"> ◆ Ms Hinde Pagani: Deputy Managing Director – Digital Sales and Service; ◆ Ms Ambre Pulcini: Managing Director - Women's Ready-to-Wear and Shoes; ◆ Ms Elodie Potdevin: Executive Vice-President - Fashion Accessories Métier and IoT ("Internet of Things"). | | | |
| Changes in the Operations Committee after 31 December 2019 | | | |
| None | | | |

(1) Members of foreign nationalities.

3.4 SUPERVISORY BOARD: COMPOSITION AND CONDITIONS GOVERNING THE PREPARATION AND ORGANISATION OF WORK

3.4.1 SUCCESSION PLAN FOR THE CHAIRMAN OF THE SUPERVISORY BOARD

Early in 2018, the CAG-CSR Committee conducted its review of the succession plan for the Chairman of the Supervisory Board and deemed it of good quality and suitable for the needs of the Company.

This succession plan covers:

- ♦ temporary interim succession (temporary absence of the Chairman, e.g. due to illness or accident);
- ♦ unplanned succession (permanent impairment, death or resignation of the Chairman in the short or medium term);
- ♦ normal succession (medium and long term).

In early 2019 the CAG-CSR Committee acknowledged the written memorandum drafted and signed by Mr Éric de Seynes and confirmed that this succession plan, which remains unchanged, for the Chairman of the Supervisory Board is deemed of good quality and suitable for the needs of the Company.

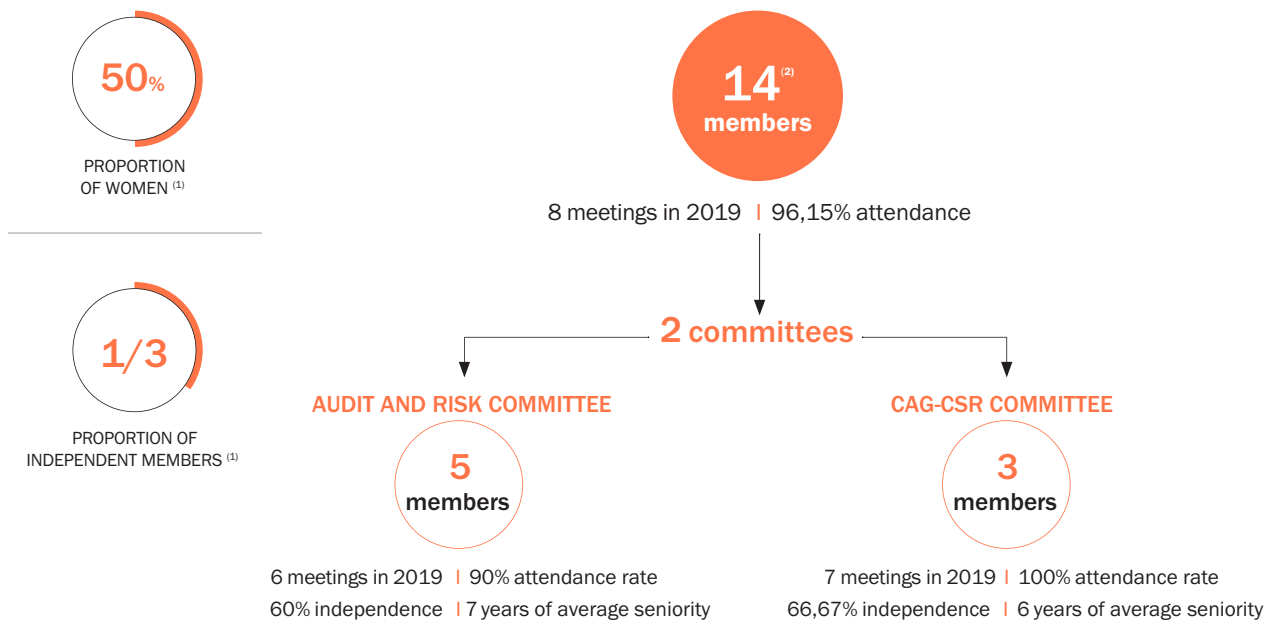
The succession plan for the Chairman of the Supervisory Board was co-signed by Ms Dominique Senequier then placed in two sealed envelopes, one of which was handed to the Chairwoman of the CAG-CSR Committee and the other to the legal department.

In early 2020, the CAG-CSR Committee noted that this succession plan remained unaltered.

3

3.4.2 SUMMARY PRESENTATION OF THE MEMBERS OF THE SUPERVISORY BOARD AS OF 31 DECEMBER 2019

SUPERVISORY BOARD



(1) Excluding the Supervisory Board member representing employees.

(2) Since 12 November 2019, when the Group Works Council noted the expiry of the term of office of Mr Frédéric Afriat as Supervisory Board member representing employees, and appointed Ms Purity Cardoso and Mr Rémy Kroll as new Supervisory Board members representing employees for terms of three years.

pre

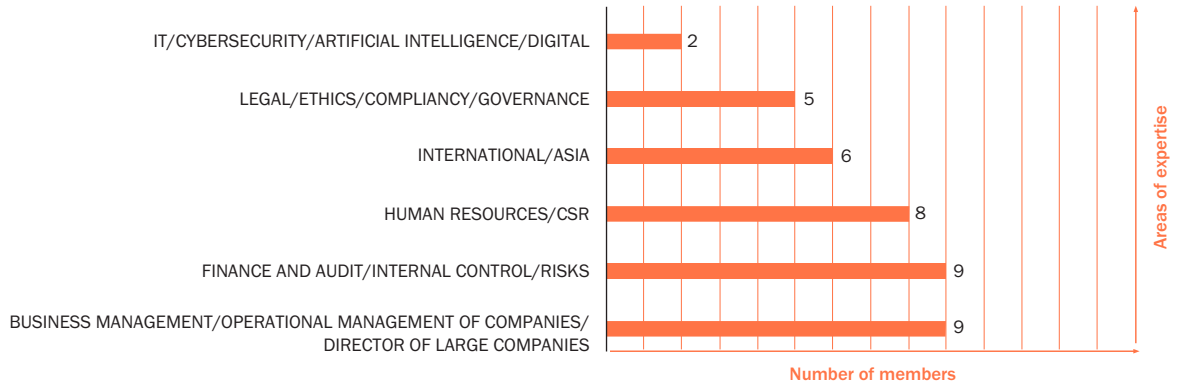
MAIN AREAS OF EXPERTISE AND EXPERIENCE OF BOARD MEMBERS

Each member of the Supervisory Board is asked to make a declaration listing the areas in which he or she has particular expertise. This declaration is made upon their appointment and again each year, when the Universal registration document is prepared.

The diagram below shows the number of Board members for each area of expertise.

The six areas given reflect the Hermès Group's major operational challenges and the main issues that the Supervisory Board and its committees are called upon to oversee in the course of their duties.

Main areas of expertise and experience of board members ^{(1) (2)}



(1) Excluding the employee representatives on the Supervisory Board.

(2) Based on annual declarations by Board members.

SITTING MEMBERS AS AT 31 DECEMBER 2019

| Personal details | Number of shares (direct holding) | Experience Number of offices in listed companies other than the Company | Position on the Board | | | | Membership of committees of the Board | |
|--|--------------------------------------|---|-----------------------|--|----------------|-------------------|--|----------------------|
| | | | Independence | Date of first appointment | Date term ends | Length of service | Audit and Risk Committee | CAG-CSR Committee |
| Éric de Seynes (M) (Chairman) Nationality: French 59 years – 09/06/1960 | 203 | | | 07/06/2010 03/03/2011 (Chairman) | 2020 GM | 9 years | | |
| Monique Cohen (F) (Vice-Chairwoman) Nationality: French 64 years – 28/01/1956 | 250 | 2 BNP Paribas Safran | ✓ | 03/06/2014 | 2020 GM | 6 years | ✓ (Chairwoman) | |
| Dominique Senequier (F) (Vice-Chairwoman) Nationality: French 66 years – 21/08/1953 | 200 | | ✓ | 04/06/2013 | 2022 GM | 7 years | | ✓ (Chairwoman) |
| Dorothee Altmayer (F) Nationality: French 59 years – 01/03/1961 | 200 | | | 06/06/2017 | 2020 GM | 3 years | | |
| Charles-Éric Bauer (M) Nationality: French 56 years – 09/01/1964 | 69,148 | | | 03/06/2008 | 2022 GM | 12 years | ✓ | |
| Estelle Brachlianoff (F) Nationality: French 47 years – 26/07/1972 | 100 | | ✓ | 04/06/2019 | 2022 GM | 6 months | ✓ | ✓ |
| Pureza Cardoso (F) (Employee representative) Nationality: French 49 years – 04/03/1971 | 60 | | | 12/11/2019 | 12/11/2022 | - | | |
| Matthieu Dumas (M) Nationality: French 47 years – 06/12/1972 | 213 | | | 03/06/2008 | 2021 GM | 12 years | | ✓ |
| Blaise Guerrand (M) Nationality: French 36 years – 04/06/1983 | 200 | | | 29/05/2012 | 2021 GM | 8 years | | |
| Julie Guerrand (F) Nationality: French 45 years – 26/02/1975 | 5,825 | 1 Idi | | 02/06/2005 | 2022 GM | 15 years | | |
| Olympia Guerrand (F) Nationality: Franco-Portuguese 42 years – 07/10/1977 | 306,312 | | | 06/06/2017 | 2021 GM | 3 years | | |
| Rémy Kroll (M) (Employee representative) Nationality: French 47 years – 04/05/1972 | 50 | | | 12/11/2019 | 12/11/2022 | - | | |
| Renaud Momméja (M) Nationality: French 58 years – 20/03/1962 | 150,012 | | | 02/06/2005 | 2020 GM | 15 years | ✓ | |
| Alexandre Viros (M) Nationality: Franco-American 42 years – 08/01/1978 | 100 | | ✓ | 04/06/2019 | 2021 GM | 6 months | ✓ | |

(1) The age indicated is determined as of the date of filing of this Universal registration document, i.e. 25 March 2020.

MEMBERS PROPOSED FOR APPOINTMENT AT THE GENERAL MEETING OF 24 APRIL 2020

None

3.4.4 DIVERSITY POLICY APPLIED WITHIN THE SUPERVISORY BOARD

3.4.4.1 CHANGES IN THE COMPOSITION OF THE SUPERVISORY BOARD SINCE 2011

Pursuant to Article L. 225-37-4 (6) of the French Commercial Code (*Code de commerce*), 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;

In accordance with Article L. 225-37-4 of the French Commercial Code (*Code de commerce*), their means of implementation and the results achieved at the end of 2019 are as follows:

- 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) |
| In 2019 | 2018 (page 171) |

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).

| CRITERIA USED | Objectives set in 2012 | Means of implementation and results at 31/12/2019 |
|--|---|---|
| Optimal size (number of Board members) The Board comprised 10 members within a range of three to 15 members set out by the Articles of Association (the decision is made by the Active Partner). | <u>Objective:</u> maintain the number of members insofar as the Board's size is consistent with market recommendations and works satisfactorily. This objective may be reconsidered if other constraints (proportion of women and proportion of independent members on the Board and the committees) require an increase in the size of the Board. | The number of members gradually rose to 11 in 2012 (with the addition of an employee representative) and then to 13 in 2017 (with the appointment of two new women), and most recently to 14 (with the appointment of a second employee representative). |
| Age limit | 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. | Unchanged. |
| Gender parity | 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 (<i>Code de commerce</i>). | Appointments of Ms Dominique Senequier in 2013 and Ms Monique Cohen in 2014. Appointment of Ms Sharon MacBeath in 2016 and Ms Dorothee Altmayer and Ms Olympia Guerrand in 2017. Appointment of Ms Estelle Brachlianoff in 2019. Since the end of 2017: 50% women and 50% men. |
| Number of independent members | 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> <ul style="list-style-type: none"> ◆ replace the two independent members (Mr Ernest-Antoine Sellière and Mr Maurice de Kervennoaël) 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. | 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 and Risk Committee in 2016, and to the CAG-CSR Committee in 2017. |

| CRITERIA USED | Objectives set in 2012 | Means of implementation and results at 31/12/2019 |
|---|--|---|
| Nationalities, international experience, expertise (highlighting the missing talents/typical profiles needed to improve the running of the Board). | <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; ◆ plurality of 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 and Risk 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>Appointment of Ms Estelle Brachlianoff and Mr Alexandre Viros in 2019 (see below).</p> |
| Possibility of appointing a non-voting member | <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> | Unchanged. |

3

| CRITERIA USED | Objectives set in 2014 | Means of implementation and results at 31/12/2019 |
|--|---|--|
| 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. 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. Appointment of an employee representative to the Board at the end of 2014. Appointment of two employee representatives to the Board (one woman and one man) since 12 November 2019. Amendment of the Articles of Association submitted to the General Meeting of 24 April 2020.</p> |

| CRITERIA USED | Objectives set in 2019 | Means of implementation and results at 31/12/2019 |
|---|---|--|
| Nationalities, international experience, expertise (highlighting the missing talents/typical profiles needed to improve the running of the Board). Number of independent members | <p><u>Objectives:</u> Upon the planned replacement of Mr Robert Peugeot and the resignation of Ms Sharon MacBeath in 2019, the Supervisory Board set itself the objective of taking on two new independent members.</p> | <p>Appointment in 2019 of Ms Estelle Brachlianoff to the Board, the Audit and Risk Committee, and the CAG-CSR Committee (experience as a senior manager in a group with an international dimension, steering structures undergoing transformation, CSR skills). Appointment in 2019 of Mr Alexandre Viros to the Board and the Audit and Risk Committee (expertise in the e-commerce and retailing universe, knowledge of customer relations, aptitude to work in industries undergoing profound transformation and seeing the emergence of disruptive models). End-2019: 1/3 independent members.</p> |

Only Board members appointed by the General Meeting (Article L. 225-79-2 II of the French Commercial Code (Code de commerce)) and independent members (Afeep-Medef Code – Article 9.3) are included in the calculation of the percentage of women members, not employee representatives.

No objective has been set for 2020 as regards changes in the composition of the Supervisory Board.

3.4.4.2 NUMBER OF SUPERVISORY BOARD MEMBERS AND BALANCED REPRESENTATION OF MEN AND WOMEN – NUMBER OF EMPLOYEE REPRESENTATIVES

| 31/12 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---------------|------|------|------|------|------|------|------|------|------|
| Number | 10 | 11 | 11 | 10 | 10 | 10 | 12 | 12 | 12 |
| F | 20% | 18% | 27% | 40% | 40% | 40% | 50% | 50% | 50% |
| M | 80% | 82% | 73% | 60% | 60% | 60% | 50% | 50% | 50% |
| Employee rep. | n/a | n/a | n/a | 1 | 1 | 1 | 1 | 1 | 2 |

n/a not applicable.

Only Board members appointed by the General Meeting (Article L. 225-79-2 II of the French Commercial Code (Code de commerce)) are included in the calculation of the percentage of women members, not employee representatives.

3.4.4.3 SELECTION PROCESS FOR SUPERVISORY BOARD MEMBERS

Board members appointed by the General Meeting

The selection process for Board members appointed by the General Meeting is as follows:

- ◆ the Supervisory Board sets objectives for changes in its composition;
- ◆ 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 male or female candidates from a variety of backgrounds and 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 Executive Management Board and the Supervisory Board.

Employee representatives appointed by the Group Works Council (Article L. 225-69-1 of the French Commercial Code (Code de commerce))

Law 2019-486 of 22 May 2019 on the growth and transformation of companies (known as the “Pacte” law) ushers in the requirement that Supervisory Boards with more than eight members appoint two employee representatives, one male and one female.

Conditions of eligibility are as follows:

- ◆ hold an employment contract for more than two years;
- ◆ have a clean criminal record;
- ◆ complete the application form prepared by the Group Works Council.

Each trade union active at Group level may submit a candidate through its union representative on the Group Works Council.

Each Economic and Social Committee, Works Council or single staff delegation (and for companies without such bodies, the College of Staff Representatives) may nominate one candidate by secret ballot.

As an exception, companies with more than 300 employees may present two candidates (one male and one female).

Candidates submitted by representative trade union organisations and employee representative bodies are examined by the Group Works Council, which appoints two employee representatives to the Supervisory Board, one male and one female, in two rounds.

3.4.5 INDEPENDENCE OF THE MEMBERS OF THE SUPERVISORY BOARD

3.4.5.1 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 9.5 of the version updated in January 2020):

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:

- ◆ 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:

- ◆ 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 evaluation 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 evaluation (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.

3.4.5.2 SITUATION OF EACH MEMBER OF THE SUPERVISORY BOARD, AS AT 31 DECEMBER 2019, IN RESPECT OF THE ABOVE CRITERIA

On 31 December 2019, 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 Estelle Brachlianoff, Ms Monique Cohen, Ms Dominique Senequier and Mr Alexandre Viros. 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 241 below).

| CRITERIA | Éric de Seynes (Chairman) | Monique Cohen (Vice-Chair-woman) | Dominique Senequier (Vice-Chair-woman) | Dorothee Altmayer | Charles-Éric Bauer | Estelle Brachlianoff | Pureza Cardoso (employee representative) | Matthieu Dumas | Blaise Guerrand | Julie Guerrand | Olympia Guerrand | Rému Kroll (employee representative) | Renaud Momméja | Alexandre Viros |
|--------------------|---------------------------|----------------------------------|--|-------------------|--------------------|----------------------|--|----------------|-----------------|----------------|------------------|--------------------------------------|----------------|-----------------|
| Criterion 1 | | ✓ | ✓ | | | ✓ | | | | | | | | ✓ |
| Criterion 2 | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Criterion 3: | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Criterion 4 | | ✓ | ✓ | | | ✓ | ✓ | | | | | ✓ | | ✓ |
| Criterion 5 | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Criterion 6 | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | | ✓ | ✓ | | ✓ |
| Criterion 7 | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Criterion 8 | | ✓ | ✓ | | | ✓ | ✓ | | | | | ✓ | | ✓ |
| Criterion 9 | | ✓ | ✓ | | | ✓ | ✓ | | | | | ✓ | | ✓ |
| INDEPENDENT | | ✓ | ✓ | | | ✓ | | | | | | | | ✓ |

In accordance with Article 9.3 of the Afep-Medef Code updated in January 2020, 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 (*Code de commerce*).

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.

In accordance with the provisions of the Afep-Medef Code (Article 9.3), employee representatives are not included in the calculation of these percentages.

The Supervisory Board has complied with this proportion since it was introduced in 2009.

With Mr Robert Peugeot losing his independent member status (24 January 2019) and Ms Sharon MacBeath resigning (20 March 2019), the proportion of independent members on the CAG-CSR Committee temporarily fell below the levels required by the Afep-Medef Code at the beginning of 2019.

The General Meeting of 4 June 2019 appointed two new independent members, Ms Estelle Brachlianoff and Mr Alexandre Viros, which restored the proportion of one-third independent members on the Board as of that date.

3.4.8 ACTIVITY OF THE SUPERVISORY BOARD

3.4.8.1 GROUP ACTIVITY AND FINANCE

In 2019, the Supervisory Board was informed of the Group's activities at each of its meetings and in particular:

- ♦ was given a presentation by the Executive Management on the annual and interim consolidated financial statements and parent company financial statements;
- ♦ examined the 2019 budget;
- ♦ reviewed documents on forecasting and planning;
- ♦ was informed of the Executive Management's decision to pay an interim dividend;
- ♦ determined the allocation of net income to be put to the General Meeting of 4 June 2019;
- ♦ reviewed the situation of certain equity investments;
- ♦ formally noted proposals for Group acquisitions, disposals and equity investments;
- ♦ formally noted investment proposals;
- ♦ examined the reports and work of the Audit and Risk Committee described starting on page 252 and seq;
- ♦ was informed of changes in the composition of the Executive Committee.

3.4.8.2 RECOMMENDATIONS, AUTHORISATIONS AND OTHER ITEMS

In 2019, the Supervisory Board, in particular:

- ♦ authorised and reclassified, as necessary, related-party agreements and carried out an annual review of those for which the effects were ongoing (see the Supervisory Board's report to the General Meeting on page 437 and 438);
- ♦ approved the explanatory memorandum and the resolutions put to the Combined General Meeting of 4 June 2019 and acquainted itself with the reports drawn up by the Executive Management;
- ♦ formally noted the summary statement of services provided by Hermès International to Émile Hermès SARL in 2018 and projections for 2019;
- ♦ discussed the Company's policy with regard to gender equality and equal pay;
- ♦ approved the updated lists of authorised signatories and banks of Hermès International;
- ♦ renewed (overall limit given to the Executive Management in favour of subsidiaries) or authorised (special authorisations) the sureties, endorsements or guarantees granted by Hermès International;
- ♦ conducted the annual review of all sureties, endorsements and guarantees granted and still in force;
- ♦ drew up responses to the opinion of the Social and Economic Committee on the Company's strategic orientations;
- ♦ approved the updated Hermès Group Stock Market Ethics Code;
- ♦ noted the responsibility inherent in holding inside information;
- ♦ reviewed the annual report of the Chairman of the Supervisory Board on his duties with regard to shareholder dialogue;
- ♦ was informed of the content and impact of legislative and regulatory

3.4.8.3 GOVERNANCE – APPOINTMENTS – COMPENSATION

In 2019, the Supervisory Board:

- ♦ approved the updated rules of procedure of the Supervisory Board, the CAG-CSR Committee and the Audit and Risk Committee;
- ♦ reviewed and/or approved the reports and work of the CAG-CSR Committee described starting on page 250;
- ♦ set the allocation and payment of compensation and directors' fees for 2018 to Board and Committee members;
- ♦ kept itself informed at each meeting of all transactions carried out by the Executive Chairmen pursuant to the AMF's position-recommendation set out in DOC-2016-08 "Guide to permanent information and managing inside information";
- ♦ was informed of the setting by the Executive Management Board of Émile Hermès SARL, Active Partner, of the Executive Chairmen's 2019 compensation and the incorporation of a CSR criterion for the 2020 compensation in respect of 2019;
- ♦ approved the proposals of reappointment or replacement of members of the Supervisory Board to be considered at the General Meeting;
- ♦ decided how new independent members are to be recruited and how the target profile is to be defined;
- ♦ noted the resignation of Ms Sharon MacBeath from her position as member of the Supervisory Board;
- ♦ was informed by the Executive Management of the adoption of free share allocation plans;
- ♦ decided on the composition of the Audit and Risk Committee and the CAG-CSR Committee after the General Meeting.

At each meeting the CAG-CSR Committee informed the Supervisory Board of current events relating to governance (e.g. AMF reports, Afep-Medef reports, HCGE report and implementation guide, IFA studies).

3.4.8.4 ETHICS AND COMPLIANCE – PERSONAL DATA PROTECTION

Ethics and compliance issues as well as the related programmes have been shared regularly with the Supervisory Board since 2015.

Since 11 September 2018, the Supervisory Board's rules of procedure have included new duties relating to the system for the prevention and detection of corruption and influence-peddling (section 1.2.4.2.), following the revision of the Afep-Medef Code in June 2018.

On 16 November 2018, the Audit and Risk Committee was assigned a new duty relating to the prevention of corruption: Ensure the implementation of a system for the prevention and detection of corruption and influence-peddling.

On 19 March 2019, the Supervisory Board decided to rename the Audit Committee the "Audit and Risk Committee".

In 2019, the Supervisory Board was informed about ethics and compliance programmes and on the progress of the corruption prevention plan in compliance with law 2016-1691 of 9 December 2016, known as "Sapin II", within the Group.

In early 2019, the General Counsel Compliance presented to the Supervisory Board, the ethics and compliance programmes/compliance action plan:

- ♦ professional alert procedure and Ethics Committee;
- ♦ strengthening of the corruption prevention plan in compliance with law No. 2016-1691 of 9 December 2016, known as the "Sapin II" law, on transparency, the fight against corruption and the modernisation of economic life;
- ♦ corruption risk mapping;
- ♦ 2019 action plan: anti-corruption code of conduct, alert system, training, tools for evaluation of third parties, audits;
- ♦ roll-out of the vigilance plan in accordance with law No. 2017-399 of 27 March 2017 concerning the duty of care of parent companies and contractors;
- ♦ anti money-laundering, international sanctions and embargoes;
- ♦ presentation of the new code of business conduct.

A presentation to the Supervisory Board on the personal data protection system, in accordance with the GDPR (EU regulation 2016/679 of 27 April 2016), implemented in the Group, was made in 2019.

The systems implemented in the Group are described on pages 178 and seq.

3.4.8.5 CORPORATE SOCIAL RESPONSIBILITY – CSR

A presentation of CSR challenges has been made to the Board regularly since 2015.

Since 11 September 2018, the Supervisory Board's rules of procedure have included new duties relating to CSR issues (Article 1.2.4.2.), following the revision of the Afep-Medef Code in June 2018.

On 16 November 2018, the Supervisory Board decided to rename the "Compensation, Appointments and Governance Committee" as the "CAG-CSR Committee".

The CAG-CSR Committee was assigned new duties relating to social and environmental responsibility:

- ♦ assist the Supervisory Board in monitoring matters relating to CSR in order that the Hermès Group better anticipate associated opportunities, issues and risks;
- ♦ assist the Supervisory Board in monitoring social policy of the Hermès Group and the policy of non-discrimination and diversity.

In addition, since the incorporation of a CSR criterion into the Executive Chairmen's variable compensation in 2019, the CAG-CSR Committee has been tasked with annually evaluating the achievement of the three indicators comprising it (see page 265).

3.4.8.6 MAJOR ANNUAL TOPICS – SITE VISITS

Every year, at least one detailed presentation on a specific or general topic regarding the Group's activities is provided by the relevant management team. Since 2011 the Board has devoted one of its meetings to a site visit to improve its understanding of one of the Group's subsidiaries.

In 2019 the Board:

- ♦ attended a presentation of the Group's digital strategy;
- ♦ attended a presentation of the objectives and actions of internal communication;
- ♦ attended a presentation of Hermès Parfums' new product development strategy;
- ♦ inspected the logistics site, where it was given a presentation of the activity, the results of the Hermès Commercial division and a tour of the warehouses.

3.4.9 EVALUATION OF THE SUPERVISORY BOARD AND COMMITTEES

3.4.9.1 METHODOLOGY

Whether or not to use an external advisor

As in 2016, the CAG-CSR Committee considered it undesirable to call on an outside firm to conduct a formal evaluation of the Supervisory Board for the following reasons:

- ♦ confidentiality concerns raised by giving information on the Supervisory Board to a third party;
- ♦ the relative absence of weak signals raised by previous evaluations;
- ♦ progress in terms of governance over the last six years;
- ♦ the small amount of added value expected from an external firm, particularly given the specific nature of the *société en commandite par actions* (partnership limited by shares), which offers few comparables.

Process and review of the evaluation questionnaire

In 2011, the Supervisory Board decided to carry out a formal questionnaire-based self-evaluation only once every three years, while maintaining a discussion on the functioning of the Board every year.

In 2019, the Supervisory Board conducted a formal evaluation of the Supervisory Board and committees as follows:

- ♦ evaluation conducted confidentially by the Secretary of the Board in conjunction with the Chairwoman of the CAG-CSR Committee;
- ♦ secure online questionnaire accessible on computer or mobile phone; automatic summary of results and more comprehensible restitution;
- ♦ repetition of questions from the 2016 questionnaire, some of which have been reworded or had redundancies deleted. Addition of questions to take account of the new tasks in the Board and committees, as set out in the rules of procedure;

- ◆ as in 2016, the 2019 questionnaire allows for an evaluation of the individual contribution of Board members;
- ◆ members can also, at the end of the questionnaire, make observations/comments and possible suggestions;
- ◆ 3 distinct headings:
 - 1. evaluation of the Board (for all Board members – 91 questions),
 - 2. evaluation of the CAG-CSR Committee (only for members of that Committee – 31 questions),
 - 3. evaluation of the Audit and Risk Committee (only for members of that Committee – 33 questions);
- ◆ the questionnaire covers the following topics:
 - composition of the Board, independence, term of office,
 - Board meetings,
 - work of the Board,
 - ethics and compliance,
 - quality of discussions,
 - effectiveness of the Supervisory Board,
 - relationships with committees,
 - training of Board members – site visits,
 - Board of Directors' rules of procedure and Stock Market Ethics Code,
 - compensation of Board and committee members,
 - composition and organisation of committee meetings,
 - access to information for committee members,
 - work of the committees;
- ◆ comprehensive and anonymous summary of the analysis of responses, made by the Chairwoman of the CAG-CSR Committee to the Supervisory Board.

Objectives of the evaluation

The questionnaire is designed to enable the performance of the Supervisory Board and the committees to be evaluated.

The evaluation must have three objectives (Article 10.2 of the Afep-Medef Code updated in January 2020):

- ◆ review the Board's operating procedures;
- ◆ check that key issues are properly prepared and discussed;
- ◆ measure the effective contribution of each Board member to the work of the Board by virtue of his or her skills and involvement in discussions.

Schedule of the 2019 evaluation

The evaluation in 2019 was carried out as follows:

- ◆ launch of the evaluation questionnaire after the September Board meeting;
- ◆ comprehensive and anonymous summary in October;
- ◆ analysis and summary at the November CAG-CSR Committee meeting;
- ◆ restitution to the Board at the November meeting.

Individual interviews with the Chairwoman of the CAG-CSR Committee

In this questionnaire, Board members who wish are invited to meet individually with the Chairman of the CAG-CSR Committee for more in-depth discussions and also to provide further information in relation to the questionnaire. This option was used by a member of the Supervisory Board during the 2019 evaluation.

3.4.9.2 KEY POINTS OF THE FORMAL EVALUATION IN 2019

2019 evaluation of the Supervisory Board

The summary of the evaluation is very positive overall.

Between the last formal evaluation in 2016 and the formal evaluation in 2019, four new members joined the Supervisory Board (Mses Olympia Guerrand and Dorothee Altmayer in 2017, Ms Estelle Brachlianoff and Mr Alexandre Viros in 2019).

The analysis of the evaluation results showed:

- ◆ a very good opinion of the functioning and work of the Board;
- ◆ progress has been made in many areas since the last evaluation in 2016, for both the Board and the committees;
- ◆ all members made satisfactory individual contributions and were sufficiently available;
- ◆ the new digital questionnaire is easy to use and well-liked.

2019 evaluation of the CAG-CSR Committee

The functioning and work of the CAG-CSR Committee is generally very satisfactory.

Since the last evaluation, a new member has joined the Committee (Ms Estelle Brachlianoff in 2019).

The analysis of the evaluation results showed:

- ◆ the composition of the Committee is appropriate;
- ◆ the organisation and work of the Committee is highly efficient;
- ◆ progress has been made since the last evaluation

2019 evaluation of the Audit and Risk Committee

The functioning and work of the Audit and Risk Committee is generally very satisfactory.

Since the last evaluation, two new members have joined the Committee (Ms Estelle Brachlianoff and Mr Alexandre Viros in 2019).

The analysis of the evaluation results showed:

- ◆ the organisation and work of the Committee is highly efficient;
- ◆ progress has been made since the last evaluation

In view of the findings of the above analysis, the Supervisory Board deemed its functioning and that of its Committees to be very satisfactory overall.

The Board's next formal self-evaluation will take place in 2022.

3.4.9.3 AREAS OF IMPROVEMENT IDENTIFIED FOLLOWING THE FORMAL EVALUATION IN 2019

Some members would like to changes on the following points, which the Board, on the proposal of the CAG-CSR Committee, has decided to adopt as areas for improvement for the future:

Supervisory Board

- ◆ improve Board members' access to support materials for presentations given during meetings.

CAG-CSR Committee

- ◆ devote at least two meetings per year to the in-depth examination of CSR issues.

Audit and Risk Committee

- ◆ organise training on foreign exchange and on the new IFRS standards for committee members wishing to benefit;
- ◆ take advantage of the presentation of the risk mapping to the Audit and Risk Committee to draw up action plans on a major risk.

3.4.9.4 OTHER AREAS FOR IMPROVEMENT IDENTIFIED

At the end of 2019, the CAG-CSR Committee reviewed the functioning of the Supervisory Board at one of its meetings and examined the areas of improvement identified by the Board in late 2018.

All areas of improvements – which mainly consisted of fine-tuning the text for the “corporate governance” section of the Universal registration document to include the latest recommendations in matters of governance – had been implemented.

3.4.9.5 CHANGE SINCE THE LAST EVALUATION

The conditions, detailed procedures and areas for improvement identified during the last formal three-year self-evaluation in 2016 are described in the 2016 registration document (pages 118 and 119). During this formal evaluation the Supervisory Board deemed its functioning to be very satisfactory overall.

Areas for improvement identified in the formal evaluation in 2016

Initiatives taken from 2016 to 2019

| | |
|---|--|
| Composition of the Board in view of the Group's international footprint, nationality of Board members | Appointment in 2017 of Ms Dorothee Altmayer (experience in human resources and psychology) and Ms Olympia Guerrand (international experience and dual nationality). Appointment in 2019 of Ms Estelle Brachlianoff to the Board, the Audit and Risk Committee, and the CAG-CSR Committee (experience as a senior manager in a group with an international dimension, steering structures undergoing transformation, CSR skills). Appointment in 2019 of Mr Alexandre Viros to the Board and the Audit and Risk Committee (expertise in the e-commerce and retailing universe, knowledge of customer relations, aptitude to work in industries undergoing profound transformation and seeing the emergence of disruptive models). |
| The CAG Committee is not sufficiently informed about management succession plans | A succession plan for the Executive Management has been drawn up and submitted to the CAG-CSR Committee. A succession plan for the Chairman of the Supervisory Board has been drawn up and submitted to the CAG-CSR Committee. |
| The variable component of directors' fees is insufficient | New procedures for the allocation of directors' fees were approved by the Board at its meeting of 6 June 2017 to: <ul style="list-style-type: none"> ◆ take market practices into account; ◆ acknowledge days devoted to site visits; ◆ acknowledge new responsibilities; ◆ acknowledge the role of the Chairmen (a function requiring greater commitment); ◆ acknowledge the results obtained over the last 10 years. |

3.4.9.6 EVALUATION OF THE CAG-CSR COMMITTEE

The operation and work of the CAG-CSR Committee were evaluated in 2019 as part of the three-year formal self-evaluation of the Supervisory Board (see page 247).

3.4.9.7 EVALUATION OF THE AUDIT AND RISK COMMITTEE

The functioning and work of the Audit and Risk Committee were evaluated in 2019 as part of the three-year formal self-evaluation of the Supervisory Board (see page 248).

3.4.10 SPECIALISED COMMITTEES

Two specialised committees were created in 2005:

- ♦ the Audit Committee (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 and 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.

Summary of changes in 2019

| | Departures | Appointments | Renewals |
|--------------------------|--|--|--|
| Audit and Risk Committee | Ms Sharon MacBeath (20/03/2019) Mr Robert Peugeot (04/06/2019) | Ms Estelle Brachlianoff (04/06/2019) Mr Alexandre Viros (04/06/2019) | Ms Monique Cohen, Chairwoman (04/06/2019) Mr Charles-Éric Bauer (04/06/2019) Mr Renaud Momméja (04/06/2019) |
| CAG-CSR Committee | Ms Sharon MacBeath (20/03/2019) Mr Robert Peugeot (04/06/2019) | Ms Estelle Brachlianoff (04/06/2019) | Ms Dominique Senequier, Chairwoman (04/06/2019); Mr Matthieu Dumas (04/06/2019) |

3.4.10.1 CAG-CSR COMMITTEE

Composition and functioning of the CAG-CSR Committee at 31 December 2019

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 and updates of the Afep-Medef Code and developments in the regulatory environment.

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 financial year

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. His term of office as a member of the Supervisory Board expired on 4 June 2019, which resulted in his resignation from his duties as a member of the CAG-CSR Committee and the Audit and Risk Committee on the same date.

Ms Sharon MacBeath resigned from her office as a member of the Supervisory Board effective 20 March 2019, meaning that she also resigned from her office as a member of the CAG-CSR Committee and the Audit and Risk Committee on the same date.

At its meeting of 4 June 2019 the Supervisory Board:


- ♦ reappointed Ms Monique Cohen (Chairwoman), Mr Charles-Éric Bauer and Mr Renaud Momméja as members of the Audit and Risk Committee;
- ♦ appointed Ms Estelle Brachlianoff and Mr Alexandre Viros as new members of the Audit and Risk Committee;
- ♦ reappointed Ms Dominique Senequier (Chairwoman) and Mr Matthieu Dumas as members of the CAG-CSR Committee;
- ♦ appointed Ms Estelle Brachlianoff as a new member of the CAG-CSR Committee.

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 his opinion in matters of appointments or governance, which was the case in 2019.

The Executive Chairmen are only invited for that part of meetings relating to the compensation of Executive Committee members (excluding the Executive Chairmen).

The CAG-CSR Committee comprised the following members at 31 December 2019:

| 2019 DATA | Personal details | Independence | Date of appointment | Term of office on the Board | Length of service on the Committee | Attendance |
|---|---|--------------|---------------------|-----------------------------|------------------------------------|-------------------------------|
| 7 MEETINGS - 67% INDEPENDENCE - 67% WOMEN |  Dominique Senequier (F) (Chairwoman) Nationality: French 66 years ⁽¹⁾ – 21/08/1953 | ✓ | 04/06/2013 | 2022 GM | 6.5 years | 100.00% |
| | Estelle Brachlianoff (F) Nationality: French 47 years ⁽¹⁾ – 26/07/1972 | ✓ | 04/06/2019 | 2022 GM | 0.5 year | 100.00% |
| | Matthieu Dumas (M) Nationality: French 47 years ⁽¹⁾ – 06/12/1972 | | | 03/06/2008 | 2021 GM | 11.5 years |
| | | | | | AVERAGE ATTENDANCE | 100.00% ⁽²⁾ |

(1) The age indicated is determined as of the date of filing of this Universal registration document, i.e. 25 March 2020.

(2) This figure reflects the average attendance of the members of the Audit and Risk Committee in office as of 31 December 2019, and does not take into account members who left the Committee during the year.

Changes in 2019

| Departures | Appointments | Renewals |
|---|---|---|
| <ul style="list-style-type: none"> The term of office of Mr Robert Peugeot, an independent member of the Supervisory Board of Hermès International since 2007 and member of the Audit and Risk Committee and the CAG-CSR Committee, expired at the end of the General Meeting of 4 June 2019; Ms Sharon MacBeath resigned from her office as a member of the Supervisory Board for personal reasons effective 20 March 2019, meaning that she also resigned from her office as a member of the CAG-CSR Committee. | <ul style="list-style-type: none"> Ms Estelle Brachlianoff was appointed as an independent member of the Supervisory Board at the General Meeting of 4 June 2019 and joined the CAG-CSR Committee. | <ul style="list-style-type: none"> The term of office of Ms Dominique Senequier was renewed at the General Meeting of 4 June 2019. |

Attendance

Details of the attendance of members of the CAG-CSR Committee are provided in section 3.4.6.3 "Attendance" above.

Duties of the CAG-CSR Committee

The CAG-CSR Committee studies and prepares certain proceedings of the Supervisory Board and submits its opinions, proposals or recommendations to the Board. Without prejudice to the powers of the Supervisory Board, which it does not replace, the main duties of the CAG-CSR Committee are as follows:

- tasks relating to compensation (in particular: be consulted on and prepare the Supervisory Board's recommendations to the Executive Management on the terms and conditions of compensation of the members of the Executive Committee, ensure that the compensation of and other commitments made to the Executive Chairmen comply with the Articles of Association and the decisions made by the Active Partner, evaluate the achievement of the indicators comprising the

CSR criterion for the variable compensation of the Executive Chairmen);

- CSR tasks (assist the Supervisory Board in monitoring CSR issues and in monitoring social, non-discrimination and diversity policy);
- governance-related tasks (in particular: manage the annual Supervisory Board evaluation process, recommend, as needed, revisions to corporate governance rules);
- appointment-related tasks (in particular: prepare the Board's proposals to the Active Partner concerning the composition of the Supervisory Board, ensure the existence of succession plans for Corporate Officers and the Chairman of the Supervisory Board).

The details of the various tasks are set out in the Committee's rules of procedure on pages 282 et seq.

Activities of the CAG-CSR Committee in 2019

In 2019, 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. The CAG-CSR Committee was required to examine and/or make recommendations on many subjects, and in particular:

- ◆ to review compliance with the Afep-Medef Code revised in June 2018 of the components of compensation potentially due in the event of the departure of an Executive Chairman;
- ◆ the plan to introduce variable compensation for the Executive Management based on CSR criteria;
- ◆ to present company policy regarding gender equality and equal pay;
- ◆ to review compensation for 2019 of the Hermès International Executive Chairmen and the press release to be put up on the financial website;
- ◆ to review compensation in respect of 2019, bonuses paid in respect of 2018 and target bonuses in respect of 2019 for Executive Committee members;
- ◆ to evaluate 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;
- ◆ three-year formal evaluation of the Supervisory Board to be carried out in 2019 (decision to be taken on whether or not to use an external firm, evaluation process and questionnaire, launch of the evaluation, summary and analysis of findings, areas for improvement);
- ◆ annual review of the succession plan for the Executive Management and the Chairman of the Supervisory Board (in the presence of CAG-CSR Committee members only);
- ◆ annual presentation of sustainable development and corporate social and responsibility issues;
- ◆ non-financial evaluation agencies;
- ◆ end of product life (unsold goods and recycling).

The functioning and work of the CAG-CSR Committee were evaluated in 2019 as part of the three-year formal self-evaluation of the Supervisory Board (see page 247).

5

CONSOLIDATED FINANCIAL STATEMENTS

AFR

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5.1 CONSOLIDATED STATEMENT OF INCOME

| <i>In millions of euros</i> | Notes | 2019 | 2018 restated ¹ |
|--|-------|----------------|----------------------------|
| Revenue | 4 | 6,883.4 | 5,966.1 |
| Cost of sales | 5 | (2,124.9) | (1,791.8) |
| Gross margin | | 4,758.5 | 4,174.3 |
| Selling, marketing and administrative expenses | 6 | (1,815.7) | (1,562.3) |
| Other income and expenses | 7 | (604.0) | (536.7) |
| Recurring operating income | 4 | 2,338.9 | 2,075.3 |
| Other non-recurring income and expenses | 8 | - | 52.7 |
| Operating income | | 2,338.9 | 2,128.0 |
| Net financial income | 9 | (68.6) | (61.8) |
| Net income before tax | | 2,270.3 | 2,066.2 |
| Income tax | 10 | (751.0) | (672.2) |
| Net income from associates | 18 | 15.9 | 16.6 |
| CONSOLIDATED NET INCOME | | 1,535.3 | 1,410.6 |
| Net income attributable to non-controlling interests | 24 | (7.0) | (5.1) |
| NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT | | 1,528.2 | 1,405.5 |
| Earnings per share <i>in euros</i> | 11 | 14.66 | 13.48 |
| Diluted earnings per share <i>in euros</i> | 11 | 14.55 | 13.40 |

(1) Including the impact of IFRS 16 on leases. In accordance with IAS 8, Hermès has applied the new standard on a full retrospective basis, and has restated the financial statements for the period ended 31 December 2018.

N.B. The values shown in the tables are generally expressed in millions of euros.

In certain cases, the effects of rounding up/down can lead to a slight discrepancy in the totals or changes.

5.2 CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| <i>In millions of euros</i> | Notes | 2019 | 2018 restated ¹ |
|---|-------|----------------|----------------------------|
| Consolidated net income | | 1,535.3 | 1,410.6 |
| Changes in foreign currency adjustments ² | 23.4 | 50.1 | 74.8 |
| Future cash flow hedges in foreign currencies ^{2 3} | 23.4 | 2.8 | (76.8) |
| ♦ <i>change in fair value</i> | | (32.9) | (37.6) |
| ♦ <i>recycling through profit or loss</i> | | 35.7 | (39.3) |
| Assets at fair value ³ | 23.4 | - | 27.6 |
| Employee benefit obligations: change in value linked to actuarial gains and losses ³ | 23.4 | (36.0) | 5.5 |
| Net comprehensive income | | 1,552.2 | 1,441.7 |
| ♦ <i>attributable to owners of the parent</i> | | 1,544.4 | 1,436.3 |
| ♦ <i>attributable to non-controlling interests</i> | | 7.7 | 5.5 |

(1) Including the impact of IFRS 16 on leases. In accordance with IAS 8, Hermès has applied the new standard on a full retrospective basis, and has restated the financial statements for the period ended 31 December 2018.

(2) Transferable through profit or loss.

(3) Net of taxes.

5.3 CONSOLIDATED BALANCE SHEET

ASSETS

| <i>In millions of euros</i> | <i>Notes</i> | 31/12/2019 | 31/12/2018 restated¹ | 01/01/2018 restated¹ |
|----------------------------------|--------------|-------------------|--|--|
| Goodwill | 12 | 16.2 | 15.7 | 32.9 |
| Intangible assets | 13 | 184.1 | 142.0 | 131.9 |
| Right-of-use assets | 14.1 | 954.3 | 982.9 | 910.3 |
| Property, plant and equipment | 15 | 1,541.8 | 1,345.4 | 1,283.3 |
| Investment property | 16 | 78.0 | 76.9 | 79.8 |
| Financial assets | 17 | 357.4 | 313.9 | 271.4 |
| Investments in associates | 18 | 79.3 | 75.1 | 72.5 |
| Loans and deposits | 19 | 58.1 | 46.7 | 47.0 |
| Deferred tax assets | 10.3 | 510.8 | 462.4 | 363.5 |
| Other non-current assets | 21 | 10.5 | 15.3 | 29.0 |
| Non-current assets | | 3,790.6 | 3,476.4 | 3,221.6 |
| Inventories and work-in-progress | 20 | 1,132.6 | 963.6 | 896.2 |
| Trade and other receivables | 21 | 317.9 | 280.7 | 255.9 |
| Current tax receivables | 21 | 20.7 | 17.9 | 32.6 |
| Other assets | 21 | 198.6 | 199.4 | 246.8 |
| Financial derivatives | 25.4 | 36.5 | 34.9 | 101.1 |
| Cash and cash equivalents | 22 | 4,384.2 | 3,479.1 | 2,931.9 |
| Current assets | | 6,090.5 | 4,975.5 | 4,464.5 |
| TOTAL ASSETS | | 9,881.1 | 8,451.9 | 7,686.1 |

LIABILITIES

| <i>In millions of euros</i> | <i>Notes</i> | 31/12/2019 | 31/12/2018 restated¹ | 01/01/2018 restated¹ |
|--|--------------|-------------------|--|--|
| Share capital | 23 | 53.8 | 53.8 | 53.8 |
| Share premium | | 49.6 | 49.6 | 49.6 |
| Treasury shares | 23 | (508.8) | (465.2) | (453.6) |
| Reserves | | 5,255.7 | 4,290.1 | 3,983.5 |
| Foreign currency adjustments | 23.2 | 138.7 | 88.0 | 13.5 |
| Revaluation adjustments | 23.3 | 50.9 | 48.0 | 131.4 |
| Net income attributable to owners of the parent | | 1,528.2 | 1,405.5 | 1,226.4 |
| Equity attributable to owners of the parent | | 6,568.1 | 5,469.8 | 5,004.6 |
| Non-controlling interests | 24 | 7.8 | 4.9 | 6.6 |
| Equity | | 6,575.9 | 5,474.7 | 5,011.2 |
| Borrowings and financial liabilities due in more than one year | 25.3 | 29.6 | 27.5 | 23.5 |
| Lease liabilities due in more than one year | 14.2 | 896.0 | 936.7 | 846.4 |
| Non-current provisions | 26 | 29.0 | 16.4 | 19.2 |
| Post-employment and other employee benefit obligations due in more than one year | 28 | 270.0 | 196.0 | 188.2 |
| Deferred tax liabilities | 10.3 | 24.6 | 37.3 | 45.1 |
| Other non-current liabilities | 29 | 32.5 | 46.5 | 84.4 |
| Non-current liabilities | | 1,281.7 | 1,260.4 | 1,206.9 |
| Borrowings and financial liabilities due in less than one year | 25.3 | 20.5 | 22.5 | 30.1 |
| Lease liabilities due in less than one year | 14.2 | 195.6 | 179.3 | 160.4 |
| Current provisions | 26 | 101.4 | 96.3 | 147.1 |
| Post-employment and other employee benefit obligations due in less than one year | 28 | 18.2 | 6.9 | 6.0 |
| Trade and other payables | 29 | 480.4 | 467.0 | 481.0 |
| Financial derivatives due in less than one year | 25.4 | 47.1 | 57.8 | 18.8 |
| Tax liabilities | 29 | 360.1 | 314.6 | 141.1 |
| Other current liabilities | 29 | 800.2 | 572.2 | 483.4 |
| Current liabilities | | 2,023.6 | 1,716.7 | 1,467.9 |
| TOTAL EQUITY AND LIABILITIES | | 9,881.1 | 8,451.9 | 7,686.1 |

(1) Including the impact of IFRS 16 on leases. In accordance with IAS 8, Hermès has applied the new standard on a full retrospective basis, and has restated the financial statements for the periods ended 31 December 2018 and the opening position at 1 January 2018.

NOTE 4 SEGMENT INFORMATION

The information below is shown after consolidation adjustments and eliminations (see Note 1.15).

4.1 Statement of profit or loss by geographical area

| | 2019 | | | | | | | |
|--|---------|-----------------------|-------|--------------------------------|----------|-------|---------|---------|
| <i>In millions of euros</i> | France | Europe (excl. France) | Japan | Asia-Pacific (excluding Japan) | Americas | Other | Holding | Total |
| Revenue | 867.3 | 1,201.9 | 864.0 | 2,589.6 | 1,240.7 | 120.0 | - | 6,883.4 |
| Recurring operating income | 312.7 | 343.6 | 318.5 | 1,079.9 | 427.6 | 33.8 | (177.3) | 2,338.9 |
| Recurring operating profitability by segment | 36.1% | 28.6% | 36.9% | 41.7% | 34.5% | 28.1% | | 34.0% |
| Other non-recurring income and expenses | - | - | - | - | - | - | - | - |
| Operating income | 312.7 | 343.6 | 318.5 | 1,079.9 | 427.6 | 33.8 | (177.3) | 2,338.9 |
| Operating investments | 186.8 | 44.7 | 22.2 | 128.1 | 75.0 | - | 21.1 | 478.0 |
| Non-current assets ¹ | 1,124.8 | 420.1 | 202.6 | 602.9 | 521.1 | 33.2 | 27.9 | 2,932.6 |

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

| | 2018 restated | | | | | | | |
|--|---------------|-----------------------|-------|--------------------------------|----------|-------|---------|---------|
| <i>In millions of euros</i> | France | Europe (excl. France) | Japan | Asia-Pacific (excluding Japan) | Americas | Other | Holding | Total |
| Revenue | 802.2 | 1,106.5 | 748.3 | 2,142.4 | 1,058.6 | 108.1 | - | 5,966.1 |
| Recurring operating income | 277.4 | 310.8 | 272.8 | 967.2 | 380.3 | 21.9 | (155.1) | 2,075.3 |
| Recurring operating profitability by segment | 34.5% | 27.7% | 36.8% | 44.3% | 35.9% | 12.2% | | 34.3% |
| Other non-recurring income and expenses | - | - | - | 52.7 | - | - | - | 52.7 |
| Operating income | 277.4 | 310.8 | 272.8 | 1,019.9 | 380.3 | 21.9 | (155.1) | 2,128.0 |
| Operating investments | 153.1 | 28.8 | 17.5 | 43.2 | 52.3 | - | 17.5 | 312.3 |
| Non-current assets ¹ | 959.2 | 393.2 | 182.7 | 522.9 | 493.7 | 32.2 | 125.0 | 2,708.9 |

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

4.2 Revenue

Distribution of revenue by *métier* is as follows:

| <i>In millions of euros</i> | 2019 | 2018 | Change at current exchange rate | Change at constant exchange rate |
|-------------------------------|----------------|----------------|---------------------------------|----------------------------------|
| Leather Goods & Saddlery | 3,414.3 | 2,975.8 | 14.7% | 11.3% |
| Ready-to-wear and Accessories | 1,574.2 | 1,310.4 | 20.1% | 17.1% |
| Silk and Textiles | 592.5 | 536.9 | 10.3% | 7.5% |
| Other Hermès sectors | 524.9 | 424.7 | 23.6% | 20.4% |
| Perfumes | 325.9 | 311.7 | 4.6% | 4.1% |
| Watches | 193.4 | 168.6 | 14.7% | 11.6% |
| Other products | 258.2 | 238.0 | 8.5% | 7.0% |
| REVENUE | 6,883.4 | 5,966.1 | 15.4% | 12.4% |

NOTE 27 EMPLOYEES

A geographical breakdown of the workforce is as follows:

| | 31/12/2019 | 31/12/2018 |
|--------------------------|-------------------|-------------------|
| France | 9,522 | 8,846 |
| Europe (excl. France) | 1,652 | 1,510 |
| Other geographical areas | 4,243 | 3,928 |
| TOTAL | 15,417 | 14,284 |

The breakdown by category is as follows:

| | 31/12/2019 | 31/12/2018 |
|--|-------------------|-------------------|
| Production | 7,053 | 6,572 |
| Sales | 5,828 | 5,440 |
| Other (design, communication and administration) | 2,536 | 2,272 |
| TOTAL | 15,417 | 14,284 |

Employee expenses in 2019 totalled €1,253.7 million, compared with €1,126.3 million in 2018.



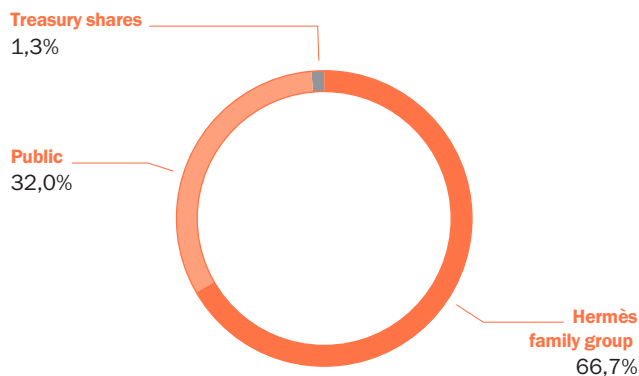
INFORMATION ON THE COMPANY AND ITS SHARE CAPITAL

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7.2.2.5 OWNERSHIP OF SHARE CAPITAL AND VOTING RIGHTS AS AT 31 DECEMBER 2019

BREAKDOWN OF THE SHAREHOLDERS AT 31 DECEMBER 2019



As at 31 December 2019 and to the Company's knowledge, the distribution of the share capital and voting rights of the Company was as follows:

| | Voting rights ¹ | | | | | |
|---|----------------------------|--------------|--------------------------|--------------|--------------------|--------------|
| | Share capital | | Allocation of net income | | Other | |
| | Number | % | Number | % | Number | % |
| H51 | 57,233,054 | 54.2 | 112,738,020 | 63.8 | 112,738,020 | 63.8 |
| H2 | 7,012,602 | 6.6 | 13,888,704 | 7.9 | 13,888,704 | 7.9 |
| Other members of the Hermès family group | 6,167,629 | 5.8 | 7,962,403 | 4.5 | 12,042,403 | 6.8 |
| Sub-total Hermès family group ² | 70,413,285 | 66.7 | 134,589,127 | 76.1 | 138,669,127 | 78.5 |
| Public ^{3 4 5} | 33,794,498 | 32.0 | 42,157,765 | 23.9 | 38,077,765 | 21.5 |
| Treasury shares | 1,361,629 | 1.3 | - | 0.0 | - | 0.0 |
| TOTAL | 105,569,412 | 100.0 | 176,746,892 | 100.0 | 176,746,892 | 100.0 |

(1) Voting rights that can be exercised in the General Meeting. In accordance with Article 12 of the Articles of Association of the Company, the voting right is exercised by the bare owner for all decisions taken by all General Meetings, except for decisions concerning the allocation of net income, for which the voting right is exercised by the usufructuary. The procedures for publication and allocation of voting rights are detailed on page 388.

(2) The definition of the Hermès family group is on page 458.

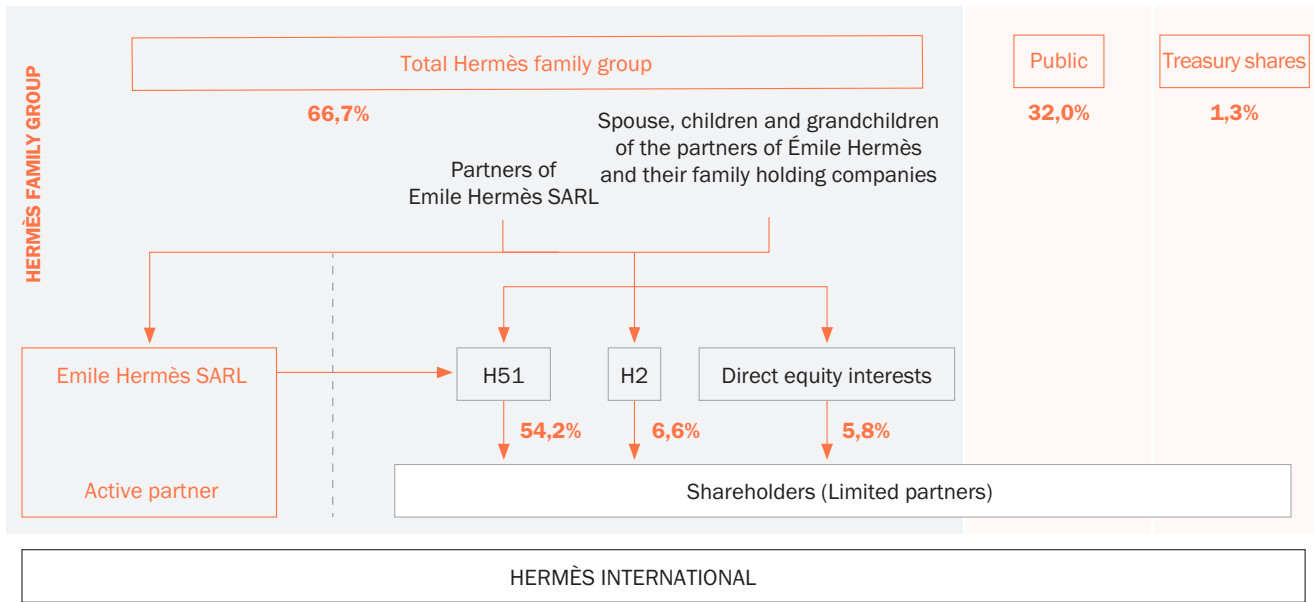
(3) These amounts correspond to all of the shares and voting rights in circulation, reduced by the number of shares and voting rights declared by the identified shareholders as mentioned in this table.

(4) Including the Arnault family group. Refer to the threshold-crossing declaration of 11 July 2017 on page 392.

(5) Mr Nicolas Puech did not indicate the number of shares he held in Hermès International as of 31 December 2019.

These figures result for the registered shares on the register kept by the BP2S Securities service and for the bearer shares, from the declarations, where applicable, of those in question.

Changes occurring after closure of the financial year are detailed on page 393.



7.4 STOCK MARKET INFORMATION

7.4.1 SUMMARY OF STOCK MARKET INFORMATION

| (Source Bloomberg) | 2019 | 2018 | 2017 |
|--|----------------------|----------------|----------------|
| Number of shares as at 31 December | 105,569,412 | 105,569,412 | 105,569,412 |
| Average number of shares (excluding treasury shares) | 104,233,233 | 104,227,077 | 104,435,755 |
| Market capitalisation as at 31 December | €70.33 billion | €51.18 billion | €47.11 billion |
| Earnings per share (excluding treasury shares) | €14.66 | €13.48 | €11.70 |
| Dividend per share | €5.00 ⁽¹⁾ | €4.55 | €9.10 (2) |
| Average daily volume (Euronext) | 54,467 | 72,725 | 62,593 |
| 12-month high share price | €689.20 | €614.60 | €468.30 |
| 12-month low share price | €462.40 | €417.90 | €386.30 |
| 12-month average share price | €607.44 | €509.85 | €433.02 |
| Share price as at 31 December | €666.20 | €484.40 | €446.25 |

(1) Subject to approval by the Ordinary General Meeting of 24 April 2020. An interim dividend of €1.50 was paid on 5 March 2020.

(2) Corresponds to an ordinary dividend of €4.10 and an exceptional dividend of €5.

7.4.3 HERMÈS SHARE PRICE HISTORY

Hermès International entered the CAC 40 on 7 June 2018, evidencing the strength of its business model.

In euros



9

ADDITIONAL INFORMATION

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| 139 | | manage waste | 2.5.3 |
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| 152 | | assist suppliers | 2.6.2 |
| 162 | Communities: stakeholders and local integration | regional responsibility in France | 2.7.1 |
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| 174 | | Ethics and compliance | 2.8 |
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| 93 | Promote diversity | Maintain diversity | 2.2.2 |
| 162 | Societal commitments | Regional responsibility in France | 2.7.1 |
| 166 | | A responsible company | 2.7.2 |
| 95 | Disability | Maintain diversity | 2.2.2.2 |
| 150 | | Use of socially supported organisations | 2.6.1 |
| | Environmental consequences of the activity | | |
| 133 | Climate change | Control our greenhouse gas emissions | 2.5.2 |
| 137; 145; 170 | | Livelihoods | 2.5.2.2; 2.5.4.2; 2.7.2.3 |
| 133 | | Use of renewable energies | 2.5.1.2 |
| 116 | Circular economy | Manage materials sparingly throughout their life cycle, reduce waste | 2.4.2 |
| 112 | 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. | |

| Page | Heading | Chapter | Chapter |
|---|--|--|----------|
| | Respect for responsible, fair and sustainable food | In view of the Group's activities, this subject has not been identified as a CSR risk. | |
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Hermès International

24, rue du Faubourg Saint-Honoré – 75008 Paris.

Tel.: + 33 (0)1 40 17 44 37

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Illustration credits

Page 5, 197, 198, 199, 202 : Valérie Archeno

Page 15 : Olivier Metzger 1, Edouard Caupeil 2

Page 99 : Benoît Teillet

Page 111 : Christophe Bornet

Page 205 : Olivier Metzger

Page 213, 215, 217, 219, 221, 222, 223, 225, 226, 228, 229, 231, 232, 233, 235, 250, 252 : Edouard Caupeil

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