



# HERMÈS

2013 ANNUAL REPORT  
EXTRACTS FROM THE SHELF-REGISTRATION DOCUMENT

The page numbers referenced hereinafter refer to Volume 2 of the 2013 annual report

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## Corporate governance – Report from the Chairman of the Supervisory Board

on the corporate governance principles applied by the Company, on the composition of the Supervisory Board and on the application of the principle of gender parity within it, on the conditions for preparation and organisation of the Supervisory Board's work and on the internal control and risk management procedures instituted by the Company

In accordance with the regulatory provisions and with the recommendations issued by the AMF (Financial Markets Authority), we hereby submit our report on the corporate governance principles applied by the Company, on the composition of the Supervisory Board (hereinafter “the Board”) and the application of the principle of balanced representation of women and men within the Board, on the conditions for preparation and organisation of the Supervisory Board's work and on the internal control procedures instituted by the Executive Management.

The present report has been prepared by the Chairman of the Supervisory Board with the help of the Compensation, Appointments and Governance Committee, hereinafter the “CAG Committee” (part relative to corporate governance), of the Audit Committee (part relative to internal control), of the Board secretary and of the functional departments in question. It was approved by the Board during its meeting on 19 March 2014.

### Corporate governance code

#### • Corporate governance principles

Corporate governance principles applied Since 2009, the Supervisory Board has officially adopted the latest version of the AFEP/MEDEF recommendations on corporate governance, revised in June 2013, as it deemed these recommendations to be entirely in keeping with the Group's corporate governance policy.

#### • Provisions of the AFEP/MEDEF corporate governance code, revised in June 2013, that were set aside and explanations

##### *Severance pay (art. 23.2.5)*

REGARDING MR. PATRICK THOMAS

The Company had agreed to pay Mr. Patrick Thomas an amount equal to 24 months' compensation in the event that his appointment as Executive Chairman is terminated for certain reasons other than his resignation.

Mr. Patrick Thomas resigned from his duties as Executive Chairman of the company as of 31 January 2014, which did not result in his entitlement to the payment of this severance pay, which is therefore non-applicable.

REGARDING MR. AXEL DUMAS

The company had agreed to pay Mr. Axel Dumas an amount equal to 24 months of overall compensation (compensation under the articles of association and supplemental compensation) in case of cessation of his duties as Executive Chairman for reasons other than resignation, subject to meeting certain performance criteria over 5 financial years. This commitment, the provisions of which are identical with the one given to Mr. Patrick Thomas, was approved by the Supervisory Board during its meeting on 4 June 2013 and will be the subject of a resolution (10th) during the next General meeting pursuant to Article L 225-40 of the *Code de commerce*.

The payment of this severance pay is contingent upon termination of the appointment as Executive Chairman resulting:

- either from a decision taken by Mr. Axel Dumas by reason of a change of control over the Company, a change in the Executive Chairman of Émile Hermès SARL, which is an Executive Chairman of the Company, or a change in the Company's strategy; or;
- from a decision taken by the Company.

The Supervisory Board considered that the deferred compensation commitment made for the benefit of Mr. Axel Dumas complies with the requirements of the AFEF/MEDEF corporate governance code.

*Non-competition compensation (art. 23.2.5)*

When Mr. Patrick Thomas informed the other Executive Chairmen of his desire to resign from his duties on 31 January 2014, the latter wished to obtain a non-competition commitment from him. The Management Board of the company Émile Hermès SARL, during its meeting on 19 November 2013, approved this principle and the terms of the agreement whereby Mr. Patrick Thomas assumes a commitment lasting for 10 years in exchange for the payment of annual inclusive compensation equal to €966,300 in each of the years 2014, 2015, 2016 and 2017. The Supervisory Board authorised this agreement during its meeting on 20 November 2013 as part of the procedure on related-party agreements.

The Supervisory Board considered that it was necessary to protect the company’s legitimate interests, while respecting Mr. Patrick Thomas’ situation.

The simultaneous nature of the signing of this non-competition commitment and of Mr. Patrick Thomas’ departure excluded any possibility of an opt-out provision.

Similarly, as this agreement has just been signed, it was not necessary for the Supervisory board to once again give a ruling on its application at the time of Mr. Patrick Thomas’ departure.

*Criteria for Supervisory Board members to qualify as independent (art. 9.4)*

Because of the ownership structure of the Company, which is majority-owned by direct descendants of Mr. Émile Hermès, several years

ago, the Supervisory Board decided that it would be advisable for it to include members who are not related to the Hermès family.

Given the characteristics of a *société en commandite par actions* (partnership limited by shares) under the law and under the articles of association, and due to the complexity of the Hermès Group’s business activities, the Supervisory Board had decided that length of service was a key criterion in assessing Supervisory Board members’ competency and knowledge of the Group, and that they could not therefore be disqualified as independent members based on this criterion.

Based on a proposal from the CAG Committee, the Supervisory Board decided, during its meeting on 14 November 2012, to review the application procedure of the seniority criterion (12 years) used to qualify the independence of the Supervisory Board members as of 2013. The only Supervisory board member whose term lasted for more than 12 years was Mr. Ernest-Antoine Seillière, whose term has ended and will not be renewed. Since the General meeting on 4 June 2013, no Board member has therefore been in office for more than 12 years.

With respect to Mr. Maurice de Kervénoaël, on the recommendation of the CAG Committee, the Supervisory Board deemed that the fact that Mr. Maurice de Kervénoaël serves as a Director within the Comptoir Nouveau de la Parfumerie, a Company subsidiary, did not call his independence into question. This matter will no longer have to be re-examined since the term of Mr. Maurice de Kervénoaël will be ending at the time of the General meeting on 3 June 2014, and he does not wish to put forward his name again.

*Proportion of independent members  
on the Audit Committee (art. 16.1)*

The Board determined that while slightly less than two-thirds (60%) of Audit Committee members are independent directors, this situation was not detrimental to the Committee's operation.

Indeed, in the Audit Committee rules of procedures, which were adopted on 24 March 2010, the Supervisory Board stipulates that at least one-half of the seats on the Audit Committee should be held by directors who qualified as independent at the time of their appointment and throughout their term of office.

It is nevertheless the objective of the Supervisory Board, as part of the assignment concerning evolution of the Board's composition, to appoint a new independent member to the Audit committee before 2017, which would serve to increase the proportion of independent Audit committee members to two-thirds before 2017.

*Balanced representation of female and male  
members of the Supervisory Board (art. 6.4)*

The Supervisory board has set objectives for the evolution of its composition that comply with the deadlines set down by the law of 13 January 2011, i.e. at least 20% for each sex on 1 January 2014 and at least 40% on 1 January 2017, rather than the deadlines included in the AFEP/MEDEF corporate governance code (2013 and 2016), for practical implementation reasons having to do with the dates of its general meetings.

The 20% objective defined by law had already been reached by Hermès International between 2010 and 2012, and has once again been reached since 4 June 2013.

A proposal is made to the General meeting of 3 June 2014 to continue the feminization of the

Board's composition by appointing Mrs. Monique Cohen, which will serve to increase the proportion of female Board members to 36.36%.

**• Corporate governance measures adopted  
in 2013 and 2014**

On 23 January 2013, the Supervisory Board took note of and/or approved the conclusions of the work of the CAG Committee relative to:

- the analysis of the individual situation of the members of the Supervisory Board and of the Executive Chairmen with regard to the plurality of offices;
- the annual examination of possible conflicts of interest of the Supervisory Board members;
- the annual examination intended to identify members of the Audit committee that have particular skills in financial or accounting fields;
- the verification of the compliance of the Supervisory Board members relative to the holding threshold of 200 registered shares;
- the update of the Supervisory Board's master file;
- the self-assessment of the work of the Compensation, Appointments and Governance Committee;
- the progress of the assignment concerning evolution of the Board's composition.

On 20 March 2013, the Supervisory Board took note of and/or approved the conclusions of the work of the CAG Committee relative to:

- the review of the report from the chairman of the Supervisory Board on the corporate governance principles implemented by the Company, and reporting on the composition of the Board and the application of the principle of balanced representation of women and men within the Board, on the conditions for preparing and organising the work of the Supervisory Board as well as on the internal

control and risk management procedures implemented by the Company;

- the update of the CAG Committee's rules of procedure;
- the verification of the compliance of the Supervisory Board members relative to the holding threshold of 200 registered shares;
- the examination of the Active Partner's proposals regarding the appointment/renewal of the terms of the Supervisory Board members at the time of the Hermès International General Meeting on 4 June 2013;
- the examination of potential conflicts of interest.

On 4 June 2013, the Supervisory Board:

- appointed a new vice-chairman of the Supervisory Board;
- renewed the terms of the Audit Committee members and chairman;
- renewed the terms of the CAG Committee members and appointed a new chairman;
- gave a favourable opinion regarding the appointment of Axel Dumas as Executive Chairman by the Active Partner;
- provided the new members with the Supervisory Board's master file.

On 26 June 2013, the Supervisory Board took note of and/or approved the conclusions of the works of the CAG Committee relative to:

- the update of the Supervisory Board's master file;
- the situation of the Supervisory Board members relative to the objectivity and independence criteria contained in the Supervisory Board's rules of procedure and confirmed that their situation had not changed;

- the specific financial or accounting skills of the Audit committee members, and confirmed that their situation had not changed;
- the compliance of the new Supervisory Board members with the holding threshold of 200 shares;
- the progress of the assignment concerning evolution of the Board's composition.

On 29 August 2013, the Supervisory Board took note of and/or approved the conclusions of the works of the CAG Committee relative to:

- the analysis of the practices of Hermès International in view of the changes to the AFEP/MEDEF corporate governance;
- formal assessment of the Supervisory Board to be performed in 2013;
- the progress of the assignment concerning evolution of the Board's composition.

During the same meeting, the Supervisory Board took note of the resignation of Mr. Patrick Thomas from his position as Executive Chairman as of 31 January 2014.

On 20 November 2013, the Supervisory Board took note of and/or approved the conclusions of the work of the CAG Committee relative to:

- the progress of the assignment concerning evolution of the Board's composition;
- the method for appointing future Supervisory Board members representing the employees;
- the analysis of the results of the 3-year assessment of the Board's works;
- a new distribution method for the directors' fees by board member to apply since 2014;
- the update of the Supervisory board's rules of procedure.

During the same meeting, the Supervisory Board provided the members with the 2014 calendar of negative windows, and reiterated their responsibility concerning holding inside information.

On 22 January 2014, the Supervisory Board took note of and/or approved the conclusions of the work of the CAG Committee relative to:

- the progress of the assignment concerning evolution of the Board’s composition;
- the analysis of the individual situation of the members of the Supervisory Board and of the Executive Chairmen with regard to the plurality of offices;
- the annual examination of possible conflicts of interest of the Supervisory Board members;
- the annual examination intended to identify members of the Audit committee that have particular skills in financial or accounting fields;
- the verification of the compliance of the Supervisory Board members relative to the holding threshold of 200 registered shares;
- the self-assessment of the work of the Compensation, Appointments and Governance Committee;
- the update of the Supervisory Board’s master file.

On 19 March 2014, the Supervisory Board took note of and/or approved the conclusions of the work of the CAG Committee relative to:

- the review of the report from the chairman of the Supervisory Board on the corporate governance principles implemented by the Company, and reporting on the composition of the Board and the application of the principle of balanced representation of women and men within the Board, on the conditions for preparing and organising the work of the Supervisory Board as well as on the internal

control and risk management procedures implemented by the Company;

- the review of the chapters of the shelf-registration document on corporate governance and executive compensation (management report) and of the description of the proposed resolutions relative to the advisory opinion (“Say on Pay”) regarding the compensation of directors;
- the update of the Supervisory Board’s master file;
- the creation of an orientation and training procedure for new Board members;
- the examination of the Active Partner’s proposals regarding the appointment/renewal of the terms of the Supervisory Board members at the time of the Hermès International General Meeting on 3 June 2014;
- the examination of potential conflicts of interest.

During the same meeting, the Supervisory Board decided to include, on the agenda of board meetings on a regular basis as of 2015, issues pertaining to sustainable development as well as social and environmental responsibility.

During each meeting, the CAG Committee informed the Supervisory Board of current events relating to governance (AMF reports, AFEP/MEDEF reports, IFA studies, etc.).

## Conditions for preparing and organising the Board’s work

### • Composition of the Supervisory Board – Application of the principle of balanced representation of women and men within the Board – Proportion of employee representatives

The Supervisory Board currently has 11 eleven members: Mr. Éric de Seynes, chairman, Mrs. Dominique Senequier and Mr. Maurice de Kervénoaël, deputy chairmen, Mr. Charles-Éric Bauer, Mr. Matthieu Dumas, Mr. Blaise Guerrand, Mrs. Julie Guerrand, Mr. Renaud Momméja, Mr. Robert Peugeot Mr. Nicolas Puech and Mrs. Florence Woerth.

All of the Supervisory Board members are of French nationality.

From amongst its members, the Supervisory Board appoints two deputy chairmen, currently Mrs. Dominique Senequier and Mr. Maurice de Kerve-noaël. The articles of association indicate that in case of the chairman’s absence, his duties will be performed by the older of the two deputy chairmen. Mrs. Nathalie Besombes, company law and stock market director, provides the Board’s secretariat under the chairman’s control.

In 2011, the CAG Committee was directed to provide the Supervisory Board with recommendations regarding the change of the Board’s composition, with the objective of reaching a proportion of at least 40% from each sex within the composition of the Supervisory Board by 2017.

The CAG Committee organised its task into three steps in order to provide the Supervisory Board with recommendations.

The Chairman of the Supervisory Board and the

Executive Chairmen participated in the efforts of the CAG Committee with regard to appointments.

### 1. Definition of a “target Supervisory board”

This step was carried out in late 2011 and early 2012. To this end, the Board’s secretary, working with the Board chairman and the chairman of the CAG Committee, prepared a “roadmap” on the basis of the work of the Institut français des administra-teurs (IFA), while also including a review of the applicable rules and regulations.

The CAG Committee presented its recommenda-tions to the Supervisory Board, that then decided on the following:

- optimal size (number of board members): the Board’s current size is compliant with the marketplace recommendations and is currently satisfactory;
- age limit: the current statutory rule (no more than one third of the number of board members can be over the age of 75 years) is satisfactory;
- number of women: to reach the objectives indi-cated above, 2 men will have to be replaced by 2 women within the Board by 2017;
- number of “independent” members: the current proportion of more than one-third independent members according to the criteria used by the Company will be maintained;
- missing typical talents/profiles needed to improve the Board’s operation: the applications will be assessed based on various criteria relating to the specific features of the Hermès house.

### 2. Shortlist, with the help of an external expert, of people likely to correspond with the identified needs

This step was carried out in 2012 and in early 2013. After examining proposals from several recruiting

consulting firms, the CAG Committee selected a major firm that has a good knowledge of Hermès, and directed it to identify potential candidates for joining the Supervisory Board on the basis of the target objectives described above.

The members of the Émile Hermès SARL Supervisory board and Management board were also asked to submit proposed candidacies.

In 2012 and 2013, the CAG Committee received several applications and decided to only have the selected recruiting consulting firm review the female applications, in view of the objective of attaining the target of 40% of each sex in 2017.

### *3. Setting of the calendar for changing the composition of the Supervisory Board*

After examining a table of the ending dates of the terms, several scenarios were considered for the purpose of changing the Board's composition as desired and within the allotted time.

It has been decided that a new independent female Board member, namely Mrs. Dominique Senequier, will be appointed as of 2013 to replace for Mr. Ernest-Antoine Seillière, who does not wish to stand again.

In 2013 and early 2014, the Supervisory Board continued with its search for a woman to join the Board.

### *Progress of the assignment in 2014*

Based on a detailed report and an oral presentation from the firm, the CAG Committee provided a new list of candidates, and several CAG Committee members were directed to meet with them individually, along with the chairman of the Supervisory Board.

In March 2014, the CAG Committee discussed the results of these interviews and decided to recommend the application of Mrs. Monique Cohen.

This application was submitted to the Émile Hermès SARL Management board and to the Supervisory Board, which unanimously decided to propose her appointment to the 2014 General Meeting, as this would serve to increase the percentage of women on the Board to 36.36%.

The information about Mrs. Monique Cohen is provided on pages 266 and 267.

The process is ongoing, with the aim of continuing with the efforts to balance the Board's composition in accordance with the criteria described above in the coming years.

The Supervisory Board currently includes no member representing the employees. Given the implementation of the law of 14 June 2013 relative to safeguarding employment, it is proposed to the General Meeting of 3 June 2014 that it should modify Article 18 of the articles of association so as to include provisions for Supervisory Board members representing the employees.

The Supervisory Board would meet after the Meeting on 3 June 2014 consisting of eleven members. A single Supervisory board member representing the employees must therefore be assigned this year. This appointment must occur before 3 December 2014, provided that the modification of the articles of association resolution is passed.

### **• Criteria for qualifying a Supervisory Board member as an “independent” – management of conflicts of interest - plurality of offices**

The criteria for qualifying a Supervisory Board member as an “independent”, which were formally adopted by the Supervisory Board in 2009, are the following:

– they may not be a partner or member of the Management Board of Émile Hermès SARL, Active Partner;

– they must comply with the criteria set out in Article 9.4 of the AFEP/MEDEF Code of Corporate Governance, including the criterion pertaining to length of service that has been respected by the General meeting since 4 June 2013. In 2013, the Board examined the situation of each of its members in the light of the aforesaid criteria, on a case-by-case basis, and determined that four directors qualified as “independent”: Mrs. Dominique Senequier and Mrs. Florence Woerth, Messrs. Maurice de Kervénoaël and Robert Peugeot.

A summary table describing each Supervisory Board member’s situation is provided on page 24. The Board resolved that one-third of the Supervisory Board members should be independent members. This proportion is observed.

In particular, the Board identified no significant business relationship between the people and the Company. This analysis is performed each year on the basis of a detailed questionnaire that is sent to all Supervisory Board members, in which they are asked to make a sworn statement regarding any situations that could constitute a potential conflict of interest. Moreover, the Supervisory Board ethics charter indicates that “a Supervisory Board member must strive to avoid any conflict that could exist between his/her moral or material interests, and those of the company. He shall inform the Supervisory Board of any conflict of interests in which he might be involved. In cases in which he cannot avoid being in a position of conflict of interests, he shall refrain from taking part in the discussions and any decision on the matters concerned”.

The analysis of the individual situation of each of the Supervisory Board members and of the Executive Chairmen with regard to the rules on the plurality of offices indicated that no Board member or

Executive Chairman holds multiple offices, both with regard to the legal rules and the principles set down by Article 19 of the AFEP/MEDEF corporate governance code (not holding more than four other corporate offices in companies outside of the Group, with the exception of companies for which the main activity is the acquisition and management of equity interests).

▪ **Duration and staggering of the terms of office**

Article 18.2 of the articles of association stipulates that Supervisory Board members are appointed for a term of three years. Since the General Meeting of 2 June 2009, the Company has established a provision whereby one-third of Supervisory Board members stand for re-election each year.

• **Operation of the Supervisory Board – Rules of procedure - Ethics charter**

The Supervisory Board’s rules of procedure, that have existed since 18 March 2009, and the last version of which were approved by the Supervisory Board on 20 November 2013, is provided in its entirety in page 40.

These rules of procedure include an obligation for the Supervisory Board members to own a relatively significant number of registered shares (200 shares). On 22 January 2014, the Supervisory Board determined that all Board members were meeting this obligation.

The Supervisory Board ethics charter, that has existed since 26 January 2011, and the last version of which was approved by the Supervisory Board on 25 January 2012, is reproduced in its entirety on page 46.

## Corporate governance – Report from the Chairman of the Supervisory Board

Summary table describing the situation (compliance or not) on 31/12/2013 of the Supervisory Board members in view of the criteria contained in the AFEP/MEDEF corporate governance code in order to define the independence of Supervisory Board members											
	Charles-Éric Bauer	Matthieu Dumas	Blaise Guerrand	Julie Guerrand	Maurice de Kervénoaël	Renaud Momméja	Robert Peugeot	Nicolas Puech	Éric de Seynes	Dominique Senequier	Florence Woerth
<b>Independence criteria of the AFEP/MEDEF corporate governance code, revised in June 2013 (art. 9.4)</b>											
Not being an employee or corporate officer of the Company, an employee or board member of its parent company or of a company that it consolidates, and not having been one in the previous five years.	No	No	No	No	No	No	Yes	Yes	No	Yes	Yes
Not being a corporate officer director of a company in which the Company directly or indirectly holds a board member's position or in which an employee designated as such or a corporate officer of the Company (currently or having served as one within the last five years) is serving as a board member.	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Not being a customer, or, business banker or financing banker: – that is significant for the company or its group; – or for which the company or its group represents a significant share of the business.	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Not having close family ties with a corporate officer.	No	No	No	No	Yes	No	Yes	No	No	Yes	Yes
Not having been the company's auditor during the previous five years.	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Not having been a board member of the company for more than 12 years.	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
<b>Hermès International additional independence criterion</b>											
Not being a partner or member of the Management Board of Émile Hermès SARL, Active Partner.	No	No	No	No	Yes	No	Yes	Yes	No	Yes	Yes
<b>Conclusion</b>	Non independent	Non independent	Non independent	Non independent	<b>Independent</b> <sup>(1)</sup>	Non independent	<b>Independent</b>	Non independent	Non independent	<b>Independent</b>	<b>Independent</b>

(1) Concerning Mr Maurice de Kervénoaël, the Supervisory Board, upon the recommendation of the RNG Committee, considered that the 2010 transformation of the Comptoir Nouveau de la Parfumerie into a public limited company with a board of directors, in which Mr Maurice de Kervénoaël is a director, did not call his independence into question. This situation shall be regularised at the Annual General Meeting of 03 June 2014, seeing as the term of office of Mr Maurice de Kervénoaël shall expire and he does not wish to stand for office again.

Attendance at Supervisory Board meetings in 2013			
Member of the Board	Attendance	Applicable number of meetings	Individual attendance rate
Mr Éric de Seynes	7	7	100%
Mr Maurice de Kervénoaël	7	7	100%
Mr Ernest-Antoine Seillière	2	2	100%
Mr Charles-Éric Bauer	7	7	100%
Mr Matthieu Dumas	7	7	100%
Mr Blaise Guerrand	7	7	100%
Mrs Julie Guerrand	7	7	100%
Mr Renaud Momméja	7	7	100%
Mr Robert Peugeot	7	7	100%
Mr Nicolas Puech	2	7	29%
Mrs Dominique Senequier	5	5	100%
Mrs Florence Woerth	7	7	100%
<b>Average</b>			<b>94%</b>

Since 2011, a “master file” has been provided to the Supervisory Board. This master file currently contains the following headings:

- list and contact details of the Executive committee members, of the Supervisory Board members and of the Board’s committee and secretary;
- professional background of the Supervisory Board members;
- summary table of the ending dates of the terms of office;
- Supervisory Board rules of procedure;
- Audit committee rules of procedure;
- Compensation, Appointments and Governance Committee rules of procedure;
- Supervisory Board ethics charter;
- explanatory memo on the list of insiders;
- calendar of negative windows;
- regulations relative to the declaration and direct registration obligations of the directors;
- rules on the reimbursement of expenses;
- presentations of Hermès International and Émile Hermès SARL;
- articles of association with comments;

- summary of the civil liability of the corporate officers.

This master file is updated on a regular basis.

The Statutory Auditors and the Works Council representatives are systematically invited to attend all Supervisory Board meetings. According to the articles of association, the Supervisory Board meets at least twice each year.

In fiscal 2013, the Supervisory Board met 7 times with the regular presence of almost all of its members, resulting in an average attendance rate of 94%, as shown in the above table.

Furthermore, as in previous years, the Chairman of the Supervisory Board was invited to attend all meetings of the Management Board of Émile Hermès SARL.

To ensure that Supervisory Board meetings are held in due and proper form, a file containing background documents on matters appearing on the agenda is sent out to each Supervisory Board member prior to each meeting and, since 2011, at least 48 hours beforehand, insofar as possible.

Persons who are not Board members, in particular members of the Executive Committee and of the Management Committee, may be invited to attend Board meetings at the Chairman's discretion to provide any information that members of the Board might require to reach a full understanding of matters on the agenda that are technical in nature or require special expertise.

Since 2011, the Board has occasionally been required to travel to various sites in order to further its knowledge of one of the Group's particular subsidiaries.

As such, in 2011, the Board visited the leather goods and silk printing site in Pierre-Bénite.

In 2012, the Board visited the Cristalleries de Saint-Louis subsidiary, where it was given a presentation of this company's activity and results, as well as a tour of the manufacturing site (cold and hot, golden decoration, paper press workshop). This day ended with a visit to "La Grande Place" the Cristal Saint-Louis museum, that presents a collection that is unique in the world, showcasing the results of the expertise and mastery of the most elaborate decorative techniques of the Cristalleries de Saint-Louis.

In 2013, the Board visited the Puiforcat workshops and archives. That same day, the Board travelled to the new Cité des métiers Hermès in Pantin, where it was provided with a presentation on the human resources and organisational consequences of the relocation, as well as a presentation on the real estate project. The Board members then carried out a complete visit of the site.

Minutes are drawn up at the end of each meeting and sent to all Board members, who are invited to comment. Any comments are discussed at the next Supervisory Board meeting, which approves the final text of the minutes of the previous meeting.

#### • **Role of the Supervisory Board**

The primary role of the Supervisory Board of a limited partnership with share capital is to maintain on-going control over the Company's management in accordance with the law and with the articles of association.

In this respect, the Supervisory Board is responsible for assessing the advisability of strategic choices; monitoring the correctness of Executive Management's actions; ensuring equal treatment of all shareholders; and verifying the procedures implemented by the Company to ensure the fairness and accuracy of the parent company and consolidated financial statements.

To fulfil these obligations, every year, the Supervisory Board presents any comments it may have on the parent-company and consolidated financial statements, decides on the proposed appropriation of net income, and provides all recommendations and authorisations.

The Supervisory Board has delineated the due diligence procedures it carried out during the year ended 31 December 2013 in a report presented to the Annual General Meeting called to approve the financial statements (page 268).

The functions exercised by the Supervisory Board do not entail any interference with the executive Management, or any liability arising from the management's actions or from the results of such actions.

As an extra-statutory mission, the rules of procedure call for the Supervisory Board to approve or refuse an executive chairman's acceptance of any new appointment within a listed company.

#### • **Assessment of the Supervisory Board**

Given the progress made by the Company in recent years in governance terms, in 2011, the Supervisory Board decided to only carry out a questionnaire-

based self-assessment every 3 years, in addition to an annual review of the Board's work that would be included in the agenda of a Board meeting.

In late 2013, the CAG Committee performed its formal 3-years self-assessment after having thoroughly updated its assessment questionnaire. A question now remains as to each member's actual contribution to the Board's works. This questionnaire also proposes that Board members wishing to do so could meet with the chairman of the RNG Committee for an individual interview, that would be more propitious for discussions and also for a more in-depth look at certain answers to the questionnaire. The CAG Committee reviewed proposals from three firms specialising in governance or in Board assessments. The CAG Committee considered that the review of the assessment questionnaire was sufficient in order to progress with the Board's assessment process. Also, for confidentiality reasons, it preferred not to provide Board-related information to a third party.

It therefore decided not to turn to an external firm for the formal assessment of the Board.

An anonymous and global compilation of the analysis of the responses to the questionnaires was carried out by the CAG Committee chairman during the Supervisory board meeting on 20 November 2013.

The analysis of the assessment results indicated that nearly all of the axes for improvement identified during the formalized assessment in 2010, and during the last annual review in 2012, are now satisfactory in view of the actions initiated since 2010. The vast majority, i.e. 80% or more, of the questions resulted in "very satisfactory" or "satisfactory" assessments.

The CAG Committee reviewed the axes for improvement identified by the Board members in 2013.

The 2013 assessment indicated that certain Board members expect to see progress with the following points that the Board, based on proposal from the CAG Committee, decided to adopt as axes for improvement for 2014:

- continuing the evolution of the Board's composition, notably by increasing the percentage of women members;
- creating an orientation and training procedure for new Board members;
- monitoring the integration plans for new takeovers;
- improving the Audit committee's information regarding the main risks.

Without prejudice to the objectives set out above, the Board considered that its operation was globally very satisfactory.

The Board's next formal self-assessment will be in 2016.

#### • Training for Supervisory Board members

The Supervisory Board members can make use of the company's grouped membership in the IFA, and thereby take advantage of all of its services.

Mrs. Julie Guerrand was certified as a certified company board member (ASC France) in 2013.

Other Board members will likely be taking part in this company governance certification programme carried out by the IFA in partnership with Sciences-Po. Also, an analysis is in progress with regard to creating an orientation and training procedure for new Board members.

#### • Expense reimbursements

Supervisory Board members are reimbursed for travel, accommodation and restaurant expenses incurred thereby to attend the Supervisory Board meetings, upon presentation of substantiating documents or receipts. These reimbursements

are capped (see rules of procedure, page 42) and inspired by the rules applicable to the Group's employees.

• **Directors' fees and remuneration**

For the fourth consecutive year, the following principles have been used for the distribution of directors' fees and compensation applicable to the 2013 financial year:

- €100,000 fixed component for the Supervisory Board Chairman's compensation, with no variable component since he is required to chair all meetings;
- €15,000 for the fixed component and €1,000 for the variable component per meeting, up to a maximum of five meetings per year, for each Vice-Chairman of the Board and for the Board's other members;
- €20,000 for the fixed component and no variable component for the Chairmen of the Audit Committee and the CAG Committee;
- €10,000 for the fixed component and no variable component for the other members of the Audit Committee and the CAG Committee.

In keeping with these principles, on 22 January 2014, the Supervisory Board apportioned directors' fees and compensation of €399,000 in respect of 2013 out of a total of €480,000 approved by a resolution adopted by the Shareholders at the Ordinary General Meeting of 4 June 2013. The amounts allocated to each Board member for 2012 and 2013 are indicated on page 87.

Based on a proposal from the CAG Committee and in order to apply the AFEP/MEDEF corporate governance code revised in June 2013, that indicates that the distribution provisions for director's fees must include a preponderant part based on actual attendance, on 20 November 2013, the

Supervisory Board decided to modify the provisions for the distribution of director's fees that will be paid in 2015 relative to the 2014 financial year.

The completed modifications relate to:

- the reduction of the fixed annual amount of the director's fees from €15,000 to €8,000 for the Board's members and vice-chairmen;
- the replacement of the variable part per meeting (from €1,000, with a ceiling of €5,000 per year) for the Board's members and vice-chairmen, with a variable annual part of €14,000 in proportion with their attendance;
- the reduction of the fixed annual amount of the director's fees for the Audit committee and CAG Committee members from €10,000 to €4,000;
- the setting of an annual variable part of the director's fees for the Audit committee and CAG Committee members of €6,000, based on attendance.

This amounts to a maximum increase of the overall annual amount of directors' fees by €2,000 per board member (i.e. the equivalent of two meetings, since the variable part previously set at €1,000 per meeting was capped at five meetings, whereas an average of seven Board meetings are held each year).

According to the CAG Committee, the fact that the previous rules were from 2010 and that the average number of meetings had increased to seven in recent years, justify the increase in the individual maximum amount allocated to the Supervisory board members.

The new principles for distributing directors' fees and their amounts are set out in the Supervisory Board rules of procedure (page 42).

As of 2014, it is proposed that the overall amount of the directors' fees should be increased to €500,000 in view of the appointment of the new distribution

provisions and in anticipation of the desired evolution of the Board's composition.

• **Special committees**

Two special committees have been created:

- the Audit Committee (26 January 2005);
- the Compensation Committee (26 January 2005), to which the Board subsequently decided to assign new duties and responsibilities; it was renamed "Compensation and Appointments Committee" on 18 March 2009 and "Compensation, Appointments and Governance Committee" on 20 January 2010.

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.

*Compensation, Appointments and Governance Committee*

The CAG Committee consists of the following members:

- Mrs. Dominique Senequier, chairwoman;
- Mr. Matthieu Dumas, member;
- Mr. Robert Peugeot, member.

The composition rules, duties and operating provisions of the CAG Committee are described in detail in the rules of procedure approved by the Supervisory Board, and that have been in existence since 24 March 2010. The latest version of these rules of procedure, dated 20 March 2013, is reproduced in its entirety on page 50.

In 2013, the Supervisory Board:

- appointed Mrs. Dominique Senequier as chairwoman of the CAG Committee, as replacement for Mr. Ernest-Antoine Seillière, whose term of office as a Supervisory Board member expired in 2013 and who did not wish to stand again;

- renewed the composition of the CAG Committee, for its other members, after the renewal of the terms of the Supervisory Board members by the General meeting on 4 June 2013;
- identified the CAG Committee members who can be qualified as "independent", i.e. Mrs. Dominique Senequier and Mr. Robert Peugeot.

As in 2012, the CAG Committee met six times in 2013, with all of its members attending the meetings (average attendance rate of 100%).

In 2013, the CAG Committee was notably required to examine and/or issue recommendations on the following elements:

- AMF 2012 annual report on corporate governance and executive compensation;
- change of the composition of the Board;
- 2012 AFEP/MEDEF annual report on the distribution of directors' fees;
- 2013 AFEP/MEDEF annual report on corporate governance;
- analysis of the individual situation of the members of the Supervisory Board and of the Executive Chairmen with regard to the plurality of offices;
- update of the Supervisory Board's master file;
- annual examination intended to identify members of the Audit committee that have particular skills in financial or accounting fields;
- annual examination of possible conflicts of interest of the Supervisory Board members;
- review of the report from the chairman of the Supervisory Board on the corporate governance principles implemented by the Company, and reporting on the composition of the Board and the application of the principle of balanced representation of women and men within the Board, on the conditions for preparing and organising the work of the Supervisory Board as well as on the internal

control and risk management procedures implemented by the Company;

- verification of the compliance of the Supervisory Board members relative to the holding threshold of 200 registered shares;
- update of the CAG Committee’s rules of procedure;
- self-assessment of the work of the CAG Committee;
- AMF recommendation n° 2013-15 on corporate governance and the compensation of company directors with reference to the AFEP/ MEDEF corporate governance code;
- consolidated presentation of the recommendations contained in the AMF annual reports;
- AFEP/MEDEF corporate governance code for listed companies, revised in June 2013: analysis of the Hermès international practices in view of the changes to the code and the proposed evolutions;
- examination of the active partner’s proposals regarding the appointment / renewal of the Supervisory Board members during the Hermès International 2013 General meeting (in view of the expiry of the terms of 4 members);
- AFG corporate governance code of January 2013;
- presentation of the Group’s business code of conduct;
- 2013 compensation of the Executive Chairmen and press release to be published on the financial Internet site;
- examination of the situation of the Supervisory Board members relative to the objectivity and independence criteria contained in the Supervisory board’s rules of procedure;
- examination of the fiscal 2012 performance and consequences on the number of bonus shares allocated to each beneficiary as part of the 2012 selective bonus shares plan;
- 2013 compensation, 2012 bonus and 2013 target bonuses of the Executive committee members;

- the increase of the total amount of the directors’ fees;
- proposal for a new distribution method for the directors’ fees by board member in 2014;
- formal 3-year assessment of the Supervisory Board in 2013: analysis of the results and axes for improvement;
- update of the Supervisory board’s rules of procedure;
- proposal regarding the method for appointing Supervisory Board members representing the employees;
- EY review of the governance practices;
- work of the IFA;
- adoption of a calendar setting the advanced dates of the meetings of the CAG Committee, and schedule of the work planned over the course of the year;
- France Board Index 2013-Spencer Stuart;
- examination of the Management Board’s proposal regarding the additional compensation of Mr. Patrick Thomas.

#### *Audit Committee*

The Audit Committee is composed of the following members:

- Mr. Maurice de Kervénoaël, Chairman;
- Mr. Charles-Éric Bauer, member;
- Mr. Renaud Momméja, member;
- Mr. Robert Peugeot, member;
- Mrs. Florence Woerth, member.

The composition rules, duties and operating provisions of the Audit Committee are described in detail in the rules of procedure approved by the Supervisory Board, that have been in existence since 24 March 2010 and that remain unchanged. These rules of procedure are reproduced in their entirety on page 54.

In 2013, the Supervisory Board:

- identically and completely renewed the composition of the Audit committee after the renewal of the terms of the Supervisory Board members by the General meeting on 4 June 2013;

- identified the Audit committee members who can be qualified as “independent”, i.e. Mrs. Florence Woerth, Mr. Maurice de Kervenoaël and Mr. Robert Peugeot;

- considered that all Audit committee members have special skills in the areas of finance or accounting in view of their professional experience, as described in pages 66, 69, 73, 74 and 76.

The CAG Committee met 4 times in 2013, with all of its members attending the meetings (average attendance rate of 100%). Before each meeting of the Audit Committee, members of the Audit Committee receive in due time, with reasonable prior notice and subject to confidentiality requirements, documentation concerning points of the agenda which require prior analysis and reflection.

In 2013, the Audit Committee carried out its assignment, notably concerning the following matters:

- review of financial statements:
  - parent company and consolidated financial statements for the year ended 31 December 2012;
  - consolidated financial statements to 30 June 2013,
  - statutory auditors’ report on the consolidated financial statements,
  - review of the press release on half-year and full- year results;
- presentation of the main projects in progress;
- review of the cash situation;
- examination of the internal control and risk management systems:
  - activity of the audit and risk department in 2012

and major axes with regard to risk management, audit admissions and coordination of the internal control for 2013;

- field audit engagements: committee members carried out two audit assignments, with the support of the Audit and Risk Management Department, to check the effectiveness of the Group’s internal control and risk management systems;

- special assignments:

- annual formally documented self-assessment of Audit committee operation;
- review of 2013 budget and verification that strategic guidelines were followed appropriately.

As part of its missions, the Audit committee heard from the Group finance director both with regard to the accounting data and the cash data, the consolidation director, the audit and risk director, and the statutory auditors.

#### *Compensation of Committee members*

As indicated on page 28 above, the calculation provisions for the compensation of the members of specialised committees were modified in 2013 (taking effect in 2014) in order to implement a predominating variable part based on attendance.

This compensation is equal to:

- €4,000 for the fixed component and €6,000 for the variable component in proportion with the attendance of members at the meetings;
- €20,000 per year of fixed component without a variable component for the chairmen.

- **Factors liable to affect the outcome of a public offering**

Factors liable to affect the outcome of a public offering are described in the Management Report (page 96).

• **Special terms and conditions for participating in general meetings**

The terms and conditions for participating in general meetings are set out in Volume 1 (page 107).

**The terms and conditions of internal control and risk management in the company**

Pursuant to Articles L 225-37, L 225-68, L 823-19 and L 823-20 of the *Code de commerce*, below is the report on the principal risk management and internal control procedures instituted within the Company, using the new “Reference Framework” published by the AMF in 2010, AMF recommendation n° 2011-18, published in December 2011, and the AFEP/MEDEF corporate governance code of June 2013.

The present report was prepared by the Supervisory Board chairman, with the help of the Audit committee and of the relevant functional departments.

It was approved by the Board during its meeting on 19 March 2014.

• **Objectives of risk management and internal control system at Hermès International**

Risk management systems are designed to address major risks. They include methods for identifying and prioritising internal and external risks and for handling the main risks at the appropriate operating level in order to reduce the Company’s exposure, for instance by strengthening internal control procedures.

Internal control systems rely on on-going, recurring actions that are integrated into the Company’s operating processes.

They apply to all functions and processes, including those associated with the production of financial and accounting information.

The Hermès internal control objectives are to ensure:

- compliance with laws and regulations;
- proper observance of the Executive Management’s instructions and strategy directions;
- that the Company’s internal procedures, particularly those that help to protect its assets as well as the safety and security of property and persons, are operating effectively; and;
- the reliability of financial information;

In general, the internal control system enables the Company to maintain control over its businesses, to enhance the efficiency of its operations and to optimise the use of its resources.

• **Internal control environment**

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

Among these values, quality is paramount. The Group’s commitment to quality – the very essence of Hermès’ business – applies not only to its products and services but also to its management methods. Hermès attaches great importance to its senior executives’ managerial skills.

The Hermès culture, which is propagated mainly through integration programmes for new managers and special training, imparts to each individual a thorough understanding of his or her role in the organisation and of the need to abide by the Group’s Code of Conduct and rules of behaviour.

The quality-oriented values and mentality shared

by all employees serve as a solid foundation to underpin acceptance and observance of stringent internal control policies and procedures.

The way in which the two systems work together and their balance are contingent on the control environment which forms their common base, and more specifically, on the Company's ingrained risk management and internal control culture, management style and corporate values.

In this area, to underpin the risk management culture promoted by the Group, in 2009, the Group adopted a formal Code of Conduct and has disseminated it to further strengthen this culture. In 2013, it was completed by the business code of conduct, that sets out the behaviours expected from the Group's employees.

However, no risk management and internal control system, no matter how well-designed and applied, can provide absolute certainty that the Company will achieve its objectives.

**• Parties responsible for management and internal control system**

*Senior management*

The senior management designs risk management and internal control procedures commensurate with the Company's size, business operations, geographical footprint and organisation.

In addition to establishing procedures for delegating authority established at different hierarchical levels, senior management has ultimate responsibility for guaranteeing the effectiveness of the risk management system and its adequacy for meeting the Group's strategy objectives. Senior management therefore oversees the system as a whole to safeguard its integrity and, where applicable, to initiate any corrective measures needed to remedy any failures.

*Audit Committee*

The Audit Committee was created in 2005 within the Supervisory Board. In accordance with Article L 823-19 of the *Code de Commerce*, the Audit Committee, "acting under the exclusive and collective responsibility of the members of the Supervisory Board, is responsible for ensuring controls over:

- the process for preparing financial information;
- the effectiveness of the internal control and risk management systems;
- the statutory audit of parent company financial statements and consolidated financial statements by the Statutory Auditors;
- the independence of the Statutory Auditors".

The roles and duties of the Audit Committee were formally documented in rules of procedure drawn up by the Supervisory Board in 2010.

In addition to periodic meetings with the finance department and the audit department, the Audit committee carries out assignments in the field. Twice each year, it travels with the audit and risks department in order to understand and verify the reality of the internal control measures implemented within the subsidiaries, whether distribution activities, production or support activities, within the various zones or countries.

It regularly reports to the Board with regard to the domains within its remit. The Committee meetings result in written and approved minutes.

Every year, the Audit Committee carries out a self-assessment of its own operation and of the work it has performed, in the light of its assigned objectives, in order to identify any potential areas of improvement.

*Audit and Risk Management Department*

The Audit and Risk Management Department (A&RMD) performs three main roles for the Group:

- it identifies and analyses risks;
- it performs internal audits and monitors the implementation of the recommendations;
- ensure the deployment of internal control suited to the Group's stakes.

The A&RMD coordinates the work of a team of internal auditors and a network of employees responsible for internal control, in France and in other countries, within the business lines and within the distribution and support activities. It works with the group's departments in order to promote the upstream handling of the main risks. The Department reports to the Group's senior management, which guarantees its independence, and has unlimited authority to review any matter at its discretion.

The A&RMD implements a continuous initiative intended to improve the internal control and risk management system.

Since 2010, an audit charter setting out the duties and responsibilities of the internal auditors and their professional conduct and providing a formal procedure for their audit assignment operations has been carried out. In 2013, the system was completed by a risk charter that formalizes the principles and rules implemented with regard to risk management, and by an internal control charter that formalizes the roles and responsibilities of the people involved in internal control.

The Head of Audit and Risk Management attends Audit Committee meetings. He meets in a private session with the Audit Committee at least once each year, as well as with its Chairman several times a year.

#### *The Group's operational staff*

The senior executives, the major functional and operating departments, and members of the Management Committees of the Group's various

entities serve as the main centre of internal control; they are the main beneficiaries of the system and also key contributors to its proper operation.

Control activities carried out at the level of each entity fall under the joint responsibility of the chief executive officer and chief financial officer, as evidenced by the signature of a letter of affirmation relating to the knowledge of the Hermès internal control objectives and of the quality of the controls implemented within the entity. To this end, they rely on the results of the annual internal control self-assessment questionnaire.

#### • Risk management system

The Group's risk management process is based on the preparation of risk maps and on the existence of specialised committees.

Initiated in 2004, the mapping initiative has been rolled out to the main entities under the supervision of the A&RMD, and relayed by the internal control managers who are in charge of monitoring the action plans and updating the maps.

This mapping is used to systematically identify and assess the main risks. It is a lever for improving the performance, since it contributes to protecting the company's value and assets, and to defining action plans as well as the responsibilities of the stakeholders.

The A&RMD coordinates this initiative within the main business lines, distribution subsidiaries and support functions. The risk maps can also be deployed on a case-by-case basis, for certain projects. They are presented dynamically, while stressing the effect of the action plans having to be implemented.

Hermès International has also deployed specific processes for monitoring certain risks, by means of specialised committees or working groups. These committees meet on a periodic basis (generally

monthly). For example, committees focusing on real estate risks, transportation safety, IT risks and cash risks analyse the stakes, study the appropriate corrective measures and verify that the existing control systems correspond with the Group procedures. The main involved operational contacts take part in these committees, as well as the A&RMD, whose role is to facilitate the identification of risks and of the associated action plans.

The A&RMD can also modify its action plan and carry out ad hoc assignments in order to deal with new risks, notably in the event that an alarm is issued by a Group department.

• **Internal control system**

*Organisation*

The Company's management is organised into an Executive Committee, a Management Committee and several special Committees, and ensures that strategic directions are followed consistently and that information is disseminated effectively.

Detailed organisational charts and memoranda outlining strategic directions give staff members a thorough understanding of their role in the organisation and a way periodically to evaluate their performance by comparing it with stated targets. The sales organisation is based on an approach designed to foster a high level of accountability among local managers, whose duties and responsibilities are clearly defined.

The retail sales outlets are supervised by entities responsible for the geographical area, whose managers report to the Group's International Affairs Department, thereby ensuring consistency in operations and providing a means of control. The business sectors are organised based on a defined allocation of duties and responsibilities.

In its human resources processes, Hermès has established hiring, training and skills development

programmes designed to enable each individual effectively to perform his or her duties, now or in the future.

Within Hermès International, the Finance Department has primary responsibility for preparation and control of financial information (see below).

*Information systems*

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

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

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

As a supplement to the detailed reviews performed with the information systems department within the main subsidiaries, the A&RMD verifies the implementation of the general IT controls during the audits.

*Internal control system monitoring*

The internal control processes are described in several procedural manuals. They are defined on the Group level, then extended and adapted to the context and to the local regulations, by each division.

The Group procedures cover the third Company's main cycles (purchasing, sales, cash, inventories, fixed assets, human resources, IT systems, etc.), with particular attention to the procedures within the stores (sales, account collections, inventory management, security...).

In an effort to summarize and identify the key internal control principles to be implemented within the entities, they were entirely reviewed in 2013. On a regular basis, the audit and risk department updates the Group procedures, in collaboration with the various experts in their respective domains. All Group employees have access to them via a secure intranet site.

The financial manual includes the Group chart of accounts and the consolidation system's usage manual.

The Group chart of accounts, prepared according to the international accounting standards (IFRS) and available on the Internet, provides details of the posting rules.

Moreover, the Group finance department periodically issues instructions for the subsidiaries, at the time of the closings or on an isolated basis, on any subject related to financial information.

The usage manual for the consolidation system (Magnitude) presents all of the rules having to be followed for the financial reporting. It presents all of the applicable procedures in accounting and financial terms, and also contains details on the posting operations.

The Investment Project Management Manual describes the applicable rules within the Group.

The Business Development and Investment Department (DPEI) is in charge of keeping these procedures up to date, circulating them and ascertaining that they are applied. The DPEI examines each investment project by coordinating the preliminary business and financial analyses and issuing opinions on investment return calculations. The procedure is carried out in stages. The managers involved issue recommendations, which are summarised by the DPEI. Depending on the scale of the projects, the Executive Management reviews the summary recommendations and takes the ultimate decision on whether or not to approve the project.

Moreover, extremely stringent cash management procedures have been put in place. The Treasury Security Rules Manual details the following procedures:

- a cash management procedure that defines the roles and responsibilities between the Group cash and the subsidiaries;
- rules for opening and operating bank accounts, called Prudential Rules, for each of the Group's companies, which are constantly updated and include monitoring of the authorised signatories, inter alia;
- a change policy approved by the Group's Supervisory Board (this policy describes all authorised financial instruments and sets limits on their use by members of the Hermès International Treasury Management Department);
- a foreign exchange risk management agreement with each relevant subsidiary, which provides a framework for the relationships between the Hermès Group and its subsidiaries, sets out cash management policy and rules, and defines the terms and conditions for calculating and applying the annual guaranteed exchange rates; and;
- a Group cash investment policy, which is approved by the Supervisory Board of Hermès

International and sets out the criteria for investing the Group's cash and limits on its use by members of the Hermès International Treasury Management Department.

#### *The internal control self-assessment work*

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

Each year, the subsidiaries perform a self-assessment using three questionnaires available on the intranet, in the "CHIC" ("Check your Hermès Internal Control") IT tool administered by the A&RMD. The self-assessment uses a general internal control questionnaire (CHIC Practices) for which the repository is linked with the AMF "Reference framework", a specific cash management questionnaire (CHIC Treasury) and a questionnaire on the operational procedures within the distribution network (CHIC Boutique). These questionnaires are updated on an annual basis, in order to include any new risks and controls identified as key on the Group level.

The A&RMD is in charge of the consolidation and analysis of the action plans. The consolidation of the questionnaires is now automated. The self-assessment summary is drafted by the A&RMD. It recommends the internal control priorities set for the following year. The CHIC Boutique questionnaire is monitored on the level of the country directors within the distribution network. The

results are also analysed on a centralised basis, in order to identify areas for improvement and control priorities for the stores for the coming year. The internal control managers are involved in the self-assessment, and are in charge of monitoring the action plans. The A&RMD checks the questionnaires during its audits. It checks that the controls have been correctly appropriated, as well as the implementation of the corrective action plans.

#### *Internal control system monitoring*

Internal control performs periodic reviews on the local level, that are completed by the A&RMD on the basis of each entity's stakes. The responsibility of the network of internal control managers is to ensure that the main risks related to the distribution and production operations as well as the support functions are covered by suitable controls, notably regarding the safety of the assets. This network has become more dense and now provides fine-meshed internal control within the main entities.

As part of its role to coordinate the network of internal control managers, the A&RMD is involved in their appointment, it validates each subsidiary's annual plan, it disseminates best practices, notably through an information sharing tool, a training and awareness-raising session relative to internal control priorities, and it encourages the sharing of experiences between all network members.

The audit assignments represent the third control level. The auditors work on the basis of an annual audit plan, validated by the Executive Management and the Audit committee, and that is adapted every six months, if necessary. The A&RMD also carries out support missions for the internal control roll-out within newly acquired entities.

The A&RMD may call on outside firms to conduct specialised audits. Each year, the A&RMD presents a report on its work to the Audit Committee.

Upon completion of the audits, reports are prepared containing the audit findings, identifying risks and recommending solutions to remedy any problems. Proper implementation of the recommendations is verified during follow-up audits. All of the recommendations and results from the audit follow-ups are included within a dedicated tool. The audit reports are sent to the managers of the audited subsidiaries or departments and to the Group's general management.

• **Internal control system for accounting and financial information**

The internal control system applicable to accounting and financial information is a key component of Hermès International's overall management system.

It is designed to ensure stringent financial oversight of the Company's business activities. It encompasses all processes involved in producing and reporting accounting and financial information and to meet the following goals:

- the prevention and identification of any accounting or financial fraud or inconsistencies, inasmuch as this is possible;
- the reliability of information circulated and used in-house by the senior management;
- the reliability of the published accounts and of other information reported to investors.

*Oversight of the accounting and financial organisation*

Hermès has set up an organised, documented system to ensure the consistency of reported consolidated accounting and financial data. This system is based on a strict division of responsibilities and on Hermès International's tight controls on information produced by the subsidiaries.

The internal control process for accounting and

financial information involves the following parties:

- the Group's executive management, which includes the Executive Chairmen and the Executive Committee.

As part of the parent company and consolidated financial statement review and approval process, the Executive Management receives all information that it deems to be useful, such as information on the main: options applied for the reporting period, accounting estimates and changes in accounting methods. It analyses the subsidiaries' accounts on a regular basis and meets with their senior executives from time to time, particularly during the budget preparation and account closing periods. Lastly, it reviews the findings of the Statutory Auditors;

- the Supervisory Board, which exercises on-going control over the Company's management. By consulting the Executive Management, the Board can verify that oversight and control systems are adequate to ensure that the financial information published by the Company is reliable;

- the managing directors and finance directors of the subsidiaries, who have primary responsibility for the quality of the financial information preparation processes applied by the entities they oversee. They are also responsible for circulating procedures drawn up and issued by Hermès International and for ensuring that these are properly applied;

- the Managing Director for Finance and Administration, who is a member of the Executive Committee, is in charge of internal control for accounting and financial information at the Group level. He is responsible for implementing an appropriate accounting policy oversight system, together with adequate resources (organisation, human resources, tools). He also ascertains that the year-end account closing process is carried out properly;

– the Group Finance Department, which carries out the controls needed to monitor operations and to ensure the reliability of financial information. These controls are performed primarily during reviews conducted when the year-end and half-year accounts are closed, when estimates are updated and budgets are prepared.

*Procedures for preparing published accounting and financial information*

The procedures that Hermès has implemented in drawing up the financial statements aim to ensure the following:

- that published accounting and financial information is impartial, objective and relevant in the light of user requirements; that reporting deadlines are met (via a timetable for closing the accounts), and that such information is understandable;
- that year-end consolidated account closing procedures that meet these criteria are drawn up and circulated to all consolidated entities, namely via the Group Chart of Accounts, the Manual of Financial Procedures, and instructions sent to the subsidiaries;

– the traceability of closing accounting entries within the information systems;

- that individual accounts are controlled to ascertain that they comply with Group accounting standards and practices and to verify their consistency prior to integration of the consolidation packages, inter alia...);

– that systems are in place for analysing the accounts, such as reviews conducted by the auditors, verification of consolidation transactions, ascertaining that IFRS have been properly applied, analysis of internal transactions, etc.

The reporting and consolidation procedures call for the controls required to ensure the reliability of financial information. Reliability in preparation of the consolidated accounts is ensured by the use of the same information for both financial management and financial reporting, which is available through a common tool.

Finally, as part of its audits, the A&RMD coordinates its efforts with the statutory auditors in order to ensure the consistency and efficiency of their mutual interventions.

The Chairman of the Supervisory Board