



# 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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## Description of proposed resolutions

We invite you to approve all of the resolutions proposed to you, which are presented below.

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### I – ORDINARY BUSINESS

#### Approval of the parent company and consolidated financial statements – Discharge of Executive Management

In the first, second and third resolutions, we ask that you duly note the amount of expenses and charges covered by Article 39-4 of the General Tax Code, which totalled €182,256; that you approve the parent company financial statements and consolidated financial statements for the year ended 31 December 2013 as they have been presented to you; and that you grant final discharge to the Executive Management for its management of the Company for the said financial year.

#### Appropriation of net income – Dividend distribution

In the 4th resolution, we submit to you for approval the appropriation of net income for the year, in the amount of €544,302,496.73. Of this amount, and in application of the articles of association, €284,158.00 are to be appropriated to the reserve for purchasing original works of art and, pursuant to the articles of association, €3,646,826.73 are to be distributed to the Active Partner. The Supervisory Board recommends that you fix the dividend at €2.70 per share. This represents an increase of 8% in the dividend relative to the previous year.

In accordance with Article 243 *bis* of the General Tax Code, this dividend entitles shareholders who are natural persons and liable for income tax in France to a 40% tax allowance; this entire dividend will be taken into account *ipso jure* for the determination of their overall income subject to

the income tax schedule, and will be eligible for the 40% allowance as provided by Article 158-3 of the General Tax Code.

After the interim dividend of €1.50 per share paid on 28 February 2014, the remainder of the dividend for the year, which amounts to €1.20 per share, will be detached from the shares on 5 June 2014 and be payable in cash on 10 June 2014 based on closing positions on the evening of 9 June 2014. As Hermès International is not entitled to receive dividends for shares held in treasury, the corresponding sums will be transferred to retained earnings on the date the dividend becomes payable.

The gross dividend per share paid in respect of each of the three previous financial years is as follows:

In euros			
Financial year	2012	2011	2010
Ordinary dividend	2.50	2.00	1.50
Exceptional dividend	–	5.00	–
Amount eligible for tax allowance pursuant to Article 158-3 of the GTC	40%	40%	40%

We note that the five-year summary of the Company's financial data required under Article R225-102 of the *Code de commerce* is presented on page 251.

#### Related-party agreements and commitments

In the 5th resolution, we ask that you formally note the related-party agreements and commitments covered by Articles L 226-10 and L 225-38 to L 225-40 of the *Code de commerce*, which are described in the Statutory Auditors' special report on pages 274 to 278.

The new agreements, the only ones submitted for a vote by the meeting, involve:

- the granting by Hermès International of sureties and guarantees to certain of its subsidiaries;
- the deferred compensation commitments made in favour of Mr. Axel Dumas, Executive Chairman;
- the signing of a non-competition commitment with Mr. Patrick Thomas at the time of his departure from the group.

### Re-election of Supervisory Board members

The terms of office of three Supervisory Board members (Messrs. Éric de Seynes, Renaud Momméja and Maurice de Kervénoaël) will be coming to an end at the closing of the present meeting.

Mr. Maurice de Kervénoaël does not wish to put forward his name again. In the 6th and 7th resolutions, the active partner proposes that you renew the terms of office of two of the three Supervisory Board members that are coming to an end, for the statutory term of three years:

- Mr. Éric de Seynes,
- Mr. Renaud Momméja.

These terms of office will therefore expire at the end of the General meeting called in 2017 in order to vote on the financial statements for the fiscal year ending on 31 December 2016.

Pages 65 and 73 contain information on the persons whose re-election is submitted for your approval.

### Appointment of new Supervisory Board member

In the 8th resolution, the Active Partner proposes that you appoint Mrs. Monique Cohen as Supervisory Board member for the statutory term of three years to replace Mr. Maurice de Kervénoaël who did not wish to put forward his name once again. This term of office will therefore expire at the end of the General Meeting called in 2017 in order to vote on the financial statements for the financial

year ending on 31 December 2016. Pages 266 and 267 contain information regarding the person whose appointment is submitted for your approval.

### Supervisory board fees and remunerations

In the 9th resolution, you are asked to set the amount of the directors' fees and compensation of the Supervisory board at €500,000 in order to account for the new distribution principles adopted by the Supervisory board on 20 November 2013 and in anticipation of the evolution of the Board's composition (as presented in the report from the Chairman of the Supervisory board, page 16). This amount would be valid for each fiscal year beginning as of 1 January 2014, and remain in effect until decided otherwise.

### Approval of the commitments made to Mr. Axel Dumas regarding the cessation of his duties as Executive Chairman

In the 10th resolution, you are asked to approve, pursuant to the provisions of Articles L 225-42-1 and 226-10 of the *Code de commerce*, the commitments made in favour of Mr. Axel Dumas relative to the cessation of his duties as Executive Chairman. These commitments are described in the table relative to Mr. Axel Dumas that is contained in the presentation of the 11th resolution below and in the statutory auditors' special report, page 274.

### Opinion on the compensation elements owed or allocated to the Executive Chairmen

In the 11th, 12th and 13th resolutions, we ask you to provide a favourable opinion on the compensation elements owed or allocated to the executive chairmen relative to the 2013 financial year, as presented in the three following tables.

## Description of proposed resolutions

With regard to Mr. Axel Dumas, the submitted elements relate to the period from 5 June 2013 (date of his appointment as executive chairman) to 31 December 2013.

As Mr. Patrick Thomas is no longer serving on the date of the present Meeting, for transparency purposes, we nevertheless wish to present these elements for the 2013 financial year, as well as for

the period between 1 and 31 January 2014 (date of the cessation of his duties as executive chairman), for an opinion.

Under the terms of Article 26 of the articles of association, the Company pays 0.67% of the distributable profits to the company Émile Hermès SARL (i.e. €3,646,826.73 in 2013), but this does not constitute a senior executive's compensation.

COMPENSATION ELEMENTS	AMOUNT OR ACCOUNTING VALUATION (IN EUROS)	PRESENTATION
<b>11<sup>e</sup> résolution : M. Axel Dumas</b>		
Gross annual variable compensation under the articles of association	From 5 June 2013 (date of his appointment as executive chairman) to 31 December 2013, <b>€431,250</b>	The gross annual compensation of each Executive Chairman for a given year, as authorised by the articles of association, shall not be more than 0.20% of the Company's consolidated income before tax (i.e. €2,199,205 for 2013) for the previous financial year. However, if there are more than two executive Chairmen, the combined total gross annual compensation of all executive Chairmen, according to the articles of association, shall not be more than 0.40% of the Company's consolidated income before tax (i.e. €4,398,410 for 2013) for the previous financial year. Within the ceiling set forth herein, the Management Board of the Active Partner Émile Hermès SARL determines the actual amount of the annual compensation pursuant to the articles of association payable to each Executive Chairman. The compensation paid in 2013 to Mr. Axel Dumas pursuant to the articles of association was determined by the Management Board on 31 May 2013.
Gross annual supplemental compensation	From 5 June 2013 to 31 December 2013, <b>€431,250</b>  – Fixed component: €431,250 – Percentage indexed to revenue growth: €0	The General Meeting of 31 May 2001 decided to allocate to each Executive Chairman gross annual compensation in addition to their compensation pursuant to the articles of association, subject to a ceiling of €457,347.05. This ceiling is indexed each year, but it can only be adjusted upwards. Since 1 January 2002, this amount has been indexed to the growth of the Company's consolidated revenue for the previous financial year at constant exchange rates and on the same scope of consolidation, by comparison with revenue for the next to last financial year (i.e. €1,494,845 for 2013). Within the ceiling set forth above, the Management Board of the Active Partner Émile Hermès SARL determines the actual amount of the annual supplemental compensation payable to each Executive Chairman. The supplemental compensation paid in 2013 to Mr. Axel Dumas was determined by the Management Board on 31 May 2013.
Deferred variable compensation	Not applicable	No provision is made for the principle of the allocation of deferred variable compensation.
Multi-year variable compensation	Not applicable	No multi-year compensation mechanism was implemented in 2013.
Exceptional compensation	Not applicable	No provision is made for such compensation.

Each Executive Chairman has the right to receive certain compensation under Article 17 of the articles of association, and may also receive supplemental compensation, the maximum amount of which is determined by the Ordinary General Meeting with the unanimous approval of the Active Partners.

Both the compensation provided by the articles of association and the supplemental compensation are in the nature of "variable" salaries, since the calculation methods provided merely constitute ceilings subject to which the Active Partner is free to set the actual compensation of the Executive Chairmen as it sees fit. Thus, Executive Chairmen are not guaranteed any minimum compensation. In order to make it easier to understand the manner of calculation of the compensation of the Executive Chairmen, the Company has always described their additional compensation, before indexation, as "fixed compensation", by analogy with market practices.

COMPENSATION ELEMENTS	AMOUNT OR ACCOUNTING VALUATION (IN EUROS)	PRESENTATION
Share options, performance shares or any other long-term compensation element	Purchase options = N/A Performance shares = N/A Other elements = N/A	No plan for purchase options nor allocation of performance shares for the benefit of the Executive Chairmen occurred during the 2013 financial year.
Signing bonus	Not applicable	No such commitment exists.
Severance pay	0 €	<p>The company has 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 (decision of the Supervisory Board of 4 June 2013 subject to approval by the General meeting on 3 June 2014 in a specific resolution – 9th resolution – in application of Article L 225-42-1 of the <i>Code de commerce</i>).</p> <p>This commitment was made according to the same provisions as had been the case with Mr. Patrick Thomas. Indeed, the payment of severance is subject to the fact that the cessation of the Executive Chairman's duties results:</p> <ul style="list-style-type: none"> <li>– either from a decision taken by Mr. Axel Dumas by reason of a change of control over the Company, a change in the Executive Manager of Émile Hermès SARL, i.e. the Company's Executive Chairman, or a change in the Company's strategy; or</li> <li>– from a decision taken by the Company.</li> </ul> <p>Moreover, the payment of such compensation is also subject to the realisation of the following performance conditions, in order for the conditions of his departure to be in line with the Company's situation: achieving budget targets in at least four out of the five previous years (with revenue and operating profit growth measured at constant rates), without deterioration in the Hermès brand and corporate image. The Supervisory Board considered that the deferred compensation commitment made for the benefit of Mr. Axel Dumas complies with the requirements of the AFEP/MEDEF corporate governance code.</p>
Non-competition indemnity	Not applicable	Mr. Axel Dumas is not subject to a non-competition commitment, meaning that there are no provisions for such an indemnity.
Supplementary pension scheme	No amount is owed for the 2013 financial year	<p><i>Defined contribution pension plan (art. 83 of the GTC)</i> Mr. Axel Dumas is covered by the defined contribution supplementary pension plan set up for all personnel members of the Group's French companies (decision of the Supervisory Board of 4 June 2013 subject to approval by the General meeting on 3 June 2014 – 4th resolution – in application of Article L 225-40 of the <i>Code de commerce</i>).</p> <p><i>Defined benefits pension plan (art. 39 of the GTC)</i> Mr. Axel Dumas is also eligible for the supplementary pension plan set up in 1991 for the benefit of all company directors (decision of the Supervisory Board of 4 June 2013 subject to approval by the General meeting on 3 June 2014 – 4th resolution – in application of Article L 225-40 of the <i>Code de commerce</i>). As a fundamental condition of the pension regulations, in order to be eligible for the scheme, beneficiaries must have reached the end of their professional career with the Company, have at least 10 years of seniority, and be eligible to draw pension benefits under the basic state Social Security regime. The annual benefit under this plan, if all eligibility conditions are met, will be calculated according to the average of the 3 last annual salaries, and cannot exceed a ceiling of 8 times the Social security ceiling.</p>
Directors' fees	Not applicable	The Executive Chairmen do not receive any directors' fees.
Valuation of benefits in kind	€ 2,110	The only benefits in kind provided to Mr. Axel Dumas are a company car and a representation policy. Mr. Axel Dumas is covered by the health expenses plan and provident fund set up by the group for all of the personnel of the entities in France.

## Description of proposed resolutions

COMPENSATION ELEMENTS	AMOUNT OR ACCOUNTING VALUATION (IN EUROS)	PRESENTATION
<b>12th resolution: Émile Hermès SARL</b>		
Gross annual variable compensation under the articles of association	From 1 January to 31 December 2013, <b>€2,199,205</b>	<p>The gross annual compensation of each Executive Chairman for a given year, as authorised by the articles of association, shall not be more than 0.20% of the Company's consolidated income before tax (i.e. €2,199,205 for 2013) for the previous financial year.</p> <p>However, if there are more than two executive Chairmen, the combined total gross annual compensation of all executive Chairmen, according to the articles of association, shall not be more than 0.40% of the Company's consolidated income before tax (i.e. €4,398,410 for 2013) for the previous financial year.</p> <p>Within the ceiling set forth herein, the Management Board of the Active Partner Émile Hermès SARL determines the actual amount of the annual compensation pursuant to the articles of association payable to each Executive Chairman.</p> <p>The compensation paid in 2013 to the Émile Hermès SARL company pursuant to the articles of association was determined by the Management Board on 20 March 2013.</p>
Gross annual supplemental compensation	From 1 January to 31 December 2013, <b>€1,494,845</b>  – Fixed component: <b>€1,284,559</b> – Percentage indexed to revenue growth: <b>€210,286</b>	<p>The General Meeting of 31 May 2001 decided to allocate to each Executive Chairman gross annual compensation in addition to their compensation pursuant to the articles of association, subject to a ceiling of €457,347.05. This ceiling is indexed each year, but it can only be adjusted upwards. Since 1 January 2002, this amount has been indexed to the growth of the Company's consolidated revenue for the previous financial year at constant exchange rates and on the same scope of consolidation, by comparison with revenue for the next to last financial year (i.e. €1,494,845 for 2013). Within the ceiling set forth above, the Management Board of the Active Partner Émile Hermès SARL determines the actual amount of the annual supplemental compensation payable to each Executive Chairman.</p> <p>The supplemental compensation paid in 2013 to the Émile Hermès SARL company was determined by the Management Board on 20 March 2013.</p>
Deferred variable compensation	Not applicable	No provision is made for the principle of the allocation of deferred variable compensation.
Multi-year variable compensation	Not applicable	No multi-year compensation mechanism was implemented in 2013.
Exceptional compensation	Not applicable	No provision is made for such compensation.
Share options, performance shares or any other long-term compensation element	Purchase options = N/A Performance shares = N/A Other elements = N/A	No plan for purchase options nor allocation of performance shares for the benefit of the Executive Chairmen occurred during the 2013 financial year.
Signing bonus	Not applicable	No such commitment exists.
Severance pay	Not applicable	No such commitment exists.
Non-competition indemnity	Not applicable	No such commitment exists.
Supplementary pension scheme	Not applicable	As a legal person, Émile Hermès SARL is not eligible for a supplementary pension plan.
Directors' fees	Not applicable	The Executive Chairmen do not receive any directors' fees.
Valuation of benefits in kind	Not applicable	Émile Hermès SARL does not receive any benefits in kind.

COMPENSATION ELEMENTS	AMOUNT OR ACCOUNTING VALUATION (IN EUROS)	PRESENTATION
<b>13th resolution: Mr. Patrick Thomas</b>		
Gross annual variable compensation under the articles of association	<p>From 1 January to 31 December 2013, €1,228,176 + €539,779 as a supplement i.e. a total of <b>€1,767,955</b></p> <p>From 1 to 31 January 2014, <b>€102,348</b></p>	<p>The gross annual compensation of each Executive Chairman for a given year, as authorised by the articles of association, shall not be more than 0.20% of the Company's consolidated income before tax (i.e. €2,199,205 for 2013) for the previous financial year.</p> <p>However, if there are more than two executive Chairmen, the combined total gross annual compensation of all executive Chairmen, according to the articles of association, shall not be more than 0.40% of the Company's consolidated income before tax (i.e. €4,398,410 for 2013) for the previous financial year.</p> <p>Within the ceiling set forth herein, the Management Board of the Active Partner Émile Hermès SARL determines the actual amount of the annual compensation pursuant to the articles of association payable to each Executive Chairman.</p> <p>The compensation paid in 2013 to Mr. Patrick Thomas pursuant to the articles of association was determined by the Management Board on 20 March 2013, and the supplement by the Management Board on 19 November 2013.</p> <p>The compensation owed to Mr. Patrick Thomas in 2014 pursuant to the articles of association for 2013 (only for January) was determined by the Management Board on 18 March 2014.</p>
Gross annual supplemental compensation	<p>From 1 January to 31 December 2013, €1,147,824 + €347,021 as a supplement. i.e. a total of <b>€1,494,845</b></p> <p>– Fixed component: €1,284,559</p> <p>– Percentage indexed to revenue growth: €210,286</p> <p>From 1 to 31 January 2014, <b>€95,652</b></p> <p>– Fixed component: €95,652</p> <p>– Percentage indexed to revenue growth: €0</p>	<p>The General Meeting of 31 May 2001 decided to allocate to each Executive Chairman gross annual compensation in addition to their compensation pursuant to the articles of association, subject to a ceiling of €457,347.05. This ceiling is indexed each year, but it can only be adjusted upwards. Since 1 January 2002, this amount has been indexed to the growth of the Company's consolidated revenue for the previous financial year at constant exchange rates and on the same scope of consolidation, by comparison with revenue for the next to last financial year (i.e. €1,494,845 for 2013). Within the ceiling set forth above, the Management Board of the Active Partner Émile Hermès SARL determines the actual amount of the annual supplemental compensation payable to each Executive Chairman.</p> <p>The supplemental compensation paid in 2013 to Mr. Patrick Thomas was determined by the Management Board on 20 March 2013, and the supplement by the Management Board on 19 November 2013.</p> <p>The supplemental compensation owed to Mr. Patrick Thomas in 2014 for 2013 (only for January) was determined by the Management Board on 18 March 2014.</p>
Deferred variable compensation	Not applicable	No provision is made for the principle of the allocation of deferred variable compensation.
Multi-year variable compensation	Not applicable	No multi-year compensation mechanism was implemented in 2013.
Exceptional compensation	Not applicable	No provision is made for such compensation.
Share options, performance shares or any other long-term compensation element	Purchase options = N/A Performance shares = N/A Other elements = N/A	No plan for purchase options nor allocation of performance shares for the benefit of the Executive Chairmen occurred during the 2013 financial year.
Signing bonus	Not applicable	No such commitment exists.

## Description of proposed resolutions

COMPENSATION ELEMENTS	AMOUNT OR ACCOUNTING VALUATION (IN EUROS)	PRESENTATION
Severance pay	€0	<p>The Company had agreed to pay Mr. Patrick Thomas an amount equal to 24 months' compensation (sum of compensation as authorised by the articles of association and supplemental compensation) in the event that his appointment as Executive Chairman is terminated (decision of the Supervisory Board on 19 March 2008, approved by the General Meeting on 3 June 2008, 5th resolution).</p> <p>On 18 March 2009, the Supervisory Board had decided that the payment of this amount would be subject to the termination of Mr. Thomas' appointment as Executive Chairman resulting:</p> <ul style="list-style-type: none"> <li>– either from a decision of the Executive Chairman by reason of a change of control over the Company, a change in the Executive Manager of Émile Hermès SARL, which is an Executive Chairman of the Company, or a change in the Company's strategy; or</li> <li>– from a decision taken by the Company.</li> </ul> <p>This commitment had been made subject to the realisation of the following performance conditions, in order for the conditions of his departure to be in line with the Company's situation: achieving budget targets in at least four out of the five previous years (with revenue and operating profit growth measured at constant rates), without deterioration in the Hermès brand and corporate image.</p> <p>Mr. Patrick Thomas requested termination of his term of office as Executive Chairman of the company as of 31 January 2014, notably in order to claim his retirement rights, which did not result in his entitlement to the payment of this severance pay, which is therefore non-applicable.</p>
Non-competition indemnity	<b>€966,300</b> for each of the years 2014, 2015, 2016 and 2017	<p>During its meeting on 19 November 2013, the Management Board of the company Émile Hermès SARL decided to provide Mr. Patrick Thomas with inclusive annual compensation of €966,300 for each of the years 2014, 2015, 2016 and 2017 since he will be subject to a non-competition obligation for ten years. This non-competition commitment was approved by the Supervisory Board during its meeting on 20 November 2013 pursuant to the related-party agreements.</p>
Supplementary pension scheme	No amount is owed for the 2013 financial year	<p><i>Defined contribution pension plan (art. 83 of the GTC)</i></p> <p>Mr. Patrick Thomas was covered by the defined contribution supplementary pension plan set up for all personnel members of the Group's French companies (decision of the Supervisory Board of 19 March 2008, approved by the General meeting on 3 June 2008 – 6th resolution).</p> <p><i>Defined benefits pension plan (art. 39 of the GTC)</i></p> <p>Mr. Patrick Thomas was also eligible for the supplementary pension plan set up in 1991 for the benefit of all company directors (decision of the Supervisory Board of 19 March 2008, approved by the General meeting on 3 June 2008 – 6th resolution).</p> <p>As a fundamental condition of the pension regulations, in order to be eligible for the scheme, beneficiaries must have reached the end of their professional career with the Company, have at least 10 years of seniority, and be eligible to draw pension benefits under the basic state Social Security regime. The annual benefit under this plan, if all eligibility conditions are met, will be calculated according to the average of the 3 last annual salaries, and cannot exceed a ceiling of 8 times the Social security ceiling.</p>
Directors' fees	Not applicable	The Executive Chairmen do not receive any directors' fees.
Valuation of benefits in kind	€3,754	<p>Mr. Patrick Thomas had the use of a company car. This was the only benefit in kind that he received.</p> <p>Mr. Patrick Thomas was covered, until leaving his position on 31 January 2014, by the health expenses plan and provident fund set up by the group for all of the personnel of the entities in France.</p>



### **Grant of authority to the Executive Management – Share buyback programme**

In the 14th resolution, you are asked to renew the authorisation granted to the Executive Management to trade in the Company's own shares, under the conditions stipulated therein, more specifically:

- purchases and sales of shares representing up to 10% of the share capital would be authorised;
- the maximum purchase price (excluding costs) would be €400 per share. The maximum amount of funds to be committed would be €800 million.

It is stipulated that treasury shares on the day of the General Meeting are not taken into account in this maximum amount. This authorisation would be valid for eighteen months from the date of the General Meeting.

## **II – EXTRAORDINARY BUSINESS**

### **Grants of authority to the Executive Management – Cancellation of shares**

In the 15th resolution, you are asked to renew the authorisation granted to the Executive Management to cancel some or all of the shares purchased by the Company on the stock market under the share buyback programme, on one or more occasions, up to a maximum of 10% of the share capital. This authorisation would enable the Company to cancel shares issued to cover stock options that are no longer exercisable or that have expired. This authorisation would be valid for twenty-four months from the date of the General Meeting.

### **Grants of authority to the Executive Management – Share purchase options**

In the 16th resolution, we ask that you renew the authorisation provided to the Executive Management to grant options to purchase shares to

employees and corporate officers of the Company and its subsidiaries, so as to continue the Group's policy of giving employees a stake in the Group's growth.

The total number of options that may be granted and that have not yet been exercised and the total number of free shares granted under the terms of the 17th resolution shall not represent more than 2% of the total number of ordinary shares description of proposed resolutions outstanding on the date on which the options to purchase shares would be granted, not including those options granted under the terms of previous authorisations. The purchase price of the shares would be fixed by the Executive Management within the limitations and in accordance with the terms and conditions stipulated by law.

Given currently applicable regulations, the purchase price will be equal to 100% of the average of opening share prices during the twenty trading days preceding the day on which the options would be granted, without being less than 80% of the average purchase price of the shares held by the company, notably acquired through the share buyback programme. This price would not be subject to change during the lifespan of the options unless the Company were to enter into the financial transactions covered by Article L 225-181 of the *Code de commerce*. In this case, the Executive Management would adjust the number of shares and the price in accordance with the applicable statutory provisions. The options would be exercisable within a maximum term of seven years from the option grant date.

In accordance with the statutory provisions currently in effect, and subject to their possible modification in the future, in the event of a grant of share purchase options to an Executive Chairman, the Company would ensure that it would either:

- also grant such options to all of the Company’s employees and to at least 90% of the employees of its French subsidiaries; or
- distribute free shares to the aforesaid employees; or
- enhance the terms of employee incentive and/or profit-sharing schemes of the Company and its subsidiaries (or institute such schemes, where applicable).

Furthermore, in accordance with the AFEP/MEDEF Code of Corporate Governance applied by the Company, any options granted to the Executive Management:

- would be contingent upon meeting serious and demanding performance criteria over the course of several consecutive years, that will be defined at the time of the grant;
- would be limited to a maximum percentage of 0.05%, with this sub-ceiling applying against the 2% ceiling common to the authorisations granted in the 16th and 17th resolutions.

This authorisation would be valid for thirty-eight months from the date of the General Meeting.

#### **Grants of authority to the Executive Management – Free share distribution**

In the 17th resolution, we ask that you renew the authorisation provided to the Executive Management to grant ordinary shares in the Company for no consideration.

The total number of shares granted for no consideration and the total number of share purchase options granted pursuant to the 16th resolution and not yet exercised shall not represent more than 2% of the total number of ordinary shares outstanding on the free share allotment date, not including those options granted under the terms of previous authorisations. The vesting period for the shares granted shall not be less than two years,

plus a holding period by the beneficiaries of no less than two years, except in the special cases set out in the resolution.

As in the case of share purchase options, in accordance with the statutory provisions currently in effect, and subject to their possible change in the future, in the event of a free share distribution to the Executive Management, the Company would either:

- grant free shares to all of the Company’s employees and to at least 90% of the employees of its French subsidiaries; or
- grant options to purchase shares to the aforesaid employees; or
- enhance the terms of employee incentive and/or profit-sharing schemes of the Company and its subsidiaries (or institute such schemes, where applicable).

Furthermore, in accordance with the AFEP/MEDEF Code of Corporate Governance applied by the Company, any free shares granted to the Executive Management:

- would be contingent upon meeting performance criteria defined at the time of the grant;
- would be limited to a maximum percentage of 0.05%, with this sub-ceiling applying against the 2% ceiling common to the authorisations granted in the 16th and 17th resolutions.

This authorisation would be valid for thirty-eight months from the date of the General Meeting.

#### **Modification of Article 18 of the articles of association**

The law of 14 June 2013 relative to the safeguarding of employment calls for the participation of employee representatives, with voting rights, in the meetings of the boards of directors (or supervisory boards) of large companies. The companies in questions are ones with total personnel equal

to at least 10,000 employees worldwide or 5,000 in France.

The company is therefore subject to this requirement and must accordingly include, in its articles of association, the provisions for assigning Supervisory Board members who represent the Group's employees. In the 18th resolution, we ask you to modify Article 18 of the articles of incorporation, for the purposes of determining the provisions for the appointment of Supervisory Board members representing the group's employees in compliance with the provisions of the law of 14 June 2013 relative to the safeguarding of employment.

Our proposal is that both the first and the second Supervisory Board members representing the employees should be appointed by the company's Group committee in view of the role of this employee representation body, which is the management's preferred contact and the members of which are drawn from the various works councils or individual personnel delegations from within the group companies.

In keeping with the law, the Group committee was consulted and, on 26 March 2014, gave a unanimous and favourable opinion as to the proposed appointment provisions.

The number of Supervisory Board members taken into account when determining the number of Supervisory Board members representing the employees will be assessed on the date of the appointment of the employee representatives to the Board. Neither the Supervisory Board members elected by the employees under Article L 225-27 of the *Code de commerce*, nor the employee share-

holder Supervisory Board members appointed in accordance with Article L 225-23 of the *Code de commerce* will therefore be taken into account.

The Supervisory Board members representing the employees must, at least two years beforehand, have signed an employment contract with the company or one of its direct or indirect subsidiaries having its registered office in France or abroad. The Supervisory Board would meet after the Meeting on 3 June 2014 consisting of eleven members. Pursuant to the legal provisions, a single Supervisory board member representing the employees must therefore be assigned this year for the statutory term of three years. This appointment must occur before 3 December 2014, provided that this 18th resolution is passed.

Like the other Supervisory Board members, the term of the Supervisory Board members representing the employees would be for three years.

A reduction to twelve or fewer than twelve Supervisory Board members would have no effect on the term of all Supervisory Board members representing the Group's employees, that would come to an end upon its normal expiry.

Notwithstanding Article 18.1 of the articles of association, the Supervisory Board members representing the Group's employees would not be required to be shareholders.

We also propose that you use the opportunity of this modification of Article 18 of the articles of association in order to mention therein the existence of Supervisory Board rules of procedure and the obligation for all Supervisory Board members to comply with them.