



HERMÈS

2014 ANNUAL REPORT
EXTRACTS FROM THE SHELF-REGISTRATION DOCUMENT

The page numbers referenced hereinafter refer to Volume 2 of the 2014 annual report.

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 Autorité des Marchés Financiers, 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 24 March 2015.

CORPORATE GOVERNANCE CODE

• Corporate governance principles

In 2009, the Supervisory Board officially adopted the AFEP/MEDEF recommendations on corporate governance, as it deemed these recommendations to be entirely in keeping with the Group’s corporate governance policy.

The guidelines include the AFEP-MEDEF corporate governance code for listed companies, revised in

June 2013, and the recommendations from the HCGE (Corporate governance high committee), that further elaborate this code’s recommendations.

With each revision of the AFEP-MEDEF code, the CAG Committee performs an exhaustive comparative analysis of the company’s applications of the AFEP-MEDEF code, and reports to the Supervisory Board. Below is a table of the provisions of the AFEP-MEDEF code that the company is not applying, with the corresponding explanations.

Provisions of the AFEP/MEDEF corporate governance code, revised in June 2013, that were set aside	
	Explanations
<p><i>Board assessment (art. 10.4)</i> It is recommended that the non-executive directors should meet on a periodic basis without the presence of the executive or internal directors, at least once each year in order to assess the performance of the executive directors.</p>	<p>In view of the role assigned to the Supervisory Board (described on pages 10 and 11), this provision of the AFEP-MEDEF code does not apply within a <i>société en commandite par actions</i> (partnership limited by shares).</p>
<p><i>Proportion of independent members on the Audit Committee (art. 16.1)</i> The share of independent directors on the Audit Committee should be <u>at least two thirds</u>.</p>	<p>The Board determined that while slightly less than two-thirds (60%, i.e. 3 out of 5 members) 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. In its 2014 report, the HCGE considers that an audit committee with, for example, three independent members out of five remains compliant with the spirit of the Code, provided that the chairman is an independent member, as in the company’s case.</p>

Provisions of the AFEP/MEDEF corporate governance code, revised in June 2013, that were set aside	
	Explanations
<p><i>Composition of the compensation committee (art. 18.1)</i> It is recommended that an employee member of the Supervisory Board should be a committee member.</p>	<p>The company's CAG Committee (description on pages 46 <i>et seq.</i>) does not have the authority to set the compensation of the Executive Chairmen, which is part of the Active Partner's remit; accordingly, the Supervisory Board has decided that it was not relevant for the employee representative to be a member.</p>
<p><i>Severance pay (art. 23.2.5)</i> The payment of severance pay to a director must only be authorised <u>in case of a forced departure</u>, irrespective of the form of this departure, <u>while being related to a change of control or strategy</u>.</p>	<p>The company had agreed to pay severance pay to Mr. Axel Dumas under the conditions described in the presentation of the reasons on page 255. In view of the importance of the Active Partner's role within a partnership limited by shares, and of a legal representative in the event of a legal person, it was considered that the cessation of the functions as Executive Chairman of Axel Dumas that would result from the replacement of the Executive Chairman of Émile Hermès SARL, should be viewed as a forced departure. The Supervisory Board nevertheless considered that the deferred compensation commitment made for the benefit of Mr. Axel Dumas complied with the requirements of the AFEP/MEDEF corporate governance code.</p>

• **Corporate governance prize**

- On 24 September 2014, during the 11th edition of the Corporate Governance Grand Prizes, the Agefi financial media group awarded the silver governance prize to Hermès International in the category “Operation of management bodies”.
- In the 2014 edition of the “Best shareholder relations trophies”, the economic magazine *Le Revenu* awarded Hermès International the bronze trophy for the best general meeting of the SBF 120, on 1 December 2014.

• **Activity of the Supervisory Board**

Group activity and finance

In 2014, the Supervisory Board was informed of the group's activities during each of its meetings, and it notably:

- heard the Executive Management's presentation on the parent company and consolidated financial statements;
- examined the 2014 budget;
- examined the projected management documents;
- decided on the proposed allocation of earnings to be submitted to the General Meeting of 3 June 2014;

- examined the situation of certain equity interests;
- formally noted proposals for acquisitions, disposals and equity investments by the Group;
- formally noted proposed investment projects;
- examined the reports and work of the Audit committee, described on page 27.

Recommendations, authorisations and other items

In 2014, the Supervisory Board notably:

- authorised and reclassified related-party agreements (see the Supervisory Board's report on page 264);
- issued a favourable opinion on the resolutions submitted to the Combined general meeting of 3 June 2014 and reviewed the reports prepared by the Management;
- formally noted the summary statement of services provided by Hermès International to Émile Hermès SARL in 2013 and projections for 2014;
- renewed the global authorisation to the Executive Management to grant sureties, endorsements and guarantees on behalf of subsidiaries for 2014, subject to a ceiling;
- discussed the company's policy with regard to professional and wage equality;

- approved the wording of the prudential rules applicable by the subsidiaries, together with updated lists of the authorised signatories and banks of Hermès International;
- performed an annual review of the related-party agreements for which the effects are continuing over time;
- recalled the responsibility inherent to the fact of holding inside information as well as the Stock market ethics charter.

Governance – Appointments – Compensation

In 2014, the Supervisory Board examined and/or approved the CAG Committee reports on works described on page 25.

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

Major annual topics – Site visits

Each year, at least one detailed presentation on a specific or general topic regarding the group's activities is provided by the relevant management team.

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

The visits carried out from 2011 to 2013 are described in the 2013 shelf-registration document (volume 2, page 26).

In 2014, the Board:

- reviewed the vertical integration of the business lines after the recent acquisitions;
- took part in a presentation of the new collections of Hermès products;
- travelled to the Gordon Choisy subsidiary, where it was given a presentation of the activity, of the results of the Hermès Cuirs Précieux division, and a tour of the tannery.

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 members: Mr. Éric de Seynes, chairman, Mrs. Dominique Senequier and Mrs. Monique Cohen, deputy chairmen, Mr. Charles-Éric Bauer, Mr. Matthieu Dumas, Mr. Blaise Guerrand, Mrs. Julie Guerrand, Mr. Denis Marmonier (employee representatives), Mr. Renaud Momméja, Mr. Robert Peugeot 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 Mrs. Monique Cohen. 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.

Mr. Nicolas Puech resigned from his position as Supervisory Board member as of 8 August 2014.

The Supervisory Board currently includes a member representing the employees, Mr. Denis Marmonier, who was appointed by the group committee as of 19 November 2014 after the modification of the articles of incorporation during the General Meeting on 3 June 2014.

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 works completed from 2011 to 2013 are described in the shelf-registration document, 2013 (volume 2, page 21).

Progress of the assignment in 2014 and in 2015

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 General Meeting.

The appointment of Mrs. Monique Cohen by the General Meeting on 3 June 2014 served to increase the percentage of women on the Board to 36.36%.

In view of the resignation of Mr. Nicolas Puech from his position as Supervisory Board member as of 8 August 2014, this proportion automatically attained the threshold of 40.00%.

• 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 Corporate Governance Code,

including the criterion pertaining to length of service.

In 2014, 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. Monique Cohen, Mrs. Dominique Senequier, Mrs. Florence Woerth and Mr. Robert Peugeot.

A summary table describing each Supervisory Board member’s situation is provided on page 21.

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 these 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 4 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 3 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 28 August 2014, is provided in its entirety on page 36. These rules of procedure include an obligation for the Supervisory Board members (except for the employee representatives) to own a relatively significant number of registered shares (200 shares). Using the Hermès International share price on 31 December 2014 (€294.80), this represents more than two and a half years of directors' fees.

On 22 January 2015, the Supervisory Board determined that all Board members were still 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 42.

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 committees 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 blackout periods;

– 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 2014, the Supervisory Board met 8 times with the regular presence of almost all of its members, resulting in an average attendance rate of 93%, as shown in the table on page 22.

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

Summary table describing the situation (compliance or not) on 31/12/2014 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	Monique Cohen	Matthieu Dumas	Blaise Guerrand	Julie Guerrand	Denis Marmonier	Renaud Momméja	Robert Peugeot	Éric de Seynes	Dominique Senequier	Florence Woerth
Independence criteria of the AFEP/MEDEF corporate governance code, revised in June 2013 (art. 9.4)											
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	Yes	No	No	No	No	No	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	Yes	No	No	No	Yes	No	Yes	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 twelve years.	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Hermès International additional independence criterion											
Not being a partner or member of the Management Board of Émile Hermès SARL, Active Partner.	No	Yes	No	No	No	Yes	No	Yes	No	Yes	Yes
Conclusion	Non-independent	Independent	Non-independent	Non-independent	Non-independent	Non-independent	Non-independent	Independent	Non-independent	Independent	Independent

Attendance at Supervisory Board meetings in 2014			
Board member	Attendance	Applicable number of meetings	Individual attendance rate
Mr. Éric de Seynes	8	8	100%
Mr. Maurice de Kervénoaël	2	2	100%
Mrs. Monique Cohen	6	6	100%
Mr. Charles-Éric Bauer	8	8	100%
Mr. Matthieu Dumas	8	8	100%
Mr. Blaise Guerrand	8	8	100%
Mrs. Julie Guerrand	8	8	100%
Mr. Denis Marmonier	1	1	100%
Mr. Renaud Momméja	8	8	100%
Mr. Robert Peugeot	6	8	75%
Mr. Nicolas Puech	0	4	0%
Mrs. Dominique Senequier	8	8	100%
Mrs. Florence Woerth	8	8	100%
Average			93%

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 sites in order to further its knowledge of one of the Group's particular subsidiaries.

The visits carried out from 2011 to 2013 are described in the 2013 shelf-registration document (volume 2, page 26).

The visits carried out in 2014 are listed on page 18.

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 allocation 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 2014 in a report presented to the Annual

General Meeting called to approve the financial statements (page 264).

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.

The conditions and provisions for the last formal 3-year self-assessment, carried out in 2013, are described in the 2013 shelf-registration document (volume 2, pages 26 and 27).

In late 2014, the CAG Committee reviewed the axes for improvement that had been identified by the Board in 2013.

All of them were implemented in 2014, namely:

- continuation of the evolution of the Board's composition, notably by increasing the percentage of women members;
- creation of an integration and training program for new Board members;
- monitoring the integration plans for new takeovers;
- improvement of the Audit committee's information regarding the main risks.

The improvements made in recent years have been confirmed by external assessments, which indicate that the governance within Hermès can

already be considered as one of the best within the marketplace.

For 2015, the CAG Committee nevertheless decided that a reflection was needed in order to refine the "corporate governance" part of the shelf-registration document, in order to account for the latest recommendations with regard to governance.

In view of the works undertaken by the CAG Committee, the Board considered that its overall operation remained very satisfactory.

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

• Training for Supervisory board members – Integration program

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, in 2014, the CAG Committee set up an integration and training program for new Board members, which included:

- the issuing of an orientation kit for new Supervisory Board members (legal / governance documents) including:
 - the Supervisory board's master file,
 - the latest shelf-registration document,
 - the meeting notice for the last General meeting,
 - a USB key for accessing the company's financial site,
 - the booklet "20 years on the stock market" (2013),
 - the business code of conduct (Hermès group guidelines),

- the Supervisory Board's dashboard for the current year,
 - the calendar of Supervisory board meetings for the next 3 years,
 - the vademecum of the IFA board member (2014);
- registration for 3 days of the in-house "Mosaic" immersion training with the employees;
 - presentation of the capital distribution and of Émile Hermès SARL, Active Partner;
 - "catch-up" relative to the site visits since 2011 (if necessary);
 - participation in governance IFA training (if necessary);
 - presentation of the new collections of Hermès products.

• **Expense reimbursements**

Supervisory Board members are reimbursed for travel, accommodation and restaurant expenses incurred in order to attend the Supervisory Board meetings, upon presentation of substantiating documents or receipts. These reimbursements are capped (see rules of procedure, page 38) and inspired by the rules applicable to the Group's employees.

• **Directors' fees and compensation**

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.

The resulting changes to the previously applicable principles are described in the 2013 shelf-registration document (volume 2, page 28).

As of 2014, the overall amount of the directors' fees was increased from €480,000 to €500,000 in view of

the new distribution provisions and in anticipation of the evolution of the Board's composition. The distribution principles for directors' fees applicable as of 2015 with regard to 2014 are indicated in the Supervisory Board rules of procedure (page 38).

In keeping with these principles, on 22 January 2015, the Supervisory Board apportioned directors' fees and compensation of €392,800 in respect of 2014 out of a total of €500,000 approved by a resolution adopted by the Shareholders at the Ordinary General Meeting of 3 June 2014. The amounts allocated to each Board member for 2013 and 2014 are indicated on page 82.

• **Special committees**

Since 2005, 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 (CAG Committee)

• *Composition and operation of the CAG 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 existed since 24 March 2010. Version n° 3 of these rules of procedure, dated 28 August 2014, is reproduced in its entirety on page 46. The Chairman of the Supervisory Board can be invited to certain meetings of the CAG Committee in order to provide his opinion regarding appointments or governance, which was not the case in 2014.

The Executive Chairmen are only invited for that part of the meetings relating to the compensation of Executive committee members (excluding the Executive Chairmen).

• *Activity of the CAG Committee*

The CAG Committee met five times in 2014 (versus 6 times in 2012 and in 2013), with virtually all of its members attending the meetings (average attendance rate of 93%).

In 2014, the CAG Committee was notably required to examine and/or issue recommendations on many subjects.

With regard to governance, the CAG Committee covered the following topics in 2014:

- change of the composition of the Board;
- analysis of the individual situation of the Supervisory Board members (independence, conflicts of interest, plurality of offices, number of shares) and of the committee members (special skills with regard to finance or accounting);
- informal annual assessment of the Board's works;
- self-assessment of the work of the CAG Committee;
- update and distribution of documents to the Supervisory Board (master file, rules of procedure, 2014 calendar of blackout periods);
- 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;

- creation of an integration and training program for new Board members;
- analysis of the results of the informal annual assessment of the work of the Board and of the CAG Committee.

The CAG Committee reviewed the current events in the area of governance:

- preparation guide for the AMF shelf-reference documents updated on 17 December 2013;
- recommendations on the AFG corporate governance code of January 2014;
- corporate governance and compensation of company directors with reference to the AFEP/MEDEF code- consolidated presentation of the recommendations contained in the AMF annual reports of 4 December 2013;
- application guide for the AFEP-MEDEF corporate governance code for listed companies of June 2013, published in January 2014 by the HCGE (Corporate governance high committee);
- AFEP - Appraisal of the 2014 General Meetings;
- LA FABRIQUE - Successful introduction of employee directors (Note + Guide);
- TM PARTENAIRES - The employee director: first appraisal after the 2013 law;
- IFA - Board assessment: a progress initiative (September 2014);
- AMF 2014 report on corporate governance and compensation of directors;

- 2014 annual report of the AFEP-MEDEF Corporate governance high committee: analysis of the Hermès International practices and follow-up actions;
- IMAGE SEPT 2014 study on the Governance of CAC 40 companies;
- France Board Index 2014 – SpencerStuart;
- JSS file on the governance of family companies;
- EY-LABRADOR 2014 governance overview - rating of Hermès International;
- October 2014 IFA study: "Governance, human resources and performance";
- September 2014 IFA study: "Assessment of the board, a progress initiative";
- VOTRE ADMINISTRATEUR survey "Assessment of the boards of directors / supervisory boards: very positive feedback from directors".

With regard to appointments, the CAG Committee covered the following topics in 2014:

- examination of the Active Partner's proposals relative to the appointment / renewal of the Supervisory board members during the Hermès International General meeting on 3 June 2014;
- appointment of the Chairman and Vice-Chairman of the Supervisory Board, composition of the Audit committee and of the CAG Committee;
- resignation of Mr. Nicolas Puech from his position as Supervisory Board member as of 8 August 2014;
- preparation for the arrival of Mr. Denis Marmonier, appointed as Supervisory Board member representing the employees as of 19 November 2014.

In 2014, the CAG Committee covered the following topics relating to compensation:

- 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;

- increase of the total amount and projected apportionment of directors' fees and compensation payable to the Board members and committee members in respect of 2013;
- examination of the fiscal 2013 performance and consequences on the number of bonus shares allocated to each beneficiary as part of the 2012 selective bonus shares plan;
- 2014 compensation of the Hermès International Executive Chairmen and press release to be published on the financial Internet site;
- review of the compensation of the Executive committee members.

The CAG Committee reviewed the current events in the area of compensation:

- IFA study (November 2013): Say on pay: international comparisons and best practices;
- AFEP - Study on directors' fees (July 2014);
- AFEP - Summary of the Say on Pay study.

Certain of these subjects are further discussed in this report.

Audit Committee

- *Composition and operation of the Audit committee*

The Audit Committee is composed of the following members:

- Mrs. Monique Cohen, chairwoman;
- 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 50.

In 2014, the Supervisory Board:

- appointed Mrs. Monique Cohen as chairwoman of the Audit Committee, as replacement for Mr. Maurice de Kervénoaël, whose term of office as a Supervisory Board member expired in 2014 and who did not wish to stand again;
- renewed the composition of the Audit Committee, for its other members, after the renewal of the terms of the Supervisory Board members by the General meeting on 3 June 2014;
- identified the Audit committee members who can be qualified as “independent”, i.e. Mrs. Monique Cohen and Florence Woerth, 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 59, 63, 68, 69 and 70.

During 2014, the Audit Committee met 5 times. Nearly all of its members attended the meetings (the average attendance rate was 88%). 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.

• *Activity of the Audit committee*

In 2014, the Audit Committee carried out its assignment, notably concerning the following subjects:

- review of financial statements and of the budget:
 - parent company and consolidated financial statements for the year ended 31 December 2013;
 - consolidated financial statements to 30 June 2014,
 - statutory auditors’ report on the consolidated financial statements,

- review of the press release on half-year and full-year results,
 - presentation of the 2014 budget,
 - new publication structure of the revenue by métier;
- presentation of the consensus of financial analysts;
 - Hermès International bank delegations;
 - compilation of the audit report situation at the group Treasury Department;
 - presentation of the main projects in progress;
 - new criteria for the choice of bank counterparties;
 - review of the cash situation;
 - examination of the internal control and risk management systems:
 - appraisal of the activities related to risk management, audit and internal control in 2013, and audit plan for 2014.

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 24 above, the calculation provisions for the compensation of the members of specialised committees were modified in 2013 in order to implement a predominating variable part based on attendance.

These new provisions, applied for the first time relative to 2014, are indicated in the Supervisory Board rules of procedure (page 38).

• **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 90).

• **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 108).

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° 2013-17 updated in January 2015, and the AFEP/MEDEF code of corporate governance 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 24 March 2015.

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

Risk management systems are designed to frequently examine the 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 the laws and regulations;

- the application of the instructions and orientations determined by the general management;

- 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 the 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.

• **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.

• Perimeter of the risk management and internal control system

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

• 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 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. To this end, it is provided with activity reports and regularly meets with the audit and risk management department (A&RMD). 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".

2014 was marked by the arrival of a new chairwoman for the Audit Committee, appointed for a duration of 3 years during the Combined general meeting on 3 June 2014, and independent member of the Supervisory board. The roles and duties of the Audit Committee were formally documented in rules of procedure drawn up by the Supervisory Board in 2010. It regularly reports to the Board with regard to the domains within its remit. The Committee meetings result in written and approved minutes.

In 2014, the Supervisory board prepared an overview of the areas requiring improvement that were identified in late 2013, notably with regard to the Audit committee's practices, and it takes note of satisfactory improvement.

Audit and Risk Management Department

The Audit and Risk Management Department performs three main roles for the Group:

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

The A&RMD implements a continuous initiative

intended to improve the internal control and risk management system. It notably monitors the practices of other companies in this regard. In 2014, it also submitted its risk mapping methodology to a review by a specialised external firm, and then implemented the suggested improvement proposals.

The A&RMD coordinates the work of a team of internal auditors and of a growing 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, and of the emerging 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.

It also participates in the group training sessions in order to promote an awareness of internal control best practices amongst the management.

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 an annual self-assessment questionnaire on the implementation of the internal control system.

• 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. The maps produced by the entities take into account the risk prioritization prepared by the Group management. In its turn, the risk analysis carried out by the Group management is enhanced by the risk maps individually prepared by each of the entities.

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

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 actions 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.

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 has also set up risk and control committees involving the general managers and finance directors from each of the subsidiaries.

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 Group organisation is based on an approach designed to foster a high level of accountability amongst the local teams, whose duties are clearly defined.

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 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 procedure

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

The Group procedures cover the company's main cycles (purchases, sales, cash, inventory management, fixed assets, human resources, information systems...). The audit and risk department updates them on a regular basis, in collaboration with the various experts in their respective domains.

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 accounting 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 accounting 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 verifies 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 controlled subsidiaries. This system helps to disseminate an internal control-oriented culture throughout the Group and serves as a tool for assessing the level of internal control within the subsidiaries and determining how

operational and functional risks are handled at the appropriate level. If the control processes assessed are found to be ineffective, the subsidiaries are required to draw up an action plan to remedy the situation.

Each year, the subsidiaries perform 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 plans, it disseminates best practices, notably through an information sharing tool, it communicates the 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 for the parent company and the companies integrated into the consolidated accounts. It meets the following objectives:

- 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, etc). 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