


HERMÈS
PARIS

2016 REGISTRATION DOCUMENT

MESSAGE FROM THE EXECUTIVE MANAGEMENT HIGHLIGHTS FOR 2016	5 6	5 CONSOLIDATED FINANCIAL STATEMENTS AFR	159
		5.1 Consolidated statement of profit or loss for 2016	160
		5.2 Consolidated statement of other comprehensive income	161
		5.3 Consolidated statement of financial position as at 31 december 2016	162
		5.4 Consolidated statement of changes in equity as at 31 december 2016	164
		5.5 Consolidated statement of cash flows	166
		5.6 Notes to the consolidated financial statements	168
		5.7 Statutory Auditors' report on the consolidated financial statements	210
1 OVERVIEW OF THE GROUP AFR	9	6 PARENT COMPANY FINANCIAL STATEMENTS	213
1.1 Stages of the Group's history	10	6.1 Statement of profit or loss for 2016	214
1.2 Key figures	13	6.2 Statement of financial position as at 31 December 2016 AFR	215
1.3 Activity by sector	15	6.3 Changes in equity in 2016 AFR	216
1.4 Activity by geographic area	23	6.4 Statement of cash flows for 2016 AFR	217
1.5 Simplified Group organisational chart	29	6.5 Note to the financial statements AFR	218
1.6 Property	32	6.6 List of investments in subsidiaries and associates as at 31 December 2016	232
1.7 Fondation d'Entreprise	32	6.7 Table of subsidiaries and associates as at 31 December 2016 AFR	234
1.8 Risk factors	33	6.8 Table of results over the last five financial years	238
		6.9 Statutory auditors' report on the annual financial statements AFR	239
2 CORPORATE SOCIAL RESPONSIBILITY AFR	37	7 INFORMATION ON THE COMPANY AND ITS SHARE CAPITAL	241
2.1 Introduction	38	7.1 Presentation of hermès international and Émile Hermès SARL	242
2.2 Savoir-faire	41	7.2 Information on share capital and shareholders AFR	253
2.3 People	44	7.3 Financial authorisations	266
2.4 Raw materials and suppliers	56	7.4 Dividend policy	271
2.5 Environment	63	7.5 Stock-market information	272
2.6 Stakeholders and local integration	81	7.6 Shareholder information	276
2.7 Report from one of the Statutory Auditors, designated as the independent third party organisation	85	8 COMBINED GENERAL MEETING OF 6 JUNE 2017	279
		8.1 Agenda	280
3 CORPORATE GOVERNANCE AFR	89	8.2 Purpose and draft resolutions	282
3.1 Administrative, management, or supervisory bodies	90	8.3 Supervisory Board's report to the Combined General Meeting of 6 June 2017	305
3.2 Report from the Chairman of the Supervisory Board	110	8.4 Statutory Auditors' reports	306
3.3 Statutory Auditors' report on the report from the Chairman of the Supervisory Board	137	9 ADDITIONAL INFORMATION	317
3.4 Compensation and benefits paid to Corporate Officers	138	9.1 Persons responsible for the registration document AFR	318
		9.2 Statutory Auditors and their fees AFR	319
4 COMMENTS ON THE FINANCIAL YEAR AND OUTLOOK AFR	149	9.3 Regulatory Information consultation	320
4.1 Summary consolidated financial statements	150	9.4 Information incorporated by reference	321
4.2 Comments on the consolidated results	152	9.5 Cross-reference table	322
4.3 Information on the parent company financial statements, on accounts payable due dates, subsidiaries and associates	154		
4.4 Outlook	156		

The information in the annual financial report is identified in the contents with the help of the **AFR** pictogram.



In accordance with Article 212-13 of the AMF General Regulation, this Registration Document containing the annual financial report was with the Financial Markets Authority («AMF») on 19 April 2017. This document may be used in support of a financial transaction only if it is supplemented by a securities note approved by the Financial Markets Authority (AMF). This document has been drawn up by the issuer and implies the responsibility of its authorised signatories.



2016
REGISTRATION
DOCUMENT

Including the annual financial report

Our true nature (or) Our values are alive



Like good gardeners, we seek to cultivate our values. Loyalty to our spirit of work well done, the preservation of our know-how, and the importance we attach to its transmission are all factors that ensure our house is built on firm ground.

Solidity is one thing; vitality is quite another, and just as important. While ancient palaces have their charm, our preference is for vibrant houses resounding with ideas, dialogue and laughter. Above all, we cultivate that which has thus far safeguarded our good health: the creativity of artists and the ingenuity of artisans.

This desire to renew and reinvent ourselves is constant. It is etched into our most profound nature and is a fundamental value that determines our path.

Finally, with a gardener's spirit, we tend to this vitality while respecting the great equilibrium of the world, an issue that concerns and motivates us, and drives us to progress.

As I am sure you are aware, since our house was founded in 1837, respect for nature has never ceased to be a guiding spirit!

Axel Dumas
EXECUTIVE
CHAIRMAN

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

HIGHLIGHTS FOR 2016

GENERAL TREND

Excellent performance in sales and results in 2016

The Group's consolidated revenues passed the €5 billion mark to reach €5,202 million up 7.5% at current exchange rates, and 7.4% at constant exchange rates. Recurring operating income, up 10%, amounted to €1,697 million (32.6% of sales) and net profit increased 13% to reach €1,100 million.

Sales by geographical area and by business line

(At constant exchange rates unless otherwise indicated)

The solid rise in revenue recorded in 2016 in Group stores (+8%) was driven by growth in all geographic areas. Hermès continued to improve the quality of its distribution network, with four store openings and several renovations and extension works.

All geographic areas progressed in 2016

Japan (+9%) performed well thanks to its selective distribution network, despite the strengthening of the Yen and a high comparison basis.

Asia excluding Japan (+7%) pursued its growth, particularly with extensions of the Liat Towers and Takashimaya stores in Singapore and store openings in Macao, at Hong Kong Airport and in Chongqing in China. In mainland China, the Group continued to develop even though the context remains challenging in Hong Kong and Macao.

America (+7%) achieved solid growth, in a contrasting environment. The stores in Hawaii and Philadelphia were renovated and extended at the end of the year.

Europe (+8%) posted growth, performing well which confirms the resistance of the Group, despite the impact of recent events. After being extended and renovated in October, the Bocca di Leone store in Rome is experiencing a great success. France (+5%) displayed solid growth.

Revenue by sector at the end of december

Growth over the year was driven by the success of Leather Goods and Saddlery products which confirm their role as the mainstay of the Group. Otherwise, sales benefitted from a positive momentum at year end in certain sectors such as Silk and the Ready-to-wear and Accessories division.

Growth in Leather Goods and Saddlery (+14%) was remarkable, thanks to the success of the collections and the diversity of models, particularly the *Constance*, *Halzan* and *Lindy* bags alongside the *Birkin* and *Kelly*. Development was supported by the sustained pace of deliveries and production, gaining from the capacities of the three new sites in Charente, Isère and Franche-Comté. Investments for a third site in this latter region continued.

The Ready-to-wear and Accessories division was stable over the year and posted a 4% increase in the 4th quarter, driven by the success of the latest women's ready-to-wear and fashion accessories collections, particularly shoes.

The Silk and Textiles business line (-1%) performed well in the 4th quarter, after being penalised by events in Europe and by slowing sales in Greater China during the first half of the year.

Perfumes (+9%) posted growth, driven by the success of *Terre d'Hermès*, the launch of *Galop d'Hermès*, and the latest creations such as the *Colognes*, *Eau de néroli doré* and *Eau de rhubarbe écarlate*.

The Watches business line (-3%) was penalised by a still challenging market and a high comparison basis at year end.

Other Hermès business lines (+2%), which encompass Jewellery, Art of Living and Hermès Table Arts, continued their development.

Operating margin reached an all-time high of 32.6% of sales

Recurring operating income rose 10% to reach €1,697 million compared to €1,541 million in 2015. Operating margin (32.6% of sales) improved by 0.8 points compared to 2015, particularly due to the favourable impact of foreign exchange hedges.

Consolidated net profit (Group share) increased 13% to €1,100 million, representing 21.2% of sales.

Cash flow from operating activities reached €1,439 million, up by 18%. It enabled the Group to finance all capital expenditure (€262 million) and the distribution of the ordinary dividend (€350 million). After accounting for the decrease in working capital requirements, net cash rose by c. €750 million and amounted to €2,320 million as at 31 December 2016.

In 2016, Hermès International redeemed 319,621 shares for €110 million, outside transactions completed within the framework of the liquidity contract.

Growth in workforce

The Hermès Group's workforce gained 590 members, including more than 400 in France, mainly in the production facilities and sales teams. At year-end 2016, the Group employed 12,834 people including 7,881 in France.

1

OVERVIEW OF THE GROUP

1.1	STAGES OF THE GROUP'S HISTORY	10
	Six generations of craftsmen	10
1.2	KEY FIGURES	13
1.2.1	Breakdown of revenue by sector 2016 vs 2015	13
1.2.2	Breakdown of revenue by geographical area 2016 vs 2015	13
1.2.3	Key consolidated data	13
1.2.4	Changes in consolidated revenue	14
1.2.5	Change in recurring operating income	14
1.2.6	Change in the number of exclusive retail stores	14
1.2.7	Investments (excluding financial investments) and operating cash flows	14
1.3	ACTIVITY BY SECTOR	15
1.3.1	Leather Goods and Saddlery	15
1.3.2	Ready-to-wear and Accessories	16
1.3.3	Accessories	17
1.3.4	Silk and Textiles	18
1.3.5	Other Hermès sectors	18
1.3.6	Perfumes	19
1.3.7	Watches	19
1.3.8	Other products and brands	20
1.3.9	Partnerships	22
1.4	ACTIVITY BY GEOGRAPHIC AREA	23
1.4.1	Europe	23
1.4.2	Americas	23
1.4.3	Asia-Pacific	24
1.4.4	Hermès points of sale worldwide	25
1.5	SIMPLIFIED GROUP ORGANISATIONAL CHART	29
1.5.1	Overview description of the Group as at 31 December 2016	29
1.5.2	Production facilities	30
1.6	PROPERTY	32
1.7	FONDATION D'ENTREPRISE	32
1.8	RISK FACTORS	33
1.8.1	Risks linked to the operational strategy	33
1.8.2	Financial risks	34
1.8.3	Insurance policy	35

1.1 STAGES OF THE GROUP'S HISTORY

SIX GENERATIONS OF CRAFTSMEN

Today, Hermès employs 12,834 people worldwide and has 307 exclusive stores, 210 of which are directly operated. Although it has achieved international stature, Hermès has never lost its human touch and continues its tradition of fine craftsmanship.

Thierry Hermès, a harness-maker, set up business in Paris in 1837.

Ever since, his descendants have worked together to develop the Hermès Group. In 1880, his son transferred the family business to its now-famous address, 24 Faubourg Saint-Honoré, where he expanded into saddlery. Soon, he was supplying saddles and harnesses to the stables of aristocrats all over the world.

In 1918, with the advent of the automobile, the founder's grandson, Émile Hermès, foresaw the coming changes in transportation and envisioned new lifestyles. He launched a line of fine leather "saddlestitched" goods and luggage. The Hermès style was born, and its field of activity has never ceased to grow.

Émile Hermès also accumulated a private collection of paintings, books and articles that were to be a source of inspiration for designers. During the 1950s, Émile Hermès' sons-in-law, Robert Dumas and Jean-René Guerrand, continued to diversify operations whilst safeguarding the brand's integrity, creating clothing, jewellery, watches, diaries, silk scarves and more...

Starting in 1978, with the help of other fifth- and sixth-generation members of the family, Jean-Louis Dumas brought renewed impetus to Hermès by expanding into new sectors and establishing a global network of Hermès stores.

28 years later, in 2006, he entrusted the management to Patrick Thomas and the company Émile Hermès SARL, while the artistic directorship was passed on to Pierre-Alexis Dumas in February 2009.

Axel Dumas, a sixth-generation family member, was appointed Executive Chairman in 2013 alongside Patrick Thomas, who subsequently left his post in January 2014. Axel Dumas is now in sole charge of the house.

Today, Hermès applies its creativity to a wide range of sectors: leather goods and saddlery, men's and women's ready-to-wear, footwear, belts, gloves, hats, silks and textiles, jewellery, furniture, furnishing fabrics, wallpaper, tableware, perfumes, watches and petit h.

International in scope, Hermès is characterised by superlative manufacturing inspired by the values of traditional craftsmanship, and remains a family firm with a uniquely creative spirit that is continuously renewed.

For almost 180 years, Hermès has been creating, inventing and innovating.

Some of our models enjoy enduring success decades after they were first designed. Reissued, reinterpreted and reinvented, these timeless creations forge the identity of Hermès.

1837

- ◆ Harnesses

1867

- ◆ Saddles

Around 1900

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

1903

- ◆ *Rocabar* blanket

1922

- ◆ Belts

1923

- ◆ Two-handled bag

1924

- ◆ Gloves with zipper

Starting in 1925

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

1927

- ◆ Wristwatches
- ◆ *Filet de selle* bracelet

1928

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

1930

- ◆ Diaries

1937

- ◆ First silk scarves

1938

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

1949

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

1951

- ◆ *Eau d'Hermès* fragrance

1954

- ◆ Beach towels in printed terry towelling

1956

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

1961

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

1967

- ◆ *Constance* bag

1970

- ◆ *Équipage* fragrance for men

1971

- ◆ *Nausicaa* bracelet

1972

- ◆ First Hermès shoes for women

1974

- ◆ *Amazone* fragrance for women

1975

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

1978

- ◆ First complete men's ready-to-wear collection
- ◆ *Highland ghillie* shoes
- ◆ Enamel bracelets

1979

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

1981

- ◆ *Clipper* watch

1984

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

1985

- ◆ *Gavroche* scarves in silk twill

1986

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

1991

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

1993

- ◆ *Oxer* saddle
- ◆ *Médor* watch

1995

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

1996

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

1997

- ◆ First Hermès shoes for men
- ◆ *Oran* sandal

1998

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

1999

- ◆ *Hiris* fragrance for women

2000

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

2002

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

2003

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

2004

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

2005

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

2006

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

2007

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

2008

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

2009

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

2010

- ◆ First haute bijouterie collection
- ◆ *Les Maisons enchantées* faience tableware
- ◆ *Talaris* saddle
- ◆ *Voyage d'Hermès* fragrance
- ◆ Reissue of furniture
- ◆ Jean-Michel Frank furniture reissued by Hermès
- ◆ *Toolbox* bag

2011

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

2012

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

2013

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

2014

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

2015

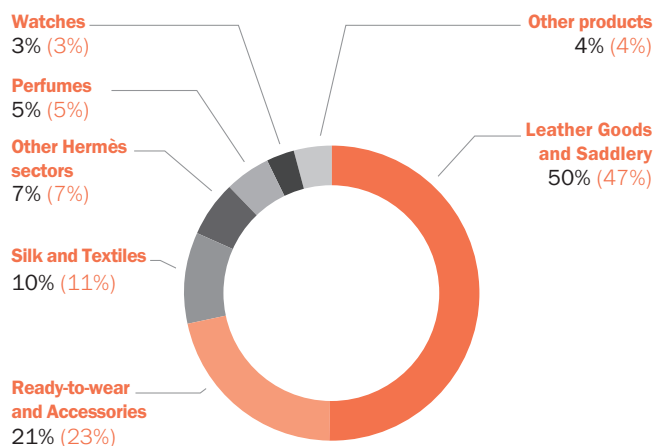
- ◆ *Octogone* bag
- ◆ *Cherche-Midi* bag
- ◆ *Slim* d'Hermès watch
- ◆ *Le Jardin de Monsieur Li* fragrance
- ◆ Porcelain tableware
- ◆ *Voyage en Ikat*
- ◆ *Cityhall* briefcase

2016

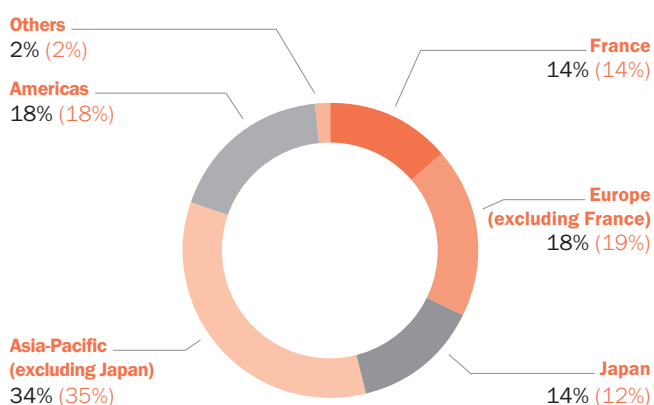
- ◆ *Verrou* bag
- ◆ *Bâton de Craie* bag
- ◆ *Hermès Arpège* dressage saddle
- ◆ *Carnets d'Équateur* porcelain tableware
- ◆ *Galop d'Hermès* fragrance for women
- ◆ Fourth *HBIV Continuum* haute bijouterie collection

1.2 KEY FIGURES

1.2.1 BREAKDOWN OF REVENUE BY SECTOR 2016 VS 2015



1.2.2 BREAKDOWN OF REVENUE BY GEOGRAPHICAL AREA 2016 VS 2015



1.2.3 KEY CONSOLIDATED DATA

In millions of euros	2016	2015	2014	2013	2012
Revenue	5,202.2	4,841.0	4,118.6	3,754.8	3,484.1
Operating income	1,696.5	1,540.7	1,299.3	1,218.0	1,118.6
Net income attributable to owners of the parent	1,100.3	972.6	858.8	790.3	739.9
Operating cash flows	1,438.7	1,218.2	1,048.7	1,015.9	884.8
Investments (excluding financial investments)	285.4	266.6	322.2	232.4	370.0
Equity attributable to owners of the parent ¹	4,382.6	3,742.0	3,449.0	2,825.6	2,344.4
Net cash position	2,319.8	1,571.2	1,421.6	1,022.0	686.1
Restated net cash ²	2,345.3	1,614.0	1,493.6	1,091.0	721.0
Economic value added (EVA) ³	948.9	792.7	712.6	655.1	605.7
Return on capital employed (ROCE) ⁴	49%	45%	43%	45%	49%
Number of employees	12,834	12,244	11,718	11,037	10,118

(1) Equity excluding non-controlling interests.

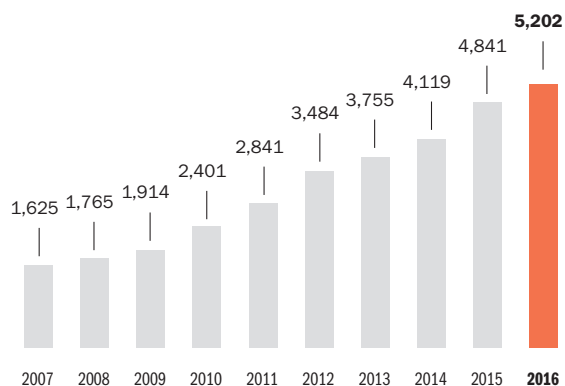
(2) Net cash includes non-liquid financial investments and borrowings.

(3) Difference between recurring operating income after tax on operating income and the weighted average cost of capital employed.

(4) Recurring operating income, after tax on operating income, based on average capital employed.

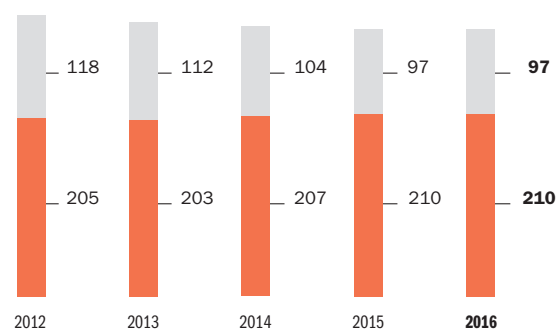
1.2.4 CHANGES IN CONSOLIDATED REVENUE

In millions of euros



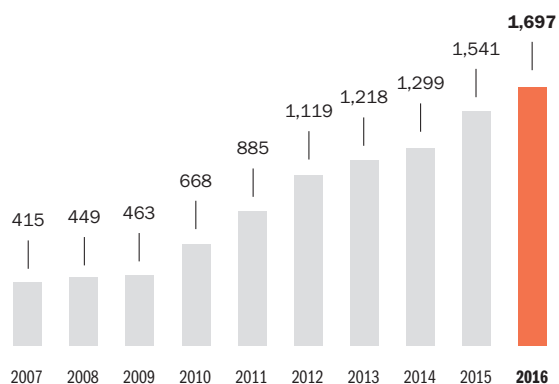
1.2.6 CHANGE IN THE NUMBER OF EXCLUSIVE RETAIL STORES

■ Concessionaires
■ Branches



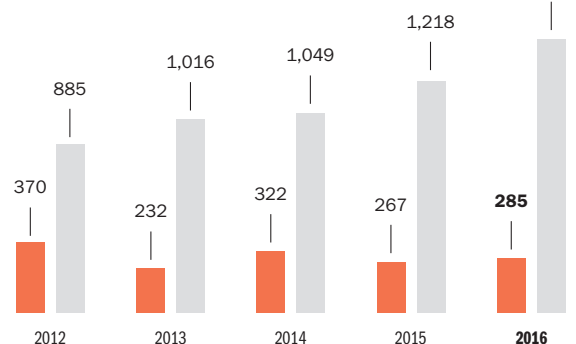
1.2.5 CHANGE IN RECURRING OPERATING INCOME

In millions of euros



1.2.7 INVESTMENTS (EXCLUDING FINANCIAL INVESTMENTS) AND OPERATING CASH FLOWS

■ Investments
■ Operating cash flows



1.3 ACTIVITY BY SECTOR

1

	2016 CA in millions of euros	2016 mix in %	2015 CA in millions of euros	2015 mix in %	Changes	
					At current exchange rates	At constant exchange rates
Leather Goods and Saddlery	2,604	50%	2,274	47%	14.5%	14.0%
Ready-to-wear and accessories	1,099	21%	1,101	23%	(0.1)%	0.2%
Silk and textiles	515	10%	521	11%	(1.1)%	(0.8)%
Other Hermès sectors	336	7%	332	7%	1.2%	1.6%
Perfumes	262	5%	241	5%	8.5%	8.5%
Watches	158	3%	163	3%	(3.2)%	(3.2)%
Other products	228	4%	208	4%	9.5%	10.1%
CONSOLIDATED REVENUE	5,202	100%	4,841	100%	7.5%	7.4%

1.3.1 LEATHER GOODS AND SADDLERY

Leather Goods and Saddlery, the original sector of Hermès, encompasses bags for men and women, clutches, briefcases, luggage, small leather goods, diaries and writing objects, saddles, bridles and a full range of equestrian products and clothing.

In 2016, this activity represented 50% of the Group's sales, with revenue of €2,604 million, an increase of 14% at constant exchange rates.

Saddlery and leather goods articles are born of an alchemy of authentic materials, selected according to rigorous standards, and the skilled hands of the saddler-leather workers, who apply traditional know-how passed down from generation to generation. The time spent by the artisans each day patiently crafting and fashioning the raw leather gives these unique objects a distinctive additional measure of soul.

Today, production is ensured by over 2,900 saddler-leather workers spread over 15 production units located in Paris, Pantin and various regions across France. In response to sustained demand, in 2016 Hermès began building three new leather goods workshops, in Franche-Comté, Normandy and Limousin. In this way, Hermès reaffirms its commitment to regions with a strong manufacturing expertise, and its will to provide quality jobs. These three choices of location have been prepared and implemented in close partnership with the various local stakeholders and regional administrative and economic development structures.

The house is also continuing to perfect the artisans' skills and expertise through a range of training and professional qualification programmes. These programmes are delivered within the dedicated in-house Hermès academy, and through a range of partnerships with training structures in the regions concerned.

1.3.1.1 Bags and luggage

In 2016, the leather goods and saddlery collections sought a balance between contemporary spirit and a desire to reflect the roots of the house.

The *Verrou* bag, the reinterpretation of a mini clutch created in 1938 by Robert Dumas, embodies the "everyday sublime" via its clasp inspired by a horsebox bolt. Available in two versions (daytime and nighttime), this structured bag with simple lines is the epitome of silversmithery, leathercraft and saddlery expertise.

The *Bâton de Craie* line is inspired by a 1920s model. Its name refers to its shiny clasp of clean, precise design, a simple baton made of metal, horn, Dalmatian jasper or malachite, which slides through a leather loop. Both the bag and mini clutch versions of *Bâton de Craie* have a very pure silhouette and an inspired design, a series of curves and crisp lines.

Everyday comfort and functionality continue to be reflected in several models designed for the active, urban wearer: a sporty-chic look with the *City back* back pack, whose slender, ergonomic format allows for free movement, new, comfortable straps with the cross bag and shoulder bag versions of the *Cityslide* line, or even the easy transport of essential items – laptop, tablet and smartphone – with the leather and felt wool *Toodoo* organiser. For women, the *GR24* back pack combines comfort and appeal, while the *Maxi box* shopper, whose reinforced corners are inspired by retro travel trunks, provides generous capacity and a practical shoulder strap. For those undertaking longer journeys, the new *Wallago* luggage line is available in several sizes. From the small 35 model, with its clever rear pocket which enables the user to slide it onto a wheeled suitcase, to the large 53 model which has a comfortable strap, all are designed to make the journey easier for every traveller.

2016 marked the début of a new material: the H Berlin canvas, which has three waterproof layers on the outside, evoking car hoods at the start of the twentieth century. Both aspects are revealed on the *Col Roulé*

bag, of equestrian inspiration with its frontal-shaped handle, bridle rings and saddle rivets which hold its wide reverse. Plain or printed with the Scottish Tattersall design, the H Berline canvas is also used for the big classics such as *Kelly*, *Constance* and *Herbag*. New exceptional leathers – Barénia Faubourg calfskin, Saddle bullcalf – have also been developed.

This year's theme has resulted in whimsical summery images, such as the *Tutti frutti* range of mini clutches and bags in acid brights, the clever *Musardine* bag, which combines a light leather structure and a removable silk drawstring pouch, which can be changed in step with the seasons, or the *Bolid Picnic* bag and the *Picnic* small ornamental bag in wicker and leather. For the autumn, the *Bolide Shark* men's bag, which features a malicious shark smile made using yokes of overstitched leather, proved very popular.

The *Collection précieuse* line was complemented with bijoux bags combining superior craftsmanship and exceptional materials: feathers and embroidery inspired by birds of paradise and butterfly wings for the *Stromboli* and *Plume élan* bags, scales and silver for the *Poudrier* bag.

The playful Mini formats embody interpretations which are as charming as they are modern, mini *Halzan*, mini *Roulis*, mini *Kelly Sellier*.

Finally, the classics such as *Kelly*, *Birkin*, *Constance*, *Lindy*, etc. continue their eternal reinvention. The *Birkin* bag is magnified in a saddle version in black box calfskin, and the *Evelyne* sellier bag in Hunter cowhide adopts a saddle construction with strong polished edges, decorated with a branded H on a diamond background.

1.3.1.2 Diaries, small leather goods and writing objects

Small leather goods continue to be redesigned with a focus on versatility and modularity. Such as the card wallet for men, as compact as a smartphone and comprising several independent sections linked by a system of press studs, or the ladies wallets with a removable card wallet or change purse and in two sizes – long or compact format – for use in any situation.

Diaries took on a new palette of colours inspired by riders' jerseys, while the writing objects range, available in 28 additional stores, confirmed its success.

Finally, for this year's theme, Hermès worked with Actes Sud to co-edit the work "Féroces et fragiles, les félins dans l'œuvre de Robert Dallet" ("Fierce and fragile - feline in the work of Robert Dallet") which pays tribute to the talent and sensitivity of this painter of animals, with whom the house has forged a close link.

1.3.1.3 Equestrianism

In a highlight of 2016, the Hermès saddle took its place at the highest international level via three new models, the result of a close collaboration between the master saddler at Hermès, Laurent Goblet and the partner riders of the house. The *Hermès Cavale* jumping saddle, developed with Simon Delestre, offers a central balance as close as possible to the horse. The Hermès dressage saddle (*Arpège*) was created with input from Jessica von Bredow-Werndl and Julia Chevanne. The

Hermès jumping saddle *Allegro*, successor of the Steinkraus, is especially favoured by North American riders who practise "two point" riding.

The launch of these models coincided with an advertising campaign on the theme of the horse-rider-saddle trio: "Les trois font la paire" ("Three make the pair").

The partner riders of Hermès have stood on the most prestigious podiums. Simon Delestre became the world showjumping no. 1 in March. Jessica von Bredow-Werndl came 5th in the international dressage ranking. Finally, the young eventing rider Astier Nicolas achieved a historic double at the Rio Olympics: team gold medal and individual silver medal, he is the most decorated French athlete of these Games, across all disciplines.

A complete dressage collection has been designed around the *Hermès Arpège* saddle, including the specific bridle (strap and bridle) as well as a leather-lined tailcoat and a dressage trouser.

Finally, the rider's equipment was completed with boots and mini-chaps for shows designed by Pierre Hardy, and a technical fine polo neck jumper woven from extra-fine, breathable Merino wool.

1.3.2 READY-TO-WEAR AND ACCESSORIES

The Ready-to-wear and Accessories sector is the Hermès Group's second largest sector, representing consolidated sales of 21%. In 2016, it generated revenue of €1,099 million, representing a slight increase.

1.3.2.1 Women's ready-to-wear

Nadège Vanhée-Cybulski, creator of ladies' ready-to-wear, has deepened her reflection on functional clothing to craft a reliable collection suitable for everyday wear, aimed at all women.

For summer, the silhouette takes on concise, pure lines, with laid-back proportions. The Hermès language is embodied in the techniques and finishes, with a new association of noble and exclusive materials, the "leather twill", which combines printed twill and lamb leather on emblematic pieces. Exacting standards were also applied to the construction of the clothing: dresses and skirts cut on the bias, double-sided, two-colour montage for reversible pieces, use of specific expertise such as the grafting technique.

For winter, Nadège Vanhée-Cybulski explores wardrobe staples, bringing unprecedented lightness and a lean silhouette, for elegance and freedom. The archives and history of the house are a limitless source of inspiration to her. In a nod to the 1960s and as a homage to Catherine de Karolyi, suits are in bright colours such as kumquat, overcoats have geometric lines and are supple and generous, with prints available for a total look, while the mini skirt comes back to the forefront. Equestrian heritage is there via a jersey reinterpreted to spawn tops, dresses, a mesh sweater with contrasting or tone-on-tone cut-out graphics, as well as a new double-sided association whose lamb inlays play on the matte/glossy appearance of the materials.

1.3.2.2 Men's ready-to-wear

Véronique Nichanian, creator of men's ready-to-wear, designs collections which explore the male wardrobe playing with lines, the richness of materials, mix of colours and taste for detail.

The spring-summer collection is characterised by a graphic, poetic vitality, with supple and sophisticated silhouettes. The range of colours crosses neutral tones (white, chalk, pewter, pepper, navy and black) and bright notes (aqua, tomato, bright blue and mint green). Series of horizontal and vertical stripes, contrasting colour-blocking and silkscreen printed motifs, notably a tattooed rose, herald a carefree summer.

The collection has many technical innovations, such as the application of silk on the blend used for the jackets and unstructured silk T-shirts, the Surprise silkscreen printing "à la connétable" on the showerproof cotton jackets, as well as reversible jackets.

For autumn-winter, the collection is joyful and impertinent, with dissonant compositions combining winter tones (camel, steel grey, flannel, khaki and navy), vibrant colours (turquoise, raspberry, cassis) and pure blacks.

The combination of materials and contrasting textures adds a dash of modernity: mix of shiny and smooth calfskin panels for jackets and overcoats in a range of calfskins or jackets with a silk Virages structure, surface effects for *Profil Equestre* jackets in babylamb or nubuck calfskin and smooth calfskin, and matte/glossy designs for *dévoré* checked jackets and glazed calfskin jackets and parkas, of showerproof Toilbright or shaded chevrons to create optical effects.

With both of these collections, Véronique Nichanian illustrates with passion and enthusiasm her contemporary take on the men's collection.

1.3.3 ACCESSORIES

The accessories department comprises jewellery in enamel, horn, lacquered wood and leather, as well as belts, hats, gloves, the Internet of things and shoes.

1.3.3.1 Jewellery accessories

Echoing this year's theme and the *Picnic bag*, wicker featured heavily in the jewellery accessories collections. This natural material, worked with creativity and expertise, scattered with *Médor* nails and lined with Barénia calfskin, becomes just as desirable as an exotic leather or a precious metal.

Additions were also made this year to the dog bracelet collar collection with the five *Mini Dog* bracelets. Faithful to the spirit of their illustrious ancestor, they are inspired by its iconic features but reinterpret them freely and in varied fashion. With a shiny clasp and decorated with studs, rings or perforations, the *Mini Dog* bracelets are perfect for collecting.

The story of badges for men continues with a touch of humour: a seahorse with a saddle evokes the mounts of the Greek Gods and pays homage to the house's equestrian roots.

1.3.3.2 Belts

In 2016, women's belts were slimmer than ever, and were worn on the waist as well as the hips. They have refined, elegant buckles like jewels, finished off with a saddle rivet or inspired by the *Chaîne d'ancre* link.

For men, the equestrian inspiration is omnipresent with graphic buckles showing showjumping obstacle bars which conceal a discreet H.

1.3.3.3 Hats

The hat collections focus on natural materials: hemp or paper braiding, straw, cotton and felt are recast with both feminine and masculine twists. Available in a range of shapes and sizes, decorated with silk, leather and ribbon, these models are extremely elegant and whimsical. A playful spirit embodied by an original flower of printed silk twill, whose petals form a bouquet of cheery colours. Fixed to a clip, it can be worn in the hair, attached to a hat or the lapel.

1.3.3.4 Gloves

Gloves showcased service and a tailored approach, bringing a new focus to the glovemaking expertise of the house with customers being given the option to personalise their gloves.

1.3.3.5 The Internet of things

A new model was added to the *Apple Watch Hermès* collection, the Double Buckle Cuff in Swift or Epsom calfskin, inspired by a sandal designed by Pierre Hardy, the Hermès creative director for shoes and jewelry. It elegantly clads the wrist in new colours – Étope, Blue Agate and Rose Jaipur. A new Single Tour bracelet with an extending buckle was also launched. A reinterpretation of a classic shape, it combines the elemental simplicity of Barénia calfskin with the modernity of the Hermès deployment buckle, which opens by pressing two side buttons.

The new *Apple Watch Hermès* Series 2 models include GPS, water resistance 50 metres, a dramatically brighter display, a powerful dual core processor and the watchOS 3. The new *Apple Watch Hermès* are sold with an additional Hermès Orange Sport Band, finished with a pin etched with "Apple Watch Hermès". Water resistant, light and flexible; comfortable and resistant, the water resistant Sport Band is perfect for sporting pursuits.

1.3.3.6 Shoes

Pierre Hardy, creative director for women's and men's shoes, has illustrated this year's theme with collections drawing heavily on natural materials, full grain calfskin, suede goat leather and printed silks, in a free and relaxed style.

For summer, the women's shoe collection elevates leatherwork with end-to-end stitching, dyed in sections or perforated. Sandals have large cut-outs to provide ventilation for the feet, and the designs are reminiscent of a Mediterranean summer, bay leaves or olive branches, while sports shoes made of technical canvas and leather suggest a faster pace.

Winter sees a contrast between a palette of whites and a range of warm tones, rosewood, tobacco and burgundy. Heels are in a range of shapes, pyramid, straight or semi-wedge. Court shoes or boots are made with Tuscan calfskin, a structured, transparent leather which gains a patina over time. The *Equator* “tattoo” print is transferred to leather and silk via silkscreen printing, giving an assured silhouette.

The men’s collection lets the nature of the leathers shine, playing with the different grains and matte and glossy finishes. In summer, the style is relaxed: loafers and brogues with eyelets allow for freedom of movement and spontaneity. Sports shoes combine supple, light materials and contrasting colours, highlighting the summer ambience: yellow, sky blue, navy.

For winter, lace-up boots with a thick rubber sole combine comfort and style. The stirrup-bar buckle on a brogue gives a nod to the equestrian heritage of the house, while the sports shoes stay true to form with a two-colour construction in supple suede goat leather on a sleek rubber and leather sole.

1.3.4 SILK AND TEXTILES

Silk and Textiles represent Hermès’ third largest sector, accounting for 10% of sales. In 2016, this business line achieved revenue of €515 million, a slight decrease of 1%.

1.3.4.1 Women’s silk

In 2016, inspired by this year’s theme “*La nature au galop*”, women’s silk inspired new designers, such as the South African potter’s collective Ardmore Artists, with *La Marche du Zambèze*, or the Brazilian illustrator Filipe Jardim, with *Modernisme tropical*. It also paid homage to the painter Robert Dallet, incomparable painter of the animal kingdom, with the *Panthera Pardus* and *Dans l’atelier de Robert Dallet* scarves.

As always, silk was a remarkable canvas for bringing different artistic expressions to life. Focussing on colour, with an invitation to “colour-in” on the *Mythiques Phœnix* and *Les Légendes de l’arbre* scarves, which are half multicoloured and half monochrome. Focussing on design, reworked in positive or negative monochrome on the “tattoo” scarves *Jungle Love* and *Flamingo Party*. And focussing on the material itself, with the Abeilles printed silk twill used for these last two motifs. This precious material, a historic speciality of the weavers of Lyon, is decorated with small woven jacquard designs. In addition to the “tattoo” scarves, it returns to the collection with a washed silk diamond-shaped wrap scarf available in two sizes and a range of plain shades, as well as a bow tie and a maxi-twill scattered with polka dots.

For autumn-winter, the plain collection explores the artisanal expertise and natural materials of faraway lands: Mongolian camel wool is combined with cashmere in a soft stole finished with leather, while the giant cashmere and silk *Plume* scarf is woven with a graphic motif inspired by the ikat technique.

Finally, a new size was launched: a new smaller addition to the maxi-twill family. With its reduced length and two faces printed with designs from the scarf and tie collections, it has both masculine and feminine aspects.

1.3.4.2 Men’s silk

Season after season, the 7 cm tie features in the collections. It is now available on silk twill printed with classic or whimsical motifs, and on heavy woven silk. In a nod to this year’s theme, it is also enhanced by new floral micro-designs printed on silk twill.

The 100 scarf continues to be the classic size for the men’s collection, and is available in a range of materials and designs. Silk and cotton for the summer, cashmere and silk for the winter, it provides ample inspiration for new equestrian, graphic or figurative ideas, such as the *And the Winner is*, design, featuring a pinball machine fully outlined in ballpoint pen, or the *Grrrrr!*, design, with a surprising close-up image of a bear.

The cashmere and silk diamond-shaped wrap scarf returns for the winter, either plain or printed with the *Quadrige* design, unframed and bold.

1.3.5 OTHER HERMÈS SECTORS

The other Hermès sectors include Jewellery, the Art of Living and La Table Hermès. In 2016, they achieved revenue of €336 million, representing a 2% rise at constant exchange rates and accounting for 6% of the Group’s total revenue.

1.3.5.1 Jewellery

2016 saw the launch of the fourth fine jewellery collection, celebrating fifteen years of Pierre Hardy’s collaboration with Hermès.

To write this new chapter, Pierre Hardy worked around the concept of time, a theme dear to the house. Three new pieces were launched: *Ombres et Lumière*, a river of pearls in subtle shades, from deep grey to pearly white, symbolising grains of sand passing through an hour-glass, *Attelage céleste*, a graphic piece made of yellow gold and coloured stones reminiscent of a sundial and the mechanics of time, and *Feux du Ciel*, whose rows of fine colourful stones evoke the fleeting, elusive beauty of sunrises and sunsets.

This collection was unveiled to the international press in July, at the Faubourg Saint-Honoré store, in a futuristic setting created by French artist and architect Didier Faustino. Named *HB-IV Continuum*, this event showcased the spirit of continuity which characterises the unique style of Hermès jewellery, exhibiting the new gold and, for the first time, silver, pieces next to the fine jewellery collection. The exhibition opened to the public in September.

The silver *Chaîne d’ancre* breaks away from convention: transgressing all codes, it takes on a *punk* look, with the addition of a safety pin. Its pure, precise lines are larger than life and some are enhanced by rose gold on chains with multiple links. It demonstrates once again the Hermès agility in giving a new twist to items to bring out all of their beauty.

1.3.5.2 Art of living

Hermès Art of Living endeavours to be an elegant complement to its clients' daily lives, including in their living spaces. Faithful to its culture and values, Hermès offers a range of unique items in an understated, resolute style: furniture and lighting, furnishing fabrics and wallpapers, ornaments and tableware, or personalised creations. Exacting standards in form, intelligent functionality, and superior materials call on exceptional skills that combine creativity with precision of gesture.

In 2016, the collections of items, furniture and textiles created under the auspices of deputy artistic directors Charlotte Macaux-Perelman and Alexis Fabry were unveiled at the Milan International Furniture Fair, in a brick pavilion designed by Mexican architects Mauricio Rocha and Gabriela Carrillo.

The family of office items and curios *Équilibre d'Hermès*, whose pure and elementary forms combine leather, maple, wicker and brass, echoes the tight lines of the *Oria d'Hermès* and *Équis* chairs and table. The new *Sofa* completes the core furniture collection. All of these creations were received excellently by the press and visitors.

The furnishing fabrics and wallpapers feature imaginary and colourful urban geometry. *A Walk in the City*, a triptych of decorative panels with bright colours and structured exuberance, attracted particular attention.

1.3.5.3 Hermès tableware

To celebrate this year's theme *Nature au galop*, Hermès tableware paid tribute to naturalist painter Robert Dallet, who worked with Hermès for twenty-five years, creating many silk scarves. This resulted in *Carnets d'Équateur*, a new porcelain tableware service designed to reflect the spirit of a travel journal, where jaguars, macaws, panthers and impalas frolic surrounded by lush vegetation. The spontaneous sketches and hyperrealist gouache are the work of Robert Dallet which come to life and tell a story on the porcelain. Lauded by the press and quickly adopted by customers, this service has already proven to be a success.

1.3.6 PERFUMES

In 2016, Perfumes continued their dynamic upward trend, generating revenue of €262 million, a rise of 9% at constant exchange rates.

The year began with the appointment of Christine Nagel as creative director perfumer for Hermès Perfumes. Christine Nagel joined Hermès in 2014 as creative perfumer alongside Jean-Claude Elléna. She was then made head of creative perfumery and head of Hermès Perfumes heritage, with Jean-Claude Elléna becoming advisor to the Group management of Hermès Perfumes.

The launch of several new products ensured business growth.

In the first half of the year, the Cologne collection set the pace with two new colourful creations: *Eau de rhubarbe écarlate*, designed by Christine Nagel, with its new, compelling and tactile freshness, while *Eau de néroli doré*, by Jean-Claude Elléna, paid homage to neroli, a component of traditional Cologne, using it in much higher than usual doses.

For 1 May, the Hermessence collection, by Jean-Claude Elléna, revealed its thirteenth opus: *Muguet Porcelaine*.

The second half of the year saw the launch of *Galop d'Hermès*, the first ladies' fragrance by Christine Nagel, available mainly in Hermès stores. For this fragrance, which is a tribute to a fiery, free femininity, wilful and passionate, Christine Nagel imagined a paso doble between leather and rose, natural materials which are emblematic of fragrance and the world of Hermès. The stirrup-shaped bottle, pure and airy, a remarkable feat of ingenuity, echoes the equestrian tradition of the house and its history: it is a modern new edition of a one-off bottle given in 1930 to guests at the opening of the New York store, the first Hermès store to open outside France.

Along with these new launches, *Terre d'Hermès* continued to build on its status as a classic fragrance for men. Supported by a new advertising campaign, sales grew by 1.7% in a highly competitive market, with the fragrance ranking number 3 in France.

1.3.7 WATCHES

With consolidated revenue of €158 million in 2016, Watches division saw a slight decrease in its revenue (-3%) at constant exchange rates, despite the retail business remaining mostly stable. This figure does not include sales as a result of the partnership between Hermès and Apple of the *Hermès Apple Watch*.

Sales on the network of external retailers remained more difficult, particularly in Asia (excluding Japan).

For Hermès, 2016 was the first full year of sales for the *Slim d'Hermès*, launched at the end of 2015, with new additions to the range. A new watch, both classic and contemporary, it was acclaimed by industry specialists as much for the quality of its finish as for the new aesthetic it introduced. Ultra-minimalist and simple, going against the tide in a market prone to ostentation, it was also praised for its design and for Philippe Apeloig's innovative typography. The *Slim 39.5 mm* has an extra-flat Hermès calibre, developed in partnership with Vaucher Manufacture Fleurier, the H1950: this movement makes it one of the slimmest watches on the market. Since it was launched, five different models from the line have already been pre-selected for the Grand Prix de l'Horlogerie de Genève (GPHG) in 2015 and 2016.

2016 also saw success for the *Cape Cod* line, which was significantly updated and to which new additions were made at the end of the year to celebrate its 25th anniversary. This iconic line of the house, a "square in a rectangle" according to its creator Henri d'Origny, reinvents the *Chaîne d'ancre* motif bracelet, designed by Robert Dumas in 1938. In 1998 the house launched the twice-round bracelet designed by Martin Margiela. The models launched at the end of 2016 enable *Cape Cod watch* fans to discover resolutely new expressions in this line which are both graphic and escapist.

Finally, in 2016, the success of many of the jewelled pieces in the Watches division was confirmed: the *Faubourg*, *Arceau* and *Médor* lines once again received new exceptional designs, showcasing the combined expertise of the best artisan watchmakers and jewellers.

Thanks to its watch manufacturing workshop in Switzerland, Hermès now manufactures the vast majority of its watches and components in-house. Its expertise enables Hermès to express more than ever a fresh voice in the watch industry: a unique relationship with time, playing with it but without seeking to control it. It does this while asserting a unique style specific to the house which is invigorated by the other sectors.

1.3.8 OTHER PRODUCTS AND BRANDS

1.3.8.1 Cristallerie Saint-Louis

In 2016, cristallerie Saint-Louis confirmed its strong identity, characterised by an audacious, precise size, deep shades, extreme finesse of design and materials. Thanks to a new kiln, the year was particularly colourful.

In decoration, the *Les Endiablés* collection does away with convention. In a surprising combination of colours and gobs, different objects (vases, goblets, candlesticks) in varying sizes suitable for all occasions can be used either way up, depending on the mood of the user.

In lighting, the adjustable *Arlequin* chandeliers are available in three new combinations of colour, intended as shades from the same palette: a brilliant blue, an enchanting amethyst and violet, and an enigmatic black and satin crystal. An exceptional piece, a daring, 18-light candelabra in chartreuse/amethyst/flannel grey, was unveiled in April at the International Furniture Fair in Milan.

The *Royal* lighting range, characterised by its exceptional options for personalisation (over 15,000 different combinations of sizes, decors and shades), enhances its modularity even further by offering short versions for interiors with lower ceilings.

This exclusive service comes with an Ipad® app which makes it easier for the customer to take control of their bespoke project, by simulating – in augmented reality – the integration of the chandelier into a photo of their interior.

Colour was also a key feature of the points of sale. A special “pop-up” effect display window with a completely white backdrop, the only contrast being provided by the colours of the chandeliers, tableware and ornaments, was installed in the Paris store on rue Royale, from April to September. It is to be adapted in over ten stores all over the world.

The travelling “four seasons” exhibition which brings together exceptional pieces, heritage pieces and permanent collections, began its journey in 2016.

New international stores continued to open throughout 2016. In Asia with the opening of a pop-up store in China World, Beijing, and in-store spaces in three Lane Crawford stores in Hong Kong, and Shinsegae in Seoul. New showrooms opened in several stores: Million Lightings in Singapore, Toyo Kitchen in Nagoya and Osaka. In Beirut, Lebanon, a 100 m² store opened in November. In Europe, the collections can now be found in three major German department stores (KDV in Berlin, Oberpollinger in

Munich and Breuninger in Stuttgart) while an in-store space has opened in the Mandarin Plaza Mall in Kiev.

1.3.8.2 Puiforcat

In 2016, Puiforcat used its creativity to highlight “the art of taste”, rolling out its new wine tasting collection, *Puiforcat Orfèvre-Sommelier*. This line, which breaks with tradition thanks to its glass without a stem, was designed in partnership with the Italian sommelier Enrico Bernardo. It was used to support the launch, featuring heavily in a series of dinners and tastings for the international press, for partners of the house and for some favoured customers, in Paris then Japan, China, Singapore and the USA.

The *Puiforcat Orfèvre-Sommelier* collection also features in the *La Table by Orient Express* pop-up restaurant installed in the original carriages of the famous blue train. For several weeks, customers visiting this exceptional space, which stopped at Paris, Bordeaux and Cannes, tasted the creations of the chef, Yannick Alléno, served at tables fully dressed by Puiforcat.

The house also continued to strengthen its commitment to the yachting sector by participating in various events such as the Monaco Yacht Show and the International Boat Show at Fort Lauderdale. All of these occasions provided opportunities to showcase the collections, in particular the unique tasting experience provided by a metal champagne cup.

At the same time, Puiforcat continued to optimise its production division via a range of industrial tool strategies, production and logistics processes, to maintain the quality upon which its reputation is built.

At the end of the year, design fans in New York enjoyed a preview of the *Bureau d'Architecte* collection of office accessories, designed by architect Joseph Dirand, and unveiled at the salon Art + Design at the Armory Show, in the heart of Manhattan.

1.3.8.3 Bootmaker John Lobb

Driven by Paula Gerbase, his artistic director, John Lobb's dynamic creativity is reflected in a sustained level of activity and a reasoned development of the offering, to focus efforts on both permanent and seasonal collections, while preserving the hand-crafted quality of his creations.

Several new pieces received a particularly warm welcome, such as the summer suede calfskin brogue with a non-lined upper, the Oxford made from a single piece of leather, the relaxed-style sneakers, and the range of stitched models known as storm welt with rubber soles.

In response to the permanent pursuit of comfort, the UK workshop in Northampton has developed an innovative Tensile construction, which gives a selection of Goodyear designs increased suppleness, as shown by the padded motif on the inside sole.

By Request orders were once again popular among customers seeking specially personalised products.

The visual identity continued to develop, with a complete overhaul of the website, the launch of new advertising campaigns and the online publication of editorial content to publicise the collections throughout the year. Finally, five Gestures' Series short films were produced and broadcast online on social media to promote the bespoke service. They showcase the patrimonial expertise of the Parisian workshop through the skill of its artisans.

1.3.8.4 Textiles

Holding Textile Hermès brings together under one structure all of our textile production expertise: from creation to fabrication, including weaving, engraving, printing, dyeing and finishing.

It supplies not only the Group's various sectors, but also external markets such as clothing and interior decoration, in particular for the brands Bucol, Créations Métaphores, Vérel de Belval and Le Crin.

In 2016 the textiles division invested in developing new products for the various homeware sectors.

2016 also saw the company consolidate its work towards improving the flexibility of production capacity, in order to provide a better service to stores, while maintaining the very highest quality standards.

Furthermore, Holding Textile Hermès closely monitors preservation and passing-on of expertise, by promoting apprentices and creating an innovation cell.

1.3.8.5 Tanning and Precious Leathers.

The tanning division handles the purchasing, tanning, dyeing and finishing of precious hides destined for high quality fashion and leather goods brands and manufacturers, as well as for the high-end watchmaking industry.

In 2016, the exotic leather market slowed down for the second consecutive year, reflecting the trends seen on the watches and ready-to-wear markets and, to a lesser extent, on the leather goods market, for which the situation is more varied depending on the brands. The calfskin division saw strong improvement as a result of the scope impact of the recovery of Les Tanneries du Puy at the end of 2015.

In this context, the division continued to increase its production and management potential of the Group métiers in its two sectors, exotic hides and calfskin.

Les Tanneries du Puy underwent a major organisational and technical restructuring, and major efforts were made to improve site security, work stations and manufacturing processes. This resulted in a major investment programme, which will continue in 2017. Synergies have been developed with the Tannerie d'Annonay, particularly in the area of supply, so that material between the two entities can be optimised. Thanks to these improvements, Les Tanneries du Puy began operations again in 2016 with high quality output, and played an active role in developing volumes for the Group's Leather Goods and Accessories sectors.

In 2016, the division also developed a chrome-free tanning alternative on its exotic hides. This process, which has taken several years to develop, will enable us to offer new finishes and colours from 2017 onwards which, until now, have proven difficult to obtain.

The tanning division is continuing its work and investments, in line with its objectives: to assert its position of excellence on the precious leathers market thanks to making supplies more stable, optimising production capacities, and developing expertise, innovation and creativity, while maintaining its exemplary behaviour in terms of adherence to ethical and environmental standards.

1.3.8.6 Hermès Horizons

With Hermès Horizons, Hermès has extended its traditional sheathing know-how, imaginative flair and sense of innovation to encompass all bespoke orders for private clients.

This unique service brings together the finest and most technical materials, utilising cutting-edge technology to create one-of-a-kind objects or fit out and upholster all types of vehicles.

The bespoke business continued to grow in 2016. Many objects were made to order for clients from all over the world. Specially designed bags, purpose-made trunks and made-to-measure furniture all provided opportunities to demonstrate Hermès' know-how and creativity. Among these unique pieces, Hermès Horizons created and sheathed a rickshaw, a traditional Japanese vehicle, in a contemporary version combining H canvas, leather and woven wicker.

In the aerospace sector, the seats and sofas of a private jet were produced.

As regards boats, the interior of a 55 foot speedboat was fully redesigned. The partitions, furniture and seats were sheathed in the Pantin workshop.

In the motor vehicle sector, a sports car was leather-sheathed by artisans. Numerous details were redesigned to enhance the passenger compartment and the exterior line.

In 2016, Hermès stores all over the world will also have had the opportunity to unite with a focus on special orders, via the "*Mon rêve Hermès*" competition. This in-house challenge gave store managers the opportunity to imagine a "dream object" specific to their location. This first edition was a resounding success, with 200 projects received. Six of them were selected: a picnic bag, a yoga set, a skateboard, a hammock, a kite and a table football table. They are currently under development as unique pieces, and will be available for customers in stores whose initiative has been selected.

1.3.8.7 Petit h

A "laboratory" dreamt up by Pascale Mussard, petit h brings together under one roof all the skills and materials represented by the Hermès Group and its brands (Puiforcat, cristallerie Saint-Louis, John Lobb, Le Crin, Verel de Belval, Créations Métaphores, etc.). Petit h makes these resources available to artists and designers in a unique creative venture. With their complicity, unused materials and objects left over from manufacturing workshops – leather, silk, horsehair, pieces of porcelain

or crystal, ready-to-wear or furnishing fabrics, metal pieces, etc. – are given a new lease of life by leather/saddler artisans, silverware experts, designers, master glassmakers and porcelain-makers, bootmakers, etc. This direct dialogue between ideas and artisans, using the material as a source of inspiration, leads to invention and unusual, innovative objects.

This dynamic has been enriched this year with a cooperation with the Belgian design duo Muller van Severen, presented in June at the D'Days design festival.

Moreover, like each year, petit h went in pursuit of Hermès customers all over the world, with two flash sales. For three weeks in November, the Geneva store was transformed by a set designed by students of the *Haute école d'art et de design* in Geneva (HEAD). In December, petit h invaded the ground floor of the Maison Hermès in New York, with its alternative vision of "Santa's workshop".

Nomadic by essence, petit h nevertheless retains a permanent home at the entrance to the store on rue de Sèvres, Paris, where a selection of objects is presented throughout the year, with regular creative workshops open to all.

1.3.8.8 Shang Xia

Chinese design brand Shang Xia seeks to make contemporary art of living available to its clients through simple, timeless objects that create a link between tradition and modernity, and Chinese culture and western culture.

2016 saw the expansion of the collections, with each object family offering a deeper and more varied range.

New two and three-seater sofas were added to the *Da Tian Di* furniture collection. Their design, which continues to be inspired by certain details of the Ming style, combines comfort, aesthetics and modernity, by combining refined materials, walnut, leather and fabric.

The new *Man Yue* bag was presented for the first time this year. The woven leather surface is reminiscent of the woven bamboo used in the *Qiao* tea service.

2016 also saw the launch of exceptional objects combining innovation and heritage, notably a carbon fibre table covered with a boluo lacquer finish, an ancient technique which has almost become obsolete, and encrusted with gold flecks.

1.3.9 PARTNERSHIPS

1.3.9.1 Faubourg Italia

In addition to its tableware and art of living collections, Hermès offers a complete range for the home that includes furnishing fabrics and wallpapers. The latter are developed in partnership with the Italian fabric producer Dedar, which also controls international distribution. A joint subsidiary, named Faubourg Italia, was created in 2011. Hermès International holds 60% of its share capital.

1.3.9.2 J3L

Hermès holds 30% of the share capital of J3L, a long-standing French supplier of the Group, specialising in metal parts destined principally for leather goods and fashion accessories.

1.3.9.3 Perrin & Fils

Holding Textile Hermès has a 39.5% stake in the share capital of Perrin & Fils. The Perrin Group specialises in weaving for a range of sectors as diverse as lingerie, furnishing fabrics, ready-to-wear and accessories.

1.3.9.4 Vaucher Manufacture Fleurier

La Montre Hermès holds a 25% share in the capital of Vaucher, the watchmaking production unit.

Located in the heart of traditional watchmaking territory, between Neuchâtel in Switzerland and the French border, the Vaucher production unit perpetuates superior know-how and produces high-end and prestige watch movements.

1.3.9.5 Bettina

Hermès holds a 40% share in the capital of Bettina, a long-standing partner of the Group. The company specialises in the production of *twilaine*, a unique blend of knit and silk, and operates in the ready-to-wear sector, but also in silk, textiles and the art of living.

1.3.9.6 Maison Pierre Hardy

In July 2016, Hermès took a minority stake in the capital of Maison Pierre Hardy (33%), a French shoe and fashion accessory design house directed by Pierre Hardy, its founder and artistic director. This partnership further strengthens the links between Hermès and Pierre Hardy, creative director of shoes and jewellery at Hermès.

1.4 ACTIVITY BY GEOGRAPHIC AREA

1

	2016 CA in millions of euros	2016 mix in %	2015 CA in millions of euros	2015 mix in %	Changes	
					At current exchange rates	At constant exchange rates
Europe	1,683	32%	1,590	33%	5.9%	7.5%
♦ France	719	14%	684	14%	5.2%	5.2%
♦ Europe (excluding France)	964	18%	906	19%	6.4%	9.2%
Asia-Pacific	2,502	48%	2,294	47%	9.1%	7.5%
♦ Japan	724	14%	600	12%	20.6%	8.6%
♦ Asia-Pacific (excluding Japan)	1,778	34%	1,694	35%	4.9%	7.1%
Americas	941	18%	884	18%	6.4%	7.2%
Others	77	2%	73	2%	4.7%	4.8%
CONSOLIDATED REVENUE	5,202	100%	4,841	100%	7.5%	7.4%

1.4.1 EUROPE

In France, the first floor of the Faubourg Saint-Honoré store was renovated and the layout improved. It now has a new dedicated space for ladies' fashion and a leather goods section with private lounges.

A major event took place in Italy in October, with the opening of a new store in Rome, to replace the Via dei Condotti store, which had become too small. Located in the same prestigious area, on via Bocca di Leone, the new 630 m² space distributed over two floors is the largest Hermès store in Italy. Its minimalist, warm décor is faithful to the codes of the house: mosaics on the floor, Calacatta marble, wood panelling and lacquered surfaces to contrast with the exposed brickwork, comfortable lounges... Vast and with plenty of natural light, offering a sequential pathway, the store showcases the creativity of all the Hermès sectors, with products for the home being presented for the first time in Rome.

In Switzerland, the Lausanne store reopened in May, with a sales area of 265 m². Fully renovated to architectural standards using materials to give a feeling of lightness and transparency, it gives an impression of serenity and calm which echoes the peaceful atmosphere of the nearby banks of the Léman lake.

2016 was marked by several events. Women's ready-to-wear collections were unveiled in the prestigious setting of the Republican Guard's manège in Paris, while men's ready-to-wear took over the Maison de la Radio. Shoe collections and a selection of bags were also presented to customers and the press during Paris Fashion Week in March.

Also in Paris, the glazed-roof arena of the Grand Palais hosted the seventh edition of the Saut Hermès, which saw a competition among the forty top show jumpers in the world, in the spring of 2016. With over 12,000 spectators and international broadcasting, this competition confirmed its status as a major event.

After 35 international editions between 2011 and 2015, the *Festival des métiers* became *Hermès hors les murs*. Presented in Amsterdam in early 2016, this travelling craftsmanship festival was also a great suc-

cess at the Carreau du Temple venue in the heart of Paris in November. On this occasion, craftsmen and craftswomen trained in ten different crafts showcased their know-how, experience and passion. Within an area of 550 m², a dedicated ten-module circuit enabled visitors to discover the talented hands that transform materials and manufacture bags, saddles, scarves, ties, jewellery, watches, gloves, etc. Furthermore, through the immersive experience of a 360-degree film, the visitors were invited to discover the master glass craftsmen and cutters of the French crystal manufacturer, cristallerie Saint-Louis.

Silk was also showcased to customers with an atypical pop-up store, *Hermèsmatic*, a quirky mini-laundromats enabling the owners of aged silk scarves to dip-dye them in jeans-blue or fuchsia and therefore give them a new lease of life. These temporary venues travelled across Europe from Strasbourg to Amsterdam, Munich and Bordeaux.

1.4.2 AMERICAS

In Brazil, Hermès has increased its presence by opening a second store: seven years after the opening of the São Paulo store, the house has opened for the first time in Rio de Janeiro. Located in the heart of charming Ipanema, in a typical 1940s building surrounded by hundred-year-old trees, the 160 m² store offers a wide selection of products, notably bathing collections. It opened in July, just before the Olympic Games. This was also an opportunity to highlight the fact that in 2016 Hermès became the official saddler for the Brazilian showjumping team.

In the USA, the Philadelphia store relocated in October, within the same King of Prussia shopping centre, the largest on the East coast. The petit h caravan stopped in New York in late 2016 and took over the ground floor of the Madison Avenue store to offer its quirky vision of «Santa's workshop». Several pop-up events brightened Hermès New York flagship, as well as the Hermès Parfumerie of Wall Street.

The «Fierce and Fragile, Big Cats in the Art of Robert Dallet» exhibition was inaugurated at the Bruce Museum in Greenwich, Connecticut, in January. The event, which marked the start of the world tour, was accompanied by an auction of exceptional Hermès objects, adorned with illustrations by Robert Dallet.

In Hawaiï, the store located in the Ala Moana shopping centre in Honolulu reopened in December, following a complete renovation.

Lastly, *Hermès hors les murs* opened in the heart of Mexico City in June and in Vancouver in September, where visitors had a glimpse of Hermès' skills and values.

1.4.3 ASIA-PACIFIC

In China, Hermès continues to expand, with a 23rd selective location, which opened in December in the heart of the MixC Shopping Mall in Chongqing. This historic city, nicknamed "the Mountain city", is a major administrative centre and coveted tourist destination. The store, with a surface area of 420 m², sets itself apart with its resolutely modern aesthetic, with a metal façade made of bronze panels enclosing a display window of silk scarves.

Furthermore, the Beijing Peninsula store, located right in the centre of the Chinese capital, has been renovated.

In Hong Kong, Hermès returned to the international airport in July, with a new 224 m² store bathed in natural light thanks to its large glass surfaces with views of the runway.

A fourth store opened in August in Macao, inside the Wynn Palace Hotel, a spectacular hotel-casino located on the dynamic Cotai Strip.

In South Korea, a rehabilitation plan was launched in 2016 and will continue in 2017. The Galleria and Shinsegae Gangnam stores in Seoul reopened following renovation work, in November and December respectively.

Singapore was marked by the reopening in May of its flagship store at the foot of the Liat Tower, at the intersection of Orchard Road and Angullia Park, thirty years after the first opening of a store at this same address.

Fully transformed, this store is a jewel of contemporary architecture, occupying four floors and topped with the famous firework maker on horseback statue. Inside the 670 m² store, visitors can discover for the first time in Singapore the entire product range of the house, or visit the temporary exhibition space on the top floor.

In Japan, a pop-up store made waves in the heart of the historic Gion quarter in Kyoto. Inside a machiya, a traditional wooden house, the pop-up store focused on silk in November and December, the first instalment of a series of events held over nine months to showcase the creativity and richness of the Hermès sectors.

Finally, in Australia, the Hermès Surfers Paradise store relocated in July to the Pacific Fair shopping centre in Broadbeach, on Australia's Gold Coast. With a surface area twice the size of the previous store, it has a distinctive Australian sandstone façade, an exceptional material.

Throughout the year, our customers were offered many activities. In Beijing, the Beijing Minsheng Art Museum hosted *The view from her*, a women's ready-to-wear event with an unprecedented staging through a choreography around Hermès dresses and dramatized spaces explaining the craft of the clothes. The men's universe benefited from a number of events in Japan around the theme *The nature of men*: miniflash happenings in Harajuku, Tokyo's youth district, a pop-up store in the Shinjuku Isetan gallery, and window displays dedicated to men in the Ginza House and other stores.

The *Wanderland* exhibition, a fairytale invitation to travel through an imaginary and surreal Paris in which typical backdrops – squares, cafés, and covered arcades – were inhabited by objects from the Hermès archives or collections, delighted the D Museum in Seoul in late 2016.

The *Fierce and Fragile, Big Cats in the Art of Robert Dallet* exhibition travelled to a number of venues in Asia: Hong Kong in September, Taipei and Taiwan in October and November, Mumbai in December. At each of these venues, it was highly acclaimed and attracted tens of thousands visitors.

The new *Hermèsmatic* happenings inaugurated in Europe also travelled across Asia in October, allowing customers from Malaysia, Thailand and Japan to transform their scarves by dip-dyeing.

1.4.4 HERMÈS POINTS OF SALE WORLDWIDE

Hermès products are available worldwide through a network of 307 exclusive stores. Hermès watches, perfumes and tableware are also sold through networks of specialised stores and in airport duty-free stores.

Europe

Austria: 2

2 concessionaires

Belgium: 3

3 branches:

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

Czech Republic: 1

1 branch:

- ◆ Prague

Denmark: 2

2 concessionaires

France: 32

14 branches:

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

18 concessionaires

Germany: 17

10 branches:

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

7 concessionaires

Greece: 1

1 branch:

- ◆ Athens

Ireland: 1

1 branch:

- ◆ Dublin

Italy: 16

11 branches:

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

5 concessionaires

Luxembourg: 1

1 concessionaire

Netherlands: 4

2 branches:

- ◆ Amsterdam De Bijenkorf
- ◆ Amsterdam PC Hoofstraat

2 concessionaires

Norway: 1

1 concessionaire

Portugal: 1

1 branch:

- ◆ Lisbon

Principality of Monaco: 1

1 branch:

- ◆ Monte Carlo

Russia: 2

2 branches:

- ◆ Moscow GUM
- ◆ Moscow Stoleshnikov

Spain: 5

5 branches:

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

Sweden: 1

1 concessionaire

Switzerland: 12

9 branches:

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

3 concessionaires

Turkey: 3

2 branches:

- ◆ Istanbul
- ◆ Istanbul Istinye

1 concessionaire

United Kingdom: 9

7 branches:

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

2 concessionaires

Americas

Argentina: 1

1 branch:

- ◆ Buenos Aires

Brazil: 2

2 branches:

- ◆ Cidade Jardim
- ◆ Rio de Janeiro

Canada: 5

4 branches:

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

1 concessionaire

Caribbean: 1

1 branch:

- ◆ Saint-Barthélemy

Chile: 1

1 concessionaire

Mexico: 6

4 branches:

- ◆ Mexico City Masaryk
- ◆ Moliere
- ◆ Mexico City Palacio Perisur
- ◆ Mexico City Santa Fe

2 concessionaires

Panama: 1

1 concessionaire

USA: 34

27 branches:

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

7 concessionaires

Asia

China: 24

23 branches:

- ◆ Beijing China World
- ◆ Beijing Park Life
- ◆ Beijing Peninsula Palace Hotel
- ◆ Beijing Shinkong
- ◆ Chengdu Swire
- ◆ Chongqing
- ◆ Dalian Furama Hotel
- ◆ Guangzhou La Perle
- ◆ Guangzhou Taikoo Hui
- ◆ Hangzhou Hubin Store
- ◆ Hangzhou Tower
- ◆ Harbin Mykal
- ◆ Kunming Golden Eagle
- ◆ Maison Shanghai
- ◆ Nanjing Deji
- ◆ Ningbo Heyi Avenue
- ◆ Qingdao Hisense Plaza
- ◆ Shanghai IFC
- ◆ Shanghai Plaza 66
- ◆ Shenyang Mixc
- ◆ Shenzhen City Crossing
- ◆ Suzhou Matro
- ◆ Wuhan International Plaza

1 concessionaire

Hong Kong: 8

8 branches:

- ◆ Galleria
- ◆ Harbour City
- ◆ Hong Kong International Airport
- ◆ Kowloon Elements
- ◆ Lee Gardens
- ◆ Pacific Place
- ◆ Peninsula Hotel
- ◆ Sogo

India: 2

2 branches:

- ◆ Mumbai
- ◆ New Delhi

Indonesia: 2

2 concessionaires

Japan: 40

31 branches:

- ◆ Chiba Sogo
- ◆ Fukuoka Hakata Hankyu
- ◆ Fukuoka Iwataya
- ◆ Hiroshima Sogo

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

9 concessionaires

Kazakhstan: 1

1 concessionaire

Macao: 4

4 branches:

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

Malaysia: 3

2 branches:

- ◆ Kuala Lumpur Pavilion
- ◆ The Gardens

1 concessionaire

Philippines: 1

1 concessionaire

Singapore: 7

7 branches:

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

South Korea: 17

10 branches:

- ◆ Busan Shinsegae
- ◆ Daegu Hyundai
- ◆ Seoul Lotte C2
- ◆ Seoul Dosan Park
- ◆ Seoul Galleria
- ◆ Seoul Hyundai
- ◆ Seoul Hyundai CoEx
- ◆ Seoul Shilla
- ◆ Seoul Shinsegae
- ◆ Seoul Shinsegae Gangnam

7 concessionaires

Taiwan: 9

6 branches:

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

3 concessionaires

Thailand: 3

2 branches:

- ◆ Bangkok Siam Paragon
- ◆ Central Embassy

1 concessionaire

Vietnam: 2

2 concessionaires

Middle east

Bahrain: 1
1 concessionaire

Kuwait: 1
1 concessionaire

Lebanon: 2
2 concessionaires

Qatar: 2
2 concessionaires

United Arab Emirates: 6
6 concessionaires

Oceania

Australia: 4
4 branches:
◆ Brisbane
◆ Melbourne
◆ Pacific Fair
◆ Sydney

Guam: 1
1 branch

Saipan: 1
1 branch

1.5 SIMPLIFIED GROUP ORGANISATIONAL CHART

1

1.5.1 OVERVIEW DESCRIPTION OF THE GROUP AS AT 31 DECEMBER 2016

HERMÈS INTERNATIONAL



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

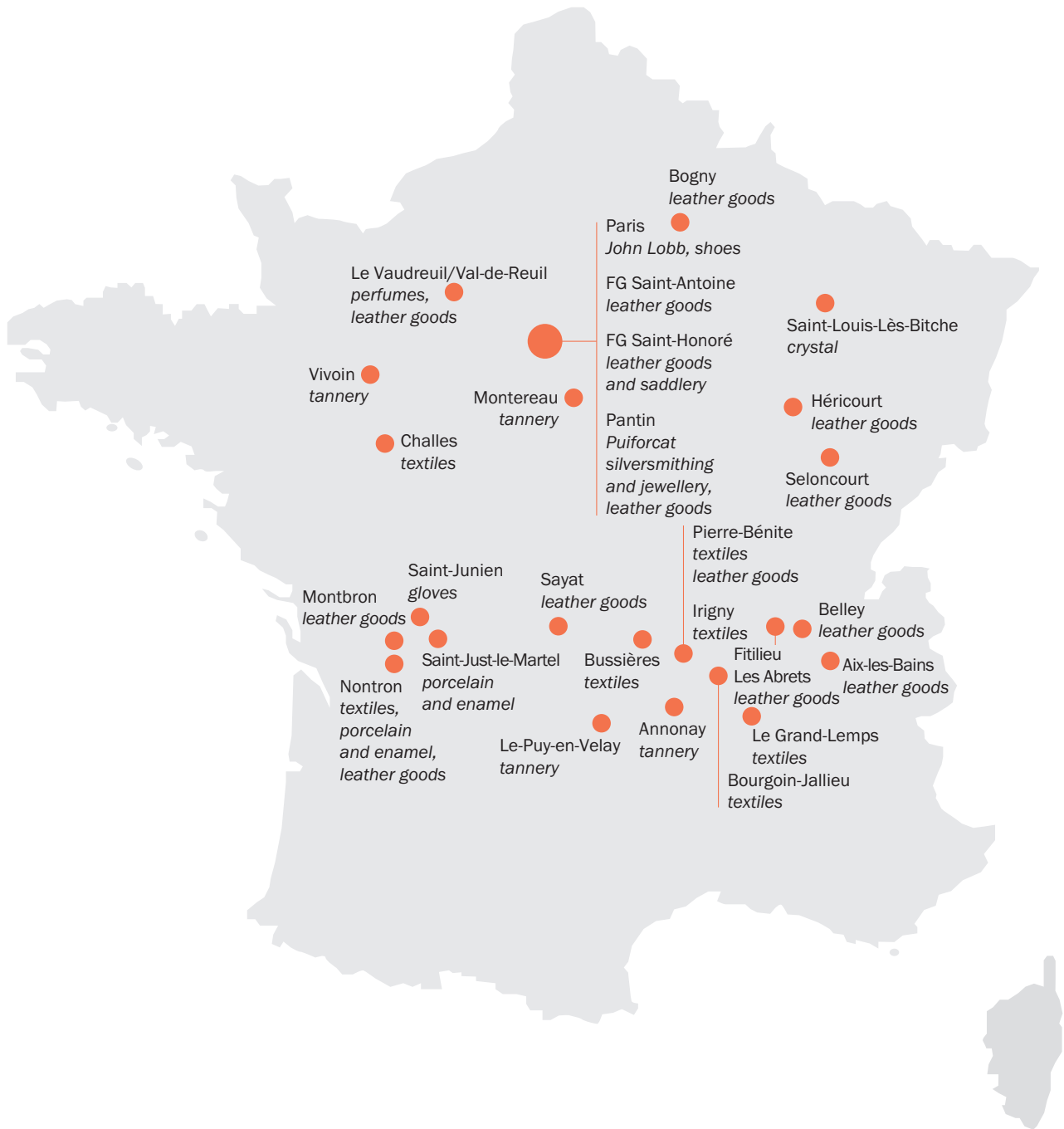
(1) Furnishing fabrics

The main consolidated companies as at 31 December 2016 (distribution subsidiaries and holding companies of the divisions) are listed in Note 32 of the consolidated financial statements.

1.5.2 PRODUCTION FACILITIES

The Hermès Group operates 50 production sites, including 38 in France, divided over 44 geographic sites (including 32 in France, 3 in Switzerland, 2 in the United States, 4 in Australia, 2 in Italy and 1 in Great Britain), as well as the logistics centre in Bobigny.

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



1.6 PROPERTY

In Paris, the Group now occupies office surface of approximately 26,000 m², mainly near its historical registered office of 24, rue du Faubourg-Saint-Honoré and 19-21, rue Boissy-d'Anglas, which it owns. Staff are also assigned to office premises in rue de la Ville-l'Évêque and rue d'Anjou, rented to third parties under commercial leases, and on a site located at rue du Faubourg-Saint-Antoine, which also houses a leather goods workshop.

In 2016, in Bobigny, the Group continued the work to increase the size of its 21,000 m² logistical site, which it owns.

In Pantin, Hermès occupies 83,000 m² of manufacturing premises and office space in the town centre, most of which it owns, including the Jean-Louis Dumas Space, which opened in 2015 and the Cité des métiers, completed the year before and which won the prix de l'équerre d'argent 2014.

Concerning the production sites, the Group is the owner of 41 of the 50 units that it operates. (please refer to page 30 for a detailed list).

A new leather goods workshop, located in Franche-Comté, in Héricourt, opened in 2016 and phase 1 of the works on our future leather goods site in Normandy located in the Val de Reuil commune is complete.

Hermès products are sold worldwide via a network of 307 exclusive stores (a detailed list is given on pages 25 to 28). Of the 307 Hermès exclusive retail stores throughout the world, 210 are operated as branches. Most of these are rented under long-term commercial leases intended primarily to ensure the continuity of operations over time. The Group also owns the buildings that house certain stores, including those in Paris, Ginza in Tokyo, Dosan Park in Seoul, The Galleria in Hong Kong, Beverly Hills in the US and in Geneva, Switzerland. Furthermore, the Group owns a commercial and office building in London which was acquired in 2009 and is let to an external tenant. The branches are located in the following geographical areas: 70 in Europe (including 14 in France), 39 in the Americas (including 27 in the US), 95 in Asia (including 31 in Japan), and 6 in Oceania.

1.7 FONDATION D'ENTREPRISE

Promoting expertise, supporting design, improving the transfer of knowledge across the generations, while leaving behind a sustainable planet for future generations: these have been the objectives of the Hermès Fondation d'Entreprise since it was set up in 2008. These causes closely fit the Hermès values and culture, and are applied by the Foundation to the field of common good and in a flexible way with the operations specific to the house. Sponsorship is a voluntary initiative and our discretion is used to gain the efficiency sought from our support. Far from being content with merely alleviating their difficulties, we are committed, by working with decision-makers, to support company transformations: this involves taking the time to explore new solutions and to design new and innovative responses to societal and artistic challenges... We apply these convictions to everything we do: supporting artistic imagination with critical and enlightened opinions, fostering knowledge transfer to help young people to build their future, highlighting human ability to manufacture in an innovative and prospective way using ancestral expertise, promoting manual craftsmanship as a source of development. The Foundation's daily task is to listen to civil society players who share the same concerns and play a role in the collective drive towards a more harmonious world.

The Foundation expresses its various commitments in different ways. It implements programmes championed directly by its team which aim to give beneficiaries a fertile context in which to realise their ambitions:

Skills Academy, Prix Émile Hermès, artists' residences at Hermès manufacturing sites and Immersion... Others are initiated in partnership with general interest bodies with which we share objectives; this was the case in 2016, with Manufacto, la fabrique des savoir-faire, developed with the Paris board of education, les Compagnons du devoir and l'école Camondo (Paris) to raise awareness among children of manual craftsmanship. Our support for creativity in the area of live spectacle would be unthinkable without the support of and sharing with institutions such as the Théâtre de la Cité internationale, le Festival d'Automne and the Théâtre des Amandiers-Nanterre. Finally, more traditionally, calls for projects enable us to identify the most relevant stakeholders to deal with the challenges posed by the assistance programme; such is the case of H3 in which employees of Hermès can themselves become involved in solidarity and biodiversity protection initiatives.

Our role is to make it possible to bring projects to life, meet the conditions necessary to reach their aim, to support the women and men who work for the common good. The Foundation would not be effective without their skill and commitment. This involves decision-making and risk-taking, trust and respect, but also optimism for the future, come what may.

This text by Catherine Tsekenis, Director of the Fondation d'Entreprise Hermès, appears in the complete activity report available at: www.fondationentreprisehermes.org, "The Foundation" section.

1.8 RISK FACTORS

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

The main risk factors for the Group, taking its business model into account, are described in this chapter.

A detailed description of the Group's risk management system is set out in the Chairman's report on internal control and risk management procedures on page 125.

1.8.1 RISKS LINKED TO THE OPERATIONAL STRATEGY

1.8.1.1 Limiting industrial risks and respecting the environment

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

Hermès believes that the financial risks to its business linked to climate change are not currently significant (Article L. 225-37 amended of the French Commercial Code). The Group is implementing a low carbon strategy and is applying a certain number of measures to reduce its energy consumption and emissions, from supplies, manufacturing sites and its stores. In addition to these in-house efforts, Hermès has been implementing since 2012 a voluntary Group carbon offsetting scheme (Fonds Livelihoods).

The Hermès environmental initiatives are detailed in the sustainable development section (chapter 2) of this report.

1.8.1.2 Control over sourcing

Hermès retains control of its production, with the majority of its products being manufactured in-house.

Hermès has developed long-term relationships with its partners and suppliers, thereby better protecting its supplies and critical know-how. Hermès carries out targeted audits to ascertain that its suppliers' opera-

tions meet the Group's expectations. In some cases, it will buy into carefully selected companies to ensure the stability of these relationships. Significant work has also been carried out to optimise and secure the supply chain. Finally, the Group is strengthening supply protection, implementing a policy of diversification and limitation of supplier dependence, and building up strategic inventories.

1.8.1.3 Balancing and safeguarding our distribution

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

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

The Group has 307 points of sale with the Hermès brand, including 210 branches which generate over 80% of revenue. A list of stores owned by the Group can be found on page 32.

In addition to this, the exposure of sales to seasonal phenomena is limited: 53% of total sales were generated in the second semester of 2016 (compared with 53% in 2015, and 54% in 2014).

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

1.8.1.4 Minimising risks to property assets

All property-related transactions are handled and centralised by the property development department. This contributes to the judicious control of critical issues:

- ◆ identifying and assessing the viability of locations for distribution and production facilities and administrative offices based on qualitative and technical criteria;
- ◆ directly or indirectly overseeing key construction projects to ensure the work is properly carried out;
- ◆ supervising inspection plans for the Group's main sites, to ensure they conform to structural and fire safety regulations. These inspections are supplemented by prevention system reviews carried out by the Group's insurers. In addition, the Property Safety Committee is responsible for overseeing potential risks and for ascertaining that Group safety rules are duly applied. It also systematically follows up on all action plans.

1.8.1.5 IT risk monitoring and prevention

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

The Group's IT systems department works under an information technology governance charter and has drawn up a corpus of procedures that apply to all Group companies. IT security and Group procedure compliance audits were carried out at the Group information systems department (DSI) and within major subsidiaries.

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

As regards IT risk prevention, work carried out in 2016 focused mainly on enhancing the security of central systems, the centralisation of access rights to facilitate their management, ensuring the security of internal and external access, protecting workstations, preventing leaks of confidential data and improving backup and breakdown tolerance mechanisms for critical systems to ensure continued operation in the event of an incident.

As is the case each year, internal, Wifi and external network intrusion testing and computer crash simulations were carried out.

1.8.1.6 Compliance with applicable laws in all areas

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

Internally, given the increasing complexity of each legal matter, the legal department is organised into skill divisions with specialists from the various main legal fields: intellectual property law, company law and stock market law, property law, business law (contracts of all kinds, competition, distribution, consumer). Employment and tax matters are respectively handled by the Group's human resources and finance departments, which work in conjunction with the legal department.

Externally, in each region where the Group operates, Hermès is advised by leading local independent law firms, renowned and specialised in each of the numerous areas covered. The Group continues to be involved in ongoing litigation, but there are no pending settlements that are expected to have an impact on its business or on its financial results. The Company is not aware of any other pending or potential governmental, legal or arbitration proceedings that may have, or that over the last twelve months have had, a significant impact on its financial condition or profitability and/or on the financial position or profitability of the Group.

1.8.1.7 Protecting the health and safety of consumers

Hermès' products are regularly tested by laboratories in Europe, Asia and the United States, in order to verify that they conform to the most exacting regulations in the world, as well as to ensure their safety. Monitoring is carried out to analyse the development of regulations before drawing up product specifications.

1.8.1.8 Protecting and defending intellectual property rights

The Group places great importance on the protection and defence of its intellectual property rights. It owns a particularly large number of brands and domain names which is regularly growing to include new classes of products and services, for example, and new geographical areas.

For this reason a specific team within the legal department is dedicated to these issues. The Group also ensures that all its new and existing creations are properly protected, with numerous design patents filed both in France and elsewhere.

Finally, the Group ensures that its rights are respected and pursues an active anti-counterfeiting policy involving both preventive measures (training and lobbying) and coercive measures (administrative, civil and criminal proceedings) across the world and particularly on the Internet. These measures are initiated by the legal department with the support of external advisers and in collaboration with the competent local authorities as regards intellectual property and the fight against counterfeiting.

They enable several hundreds of thousands of counterfeit products to be seized and destroyed every year, and the source of these products to be identified, the Group's rights to be recognised, and the payment of damages to redress the loss suffered.

1.8.2 FINANCIAL RISKS

Conservative cash and currency management

As the Group has a positive cash flow, it is not exposed to liquidity risk and applies a conservative policy in managing market risks, such as exchange rates, interest rates and counterparty risks. Because the bulk of its production is in the eurozone but receives a significant percentage of its sales revenue in American dollars, Japanese yen and other Asian currencies, the Group is naturally exposed to foreign exchange risk. Exposure to operational foreign exchange risk is systematically hedged on an annual basis, based on projected cash flows. In parallel, exposure to non-operational foreign exchange risk is hedged as soon as the commitment is firm and definitive.

In this respect, treasury and currency management is centralised by the Group's treasury management department and adheres to strict mana-

gement and monitoring rules. Administrative management and operational control are ensured by the Middle & Back Office department, notably via the use of integrated cash flow software.

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

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

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

1.8.3 INSURANCE POLICY

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

- 1) property damage and operating losses that may affect production sites, logistics centres, distribution centres or premises in France and in other countries. The policy underwritten by FM Global was renewed for a one-year term. The upper cover limit is €500 million. The deductibles for direct damage vary from €15,000 to €250,000 and from €70,000 to three days' gross profit for operating losses. In Japan, the Group has had an earthquake insurance policy for several years covering €40 million in direct damage and operating losses. This insurance coverage is supplemented by a prevention/engineering programme and prevention inspections were carried out at 67 production and distribution sites in 2016. The recommendations issued are monitored using a stringent, formally documented system;
- 2) civil liability for damages to persons, property and intangibles caused to third parties in the conduct of business operations or by products. These policies were taken out for three years at 1 January 2016 with AIG Europe and Zurich Insurance for cover amounts which take into account the nature of the Group's operations; the maximum cover per event is €70 million, and the deductibles vary from €1,000 to €10,000;
- 3) the transport of products between the production sites and to the distribution network. A policy has been taken out with Chubb;
- 4) responsibilities in relation to the environment. This policy was renewed with AIG Europe on 1 January 2015 for a period of 24 months. The coverage limit is €7.5 million per claim and €15 million for the period, and the deductible thresholds are €25,000;
- 5) cyber risks. Like each year since 1 January 2013, the policy with Zurich Insurance was renewed for a period of one year, covering the reconstruction of data, operating losses following a security incident, civil liability, and costs, notably defence and notification costs.

Other contracts had been subscribed to fulfil specific requirements, particularly in the context of building operations (new work or renovation) carried out as project managers. In 2016, these policies were not the subject of significant claims.

2

CORPORATE SOCIAL RESPONSIBILITY

2.1	INTRODUCTION	38
2.1.1	All artisans of our sustainable development!	38
2.1.2	Governance	38
2.1.3	Tools	39
2.1.4	Scope	40
2.1.5	Facilitation of initiatives	40
2.2	SAVOIR-FAIRE	41
2.2.1	Training	41
2.2.2	Ensuring sharing	43
2.2.3	Recruitment and mobility	43
2.3	PEOPLE	44
2.3.1	Figures	44
2.3.2	Organisation of working time	48
2.3.3	Labour relations	49
2.3.4	Health and safety	51
2.3.5	Working environment	54
2.3.6	Internal communication	55
2.3.7	Promotion and compliance with fundamental conventions regarding human rights	55
2.4	RAW MATERIALS AND SUPPLIERS	56
2.4.1	Knowing our supply chains, complying with regulations	56
2.4.2	Using raw materials wisely	57
2.4.3	Waste	58
2.4.4	Suppliers monitoring	61
2.4.5	Corporate responsibility and using socially supported organisations	62
2.5	ENVIRONMENT	63
2.5.1	Background	63
2.5.2	Control of water consumption (industrial)	65
2.5.3	Energies	67
2.5.4	Outcomes by sector (water, energy)	69
2.5.5	Measures to improve energy efficiency	75
2.5.6	Effective solutions for waste management	76
2.5.7	Reduction of the carbon footprint and offsetting	77
2.5.8	Land use	79
2.5.9	Noise and olfactory emissions	79
2.5.10	Food waste	80
2.5.11	Environmental liabilities	80
2.6	STAKEHOLDERS AND LOCAL INTEGRATION	81
2.6.1	A role in host communities	81
2.6.2	Initiatives	82
2.6.3	Livelihoods	83
2.7	REPORT FROM ONE OF THE STATUTORY AUDITORS	85

2.1 INTRODUCTION

2.1.1 ALL ARTISANS OF OUR SUSTAINABLE DEVELOPMENT!

For more than six generations, Hermès has been nurtured by values of craftsmanship which have shaped its professional development and then, gradually, its relationship with the wider world. These values, embodied and conveyed by its leaders and equally by its employees, have been enriched by the lessons learned by artisans. In every respect a “land of hands” (the House employs more than 4,300 craftspeople in France), Hermès has sought to foster this artisanal spirit that makes it singular in so many respects, not least of which in terms of sustainable development.

Sustainable development at Hermès is anchored in the enduring determination “to do well”, without sacrificing the House’s natural discretion. To paint a fuller picture of what sustainable development means to Hermès, it helps to put it into the perspective of some of the attributes of craftsmanship:

- ◆ responsibility: handmade objects are the work of a single person who masters all the steps necessary for their fabrication and is responsible for their final quality. This sense of responsibility also extends to the materials used, which must not only be the most beautiful but also of indisputable origin: they alone are worthy of serving to create objects of exception. This accountability remains throughout the product’s future life, and each artisan takes a view that goes well beyond the production process. This keen awareness of the consequences of our actions accordingly begins upstream and reaches well downstream of production itself. Responsibility is a value which is consistent with craftsmanship, and one of the ferments of the Company’s approach to sustainable development. It is an internal requisite, in a context where the House controls a large number of the parameters of its activity;
- ◆ authenticity: artisans take pleasure in highlighting the “*authenticity*” of beautiful raw materials, those that show themselves as they are, that hide nothing from the hand or eye, that are candid and harbour no deception. They eschew cheating with unfitting material; they are transparent, even when the end result may seem acceptable. This attitude, this demanding outlook in respect of quality, is reflected in the attention paid to all the aspects that comprise an artisanal object and its craftsmanship. Linings are given the same attention as outer fabrics, pieces that are hidden from view have the same importance as what is shown. Just as they are scrupulous with their materials and their work, Hermès artisans – and by infusion all those who work for the House – have an authentic view of their relationship with their economic, social and ecological environments. They are aware of their limitations and imperfections, but are also ever mindful of the challenges underpinning the House’s values of excellence. Sustainable development is pursued in this spirit of sincerity, excellence and continuous improvement. It is built on achievements more than on abstract commitments. It pursues long-term effectiveness rather than self-promotion;

- ◆ time to work well, together: Hermès artisans – and the entire House, have come to take the same view over the years – seeing time as an ally, something that allows them to work well, to absorb a subject’s internal or external perspective and to cultivate the qualities of each and every one. Ultimately, time gives a just perspective to things. When learning how to craft an object, it is unthinkable to skip a step to save time. Each step is part of a continuum; all are essential. This approach also serves to learn to complete what we have begun. This way of working has taught us and encourages us to implement responsible policies and practices in a participatory approach, focusing on the quality of the end result, happily taking the necessary time.

This is how sustainable development echoes the House’s founding values. It is consistent with our long-term vision, the importance we attach to men and women, and our culture of excellence and expertise, as well as respect for nature – the source of the materials used to create Hermès objects. It is built on the transmission of our culture and the implementation of numerous initiatives, with a preference for a decentralised approach and local actions anchored in our métiers, our subsidiaries and the Hermès International services, and also petit h and the Fondation d’Entreprise Hermès. Our ambition is that we are all “artisans of our sustainable development”.

Corporate social responsibility (CSR) is the way by which Hermès integrates social, environmental and economic concerns into its activities and its interactions with its stakeholders on a voluntary basis.

2.1.2 GOVERNANCE

For 10 years, the Company’s sustainable development actions have been overseen by a **Sustainable Development Committee**, in which two members of the Executive Committee play an active role alongside the heads of the human resources, industrial affairs and distribution departments, as well as the heads of two métiers (Leather Goods and Silk) and the management of the Fondation d’Entreprise Hermès. The committee met six times in 2016, each meeting providing an opportunity to take stock of strategic challenges, to decide on the implementation of operational projects and to hear reports by managers on the progress of their sustainable development initiatives.

The **Group sustainable development department**, which reports to a member of the Executive Committee, oversees the operations for the Group and its subsidiaries, both in France and internationally. It ensures the take-up of the strategy, monitors accomplishments, coordinates the operation of various committees (including the Sustainable Development Committee and the Group Operations Committee), assists local committees and manages cross-cutting projects. In 2016, it hosted ten in-house seminars in France and internationally. It ensures the cohesion of the entire system, manages internal communications and helps share good practices.

The **Group Operations Committee** meets every two months; it comprises the heads of the House's main corporate functions (approximately 15 people). It analyses projects' technical and functional aspects, facilitates information sharing and serves as a collective decision-making body providing a pragmatic perspective on sustainable development challenges. The involvement of its members is essential to projects' concrete implementation. It met five times in 2016.

Each of the House's main métiers and key subsidiaries has its own **local sustainable development committee**. These committees, formed to launch and monitor initiatives, share their achievements at regional meetings or through the best practice observatory on the intranet.

As specified in the "Environment" chapter, initiatives in this area are driven more specifically by a specific "**HSE network**" run by the industrial department.

These committees carry out operational initiatives, and play a role in internal management and communication with teams. For example, all French sites and subsidiaries organise operations with their employees during the European Sustainable Development Week. Hermès of Paris, the American subsidiary, has run a Sustainable Development Week every autumn since 2013. This year, the event included an internal competition on the theme of creative recycling.

In 2016, members of the Japan, Korea, China, Taiwan, Singapore and Hong Kong sustainable development committees met for the third consecutive year to share their operational practices and jointly create an eco-actions charter for stores.

2.1.3 TOOLS

Over the last 10 years, the Group has developed a number of tools to help implement roadmaps validated by the Executive Committee. Committee work and operational decentralisation are facilitated by the dissemination of these tools, all of which have been constructed in a participatory approach so as to facilitate their adoption.

The House's ethics are enshrined in a forty-page Ethics Charter distributed to all teams, in 10 languages. It aims to promote the corporate project and reaffirm the Group's commitment to certain fundamental principles in the way Hermès relates to its stakeholders and wider society. It is given to all new employees when they join the House. It is structured around the following points:

- ◆ Hermès' relations with its employees, suppliers and customers;
- ◆ Hermès' relations with society and the natural, social, economic and cultural environment;
- ◆ uncompromising principles of Hermès objects;
- ◆ relations between Hermès and its shareholders.

As described in chapter 2.3.7, Hermès adheres to all major principles and international agreements on human rights.

A code of business conduct, also available in 10 languages, sets out the House's guiding principles on a range of operational matters. It lays out a matrix alert system by geography and by function. It addresses, among others, the following issues:

- ◆ extra-professional activities;
- ◆ acceptable perks and gifts;
- ◆ money-laundering, corruption;
- ◆ confidentiality;
- ◆ conflicts of interest, insider trading;
- ◆ workplace bullying;
- ◆ use of Group resources.

The "All artisans of our sustainable development" **strategic framework** was distributed to all Management Committees in 2015 and serves as a basis for the work of each one. It is built on six pillars:

- ◆ Hermès oversees the development and transmission of its artisans' savoir-faire (**know-how**), and more widely that of our staff which form the foundation of our approach to sustainable development;
- ◆ the satisfaction and professional fulfilment of **employees**, together with their diversity, are a driver of sustainable growth, and as such a matter for special attention;
- ◆ the durability of our business depends primarily on the future availability of the high quality **materials** that are key to the Hermès's unique character. Hermès protects and respects the exceptional natural resources that are used to produce its objects;
- ◆ Hermès is constantly seeking long-term and ambitious but pragmatic solutions to better preserve the **environment**;
- ◆ the Group's ability to grow is linked to the development and sustainability of its **suppliers and partners**, which are leading players in the field of high quality products and services, but also in social and environmental endeavours;
- ◆ finally, Hermès ensures dialogue and the development of harmonious relations with its **stakeholders** and plays a role as a responsible company wherever it operates.

This document was prepared in a participatory approach, focusing on the most significant issues in terms of the values of the House, the Company's sustainability, and its responsibility towards its social, ecological and societal environments. On each issue, it indicates priority topics and proposes three-year ambitions. Each business line and each subsidiary is called on to draw up a roadmap on the basis of the six overriding pillars; the Sustainable Development Committee reviews the various roadmaps annually.

Teams also have access to other tools, including:

- ◆ "Ambitions", an operational sustainable development blue print which provides a shared language and serves as a support for the actions of the operational teams. It helps each entity, depending on its activity, to identify the main areas in which it can take initiatives. It is naturally consistent with the strategy's six pillars;

- ◆ specific technical reference frameworks, whether in terms of real estate, supplier relations, guidance on applying the ethics charter in specific contexts, or on eco-actions, for instance;
- ◆ a dedicated intranet (“Harmonie Hermès”), designed to inform employees and share best practices. It also houses all documents useful for local teams.

2.1.4 SCOPE

The information in respect of sustainable development contained in this report covers all group subsidiaries and sites. This scope is explained in sub-section «1.6 Property» (see chapter 1). Hermès operates 50 production sites (38 in France), spread over 44 geographical locations, including 32 in France, three in Switzerland, two in the United States, four in Australia, one in the United Kingdom and two in Italy, plus the Bobigny logistics platform. Hermès goods are available worldwide through a network of 307 exclusive stores. The Group occupies 26,000 m² of office space in Paris. In Pantin, the group also has production and office spaces including the Espace Jean-Louis Dumas opened in 2015 and the Cité des Métiers, which won the équerre d’argent prize for 2014.

2.1.5 FACILITATION OF INITIATIVES

The Group’s subsidiaries and entities initiate and monitor numerous sustainable development projects each year. In 2016, for instance, the Silk division organised a work seminar with its Management Committee to update its strategic roadmap. The Hermès Leather Goods and Saddlery division updated its 2015 strategic plan, presented to the Sustainable Development Committee. The updated plan boasts very ambitious environmental targets. In the tanneries, a sustainable development roadmap has been drawn up for the 2016-2018 period in collaboration with the members of the Management Committee. It was presented on all the sites over the year to allow them to appropriate it and implement their own action plan.

Regular events such as Sustainable Development Week in France provide an opportunity for exchanges with team members on the challenges represented by the various issues, as well as the Group’s strategy and achievements. This helps provide an opening to the outside world. In 2016, the sites in Paris and Bobigny organised one event daily, ran-

ging from the distribution of fruit and vegetable baskets to meetings with beekeepers, clothing drives, wellness workshops and awareness raising on eco-driving. A private screening of the film *Demain* (“Tomorrow”) provided a platform for discussing concrete and exciting projects with more than 350 employees.

At the Leather Goods and Saddlery division, each site held a specific event during Sustainable Development Week in 2016: clothing drives, health and wellness workshops, awareness raising on sustainable agriculture and meetings with local farmers, workshops on individual recycling and sorting, and maintenance of beehives on four of our sites. The Annonay and Montereau tanneries participated. The Annonay tannery took advantage of the event to harvest and distribute honey from the hives located on the tannery grounds to its employees. The Montereau tannery has introduced community vegetable gardens maintained by employees.

In the Silk division, employees designed various awareness-raising workshops: carpooling challenge, challenge with Le Relais for the collection of textiles, communications on eco-actions, book donations for children.

Several workshops were proposed in the Hermès’ Perfumes division: urban beekeeping (introduction to bees, beekeeping and the challenges of pollination, as well as a honey tasting), urban agro-ecology (the principles of agro-ecology and learning how to create one’s own vegetable garden), promoting biodiversity (presentation of the various habitats required to preserve biodiversity).

CATE treated the production unit’s 150 employees to an organic breakfast featuring local products, and also organised several events. As the unit is located in the heart of the Périgord Limousin Regional Nature Park, park representatives presented their actions and raised the awareness of artisans on the conservation of a protected local species, the pearl mussel. A beekeeper explained the life of bees to artisans with an educational hive housing a queen and a few thousand bees. Lastly, a used clothing drive was organised for the Le Relais network.

During the week, Les Cristalleries de Saint-Louis site organised a talk by the mediator of the Parc Naturel des Vosges du Nord as part of the “Just dive in!” programme. These exchanges between the general public and the employees of the production unit provided an opportunity to discuss the site’s water-conservation context and the installation of phytotreatment basins recently renovated by the production unit.

2.2 SAVOIR-FAIRE

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

The priority is to strengthen and develop individual expertise, increase versatility, establish knowledge sharing within teams and ensure that it is passed on from generation to generation, and preserve our talents. The excellence and range of all this expertise is expressed not only through the quality of the objects but also through our ability to craft them in a way that respects the craftsmen and the environment.

Twelve of the group's companies are certified by "Entreprises du Patrimoine Vivant" in 2016: Hermès Sellier, La Ganterie de Saint Junien, Holding Textile Hermès, les Établissements Marcel Gandit, Ateliers A.S., Siegl, les Ateliers de Tissage de Bussièeres et de Challes, Beyrand, Les Cristalleries de Saint-Louis, Puiforcat, John Lobb and Les Tanneries du Puy.

In 2016, two of the House's artisans (textiles, silversmithing) were among 12 professionals selected by the Colbert committee and named Chevalier dans l'ordre des Arts et des Lettres.

This accolade is awarded by the French Ministry of Culture for excellence in artistic and artisanal creations (rare textiles expertise in the field of thread crossing and the gripping technique in silversmithing).

2.2.1 TRAINING

The Group's University, schools and academies continued to offer an increasing number of training options.

In France, 109,476 hours of training were provided in 2016. This number does not reflect the entire training effort, since it does not include "on-the-job" training directly at the workspace.

2.2.1.1 Université Ex-Libris

In 2016, the group's Ex-Libris University trained nearly 1,000 people through its 20 personalised training programs. These programs concentrate on two essential issues: sharing culture and developing leadership.

Almost 600 people attended in-house training programs in Paris on Hermès culture and the richness of its expressions.

This university offers a range of diverse training options, which are adjusted and regularly updated. It offers a set of sequential programmes tailored to several management and maturity levels:

- ♦ residential seminars which give managers a unique setting in which to share experiences, and acquire expertise and practical tools. These

seminars also provide inspiration and an opportunity to build relationships with managers of other Hermès métiers and operations;

- ♦ co-development strategies to support local managers and Management Committee members over time. Continuing support is provided via participatory strategies implemented at the production facilities.

In 2016, almost 200 managers attended one of the Hermès leadership development programmes offered by the Group's University.

The "Alchimie" programme was designed and delivered to over 160 managers to share with them our recruitment vision and priorities, helping to develop shared understanding and practices, and enabling managers to better understand their role in recruitment and make their recruitment practices more professional at each stage, in a context where talent identification is of vital importance.

2.2.1.2 The Leather School

Initial training programmes for artisans were delivered across all sites. Degree programmes were pursued. 59 artisans received the saddler and leatherworker *Selliers Maroquiniers d'Art* diploma, 68 were awarded a CAP vocational qualification and 10 were awarded vocational cutter certifications. Many partnerships have been entered into with vocational secondary schools all over France, to provide training leading to qualifications to new employees. In 2016, special attention was paid to the 35 in-house trainers (10 of whom are new) and 23 tutors; they received regular support, in the form of meetings to share their experiences, and to build new training programmes and training sessions on teaching skills, personal development and communication, etc.

In 2016, continuous training involved 980 people being trained on 12 programmes run by the Leather School. A partnership and active support for a "Leather Cutter" training programme was favourably received in France.

Identification and special monitoring led to 27 artisans participating in Hermès events worldwide in 2016.

2.2.1.3 The School of Tanneries

The Tanneries and Precious Leathers division has increased the exchange of technical knowledge between tanneries so that expertise can be widely circulated among tanneries artisans. Almost 200 employees successfully completed these new modules in 2016. The other modules of the School of Tanneries and the *Tanneur Mégissier* vocational qualifications were also developed further.

As part of the recruitment policy, the "Programme Jeunes Tanneurs" is being continued for the fifth year. Chemical engineering students in their final year are recruited to spend 4 x 6 months at four different tanneries

(in two different countries) learning about four different métiers. This pathway boosts managerial maturity and technical expertise.

2016 was also a time to remember, on each of the sites, the strategic importance of sharing and transferring expertise. Development and exchange programmes around expertise were implemented, along with a network of technical officers to complement segmental middle management. These six tanneries encompass a wide range of profiles of workshop heads from different generations, and with different temperaments and levels of expertise.

Finally, the Montereau tannery celebrated its 50th anniversary in 2016; twenty of those years were spent working with Hermès. It found an original way to mark the occasion, inviting 300 people, employees of other tanneries of the Hermès Cuirs Précieux division, to visit this specialist exotic hides tanning site. A pleasant day for colleagues within the same division to get to know one another better, united by the craft of transforming raw hides into tanned leather.

2.2.1.4 The School of Textiles

For the textiles sector, initiatives to share the culture of the textile industry continued. The three-day “Au fil d’HTH” programme enabled 55 employees to discover Holding Textile Hermès, a federation of seven SMEs. The HTH Artès programme, an in-depth 12-day pathway, enabled managers with cross-segment responsibilities to learn about the segment. Finally the “Iconic Product” programme enabled 35 employees to familiarise themselves with iconic products, rooted in the creative heritage of Holding Textile Hermès. Finally, the “Résonances” programme aims to provide an artistic and cultural outlet to encourage inspiration and creativity in product innovation and development teams. 53 employees completed this programme. In the area of expertise, 87 employees were able to improve their expertise as regards textile knowledge, basics of dyeing, printing colours, etc. and the “Profession” pathway aiming to adapt craft skills (printer, stenter operator, assembler, etc.) was delivered to 26 people. A CQPI (inter-segment professional qualification certificate) has been introduced for the artisans.

In 2016, the School of Textiles delivered tailored programmes to over 260 people.

2.2.1.5 Puiforcat

Maintaining expertise involves internalising certain production methods and mobilising the team around the launch of new collections. Balanced with the transfer of applied knowledge about the classic items, it fully anchors silversmithing and jewellery in its era and thus prepares for the future. Two silversmiths were recruited this year to maintain the workshop’s expertise. They were mentored by the most experienced silversmith to improve their skills while ensuring their rapid incorporation into the everyday life of the workshop for operational production. A new collection (“Bureau d’architecte”) was partly entrusted to the workshop. Combining traditional expertise and new technologies, most of the pieces in this collection were produced in the workshop.

2.2.1.6 Cristallerie Saint-Louis

13 employees committed to a professional certification approach (CQPI), which will enable them to validate skills relevant to their vocational branch.

In addition, an in-house competition was held in the second half of 2016, giving artisans the opportunity to create a product to be included in the Saint-Louis catalogue of exceptional pieces.

In 2016, 15 employees received training from CATE on decorating porcelain - this has been taking place since the end of 2015 at the Saint-Louis-lès-Bitche site.

2.2.1.7 The distribution network

As regards quality, sales and service, over 1,200 sales associates followed the “Sales & Service Ambassador” training programme. Designed centrally and delivered locally by in-house or external trainers, this training covers six themes, from the moment a customer enters the shop to when they leave. 12 sales associates from all over the world gathered in Paris to celebrate and highlight the excellence of in-store service with the “Hermès One of a Kind” programme. These 12 sales associates have been acknowledged by their peers, managers or customers as having demonstrated exemplary attitude, narrative talent, or provided excellent service to their customers and/or their colleagues. The twice-yearly seasonal training session, “Train the Trainer”, takes place each season in Paris and is attended by around twenty international trainers who will then deliver the key messages of the collection to the markets across product lines, as well as boosting the sales of each division.

2.2.2 ENSURING SHARING

2.2.2.1 New employees

In Paris, the new employee integration programme, “Mosaïque”, continued at an intense pace, with over 300 participants. It marks the arrival of new employees in a lasting way, enabling them to understand our culture through a series of presentations on our vision, history, métiers, craft and retail divisions, which include multiple examples of in-house dynamism. It creates lasting bonds between new employees.

In the distribution network, the “H Immersion” programme was delivered to all new entrants in each subsidiary. It aims to incorporate new employees by instilling in them essential knowledge from the very first day so that they can take up their role and be independent. In 2016, over 800 employees benefited from this programme in around twenty countries, delivered across 78 sessions. It enables many sales associates – taking on the role of trainer at these sessions – to help transfer their knowledge and experiences to their peers, helping to boost in-house knowledge.

2.2.2.2 Tandem

“Tandem” is a one-week mutual exchange programme between an artisan and a sales associates, which continued to be rolled out at the same pace. In 2016, 27 artisans spent a week at a Hermès store of their choice anywhere in the world, taking part in the day-to-day life of the store. Inversely, 27 sales associates spent a week as “apprentices” at one of the Hermès production units with an artisan who would share the secrets of their expertise. When two worlds come together, it is a matter of connecting two related worlds which share common objectives. Since it was launched in 2008, this networking programme will have forged links between employees over 2 million kilometres apart, all over the world.

2.2.2.3 Parcours d'Adresse

“Parcours d'Adresse” was implemented in 2011, and is a one-week learning journey enabling discovery of a complete segment, from raw materials to the finished product. Seven themes are possible within the leather goods, watches, perfumes, crystal, porcelain, silk and ready-to-wear métiers. In 2016, 86 artisans engaged with this programme.

2.2.3 RECRUITMENT AND MOBILITY

Since 2014, the www.hermesemployeur.com site has affirmed the identity of the House, showcasing the diversity and richness of its activities. As in 2015, the site received over one million visitors in 2016. With over 180,000 candidates registered, it has become a major recruitment channel for the subsidiaries. Available in two languages, the site is viewed in other countries just as frequently as it is viewed in France.

In 2016, constant work on LinkedIn resulted in the House being ranked “top attractor” on the network. This ranking illustrates the relevance and impact of the House’s presence on LinkedIn. The LinkedIn page has been translated into eight languages, has over 150,000 “followers” and 6,000 visits per month. As the main source of recruitment for some subsidiaries, it is a publication network, but also a way of identifying members who could be of interest to various human resources departments.

Internal mobility is one of the Group’s strong points. It is mainly promoted *via* the *My way in Hermès* platform, which displays open vacancies, and *via* the coordinated work of the human resources departments who attend monthly Internal Mobility Committee meetings. In 2016, 422 vacancies were advertised on this platform and 80 vacancies were filled internally. Hermès proves its dedication to this mechanism for developing men and women *via* a range of initiatives.

Within the Leather Goods division, around 70% of non-artisan positions (and over half of executives) were filled internally.

In 2016, the biennial talent review took place under the supervision of the Group human resources department. This process involves all Human Resources Directors sharing the performance of and progress made by all employees with Management Committee members of their subsidiary. At Group scale, all information is fed back to enable close monitoring of around 300 high-potential employees. These employees are offered in-house training programmes combined with external training programmes. Additionally, they may be entrusted with a special mission; “exposure” to a specific project for six months. This is an opportunity to boost their skills, demonstrate their potential and excel within a teamworking environment. Internal mobility remains the main way of developing talent.

This mobility is also managed within the manufacturing or retail divisions. For example, in the textiles segment, the ACE programme has promoted the dynamic management of internal mobility (with tools such as a film specific to the segment, a managers’ guide, etc.) significantly increasing the number of employees promoted internally over the last three years.

2.3 PEOPLE

People have been the focus of the Hermès creative, artisanal and merchand projects since 1837. United by shared values of quality, ethics and solidarity, it is our people that drive our growth. The aim of people management is to create the conditions conducive to maximising their efficiency and accomplishment. Managing our employees is taken seriously and focuses on both social and economic success, supported by human resources teams.

Communicating our corporate culture at all career stages, combined with a raft of development and leadership initiatives help to increase employee commitment and pride at contributing to the Group's growth.

The emphasis placed on a positive working environment across all work locations, and the investments made in learning and in improving skills enable each employee to give their best and play their part in the shared Hermès adventure.

The Group's human resources department issues guidelines to the subsidiaries on how to go about their work while respecting local issues and cultures.

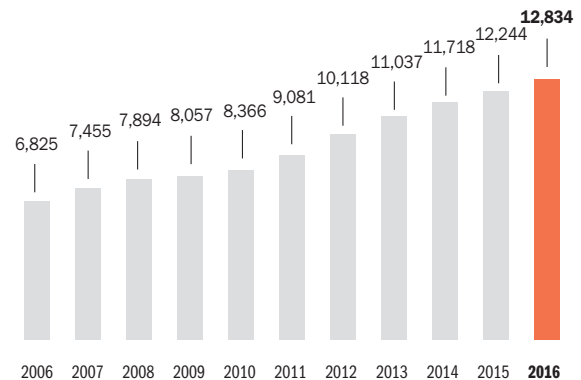
Developing men and women (the latter represents 67% of the workforce) is at the heart of the Hermès long-term strategy. This development can only take place in an environment which enables each person to find their place, make a commitment, realise their full potential and grow as they take on new assignments and roles. The quality of management – in every position within the organisation – has a strong direct influence on the Company's success, and requires fully committed teams. Management is therefore responsible for creating and reinventing this environment. Each manager, through their daily actions and the quality of their leadership, is responsible for bringing out quality and enabling employees to develop. Enlightened leadership is not something that can be improvised. Management is a demanding job, which is learned and cultivated over a whole lifetime, through confrontation, experimentation and by forging links with other managers. That is why Hermès wants to cultivate and circulate its leadership vision more widely, in line with its strategy, values and ethics.

2.3.1 FIGURES

2.3.1.1 Workforce

GROUP WORKFORCE

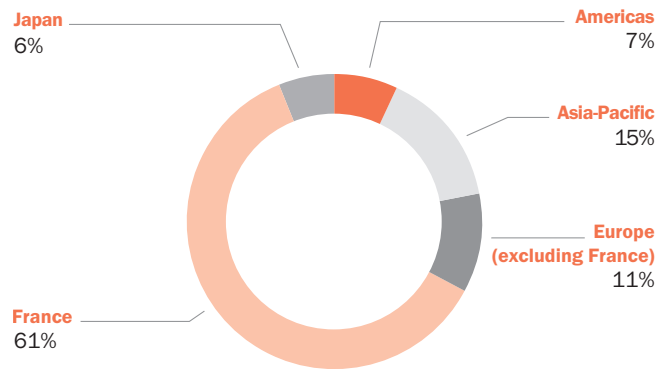
The workforce within the Hermès Group includes active permanent staff members and people on fixed-term contracts of more than nine months, including apprenticeship contracts. The permanent active staff represents 96% of the Group workforce. Increasing by roughly 88% over the last ten years, the Group workforce was equal to 12,834 people as at 31 December 2016.



WORKFORCE BY GEOGRAPHICAL AREA

Employee numbers have increased in all regions, to support the Group's development.

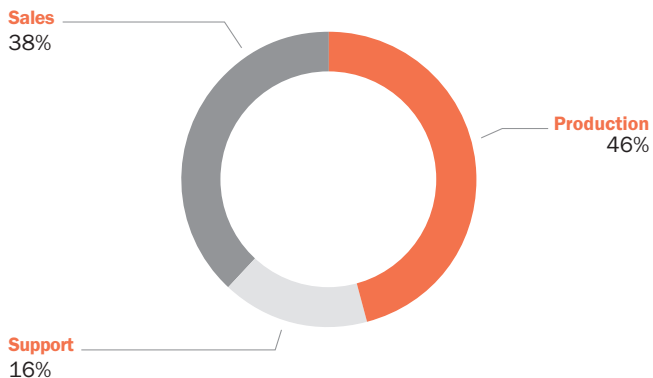
However, this rise is most marked in France due to the development of the various production sites which have opened in previous years, but also as a result of the new Maroquinerie de Normandie in 2016.



Geographical area	2015	2016	% growth	Distribution of additional jobs
Americas	832	871	5%	7%
Asia-Pacific	1,897	1,980	4%	14%
Europe (excluding France)	1,308	1,351	3%	7%
France	7,461	7,881	6%	71%
Japan	746	751	1%	1%
GRAND TOTAL	12,244	12,834	5%	100%

WORKFORCE BY SECTOR

The Group has retained balanced growth by maintaining a stable breakdown by segment.



Sales staff include:

- ◆ all people in direct contact with clients in stores, such as sales associates, cashiers, hostesses, store security staff, etc.;
- ◆ specialised networks (perfumes, watches, etc.), and all individuals who work with intermediaries, sales representatives, export managers, etc.;
- ◆ all people in direct contact with finished goods and in indirect contact with clients, that is, employees who work in distribution but who are not directly engaged in selling.

Production staff include:

- ◆ all stakeholders taking part in the physical production of finished goods;
- ◆ all people in indirect contact with finished goods, that is, employees who work in production without taking part in the actual process of physical production.

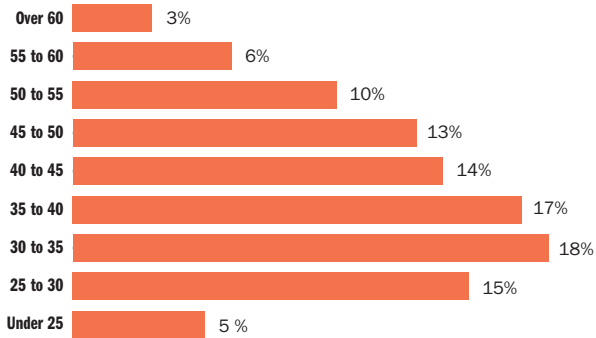
Support staff include:

- ◆ all people who employ a specific skill or expertise in design or other creative fields;
- ◆ all people who are members of departments such as Group management, finance, human resources, administration, legal, IT, press, public relations, etc.

2.3.1.2 Demographic data

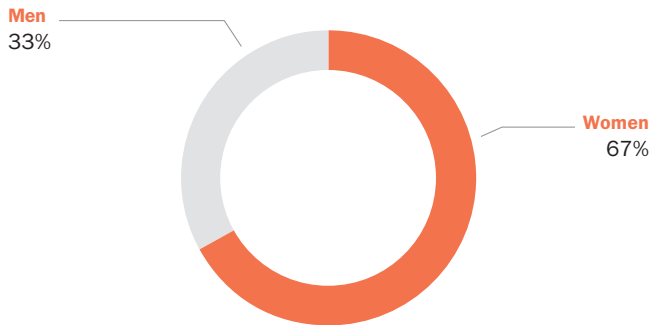
WORKFORCE BY AGE

The distribution of the Group's workforce by age remained stable. The average employee age is 40.



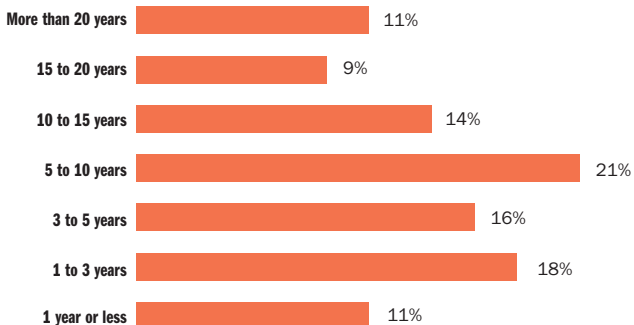
MEN/WOMEN DISTRIBUTION

The Group is largely made up of women (67%), represented at all hierarchical levels and in all business activities. The Group's policy is to guarantee total non-discrimination in the treatment of its employees.



SENIORITY PYRAMID

Average seniority is nine years and 45% of the Group's total employees have been with the Group for less than five years. The Group encourages the development of skills and long careers. Nearly one third of the staff has been with the Group for more than ten years.



2.3.1.3 Employment

Given the Group's organic growth, the last ten years have not required any restructuring efforts for economic reasons that had any consequences with regard to jobs. During development operations (site construction), any transfers were on a voluntary basis. In France, individual layoffs involved 94 people in 2016.

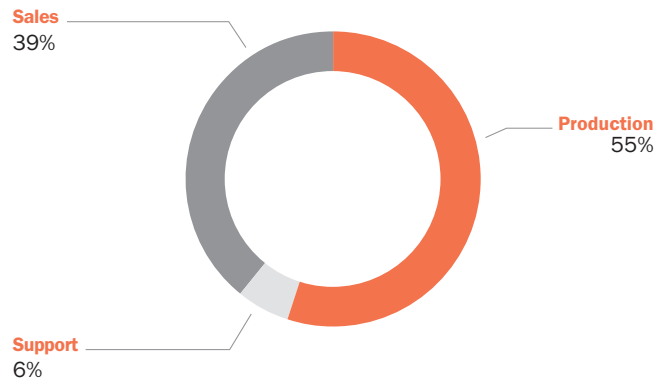
As part of its strategy to preserve and develop its supply sources, the Group opened a new leather workshop in Normandy in 2016.

New stores in Mexico, Rio de Janeiro and at Hong Kong international airport contributed to growth in employee numbers in 2016.

JOBS CREATED WITHIN THE GROUP

The Group created 590 jobs in 2016. As has been mentioned, the Production sector saw the most growth (with the creation of 326 additional jobs) in order to increase production capacity and to protect expertise and sources of supply.

DISTRIBUTION OF THE JOBS CREATION BY SECTOR



2.3.1.4 Compensation

COMPENSATION

<i>In millions of euros</i>	2014	2015	2016
Total payroll	518	579	609

The Group's payroll was €609 million in 2016 versus €579 million in 2015, to which one must also add €198 million of social security charges. In France, payroll includes distribution of €68.8 million in incentive schemes and profit-sharing, and €2.7 million in employee support activities.

The rise in payroll costs (excluding exchange rate impact) reflects increases in both workforce and salaries in all geographical areas.

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

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

Compensation is determined primarily by employee qualifications. Every year, the Group provides its subsidiaries with budgetary guidelines for salary growth that take into account inflation and local markets. Particular vigilance is required concerning equality between men and women and the market difference (internal and external). Additional budgets may be granted if adjustments are necessary. The compensation paid to Corporate Officers is shown on page 138 of this document.

Hermès, the great majority of whose employees work in OECD countries, strictly applies working time and minimum wage regulations in compliance with UN conventions and seeks to exceed such regulations wherever possible.

2.3.1.5 Employee support activities (France)

The total amount paid to Works councils for employee support activities rose by 17.39% in 2016.

<i>In millions of euros</i>	2014	2015	2016
Employee support activities	2.2	2.3	2.7

2.3.1.6 Incentive schemes and profit-sharing (France)

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

Incentive agreements are also in place at each company. These agreements have a duration of three years and aim to associate employees with the development of locally-determined indicators that are relevant

with regard to the activity and environment of each of these entities, notably quality, safety and productivity.

Employees of foreign entities (39% of all Group employees in 2016) also benefit from a range of regular additional compensation initiatives in line with performance and local customs.

<i>In millions of euros</i>	Incentive schemes	Profit-sharing	Total
2014	24.2	39.7	63.9
2015	25.9	40.2	66.1
2016	26.9 ¹	41.9 ²	68.8

(1) Including the ratification of new agreements.

(2) An incentive supplement was paid to all of the Group's French companies pursuant to the Group's participation agreement.

2.3.1.7 Involving all employees in the Group's long-term growth

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

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

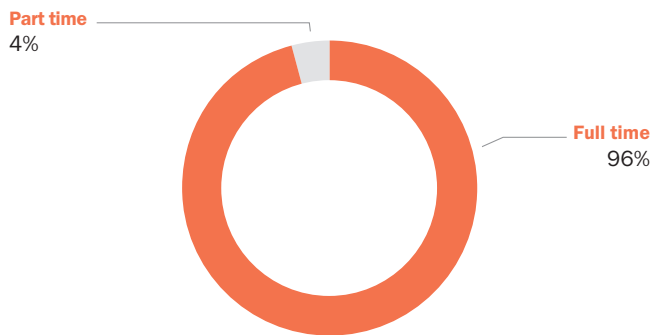
- ♦ to show the confidence of the House in the long-term commitment of its employees and unite them around the Group strategy;
- ♦ to acknowledge the contribution made by employees at all levels to the development of the House, by providing a single compensation component to share the benefits of our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

In 2016, 806,060 free shares were allocated to over 11,300 Group employees worldwide (subject to a condition of nine months' uninterrupted service on the allocation date). To promote employee loyalty over the medium- and long-term, and to boost collective performance, these plans are subject to a vesting period of four to five years, attendance conditions and, for some shares, performance conditions. Additional information on all employee shareholding plans in force within the Group can be found in the "Corporate Governance" chapter on page 140.

2.3.2 ORGANISATION OF WORKING TIME

Each entity manages its working times in compliance with the regulations in force and on the basis of the particularities of its own activity, in an effort to balance private/professional life, in particular implementing variable working times for French entities. Nearly all employees are full-time.

FULL TIME - PART TIME (WORLD)



Absenteeism (France)

In France, the absenteeism rate is 3.6%. Absenteeism is calculated using the accumulated hours of absence over a period less than or equal to 90 consecutive days for the following reasons: illness and occupational illness; absence as a result of a workplace accident or an accident on the way to or from work; and unjustified or unauthorised absences. Changes in absenteeism are systematically monitored and analysed by each entity, in order to identify causes and propose action plans. Return-to-work interviews are one of the tools that HR departments use to combat absenteeism. This type of measure helps to encourage dialogue, leading to better understanding of the causes of the absence while respecting medical confidentiality. Managers are also trained in managing returns to work based on the type of absence, which is a key element for limiting their frequency. Moreover, this monitoring system has led certain companies to only establish short- and medium-term objectives with regard to absenteeism. These objectives are accompanied by initiatives focusing on an improvement of working conditions, development of versatility or manager training regarding the management of absenteeism. As such, the adopted measures include communication, awareness-raising and prevention actions (vaccinations, presence of a physician on the sites, etc.), but also verifications in order to increase the accountability of the employees and managers. Also, based on the demographics of certain sites, specific actions have been implemented in order to support maternity under the best possible conditions. For example, these specific action plans may involve adapting the workstation, or implementing prevention measures intended to allow pregnant women to remain at work, if they so desire, until the start of their maternity leave.

2.3.3 LABOUR RELATIONS

2.3.3.1 Social dialogue

Within the Group, social dialogue is a priority and is organised in each country according to local laws and regulations. In France, Hermès ensures that these obligations are adhered to. Social dialogue is organised by the Company in order to comply with local particularities and to ensure that the discussions will account for the realities of each situation.

A Group committee meets once a year to discuss and debate the appraisal of the elapsed year and the prospects for coming years. Furthermore, a social dialogue monitoring committee (France) was set up in 2008 pursuant to the agreement on social dialogue and to assert union rights within the companies of the Hermès Group. This agreement was signed in 2008 by all of the representative trade unions. In France, more than 80 agreements and amendments (on both Group and Company levels) were signed in 2016, including a Group agreement regarding the payment of an additional contribution for FY 2015. Throughout the year, agreements have been signed on Sunday working, social dialogue, incentive schemes, the generation contract and workplace gender equality; these agreements demonstrate that employee representatives and the departments concerned are fully involved in constructive and respectful social dialogue.

Internationally, the labour relations of the distribution operations are supervised by the Human Resources Directors for each zone (or country, depending on the size of the local markets), who ensure compliance with local regulations and application of the Group's ethics charter.

2.3.3.2 Social responsibility

Hermès has laid out its social responsibility ambition and policy in a note entitled "Hermès – a responsible employer", which has been approved by the Group Executive Committee.

Through its social responsibility commitments, Hermès implements strategies to develop its employees while boosting its economic performance. Attaining these two inseparable and complementary objectives

involves a range of initiatives to promote responsible integration and responsible management.

Responsible integration is the result of a conviction and desire. The conviction that talent diversity is a source of richness, creativity and innovation for Hermès. Therefore, Hermès is convinced of the crucial need to constantly strive towards this diversity of talents and to integrate this talent. To that end, in 2016 the Group developed a diversity management and anti-discrimination training programme, which will be rolled out among local managers throughout 2017. Hermès is also affirming its dedication to helping vulnerable people, particularly the unemployed, by implementing social inclusion initiatives. With this in mind, in 2016 Hermès worked to implement a social inclusion clause in its calls for construction tenders.

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

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

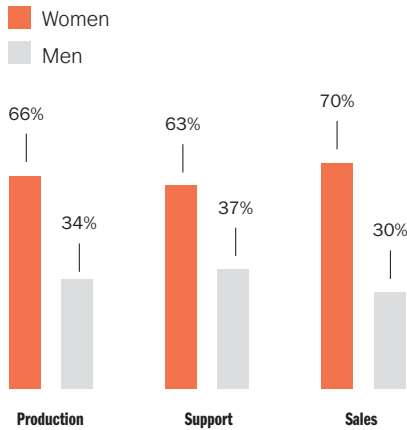
2.3.3.3 Equal opportunity

The Group is committed to the principles of recognition and respect, irrespective of one's origin, gender, family situation or profession. This respect for differences is presented to the employees in the ethics charter that serves as the guarantor of the objectivity, equal opportunity and promotion of diversity without discrimination as part of recruiting, career progress and daily management.

Employee recruitment respects profile diversity wherever Hermès operates.

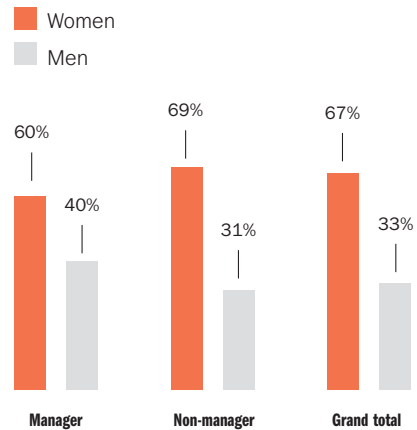
DISTRIBUTION OF MEN AND WOMEN BY SECTOR

The distribution of men and women indicates a majority of women, which is uniform across the sectors.



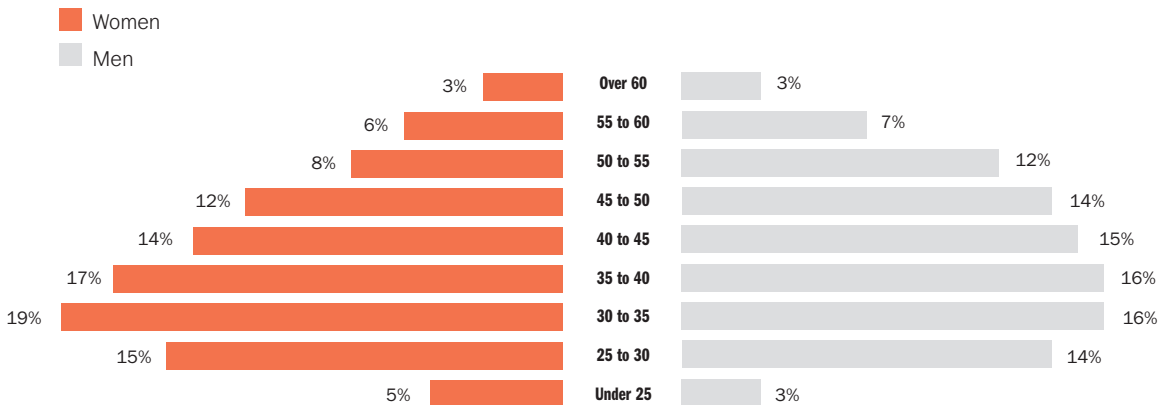
BREAKDOWN MEN/WOMEN BY CATEGORY (MANAGERS/NON-MANAGERS)

Women are present in most roles, including within management. One of the members of the Group's Executive Committee is a woman.



AGE PYRAMID FOR MEN AND WOMEN

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



2.3.3.4 Employment of disabled workers

In the second half of 2016, the Group conducted an expert diagnosis within all of its companies in France in partnership with the Agefiph.

This major diagnosis was an opportunity for over 20% of employees in France to give their perception of disability. Employees with disabilities were asked to complete a specific questionnaire to gather their views, expectations and suggestions. Over 50% responded. Finally, qualitative interviews attended by occupational health employees and employee representatives completed this initiative.

The summary shows an employment rate in France of 3.80% in 2016 (excluding "reduction"). This rate includes the direct, full-time equivalent employment of 288 people with disabilities.

This diagnosis identified many areas for improvement, which will form the pillars of the draft agreement. 2017 will be spent negotiating a three-year agreement with the trade union coordinators and implementing a disabilities taskforce and officers to integrate people with disabilities and keep them in employment. This policy complements the many local initiatives and strategies already being applied in the various divisions, such as the close, lasting partnerships developed with the assisted sector. (See the Suppliers chapter in this report).

Within the Leather Goods and Silk divisions, which are the main employers in France, the 2016 employment rate was slightly above 5%. At Saint-Louis in 2016, the production unit even exceeded the regulatory threshold of 6% of disabled workers, both within its manufacturing process and in support functions or via subcontracting (maintenance of green spaces, components assembly crystal/metal).

2.3.4 HEALTH AND SAFETY

2.3.4.1 Organisation

Risk prevention, protecting employees, and safety are the House's main priorities. All necessary human and material resources are assigned to meet these objectives. A network of health, safety and environment (HSE) officers is managed centrally by the industrial affairs department, and deployed across the various divisions. The HSE policy is implemented at the sector level.

Leather Goods

The senior management of the Leather Goods craftsmanship division meets each quarter to discuss issues of health and safety at work. It orients strategy on priority topics, encourages local initiatives and validates the actions of central coordination. Audits evaluate to what degree the production units have adopted a strong health and safety culture. Within the Craftsmanship division, a HSE manager is appointed in each production unit to monitor the improvement plans defined with their management according to the Group's HSE policy. The HSE manager deals with everyday hygiene, safety and health matters, working closely with the maintenance and occupational health departments. They take part in quarterly meetings organised by the central HSE coordination to evaluate the progress of ongoing projects, identify lessons learned and define new areas for improvement. Central coordination ensures the consistency of the improvement plans carried out by each production unit and establishes priorities. They provide material support to the actions carried out on site, select experts when their participation is needed, and monitor changes in regulations and technical innovations. They develop and distribute shared training, reporting and regulatory compliance tools. Resources are allocated to each establishment enabling employees to work safely, perform their duties over the long term, and act daily for the environment.

Tanneries and Precious Leathers

For several years, the sites have been working to improve health and safety conditions, and many initiatives have already been undertaken, such as an assessment of workplace risks and measures to prevent hardship resulting from work at the various workstations. Dedicated Health, Safety and Environment (HSE) managers are responsible for hygiene, safety and working conditions at each production site. As a result, they receive support from the Site Directors who are directly involved with regard to these subjects. All of the data is shared within the division, and joint improvements are implemented at the instigation of the industrial department.

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

Crystal

In 2016, the HSE subjects for the cristallerie Saint-Louis were coordinated by a safety facilitator, an environmental engineer and technical, Hygiene, Safety and Environment managers. A budget of €0.5 million has been invested in various projects to improve the production unit's performance in terms of hygiene, ergonomics, safety, working conditions and the environment

Tableware

At the CATE, in 2016, at the instigation of the Site Director and with the support of an HSE manager, a HSE policy and a structured risk prevention programme were defined and implemented to protect health and ensure the safety of both employees and people from outside the Company. This approach was supported by management and an investment budget of €0.27 million.

This prevention programme includes regular HSE visits with management and members of the CHSCT to improve risk management within the workshops.

At Beyrand, a QHSE (Quality, Health, Safety and Environment) manager monitors compliance with legislation and standards, and monitors waste, energy consumption and works. This manager works in partnership with the maintenance and purchasing departments, under the authority of the Executive Vice President of the Company. An apprentice from ESSEL joined the Company in 2016 to improve workstations by drawing up job descriptions.

John Lobb

John Lobb continued its commitment on this matter with weekly in-house HSE audits and quarterly audits by an outside Company. A first aid team was set up and a Works Council has been in place since 2015.

Distribution

In France, the launch of in-store health and safety audits in 2013 brought a new dynamic to the inclusion of workplace hygiene, health and safety issues in the retail activities in France. A Health, Safety and Security action plan was implemented in partnership with the technical departments (who operate in the stores), human resources and internal control. The aim of this action plan was to comply with regulations and gradually introduce a Health, Safety and Security (HSS) culture in the stores. The action plan was launched in 2014 for three years. Some initiatives will continue into 2017.

The action plan is deployed across six main themes (Knowledge/regulation fundamentals, labour code & ERP; commitments, responsibilities and organisation; risk awareness; site facilities/surveillance/video-surveillance; training/information and communication, incidents/accidents). Several topics were dealt with simultaneously to improve organisation. For example, introducing safety personnel in stores, whose role and mission is the operational implementation of HSS obligations within their store. Safety personnel are coordinated centrally by the security department with the involvement of internal control. Safety personnel are involved operationally in annually updating workplace risk assessments and feed back the actions implemented and new actions identified via this evaluation. In addition to the annual evaluation, regular information and communication takes place in the form of safety “news-flashes” or memos.

In Japan, a questionnaire on stress at work was introduced in May, which helped the Company and the employees to better evaluate their stress levels. They were able to take steps to improve their working method and working environment, which are the main sources of stress.

In Southeast Asia, various employee awareness-raising initiatives have been implemented, including a campaign on nutrition, particularly snacking in Singapore, Guam and Saipan. Organic packed lunches were handed out to sales teams to raise awareness of a balanced diet. Workshops with a trainer and a nutritionist were held during sales associates’ lunch breaks to raise awareness of eating habits.

2.3.4.2 Employee Involvement

Health and safety awareness-raising and training initiatives, which also ensure adherence to regulatory obligations, are conducted and monitored at each site, then consolidated by the sector.

Leather Goods

The modules have been designed to circulate workplace health matters within the workshops. At the end of 2016, all employees in the craftsmanship division took part in an interactive training day on awareness of the body and its role, “Un corps pour la vie” (“A body for life”). This fun health awareness module was delivered to artisans at the production units and employees in administrative roles. It is the first step of a commitment to healthy living every day.

Leather goods production units also organise events run by the hand injury prevention network to prevent risks linked to craftsmanship and to respond appropriately in the event of an accident. These conferences led by professionals raise awareness.

Finally, individual support from physiotherapists is offered to artisans experiencing pain or discomfort which hinders them in their work. This

monitoring takes place within the Company via a training module which encourages awareness of responsibilities and independence in managing physical difficulties.

Tanneries

In the context of the hardship prevention strategy¹, the tanneries in France have stated that their employees are exposed to risk factors. The Cuneo tannery in Italy continued to improve evaluation of employee exposure to repetitive tasks in collaboration with the occupational health doctor. To improve ergonomics at the workstations, the tanneries of Annonay and Vivoin signed up to the “TMS Pros” (Repetitive Strain Injuries (RSI)) initiative in partnership with the Carsat Rhône Alpes and Pays de la Loire. Finally, many yearly risk-prevention training sessions were delivered across the sites, to complement regulatory training: chemicals handling, movement and posture, workplace first aiders, fire drills and emergency evacuation exercises, improved inductions for new employees.

Perfumes

The RSI prevention training module delivered to the leather goods sector has been adapted for Perfumes. One hundred people had already received training in 2016.

Textiles

The textiles segment implemented projects at several levels. A complete multidisciplinary health committee approach (occupational health doctor, nurse, occupational psychologist, social worker) enables proactive monitoring of employees and helps to maintain employment. Occupational psychologist drop-ins were extended to the ITH site, and awareness-raising conferences on nutrition, sleep and healthy living were held, particularly for employees on night shifts.

Crystal

Three topics were covered in detail in 2016: working in alternating teams, poor posture, and dangerous chemical agents.

Employees concerned by these factors did not accumulate them. An action plan to reduce hardship, particularly at these workstations, is being implemented.

Many initiatives to improve working conditions were implemented in 2016 in order:

- ◆ to reduce risk levels (introduction of uniforms in the Porcelain division, installing air quality treatment in the Decoration division, use of goggles for “hot glass” artisans, protection from projections on the blowpipe heaters, etc.);

1. Laws of 20 January 2014 and 17 August 2015 as well as the implementing decrees and ministerial decisions of 2014 and 2015.

- ◆ to improve the ergonomics of some operations (awareness-raising about warm-up and recovery exercises for “hot glass” teams, improving the safety of storage spaces, notably their height, replacing noisy, hot furnace outlets with more efficient models, installing a second automatic “helper” for large pieces of “hot glass”, etc.).

Tableware

At the *CATE*, one of the main themes of the 2016 programme was chemical risk prevention with a complete inventory of chemical products at the production unit, an evaluation of the risks and the implementation of adapted chemical PPE (personal protection equipment) such as safety goggles when spraying enamel. Artisans exposed to chemical products attended tailored training with an outside body over the year.

At *Beyrand*, the main initiatives related to the production of job descriptions and manager and artisan training, an ergonomics study on silk-screen printing workstations (mock-up and trial of a “sample” workstation), selection and testing of new personal protection equipment. The aim was to combine usage comfort and employee safety.

At *Puiforcat*, the focus continued to be on preventing accidents in the workshop. In addition to circulating risk information sheets, systematic work took place in the second half of the year on the PPE used for polishing and planing.

Awareness-raising of the damage caused by smoking and help in stopping smoking took place over the year in partnership with the occupational health doctor.

John Lobb

Training was reinforced in 2016 on fire safety, stress management and an annual initiation and refresher programme was implemented.

Hermès Distribution France

The division continued to roll out the fire safety and prevention programme by holding evacuation exercises, in particular, to test the technical equipment.

With the aim of boosting the skills and knowledge of the safety personnel in stores, personnel training (administrative managers) took place, which was repeated for store managers.

Finally, in 2016, the security management of outside companies working in the stores was examined. Analysing and managing interference risks was a priority for the year.

2.3.4.3 Workplace accidents

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

In France in 2016, where the manufacturing workforce accounts for 70% of employees, the frequency rate of workplace accidents with stoppage was 14.9 and the severity rate was 0.63 against 16.8 and 0.78, respectively, the previous year. This calculation is based on total real hours worked.

Leather Goods

Within the Leather and Saddlery Division, which employs 63% of the manufacturing workforce in France, the workplace accident frequency rate fell between 2015 and 2016. It has halved since 2012. The accident severity rate with stoppage fell compared with 2015.

Each work-related accident is the subject of an investigation, with analysis of the causes. In the event of an accident, the affected production unit must send an accident report to the whole craftsmanship division and request observations or advice from the other units. This led to the implementation of a system for sharing experience and best practices, used by the services charged with health and safety at work to exchange their opinions and examine common solutions to cope with identified risks.

Perfumes

The frequency rate of workplace accidents of the CNP (Comptoir Nouveau de la Parfumerie) fell between 2015 and 2016. It remains far below the frequency rate for the chemical segment. The severity rate of workplace accidents has continued to fall over the last few years. Furthermore, there were no accidents on the way to or from work in 2016. Road safety training was provided to some employees who travel as part of their role.

2.3.5 WORKING ENVIRONMENT

The Group constantly monitor employees' working conditions. In 2016, the main improvements made were as follows:

Leather Goods

To protect employees, the work begun in 2014 to improve the machines continued. Noise reduction is a major objective of this work. Working closely with manufacturers or suppliers of equipment, the central teams are revising the systems for noise reduction at the source to ensure greater comfort in the workshops.

Tanneries

All tanneries continued work to optimise the management of chemical products and replace certain substances in order to comply with current regulations and anticipate future changes (REACH and POP [persistent organic pollutants] regulations, biocides, etc.). The programme for measuring employee exposure to certain chemical agents, which began in 2015, continued at the Vivoin, Montereau, Cuneo and Annonay sites. By way of example, the following actions took place:

- ◆ continuing work to make air extraction and renewal mechanisms compliant;
- ◆ improved machine safety;
- ◆ monthly safety communication and training campaigns on sites;
- ◆ improved safety on sites when renovating and designing buildings.

Textiles

The Silk division held round tables with 150 employee volunteers on "living well at work".

Perfumes

At Hermès Perfumes, investments and studies aimed at improving site safety, working conditions and employee wellbeing amounted to €0.27 million, particularly for site fire protection (improvements to sprinkler systems, generators for motor pumps, firefighter suction areas, fitting of smoke detectors), fitting of protective barriers, ground renovation, installation of a pergola on the terrace, renovating toilets and protecting employees from the risk of explosions (update to the ATEX diagnostic).

For the fourth year, a campaign to limit employee exposure was implemented in liaison with the chemical risk evaluation in place on the site.

Cristallerie Saint-Louis

The assessment of the Saint-Louis production unit's chemical risk, carried out in 2012, was updated in 2016. This update, taking into account the results of previous campaigns, has clarified the level of exposure to certain Homogeneous Exposure Groups (HEG). They have thus been subject to samples during the campaign, which took place during the month of December 2016. Actions also took place to reduce the exposure thresholds noted during these analyses (e.g.: replacing the "chemical etching" workstation). Other projects included replacing the borehole for acid effluents. A system to treat the fumes from the new tank furnace also captures the combined emissions from the crystal sampling points on the tank and pot furnaces. A system for treating ambient air quality was installed for the gold decoration workshop. The working area for the "chemical etching" workshop is currently connected to the workshop's air treatment system. A fire detection solution was consolidated in the finished products storeroom along with fire hydrants and suction areas. A new tank furnace was built, to replace the worn out "furnace", providing an opportunity to rethink the flows from the "hot glass" process and refit the corresponding workshop. A project team was set up incorporating artisans, which from the beginning enabled them to input ideas for their new workshop which they have been using since November.

Tableware

At the CATE, a reduction in the fire risk in the production unit was also a strong theme in the prevention strategy. The boiler and the supply of fuel oil in the basement of the building were replaced with an electrical installation, reducing the risks of fire, pollution and nuisance for the artisans when filling the tanks. Combustible building materials were protected with insulating materials to avoid ignition with a hot spot. Some employees received training from an outside body on using fire extinguishers and two evacuation exercises were held over the year. Under the hardship action plan, the last decoration workstations have been replaced with more ergonomic models. In the same way, "brush" workstations have all been changed for more ergonomic models, convertible for left- and right-handers, height adjustable and luminosity.

At *Beyrand*, a study is underway to replace cleaning solvents. Harmful conditions in the workshops are being assessed: noise, harmful postures, load carrying, and chemical risks to implement the best solutions to remove these risks.

At *Puiforcat*, the CHSCT continues to be involved in improving working conditions, and this year is renewing the carpet in the workshop. Its opinion was also sought when updating the single document.

A new collapsible ladder has been installed to access the air compressors. The dust bags from the polishing suction cabinets are now changed by a company which uses a mobile scaffold, to limit the risks of falling from a height.

Major changes have been made to the organisation of the logistics area for shipments and deliveries by its team made up of working groups.

2.3.6 INTERNAL COMMUNICATION

The Toile H intranet site, updated weekly, keeps staff informed about new employees, internal appointments, communication events, new products, life on the production sites, organisational changes, etc. To facilitate access to information for all and reinforce a sense of belonging, employees can also log on to the site from home. A specific section, “Harmonie Hermès” covers sustainable development topics. It also covers the environment, health and safety themes chosen by the House: the site contains regular updates from the work of the HSE network and local initiatives on biodiversity, saving energy and sustainable development week events.

Circulating the Company's strategy

Around 2,200 employees met in Paris in spring, at an information meeting at which the achievements of the previous year were presented to a large number of the House's employees. This was a time to celebrate success, agree on priorities and strengthen the links between the many Hermès métiers and operations.

200 executives representing all subsidiaries and generations were invited to an event in Hamburg, a city which symbolises modernity and the avant-garde. The event had an inter-generational theme, and participants shared their ideas and preferences for working together.

An event was held in Pantin, in December, to mark the work anniversaries of 65 employees, with 25-55 years of service. The House showed its warm gratitude to them.

2.3.7 PROMOTION AND COMPLIANCE WITH FUNDAMENTAL CONVENTIONS REGARDING HUMAN RIGHTS

The Hermès Group's ethics policy aligns with the universal framework set down by the major principles, standards and international agreements, and it notably adheres to:

- ◆ the Universal Declaration of Human Rights;
- ◆ the Charter of Fundamental Rights of the European Union;
- ◆ the Charter of Fundamental Rights of the International Labour Organization ¹, the principles of which are grouped according to the following themes: freedom of association, forced work, child labour, discrimination;
- ◆ the guiding principles of the OECD ²;
- ◆ the OECD convention on combating the corruption of foreign public officials.

It is self-evident that the Hermès Group and its employees strive to comply with the applicable laws and regulations in all countries in which they are active.

These principles are clearly set out in the Group's ethics charter, which has been released in 10 languages, available on the Group Intranet and published since 2009 in more than 27,000 copies (including one for each newcomer).

1. *The International Labour Organization is the UN agency that brings together the governments, employers and workers of its Member States, in a common effort to promote decent work throughout the world.*
2. *The OECD (Organisation for Economic Cooperation and Development) brings together the governments of 35 countries in support of the principles of democracy and the market economy, for the purposes of:*
 - ◆ *supporting sustainable economic growth;*
 - ◆ *developing employment;*
 - ◆ *raising living standards;*
 - ◆ *maintaining financial stability;*
 - ◆ *helping other countries to develop their economies;*
 - ◆ *contributing to the growth of worldwide trade.*

2.4 RAW MATERIALS AND SUPPLIERS

The durability of Hermès' business depends primarily on the future availability of the high quality raw materials, which are at the heart of the products and are key to Hermès' unique character. Hermès makes a conscious effort to respect, protect and work for the sustainability of the natural resources that it needs.

The Group has used an approach that has remained constant for decades: getting to know our supply chain better, consolidating them to ensure the highest level of quality, and developing them to prepare for future growth. Keeping craftsmanship close to its heart, the Group works every day to focus on optimising the use of rare and precious materials.

Growth also linked to the development of suppliers, whose superior expertise and future successes will contribute to those of the Group. The majority of production is integrated in-house, in line with Hermès' strategy that focuses on preserving unique know-how and securing supplies. Most of our subcontractors and suppliers have been partners for many years, and these stable relationships mean that we can work closely and sustainably with our partners on a wide range of matters.

For the Group, awareness of its corporate social responsibility also means turning to "socially supported organisation" in France for its direct and indirect purchases (see the chapter on handicap in section entitled "People, Social Responsibility").

Hermès is committed to supporting the sustainability of our partners, and maintaining balanced relationships characterised by goodwill and high standards: we ensure that they comply and share our social, environmental and ethical responsibilities.

2.4.1 KNOWING OUR SUPPLY CHAINS, COMPLYING WITH REGULATIONS

Respect for raw materials obviously begins with respecting the regulations pertaining to them. This means legislative provisions:

- ◆ to combat the illegal exploitation of forest products, like the Lacey Act in the United States or the EU Timber Regulation (EUTR);
- ◆ The Washington Convention or the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES) is another such framework that can have an impact on the raw materials used in the leather business, tanneries, or some ingredients of perfumes.

Leather Goods

Leather is an animal product, specially tanned and preserved, either using alum tanning (for lamb, sheep, and goatskin) or traditional tanneries for skins from cattle or reptiles. Hides used in leather goods are by-products of animal husbandry. People sometimes refer to hides as the "5th quarter", which means that tanning could be the most ancient recycling industry in the world. Hermès uses only full-grain leather, the top part of the skin, in an unadulterated condition. To maintain consistency in the finished product it also only uses entire hides. Leather reflects the animal's life. It may bear traces of injuries, health issues (like parasites), and other factors. You will only get a good hide from an animal that has been well-treated. Hence Group demand for high quality helps to improve the industry by encouraging animal husbandry that respects the animal's welfare.

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

Hermès uses more than 30 different types of leather to make its goods, most of which come from calves raised in France (including our flagship "box" leather, made with an English tanning technique), but also natural cowhide (in our saddlery leather products line) and "exotic" leathers. These exotic leathers include crocodile, alligator, lizard, and ostrich (essentially raised for its meat and feathers).

Unprocessed skins from cattle and members of the sheep family, the raw materials for tanneries, come exclusively from animals that were raised for their meat. Calfskin comes from abattoirs within the European Union, which in practice means almost exclusively abattoirs in France.

Hermès works together with its tannery partners, with a view to long-term cooperation, and has a dedicated annual budget to organise programs to improve the quality of the industry working together with farmers, their cooperatives and their professional associations.

Exotic tanneries essentially use the skins of crocodilians. The vast majority of the skins come from farms located in the United States, Africa, and Australia. All Hermès partner farms must scrupulously comply with the rules drawn up under the aegis of the UN for the Washington Convention, which defines protections for endangered species. Hermès requires that its partners meet the highest standards for the ethical treatment of alligators and crocodiles following recommendations by expert veterinarians and local authorities such as US Fish and Wildlife, the federal nature protection agency. These husbandry practices have also contributed to saving the species in the United States by repopulating alliga-

tors into their natural habitat. In addition to strictly complying with the Washington Convention, Hermès launched a study in collaboration with an external partner to evaluate the social and environmental footprint of the supply line for alligator skins in the United States, with conclusions expected in 2017.

Silk and Textiles

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

A supply chain for high-quality silk thread was developed more than 20 years ago in Brazil. In addition to traditional agricultural activity in the State of Paraná (one example is coffee), the cultivation of mulberry trees (whose leaves are used to feed the silkworms) has enabled this supply chain to be sustainably introduced thanks to Japanese know-how.

There is a dedicated annual budget to develop the knowledge, techniques and sustainability of the businesses and supply chains of these partners. There are also programs to improve the quality of the products they manufacture.

Perfumes

Hermès perfumes are made in-house from carefully selected ingredients. Hermès has for many years taken part in a collective movement by the profession to ensure that natural ingredients used by the cosmetics industry are exploited in a sustainable and balanced way. This is a painstaking process, pursued patiently ingredient by ingredient.

2.4.2 USING RAW MATERIALS WISELY

The raw materials used in the manufacture of Hermès products undergo a rigorous selection process to identify those which meet stringent quality and sustainability requirements. Each sector works to constantly improve the use of these rare and precious materials.

Leather Goods

The leathers used by Hermès are rare and of exceptional quality. Our desire to create durable products is guided by very strict parameters when choosing these materials: as Robert Dumas used to say, *a luxury product is one that can be repaired*. Their very careful usage is one of the main concerns for leather goods production units. To achieve this, the industry is encouraged to employ any and all methods: using off-cuts, the technique of related cuts and sharing good cutting practices are just a few examples that are used and encouraged within the industry. They help to increase the expertise of the cutters and to optimise the usage of leathers.

The efforts made by petit h and our artistic directors, who create exceptional products or limited-run collections, contribute to the trend to use every part of the skins that tanners make available to us.

Silk and Textiles

Once the raw materials have been provided (essentially silk and cashmere), this division takes over all processing tasks: weaving, printing, finishing and tailoring. This uniquely integrated process makes it possible for us to control the use of materials down to the last thread. Programmes minimising waste and spoilage, which make up part of a quality process encompassing the entire product line, are particularly active and involve every manufacturing unit.

Tanneries and Precious Leathers

In a tannery, the best way to make optimal use of materials is to improve the quality of the unprocessed hides. For our line of calfskin, like our line of reptile skin products, the division is spearheading a number of quality improvement projects. Some of these initiatives happen directly on the farms, and others are partnerships with farmers and cooperatives, professional organisations, or independent laboratories.

Cristallerie Saint-Louis

Refurbishing the tank furnace, one of the big projects at cristallerie Saint-Louis in 2016, was an opportunity to optimise our main melting tool for manufacturing, and it launched operations in November. The technology chosen will enable a reduction in the consumption of raw materials of approximately 20%.

Porcelain and Enamel

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

In addition, working groups regularly study the different ways of reducing rejection rates for each activity so that we can optimise our material processing rate. This is how an idea was born to create prototypes for developing enamel using components that were rejected during the production phase.

Footwear

A new line of shoes that incorporates a method to optimise the amount of leather used was developed for the 2017 season. The leather used is now selected depending on its intended purpose. In this way, the stays, a part of the structure that is completely invisible because they are located between the lining and the upper, is now created with pieces specifically selected for that purpose. This work is making it possible to reduce waste.

Construction

In partnership with suppliers and consultants, systematic efforts are made to give preference to locally sourced materials whenever possible. For several years, a deep analysis has been done of the materials used in new or renovated stores and production sites, making it possible to progressively refine selection and recycling, resulting in a significant reduction of environmental impact. For example:

- ◆ the use of brass is banned and replaced by aluminium, in order to reduce the weight of furniture and simplify recycling;
- ◆ pure wool carpets are laid using a plant-based adhesive, so that they can be recycled when replaced;
- ◆ the type of wood used for the floors in stores is selected from locally available species.

2.4.3 WASTE

The wide range of métiers prevents the group producing a single overall measure of waste. Instead, each manufacturing division works with a dual policy of waste reduction and re-use wherever possible. The main contributors are tanneries, crystal, leather, and textiles. As part of its strong commitment in these areas, the Leather Goods and Saddlery division (17 production sites in France) has, for instance, been using a recycling program for all leather offcuts for several years.

Tanneries

Making better use of leather waste from the tanneries is done on the one hand by improving the quality of the unprocessed hides and on the other hand by seeking new product lines to use the waste leather that is the product of the shaving and sampling of hides. Tanneries are active participants in the think tanks that we bring together at Hermès to discuss leather waste, and in the work done by the Centre Technique du Cuir (CTC).

The increase in the amounts of hazardous and non-hazardous waste produced (+49% and +94% respectively) results from the increase in

scope after the Puy Tannery was included. It contributes approximately 40% of the waste produced in the division.

The production of hazardous and non-hazardous waste on one hand from the exotic leather tanneries, and on the other hand from the tannery in Annonay, appears relatively constant from year to year. The waste produced was disposed of in its entirety through authorized processing companies.

On-site waste storage is optimised to avoid any pollution (covered storage areas, retention mechanisms, etc.) and, thanks to the 5S method, employees receive regular support and training around proper sorting of waste and designing work areas.

In tonnes	2012	2013 ¹	2014	2015	2016 ²
Non-hazardous waste	781	1,876	2,247	2,113	4,103
Hazardous waste	159	1,022	1,230	2,065	3,070
including recycled waste	140	1,070	957	1,285	2,901
including reused waste	85	267	225	161	150

(1) The reporting scope has included the tannerie d'Annonay since 2013 (acquired in December 2012).

(2) The reporting scope includes Les Tanneries du Puy, bought in November 2015.

N.B.: The USA and Australia divisions are excluded from reporting.

Crystal

Reducing waste is a challenge with ecological and financial aspects, whose implementation receives a great deal of support and attention. The technology chosen for the new tank furnace will make it possible to recycle a much greater percentage of cullet than was achieved with the previous technology, enabling a reduction in the consumption of raw materials, transportation of waste, and consumption of energy required for the functioning of the melting device.

In tonnes	2011	2012	2013	2014	2015	2016
OIW waste ¹	85	92	92	81	80	135
SIW ² +HIW ³ waste	1,030	1,032	1,180	1,586	1,163	1,128
Including reused + recycled waste	828	807	860	947	652	953

1. OIW: Ordinary Industrial Waste

2. SIW: Special Industrial Waste

3. HIW: Hazardous Industrial Waste

The significant increase in the volume of OIW¹ corresponds to the packaging and pallets disposed of while the tank furnace was being built. Measures to manage OIW¹ implemented in 2015 enabled a significant portion of this waste to be recycled.

The volume of HIW³/SIW² waste is stable compared to 2015, but remains high. In 2015, this waste was from the dismantling of the pot

furnace, whereas in 2016 it comes mostly from the unsuitable cullet that was not recycled during the last months of the life of the tank furnace. However, the annual average amount of recycled cullet remains constant compared with the previous year, or even a little higher, especially after the initiative to optimise the operation of the melting tools.

Leather Goods

All leather offcuts from manufacturing facilities are resold to special processors and recycled, to then become new raw material for other types of products. In 2016, the Group improved the way its divisions are organised.

In tonnes	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
OIW waste ¹	544	685	684	670	640	633	638	670	584	496	433	588
HIW waste ³	15	18	15	21	29	37	42	49	69	72	80	65
Level of activity			100	108	109	110	118	126	138	147	162	175

The entire craftsmanship division produced a total of 588 t of OIW¹ waste in 2016. This is an increase of 36% compared with 2015.

There are several reasons for this significant increase:

- ♦ the start of manufacturing at Héricourt with a canteen;
- ♦ the start of Saint-Junien's short-term workshop;
- ♦ recycling of soiled solid waste into OIW at Manufacture de Haute Maroquinerie;

- ♦ a one-off waste sorting drive at Pierre-Bénite;
- ♦ specific items removed at the facilities in Pantin.

HIW³ waste produced in 2016 amounted to 65 t. This is a decrease of 18%, mainly attributable to some soiled waste that was transformed into OIW¹ and to the removal of degreasing fountains.

Each type of waste is directed to a specially devised treatment or sorting chain.

Textiles

The division is working with a number of different service providers to recycle a portion of the textile waste and offcuts from production.

In tonnes	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
OIW waste ¹	469	306	239	345	346	448	457	507	536	505
HIW waste ³	334	387	409	488	522	546	696	973	643	639

Since 2015, the division has been using just one provider for waste management for all of the sites, who focuses on sorting and recycling.

Perfumes

Processed alcohol products, cosmetic products, PLV (Publicité Sur Lieu de Vente, on-site advertising) and articles used in processing that end up being discarded are recycled through a specialised partner. On average, after preparation and sorting, 63% of these materials are recycled and 37% are used in energy recovery.

In tonnes	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
OIW waste ¹	46	59	79	114	140		199	278	256	251
HIW waste ³							627	585	543	602

The volume of waste has increased by about 6% compared to 2015, which is partly explained by higher volumes of perfumes that were manufactured and packaged.

In 2016, 60% of waste (OIW and HIW) was recycled and 33% was used in energy recovery. The recycling/re-use ratio therefore remains stable.

1. OIW: Ordinary Industrial Waste
2. SIW: Special Industrial Waste
3. HIW: Hazardous Industrial Waste

Watches

The staff are made aware of and trained to use the bins provided for each category of waste, ensuring compliance with best practices in this area. The service managers ensure that the sorting instructions are respected.

All aqueous products, solvents, adhesives or dyes are packaged in waterproof containers and disposed of by a professional chemical disposal network.

	2011	2012	2013	2014	2015	2016
Unrecycled OIW ¹ waste <i>in tonnes</i>	20	18.7	16.35	15	11	20
Recycled OIW ¹ waste <i>in cubic metres</i>	140	122	213	213	244	216
HIW ³ waste <i>in kilograms</i>	60	42	39	50	12,630	12,197

Porcelain and Enamel

This division is studying every opportunity for waste reduction. In 2016, the main active issues related to the manufacture of porcelain or enamel chromos, where the paper is always reused as an interleaf during printing, and the rest is cut up to be used in the Research and Development lab. Most screens are reused in production. Porcelain supports used during the firing tests for decorations are cut up for the best use of them.

CATE

<i>In tonnes</i>	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
OIW ¹ waste	90	91	75	65	34	82	81	88	104	105
HIW ³ waste	0.3	1.0	1.7	3.9	7.6	8.8	34.2	30.1	8.9	11.1

Waste is monitored and employees are sent updates on waste production every month. The sorting of packaging waste that began in 2015 in the dining hall was extended to all divisions in order to involve employees in this process.

The volume of OIW generated has increased slightly compared to 2015, with manufacturing having carried out a number of operations to dismantle obsolete processing facilities, replacing the old workstations, which were recycled.

The portion of hazardous waste has increased by 25%, with much of this coming from the sludge from the water treatment centre that handles

the enamel waste. The reason for this is strong growth in the enamel business in 2016.

The most significant measures undertaken in 2016 were the following;

- ◆ running the water “pre-treatment” station regularly and cleaning it in order to reduce sedimentation from the enamel, reducing the need for cleaning the station;
- ◆ recovering and gathering up the non-pulverised enamel paste from inside the workshop before it gets washed into the water stream, to avoid unnecessary pollution of the water (and subsequent treatment);
- ◆ placing recycling containers around for smaller packaging items.

BEYRAND

<i>In tonnes</i>	2010	2011	2012	2013	2014	2015	2016
OIW ¹ waste	36	42	44	38	47	48	34
HIW ³ waste	9	9	11	14	9	11	15

Better management of raw materials has enabled the site to decrease the waste produced by 10 tonnes. The site has recycling bins for the different waste streams: paste products, used solvents, soiled packaging, paper, porcelain, wood, etc. All ink cartridges are also recovered and reused. Colour pots and screens are reused insofar as possible before being destroyed. Regular reminders of these rules are provided during workshops. Various awareness campaigns are also carried out during the year when storage/sorting is happening.

1. OIW: Ordinary Industrial Waste
2. SIW: Special Industrial Waste
3. HIW: Hazardous Industrial Waste

Footwear

Waste disposal was entrusted to a new service provider at the end of 2016. Several new recycling solutions are being proposed.

Logistics

When handling products, each of the quality control agents wears a pair of single-use textile gloves. During the campaign to collect clothing carried out as part of Sustainable Development Week, a process to give a second life to these gloves was launched: they will be reused for other purposes during the processing activities of an external partner.

Construction

Since 2014 a proportion of the leather offcuts from leather goods workshops is systematically used to cover counters in all stores and artisans' workbenches. In 2015, the concept of the pop-up store, with re-use of furniture, was rolled out to Europe, the Americas and Asia. In 2016, window displays at the store in King of Prussia, Pennsylvania (US) were decorated using objects created with leather offcuts from France.

Also in 2016, selective sorting and recycling of materials for stores or stands being dismantled after their useful life had ended was organised progressively to send the output to local recycling facilities. For example, the annual display stand of La Montre Hermès at the clockmaking fair in Basel, Switzerland, measuring approximately 1,000 m², is rebuilt each year using 80% recycled structural materials as well as the technical equipment for lighting and the furniture from the previous year. The remaining 20% of used materials (carpet, flooring, linoleum) goes to local recycling facilities.

Furthermore, in France the Group has also defined and implemented a methodology for recycling furniture that has reached the end of its life by sending it to the service industry, working together with green organisations approved by the Ministry of Ecology and Sustainable Development.

2.4.4 SUPPLIERS MONITORING

Within the context of the Group's monitoring plan, jointly led by the industrial department, the audit and risk management department (A&RMD), and the legal department, new concrete actions have been launched or planned, while others have been expanded.

On the legal front, Hermès is formally asking suppliers for their support in complying with its corporate and regulatory responsibilities. The Group is also asking them to check their own suppliers, throughout their supply chain, to ensure that they are fulfilling their obligations. The contract clauses provide for the possibility of verifying that these undertakings are real through an operational audit.

In terms of IT, there is a central platform. This tool makes it possible to share all supplier data throughout the Company. Its purpose is two-fold, hosting legal documents (agreements, commitments, etc.) from partners and providing an overview of revenue.

With the support of an external firm, the Group also carries out risk audits (EHS, corporate, etc.) with its partners. These audits make it possible to perform an on-site check of their commitments, ensuring that relevant regulations are being complied with, and verifying the real working conditions and well-being of their employees. These audits end with a shared understanding and an action plan, where applicable.

Finally, the industrial department runs the network of purchasers for the House, which operates and maintains the information system serving as the structure for these functions. It also carries out joint actions, such as creating industry questionnaires in order to do preliminary diagnostics on EHS compliance, implementing common rules to be used in filling out questionnaires for new suppliers, and organising the sharing of this knowledge through the entire network. Training is also prepared and delivered by and for this network. The training pertains to the purchasing policy of the Group, legal rules, and tools, but also relates to raising awareness around risk and how to evaluate it.

The example of Tanneries

As part of the division's commercial relations with its subcontractors and hide suppliers, the industrial department regularly performs audits in order to check that the Group's requirements – notably in terms of quality as well as compliance with social and environmental commitments – are actually being respected. At the end of 2015, more than 40% of the partners had been visited. Over the last three years, 90% of them have been audited.

Regular inspections are also carried out in the livestock sites. In addition to these inspections, an audit programme was set up for all crocodile hide providers. These verifications primarily concern CITES regulations, best farming practices, environmental management, social conditions of employees, safe infrastructure and working conditions. These topics are grouped together in a charter of best livestock raising practices established in relation with veterinary experts.

The example of Jewellery

For several years, the Company has been involved in a certification process (the Responsible Jewellery Council - RJC) to guarantee the best traceability for production and purchasing for our jewellery. This certification must be regularly renewed through audits performed by RJC throughout the chain, from production through to distribution. This renewal of the certification took place in 2016. This makes it possible to offer the best environmental and social guarantees regarding the conditions in which precious materials are sourced.

Construction

In 2016, a purchasing policy for partners for construction projects was defined. With each new relationship, suppliers are asked to make a commitment to complying with local regulations and accepting the fair dealing charters and corporate social and environmental responsibility policies before they begin working with the Hermès Group.

A plan for external audits of suppliers in the real estate sector was launched in 2016.

2.4.5 CORPORATE RESPONSIBILITY AND USING SOCIALLY SUPPORTED ORGANISATIONS

Through its policy for the disabled, the Group promotes using services provided by the subsidised sector for socially supported organisations in France (EA, ESAT, sheltered work establishments and disabled adapted companies) whenever possible. Abroad, there are a number of different initiatives depending on local context. For example, the subsidiary in Hong Kong systematically checks the “social enterprise directory”, a guide to social enterprises, for listed service providers whenever it needs to make local purchases.

Leather Goods

Over the last seven years, the division has developed close partnership relations with four sheltered work establishments (ESAT) and an adapted company (EA), located in the vicinity of the production units.

Within these five partner establishments, the Health, Safety and Working Conditions underwent a formal audit. A personal contact person provided these workshops with technical and quality support on a day-to-day basis, but also over the long term, as part of development projects, as well as in the implementation of future premises or the acquisition of new equipment.

Textiles

Partnerships with the ESATs for the recycling of photoengraving frames, fabric sampling for Créations Métaphores, maintenance of landscaped spaces and cleaning of the sites continued. In 2016, HTH continued to support the Handysoie partner company, in collaboration with an ESAT, which employs disabled staff for making textile products.

Tanneries

The Montereau and Vivoin tanneries, through their partnerships with institutions and work-aid support services (ESAT), have included the participation of persons for the maintenance of green spaces. The Montereau site also hosts two people from the same ESAT programme as part of production operations. For its part, the Annonay tannery works with an ESAT branch for office supplies.

Crystal

Maintenance of green spaces is entrusted to the Association APAEIE Ingwiller.

The Paris sites: Hermès International, Hermès Services Groupe, Logistics

The Paris sites use ESAT branches for a number of operations. Cooperation with various ESATs covers some administrative tasks and the making and delivery of food trays, meetings or seminars conferences.

2.5 ENVIRONMENT

One of Hermès' strongest and most abiding values is the respect for nature, the source its exceptional materials and the living environment of its sites. Pragmatic but ambitious long-term solutions to preserve the environment are systematically sought, trying to go further than required by regulations wherever possible.

Our priority is to control our impacts across our entire value chain, from the agricultural production to distribution, from purchasing to internal operations. This commitment is a mindset that requires the involvement of all, from everyday eco-actions to a robust environmental, health and safety (EHS) culture on all sites.

2.5.1 BACKGROUND

The scope of this environmental report includes all production and logistics entities controlled by the House, as well as offices and stores.

2.5.1.1 Policy and organisation

Industrial

Working with all sectors and those involved in our production sites, the Group's industrial department pursues an environmental programme formally approved by the Executive Committee, whose goals are unchanged since 2003:

- ◆ to comply with Environmental and workplace Health and Safety (EHS) regulations and to prepare for changes in these regulations whenever possible. As explained in chapter 2.3.4, the industrial department has a network of Environmental, Health and Safety (EHS) operatives at its manufacturing sites;
- ◆ to respect natural resources, particularly water, and master energy consumption;
- ◆ to enhance production processes by choosing the cleanest possible technologies and the most environmentally friendly materials available;
- ◆ to minimise waste production and to reuse and recycle whenever possible; to limit the "carbon" impact of activities.

Everyone's efforts are needed at every site if we are to achieve these goals. An Environmental, Health and Safety network ("EHS network") has been in place since 2003. Managed by the industrial department, it coordinates the actions of the House in these areas. The network comprises 20 members who meet several times a year to share results and best practices. The training of network members in respect of EHS issues

represents almost half of meeting time. In 2016, the focus was placed on arduous work, following recent legislative developments, as well as changes in safety culture. Training of this nature is subsequently delivered more widely within the various units.

Since 2002, EHS audit cycles at our various units have been conducted by a specialist external consultancy, spread over three years. The fourth cycle, started in 2014, continued in 2016, with audits of 14 sites. These check the regulatory compliance of sites and assess their position in terms of a safety culture. Audits are also conducted at the time of construction or acquisition of new sites, enabling full coverage of Hermès' industrial assets over the three-year period.

The information system deployed to the sites for the Group's environmental reporting can also be used to coordinate the follow-ups to these audits and monitor changes in environment, health and safety regulations.

Several times a year, the Sustainable Development Committee reviews the results presented by the Industrial Department. These reviews may relate to water consumption and the carbon footprint of different units, supply chains, external EHS audits conducted in the House's various units, as well as social and environmental audits of the partners. Possible support or assistance measures necessary for achieving the House's objectives are approved at meetings of this committee.

Construction

Since 2008, our environmental construction policy, overseen by the construction development department, has been based on the following principles:

- ◆ the systematic adoption of an environmental stance during building work;
- ◆ helping to protect the environment by ensuring that building projects are properly suited to their setting and the local architecture, while simultaneously preserving the ecosystem;
- ◆ the use of renewable energy sources whenever that is possible;
- ◆ employing energy-saving methods;
- ◆ a focus on building quality – design, functionality and sustainability – in a constant effort to ensure users' well-being;
- ◆ striving for flexible, adaptable construction projects that integrate future developments and running costs from the outset;
- ◆ anticipating, whenever possible, regulatory and technical developments and incorporating them into our projects.

In 2016, in order to improve coordination and control of activities involving internal staff and external service providers, the Group's construc-

tion development department has drawn up sustainable construction guidance based on three main ambitions:

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

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

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

Changes in regulations in respect of construction are monitored by the Group's teams, in close collaboration with stakeholders (architects, engineers and suppliers).

2.5.1.2 Methodology and tools

Industrial

Since 2012, Hermès has monitored environmental data from its industrial sites using reporting software accessible as a web resource to collect data about consumption at each site. The software also provides access to documentation explaining how the indicators collected are organised and defined. A consistency check is carried out automatically when the figures are entered and again when the global consolidation is performed by the industrial department. The published figures do not yet include data from new Precious Leathers sites in Australia and the United States. Consumption figures for certain leased sites are not available (such as water for the Saint-Antoine leather goods production unit, and water and energy for the John Lobb Mogador workshop in Paris); however, given the size of the workshops and the absence of industrial water use, they represent a negligible proportion of the consolidated total.

Construction

Our environmental reporting primarily measures the energy consumption of stores and the offices of distribution branches around the world. Since 2015, environmental reporting has been further backed up by the gradual deployment of an automated system to consolidate energy consumption data from all new sites. Consumption data for exclusive concession stores are not included, as the Group does not control their operation.

This reporting does not include consumption by certain branches, primarily because of their location in shopping centres, which complicates access to source data. The absence of individual sub-metering in stores means that this energy consumption data is not available. New sites were factored in from the date of opening, or when they joined the Group. Sites that closed or left the Group over the year covered by the reporting were also taken into account. Primary data are collected from contributors from each distribution subsidiary (in a network of over thirty contributors worldwide) and are centralised by the construction development department, which runs various checks (analyses) in relation to the previous year's figures (comparison with similar sites) before consolidating them.

For energy consumption, only the electricity consumption indicator is published. The consumption of other forms of energy, which are very marginal, is excluded from this indicator. Electricity consumption data concern nearly 76% of Hermès branches across the world, as well as John Lobb, cristallerie Saint-Louis and Puiforcat branches. In France, data for 100% of stores are included in the reporting. The same applies to all French branches of John Lobb, Saint-Louis and Puiforcat.

For Faubourg Saint-Honoré, the store accounts for 41% of total consumption in a building that also houses offices and workshops.

In Europe (excluding France) almost 93% of stores are covered. In Asia, over 92% of stores in Greater China (mainland China, Hong Kong and Macao) and 100% of stores in Thailand, Malaysia and Australia are covered. In Japan, the four main stores are also included. For the Americas, 88% of stores are covered, including 100% of stores in the United States.

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

2.5.2 CONTROL OF WATER CONSUMPTION (INDUSTRIAL)

While none of its production sites are located in regions where water resources are scarce, Hermès is convinced of the vital importance of water resources, and in 2002 it launched a program to reduce water consumption. This program is based on a wide range of initiatives involving almost all our production sites.

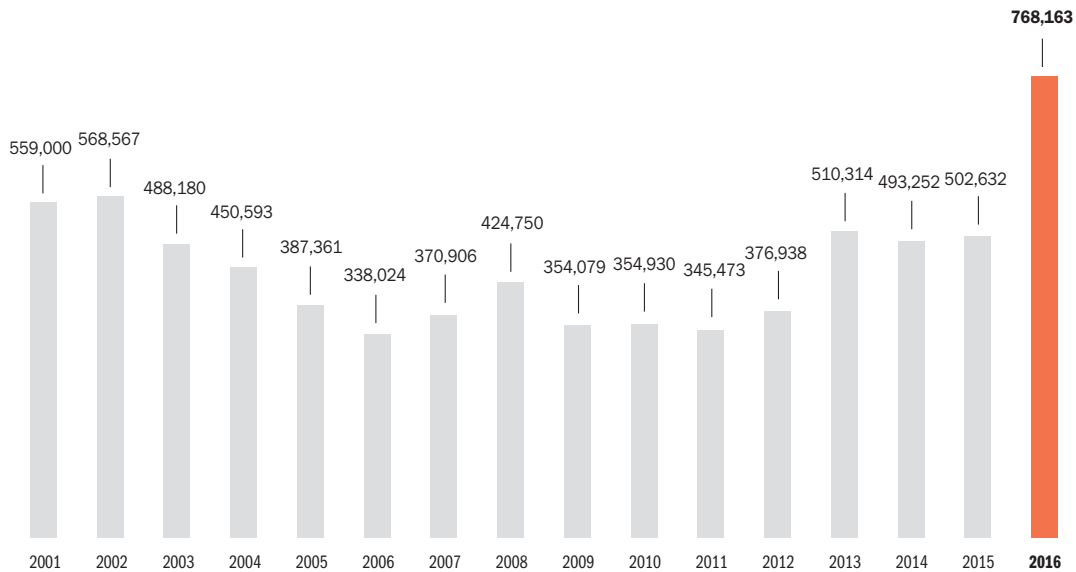
In 2016, Les Tanneries du Puy was included in the reporting scope, following their acquisition at the end of 2015. The inclusion of Les Tanneries du Puy significantly impacts the overall water consumption indicator.

Over the last decade, water consumption has increased by 2.1 times at real scope despite business volumes having risen by 3.2 times. At constant scope (without Les Tanneries du Puy), the figure falls to just +20% with a decline of nearly 10% between 2015 and 2016.

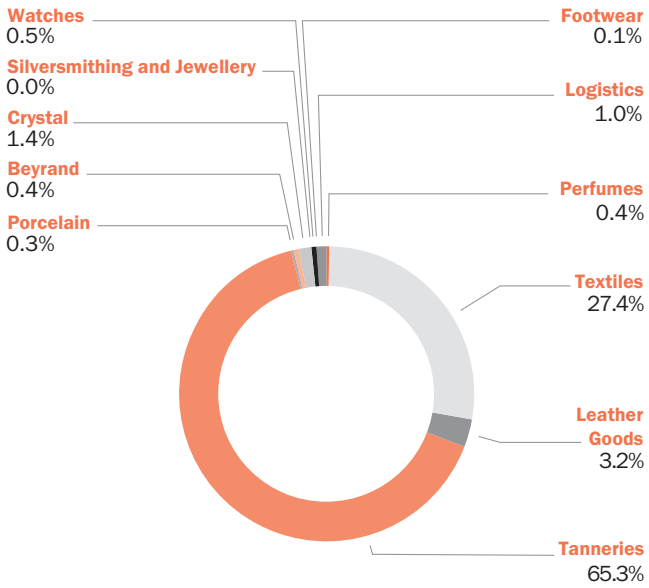
Since the launch of the group's environmental program in 2002, despite a four-fold increase in manufacturing output, water consumption has only risen by 35%, reflecting the effectiveness of the program and water-saving actions.

2

CHANGE IN WATER CONSUMPTION (IN M³)

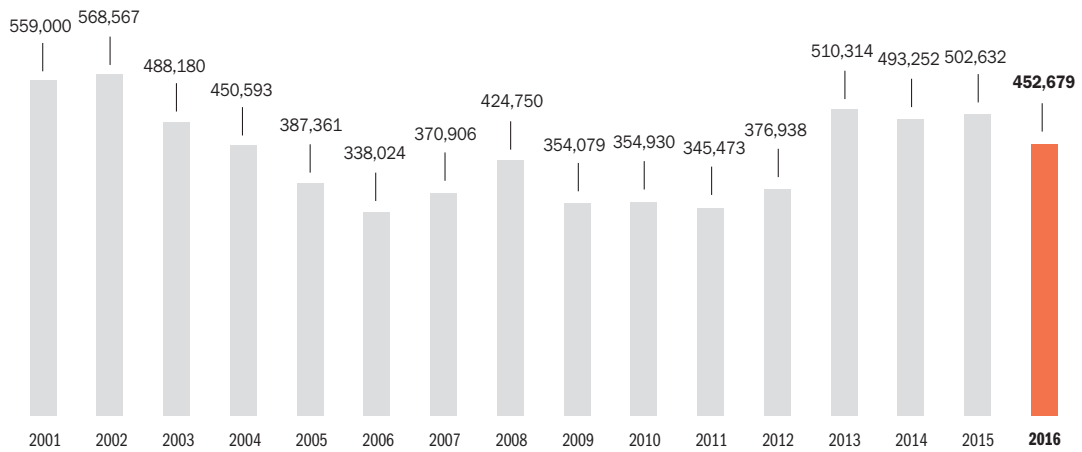


WATER CONSUMPTION BY MÉTIERS IN 2016



CHANGE IN WATER CONSUMPTION (IN M³)

Total Group consumption at constant scope between 2015 and 2016 (excluding Les Tanneries du Puy)



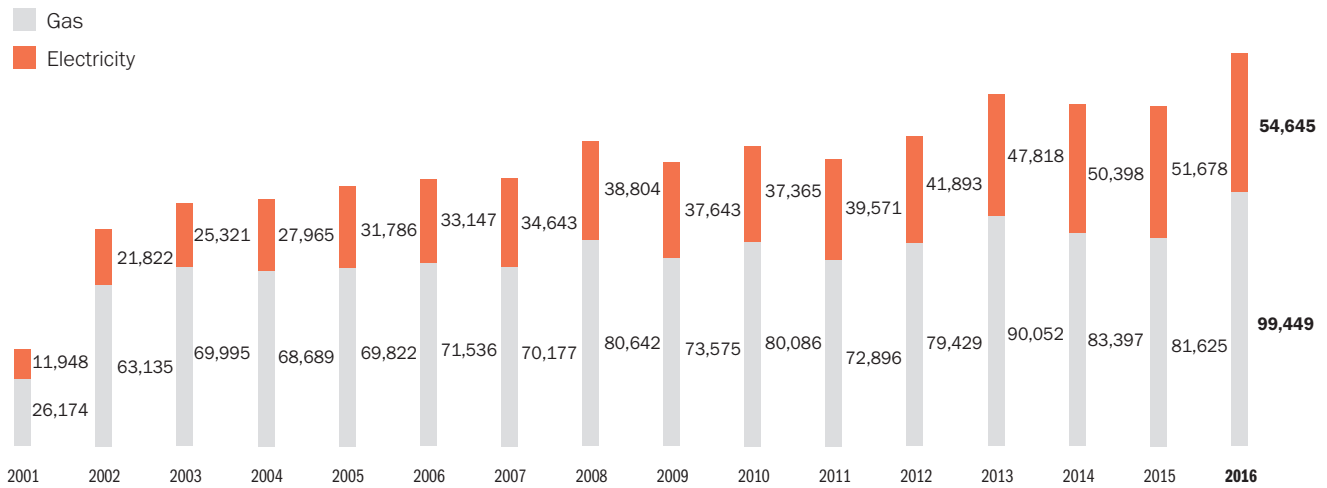
2.5.3 ENERGIES

2.5.3.1 Group

The energy consumption of the Group's industrial sites, stores, offices and ancillary premises amounted to 202,125 MWh in 2016, compared with 180,625 MWh in 2015. In view of the diversity of the various businesses, economic environments, geographies and changes in group scope, further analysis is needed to assess the Group's efforts in this area.

Since 1 November 2015, Hermès has decided to participate actively in the energy transition process. All the French sites (production, services, stores) are now supplied with green energy, mainly hydro, produced locally.

CHANGE IN ENERGY CONSUMPTION (IN MWH)

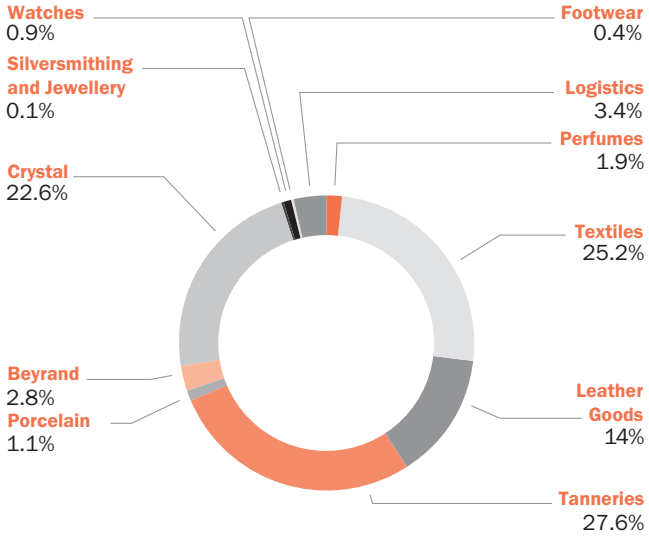


2.5.3.2 Industrial

Over the last decade, total energy consumption has increased by 1.5 times (at constant scope, this figure falls to 1.3 stripping out Les Tanneries du Puy) despite business activity growing by 3.2 times. At constant scope, it fell between 2015 and 2016.

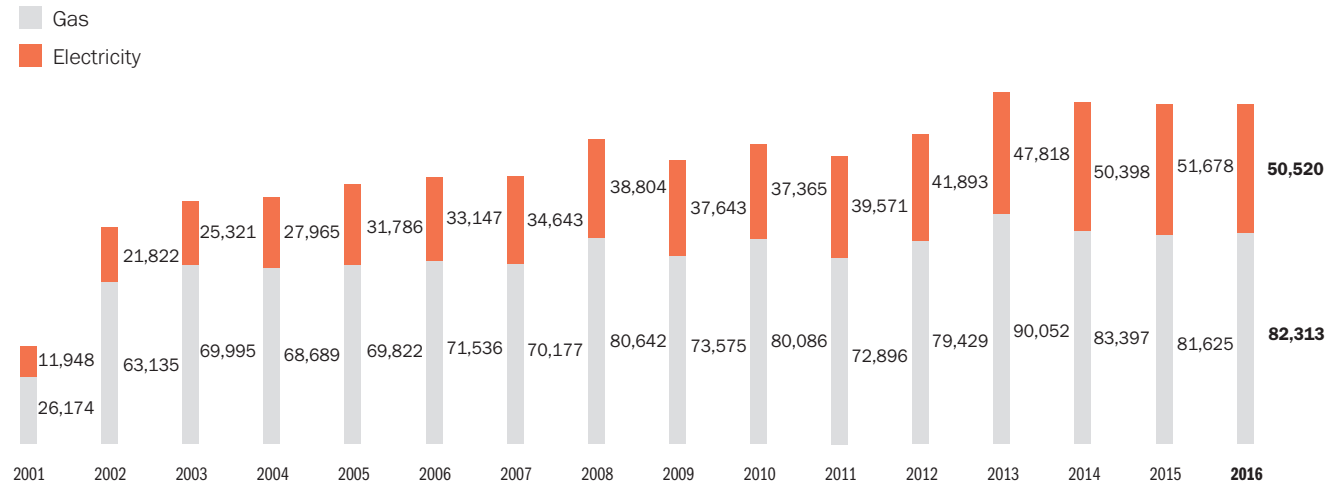
Since the group launched its environmental program in 2002, despite a four-fold increase in industrial output, energy consumption only increased by 35%, testifying to the improved management of consumption.

ENERGY CONSUMPTION (ELECTRICITY AND GAS) BY MÉTIERS IN 2016



CHANGE IN ENERGY CONSUMPTION (IN MWH)

Total Group industrial consumption at constant scope between 2015 and 2016 (excluding Les Tanneries du Puy)



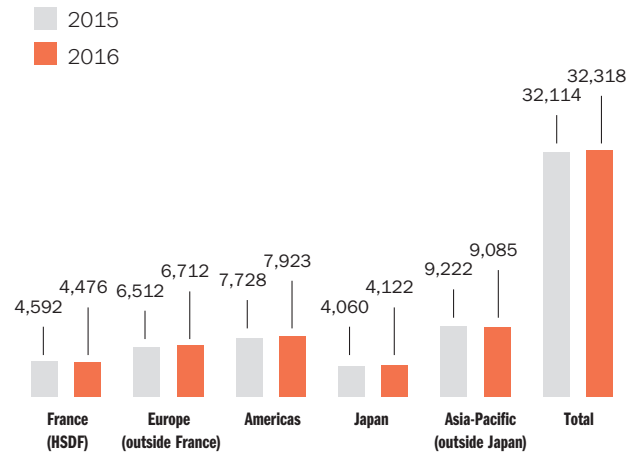
2.5.3.3 Construction

Stores consumed 32,318 MWh of electricity in 2016, up approximately 1% on 2015. These figures are explained in large part by an increase in sales surface areas, mainly in Asia and the United States, by store openings and expansions, and by the expanded scope and better reporting by subsidiaries.

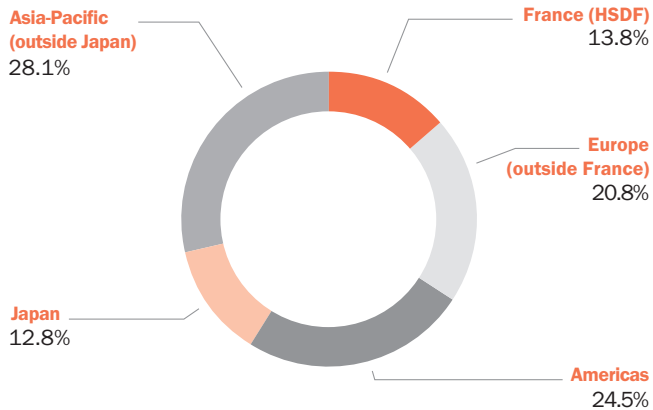
The downward trend in the ratio of energy consumption to sales surface (KWh/m²), especially in France and the United States, is attributable chiefly to the increase in LED lighting, which continued to become more widely used in 2016.

Offices and ancillary premises consumed 15,713 MWh in 2016, 13,349 MWh of which was accounted for by the Paris and Pantin sites.

ELECTRICITY CONSUMPTION OF STORES BY GEOGRAPHICAL REGION (MWH)



ELECTRICITY CONSUMPTION OF STORES BY GEOGRAPHICAL AREA IN 2016



2.5.4 OUTCOMES BY SECTOR (WATER, ENERGY)

Leather Goods

With the strong growth in production and the workforce, the Leather and Saddlery division has set itself the goal of stabilising its consumption of energy and water. This therefore amounts to reducing them at constant scope.

New production units are built with an eye to their future energy performance.

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Water in cubic metres	35,000	29,100	30,905	23,346	30,202	24,812	24,761	22,234	23,549	23,763	27,929	24,590
Electricity in megawatt hours	8,459	9,239	10,607	11,063	11,297	11,399	11,751	12,468	12,233	12,468	13,581	14,317
Gas in megawatt hours	6,675	7,758	7,755	9,130	7,410	8,572	7,594	8,070	8,276	6,395	7,071	7,533
Fuel oil in megawatt hours	1,360	1,752	1,382	1,037	953	726	0	0	0	-	-	-
Wood in megawatt hours	-	-	-	-	70	385	390	377	338	446	546	495
Level of activity			100	108	109	110	118	126	138	147	162	175

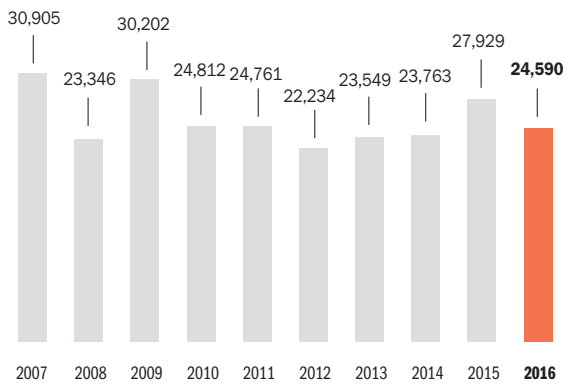
The data processed do not include the Vaudreuil workshop or the Faubourg leather workshop, which are included in other scopes.

Water

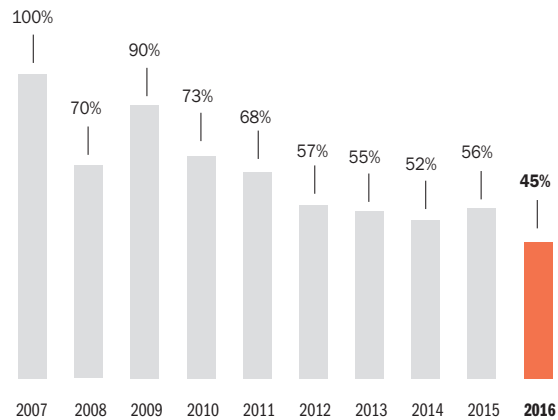
In the Leather and Saddlery division, the water consumed has no industrial use. It corresponds to sanitary use, to the fire-extinguishing network and to watering landscaped areas. At Pyramide (Pantin), water is also used to supply the back-up air-conditioners.

The division's water consumption totalled 24,590 m³ in 2016, a reduction of 12% compared with 2015. This reduction is attributable to the repair of a major water leak at Manufacture de Haute Maroquinerie and more robust monitoring of other production units to ensure the early identification of suspicious consumption so as to address leakage.

LEATHER AND SADDLERY DIVISION – WATER – CHANGE IN CONSUMPTION IN M³



LEATHER AND SADDLERY DIVISION – WATER – CONSUMPTION AS A PROPORTION OF REVENUE



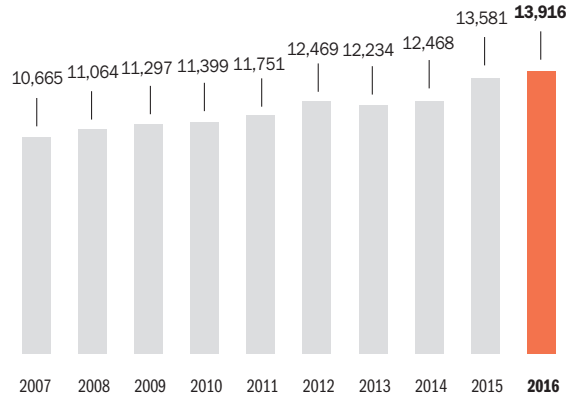
Pyramide in Pantin represents 35% of the division's annual water consumption because it houses the central services, annual events and a corporate restaurant.

Electricity

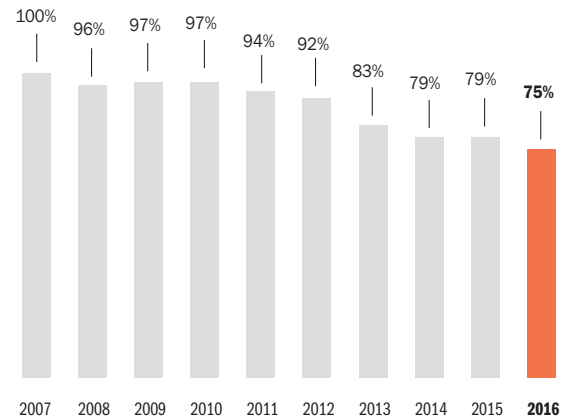
Electricity is the main power source for tools in the production units, as well as equipment for buildings. Electricity consumption amounted to 14,317 MWh in 2016, an increase of 2.4% compared with 2015. The variation in 2016 is attributable to the start of operations in the Saint-Junien relay workshop and the Héricourt production unit, as well as an increase in consumption on the sites in Pantin.

Other production units stabilised or slightly reduced their electricity consumption year on year. These results demonstrate the control of on-site equipment and the attention given to the energy aspect when production equipment is replaced.

LEATHER AND SADDLERY DIVISION – ELECTRICITY – CHANGE IN CONSUMPTION IN MWH



LEATHER AND SADDLERY DIVISION – ELECTRICITY – CONSUMPTION AS A PROPORTION OF REVENUE



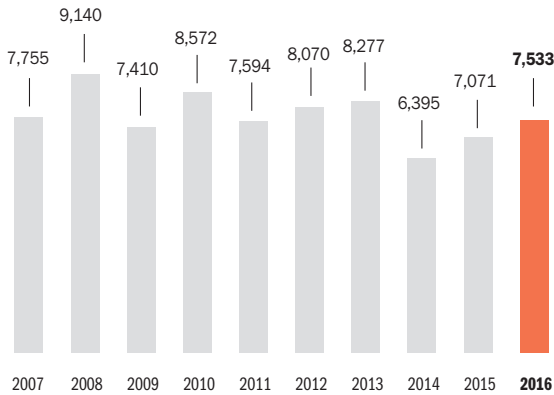
Gas

Gas is used only to heat sites. Gas consumption totalled 7,533 MWh in 2016, an increase of 8% with respect to 2015. As a proportion of revenue, the consumption of gas was stable compared with 2015.

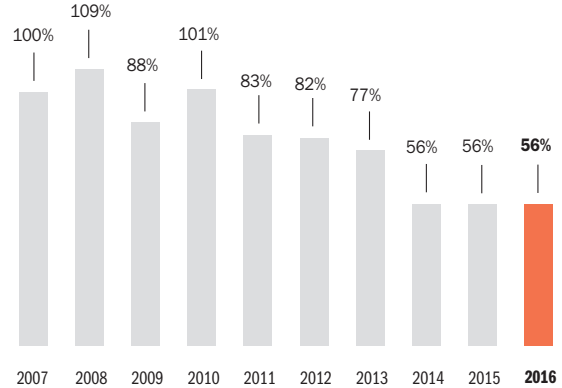
It should be noted that the Nontron production site, which utilises a mixed heating system (wood and gas), was not able to start the wood boiler for technical reasons.

Generally speaking, the sites seek to control their gas consumption while ensuring that artisans can work in comfort on the premises throughout the year.

LEATHER AND SADDLERY DIVISION – GAS – CHANGE IN CONSUMPTION IN MWH



LEATHER AND SADDLERY DIVISION – GAS – CONSUMPTION AS A PROPORTION OF REVENUE



Wood

Heating is performed entirely with wood within the Belley production unit (urban heating network) and at Abrets (independent heater). The

Nontron site utilises a mixed heating system (wood and gas), but the wood boiler could not be put into service in 2016.

For the craftsmanship division as a whole, wood represented 6% of consumption serving to heat buildings in 2016.

Tanneries and Precious Leathers

Les Tanneries du Puy was acquired in November 2015, and included in the division’s reporting scope in 2016. It made a significant contribution to the increases observed.

In the same way as issues related to employee health and safety, improving environmental impacts (water, energy, waste) is one of the priority tasks of the production sites’ EHS managers. Information is also shared within the division.

	2009	2010	2011	2012	2013 ¹	2014	2015	2016 ¹
Water in cubic metres	95,809	85,215	95,036	87,649	180,340	155,455	184,956	501,775
Electricity in megawatt hours	3,260	3,256	3,686	3,555	5,529	6,143	6,572	10,627
Gas in megawatt hours	7,567	8,104	6,577	7,230	13,541	11,788	15,019	31,949
Fuel oil in megawatt hours	-	-	-	-	55	35	52	48

(1) The reporting scope for 2016 includes Les Tanneries du Puy, acquired in November 2015, and excluded from the 2015 reporting.

A total of €0.65 million was devoted to the prevention of environmental risks and pollution in 2016. Most of this investment went towards the optimisation of sites’ water treatment plants.

Projects related to environmental protection undertaken in the division’s tanneries mainly concerned: optimisation of the operation of treatment plants, stabilisation of energy and water consumption and improvement of waste sorting. These actions also help nurture the progress plans shared with other Hermès divisions.

In addition, the French tanneries have sent DREAL/DRIEE their positioning with respect to the new nomenclature of classified facilities.

Water

The division’s water consumption is multiplied by 2.7 in 2016. The increase was attributable exclusively to the inclusion in the reporting scope of Les Tanneries du Puy, which accounted for 60% of the division’s water consumption, and whose average ratio of water consumption to revenue increased in 2016. The ratio was nevertheless steady on the scope of exotic leather tanneries and down slightly at the Annonay tannery thanks to efforts to rein in and reduce consumption. These data are based on monthly monitoring of the tanneries’ water consumption, preventive maintenance programmes for facilities, regular verification and sampling of meters, and programmes to raise employee awareness. Significant discrepancies not related to production differences are also analysed. The necessary verifications are immediately carried out by the maintenance teams, in order to locate and repair any possible leaks.

Energy

The power consumption of the division rose 97%. The increase was attributable exclusively to the inclusion in the reporting scope of Les Tanneries du Puy, which accounted for half of the division's energy consumption.

The average ratio of energy consumption to revenue was stable on the scope of exotic tanneries and the Annonay tannery. However, there was a slight increase on two exotic leather tanneries (Montereau and Vivoin) due to the expansion of machinery fleets, new buildings and improvements to capture and ventilation systems on work premises.

Textiles

2016 was marked by a sharp increase in production volumes in the second half of the year. Revenue was up 3.1% over the full year compared with 2015. Despite this growth, total energy consumption was broadly stable, and water consumption showed a pronounced improvement.

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Water in cubic metres	260,000	241,000	199,000	215,800	198,478	238,760	269,232	275,995	256,534	210,577
Electricity in megawatt hours	9,678	10,075	9,267	9,520	9,694	11,673	12,586	14,050	13,034	12,856
Gas in megawatt hours	21,897	22,254	20,443	22,810	21,000	26,324	27,115	27,175	25,407	26,016

Water

The Silk division's water consumption was down 16% compared with 2015. Several measures were taken on the various sites to obtain this outcome: replacement of obsolete machinery, optimisation of processes, detailed monitoring of consumption by area, etc. Water management of facilities has become a concern shared by all workshops. At

SIEGL, a water recycling process via the lagoon contributes significantly to the improved results.

Energy

Despite a colder winter than in 2015 and an increase in business, the subsidiary's energy consumption was virtually stable (+1%).

Crystal

The production unit's 2016 business volumes were stable in value, with improved performance ratios in terms of production volumes, despite the interruption of the melting process during the construction of a new tank furnace.

	2011	2012	2013	2014	2015	2016
Water in cubic metres	17,991	12,992	15,850	15,235	11,662	10,578
Water/output in litres per item	104	74	85	87	88	68
Electricity in megawatt hours	8,985	8,563	8,797	8,584	8,578	7,534
Gas in megawatt hours	32,488	32,474	34,428	31,296	27,020	27,303
Fuel oil in megawatt hours	123	93	101	142	189.5	95.6

Water

Water consumption fell sharply in 2016 (-9% compared with 2015). Several events combine to explain this outcome: the interruption of the melting process during site development work in the workshop and the construction of the tank furnace, meaning that work was reduced to two workstations rather than three. The shutdown of the previous tank furnace, whose water consumption had increased significantly at the end of the season, was another factor in the saving.

Energy

Overall energy consumption was comparable with that of 2015. Electricity consumption decreased slightly, mainly following the decommissioning of the former tank furnace in October 2016. The share of electricity consumption attributable to the new furnace is less than that of the previous one. The efficiency of natural gas facilities installed in 2014 and 2015 (pot furnace, centralised heating, etc.) was confirmed this year.

The gradual replacement of openings by new equipment will contribute to tighter control of gas consumption.

The reduction in "fuel oil" consumption year on year is attributable the fact that back-up radiators were used during the first two months of 2015. The replacement of the fleet of forklifts by electric models in 2016 also contributed to the reduction.

Perfumes

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Water in cubic metres	5,426	5,644	5,777	4,359	2,772	2,703	3,756	3,723	3,489	2,820
Electricity in megawatt hours	1,422	1,422	1,430	1,446	1,701	1,414	1,533	1,579	1,591	1,563
Gas in megawatt hours	2,246	2,376	2,331	3,032	2,037	2,161	1,774	1,289	1,378	1,411
Fuel oil in megawatt hours	0,8	0,8	0,8	0,8	0,3	12	4	4	11	9,5

Water

Water consumption at the site is down 19% compared to 2015. This is due to the renovation of hot water pipes, tests involving the extraction of sprinkler water from the fire basin and better overall network maintenance (elimination of leaks). It is used almost exclusively in the washrooms and company restaurant, and on occasion for washing tanks and to top up the fire system reservoir.

Energy

The increase in natural gas consumption, dedicated entirely to the heating of premises and catering, was limited to 2.3% in 2016, despite the colder winter than in 2015. The main reason for the small increase was

the recovery of energy in air compressors, which can be used to heat domestic water without using boilers, as well as an improvement in the settings of the equipment. The leather goods workshop still represents one-fifth of the site's overall consumption.

Electricity consumption was down slightly compared with 2015 (-1.7%). The main reasons behind the gain are the replacement of compressors (the new models boast a better performance) and the insulation of air ducts in the air conditioning systems of manufacturing premises. The leather goods business still accounts for approximately 5% of total electricity needs.

Fuel oil consumption was stable compared with 2015.

Watches

The Watches division consists of La Montre Hermès (design, manufacturing and distribution of watch products), Joseph Énard (manufacturing of watch cases) and Natéber (manufacturing of dials). To capitalise on synergies between the two businesses and the amalgamation of teams, the Natéber and Joseph Énard activities were combined on the Joseph Énard site in Noirmont in November 2016.

Redevelopment work was carried out on the production area, office space, ventilation systems, treatment station and production equipment of the Noirmont site to allow it to accommodate them. The car park was also extended.

	2011	2012	2013	2014	2015	2016
Water in cubic metres	860	5,437	6,013	6,539	6,271	4,043
Electricity in megawatt hours	381	509	1,027	1,141	1,211	1,228
Gas in megawatt hours		118	94	93	109	104

Water

Water is used solely for domestic purposes at La Montre Hermès, but plays a part in the electroplating process at Natéber and for washing at Joseph Énard. Substantive work has been carried out to align water consumption with processing requirements. It has reduced total consumption by 35%.

Energy (fuel oil, gas, electricity)

Gas and electricity consumption is stable.

Porcelain and Enamel**CATE**

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Water in cubic metres	875	2,136	803	1,196	1,429	1,615	1,883	1,733	2,230	2,248
Electricity in megawatt hours	833	918	846	936	922	1,229	1,222	1,208	1,208	1,290
Gas in megawatt hours	538	530	478	547	461	547	696	499	494	487
Fuel oil in megawatt hours	62	74	55	55	33	31	31	33	33	34

Water

The Nontron site uses water in its manufacturing process for the decoration of porcelain and, to a lesser extent, for the enamel activity. Overall water consumption increased by less than 1% year on year in 2016. This small increase resulted from stronger activity in the workshops. It was kept low by the various action plans undertaken:

- ♦ installation of tray reducers that can be inserted into the dipping tanks of new decoration workstations: the height of the dipping water is unchanged, but the surface is cut by between 40% and 50%;
- ♦ installation of a circulation pump to supply hot water for new decoration workstations: the waiting time before the arrival of sufficiently hot water at the workstation has been reduced;
- ♦ installation of a pressure reducer at the headend to reduce the risk of leaks.

Energy

The site's energy consumption was up 4% compared with 2016. The increase is attributable to the consumption of electricity by the porcelain kiln. To deal with an increase of the firing time of decorations, the kiln utilisation time was extended by more than 10%. This increase stems from production volumes but also the product firing time, as new designs require longer in the kiln.

Measures have been taken to reduce energy consumption, such as:

- ♦ the removal of halogen lights and the installation of LED systems on the last of the decoration workshop workstations as well as on all brush workshop workstations;
- ♦ but also, as the programming of compressors provides for their shutdown in the evening and on the weekend, louvres have been installed on porcelain and decoration kiln workshop sheds to allow these areas to cool naturally.

BEYRAND

	2010	2011	2012	2013	2014	2015	2016
Water in cubic metres	3,514	4,767	4,150	4,243	3,936	2,706	2,791
Electricity in megawatt hours	2,396	2,574	2,550	2,425	2,482	2,473	2,374
Gas in megawatt hours	2,072	1,611	1,709	1,627	1,218	1,779	1,916
Fuel oil in liters	3,000	6,000	4,501	3,000	3,000	0	0

Water

Water is primarily used for domestic purposes to supply the automatic fire suppression network and for the washing and development of frames. Water consumption was stable in 2016 after a sharp decline in 2015 (-31%) following the shutdown of a cooling tower, replaced by a new refrigeration unit.

Energy

Electricity is mainly used for air conditioning, which is necessary to control the humidity and temperature of the workshops. Its consumption is stable. The new refrigeration unit is the main cause of the increased gas consumption.

Silversmithing and Jewellery

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Water in cubic metres	719	698	696	853	1,055	486	358	269	221	225
Electricity in megawatt hours	164	173	173	190	168	200	175	178	153	133
Gas in megawatt hours	18.3	18.8	17.9	16.7	11.8	12.7	10.4	8.0	7.1	6.1

Water

Water consumption was stable compared with 2015 (+2%).

Footwear

The IT and general services manager ensures the proper awareness of Health, Safety and Environmental issues at the John Lobb Northampton site, while in Paris, the site's production manager oversees these areas directly.

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Water in cubic metres	459	809	861	847	767	788	844	823	717	773
Electricity in megawatt hours	227	237	219	233	225	242	275	349	300	283
Gas in megawatt hours	226	206	213	200	193	177	186	203	220	224

Water

Water is primarily used for domestic purposes and for weekly tests of the sprinkler system. The manufacturing process represents a marginal part of the water consumption during the sole preparation phase. The variation observed between the two periods is not meaningful.

Logistics

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Water in cubic metres	2,900	2,529	2,586	2,680	2,324	4,274	4,246	5,771	5,921	7,385
Electricity in megawatt hours	2,653	2,728	2,694	2,480	2,059	2,040	2,016	2,209	2,977	2,797
Gas in megawatt hours	2,987	3,945	3,316	3,776	2,535	2,224	2,305	2,726	3,104	2,374

Water

Water consumption increased further in 2016. The increase was entirely attributable to expansion work on the site and business growth.

2.5.5 MEASURES TO IMPROVE ENERGY EFFICIENCY

As described in the section of this report devoted to construction, energy issues relating to the sites are the subject of increased attention during their construction, renovation or maintenance. The métiers whose processes consume energy naturally also have policies designed to reduce their consumption.

Tanneries

The tanneries are working to improve the energy efficiency of their facilities. For example, the Montereau tannery has continued work to optimise the extraction and renewal of air in its finishing shop and on its machinery and equipment. The Vivoin tannery continued its development work by installing LED lighting and motion detectors throughout the site, working

Energy

Gas and electricity consumption was down compared with 2015. Part of the decline can be attributed to business volumes, the rest to increasing awareness among workshop staff.

Energy

Fluctuations in electricity (-5.6%) and gas (+1.8%) consumption are attributable chiefly to weather conditions during the year. However, the second phase of roof insulation work begun in 2015 took place in 2016. The work is scheduled to be completed in 2017. In addition, a new boiler control system was introduced at year-end to reduce the consumption of gas to heat buildings.

Energy

Gas and electricity consumption were down sharply. Variations are attributable to the shutdown of some equipment.

on the thermal insulation of new workshops, and by optimising its ventilation equipment. At Cuneo, electricity production from 296 photovoltaic panels installed on the roof of the tannery totalled 66 MWh, representing 9% of the site's total electricity consumption in 2016. Electricity generation is used entirely for tanning processes during the week and is injected back into the grid on weekends. It was down slightly compared with 2015 following an operational incident lasting two months. Gas cogeneration used to simultaneously produce hot water and electricity worked throughout the year. Lastly, the Montereau and Vivoin tanneries, which underwent regulatory energy audits performed by external specialist firms in the second half of 2015, have implemented improvement plans.

Textiles

At ITH, a programme was rolled out after a detailed diagnostic analysis of consumption. Leading to the modification of the air conditioning system

(change of exchangers on the roof), optimisation of time slots and the installation of motion detectors for lighting. The site also uses energy supplied by photovoltaic panels.

Crystal

The processes using the most energy at the production unit are melting the raw material and working with it while hot. The best available technology in terms of production volumes is implemented in each investment project. The two recently renovated furnaces are a prime example.

The reorganisation of the melt shop with its new tank furnace allowed the pooling of energy-consuming equipment on workstations (e.g. openings) and a reduction in the use of single-cell furnaces by optimising the use of the pot furnace renovated in 2015.

The energy audit carried out in 2016 identified additional measures to reduce consumption, particularly on equipment used "around the edges" of the process, thereby confirming the interest of the blueprint currently being carried out to replace some boilers.

Perfumes

The establishment of a system to recover heat generated by air compressors now enables the production of hot water, which lessens the load on boilers and in turn has a favourable impact on gas consumption.

Heat insulation has been installed or replaced on the pipes of air handling units and boilers in order to improve the efficiency of the equipment.

A campaign to replace existing lighting with LED systems in various buildings, especially the warehouses, has just begun.

Construction

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

Lighting

Since 2013, an all-LED lighting solution for our watch and jewellery window displays, shelving and ceiling lights has been extended to all new store projects. In 2014, the retail projects department introduced a range of LED bulbs specially developed for Hermès and suitable for all existing installations and equipment.

In 2016, in addition to the new stores, relamping with LED systems continued on the global network of existing stores, bringing the total proportion of Hermès stores equipped with LED systems to 55%.

Air conditioning

Lower electricity consumption coupled with the fact that LED lighting generates far less heat than traditional lighting has enabled us to consider downsizing in-store air conditioning units.

This programme continued for all new store projects throughout 2016.

Thermal insulation

Particular attention is paid to insulating store façades (special glazing) and industrial buildings (improved external insulation).

Other initiatives (installation of electricity consumption sub-meters and motion detector systems in fitting rooms, washrooms and back offices) were taken on all new store projects in 2016. These automated energy consumption consolidation systems offer constant visibility allowing rigorous management of energy use. Ever more efficient new technical solutions are constantly being evaluated for progressive incorporation into existing stores.

The choice of building materials, a reduction in their weight and an effort to source supplies locally also improve results on the Bilan Carbone® assessments of new buildings and new stores.

2.5.6 EFFECTIVE SOLUTIONS FOR WASTE MANAGEMENT

The manufacturing units, with their technically different processes, generate a wide diversity of pollutant releases: each industrial division is focused on the dual objective of reducing pollutant releases and improving treatment to minimise its environmental footprint. This demands continuous monitoring as new processes or new technologies in this field are invented every year.

Leather Goods

Leather goods production units represent limited sources of pollutant releases, due to manufacturing procedures that are essentially manual and respectful of the environment.

Air quality inside workshops is regularly analysed to ensure its quality. Production sites have systematically replaced solvent-based adhesives with water-based adhesives. Air conditioning, ventilation, heating, gluing and sanding equipment that generate air emissions are fitted with filtering devices that guarantee the quality of the air emitted.

Tanneries

Each tannery is equipped with an effluent treatment station and verifies its industrial pollutant releases in compliance with the applicable standards. Regulatory inspection reports are submitted to the local authorities on a regular basis. The division's tanneries continually work on improving the performance of effluent treatment.

In Montereau, the reduction of water consumption combined with the production increase led to a concentration of pollutants in its wastewater. In 2016, as in 2015, the site continued research on the sources of pollution and the implementation of complementary treatment. The Vivoin site meanwhile continued its work to develop and secure the treatment of its effluents, including the sludge system with the installation of a new filter

press. Apart from a few minor operating incidents, the treatment plants at other tanneries (Cuneo, Lafayette, Le Puy and Annonay) had stable operations throughout the year. In addition, considerable investments have been made on these facilities to optimise their operations and the quality of discharges.

The tanneries division's air emissions primarily result from the operation of the boilers, the dry degreasing activity and the finishing booths. The verifications of such equipment, as identified in the prefectural orders or site permits, are performed in compliance with the applicable regulations. The thresholds were not exceeded on any site.

Finally, each year, in keeping with regulations, the French sites prepared a management plan for their solvents. Flows of specific VOCs (volatile organic compounds) were found to comply with applicable requirements. Measures aimed at reducing the use of solvents or changing processes used in the past have also reduced VOC emissions. At the same time, insulation and improved treatment of the air in the skin degreasing workshops have significantly limited the exposure of employees.

Crystal

Industrial wastewater, pre-separated in the respective workshops and collected at a single point, has been purified by a modernised phytotreatment facility since 2015. An awareness programme to educate users in the treatment of water to sustain the performance of the new facility was initiated in conjunction with these projects.

To further improve the quality of wastewater discharges and prepare for potential regulatory changes, a study has been conducted in partnership with the water board and an external partner.

Measurements of air emissions were carried out in the first half of the year and in December. The first results confirm air emission readings bearing on the operation of the facilities and resulted in the implementation of measures to optimise the management of facilities, including gas-fired washer/scouring sluices.

Textiles

A study of potential improvements to the SIEGL effluent treatment plant was undertaken in 2016. The aim is to improve our performance in processing waste and to increase the proportion of recycled water put back into processes.

Perfumes

In 2016, releases of VOCs (Volatile Organic Compounds) were well below the emission limit of 5% set for the perfume industry. These VOCs primarily consist of ethanol, a product that is not bioaccumulative, presents no measurable risk to animal and plant life, and vaporises and biodegrades quickly.

Porcelain and enamel

CATE

Wastewater from the enamel activity is pretreated directly on site by a conventional physicochemical process. The dehydration sludge is sent to a suitable treatment company, and pre-treated water is discharged into the urban network. An external laboratory carries out monthly analyses.

A study was conducted in 2016 with a view to improving the automation of the installation, reducing sedimentation effluent in the works and increasing wastewater storage capacity in the event of systems failure so as to reduce pollution risks. Work will be conducted in early 2017 to complete this study.

Beyrand

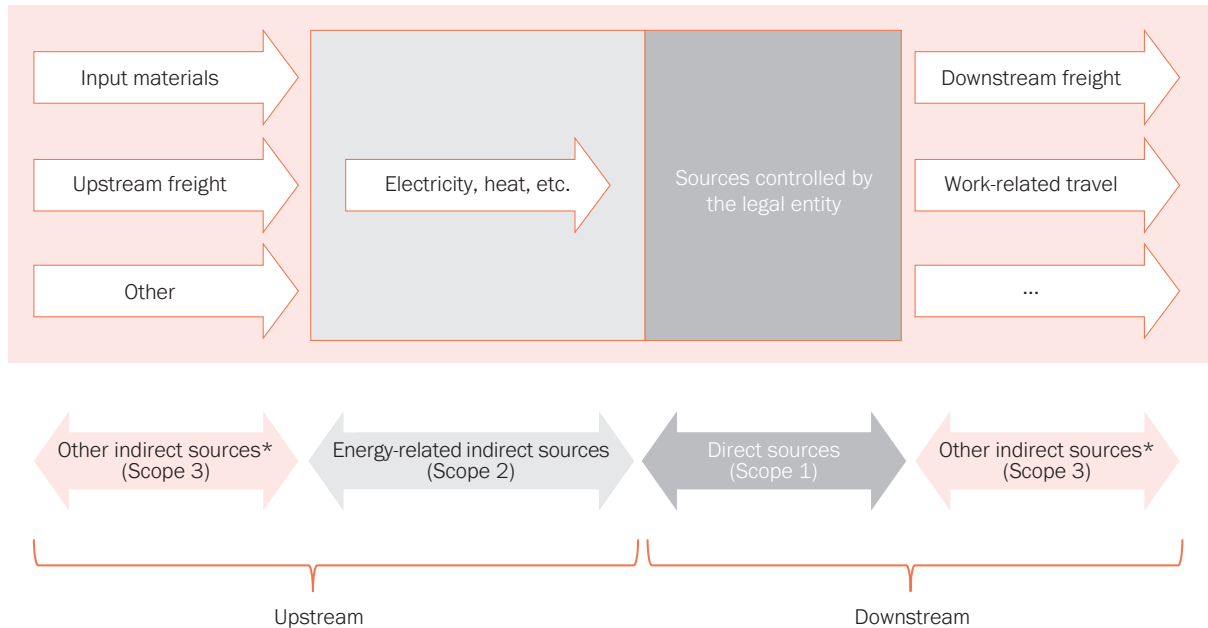
The site has a water treatment station at the exit of the washer/scouring sluice. It also uses a physicochemical process. Silver recovery units have been installed at the exit of the film developers.

2.5.7 REDUCTION OF THE CARBON FOOTPRINT AND OFFSETTING

As illustrated above, Hermès is gradually taking concrete measures to reduce its energy consumption and carbon footprint. In addition, the group decided five years ago to establish a voluntary carbon offset system in order to reduce its overall impact.

Since 2013, the Group has been equipped with the tools needed to carry out an annual update of the overall assessment of greenhouse gas emissions from its production and distribution sites. This work is carried out with the help of an independent external specialist, using the Bilan Carbone® method.

In compliance with the requirements of the applicable regulations (Article 75 of law 2010-788 of 12 July 2010), in December 2015 Hermès published its Bilan Carbone®, as per the method and scope indicated by the legislation (direct emissions generated by fixed and mobile sources, and indirect emissions associated with the consumption of electricity, heat or steam).



* Emission sources unaffected by regulatory requirements
Source: Ministry of the Environment, Energy and the Sea.

The results of this study provide data for analysis of the Group's environmental impacts and enable action plans to be drawn up within the framework of our Water Energy Carbon Waste plan, which has been in place since 2010. Because our activities are highly diverse and emissions vary widely from one division to another, each business line drew up a plan addressing its own issues. All of the measures taken within this programme are aimed at reducing Hermès' impact on climate change.

Hermès' scope 1 and 2 emissions total less than 32 thousand tonnes of CO₂ equivalent, down 5% compared with 2015 despite the inclusion of Les Tanneries du Puy.

The main sources of scope 3 emissions are freight (approximately half of scope 3 emissions) and external purchases excluding packaging (less than one-quarter of scope 3 emissions). Work has been undertaken on both of these sources, including low-carbon logistics solutions (for example, the French logistics centres use hybrid or electric vehicles for deliveries to the Parisian sites).

In June 2012, as part of its carbon offsetting strategy, Hermès also joined the Livelihoods Fund (LH), a group of companies financing carbon offset projects with high social and environmental value. Livelihoods initiatives are described in the chapter concerning relations with stakeholders, notably explaining that more than 120 million trees have been planted. The fund, whose carbon credits will expand as the trees grow (the projects concerned span periods of 20 years), for the third time delivered carbon credits to its shareholders in 2016, after verification from specialised auditors (using the Gold standard and VCS standards).

In 2016, they served to offset two-thirds of Hermès' scope 1 and 2 carbon emissions.

The key initiatives taken by the sectors and subsidiaries in this area in 2016 are described below.

Leather Goods

The Bilan Carbone® (Carbon Assessment) initiative was launched within the Pierre Bénite facility in 2006, and extended to the entire division in 2008. The regular measurement of carbon emissions serves to verify that the carbon footprint grows at a slower pace than our business, and that the distribution of the contributing elements is stable year on year: one-half of emissions come from raw materials, one-quarter from staff commutes and one-quarter from energy consumption. It also contributes to the Water, Energy and Carbon progress plans, with concrete actions such as the use of an electric service vehicle, or increasing the share of renewable energies used.

Tanneries

The Bilan Carbone® (Carbon Assessment) from the Tanneries and Precious Leathers division has been updated for the year 2016. CO₂ emissions in the division increased between 2015 and 2016 (+56%). The increase is attributable to the inclusion of Les Tanneries du Puy in the 2016 reporting scope. It accounts for 40% of the division's overall emissions. At constant scope of consolidation, the division's emissions

decreased by 7% between 2015 and 2016, primarily due to an increase in maritime freight in the sourcing of precious skins. Energy consumption, use of chemicals and the supply of raw exotic and calf hides are the biggest sources of the division's emissions. They account for over 95% of emissions from production sites, with the energy consumed (gas and electricity) alone accounting for half of these emissions.

In 2010, after repeated tests, a maritime transport system was set up for *Alligator mississippiensis* from the southern United States and *Crocodylus niloticus* from Africa. In 2013, the system was extended to *Crocodylus porosus* from Australia. In 2016, two-thirds of crocodilian skins received in tanneries from the United States and Africa (80% of skin purchases in 2016) were shipped by sea.

Crystal

The Bilan Carbone® (Carbon Assessment) of the production unit was updated in 2016. It was stable compared with 2015. The share of energy used in melting the raw material was once again predominant. The data used to perform the Carbon Assessment has been made more structured and reliable, notably through the use of more detailed data on the proportion of upstream packaging and freight. This analytical approach nurtures the production unit's projects and is factored into its "Water, Energy, Carbon" plan.

Textiles

The Bilan Carbone® (Carbon Assessment) for the entire division was updated in 2016. This effort contributed to the division's "Water, Energy, Carbon" action plans. The activities producing the most emissions are purchasing (fabrics, chemical products and packaging), upstream freight, energy, and commuting.

Perfumes

Both areas represent the vast majority of emissions of CO₂, leaving downstream packaging and freight (especially airfreight). The total amount of CO₂ emissions increased between 2015 and 2016, due entirely to the increase in volumes of perfumes produced and packaged in 2016, as well as the corresponding increase in purchases of materials and packaging.

Watches

Performed at La Montre Hermès each year since 2013, the Bilan Carbone® (Carbon Assessment) now includes Érard and Natéber, which have been combined on the Noirmont site, in order to provide an overall view of the emissions and to steer the reduction projects throughout the Watches division.

Porcelain and Enamel

CATE

The updated Carbon Assessment for 2016 shows an increase compared with 2015. The biggest increase stemmed from purchases of porcelain, which were up sharply. In 2015, the site used inventories, which were gradually built up in 2016, in line with the increase in consumption.

Beyrand

An update of the calculation of greenhouse gas emissions was conducted in 2016.

2.5.8 LAND USE

The Group's industrial activities do not contribute to the degradation of productive land, given the small surface area occupied by its sites and the negligible rate of change in land use which may be caused by the cattle and sheep farms in Europe where the sources of supply of raw hides are located. An impact study incorporating issues relating to animal and plant life and the preservation of natural environments is carried out prior to establishing any new industrial site.

Particular attention is paid to landscaping of the production facility sites: For example, the conservatory orchard in Héricourt, and the wildflower field in Bogy sur Meuse.

2.5.9 NOISE AND OLFACATORY EMISSIONS

A large amount of equipment is replaced each year to improve systems used for the treatment of waste discharged into water and into the atmosphere in order to meet all applicable regulations. Similarly, noise measurements are regularly made around the sites to check that they comply with the standards applicable to them.

Crystal

As part of the renovation of the tank furnace resulting in the interruption of activity on the site, a baseline noise measurement was conducted in October 2016. A further measurement is planned for early 2017 to assess the level of noise generated by the site. The noise aspect is systematically included in specifications for new facilities, and this was particularly the case for the renovation of the tank furnace in 2016 (materials used for the extension of the building, insulation of the filtration plant, etc.)

A proposed environmental monitoring plan for the site's activity has been sent to the relevant authorities; it will be implemented in 2017.

Perfumes

The noise and olfactory pollution of the activity on the Vaudreuil site is very limited. No complaints have ever been received.

Noise measurements are regularly carried out on the property line to monitor this aspect. The main sources of noise are the technical equipment on the roof (ventilation, air conditioning) and truck traffic during working hours.

Tanneries

In connection with the current production activities, as well as any isolated operations (such as maintenance or civil engineering operations), the sites seek to avoid and/or reduce noise and olfactory pollution as much as possible. Only one complaint for olfactory pollution was received in September 2016, from a neighbour of the Annonay tannery. It was looked into immediately; a search for the cause was conducted and corrective measures taken. No further incidents have been reported since that event.

Lastly, when required by the regulations, the tanneries may be compelled to carry out noise measurements at the property line. The latest measurements did not bring to light any excess noise.

Porcelain and enamel

Beyrand

The site is located in the centre of a village; work is being carried out in order to reduce noise at the property line to a very significant degree. Measurements taken before and after the installation helped highlight the reduction.

Silversmithing and Jewellery

A complaint from the neighbourhood relating to the replacement of the more powerful (and noisier) extractor forge led to carrying out work to locate it further away from dwellings. Sound-absorbing cladding has also reduced noise. This work has given full satisfaction, and new noise mea-

surements have been carried out to demonstrate the compliance of the new equipment.

2.5.10 FOOD WASTE

The Group monitors the use of all natural resources, including food destined for its employees, even though this issue is not material in view of the Group's activity. At the major sites in Paris, the catering service provider has set up a system to ensure waste sorting and the recycling of food waste.

2.5.11 ENVIRONMENTAL LIABILITIES

No provision for risk was accrued for environmental risks in the financial statements for 2016. No company in the Group was required to pay compensation in 2016 as a result of a court ruling concerning the environment.

2.6 STAKEHOLDERS AND LOCAL INTEGRATION

Harmonious relationships with our stakeholders ensure successful local operations in the long term, contribute to Hermès' reputation and strengthen employees' pride in belonging to the company. Hermès plays a role as a socially responsible company wherever it operates.

Hermès seeks to contribute to value creation and the sustainable development of the countries, regions and cities in which it operates, notably by generating sustainable jobs, but also through local economic, social and cultural initiatives, and in other ways that express its uniqueness.

Hermès' founding values are also expressed through the Fondation d'Entreprise Hermès, founded in 2008, which supports sponsorship projects that seek to enhance savoir-faire, transmission and biodiversity.

2.6.1 A ROLE IN HOST COMMUNITIES

All of Hermès' production and distribution sites maintain constant dialogue with local authorities and stakeholders to ensure that they are fully integrated within the host community and that they nurture relationships of trust and good neighbourliness. Hermès operates on more than 50 sites in France (production units, stores, logistics sites, offices).

2.6.1.1 Local involvement

Each business line and each site grows roots in its host community through local actions designed to forge bonds between the House, its employees and its local environment.

Leather Goods

The Héricourt production unit inaugurated in April 2016 was built in a rehabilitated site formerly housing a textile factory. It is located in a green setting in the city centre, and aims to revive a lost industrial tradition. The project, carried out in close consultation with elected representatives and the local population, employed 149 artisans at the end of December 2016, all dedicated to the manufacture of leather goods.

A film was made telling the story of this project, and shown to residents of the town early in 2017.

The Seloncourt production unit, located in the same region of Franche-Comté, celebrated its 20th anniversary in 2016. It has deep roots in the region, and employed nearly 250 people at the end of 2016. In the same vein, leather workshops in L'Allan in Franche-Comté and Vaudreuil in Normandy (which is scheduled to open in 2017) rely on a framework of expertise and partnerships with schools, already developed by Hermès locally.

Meanwhile, the Ganterie de Saint-Junien is to become home to a new leather goods production unit in a site currently being rehabilitated; it will be part of the "Cité du Cuir" project currently being implemented by the Saint-Junien local authority.

Tanneries

The tanneries maintain constant dialogue with the local authorities (departmental fire and rescue departments, local council, DREAL/DRIEE, labour inspection) through periodic exercises and visits. Because of their geographical and often long-standing operations in these areas, they play an important role in the local economic fabric. Use of local companies is accordingly favoured for construction and finishing work.

Textiles

Companies in this sector are located in municipalities of very different sizes, mainly in the Rhône-Alpes region. Regular exchanges are held with local authorities or groups of local communities. The division is one of France's largest garment manufacturers. It plays an active role in professional bodies: Intersoie, Unitex and Techtera.

Tableware

The CATE site is located in the heart of the city of Nontron, where Hermès is a leading employer. The use of local tradespeople is promoted for regular plumbing, electrical, roofing or mechanical works.

2.6.1.2 Open days

At the initiative of its sites, Hermès regularly organises meetings between its employees and local communities to showcase their expertise.

Leather Goods

In Seloncourt, the two open days held in 2016 provided the opportunity for 800 visitors to see demonstrations of the gestures and expertise of their family members and friends working as artisans in the production unit. Employees once again demonstrated their pride in their profession and their attachment to Hermès, which allows them to contemplate the next 20 years with confidence. La Maroquinerie Iséroise opened its doors to the employees of the Savoie Dauphiné division, 70 people from the Maroquinerie de Belley and 50 people from the Manufacture de Haute Maroquinerie production unit. Building on its success, Maroquinerie des Ardennes welcomed about a hundred people for the third consecutive year, spread across two mornings.

Tanneries

Other than the meetings with the local authorities, site visits are occasionally organised at the initiative of the tanneries. As part of collaborative efforts with universities, schools and professional training bodies, the tanneries can open their facilities to visits by students and people undergoing training, or present their professions in forums.

Textiles

SNC Nontron held an open day to mark its 25 years of operations. More than a hundred people (families of employees, retirees, elected officials, partners, CATE and Maroquinerie Nontronnaise artisans) were able to discover the different stages of manufacturing products (ties and maxiwilly). A fun paper tie colouring workshop was also held for children.

At ATBC, three half-days allowed families, locals and elected officials alike to learn all about weaving.

Cristallerie Saint-Louis

A project to improve and extend the visit offered by the production unit since 2010 was initiated in conjunction with the plan to renovate the tank furnace. The novelty of this visit, enhanced by a “hot-glass” activity in the same workshop, rather than in a separate workshop as was the case previously, resides in its accessibility for people with reduced mobility. The tour is now identical for all visitors. The project will be completed in 2017 with the old tank furnace restored and preserved for the occasion. Visitors to the museum also benefit from the new layout of the “hot-glass” workshop, which is located in the area that already housed the museum, where craftspeople can be watched through a large window. Following the success of the event organised during Sustainable Development Week, which enabled visitors to discover the Saint-Louis filtering gardens, the museum team plans to organise regular guided tours of this area from May 2017.

Tableware

In Nontron, Compagnie des Arts de la Table et de l'Émail (CATE) opened its doors to a wide audience for a day so that employees could share with friends and family their pride in their profession and explain the ingenuity, tenacity and rigour that underlies their expertise.

Hermès Hors les Murs

During the “Hermès Hors les Murs” Festival in Paris in November 2016, the artisans of 10 of the House's métiers were able to demonstrate and share their experience and their passion for their profession. More than 43,000 visitors came to watch demonstrations by artisans. They were able to take part in discussions to gain a better understanding of Hermès on such topics as “crafts, circular economy and the relationship to time”, “passing craft skills on to young people” and “thinking and acting locally”. The latter talk provided an opportunity to address the links between private and public actors with the aim of driving local economic growth over time.

2.6.2 INITIATIVES

Giving time, giving of one's self, opening oneself up to others, receiving... The employees now grasp that everyone can play a role in building tomorrow, in their own way, through the simplest of gestures. Throughout the world, many different plans are in place at Hermès.

2.6.2.1 Committed employees

France

Hermès services Groupe brought together more than 300 people for a day of concrete action, namely the planting of 1,000 trees on an integration site in Normandy. The new apple orchard will help diversify the site's activity. The trees will need to be tended, and will serve to develop other skills such as the production of juice from the apple crop. It is also an opportunity for employees to join forces in a solidarity approach.

The Silk division is involved with many voluntary organisations. In 2016, many employees took part in a football tournament to sponsor “Sport dans la ville”, which works with children from disadvantaged areas. In addition, Holding Textile Hermès supports “Restaurants du Cœur” by paying a subsidy and developing exchanges with employees. Ateliers AS and Etablissement Textile Hermès have held charitable collections of food and toys. Finally, an active partnership with “Maison de la Danse” has offered a way to subsidise a number of youth-oriented projects. Forty employees took part in “Intro Danse”, a cultural exchange which introduces people to dance.

For several years, Hermès International employees have received seasonal “solidarity baskets” comprising vegetables, artisanal food products and local agricultural produce. Baskets can be used to make a donation to an NGO sponsored during the operation.

Distribution network

In New York, a series of pilot sustainable development projects were carried out in 2016. The objective was to present sustainability actions carried out in their local community to the teams. This was illustrated notably by the viewing of an installation at the Museum of Modern Art featuring a provisional innovative structure designed to provide a response to environmental problems. An explanation was also given for the Hell's Kitchen Farm Project, an urban farm aimed at forging bonds and promoting well-being in the community. These immersive experiences served as a source of inspiration for the activities of sustainable development ambassadors in the stores.

In addition, Sustainable Development Week was an opportunity to launch a nationwide competition dubbed the H.O.P. Re-creation Contest, the aim of which was to link the principles embodied by petit H with the values of sustainable development. Each team was asked to submit examples of re-creations geared towards reducing waste in their daily lives. The winner, selected by Pascale Mussard, received a petit H prize. The subsidiary's key players gathered for a sustainable breakfast that saw the emergence of numerous ideas and suggestions, some of which are already under development.

In Asia, more than 20 sustainable development leaders from subsidiaries in China, Taiwan, Japan, Singapore, Paris, South Korea and Hong Kong met in Hong Kong in spring 2016 for a three-day conference on sustainable development strategy, where they shared experiences and

worked on common issues. This provided an opportunity for employees to visit the WWF Mai Po reserve in order to gain a better understanding of the importance of this unique paradise for migratory birds. It was also the opportunity to attend presentations of other WWF projects including sustainable food supply and the carbon reduction program for offices. The regional subsidiaries are deeply committed to sustainable development.

In Hong Kong, for instance, a large number of activities were organised in 2016. Sustainable development week was locally embraced, with workshops to raise awareness about well-being and the need to share with the community. Actions revolved around several projects, including a “green market” in the company’s premises to support local producers and promote organic food.

The Fondation d’Entreprise Hermès, through the internal H3 call for projects, allows employees volunteering with an NGO to advocate provision of support by the Foundation. Since 2013, H3 has intensified dialogue between Hermès and civil society by involving the broader community in initiatives taken by its staff worldwide (see “Fondation d’Entreprise Hermès”).

2.6.2.2 Charitable operations

The House’s subsidiaries and sites supplement initiatives taken by the Fondation d’Entreprise Hermès by organising local charitable operations. Noteworthy achievements in 2016 were:

- ◆ in France, various initiatives, such as blood donations in partnership with the French blood bank, are now rooted in employees’ habits. “Le Relais” points for collecting used clothes have been installed on sites in Pantin, Paris and Lyon. They are accessible throughout the year and encourage the reuse of clothing, either through donations to the needy or by recycling their fibres. Regular donations of store-window mannequins are made to NGOs in France;
- ◆ in the same way as in France, the HOP subsidiary in the United States this year took the initiative of donating slightly used or outdated uniforms worn by sales associates. Several boxes of uniforms were given to associations helping people in the process of reintegrating a professional sphere. HOP also supported a local organisation, the Lower East Side Girl’s Club. The idea was to identify needs in respect of supplies for the school year. The list was sent to the employees, who responded with generous donations;
- ◆ in Taiwan, the subsidiary took part in various donations, notably to the “Taipei City Yangming Home” for the disabled. The initiative to partner with the Apple Daily newspaper was renewed in order to support poor families or children. Taiwan also supports the Boyo Social Welfare association;
- ◆ in Hong Kong, donations were made to “Food Angel”, an NGO involved in the fight against food waste and hunger in the region. Thus, unsold and leftover food from local retailers and restaurants was redistributed to disadvantaged communities in the form of hot meals. Volunteers from the office and stores also helped collect food left-

overs for “Bread Run”, the leading food bank for people in need. The subsidiary continued its support for “Lunch Club” with donations and employees helping out at this restaurant for people in difficulty;

- ◆ in India, the Hermès subsidiary chose to give 2% of its income (as required under Indian law) to the “News” NGO in 2016. News is active in the fight to protect nature, the environment and wildlife. The contribution was aimed at supporting aquaculture/fish farming development projects in Sundarban villages in the Bay of Bengal;
- ◆ some initiatives are supported by several of the subsidiaries worldwide. For example, the Earth Hour approach mobilised 56 stores in 2016, a significant number of which were in Asia. Organised at the initiative of WWF in the last week of March, it involves cutting non-essential lights for a period of one hour to promote electricity conservation and in turn to reduce greenhouse gas emissions and contribute to the fight against global warming;
- ◆ “Carrés Solidaires” operations took place in Hong Kong, China, Luxembourg and the United Kingdom for the benefit of different associations, during which specially printed silk scarves are sold. These sales contribute to the development of these local organisations’ projects.

2.6.3 LIVELIHOODS

Since 2012, Hermès has been a partner of the Livelihoods Fund (LH), which aims to improve the living conditions of disadvantaged communities in a sustainable manner by developing large-scale projects with real impact against climate change (www.livelihoods.eu).

Livelihoods aims to be a start-up investor (with an entrepreneurial approach and investment risk) in three types of projects – ecosystems, agroforestry and energy – in Africa, Asia and Latin America. The fund has 10 partners: Danone, Crédit Agricole, CDC, Schneider Electric, La Poste, Hermès International, Voyageurs du Monde, SAP, Firmenich and Michelin. The initial term of the fund is 24 years, and the projects run for between 10 and 20 years. On 31 December 2016, the investors together pledged to invest a total of approximately €38 million in the Livelihoods fund.

The projects generate benefits for local communities and ecosystems, as well as for the partners in the fund, which earn carbon credits with a significant environmental and social impact in proportion to their investment over the project development period. These projects, one of the features of which is to cover a very large scale and extend over periods ranging from 10 to 20 years, include:

- ◆ restoration and preservation of natural **ecosystems** such as **mangroves**. Nearly 8,000 hectares have been replanted in Casamance (“Océanium” project); 4,500 hectares in the delta of the Ganges (“News” project); and 5,000 hectares in Indonesia (“Yagasu” project). These projects secure populations (protection against cyclones

or the invasion of salt water) and provide food resources for ecosystem regeneration;

- ◆ **agroforestry** and soil remediation through sustainable agricultural practices. With the support of the Naandi Foundation, tribal Adivasi communities in the Araku valley have planted six million trees (fruit, firewood, construction, etc.), including three million coffee trees on agroforestry models. In Guatemala, 4,000 hectares of trees and food plants are to be planted in the Cerro San Gil mountain area (“Fundaeo” project), allowing farming families to increase their food security and incomes while protecting biodiversity. In Kenya (VI “Agroforestry” project), on the slopes of Mount Elgon, near Lake Victoria, the livelihoods of 30,000 small farms will improve through the intensification of agriculture respectful of natural resources (Sustainable Agricultural Landscape Management – SALM) and the development of dairy production. The project also contributes to the protection of water resources and generates positive social impacts on women’s work;

- ◆ **access to rural energy** reducing deforestation. In Kenya, the “Hifadhi” project equipped 60,000 households with improved cook stoves that significantly reduce wood consumption, thereby reducing pressure on forests, firewood collecting time for families, and exposure to the toxic fumes generated by old stoves. In Burkina Faso, with the support of the Tiipaalga NGO, 30,000 improved stoves have been installed by inhabitants in their villages, in an effort to secure their use over time in a Sahelian zone. With financial support of the AFD, an agroforestry component has been added to this project. In Peru, the ITYF project (from the name of the Instituto Trabaja y Familia NGO) has installed 30,000 improved cook stoves and hygiene kits to families in extreme poverty in the Peruvian Andes. At the same time, the project brings training and awareness on health (reduction of toxic fumes, importance of boiling water, basic hygiene gestures, etc.), and will naturally have a significant impact against deforestation.

In 2016, the nine projects described above impacted the lives of over 1 million people, and contributed to replanting more than 120 million trees. They also help to compensate, on a voluntary basis, Hermès’ carbon emissions.

2.7 REPORT FROM ONE OF THE STATUTORY AUDITORS, DESIGNATED AS THE INDEPENDENT THIRD PARTY ORGANISATION, ON THE CONSOLIDATED SOCIAL, ENVIRONMENTAL AND SOCIETAL INFORMATION CONTAINED IN THE MANAGEMENT REPORT

2

This is a free translation into English of the Statutory auditors' report issued in the French language and is provided solely for the convenience of English-speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

Year ended 31 December 2016

To the shareholders,

In our capacity as Statutory Auditor of Hermès International appointed as an independent third party, and certified by COFRAC under the number 3-1060¹, we hereby report to you on the consolidated social, environmental and societal information for the financial year ended 31 December 2016, presented in the management report (hereinafter the "CSR Information"), in accordance with Article L. 225-102-1 of the French Commercial Code (*Code de commerce*).

RESPONSIBILITY OF THE COMPANY

The Executive Management is responsible for preparing a management report including CSR Information, in accordance with the provisions of Article R. 225-105-1 of the French Commercial Code (*Code de commerce*) and with the guidelines used by the Company (hereinafter the "Guidelines"), summarised in the management report, and are available on request at the Company's registered office.

INDEPENDENCE AND QUALITY CONTROL

Our independence is defined by regulatory texts, the code of ethics governing the audit profession and the provisions of Article L. 822-11-3 of the French Commercial Code (*Code de commerce*). We have also implemented a quality control system comprising documented policies and procedures for ensuring compliance with the codes of ethics, and applicable legal and regulatory texts.

STATUTORY AUDITOR'S RESPONSIBILITY

On the basis of our work, it is our responsibility to:

- ◆ certify that the required CSR Information is presented in the management report or, if omitted, that an explanation is provided in accordance with sub-paragraph 3 of Article R. 225-105 of the French Commercial Code (*Code de commerce*) (Statement of completeness of CSR Information);
- ◆ express limited assurance that the CSR Information, taken as a whole, is fairly presented, in all material respects, in accordance with the Guidelines (Reasoned opinion on the fairness of the CSR Information).

Our work was carried out by a team of six people, over approximately 15 weeks, between December 2016 and March 2017. We were assisted in our work by our specialists in corporate social responsibility (CSR).

We performed our work in accordance with the Order of 13 May 2013 which determines the provisions under which the independent third party performs its assignment, the professional practice of the French national auditing body (*Compagnie nationale des commissaires aux comptes*) relating to such engagements, and regarding the reasoned opinion of fairness, following the international ISAE 3000 standard².

1. Detailed information is available at www.cofrac.fr

2. ISAE 3000 - Assurance Engagements Other than Audits or Reviews of Historical Financial Information

1. CONFIRMATION OF COMPLETENESS OF CSR INFORMATION

Nature and scope of work

We obtained an understanding of the sustainable development policy, on the basis of interviews with the relevant heads of department, according to the social and environmental impact of the Company's activity, its societal commitments and any action or programmes related thereto.

We compared the CSR Information presented in the management report with the list stipulated in Article R. 225-105-1 of the French Commercial Code (*Code de commerce*).

In case of the absence of certain consolidated information, we verified that explanations were provided in compliance with the provisions of Article R. 225-105, sub-paragraph 3 of the French Commercial Code (*Code de commerce*).

We ensured that the CSR Information covers the scope of consolidation, *i.e.*, the Company, its subsidiaries as defined by Article L. 233-1 and the entities that it controls as defined by Article L. 233-3 of the French Commercial Code (*Code de commerce*), with the limits of the scope indicated in the "Correspondence table (Article 225-105)" contained in the management report.

Conclusion

Based on this work, and given the limitations mentioned above, we attest to the completeness of the required CSR Information in the management report.

2. REASONED OPINION ON THE FAIRNESS OF THE CSR INFORMATION

Nature and scope of work

We conducted approximately ten interviews with the people responsible for preparing the CSR Information in the departments charged with collecting the information and, where appropriate, the people responsible for the internal control and risk management procedures, in order to:

- ◆ assess the suitability of the Guidelines in light of their relevance, completeness, reliability, impartiality and comprehensibility, and taking best market practices into account when necessary;
- ◆ verify the implementation of a data collection, compilation, processing and control procedure that is designed to produce CSR Information that is exhaustive and consistent, and familiarise ourselves with the internal control and risk management procedures involved in preparing the CSR Information.

We determined the nature and scope of our tests and controls according to the nature and importance of the CSR Information in view of the characteristics of the Company, the social and environmental challenges of its activities, its sustainable development policy and best market practices.

For the CSR Information that we considered to be most important³:

- ◆ on the level of the consolidating entity and divisions or sites, we consulted documentary sources and conducted interviews to substantiate the qualitative information (organisation, policy, action), we followed analytical procedures on the quantitative information and verified, using sampling techniques, the calculations and the consolidation of the data, and we verified their consistency and concordance with the other information in the management report;

3. *Quantitative information: total number and breakdown of employees by geographic region, gender and age; recruitment and dismissals; frequency rate and severity rate of workplace accidents with stoppage; number of training hours; energy consumption by energy type; Water consumption of industrial sites.*

Qualitative information: health and safety conditions; training policies implemented; general environmental policy; measures for prevention, recycling, reuse, other forms of waste recycling and disposal; major sources of greenhouse gas emissions generated by operations, primarily through the use of goods produced and services provided; steps taken to preserve biodiversity; Company's impact on employment and regional development; inclusion of social and environmental issues in the purchasing policy; significance of subcontracting and consideration in relations with suppliers and subcontractors for their social and environmental responsibility.

- ◆ on the level of a representative sample of sites that we selected⁴ on the basis of their activity, contribution to the consolidated indicators, location and a risk analysis, we carried out interviews in order to verify the correct application of the procedures and performed detailed tests on the basis of samples, so as to check the completed calculations and to compare the data with the supporting documentation. The selected sample thus represents, on average, 22% of the workforce considered to be the characteristic variable of the social component and between 20% and 42% of the environmental data considered to be the characteristic variables of the environmental component.

For the other consolidated CSR Information, we assessed consistency based on our understanding of the Company.

Finally, we also assessed the relevance of the explanations given for any information that was not disclosed, either in whole or in part.

We believe that the sampling methods and sample sizes used, based on our professional judgement, allow us to express limited assurance; a higher level of assurance would have required more extensive verification work. As a result of the use of sampling techniques and other limitations intrinsic to the operation of any information and internal control system, we cannot completely rule out the possibility that a material irregularity has not been detected.

Conclusion

Based on our work, nothing has come to our attention that causes us to believe that the CSR Information, taken as a whole, is not presented fairly, in all material respects, in accordance with the Guidelines.

Neuilly-sur-Seine, 11 April 2017

One of the Statutory Auditors
PricewaterhouseCoopers Audit

Christine Bouvry
Partner

Sylvain Lambert
Partner, sustainable development department

4. Environmental information:

industrial department: Manufacture de la Haute Maroquinerie (Aix-Les-Bains - France, sector: Leather Goods); Joseph Énard (Noirmont - Switzerland, sector: Watches); Ateliers A.S. (Pierre-Bénite - France, sector: Textiles); ITH (Bourgoin-Jallieu - France, sector: Textiles); Les Tanneries du Puy (Le Puy-en-Velay - France, sector: Tanneries and Precious Leathers);

construction development department (11 stores): Store of Rome - Via Condotti, 67 - Rome (Italy), Store of Palermo - Via della Libertà, 35 - Palermo (Italy); Marunouchi (Japan) Midosuji (Japan), Ginza (Japan); Madison 691 (USA), Wall Street (USA); Masaryk (Mexico); Ipanema (Brazil);

Human Resources information: Hermès Services Groupe (a division of Hermès Sellier); Hermès Commercial (a division of Hermès Sellier), Maroquinerie de la Tardoire, Ganterie de Saint-Junien, Maroquinerie Nontronnaise (sites of the Hermès Leather Goods - Saddlery division in Nontron); Compagnie des Cuirs Précieux, Tannerie d'Annonay, Tannerie de Montereau, Tannerie de Vivoin, Les Tanneries du Puy (sites of the Hermès Precious Leathers division).

3

CORPORATE GOVERNANCE

3.1	ADMINISTRATIVE, MANAGEMENT, OR SUPERVISORY BODIES	90
3.1.1	Information on Corporate Officers and members of the Executive Committee	90
3.1.2	Interests of Corporate Officers and Executive Committee members in the share capital	108
3.1.3	Statements by Corporate Officers and Supervisory Board members	108
3.1.4	Transactions in company shares by Corporate Officers and immediate family members	109
3.2	REPORT FROM THE CHAIRMAN OF THE SUPERVISORY BOARD	110
3.2.1	Corporate Governance Code	110
3.2.2	Conditions governing the preparation and organisation of the Supervisory Board's work	111
3.2.3	Principles and rules for determining compensation and benefits of any kind granted to Corporate Officers	125
3.2.4	Capital structure and factors liable to affect the outcome of a public offer	125
3.2.5	Special terms and conditions for participating in General Meetings	125
3.2.6	Internal control and risk management systems established by the Company	125
3.2.7	Financial risks related to climate change	129
3.3	STATUTORY AUDITORS' REPORT ON THE REPORT FROM THE CHAIRMAN OF THE SUPERVISORY BOARD	137
3.4	COMPENSATION AND BENEFITS PAID TO CORPORATE OFFICERS	138
3.4.1	Executive Chairmen	138
3.4.2	Active Partner	139
3.4.3	Supervisory Board, Audit Committee and Compensation, Appointments and Governance Committee	139
3.4.4	Allocation of bonus shares, stock options	140
3.4.5	Tables prepared in accordance with AMF recommendation 2009-16 amended on 13 April 2015 pertaining to information on compensation of Corporate Officers to be disclosed in registration documents	141

3.1 ADMINISTRATIVE, MANAGEMENT, OR SUPERVISORY BODIES

3.1.1 INFORMATION ON CORPORATE OFFICERS AND MEMBERS OF THE EXECUTIVE COMMITTEE

Changes during financial year 2016

No changes took place in the Executive Management or the Executive Committee in 2016.

Changes within the Supervisory Board are described on page 112.

Succession plan for Senior Executives

Every two years, a 360° Human Resources review known as the "Talent Review" is performed in each subsidiary to:

- ◆ identify, in a demanding and selective way, Talents capable of occupying the highest responsibilities within the House;

- ◆ support the development of Talents through targeted and ambitious initiatives to create conditions fostering their performance, motivation and loyalty;
- ◆ anticipate and manage possible changes (inter- and intra-subsi- dary mobility) and succession plans to ensure the sustainability of the organisation and take Hermès into the future.

This talent review covers the succession of the members of the Executive Committee. A summary and the action plans stemming from the 2016 talent review were presented to the Compensation, Appointments and Governance Committee of the Supervisory Board (CAG Committee).

In addition, a succession plan has been drawn up for Executive Management. It was submitted in 2016 to the CAG Committee, which commended its quality and its appropriateness.

It should be noted that the existence of two Executive Chairmen, one of which is a legal entity, guards against the Executive Management falling vacant unexpectedly.

The CAG Committee has requested that the Talent Review be presented to it every two years and that the Executive Management Succession Plan be presented to it annually.

In 2017, the CAG Committee plans to review the succession plan for the Chairman of the Supervisory Board.

3.1.1.1 Group management (role and composition)

The Active Partner and its Executive Management Board

Role	Composition as at 31/12/2016
The Active Partner is jointly and severally liable for all the Company's debts, for an indefinite period of time. The Active Partner has the authority to appoint or revoke the powers of the Executive Chairman, after receiving the reasoned opinion of the Supervisory Board. The Active Partner makes all decisions pertaining to the Group's strategic options, consolidated operating and investment budgets, and recommendations to the General Meeting with respect to the distribution of share premiums, reserves and retained earnings, on the recommendation of the Supervisory Board. It may submit recommendations to the Executive Management on any matter of general interest to the Group. It authorises all company loans, sureties, endorsements and guarantees, any pledges of collateral and encumbrances on the Company's property, as well as the creation of any company or acquisition of an interest whenever the investment amounts to more than 10% of the Group's consolidated net worth.	◆ Émile Hermès SARL represented by its Executive Management Board
	◆ Henri-Louis Bauer
	◆ Philippe Dumas
	◆ Pascale Mussard
	◆ Sandrine Brekke ◆ Frédéric Dumas ◆ Édouard Guerrand ◆ Agnès Harth ◆ Laurent E. Momméja ◆ Jean-Baptiste Puech ◆ Guillaume de Seynes
	Active Partner
	Executive Chairman, Chairman and Member of the Executive Management Board
	Vice-Chairman and member of the Executive Management Board
	Vice-Chairman (since 20 June 2016, replacing Hubert Guerrand, who died on 25 May 2016) and member of the Executive Management Board
	Other members of the Executive Management Board

Executive Management

Role	Composition as at 31/12/2016								
<p>The Executive Management ensures the management of Hermès International.</p> <p>The role of the Executive Chairman is to manage the Group and act in its general interest, within the scope of the corporate purpose and subject to those powers expressly granted by law or by the Articles of Association to the Supervisory Board, to the Active Partner and to Shareholders' General Meetings. The Executive Chairmen distributed their roles as follows: Axel Dumas is in charge of strategy and operational management, and Émile Hermès SARL, through its Executive Management Board, is responsible for the vision and strategic areas.</p>	<p>The Executive Chairmen are appointed by the Active Partner, after consultation with the Supervisory Board. In accordance with the Articles of Association, the Executive Management comprises one or two Executive Chairmen, who are natural persons, either Active Partners or from outside the Company, each having the same powers and duties. The term of office of the Executive Chairmen is open-ended.</p> <table border="1"> <tbody> <tr> <td>♦ Axel Dumas,</td> <td>Executive Chairman</td> </tr> <tr> <td>appointed by decision of the Active Partner, on 4 June 2013 (effective on 5 June 2013).</td> <td></td> </tr> <tr> <td>♦ The company Émile Hermès SARL</td> <td>Executive Chairman</td> </tr> <tr> <td>(represented by Henri-Louis Bauer), appointed by decision of the Active Partner on 14 February 2006 (effective on 1 April 2006).</td> <td></td> </tr> </tbody> </table>	♦ Axel Dumas,	Executive Chairman	appointed by decision of the Active Partner, on 4 June 2013 (effective on 5 June 2013).		♦ The company Émile Hermès SARL	Executive Chairman	(represented by Henri-Louis Bauer), appointed by decision of the Active Partner on 14 February 2006 (effective on 1 April 2006).	
♦ Axel Dumas,	Executive Chairman								
appointed by decision of the Active Partner, on 4 June 2013 (effective on 5 June 2013).									
♦ The company Émile Hermès SARL	Executive Chairman								
(represented by Henri-Louis Bauer), appointed by decision of the Active Partner on 14 February 2006 (effective on 1 April 2006).									

Shareholding obligations

At its meeting of 21 March 2017, the Supervisory Board decided that the Executive Chairmen should each be required to hold a minimum of 1,000 Hermès International shares pursuant to Article 22 of the AFEP-MEDEF Code revised in November 2016.

Executive Committee

Role	Composition as at 31/12/2016																
<p>The Group management is comprised of the Executive Chairman and the Executive Committee, which consists of managing directors, each of whom has well-defined areas of responsibility.</p> <p>Its role is to oversee the Group's strategic and operational management.</p>	<table border="1"> <tbody> <tr> <td>♦ Axel Dumas</td> <td>Executive Chairman</td> </tr> <tr> <td>♦ Florian Craen</td> <td>Executive Vice President Sales & Distribution</td> </tr> <tr> <td>♦ Charlotte David</td> <td>Executive Vice President Communication</td> </tr> <tr> <td>♦ Pierre-Alexis Dumas</td> <td>Artistic Executive Vice President</td> </tr> <tr> <td>♦ Olivier Fournier</td> <td>Executive Vice President of Governance and Organisational Development</td> </tr> <tr> <td>♦ Wilfried Guerrand</td> <td>Executive Vice President of Digital Projects and E-commerce</td> </tr> <tr> <td>♦ Éric du Halgouët</td> <td>Executive Vice President Finance</td> </tr> <tr> <td>♦ Guillaume de Seynes</td> <td>Executive Vice President Manufacturing division & Equity Investments</td> </tr> </tbody> </table>	♦ Axel Dumas	Executive Chairman	♦ Florian Craen	Executive Vice President Sales & Distribution	♦ Charlotte David	Executive Vice President Communication	♦ Pierre-Alexis Dumas	Artistic Executive Vice President	♦ Olivier Fournier	Executive Vice President of Governance and Organisational Development	♦ Wilfried Guerrand	Executive Vice President of Digital Projects and E-commerce	♦ Éric du Halgouët	Executive Vice President Finance	♦ Guillaume de Seynes	Executive Vice President Manufacturing division & Equity Investments
♦ Axel Dumas	Executive Chairman																
♦ Florian Craen	Executive Vice President Sales & Distribution																
♦ Charlotte David	Executive Vice President Communication																
♦ Pierre-Alexis Dumas	Artistic Executive Vice President																
♦ Olivier Fournier	Executive Vice President of Governance and Organisational Development																
♦ Wilfried Guerrand	Executive Vice President of Digital Projects and E-commerce																
♦ Éric du Halgouët	Executive Vice President Finance																
♦ Guillaume de Seynes	Executive Vice President Manufacturing division & Equity Investments																

Information on the Executive Chairmen and sitting members of the Executive Committee

Executive Chairmen

AXEL DUMAS

Executive Chairman of Hermès International

Direct descendant of Émile-Maurice Hermès.

Date of appointment: 5 June 2013

Term of current office: Unspecified

Address: c/o Hermès International, 24, rue du Faubourg-Saint-Honoré, 75008 Paris, France

Born on: 3 July 1970

Nationality: French

Shares held: full owner of 10,378 registered shares as at 31 December 2016

Expertise and professional experience

Axel Dumas is a graduate of the Institut d'Etudes Politiques de Paris and of Harvard Business School (AMP 179). He also has a bachelor's degree in philosophy and a master's degree in business law. He began his career at BNP Paribas, in China from 1995 to 1997, and then in the United States from 1999 to 2003.

Axel Dumas joined the Hermès Group in 2003. He served as Sales Director in France and directed the Jewellery division from 2006 to 2008, then the Leather Goods and Saddlery division from 2008 to 2011. He was appointed as Executive Vice President of Operations and member of the Executive Committee on 2 May 2011, before being appointed as Executive Chairman of Hermès International as of 5 June 2013, for an open-ended term.

Offices and positions held during 2016

- ◆ **Hermès International** ▲ ● (France)
Co-Executive Manager
- ◆ **Ateliers A.S.** ▲ * (France)
Permanent Representative of Hermès International, director
- ◆ **Axam 2** (France)
Executive Chairman
- ◆ **Boissy Mexico** ▲ (Mexico)
Acting Director
- ◆ **Compagnie Hermès de Participations** ▲ (France)
Permanent Representative of Hermès International, Chairman
- ◆ **Comptoir Nouveau de la Parfumerie** ▲ * (France)
Permanent Representative of Hermès International, director
- ◆ **Faubourg Middle East** ▲ (United Arab Emirates)
Director
- ◆ **Herlee** ▲ (Hong Kong)
Chairman and director
- ◆ **Hermès Asia Pacific** ▲ (Hong Kong)
Director
- ◆ **Hermès Canada** ▲ (Canada)
Chairman and director
- ◆ **Hermès China** ▲ (China)
Chairman and director
- ◆ **Hermès China Trading** ▲ (China)
Chairman and Director
- ◆ **Hermès de Paris** (Mexico) ▲ (Mexico)
Acting director
- ◆ **Hermès do Brasil** ▲ (Brazil)
Consultative Board member
- ◆ **Hermès Grèce** ▲ (Greece)
Director
- ◆ **Hermès Horizons** ▲ (France)
Chairman (until 31/05/2016)
- ◆ **Hermès Iberica** ▲ (Spain)
Director
- ◆ **Hermès Immobilier Genève** ▲ (Switzerland)
Director (until 10/05/2016)
- ◆ **Hermès India Retail and Distributors** ▲ (India)
Director
- ◆ **Hermès Japon** ▲ (Japan)
Director
- ◆ **Hermès Korea** ▲ (South Korea)
Chairman and director
- ◆ **Hermès Monte-Carlo** ▲ (Principality of Monaco)
Permanent Representative of Hermès International, Vice-Chairman, Permanent Representative of Hermès International, director
- ◆ **Hermès of Paris** ▲ (USA)
Chairman and director
- ◆ **Hermès Retail (Malaysia)** ▲ (Malaysia)
Chairman and director
- ◆ **Hermès Sellier** ▲ (France)
Chairman, Executive Vice President – Hermès Leather Goods and Saddlery division, Executive Vice President – Hermès Commercial division, Executive Vice President – Hermès Silk & Textiles division, Executive Vice President – Hermès Travel Retail division, Executive Vice President – Hermès Jewellery division, Executive Vice President of Hermès Men division and Executive Vice President Hermès Services Group division, Executive Vice President Hermès Distribution France division
- ◆ **Isamyol 28** ▲ (France)
Permanent Representative of Hermès International, Chairman (until 29/06/2016)
- ◆ **Isamyol 30** ▲ (France)
Permanent Representative of Hermès International, Chairman (until 29/06/2016)
- ◆ **Isamyol 31** ▲ (France)
Permanent Representative of Hermès International, Chairman (until 29/06/2016)
- ◆ **Isamyol 32** ▲ (France)
Permanent Representative of Hermès International, Chairman (until 29/06/2016)
- ◆ **Isamyol 33** ▲ (France)
Permanent Representative of Hermès International, Chairman (until 29/06/2016)
- ◆ **La Montre Hermès** ▲ (Switzerland)
Director
- ◆ **Maia** (France)
Executive Chairman
- ◆ **Mathel** (France)
Executive Chairman
- ◆ **H51** (France)
Director

▲ Hermès Group company ● Listed company * Office taken into account in the calculation of plurality of offices

Other offices and positions held during the previous four financial years and ending before 1 January 2016

- ◆ **Grafton Immobilier ▲ (France)**
Chairman (until 29/06/2015)
- ◆ **Hermès Australia ▲ (Australia)**
Chairman of the Board of Directors and director (until 05/02/2015)
- ◆ **Hermès Benelux Nordics ▲ (Belgium)**
Director (until 15/04/2015)
- ◆ **Hermès GB ▲ (United Kingdom)**
Chairman and director (until 15/04/2015)
- ◆ **Hermès Italie ▲ (France)**
Chairman of the Board of Directors and director (until 20/03/2015)
- ◆ **Hermès Monte-Carlo ▲ (Principality of Monaco)**
Permanent Representative of Hermès Sellier, director (until 28/04/2015)
- ◆ **Immobilière du 5 rue de Furstemberg ▲ (France)**
Permanent Representative of Hermès International, Chairman (until 29/06/2015)
- ◆ **Isamyol 25 (now Immobilière de la maroquinerie de Montbéliard) ▲ (France)**
Permanent Representative of Hermès International, Chairman (until 20/10/2014)
- ◆ **Maroquinerie de Normandie (formerly Isamyol 27) ▲ (France)**
Permanent Representative of Hermès International, Chairman (until 07/09/2015)
- ◆ **Motsch-George V ▲ (France)**
Permanent Representative of Hermès International, Chairman (until 29/06/2015)
- ◆ **SCI Boissy Les Mûriers ▲ (France)**
Permanent Representative of Hermès International, Executive Chairman (until 31/12/2015)
- ◆ **SCI Boissy Nonttron ▲ (France)**
Permanent Representative of Hermès International, Executive Chairman (until 21/12/2015)
- ◆ **SCI Édouard VII ▲ (France)**
Permanent Representative of Hermès International, Executive Chairman (until 21/12/2015)
- ◆ **SCI Honossy ▲ (France)**
Permanent Representative of Hermès International, Executive Chairman (until 21/12/2015)
- ◆ **SCI Les Capucines ▲ (France)**
Permanent Representative of Hermès International, Co-Executive Chairman (until 21/12/2015)
- ◆ **SCI Auger-Hoche ▲ (France)**
Permanent Representative of Hermès International, Executive Chairman (until 21/12/2015)
- ◆ **Tannerie de Vivoin (formerly Isamyol 29) ▲ (France)**
Permanent Representative of Hermès International, Chairman (until 30/06/2015)
- ◆ **Hermès Latin America ▲ (USA)**
Director (until 21/05/2015)
- ◆ **Créations Métaphores ▲ (France)**
Permanent Representative of Hermès International, member of the Management Board (until 23/06/2015)
- ◆ **Hermès of Hawaii ▲ (USA)**
Chairman and Director (until 24/03/2014)

ÉMILE HERMÈS SARL

represented by its Executive Chairman,
Henri-Louis Bauer

**Active Partner and Executive
Chairman of Hermès International**

Date of appointment: 1 April 2006

Term of current office: Unspecified

Address: c/o Hermès International,
24, rue du Faubourg-Saint-Honoré,
75008 Paris, France.

Shares held: full owner of 33,236
registered shares as at 31 December
2016

Expertise and professional experience**Émile Hermès SARL**

Émile Hermès SARL is a *société à responsabilité limitée à capital variable de droit français* (limited company with variable capital subject to French law). Its partners are the direct descendants of Émile-Maurice Hermès and his wife. Émile Hermès SARL's Executive Chairman is Henri-Louis Bauer (appointment effective as of 1 July 2012), a direct descendant of Émile-Maurice Hermès, and it has an Executive Management Board. Émile Hermès SARL's main purpose is to be the Active Partner of Hermès International. Its operations are described on pages 251 to 252.

Émile Hermès SARL has been Active Partner of Hermès International since 27 December 1990. Émile Hermès SARL was appointed Executive Chairman on that date and held that office until 31 December 1994. On 1 April 2006, it was again appointed Executive Chairman of Hermès International for an open-ended term.

It does not now hold nor has it in the past held any offices in any other company.

Offices and positions held during 2016

- ◆ **Hermès International** ▲ ● (France)
Active Partner and Executive Co-Chairman

Other offices and positions held during the previous four financial years and ending before 1 January 2016

None

Henri-Louis Bauer

Direct descendant of Émile-Maurice Hermès

Co-Offices and positions held during 2016

- | | |
|---|---|
| ◆ Émile Hermès SARL (France)
Executive Chairman and Chairman of the Executive
Management Board | ◆ H51 (France)
Director |
| ◆ Aucleris 2 (France)
Executive Chairman | ◆ Sabarots (France)
Executive Chairman |
| ◆ Fondation d'Entreprise Hermès (France)
Director | ◆ Samain B2 (France)
Executive Chairman |
| ◆ H2 (France)
Director | |

Other offices and positions held during the previous four financial years and ending before 1 January 2016

- ◆ **Aucleris** (France)
Executive Chairman (until 27/12/2015)

▲ Hermès Group company ● Listed company * Office taken into account in the calculation of plurality of offices

Active Partner**Émile Hermès SARL**

(Refer to the paragraph above)

Executive Committee

Name Personal details: Age in 2017 Date of birth Nationality	Date of appointment to the Executive Committee	Training	Positions held in the Hermès Group (date of appointment)	Other positions
♦ Axel Dumas	02/05/2011	See pages 92 and 93		
♦ Florian Craen 47 years 31/10/1970 French	01/09/2013	École Supérieure du Commerce Extérieur de Paris (1992) Harvard Business School (AMP 184)	Executive Vice President Sales & Distribution of Hermès International (since 1 January 2014) Executive Vice President Hermès North Asia (2009) Executive Vice President Hermès Great Britain (2006) Director Hermès International Travel Retail (2001)	
♦ Charlotte David 42 years 28/03/1975 French	12/10/2015	ESSEC (1997)	Executive Vice President Communication of Hermès International (since 12 October 2015)	
♦ Pierre-Alexis Dumas 51 years 04/06/1966 French	01/10/2005	Graduate in visual arts from Brown University (1991)	Artistic Executive Vice President of Hermès International (since 1 October 2005)	Chairman of the Fondation d'Entreprise d'Hermès (from 2008 to 2016) Chairman of Arts Décoratifs (since 1 January 2016)
♦ Olivier Fournier 56 years 10/07/1961 French	01/06/2015	EM Lyon (1983) Graduate degree in accounting and finance	Executive Vice President of Governance and Organisational Development, Hermès International (2015) Executive Vice President of Hermès Sellier craftsmanship division (2008) Executive Vice President Holding Textile Hermès (2001) Executive Vice President of BucoI (1998) Executive Vice President of Sport Soie (1994) Executive Vice President of Internal Audit and Taxation of Hermès International (1991)	Chairman of the Fondation d'Entreprise d'Hermès (since 8 February 2016)

Name <i>Personal details:</i> Age in 2017 Date of birth Nationality	Date of appointment to the Executive Committee	Training	Positions held in the Hermès Group (date of appointment)	Other positions
<p>♦ Wilfried Guerrand 46 years 01/02/1971 French</p>	01/07/2014	<p>Neoma Business School (1993, Rouen)</p> <p>MBA from London School of Economics, NYU Stern and HEC (2011, TRIUM)</p>	<p>Executive Vice President of Digital Projects and e-Commerce Hermès International (since 1 July 2014)</p> <p>Executive Vice President Communication of Hermès Women (since 2 April 2012)</p> <p>Executive Vice President Europe Hermès International (2009)</p> <p>Group director of Sales Hermès International (2007)</p> <p>Executive Vice President Hermès France for Hermès Sellier (2004)</p> <p>Director of Industrial Development Hermès International (2002)</p> <p>Advisor to the Executive Vice President Hermès Sellier (1999)</p> <p>Financial Controller for Hermès Sellier (1995)</p>	
<p>♦ Éric du Halgouët 54 years 14/03/1963 French</p>	01/06/2015	<p>Neoma Business School (1986, Rouen)</p> <p>Postgraduate Diploma in Accounting and Finance</p>	<p>Executive Vice President Finance of Hermès International (2015)</p> <p>Group Financial Director (2007)</p> <p>Director of consolidation and financial control (2006)</p>	
<p>♦ Guillaume de Seynes 60 years 14/10/1957 French</p>	01/01/2005	<p>Graduate in law and political science Paris (1978) and an ESSEC graduate (1982)</p>	<p>Executive Vice President of Hermès International, Manufacturing division & Equity Investments (since 2 May 2011)</p> <p>Director of John Lobb (2007)</p> <p>Deputy Managing Director Hermès International (2006)</p> <p>Executive Vice President Hermès Sellier business lines (2004)</p> <p>Executive Vice President of La Montre Hermès (1999)</p> <p>Director of Sales and Marketing of La Montre Hermès (1997)</p>	<p>Chairman of Comité Colbert (since 10 June 2016)</p> <p>Chairman of the European Alliance for Cultural and Creative Industries</p> <p>Chairman of the <i>prêt-à-porter Chambre Syndicale</i> of dressmakers and fashion designers (2008-2012)</p>

3.1.1.2 Supervisory Board (role and composition)

a) Supervisory Board

Role	Composition as at 31/12/2016																																						
<p>The Supervisory Board exercises ongoing control over the Company's management. For this purpose, it has the same powers as the Statutory Auditors and receives the same documents that they do, at the same time. In addition, the Executive Management must submit a detailed report to the Supervisory Board on the Company's operations at least once a year.</p> <p>The Supervisory Board submits to the Active Partners for consideration its reasoned opinion:</p> <ul style="list-style-type: none"> ♦ on the nomination and dismissal of any Executive Chairman of the Company; and ♦ in case of the Executive Chairman's resignation, on reducing the notice period. <p>The Supervisory Board:</p> <ul style="list-style-type: none"> ♦ determines the proposed appropriation of net income to be submitted to the General Meeting each year; ♦ approves or rejects any proposed new wording of certain clauses of the Articles of Association of Émile Hermès SARL. <p>The Active Partner must consult the Supervisory Board prior to making any decisions on the following matters:</p> <ul style="list-style-type: none"> ♦ strategic options; ♦ consolidated operating and investment budgets; and ♦ proposals to the General Meeting pertaining to the appropriation of share premiums, reserves or retained earnings. <p>Each year, the Supervisory Board presents to the Annual Shareholders' Ordinary General Meeting a report in which it comments on the Company's management and draws attention to any inconsistencies or inaccuracies identified in the financial statements for the year.</p> <p>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.</p>	<p>Supervisory Board</p> <p>The Company is governed by a Supervisory Board, which currently comprises 11 members¹ who are appointed for a term of three years. The members are selected from among shareholders who are not Active Partners, Legal Representatives of an Active Partner, or an Executive Chairman. As the Company is subject to the provisions of Article L. 225-79-2 of the French Commercial Code (<i>Code de commerce</i>), an Employee Representative Member of the Supervisory Board has been appointed by the Group Committee since 19 November 2014.</p> <table border="1"> <tbody> <tr> <td>♦ Éric de Seynes</td> <td>Chairman and member of the Supervisory Board</td> </tr> <tr> <td>♦ Monique Cohen</td> <td>Vice-Chairman and member of the Supervisory Board</td> </tr> <tr> <td>♦ Dominique Senequier</td> <td>Vice-Chairman and member of the Supervisory Board</td> </tr> <tr> <td>♦ Frédéric Afriat (employee representative)</td> <td>Other members of the Supervisory Board</td> </tr> <tr> <td>♦ Charles-Éric Bauer</td> <td></td> </tr> <tr> <td>♦ Matthieu Dumas</td> <td></td> </tr> <tr> <td>♦ Blaise Guerrand</td> <td></td> </tr> <tr> <td>♦ Julie Guerrand</td> <td></td> </tr> <tr> <td>♦ Sharon MacBeath</td> <td></td> </tr> <tr> <td>♦ Renaud Momméja</td> <td></td> </tr> <tr> <td>♦ Robert Peugeot</td> <td></td> </tr> </tbody> </table> <p>Audit Committee</p> <table border="1"> <tbody> <tr> <td>♦ Monique Cohen</td> <td>Audit Committee Chairman</td> </tr> <tr> <td>♦ Charles-Éric Bauer</td> <td>Members of the Audit Committee</td> </tr> <tr> <td>♦ Sharon MacBeath</td> <td></td> </tr> <tr> <td>♦ Renaud Momméja</td> <td></td> </tr> <tr> <td>♦ Robert Peugeot</td> <td></td> </tr> </tbody> </table> <p>Compensation, Appointments and Governance Committee</p> <table border="1"> <tbody> <tr> <td>♦ Dominique Senequier</td> <td>Compensation, Appointments and Governance Committee Chairman</td> </tr> <tr> <td>♦ Matthieu Dumas</td> <td>Members of the Compensation, Appointments and Governance Committee</td> </tr> <tr> <td>♦ Robert Peugeot</td> <td></td> </tr> </tbody> </table>	♦ Éric de Seynes	Chairman and member of the Supervisory Board	♦ Monique Cohen	Vice-Chairman and member of the Supervisory Board	♦ Dominique Senequier	Vice-Chairman and member of the Supervisory Board	♦ Frédéric Afriat (employee representative)	Other members of the Supervisory Board	♦ Charles-Éric Bauer		♦ Matthieu Dumas		♦ Blaise Guerrand		♦ Julie Guerrand		♦ Sharon MacBeath		♦ Renaud Momméja		♦ Robert Peugeot		♦ Monique Cohen	Audit Committee Chairman	♦ Charles-Éric Bauer	Members of the Audit Committee	♦ Sharon MacBeath		♦ Renaud Momméja		♦ Robert Peugeot		♦ Dominique Senequier	Compensation, Appointments and Governance Committee Chairman	♦ Matthieu Dumas	Members of the Compensation, Appointments and Governance Committee	♦ Robert Peugeot	
♦ Éric de Seynes	Chairman and member of the Supervisory Board																																						
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(1) In a decision dated 21 March 2017, the Active Partner increased the number of Supervisory Board members to 13 in anticipation of the appointment by the Combined General Meeting of 6 June 2017 of two new members to the Supervisory Board.

b) Information on sitting members of the Supervisory Board

ÉRIC DE SEYNES**Executive Vice President and member of the Supervisory Board of Hermès International**

Direct descendant of Émile-Maurice Hermès.

Date of appointment: 7 June 2010

Term of current office: 2017 GM

Address: c/o Hermès International, 24, rue du Faubourg-Saint-Honoré, 75008 Paris, France.

Born on: 9/06/1960

Nationality: French

Shares held: full owner of 203 shares as at 31 December 2016, at least 200 of which are registered

Expertise and professional experience

Éric de Seynes is a graduate of École Supérieure Libre des Sciences Commerciales Appliquées (ESLSCA) with a specialisation in marketing. Until 2014, he successively served as: Head of Marketing for Mobil Oil Française, Director of Sponsoring for Seita, Marketing Director for Sonauto-Yamaha, Director of Marketing and Sales for Yamaha Motor France, Chairman of Groupe Option, Chairman and CEO of Yamaha Motor France, and Operational Director for Yamaha Motor Europe. Since 2015, he has served as Chief Operating Officer (COO) of Yamaha Motor Europe, but also, since 2016, as Executive Officer of Yamaha Motor Co. Ltd, Japan and Chairman of the Chambre syndicale internationale de l'automobile et du motorcycle and member of the Executive Committee of the European Association of Motorcycle Manufacturers.

Eric de Seynes has been a member of the Supervisory Board since 7 June 2010. He previously held this office from 2005 until 2008. He also served as Audit Committee member from 2005 to 2008 and as member of the Executive Management Board of Émile Hermès SARL from 2008 to 2010. He was appointed Chairman of the Supervisory Board on 3 March 2011.

Offices and positions held during 2016

- | | |
|--|---|
| ◆ Hermès International ▲ ● (France)
Chairman and member of the Supervisory Board | ◆ Les Producteurs * (France)
Director |
| ◆ Hermès Sellier ▲ (France)
Member of the Management Board | ◆ MBK (France)
Director |
| ◆ H51 (France)
Director | ◆ Motori Minarelli (Italy)
Director |
| ◆ Groupe Option SAS (France)
Chairman | ◆ Sféric SAS (France)
Chairman |
| ◆ Inha Works Limited (Finland)
Director | |

Other offices and positions held during the previous four financial years and ending before 1 January 2016

- | | |
|--|--|
| ◆ Brame et Lorenceau * (France)
Director (until 31/12/2015) | ◆ Yamaha Motor France * (France)
Director, and Chairman and Chief Executive Officer (until 01/02/2015) |
| ◆ Naturéo Finance SAS (France)
Member of the Management Board (until 31/12/2015) | ◆ Yamaha Motor Turkey (Turkey)
Director (until 31/12/2015) |

▲ Hermès Group company ● Listed company * Office taken into account in the calculation of plurality of offices

MONIQUE COHEN

Vice-Chairman and member of the Supervisory Board, Chairman of the Audit Committee of Hermès International

Not related to the Hermès family and an independent director based on the criteria applied by the Company.

Date of appointment: 3 June 2014

Term of current office: 2017 GM

Address: c/o Hermès International, 24, rue du Faubourg-Saint-Honoré, 75008 Paris, France.

Born on: 28/06/1956

Nationality: French

Shares held: full owner of 250 shares as at 31 December 2016, at least 200 of which are registered

Expertise and professional experience

Monique Cohen is a graduate of the École Polytechnique (X76), with a Master's degree in mathematics and a degree in business law.

She began her career in 1979 at Paribas as a senior banker then as the worldwide manager for equity-related business lines. Starting in 2000, she served as associate director in charge of investments in the sector of services for companies, financial and health services at Apax Partners.

Monique Cohen is a director of the Safran Group and Supervisory Board member of JCDecaux. She was also nominated to the Board of Directors of BNP Paribas on 12 February 2014. Until September 2014, she was a member of the panel of the Financial Markets Authority (AMF).

Offices and positions held during 2016

- ◆ **Hermès International** ▲ ● (France)
Vice-Chairman and member of the Supervisory Board, Chairman of the Audit Committee
- ◆ **Apax Partners MidMarket** (France)
Director
- ◆ **BNP Paribas** ● * (France)
Director
- ◆ **Global Project SAS** (France)
Supervisory Committee member
- ◆ **JCDecaux** ● * (France)
Supervisory Board member
- ◆ **Proxima Investissement** (Luxembourg)
Chairman of the Board of Directors and director
- ◆ **Safran** ● * (France)
Director
- ◆ **SC Fabadari** (France)
Assistant manager
- ◆ **Trocadéro Participations** (France)
Chairman and Supervisory Board member (until 26/07/2016)
- ◆ **Trocadéro Participations II** (France)
Chairman (until 26/07/2016)

Other offices and positions held during the previous four financial years and ending before 1 January 2016

- ◆ **Altamir Gérance** (France)
Chief Operating Officer (until 04/05/2015)
- ◆ **Altran Technologies** (France)
Director (until 12/03/2014)
- ◆ **B Capital** (France)
Director (until 24/03/2013)
- ◆ **Buy Way Personal Finance Belgium** (Belgium)
Director (until 03/04/2014)
- ◆ **Buy Way Tech** (Belgium)
Director (until 03/04/2014)
- ◆ **Financière MidMarket** (France)
Director (until 12/12/2014)
- ◆ **Santamedia Group Holding** (Luxembourg)
Manager (until 14/11/2012)
- ◆ **Société de Financement Local** (France)
Director (until 04/06/2014)
- ◆ **Texavenir II** (France)
Chairman and Supervisory Board member (until 18/10/2012)
- ◆ **Trocadéro Participations** (France)
Director (until 03/10/2012)
- ◆ **Wallet Investment I** (Belgium)
Chairman of the Board of Directors and director (until 03/04/2014)
- ◆ **Wallet Investment II** (Belgium)
Chairman of the Board of Directors and director (until 03/04/2014)

▲ Hermès Group company ● Listed company * Office taken into account in the calculation of plurality of offices

DOMINIQUE SENEQUIER**Vice-Chairman and member of the Supervisory Board, Chairman of the Compensation, Appointments and Governance Committee of Hermès International**

Not related to the Hermès family and an independent director based on the criteria applied by the Company.

Date of appointment: 4 June 2013

Term of current office: 2019 GM

Address: c/o Hermès International, 24, rue du Faubourg-Saint-Honoré, 75008 Paris, France.

Born on: 21/08/1953

Nationality: French

Shares held: full owner of 200 shares as at 31 December 2016, all of which are registered

Expertise and professional experience

Dominique Senequier is a graduate of the École Polytechnique (X72) and also holds a postgraduate diploma "Currency Banking Finance" from the University of the Sorbonne. She began her career at Gan, where she created and developed the subsidiary Gan Participations from 1987 to 1995, after having exercised the functions of Acquisitions Manager for the Group and spent five years in the insurance inspectorate. In 1996, she joined the Axa Group and founded Axa Private Equity. At the end of 2013, Axa Private Equity became the Ardian Group, of which she is currently Chairman.

Offices and positions held during 2016

- ◆ **Hermès International** ▲ ● (France)
Vice-Chairman and member of the Supervisory Board, Chairman of the Compensation, Appointments and Governance Committee
- ◆ **Ardian Holding** (France)
Permanent Representative of Senus SAS, Chairman
- ◆ **Ardian Investment Singapore Pte Ltd** (Singapore)
Member of the Board of Directors
- ◆ **Ardian Investment Switzerland AG** (Switzerland)
Chairman of the Board of Directors
- ◆ **Ardian Investment Switzerland Holding AG** (Switzerland)
Chairman of the Board of Directors
- ◆ **Ardian Investment UK Ltd** (United Kingdom)
Member of the Board of Directors, member of the ASF V, AESF V and ASF VI committees
- ◆ **Ardian US LLC** (USA)
Chairman of the Supervisory Committee, member of the Investment Committees ASF III-2, AESF III-2 and AESF IV
- ◆ **Ardian Beijing Consulting Limited Company** (formerly Axa Beijing Consulting Limited Company) (China)
Member of the Board of Directors
- ◆ **Escouf Properties Corp.** (USA)
Chairman
- ◆ **Fondation Polycarpe** (Belgium)
Director
- ◆ **Fondation Uroplus** (France)
Member of the Supervisory Board
- ◆ **Fondation Valentin Haüy** (France)
Member of the Board of Directors
- ◆ **SCI 30 rue Jacob SCI** (France)
Executive Manager
- ◆ **Seneq SA** (Belgium)
Director and Managing Director
- ◆ **Senus SAS**
Chairman
- ◆ **Théâtre des Champs-Élysées SA *** (France)
Director

Other offices and positions held during the previous four financial years and ending before 1 January 2016

- ◆ **Ardian SA** (France)
Chairman of the Management Board (until 24/06/2014)
- ◆ **Ardian France SA *** (France)
Chairman of the Supervisory Board (until 07/07/2015)
Chairman of the Management Board (until 08/04/2014)
- ◆ **Ardian Germany GmbH** (Germany)
Chairman of the Supervisory Board (until 07/07/2015)
- ◆ **Ardian Italy Srl** (Italy)
Chairman of the Board of Directors (until 02/06/2014)
- ◆ **Ardian Holding** (France)
Chairman (until 10/09/2013)
- ◆ **AXA Infrastructure Investissement SAS** (France)
Chairman, member of the Management Board and of the Coordination Committee (until 27/05/2014)
- ◆ **AXA Private Equity Eastern Europe GmbH** (Austria)
Chairman of the Supervisory Board (until 05/12/2013)
- ◆ **Compagnie Industrielle Reunite SpA** (Italy)
Director (until 30/06/2014)
- ◆ **Groupe Bourbon** (France)
Non-voting director (until 29/05/2013)
- ◆ **Matignon Développement 1** (France)
Chairman, member of the Management Board and the Investment Committee (until 24/05/2012)
- ◆ **Matignon Développement 2** (France)
Chairman, member of the Management Board and the Investment Committee (until 24/05/2012)
- ◆ **Matignon Développement 3** (France)
Chairman, member of the Management Board and the Investment Committee (until 24/05/2012)
- ◆ **Matignon Développement 4** (France)
Chairman, member of the Management Board and the Investment Committee (until 24/05/2012)
- ◆ **United Nations** (USA)
Member of the Investment Committee (until 30/08/2013)
- ◆ **Schneider Electric SA** (France)
Member of the Supervisory Board and non-voting member of the Supervisory Board (until 25/06/2013)
- ◆ **Vendôme GSG** (France)
Manager (until 16/10/2012)

▲ Hermès Group company ● Listed company * Office taken into account in the calculation of plurality of offices

FRÉDÉRIC AFRIAT

Employee Representative Member of the Supervisory Board

Unrelated to the Hermès family.

Date of appointment: 8 November 2016

Term of current office: 8 November 2019

Address: c/o Hermès International, 24, rue du Faubourg-Saint-Honoré, 75008 Paris, France.

Born on: 10/09/1970

Nationality: French

Shares held: full owner of 50 shares as at 31 December 2016

Expertise and professional experience

Frédéric Afriat was elected by the Group Committee on 8 November 2016 as an employee representative Member of the Supervisory Board from that date. He has accounting training (Accounting Certificate and Diploma in Accounting and Financial Studies), as well as 24 years' experience in the accounting profession with such companies as Roche Bobois, McDonald's France and Bouygues. Chief Accountant for eight years at Comptoir Nouveau de la Parfumerie (Hermès Parfums), he deals with the Company's accounting, tax, social and budgetary aspects on a day-to-day basis. Prior to his appointment as a member of the Supervisory Board, he occupied two posts as employee representative: member of the works council, staff representative at Comptoir Nouveau de la Parfumerie (Hermès Parfums) and staff representative on the Group Committee.

Offices and positions held during 2016

- ◆ **Hermès International** ▲ ● (France)
Employee Representative Member of the Supervisory Board
- ◆ **Comptoir Nouveau de la Parfumerie** ▲ (France)
Chief accountant

Other offices and positions held during the previous four financial years and ending before 1 January 2016

None

CHARLES-ÉRIC BAUER

Member of the Supervisory Board and the Audit Committee of Hermès International

Direct descendant of Émile-Maurice Hermès.

Date of appointment: 3 June 2008

Term of current office: 2019 GM

Address: c/o Hermès International, 24, rue du Faubourg-Saint-Honoré, 75008 Paris, France.

Born on: 9/01/1964

Nationality: French

Shares held: full owner of 73,648 shares as at 31 December 2016, at least 200 of which are registered

Expertise and professional experience

Charles-Éric Bauer holds a degree in technical analysis from Institut des Techniques de Marchés. He is also a graduate of École d'Administration et Direction des Affaires (EAD) business school, option: finance. He served as Co-Managing Director of and Head of Mutual Fund Management at CaixaGestion from 2000 to 2005, and as director, Corporate and Institutional Clients, CaixaBank France, from 2005 to 2007. Since March 2007, he has been associate director of Hem-Fi Conseil, a consulting firm active in the allocation and selection of financial assets.

Charles-Éric Bauer has been a member of the Supervisory Board since 3 June 2008. Mr Bauer has also served as member of the Audit Committee since its inception on 26 January 2005.

Offices and positions held during 2016

- ◆ **Hermès International** ▲ ● (France)
Member of the Supervisory Board and Audit Committee
- ◆ **Almareen 2** (France)
Executive Chairman
- ◆ **H51** (France)
Director
- ◆ **Hem-Fi Conseil** (France)
Associate director
- ◆ **Sabarots** (France)
Executive Chairman
- ◆ **Samain B2** (France)
Executive Chairman
- ◆ **Yundal** (France)
Executive Chairman
- ◆ **Zumsee** (France)
Executive Chairman

Other offices and positions held during the previous four financial years and ending before 1 January 2016

- ◆ **Almareen** (France)
Executive Chairman (until 27/12/2015)
- ◆ **Pollux et Consorts** (France)
Member of the Management Committee (until 11/01/2012)

MATTHIEU DUMAS**Member of the Supervisory Board and the Compensation, Appointments and Governance Committee of Hermès International**

Direct descendant of Émile-Maurice Hermès.

Date of appointment: 3 June 2008

Term of current office: 2018 GM

Address: c/o Hermès International, 24, rue du Faubourg-Saint-Honoré, 75008 Paris, France.

Born on: 6/12/1972

Nationality: French

Shares held: full owner of 213 shares as at 31 December 2016, at least 200 of which are registered

Expertise and professional experience

Matthieu Dumas holds a Master of Law degree from Université Paris II-Assas and a Master of Management degree majoring in strategic marketing, development and corporate communication from the Institut Supérieur de Gestion. From 2001 to 2003, he served as Head of Promotion and Partnerships at Cuisine TV (Canal+ Group), then as Marketing and Business Development Director from 2003 to 2006. In 2008, he occupied the functions of Brand Manager of 13e Rue, NBC Universal Group, then that of Deputy Managing Director of all of the brands of PureScreens in 2010, then Marketing and Communication Manager of the Discovery Channel in France in 2011.

Matthieu Dumas has been a member of the Supervisory Board and the Compensation, Appointments and Governance Committee since 3 June 2008. He has been certified as a Company Director (ASC France) by the IFA and Sciences Po since 2015.

Offices and positions held during 2016

- ◆ **Hermès International** ▲ ● (France)
Member of the Supervisory Board and of the Compensation, Appointments and Governance Committee
- ◆ **Comptoir Nouveau de la Parfumerie** ▲ * (France)
Director
- ◆ **Asope** (France)
Executive Chairman
- ◆ **Axam 2** (France)
Executive Chairman
- ◆ **DRestauration** (France)
Executive Chairman
- ◆ **Eaque** (France)
Executive Chairman
- ◆ **H2** (France)
Chairman and director
- ◆ **Krefeld** (France)
Chairman and director
- ◆ **L.D.M.D.** (France)
Executive Chairman
- ◆ **Mathel** (France)
Executive Chairman

Other offices and positions held during the previous four financial years and ending before 1 January 2016

- ◆ **Discovery Networks** (France)
Marketing and Communication Manager (until 01/02/2013)

BLAISE GUERRAND**Member of the Hermès International Supervisory Board**

Direct descendant of Émile-Maurice Hermès.

Date of appointment: 29 May 2012

Term of current office: 2018 GM

Address: c/o Hermès International, 24, rue du Faubourg-Saint-Honoré, 75008 Paris, France.

Born on: 4/06/1983

Nationality: French

Shares held: full owner of 200 shares as at 31 December 2016, all of which are registered

Expertise and professional experience

Blaise Guerrand is a graduate of HEC Paris. He began his career as an Analyst within the equity capital markets department of the bank NM Rothschild & Sons in London between 2005 and 2006. From 2007 to 2010, he became an Associate, then Director of Equity Investments for the Indian subsidiary of Ashmore Investment Management, one of the world's leading investors in emerging countries, with more than 75 billion dollars under management and listed on the London Stock Exchange. Since 2011, he has been Associate Executive Manager in company takeovers. Also, since 2007, he has been Director of the ACCESS Health International foundation, which works in partnership with the Rockefeller Foundation, to improve access to health care for underprivileged classes in certain developing countries.

Offices and positions held during 2016

- ◆ **Hermès International** ▲ ● (France)
Supervisory Board member
- ◆ **Hermès Sellier** ▲ (France)
Member of the Management Board
- ◆ **ACCESS Health International** (USA)
Director
- ◆ **Jakyval** (Luxembourg)
Director
- ◆ **SCI Sèvres SCIFAH** (France)
Executive Chairman

Other offices and positions held during the previous four financial years and ending before 1 January 2016

- ◆ **Avest Capital** (Mauritius)
Director (until 29/12/2015)

▲ Hermès Group company ● Listed company * Office taken into account in the calculation of plurality of offices

JULIE GUERRAND

Member of the Hermès International Supervisory Board

Direct descendant of Émile-Maurice Hermès.

Date of appointment: 2 June 2005

Term of current office: 2019 GM

Address: c/o Hermès International, 24, rue du Faubourg-Saint-Honoré, 75008 Paris, France.

Born on: 26/02/1975

Nationality: French

Shares held: full owner of 5,825 shares as at 31 December 2016, at least 200 of which are registered

Expertise and professional experience

Julie Guerrand holds a DEUG advanced degree in applied mathematics and social sciences and a Master of Economics and Industrial Strategy from Université Paris IX-Dauphine. Between 1998 and 2006, she worked within the financial affairs department (consulting in mergers and acquisitions) of the investment bank Rothschild & Cie. From 2007 until 2011, she was Director of Equity Investments at Paris Orléans, a holding company listed on Euronext and controlled by the Rothschild family. In March 2011, she joined the Group as Corporate Development Director of Hermès International, then, since October 2014, as Deputy Managing Director Finance and Organisation of the Hermès Cuir Précieux division. She has been certified as a Company Director (ASC France) by the IFA and Sciences Po since 2014.

Julie Guerrand has been a member of the Supervisory Board since 2 June 2005. She also served as member of the Audit Committee from its inception on 26 January 2005 until 2 March 2011, when she withdrew from the Audit Committee to take the new position she now holds within the Company.

Offices and positions held during 2016

- ◆ **Hermès International** ▲ ● (France)
Supervisory Board member
- ◆ **Hermès Cuir Précieux** ▲ (France)
Member of the Management Board
- ◆ **Antonino** (France)
Executive Manager
- ◆ **Compagnie des Cuir Précieux** ▲ (France)
Deputy Managing Director – Finance and Organisation
- ◆ **H51** (France)
Chairman
- ◆ **Jakyval** (Luxembourg)
Director
- ◆ **Jerocaró** (France)
Executive Manager
- ◆ **La Mazarine-SCIFAH** (France)
Executive Manager
- ◆ **SCI Apremont** (France)
Executive Manager
- ◆ **SCI Briand Villiers I** (France)
Executive Manager
- ◆ **SCI Briand Villiers II** (France)
Executive Manager
- ◆ **SCI 8 Drouot** (France)
Executive Manager
- ◆ **SIFAH** (France)
Director
- ◆ **Société Immobilière du Dragon** (France)
Executive Manager
- ◆ **Val d'Isère Carojero** (France)
Executive Manager
- ◆ **Vie et Veranda Groupe** (France)
Director

Other offices and positions held during the previous four financial years and ending before 1 January 2016

- ◆ **28-30-32 Faubourg Saint-Honoré** (France)
Director (until 15/07/2015)

SHARON MACBEATH**Member of the Supervisory Board and the Audit Committee of Hermès International**

Not related to the Hermès family and an independent director based on the criteria applied by the Company.

Date of appointment: 31 May 2016

Term of current office: 2019 GM

Address: c/o Hermès International, 24, rue du Faubourg-Saint-Honoré, 75008 Paris, France.

Born on: 30/03/1969

Nationality: British

Shares held: 200 as at 31 December 2016, fully owned, all registered

Expertise and professional experience

Sharon MacBeath is a graduate of Glasgow University, the Panthéon-Sorbonne University and INSEAD. Her development has been enriched by her diversity of experiences, both in the business community as well as mass distribution, and now business to business.

She has served successively as Director of Human Resources at McDonald's, Managing Director at EMDS Consulting, Human Resources Group Director at Rexam, where she was primarily in charge of risk management topics, and Senior Vice-Chairman of Human Resources and Communications at Redcats. From 2013 to 2016, she served as Senior Human Resources Vice-Chairman at Rexel. Since 3 January 2017 she has been the Director of Human Resources and Communications of the Tarkett Group, member of the Executive Committee and the Management Board.

Sharon MacBeath has been a member of the Supervisory Board since 31 May 2016. She has also served as a member of the Audit Committee since 31 May 2016.

Offices and positions held during 2016

- ◆ **Hermès International** ▲ ● (France)
Member of the Supervisory Board and Audit Committee
- ◆ **Rexel** ● (France)
Senior Vice-Chairman of Human Resources, member of the Executive Committee
- ◆ **Coface** ● * (France)
Independent director

Other offices and positions held during the previous four financial years and ending before 1 January 2016

- ◆ **Redcats** (France)
Senior Vice-Chairman of Human Resources and Communications, member of the Executive Committee (until 31/10/2013)

RENAUD MOMMÉJA

Member of the Supervisory Board and the Audit Committee of Hermès International

Direct descendant of Émile-Maurice Hermès.

Date of appointment: 2 June 2005

Term of current office: 2017 GM

Address: c/o Hermès International, 24, rue du Faubourg-Saint-Honoré, 75008 Paris, France.

Born on: 20/03/1962

Nationality: French

Shares held: full owner of 106,364 shares of which at least 200 are registered as at 31 December 2016 and bare owner of 12 shares

Expertise and professional experience

Renaud Momméja is a graduate of École Supérieure Libre des Sciences Commerciales Appliquées (ESLSCA). He has been Executive Manager of SARL Tolazi since 2004, a corporate property management, organisation and strategy consulting firm. Since 2006, he has been the Representative of SC Lor on the Executive Management of SC du Château Fourcas Hosten.

Renaud Momméja has been a member of the Supervisory Board since 2 June 2005. He has also served as a member of the Audit Committee since 3 June 2008.

Offices and positions held during 2016

- ◆ **Hermès International** ▲ ● (France)
Member of the Supervisory Board and Audit Committee
- ◆ **Altizo** (France)
Executive Chairman
- ◆ **Binc** (France)
Executive Chairman
- ◆ **Comptoir Nouveau de la Parfumerie** ▲ * (France)
Director
- ◆ **GFA Château Fourcas Hosten** (France)
Co-Executive Manager
- ◆ **H2** (France)
Director
- ◆ **HUSO *** (France)
Director
- ◆ **J.L. & Co** ▲ (United Kingdom)
Director
- ◆ **Lor** (France)
Co-Executive Manager
- ◆ **Rose Investissement** (France)
Executive Chairman
- ◆ **SARL Tolazi** (France)
Executive Chairman
- ◆ **SCI AJImmo** (France)
Co-Executive Manager
- ◆ **SCI Auguste Hollande** (France)
Co-Executive Manager
- ◆ **SCI Briand Villiers I** (France)
Executive Chairman
- ◆ **SCI Briand Villiers II** (France)
Executive Chairman
- ◆ **SCI de l'Univers** (France)
Executive Chairman
- ◆ **SCI du 74 rue du Faubourg-Saint-Antoine** (France)
Co-Executive Manager
- ◆ **Société Civile du Château Fourcas Hosten** (France)
Permanent Representative of Lor, Executive Manager
- ◆ **SIFAH** (France)
Chairman

Other offices and positions held during the previous four financial years and ending before 1 January 2016

- ◆ **28-30-32 Faubourg Saint-Honoré** (France)
Chairman (until 02/07/2015)
- ◆ **H2** (France)
Chairman (until 18/05/2016)
- ◆ **Pollux et Consorts** (France)
Chairman (until 11/01/2012)
- ◆ **Société Immobilière du Faubourg Saint-Honoré, "SIFAH"** (France)
Executive Chairman (until 02/07/2015)

ROBERT PEUGEOT**Member of the Supervisory Board, the Audit Committee, and the Compensation, Appointments and Governance Committee of Hermès International**

Not related to the Hermès family and an independent director based on the criteria applied by the Company.

Date of appointment: 24 January 2007

Term of current office: 2018 GM

Address: c/o Hermès International, 24, rue du Faubourg-Saint-Honoré, 75008 Paris, France.

Born on: 25/04/1950

Nationality: French

Shares held: full owner of 200 shares as at 31 December 2016, all registered

Expertise and professional experience

After his studies at the École Centrale de Paris and INSEAD, Robert Peugeot occupied various managerial posts within the PSA Peugeot Citroën Group and was a member of the Executive Committee of the Group between 1998 and 2007, in charge of the innovation and quality functions. He is a Permanent Representative of FFP to the Supervisory Board of Peugeot SA, a member of the Financial and Audit Committee and he chairs the Strategic Committee. He has managed the development of FFP since the end of 2002.

Robert Peugeot has been a member of the Supervisory Board of Hermès International since 24 January 2007. Since 3 June 2008, he has also served on the Audit Committee and on the Compensation, Appointments and Governance Committee.

Offices and positions held during 2016

- ◆ **Hermès International** ▲ ● (France)
Member of the Supervisory Board, the Audit Committee, and the Compensation, Appointments and Governance Committee
- ◆ **CHP Gestion** (France)
Executive Chairman
- ◆ **DKSH** ● (Switzerland)
Director, member of the Compensation and Appointments Committee
- ◆ **Établissements Peugeot Frères-EPF** * (France)
Director, Chairman of the Accounts Committee
- ◆ **Faurecia** ● (France)
Director, member of the Management Committee
- ◆ **FFP** ● * (France)
Chairman and CEO, Chairman of the Equity Investments Committee
- ◆ **FFP Invest** (France)
Permanent Representative of FFP Invest, Chairman
- ◆ **Financière Guiraud SAS** (France)
Permanent representative of FFP Invest, Chairman and member of the Supervisory Board
- ◆ **PSA Peugeot Citroën** (Peugeot SA) ● (France)
Permanent representative of FFP, member of the Supervisory Board, Chairman of the Strategy Committee and member of the Finance and Audit Committee
- ◆ **Sanef** * (France)
Permanent representative of FFP Invest on the Board of Directors, Chairman of the Compensation and Appointments Committee
- ◆ **SCI Rodom** (France)
Executive Chairman
- ◆ **Sofina** ● (Belgium)
Director, Chairman of the Compensation Committee and Chairman of the Appointments Committee
- ◆ **Tikehau Capital Advisors** (France)
Member of the Board of Directors

Robert Peugeot holds five other appointments in listed companies, but four of these appointments are held pursuant to his functions as Chairman and CEO of FFP, the main business of which is the acquisition and management of such equity investments.

Other offices and positions held during the previous four financial years and ending before 1 January 2016

- ◆ **Holding Reinier** (France)
Director, member of the Compensation Committee, member of the Strategic Committee (until 03/09/2016)
- ◆ **IDI Emerging Markets** (Luxembourg)
Permanent representative of FFP Invest on the Supervisory Board (until 15/06/2015)
Member of the Supervisory Board (until 13/05/2014)
- ◆ **Imerys** ● * (France)
Director, member of the Strategic Committee, member of the Appointments and Compensation Committee (until 04/05/2016)
- ◆ **Peugeot SA** ● (France)
Chairman of the Strategic Committee, member of the Finance and Audit Committee (until April 2014)
Member of the Supervisory Board (until April 2014)
- ◆ **SANEF** * (France)
Director, Chairman of the Compensation and Appointments Committee (until 17/06/2014)
- ◆ **Zodiac Aerospace** (France)
Permanent representative of FFP Invest on the Supervisory Board, member of the Accounts Committee (until 16/07/2014)

▲ Hermès Group company ● Listed company * Office taken into account in the calculation of plurality of offices

c) Information on members of the Supervisory Board whose appointment is proposed

DOROTHÉE ALTMAYER

Direct descendant of Émile-Maurice Hermès.

Proposed date of appointment:
6 June 2017

Proposed term of office: 2020 GM

Address: c/o Hermès International,
24, rue du Faubourg-Saint-Honoré,
75008 Paris, France.

Born on: 01/03/1961

Nationality: French

Shares held as at 28 February 2017:
30

Expertise and additional professional experience

Dorothee Altmayer holds a diploma in clinical psychology (1984) from "PSYCHOPRAT", a practitioner psychologist training school, a diploma as graphologist (1987) from the French Society of Graphology and a diploma as plastic arts mediation psychotherapist (2006).

She first worked as a recruitment and outplacement consultant at International Business Drive (ALGOE EXECUTIVE Group). Since 2000, she has been a practising clinical psychologist.

She has worked in an acting capacity in various organisations: Hôpital Necker, "Main dans la main" association, Institut Mutualiste Montsouris (day hospital for adolescents) and Centre Recherches et Rencontres.

Since 2007, she has been in private practice, specialising in parent child interviews, psychological assessments and individual sessions of art therapy for children.

She leads workshops for adults in the art therapy diploma (UFR of psychoanalytic studies) of Université Paris VII Paris Didérot.

Offices and positions held during 2016

- | | |
|--|--|
| ◆ Comptoir Nouveau de la Parfumerie ▲ * (France)
Director | ◆ H2 (France)
Director |
| ◆ Hermès Sellier ▲ (France)
Member of the Management Board | ◆ Alvila (France)
Executive Chairman |

Other offices and positions held during the previous four financial years and ending before 1 January 2016

None

OLYMPIA GUERRAND

Direct descendant of Émile-Maurice Hermès.

Proposed date of appointment:
6 June 2017

Proposed term of office: 2018 GM

Address: c/o Hermès International,
24, rue du Faubourg-Saint-Honoré,
75008 Paris, France.

Born on: 7/10/1977

Nationality: Franco-Portuguese

Shares held as at 28 February 2017:
306,312

Expertise and additional professional experience

Olympia GUERRAND worked for nearly one year in 2005-2006 in the Communications department of the subsidiary Hermès of Paris in New York, performing assignments in the area of advertising, public relations and event management. She then joined Hermès International until 2007 carrying out assignments within various Hermès Group departments (finance, legal, business lines, production units and stores). She has been a real estate administrator since 2008.

Offices and positions held during 2016

- ◆ **Hermès Sellier** ▲ (France)
Member of the Management Board

Other offices and positions held during the previous four financial years and ending before 1 January 2016

None

▲ Hermès Group company ● Listed company * Office taken into account in the calculation of plurality of offices

3.1.2 INTERESTS OF CORPORATE OFFICERS AND EXECUTIVE COMMITTEE MEMBERS IN THE SHARE CAPITAL

As of 31 December 2016, the interest of the Corporate Officers, Executive Chairmen and Supervisory Board members in the Company's share capital, as reported to the Company, were as follows:

	Shares in full ownership or usufruct ¹ (votes of the Ordinary General Meeting deciding on the allocation of net income)				Shares in full ownership or bare ownership ¹ (other votes of the Ordinary General Meeting)			
	Number of shares	%	Number of votes	%	Number of shares	%	Number of votes	%
CAPITAL AS AT 31/12/2016	105,569,412	100.00%	172,977,902	100.00%	105,569,412	100.00%	172,977,902	100.00%
Executive Chairmen								
Émile Hermès SARL	33,236	0.03%	33,238	0.02%	33,236	0.03%	33,238	0.02%
Axel Dumas	10,378	0.01%	10,406	0.01%	10,378	0.01%	10,406	0.01%
Supervisory Board members								
Éric de Seynes	203	0.00%	406	0.00%	203	0.00%	406	0.00%
Frédéric Afriat	50	0.00%	50	0.00%	50	0.00%	50	0.00%
Charles-Éric Bauer	73,648	0.07%	147,296	0.09%	73,648	0.07%	147,296	0.09%
Monique Cohen	250	0.00%	250	0.00%	250	0.00%	250	0.00%
Matthieu Dumas	213	0.00%	426	0.00%	213	0.00%	426	0.00%
Blaise Guerrand	200	0.00%	400	0.00%	200	0.00%	400	0.00%
Julie Guerrand	5,825	0.01%	10,630	0.01%	5,825	0.01%	10,630	0.01%
Sharon MacBeath	200	0.00%	200	0.00%	200	0.00%	200	0.00%
Renaud Momméja	106,364	0.10%	212,728	0.12%	106,376	0.10%	212,752	0.12%
Robert Peugeot	200	0.00%	400	0.00%	200	0.00%	400	0.00%
Dominique Senequier	200	0.00%	200	0.00%	200	0.00%	200	0.00%
Executive Committee (excluding Executive Chairmen and members of the Supervisory Board)								
Florian Craen	3,020	0.00%	3,020	0.00%	3,020	0.00%	3,020	0.00%
Charlotte David	0	0.00%	0	0.00%	0	0.00%	0	0.00%
Pierre-Alexis Dumas	93,107	0.09%	178,164	0.10%	88,984	0.08%	169,918	0.10%
Olivier Fournier	2,635	0.00%	2,720	0.00%	2,635	0.00%	2,720	0.00%
Wilfried Guerrand	6,105	0.01%	6,160	0.00%	6,105	0.01%	6,160	0.00%
Éric du Halgouët	3,021	0.00%	3,022	0.00%	3,021	0.00%	3,022	0.00%
Guillaume de Seynes	11,575	0.01%	13,130	0.01%	11,575	0.01%	13,130	0.01%

(1) Voting rights that can be exercised in the General Meeting. In accordance with Article 12 of the Articles of Association of the Company, the voting right is exercised by the bare owner for all decisions made for all General Meetings, except for decisions concerning the allocation of net income, for which the voting right is exercised by the usufructuary. The procedures for publication and distribution of voting rights are detailed on page 253.

3.1.3 STATEMENTS BY CORPORATE OFFICERS AND SUPERVISORY BOARD MEMBERS

According to the statements made to the Company by the Corporate Officers and Supervisory Board members:

- ◆ no Corporate Officer or Supervisory Board member has been convicted of fraud within the last five years;
- ◆ no Corporate Officer or Supervisory Board member has been involved in any bankruptcy, sequestration or liquidation within the last five years in their capacity as a member of an administrative, management or supervisory body or as a Executive Vice President;
- ◆ no Corporate Officer or Supervisory Board member has been barred by a court from acting as a member of an administrative, management or supervisory body of a listed company, or from participating in the management or in conducting the business of a listed company over the past five years;
- ◆ no Corporate Officer or Supervisory Board member has been the subject of any official public accusation or penalty issued by the statutory or regulatory authorities (including designated professional bodies).

3.1.4 TRANSACTIONS IN COMPANY SHARES BY CORPORATE OFFICERS AND IMMEDIATE FAMILY MEMBERS

In accordance with Article L. 621-18-2 of the French Monetary and Financial Code (*Code monétaire et financier*) and Article 223-22 of the AMF General Regulation, we hereby report to you transactions in the Company's shares carried out by the Company's Senior Executives and their immediate family members during the past financial year.

Declaration no.	Date of the transaction	Name and function	Nature of the transaction	Securities concerned	Unit price ¹	Amount of the transaction
2016DD407703	4 January 2016	Renaud Momméja, member of the Supervisory Board	Disposals	Equities	€306.70	€1,518,165
2016DD407704	4 January 2016	Altizo, legal entity related to Renaud Momméja, member of the Supervisory Board	Purchase	Equities	€306.70	€1,518,165
2016DD424010	1 April 2016	Afea, legal entity related to Pierre-Alexis Dumas, member of the Executive Committee, and Sandrine Brekke, member of the Executive Management Board of Émile Hermès SARL, Active Partner and Executive Chairman	Delivery of shares following a forward sale	Equities	€306.65	€38,944,550
2016DD424011	1 April 2016	For 4, legal entity related to Sandrine Brekke, member of the Executive Management Board of Émile Hermès SARL, Active Partner and Executive Chairman	Delivery of shares following a forward sale	Equities	€306.65	€53,663,750
2016DD424014	1 April 2016	Tempio, legal entity related to Pierre-Alexis Dumas, member of the Executive Committee	Delivery of shares following a forward sale	Equities	€306.65	€38,331,250
2016DD433618	25 May 2016	Sirano, legal entity related to Agnès Harth, member of the Executive Management Board of Émile Hermès SARL, Active Partner and Executive Chairman	Purchase	Equities	€321.86	€2,011,616.25
2016DD433927	2 June 2016	Éric du Halgouet, member of the Executive Committee	Disposals	Equities	€322.85 €322.75	€9,685 €968,250
2016DD434936	2 June 2016	Florian Craen, member of the Executive Committee	Disposals	Equities	€323.35 €323.40	€970,050 €9,702
2016DD449596	15 September 2016	Altizo, legal entity related to Renaud Momméja, member of the Supervisory Board	Purchase	Equities	€353.00	€529,500
2016DD449599	15 September 2016	Clovis, legal entity related to Laurent Momméja, member of the Executive Management Board of Émile Hermès SARL, Active Partner and Executive Chairman	Purchase	Equities	€353.00	€529,500
2016DD451492	30 September 2016	Sagaie, legal entity related to Frédéric Dumas, member of the Executive Management Board of Émile Hermès SARL, Active Partner and Executive Chairman	Purchase	Equities	€364.00	€1,747,200
2016DD459764	15 December 2016	Olivier Fournier, member of the Executive Committee	Disposals	Equities	€389.95	€584,925
2017DD460770	27 December 2016	Sagaie, legal entity related to Frédéric Dumas, member of the Executive Management Board of Émile Hermès SARL, Active Partner and Executive Chairman	Purchase	Equities	€382.30	€1,146,900

(1) Amount rounded to two decimal places.

No other Corporate Officer (Executive Chairman or Supervisory Board member) of Hermès International reported any trades in Company shares in 2016.

No other Senior Executive (Executive Committee member) of Hermès International reported any trades in Company shares in 2016.

Neither did the Company receive any other reports of such trades from any of their immediate family members.

3.2 REPORT FROM THE CHAIRMAN OF THE SUPERVISORY BOARD ON THE CORPORATE GOVERNANCE PRINCIPLES APPLIED BY THE COMPANY, WITH REGARD TO THE COMPOSITION OF THE SUPERVISORY BOARD AND THE APPLICATION OF THE PRINCIPLE OF BALANCED REPRESENTATION BETWEEN WOMEN AND MEN WITHIN THE BOARD, THE CONDITIONS FOR THE PREPARATION AND ORGANISATION OF THE SUPERVISORY BOARD'S WORK, AND THE INTERNAL CONTROL AND RISK MANAGEMENT PROCEDURES SET UP BY THE COMPANY

In accordance with the regulatory provisions and with the recommendations issued by the Financial Markets Authority (AMF), we hereby submit our report on the corporate governance principles applied by the Company, with regard to the composition of the Supervisory Board and the application of the principle of balanced representation between women and men within the Supervisory Board, the conditions for preparation and organisation of the Supervisory Board's work, and the internal control and risk management procedures set-up 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 Supervisory Board Secretary and of the functional departments concerned. It was approved by the Board at its meeting on 21 March 2017.

3.2.1 CORPORATE GOVERNANCE CODE

3.2.1.1 Corporate governance principles applied

The Supervisory Board officially adopted the latest version of the AFEP-MEDEF recommendations on corporate governance in 2009, as it deemed these recommendations to be entirely in keeping with the Group's corporate governance policy. The guidelines include the AFEP-MEDEF Corporate Governance Code for listed companies, revised in November 2016, 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 application of the code's recommendations, and reports to the Supervisory Board.

3.2.1.2 Provisions of the AFEP-MEDEF Corporate Governance Code, revised in November 2016, that were not included

Below is a table of the provisions of the AFEP-MEDEF Code that the Company is not applying, along with corresponding explanations.

Provisions of the AFEP-MEDEF Code not applied	Explanations
Board meetings and committee meetings (Art. 10.3) It is recommended that one meeting be held each year without the presence of Executive Corporate Officers.	In view of the role assigned to the Supervisory Board (described on page 97) in a <i>société en commandite par actions</i> (partnership limited by shares), this provision of the AFEP-MEDEF Code does not apply.
Proportion of independent members on the Audit Committee (Art. 15.1) The share of independent directors on the Audit Committee must be at least two-thirds, and the committee must not include any Executive Corporate Officers.	The Supervisory Board determined that slightly less than two-thirds of Audit Committee members are independent directors (60%, i.e. three out of five members). This situation was not detrimental to the Audit Committee's operation. In the Audit Committee rules of procedure, which were adopted on 24 March 2010, the Supervisory Board stipulates that at least one-half of the seats on the Audit Committee 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 is the case for this Company.

Provisions of the AFEP-MEDEF Code not applied	Explanations
<p>Succession plan for Executive Corporate Officers (Art. 16.2.2.) The Appointments Committee (or an ad hoc <i>committee</i>) establishes a succession plan for Executive Corporate Officers. This is one of the committee's main tasks, although it may, where appropriate, be entrusted by the Board to an ad hoc committee. The Chairman can be part of or associated with the committee's work for the performance of this task.</p>	<p>The CAG Committee (see description starting on page 120) is not responsible for establishing the succession plan for the Executive Chairmen, which does not fall within the powers of the Supervisory Board in a <i>société en commandite par actions</i> (partnership limited by shares). The CAG Committee must, since 2016, in accordance with its rules of procedure, ensure the existence of a succession plan for the Executive Chairmen, which it has done (see the Executive Management's report, page 90).</p>
<p>Composition of the Compensation Committee (Art. 17.1) It is recommended that the Chairman be independent, and that one employee director or member sit on the committee.</p>	<p>The CAG Committee (see description starting on page 120) is not responsible for setting the compensation of the Executive Chairmen, which falls within the powers of the Active Partner and not those of the Supervisory Board. The Supervisory Board therefore decided that it was not relevant for an employee representative to be a member.</p>
<p>Severance payment (Art. 24.5.1) The performance conditions set by boards for such benefits should be assessed over two years at least. They should be demanding, and should not allow the compensation of an officer in the event of dismissal, regardless of the form taken by this departure.</p>	<p>The Company has agreed to make a severance payment to Axel Dumas under the conditions described in the explanatory statement on page 288. In view of the importance of the Active Partner's role within a <i>société en commandite par actions</i> (partnership limited by shares), and in the case of a legal entity of its Legal Representative, it was considered that the termination of duties of Axel Dumas as Executive Chairman, that would result from the replacement of the Executive Chairman of Émile Hermès SARL, should be viewed as a forced departure. The Supervisory Board accordingly considered that the deferred compensation commitment made for the benefit of Axel Dumas complied with the requirements of the AFEP-MEDEF Corporate Governance Code.</p>
<p>Consultation of shareholders on the compensation of the Chairman of the Supervisory Board (Art. 26.2)</p>	<p>It did not seem relevant for the Executive Management to propose to shareholders a vote on the compensation of the Chairman of the Supervisory Board insofar as he:</p> <ul style="list-style-type: none"> ♦ receives fixed compensation in the amount of €100,000 as provided in the rules of procedure of the Supervisory Board and that it is charged against the total amount of directors' fees approved by the General Meeting, ♦ receives no other elements of compensation of any kind whatsoever. <p>Shareholders have previously been made aware of this information.</p>

3.2.2 CONDITIONS GOVERNING THE PREPARATION AND ORGANISATION OF THE SUPERVISORY BOARD'S WORK

3.2.2.1 Composition of the Supervisory Board

Applicable principles

The Supervisory Board consists of three to fifteen members (not including employee representatives), selected from amongst shareholders who are neither Active Partners, nor legal representatives of an Active Partner, nor the Executive Chairman (Article 18.1 of the Articles of Association). They are appointed by the Ordinary General Meeting (Article L. 226-4 of the French Commercial Code (*Code de commerce*)).

When appointments to the Supervisory Board come up for renewal, the number of Supervisory Board members is fixed by a decision adopted by the Active Partner.

A member of the Supervisory Board representing the Group's employees (or two if the number of members of the Supervisory Board is greater than 13) is designated by the managing Group Committee (Article 18.6 of the Articles of Association).

The term of office of all members of the Supervisory Board is three years (Article 18.2 of the Articles of Association). As part of the General Meeting of 2 June 2009, the Company approved a provision calling for one-third of Supervisory Board members to stand for re-election each year.

No person over the age of 75 shall be appointed to the Supervisory Board if, as a result of such appointment, more than one-third of the Board members would be over that age (Article 18.3 of the Articles of Association).

The Supervisory Board elects a Chairman, who is a natural person, and two Vice-Chairmen, from among its members (Article 19.2 of the Articles of Association).

Composition of the Supervisory Board as at 31 December 2016

The Supervisory Board is currently composed of 11 members: Éric de Seynes, Chairman, Dominique Senequier and Monique Cohen, Vice-Chairmen, Frédéric Afriat (employee representative), Charles-Éric Bauer, Matthieu Dumas, Blaise Guerrand, Julie Guerrand, Sharon MacBeath, Renaud Momméja and Robert Peugeot. All the Supervisory Board members are French except Sharon MacBeath, who is British.

Nathalie Besombes, director of company law and stock markets and compliance officer, is the Board Secretary.

In a decision dated 21 March 2017, the Active Partner set the number of Supervisory Board members at 13 (including employee representatives) to allow the appointment of two new members to the Supervisory Board by the General Meeting of 6 June 2017: Dorothee Altmayer and Olympia Guerrand. Information regarding them is provided on page 107.

Table of changes in the composition of the Supervisory Board over the year

The General Meeting of 31 May 2016:

- renewed the terms as Supervisory Board members of Julie Guerrand, Dominique Senequier and Charles-Éric Bauer for a period of three years expiring at the end of the Annual Ordinary General Meeting called to approve the financial statements for the year ending 31 December 2018;
- appointed Sharon MacBeath as a new Supervisory Board member for a term of three years, replacing Florence Woerth, whose term had

expired. Sharon MacBeath is the first foreigner to join the Supervisory Board;

- in a letter dated 1 June 2016, Denis Marmonier resigned as an Employee Representative Member of the Supervisory Board with effect from 30 June 2016;
- the Group Committee appointed Frédéric Afriat as a new employee representative for a term of three years with effect from 8 November 2016.

Date	Departures	Appointments	Renewals	Changes that involve diversification (in terms of feminisation, nationality or international experience) or a change in matters of governance.
31/05/2016	Florence Woerth	Sharon MacBeath	Julie Guerrand Dominique Senequier Charles-Éric Bauer	First foreign member of the Supervisory Board
30/06/2016	Denis Marmonier			Employee Representative member
08/11/2016		Frédéric Afriat		Employee Representative member

Summary presentation of the members of the Supervisory Board

Name	Age in 2017	Date of birth	Nationality	Sex	Independent	Date of appointment	Term of office	Length of service
Éric de Seynes (Chairman)	57 years	09/06/1960	French	M		07/06/2010 03/03/2011 (Chairman)	2017 GM	6 years
Monique Cohen (Vice-Chairman)	61 years	28/01/1956	French	F	√	03/06/2014	2017 GM	3 years
Dominique Senequier (Vice-Chairman)	64 years	21/08/1953	French	F	√	04/06/2013	2019 GM	4 years
Frédéric Afriat (Employee representative)	47 years	10/09/1970	French	M		08/11/2016	08/11/2019	-
Charles-Éric Bauer	53 years	09/01/1964	French	M		03/06/2008	2019 GM	9 years
Matthieu Dumas	45 years	06/12/1972	French	M		03/06/2008	2018 GM	9 years
Blaise Guerrand	34 years	04/06/1983	French	M		29/05/2012	2018 GM	5 years
Julie Guerrand	42 years	26/02/1975	French	F		02/06/2005	2019 GM	12 years
Sharon MacBeath	48 years	30/03/1969	British	F	√	31/05/2016	2019 GM	1 year
Renaud Momméja	55 years	20/03/1962	French	M		02/06/2005	2017 GM	12 years
Robert Peugeot	67 years	25/04/1950	French	M	√	24/01/2007	2018 GM	10 years
Dorothee Altmayer ¹	56 years	01/03/1961	French	F		06/06/2017	2020 GM	-
Olympia Guerrand ¹	40 years	07/10/1977	French/Portuguese	F		06/06/2017	2018 GM	-

(1) Subject to the decisions of the Combined General Meeting of 6 June 2017.

The composition of the specialised committees of the Supervisory Board is described on pages 120 and 123.

3.2.2.2 Application of the principle of balanced representation of women and men within the Supervisory Board

Change of the composition of the Board since 2011

Since 2011 the CAG Committee has been assigned to advise the Supervisory Board of its recommendations as to the changes in the Board's composition.

In order to make these recommendations to the Supervisory Board, the CAG Committee has organised its assignment in three stages:

1. definition of a "target Supervisory Board";
2. pre-selection, with the help of an external expert, of potential candidates corresponding to identified requirements;
3. establishment of a schedule for changes in the Supervisory Board's composition.

Works completed:

- ◆ from 2011 to 2013 are described in the 2013 registration document (Volume 2, pages 21 and 22);
- ◆ in 2014 and 2015 are described in the 2014 registration document (Volume 2, page 19);
- ◆ in 2016 are described in the 2015 Registration Document (Volume 2, page 19).

Since 8 August 2014, works completed have served to reach a proportion of at least 40% of each sex in the composition of the Supervisory Board.

The General Meeting of 6 June 2017 will be asked to appoint two new women to the Supervisory Board: Dorothee Altmayer and Olympia Guerrand. Information regarding them is provided on page 107.

Number of members and representation of women and men on the Supervisory Board (excluding the employee representative)

31/12	2011	2012	2013	2014	2015	2016	2017 ¹
Number	10	11	11	10	10	10	12
Emp. rep.	n/a	n/a	n/a	1	1	1	1
F	20%	18%	27%	40%	40%	40%	50%
M	80%	82%	73%	60%	60%	60%	50%

n/a: not applicable.

(1) Subject to approval by the Combined General Meeting of 6 June 2017.

3.2.2.3 Independence of the members of the Supervisory Board

Independence criteria

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 must comply with the criteria set out in the AFEP-MEDEF Corporate Governance Code, including the criterion pertaining to length of service, which has been respected since 2013 (Article 8.5 of the version revised in November 2016):

Criterion 1	Not being or not having been during the previous five years: <ul style="list-style-type: none"> ◆ employee or Executive Corporate Officer of the Company; ◆ employee or Executive Corporate Officer of the Company or director of a company consolidated by the Company; ◆ employee or Executive Corporate Officer or director of the parent company or a company consolidated by the parent company.
Criterion 2	Not being an Executive Corporate Officer of a company in which the Company directly or indirectly holds a position as director or in which an employee designated as such or an Executive Corporate Officer of the Company (currently or having served as one within the last five years) is serving as a director.
Criterion 3	Not being a client, supplier, business banker or financing banker: <ul style="list-style-type: none"> ◆ that is significant for the Company or its group; or ◆ for which the Company or its group represents a significant share of the business. The appreciation of the significance or otherwise of the relationship with the Company or its group of companies is discussed by the Board, and the quantitative and qualitative criteria that led to this assessment (continuity, economic dependency, exclusivity, etc.) are described in the annual report.
Criterion 4	Not having close family ties with a Corporate Officer.
Criterion 5	Not having been the Company's Statutory Auditor during the previous five years.
Criterion 6	Not having been a member of the Supervisory Board of the Company for more than 12 years. The loss of the independent status of a member of the Company's Supervisory Board dates from the 12th anniversary of his or her appointment.
Criterion 7	Not holding a significant percentage (over 10%) of the Company's capital or voting rights.

- ◆ meet additional criteria specific to Hermès International:

Criterion 8	They may not be a partner or member of the Executive Management Board of Émile Hermès SARL, Active Partner.
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Situation of each member of the Supervisory Board in view of the above criteria

On 31 December 2016, 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”: Monique

Cohen, Dominique Senequier, Sharon MacBeath and Robert Peugeot. In particular, the Board has identified no significant business relationship between its members and the Company. This analysis is performed each year on the basis of a questionnaire that is sent to all Supervisory Board members (see page 115 below).

Criterion	1	2	3	4	5	6	7	8	Independent
Éric de Seynes (Chairman)		✓	✓		✓	✓	✓		
Monique Cohen (Vice-Chairman)	✓	✓	✓	✓	✓	✓	✓	✓	✓
Dominique Senequier (Vice-Chairman)	✓	✓	✓	✓	✓	✓	✓	✓	✓
Frédéric Afriat (Employee representative)		✓	✓	✓	✓	✓	✓	✓	
Charles-Éric Bauer	✓	✓	✓		✓	✓	✓		
Matthieu Dumas		✓	✓		✓	✓	✓		
Blaise Guerrand		✓	✓		✓	✓	✓		
Julie Guerrand		✓	✓		✓		✓		
Sharon MacBeath	✓	✓	✓	✓	✓	✓	✓	✓	✓
Renaud Momméja		✓	✓		✓		✓		
Robert Peugeot	✓	✓	✓	✓	✓	✓	✓	✓	✓
Dorothee Altmayer ¹		✓	✓		✓	✓	✓		
Olympia Guerrand ¹		✓	✓		✓	✓	✓		

(1) Subject to the decisions of the Combined General Meeting of 6 June 2017.

Pursuant to Article 8.3 of the AFEP-MEDEF Code revised in November 2016, the proportion of independent members of the Supervisory Board must be at least one-third in controlled companies within the meaning of Article L. 233-3 of the French Commercial Code (*Code de commerce*).

The Supervisory Board’s rules of procedure (Art. 1.1.2.3.) provide that at least one-third of Board members must be independent members.

Employee Representative Board members are not included in the calculation of this percentage.

The Supervisory Board has complied with this proportion since it was introduced in 2009.

3.2.2.4 Ethics

Rules of procedure – Code of market ethics

At its meeting of 18 March 2009, the Supervisory Board adopted the rules of procedure of the Supervisory Board, which lay down the terms governing the organisation and operation of the Supervisory Board of Hermès International and its committees, in addition to legal and statutory provisions. Their purpose is to enhance the quality of the Board’s work by promoting the application of good corporate governance principles and best practices, in the interests of ethics and greater effectiveness. It has been revised several times, notably to comply with legislative and regulatory developments and to take into account the recommendations of the AMF, as well as revisions to the AFEP-MEDEF Code.

The full rules of procedure of the Supervisory Board are provided on page 130, and are made available on each update on the website <http://finance.hermes.com/> on the “Corporate Governance” tab, under “Management Bodies/Supervisory Board”.

On 26 January 2011, the Supervisory Board adopted a code of conduct, the purpose of which is to contribute to the quality of the work of Supervisory Board members by promoting the application of corporate governance principles and best practices in terms of ethics and effectiveness.

At the start of 2017, the Supervisory Board’s Code of Conduct was replaced:

- ♦ by the **Hermès Group Code of Market Ethics** as regards the provisions relating to market ethics (prevention of insider misconduct – market ethics – closed period obligations – disclosure obligations). This Code, the establishment of which is recommended by the AMF, came into force on 1 February 2017 as part of the update of the market abuse prevention system within the Hermès Group;
- ♦ by the **Supervisory Board’s rules of procedure** with regard to other provisions, which were fully reprised.

A summary of the Hermès Group Code of Market Ethics is provided on page 260, and is made available on each update on the website <http://finance.hermes.com/> on the Corporate Governance tab, under Management Bodies/Supervisory Board .

Attendance

The Supervisory Board's rules of procedure (Art. 1.1.3.8.) notes that the members of the Supervisory Board shall regularly and diligently take part in the meetings of the Supervisory Board and the specialised committees of which they are members.

The principles governing the allocation of directors' fees and compensation adopted by the Board include a variable component proportional to attendance at meetings equal to 63.6% for the Supervisory Board and 60% for the specialised committees.

In 2016, the Supervisory Board met seven times, with the regular presence of almost all of its members, as shown in the table below:

2016	Attendance at Supervisory Board meetings	Attendance at Compensation, Appointments and Governance Committee meetings	Attendance at Audit Committee meetings
Average attendance	90.54%	100.00%	90.00%
Éric de Seynes (Chairman)	100.00%	n/a	n/a
Monique Cohen (Vice-Chairman)	100.00%	n/a	100.00%
Dominique Senequier (Vice-Chairman)	100.00%	100.00%	n/a
Frédéric Afriat (employee representative) (from 08/11/2016)	100.00%	n/a	n/a
Charles-Éric Bauer	85.71%	n/a	83.33%
Matthieu Dumas	100.00%	100.00%	n/a
Blaise Guerrand	100.00%	n/a	n/a
Julie Guerrand	85.71%	n/a	n/a
Sharon MacBeath (from 31/05/2016)	100.00%	n/a	100.00%
Denis Marmonier (employee representative) (until 30/06/2016)	33.33%	n/a	n/a
Renaud Momméja	71.43%	n/a	100.00%
Robert Peugeot	85.71%	100.00%	66.67%
Florence Woerth (until 31 May 2016)	100.00%	n/a	100.00%

n/a: not applicable.

Management of conflicts of interest – Service contracts providing for benefits

Since 2010, the Company has sent out an annual questionnaire to all Supervisory Board members, asking them to indicate any potential conflicts of interest that may exist due to their office as member of the Supervisory Board of Hermès International. The content of this questionnaire develops all possible situations, with precise examples, inviting the members of the Board to declare all situations which could represent a potential conflict of interest. This questionnaire contained even greater detail and was more comprehensive in 2016.

During the examination of the business relationships between a member of the Supervisory Board and the Group, the criteria used by the Board to determine whether significant personal affairs exist which might affect the independence of a member of the Supervisory Board are criteria that are both quantitative and qualitative, particularly including the sum of actual revenues and analysis of the nature of existing relationships.

The analysis of each of these situations, at the beginning of 2017, by the Compensation, Appointments and Governance Committee, concluded that none of them were of such a nature to constitute a conflict of interest for the persons concerned and that none of the independent members of the Board had, directly or indirectly, significant business relationships with the Company or its Group.

Moreover, the latest version of the Supervisory Board's rules of procedure (Art. 1.1.3.6.) indicates that *a Supervisory Board member must strive to avoid any conflict that could exist between their moral or material interests, and those of the Company. They shall inform the Supervisory Board of any conflicts of interest in which they might be involved. In cases where a conflict of interest cannot be avoided, they shall refrain from taking part in any discussions or decisions related to the matters concerned.*

No service contract exists between the Supervisory Board members and the Company, or any of its subsidiaries, that would result in benefits being granted pursuant to such a contract.

Plurality of offices

The offices of members of the Supervisory Board are not taken into account for the calculation of plurality of offices, Articles L. 225-21 and L. 225-77 of the French Commercial Code (*Code de commerce*) being expressly excluded from the provisions applicable to partnerships limited by shares.

The analysis of the individual situation of each of the Supervisory Board members and of the Executive Chairmen in view of the rules on the plurality of offices, indicated that no Supervisory Board member or Executive Chairman holds multiple offices, both with regard to the legal rules and the principles set out in Article 18.4 of the AFEP-MEDEF Corporate Governance Code revised in November 2016 (not holding more than four other corporate offices in companies outside of the Group, with the exception of companies for which the main activity is the acquisition and management of equity interests).

Number of shares to be held by members of the Supervisory Board

The rules of procedure include an obligation for Supervisory Board members (with the exception of the Employee Representative member who is excused) to own a relatively significant number of registered shares (200 shares). Using the Hermès International share price as at 30 December 2016 (€390), this represents more than three and a half years of directors' fees.

On 27 January 2017, the Supervisory Board determined that all Supervisory Board members continued to meet this obligation.

3.2.2.5 Operation of the Supervisory Board

Role of the Supervisory Board

The primary role of the Supervisory Board of a *société en commandite par actions* (partnership limited by shares) is to maintain ongoing 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 described the due diligence procedures it carried out during the year ended 31 December 2016 in a report presented to the Annual General Meeting called to approve the financial statements (page 305). 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 Board to approve or refuse an Executive Chairman's acceptance of any new appointment within a listed company.

Supervisory Board's master file

Since 2011, a "master file" has been provided to the Supervisory Board. Since 2016, it has been available on the Board's collaborative platform, "Herboard" (see below).

It currently contains the following sections:

- ◆ list and contact details of the Executive Committee members, of the Supervisory Board members and of the Board's committees and secretary;
- ◆ table of the dates of terms of office;
- ◆ Supervisory Board rules of procedure;
- ◆ Audit Committee rules of procedure;
- ◆ Compensation, Appointments and Governance Committee rules of procedure;
- ◆ code of market ethics of the Hermès Group;
- ◆ ethics charter of the Hermès Group;
- ◆ calendar of closed periods applicable to permanent insiders;
- ◆ regulations relative to the declaration and direct registration obligations of the Senior Executives;
- ◆ AMF guide on ongoing information and the management of inside information;
- ◆ the notice for the last General Meeting;
- ◆ the three most recent registration documents;
- ◆ rules on the reimbursement of expenses;
- ◆ presentations of Hermès International and Émile Hermès SARL;
- ◆ Articles of Association, annotated;
- ◆ insurance summary of Corporate Officers' civil liability.

This master file is updated on a regular basis.

Meetings of the Supervisory Board – "Herboard" collaborative platform

The procedures for calling meetings and the rules governing quorums and majorities are described in the Articles of Association (Article 19) and in the Supervisory Board's rules of procedure.

The Supervisory Board meets at least twice per year in accordance with the Articles of Association. The Supervisory Board actually met seven times in 2016.

The Main Statutory Auditors and the Works Council representatives are systematically invited to attend all Supervisory Board meetings.

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

To ensure that Supervisory Board meetings are held in due and proper form, a file containing background documents related to issues on the agenda is sent to each Board member prior to every meeting and, since 2011 whenever possible, at least 48 hours beforehand. Persons who are not Board members, in particular members of the Executive Committee and of the Management Committee, may be invited to attend Board meetings at the Chairman's discretion to provide any information that members of the Board might require to reach a full understanding of matters on the agenda and that are technical in nature or require special expertise.

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.

In 2016 the Supervisory Board established a secure cloud-based collaborative Board management platform (hosted in France) published by Oodrive, which has been customised for Hermès.

Dubbed “Herboard” at Hermès, the solution is accessible from a web browser or via a tablet application. It can be used to:

- ◆ organise meetings (planning meetings, sending invitations, tracking attendance);
- ◆ the highly secure, paperless and real-time provision (access with username, password and confirmation code by SMS) of Board documents relating to the meetings and committees and the master file of the Supervisory Board;
- ◆ management of authorisations and traceability of document consultation;
- ◆ circulation of minutes and reports.

On this occasion, an iPad® was given to all members of the Supervisory Board who requested one.

Training for Supervisory Board members – Integration programme

Supervisory Board members can make use of the Company’s group membership of IFA, and thereby take advantage of all of its services. Julie Guerrand gained her certificate as a certified company board member (ASC France) in 2013 and Matthieu Dumas in 2015. Other Board members will likely be taking part in this company governance certification programme carried out by IFA in partnership with Sciences-Po.

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

- ◆ the issuing of an integration kit for new Supervisory Board members (legal/governance documents) including:
 - the Supervisory Board’s master file,
 - the latest registration document,
 - the 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 FY,
 - the schedule of Supervisory Board meetings for the next three years,
 - the IFA Director handbook (2014);
- ◆ registration for three days of the in-house “Mosaïque” immersion training with the employees;
- ◆ presentation of capital distribution and of Émile Hermès SARL, Active Partner;
- ◆ “catch-up” relative to site visits (see page 118) since 2011 (if necessary);
- ◆ participation in IFA governance training (if necessary);
- ◆ presentation of new collections of Hermès products.

Expense reimbursements

Supervisory Board members are reimbursed for travel, accommodation and restaurant expenses incurred thereby to attend the Supervisory Board meetings, upon presentation of substantiating documents or receipts. These reimbursements are capped (see rules of procedure, page 132) and based on the rules applicable to Group employees.

Directors’ fees and compensation

The applicable principles of distribution of directors’ fees are indicated in the Board’s rules of procedure (page 132). They have a fixed portion (36.4% for the Board and 40% for the specialised committees) and a variable component (63.6% for the Board and 60% for the committees) proportional to actual attendance at meetings.

In keeping with these principles, on 27 January 2017 the Supervisory Board apportioned directors’ fees and compensation of €385,000 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 2015 and 2016 are indicated on pages 142 to 144.

The Combined General Meeting of 6 June 2017 will be asked to bring the total amount of directors’ fees and compensation of the Board to €600,000, notably to reflect the appointment of new members to the Board, would increase the number of members from 10 to 12 (not including the member representing employees).

3.2.2.6 Activity of the Supervisory Board

Group activity and finance

In 2016, the Supervisory Board was informed of the Group’s activities at each of its meetings and in particular:

- ◆ heard the Executive Management’s presentation on the parent company and consolidated financial statements;
- ◆ examined the 2016 budget;
- ◆ reviewed documents on forecasting and planning;
- ◆ decided on the proposed allocation of net income to be submitted to the General Meeting of 31 May 2016;
- ◆ reviewed the situation of certain equity investments;
- ◆ formally noted proposals for acquisitions, disposals and equity investments;
- ◆ formally noted proposed investment projects;
- ◆ examined the reports and work of the Audit Committee, described on page 124.

Recommendations, authorisations and other items

In 2016, the Supervisory Board:

- ◆ authorised and reclassified related-party agreements and reviewed those for which the effects are ongoing (see the Supervisory Board’s report on page 305);
- ◆ issued a favourable opinion on the proposed resolutions submitted to the Combined General Meeting of 31 May 2016 and familiarised itself with the reports drawn up by the Executive Management;
- ◆ formally noted the summary statement of services provided by Hermès International to Émile Hermès SARL in 2015 and projections for 2016;
- ◆ renewed the global authorisation to the Executive Management to grant endorsements and guarantees on behalf of subsidiaries for 2016, 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;
- ◆ recalled the responsibility inherent to holding inside information as well as the stock market ethics charter;
- ◆ examined anti-corruption procedures within the Group;
- ◆ authorised bank guarantees;
- ◆ approved the update of the rules of procedure of the Supervisory Board, the CAG Committee and the Audit Committee;
- ◆ approved the update of the Supervisory Board's ethics charter;
- ◆ established a collaborative platform for the Supervisory Board.

Governance – Appointments – Compensation

In 2016, the Supervisory Board:

- ◆ examined and/or approved CAG Committee reports and work, as described on pages 121 and 122, including the summary of the triennial formal assessment of the Board's work;
- ◆ set the compensation of the Chairman of the Supervisory Board;
- ◆ decided upon the distribution and payment of compensation and directors' fees for members of the Board and the committees;
- ◆ decided upon the composition of the Audit Committee and the CAG Committee after the General Meeting;
- ◆ welcomed the new member of the Supervisory Board representing employees and allocated the time necessary for him to perform his duties.

At each meeting, the CAG Committee informed the Supervisory Board of current events relating to governance (AMF reports, AFEP-MEDEF reports, HCGE implementation guides, IFA studies, etc.).

Corporate Social Responsibility – CSR

A presentation of CSR challenges is regularly made to the Board since 2015.

Major annual topics – Site visits

Every year, at least one detailed presentation on a specific or general topic regarding the Group's activities is provided by the relevant management team. Since 2011, the Board has devoted one of its meetings to a site visit in order to enhance its knowledge of one of the Group's subsidiaries.

In 2016, the Board:

- ◆ attended a presentation devoted to digital technology and the Group's digital strategy;
- ◆ attended a presentation devoted to shareholders and institutional investors;
- ◆ attended a presentation devoted to improvements made in respect of customer service and price trends by geographical area;
- ◆ visited the subsidiary Comptoir Nouveau de la Parfumerie, where it was given a presentation of the activity and the results from the Hermès Parfums division, and inspected the manufacturing workshop;
- ◆ visited the Maroquinerie de Normandie building site, where it was given an overview of the architectural project.

3.2.2.7 Assessment of the Supervisory Board

Given the progress made by the Company in recent years in terms of governance, the Supervisory Board decided in 2011 to carry out a questionnaire-based self-assessment only once every three years, while maintaining an annual discussion on the functioning of the Board to be included in the Board meeting agenda.

At the end of 2016, the CAG Committee conducted the triennial formal self-assessment of the Supervisory Board after having added new questions to the assessment questionnaire.

One question concerns the actual contribution of each member to the Board. In the questionnaire, Board members who so wish are further given the opportunity to meet the Chairman of the CAG Committee for an individual interview more conducive to dialogue and also to add to some answers provided in the questionnaire. In 2016, the CAG Committee received proposals from four firms specialising in governance and Board assessments. The CAG Committee deemed that it was not desirable to call on an outside firm to conduct a formal assessment of the Board for the following reasons:

- ◆ privacy issues raised by the need to provide information on the Board to a third party;
- ◆ the relative absence of weak signals raised in response to previous assessments;
- ◆ progress in terms of governance over the last six years;
- ◆ the small amount of value added expected from an outside firm.

In 2013, the Supervisory Board expressed the view that the assessment questionnaire was mature. To avoid making the CAG Committee's triennial self-assessment repetitive and tedious, it was decided to change the process as follows:

- ◆ submit the full questionnaire used in 2013 (including new questions) to the new Board members who were not in office at the time of the 2013 assessment (Monique Cohen and Sharon MacBeath);
- ◆ submit an "abridged" questionnaire to other members, covering:
 - questions that in 2013 improved the Board's operations,
 - general questions about the quality of the assessment and the various points,

- new questions about the involvement of independent members and their role in a family company and the establishment of Herboard.

Anonymous and aggregate restitution of the analysis of the answers to the questionnaires was performed by the Chairman of the CAG Committee at the Supervisory Board meeting of 18 November 2016.

The vast majority of questions resulted in ratings of “very good” or “satisfactory”, in the proportion of 80% or more.

Analysis of the results of the assessment showed that:

- ♦ progress has been made on many points since the 2013 assessment:
 - the composition of the Board has improved since the last assessment,
 - the dashboard is satisfactory,
 - the independent members are fulfilling their role,
 - Herboard has given overall satisfaction,
 - all Board members make a satisfactory individual contribution,
 - since the last assessment, progress has been made on the organisation and content of the meetings of the Board,
 - since the last assessment, progress has been made on the organisation of the Audit Committee,

- since the last assessment, progress has been made on the organisation of the CAG Committee;
- ♦ new members appointed since 2013 have a very good understanding of the functioning and work of the Board;
- ♦ some Board members wish to see progress on the following points that the Board, on a proposal from the CAG Committee, selected as areas of improvement for the future:
 - take into account the expectations of Board members (international dimension of the Group and nationality) on the composition of the Board when new members are next appointed,
 - reflect on the conditions governing the distribution of directors’ fees.

In view of the conclusions of the above analysis, the Supervisory Board considered that its operation was very satisfactory overall.

The Board’s next formal self-assessment will take place in 2019.

In late 2016, the CAG Committee reviewed the areas for improvement that had been identified by the Board in 2015.

All the improvements, which mainly consisted of refining the text for the “Corporate Governance” section of the registration document to include the latest recommendations in matters of governance have been implemented as follows (see table below).

Areas for improvement implemented in 2016 and early 2017

Text justifying improvement

Account for the existence of a succession plan for Senior Executives indicating that it was presented by the Executive Management at the CAG Committee meeting on 16/11/2016 (without publishing its content)

2016 HCGE report (Art. 2.2.)

Update references to the AFEP-MEDEF Code in the Supervisory Board’s rules of procedure and in the registration document

AFEP-MEDEF Corporate Governance Code, revised in November 2016

Present the information relative to the Supervisory Board and the committees in the summary tables
Provide a detailed summary in the chapter on corporate governance, making it easy to locate and read the corresponding information

2016 AMF report on corporate governance and compensation of Senior Executives of listed companies (IV – Art. 1.2)

Clearly identify the members qualified as independent by the Board, whether or not they are members of specialised committees

2016 AMF report on corporate governance and compensation of Senior Executives of listed companies (IV – Art. 4.1.1)

Improve the presentation of the role of environmental and social responsibility in the Company’s strategy, and a more explicit breakdown of financial and non-financial information

AMF – report on corporate social responsibility (November 2016)

Add, in the discussion of the role of the Supervisory Board in the registration document, that the Board will receive a presentation of sustainable development and CSR issues regularly starting from 2015.

AFEP-MEDEF Corporate Governance Code, revised in November 2016 (§ 24.1.3)

3.2.2.8 Specialised committees

Since 2005, two specialised 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, was renamed “Compensation and Appointments Committee” on 18 March 2009 and “Compensation, Appointments and Governance Committee” (CAG 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.

	Date	Departures	Appointments	Renewals
Audit Committee	31/05/2016	Florence Woerth	Sharon MacBeath	Monique Cohen Charles-Éric Bauer Renaud Momméja Robert Peugeot
CAG Committee	31/05/2016			Dominique Senequier Matthieu Dumas Robert Peugeot

Composition and operation of the CAG Committee as at 31 December 2016

The CAG Committee is composed of the following members:

- ◆ Dominique Senequier, Chairman;
- ◆ Matthieu Dumas, member;
- ◆ 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 have existed since 24 March 2010.

Summary presentation of the members of the CAG Committee

Name	Independent	Date of appointment	Term of office	Length of service on the committee
Dominique Senequier (Chairman)	√	04/06/2013	2019 GM	4 years
Matthieu Dumas		03/06/2008	2018 GM	9 years
Robert Peugeot	√	03/06/2008	2018 GM	9 years

Table of changes in the composition of the committees over the year

At its meeting of 31 May 2016, the Supervisory Board:

- ◆ reappointed Monique Cohen (Chairman), Charles-Éric Bauer, Renaud Momméja and Robert Peugeot as members of the Audit Committee;
- ◆ appointed Sharon MacBeath as a new member of the Audit Committee to replace Florence Woerth, whose term as member of the Supervisory Board was due to expire;
- ◆ reappointed Dominique Senequier (Chairman), Matthieu Dumas and Robert Peugeot as members of the CAG Committee.

Version No. 5 of the rules of procedure dated 22 March 2016 is provided on page 133, and each update is made available on the website <http://finance.hermes.com/> on the “Corporate Governance” tab, under “Management Bodies/Supervisory Board”.

The Chairman of the Supervisory Board can be invited to certain CAG Committee meetings in order to provide their opinion in matters of appointments or governance, which was not the case in 2016.

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

Tasks and activity of the CAG Committee in 2016

In 2016, the CAG Committee met five times (as opposed to six times in 2015).

Individual and average rates of attendance are indicated in the table on page 115.

CAG Committee Missions

The Compensation, Appointments and Governance Committee studies and prepares certain proceedings of the Supervisory Board and submits its opinions, proposals and recommendations to the Board. Without prejudice to the powers of the Supervisory Board, which it does not replace, the Compensation, Appointments and Governance Committee missions are:

With respect to compensation

- ♦ to receive information and draw up recommendations from the Board to the Executive Management on the terms and conditions of compensation paid to Executive Committee members;
- ♦ to receive information and draw up recommendations from the Board to the Executive Management on the terms and conditions of allotment of any stock options and bonus shares granted to Executive Committee members;
- ♦ to draw up proposals and recommendations on the total amount of directors' fees and other compensation and benefits awarded to members of the Supervisory Board and of its specialised committees, and on the apportionment thereof, primarily on the basis of Board members' attendance at meetings;
- ♦ to review proposals for stock subscription or purchase options and bonus share distributions to Senior Executives in order to enable the Supervisory Board to determine the aggregate or individual number of options or shares allotted, and the terms and conditions of allotment;
- ♦ to review proposals for stock subscription or purchase options and bonus share distributions for employees and to draw up recommendations thereon for submission to the Executive Management;
- ♦ to assist the Supervisory Board in determining the conditions and performance criteria to be applied in the allocation of stock subscription or purchase options, performance-based shares and/or additional pensions to Executive Chairmen;
- ♦ to ascertain that the compensation of the Executive Chairmen complies with the provisions of the Articles of Association and the decisions made by the Active Partner;
- ♦ to remain informed and to make recommendations to the management or supervisory bodies of the main French subsidiaries within the Hermès Group, relative to compensation of Executive Corporate Officers;
- ♦ to remain informed and to make recommendations to the management or supervisory bodies of the main French subsidiaries within the Hermès Group, relative to granting options to purchase shares to Executive Corporate Officers;
- ♦ to perform specific assignments entrusted to it by the management or supervisory bodies of the main French subsidiaries within the Hermès Group.

With respect to appointments

- ♦ to prepare the Board's proposals to the Active Partner after examining all the elements which it must take into account in its deliberation: balance to be sought in the composition of the Board in light of the composition of, and changes in, the Company's shareholders, search for and appraisal of possible candidates and advisability of reappointments;
- ♦ to organise a selection procedure for future independent members of the Board and carry out its own research on potential candidates, to which the Executive Chairmen are associated;
- ♦ to ensure a plan of succession of the Executive Corporate Officers (the Executive Chairmen) drawn up by the Active Partner;

Activity of the CAG Committee in 2016

In 2016, the CAG Committee was required to examine and/or issue recommendations on many subjects and in particular the following:

With respect to compensation

- ♦ review of the chapters of the registration document on corporate governance and compensation of Senior Executives (management report) and of the description of the proposed resolutions relative to the advisory opinion ("Say on Pay") regarding the compensation of Senior Executives;
- ♦ projected distribution of directors' fees and compensation payable to the Board members and Committee members in respect of FY 2015;
- ♦ review of a proposed allocation of free shares;
- ♦ presentation of company policy in matters of professional and earnings equality;
- ♦ 2016 compensation of the Hermès International Executive Chairmen and press release to be published on the financial Internet site;
- ♦ review of compensation of Executive Committee members;
- ♦ validation of the compensation of Corporate Officers of French subsidiaries remunerated for their office.

The CAG Committee reviewed current events in matters of compensation:

- ♦ AFEP – Study on directors' fees (July 2016);
- ♦ AFEP – Study on performance criteria of compensation of Senior Executives (June 2016);
- ♦ AFEP – Summary of *Say on Pay studies* and renewal of terms of office of Executive Corporate Officers as directors (July 2016).

With respect to appointments

- ♦ change of the composition of the Board;
- ♦ information on the appointment by the Group Committee of a new Board member representing the employees to replace Denis Marmonier;
- ♦ succession plan for Senior Executives (presentation by the Head of HR of the talent review process and summary of the results, presentation by Axel Dumas of the Executive Management succession plan);

With respect to corporate governance

- ◆ to recommend revisions to corporate governance rules, as needed;
- ◆ to periodically ascertain that independent Supervisory Board members meet the criteria pertaining to independence and objectiveness set out in the Supervisory Board rules of procedure;
- ◆ to review the composition of the specialised committees;
- ◆ to oversee the annual assessment of Supervisory Board practices;
- ◆ to ascertain that the management bodies apply the Supervisory Board rules of procedure and the recommendations of the AFEP-MEDEF Corporate Governance Code in force in their operations, inter alia.

With respect to corporate governance

- ◆ analysis of the individual situation of 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);
- ◆ self-assessment of the CAG Committee;
- ◆ update and distribution of Supervisory Board documents (master file, rules of procedure, 2016 calendar of blackout periods);
- ◆ review of the report from the Chairman of the Supervisory Board on corporate governance principles applied by the Company, with regard to the composition of the Board and the application of the principle of balanced representation between women and men within the Board, the conditions for the preparation and organisation of the Supervisory Board's work, and the internal control and risk management procedures set up by the Company;
- ◆ proposal to amend the rules of procedure of the Audit Committee (to adapt them to the new legal provisions related to the reform of audit assignments that came into force on 17 June 2016);
- ◆ triennial formal assessment of the Supervisory Board to be performed in 2016 (decision to be taken on whether or not to call on an outside firm, process and assessment questionnaire, launch of the evaluation, summary and analysis of results, areas of improvement);
- ◆ RCMS (Responsabilité Civile des Mandataires Sociaux, senior management civil liability) insurance of members of the Supervisory Board and members of the Audit Committee after the reform of the statutory audit and the new responsibilities arising therefrom.

Some of these issues are further discussed in this report.

The CAG Committee reviewed current events in matters of governance:

- ◆ AMF – Recommendation 2012-02 (updated 22 December 2015);
- ◆ Corporate governance and compensation of company Senior Executives with reference to the AFEP-MEDEF Code – Consolidated presentation of the recommendations contained in the AMF annual reports;
- ◆ HGCE – Application guide for the AFEP-MEDEF Corporate Governance Code for listed companies of June 2013, published in December 2015 by the HGCE (Corporate Governance High Committee);
- ◆ OECD – Corporate Governance Principles (revised September 2015);
- ◆ AMF – Report on the Chairman's report on internal control and risk management procedures (February 2016);
- ◆ AFEP – Table of voting policies of investors and proxy advisory agencies;
- ◆ AMF – Study on the reports of Chairmen on internal control and risk management procedures in respect of 2014 (February 2016);
- ◆ Your director – Governance and life of the business: feedback from Senior Executives and directors (February 2016);
- ◆ HCE|fh – Interim evaluation report on the implementation of the laws of 27 January 2011 and 12 March 2012 (February 2016);
- ◆ AFG – Recommendations on Corporate Governance (January 2016);
- ◆ AMF – Comparative study of corporate governance codes in 10 European countries (30 March 2016);
- ◆ Spencer Stuart – Study on assessing the contribution of individual directors (April 2016);
- ◆ AFEP – Appraisal of the 2016 General Meetings;
- ◆ AFEP-MEDEF – Study on the application of the corporate governance code by Hermès International;
- ◆ HGCE – 2016 Annual Report;
- ◆ Spencer Stuart – France Board Index 2016;
- ◆ EY Labrador – Governance Panorama 2016;
- ◆ Russell Reynolds – 2016 study of the governance of the CAC 40 companies;
- ◆ AFEP – Employee representation on Boards;
- ◆ BP2S – Review of AGMs, 2016.

The work and operation of the CAG Committee were assessed in 2016 as part of the triennial formal self-assessment of the Supervisory Board, and were deemed very satisfactory overall.

Composition and operation of the Audit Committee as at 31 December 2016

The Audit Committee is composed of the following members:

- ◆ Monique Cohen, Chairman;
- ◆ Charles-Éric Bauer, member;
- ◆ Sharon MacBeath, member;
- ◆ Renaud Momméja, member;
- ◆ Robert Peugeot, 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, and have existed since 24 March 2010. Version No. 2 of the rules of procedure dated 8 July 2016 is provided on page 135, and each update is made available on the website <http://finance.hermes.com/> on the “Corporate Governance” tab, under “Management Bodies /The specialized committees of the Supervisory

Board”. It was amended in 2016 in order to align the composition and responsibilities of the Audit Committee with ordinance 2016-315 of 17 March 2016 on the statutory audit.

These rules provide that at least half of the members of the Audit Committee must, at the time of their appointment and for the term their office, be qualified as independent under the Supervisory Board’s rules of procedure.

Before each Audit Committee meeting, Audit Committee members are sent, in good time, with reasonable lead time and subject to confidentiality requirements, a file containing documentation on items on the agenda requiring prior analysis and review.

In 2016, the Audit Committee met six times (as in 2015).

Individual and average rates of attendance are indicated in the table on page 115.

Summary presentation of the members of the Audit Committee

Name	Independent	Specific expertise in financial and accounting matters	Date of appointment	Term of office	Length of service on the committee
Monique Cohen (Chairman)	√	√	03/06/2014	2017 GM	3 years
Charles-Éric Bauer		√	26/01/2005	2019 GM	12 years*
Sharon MacBeath	√	√	31/05/2016	2019 GM	1 year
Renaud Momméja		√	03/06/2008	2017 GM	9 years
Robert Peugeot	√	√	03/06/2008	2018 GM	9 years

* Charles-Éric Bauer was appointed to the Audit Committee prior to his appointment to the Supervisory Board (prior to ordinance 2008-1278 of 8 December 2008, there was no law requiring Board membership).

Tasks and activity of the Audit Committee in 2016

Missions of the Audit Committee

The Audit Committee studies and prepares certain proceedings of the Supervisory Board and submits to the Board its opinions, proposals and recommendations.

In application of Article L. 823-19 of the French Commercial Code (*Code de commerce*), and without prejudice to the powers of the Supervisory Board, which it does not replace, the missions of the Audit Committee are:

- ♦ to review and comment on the Company's parent company and consolidated financial statements prior to approval by the Executive Management;
- ♦ to ascertain that the accounting methods applied are relevant and consistent;
- ♦ to verify that internal data collection and control procedures guarantee the quality of information provided;
- ♦ to review the work programme and results of internal and external audit assignments;
- ♦ to carry out special tasks assigned to it by the Supervisory Board;
- ♦ monitor the process of preparation of financial information and, where appropriate, make recommendations to ensure its integrity;
- ♦ monitor the effectiveness of internal control and risk management systems, as well as internal audit where appropriate, regarding the procedures for the preparation and processing of accounting and financial information, without jeopardising its independence;
- ♦ issue a recommendation to the Supervisory Board, prepared in accordance with Article 16 of regulation (EU) 537/2014, on the Statutory Auditors whose appointment or renewal is proposed to the General Meeting;
- ♦ monitor the performance of their duties by the auditors in the light of the High Commission on Statutory Audit consecutive to controls made pursuant to Articles L. 821-9 et seq.;
- ♦ ensure compliance by the auditors of the independence requirements of Articles L. 821-9 et seq. of the French Commercial Code (*Code de commerce*), take measures necessary for the implementation of paragraph 3 of Article 4 of regulation (EU) 537/2014 cited above and ensure compliance with the conditions mentioned in Article 6 of this regulation;
- ♦ approve the provision of services mentioned in Article L. 822-11-2;
- ♦ report regularly to the Supervisory Board on the performance of its duties;
- ♦ also report on the results of the engagement regarding the certification of the financial statements, on the way the engagement contributed to the integrity of financial reporting and the role it has played in this process;
- ♦ promptly inform the Supervisory Board of any difficulties encountered.

In the performance of these missions, the Audit Committee may carry out site visits to obtain complete information on the Group and to appraise the overall consistency of the internal control and risk management system.

Activity of the Audit Committee in 2016

In 2016, the Audit Committee reviewed the following matters:

- ♦ presentation of the budget for 2016;
- ♦ organisation of cash;
- ♦ PwC audit result;
- ♦ update on incidents in 2015;
- ♦ review of activities related to risk management, audit and internal control in 2015;
- ♦ proposed audit plan for 2016;
- ♦ parent company and consolidated financial statements for the year ended 31 December 2015;
- ♦ provisions and destruction of inventories;
- ♦ presentation of the consensus of financial analysts;
- ♦ review of the press release on the annual and interim results;
- ♦ Statutory Auditors' report on the consolidated financial statements;
- ♦ behind-closed-doors meeting with the auditors;
- ♦ risk mapping methodology for the Group;
- ♦ impact of the reform of the statutory audit;
- ♦ modification of prudential rules;
- ♦ site visit to La Montre Hermès (presentation, plant visit and risk mapping).

As part of its mission, the Audit Committee heard from the Group Finance Director, both with regard to the accounting data and the treasury data, the Consolidation Director, the Audit and Risk Director, and the Statutory Auditors.

The work and operation of the Audit Committee were assessed in 2016 as part of the triennial formal self-assessment of the Supervisory Board, and were deemed very satisfactory overall.

3.2.3 PRINCIPLES AND RULES FOR DETERMINING COMPENSATION AND BENEFITS OF ANY KIND GRANTED TO CORPORATE OFFICERS

The presentation of the principles and rules for determining compensation and benefits of any kind granted to Corporate Officers is not required by partnerships limited by shares, pursuant to Article L. 225-68 by reference to Article L. 226-10-1 of the French Commercial Code (*Code de commerce*), but is the subject of a presentation by the Executive Management (see Management report pages 138 et seq.).

3.2.4 CAPITAL STRUCTURE AND FACTORS LIABLE TO AFFECT THE OUTCOME OF A PUBLIC OFFER

The presentation of information concerning the capital structure and factors liable to affect the outcome of a public offer is not required by partnerships limited by shares, pursuant to Article L. 225-68 by reference to Article L. 226-10-1 of the French Commercial Code (*Code de commerce*), but is the subject of a presentation by the Executive Management (see Management report page 253).

3.2.5 SPECIAL TERMS AND CONDITIONS FOR PARTICIPATING IN GENERAL MEETINGS

General Meetings are convened as provided by law and Article 24 of the Articles of Association (see page 250).

A double voting right is attributed in the conditions set out in Article 12 of the Articles of Association (see page 245).

Any crossing of a legal threshold (Article L. 233-7 of the French Commercial Code and L. 433-3 *et seq.* of the French Monetary and Financial Code (*Code monétaire et financier*)) or a statutory threshold (Article 11 of the Articles of Association – see page 245) in capital or voting rights is subject to a declaration under the conditions indicated in the above texts, failing which the shareholder will be deprived of the right to vote at General Meetings.

3.2.6 INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS ESTABLISHED BY THE COMPANY

Pursuant to Articles L. 225-37, L. 225-68, L. 823-19 and L. 823-20 of the French Commercial Code (*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 position recommendation DOC-2016-05 “Guide to periodic information addressed to all companies listed on Euronext Paris” and the AFEP-MEDEF Corporate Governance Code revised in November 2016. This report has been prepared by the Chairman of the Supervisory Board with the assistance of the Audit Committee and the relevant functional departments. It was approved by the Board at its meeting on 21 March 2017.

3.2.6.1 Objectives of risk management and internal control systems at Hermès International

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

Internal control systems rely on ongoing, recurring actions that are integrated into the Company’s operating processes. They apply to all functions and processes, including those associated with the production of financial and accounting information.

The Hermès internal control objectives are to ensure:

- ◆ compliance with laws and regulations;
- ◆ proper observance of the Group management’s instructions and strategy directions;
- ◆ operating efficiency of the Company’s internal procedures, particularly those that help to protect its assets, as well as the safety and security of property and persons;
- ◆ the reliability of financial information and, in general, the internal control system enables the Company to maintain control over its activities, to enhance the efficiency of its operations and to optimise the use of its resources.

3.2.6.2 Control environment

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

Among these values, quality is paramount – the very essence of Hermès’ business. The Group’s commitment to quality applies not only to its products and services, but also to its management methods. Hermès attaches great importance to its Senior Executives’ Managerial skills. The Hermès culture, which is propagated mainly through integration programmes for new managers and special training, imparts to each individual a thorough understanding of their role in the organisation and the need to abide by the Group’s code of conduct and rules of behaviour. The quality-oriented values and mentality shared by all employees serve as a solid foundation to underpin behaviours and observance of stringent internal control policies and procedures. The way in which these values work together and their balance are contingent on the control environment which forms their common base, and more specifically, on the Company’s ingrained risk management and internal control culture, management style and corporate values. With this in mind, to underpin the risk management culture promoted by the Group, a formal ethics charter was adopted and disseminated to its employees in 2009. In 2013, it was completed by the business code of conduct, that sets out the behaviour expected from Group employees. Both documents are available on the Company intranet and have been subject to formal acknowledgment of receipt since 2016 when given to employees. Additional training sessions on anti-corruption laws have also been organised for operational staff. However, no risk management and internal control system, no matter how well-designed and applied, can provide absolute certainty that the Company will achieve its objectives.

3.2.6.3 Scope 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.

3.2.6.4 Parties responsible for risk management and internal control systems

Group management

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

Audit Committee

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

The roles and duties of the Audit Committee were formally documented in rules of procedure drawn up by the Supervisory Board in 2010 and regularly updated. The latest version appears on page 135.

Each meeting of the Audit Committee gives rise to written minutes that must be approved. At each meeting of the Supervisory Board, the Chairman of the Audit Committee gives the Board a report of the work of the Audit Committee.

In 2016, the Audit Committee also conducted a self-assessment as part of the triennial formal self-assessment of the Supervisory Board. Areas of improvement are shown on page 119.

In 2016, approval of services other than certification of the financial statements, pursuant to Article L. 822-11-02 of the French Commercial Code (*Code de commerce*), resulted in the development and validation by the Audit Committee of a procedure.

Audit and risk management department (A&RMD)

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

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

- ◆ it performs internal audits and monitors the implementation of the recommendations;
- ◆ it identifies and analyses risks;

- ◆ it ensures the deployment of internal controls suited to Group ventures.

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

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

It works alongside the Group's various departments in order to promote the upstream handling of the main risks, as well as emerging risks, and runs the risk mapping approach of the main businesses, retail subsidiaries and support functions. The risk maps can also be deployed on a case-by-case basis, for certain projects. The methodology for risk mapping is regularly reviewed in the light of best practice.

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

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

Internal control managers

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

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

- ◆ review the key risks and the organisation of internal control;
- ◆ verify the implementation of Group procedures in accordance with local regulations;

- ◆ participate in self-assessment of internal control work;
- ◆ spread the culture of internal control to all employees;
- ◆ perform monitoring of the action plans of risk mapping;
- ◆ follow up on the audit recommendations of the A&RMD.

The Group's operational staff

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

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

3.2.6.5 Risk management system

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

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

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

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

Group risk mapping is established and updated annually. It takes into account locally identified risks and individual interviews held with Group management. This document, which enables the consolidation of the main action plans, is shared with the Audit Committee. Prioritisation of risks carried out by Group management is also shared with the entities in order to be included in the mapping carried out locally.

In 2015, the A&RMD carried out a specific mapping exercise concerning the risk of fraud, with action plans monitored.

Hermès International has also deployed specific processes to monitor certain risks through specialised committees or working groups. These committees meet on a regular basis. For example, committees focusing on real estate risks, transportation safety, IT risks and treasury risks analyse the issues, and study the appropriate corrective measures so that

they are deployed in the entities. They also check that existing control systems comply with Group procedures. The main operational contacts involved take part in these committees, as does A&RMD, whose role is to facilitate the identification of risks and of the associated action plans.

A Group Security Committee was formed in 2016. Its role is to arbitrate on cross-functional topics of security and monitor the functioning of the specialised committees.

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

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

3.2.6.6 Internal control system

Organisation

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

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

Information systems

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

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

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

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

Internal control procedures

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

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

A management manual is available online for all Group financial managers. It serves as a basis for the common rules on account presentation in accordance with international accounting standards (IFRS). Moreover, the Group finance department periodically issues instructions that are sent to the subsidiaries for the year-end account closing, re-estimates, and at other times on any topic related to financial information. Furthermore, users have at their disposition a user manual for the Group consolidation and reporting system. The investment project management manual describes the rules applicable within the Group. The business development and investment department (BDIP) is in charge of keeping these procedures up to date, circulating them and ascertaining that they are applied. It examines each investment project by coordinating the preliminary business and financial analyses and issuing opinions on investment return calculations. The procedure is carried out in stages. The managers involved issue recommendations, which are summarised by the BDIP. 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 treasury management procedure that defines the roles and responsibilities between the Group treasury and the subsidiaries;
- ◆ rules for opening and operating bank accounts, called "prudential rules", for each of the Group's companies, which are constantly updated and include monitoring of the authorised signatories, *inter alia*;
- ◆ a foreign exchange policy approved by the Group's Supervisory Board (this policy describes all authorised financial instruments and sets limits on their use by members of the Hermès International Treasury Management department);
- ◆ a foreign exchange risk management agreement with each relevant subsidiary, which provides a framework for the relationships between the Hermès Group and its subsidiaries, sets out cash management

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

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

Self-assessment of internal control work

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

Subsidiaries perform self-assessment on an annual basis using three questionnaires available on the intranet, in the "CHIC" ("Check your Hermès Internal Control") IT tool run 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 treasury management questionnaire (CHIC Treasury) and a questionnaire on the operational procedures within the distribution network (CHIC Boutique). The industrial safety questionnaire is now completed by the security department in its site visits. These questionnaires are updated on an annual basis, in order to include any new risks and controls identified as key on the Group level. The A&RMD is in charge of the consolidation and analysis of action plans. The consolidation of the questionnaires is automated. The self-assessment summary is drafted by the A&RMD. It recommends the internal control priorities set for the following year. The results are also analysed on a centralised basis, in order to identify areas for improvement and control priorities for the following 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 ensures that the controls have been correctly appropriated, as well as the implementation of the corrective action plans.

Internal control system monitoring

Regular reviews are carried out by internal control at a local level and are completed by the A&RMD depending on the stakes of each entity. The network of internal control managers is responsible for ensuring that the principal risks related to distribution and production operations, as well as to support functions, are covered by suitable controls, notably regarding the security and traceability of assets. This network has become more dense and now provides fine-meshed internal control within the main entities. As part of its role as coordinator for the network of internal control managers, the A&RMD is involved in their appointment; it reviews the subsidiaries' annual plans, disseminates best practices, notably through an information sharing tool, communicates the internal control priorities, and encourages experience sharing between all network members. In 2015, this tool took the form of a social and collaborative platform, better suited to the size of the network as well as to its nature and the frequency of its exchanges. In 2016, tandem exchange programs between internal control officials were organised.

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

3.2.6.7 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 financial statements. It meets the following objectives:

- ◆ the prevention and identification of any accounting or financial fraud or inconsistencies, as much as possible;
- ◆ the reliability of information circulated and used in-house by Group 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 Group management manual, 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 management, which is carried out by the Executive Committee, led by Executive Management. As part of the parent company and consolidated financial statement review and approval process, the Executive Management receives all information that it deems to be useful, such as information on the main options applied for the reporting period, accounting estimates and changes in accounting methods. It analyses the subsidiaries' accounts on a regular basis and meets with their Senior Executives from time to time, particularly during the budget preparation and account closing periods. Lastly, it reviews the findings of the Statutory Auditors;
- ◆ the Supervisory Board, which exercises ongoing control over the Company's management. By consulting Group management, the Board can verify that oversight and control systems are adequate to ensure that the financial information published by the Company is reliable. It has the same powers as the Statutory Auditors and receives the same documents that they do, at the same time;
- ◆ the Executive Vice President of Governance and Organisational Development, member of the Executive Committee, who ensures the implementation of adequate methods (organisation, skilled resources, tools) and oversees A&RMD responsible for the internal control and risk management initiative;
- ◆ the Executive Vice President Finance, member of the Executive Committee, who ensures the implementation of an initiative:

- for the consolidation of financial information in accordance with IFRS accounting standards,
- for the monitoring and coordination of activity during regular reviews (year-end and half-year accounts closure, estimation updates and budgets),
- for the external communication of financial information in accordance with regulations.

They are supported by consolidation, management control and investor relations departments;

- ◆ 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.

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 it meets reporting deadlines (*via* a timetable for closing the accounts), and that the 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 management manual, 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.

Finally, in the context of these audits, A&RMD coordinates its work with the Statutory Auditors in order to ensure the consistency and effectiveness of their joint involvement.

3.2.7 FINANCIAL RISKS RELATED TO CLIMATE CHANGE

The presentation of financial risks related to climate change and the steps the Company takes to reduce them by implementing a low-carbon strategy in all aspects of its business is not required in partnerships limited by shares, pursuant to Article L. 225-68 by reference to Article L. 226-10-1 of the French Commercial Code (*Code de commerce*), but is the subject of a presentation by the management (see Management report page 77).

The Chairman of the Supervisory Board

Supervisory Board rules of procedure

In force since 18 March 2009 – Revision No. 8 – Amended 21 March 2017

Purpose

These rules of procedure define the terms and conditions of organisation and operation of the Supervisory Board of Hermès International (hereinafter referred to as the “Board”) and its committees. They supplement the provisions set out by the applicable laws and by the Articles of Association (an extract of the Articles of Association is attached to this report).

Their purpose is to enhance the quality of the Board’s work by promoting the application of good corporate governance principles and best practices, in the interests of ethics and greater effectiveness.

1. Supervisory Board

1.1. Composition of the Board

1.1.1. Ownership of a minimum number of the Company’s shares by members of the Board

All Board members shall own 200 Hermès International shares registered in their own name during the year in which they are appointed. The directors’ fees they receive may assist in this acquisition. This obligation does not apply to the Employee Representative Board members.

1.1.2. Independence of Board members

Members of the Board are independent if they have no relationship of any kind whatsoever with the Company, its Group or its management that is liable to compromise the exercise of their freedom of judgement in any way.

1.1.2.1. Independence criteria:

The independence criteria applicable to Board members are as follows:

- ◆ they may not be a partner or member of the Executive Management Board of Émile Hermès SARL, Active Partner;
- ◆ they must comply with the criteria set out in Article 8.5 of the AFEP-MEDEF Corporate Governance Code of November 2016.

1.1.2.2. Procedure for qualifying members as “independent directors”

The qualification of a Board member as independent is discussed each year by the Compensation, Appointments and Governance Committee, which draws up a report on this matter and submits it to the Board.

Each year, in the light of this report, the Board reviews the situation of each member to determine whether they qualify as an “independent director”.

The Board is required to report the findings of its review to the shareholders in the annual report.

1.1.2.3. Proportion of independent members on the Board

At least one-third of the Board members must be independent members. Employee Representative Board members are not included in the calculation of this proportion.

1.1.3. Professional conduct of members of the Board and their permanent representatives

1.1.3.1. Mandate and corporate interest

Members of the Supervisory Board must, under all circumstances, act in the Company’s corporate interest. They must, whatever their mode of appointment, consider themselves Representatives of all the shareholders, and must also take into account the requirements of the other stakeholders.

1.1.3.2. Compliance with laws and Articles of Association

Members of the Supervisory Board must fully understand their rights and obligations. They must in particular be familiar and comply with the legal and regulatory provisions binding to their position, the applicable governance codes and best practices, and the rules specific to the Company resulting from its Articles of Association and the Supervisory Board rules of procedure.

1.1.3.3. Prevention of insider trading – Stock market ethics – Closed periods – Disclosure obligations

The members of the Supervisory Board are included in the Company’s list of permanent insiders and must comply in this respect with the provisions of the Hermès Group’s Code of Market Ethics since 1 February 2017, which aims to describe the measures in place within the Hermès Group to prevent market abuse on Hermès International shares

1.1.3.4. Duties: guiding principles

Members of the Supervisory Board perform their duties with independence, integrity, loyalty and professionalism.

1.1.3.5. Independence, courage and duty of notification

Members of the Supervisory Board must strive to maintain under all circumstances their independence of judgement, decision and action. They shall not be influenced by any factor that is not in keeping with the corporate interests that they are responsible for defending.

They shall alert the Supervisory Board to any information known to them which they deem liable to affect the Company’s interests. They have a duty to clearly express their queries and opinions. They shall endeavour to convince the Supervisory Board of the relevance of their positions. In the event of disagreement, they shall be careful to ensure that these reservations are explicitly recorded in the minutes of the proceedings.

1.1.3.6. Independence and conflict of interest

Members of the Supervisory Board shall endeavour to avoid any possible conflict between their moral and material interests and those of the Company. They shall inform the Supervisory Board of any conflicts of interest in which they might be involved. In cases where a conflict of interest cannot be avoided, they shall refrain from taking part in any discussions or decisions related to the matters concerned.

1.1.3.7. Integrity and loyalty

Members of the Board act in good faith at all times and do not take any initiative which could be detrimental to the Company’s interests.

They make a personal commitment to maintain complete confidentiality concerning the information they receive, the discussions in which they are involved and the decisions made.

They undertake not to use the inside information to which they have access for their personal benefit or for the benefit of any other person. In particular, when they hold information on the Company which has not been made public, they undertake not to use it to carry out transactions on the Company’s shares, or to have such transactions carried out by a third party.

1.1.3.8. Professionalism and commitment

Members of the Supervisory Board undertake to devote the necessary time and attention to their duties.

They shall make sure that the number and workload of their mandates as a director or as a member of the Supervisory Board leave them sufficiently available, particularly if they also perform executive duties.

They shall obtain information on the Company’s lines of business and specificities, together with its aims and values, including by consulting its principal Senior Executives.

They shall regularly and diligently take part in the meetings of the Supervisory Board and the specialised committees of which they are members.

They shall attend Shareholders' General Meetings.

They shall make efforts to obtain in due time any information that they deem necessary in order to participate in Board meetings in full possession of the facts.

They shall endeavour to stay abreast of the knowledge they require and ask the Company to provide them with the training necessary for the correct fulfilment of their duties.

1.1.3.9. Professionalism and effectiveness

Members of the Supervisory Board shall contribute to the collegiality and effectiveness of the work of the Supervisory Board and of any specialised committees constituted within it. They shall make any recommendation which they believe may improve the operational methods of the Board, particularly at the time of its periodic assessment. They agree to be assessed on their own activity within the Supervisory Board.

They shall endeavour, with the other members of the Supervisory Board, to ensure that the missions of guidance and control are accomplished effectively and without hindrance. In particular, they shall make sure that procedures are set up within the Company to monitor that the letter and spirit of laws and regulations are adhered to. They shall make sure that the positions adopted by the Supervisory Board demonstrate, without exception, duly justified, formal decisions recorded in the minutes of its meetings.

1.2. Operation of the Board

1.2.1. Meetings of the Supervisory Board

1.2.1.1. Frequency of meetings

The Board meets at least four times per year and whenever required by the Company's best interests or operations.

The duration of each meeting shall be sufficient to properly review all business on the agenda.

The procedures for calling a meeting and participating therein and the quorum and majority requirements are those stipulated by law and by the Articles of Association.

The schedule of Board meetings other than special meetings is drawn up from one year to the next.

1.2.1.2. Attendance by persons who are not Board members

The Main Statutory Auditors and the Works Council representatives are invited to attend all Supervisory Board meetings.

Persons who are not Board members, and members of the Executive Committee and the Management Committee, inter alia, 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.

1.2.1.3. Minutes

Minutes are drawn up following each meeting and sent to all Board members, who are invited to comment. Any comments are discussed during the following Board meeting. The final draft of the minutes from the previous meeting is submitted to the Board for approval.

1.2.2. Information of Board members

Board members are entitled to receive all information required to fulfil their duties and responsibilities and may request any documents that they deem to be useful.

Before each Board meeting, members are sent in good time, with reasonable lead time and subject to confidentiality requirements, a file containing documentation on items on the agenda requiring prior analysis and review.

Between scheduled Board meetings, members receive all important information pertaining to the Company on a regular basis and are notified of any event or change with a material impact on transactions or information previously disclosed to the Board.

Board members shall send requests for additional information to the Chairman of the Board, who is responsible for assessing the usefulness of the documents requested.

Board members have a duty to request any information that they deem to be useful and essential to carry out their duties.

1.2.3. Training of Board members

Each Board member may receive additional education on the special attributes of the Group, its organisation and its business lines, and in the areas of accounting, finance or corporate governance.

1.2.4. Supervisory Board mission not covered by the Articles of Association

The Supervisory Board approves or rejects the acceptance of any new office in a listed company by an Executive Chairman.

1.3. Assessment of the Board by its members

The Board regularly conducts self-assessment of its performance, covering the various points of its mission and commitments. This self-assessment is carried out every three years using an evaluation matrix proposed by the Compensation, Appointments and Governance Committee. In interim years, a review of the Board's works is included in the agenda of a Board meeting.

As part of this process, the different areas of responsibility and commitment of the Board and its members are reviewed and assessed; and any applicable recommendations for improving performance are issued.

2. Specialised committees of the Supervisory Board

The Board may create specialised Board committees, to which it appoints members and the Chairman. 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.

Two committees have been created to date:

- ◆ 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.

The rules applying to the composition, duties and responsibilities and operating procedures for each specialised committee are set out in rules of procedure proposed by that committee and approved by the Supervisory Board.

3. Common provisions

3.1. Compensation of Board members and directors' fees

The principles for allotting directors' fees and other compensation adopted by the Board are as follows:

- ◆ €100,000 fixed component for the Supervisory Board Chairman's compensation, with no variable component since they are required to chair all meetings;
- ◆ €8,000 for the fixed component and €14,000 for the variable component on the basis of attendance, for each Vice-Chairman of the Board;
- ◆ €8,000 for the fixed component and €14,000 for the variable component on the basis of attendance, for other Board members;
- ◆ €20,000 for the fixed component and no variable component for the Chairmen of the Audit Committee and the Compensation, Appointments and Governance Committee;
- ◆ €4,000 for the fixed component and €6,000 for the variable component on the basis of attendance for the other members of the Audit Committee and the Compensation, Appointments and Governance Committee;
- ◆ if a member is appointed during the year, the outgoing member and their successor will share the fixed component and the variable component will be allotted based on their attendance at meetings;
- ◆ members of Hermès International's Executive Committee do not receive any directors' fees;
- ◆ Employee Representative Supervisory Board members do not receive any directors' fees.

The fixed and variable components are determined by the Board at its first meeting of the year following the year for which compensation and directors' fees are paid.

3.2. Rules governing reimbursement of accommodation and travel expenses

Supervisory Board members are reimbursed for travel (from their principal residence), accommodation and restaurant expenses incurred to attend the Supervisory Board and Committee meetings, upon presentation of substantiating documents or receipts.

The Board determines the policy applicable for the reimbursement of expenses that should be based upon the rules applicable to Group employees. This policy lists the eligible transportation classes and the limits for expenses incurred for each meeting of the Supervisory Board, of the Audit Committee and of the Compensation, Appointments and Governance Committee.

These reimbursements apply only to meetings of the Board and of the committees, and do not in any case apply to General Meetings.

3.3. Attendance at General Meetings

Members of the Supervisory Board, and particularly those who are also a member of a specialised committee, are strongly encouraged to participate in General Meetings.

3.4. Application of the rules of procedure

If a member of the Supervisory Board ceases to be in a position to perform their duties in accordance with the rules of procedure, either for reasons attributable to them or for any other reason, including reasons pertaining to the rules specific to the Company, they must inform the Chairman of the Supervisory Board, seek solutions to remedy this situation and, if unable to do so, accept the resulting personal consequences regarding the fulfilment of their mandate.

Appendix: Articles 18, 19, and 20 of the Articles of Association
(see pages 248 to 249)

Compensation, Appointments and Governance Committee rules of procedure

Effective 22 March 2016 – Version no. 5

Purpose

These rules of procedure define the composition, missions and methods of organisation and operation of the Compensation, Appointments and Governance Committee of Hermès International, which acts under the collective and exclusive responsibility of the Supervisory Board.

Their purpose is to enhance the quality of the Compensation, Appointments and Governance Committee's work by promoting the application of good corporate governance principles and best practices, in the interests of ethics and greater effectiveness.

A. Composition of the Compensation, Appointments and Governance Committee

Chairmanship – Number of members

The Chairman of the Compensation, Appointments and Governance Committee is appointed by the Supervisory Board.

The Compensation, Appointments and Governance Committee comprises at least three members of the Supervisory Board.

Proportion of independent members

At least half of the members of the Compensation, Appointments and Governance Committee must, at the time of their appointment and for the duration of their office, be qualified as independent as defined in the Supervisory Board rules of procedure.

Term of appointment to the Compensation, Appointments and Governance Committee

The members of the Compensation, Appointments and Governance Committee are appointed by the Supervisory Board for the duration of their term of office as a member of the Supervisory Board or for any other period defined by the Supervisory Board. They may be reappointed indefinitely.

B. Tasks of the Compensation, Appointments and Governance Committee

The Compensation, Appointments and Governance Committee studies and prepares certain proceedings of the Supervisory Board and submits its opinions, proposals and recommendations to the Board.

Without prejudice to the powers of the Supervisory Board, which it does not replace, the Compensation, Appointments and Governance Committee missions are:

With respect to compensation:

- ◆ to receive information and draw up recommendations from the Board to the Executive Management on the terms and conditions of compensation paid to Executive Committee members;
- ◆ to receive information and draw up recommendations from the Board to the Executive Management on the terms and conditions of allotment of any stock options and bonus shares granted to Executive Committee members;

- ◆ to draw up proposals and recommendations on the total amount of directors' fees and other compensation and benefits awarded to members of the Supervisory Board and of its specialised committees, and on the apportionment thereof, primarily on the basis of Board members' attendance at meetings;
- ◆ to review proposals for stock subscription or purchase options and bonus share distributions to Senior Executives in order to enable the Supervisory Board to determine the aggregate or individual number of options or shares allotted, and the terms and conditions of allotment;
- ◆ to review proposals for stock subscription or purchase options and bonus share distributions for employees and to draw up recommendations thereon for submission to the Executive Management;
- ◆ to assist the Supervisory Board in determining the conditions and performance criteria to be applied in the allocation of stock subscription or purchase options, performance-based shares and/or additional pensions to Executive Chairmen;
- ◆ to ascertain that the compensation of the Executive Chairmen complies with the provisions of the Articles of Association and the decisions made by the Active Partner;
- ◆ to remain informed and to make recommendations to the management or supervisory bodies of the main French subsidiaries within the Hermès Group, relative to the compensation of Executive Corporate Officers;
- ◆ to remain informed and to make recommendations to the management or supervisory bodies of the main French subsidiaries within the Hermès Group, relative to granting options to purchase shares to Executive Corporate Officers;
- ◆ to perform specific assignments entrusted to it by the management or supervisory bodies of the main French subsidiaries within the Hermès Group.

With respect to appointments:

- ◆ to prepare the Board's proposals to the Active Partner after examining all the elements which it must take into account in its deliberation: balance to be sought in the composition of the Board in light of the composition of, and changes in, the Company's shareholders, search for and appraisal of possible candidates and advisability of reappointments;
- ◆ to organise a selection procedure for future independent members of the Board and carry out its own research on potential candidates, to which the Executive Chairmen are associated;
- ◆ to ensure a plan of succession of the Executive Corporate Officers (the Executive Chairmen) drawn up by the Active Partner.

With respect to corporate governance:

- ◆ to recommend revisions to corporate governance rules, as needed;
- ◆ to periodically ascertain that independent Supervisory Board members meet the criteria pertaining to independence and objectiveness set out in the Supervisory Board rules of procedure;
- ◆ to review the composition of the specialised committees;
- ◆ to oversee the annual assessment of Supervisory Board practices;

- ♦ to ascertain that the management bodies apply the Supervisory Board rules of procedure and the recommendations of the AFEP-MEDEF Corporate Governance Code in force in their operations, *inter alia*.

C. Operation of the Compensation, Appointments and Governance Committee

The Compensation, Appointments and Governance Committee meets as many times as necessary and at least once a year, before the compensation of the Executive Chairmen is defined by the Active Partner.

The Compensation, Appointments and Governance Committee meets when convened by its Chairman, who sets the agenda of the meeting in writing or verbally, wherever indicated in the notice of meeting. Before each meeting of the Compensation, Appointments and Governance Committee, members 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.

The role of secretary for the Compensation, Appointments and Governance Committee meetings is performed, if they are present, by the Group's Human Resources Director, or by a member of the Compensation, Appointments and Governance Committee designated as reporter by the Chairman. The proceedings are noted in minutes which are entered in a special register and signed by the Chairman or a member of the Compensation, Appointments and Governance Committee and the secretary of the meeting.

Certain persons who are not members of the Compensation, Appointments and Governance Committee – in particular the Compensation and Benefits Director and the Executive Management – may be invited to meetings of the Compensation, Appointments and Governance Committee.

Meetings of the Compensation, Appointments and Governance Committee are reasonably held when at least half of its members participate, it being specified that members who participate in a Compensation, Appointments and Governance Committee meeting by way of video-conferencing or telecommunication, under the conditions stipulated for Supervisory Board meetings are deemed to be present.

Decisions of the Compensation, Appointments and Governance Committee are made by majority vote of those members present.

D. Reports to the Supervisory Board

The Compensation, Appointments and Governance Committee reports regularly in writing on its activities and the performance of its work to the Supervisory Board, and informs it without delay of any difficulties encountered.

The Compensation, Appointments and Governance Committee reports must fully inform the Supervisory Board as to the Compensation, Appointments and Governance Committee's performance of its assignments.

E. Information of the Compensation, Appointments and Governance Committee Chairman

The Compensation, Appointments and Governance Committee must receive all documents necessary to the execution of its assignments, particularly from Hermès International employees. In particular, the Compensation, Appointments and Governance Committee must be informed of the compensation policy for the main Non-Executive Corporate Officers (particularly for members of the Executive Committee).

The Compensation, Appointments and Governance Committee may contact the Group's main Senior Executives as part of its remit, once the Chairman of the Supervisory Board has informed the Executive Management.

It may, if necessary, request the intervention of an external expert to carry out additional studies.

F. Compensation of the Compensation, Appointments and Governance Committee

The compensation for members of the Compensation, Appointments and Governance Committee is defined by the Supervisory Board and deducted from the total amount of directors' fees.

G. Self-assessment of the Compensation, Appointments and Governance Committee

The Compensation, Appointments and Governance Committee regularly assesses its performance, covering the points of its assignments and its commitment by means of an assessment table.

As part of this process, the different areas of responsibility and commitment of the Compensation, Appointments and Governance Committee and its members are reviewed and assessed, and any applicable recommendations for improving performance are issued.

Audit Committee rules of procedure

Version no. 2 of 8 July 2016

Purpose

These rules of procedure define the composition, missions and methods of organisation and operation for the Hermès International Audit Committee, which acts under the collective and exclusive responsibility of the Supervisory Board.

Its purpose is to enhance the quality of the Audit Committee's work by promoting the application of good corporate governance principles and best practices, in the interests of ethics and greater effectiveness.

A. Composition of the Audit Committee

Chairmanship – Number of members

The Chairman of the Audit Committee is appointed by the Supervisory Board.

The Audit Committee comprises at least four members of the Supervisory Board.

Proportion of independent members

At least half of the members of the Audit Committee must, at the time of their appointment and for the term their office, be qualified as independent under the Supervisory Board's rules of procedure.

At least one of the members of the Audit Committee must be appointed from among the independent members of the Supervisory Board and have specific expertise in financial or accounting matters or statutory audit.

Term of appointment to the Audit Committee

The members of the Audit Committee are appointed by the Supervisory Board for the duration of their term of office as a member of the Supervisory Board or for any other term defined by the Supervisory Board. They may be reappointed indefinitely.

B. Missions of the Audit Committee

The Audit Committee studies and prepares certain proceedings of the Supervisory Board and submits to the Board its opinions, proposals and recommendations.

In application of Article L. 823-19 of the French Commercial Code (*Code de commerce*), and without prejudice to the powers of the Supervisory Board, which it does not replace, the missions of the Audit Committee are:

- ♦ to review and comment on the Company's parent company and consolidated financial statements prior to approval by the Executive Management;
- ♦ to ascertain that the accounting methods applied are relevant and consistent;
- ♦ to verify that internal data collection and control procedures guarantee the quality of information provided;
- ♦ to review the work programme and results of internal and external audit assignments;
- ♦ to carry out special tasks assigned to it by the Supervisory Board;

- ♦ monitor the process of preparation of financial information and, where appropriate, make recommendations to ensure its integrity;
- ♦ monitor the effectiveness of internal control and risk management systems, as well as internal audit where appropriate, regarding the procedures for the preparation and processing of accounting and financial information, without prejudice to its independence;
- ♦ issue a recommendation to the Supervisory Board, prepared in accordance with Article 16 of regulation (EU) 537/2014, on the Statutory Auditors whose appointment or renewal is proposed to the General Meeting;
- ♦ monitor the performance of duties by the auditors in the light of the High Commission on Statutory Audit consecutive to controls made pursuant to Articles L. 821-9 *et seq.*;
- ♦ ensure compliance by the auditors with the independence requirements of Articles L. 821-9 *et seq.* of the French Commercial Code, take measures necessary for the implementation of paragraph 3 of Article 4 of regulation (EU) 537/2014 cited above and ensure compliance with the conditions mentioned in Article 6 of this Regulation;
- ♦ approve the provision of services mentioned in Article L. 822-11-2;
- ♦ report regularly to the Supervisory Board on the performance of its duties;
- ♦ also report on the results of the engagement regarding the certification of the financial statements, on the way the engagement contributed to the integrity of financial reporting and the role it has played in this process.
- ♦ promptly inform the Supervisory Board of any difficulties encountered.

In the performance of these missions, the Audit Committee may carry out site visits to appraise the overall consistency of the internal control and risk management system.

C. Operation of the Audit Committee

The Audit Committee meets as many times as necessary and at least twice a year, before annual account closure by the Executive Management and before the half-year accounts examination by the Supervisory Board.

The Audit Committee meets when convened by its Chairman, who sets the agenda of the meeting in writing or verbally, wherever indicated in the notice of meeting. Before each Audit Committee meeting, Audit Committee members are sent, in good time, with reasonable lead time and subject to confidentiality requirements, a file containing documentation on items on the agenda requiring prior analysis and review.

The role of secretary of the Audit Committee meetings is performed, if they are present, by the Audit and Risk Management Director, otherwise by a member of the Audit Committee appointed as reporter by the Chairman.

The proceedings are noted in minutes which are entered in a special register and signed by the Chairman of the Audit Committee.

Certain persons who are not members of the Audit Committee – in particular the Statutory Auditors, the Audit and Risk Management Director, the Financial Director and the Executive Management – are regularly invited to Audit Committee meetings. The Audit Committee may invite other Senior Executives for targeted exchanges, based on addi-

tional information requirements (security, legal, information systems departments, etc.).

Meetings of the Audit Committee are reasonably held when at least half of its members participate, it being specified that members who participate in an Audit Committee meeting by way of video-conferencing or telecommunication, under the conditions stipulated for Supervisory Board meetings are deemed to be present.

Decisions of the Audit Committee are made by a majority vote of the members present.

D. Reports to the Supervisory Board

The Audit Committee reports regularly on its activities and the performance of its work to the Supervisory Board, and informs it without delay of any difficulties encountered.

The reports of the Audit Committee must enable the Supervisory Board to be fully informed on the Audit Committee's performance of its assignments.

E. Information of the Audit Committee

The Audit Committee must receive all documents necessary to the execution of its assignments, particularly from Hermès International employees and the Statutory Auditors. In particular, it must receive a regular summary of the work of the Audit and Risk Management Department.

At the time of examination of the accounts by the Audit Committee, this examination must be prepared and accompanied by a presentation from the Statutory Auditors underlining the essential points not only relating to results, but also to the chosen accounting options, together with a presentation by the Financial Director describing the Company's exposure to risks, and its significant unrecognised commitments.

The Audit Committee examines the Group's budgets in a final summary before presentation to the Supervisory Board in order to understand and validate the strategy underlying them.

The Audit Committee may contact the Group's main Senior Executives as part of its remit, once the Chairman of the Supervisory Board has informed the Executive Management.

It may, if necessary, request the intervention of an external expert to carry out additional studies.

F. Compensation of the Audit Committee

Compensation of Audit Committee members is defined by the Supervisory Board and deducted from the total amount of directors' fees.

G. Self-assessment of the Audit Committee

The Audit Committee periodically assesses its performance in conjunction with the self-assessment of the Supervisory Board. The members of the Audit Committee are specifically called on anonymously through a self-assessment questionnaire.

As part of this process, the different areas of responsibility and commitment of the Audit Committee and its members are reviewed and assessed; and any applicable recommendations for improving performance are issued.

3.3 STATUTORY AUDITORS' REPORT PREPARED IN APPLICATION OF ARTICLE L. 226-10-1 OF THE FRENCH COMMERCIAL CODE (*CODE DE COMMERCE*) ON THE REPORT FROM THE CHAIRMAN OF THE SUPERVISORY

This is a free translation into English of the Statutory auditors' report issued in the French language and is provided solely for the convenience of English-speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

To the shareholders,

In our capacity as Statutory Auditors of your Company, and in accordance with Article L. 226-10-1 of the French Commercial Code (*Code de commerce*), we hereby report to you on the report prepared by the Chairman of your Company in accordance with the provisions of the aforementioned article for the year ended 31 December 2016.

It is the Chairman's responsibility to prepare, and submit to the Supervisory Board for approval, a report describing the internal control and risk management procedures implemented by the Company and providing the other information required by Article L. 226-10-1 of the French Commercial Code (*Code de commerce*) in particular relating to corporate governance.

It is our responsibility:

- ♦ to report to you on the information set out in the Chairman's report on internal control and risk management procedures relating to the preparation and processing of accounting and financial information; and
- ♦ to attest that the report sets out the other information required by Article L. 226-10-1 of the French Commercial Code (*Code de commerce*), it being specified that it is not our responsibility to assess the fairness of this information.

We conducted our work in accordance with the professional standards applicable in France.

INFORMATION CONCERNING THE INTERNAL CONTROL AND RISK MANAGEMENT PROCEDURES RELATING TO THE PREPARATION AND PROCESSING OF ACCOUNTING AND FINANCIAL INFORMATION

The professional standards require that we perform procedures to assess the fairness of the information on internal control and risk management procedures relating to the preparation and processing of accounting and financial information set out in the Chairman's report. These procedures mainly consisted of:

- ♦ obtaining an understanding of the internal control and risk management procedures relating to the preparation and processing of accounting and financial information on which the information presented in the Chairman's report is based, and of the existing documentation;
- ♦ obtaining an understanding of the work performed to support the information given in the report and of the existing documentation;
- ♦ determining if any material weaknesses in the internal control procedures relating to the preparation and processing of accounting and financial information that we may have identified in the course of our work are properly described in the Chairman's report.

On the basis of our work, we have no matters to report on the information given on the Company's internal control and risk management procedures relating to the preparation and processing of accounting and financial information, set out in the Chairman of the Supervisory Board's report, prepared in accordance with Article L. 226-10-1 of the French Commercial Code (*Code de commerce*).

OTHER INFORMATION

We attest that the report from the Chairman of the Supervisory Board sets out the other information required in Article L. 226-10-1 of the French Commercial Code (*Code de commerce*).

Paris and Neuilly-sur-Seine, 11 April 2017

The Statutory Auditors

PricewaterhouseCoopers Audit

Christine Bouvry

Didier Kling & Associés

Christophe Bonte

Didier Kling

3.4 COMPENSATION AND BENEFITS PAID TO CORPORATE OFFICERS

The tables cited and presented on pages 141 to 146 have been numbered by reference to the AMF's recommendation 2009-2016, amended 13 April 2015, on information on compensation of Corporate Officers to be disclosed in registration documents, except Tables 11 and 12, which were numbered by the Company.

The Executive Chairmen, the Active Partner and the members of the Supervisory Board are shareholders and in this regard received an ordinary dividend of €3.35 in 2016.

3.4.1 EXECUTIVE CHAIRMEN

3.4.1.1 Elements of compensation

A detailed presentation of the principles and the amount (or the valuation) of the elements of the compensation of each Executive Chairman is shown in the description of the resolutions on pages 286 to 290.

This presentation covers the following elements:

- ◆ gross annual statutory variable compensation;
- ◆ gross annual additional compensation;
- ◆ deferred variable compensation;
- ◆ multi-year variable compensation;
- ◆ exceptional compensation;
- ◆ share options, performance-based shares or any other element of long-term compensation;
- ◆ compensation for assumption of duties;
- ◆ severance payment;
- ◆ non-competition payment;
- ◆ supplementary pension plan;
- ◆ directors' fees;
- ◆ valuation of benefits of any kind.

All compensation elements that are potential or acquired by Executive Chairmen are made public immediately after the meeting of the Executive Management Board that decided them by a press release published on the Company's financial website <http://finance.hermès.com>.

The table below summarises the press releases relative to the elements of compensation of Executive Chairmen published over the last two financial years:

Date of publication	Press releases
2016	
25 March 2016	Potential or acquired elements of compensation of Executive Chairmen
2015	
27 March 2015	Potential or acquired elements of compensation of Executive Chairmen

Each Executive Chairman has the right to receive certain compensation in accordance with Article 17 of the Articles of Association, and may also receive additional compensation, the maximum amount of which is determined by the Ordinary General Meeting with the unanimous approval of the Active Partners. Within these limits, the Active Partner decides on the effective compensation of each of the Executive Chairmen each year. It uses the recommendations of the CAG Committee and takes into account in its decision the performance achieved by the Group in respect of the year, the strategic challenges in respect of the Group's medium- and long-term development and the competitive environment in which it operates.

1. Fixed compensation – or additional compensation according to the Articles of Association, was introduced by a decision of the Ordinary General Meeting of 31 May 2001, which limited it to €457,347.05 and provided for its indexation, upwards only, on the increase in the 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. In accordance with the principle thus determined and to facilitate understanding of the procedures for calculating the additional compensation of Executive Chairmen before indexing, the Company has always called it “fixed compensation”, by analogy with market practices.
2. The mode of calculation of the variable or statutory compensation provided under Article 17 of the Articles of Association has remained constant since the IPO on 3 June 1993. It is according to the consolidated pre-tax earnings, made pursuant to the previous financial year, within the limit of 0.2% of these earnings. This mode of determination naturally leads to a strict variability of the statutory compensation of Executive Chairmen, transparently and without any guarantee of a minimum amount. With an objective of clarity, the statutory compensation of Executive Chairmen is known as “variable compensation”, by analogy with market practices.

Changes to the two components of the compensation of Executive Chairmen depends upon objective and intelligible quantitative criteria that have been unchanged for many years, which are public and predefined by nature.

Henri-Louis Bauer, Legal Representative of Émile Hermès SARL, Executive Chairman, does not personally receive any compensation from Hermès International. He receives compensation from Émile Hermès SARL for his functions as Executive Chairman of this Company, which are unrelated to the appointment as Executive Chairman of Émile Hermès SARL in Hermès International.

The Executive Chairmen do not receive any compensation or benefits of any kind from the subsidiaries of Hermès International.

A breakdown of effective compensation paid to the Executive Chairmen set by the Executive Management Board of Émile Hermès SARL for the last two financial years is provided in Table 2 on page 142. Each year, the Compensation, Appointments and Governance Committee of the Supervisory Board of Hermès International is responsible for ascertaining that compensation paid to the Executive Chairmen complies with the provisions of the Articles of Association and the decisions made by the Active Partner.

In order to comply with the AFEP-MEDEF Corporate Governance Code, Axel Dumas decided, on 5 June 2013, to end his employment contract when he was appointed as Executive Chairman of Hermès International.

3.4.1.2 Service agreements

No Executive Chairman directly or indirectly invoices services to the Company.

By a services contract dated 1 September 2005, amended several times since, Émile Hermès SARL wished to use the services of Hermès International to fulfil routine or exceptional duties in legal matters, financial matters or secretarial matters. Any modification of the tasks assigned or re-invoicing specified (other than annual indexing) must be the subject of an amendment. This contract and its existing or future amendments are subject to the procedure on regulated agreements, as indicated in the special report from the Statutory Auditors on pages 307 to 309.

3.4.1.3 Directors' fees in the Company and in the subsidiaries of the Group

The Executive Chairmen do not receive any Directors' fees paid by the Company or by the subsidiaries of the Group.

Note that the rules for the distribution of directors' fees within the Group specify that the members of the Executive Committee of Hermès International who are Directors in subsidiaries do not receive directors' fees in this regard.

3.4.2 ACTIVE PARTNER

Under the terms of Article 26 of the Articles of Association, the Company pays 0.67% of the distributable profits to the Active Partner. The amounts paid in respect of the last two financial years are shown in the table below:

	2016	2015
Émile Hermès SARL	€7,311,168.66	€5,646,531.33

3.4.3 SUPERVISORY BOARD, AUDIT COMMITTEE AND COMPENSATION, APPOINTMENTS AND GOVERNANCE COMMITTEE

3.4.3.1 Directors' fees and compensation

Supervisory Board members receive directors' fees and compensation in a total amount that is approved by the shareholders at the General Meeting and that is apportioned by the Supervisory Board.

Compensation paid to members of the Audit Committee and of the Compensation, Appointments and Governance Committee is deducted from the total amount of directors' fees.

The principles for apportioning directors' fees are set out in the report from the Chairman of the Supervisory Board on page 117.

Table 3 on pages 142 to 144 details the directors' fees and other compensation received by the members of the Supervisory Board from Hermès International and the companies that it controls according to the meaning of Article L. 233-16 of the French Commercial Code (*Code de commerce*) over the last two financial years.

The members of the Supervisory Board of a *société en commandite par actions* (partnership limited by shares) may be bound to the Company by an employment contract with no condition other than that resulting from the existence of a relationship of subordination with the Company and the recognition of effective employment.

Two members of the Supervisory Board have an employment contract with Hermès International or one of its subsidiaries:

- ♦ Julie Guerrand (Deputy Managing Director/Finance and Organisation of the Hermès Cuirs Précieux division);
- ♦ Frédéric Afriat (chief accountant at the Comptoir Nouveau de la Parfumerie, Hermès Parfums).

For reasons of confidentiality, the salaries paid to them are not communicated.

3.4.3.2 Stock subscription and purchase options

No stock subscription or purchase options were allotted to Supervisory Board members during FY 2016, nor were any such options exercised by those persons.

Allocation of free shares

Julie Guerrand was allocated free shares in 2016 in respect of her duties as Deputy Managing Director/Finance and Organisation of the Hermès Cuirs Précieux division, under the terms of the decisions of the Executive Management of 31 May 2016 described on page 146.

Denis Marmonier was allocated free shares in 2016 in respect of his duties as Transfer Manager at Siegl under the terms of the decisions of the Executive Management of 31 May 2016 described on page 146.

Frédéric Afriat was allocated, in his role as chief accountant at Comptoir Nouveau de la Parfumerie, and prior to his appointment to the Supervisory Board, bonus shares within the conditions of the decisions taken by Executive Management on 31 May 2016, detailed on page 146.

These allocations have no connection with the beneficiaries' executive positions in the Company. They were made exclusively in accordance with their respective employment contracts with the entities of the Group indicated above.

No free shares were granted to the other members of the Supervisory Board during the 2016 financial year.

3.4.4 ALLOCATION OF BONUS SHARES, STOCK OPTIONS

3.4.4.1 General policies on granting bonus shares and of stock options

Allocations of stock options and free allocations of shares form part of the Hermès Group's long-term compensation and loyalty policy. Such allocations have historically been made at a multi-year rate (see comments below on the plans in force); they are exceptional and have always benefited a much wider population than that of the Corporate Officers and Senior Executives of the Group.

Concerning freely allocated shares, in 2007, 2010, 2012 and in 2016, these were allocated to all Group staff (subject to minimum seniority on the allocation date) in France and abroad.

In accordance with the provisions of Articles L. 225-197-1 *et seq.* of the French Commercial Code (*Code de commerce*), these allocations are always associated with conditions of presence, and conditions of performance for some plans. With an objective of building long-term loyalty, the 2007, 2010 and 2012 plans were associated with a vesting period of four years for participants residing in France and six years for participants abroad, and a mandatory retention period of the shares thus acquired of two years for participants resident in France. To harmonise the vesting conditions, the free shares allocated by the Executive Management in 2016 were accompanied by identical vesting periods for Group employees in France and internationally. In line with its long-term strategy, the Executive Management has set the vesting periods for these awards at four and five years respectively. However, as permitted by the applicable law (Article L. 225-197-1 *et seq.* of the French Commercial Code (*Code de commerce*)) and in accordance with the fifteenth resolution of the Annual General Meeting of 31 May 2016 (see below), no lock-up period was established, leaving each beneficiary employee free to decide how long to hold the shares acquired.

3.4.4.2 Free share allocation plans in force

In accordance with Article L. 225-197-4 of the French Commercial Code (*Code de commerce*), we hereby report to you on free shares granted during FY 2016.

The Executive Management has been authorised by the Extraordinary General Meeting of 31 May 2016 to allocate bonus shares, on one or more occasions, to some or all employees and/or Senior Executives of the Company or companies affiliated therewith, by granting existing shares in the Company for no consideration. The condition of delegations of authority still in force are shown on pages 266 to 269.

The total number of shares freely allocated under each of these authorisations and the total number of purchase options granted and not yet exercised are limited to 2% of the number of shares in the Company on the day of allocation, without taking into account those already granted under previous authorisations.

Making use of these authorisations, the Executive Management in 2016 granted shares under democratic and selective plans, it being stipulated that Axel Dumas, the sole natural person among the Executive Chairmen, received no free shares under these two plans. You will find, in Table 11 on page 146, the details of the conditions of the free share allocation plans (and notably the vesting period, the retention period and the conditions of performance where applicable) and, in Table 12 on page 146, the details of shares freely allocated to the 10 biggest beneficiaries who are Non-Corporate Officers.

Bonus share allocations do not dilute the share capital because they consist exclusively of existing shares in the Company. Their value as of the allotment date, calculated using the method for recognition of the shares in the consolidated financial statements, is shown in the notes to the consolidated financial statements (Note 30.2, page 205).

Additional information on free share grants in 2016, on the general long-term compensation policy and other initiatives involving employees in the Group's performance are described in the "Social, environmental and societal information" on pages 47 and 48.

3.4.4.3 Stock options

The Executive Management was authorised to grant stock options to certain employees and Corporate Officers of the Company and of affiliated companies by the Extraordinary General Meeting. These delegations of authority were not used in 2016. As shown in the tables on page 142, there were no stock option plans existing as at 31 December 2016.

3.4.4.4 Stock subscription options

All stock subscription option plans lapsed in 2009. No authorisation from the General Meeting allows the Executive Management to grant stock options.

3.4.5 TABLES PREPARED IN ACCORDANCE WITH AMF RECOMMENDATION 2009-16 AMENDED ON 13 APRIL 2015 PERTAINING TO INFORMATION ON COMPENSATION OF CORPORATE OFFICERS TO BE DISCLOSED IN REGISTRATION DOCUMENTS

TABLE 1

Table summarising compensation and options and shares allocated to each Executive Chairman

	2016	2015
	From 1 January to 31 December 2016	From 1 January to 31 December 2015
Axel Dumas		
Compensation due pursuant to the financial year (detailed in Table 2)	€2,555,753	€2,268,000
Valuation of options allocated during the financial year (detailed in Table 4)	n/a	n/a
Valuation of multi-year variable compensation assigned during the financial year	n/a	n/a
Valuation of performance-based shares allocated during the financial year (detailed in Table 6)	n/a	n/a
TOTAL	€2,555,753	€2,268,000
Total natural persons as Executive Chairmen	€2,555,753	€2,268,000
	From 1 January to 31 December 2016	From 1 January to 31 December 2015
Émile Hermès SARL		
Compensation due pursuant to the financial year (detailed in Table 2)	€1,256,409	€4,450,353
Valuation of options allocated during the financial year (detailed in Table 4)	n/a	n/a
Valuation of multi-year variable compensation assigned during the financial year	n/a	n/a
Value of performance shares granted during the financial year (detailed in Table 6)	n/a	n/a
TOTAL	€1,256,409	€4,450,353
Total legal entities as Executive Chairmen	€1,256,409	€4,450,353

n/a: not applicable.

TABLE 2

Gross annual compensation of Executive Chairmen	2016			2015		
	Limits granted by the Articles of Association or the General Meeting	Amounts due (or allocated) by the Executive Management Board ¹	Amounts paid	Limits granted by the Articles of Association or the General Meeting	Amounts due (or allocated) by the Executive Management Board	Amounts paid
Axel Dumas	Decision of the Executive Management Board dated 22 March 2016			Decision of the Executive Management Board dated 23 March 2015		
Statutory variable compensation ²	€3,025,636	€1,294,762	€1,294,762	€2,573,899	€1,101,450	€1,101,450
Additional compensation ²	€2,028,368	€1,260,991	€1,260,991	€1,876,454	€1,166,550	€1,166,550
Of which fixed component	€1,876,455	€1,166,550	€1,166,550	€1,689,279	€1,050,187	€1,050,187
Of which part indexed on increase in revenue	€151,913	€94,441	€94,441	€187,175	€116,363	€116,363
Exceptional compensation	-	-	-	-	-	-
Total compensation	€5,054,004	€2,555,753	€2,555,753	€4,450,353	€2,268,000	€2,268,000
Directors' fees	n/a	n/a	n/a	n/a	n/a	n/a
Benefits in kind	n/a	n/a	representation	n/a	n/a	Car/representation
Émile Hermès SARL	Decision of the Executive Management Board dated 22 March 2016			Decision of the Executive Management Board dated 23 March 2015		
Statutory variable compensation ²	€3,025,636	€756,409	€756,409	€2,573,899	€2,573,899	€2,573,899
Additional compensation ²	€2,028,368	€500,000	€500,000	€1,876,454	€1,876,454	€1,876,454
Of which fixed component	€1,876,455	€462,553	€462,553	€1,689,279	€1,689,279	€1,689,279
Of which part indexed on increase in revenue	€151,913	€37,447	€37,447	€187,175	€187,175	€187,175
Exceptional compensation	-	-	-	-	-	-
Total compensation	€5,054,004	€1,256,409	€1,256,409	€4,450,353	€4,450,353	€4,450,353
Directors' fees	n/a	n/a	n/a	n/a	n/a	n/a
Benefits in kind	n/a	n/a	n/a	n/a	n/a	n/a

n/a: not applicable.

- (1) A detailed presentation of the principles and the amount (or the valuation) of the elements of the compensation of each Executive Chairman is shown in the description of the resolutions on pages 286 to 290.
(2) These amounts take into account the limits granted individually and collectively by the Articles of Association and the General Meeting.

TABLE 3

Directors' fees and other compensation received by members of the Supervisory Board in Hermès International	Amounts paid in 2017	Amounts paid in 2016
Directors' fees received by Non-Executive Corporate Officers in the companies controlled by Hermès International	in respect of 2016	in respect of 2015
Total amount of directors' fees and compensation allocated by the General Meeting of Hermès International	€500,000	€500,000
Total amount of directors' fees and compensation actually assigned by Hermès International	€385,000	€391,900
Éric de Seynes		
Compensation of the Chairman of the Supervisory Board	€100,000	€100,000
Directors' fees for Hermès International	n/a	n/a
♦ fixed component	-	-
♦ variable component based on attendance	-	-
Directors' fees for Hermès Sellier	€3,000	€3,000
Monique Cohen		
Compensation of the Chairman of the Audit Committee	€20,000	€20,000
Directors' fees for Hermès International	€22,000	€22,000
♦ fixed component	€8,000	€8,000
♦ variable component based on attendance	€14,000	€14,000

Directors' fees and other compensation received by members of the Supervisory Board in Hermès International	Amounts paid in 2017	Amounts paid in 2016
Directors' fees received by Non-Executive Corporate Officers in the companies controlled by Hermès International	in respect of 2016	in respect of 2015
Dominique Senequier		
Compensation of the Chairman of the Compensation, Appointments and Governance Committee	€20,000	€20,000
Directors' fees for Hermès International	€22,000	€22,000
♦ fixed component	€8,000	€8,000
♦ variable component based on attendance	€14,000	€14,000
Frédéric Afriat (employee representative) (appointed 8 November 2016)		
Directors' fees for Hermès International	n/a	n/a
Charles-Éric Bauer		
Compensation of the Audit Committee members	€9,000	€9,000
♦ fixed component	€4,000	€4,000
♦ variable component based on attendance	€5,000	€5,000
Directors' fees for Hermès International	€20,000	€22,000
♦ fixed component	€8,000	€8,000
♦ variable component based on attendance	€12,000	€14,000
Matthieu Dumas		
Compensation of the Compensation, Appointments and Governance Committee members	€10,000	€10,000
♦ fixed component	€4,000	€4,000
♦ variable component based on attendance	€6,000	€6,000
Directors' fees for Hermès International	€22,000	€22,000
♦ fixed component	€8,000	€8,000
♦ variable component based on attendance	€14,000	€14,000
Directors' fees Comptoir Nouveau de la Parfumerie	€3,000	€3,000
Blaise Guerrand		
Directors' fees for Hermès International	€22,000	€22,000
♦ fixed component	€8,000	€8,000
♦ variable component based on attendance	€14,000	€14,000
Directors' fees for Hermès Sellier	€3,000	€3,000
Julie Guerrand		
Directors' fees for Hermès International	€20,000	€22,000
♦ fixed component	€8,000	€8,000
♦ variable component based on attendance	€12,000	€14,000
Sharon MacBeath (appointed 31 May 2016)		
Compensation of the Audit Committee members	€5,000	n/a
♦ fixed component	€2,000	n/a
♦ variable component based on attendance	€3,000	n/a
Directors' fees for Hermès International	€14,000	n/a
♦ fixed component	€4,000	n/a
♦ variable component based on attendance	€10,000	n/a
Renaud Momméja		
Compensation of the Audit Committee members	€10,000	€9,300
♦ fixed component	€4,000	€4,000
♦ variable component based on attendance	€6,000	€5,300 ¹
Directors' fees for Hermès International	€18,000	€22,000
♦ fixed component	€8,000	€8,000
♦ variable component based on attendance	€10,000	€14,000
Directors' fees Comptoir Nouveau de la Parfumerie	€3,000	€3,000

Directors' fees and other compensation received by members of the Supervisory Board in Hermès International	Amounts paid in 2017	Amounts paid in 2016
Directors' fees received by Non-Executive Corporate Officers in the companies controlled by Hermès International	in respect of 2016	in respect of 2015
Robert Peugeot		
Compensation of the Audit Committee members	€8,000	€9,600
♦ fixed component	€4,000	€4,000
♦ variable component based on attendance	€4,000	€5,600 ¹
Compensation of the Compensation, Appointments and Governance Committee members	€10,000	€10,000
♦ fixed component	€4,000	€4,000
♦ variable component based on attendance	€6,000	€6,000
Directors' fees for Hermès International	€20,000	€20,000
♦ fixed component	€8,000	€8,000
♦ variable component based on attendance	€12,000	€12,000
Florence Woerth (term expired 31 May 2016)		
Compensation of the Audit Committee members	€5,000	€10,000
♦ fixed component	€2,000	€4,000
♦ variable component based on attendance	€3,000	€6,000
Directors' fees for Hermès International	€8,000	€20,000
♦ fixed component	€4,000	€8,000
♦ variable component based on attendance	€4,000	€12,000

n/a: not applicable.

(1) A regularisation was paid in 2016 pursuant to 2014 to take into account a meeting of the Audit Committee on 12 December 2014, which was not counted in the calculation of directors' fees in 2015. This regularisation concerns two members of the Audit Committee and represents a total amount of €900.

TABLE 4

Stock subscription or purchase options allocated during the financial year to Executive Chairmen by Hermès International and by all companies of the Group

Name of the Executive Corporate Officer	Number and date of plan	Nature of options	Valuation of options according to the method used for the consolidated financial statements	Number of options allocated during the financial year	Exercise price	Exercise period
Axel Dumas	n/a	n/a	n/a	-	n/a	n/a

n/a: not applicable.

TABLE 5

Stock subscription or purchase options exercised during the financial year by the Executive Chairmen of Hermès International

Name of the Executive Corporate Officer	Number and date of plan	Number of options exercised during the financial year	Exercise price
Axel Dumas	n/a	n/a	n/a
TOTAL	N/A	N/A	N/A

n/a: not applicable.

TABLE 6

Performance-based share distributions allocated to each Corporate Officer

Performance-based share distributions allocated by the Shareholders' General Meeting during the financial year to each Corporate Officer by the issuer and by all companies of the Group (nominative list)	Number and date of plan	Number of shares allocated during the financial year	Valuation of shares according to the method used for the consolidated financial statements	Acquisition date	Availability date	Performance conditions
Axel Dumas	n/a	n/a	n/a	n/a	n/a	n/a
TOTAL	N/A	N/A	N/A	N/A	N/A	N/A

n/a: not applicable

TABLE 7

Performance-based share distributions made available to each Corporate Officer

Name of the Corporate Officer	Number and date of plan	Number of shares acquired during the financial year	Conditions of acquisition
Axel Dumas	Plans d and e of 15 May 2012	4,020	n/a
TOTAL		4,020	N/A

n/a: not applicable, the award having been made in his capacity as employee, prior to his appointment as Executive Chairman.

TABLE 8

History of allocation of stock subscription or purchase options Information on the stock subscription or purchase options

Meeting of 25/05/1998 (sixth resolution) – Stock subscription or purchase options	Plan nos. 1 to 4 expired
Meeting of 03/06/2003 (fifteenth resolution) – Stock options	Plan nos. 5 to 6 expired
Meeting of 06/06/2006 (ninth resolution) – Stock options	Plan no. 7 expired
Meeting of 02/06/2009 (fourteenth resolution) – Stock options	No plan put in place in 2009, 2010 or 2011
Meeting of 30/05/2011 (twenty-first resolution) – Stock options	No plan put in place in 2011 or 2012
Meeting of 29/05/2012 (thirteenth resolution) – Stock options	No plan put in place in 2012 or 2013
Meeting of 04/06/2013 (eighteenth resolution) – Stock options	No plan put in place in 2013 or 2014
Meeting of 03/06/2014 (sixteenth resolution) – Stock options	No plan put in place in 2014 or 2015
Meeting of 02/06/2015 (fourteenth resolution) – Stock options	No plan put in place in 2015 or 2016
Meeting of 31/05/2016 (fourteenth resolution) – Stock options	No plan put in place in 2016

TABLE 9

Stock subscription or purchase options granted to the first ten Non-Corporate Officer assignees and options exercised by the latter	Total number of shares allocated/ shares subscribed or purchased	Weighted average price	Plan nos. 1 to 7
Options granted, during the financial year, by the issuer and any company included within the scope of allocation of the options, to the ten employees of the issuer and of any company included within this scope for whom the number of options thus granted is the highest (overall information)	n/a	n/a	Plans expired
Options held on the issuer and the companies previously mentioned, exercised during the financial year by the ten employees of the issuer and of these companies for whom the number of options thus purchased or subscribed is the highest (overall information)	n/a	n/a	

n/a: not applicable.

TABLE 10

Senior Executives (natural persons)	Employment contract	Supplementary pension plan	Compensation or benefits due or likely to be due because of cessation or change of functions ¹	Compensation relative to a non-competition clause
Axel Dumas, Executive Chairman Date of start of term of office: 05/06/2013 Date of end of term of office: open-ended	no ²	yes	yes	no

(1) The details of these commitments are shown on page 288.

(2) Since 05/06/2013.

TABLE 11

Details of bonus share allocation plans still in force on 1 January 2016

Date of authorisation by the Extraordinary General Meeting	02/06/2009 (fifteenth resolution)	02/06/2009 (fifteenth resolution)	30/05/2011 (twenty-ninth resolution)	30/05/2011 (twenty-ninth resolution)	31/05/2016 (fifteenth resolution)	31/05/2016 (fifteenth resolution)
Date of the decision by the Executive Management	31/05/2010 (plan b)	31/05/2010 (plan c)	15/05/2012 (plan d)	15/05/2012 (plan e)	(31/05/2016) (plan f)	(31/05/2016) (plan g)
Total number of shares allocated	188,500 ³	229,860	515,280	302,000	452,960	353,100
Shares allocated to Senior Executives ¹	24,000	180	420	70,000	320	29,000
Number of Senior Executives ¹ concerned	6	6	7	7	8	8
Share related to capital of allocations of shares to Senior Executives	0.02%	n.m.	n.m.	0.06%	n.m.	0.028%
French tax residents on the date of allocation:			3 tranches of 20 shares		2 tranches of 20 shares	
♦ vesting period	4 years	4 years	4/5/6 years	4 years	4/5 years	4 years
♦ date of transfer of ownership of shares	01/06/2014	01/06/2014	16/05/2016 16/05/2017 16/05/2018	16/05/2016	01/06/2020 01/06/2021	01/06/2020
♦ end of the retention period	02/06/2016	02/06/2016	17/05/2018 17/05/2019 17/05/2020	17/05/2018	n/a	n/a
Tax residents outside France on the date of allocation:			3 tranches of 20 shares		2 tranches of 20 shares	
♦ vesting period	6 years	6 years	6/7/8 years	6 years	4/5 years	4 years
♦ date of transfer of ownership of shares	01/06/2016	01/06/2016	16/05/2018 16/05/2019 16/05/2020	16/05/2018	01/06/2020 01/06/2021	01/06/2020
♦ end of the retention period	n/a	n/a	n/a	n/a	n/a	n/a
Performance conditions	Yes	No	No	Yes	No	Yes
Number of shares acquired ² as at 31/12/2016	175,500	187,200	98,920	219,500	0	0
Number of shares lost as at 31/12/2016	13,000	42,660	91,780	10,500	12,440	1,900

n.m.: not meaningful; n/a: not applicable.

(1) The following are considered Senior Executives in the present Table 11: Executive Chairmen, members of the Supervisory Board and the members of the Executive Committee of the issuer on the date of allocation.

(2) Including by early release in accordance with the regulations of the plan (death, invalidity).

(3) Maximum.

TABLE 12

Allocation of bonus shares granted to the first ten Non-Corporate Officer assignees	Total number of shares allocated	Date of plans
Shares allocated, during the financial year, to the ten employees of the issuer and any company included in this scope for whom the number of shares thus granted is the highest (overall information)	42,060	31 May 2016 (plans f and g)

n/a: not applicable.

Tables 1 to 10 shown above were numbered by reference to AMF recommendation 2009-16, modified on 13 April 2015, relative to the information to be given in registration documents on the compensation of Corporate Officers. Tables 11 and 12 were numbered at the initiative of Hermès International.

4

COMMENTS ON THE FINANCIAL YEAR AND OUTLOOK

4.1	SUMMARY CONSOLIDATED FINANCIAL STATEMENTS	150
4.1.1	Summary consolidated statement of profit or loss	150
4.1.2	Summary consolidated statement of financial position as at 31 december 2016	150
4.1.3	Summary consolidated statement of cash flows	151
4.2	COMMENTS ON THE CONSOLIDATED RESULTS	152
4.2.1	Consolidated results	152
4.2.2	Investments	152
4.2.3	Financial position	152
4.2.4	Value creation	153
4.2.5	Exceptional events	153
4.3	INFORMATION ON THE PARENT COMPANY FINANCIAL STATEMENTS, ON ACCOUNTS PAYABLE DUE DATES, SUBSIDIARIES AND ASSOCIATES	154
4.3.1	Information on parent company financial statements	154
4.3.2	Information on accounts payable due dates	154
4.3.3	Information on subsidiaries and associates	154
4.3.4	Information on branches	155
4.3.5	Information on the amount of inter-company loans	155
4.4	OUTLOOK	156

4.1 SUMMARY CONSOLIDATED FINANCIAL STATEMENTS

4.1.1 SUMMARY CONSOLIDATED STATEMENT OF PROFIT OR LOSS

<i>In millions of euros</i>	2016	2015
Revenue	5,202	4,841
Operating income	1,697	1,541
<i>in % of revenue</i>	32.6%	31.8%
CONSOLIDATED NET INCOME	1,104	977
NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT	1,100	973
<i>in % of revenue</i>	21.2%	20.1%

4.1.2 SUMMARY CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016

SUMMARISED ASSETS

<i>In millions of euros</i>	31/12/2016	31/12/2015
Non-current assets	2,186	2,092
<i>of which intangible assets and property, plant and equipment</i>	1,457	1,410
Current assets	3,813	3,095
<i>of which inventories and work-in-progress</i>	915	949
<i>of which cash assets</i>	2,329	1,589
TOTAL ASSETS	5,999	5,188

SUMMARISED LIABILITIES

<i>In millions of euros</i>	31/12/2016	31/12/2015
Equity	4,385	3,749
<i>of which net income attributable to owners of the parent</i>	1,100	973
<i>of which non-controlling interests</i>	2	7
Non current liabilities	324	282
Current liabilities	1,290	1,157
<i>of which trade payables and other liabilities</i>	988	911
TOTAL EQUITY AND LIABILITIES	5,999	5,188

4.1.3 SUMMARY CONSOLIDATED STATEMENT OF CASH FLOWS

<i>In millions of euros</i>	2016	2015
Cash flows related to operating activities	1,474	1,186
<i>of which operating cash flows</i>	1,439	1,218
<i>of which change in working capital requirements</i>	46	(31)
Cash flows related to investing activities	(220)	(241)
<i>of which operating investments</i>	(262)	(252)
Cash flows related to financing activities	(471)	(837)
<i>of which dividends paid</i>	(360)	(840)
<i>of which treasury share buybacks net of disposals</i>	(109)	(5)
Foreign currency translation adjustment and change in scope	(35)	42
CHANGE IN NET CASH POSITION	749	150
Net cash position at end of period	2,320	1,571
Restated net cash ¹	2,345	1,614

(1) Includes non-liquid financial investments and borrowings.

4.2 COMMENTS ON THE CONSOLIDATED RESULTS

4.2.1 CONSOLIDATED RESULTS

In 2016, the Hermès Group reported revenue of €5,202 million, up 7.5% at current exchange rates (7.4% at constant exchange rates). The gross margin rate was 67.7%, an increase of 1.6 percentage points attributable chiefly to the favourable impact of foreign exchange hedges contracted in 2015.

Sales, marketing and administrative expenses, which represented €1,545 million versus €1,419 million in 2015, include €242 million of communication expenditure. Other income and expenses came to €279 million. This figure includes €168 million of depreciation and amortisation charges, which reflects the rapid pace of investment in the development and renovation of the distribution network, as well as the cost of free share allocation plans.

Operating income increased by 10.1% to €1,697 million versus €1,541 million in 2015. The operating margin represented 32.6% of sales, an increase on 2015 (31.8%).

Net financial income represented an expense of €48 million versus €46 million in 2015. Net income attributable to non-controlling interests totalled €4 million versus €5 million the previous year. After taking into account a tax expense of €556 million which includes the tax of 3% on dividends paid, and the results of associates (€11 million in income), the Group's net income increased by 13.1% to €1,100 million.

4.2.2 INVESTMENTS

In 2016, Hermès pursued the qualitative development of its distribution network and the strengthening of its production capacity, with €285 million in investments (excluding financial investments). The Group opened, refurbished or extended approximately 20 branches.

In addition, the Leather Goods and Saddlery division continued to invest in new capacities, including the construction of three new leather goods workshops in Franche-Comté, Normandy and Limousin.

<i>In millions of euros</i>	2016	2015
Operating investments	262.1	252.4
Investments in financial assets	23.3	14.2
Subtotal - Investments (excluding financial investments)	285.4	266.6
Financial investments ⁽¹⁾	13.0	0.2
TOTAL INVESTMENTS	298.4	266.7

(1) Financial investments correspond to the investments for which the sensitivity and maturity require that they be classified as financial assets in accordance with IFRS.

4.2.3 FINANCIAL POSITION

Operating cash flows totalled €1,439 million, up by 18.1%. It enabled the Group to finance all investments (€298 million), as well as the distribution of the ordinary dividend (€350 million). The decrease in working capital requirements (€46 million) was attributable chiefly to the decline in net inventories. Net cash position amounted to €2,320 million as at 31 December 2016 versus €1,571 million as at 31 December 2015, an increase of nearly €750 million.

Restated net cash (after taking into account non-liquid financial investments and borrowings) totalled €2,345 million as at 31 December 2016, versus €1,614 million as at 31 December 2015. Strong earnings growth drove up shareholders' equity attributable to owners of the parent to €4,383 million as at 31 December 2016 versus €3,742 million as at 31 December 2015.

4.2.4 VALUE CREATION

The notions of economic value added (EVA) and return on capital employed (ROCE) were implemented within the Hermès Group several years ago as performance indicators for the Group's investments.

	2016	2015
Recurring operating income	1,696.5	1,540.7
Group tax rate	33.7%	35.8%
Recurring operating income, after tax (I)	1,125.0	988.7
Capital employed at end of period	2,251.8	2,316.3
Average capital employed over the period (II)	2,284.1	2,220.1
Weighted average cost of capital (III)	7.71%	8.83%
Economic value added (EVA) = (I) - (II) x (III)	948.9	792.7
Return on capital employed (ROCE) = (I) ÷ (II)	49%	45%

The economic value added (€949 million in 2016 against €793 million in 2015) increased by 20% due to the higher earnings. Return on capital employed was 49% in 2016 versus 45% in 2015.

4.2.5 EXCEPTIONAL EVENTS

No exceptional events occurred in 2016.

4.3 INFORMATION ON THE PARENT COMPANY FINANCIAL STATEMENTS, ON ACCOUNTS PAYABLE DUE DATES, SUBSIDIARIES AND ASSOCIATES

4.3.1 INFORMATION ON PARENT COMPANY FINANCIAL STATEMENTS

The parent company financial statements as presented were approved by the Executive Management on 7 February 2017 and will be submitted to the shareholders for approval at the General Meeting of 6 June 2017. The parent company financial statements were also reviewed by the Audit Committee at its meeting of 16 March 2017.

4.3.1.1 Revenue

Revenue amounted to €177.6 million in 2016, as compared with €207.2 million in 2015.

The Company's revenue consists of sales of services that are charged back to Group subsidiaries for advertising and public relations, rent, staff provided on secondment, insurance and professional fees and of royalties on the revenue of the production subsidiaries.

4.3.1.2 Statement of financial position and statement of profit or loss

Hermès International's statement of financial position and statement of profit or loss appear on pages 214 to 215.

The parent company financial statements are drawn up in accordance with the provisions of French laws and regulations and with generally accepted accounting principles.

As at 31 December 2016, total assets amounted to €3,465.6 million compared with €2,544.5 million as at 31 December 2015. The statement of profit or loss shows net income of €1,091.2 million, compared with €842.8 million in 2015.

As at 31 December 2016, share capital amounted to €53,840,400.12, made up of 105,569,412 shares with a par value of €0.51 each.

4.3.2 INFORMATION ON ACCOUNTS PAYABLE DUE DATES

In application of Articles L. 441-6-1, D. 441-4 and D. 823-7-1 of the French Commercial Code (*Code de commerce*), the breakdown of the balance of debt with regard to suppliers by maturity is given on page 226.

4.3.3 INFORMATION ON SUBSIDIARIES AND ASSOCIATES

A list of companies whose registered office is located in French territory and in which the Company owns a material interest, whether directly or indirectly, is provided in the notes to the parent company financial statements (pages 234 and 235).

4.3.3.1 Activity of subsidiaries

The activities of the main subsidiaries of the Group are shown on page 15.

4.3.3.2 Equity investments in companies having their registered office in France (Art. L. 233-6 of the French Commercial Code (*Code de commerce*))

In 2016, Hermès International and its subsidiaries made equity investments in companies having their registered office in France:

- ◆ Compagnie Hermès de Participations 2 has acquired a minority stake in the share capital of Maison Pierre Hardy (33% at 31 December 2016).

4.3.4 INFORMATION ON BRANCHES

In application of Article L. 232-1 of the French Commercial Code (*Code de commerce*), below, we communicate to you the list of branches (secondary establishments) of the Company as at 31 December 2016:

Address	SIRET
Paris	
13-15, rue de la Ville-l'Évêque 75008 Paris	572 076 396 00173
27-27, rue de la Ville-l'Évêque 75008 Paris	572 076 396 00181
10-12, rue d'Anjou 75008 Paris	572 076 396 00215
51, rue François-Ier 75008 Paris	572 076 396 00132
Pantin	
48 rue Auger, 93500 Pantin	572 076 396 00223
100, avenue du Général-Leclerc 93500 Pantin	572 076 396 0199
110 B, avenue du Général-Leclerc 93500 Pantin	572 076 396 00207

4.3.5 INFORMATION ON THE AMOUNT OF INTER-COMPANY LOANS

Hermès International did not grant any inter-company loans (loans of less than two years granted to micro-companies or small and medium-sized companies with which Hermès International has economic links) in 2016.

4.4 OUTLOOK

In an increasingly complex and ambiguous environment, Hermès has to preserve the values of craftsmanship and humanism that define us. Loyal to these values, faithful to our foundations and true to our model, we will continue to grow the house and let it shine throughout the world.

While Hermès is proud of its long tradition, our collective project is nevertheless forward-looking. We shake up tradition, all the better to reinvent it. We modernise, without losing our original force.

Hermès will confidently pursue its development strategy based on the excellence of its craftsmanship and creativity, and bolstered by the performances of recent years.

The qualitative development of our network will be pursued with the opening of three new stores, notably in Sao Paulo in Brazil and Changsha in China. Priority will be given to extensions and renovation in over twenty stores around the world.

In light of our particularly strong growth, Hermès will continue to increase its production capacities. High demand for Leather Goods and Saddlery, thanks to the success of the collections and the diversity of models, will be supported by the ramp-up of new sites in Isère, Charente and Franche Comté, by the projects of the site in L'Allan, and the extensions of the sites in Vaudreuil in Normandy and Saint-Junien in Limousin. The integration of Les Tanneries du Puy, specialised in the production of Box calfskin, continued, reinforcing the house's policy of preserving its know-how.

True to its history of singular communication, Hermès will continue to devise rich and surprising events, whose impact will be enhanced by a series of media-wide campaigns. The events strategy will remain extremely dynamic with the Saut Hermès at the Grand Palais, events inspired by our universes (women, men and home), as well as the Festival Hermès Hors les Murs and petit h sales events and celebrations for the opening and reopening of stores in London, Munich, Dosan Park and Toronto in particular. Digital activities will intensify, with the progressive launch of the new Internet platform at the end of the year.

Meanwhile, the house's other business lines will continue to draw on their know-how to design and produce exceptional objects.

In 2017, Hermès will be celebrating the «Meaning of objects». Hermès, by the richness of its creations and the radicality of its style, elegantly accompanies today's men and women in their everyday lives. And it is this ambition that gives meaning to our objects.

In the medium term, despite growing economic, geopolitical and monetary uncertainties around the world, the Group confirms an ambitious goal for revenue growth at constant exchange rates.

Thanks to its unique business model, Hermès is pursuing its long-term development strategy based on creativity, maintaining control over know-how and singular communication.

5

CONSOLIDATED FINANCIAL STATEMENTS

5.1	CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR 2016	160
5.2	CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME	161
5.3	CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016	162
5.4	CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AS AT 31 DECEMBER 2016	164
5.5	CONSOLIDATED STATEMENT OF CASH FLOWS	166
5.6	NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS	168
5.7	STATUTORY AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS	210

5.1 CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR 2016

<i>In millions of euros</i>	Notes	2016	2015
Revenue	3	5,202.2	4,841.0
Cost of sales	4	(1,681.9)	(1,642.5)
Gross margin		3,520.3	3,198.5
Selling, marketing and administrative expenses	5	(1,545.3)	(1,418.9)
Other income and expenses	6	(278.5)	(238.9)
Recurring operating income	3	1,696.5	1,540.7
Other non-recurring income and expenses		-	-
Operating income		1,696.5	1,540.7
Net financial income	7	(47.8)	(45.6)
Net income before tax		1,648.8	1,495.1
Income tax	8	(555.5)	(535.6)
Net income from associates	15	10.9	17.7
CONSOLIDATED NET INCOME		1,104.2	977.2
Net income attributable to non-controlling interests	21	(3.9)	(4.6)
NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT	3	1,100.3	972.6
Earnings per share <i>in euros</i>	9	10.53	9.32
Diluted earnings per share <i>in euros</i>	9	10.47	9.26

N.B.: the values shown in the tables are generally expressed in millions of euros. In certain cases, the effects of rounding up/down can lead to a slight discrepancy on the level of the totals or changes.

5.2 CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

<i>In millions of euros</i>	Notes	2016	2015
Consolidated net income		1,104.2	977.2
Changes in foreign currency adjustments	20.4	(2.3)	117.6
Cash flow hedges ¹	20.4	(19.4)	35.7
♦ <i>change in the fair value</i>		2.8	22.2
♦ <i>recycling through profit or loss</i>		(22.2)	13.5
Available-for-sale financial assets ¹		-	-
♦ <i>change in the fair value</i>		-	-
♦ <i>recycling through profit or loss</i>		-	-
Gains and losses recognised in equity and transferable through profit or loss		(21.6)	153.3
Other items ¹	20.4	-	-
Employee benefits: change in value linked to actuarial gains and losses ¹	20.4	(11.3)	(9.2)
Gains and losses recognised in equity and not transferable through profit or loss		(11.3)	(9.2)
Net comprehensive income		1,071.2	1,121.2
♦ attributable to owners of the parent		1,067.5	1,115.2
♦ attributable to non-controlling interests		3.7	6.0

(1) Net of tax.

N.B.: the values shown in the tables are generally expressed in millions of euros. In certain cases, the effects of rounding up/down can lead to a slight discrepancy on the level of the totals or changes.

5.3 CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016

ASSETS

<i>In millions of euros</i>	Notes	31/12/2016	31/12/2015
Non-current assets		2,185.8	2,092.4
Goodwill	10	36.6	37.9
Intangible assets	11	122.1	122.3
Property, plant and equipment	12	1,334.6	1,287.4
Investment property	13	85.8	100.2
Financial assets	14	31.9	42.4
Investments in associates	15	87.3	85.4
Loans and deposits	16	47.5	50.6
Deferred tax assets	8.3	430.4	360.3
Other non-current assets	18	9.5	5.9
Current assets		3,812.9	3,095.2
Inventories and work-in-progress	17	915.1	949.2
Trade and other receivables	18	307.2	303.0
Current tax receivables	18	22.7	31.8
Other assets	18	198.4	183.0
Financial derivatives	22.4	40.5	39.0
Cash and cash equivalents	19	2,328.9	1,589.2
TOTAL ASSETS		5,998.7	5,187.6

N.B.: the values shown in the tables are generally expressed in millions of euros. In certain cases, the effects of rounding up/down can lead to a slight discrepancy on the level of the totals or changes.

LIABILITIES

Before allocation

<i>In millions of euros</i>	Notes	31/12/2016	31/12/2015
Equity		4,384.8	3,748.7
Share capital	20	53.8	53.8
Share premium		49.6	49.6
Treasury shares	20	(287.8)	(271.8)
Reserves		3,300.5	2,750.3
Foreign currency adjustments	20.2	163.3	165.3
Financial instruments attributable to equity	20.3	2.8	22.2
Net income attributable to owners of the parent	3	1,100.3	972.6
Non-controlling interests	21	2.2	6.7
Non current liabilities		323.8	281.7
Borrowings and financial liabilities	22.3	20.8	11.4
Provisions	23	3.5	2.6
Post-employment and other employee benefit obligations	25	183.4	155.0
Deferred tax liabilities	8.3	49.0	50.7
Other non-current liabilities	26	67.3	62.0
Current liabilities		1,290.0	1,157.2
Borrowings and financial liabilities	22.3	20.2	30.2
Provisions	23	94.7	58.8
Post-employment and other employee benefit obligations	25	5.6	4.8
Trade and other payables	26	463.7	440.3
Financial derivatives	22.4	53.8	37.1
Current tax liabilities	26	128.3	115.0
Other current liabilities	26	523.8	471.1
TOTAL EQUITY AND LIABILITIES		5,998.7	5,187.6

N.B.: the values shown in the tables are generally expressed in millions of euros. In certain cases, the effects of rounding up/down can lead to a slight discrepancy on the level of the totals or changes.

5.4 CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AS AT 31 DECEMBER 2016

Before allocation

<i>In millions of euros</i>	Share capital	Share premium	Treasury shares	Consolidated reserves and net income attributable to owners of the parent
Notes	20		20	
As at 31 December 2014	53.8	49.6	(266.9)	3,651.5
Net income attributable to owners of the parent	-	-	-	972.6
Income and expenses recognized directly in equity	-	-	-	-
Sub-total	-	-	-	972.6
Change in share capital and share premium	-	-	-	-
Purchase or sale of treasury shares	-	-	(4.9)	0.3
Share-based payments	-	-	-	36.4
Dividends paid	-	-	-	(833.9)
Others	-	-	-	(21.4)
As at 31 December 2015	53.8	49.6	(271.8)	3,805.4
Net income attributable to owners of the parent	-	-	-	1,100.3
Income and expenses recognized directly in equity	-	-	-	-
Sub-total	-	-	-	1,100.3
Change in share capital and share premium	-	-	-	-
Purchase or sale of treasury shares	-	-	(15.9)	(92.4)
Share-based payments	-	-	-	53.8
Dividends paid	-	-	-	(356.0)
Others	-	-	-	(16.4)
AS AT 31 DECEMBER 2016	53.8	49.6	(287.8)	4,494.6

N.B.: the values shown in the tables are generally expressed in millions of euros. In certain cases, the effects of rounding up/down can lead to a slight discrepancy on the level of the totals or changes.

Financial instruments	Foreign currency adjustments	Actuarial gains and losses	Equity attributable to owners of the parent	Non-controlling interests	Equity	Number of shares
20.3	20.2	20.4		21		20
(13.5)	47.7	(73.3)	3,449.0	9.5	3,458.5	105,569,412
-	-	-	972.6	4.6	977.2	-
35.7	116.2	(9.2)	142.6	1.4	144.0	-
35.7	116.2	(9.2)	1,115.2	6.0	1,121.3	-
-	-	-	0.0	-	-	-
-	-	-	(4.6)	-	(4.6)	-
-	-	-	36.4	-	36.4	-
-	-	-	(833.9)	(6.3)	(840.2)	-
-	1.4	-	(20.0)	(2.5)	(22.6)	-
22.2	165.3	(82.5)	3,742.0	6.7	3,748.7	105,569,412
-	-	-	1,100.3	3.9	1,104.2	-
(19.4)	(2.1)	(11.3)	(32.7)	(0.2)	(32.9)	-
(19.4)	(2.1)	(11.3)	1,067.5	3.7	1,071.2	-
-	-	-	-	-	-	-
-	-	-	(108.4)	-	(108.4)	-
-	-	-	53.8	-	53.8	-
-	-	-	(356.0)	(4.1)	(360.1)	-
-	0.1	-	(16.4)	(4.2)	(20.4)	-
2.8	163.3	(93.8)	4,382.6	2.2	4,384.8	105,569,412

5.5 CONSOLIDATED STATEMENT OF CASH FLOWS

Before allocation

<i>In millions of euros</i>	Notes	2016	2015
CASH FLOWS RELATED TO OPERATING ACTIVITIES			
Net income attributable to owners of the parent		1,100.3	972.6
Depreciation and amortisation	11, 12 and 13	201.8	178.6
Impairment losses	10, 11 and 12	30.3	27.9
Mark-to-Market financial instruments		7.2	(2.1)
Foreign exchange gains/(losses) on fair value adjustments		30.4	(23.0)
Change in provisions		70.1	19.9
Net income from associates	15	(10.9)	(17.7)
Net income attributable to non-controlling interests	21	3.9	4.6
Capital gains/(losses) on disposals		(18.8)	(3.7)
Deferred tax expense		(29.3)	25.0
Accrued expenses and income related to share-based payments	30	53.8	36.4
Others		(0.1)	(0.2)
Operating cash flows		1,438.7	1,218.2
Dividend income		(11.6)	(1.5)
Interest income and expenses		(3.4)	(5.7)
Current tax expense		612.5	539.6
Operating cash flows before financial interest, dividends and taxes		2,036.2	1,750.6
Change in working capital requirements related to the activity		22.5	2.0
Interest income and expenses		3.4	5.7
Income tax paid		(588.2)	(572.6)
Change in net cash related to operating activities		1,473.9	1,185.7
CASH FLOWS RELATED TO INVESTING ACTIVITIES			
Purchase of intangible assets	11	(46.9)	(39.1)
Purchase of property, plant and equipment	12 and 13	(215.2)	(213.3)
Investments in associates		(23.3)	(14.2)
Purchase of other financial assets	14	(13.0)	(0.2)
Amounts payable to fixed asset suppliers		2.8	(21.3)
Proceeds from sale of operating assets		18.1	10.4
Proceeds from sale of investments in associates		9.5	-
Proceeds from sale of other financial assets		22.8	17.8
Dividends received		25.7	18.5
Change in net cash related to investing activities		(219.6)	(241.3)
CASH FLOWS RELATED TO FINANCING ACTIVITIES			
Dividends paid		(360.1)	(840.2)
Treasury share buybacks net of disposals		(108.8)	(5.2)
Proceeds from borrowings		3.6	10.7
Repayment of borrowings		(5.8)	(2.2)
Other increases/(decreases) in equity		(0.0)	0.3
Change in net cash related to financing activities		(471.2)	(836.7)
Change in scope		(0.0)	1.9
Change in foreign currency translation adjustment on intra-group transactions		(27.6)	11.6
Foreign currency translation adjustment	19	(6.9)	28.4
CHANGE IN NET CASH POSITION	19	748.6	149.6
Net cash position at beginning of period	19	1,571.2	1,421.6
Net cash position at end of period	19	2,319.8	1,571.2

N.B.: the values shown in the tables are generally expressed in millions of euros. In certain cases, the effects of rounding up/down can lead to a slight discrepancy on the level of the totals or changes.

Hermès International is a *société en commandite par actions* (partnership limited by shares) established under French law. It is listed on Eurolist (Compartment A) and governed by all laws applicable to commercial companies in France. Its registered office is located at 24 rue du Faubourg-Saint-Honoré, 75008 Paris (France).

The consolidated financial statements present the financial position of Hermès International and its subsidiaries (the “Group”), together with interests in associates (see Note 1.2). They are prepared on the basis of annual financial statements for the period ended 31 December, expressed in euros.

The consolidated financial statements as presented were approved by the Executive Management on 21 March 2017 and will be submitted to the shareholders for approval at the General Meeting on 6 June 2017. The annual consolidated financial statements were also reviewed by the Audit Committee at its meeting on 16 March 2017.

5.6 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DETAILED CONTENTS

NOTE 1	ACCOUNTING PRINCIPLES AND POLICIES	169
NOTE 2	ANALYSIS OF THE MAIN CHANGES IN THE SCOPE OF CONSOLIDATION	177
NOTE 3	SEGMENT INFORMATION	177
NOTE 4	COST OF SALES	178
NOTE 5	SELLING, MARKETING AND ADMINISTRATIVE EXPENSES	178
NOTE 6	OTHER INCOME AND EXPENSES	178
NOTE 7	NET FINANCIAL INCOME	179
NOTE 8	INCOME TAX	179
NOTE 9	NET EARNINGS PER SHARE	181
NOTE 10	GOODWILL	181
NOTE 11	INTANGIBLE ASSETS	182
NOTE 12	PROPERTY, PLANT AND EQUIPMENT	182
NOTE 13	INVESTMENT PROPERTY	183
NOTE 14	FINANCIAL ASSETS	183
NOTE 15	INVESTMENTS IN ASSOCIATES	184
NOTE 16	LOANS AND DEPOSITS	184
NOTE 17	INVENTORIES AND WORK-IN-PROGRESS	184
NOTE 18	TRADE AND OTHER RECEIVABLES	185
NOTE 19	CASH AND CASH EQUIVALENTS	185
NOTE 20	EQUITY	186
NOTE 21	NON-CONTROLLING INTERESTS	188
NOTE 22	EXPOSURE TO MARKET RISKS	188
NOTE 23	PROVISIONS	196
NOTE 24	EMPLOYEES	197
NOTE 25	POST-EMPLOYMENT AND OTHER EMPLOYEE BENEFIT OBLIGATIONS	197
NOTE 26	TRADE PAYABLES AND OTHER LIABILITIES	202
NOTE 27	OFF BALANCE SHEET COMMITMENTS, CONTINGENT ASSETS AND CONTINGENT LIABILITIES	203
NOTE 28	RELATED-PARTY TRANSACTIONS	203
NOTE 29	SENIOR EXECUTIVE COMPENSATION	204
NOTE 30	SHARE-BASED PAYMENTS	205
NOTE 31	INFORMATION ON FEES	206
NOTE 32	SCOPE OF CONSOLIDATION	207

NOTE 1 ACCOUNTING PRINCIPLES AND POLICIES

1.1 Accounting standards

The Hermès Group's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union as of 31 December 2016. Under European regulation no. 1606/2002, companies listed on a regulated stock exchange in one of the European Union Member States are required to present their consolidated financial statements prepared in accordance with IFRS for financial years commencing on or after 1 January 2005.

1.1.1 Mandatory standards, amendments and interpretations applicable as at 1 January 2016

The standards applicable to Hermès from 2016 onwards are as follows:

- ◆ amendments to IAS 1, IAS 16, IAS 19 and IAS 38;
- ◆ amendments resulting from the annual IFRS improvement procedure, 2010-2012 and 2012-2014 cycles.

These texts had no impact on the Group's consolidated financial statements.

1.1.2 Changes to standards after 1 January 2017

The Group monitors changes to standards that were not yet applicable as of 31 December 2016, notably:

- ◆ IFRS 9 *Financial instruments* lays down principles governing recognition and disclosures in relation to financial assets and liabilities. These principles would replace those currently set out in IAS 39 *Financial instruments*, applicable in 2018; the effects of applying this standard are currently being analysed;
- ◆ IFRS 15 *Revenue from contracts with customers*, which would replace IAS 18 *Revenue*, applicable in 2018; In view of the nature of the Group's activities, the implementation of this standard will have only a very limited impact on the consolidated financial statements;
- ◆ IFRS 16 *Leases*, applicable in 2019. In view of the Group's retail activity, the application of this standard is expected to have a significant impact. This impact is currently being evaluated.

1.2 Scope and methods of consolidation

The consolidated financial statements include the financial statements of Hermès International and material subsidiaries and associates over which Hermès International directly or indirectly exerts exclusive control, joint control or significant influence.

1.2.1 Exclusive control

Exclusive control is presumed to exist when the Group holds more than 50% of the voting rights. Nevertheless, it can be considered that a company is under exclusive control when less than 50% is held, provided that the Group holds the power to govern a company's financial and operational policies in order to derive benefits from its business activities.

The financial statements of companies under exclusive control are fully consolidated. Under the full consolidation method, assets, liabilities, income and expenses are combined in full on a line by-line basis. Equity and net profit attributable to non-controlling interests are identified separately under "Non-controlling interests" in the consolidated statement of financial position and the consolidated statement of profit or loss.

1.2.2 Joint control

Entities owned by the Group in which the power to govern financial and operating policies is contractually shared with one or more other parties, none of which exercises effective control, are accounted for using the equity method. At this time, the Group does not hold any company under joint control.

1.2.3 Significant influence

The financial statements of "associates", or other companies over which the Group has significant influence (which is presumed to exist when the Group's percentage of control exceeds 20%, or proven if the control percentage is below 20%), are accounted for using the equity method.

1.2.4 Newly consolidated and deconsolidated companies

Subsidiaries are included in the consolidation scope from the date on which control is effectively transferred to the Group. Divested subsidiaries are excluded from the scope of consolidation from the date on which the Group ceases to have control.

1.3 Translation methods of foreign currency items

1.3.1 Conversion of foreign-currency transactions

Foreign-currency transactions are recorded on initial recognition in euros, by using the applicable exchange rate at the date of the transaction (historical rate). Monetary assets and liabilities denominated in foreign currencies are converted using the closing exchange rate. Foreign currency adjustments are recognised in income or expenses. Non-monetary assets and liabilities denominated in foreign currencies are converted using the exchange rate at the transaction date.

1.3.2 Conversion of foreign companies' financial statements

Financial statements expressed in foreign currencies are converted in accordance with the following principles:

- ◆ statement of financial position items are converted at the year-end exchange rate for each currency;
- ◆ statement of profit or loss items are converted at the average annual exchange rate for each currency;
- ◆ statement of cash flows items are converted at the average annual exchange rate for each currency;
- ◆ the foreign currency adjustment attributable to owners of the parent arising from the impact on equity of the difference between historical exchange rates and year-end exchange rates, and from the use of different exchange rates for the statement of profit or loss and statement of financial position, is shown separately in consolidated equity. The same principle is applied to non-controlling interests.

Any goodwill and any fair value adjustments arising on the acquisition of a foreign entity are considered to be assets and liabilities of that foreign entity. Therefore, they are expressed in the entity's functional currency and converted at closing rates.

1.4 Eliminations of intra-group transactions

The effect on the statement of profit or loss of intra-group transactions such as margins on inventories, gains or losses on disposals, impairment of shares in consolidated companies, and impairment of loans to consolidated companies, has been eliminated.

These transactions are also subject to income tax.

Dividends and interim dividends received by the Group from consolidated companies are eliminated on consolidation. A matching amount is recorded in consolidated reserves.

In the case of companies accounted for using the full consolidation method, reciprocal payables and receivables as well as reciprocal income and expenses are fully eliminated.

1.5 Structure of the consolidated statement of financial position

In accordance with IAS 1 *Presentation of Financial Statements*, the Group classifies its assets and liabilities on its statement of financial position as current and non-current. An asset or liability is classified as current:

- ◆ when the Group plans to realise an asset or pay a liability within twelve months or within the Group's normal operating cycle;
- ◆ when the relevant asset or liability is held for the purpose of being traded.

In particular, IAS 12 *Income Taxes* specifies that deferred tax balances shall be classified as non-current.

1.6 First-time consolidation and goodwill

1.6.1 Subsidiaries

Business combinations, in the event that the Group gains control over one or several other activities, are accounted for using the purchase method.

Business combinations completed on or after 1 January 2010 are measured and recognised in accordance with IFRS 3 revised: the consideration transferred (acquisition cost) is measured at the fair value of the assets delivered, the equity issued and the liabilities incurred on the date of the transfer. The identifiable assets and liabilities of the company that are acquired are measured at fair value on the acquisition date. The costs that can be directly attributed to the acquisition are recorded as an expense.

The resulting valuation adjustments are recognized under the related assets and liabilities, including the share attributable to non-controlling interests, and not just the share of net assets acquired. The residual difference, which is the difference between the transferred counterparty and the share of net assets and liabilities measured at fair value, is recognised under goodwill.

This valuation is carried out within no more than a year following the date of acquisition and in the currency of the acquired entity. This period is applicable to the valuation of identifiable assets and liabilities, to the transferred counterparty and to the non-controlling interests.

Purchases or sales of non-controlling interests that do not lead to a change in control are recorded as equity transactions among shareholders. Consequently, any difference between the fair value of the counterparty paid or received and the corresponding book value of the equity interest acquired or sold (without resulting in a loss of control), but that does not provide control, is directly recorded in equity.

The valuation of identifiable intangible assets recognized upon first-time consolidation is based mainly on the work of independent experts, taking into account sector-specific criteria that enable such valuations to be subsequently monitored.

In accordance with IFRS 3 revised, goodwill is not amortised. Goodwill is reviewed annually, when the budget is drawn up, to ensure that the residual net value does not exceed the recoverable amount in respect of the expected return on the investment in the related subsidiary (determined on the basis of discounted future cash flows). If internal or external events or circumstances bring to light indications of lost value, the frequency of the impairment tests may be revised (see Note 1.8).

Impairment of the goodwill of subsidiaries is not reversible. Any impairment charge is included in "Other income and expenses" of the operating income.

1.6.2 Associates

Goodwill of associates is recognised under “Investments in associates”. When the impairment criteria as defined by IAS 39 *Financial Instruments: Recognition and Measurement* indicate that these investments may be impaired, the amount of such impairment is determined in accordance with the rules defined by IAS 36 *Impairment of Assets*.

Impairment of associates’ goodwill is reversible.

1.7 Intangible assets and property, plant and equipment

In accordance with IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*, only those items whose cost can be reliably determined and from which it is probable that future economic benefits will flow to the Group are recognised as fixed assets.

1.7.1 Intangible assets

Intangible assets, valued at amortised historical cost, consist primarily of:

- ◆ leasehold rights;
- ◆ patents, models and brands other than internally generated brands;
- ◆ computer software.

Leasehold rights are generally deemed to be fixed assets with an indefinite life if their residual value at the end of the lease term is positive. In this case, they are subject to impairment testing to ensure that their net carrying amount is higher than their probable realisable value.

It is specified that internally generated brands and items that are similar in substance are not recognised under intangible assets, in accordance with IAS 38. All costs incurred in this respect are recognised as expenses.

Other software, either acquired or developed internally, is amortised on a straight-line basis over periods ranging from three to eight years maximum and deemed to be fixed assets with a finite life.

1.7.2 Property, plant and equipment

Property, plant and equipment is recorded at historical acquisition cost, less accumulated depreciation and recognised impairment losses, and is depreciated, generally using the straight-line method, over the following average estimated useful lives:

- ◆ buildings: 20 to 50 years;
- ◆ fixtures and furnishings: 10 to 20 years depending on the expected useful life of the related asset and the term of the lease (in particular in the case of store fixtures);
- ◆ machinery, plant and equipment: 10 to 20 years;
- ◆ other: 3 to 10 years maximum.

Total depreciation and amortisation of property, plant and equipment are presented in “Other income and expenses”, except for allocations relative to fixed assets used for production, that are included in “Cost of sales”.

The different components of property, plant and equipment are recorded as separate items when their estimated lives, and therefore the periods over which they are depreciated, differ significantly. Where property, plant and equipment is made up of components with different useful lives, these components are recorded as separate items under “Property, plant & equipment”.

Gains or losses on disposals of property, plant and equipment represent the difference between the sale proceeds and the net carrying amount of the divested asset, and are included in “Other operating income and expenses”.

1.7.3 Finance lease agreements

Property acquired under finance lease agreements is capitalised when the lease effectively transfers to the lessee virtually all risks and rewards incident to ownership of such property. The criteria for evaluating these agreements as provided by IAS 17 *Leases* are based primarily on:

- ◆ the lease term as a proportion of the life of the leased assets;
- ◆ the total future minimum payments in proportion to the fair value of the asset financed;
- ◆ the transfer of ownership at the end of the lease;
- ◆ the existence of an attractive purchase option;
- ◆ the specific nature of the leased asset.

Finance leases identified in this way, if they are material, are restated in order to show:

- ◆ on the asset side of the statement of financial position, the original value of the relevant property and the theoretical depreciation thereon (wherein the original value is the lower of the present value of the minimum lease payment amounts or the fair value of the leased asset at the inception of the lease);
- ◆ on the liabilities side of the statement of financial position, the corresponding financial liability;
- ◆ under financial expenses and depreciation, the minimum lease payments under the agreement, such that the financial expense is allocated to periods during the lease term so as to produce a constant periodic interest rate on the remaining balance of the liability for each financial year.

Leases that do not meet the criteria of finance leases are treated as operating leases, in which case the rents are recorded in the statement of profit or loss on a straight-line basis over the lease term.

1.7.4 Investment property

In accordance with IAS 40 *Investment Property*, property held by the Group to earn rental income is recognised under “Investment property”. This revenue and the associated expenses are recognised in “Other income and expenses”. For property that is held for use both for the supply of goods and services and as investment property, the two components are identified separately and recognised in accordance with IAS 16 *Property, Plant and Equipment*, and IAS 40, respectively.

As in the case of property, plant and equipment, investment property is recognised at historical acquisition cost less accumulated depreciation and recognised impairment losses, over the same depreciation periods as those applicable to other property, plant and equipment.

1.8 Impairment of fixed assets – impairment losses

In accordance with IAS 36 *Impairment of Assets*, when events or changes in the market environment indicate that there is the risk of an impairment loss on:

- ◆ intangible assets;
- ◆ property, plant and equipment;
- ◆ investment property;
- ◆ goodwill.

These assets are required to undergo a detailed review in order to determine whether their net carrying amount is lower than their recoverable amount, which is defined as the higher of fair value (less disposal cost) or value in use. Value in use is the present value of the future cash flows expected to be derived from an asset and from its disposal.

If the recoverable amount is lower than the net carrying amount, an impairment loss equal to the difference between these two amounts is recognised. Impairment losses on tangible and intangible assets with a finite life may subsequently be reversed if the recoverable amount rises above the net carrying amount (up to the amount of the impairment loss initially recognised).

The Group tests for impairment of assets with an indefinite life every year during the budget preparation period in order to take the most recent data into account. If internal or external events or circumstances indicate impairment losses, the frequency of impairment testing may be revised.

In determining the value in use of assets, assets to which independent cash flows cannot be directly allocated are grouped within a cash-generating unit (CGU) to which they are attached. The recoverable amount of the CGU is measured using the discounted cash flow (DCF) method, applying the following principles:

- ◆ cash flows (after tax) figures are derived from a medium-term (five-year) business plan developed by the relevant entity;

- ◆ the discount rate is determined based on WACC of the Group (7.71% in 2016) adjusted for local inflation and any country risks;
- ◆ the recoverable amount is calculated as the sum of cash flows generated each year and the terminal value, which is determined based on normative cash flows by applying a zero growth rate to infinity.

The Hermès Group has defined the following CGUs or groups of CGUs:

- ◆ sales units (branches), distribution, which are treated independently from one another;
- ◆ separate production activities (Leather production, Silk production);
- ◆ businesses centred on production or distribution of one type of product (including Perfumes, Watches, Hermès Cuir Précieux, etc.);
- ◆ investment property;
- ◆ associates.

1.9 Financial assets and liabilities

In accordance with IFRS standards, financial assets include non-consolidated and other investment securities, loans and financial receivables, and the positive fair value of financial derivatives.

Financial liabilities include borrowings and debt, bank lines of credit and the negative fair value of financial derivatives.

Financial assets and liabilities are presented in the statement of financial position under current or non-current assets or liabilities, depending on whether they come due within one year or more, with the exception of trading derivatives, which are recorded under current assets or liabilities.

Operating payables and receivables and cash and cash equivalents fall within the scope of IAS 39 *Financial Instruments: Recognition and Measurement*, and are presented separately on the statement of financial position.

1.9.1 Classification of financial assets and liabilities and valuation methods

A. Financial assets and liabilities stated at fair value with changes in fair value recorded in the statement of profit or loss

These assets are initially recognised at acquisition cost excluding incidental acquisition expenses. At each closing period, they are measured at fair value. Changes in fair value are recorded in the statement of profit or loss under “Other financial income and expenses”.

Dividends and interest received on these assets are also recognised in the statement of profit or loss under “Other financial income and expenses”.

B. Held-to-maturity financial assets

This category covers fixed-term financial assets, bought with the intention and ability of holding them until maturity.

These items are recognised at amortised cost. Interest is calculated at the effective interest rate and recorded in the statement of profit or loss under “Other financial income and expenses”.

C. Loans and financial receivables

Loans and financial receivables are valued and recognised at amortised cost less any impairment.

Interest is calculated at the effective interest rate and recorded in the statement of profit or loss under “Other financial income and expenses”.

D. Available-for-sale financial assets

Available-for-sale financial assets include non-consolidated investments and investment securities. For each closing period, they are stated at fair value.

Unrealised gains or losses on available-for-sale financial assets are recorded under other comprehensive income in “Financial instruments attributable to owners of the parent”.

For available-for-sale financial assets represented by debt securities, interest is calculated at the effective interest rate and credited to the statement of profit or loss under “Other financial income and expenses”.

E. Financial debts

Financial debts are recorded at amortised cost, with separate reporting of embedded derivatives where applicable.

Interest is calculated at the effective interest rate and recorded in the statement of profit or loss under “Gross cost of debt” over the duration of the financial debt.

F. Financial derivatives

Scope

The scope of financial derivatives applied by the Group corresponds to the principles set out in IAS 39 *Financial Instruments: Recognition and Measurement*. According to Group rules, consolidated subsidiaries may not take any speculative financial positions.

In compliance with IAS 39, the Group analyses all its contracts, of both a financial and non-financial nature, to identify the existence of any “embedded” derivatives. Any component of a contract that affects the cash flows of a given contract in the same way as a stand-alone derivative corresponds to the definition of an embedded derivative.

If they meet the conditions set out by IAS 39, embedded derivatives are accounted for separately from the “host” contract at the inception date.

Recognition and Measurement

Financial derivatives are initially recorded at fair value.

Changes in the fair value of these derivatives are recorded in the statement of profit or loss, unless they are classified as cash flow hedges, as described below. Changes in the fair value of such hedging instruments are recorded directly under other comprehensive income in “Financial instruments attributable to owners of the parent”, excluding the ineffective portion of the hedge, which is recorded in the statement of profit or loss under “Other financial income and expenses”. The ineffective portion of the hedge corresponds to the changes in the fair value of the hedging instrument in excess of changes in the fair value of the hedged item. When the hedged cash flows materialise, the amounts previously recognised in equity are transferred to the statement of profit or loss in the same way as for the hedged item.

Financial derivatives classified as hedges

The Group uses derivatives to hedge its foreign exchange risks.

Hedge accounting is applicable, in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*, when the following conditions have been met:

- 1) the hedge must be supported by appropriate documentation from its inception;
- 2) the effectiveness of the relationship of the hedge must be demonstrated both prospectively and retrospectively. The income obtained in this way must be between 80% and 125%.

G. Cash and cash equivalents

Cash and cash equivalents consist of immediately available cash and very short-term investments that can be divested within a maximum of three months at the investment date, with minimal risk of any change in value. Investments in listed shares, investments for a term of over three months that are not redeemable before the maturity date and bank accounts covered by restrictions (frozen accounts) other than restrictions due to country- or sector-specific regulations (e.g. currency controls) are not included in cash in the statement of cash flows. Bank overdrafts that are deemed to be financing arrangements are also excluded from the cash position.

Shares in funds held for the short term and classified as “Cash equivalents” are recorded at fair value, with changes in fair value recorded in the statement of profit or loss.

1.9.2 Impairment of financial assets

For each closing period, the Group assesses whether there is any objective evidence of an asset’s impairment. If so, the Group estimates the asset’s recoverable value and records any necessary impairment as appropriate for the category of asset concerned.

A. Financial assets recorded at amortised cost

Impairment is equal to the difference between the asset's net carrying amount and the discounted value of projected future cash flows expected to be generated as determined using the original effective interest rate of the financial instrument. Any impairment loss is included in the statement of profit or loss under "Other financial income and expenses". If the impairment loss decreases in a subsequent period, it is reversed and recorded as income.

B. Available-for-sale financial assets

If there is a significant long-term decrease in the fair value of available-for-sale financial assets, the unrealised loss is reclassified from equity to income. If, in a subsequent period, the fair value of an available-for-sale financial asset increases, the increase in value is recorded in equity for equity instruments, while for debt instruments, the impairment previously recorded is reversed and transferred to the statement of profit or loss.

1.10 Inventories

Inventories and work-in-progress held by Group companies are valued at the lower of cost (including indirect production costs) or net realisable value. Cost is generally calculated at weighted average cost or standard cost adjusted for variances.

The cost of inventories includes all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition, as specified by IAS 2 *Inventories*. In particular, discounts and collection costs are included in the measurement of inventories.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Impairment is booked to reduce inventories to net realisable value if this is lower than the carrying amount. These impairments are included in the cost of sales.

1.11 Treasury shares

Treasury shares are recorded at acquisition cost and are deducted from equity. Gains or losses on the disposal of these shares are recognised directly in equity, with no impact on profit or loss.

1.12 Revenue and trade receivables

Revenue consists of sales of retail goods, sales of goods and services produced by the Group's main business operations, and income from royalties, licences and operating subsidies.

Revenue is recognised:

- ◆ when the major risks and benefits incident to ownership of goods are transferred to the buyer;
- ◆ when the amount of revenue can be measured reliably;
- ◆ when any volume or trade discounts and other benefits on sales are deducted from revenue (separability principle);
- ◆ when, at the transaction date, it is probable that the amount of the sale will be recovered.

In general, sales of goods are accounted for on delivery, sales of services are accounted for on completion.

Credit risk arises from the potential inability of clients to meet their payment obligations. When there is objective evidence of impairment, the value of these obligations is adjusted at each closing period. An impairment expense is recognised in the statement of profit or loss when the carrying amount of the asset is higher than its recoverable amount.

1.13 Other non-recurring income and expenses

"Other non-recurring operating income and expenses" in the statement of profit or loss relates to major events which occurred during the year and produced a material financial impact. This item is presented separately from recurring operating income because it could give a misleading view of the Group's performance.

1.14 Operating segments

In accordance with IFRS 8 *Operating Segments*, the presented segment information is based on internal reporting used by management to assess the performance of the different business segments.

The activity of the Hermès Group is monitored by the main operational decision-maker ("Executive Committee") by geographical area and by sector.

Given the Group's current structure, organised into geographical areas placed under the responsibility of operational Senior Executives in charge of applying the strategy defined by the Executive Committee, the Group has determined that the geographical areas constitute the operating segments with reference to the fundamental principle of IFRS 8.

1.15 Put options granted to non-controlling interest holders

In compliance with IAS 32 *Financial instruments: Presentation*, when the non-controlling interest holders hold put options on their share in the Group, a financial liability corresponding to the exercise price of the option is recorded. This debt is posted through equity:

- ◆ as a deduction from the "Non-controlling interests", equal to the book value of the securities that are the subject of the put option;
- ◆ for the remainder, as a deduction against the "Equity attributable to owners of the parent".

This entry is adjusted at the end of each period in accordance with change in the exercise price of the options and the carrying amount of the non-controlling interests.

In the absence of specific IFRS rules, the Group has applied the AMF recommendations issued in November 2009, which involve recording changes in fair value directly in equity.

1.16 Provisions

A provision is a liability of uncertain timing or amount. It is recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources will be required to settle the obligation. In addition, a reliable estimate of the amount of the obligation is made based on the information available to the Group when the consolidated financial statements are prepared.

1.17 Pension plans and other long-term benefits

In accordance with the laws and practices in each country where it operates, the Group participates in post-employment and other retirement benefit plans for employees and in top-up plans for executives and senior managers.

1.17.1 Defined contribution pension plans

For basic post-employment and other defined-contribution plans, the Group recognises contributions to be paid as expenses when they are due and when no provision was booked in this respect, as the Group has no obligations other than the contributions paid.

1.17.2 Defined benefit pension plans

For defined-benefit plans, the Group's obligations are calculated annually by an independent actuary using the projected credit unit method. This method is based on actuarial assumptions and takes into account the employee's probable future length of service, future salary and life expectancy as well as staff turnover. Actuarial assumptions are reviewed annually.

The present value of the obligation is calculated by applying an appropriate discount rate for each country where the obligations are located. It is recognised on a basis pro-rated to the employee's years of service.

When benefits are partly funded in advance by external funds (insurance companies, foundations or other entities), the assets held are measured at fair value, and taken into account in the assessment of the liabilities.

The expense recognised in the consolidated statement of profit or loss is the sum of:

- ◆ the current service cost, which constitutes the increase in obligations arising from the vesting of one additional year of rights;

- ◆ the past service cost, namely the change in the present fair value of the obligation that originates from the modification of a plan or the reduction of a plan;
- ◆ the profit or the loss resulting from liquidation, if applicable;
- ◆ the interest cost, which reflects the increase in the present value of the obligations during the period;
- ◆ the financial income on plan assets.

Changes in actuarial assumptions and experience effects give rise to actuarial gains or losses, the total of which is recorded under "Other comprehensive income" over the period during which they were recognised.

1.17.3 Other long-term benefits

Certain other post-employment benefits, such as life insurance and health insurance benefits (primarily in Japan), or long-term benefits such as long-service awards (bonuses paid to employees, mainly in France, based on length of service), are also covered by provisions, which are determined using an actuarial calculation that is comparable to that used to calculate provisions for post-employment benefit obligations.

The actuarial gains and losses that result from experience adjustments and changes in actuarial assumptions adopted for calculation of these obligations are entered in the consolidated statement of profit or loss for the financial year during which they were recognised.

1.18 Income tax

Income tax expense includes:

- ◆ the current tax for the financial year of the consolidated companies;
- ◆ deferred tax resulting from timing differences:
 - between the taxable earnings and accounting income of each consolidated company,
 - arising from adjustments made to the financial statements of consolidated companies to bring them into line with Group accounting principles,
 - arising from consolidation adjustments.

1.18.1 Deferred tax

Deferred tax is calculated on all timing differences existing at financial year-end (full reserve) at the tax rate in force on that date, or at the enacted tax rate (or nearly enacted rate) for the subsequent financial year. Previous deferred tax is revalued using the same method (liability method).

The main categories of deferred tax apply to restatements of internal margins on inventories, impairment on inventories and timing differences.

Deferred tax assets are recorded to the extent that their future use is probable given the expected taxable profits. If a recovery risk arises on some or all of a deferred tax asset, an impairment is recorded.

Foreign currency differences arising from the conversion of deferred tax income or expenses are recognised in the statement of profit or loss in deferred tax income or expenses.

Discounting is not applied to deferred tax.

1.18.2 Tax consolidation

Since 1 January 1988, Hermès International has opted for a group tax consolidation under French tax law. Under the terms of an agreement between the parent company and the subsidiaries included in the Group tax consolidation, projected and actual tax savings or liabilities generated by the Group are recognised in the statement of profit or loss in the year in which they arise.

1.19 Adjustment of depreciation, amortisation and impairment

The impact of accounting entries booked net of deferred tax solely to comply with tax legislation is eliminated from the consolidated financial statements.

These adjustments mainly relate to restricted provisions and accelerated depreciation in French companies, and to impairment of inventories and doubtful receivables in foreign companies.

1.20 Earnings per share

In accordance with IAS 33 *Earnings per Share*, basic earnings per share is calculated by dividing the net income attributable to owners of the parent by the average number of ordinary shares outstanding during the period.

The net earnings per share are calculated on the basis of the weighted average number of shares outstanding during the financial year.

The weighted average number of ordinary shares outstanding during the period is the number of ordinary shares outstanding at the beginning of the period, less the treasury shares, adjusted by the number of ordinary shares bought back or issued during the period multiplied by a time-weighting factor.

The weighted average number of shares outstanding during the financial year as well as those from previous financial years are adjusted in order to account, if relevant, for operations involving the free distribution of shares and the reduction of the share's par value occurring during the financial year, as well as of treasury shares.

Diluted earnings per share is adjusted for the effects of all potentially dilutive shares. The calculation is based on assumptions regarding the conversion of convertible instruments, exercise of options or equity warrants and issues of new shares.

The diluted earnings per share are restated for the shares that are to be created as part of the share subscription plans decided upon by the Executive Management.

1.21 Option plans and similar

Stock subscription or purchase option plans or bonus share allocation plans are recognised as expenses at fair value in the "Other income and expenses" section, with a corresponding increase in equity. This fair value is spread over the vesting period.

For the bonus share allocation plans, the estimate of the fair value is calculated on the basis of the share price on the date that the corresponding management decision is made and subject to the deduction of the amount of the advance dividends over the vesting period, as well as a non-assignability discount, where relevant.

1.22 Use of estimates

The preparation of the consolidated financial statements under IFRS sometimes requires the Group to make estimates in valuing assets and liabilities and income and expenses recognised during the year. The Group bases these estimates on historical experience and on a variety of assumptions, which it deems to be the most reasonable and probable in the current economic environment.

The main items that require the use of assessments and estimates are as follows:

- ◆ depreciation and amortisation periods for property, plant and equipment and intangible assets (see Notes 1.7, 11 and 12);
- ◆ impairment of inventories (see Notes 1.10 and 17);
- ◆ provisions (see Notes 1.16 and 23);
- ◆ post employment and other employee benefit obligations (see Notes 1.17 and 25);
- ◆ income taxes (see Notes 1.18 and 8);
- ◆ share-based payments (see Notes 1.21 and 30).

1.23 Events after the closing

No significant event has occurred since the closing as at 31 December 2016.

NOTE 2 ANALYSIS OF THE MAIN CHANGES IN THE SCOPE OF CONSOLIDATION

No significant change in the scope of consolidation occurred during financial year 2016.

NOTE 3 SEGMENT INFORMATION

The information below is shown after consolidation adjustments and eliminations (see Note 1.14).

3.1 Statement of profit or loss by geographical area

In millions of euros	2016							
	France	Europe (excl. France)	Japan	Asia-Pacific (excl. Japan)	Americas	Others	Holding	Total
Revenue	719.2	963.7	724.1	1,777.8	940.8	76.7		5,202.2
Operating income	241.0	253.2	251.0	743.7	297.4	14.1	(103.9)	1,696.5
Operating profitability by segment	33.5%	26.3%	34.7%	41.8%	31.6%	18.4%		32.6%
Operating investments	126.0	32.3	7.1	47.2	39.4	-	10.1	262.1
Non-current assets ¹	793.1	187.7	171.3	275.1	228.0	32.9	35.5	1,723.7

(1) Non-current assets other than financial instruments and deferred tax assets.

In millions of euros	2015							
	France	Europe (excl. France)	Japan	Asia-Pacific (excl. Japan)	Americas	Others	Holding	Total
Revenue	683.8	905.8	600.2	1,694.0	884.1	73.2		4,841.0
Operating income	226.0	238.3	203.7	667.6	278.9	14.8	(88.7)	1,540.7
Operating profitability by segment	33.1%	26.3%	33.9%	39.4%	31.5%	20.2%	n/a	31.8%
Operating investments	105.5	33.0	9.3	25.8	66.6	-	12.2	252.4
Non-current assets ¹	762.7	188.5	170.0	276.6	215.6	32.4	44.2	1,689.9

(1) Non-current assets other than financial instruments and deferred tax assets.

3.2 Revenue by business line

The breakdown of revenue by business line is as follows:

In millions of euros	2016	2015
Leather Goods and Saddlery	2,603.7	2,274.3
Ready-to-wear and Accessories	1,099.1	1,100.6
Silk and Textiles	515.3	521.2
Other Hermès business lines	336.0	331.9
Perfumes	261.9	241.4
Watches	157.9	163.2
Other products	228.3	208.5
REVENUE	5,202.2	4,841.0

NOTE 4 COST OF SALES

Cost of sales mainly comprises purchases, the cost of labour for production, the portion of depreciation that is allocated to the production cost, impairment of inventories, losses on inventories and variable selling expenses.

NOTE 5 SELLING, MARKETING AND ADMINISTRATIVE EXPENSES

<i>In millions of euros</i>	2016	2015
Communication	(242.3)	(214.6)
Other selling, marketing and administrative expenses	(1,303.0)	(1,204.3)
TOTAL	(1,545.3)	(1,418.9)

NOTE 6 OTHER INCOME AND EXPENSES

<i>In millions of euros</i>	Notes	2016	2015
Amortisation	3	(168.1)	(147.3)
Net change in recurring provisions		(23.2)	(21.8)
Cost of defined-benefit plans	25	(16.6)	(16.8)
Sub-total		(39.8)	(38.6)
Impairment losses		(28.0)	(15.5)
Expenses linked to bonus share allocation plans and similar expenses	30	(60.6)	(36.4)
Other expenses (including impairment of goodwill)		(15.1)	(19.6)
Other products		33.1	18.5
Sub-total		(70.6)	(53.0)
TOTAL		(278.5)	(238.9)

Total depreciation and amortisation of tangible and intangible assets included in operating expenses ("Other income and expenses" and "Cost of sales") amounted to €201.8 million in 2016, compared with €178.6 million in 2015.

The other expenses include depreciation of goodwill (refer to Note 10).

NOTE 7 NET FINANCIAL INCOME

<i>In millions of euros</i>	2016	2015
Income from cash and cash equivalents	5.6	7.3
Cost of gross financial debt	(1.5)	(0.7)
♦ of which: net income/(loss) on hedging instruments	0.6	0.4
Cost of net financial debt	4.2	6.6
Other financial income and expenses	(51.9)	(52.2)
♦ of which: ineffective portion of cash flow hedges	(52.7)	(49.2)
TOTAL	(47.8)	(45.6)

The ineffective portion of cash flow hedges includes -€1.1 million in over-hedging, compared with -€11.5 million in over-hedging in 2015. The impact of the effective portion of the hedges recorded in equity is shown in Note 20.3.

NOTE 8 INCOME TAX

8.1 Breakdown of income tax

<i>In millions of euros</i>	2016	2015
Current tax	(612.5)	(539.6)
Deferred tax	57.0	3.9
TOTAL	(555.5)	(535.6)

8.2 Rationalisation of income tax expense

The effective tax rate was 33.7% as at 31 December 2016, compared with 35.8% as at 31 December 2015.

The difference between the theoretical tax expense and the actual tax expense is explained as follows:

<i>In millions of euros</i>	2016	2015
Net income attributable to owners of the parent	1,100.3	972.6
Net income from associates	10.9	17.7
Net income attributable to non-controlling interests	(3.9)	(4.6)
Tax expense	(555.5)	(535.6)
Net income before tax	1,648.8	1,495.1
Effective tax rate	33.7%	35.8%
Current tax rate in France ¹	34.4%	38.0%
Theoretical tax expense	(567.7)	(568.1)
<i>Reconciliation items:</i>		
♦ differences relating to foreign taxation (primarily the tax rate)	64.6	92.8
♦ permanent differences and transactions taxed at a reduced rate ²	(52.4)	(60.2)
TOTAL	(555.5)	(535.6)

(1) As at 31 December 2016, the tax rate applicable in France is the basic rate of 33.33% plus the social contribution of 3.3%, i.e. 34.43%. The exceptional contribution of 10.7% on companies applicable in France from 2011 was removed in 2016.

(2) Including the effect of the 3% tax on dividends paid (€10.5 million in 2016 vs €25 million in 2015).

8.3 Deferred tax

The net change in deferred tax assets and liabilities is broken down as follows:

<i>In millions of euros</i>	2016	2015
Deferred tax assets at 1 January	360.3	335.8
Deferred tax liabilities at 1 January	50.7	31.3
Net deferred tax assets at 1 January	309.6	304.4
Impact on statement of profit or loss	57.0	3.9
Impact on scope of consolidation	-	-
Impact of exchange rate movements	4.1	15.8
Others ¹	10.7	(14.7)
Net deferred tax assets at the end of the period	381.4	309.6
Balance of deferred tax assets at the end of the period	430.4	360.3
Balance of deferred tax liabilities at the end of the period	49.0	50.7

(1) Other items primarily involve deferred taxes resulting from changes in the portion of revaluation of financial instruments recorded under equity (transferable portion) and in actuarial gains and losses on employee benefit obligations. These changes had no impact on net income for the year (see Note 20.4).

Deferred taxes mainly related to the following adjustments:

<i>In millions of euros</i>	2016	2015
Internal margins on inventories and provisions for inventories	263.0	231.0
Employee benefits	63.1	59.6
Derivatives	12.1	(4.0)
Impairment losses	17.1	9.9
Regulated provisions	(40.8)	(43.4)
Others	66.9	56.3
TOTAL	381.4	309.6

As at 31 December 2016, tax loss carry-forwards and other temporary differences that did not lead to the recognition of deferred tax assets represented potential tax savings of €48.6 million (compared with €27.5 million in 2015).

NOTE 9 NET EARNINGS PER SHARE

In accordance with the definitions set out in Note 1.20, the calculation and reconciliation of basic earnings per share and diluted earnings per share is as follows:

	2016	2015
Numerator in millions of euros		
Basic net income	1,100.3	972.6
Adjustments	-	-
Diluted net income	1,100.3	972.6
Denominator in number of shares		
Weighted average number of ordinary shares	104,518,900	104,395,884
Basic earnings per share	10.53	9.32
Weighted average number of shares resulting from options		
Weighted average number of shares resulting from bonus shares	600,449	692,884
Weighted average number of diluted ordinary shares	105,119,349	105,088,768
Diluted earnings per share	10.47	9.26
Annual average price per share	€345.52	€325.14

NOTE 10 GOODWILL

10.1 Change in the year

In millions of euros	31/12/2015	Increases	Decreases	Exchange rate impact	Others	31/12/2016
Goodwill	143.9	-	-	2.2	-	146.1
TOTAL GROSS VALUES	143.9	-	-	2.2	-	146.1
Amortisation recognised before 1 January 2004	31.6		-	1.3		32.9
Impairment losses	74.4		-	(0.1)	2.3	76.5
TOTAL AMORTISATION AND IMPAIRMENT	106.0	-	-	1.3	2.3	109.5
TOTAL NET VALUES	37.9	-	-	0.9	(2.3)	36.6

As at 31 December 2016, the net value of goodwill was equal to €36.6 million, primarily relating to the CGUs of the distribution entities (€27.3 million) and the Group's production CGUs (€9.3 million).

There was no material change in the net value of goodwill during the year.

10.2 Impairment tests

CGUs of the distribution entities

Within this CGU, the main goodwill is that of Hermès Japon, which stands at €16.1 million.

The pre-tax discount rate applied to projected cash flows for Japan is 9.6%; for other countries, it varies from 9.3% to 38.5%. The annual asset

impairment test of this asset as well as those of the other non-significant goodwill of this CGU do not bring to light any probable scenario according to which the CGU's recoverable amount becomes lower than the net carrying amount.

Other CGUs

Individually, the above goodwill figures are not significant and do not bring to light any reasonably possible impairment scenario.

NOTE 11 INTANGIBLE ASSETS

<i>In millions of euros</i>	31/12/2015	Increases ¹	Decreases	Exchange rate impact	Others	31/12/2016
Leasehold rights	69.9	-	(0.9)	1.2	(2.9)	67.2
Concessions, patents, licences and software	72.0	22.5	(0.7)	0.5	84.3	178.6
Other intangible assets	151.9	8.3	(2.1)	3.5	(76.1)	85.5
Assets under construction	13.1	16.1	-	0.0	(7.2)	22.1
TOTAL GROSS VALUES	306.9	47.0	(3.7)	5.2	(1.9)	353.5
Amortisation of leasehold rights	40.7	2.8	(0.6)	0.9	(2.6)	41.2
Amortisation of concessions, patents, licences and software	50.5	28.6	(0.7)	0.4	37.2	116.0
Amortisation of other intangible assets	90.6	8.7	(2.0)	2.6	(36.1)	63.9
Impairment losses	2.7	6.6	-	0.0	1.0	10.3
TOTAL AMORTISATION AND IMPAIRMENT	184.6	46.7	(3.3)	3.9	(0.5)	231.4
TOTAL NET VALUES	122.3	0.2	(0.4)	1.3	(1.3)	122.1

(1) Investments mainly relate to the acquisition and/or implementation of integrated management software packages in accordance with IAS 38; the relevant assets are presented under "Concessions, patents, licences and software" as at 31 December 2016.

NOTE 12 PROPERTY, PLANT AND EQUIPMENT

<i>In millions of euros</i>	31/12/2015	Increases ¹	Decreases	Exchange rate impact	Others	31/12/2016
Land	162.5	0.6	(0.4)	6.7	0.4	170.0
Buildings	784.6	23.8	(3.1)	11.8	2.2	819.3
Industrial machinery, plant and equipment	293.0	26.6	(14.2)	(4.6)	(1.3)	299.5
Store fixtures and furnishings	709.3	77.9	(77.0)	6.8	35.4	752.3
Other property, plant and equipment assets	320.2	27.2	(6.1)	1.2	2.0	344.4
Assets under construction	60.9	59.1	(8.9)	0.2	(42.6)	68.7
TOTAL GROSS VALUES	2,330.5	215.2	(109.7)	22.1	(3.9)	2,454.2
Depreciation of buildings	265.9	33.0	(4.2)	4.9	(1.4)	298.2
Depreciation of plant, machinery and equipment	167.6	20.4	(14.1)	(2.0)	(4.0)	167.9
Depreciation of store fixtures and furnishings	382.7	74.1	(84.4)	3.0	9.6	385.1
Depreciation of other property, plant and equipment	188.9	33.8	(6.8)	0.7	(5.1)	211.6
Impairment losses ²	38.1	21.4	(0.3)	0.1	(2.4)	56.9
TOTAL AMORTISATION AND IMPAIRMENT	1,043.1	182.9	(109.7)	6.7	(3.4)	1,119.6
TOTAL NET VALUES	1,287.4	32.3	0.0	15.4	(0.5)	1,334.6

(1) Investments made during the year related mainly to the opening and renovation of stores and capital expenditure to expand production capacity.

(2) Impairment losses relate to production lines and stores deemed not to be sufficiently profitable. It is noted that the cash generating units on which impairment losses have been recognised are not individually material when compared with the Group's overall business.

No item of property, plant or equipment has been pledged as debt collateral. Furthermore, the amount of such assets in temporary use is not material when compared with the total value of property, plant and equipment.

NOTE 13 INVESTMENT PROPERTY

<i>In millions of euros</i>	31/12/2015	Increases	Decreases	Exchange rate impact	Others	31/12/2016
Land	35.2	-	-	(4.6)	-	30.6
Buildings	83.2	-	(0.1)	(10.7)	-	72.3
TOTAL GROSS VALUES	118.4	-	(0.1)	(15.3)	-	103.0
Amortisation	18.2	2.2	(0.1)	(3.2)	-	17.1
TOTAL NET VALUES	100.2	(2.2)	(0.0)	(12.1)	-	85.8

It is stipulated that the Group and its subsidiaries are not bound by any contractual obligation to buy, build or develop investment properties, existing or not.

Moreover, the costs incurred for the upkeep, maintenance and improvement of the investment assets are neither significant nor likely, as far as we know, to change materially in the coming financial years.

The net rental proceeds coming from investment properties were equal to €6.7 million in 2016 (compared with €7.1 million in 2015).

As at 31 December 2016, the fair value of the investment properties was greater than €110 million. This estimate is based on evaluation works performed by independent experts with sufficient frequency. The evaluations are notably based on real estate operations involving comparable assets and on indicators established by professionals or recognised institutions.

NOTE 14 FINANCIAL ASSETS

<i>In millions of euros</i>	31/12/2015	Increases	Decreases	Exchange rate impact	Others	31/12/2016
Financial investments and accrued interest ¹	34.5	10.9	(23.0)	0.0	6.4	28.8
Liquidity contract	9.3	1.7	-	-	-	10.9
Other non-consolidated investments ²	0.3	-	-	-	0.4	0.6
TOTAL GROSS VALUES	44.1	12.6	(23.0)	0.0	6.8	40.3
Impairments	1.7	0.5	(0.1)	-	6.4	8.5
TOTAL NET VALUES	42.4	12.1	(22.9)	0.0	0.4	31.9

(1) Financial investments correspond with investments that do not meet the cash equivalent criteria notably as a result of their original maturity of more than three months.

(2) Other available-for-sale non-consolidated investments do not include any listed securities.

NOTE 15 INVESTMENTS IN ASSOCIATES

<i>In millions of euros</i>	2016	2015
Balance as at 1 January	85.4	91.3
Impact of changes in scope of consolidation	4.6	0.1
Net income from associates	10.9	17.7
Dividends paid	(14.1)	(15.7)
Exchange rate fluctuations	0.6	2.8
Others	-	(10.8)
Balance as at 31 December	87.3	85.4

NOTE 16 LOANS AND DEPOSITS

<i>In millions of euros</i>	31/12/2015	Increases	Decreases	Exchange rate impact	Others	31/12/2016
Loans and deposits ¹	55.9	11.2	(1.3)	1.1	(4.8)	62.2
Impairments	5.3	8.9	(0.1)	0.2	0.5	14.7
TOTAL	50.6	2.4	(1.1)	0.9	(5.3)	47.5

(1) Security deposits amounted to €39.3 million as at 31 December 2016, compared with €35.9 million as at 31 December 2015.

NOTE 17 INVENTORIES AND WORK-IN-PROGRESS

<i>In millions of euros</i>	31/12/2016			31/12/2015		
	Gross	Impairment	Net	Gross	Impairment	Net
Retail, intermediate and finished goods	1,029.5	448.1	581.5	978.0	407.6	570.4
Raw materials and work-in-progress	547.9	214.3	333.6	533.1	154.2	378.9
TOTAL	1,577.4	662.4	915.1	1,511.1	561.8	949.2
Net income/(expense) from impairment of retail, intermediate and finished goods	-	(38.5)	-	-	(79.1)	-
Net income/(expense) from impairment of raw materials and work in progress	-	(59.8)	-	-	(10.1)	-

No inventories were offered as collateral to secure financial debt.

NOTE 18 TRADE AND OTHER RECEIVABLES

In millions of euros	31/12/2016			31/12/2015
	Gross	Impairment	Net	Net
Trade and other receivables	312.4	5.1	307.2	303.0
o/w: ♦ not yet due	264.9	0.3	264.5	269.5
♦ due ¹	47.5	4.8	42.7	33.5
Current tax receivables	22.7	-	22.7	31.8
Other assets	198.5	0.1	198.4	183.0
Other non-current assets	9.7	0.3	9.5	5.9
TOTAL	543.4	5.6	537.8	523.8

(1) The amount of trade and other receivables payable is broken down as follows:

	31/12/2016			31/12/2015
	Gross	Impairment	Net	Net
Under 3 months	35.7	0.3	35.4	28.9
Between 3 and 6 months	4.0	0.9	3.1	3.3
Over 6 months	7.7	3.6	4.2	1.3

Except for other non-current assets, all accounts receivable are due within one year. There were no significant payment deferrals that would justify the discounting of receivables.

The Group's policy is to recommend that insurance be taken out covering accounts receivable inasmuch as local conditions permit. Consequently, the risk of non-recovery is low, as evidenced by accounts receivable impairment, which amounted to 2% of the gross value at the end of 2016 (2% end of 2015). There is no significant concentration of credit risk.

5

NOTE 19 CASH AND CASH EQUIVALENTS

19.1 Change in net cash position

In millions of euros	31/12/2015	Cash flows	Exchange rate impact	Impact on scope of consolidation	Others ¹	31/12/2016
Cash and cash equivalents	535.7	454.0	0.8	-	(0.3)	990.2
Marketable securities ²	1,053.1	292.7	(7.8)	-	-	1,338.0
Sub-total	1,588.8	746.7	(7.0)	-	(0.3)	2,328.2
Bank overdrafts and current accounts in debit	(17.6)	9.2	0.0	-	-	(8.4)
NET CASH POSITION	1,571.2	755.9	(7.0)	-	(0.3)	2,319.8

(1) Corresponds with the mark-to-market on cash and cash equivalents.

(2) Primarily invested in money market SICAVs and cash equivalents with a duration of less than three months.

All of the cash and cash equivalents have a maturity of less than three months and a sensitivity of less than 0.5%.

The gains and losses generated through disposal of marketable securities during the financial year and recorded through profit or loss were equal to €0.2 million in 2016 (versus €0.6 million in 2015). No unrealised gain or loss existed as at 31 December 2016.

19.2 Change in working capital requirements related to the activity

<i>In millions of euros</i>	31/12/2015	Change in working capital requirements related to the activity	Other cash flows	Exchange rate impact	Impact of revaluation of financial and hedging instruments	Others	31/12/2016
Inventories and work-in-progress	949.4	(37.8)	-	3.6	-	-	915.1
Trade and other receivables	303.0	34.3	-	2.6	(32.6)	(0.1)	307.2
Other current assets	183.0	8.8	-	0.1	(0.0)	6.5	198.4
Other non-current assets	0.2	8.8	-	0.0	-	-	9.0
Available-for-sale securities (excluding liquidity contract and forward financial investments)	0.4	(0.3)	-	-	-	0.6	0.7
Loans and deposits	55.6	4.9	-	1.1	-	0.3	61.9
Deferred tax assets	244.7	33.6	-	2.8	-	(16.6)	264.5
Trade payables (excluding debt on fixed assets)	(402.7)	(15.5)	-	(0.9)	0.9	(4.8)	(423.0)
Other liabilities and miscellaneous (excluding current tax expense)	(496.2)	(74.1)	-	(3.4)	1.1	(3.2)	(575.9)
Net financial derivatives	1.5	14.8	-	(0.0)	(19.4)	(10.2)	(13.3)
Change in working capital requirements related to the activity	838.9	(22.5)	-	5.9	(50.0)	(27.5)	744.6

NOTE 20 EQUITY

As at 31 December 2016, Hermès International's share capital consisted of 105,569,412 fully paid shares with a par value of €0.51 each, of which 1,079,660 treasury shares.

In financial year 2016, the following treasury share movements occurred:

- ◆ buyback of 319,621 shares for €109.6 million, excluding movements under the liquidity contract;
- ◆ purchase of 4,252 shares as part of the liquidity contract;
- ◆ delivery of 416,480 bonus shares allotted to Hermès Group employees.

It is specified that no shares are reserved for issuance under put options or agreements to sell shares.

For management purposes, the Hermès Group uses the notion of "equity attributable to owners of the parent" as shown in the consolidated statement of changes in equity. More specifically, equity includes the part of financial instruments that has been transferred to equity as well as actuarial gains and losses, as defined in Notes 1.9 and 1.17.

The Group's objectives, policies and procedures in the area of capital management are in keeping with sound management principles designed to ensure that operations are well-balanced financially and to minimise the use of debt. As its surplus cash position gives it some flexibility, the Group does not use prudential ratios such as "return on equity" in its capital management. During the current year, the Group made no change in its capital management policy and objectives.

Lastly, the parent company, Hermès International, is governed by French laws on capital requirements. Equity must be greater than or equal to at least half of the share capital. If it drops below this level, an Extraordinary General Meeting must be called to approve the measures required to remedy this situation. Hermès International has never been in this position and has always met this requirement.

20.1 Dividends

An ordinary dividend of €3.35 per share was paid, representing a total amount of €350.4 million, after having been approved by the shareholders at the General Meeting held on 31 May 2016 to approve the financial statements for the year ended 31 December 2015.

20.2 Foreign currency adjustments

The change in foreign currency adjustments in 2016 is analysed below:

<i>In millions of euros</i>	31/12/2016	31/12/2015
Balance as at 1 January	165.3	47.7
Yen	9.0	22.7
US dollar	16.0	38.0
Yuan	(3.7)	4.1
Rouble	3.1	(1.7)
Pound sterling	(31.5)	4.5
Macao pataca	1.9	6.3
Swiss franc	1.5	16.0
Singapore dollar	1.4	17.9
Hong Kong dollar	(0.9)	15.3
Other currencies	1.1	(5.6)
Balance as at 31 December	163.3	165.3

20.3 Financial instruments

In 2016, changes in derivatives and financial investments were broken down as follows (after tax):

<i>In millions of euros</i>	2016	2015
Balance as at 1 January	22.2	(13.5)
Amount transferred to equity in the year in respect of derivatives	(1.9)	17.4
Amount transferred to equity in the year in respect of financial investments	0.0	0.0
Adjustments in the value of derivatives at the end of the period	(6.3)	1.9
Other deferred foreign exchange gains/(losses) recognised in comprehensive income	(11.1)	16.3
Balance as at 31 December	2.8	22.2

20.4 Income and expenses recognized directly in equity

In 2016, income and expenses recognized directly in equity was broken down as follows:

<i>In millions of euros</i>	Notes	Gross impact	Tax effect	Net impact
Actuarial gains and losses	25.3.4	(14.4)	3.1	(11.3)
Foreign currency adjustments	20.2	(2.3)	-	(2.3)
Financial instruments attributable to equity	20.3	(29.0)	9.7	(19.4)
Other items		-	-	-
Balance as at 31 December 2016		(45.7)	12.7	(32.9)

And for 2015

<i>In millions of euros</i>	Notes	Gross impact	Tax effect	Net impact
Actuarial gains and losses	25.3.4	(14.0)	4.8	(9.2)
Foreign currency adjustments	20.2	117.6	-	117.6
Financial instruments attributable to equity	20.3	55.3	(19.6)	35.7
Other items		-	-	-
Balance as at 31 December 2015		158.9	(14.9)	144.0

NOTE 21 NON-CONTROLLING INTERESTS

<i>In millions of euros</i>	2016	2015
Balance as at 1 January	6.7	9.5
Net income attributable to non-controlling interests	3.9	4.6
Dividends paid to non-controlling interests	(4.1)	(6.3)
Foreign currency translation adjustments on foreign entities	(0.2)	1.4
Other changes	(4.2)	(2.5)
Balance as at 31 December	2.2	6.7

NOTE 22 EXPOSURE TO MARKET RISKS

22.1 Counterparty risk

Pursuant to the applicable internal control procedures, the Group only deals with leading banks and financial institutions that have signed FBF and ISDA agreements on trading in forward financial instruments, and it is not exposed to any material counterparty risk. In addition, counterparty risks on financial transactions are monitored on an ongoing basis by Hermès International's Treasury Management Department. Lastly, the Group has no exposure to any material risk of dependence on a single counterparty.

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

22.2 Foreign exchange risk

Most of the Group's foreign exchange risk exposure comes from sales denominated in foreign currencies. It hedges this exposure in order to minimise the impact of currency fluctuations on the Group's profits.

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

- ◆ the manufacturing subsidiaries invoice the distribution subsidiaries in their local currency, which automatically concentrates the foreign exchange risk on the manufacturing subsidiaries;
- ◆ the Group's foreign exchange risk is systematically hedged by Hermès International according to annual budgets, based on highly probable future operating cash flows, through firm foreign exchange transactions and/or optional ones eligible for hedge accounting;

- ◆ no speculative transactions in the economic sense of the term are authorised;
- ◆ all other non-operating transactions are hedged against foreign exchange risk as soon as the commitment is firm and definitive. It corresponds to financial risks arising from intra-group loans and dividends in foreign currencies.

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

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

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

The Group's foreign exchange risk is hedged annually by Hermès International, based on highly probable future cash flows derived from budget projections. In practice, as at 31 December, nearly 100% of the Group's annual requirements for the previous year had been hedged.

As part of its foreign exchange risk management procedure, the Group uses purchases and sales of put and call options and currency swaps to hedge future cash flows and firm commitments made in foreign currencies.

22.2.1 Net currency position

<i>In millions of euros</i>	As at 31/12/2016					
	Monetary assets/ (liabilities) ¹	Future cash flows	Net position before hedging	Derivatives ²	Net position after hedging	Hedging ratio
US dollar	(46.1)	394.2	348.1	(382.8)	(34.7)	110%
Yuan	118.6	192.6	311.2	(281.8)	29.3	91%
Yen	23.5	237.8	261.3	(254.6)	6.6	97%
Singapore dollar	43.8	209.9	253.6	(248.8)	4.9	98%
Hong Kong dollar	(82.0)	195.8	113.8	(122.4)	(8.6)	108%
Euro 3	12.9	58.8	71.7	(68.0)	3.7	95%
Pound sterling	(18.7)	79.3	60.6	(56.5)	4.1	93%
Swiss franc	11.2	35.1	46.3	(44.9)	1.4	97%
Canadian dollar	4.5	35.0	39.4	(38.7)	0.7	98%
Australian dollar	3.9	23.6	27.6	(26.3)	1.3	95%
Rouble	4.3	21.9	26.3	(25.8)	0.5	98%
Thai baht	3.6	22.0	25.6	(25.4)	0.3	99%
South Korean won	(0.2)	(10.0)	(10.2)	10.0	(0.2)	98%
Mexican peso	0.6	8.8	9.4	(9.1)	0.3	97%
Brazilian real	1.4	6.7	8.1	(6.7)	1.4	83%
Turkish lira	(0.0)	6.0	6.0	(6.0)	0.0	100%
Indian rupee	0.6	4.6	5.2	(4.7)	0.5	91%
Czech crown	0.1	4.1	4.2	(4.1)	0.1	98%
Danish krone	0.0	3.8	3.9	(3.8)	0.0	99%
Emirati dirham	0.0	(3.0)	(3.0)	2.9	(0.1)	97%
Argentine peso	1.1	-	1.1	-	1.1	
Swedish krona	0.1	-	0.1	-	0.1	
Summary	83.1	1,527.2	1,610.3	(1,597.6)	12.6	99%

In millions of euros	As at 31/12/2015					
	Monetary assets/ (liabilities) ¹	Future cash flows	Net position before hedging	Derivatives ²	Net position after hedging	Hedging ratio
US dollar	67.4	346.8	414.2	(422.5)	(8.3)	102%
Yuan	141.1	181.8	322.9	(307.7)	15.2	95%
Yen	22.2	234.7	256.9	(246.1)	10.8	96%
Singapore dollar	37.0	179.4	216.4	(204.4)	12.0	94%
Hong Kong dollar	24.1	191.6	215.7	(227.2)	(11.5)	105%
Euro ³	14.3	61.2	75.5	(68.8)	6.8	91%
Pound sterling	(7.4)	80.3	72.9	(74.4)	(1.5)	102%
Swiss franc	6.2	27.5	33.7	(34.5)	(0.8)	102%
Canadian dollar	4.4	26.7	31.1	(29.1)	2.0	94%
Thai baht	5.7	19.2	24.9	(24.0)	0.9	96%
Rouble	5.1	15.0	20.1	(18.6)	1.5	92%
Mexican peso	4.3	8.0	12.3	(11.1)	1.3	90%
Australian dollar	(7.3)	17.2	9.9	(5.9)	4.0	60%
South Korean won	0.0	(9.2)	(9.2)	9.2	0.0	100%
Turkish lira	0.3	5.2	5.4	(5.0)	0.4	92%
Czech crown	0.7	4.0	4.7	(4.3)	0.4	92%
Brazilian real	0.8	3.8	4.6	(3.8)	0.8	84%
Indian rupee	0.0	3.3	3.3	(3.3)	0.0	100%
Emirati dirham	0.0	(2.1)	(2.1)	1.9	(0.2)	92%
Argentine peso	1.0	-	1.0	-	1.0	
Summary	319.8	1,394.6	1,714.4	(1,679.6)	34.8	98%

(1) The monetary assets are recognised from receivables and loans as well as from bank balances, investments and cash equivalents dated less than three months from the acquisition date. Monetary liabilities are recognised from financial debts as well as operating liabilities and miscellaneous liabilities.

(2) Purchase/(Sale).

(3) Euro foreign exchange risk for subsidiaries having a different functional currency.

22.2.2 Sensitivity to exchange rate fluctuations

The sensitivity of equity to foreign exchange risk is analysed for the cash flow hedge reserve. The impact on equity corresponds to the change in the market value of cash flow hedging derivatives relative to the current variance in exchange rates, *ceteris paribus*.

A 10% appreciation in the currencies to which the Group is exposed at the closing date would have resulted in a €120.7 million decrease in equity (before tax) in the fair value reserve. A 10% depreciation would have a positive impact of €105.8 million (before tax).

Moreover, a 10% appreciation in the currencies to which the Group is exposed would have led to a €1.4 million increase in net income at the closing date. A 10% depreciation would have led to a €1.1 million decrease in net income.

22.2.3 Analysis of currency agreements

In millions of euros	Nominal amounts of derivatives	Nominal amounts of derivatives used to hedge foreign exchange risk	Market value of the contracts as at 31 December 2016 ¹			
			Future cash flow hedge	Fair value hedge	Unallocated	Total
Options purchased						
US dollar put	36.5	36.5	0.5			0.5
US dollar collar	182.7	182.7	(1.8)			(1.8)
Chinese yuan put	12.6	12.6	0.8			0.8
Chinese yuan collar	82.0	82.0	4.1			4.1
Japanese yen put	22.7	22.7	1.2			1.2
Japanese yen collar	100.5	100.5	3.2			3.2
Singapore dollar put	20.4	20.4	0.6			0.6
Singapore dollar collar	132.5	132.5	2.7			2.7
Hong Kong dollar put	23.5	23.5	0.4			0.4
Hong Kong dollar collar	117.5	117.5	(0.9)			(0.9)
	730.8	730.8	10.7	-	-	10.7
Forward currency agreements²						
US dollar	164.2	178.4	(7.3)		(0.2)	(7.5)
Yuan	98.1	98.1	(0.6)		0.0	(0.6)
Yen	114.7	114.7	2.8		0.0	2.8
Singapore dollar	55.2	56.5	(4.5)		0.0	(4.5)
Hong Kong dollar	54.6	54.6	(6.9)		(0.1)	(7.0)
Pound sterling	79.3	79.3	4.5		0.0	4.5
Euro ³	58.8	58.8	1.5			1.5
Swiss franc	35.1	35.1	(0.5)		0.0	(0.5)
Canadian dollar	35.0	35.0	(1.4)		(0.0)	(1.4)
Thai baht	21.9	21.9	(1.1)			(1.1)
Rouble	21.9	21.9	(3.6)		0.0	(3.6)
South Korean won	(10.0)	(10.0)	0.1		(0.0)	0.1
Australian dollar	23.6	23.6	(0.6)		-	(0.6)
Others	31.1	31.1	(1.0)		(0.1)	(1.1)
	783.5	799.1	(18.5)	-	(0.3)	(18.9)
Currency swaps²						
US dollar	(0.6)	(24.2)	(1.7)		(0.3)	(2.0)
Yuan	89.2	88.6	(0.4)		(0.0)	(0.4)
Yen	16.8	16.8	0.1		-	0.1
Singapore dollar	40.7	40.7	0.2		0.0	0.2
Hong Kong dollar	(73.2)	(73.4)	(0.4)		(0.0)	(0.4)
Pound sterling	(22.8)	(22.8)	(0.5)		-	(0.5)
Euro ³	9.1	10.9	(0.1)		0.0	(0.0)
Swiss franc	9.8	9.8	(0.0)		0.0	(0.0)
Canadian dollar	3.7	3.5	0.1		0.0	0.1
Thai baht	3.5	3.5	(0.0)		-	(0.0)
Rouble	3.9	3.9	(0.1)		-	(0.1)
Australian dollar	2.7	2.6	0.1		0.0	0.1
Others	0.5	0.5	(0.0)		-	(0.0)
	83.3	60.4	(2.7)	-	(0.3)	(3.0)
TOTAL	1,597.6	1,590.3	(10.6)	-	(0.6)	(11.2)

(1) Gain/(Loss).

(2) Sale/(Purchase).

(3) Euro foreign exchange risk for subsidiaries having a different functional currency.

In millions of euros	Nominal amounts of derivatives	Nominal amounts of derivatives used to hedge foreign exchange risk	Market value of the contracts as at 31/12/2015 ¹			
			Future cash flow hedge	Fair value hedge	Unallocated	Total
Options purchased						
US dollar put	33.8	33.8	0.7			0.7
US dollar collar	133.7	133.7	0.5			0.5
Chinese yuan put	17.6	17.6	1.1			1.1
Chinese yuan collar	69.0	69.0	3.5			3.5
Japanese yen put	33.4	33.4	0.9			0.9
Japanese yen call						-
Japanese yen collar	120.6	120.6	1.7			1.7
Singapore dollar put	26.2	26.2	1.1			1.1
Singapore dollar collar	103.4	103.4	3.2			3.2
Hong Kong dollar put	21.9	21.9	0.5			0.5
Hong Kong dollar collar	86.4	86.4	0.2			0.2
	646.1	646.1	13.5	-	-	13.5
Forward currency agreements²						
US dollar	177.8	177.8	(6.3)		(0.0)	(6.4)
Yuan	93.0	93.0	(0.6)		(0.0)	(0.6)
Yen	80.6	80.6	(2.2)		-	(2.2)
Singapore dollar	43.1	43.1	0.2		(0.0)	0.2
Hong Kong dollar	83.3	83.3	(3.8)		(0.1)	(3.9)
Pound sterling	80.3	80.3	(0.6)		(0.0)	(0.6)
Euro ³	60.2	60.2	0.7		0.1	0.8
Swiss franc	27.5	27.5	0.1		-	0.1
Canadian dollar	26.7	26.7	1.6		(0.0)	1.6
Thai baht	19.0	19.0	0.1		-	0.1
Rouble	15.0	15.0	3.2		-	3.2
South Korean won	(9.2)	(9.2)	(0.2)		-	(0.2)
Australian dollar	17.1	17.1	0.0		(0.1)	(0.1)
Others	22.3	22.3	0.8		-	0.8
	736.9	736.9	(7.0)	-	(0.1)	(7.1)
Currency swaps²						
US dollar	77.2	73.3	(0.7)		(0.1)	(0.8)
Yuan	128.1	127.0	(1.1)		(0.0)	(1.2)
Yen	11.4	11.4	(0.2)		-	(0.2)
Singapore dollar	31.6	30.5	(0.3)		(0.0)	(0.3)
Hong Kong dollar	35.6	29.0	(0.4)		(0.1)	(0.4)
Pound sterling	(5.9)	(8.1)	0.2		(0.8)	(0.6)
Euro ³	8.6	9.0	0.0		0.0	0.0
Swiss franc	7.0	6.0	0.0		0.0	0.0
Canadian dollar	2.4	2.0	0.0		0.0	0.0
Thai baht	5.0	4.9	(0.0)		(0.0)	(0.0)
Rouble	3.6	3.6	0.2		-	0.2
Australian dollar	(11.2)	(10.3)	0.0		(0.0)	0.0
Others	3.4	3.4	(0.0)		-	(0.0)
	296.7	281.8	(2.3)	-	(0.9)	(3.2)
TOTAL	1,679.6	1,664.7	4.2	-	(1.0)	3.2

(1) Gain/(Loss).

(2) Sale/(Purchase).

(3) Euro foreign exchange risk for subsidiaries having a different functional currency.

22.3 Interest rate and liquidity risks

The Hermès Group's policy is to maintain a positive treasury position and to have cash available in order to be able to finance its growth strategy independently.

The Group's treasury surpluses and needs are directly managed or overseen by Hermès International's Treasury Management department in accordance with a conservative policy designed to avoid the risk of capital loss and to maintain a satisfactory liquidity position.

Cash surpluses are invested mainly in money-market mutual funds and cash equivalents with a sensitivity of less than 0.5% and a recommended investment period of less than three months.

The items recognised by the Group as "Cash and cash equivalents" strictly correspond with the criteria used in the AMF position, as updated

in 2011. The investments are regularly reviewed in accordance with Group procedures and in strict compliance with the qualification criteria as defined by IAS 7 *Cash flow statement*, and the recommendations of the AMF. As at 31 December 2016, these analyses had not led to changes in the previously adopted accounting classification.

From time to time, the Group uses financial instruments such as swaps and interest rate derivatives to hedge part of its payables and receivables against interest rate fluctuations.

The risk control and management procedures are identical to those applied to foreign exchange transactions.

The following interest rate risks involve only items in the net cash position. Moreover, the interest rate risks are not material as concerns the financial assets and liabilities not included in the net cash position.

In millions of euros	As at 31/12/2016					
	< 1 year	1 to 5 years	> 5 years	Total	Floating rate	Fixed rate
Financial assets	2,328.9	-	-	2,328.9	2,153.9	175.0
Euro	1,772.0	-	-	1,772.0	1,597.0	175.0
Yuan	72.9	-	-	72.9	72.9	-
US dollar	139.3	-	-	139.3	139.3	-
Yen	21.0	-	-	21.0	21.0	-
Others	323.7	-	-	323.7	323.7	-
Financial liabilities¹	20.2	1.6	1.1	23.0	20.7	2.3
Euro	8.8	0.9	-	9.7	9.2	0.5
Yen	0.1	-	-	0.1	0.1	-
Others ²	11.4	0.7	1.1	13.2	11.3	1.8
Net cash position before hedging	2,308.7	(1.6)	(1.1)	2,305.9	2,133.3	172.7
Net cash position after hedging	2,308.7	(1.6)	(1.1)	2,305.9	2,133.3	172.7

In millions of euros	As at 31/12/2016					
	< 1 year	1 to 5 years	> 5 years	Total	Floating rate	Fixed rate
Financial assets	2,328.9	-	-	2,328.9	2,153.9	175.0
Cash and cash equivalents	2,328.9	-	-	2,328.9	2,153.9	175.0
Financial liabilities¹	20.2	1.6	1.1	23.0	20.7	2.3
Medium- and long-term financial debt	-	-	1.1	2.7	0	1.8
Bank overdrafts and short-term debt	20.2	-	-	20.2	20.7	0.5
Current accounts in debit	-	-	-	-	-	-
Net cash position before hedging	2,308.7	(1.6)	(1.1)	2,305.9	2,133.3	172.7
Net cash position after hedging	2,308.7	(1.6)	(1.1)	2,305.9	2,133.3	172.7

(1) Excluding commitments to buy out non-controlling interests (€18.0 million as at 31 December 2016).

(2) Mainly consists of long-term reducing fixed-rate loans taken out by Hermès India Retail and Distributors, floating-rate loans taken out by Hermès Brazil and foreign subsidiaries' bank overdrafts.

In millions of euros	As at 31/12/2015					
	< 1 year	1 to 5 years	> 5 years	Total	Floating rate	Fixed rate
Financial assets	1,589.2	-	-	1,589.2	1,439.2	150.0
Euro	1,000.4	-	-	1,000.4	850.4	150.0
Yuan	48.2	-	-	48.2	48.2	-
US dollar	119.8	-	-	119.8	119.8	-
Yen	17.6	-	-	17.6	17.6	-
Others	403.3	-	-	403.3	403.3	-
Financial liabilities¹	30.2	1.8	-	32.0	25.9	6.0
Euro	18.6	0.7	-	19.3	18.0	1.2
Yen	4.2	-	-	4.2	-	4.2
Others ²	7.4	1.1	-	8.5	7.9	0.6
Net cash position before hedging	1,559.0	(1.8)	-	1,557.2	1,413.3	144.0
Net cash position after hedging	1,559.0	(1.8)	-	1,557.2	1,413.3	144.0

In millions of euros	As at 31/12/2015					
	< 1 year	1 to 5 years	> 5 years	Total	Floating rate	Fixed rate
Financial assets	1,589.2	-	-	1,589.2	1,439.2	150.0
Cash and cash equivalents	1,589.2	-	-	1,589.2	1,439.2	150.0
Financial liabilities¹	30.2	1.8	-	32.0	25.9	6.0
Medium- and long-term financial debt	-	1.8	-	1.8	0.3	1.5
Bank overdrafts and short-term debt	30.1	-	-	30.1	25.6	4.5
Current accounts in debit	0.1	-	-	0.1	0.1	-
Net cash position before hedging	1,559.0	(1.8)	-	1,557.2	1,413.3	144.0
Net cash position after hedging	1,559.0	(1.8)	-	1,557.2	1,413.3	144.0

(1) Excluding commitments to buy out non-controlling interests (€9.6 million as at 31 December 2015).

(2) Mainly consists of long-term reducing fixed-rate loans taken out by Hermès India Retail and Distributors to finance investments linked to the Bombay store (opened in October 2011).

22.3.1 Equity risk

Investments in equities are not material at Group level. As such, the Group has no exposure to equity risk.

22.3.2 Sensitivity to interest rate fluctuations

A uniform 1 percentage point increase in interest rates would have had a positive impact of €21.3 million on the consolidated net income before tax (€14.1 million in 2015).

The market value of investments is equivalent to their carrying amount.

Financial liabilities do not include the liability associated with employee profit-sharing, which is included in "Other liabilities".

22.4 Fair value and hierarchy by level of fair value of financial assets and liabilities

In compliance with IFRS 7 *Financial Instruments: Disclosures*, the assets and liabilities recorded at fair value are classified according to the three following fair value levels:

- ◆ *level 1*: prices listed on an active market. If listed prices in an active market are available, they are used as a priority in order to determine market value;
- ◆ *level 2*: internal model with parameters that can be observed on the basis of internal valuation techniques. These techniques require the use of the usual mathematical calculation methods that include data that can be observed within the markets (future prices, yield curve, etc.). The calculation of most financial derivatives traded within markets is performed on the basis of models that are commonly used by participants in order to assess these financial instruments.
- ◆ *level 3*: internal model with non-observable parameters.

		2016										
<i>In millions of euros</i>	Notes	Assets at fair value	Loans and receivables	Held-to-maturity assets	Available-for-sale assets	Liabilities at fair value	Liabilities at amortised cost	Net carrying amount	Fair value	Evaluation level	Interest rate	Effective interest rate
Financial investments	14	-	10.9	-	9.9	-	-	20.8	20.8		-	-
Liquidity contract	14	10.9	-	-	-	-	-	10.9	10.9	1	-	-
Other financial assets	14	-	-	0.0	-	-	-	0.0	0.0	-	-	-
Other non-consolidated investments	14	-	-	-	0.2	-	-	0.2	0.2	-	-	-
Held-to-maturity securities	14	-	-	-	-	-	-	-	-	-	-	-
Financial assets	14	10.9	10.9	0.0	10.1	-	-	31.9	31.9			
Loans and deposits	16	-	47.5	-	-	-	-	47.5	47.5			
Trade and other receivables	18	-	537.8	-	-	-	-	537.8	537.8			
Foreign currency derivative assets	22.2.3	40.5	-	-	-	-	-	40.5	40.5	2		
Cash and cash equivalents	19	1,016.5	1,312.5	-	-	-	-	2,328.9	2,328.9	1		
Bank overdrafts	22	-	-	-	-	-	(8.4)	(8.4)	(8.4)	-	*	-
Loan Brazil	22	-	-	-	-	-	(10.4)	(10.4)	(10.4)	-	15.2%	15.2%
Loan India	22	-	-	-	-	-	(1.8)	(1.8)	(1.8)	-	9.2%	9.2%
Other borrowings	22	-	-	-	-	-	(2.4)	(2.4)	(2.4)	-	2.7%	2.7%
Current accounts in debit	22	-	-	-	-	-	-	-	-	-	*	-
Financial debts	22	-	-	-	-	-	(23.0)	(23.0)	(23.0)			
Trade payables and other liabilities	26	-	-	-	-	-	(1,183.0)	(1,183.0)	(1,183.0)			
Foreign currency derivative liabilities	22.2.3	-	-	-	-	(51.8)	-	(51.8)	(51.8)	2		
Other derivatives – liabilities		-	-	-	-	(2.0)	-	(2.0)	(2.0)	2		

* Interest rates are floating rates.

		2015										
<i>In millions of euros</i>	Notes	Assets at fair value	Loans and receivables	Held-to-maturity assets	Available-for-sale assets	Liabilities at fair value	Liabilities at amortised cost	Net carrying amount	Fair value	Evaluation level	Interest rate	Effective interest rate
Financial investments	14	-	20.3	-	12.7	-	-	32.9	32.9		-	-
Liquidity contract	14	9.3	-	-	-	-	-	9.3	9.3	1	-	-
Other financial assets	14	-	-	0.0	-	-	-	0.0	0.0	-	-	-
Other non-consolidated investments	14	-	-	-	0.1	-	-	0.1	0.1	-	-	-
Held-to-maturity securities	14	-	-	-	-	-	-	-	-	-	-	-
Financial assets	14	9.3	20.3	0.0	12.8	-	-	42.4	42.4			
Loans and deposits	16	-	50.6	-	-	-	-	50.6	50.6	-	-	-
Trade and other receivables	18	-	523.8	-	-	-	-	523.8	523.8	-	-	-
Foreign currency derivative assets	22.2.3	39.0	-	-	-	-	-	39.0	39.0	2		
Cash and cash equivalents	19	839.5	749.7	-	-	-	-	1,589.2	1,589.2	1	-	-
Bank overdrafts	22	-	-	-	-	-	(17.6)	(17.6)	(17.6)	-	*	-
Loan Brazil	22	-	-	-	-	-	(5.9)	(5.9)	(5.9)	-	15.3%	15.3%
Loan Japan	22	-	-	-	-	-	(4.2)	(4.2)	(4.2)	-	0.3%	0.3%
Loan India	22	-	-	-	-	-	(2.5)	(2.5)	(2.5)	-	9.6%	9.6%
Other borrowings	22	-	-	-	-	-	(1.8)	(1.8)	(1.8)	-	2.3%	2.3%
Current accounts in debit	22	-	-	-	-	-	(0.1)	(0.1)	(0.1)	-	*	-
Financial debts	22	-	-	-	-	-	(32.0)	(32.0)	(32.0)		-	-
Trade payables and other liabilities	26	-	-	-	-	-	(1,088.4)	(1,088.4)	(1,088.4)	-	-	-
Foreign currency derivative liabilities	22.2.3	-	-	-	-	(35.8)	-	(35.8)	(35.8)	2	-	-
Other derivatives – liabilities		-	-	-	-	(1.2)	-	(1.2)	(1.2)	2	-	-

* Interest rates are floating rates.

For 2016 and 2015, there were no transfers between levels 1 and 2 for financial assets and liabilities recognised at fair value.

NOTE 23 PROVISIONS

<i>In millions of euros</i>	31/12/2015	Depreciations	Reversals ¹	Exchange rate impact	Other and reclassifications	31/12/2016
Current provisions	58.8	65.5	(23.0)	0.5	(7.0)	94.7
Non-current provisions	2.6	1.9	(3.9)	0.0	2.7	3.5
TOTAL	61.4	67.5	(26.9)	0.5	(4.3)	98.1

(1) Of which €15.9 million reversed and used.

The provisions correspond to the estimated consequences to assets of actual or probable risks, litigation and disputes on the Group's activities.

Current provisions relate notably to provisions for items returned in the normal course of business. Moreover, the Group's entities in France and internationally may be involved in disputes with tax, social security or customs authorities. Such disputes are the subject of appropriate pro-

visions, the amount of which is revised in line with recommendations received from our advisors, in accordance with the criteria laid down in IAS 37 and IAS 12.

As of 31 December 2016, the Group considers that it is not exposed to risks liable, on an individual basis, to have a significant effect on its financial position and profitability.

NOTE 24 EMPLOYEES

A geographical breakdown of the workforce is as follows:

	31/12/2016	31/12/2015
France	7,881	7,461
Europe (excluding France)	1,351	1,308
Other geographical areas	3,602	3,475
TOTAL	12,834	12,244

A breakdown by category is as follows:

	31/12/2016	31/12/2015
Production	5,917	5,591
Sales	4,865	4,636
Other (design, communication and administration)	2,052	2,017
TOTAL	12,834	12,244

Employee expenses in 2016 totalled €983.8 million, compared with €932.9 million in 2015.

NOTE 25 POST-EMPLOYMENT AND OTHER EMPLOYEE BENEFIT OBLIGATIONS

25.1 Description of plans

Hermès Group employees are eligible for short-term benefits (paid leave, sick leave, profit-sharing), long-term benefits (long-service awards) and post-employment benefits under defined contribution/defined benefit plans (mainly retirement benefits, and supplemental pension plans).

Post-employment benefits are awarded either through defined contribution plans or through defined-benefit plans.

25.1.1 Defined contribution plans

Under these plans, regular payments are made to outside organisations, which are responsible for their administrative and financial management. These plans release the employer from any subsequent obligation,

as the outside organisation takes responsibility for paying amounts due to employees (basic social security old-age plan, ARRCO/AGIRC supplemental pension plans, defined contribution pension funds).

25.1.2 Defined benefit plans

Under these plans, the employer assumes an obligation vis-à-vis its employees. If these plans are not entirely funded in advance, a provision is recorded.

Post-employment and similar benefit obligations (Defined Benefit Obligations or DBOs) are measured using the projected credit unit method, based on actuarial assumptions that take into consideration specific conditions, primarily macroeconomic conditions, in the different countries in which the Group operates.

Changes to actuarial assumptions and experience effects give rise to actuarial gains and losses which are all recorded in equity over the period during which they were recognised.

For the Group, the main defined-benefit plans apply mainly to:

- ♦ retirement benefits in France, Italy, Turkey, Greece, India, Japan and Taiwan: these are calculated based on employee length of service and annual salary upon reaching retirement age. These obligations are partially or entirely externalised depending on the country;
- ♦ long-service awards in France: these are awards for long-standing service or outstanding initiatives taken by employees or persons treated as employees during their careers, or for skills enhancement. The awards are issued with a bonus, under the terms of a collective agreement, company-wide agreement or decision by the relevant company or works council;
- ♦ long-term bonuses in Japan, Asia-Pacific, Switzerland and England: within certain foreign subsidiaries, seniority is rewarded by means of bonuses on specific anniversary dates;
- ♦ a supplementary plan for the directors in France or abroad (Switzerland, Canada).

In millions of euros	< 1 year	> 1 year	2016	< 1 year	> 1 year	2015
Post-employment and similar benefit obligations	5.6	183.4	189.0	4.8	155.0	159.8
TOTAL	5.6	183.4	189.0	4.8	155.0	159.8

25.2 Actuarial assumptions

For 2016, the following actuarial assumptions were used for the countries to which the Hermès Group's main commitments apply:

	France	Italy	Switzerland	Japan	Taiwan	Rest of Asia **
Retirement age	62 to 65 years	62 to 69.6 years	63 to 64 years	60 years	60 to 66 years	50 to 65 years
Increase in salaries	3.0%	1.2%	2.0%	2.5%	3.5% - 5%	3.50% - 8.25%
Increase in social security ceiling	2.50%	n/a	n/a	n/a	n/a	n/a
Discounting rate	1.21% - 0.95% *	1.2%	0.4%	0.4%	1.02%	0.3% - 7.05%

n/a: not applicable.

* Rates according to the duration of the plans.

** Integration of India, Malaysia and Thailand compared with 2015.

2015 assumptions:

	France	Italy	Switzerland	Japan	Taiwan	Rest of Asia
Retirement age	62 to 65 years	62 to 69.6 years	63 to 64 years	60 years	60 to 65 years	50 to 66 years
Increase in salaries	3.0%	2.0%	2.0%	2.5%	3.5%	4.75% - 7.0%
Increase in social security ceiling	2.75%	n/a	n/a	n/a	n/a	n/a
Discounting rate	1.9% - 1.49% *	1.9%	0.8%	0.9%	1.3%	0.4% - 3.0%

n/a: not applicable.

* Rates according to the duration of the plans.

The discount rates applied are obtained by reference to the yield on investment grade (AA) corporate bonds with the same maturity as that of the obligation. In accordance with IAS 19 revised, rates of return on assets are determined by reference to discount rates on the obligations.

A 0.50 point increase or decrease in the discount rate would lead to a €16.1 million decrease or a €18.0 million increase in Hermès Group's pension provision respectively, with the balancing entry recognised in equity.

More specifically, for pension plans in Switzerland, a 0.50 point increase or decrease in the applied interest rate would lead to a €1.2 million increase or a €1.2 million decrease in the pension provision, with the balancing entry recognised in equity.

As at 31 December 2016, contributions paid for the coming year (including contributions paid to a fund and benefits paid directly by the employer) totalled €5.6 million, compared with €4.8 million in 2015.

25.3 Change in provisions recognised in the statement of financial position

<i>In millions of euros</i>	Defined-benefit pension plans	Other defined-benefit plans	2016	Defined-benefit pension plans	Other defined-benefit plans	2015
Provisions as at 1 January	149.0	10.8	159.8	120.7	8.2	128.9
Foreign currency adjustments	2.1	0.1	2.2	4.3	0.2	4.5
Cost according to statement of profit or loss	16.2	2.9	19.1	14.5	2.8	17.3
Benefits/contributions paid	(4.1)	(0.7)	(4.8)	(4.5)	(0.6)	(5.1)
Actuarial gains and losses	14.4	-	14.4	12.7	-	12.7
Change in scope	0.2	0.0	0.2	1.1	0.0	1.1
Others	(1.8)	(0.1)	(1.9)	0.2	0.2	0.4
Provisions as at 31 December	176.0	13.0	189.0	149.0	10.8	159.8

25.3.1 Reconciliation of the value of post-employment and other employee benefit obligations

<i>In millions of euros</i>	Defined-benefit pension plans	Other defined-benefit plans	2016	Defined-benefit pension plans	Other defined-benefit plans	2015
Present value of obligations at 1 January	219.9	10.8	230.7	186.0	8.2	194.2
Foreign currency adjustments	2.5	0.1	2.6	8.0	0.2	8.2
Service cost	14.5	1.2	15.7	13.2	0.9	14.2
Interest cost	2.9	0.2	3.1	2.9	0.1	3.1
Benefits paid	(3.9)	(0.7)	(4.6)	(6.2)	(0.6)	(6.9)
Employee contributions	1.7	-	1.7	1.7	-	1.7
Experience gains and losses	2.0	0.2	2.2	7.4	0.7	8.1
Actuarial gains and losses from demographic assumptions	(2.6)	0.0	(2.6)	0.6	0.1	0.8
Actuarial gains and losses from financial assumptions	15.6	0.4	16.0	5.8	(0.2)	5.5
Plan changes	(0.5)	0.8	0.3	(0.8)	1.2	0.4
Change in scope	0.2	0.0	0.2	1.1	-	1.1
Others	(1.8)	-	(1.8)	0.2	0.2	0.4
Present value of obligations as at 31 December	250.3	13.0	263.3	219.9	10.8	230.7

25.3.2 Fair value of pension plans

<i>In millions of euros</i>	2016	2015
Fair value of assets at 1 January	70.9	65.3
Employer contributions	4.1	4.5
Employee contributions	1.7	1.7
Benefits paid	(3.9)	(6.2)
Financial income	0.8	1.0
Administrative expenses	(0.2)	(0.3)
Foreign currency adjustments	0.4	3.7
Actuarial gains and losses	0.5	1.2
Change in scope	0.0	-
Fair value of assets as at 31 December	74.3	70.9

25.3.3 Analysis of provision for post-employment and similar benefit obligations

<i>In millions of euros</i>	Defined-benefit pension plans	Other defined-benefit plans	31/12/2016	Defined-benefit pension plans	Other defined-benefit plans	31/12/2015
Present value of funded obligations	194.7		194.7	171.6		171.6
Fair value of plan assets	(74.3)		(74.3)	(70.9)		(70.9)
Excess obligations/(assets) in funded plans	120.4	-	120.4	100.7	-	100.7
Present value of unfunded obligations	55.6	13.0	68.6	48.3	10.8	59.1
Unrecognised net assets			-			-
Net defined-benefit plan obligations	176.0	13.0	189.0	149.0	10.8	159.8
Breakdown of obligations – assets	-	-	-	-	-	-
Breakdown of obligations – liabilities	176.0	13.0	189.0	149.0	10.8	159.8
Net obligations	176.0	13.0	189.0	149.0	10.8	159.8

25.3.4 Change in actuarial gains and losses

<i>In millions of euros</i>	
Actuarial gains and losses recognised in equity as at 31 December 2014	112.4
Experience gains and losses	7.4
Actuarial gains and losses from changes in demographic assumptions	0.6
Actuarial gains and losses from changes in financial assumptions	5.8
Impact of limits on plan assets	-
Other actuarial gains and losses	0.1
Actuarial gains and losses recognised in equity as at 31 December 2015	126.3
Experience gains and losses	2.0
Actuarial gains and losses from changes in demographic assumptions	(2.6)
Actuarial gains and losses from changes in financial assumptions	15.6
Impact of limits on plan assets	-
Other actuarial gains and losses	(0.3)
Actuarial gains and losses recognised in equity as at 31 December 2016	141.0

25.3.5 Analysis of expenses recognised in the statement of profit or loss

<i>In millions of euros</i>	Defined-benefit pension plans	Other defined-benefit plans	2016	Defined-benefit pension plans	Other defined-benefit plans	2015
Service costs	14.5	1.2	15.7	13.2	0.9	14.1
Interest costs	2.9	0.2	3.1	2.9	0.1	3.0
Financial income on assets	(0.8)	-	(0.8)	(1.0)	-	(1.0)
(Gains)/losses resulting from a plan change	(0.5)	0.8	0.3	(0.8)	1.2	0.4
Change in scope	-	-	-	-	-	-
Net actuarial (gains)/losses recognised in year	-	0.6	0.6	-	0.6	0.6
Administrative expenses	0.2	0.1	0.3	0.2		0.2
Cost of defined-benefit plans	16.2	2.9	19.1	14.5	2.8	17.3

25.4 Plan assets

A weighted average breakdown of plan assets by investment type is as follows:

<i>In millions of euros</i>	31/12/2016		31/12/2015	
	Value	Breakdown	Value	Breakdown
Equities	7.9	11%	7.6	11%
Obligations	52.4	70%	50.2	71%
Others	14.0	19%	13.1	18%
TOTAL	74.3	100%	70.9	100%

25.5 Information by geographical area

<i>In millions of euros</i>	31/12/2016		31/12/2015	
	Value	Breakdown	Value	Breakdown
France	154.8	59%	131.5	57%
Europe (excluding France)	63.1	24%	60.6	26%
Japan	39.0	15%	33.6	15%
Asia-Pacific (excluding Japan)	6.0	2%	4.7	2%
Americas	0.4	0%	0.4	0%
Present value of obligations	263.3	100%	230.7	100%
France	33.3	45%	32.4	46%
Europe (excluding France)	40.6	55%	38.1	54%
Asia-Pacific (excluding Japan)	0.4	0%	0.4	0%
Fair value of plan assets	74.3	100%	70.9	100%
France	-	-	-	-
Asia-Pacific (excluding Japan)	-	-	-	-
Unrecognised net assets	-	-	-	-
France	121.5	64%	99.1	62%
Europe (excluding France)	22.5	12%	22.5	14%
Japan	39.0	21%	33.6	21%
Asia-Pacific (excluding Japan)	5.6	3%	4.3	3%
Americas	0.4	0%	0.4	0%
Provisions for post-employment and similar benefit obligations	189.0	100%	159.8	100%

NOTE 26 TRADE PAYABLES AND OTHER LIABILITIES

<i>In millions of euros</i>	31/12/2016	31/12/2015
Trade payables	423.0	402.5
Amounts payable to fixed asset suppliers	40.6	37.8
Trade and other payables	463.7	440.3
Current tax liabilities	128.3	115.0
Other current liabilities	523.8	471.1
Other non-current liabilities	67.3	62.0
TRADE PAYABLES AND OTHER LIABILITIES	1,183.0	1,088.4

Other current and non-current liabilities mainly consists of tax and social security liabilities.

NOTE 27 OFF BALANCE SHEET COMMITMENTS, CONTINGENT ASSETS AND CONTINGENT LIABILITIES

27.1 Financial commitments

<i>In millions of euros</i>	< 1 year	1 to 5 years	> 5 years	31/12/2016	31/12/2015
Bank guarantees given	4.7	3.7	14.8	23.2	9.3
Bank guarantees received	0.1	0.3	-	0.4	0.3
Commitments to purchase financial assets	-	-	41.3	41.3	20.8
Other commitments	23.4	-	-	23.4	16.3

Future non-cancellable commitments for discounted payments on operating lease agreements for all stores operated by the Group worldwide are as follows:

<i>In millions of euros</i>	< 1 year	1 to 5 years	> 5 years	Total	Annual discount rate
Minimum future payments - Status at end of 2016	165.4	495.3	149.9	810.5	7.71%
Minimum future payments - Status at end of 2015	122.7	316.6	117.7	557.0	8.83%

Moreover, future non-cancellable commitments in respect of discounted minimum payments on the operating leases of the administrative buildings (headquarters, offices) or logistics premises operated by the Group worldwide amounted to €126 million as at 31 December 2016.

In total, future non-cancellable commitments in respect of discounted future minimum payments on operating lease contracts amounted to €937 million as at 31 December 2016.

27.2 Other off balance sheet commitments

The Group has no knowledge of any commitments other than those mentioned elsewhere herein and that would not be reflected in the financial statements for the year ended 31 December 2016. To date, there is no exceptional event or dispute that would be liable to have a likely and material impact on the Group's financial position.

Furthermore, in the normal course of its business operations, the Group is involved in legal actions and is subject to controls. A provision is recorded when a risk is identified and when its cost can be estimated.

NOTE 28 RELATED-PARTY TRANSACTIONS

28.1 Transactions with equity-accounted associates

Transactions with equity-accounted associates were not material relative to the Group's overall business activities.

28.2 Other related-party transactions

Relationships with other related parties, within the meaning of IAS 24 *Related Party Disclosures* can be summarised as follows:

- ◆ RDAI firm: RDAI was commissioned to undertake a design assignment for the application of the architectural concept to all Hermès Group stores. Fees paid by the Hermès Group amounted to €8.1 million excluding tax in 2016.

The RDAI firm, as well as the SCI mentioned below, are considered to be related parties given that certain members of Group Management or members of the Supervisory Board have personal interests therein and exercise significant influence;

- ◆ Émile Hermès SARL, Active Partner: Émile Hermès SARL is a société à responsabilité limitée à capital variable (limited company with variable capital). Its partners are the direct descendants of Mr Émile-Maurice Hermès and his wife. Émile Hermès SARL's Executive Chairman is Mr Henri-Louis Bauer. The Company is governed by an Executive Management Board. Each year, Hermès International pays 0.67% of the distributable profits to the Active Partner. In addition, Hermès International charges Émile Hermès SARL for certain expenses incurred. Hermès International charged back €0.2 million in this respect in 2016;

- ◆ ARDIAN Holding: as part of the diversification of its investments, Hermès International has a 11.71% equity interest in the company ARDIAN Holding, in which a member of the Supervisory Board has responsibilities. This commitment had been assumed prior to this person's appointment.

Certain of the above transactions constitute related-party agreements according to the definition contained in the French Commercial Code (*Code de commerce*). For further details, see the description of the proposed resolutions on pages 282 to 304.

28.3 Lease agreements with related parties

Address	Lessor	Lessee	Lease type	Period	Start	End	Security deposit
28/30/32 rue du Faubourg St Honoré	SAS SIFAH	Hermès International	Commercial lease	9 years	01/01/2007	31/12/2015 ¹	3 months
28/30/32 rue du Faubourg St Honoré	SAS SIFAH	Hermès Sellier	Commercial lease	9 years	01/01/2007	31/12/2015 ¹	3 months
26 rue du Faubourg St Honoré	SAS SIFAH	Hermès International	Commercial lease	9 years	01/01/2014	31/12/2022	3 months
26 rue du Faubourg St Honoré	SAS SIFAH	Hermès International	Commercial lease	9 years	01/01/2008	31/12/2016	3 months
23 rue Boissy d'Anglas	SAS SIFAH	Hermès Sellier	Commercial lease	9 years	01/01/2009	31/12/2017	3 months
74 rue du Faubourg St Antoine	S.C.I. 74 rue du Faubourg Saint-Antoine	Hermès International	Commercial lease	9 years	01/07/2008	30/06/2017	3 months
4 rue du Pont Vert 27400 Le Vaudreuil	Briand Villiers I	Comptoir Nouveau de la Parfumerie	Commercial lease	9 years firm	01/07/2014	30/06/2023	3 months

(1) In process of being renewed.

Total rental expenses for the abovementioned leases amounted to €9 million in 2016 (versus €9 million in 2015).

All of the transactions described were carried out on an arm's length basis, *i.e.* on terms that would apply if the transactions had occurred between unrelated parties.

NOTE 29 SENIOR EXECUTIVE COMPENSATION

A breakdown of total compensation paid to members of the Executive Committee and the Supervisory Board, in respect of their functions within the Group, is as follows:

<i>In millions of euros</i>	2016	2015
Short-term benefits	11.2	13.5
Post-employment benefits	3.1	3.4
Other long-term benefits	0.1	0.2
Share-based payments	1.8	2.5
TOTAL	16.3	19.6

Short-term benefits include compensation and bonuses paid to Executive Committee members during the year, as well as directors' fees paid to

members of the Supervisory Board. Share-based payments correspond to the amounts expensed in the year.

NOTE 30 SHARE-BASED PAYMENTS

The expense recognised in 2016 in respect of free share allocation plans totalled €60.6 million, compared with €36.4 million at end-2015.

30.1 New plans

In accordance with the authorisation granted by the Combined General Meeting of 31 May 2016 in its 15th resolution, the Management Board decided the same day to grant free shares as described below.

1) Democratic plan bearing on an overall grant of 452,960 conditional rights to receive free shares to 11,324 employees of the Group.

This grant was structured into two tranches, each bearing on 50% of the rights granted, with vesting periods of four and five years respectively. The vesting of the shares of each tranche is subject to a condition of presence – the beneficiary must be present in the Group’s workforce at the end of the vesting period.

The main features of the grant and the assumptions used to calculate the IFRS expense of the democratic plan are as follows:

- ◆ share price at grant date: €324.7 (weighted average price);
- ◆ dividend yield of 1.15% per annum;
- ◆ fair value of a share: €306.6 to €310.1;

- ◆ average turnover rate over the vesting period: 11.5% to 14.1% for French residents and 28.4% to 34.1% for foreign residents.

The IFRS expense (excluding tax paid by the employer) in 2016 in respect of issuance made under the plan amounted to €14.8 million.

2) Selective plan bearing on an overall grant of 353,100 conditional rights to receive free shares to certain executives of the Group. The vesting period of the rights granted under this plan is four years.

The transfer of ownership of the shares is subject to a condition of presence – the beneficiary must be present in the Group’s workforce at the end of the vesting period. Furthermore, 50% of rights granted are also subject to performance conditions (based on the results of the Group in 2016 and 2017). For the purposes of determining the amount recorded in the first half 2016, the performance conditions were deemed to have been satisfied in 2016 and 2017.

The main features of the grant and the assumptions used to calculate the IFRS expense of the selective plan are as follows:

- ◆ share price at grant date: €324.7 (weighted average);
- ◆ dividend yield of 1.15% per annum;
- ◆ fair value of a share: €310.1;
- ◆ average turnover rate over the vesting period: 3.9%.

The IFRS expense (excluding tax paid by the employer) in 2016 in respect of issuance made under the plan amounted to €15.3 million.

30.2 Reconciliation free shares outstanding

<i>In shares</i>	2016	2015
Outstanding as at 1 January	826,950	868,640
◆ o/w exercisable	-	-
Issued	806,060	-
Exercised	(416,480)	(1,610)
Cancelled	-	-
Forfeited	(28,370)	(40,080)
Outstanding as at 31 December	1,188,160	826,950
◆ o/w exercisable	-	-

The information relative to the bonus share allocation plans is provided on page 146 (Table 11).

NOTE 31 INFORMATION ON FEES

During the 2016 financial year, the fees paid to the Statutory Auditors and to members of their networks were as follows:

<i>In millions of euros</i>	PricewaterhouseCoopers				Didier Kling & Associés			
	2016	Breakdown	2015	Breakdown	2016	Breakdown	2015	Breakdown
Certification of financial statements								
♦ <i>o/w Hermès International (parent company)</i>	0.3		0.2		0.2		0.2	
♦ <i>o/w Fully consolidated subsidiaries</i>	1.6		1.6		0.3		0.3	
Sub-total	1.9	87%	1.8	81%	0.5	100%	0.5	100%
Services other than certification of financial statements								
♦ <i>o/w Hermès International (parent company)</i>	0.1		0.1		-		-	
♦ <i>o/w Fully consolidated subsidiaries</i>	0.2		0.4		-		-	
Sub-total	0.3	13%	0.4	19%	-	-	-	-
TOTAL	2.2	100%	2.2	100%	0.5	100%	0.5	100%

The observed imbalance can be explained by the fact that the PwC network is in charge of nearly all of the auditing of the foreign subsidiaries of the Hermès Group.

NOTE 32 SCOPE OF CONSOLIDATION

LIST OF THE MAIN CONSOLIDATED COMPANIES AS AT 31 DECEMBER 2016 (DISTRIBUTION SUBSIDIARIES AND HOLDING COMPANIES OF THE DIVISIONS, FOR THE MAJOR PART)

Company	Office	Percentage 2016			Registered no. (French SIREN)
		Control	Interest	Method *	
Hermès International	24, rue du Faubourg-Saint-Honoré, 75008 Paris	Parent	Parent	Parent	572 076 396
Boissy Les Mûriers	23, rue Boissy-d'Anglas, 75008 Paris	100	100	Full	351 649 504
Boissy Mexico	Avenida Presidente Mazaryk 422, Local "A", Col Polanco, 11560 Mexico D.F. (Mexico)	54.2	54.2	Full	-
Boissy Retail	501 Orchard Road; #04-07/08 Wheelock Place, 238880 Singapore	100	100	Full	
Castille Investissements	24, rue du Faubourg-Saint-Honoré, 75008 Paris	100	100	Full	352 565 451
Les Cristalleries de Saint-Louis	Saint-Louis-lès-Bitche, 57620 Lemberg	99.98	99.98	Full	353 438 708
Compagnie Hermès de Participations	23, rue Boissy-d'Anglas, 75008 Paris	100	100	Full	413 818 147
Compagnie Hermès de Participations 2	23, rue Boissy-d'Anglas, 75008 Paris	100	100	Full	789 925 534
Comptoir Nouveau de la Parfumerie	23, rue Boissy-d'Anglas, 75008 Paris	99.67	99.67	Full	542 053 285
Hermès Denmark	Pilestræde 58, 1112 København K (Denmark)	100	100	Full	
Faubourg Italia	1/A Piazza della Repubblica, 20121 Milan (Italy)	60	60	Full	-
Faubourg Guam	C/Co Calvo Fisher & Jacob LLP, 259 Martyr Street, Suite 100, Hagatna Guam 96910	100	100	Full	-
Faubourg Middle East	LB13002, Jebel Ali Free Zone, Dubai	40	40	EA	
Financière Saint-Honoré	1, rue Robert-Céard, 1204 Geneva (Switzerland)	100	100	Full	-
Full More Group	25/F, Chinachem Leighton Plaza, 29 Leighton Road, Causeway Bay (Hong Kong)	90	90	Full	-
Ganterie de Saint-Junien	18, rue Louis Codet, 87200 Saint-Junien	100	100	Full	391 581 196
Grafton Immobilier	23 rue Boissy d'Anglas, 75008 Paris	100	100	Full	440 256 444
Hermès Argentina	Avenida Alvear 1981, 1129 Buenos Aires (Argentina)	100	99.99	Full	-
Hermès Asia Pacific	25/F Chinachem Leighton Plaza, 29 Leighton Road, Causeway Bay (Hong Kong)	100	100	Full	-
Hermès Australia	Level 11, 70 Castlereagh Street, Sydney NSW 2000 (Australia)	100	100	Full	-
Hermès Benelux Nordics	50, boulevard de Waterloo, 1000 Brussels (Belgium)	100	100	Full	-
H Brasil Comercio Importacao e Exportacao	Avenida Magalhaes de Castro, n° 12.000, Loja 32, Piso Terreo, Jardim Panarama, Sao Paolo	100	100	Full	-
Hermès Canada	131 Bloor Street West, Toronto, Ontario M5S 1R1 (Canada)	100	100	Full	-
Hermès (China)	Room 130, Plaza 66, n° 1266 West Nanjing Road, Jingan District Shanghai (China)	100	100	Full	-
Hermès (China) Trading	Building n° 12, n° 211, 213, 215 and 227, Middle Huahai Road, 200021 Shanghai (China)	100	100	Full	-
Hermès Cuirx Précieux	3, avenue Hoche, 75008 Paris	100	100	Full	398 142 695
Hermès de Paris (Mexico)	Avenida Presidente Mazaryk 422, Local "A", Col Polanco, 11560 Mexico D.F. (Mexico)	54.21	54.21	Full	-
Hermès GB	1 Bruton Street, London W1J 6TL (United Kingdom)	100	100	Full	-
Hermès GmbH	Marstallstrasse 8, 80539 Munich (Germany)	100	100	Full	-
Hermès Grèce	Stadiou 4 and Voukourestiou 1, City Link, 10564 Syntagma, Athens (Greece)	100	100	Full	-
Hermès Iberica	Paseo de la Castellana no. 28, 28046 Madrid (Spain)	100	100	Full	-
Hermès Holding GB	1 Bruton Street, London W1J 6TL (United Kingdom)	100	100	Full	
Hermès Horizons	23, rue Boissy-d'Anglas, 75008 Paris	100	100	Full	480 011 527
Hermès Immobilier Genève	1, rue Robert Céard, 1204 Geneva (Switzerland)	100	100	Full	-

Company	Office	Percentage 2016			Registered no. (French SIREN)
		Control	Interest	Method *	
Hermès India Retail and Distributors Private Limited	G/5-9 Shopping Arcade, The Oberoi, Dr Zakir Hussain Marg, 110003 New Delhi (India)	51.01	51.01	Full	-
Hermès Internacional Portugal	Largo do Chiado 9, 1200-108 Lisbon (Portugal)	100	100	Full	-
Hermès Istanbul	Abdi Ipekçi Cad. No:79 Nisantasi, Sisli, Istanbul (Turkey)	100	100	Full	-
Hermès Italie	Via G. Serbelloni 1Gastone Pisoni 2, 20121 Milan (Italy)	100	100	Full	-
Hermès Japon	4-1, Ginza 5-Chome, Chuo-Ku, Tokyo 104-0061 (Japan)	100	100	Full	-
Hermès Korea	630-26 Shinsa-Dong Gangnam-gu, Seoul 135-895 (South Korea)	100	100	Full	-
Hermès Latin America	703 Waterford Way, Suite 195, Miami, Florida 33126 (United States)	100	100	Full	-
Hermès Middle East South Asia	One Marina Boulevard, #28-00, 018989 Singapore	100	100	Full	-
Hermès Monte-Carlo	11-13-15, avenue de Monte-Carlo, 98000 Monaco	100	100	Full	-
Hermès of Paris	55 East, 59th Street, 10022 New York (USA)	100	100	Full	-
Hermès Prague	Parizska 12/120, 11000 Prague (Czech Republic)	100	100	Full	-
Hermès Retail (Malaysia)	Level 16, Menara Asia Life, 189 Jalan Tun Razak, 50400 Kuala Lumpur (Malaysia)	100	100	Full	-
Hermès Sellier	24, rue du Faubourg-Saint-Honoré, 75008 Paris	99.77	99.77	Full	696 520 410
Hermès Singapore (Retail)	1 Marina Boulevard, #28-00, Singapore 018989 (Singapore)	100	100	Full	-
Hermès Suisse	1, rue Robert Céard, 1204 Geneva (Switzerland)	100	100	Full	-
Hermès Travel Retail Asia	1 Marina Boulevard, #28-00, Singapore 018989 (Singapore)	100	100	Full	-
Holding Textile Hermès	16, chemin des Mûriers, 69310 Pierre-Bénite	96.71	96.71	Full	592 028 542
Honossy	23, rue Boissy-d'Anglas, 75008 Paris	100	100	Full	393 178 025
Immauger	23, rue Boissy-d'Anglas, 75008 Paris	100	100	Full	377 672 159
Immobilière de la Maroquinerie de Normandie	23, rue Boissy-d'Anglas, 75008 Paris	100	100	Full	789 925 872
Immobilière du 5 rue de Furstemberg	23, rue Boissy-d'Anglas, 75008 Paris	100	100	Full	440 252 849
J.L. & Company Limited	Westminster Works, 1 Oliver Street, Northampton NN2 7JL (United Kingdom)	100	100	Full	-
John Lobb	23, rue Boissy-d'Anglas, 75008 Paris	99.99	99.99	Full	582 094 371
La Manufacture de Seloncourt	18, rue de la Côte, 25230 Seloncourt	100	100	Full	407 836 329
La Maroquinerie Nontronnaise	Route de Saint-Martin-le-Pin, 24300 Nontron	100	100	Full	403 230 436
La Montre Hermès	Erlenstrasse 31 A, 2555 Brügg (Switzerland)	100	100	Full	-
Manufacture de Haute Maroquinerie	ZAE Les Combaruches, 825, bd Jean-Jules-Herbert, 73100 Aix-les-Bains	100	100	Full	409 548 096
Maroquinerie de Belley	Lieu-dit le Pontet ou la Rodette, VC7 des Ecassaz et 5 de Charignin, 01300 Belley	100	100	Full	428 128 425
Maroquinerie de Normandie	23, rue Boissy-d'Anglas, 75008 Paris	100	100	Full	789 926 334
Maroquinerie de la Tardoire	Route de Chez Marvaud, 16220 Montbron	100	100	Full	480 011 568
Maroquinerie de Saint-Antoine	74, rue du Faubourg St Antoine, 75012 Paris	100	100	Full	409 209 202
Maroquinerie de Sayat	Route de Volvic, 63530 Sayat	100	100	Full	411 795 859
Maroquinerie des Ardennes	Avenue des Marguerites, 08120 Bogy-sur-Meuse	100	100	Full	428 113 518
Maroquinerie Iséroise	Lieu-dit Netrin Ouest rue Victor Hugo, 38490 Les Abrêts	100	100	Full	480 011 451
Maroquinerie Thierry	ZI Les Bracots, rue des Fougères, 74890 Bons-en-Chablais	49.97	49.97	EA	312 108 368
Motsch-George V	23, rue Boissy-d'Anglas, 75008 Paris	100	100	Full	440 252 476
Perrin & Fils	ZA Les Chaumes, 38690 Le Grand -Lemps	39.52	38.22	EA	573 620 143
Saint-Honoré (Bangkok)	Unit 1207 12th Floor Park Venture Ecoplex 57 Wireless Road, Lumpini Pathumwan, Bangkok 10330 (Thailand)	80	80	Full	-
SCI Auger-Hoche	12-22, rue Auger, 93500 Pantin	100.00	100.00	Full	335 161 071

Company	Office	Percentage 2016			Registered no. (French SIREN)
		Control	Interest	Method *	
SCI Boissy Nontron	23, rue Boissy-d'Anglas, 75008 Paris	100	100	Full	442 307 021
SCI Edouard VII	23, rue Boissy-d'Anglas, 75008 Paris	100	100.0	Full	542 053 285
SCI Les Capucines	ZI Les Bracots, 74890 Bons-en-Chablais	100	99.99	Full	408 602 050

* Consolidation method Full: full consolidation; EA: equity associate.

5.7 STATUTORY AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

This is a free translation into English of the Statutory auditors' report on the consolidated financial statements issued in French and is provided solely for the convenience of English-speaking users. The Statutory auditors' report includes information specifically required by French law in such reports, whether modified or not. This information presented below is the audit opinion on the consolidated financial statements and includes an explanatory paragraph discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the consolidated financial statements taken as a whole and not to provide separate assurance on individual account balances, transactions or disclosures. This report also includes information relating to the specific verification of information given in the Group's management report. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

Year ended 31 December 2016

To the shareholders,

In compliance with the assignment entrusted to us by your General Meeting, we hereby report to you, for the year ended 31 December 2016, on:

- ◆ the audit of the accompanying consolidated financial statements of Hermès International;
- ◆ the justification of our assessments;
- ◆ the specific verification required by law.

These consolidated financial statements have been approved by the Company's Executive Management. Our role is to express an opinion on these financial statements based on our audit.

1. OPINION ON THE CONSOLIDATED FINANCIAL STATEMENTS

We conducted our audit in accordance with professional standards applicable in France; those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit involves performing procedures, using sampling techniques or other methods of selection, to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made, as well as the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the Group consisting of the people an entities in the consolidation scope and of the results of its operations for the year then ended in accordance with IFRS as adopted by the European Union.

2. JUSTIFICATION OF OUR ASSESSMENTS

In accordance with the requirements of Article L. 823-9 of the French Commercial Code (*Code de commerce*) relating to the justification of our assessments, we bring to your attention the following matters:

- ◆ as part of our assessment of the accounting principles applied by your Group, we reviewed the methods used to apply these principles to intangible assets and property, plant and equipment (Note 1.7 to the consolidated financial statements) and to inventories (Note 1.10 to the consolidated financial statements) and we verified their proper implementation;
- ◆ Note 1.17 to the consolidated financial statements describes the methods used to measure post-employment and other employee benefit obligations. With regard to defined-benefit plans, these obligations have been assessed by external actuaries. Our work included reviewing the data and assumptions used.

Concerning the items indicated above, we have also verified that the notes to the consolidated financial statements provide appropriate information.

These assessments were made as part of our audit of the consolidated financial statements taken as a whole, and therefore contributed to the opinion we formed which is expressed in the first part of this report.

3. SPECIFIC VERIFICATION

As required by law, we have also verified, in accordance with professional standards applicable in France, the information presented in the Group's management report.

We have no matters to report as to its fair presentation and its consistency with the consolidated financial statements.

Neuilly-sur-Seine and Paris, 11 April 2017

The Statutory Auditors

PricewaterhouseCoopers Audit

Christine Bouvry

Didier Kling & Associés

Christophe Bonte

Didier Kling

6

PARENT COMPANY FINANCIAL STATEMENTS

6.1	STATEMENT OF PROFIT OR LOSS FOR 2016	214
6.2	STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016	215
6.3	CHANGES IN EQUITY IN 2016	216
6.4	STATEMENT OF CASH FLOWS FOR 2016	217
6.5	NOTE TO THE FINANCIAL STATEMENTS	218
6.6	LIST OF INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES AS AT 31 DECEMBER 2016	232
6.7	TABLE OF SUBSIDIARIES AND ASSOCIATES AS AT 31 DECEMBER 2016	234
6.8	TABLE OF RESULTS OVER THE LAST FIVE FINANCIAL YEARS	238
6.9	STATUTORY AUDITORS' REPORT ON THE ANNUAL FINANCIAL STATEMENTS	239

6.1 STATEMENT OF PROFIT OR LOSS FOR 2016

<i>In millions of euros</i>	Notes	2016	2015
Operating income	2	332.2	249.2
Revenue		177.6	207.2
Other products		2.1	0.8
Reversals of provisions and expenses reclassified		152.6	41.2
Operating expenses		331.2	264.1
Other purchases and external expenses		99.1	99.2
Tax and duties		7.3	6.2
Compensation		47.0	45.6
Social security and similar expenses	3	105.0	55.3
Amortisation, depreciation, provisions and impairment		71.0	52.7
Other expenses		1.8	5.2
NET OPERATING INCOME/(LOSS)		1.0	(14.9)
Financial income		1,267.2	1,015.1
Income from subsidiaries and associates		1,225.9	931.0
Other interest and similar income		2.3	6.2
Reversals of provisions and impairment	11	12.0	46.6
Foreign exchange gains		26.9	30.6
Net income from disposals of marketable securities		0.2	0.6
Financial expenses		179.8	123.7
Additions to provisions and impairment	11	158.0	122.2
Foreign exchange losses		21.2	-
Interest and similar expenses		0.7	1.5
NET FINANCIAL INCOME		1,087.4	891.4
RECURRING OPERATING INCOME		1,088.4	876.5
Extraordinary income		135.6	18.6
Extraordinary expenses		123.2	20.2
NET EXTRAORDINARY INCOME	4	12.5	(1.6)
NET INCOME BEFORE TAX AND EMPLOYEE PROFIT-SHARING		1,100.9	874.9
Employee profit-sharing		(3.9)	(3.9)
Income tax	5	(5.8)	(28.3)
NET INCOME		1,091.2	842.8

N.B.: the values shown in the tables are generally expressed in millions of euros. In certain cases, the effects of rounding up/down can lead to a slight discrepancy on the level of the totals or changes.

6.2 STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016

Assets <i>In millions of euros</i>	Notes	31/12/2016	31/12/2015
Fixed assets		684.6	710.6
Intangible assets	6	5.5	7.1
♦ Concessions, patents and brands		-	-
♦ Others		5.5	7.1
Property, plant and equipment	6	18.7	18.7
♦ Land		0.2	0.2
♦ Buildings		-	-
♦ Other assets		18.3	17.9
♦ Assets under construction		0.2	0.6
Financial assets	7	660.3	684.8
♦ Investments in subsidiaries and associates		617.2	628.2
♦ Other long-term investments		2.6	2.6
♦ Other financial assets		40.5	54.0
Current assets		2,776.1	1,829.7
Operating receivables	8	136.8	154.8
Miscellaneous receivables	8	611.2	451.5
Marketable securities	9	1,409.4	1,042.7
Derivatives		41.2	32.6
Cash at bank and in hand		577.5	148.2
Prepayments and accruals	8	5.0	4.2
TOTAL ASSETS		3,465.6	2,544.5
Liabilities <i>Before allocation</i>			
Equity		2,857.3	2,122.1
Share capital	10	53.8	53.8
Share, merger or contribution premiums		49.6	49.6
Other reserves		601.5	501.3
Legal reserve		5.7	5.7
Retained earnings		1,055.1	668.6
Net income for the financial year		1,091.2	842.8
Regulated provisions	11	0.4	0.4
Provisions for contingencies	11	177.2	196.1
Liabilities		431.1	226.4
Financial debts	12	22.4	34.0
Derivatives		11.0	6.6
Operating liabilities	12	54.5	73.2
Miscellaneous liabilities	12	343.2	112.6
TOTAL EQUITY AND LIABILITIES		3,465.6	2,544.5

N.B.: the values shown in the tables are generally expressed in millions of euros. In certain cases, the effects of rounding up/down can lead to a slight discrepancy on the level of the totals or changes.

6.3 CHANGES IN EQUITY IN 2016

<i>In millions of euros</i>	Share capital	Share, merger or contribution premiums	Legal reserve, other reserves, and retained earnings	Net income for the financial year	Regulated provisions	Equity	Number of shares outstanding
Notes	10				11		10
Balance as at 31 December 2014 before allocation of net income	53.8	49.6	1,421.7	587.7	0.4	2,113.2	105,569,412
Allocation of net income 2014	-	-	587.7	(587.7)	-	-	-
Dividends paid in respect of the financial year	-	-	(833.9)	-	-	(833.9)	-
Net income for financial year 2015	-	-	-	842.8	-	842.8	-
Other changes	-	-	-	-	-	-	-
Balance as at 31 December 2015 before allocation of net income	53.8	49.6	1,175.5	842.8	0.4	2,122.1	105,569,412
Allocation of net income 2015	-	-	842.8	(842.8)	-	-	-
Dividends paid in respect of the financial year	-	-	(356.0)	-	-	(356.0)	-
Net income for financial year 2016	-	-	-	1,091.2	-	1,091.2	-
Other changes	-	-	-	-	-	-	-
Balance as at 31 December 2016 before allocation of net income	53.8	49.6	1,662.2	1,091.2	0.4	2,857.3	105,569,412

N.B.: the values shown in the tables are generally expressed in millions of euros. In certain cases, the effects of rounding up/down can lead to a slight discrepancy on the level of the totals or changes.

6.4 STATEMENT OF CASH FLOWS FOR 2016

<i>In millions of euros</i>	Notes	2016	2015
Net income		1,091.2	842.8
Depreciation and amortisation		11.6	8.0
Change in provisions and impairment	11	112.7	117.8
Capital gains/(losses) on disposals		76.2	0.3
Operating cash flows		1,291.7	968.9
Change in intra-group current accounts		(13.9)	10.0
Change in other receivables		8.9	(15.7)
Change in trade and other payables		(10.8)	4.7
Change in working capital requirements		(15.8)	(1.1)
NET CASH FLOWS FROM OPERATING ACTIVITIES		1,275.9	967.8
Purchase of intangible assets	6	(6.3)	(6.4)
Purchase of property, plant and equipment assets	6	(3.8)	(5.7)
Investments in subsidiaries and associates	7	(34.1)	(193.2)
Purchase of other financial assets	7	(8.5)	(3.7)
Disposals		39.4	21.1
Change in receivables and payables related to fixed assets		0.2	0.7
NET CASH FLOWS ALLOTTED TO INVESTING ACTIVITIES		(13.1)	(187.2)
Dividends paid		(356.0)	(833.9)
Treasury share buybacks net of disposals		(108.1)	(5.2)
NET CASH FLOWS FROM FINANCING ACTIVITIES		(464.1)	(839.1)
CHANGE IN NET CASH POSITION		798.8	(58.5)
Net cash position at the beginning of the period	13	925.6	984.1
Net cash position at the end of the period	13	1,724.4	925.6
CHANGE IN NET CASH POSITION		798.8	(58.5)

Financial liabilities relating to employee profit-sharing have been reclassified under other liabilities.

N.B.: the values shown in the tables are generally expressed in millions of euros. In certain cases, the effects of rounding up/down can lead to a slight discrepancy on the level of the totals or changes.

6.5 NOTE TO THE FINANCIAL STATEMENTS

The financial year covers the 12 months from 1 January through 31 December 2016.

The following notes are an integral part of the financial statements.

DETAILED CONTENTS

NOTE 1	ACCOUNTING PRINCIPLES AND METHODS	219
NOTE 2	OPERATING INCOME	220
NOTE 3	SOCIAL SECURITY AND SIMILAR EXPENSES	221
NOTE 4	NET EXTRAORDINARY INCOME	221
NOTE 5	INCOME TAX	222
NOTE 6	INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT	222
NOTE 7	FINANCIAL ASSETS	223
NOTE 8	ANALYSIS OF ASSETS BY MATURITY	224
NOTE 9	MARKETABLE SECURITIES	224
NOTE 10	EQUITY	225
NOTE 11	PROVISIONS	225
NOTE 12	ANALYSIS OF LIABILITIES BY MATURITY	225
NOTE 13	CHANGE IN NET CASH POSITION	226
NOTE 14	RELATED-PARTY TRANSACTIONS	227
NOTE 15	EXPOSURE TO MARKET RISKS AND FINANCIAL COMMITMENTS	227
NOTE 16	EMPLOYEES	231
NOTE 17	POST-EMPLOYMENT BENEFIT OBLIGATIONS	231
NOTE 18	COMPENSATION OF CORPORATE OFFICERS	231

NOTE 1 ACCOUNTING PRINCIPLES AND METHODS

Generally accepted accounting conventions have been applied, in line with the principle of prudence, according to the following accounting assumptions and principles:

- ◆ the Company's status as an ongoing concern;
- ◆ the consistency of accounting policies from one financial year to another;
- ◆ the accruals and matching principle;
- ◆ the historical cost convention;

and in accordance with ANC regulation 2014-03 and ANC regulation 2016-07 (dated 4 November 2016) relative to the general chart of accounts.

1.1 Intangible assets

Intangible assets include the purchase of original works of art by living artists, which allows the Company to benefit from a tax deduction that is set aside in a reserve, as well as software and the cost of websites, which are amortised on a straight-line basis over one to six years.

1.2 Property, plant and equipment

Property, plant and equipment are valued at acquisition cost (purchase price plus incidental expenses, excluding acquisition costs), except for assets acquired before 31 December 1959, which are shown in the statement of financial position at their value in use on that date.

Depreciation is calculated using the straight-line or declining-balance method, on the basis of the following expected useful lives:

- ◆ buildings: straight-line method over 20 to 30 years;
- ◆ building fixtures and fittings: straight-line method over 10 to 40 years;
- ◆ office furniture and equipment: straight-line or declining-balance method over 4 to 10 years;
- ◆ computer equipment: declining-balance method over 3 years;
- ◆ vehicles: straight-line method over 4 years.

1.3 Financial assets

Investments in subsidiaries and associates are shown in the statement of financial position at acquisition cost, excluding incidental expenses. Where the balance sheet value at closing is lower than the carrying amount, a provision for impairment is recorded for the difference.

The balance sheet value is determined based on criteria such as the value of the share of net assets or the earnings prospects of the relevant subsidiary. These criteria are weighted by the effects of owning these shares in terms of strategy or synergies, in respect of other investments held.

1.4 Trade receivables

Trade receivables are recorded at par value. A provision for impairment is recognised where there is a risk of non-recovery.

1.5 Marketable securities

The gross value of marketable securities is their acquisition cost less incidental expenses. Marketable securities are valued at the lower of acquisition cost or market value, calculated separately for each category of securities.

In the event that part of a line of securities is sold, proceeds on disposals are calculated using the First-In, First-Out method (FIFO).

Treasury shares that are specifically allocated to covering employee share plans or stock options are recorded under marketable securities.

A provision is accrued in an amount representing the difference between the purchase price of the shares and the option exercise price, if the purchase price is more than the exercise price.

In the event of a decrease in the stock market price, a provision for impairment is recognised for treasury shares that are not specifically allocated. It is calculated as the difference between the net carrying amount of the shares and the average stock market price for the month immediately preceding the closing date, weighted by the exchanged volumes.

1.6 Treasury management

Income and expense items expressed in foreign currencies are converted into euros at the hedged exchange rate. Payables, receivables, and cash expressed in currencies outside of the euro zone are shown on the statement of financial position at the hedged exchange rate or at the closing rate if they are not hedged. In this case, differences arising from the reconversion of payables and receivables at the closing exchange rate are recorded in the statement of financial position under "Foreign currency adjustments". A provision for contingencies is established for unrealised foreign exchange losses. Premiums on foreign currency options are recorded through profit or loss on the maturity date.

In addition, financial instruments are used in connection with the management of the Company's treasury investments. Gains and losses on interest rate differentials and any corresponding premiums are recognised on an accrual basis.

1.7 Income tax

Since 1 January 1988, the Company has opted for a group tax consolidation under French tax law. Under the terms of an agreement between the parent company and the subsidiaries included in the Group tax consolidation, projected or actual tax savings or liabilities generated by the Group are recognised in the statement of profit or loss in the year in which they arise. The tax expense borne by the subsidiaries is the expense they would have incurred if there had been no Group tax consolidation.

The companies included in the Group tax consolidation are Hermès International, Ateliers d'Ennoblement d'Irigny, Ateliers de Tissage de Bussières et de Challes, Castille Investissements, Compagnie des Arts de la Table et de l'Email, Les Cristalleries de Saint-Louis, Compagnie Hermès de Participations, Compagnie Hermès de Participations 2, Comptoir des Cuir Précieux, Comptoir Nouveau de la Parfumerie, Créations Métaphores, SCI Edouard VII, Établissements Marcel Gandit, Ganterie de Saint-Junien, Grafton Immobilier, Hermès Cuir Précieux, Hermès Horizons, Hermès Sellier, Hermès Voyageur, Holding Textile Hermès, Immauger, Immobilière du 5 rue Fürstenberg, Immobilière de Montbéliard, Immobilière de Normandie, Immobilière Textile Honoré, John Lobb, La Manufacture de Seloncourt, La Maroquinerie Nontronnaise, Manufacture de Haute Maroquinerie, Maroquinerie de Belley, Maroquinerie des Ardennes, Maroquinerie de Normandie, Maroquinerie de Sayat, Maroquinerie de Saint-Antoine, Maroquinerie de la Tardoire, Maroquinerie Iséroise, Motsch George V, SC Honossy, Puiforcat, SCI Auger-Hoche, SCI Boissy Les Mûriers, SCI Boissy Nontron, Société d'Impression sur Etoffes du Grand-Lemps, Société Novatrice de Confection, Tannerie d'Annonay, Tannerie de Montereau, Les Tanneries du Puy, Tannerie de Vivoin and Immobilière de la Maroquinerie de Montbéliard.

1.8 Post-employment and other employee benefit obligations

For basic pension and other defined-contribution plans, Hermès International recognises contributions to be paid as expenses when they come due and no provision is accrued in this respect, as the Company has no obligation other than the contributions paid.

For defined-benefit plans, Hermès International's obligations are calculated annually by an independent actuary using the projected credit unit method. This method is based on actuarial assumptions and takes into account the employee's probable future length of service, future salary and life expectancy as well as staff turnover. The present value of the obligation is calculated by applying an appropriate discount rate. It is recognised on a basis pro-rated to the employee's years of service.

Benefits are partly funded in advance by external funds (insurance companies). Assets held in this way are measured at fair value.

The expense recognised in the statement of profit or loss is the sum of:

- ♦ the service cost, which reflects the increase in obligations arising from the vesting of one additional year of benefits;
- ♦ the interest cost, which reflects the increase in the present value of the obligations during the period.

Accrued actuarial gains and losses are amortised when they exceed 10% of the obligation amount, gross of dedicated investments, or of the market value of these investments at year-end ("corridor" method), starting from the year following the year in which they were initially recognised and continuing over the average residual duration of employment of the employee.

NOTE 2 OPERATING INCOME

<i>In millions of euros</i>	2016	2015
Revenue	177.6	207.2
Other products	2.1	0.8
Reversals of provisions and expenses reclassified	152.6	41.2
Operating income	332.2	249.2

The Company's revenue consists of services and royalties from brands. Royalties are calculated based on the production subsidiaries' revenue. Their increase results from the increase in the revenue of the companies subject to this royalty.

Services are primarily amounts charged back to subsidiaries for advertising and public relations services, rent, staff provided on secondment, insurance and professional fees. They also include the accrued income pursuant to a re-invoicing agreement for free share allocation plan expenses concerning the Group's French companies for €27.4 million in 2016 versus €18.3 million in 2015.

In addition, the first tranche of the free share allocation plans of May 2012 expired on 16 May 2016 for French employees. The cost of the shares issued to employees was invoiced to each subsidiary and recognised as exceptional income giving rise to the cancellation of accrued income recognised in services at the end of December 2015 in the amount of €41.8 million.

The variation in reversals of provisions and transfers of expenses is attributable chiefly to the removal of free shares delivered in 2016 in the amount of €93.2 million.

NOTE 3 SOCIAL SECURITY AND SIMILAR EXPENSES

<i>In millions of euros</i>	2016	2015
Cost of shares issued to employees of Hermès International (2012 plan)	31.1	-
2010 free share allocation plans	1.4	3.3
2012 free share allocation plans	23.2	33.7
2016 free share allocation plans	30.3	-
Social security expenses	19.0	18.3
SOCIAL SECURITY AND SIMILAR EXPENSES	105.0	55.3

The social security expenses and other personnel costs include the expenses relative to the free share allocation plans for all beneficiaries.

The costs of the free shares for personnel of the French entities resulted in accrued income (refer to Note 2 relative to operating income).

NOTE 4 NET EXTRAORDINARY INCOME

<i>In millions of euros</i>	2016	2015
Extraordinary income	135.6	18.6
Reversals of provisions for accelerated depreciation	0.2	0.2
Reversals of impairment losses	1.8	-
Disposals of property, plant and equipment and non-current financial assets	133.6	18.5
Extraordinary expenses	(123.2)	(20.2)
Provisions for accelerated depreciation	(0.2)	(0.2)
Additions to impairment	(6.9)	(1.8)
Net value of fixed assets sold	(116.0)	(18.2)
NET EXTRAORDINARY INCOME	12.5	(1.6)

The extraordinary income includes €62.3 million charged back to subsidiaries, €31.1 million for the cost of the free share allocation plans for the employees as decided in 2010 and 2012 and that have matured, and the transfer of expenses for the cost of the shares provided to Hermès International employees, as well as the net income from disposals of property, plant and equipment for €16.6 million.

The extraordinary expenses are mainly comprised of the cost of shares issued to employees for €92.9 million, as part of the free share allocation plans mentioned above, and an impairment loss on intangible assets of €5.1 million.

NOTE 5 INCOME TAX

5.1 Breakdown of income tax

<i>In millions of euros</i>	2016	2015
Net income before tax	1,097.0	871.0
Net income before tax and employee profit-sharing	1,100.9	874.9
Employee profit-sharing	(3.9)	(3.9)
Income tax	(5.8)	(28.3)
Tax (parent company only)	(28.5)	(55.6)
♦ <i>o/w tax on net extraordinary income</i>	(5.9)	(0.1)
♦ <i>o/w tax on other items</i>	(22.6)	(55.5)
Tax arising from tax consolidation	22.8	27.3
NET INCOME	1,091.2	842.8

Hermès International recognised a tax expense of €5.8 million in 2016, compared with €28.3 million in 2015. In addition, Hermès International is jointly liable for payment of the tax of the fiscally consolidated group, which amounted to €211.6 million in 2016 compared with €221.1 million in 2015.

The income tax expense takes into account the additional tax contributions of 3.30% and the tax on dividends. The additional contribution of 10.7% was abolished at the end of 2015.

Hermès International's income tax expense only includes applicable exemptions under the terms of the parent-subsidiary regime for income from investments in subsidiaries. The income tax credit takes into

account the effect of the Group tax consolidation arising from tax losses for certain subsidiaries and from the capital gains on disposals of property, plant and equipment and non-current financial assets, where relevant.

5.2 Increases or decreases in future tax liability

As at 31 December 2016, the future tax receivable was equal to €14.5 million, versus €11.4 million as at 31 December 2015. This mainly consists of temporarily non-deductible expenses. The increases or decreases of the future tax liability were calculated taking into account additional contributions of 3.30%.

NOTE 6 INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

<i>In millions of euros</i>	Gross value as at 31/12/2015	Increases	Decreases	Others	Gross value as at 31/12/2016	Amortisation	Net value as at 31/12/2016
Intangible assets	25.8	6.3	-	-	32.1	(26.5)	5.5
Concessions, patents and brands	-				-	-	-
Others	25.8	6.3			32.1	(26.5)	5.5
Property, plant and equipment	39.4	3.8	(0.1)	-	43.0	(24.3)	18.7
Land	0.2	-	(0.0)		0.2	-	0.2
Buildings	0.5		(0.1)		0.4	(0.4)	-
Other assets	38.7	3.8			42.5	(23.9)	18.5
INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT	65.2	10.1	(0.1)	-	75.1	(50.9)	24.2

NOTE 7 FINANCIAL ASSETS

<i>In millions of euros</i>	Gross value as at 31/12/2015	Acquisitions/ Subscriptions	Disposals	Gross value as at 31/12/2016	Provisions for impairment	Net value as at 31/12/2016
Note					11	
Investments in subsidiaries and associates	1,059.6	34.1	(3.1)	1,090.5	(473.3)	617.2
Hermès Italie ¹	13.196	12.0		25.2	-	25.2
Maroquinerie Iséroise ²	3.537	9.0		12.5	(8.4)	4.1
Maroquinerie Nontronaïse ²	9.167	3.0		12.2	(10.8)	1.4
Maroquinerie de la Tardoire ²	3.037	6.0		9.0	(7.3)	1.7
Hermès Brasil ²	3.906	3.4		7.3	(4.1)	3.2
Ardian Holding ³	12.7		(2.8)	9.9	-	9.9
Other equity interests ⁴	1,014.1	0.6	(0.3)	1,014.4	(442.6)	571.7
Other financial assets	55.6	13.4	(20.5)	48.5	(8.0)	40.5
Financial investments ⁵	31.2	8.1	(20.3)	19.0	(8.0)	11.0
Treasury shares (including liquidity contract) ⁶	20.5	5.3		25.7		25.7
Deposits and guarantees	3.9	0.1	(0.2)	3.8		3.8
Other long-term investments	2.9	0.4		3.2	(0.6)	2.6
FINANCIAL ASSETS	1,118.0	47.9	(23.6)	1,142.3	(481.9)	660.3

The list of investment securities is presented at the end of the notes to the financial statements.

- (1) Hermès Italie is wholly owned by Hermès International, versus 90%-owned at the end of 2015.
- (2) Namely capital increases of Hermès Group subsidiaries.
- (3) Partial buyback of preference shares by Ardian (€2.8 million).
- (4) Other provisions for impairment of securities mainly relate to the subsidiaries Castille Investissement, John Lobb, La Manufacture de Seloncourt, La Maroquinerie St-Antoine, La Manufacture de Haute Maroquinerie, Compagnie Hermès de Participations, Hermès Cuir Précieux, Hermès Argentina, Hermès India, Hermès Horizons, Maroquinerie de Belley, Maroquinerie de Sayat and Ganterie de St-Junien.
- (5) Maturity of a €20 million term deposit.
- (6) As at 31 December 2016, Hermès International held 87,539 treasury shares (liquidity contract and unallocated shares intended for external growth operations). These shares were valued on the basis of their stock market price when they were purchased, i.e. €293.98 per share.

NOTE 8 ANALYSIS OF ASSETS BY MATURITY

In millions of euros	Note	31/12/2016				31/12/2015	
		< 1 year	> 1 year and < 5 years	Gross amount	Impairment	Net amount	Net amount
Other financial assets	7	-	48.5	48.5	(8.0)	40.5	54.0
Outstanding loans and advances		-	-	-	-	-	-
Others		-	48.5	48.5	(8.0)	40.5	54.0
Current assets¹		809.9	31.4	841.3	(93.3)	748.0	606.3
Trade and other receivables		70.7	-	70.7	-	70.7	76.5
Other operating receivables		34.7	31.4	66.1	-	66.1	78.3
Miscellaneous receivables ²		704.5	-	704.5	(93.3)	611.2	451.5
Prepayments and accruals		5.0	-	5.0	-	5.0	4.2
Communication fees		1.9	-	1.9	-	1.9	1.1
Leases		2.2	-	2.2	-	2.2	2.7
Others		0.9	-	0.9	-	0.9	0.5
TOTAL		814.9	79.9	894.8	(101.3)	793.5	664.5

(1) Current assets include a net amount of €740.7 million in receivables due from related companies.

(2) Miscellaneous receivables consist of financial current accounts of subsidiaries.

In millions of euros	31/12/2016	31/12/2015
Other financial assets		
Under 1 year	-	20.3
from 1 to 5 years	48.5	35.3
Current assets		
Under 1 year	809.9	588.6
from 1 to 5 years	31.4	28.1
Prepayments and accruals		
Under 1 year	5.0	4.2
from 1 to 5 years	-	-

NOTE 9 MARKETABLE SECURITIES

In millions of euros	Gross value as at 31/12/2016	Provisions for impairment	Net value as at 31/12/2016	Net value as at 31/12/2015
Open-ended investment companies (SICAVs) and mutual funds	297.3	-	297.3	441.3
Negotiable debt securities	850.0	-	850.0	350.0
Treasury shares ¹	262.0	-	262.0	251.4
MARKETABLE SECURITIES	1,409.4	-	1,409.4	1,042.7

(1) Includes 992,121 Hermès International treasury shares acquired under free share allocation plans for employees, and valued at the acquisition price. These shares are to be added to the 87,539 other treasury shares held as financial assets (see Note 7).

NOTE 10 EQUITY

As at 31 December 2016, Hermès International's share capital amounted to €53,840,400.12, made up of 105,569,412 shares with a par value of €0.51 each, or the same as at 31 December 2015.

NOTE 11 PROVISIONS

In millions of euros	Note	31/12/2015	Depreciations	Reversals		31/12/2016
				Provisions used	Provisions not used	
Provisions for impairment		443.7	144.1	-	(12.6)	575.3
Financial assets	7	433.2	53.8		(5.0)	481.9
Trade and other receivables		10.5	90.4		(7.6)	93.3
Regulated provisions		0.4	0.2	-	(0.2)	0.4
Accelerated depreciation		0.4	0.2		(0.2)	0.4
Provisions for contingencies¹		196.1	78.8	(95.1)	(2.5)	177.2
TOTAL		640.3	223.2	(95.1)	(15.3)	753.2

(1) Provisions for contingencies mainly include the cost of free share allocation plans granted in May 2012 and 2016 as well as retirement benefits and expenses associated with the supplementary pension plan for senior executives and senior managers. These amounts are periodically paid over to pension funds.

NOTE 12 ANALYSIS OF LIABILITIES BY MATURITY

In millions of euros	31/12/2016			31/12/2015
	< 1 year	> 1 year and < 5 years	Net amount	Net amount
Financial debts	2.6	19.7	22.3	34.0
Bank borrowings ¹	0.5	-	0.5	13.9
Miscellaneous borrowings and financial liabilities ²	2.2	19.7	21.9	20.1
Operating liabilities	53.1	1.4	54.5	73.2
Trade and other payables ³	18.3		18.3	30.0
Tax and social security liabilities ⁴	34.9	1.4	36.2	43.2
Miscellaneous liabilities	338.2	5.0	343.2	112.6
Amounts payable to fixed asset suppliers	2.3		2.3	2.1
Others ⁵	335.9	5.0	340.9	110.5
TOTAL	394.0	26.1	420.0	219.8

- (1) Bank overdrafts.
(2) Funds held in trust for employees under the statutory employee profit-sharing plan.
(3) Including €8.6 million in invoices not yet received and €2.9 million with related companies.
(4) Including €21.8 million in tax and employee-related provisions payable.
(5) Mainly comprise financial current accounts of subsidiaries amounting to €333.5 million.

<i>In millions of euros</i>	31/12/2016	31/12/2015
Financial debts		
Under 1 year	2.6	16.1
from 1 to 5 years	19.7	17.8
Operating liabilities		
Under 1 year	53.1	71.9
from 1 to 5 years	1.4	1.4
Miscellaneous liabilities		
Under 1 year	338.2	111.8
from 1 to 5 years	5.0	0.8

INFORMATION ON ACCOUNTS PAYABLE DUE DATES

<i>In millions of euros</i>	31/12/2016			31/12/2015		
	Group	Non-Group	Total	Group	Non-Group	Total
Trade payables	2.9	15.4	18.3	5.1	24.9	30.0
Total due	0.1	0.4	0.5	1.1	2.1	3.3
♦ under 30 days		0.4	0.4	-	1.0	1.0
♦ 30 to 90 days			-	1.1	0.4	1.6
♦ over 90 days		0.1	0.1	-	0.7	0.7
Total not yet due	2.8	15.0	18.2	4.0	22.7	26.7
♦ o/w due in less than 30 days	1.7	4.4	6.1	2.1	21.4	23.4
♦ o/w due in 30-60 days	1.1	10.6	11.7	1.9	1.4	3.3

NOTE 13 CHANGE IN NET CASH POSITION

	2016	2015	Change
Marketable securities	1,147.3	791.3	356.0
Cash at bank and in hand	577.5	148.2	429.4
Bank overdrafts	(0.5)	(13.9)	13.4
NET CASH POSITION	1,724.4	925.6	798.7

For change in the net cash position, treasury shares are excluded from the marketable securities.

NOTE 14 RELATED-PARTY TRANSACTIONS

Transactions with companies accounted for by the equity method were not material by comparison with the overall business activities of Hermès International in 2016.

The companies mentioned below are considered related parties insofar as certain members of management of the Company or certain members of the Supervisory Board have personal interests therein and exercise significant influence. Relationships with related parties are summarised as follows:

- ◆ RDAI firm: RDAI architects were appointed to carry out design work on the internal layout of the offices at 10-12 rue d'Anjou, as well as the annual assignment consisting of design work to apply the architectural concept to all Hermès stores. The amounts paid in 2016 are not significant (€8 thousand);

- ◆ Émile Hermès SARL, Active Partner: Émile Hermès SARL is a société à responsabilité limitée à capital variable (limited company with variable capital). Its partners are the direct descendants of Mr Émile-Maurice Hermès and his wife. Émile Hermès SARL's Executive Chairman is Mr Henri-Louis Bauer. The Company is governed by an Executive Management Board.

Each year, Hermès International pays 0.67% of the distributable profits to the Active Partner.

In addition, Hermès International charges Émile Hermès SARL for certain expenses incurred. Hermès International charged back €0.2 million in this respect in 2016 and in 2015.

NOTE 15 EXPOSURE TO MARKET RISKS AND FINANCIAL COMMITMENTS

15.1 Currency risk

Most of the Company's foreign exchange risk exposure comes from sales denominated in foreign currencies. These risks are generally fully hedged, based on highly probable future cash flows, using forward currency sales or options that are eligible for hedge accounting.

15.1.1 Net currency position

<i>In millions of euros</i>	Monetary assets/ (liabilities)	Future cash flows	Net position before hedging	Derivatives ¹	Net position after hedging	Hedging ratio	10% sensitivity
As at 31/12/2016							
Hong Kong dollar	(103.2)	3.4	(99.8)	100.1	0.4	100%	0.0
US dollar	(90.7)	11.9	(78.9)	78.8	(0.1)	100%	(0.0)
Pound sterling	(29.9)	2.5	(27.5)	27.8	0.4	101%	0.0
Yen	2.4	6.4	8.8	(6.6)	2.3	74%	0.3
Yuan	4.6	4.0	8.6	(8.1)	0.5	94%	0.1
Swiss franc	0.6	7.9	8.5	(10.8)	(2.3)	127%	(0.3)
Singapore dollar	1.6	5.6	7.3	(7.7)	(0.4)	105%	(0.0)
Canadian dollar	0.3	0.8	1.1	(0.9)	0.3	77%	0.0
Australian dollar	(2.4)	1.7	(0.7)	0.3	(0.4)	42%	(0.0)
Mexican peso	0.1	0.4	0.4	(0.6)	(0.2)	144%	(0.0)
Rouble	0.1	0.2	0.3	(0.5)	(0.1)	140%	(0.0)
Thai baht	0.0	0.1	0.1	0.0	0.1	(0)%	0.0
Turkish lira	0.1	-	0.1	(0.0)	0.1	0%	0.0
Czech crown	0.0	0.0	0.0	(0.0)	(0.0)	100%	(0.0)
Emirati dirham	(0.0)	-	(0.0)	-	(0.0)	-	(0.0)
Summary	(216.4)	45.0	(171.4)	171.9	0.5	100%	0.1
As at 31/12/2015							
US dollar	7.1	10.9	18.0	(17.9)	0.1	99%	0.0
Pound sterling	(18.5)	2.7	(15.7)	15.7	(0.0)	100%	(0.0)
Australian dollar	(11.4)	1.6	(9.9)	9.7	(0.1)	99%	(0.0)
Swiss franc	1.3	7.8	9.1	(10.0)	(0.9)	110%	(0.1)
Singapore dollar	2.1	5.1	7.3	(7.6)	(0.3)	105%	(0.0)
Yen	1.1	5.6	6.7	(5.7)	1.0	85%	0.1
Yuan	2.8	2.5	5.3	(5.1)	0.2	97%	0.0
Hong Kong dollar	0.3	3.1	3.3	(3.3)	(0.0)	100%	(0.0)
Canadian dollar	0.3	0.7	1.0	(0.7)	0.3	71%	0.0
Mexican peso	0.1	0.4	0.5	(0.5)	0.0	98%	0.0
Rouble	0.3	0.2	0.5	(0.3)	0.2	61%	0.0
Czech crown	0.1	0.0	0.1	(0.1)	0.0	75%	0.0
Thai baht	0.0	0.1	0.1	(0.0)	0.1	36%	0.0
Turkish lira	0.0	-	0.0	-	0.0	-	0.0
Emirati dirham	(0.0)	-	(0.0)	-	(0.0)	-	(0.0)
Summary	(14.3)	40.8	26.4	(25.9)	0.5	98%	0.1

(1) Purchase/(Sale).

15.1.2 Analysis of currency agreements

Hedging operations are performed over-the-counter, exclusively with leading banks. The Company therefore does not incur any significant counterparty risk.

<i>In millions of euros</i>	Nominal amounts of derivatives	Nominal amounts of derivatives used to hedge foreign exchange risk	Market value of the contracts as at 31/12/2016¹
Options purchased			
US dollar put	36.5	36.5	0.5
US dollar collar	182.7	182.7	(1.8)
Japanese yen put	22.7	22.7	1.2
Japanese yen collar	100.5	100.5	3.2
Hong Kong dollar put	23.5	23.5	0.4
Hong Kong dollar collar	117.5	117.5	(0.9)
Singapore dollar put	20.4	20.4	0.6
Singapore dollar collar	132.5	132.5	2.7
Chinese yuan put	12.6	12.6	0.8
Chinese yuan collar	82.0	82.0	4.1
	730.8	730.8	10.7
Forward currency agreements²			
US dollar	(209.4)	(195.1)	12.6
Yen	(116.7)	(116.7)	(1.4)
Hong Kong dollar	(137.8)	(137.8)	8.0
Singapore dollar	(147.2)	(147.2)	3.1
Yuan	(90.5)	(90.5)	0.5
Swiss franc	7.9	7.9	(0.1)
Pound sterling	2.4	2.4	0.2
Australian dollar	1.7	1.7	(0.1)
Others	1.4	1.6	(0.1)
	(688.2)	(673.8)	22.7
Currency swaps²			
US dollar	(88.7)	(112.3)	(0.9)
Yen	0.1	0.1	0.0
Hong Kong dollar	(103.3)	(103.5)	(0.1)
Singapore dollar	2.0	2.0	0.0
Yuan	4.1	3.5	(0.0)
Swiss franc	2.9	2.9	(0.0)
Pound sterling	(30.3)	(30.3)	(0.6)
Australian dollar	(2.0)	(2.0)	(0.0)
Others	0.6	2.1	(0.0)
	(214.5)	(237.4)	(1.6)
TOTAL	(171.9)	(180.5)	31.7

(1) Gain/(Loss).

(2) (Purchase)/Sale.

<i>In millions of euros</i>	Nominal amounts of derivatives	Nominal amounts of derivatives used to hedge foreign exchange risk	Market value of the contracts as at 31/12/2015 ¹
Options purchased			
US dollar put	33.8	33.8	0.7
US dollar collar	133.7	133.7	0.5
Japanese yen put	33.4	33.4	0.9
Japanese yen collar	120.6	120.6	1.7
Hong Kong dollar put	21.9	21.9	0.5
Hong Kong dollar collar	86.4	86.4	0.2
Singapore dollar put	26.2	26.2	1.1
Singapore dollar collar	103.4	103.4	3.2
Chinese yuan put	17.6	17.6	1.1
Chinese yuan collar	69.0	69.0	3.5
	646.1	646.1	13.5
Forward currency agreements²			
US dollar	(156.9)	(156.9)	6.7
Yen	(148.5)	(148.5)	3.3
Hong Kong dollar	(105.2)	(105.2)	4.7
Singapore dollar	(124.5)	(124.5)	1.3
Yuan	(84.1)	(84.1)	0.5
Swiss franc	7.8	7.8	0.0
Pound sterling	2.7	2.7	(0.0)
Australian dollar	1.5	1.5	(0.1)
Other	1.3	1.3	0.2
	(605.7)	(605.7)	16.6
Treasury swaps²			
US dollar	7.2	3.4	(0.1)
Yen	0.1	0.1	(0.0)
Hong Kong dollar	0.3	(6.3)	(0.0)
Singapore dollar	2.5	1.3	(0.0)
Yuan	2.6	1.6	(0.0)
Swiss franc	2.2	1.2	0.0
Pound sterling	(18.4)	(20.6)	(0.8)
Australian dollar	(11.3)	(10.3)	0.0
Other	0.3	0.3	0.0
	(14.5)	(29.4)	(0.9)
TOTAL	25.9	11.0	29.2

(1) Gain/(Loss).

(2) (Purchase)/Sale.

15.2 Other financial commitments at 31 December 2016

<i>In millions of euros</i>	31/12/2016	31/12/2015
Bank guarantees given ¹	0.7	0.8
Irrevocable commitments to purchase financial assets	21.6	20.3
Other commitments ²	157.3	79.8
TOTAL	179.6	100.9

(1) The guarantees assumed on behalf of subsidiaries are re-invoiced to the beneficiary subsidiaries.

(2) The other commitments primarily relate to lease payments by Hermès International or by subsidiaries, for which Hermès International is the guarantor. The increase relative to 2015 is due to the update of guarantees given on the New York stores.

Moreover, two “umbrella” sureties have been granted to the HSBC and BNP Paribas banks for a maximum amount of €75 million and €100 million to give subsidiaries designated by Hermès International access to an aggregate group banking facility. The amounts drawn by the subsidiaries are re-invoiced on the basis of a rate that aligns with the market banking conditions.

As at 31 December 2016, the amounts drawn on these credit facilities amounted to €11 million and €30 million, respectively.

Also, the amount of the subsidiaries’ tax losses that Hermès International is liable for refunding to its subsidiaries under the Group tax consolidation agreement amounted to €132.6 million as at 31 December 2016, versus €109.4 million as at 31 December 2015.

NOTE 16 EMPLOYEES

The Company’s average number of employees is broken down as follows:

	31/12/2016	31/12/2015
Executives and managers	355	339
Non-management staff	29	30
TOTAL	384	369

As part of the reform of professional training, the individual training entitlement has been replaced by the personal training account with effect from 1 January 2015. Entitlements under the personal training account

are now attached to each employee and follow employees throughout their working lives, irrespective of employer.

NOTE 17 POST-EMPLOYMENT BENEFIT OBLIGATIONS

As at 31 December 2016, the value of post-employment benefit obligations amounted to €92.0 million versus €78.1 million as at 31 December 2015. Amounts due in respect of statutory retirement benefits and supplemental pension plans have been paid over to an insurance company; the value of the funds is €23.8 million. A provision of €15.4 million has been accrued to cover the remainder of these obligations.

After applying the “corridor” method, actuarial gains and losses amounted to €65.3 million as at 31 December 2016 compared with €61.9 million as at 31 December 2015.

For FY 2016, the following actuarial assumptions were used:

♦ retirement age:	62 to 65 years of age
♦ increase in salaries:	3 to 4%
♦ discounting rate:	1.0% to 1.2%
♦ expected rate of return on plan assets	3.0%

NOTE 18 COMPENSATION OF CORPORATE OFFICERS

Gross aggregate compensation paid to Corporate Officers in respect of 2016 amounted to €4.2 million, including €0.4 million in directors’ fees.

6.6 LIST OF INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES AS AT 31 DECEMBER 2016

INVESTMENT SECURITIES AND OTHER LONG-TERM SECURITIES

In thousands of euros

	Number of shares	Net values
Carrying amounts of more than €100,000		
Ardian Holding	9,910,780	9,911
Compagnie Hermès de Participations	4,200,000	33,126
Compagnie Hermès de Participations 2	100,000	233
Comptoir Nouveau de la Parfumerie	753,501	27,146
ERM Warenhandels	1	1,263
ERM-WHG Warenhandels	1	1,235
Faubourg Italia	60	1,555
Financière Saint-Honoré	3,000	1,694
Grafton Immobilier	5,174,500	81,987
Herlee	50,000,000	19,511
Hermès Asia Pacific	314,999,999	43,483
Hermès Australia	6,500,000	4,409
Hermès Benelux Nordics	57,974	3,164
Hermès Brasil	23,404,646	3,185
Hermès Canada	1,000	1,501
Hermès de Paris (Mexico)	6,218,525	1,440
Hermès GmbH	1	7,218
Hermès Grèce	566,666	1,700
Hermès Holding GB	7,359,655	10,535
Hermès Iberica	69,311	4,952
Hermès Immobilier Genève	70,000	44,457
Hermès Internacional Portugal	799,200	999
Hermès Istanbul	259,999	2,996
Hermès Italie	458,000	25,202
Hermès India	4,813,074	822
Hermès Japon	4,400	13,727
Hermès Travel Retail Asia	2,100	103
Hermès Monte-Carlo	13,198	201
Hermès of Paris	114,180	10,903
Hermès Prague	38,000	1,090
Hermès Sellier	310,279	4,788
Hermès South East Asia	1,000,000	2,201
Holding Textile Hermès	45,151,350	90,685
Maroquinerie de Belley	647,172	1,865
Maroquinerie de la Tardoire	37,000	1,691
Maroquinerie de Saint-Antoine	1,679,503	1,918
Maroquinerie des Ardennes	284,063	10,527
Maroquinerie Iséroise	4,617,000	4,121
Maroquinerie Nontronnaise	990,000	1,350
Maroquinerie Thierry	1,899	161
Manufacture de Haute Maroquinerie	3,600,000	366
SC Honossy	210,099	3,203

<i>In thousands of euros</i>	Number of shares	Net values
SCI Auger-Hoche	126,945,488	131,242
SCI Boissy Les Mûriers	8,699	1,326
SCI Boissy Nontron	99,999	644
SCI Les Capucines	39,999	993
SCI Immauger	1,375	2,096
Stoleshnikov 12	1	448
Carrying amounts of less than €100,000		468
TOTAL		619,841

6.7 TABLE OF SUBSIDIARIES AND ASSOCIATES AS AT 31 DECEMBER 2016

COMPANIES OR GROUPS OF COMPANIES

	Registered office	Currency	Share capital
A – Detailed information on investments in subsidiaries and associates with a gross carrying value exceeding 1% of the share capital of Hermès International			
1. Subsidiaries (at least 50% owned by the Company)			
Compagnie Hermès de Participations	Paris	EUR	42,000
Comptoir Nouveau de la Parfumerie	Paris	EUR	9,072
ERM Warenhandels	Vienna (Austria)	EUR	35
ERM-WHG Warenhandels	Vienna (Austria)	EUR	35
Faubourg Italia	Milan (Italy)	EUR	100
Financière Saint-Honoré	Geneva (Switzerland)	CHF	3,000
Grafton Immobilier	Paris	EUR	82,792
H Brasil	São Paulo (Brazil)	BRL	23,405
Herlee	Causeway Bay (Hong Kong)	HKD	65,000
Hermès Asia Pacific	Causeway Bay (Hong Kong)	HKD	315,000
Hermès Australia	Sydney (Australia)	AUD	6,500
Hermès Benelux Nordics	Brussels (Belgium)	EUR	2,665
Hermès Canada	Toronto (Canada)	CAD	2,000
Hermès de Paris (Mexico)	Mexico City (Mexico)	MXN	11,472
Hermès GmbH	Munich (Germany)	EUR	7,200
Hermès Grèce	Athens (Greece)	EUR	1,700
Hermès Holding GB	London (United Kingdom)	GBP	7,360
Hermès Iberica	Madrid (Spain)	EUR	4,228
Hermès Immobilier Genève	Geneva (Switzerland)	CHF	70,000
Hermès Internacional Portugal	Lisbon (Portugal)	EUR	800
Hermès Istanbul	Istanbul (Turkey)	TRY	6,500
Hermès Italie	Milan (Italy)	EUR	7,786
Hermès Japon	Tokyo (Japan)	JPY	220,000
Hermès of Paris	New York (USA)	USD	11,418
Hermès Prague	Prague (Czech Republic)	CZK	8,018
Hermès Sellier	Paris	EUR	4,976
Hermès Travel Retail Asia	Singapore (Singapore)	SGD	1,000
Holding Textile Hermès	Lyon	EUR	46,686
Maroquinerie de Belley	Paris	EUR	7,766
Maroquinerie de la Tardoire	Montbron	EUR	37
Maroquinerie de Saint-Antoine	Pantin	EUR	1,680
Maroquinerie des Ardennes	Paris	EUR	4,545
Maroquinerie Iséroise	Les Abrets	EUR	4,617
Maroquinerie Nontronnaise	Nontron	EUR	990
SC Honossy	Paris	EUR	3,151
SCI Auger-Hoche	Pantin	EUR	126,946
SCI Boissy Les Mûriers	Paris	EUR	1,322
SCI Boissy Nontron	Paris	EUR	1,000
SCI Capucines	Bons-en-Chablais	EUR	609
SCI Immauger	Paris	EUR	2,269

Equity <i>in thousands of local currency</i>	Per cent ownership <i>in %</i>	Gross value of shares owned <i>in thousands of euros</i>	Net value of shares owned <i>in thousands of euros</i>	Outstanding loans and advances <i>in thousands of euros</i>	Guarantees given <i>in thousands of euros</i>	Revenue <i>in thousands of euros</i>	Profit or loss in the period <i>in thousands of euros</i>	Dividends received in the year <i>in thousands of euros</i>
33,126	100.00%	42,013	33,126	-	-	-	3,857	-
30,156	99.67%	27,146	27,146	-	-	239,940	19,998	19,968
75	100.00%	1,263	1,263	-	-	265	38	40
52	100.00%	1,235	1,235	-	-	144	15	18
2,591	60.00%	2,000	1,555	-	-	4,049	443	174
36,950	100.00%	1,694	1,694	-	-	-	(8,149)	46,572
81,987	100.00%	82,792	81,987	-	-	-	763	7,295
10,925	100.00%	7,326	3,185	-	-	8,323	(2,674)	-
609,955	76.92%	19,511	19,511	-	-	18,519	63,441	56,800
1,891,000	100.00%	43,483	43,483	-	-	615,017	224,447	206,512
31,000	100.00%	4,409	4,409	-	-	69,986	16,402	15,508
8,438	100.00%	3,164	3,164	-	-	57,357	5,417	4,800
25,250	100.00%	1,501	1,501	-	-	63,402	14,382	13,019
171,887	54.21%	1,440	1,440	-	-	17,650	3,110	-
27,271	100.00%	7,218	7,218	-	10	136,187	19,786	20,000
2,802	100.00%	1,700	1,700	-	-	6,575	747	1,014
69,880	100.00%	10,535	10,535	-	-	-	16,139	-
15,320	100.00%	4,952	4,952	-	-	57,450	9,824	7,416
68,078	100.00%	44,457	44,457	-	-	-	1,048	-
1,738	99.90%	999	999	-	-	5,884	919	735
24,047	100.00%	2,996	2,996	-	-	11,297	2,879	2,183
31,290	100.00%	25,202	25,202	-	-	144,763	21,413	18,631
28,460,045	100.00%	13,727	13,727	-	-	684,204	129,516	104,457
502,962	100.00%	10,903	10,903	-	89,639	775,316	118,663	45,009
55,605	100.00%	1,090	1,090	-	-	7,235	1,714	1,869
259,515	99.77%	4,788	4,788	-	803	2,263,510	393,895	532,128
254,236	100.00%	2,201	2,201	-	-	118,768	125,503	96,780
95,231	96.71%	90,685	90,685	-	-	145,304	(4,877)	-
1,784	100.00%	10,165	1,865	-	-	13,021	(820)	-
1,215	100.00%	9,027	1,691	-	-	10,982	(847)	-
1,918	100.00%	13,313	1,918	-	-	8,273	(365)	-
15,353	100.00%	10,527	10,527	-	-	18,939	1,629	-
4,121	100.00%	12,537	4,121	-	-	8,517	(2,449)	-
816	100.00%	12,167	1,350	-	-	13,217	(1,717)	-
8,592	100.00%	3,203	3,203	-	-	-	824	-
139,191	100.00%	131,242	131,242	-	-	-	(700)	-
11,382	99.99%	1,326	1,326	-	-	-	1,122	-
644	100.00%	1,000	644	-	-	-	(5)	-
993	100.00%	995	993	-	-	-	76	120
3,772	92.34%	2,096	2,096	-	-	-	108	-

	Registered office	Currency	Share capital
B – Aggregate information on other subsidiaries and associates			
1. Subsidiaries (not included in A)			
♦ French (aggregate)			
♦ Foreign (aggregate)			
2. Associates (not included in A)			
♦ French companies (aggregate)			
♦ Foreign companies (aggregate)			
TOTAL			

Equity <i>in thousands of local currency</i>	Per cent ownership <i>in %</i>	Gross value of shares owned <i>in thousands of euros</i>	Net value of shares owned <i>in thousands of euros</i>	Outstanding loans and advances <i>in thousands of euros</i>	Guarantees given <i>in thousands of euros</i>	Revenue <i>in thousands of euros</i>	Profit or loss in the period <i>in thousands of euros</i>	Dividends received in the year <i>in thousands of euros</i>
		409,938	1,089	-	158		(114,585)	9,699
		5,647	1,472	-	1,874		15,651	1,512
		10,073	10,073	-	-		83,887	11,507
		52	52	-	-		(3,697)	1,694
		1,093,738	619,814	-	92,484			1,225,460

6.8 TABLE OF RESULTS OVER THE LAST FIVE FINANCIAL YEARS

	2016	2015	2014	2013	2012
Share capital at the end of the year					
Share capital <i>in millions of euros</i>	53.8	53.8	53.8	53.8	53.8
Number of shares outstanding	105,569,412	105,569,412	105,569,412	105,569,412	105,569,412
Comprehensive income from operations <i>in millions of euros</i>					
Revenue excluding taxes	177.6	207.2	161.9	189.9	155.2
Net income before tax, employee profit-sharing, amortisation, depreciation, provisions and impairment	1,165.2	961.9	605.8	626.2	593.6
Income tax (income)	5.8	28.3	(4.0)	(8.7)	(1.1)
Employee profit-sharing (expense)	3.9	3.9	4.4	4.1	4.2
Net income after tax, employee profit-sharing, amortisation, depreciation, provisions and impairment	1,091.2	842.8	587.7	544.3	542.9
Profits distributed as dividends (including on treasury shares)	403.2	359.3	843.2	288.7	267.6
Earnings per share <i>in euros</i>					
Net income after tax and employee profit-sharing but before amortisation, depreciation, provisions and impairment	10.95	8.81	5.73	5.98	5.59
Net income after tax, employee profit-sharing, amortisation, depreciation, provisions and impairment	10.34	7.98	5.57	5.16	5.14
Net dividend paid per share	3.75 ¹	3.35	7.95 ²	2.70	2.50
Employees					
Number of employees (average workforce)	384	369	347	331	306
Total payroll <i>in millions of euros</i>	47.0	45.6	37.5	38.1	38.5
Employee benefits paid in the year <i>in millions of euros</i>	105.0	55.3	71.8	65.1	55.7

(1) Subject to approval by the Ordinary General Meeting of 6 June 2017. A proposal will be made for a dividend of €3.75, for which an interim dividend of €1.50 was paid on 24 February 2017.

(2) In 2014, an ordinary dividend of €2.95 and an extraordinary dividend of €5.00.

6.9 STATUTORY AUDITORS' REPORT ON THE ANNUAL FINANCIAL STATEMENTS

This is a free translation into English of the Statutory auditors' report on the financial statements issued in French and is provided solely for the convenience of English-speaking users. The Statutory auditors' report includes information specifically required by French law in such reports, whether modified or not. This information presented below is the audit opinion on the financial statements and includes an explanatory paragraph discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the financial statements taken as a whole and not to provide separate assurance on individual account balances, transactions or disclosures. This report also includes information relating to the specific verification of information given in the management report and in the documents addressed to the shareholders. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

Year ended 31 December 2016

To the shareholders,

In compliance with the assignment entrusted to us by your General Meeting, we hereby report to you, for the year ended 31 December 2016, on:

- ♦ the audit of the accompanying financial statements of Hermès International;
- ♦ the justification of our assessments;
- ♦ the specific verifications and information required by law.

These financial statements have been approved by the Company's Executive Management. Our role is to express an opinion on these financial statements based on our audit.

1. OPINION ON THE ANNUAL FINANCIAL STATEMENTS

We conducted our audit in accordance with professional standards applicable in France; those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit involves performing procedures, using sample techniques or other methods of selection, to obtain audit evidence about the amounts and disclosures in the financial statements. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made, as well as the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the financial statements give a true and fair view of the assets and liabilities and of the financial position of the Company as at 31 December 2016 and of the results of its operations for the year then ended in accordance with French accounting principles.

2. JUSTIFICATION OF OUR ASSESSMENTS

In accordance with the requirements of Article L. 823-9 of the French Commercial Code (*Code de commerce*) relating to the justification of our assessments, we bring to your attention the following matter.

Note 1.3 to the financial statements describes the accounting methods and principles applied in order to determine the value of the financial assets. As part of our assessment, we have examined the appropriate nature of these methods and reviewed the assumptions used.

These assessments were made as part of our audit of the financial statements, taken as a whole, and therefore contributed to the opinion we formed which is expressed in the first part of this report.

3. SPECIFIC VERIFICATIONS AND INFORMATION

We have also performed, in accordance with professional standards applicable in France, the specific verifications required by French law.

We have no matters to report as to the fair presentation and the consistency with the financial statements of the information given in the management report of the Executive Management, and in the documents addressed to the shareholders with respect to the financial position and the financial statements.

Concerning the information given in accordance with the requirements of Article L. 225-102-1 of the French Commercial Code (*Code de commerce*) relating to compensation and benefits received by the Corporate Officers and any other commitments made in their favour, we have verified its consistency with the financial statements, or with the underlying information used to prepare these financial statements and, where applicable, with the information obtained by your Company from companies controlling your Company or controlled by it. Based on this work, we attest the accuracy and fair presentation of this information.

In accordance with French law, we have verified that the required information concerning the identity of shareholders and holders of the voting rights has been properly disclosed in the management report.

Neuilly-sur-Seine and Paris, 11 April 2017

The Statutory Auditors

PricewaterhouseCoopers Audit
Christine Bouvry

Didier Kling & Associés
Christophe Bonte Didier Kling

7

INFORMATION ON THE COMPANY AND ITS SHARE CAPITAL

7.1	PRESENTATION OF HERMÈS INTERNATIONAL AND ÉMILE HERMÈS SARL	242
7.1.1	Presentation of Hermès International	242
7.1.2	Presentation of Émile Hermès SARL, active partner	251
7.2	INFORMATION ON SHARE CAPITAL AND SHAREHOLDERS	253
7.2.1	Information on the share capital	253
7.2.2	Information on the shareholders	254
7.2.3	Code of market ethics	260
7.2.4	Shareholder pacts and agreements	261
7.3	FINANCIAL AUTHORISATIONS	266
7.4	DIVIDEND POLICY	271
7.5	STOCK-MARKET INFORMATION	272
7.5.1	Key stock market data	272
7.5.2	History of monthly transactions	272
7.5.3	Hermès share price history	273
7.6	SHAREHOLDER INFORMATION	276
7.6.1	Relations with shareholders	276
7.6.2	Securities service	276
7.6.3	Publicly available documents	276
7.6.4	How to become a Hermès International shareholder	276
7.6.5	Financial calendar	276
7.6.6	Crossing of thresholds and nominative registration requirements	277

7.1 PRESENTATION OF HERMÈS INTERNATIONAL AND ÉMILE HERMÈS SARL

7.1.1 PRESENTATION OF HERMÈS INTERNATIONAL

7.1.1.1 Role

Hermès International is the Group's parent company. Its purpose is:

- ◆ to define the Group's strategy and its focuses for development and diversification;
- ◆ to oversee the operations of its subsidiaries and to provide corporate, financial, legal and commercial assistance;
- ◆ to manage the Group's real estate assets;
- ◆ to protect and defend its trademarks, designs, models, and patents;
- ◆ to maintain a documentation centre and make it accessible to the subsidiaries;
- ◆ to ascertain that the style and image of each brand name is consistent throughout the world and, for this purpose, to design and orchestrate advertising campaigns, actions and publications to support the various business activities;
- ◆ to provide guidance in design activities and to ensure that the Hermès spirit is consistently applied in each business line. Hermès International derives its funds from:
 - dividends received from subsidiaries,
 - royalties from trademarks, licensed exclusively to Group subsidiaries, to wit, Hermès Sellier, Comptoir Nouveau de la Parfumerie, La Montre Hermès, Hermès Horizons and Faubourg Italia (amounts concerning the 2016 financial year are presented on page 308).

Hermès brands, which belong to Hermès International, are protected by trademarks in many countries, for all categories of products in each of the Group's business sectors.

Hermès International's scope of consolidation encompasses 143 subsidiaries and sub-subsidiaries. A simplified presentation of the Group appears on page 29.

7.1.1.2 Legal form

Hermès International was converted into a *société en commandite par actions* (partnership limited by shares) by a decision of the Extraordinary General Meeting held on 27 December 1990, in order to preserve its identity and culture and thus ensure its sustainability over the long term, in the interests of the Group and all shareholders. In this legal form, the share capital is divided into shares and there are two classes of partners: one or more Active Partners, who actively engage in operating the business and are jointly and severally liable for all the Company's debts for an indefinite period of time, and Limited Partners, who are not actively engaged in the business and are liable only up to the amount of their contribution.

The rules governing the operation of a *société en commandite par actions* are the following:

- ◆ the Active Partner or partners, who carry on the business, are jointly and severally liable for all the Company's debts, for an indefinite period of time;
- ◆ the Limited Partners (or shareholders), who contribute capital, are liable in this capacity only up to the amount of their contribution;
- ◆ the same party may be both an Active Partner and a Limited Partner;
- ◆ a Supervisory Board is appointed by the Ordinary General Meeting as a supervisory body (Active Partners, even if they are also Limited Partners, cannot vote on the appointment of Supervisory Board members);
- ◆ one or more Executive Chairmen, designated from among the Active Partners or from outside the Company, are chosen to manage the Company.

7.1.1.3 Limited partners (shareholders)

Limited Partners:

- ◆ appoint the Supervisory Board members, who must be selected from among the Limited Partners, and the Statutory Auditors, at the Shareholders' General Meetings;
- ◆ vote on the accounts approved by the Executive Management; and
- ◆ appropriate earnings (including the distribution of dividends).

The main Limited Partners (shareholders) are listed on page 255.

7.1.1.4 Active partner

Since 1 April 2006, Émile Hermès SARL, represented by its Executive Management Board, has been the sole Active Partner of Hermès International.

The Active Partner:

- ◆ has the authority to appoint or revoke the powers of any Executive Chairman, on the reasoned opinion of the Supervisory Board;
- ◆ takes the following decisions for the Group, on the Supervisory Board's recommendation:
 - strategic options,
 - consolidated operating and investment budgets, and
 - decides on any proposal submitted to the General Meeting pertaining to the appropriation of share premiums, reserves or retained earnings;
- ◆ may formulate recommendations to the Executive Management on any matter of general interest to the Group;
- ◆ authorises any loans of Hermès International whenever the amount of such loans exceeds 10% of the amount of the consolidated net worth of the Hermès Group, as determined based on the consolidated financial statements drawn up from the latest approved accounts (the "Net Worth");

- ◆ authorises any sureties, endorsements or guarantees and any pledges of collateral and encumbrances on the Company's property, whenever the claims guaranteed amount to more than 10% of the Net Worth;
- ◆ authorises the creation of any company or the acquisition of an interest in any commercial, industrial or financial operation, movable or immovable property, or any other operation, in any form whatsoever, whenever the amount of the investment in question amounts to more than 10% of the Net Worth.

In order to maintain its status of Active Partner, and failing which it will automatically lose such status ipso jure, Émile Hermès SARL must maintain in its Articles of Association clauses, in their original wording or in any new wording as may be approved by the Supervisory Board of Hermès International by a three-quarters majority of the votes of members present or represented, stipulating the following:

- ◆ the legal form of Émile Hermès SARL is that of a *société à responsabilité limitée à capital variable* (limited company with variable capital);
- ◆ the exclusive purpose of Émile Hermès SARL is:
 - to serve as Active Partner and, if applicable, as Executive Chairman of Hermès International,
 - potentially to own an equity interest in Hermès International, and
 - to carry out all transactions in view of pursuing and accomplishing these activities and to ascertain that any liquid assets it may hold are appropriately managed;
- ◆ only the following may be partners in Émile Hermès SARL:
 - descendants of Mr Émile-Maurice Hermès and his wife, born Julie Hollande, and
 - their spouses, but only as usufructuaries; and
- ◆ each partner of Émile Hermès SARL must have deposited, or arrange to have deposited, shares in the present Company in the corporate accounts of Émile Hermès SARL in order to be a partner of this Company.

The Active Partner, Émile Hermès SARL, has transferred its business know-how to the Company, in consideration for its share of the profits in the Company, which amounts to 0.67% of distributable profits and is payable to the Active Partner on a priority basis (before dividends are paid to the Limited Partners).

7.1.1.5 Management bodies

The presentation of the Executive Management and the Supervisory Board is contained in chapter 3 "Corporate governance", page 91 and 97.

7.1.1.6 Joint council

The Executive Management of Hermès International or the Chairman of the Supervisory Board of Hermès International shall convene a Joint Council meeting of the Executive Management Board of Émile Hermès SARL and the Supervisory Board of Hermès International whenever they deem it appropriate.

The Joint Council is an institution designed to enable broad collaborative efforts between the Active Partner's Executive Management Board, an internal body with a need to know the main aspects of Hermès International's management, and the Supervisory Board, which is appointed by shareholders.

The Joint Council has knowledge of all matters that it addresses or that are submitted thereto by the party who convened the conference, but does not, in the decision-making process, have the right to act as a substitute for those bodies to which such powers are ascribed by law or by the Articles of Association of Hermès International or of Émile Hermès SARL. The Joint Council of the Executive Management Board and Supervisory Board does not in itself have decision-making powers as such. It acts exclusively as a collaborative body. At their discretion, the Executive Management Board and Supervisory Board may make all decisions or issue all recommendations within their jurisdiction in a Joint Council meeting.

7.1.1.7 Registered office – principal administrative establishment

The registered office of Hermès International is located at 24, rue du Faubourg-Saint-Honoré, 75008 Paris, France.

The Company's principal administrative establishment is located at 13-15, rue de la Ville-l'Évêque, 75008 Paris, France.

The legal department is located at 13-15, rue de la Ville-l'Évêque, 75008 Paris, France.

7.1.1.8 Date created – Trade and Company Register, APE Code

Hermès International was created on 1 June 1938. It is registered with the Paris Trade and Company Register under number 572 076 396, APE code 7010Z.

7.1.1.9 Date of initial public offering

Hermès International was taken public on the Second Marché of the Paris Stock Market on 3 June 1993. It has been listed on the Eurolist by Euronext (Compartment A) since 2005.

7.1.1.10 Articles of Association of hermès international with commentary

Additional information is provided in insets in italics.

1 - Legal form

The Company is a *société en commandite par actions* (partnership limited by shares) between:

- ◆ its Limited Partners; and
- ◆ its Active Partner, Émile Hermès SARL, with registered office located at 23 rue Boissy-d'Anglas in Paris (75008). The Company is governed by the laws and regulations applicable to sociétés en commandite par actions (partnership limited by shares) and by these Articles of Association.

The Company was converted into a *société en commandite par actions* (partnership limited by shares) by a decision of the Extraordinary General Meeting held on 27 December 1990, in order to preserve its identity and culture and thus ensure its sustainability over the long term, in the interests of the Group and all shareholders. The rules governing the operation of a *société en commandite par actions* are the following:

- ◆ the Active Partner or partners are jointly and severally liable for all the Company's debts, for an indefinite period of time;
- ◆ the Limited Partners (or shareholders), who contribute capital, are liable in this capacity only up to the amount of their contribution;
- ◆ the same party may be both an Active Partner and a Limited Partner;
- ◆ one or more Executive Chairmen, selected from among the Active Partners or from outside the Company, are chosen to manage the Company;
- ◆ the Supervisory Board is appointed by the Ordinary General Meeting (Active Partners, even if they are also Limited Partners, cannot vote on their appointment). It exercises ongoing control over the Company's management, and as such has the same powers as the Statutory Auditors.

2 - Purpose

The Company's purpose, in France and in other countries, is:

- ◆ to acquire, hold, manage, and potentially sell direct or indirect equity interests in any legal entity engaged in the creation, production and/or sale of quality products and/or services, and, in particular, in companies belonging to the Hermès Group;
- ◆ to provide guidance to the Group it controls, in particular by providing technical assistance services in the legal, financial, corporate, and administrative areas;
- ◆ to develop, manage and defend all rights it holds to trademarks, patents; designs, models, and other intellectual or industrial property, and in this respect, to acquire, sell or license such rights;
- ◆ to participate in promoting the products and/or services distributed by the Hermès Group;
- ◆ to purchase, sell and manage all property and rights needed for the Hermès Group's business operations and/or for asset and cash management purposes; and
- ◆ more generally, to engage in any business transaction of any kind whatsoever in furtherance of the corporate purpose.

3 - Company name

The Company's name is "Hermès International".

4 - Registered office

The Company's registered office is located at 24 rue du Faubourg-Saint-Honoré, 75008 Paris, France.

It may be transferred:

- ◆ to any other location in the same département, by a decision of the Executive Management, subject to ratification of such decision at the next Ordinary General Meeting; and
- ◆ to any other location, by a decision of the Extraordinary General Meeting.

5 - Term

The Company will be dissolved automatically on 31 December 2090, unless it is dissolved previously or unless its duration is extended.

6 - Share capital - Contributions

6.1 The share capital is **€53,840,400.12**.

It is made up of **105,569,412** shares, all of them fully paid up, which are apportioned among the shareholders in proportion to their rights in the Company.

6.2 The Active Partner, Émile Hermès SARL, has transferred its business know-how to the Company, in consideration for its share of the profits.

The par value of one share is €0.51, after two three-for-one splits since the initial public offering, on 6 June 1997 and 10 June 2006.

7 - Increase and reduction of capital

7.1 - The share capital may be increased either by the issuance of ordinary shares or preference shares, or by increasing the par value of existing equity securities.

7.2 - The General Meeting, voting in accordance with the quorum and majority requirements stipulated by law, has the authority to decide to increase the share capital. It may delegate this authority to the Executive Management. The General Meeting that decides to effect a capital increase may also delegate the power to determine the terms and conditions of the issue to the Executive Management.

7.3 - In the event of a capital increase effected by capitalisation of sums in the share premiums, reserves or retained earnings accounts, the shares created to evidence the relevant capital increase shall be distributed only among the existing shareholders, in proportion to their rights to the share capital.

7.4 - In the event of a capital increase for cash, the existing share capital must first be fully paid up. The shareholders have preferential subscription rights, which may be waived under the conditions stipulated by law.

7.5 - Any contributions in kind or stipulation of special advantages made at the time of a capital increase are subject to the approval and verification procedures applicable to such contributions and instituted by law.

7.6 - The Extraordinary General Meeting, or the Executive Management when granted special authority for this purpose, and subject to protecting the rights of creditors, may also decide to reduce the share capital. In no event shall such a capital reduction infringe upon the principle of equal treatment of shareholders.

7.7 - The Executive Management has all powers to amend the Articles of Association as a result of a capital increase or reduction and to undertake all formalities in connection therewith.

8 - Payment for shares

8.1 - Payment in consideration for newly created shares may be made in cash, including by set-off against liquid claims due by the Company; by contributions in kind; by capitalisation of reserves, earnings or share premiums; or as the result of a merger or demerger.

8.2 - Within the framework of resolutions adopted by the General Meeting, the Executive Chairman calls the funds required to pay for the shares.

Any late payment of amounts due for the shares shall automatically bear interest payable to the Company at the legal interest rate plus three percentage points, and no legal action or formal notice shall be required to collect such interest.

9 - Form of the shares

9.1 - All shares issued by the Company are in registered form until they have been fully paid up. Fully-paid up shares may be in registered or bearer form, at the shareholder's discretion. They are registered on a securities account under the terms and conditions provided by law.

The General Meeting of 29 May 2012 established the requirement for holding shareholdings in registered form when they exceed the 0.5% threshold; non-compliance with this obligation to be sanctioned by the loss of voting rights.

9.2 - The Company may, at any time, in accordance with the applicable laws and regulations, request communication from the central custodian or any securities clearing organisation or authorised intermediary to enable it to identify the owners of securities giving immediate or future rights to vote at General Meetings, as well as the number of securities held by each such owner and any restrictions that may apply to the securities.

Clearing and settlement of the shares in France are carried out by Euroclear.

Hermès International ordinarily exercises this option once a year, as of 31 December.

10 - Transfer of shares

Shares are freely transferable. Transfers are effected under the terms and conditions provided by law.

11 - Ownership threshold disclosures

Any natural person or legal entity, acting alone and/or jointly, coming into possession, in any manner whatsoever, within the meaning of Articles L. 233-7 *et seq.* of the French Commercial Code (*Code de commerce*), of a number of shares representing 0.5% of the share capital and/or of the voting rights in General Meetings (or any multiple of this percentage), at any time, even after attaining one of the thresholds provided for by Articles L. 233-7 *et seq.* of the French Commercial Code (*Code de*

commerce), must, within five stock market trading days from the date this threshold is exceeded, request the registration of their shares in nominative form. This nominative registration requirement applies to all shares already owned, as well as any that come into ownership beyond this threshold. A copy of the nominative registration application, sent by registered post with acknowledgement of receipt to the registered office within ten stock market trading days from the date on which the threshold is attained, shall constitute a declaration of attaining the ownership threshold in question. The registration requirement for securities also applies to any natural person or legal entity, acting alone and/or jointly, coming into possession, in any manner whatsoever according to the meaning of Articles L. 233-7 *et seq.* of the French Commercial Code (*Code de commerce*), of a number of shares representing 0.5% of the share capital and/or of the voting rights in General Meetings. These persons are given a period of twenty stock market trading days after the General Meeting on 29 May 2012 to comply with this obligation.

In the event of failure to comply with the above requirements, the shares that exceed the threshold subject to disclosure or having been subject to disclosure shall be disqualified from voting rights.

In the event of an adjustment, the corresponding voting rights can only be exercised once the period stipulated by law and current regulations has expired. Unless one of the thresholds covered by the aforementioned Article L. 233-7 is exceeded, this sanction shall be applied only at the request of one or several shareholders individually or collectively holding at least 0.5% of the Company's share capital and/or voting rights and duly recorded in the minutes of the General Meeting.

12 - Rights and obligations attached to the shares

12.1 - The shares are indivisible with regard to the Company. Co-owners of undivided shares must be represented with regard to the Company and at General Meetings by one of them only or by a single representative. In the event of a disagreement, their representative shall be appointed by the Court at the request of the co-owner who takes the initiative to refer this matter to the Court.

12.2 - Each share shall give the holder the right to cast one vote at the Shareholders' General Meetings.

However, double voting rights are allocated to:

- ♦ any fully-paid up registered share which has been duly recorded on the books in the name of the same shareholder for a period of at least four years from the date of the first General Meeting following the fourth anniversary of the date when the share was registered on the books; and
- ♦ any registered share allotted for no consideration to a shareholder, in the event of a capital increase effected by capitalisation of sums in the share premiums, reserves or retained earnings accounts, in proportion to any existing shares which carry double voting rights.

Double voting rights are automatically eliminated under the conditions stipulated by law.

Double voting rights were instituted by the shareholders at the Extraordinary General Meeting of 27 December 1990.

Voting rights attached to the shares are exercised by the bare owners at all General Meetings (ordinary, extraordinary or special meetings), save for decisions regarding the allocation of net income, in which case the usufructuary shall exercise the voting rights.

This allocation was approved by the Extraordinary General Meeting of 6 June 2006.

12.3 - Each share gives the holder a right of ownership in the Company's assets, its profits, and any winding-up surplus, in proportion to the percentage of ownership it represents.

All shares are of equal par value and are identical in all respects, except with respect to the date on which they are eligible for the dividend.

12.4 - Ownership of a share automatically entails compliance with the Company's Articles of Association and with resolutions duly adopted by the Shareholders' General Meeting.

12.5 - Whenever ownership of a certain number of shares is required in order to exercise any right whatsoever, owners of single shares, or with an insufficient number of shares, may only exercise such rights if they personally arrange to consolidate their shares, or arrange for the purchase or sale of a sufficient number of shares.

13 - Death, legal prohibition, personal bankruptcy, insolvency, receivership or compulsory liquidation of a partner

The Company has two classes of partners:

- ◆ *shareholders, who are "Limited Partners";*
- ◆ *Active Partners.*

Since 1 April 2006, there has been only one Active Partner: Émile Hermès SARL.

13.1 - Shareholders

The Company shall not be dissolved in case of the death, legal prohibition or personal bankruptcy of a shareholder, or due to the initiation of insolvency, receivership or compulsory liquidation proceedings against that shareholder.

13.2 - Active Partner

13.2.1 - In the event that an Active Partner should be prohibited by law from engaging in a business profession, or in the case of personal bankruptcy, or should insolvency, receivership or compulsory liquidation proceedings be initiated against them, such Active Partner shall automatically lose their status as Active Partner ipso jure; the Company shall not be dissolved. Neither shall the Company be dissolved if an Active Partner who is a natural person and who was appointed Executive Chairman ceases to hold this office.

If, as a result of this loss of status, the Company no longer has any Active Partners, a Shareholders' Extraordinary General Meeting must be called forthwith, either to appoint one or more new Active Partners, or to change the corporate form of the Company. Such change does not entail the creation of a new legal entity.

If an Active Partner loses their status as such, they shall have the right to receive their share of the Company's profits, pro-rated until the day such status is lost, in full settlement of all amounts due.

13.2.2 - The Company shall not be dissolved in the event of the death of an Active Partner. If, as a result of this death, the Company no longer has any Active Partners, a Shareholders' Extraordinary General Meeting must be called forthwith, either to appoint one or more new Active Partners, or to change the corporate form of the Company. Such change does not entail the creation of a new legal entity.

This also applies if the Company has only one Active Partner and if that Active Partner loses their status as such for any reason whatsoever.

The beneficiaries, heirs, or the surviving spouse, if any, of the deceased Active Partner shall have the right to receive the deceased Active Partner's share of the Company's profits, pro-rated until the day such status is lost, in full settlement of all amounts due.

14 - Responsibility and powers of the Active Partner

14.1 - Active Partners are jointly and severally liable for all the Company's debts, for an indefinite period of time.

14.2 - Each Active Partner has the power to appoint and revoke the appointment of any Executive Chairman, acting on the Supervisory Board's reasoned opinion under the conditions provided in the Article entitled "Executive Management".

Acting by unanimous consent, the Active Partners:

- ◆ take the following decisions for the Group, on the Supervisory Board's recommendation:
 - strategic options,
 - consolidated operating and investment budgets, and
 - decide on any proposal submitted to the General Meeting pertaining to the appropriation of share premiums, reserves or retained earnings;
- ◆ may formulate recommendations to the Executive Management on all issues of general interest for the Group;
- ◆ authorise any loans of Hermès International whenever the amount of such loans exceeds 10% of the amount of the consolidated net worth of the Hermès Group, as determined based on the consolidated financial statements drawn up from the latest approved accounts (the "Net Worth");
- ◆ authorise any sureties, endorsements or guarantees and any pledges of collateral and encumbrances on the Company's property, whenever the claims guaranteed amount to more than 10% of the Net Worth;
- ◆ authorise the creation of any company or the acquisition of an interest in any commercial, industrial or financial operation, movable or immovable property, or any other operation, in any form whatsoever, whenever the amount of the investment in question amounts to more than 10% of the Net Worth.

14.3 - In order to maintain its status of Active Partner, and failing which it will automatically lose such status ipso jure, Émile Hermès SARL must maintain in its Articles of Association clauses, in their original wording or in any new wording as may be approved by the Supervisory Board of the present Company by a three-quarters majority of the votes of members present or represented, stipulating the following:

- ◆ the legal form of Émile Hermès SARL is that of a *société à responsabilité limitée à capital variable* (limited company with variable capital);
- ◆ the exclusive purpose of Émile Hermès SARL is:
 - to serve as Active Partner and, if applicable, as Executive Chairman of Hermès International,

- potentially to own an equity interest in Hermès International, and
- to carry out all transactions in view of pursuing and accomplishing these activities and to ascertain that any liquid assets it may hold are appropriately managed;
- ♦ only the following may be partners in Émile Hermès SARL:
 - descendants of Mr Émile-Maurice Hermès and his wife, born Julie Hollande, and
 - their spouses, but only as usufructuaries of the shares; and
- ♦ each partner of Émile Hermès SARL must have deposited, or arrange to have deposited, shares in the present Company in the corporate accounts of Émile Hermès SARL in order to be a partner of this Company.

14.4 - Any Active Partner who is a natural person and who has been appointed to the office of Executive Chairman shall automatically lose their status as Active Partner immediately upon termination of their office of Executive Chairman for any reason whatsoever.

14.5 - All decisions of the Active Partners are recorded in minutes, which are entered in a special register.

15 - Executive Management

15.1 - The Company is administered by one or two Executive Chairmen, who may be, but are not required to be, Active Partners in the Company. If there are two Executive Chairmen, any provision of these Articles of Association mentioning “the Executive Chairman” shall apply to each Executive Chairman. The Executive Chairmen may act jointly or separately.

The Executive Chairman may be a natural person or a legal entity, which may be but is not required to be an Active Partner.

At this time, the Company is administered by two Executive Chairmen:

- ♦ *Mr Axel Dumas, appointed by a resolution approved by the Active Partners, with the reasoned opinion of the Supervisory Board, dated 4 June 2013 (appointment effective as of 5 June 2013);*
- ♦ *Émile Hermès SARL, which was appointed by a resolution approved by the Active Partners, with the reasoned opinion of the Supervisory Board, dated 14 February 2006 (appointment effective as of 1 April 2006).*

From 4 June 2013 to 31 January 2014, Article 15.1 of the Articles of Association was amended to allow for the temporary appointment of a third Executive Chairman.

This triple stewardship was intended for the sole purpose of preparing for the succession of Mr Patrick Thomas, the reason for which it was implemented temporarily. Executive Management took note on 31 January 2014 of the expiry of the mandate period of the Executive Chairman, Mr Patrick Thomas, who resigned, and withdrew the provisional reference of the Articles of Association.

15.2 - The Executive Chairman's term of office is open-ended. During the Company's lifetime, the power to appoint an Executive Chairman is exclusively reserved for the Active Partners, acting on the Supervisory Board's recommendation. Each Active Partner may act separately in this respect.

15.3 - The appointment of an Executive Chairman is terminated in case of death, disability, legal prohibition, or due to the initiation of insolvency, receivership or compulsory liquidation proceedings against that Executive Chairman; if the appointment is revoked; if the Executive Chairman resigns; or when the Executive Chairman reaches 75 years of age.

The Company shall not be dissolved if an Executive Chairman's appointment is terminated for any reason whatsoever. An Executive Chairman who wishes to resign must notify the Active Partners and the Supervisory Board thereof at least six months in advance, by registered post, unless each of the Active Partners, after soliciting the opinion of the Supervisory Board, has agreed to reduce this notice period.

An Executive Chairman's appointment can be revoked only by an Active Partner, acting on the Supervisory Board's reasoned opinion. In the event that the Supervisory Board recommends against revocation, the Active Partner in question must suspend its decision for a period of at least six months. At the end of this period, if it persists in its wish to revoke the appointment of the Executive Chairman in question, that Active Partner must again solicit the opinion of the Supervisory Board, and once it has obtained a favourable recommendation from the Board, it may revoke the appointment of that Executive Chairman.

16 - Authority of the Executive Management

16.1 - Relationships with third parties

Each Executive Chairman is invested with the broadest of powers to act on the Company's behalf, in all circumstances. They shall exercise these powers within the scope of the corporate purpose and subject to those powers expressly granted by law to the Supervisory Board and to Shareholders' General Meetings.

16.2 - Relationships among the partners

In relationships among partners, the Executive Management holds the broadest of powers to undertake all management acts, but only if such acts are in the Company's interests and subject to those powers granted to the Active Partners and to the Supervisory Board by these Articles of Association.

16.3 - Delegations

The Executive Chairman may, under their responsibility, delegate all powers as they see fit and as required for the proper operation of the Company and its Group.

They may issue a limited or unlimited blanket delegation of powers to one or more Executives of the Company, who then take on the title of Executive Vice President.

17 - Compensation of the Executive Management

The Executive Chairman (or, where there is more than one, each Executive Chairman) shall have the right to receive compensation set by the Articles of Association and, potentially, additional compensation, the maximum amount of which shall be determined by the Ordinary General Meeting, with the approval of the Active Partner or, if there are several Active Partners, with their unanimous approval.

The gross annual compensation of the Executive Chairman (or, where there is more than one, of each Executive Chairman) for the financial year shall not be more than 0.20% of the Company's consolidated income before tax for the previous financial year.

However, if there are more than two Executive Chairmen, the combined total gross annual compensation of all Executive Chairmen shall not be more than 0.40% of the Company's consolidated income before tax for the previous financial year.

Within the maximum amounts set forth herein, the Executive Management Board of the Active Partner, Émile Hermès SARL, shall determine the effective amount of the annual compensation of the Executive Chairman (or, where there is more than one, of each Executive Chairman).

Details on the compensation of the Executive Chairmen are presented in the Executive Management's report (see chapter 3 "Corporate Governance", pages 138 to 139) and in the presentation of the resolutions, pages 286 to 290.

18 - Supervisory Board

The composition of the Supervisory Board is described in the report from the Chairman of the Supervisory Board, page 97. The provisions of Article L. 226-4-1 of the French Commercial Code (Code de commerce), that require that the proportion of the members of the Supervisory Board of each gender must not be below 40% at the close of the Ordinary General Meeting on or after 1 January 2017, apply to and are followed by the Company.

18.1 - The Company is governed by a Supervisory Board consisting of 3 to 15 members (not including employee representative members appointed pursuant to the conditions of Article 18.6 below), selected from amongst shareholders who are neither Active Partners, nor legal representatives of an Active Partner, nor Executive Chairman. When appointments to the Supervisory Board come up for renewal, the number of Supervisory Board members is fixed by a decision adopted by the Active Partners by unanimous vote.

In a decision dated 22 March 2012, the Active Partner had set the number of Supervisory Board members at 11.

In a decision dated 21 March 2017, the Active Partner increased the number of Supervisory Board members to 13 (including employee representatives, as of 6 June 2017) in anticipation of the appointment by the Combined General Meeting of 6 June 2017 of two new members to the Supervisory Board.

Supervisory Board members may be natural persons or legal entities.

At the time of their appointment, legal entities must designate a permanent representative who is subject to the same terms, conditions and obligations and incurs the same liabilities as if they were a Supervisory Board member in their own name, without prejudice to the joint and several liability of the legal entity they represent. The permanent representative serves for the same term of office as the legal entity they represent.

If the legal entity revokes its representative's appointment, it is required to notify the Company thereof forthwith by registered post, and to state the identity of its new permanent representative. This requirement also applies in the event the permanent representative should die, resign, or become incapacitated for an extended period of time.

18.2 - Supervisory Board members are appointed or their terms are renewed by the Shareholders' Ordinary General Meeting. The Active Partners may, at any time, propose that one or more new Supervisory Board member(s) be nominated.

Supervisory Board members are appointed for a term of three years. As an exception to this rule, in order to ensure that one-third of the Supervisory Board members will stand for re-election each year, the General Meeting may decide to appoint one or more Board members for one or two years, and who may be designated by drawing lots, as necessary.

The General Meeting of 2 June 2009 approved a provision calling for one-third of Supervisory Board members to stand for re-election each year.

18.3 - No person over the age of 75 shall be appointed to the Supervisory Board if, as a result of such appointment, more than one-third of the Board members would be over that age.

18.4 - The appointments of Supervisory Board members can be revoked by a resolution adopted by the Ordinary General Meeting only for cause, on the joint recommendation of the Active Partners, acting by unanimous consent, and the Supervisory Board.

18.5 - In the event of a vacancy or vacancies caused by the death or resignation of one or more Supervisory Board members, the Supervisory Board may appoint an interim replacement member within three months as from the effective date of the vacancy.

However, if no more than two Supervisory Board members remain in office, the member or members in office, or, in their absence, the Executive Chairman, or in their absence, the Statutory Auditor or Auditors, shall immediately call a Shareholders' Ordinary General Meeting for the purpose of filling the vacancies to bring the number of Board members up to the required minimum.

18.6 - When the provisions of Article L. 225-79-2 of the French Commercial Code (Code de commerce) are applicable to the Company, a Group employee representative member, who is a natural person, must be nominated. When the Supervisory Board consists of 13 or more members (not including the employee representatives), a second natural person must be appointed as an employee representative. The number of Supervisory Board members taken into account, when determining the number of employee representatives to be appointed to the Supervisory Board, is assessed on the date of appointment of the employee representatives. Neither the Supervisory Board members elected by the employees under Article L. 225-27 of the French Commercial Code (Code de commerce), nor the employee shareholder Supervisory Board members appointed in accordance with Article L. 225-23 of the French Commercial Code are therefore taken into account.

The term of office for employee representative Supervisory Board members is indicated in Article 18.2 of the present Articles of Association.

A reduction to 12 or fewer Supervisory Board members has no effect on the term of office for employee representative Supervisory Board members, which will come to an end upon its normal expiry.

Employee representative Supervisory Board members are appointed by the Company's Group Committee. Employee representative Supervisory Board members must be in possession of an employment contract, for at least the past two years, with the Company or one of its direct or

indirect subsidiaries having its registered office in France or abroad. Notwithstanding the rule contained in Article 18.1 of the present Articles of Association, employee representative Supervisory Board members are not required to be shareholders.

18.7 - All Supervisory Board members must comply with the Supervisory Board rules of procedure.

The Combined General Meeting of 3 June 2014 amended Article 18 of the Articles of Association with the purpose of incorporating the terms of appointment for employee representative Supervisory Board members.

19 - Deliberations of the Supervisory Board

The conditions for preparation and organisation of the Supervisory Board's work are described in the report from the Chairman of the Supervisory Board, page 111.

19.1 - The Supervisory Board elects a Chairman, who is a natural person, and two Vice-Chairmen, from among its members.

It appoints a secretary who may be, but is not required to be, a Supervisory Board member.

If the Chairman is absent, the older of the two Vice-Chairmen acts as Chairman.

19.2 - The Supervisory Board meets when convened by its Chairman or by the Executive Management, whenever required for the Company's best interest but no less than twice per year, at the Company's registered office or at any other place specified in the notice of meeting.

Notices are served by any means providing legally valid proof in business matters, at least seven business days before the meeting. This period of time may be shortened by unanimous approval of the Chairman or a Vice-Chairman of the Supervisory Board, the Active Partners and the Executive Management.

Any member of the Supervisory Board may give a proxy to one of their colleagues to represent them at a Board meeting, by any means providing legally valid proof in business matters. Each member may hold only one proxy during a given meeting. These provisions are applicable to the permanent representative of a legal entity that is a member of the Supervisory Board.

The Supervisory Board is duly convened only if a quorum consisting of at least half of its members is present or represented.

Resolutions are adopted by a majority of the votes of members present or represented. However, the Supervisory Board must approve or reject any proposed new wording of certain clauses of the Articles of Association of Émile Hermès SARL by a three-quarters majority of members present or represented, in accordance with the stipulations of the Article entitled "Responsibilities and Powers of the Active Partners".

Supervisory Board members who participate in the meeting by video-conferencing or telecommunications means that enable them to be identified and effectively to participate in the meeting through the use of technology providing for continuous and simultaneous transmission of discussions are deemed to be present for purposes of calculating the quorum and majority, except at Supervisory Board meetings convened

for the review and verification of the annual report and consolidated and parent company financial statements. The Supervisory Board defines the conditions and procedures for using video-conferencing or other telecommunications means when applicable. The Executive Management must be convened to Supervisory Board meetings and may attend such meetings, but it does not have the right to participate in the discussion and to vote.

19.3 - The deliberations of the Supervisory Board are recorded in minutes, which are entered in a special initialled register and signed by the Chairman and the secretary.

20 - Authority of the Supervisory Board

20.1 - The Supervisory Board exercises ongoing control over the Company's management.

For this purpose, it has the same powers as the Statutory Auditors and receives the same documents that they do, at the same time. In addition, the Executive Management must submit a detailed report to the Supervisory Board on the Company's operations at least once a year.

20.2 - The Supervisory Board submits to the Active Partners for their consideration its reasoned opinion:

- ♦ on the nomination and dismissal of any Executive Chairman of the Company; and
- ♦ in case of the Executive Chairman's resignation, on reducing the notice period.

20.3 - Each year, the Supervisory Board determines the proposed allocation of profits to be submitted to the General Meeting.

20.4 - The Supervisory Board approves or rejects any proposed new wording of certain clauses of the Articles of Association of Émile Hermès SARL in accordance with the stipulations of the Article entitled "Responsibilities and Powers of the Active Partners".

20.5 - The Active Partners must consult the Supervisory Board prior to taking any decisions concerning:

- ♦ strategic options;
- ♦ consolidated operating and investment budgets; and
- ♦ proposals to the General Meeting pertaining to the appropriation of share premiums, reserves or retained earnings.

20.6 - Each year, the Supervisory Board presents to the Shareholders' Annual Ordinary General Meeting a report in which it comments on the Company's management and draws attention to any inconsistencies or inaccuracies identified in the financial statements for the year.

The Supervisory Board's report for the year ended 31 December 2016 is presented on pages 305 and 306.

This report, together with the Company's statement of financial position and a list of its assets and liabilities, is made available to the shareholders and may be consulted at the Company's registered office as from the date of the notice of the General Meeting.

The Supervisory Board may convene a Shareholders' General Meeting whenever it deems this appropriate.

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.

21 - Joint Council of the Supervisory Board and Executive Management Board of the Active Partner

21.1 - The Executive Management of the Company or the Chairman of the Company's Supervisory Board shall convene a Joint Council meeting of the Supervisory Board and of the Active Partners whenever it is deemed necessary; for purposes of this Council, Émile Hermès SARL is represented by its Executive Management Board. Notices are served by any means providing legally valid proof in business matters, at least seven business days before the meeting. This period of time may be shortened by unanimous approval of the Chairman or a Vice-Chairman of the Supervisory Board and the Executive Chairman.

21.2 - The Joint Council meets at the place indicated in the notice of meeting. It is chaired by the Chairman of the Company's Supervisory Board, or, in their absence, by one of the Vice-Chairmen of the Company's Supervisory Board, or, in their absence, by the oldest supervisory Board member present. The Executive Chairman or, if the Executive Chairman is a legal entity, its legal representative or representatives, are convened to meetings of the Joint Council.

21.3 - The Joint Council has knowledge of all matters that it addresses or that are submitted thereto by the party who convened the Joint Council meeting, but does not, in the decision-making process, have the right to act as a substitute for those bodies to which such powers are ascribed by law or by the Articles of Association of the Company and of the Active Partner that is a legal entity.

At their discretion, the Supervisory Board and Active Partners may make all decisions or issue all recommendations within their jurisdiction in a Joint Council meeting.

22 - Compensation of the Supervisory Board

Supervisory Board members may receive, as directors' fees, annual compensation, the amount of which is determined by the shareholders' Ordinary General Meeting and shall remain unchanged until such time as a new resolution is adopted by that General Meeting.

The Board apportions directors' fees among its members as it sees fit.

23 - Statutory Auditors

The Company's financial statements are audited by one or more Statutory Auditors, under the terms and conditions provided by law.

24 - Shareholders' General Meetings

24.1 - General Meetings are convened under the conditions set by law.

They are held at the registered office or at any other place specified in the notice of meeting.

24.2 - The right to participate in General Meetings is subordinated to registered shares being entered in the Company's register or bearer shares being registered in a securities account opened with an authorised financial intermediary, no later than two business days before the date of the meeting before midnight, Paris time. Shareholders owning bearer shares must obtain a shareholding certificate from the authorised financial intermediary evidencing the registration of their shares, which is attached to the postal vote or proxy form. All shareholders may cast their votes remotely or by proxy, under the conditions set forth in the applicable regulations.

Furthermore, on the Executive Management's decision, shareholders may vote by any telecommunication or remote transmission means, in accordance with the regulations applicable at the time of the decision. This option shall be indicated in the notice of meeting published in the *Bulletin des Annonces Légales Obligatoires* (BALO). Votes cast by shareholders using the electronic ballot form provided on the website created by the meeting coordinator for this purpose are counted in the same way as votes cast by shareholders present or represented. The electronic ballot may be completed and signed directly on this site by any procedure approved by Executive Management and that complies with the conditions defined by Article L. 1316-4 of the French Civil Code (*Code civil*), in the first sentence of sub-paragraph 2 (that is, by using a reliable identification procedure that guarantees that the signature is linked to the form), which may consist, inter alia of a login name and a password. Any proxies given or votes cast via this electronic means before the General Meeting, and the acknowledgements of receipt sent in response, will be deemed to be irrevocable instructions that are enforceable in every way, it being specified that in the event that shares are sold before the second business day preceding the General Meeting, at 12:00 midnight, Paris time, the Company will void or amend any proxy or voting instructions sent before that date accordingly. Persons invited by the Executive Chairman or by the Chairman of the Supervisory Board may also attend General Meetings. The Active Partners may attend Shareholders' General Meetings. Active Partners that are legal entities are represented by a legal representative or by any person, shareholder or otherwise, designated thereby.

The General Meeting of 7 June 2010 amended Article 24.2 of the Articles of Association to allow the Executive Management to set up an electronic balloting system applicable to all future General Meetings.

The General Meeting of 2 June 2015 amended Article 24.2 of the Articles of Association to bring it into compliance with Article R. 225-85 of the French Commercial Code (Code de commerce) resulting from decree No. 2014-1466 of 8 December 2014, changing the method for determining the "record date" for participation in General Meetings.

24.3 - Meetings are chaired by the Chairman of the Supervisory Board or, in their absence, by one of the Vice-Chairmen of the Board, or in their absence, by the Executive Chairman.

24.4 - The Ordinary and Extraordinary General Meetings, duly convened in accordance with the conditions specified by law, carry out their responsibilities in accordance with the law.

24.5 - Except for resolutions pertaining to the nomination and revocation of Supervisory Board members, the nomination and revocation of the Statutory Auditors, the distribution of profits for the year and the approval of related-party agreements that are subject to shareholders' approval, no resolution adopted by the General Meeting shall be valid unless it is approved by the Active Partners no later than at the end of the General Meeting that voted on the relevant resolution. The Company's Executive Management has all powers to record such approval.

25 - Accounts

Each financial year consists of twelve months, commencing on 1 January and ending on 31 December.

26 - Allocation and distribution of profits

The General Meeting approves the financial statements for the past year and duly notes the amount of distributable profits.

The Company pays 0.67% of the distributable profits to the Active Partners, at the time and place designated by the Executive Management, within nine months at most after the end of the financial year.

The Active Partners apportion this amount amongst themselves as they see fit.

The remaining distributable profits revert to the shareholders. Their appropriation is decided by the Ordinary General Meeting, on the Supervisory Board's recommendation. On the Supervisory Board's recommendation, the General Meeting may grant to each shareholder an option to receive payment for all or part of the dividend or interim dividend in cash or in shares, under the conditions set by law.

On the Supervisory Board's recommendation, the General Meeting may decide to draw from the balance of profits reverting to the shareholders the sums it deems appropriate to be allocated to shareholders' retained earnings or to be appropriated to one or more extraordinary, general or special reserve funds, which do not bear interest, and to which the Active Partners as such have no rights.

On the unanimous recommendation of the Active Partners, the reserve fund or funds may, subject to approval by the Ordinary General Meeting, be distributed to the shareholders or allocated to the partial or total amortisation of the shares. Fully amortised shares shall be replaced by entitlement shares with the same rights as the former shares, with the exception of the right to reimbursement of capital.

The reserve fund or funds may also be incorporated into the share capital.

Dividends are payable at the times and places determined by the Executive Management within a maximum of nine months from the end of the financial year, unless this time period is extended by a court of law.

27 - Dissolution of the Company

At the end of the Company's lifetime or in the event of early dissolution, the General Meeting decides on the winding-up procedure and appoints one or several liquidators, whose powers are defined by the meeting and who carry out their responsibilities in accordance with the applicable laws.

Any liquidation proceeds (*boni de liquidation*) shall be distributed amongst the shareholders.

7.1.2 PRESENTATION OF ÉMILE HERMÈS SARL, ACTIVE PARTNER

Page 254 describes the control exercised by the company Émile Hermès SARL over Hermès International. The operation of Émile Hermès SARL, Active Partner, was not affected by the set-up of the H51 SAS company in 2011.

7.1.2.1 Legal form

Émile Hermès SARL is a *société à responsabilité limitée à capital variable* (limited company with variable capital), constituted on 2 November 1989. Its partners are the direct descendants of Mr Émile-Maurice Hermès and his wife.

In companies with variable capital, the share capital can increase or decrease constantly, as existing partners or new "incoming" partners contribute additional funds, or as "outgoing" partners withdraw their funds.

7.1.2.2 Corporate purpose

The sole purpose of Émile Hermès SARL is:

- ♦ to serve as Active Partner and, if applicable, as Executive Chairman of Hermès International;
- ♦ potentially to own a direct or indirect equity interest in Hermès International; and
- ♦ to carry out all transactions in view of pursuing and accomplishing these activities and to ascertain that any liquid assets it may hold are appropriately managed.

7.1.2.3 Partners

Only the following may be partners in Émile Hermès SARL:

- ♦ descendants of Mr Émile-Maurice Hermès and his wife, born Julie Hollande; and
- ♦ their spouses, but only as usufructuaries.

In the light of the Company's purpose, no person shall be a partner if, for each share they own in Émile Hermès SARL, they do not have on deposit in the corporate accounts (draft resulting from the split that occurred on 1 March 2013):

- ♦ a number of non-dismembered Hermès International shares undivided and free from any encumbrance or commitment to third parties equal to 2,250 (two thousand two hundred and fifty);
- ♦ or, the beneficial or legal ownership of a number of Hermès International shares undivided and free from any encumbrance or commitment to third parties equal to 4,500 (four thousand five hundred).

7.1.2.4 Executive Chairman

Émile Hermès SARL's Executive Chairman is Mr Henri-Louis Bauer, a great-grandson of Émile-Maurice Hermès. He was appointed on 1 July 2012.

7.1.2.5 Executive Management Board

The Company is governed by an Executive Management Board comprising three to twelve members, including the Executive Chairman, who serves as Board Chairman.

The composition of the Executive Management Board is contained in chapter 3 "Corporate governance" page 90.

Executive Management Board members must be natural persons. The Executive Chairman is an ex-officio member thereof. The other members of the Executive Management Board are chosen from amongst the company partners (draft resulting from the modification of the Articles of Association taking effect on 1 January 2014).

The Executive Chairman of Émile Hermès SARL shall act in accordance with the Executive Management Board's recommendations in exercising its powers as Active Partner of Hermès International.

7.1.2.6 Date created – Trade and Company Register – registered office

Émile Hermès SARL was created on 2 November 1989. It is registered with the Paris Trade and Company Register under number 352 258 115. Its registered office is located at 23, rue Boissy-d'Anglas, 75008 Paris, France.

7.1.2.7 Share capital – statement of financial position – net income

The authorised share capital is €343,840 and the share capital under the Articles of Association was €110,832 as at 31 December 2016.

It is divided into 27,708 shares with a par value of €4 each. As at 31 December 2016, Émile Hermès SARL had total assets of €44,897,163.68, including net income for the year of €3,877,499.75.

7.2 INFORMATION ON SHARE CAPITAL AND SHAREHOLDERS

7.2.1 INFORMATION ON THE SHARE CAPITAL

7.2.1.1 Share capital

	Amount	Number	Par value
As at 01/01/2016	€53,840,400.12	105,569,412	€0.51
As at 31/12/2016	€53,840,400.12	105,569,412	€0.51
On the day of the meeting	€53,840,400.12	105,569,412	€0.51

The shares are fully paid-up.

7.2.1.2 Voting rights

By the 15th of each month at the latest, the Company issues a report on the total number of voting rights and shares that make up the share capital on the last day of the previous month and publishes it on its website (<http://finance.hermes.com>, Regulated Information tab.)

As at 28 February 2017, the total number of voting rights (including shares deprived of voting rights) was 174,062,531. Each share gives the holder the right to at least one vote in the Shareholders' General Meetings, except for treasury shares held by the Company, which have no voting rights.

Ownership of certain shares is split between a usufructuary and a bare owner. In accordance with the Articles of Association, voting rights attached to the shares are exercised by the bare owners at all General Meetings (ordinary, extraordinary or special meetings), save for decisions regarding the allocation of net income, in which case the usufructuary exercises the voting rights. Furthermore, double voting rights are allocated to:

- ♦ any fully-paid registered share which has been duly recorded on the books in the name of the same shareholder for a period of at least four years from the date of the first General Meeting following the fourth anniversary of the date when the share was registered on the books; and
- ♦ any registered share allotted for no consideration to a shareholder, in the event of a capital increase effected by capitalisation of sums in the share premiums, reserves or retained earnings accounts, in proportion to any existing shares which carry double voting rights.

Double voting rights cease automatically under the conditions specified by the law and notably for any share that was the subject of a conversion to bearer or a transfer, excluding any "registered to registered" transfer following succession, liquidation of community of property between spouses or family donation.

Failure to disclose attainment of certain ownership thresholds as provided by law or by the Articles of Association may disqualify the shares for voting purposes (see Article 11 of the Articles of Association on page 245).

7.2.1.3 Information on factors liable to affect the outcome of a public offering

As a *société en commandite par actions* (partnership limited by shares), Hermès International is governed by certain provisions specific to this legal form, stipulated by law or by the Articles of Association, and which are liable to have an effect in case of a public offering, namely:

- ♦ the Executive Chairmen may only be appointed or dismissed by the Active Partner;
- ♦ Émile Hermès SARL, the Active Partner, must retain in its Articles of Association certain provisions concerning its legal form, corporate purpose and the conditions to be met to qualify as a partner (see Article 14.3 of the Articles of Association of Hermès International on page 246);
- ♦ Hermès International may be converted into a *société anonyme* (corporation) only with the consent of the Active Partner;
- ♦ except for decisions coming under their exclusive competence, no decision by meetings of Limited Partners (shareholders) is legitimately taken if it was not approved by the Active Partner no later than the closure of that meeting. Hermès International's Articles of Association also contain stipulations that are liable to produce an impact on the outcome of a public offering, namely:
 - voting rights are exercised by the bare owners at all General Meetings, except for decisions regarding the allocation of net income, in which case the usufructuary shall exercise the voting rights,
 - double voting rights are allocated to each share registered on the books in the name of the same shareholder for a period of four consecutive years,
 - any shareholder who comes to hold 0.5% of the share capital and/or voting rights, or any multiple of that percentage, must disclose this fact (Article 11 of the Articles of Association).

Furthermore, a priority right to acquire Hermès International shares, granted by the members of the Hermès family group and descendants of these members for the benefit of the company H51 is explained on page 261.

Lastly, the Executive Management has a grant of authority to carry out capital increases.

7.2.1.4 Changes in share capital over the past three financial years

No change of capital occurred over the last three financial years

7.2.2 INFORMATION ON THE SHAREHOLDERS

7.2.2.1 Number of shareholders

At least once each year, the Company uses the Euroclear France “identifiable bearer shares” procedure (TPI, *titres au porteur identifiables*) to identify its shareholders. During the study of 31 December 2016, there were about 87,000 shareholders; there were approximately 90,000 as at 31 December 2015 and about 107,000 as at 31 December 2014.

7.2.2.2 Percentage of individual shareholders

The percentage of individual shareholders was 5.4% in December 2016, compared with 5.4% in the same period in 2015. Grouping the registered shares held as at 31 December 2016 by the individual shareholders and the bearer shares identified by the TPI on the same date, excluding holdings by the family groups.

7.2.2.3 Main shareholders as at 31 December 2016 – control of the Company

Hermès International is controlled – through the intermediary of Émile Hermès SARL, its Active Partner – by the Hermès family group, which also holds, notably via the intermediary of the company H51 SAS, a majority shareholding (in capital and voting rights) within the Company in the capacity of Limited Partner. This control is exclusive control according to the meaning of Article L. 233-16 of the French Commercial Code (*Code de commerce*).

The companies H51 SAS and H2 SAS are held exclusively by members of the Hermès family group. To the Company’s knowledge, there are no shareholders other than those shown in the tables on page 255, directly or indirectly holding, alone or together, more than 5% of the share capital or voting rights.

The ownership interests of Corporate Officers and Senior Executives are listed on page 108.

Material changes in ownership of the share capital over the past three years are described below, under “Crossing of thresholds”. To the Company’s knowledge, the organisation of the Hermès family group has not been significantly modified since the incorporation of the company H51 SAS.

Significant movements occurring during the last three years in the distribution of its share capital and voting rights, and the reasons for these movements – Retention commitment

According to the terms of a transaction signed on 3 September 2014, LVMH Moët Hennessy - Louis Vuitton undertook to distribute to its shareholders all of the shares that it held in Hermès International, followed by the distribution by Financière Jean Goujon and Christian Dior to their own shareholders of shares thus received from LVMH Moët Hennessy - Louis Vuitton. The share distributions were implemented at the end of 2014 and the start of 2015, with LVMH Moët Hennessy - Louis Vuitton and Christian Dior holding only a residual balance of the Hermès International shares, which they disposed of no later than 2 September 2015. LVMH Moët Hennessy - Louis Vuitton, Christian Dior and the Arnault family group also gave an undertaking not to acquire Hermès shares for a period of five years.

Changes occurring after closure of the financial year

To the Company’s knowledge, there has been no significant change with regards to Hermès International shareholders between 31 December 2016 and the date on which this registration document was filed with the AMF.

Measures taken to prevent abusive control

Refer to chapter 3 “Corporate Governance”, page 90, and to the paragraph “Management of conflicts of interest”, page 115.

7.2.2.4 Ownership of share capital and voting rights as at 31 December 2016

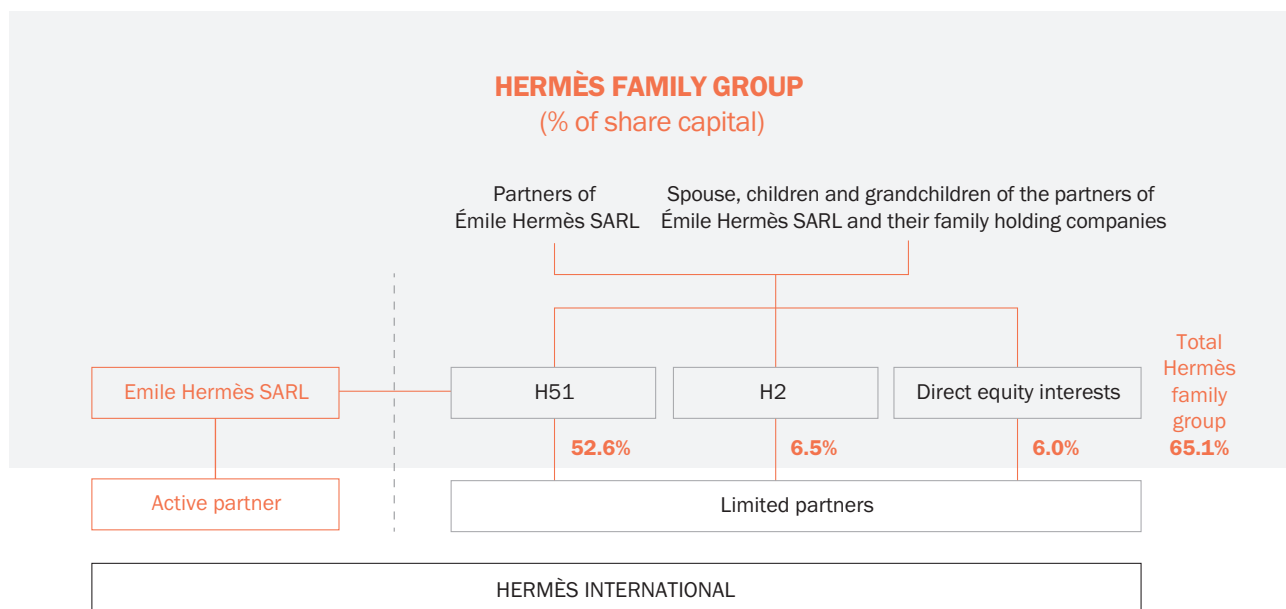
As at 31 December 2016 and to the Company's knowledge, the distribution of the share capital and voting rights of the Company was as follows:

	Share capital		Voting rights ¹			
			Allocation of net income		Others	
	Number	%	Number	%	Number	%
H51 SAS	55,516,570	52.6	108,515,867	62.7	108,515,867	62.7
H2 SAS	6,876,102	6.5	13,072,204	7.6	13,072,204	7.6
Other members of the Hermès family group	6,292,289	6.0	7,852,306	4.5	11,932,306	6.9
Subtotal Hermès family group²	68,684,961	65.1	129,440,377	74.8	133,520,377	77.2
Semyrhamis	8,771,914	8.3	8,771,914	5.1	8,771,914	5.1
Famille Arnault	183,557	0.2	183,557	0.1	183,557	0.1
Subtotal Arnault family group³	8,955,471	8.5	8,955,471	5.2	8,955,471	5.2
Public ⁴	26,849,320	25.4	34,582,054	20.0	30,502,054	17.6
Mr Nicolas Puech ⁵	-	-	-	-	-	-
Treasury shares	1,079,660	1.0	-	0.0	-	0.00
TOTAL	105,569,412	100.0	172,977,902	100.0	172,977,902	100.0

- (1) Voting rights that can be exercised in the General Meeting. In accordance with Article 12 of the Articles of Association of the Company, the voting right is exercised by the bare owner for all decisions made for all General Meetings, except for decisions concerning the allocation of net income, for which the voting right is exercised by the usufructuary. The procedures for publication and distribution of voting rights are detailed on page 253.
- (2) The Hermès family group is composed of the partners of Émile Hermès SARL, their spouses, children and grandchildren, their asset holdings, and direct and indirect shareholders in Hermès International and Émile Hermès SARL.
- (3) According to the declaration of 12 January 2017.
- (4) These amounts correspond to all of the shares and voting rights in circulation, reduced by the number of shares and voting rights declared by the identified shareholders as mentioned in this table.
- (5) Unlike previous financial years, Mr Nicolas Puech did not indicate the number of shares he held in Hermès International. However, on 8 February 2017, he did declare that he had not crossed any thresholds. This statement implies that, as at 31 December 2016, Mr Nicolas Puech held or was entitled to hold between 5% and 10% of the share capital of Hermès International. Not having specific information on the size of Mr Nicolas Puech's shareholding, its participation is integrated under the "Public" heading in 2016.

These figures result for the registered shares on the register kept by the BP2S Securities service and for the bearer shares, from the declarations, where applicable, of those in question.

Changes occurring after closure of the financial year are detailed on page 254.



7.2.2.5 Treasury shares

As at 31 December 2016, Hermès International held 1,079,660 of its own shares, representing 1.0% of its share capital, purchased under the terms of the share buyback programme described on page 259.

7.2.2.6 Change in ownership and voting rights

During the last three financial years and to the Company's knowledge, the distribution of capital and voting rights in the Company (by percentage) was the following:

Shareholders holding more than 5% of the capital or voting rights	31/12/2016			31/12/2015			31/12/2014		
	Share capital	Voting rights ¹		Share capital	Voting rights ¹		Share capital	Voting rights ¹	
		Allocation of net income	Others		Allocation of net income	Others		Allocation of net income	Others
H51 SAS	52.6%	62.7%	62.7%	52.6%	62.7%	62.7%	52.5%	58.0%	58.0%
H2 SAS	6.5%	7.6%	7.6%	6.5%	7.0%	7.0%	6.5%	8.1%	8.1%
Other members of the Hermès family group	6.0%	4.5%	6.9%	6.1%	4.4%	6.7%	6.1%	4.8%	7.6%
Subtotal Hermès family group²	65.1%	74.8%	77.2%	65.2%	74.1%	76.4%	65.0%	70.9%	73.7%
Semyrhamis	8.3%	5.1%	5.1%	8.3%	5.1%	5.1%	8.3%	5.8%	5.9%
Famille Arnault	0.2%	0.1%	0.1%	0.2%	0.1%	0.1%	0.1%	0.1%	0.1%
LVMH Moët Hennessy - Louis Vuitton	n/a	n/a	n/a	n/a	n/a	n/a	1.5%	1.0%	1.0%
Christian Dior	n/a	n/a	n/a	n/a	n/a	n/a	0.4%	0.3%	0.3%
Subtotal Arnault family group³	8.5%	5.2%	5.2%	8.5%	5.2%	5.2%	10.3%	7.2%	7.2%
Public ⁴	25.4%	20.0%	17.6%	19.4%	17.3%	14.9%	17.8%	17.8%	15.1%
Nicolas Puech ⁵	-	-	-	5.8%	3.5%	3.5%	5.8%	4.0%	4.0%
Treasury shares	1.0%	0.01%	0.01%	1.1%	0.0%	0.0%	1.1%	0.0%	0.0%
TOTAL	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

(1) Voting rights that can be exercised in the General Meeting. In accordance with Article 12 of the Articles of Association of the Company, the voting right is exercised by the bare owner for all decisions made for all General Meetings, except for decisions concerning the allocation of net income, for which the voting right is exercised by the usufructuary. The procedures for publication and distribution of voting rights are detailed on page 253.

(2) The Hermès family group is composed of the partners of Émile Hermès SARL, their spouses, children and grandchildren, their asset holdings, and direct and indirect shareholders in Hermès International and Émile Hermès SARL.

(3) The lines composing this subtotal were established:

- ♦ for 2016, according to the declaration of 12 January 2017;
- ♦ for 2015, according to the declaration of 27 January 2016;
- ♦ for 2014, according to the declaration of 28 January 2015. The balances specified correspond to shares either not yet delivered by LVMH Moët Hennessy - Louis Vuitton and by Christian Dior to their shareholders pursuant to the exceptional distribution in kind, or that are intended to be disposed of.

(4) These percentages correspond to the total shares and voting rights in circulation, reduced by the number of shares and voting rights declared by the identified shareholders as mentioned in this table.

(5) This line was established:

- ♦ for 2016: Mr Nicolas Puech did not indicate the number of shares he held. However, on 8 February 2017, he did declare that he had not crossed any shareholding thresholds. This statement implies that, as at 31 December 2016, Mr. Nicolas Puech held or was entitled to hold between 5% and 10% of the share capital. Not having specific information on the size of Mr Nicolas Puech's shareholding, its participation is integrated under the "Public" heading in 2016;
- ♦ for 2015: according to the signed declaration of 8 February 2016. Of which 900,000 shares held in the name of the Fondation Nicolas Puech;
- ♦ for 2014: according to the signed declaration of 14 January 2015, confirmed on 13 March 2015. Of which 900,000 shares held in the name of the Fondation Nicolas Puech.

n/a: not applicable.

7.2.2.7 Employee ownership of share capital

No shares are owned by employees of the Company or any affiliated entities via the Company savings plan or dedicated employee investment fund.

The proportion of share capital represented by the shares held by employees of the Group (other than senior executives and Corporate Officers) as at 31 December 2016, including previous awards of free shares, is less than 1% of the share capital.

7.2.2.8 Crossing of thresholds

Crossings of thresholds occurring after the closure of the 2016 financial year

No crossing of a legal threshold was declared between the closure of the 2016 financial year, and 28 February 2017.

Crossing of thresholds in FY 2016

No crossing of a legal threshold was declared in 2016.

Crossing of thresholds during the past two financial years

Crossing of thresholds in FY 2015

In 2015, the following crossing of a legal threshold was declared:

- ◆ *AMF notice no. 215C0070*. On 6 January 2015, the Arnault family group declared that it crossed below the threshold of 10% of the capital of Hermès International and held, directly and indirectly, through the intermediary of companies that it controls, 10,444,636 shares in Hermès International representing as many voting rights, namely 9.89% of the capital and 6.88% of the voting rights, distributed as follows:

	Number of shares	% share capital	Voting rights	% voting rights
Semyrhamis	8,771,914	8.31	8,771,914	5.78
LVMH	1,197,451	1.13	1,197,451	0.79
Christian Dior	333,080	0.32	333,080	0.22
Famille Arnault	142,191	0.13	142,191	0.09
TOTAL ARNAULT FAMILY GROUP	10,444,636	9.89	10,444,636	6.88

This downward crossing of the threshold results from the exceptional distributions of Hermès International shares for the benefit of the shareholders in the companies LVMH Moët Hennessy - Louis Vuitton (exceptional distribution in kind) and Christian Dior (exceptional distribution in kind and interim dividend in kind), as the distribution transactions were implemented.

It should be noted that, in accordance with the statements in the aforementioned notice to the AMF, the 1,197,451 shares in Hermès International held by LVMH Moët Hennessy - Louis Vuitton and the 330,080 shares in Hermès International held by Christian Dior correspond to a balance of shares pursuant to exceptional transactions for the distribution of shares in kind not yet delivered or intended to be disposed of.

By letter dated 2 April 2015, the Arnault family group declared that it held, as at 31 March 2015, 8,972,665 shares representing 8.5% of the capital and 5.95% of the voting rights. This drop results from the sale by LVMH Moët Hennessy - Louis Vuitton, controlled by the Arnault family group, of fractional amounts of Hermès International shares pursuant to the exceptional distribution in kind that was made on 17 December 2014.

Crossing of thresholds in FY 2014

In 2014, the following crossings of a legal threshold were declared:

- ◆ *AMF notice no. 214C2722*. On 18 December 2014, the Arnault family group declared that it had crossed below the thresholds of 20% of the share capital and 15% of the voting rights of Hermès International and, on 22 December 2014, the thresholds of 15% of the share capital and 10% of the voting rights of this Company and that it held, at this latter date, directly and indirectly, through the intermediary of the companies that it controlled, 13,938,737 shares in Hermès International representing as many voting rights, namely 13.20% of the share capital and 9.18% of the voting rights, divided as follows:

	Number of shares	% share capital	Voting rights	% voting rights
Semyrhamis	8,771,914	8.31	8,771,914	5.78
LVMH	4,018,561	3.81	4,018,561	2.65
Christian Dior	1,006,071	0.95	1,006,071	0.66
Famille Arnault	142,191	0.13	142,191	0.09
TOTAL ARNAULT FAMILY GROUP	13,938,737	13.20	13,938,737	9.18

These crossings of the thresholds result (i) from the exceptional distribution in kind of Hermès International shares by the company LVMH Moët Hennessy - Louis Vuitton, (ii) the payment of an interim dividend in kind in the form of Hermès International shares by Financière Jean Goujon, and (iii) from the exceptional distribution in kind of shares of Hermès International and the payment of an interim dividend in kind in the form of Hermès International shares by Christian Dior, successively carried out by these companies for the benefit of their respective shareholders.

At the time of these transactions:

- LVMH Moët Hennessy - Louis Vuitton declared that it crossed below (i) on 17 December 2014, the thresholds of 20% of the share capital, 15% of the share capital and voting rights and 10% of the voting rights of Hermès International, (ii) on 18 December 2014, the threshold of 10% of the share capital of Hermès International, (iii) on 19 December 2014, the threshold of 5% of the voting rights of Hermès International and (iv) on 22 December 2014, the threshold of 5% of the share capital of Hermès International, following the exceptional distribution in kind of Hermès International shares for the benefit of its shareholders;
- Financière Jean Goujon declared that it crossed above, on 17 December 2014, following an exceptional distribution of Hermès International shares performed by LVMH Moët Hennessy - Louis Vuitton for the benefit of its shareholders, the thresholds of 5% of the share capital and voting rights of Hermès International, then crossed below, on the same day, following a distribution of Hermès International shares in the form of an interim dividend in kind by Financière Jean Goujon for the benefit of its single shareholder, the same thresholds and no longer held any share in this company;

- Christian Dior declared that it crossed above, on 17 December 2014, following a distribution for its benefit of Hermès International shares previously held by Financière Jean Goujon, the thresholds of 5% of the share capital and voting rights in Hermès International, then crossed below the same thresholds on the same day, following an exceptional distribution in kind of Hermès International shares and payment of an interim dividend in kind in the form of Hermès International shares by Christian Dior for the benefit of its shareholders;
- the company Semyrhamis declared that it crossed above, on 17 December 2014, following the aforementioned Hermès International share distribution transactions performed by Christian Dior for the benefit of its shareholders, the thresholds of 5% of the share capital of Hermès International, and the same day, following purchases from other companies controlled by the Arnault family group, the threshold of 5% of the voting rights in Hermès International.

7.2.2.9 Exemption decision

At its meeting of 6 January 2011, the AMF granted an exemption to the requirement to file a proposed public offering to buy out the shares of Hermès International, following a petition filed by 52 natural persons and their family companies that are direct shareholders of Hermès International (see decision No. 211C0024, the entire text of which is available on the AMF's website – www.amf-france.org).

This decision has become definitive.

7.2.2.10 Pledging of shares

Duly registered shares are not encumbered by any material pledges.

7.2.2.11 Share buyback programme

Use in 2016 of authorisations to buy back shares granted by the General Meeting

The Combined General Meetings of 2 June 2015 and 31 May 2016 approved share buyback programmes authorising the Executive Management, on the basis of Articles L. 225-209 *et seq.* of the French Commercial Code, to purchase, on or off the market, a number of shares representing up to 10% of the Company's share capital as of the date of purchase in order to allot them to the objectives permitted by European regulations (cancellation of shares within the limit of 10% of the share capital per 24-month period, covering the commitment to deliver shares, *i.e.* in connection with issuances of securities granting access to capital or grants of existing stock or stock options, allocation to employees) or to one or more market practices currently or later accepted by the Financial Markets Authority ("AMF") (acquisition practices and the implementation of a liquidity contract with an investment service provider acting independently), and more generally to allot them to carrying out any operation in accordance with the regulations in force.

The Combined General Meetings of 2 June 2015 and 31 May 2016 authorised the Executive Management to reduce the share capital by cancellation of repurchased shares, within the limit of 10% of the share capital per period of 24 months.

The characteristics of the delegations granted to the Executive Management are detailed on page 266 *et seq.*

During the financial year ended 31 December 2016, the Executive Management assigned the transactions shown in the table below, in the context of share buyback programmes authorising the Executive Management to buy and sell its own shares under Article L. 225-209 of the French Commercial Code (*Code de commerce*).

	From 01/01/2016 to 31/05/2016	From 01/06/2016 to 31/12/2016	Total
Excluding the liquidity contract			
Number of shares booked in the name of the Company as at 31 December 2015	1,167,353		1,167,353
Number of shares purchased	18,692	300,929	319,621
Reason for acquisitions	External growth	Employee shareholding	
Average price of purchases	€323.14	€344.18	€342.94
Number of shares sold	416,380	100	416,480
Average price of sales	€223.08	€240.84	€223.09
Amount of net expenses excluding taxes			
Number of shares cancelled			
Average price of cancelled shares			
Number of shares booked in the name of the Company as at 31 December 2016	769,665	300,829	1,070,494
Appropriation			
♦ Employee shareholding	691,292	300,829	992,121
♦ External growth	78,373		78,373
Net value evaluated during the purchase	€180,642,866	€103,548,175	€284,191,041
Net value evaluated during closure	€300,169,350	€117,323,310	€417,492,660
Par value	€392,529	€153,423	€545,952
Fraction of the share capital that they represent	0.73%	0.28%	1.01%
In the context of the liquidity contract			
Number of shares booked in the name of the Company as at 31 December 2015	13,418		13,418
Resources implemented (liquidity account)	€5,000,000	€5,000,000	€5,000,000
Number of shares purchased	121,102	162,970	284,072
Average price of purchases	€311.51	€368.07	€343.96
Number of shares sold	120,186	168,138	288,324
Average price of sales	€312.13	€367.06	€344.16
Number of shares booked in the name of the Company as at 31 December 2016	14,334	-5,168	9,166
Net value evaluated during the purchase	€4,572,564	-€1,010,288	€3,562,276
Net value evaluated during closure	€5,590,260	€-2,015,520	€3,574,740
Par value	€7,310	€-2,636	€4,675
Fraction of the share capital that they represent	0.01%	0.00%	0.01%

Description of the new share buyback programme submitted for the approval of the Combined General Meeting of 6 June 2017

Pursuant to Articles 241-2 and 241-3 of the General Regulation of the AMF, the Company hereinafter presents the share buyback programme to be submitted for the approval of the Ordinary and Extraordinary General Meeting of 6 June 2017. This programme will supersede that authorised by the Combined General Meeting of 31 May 2016.

Number of shares and percentage of share capital held by Hermès International

Between 1 January and 28 February 2017, the Company purchased 36,086 shares and sold 36,029 shares within the framework of the liquidity contract.

As of 28 February 2017, the share capital of the Company consisted of 105,569,412 shares, of which 1,090,187 treasury shares (number of shares as of the date of the operation) held by Hermès International, representing 1.03% of the share capital.

Objectives of the new share buyback programme

The shares may be repurchased to be allocated to the objectives permitted by regulation (EU) no. 596/2014 of 16 April 2014 on market abuse (MAR):

- ♦ objectives provided for in Article 5 of MAR: reduction of capital, coverage of debt securities exchangeable for shares and coverage of employee shareholding plans;
- ♦ objectives provided for in Article 13 of MAR and under the market practice accepted by the AMF: the implementation of a liquidity contract by an investment service provider acting independently;
- ♦ other objectives: acquisitions, coverage of capital securities exchangeable for shares and more generally to complete any transactions in accordance with the regulations in force.

Ceilings and conditions of the authorisation

- ◆ Purchases and sales of shares representing up to 10% of the share capital would be authorised, *i.e.* for indicative purposes as of 31 December 2016: 10,556,941.
- ◆ The maximum purchase price (excluding costs) would be set at €600 per share.
- ◆ The maximum amount of funds to be committed would be set at €1,500 million. Treasury shares held on the day of the General Meeting are not taken into account in this maximum amount.
- ◆ Pursuant to the law, the total number of shares held at a given date may not exceed 10% of the share capital as of that date.
- ◆ The shares may be purchased by any means, including all or part of interventions on regulated markets, multilateral trading systems, with systematic internalisers or OTC, including block purchases of securities (without limiting the portion of the buyback programme carried out by this means), by public offering to purchase or exchange or the use of options or derivatives (in compliance with legal and regulatory requirements applicable at the time), excluding the sale of put options, and at the time that the Executive Management deems appropriate, including during a public offering for the shares of the Company, in accordance with stock market regulations, either directly or indirectly *via* an investment services provider. The shares acquired pursuant to this authorisation may be retained, sold, or transferred by any means, including by block sales, and at any time, including during times of public offerings.

Duration of the authorisation

This authorisation would be valid for 18 months from the date of the Combined General Meeting of 6 June 2017, *i.e.* until 6 December 2018.

7.2.3 CODE OF MARKET ETHICS

European regulation (EU) no. 596/2014 of 16 April 2014 on market abuse (commonly known as MAR) entered into force on 3 July 2016. It was completed by the AMF's Position-Recommendation no. 2016-08 of 26 October 2016 (guide to permanent information and management of inside information) and two AMF instructions, namely no. 2016-06 on transactions by Senior Executives and similar and no. 2016-07 on notification procedures within the framework of a deferred publication of inside information.

The new regulations have ushered in new rules and measures applying to insiders, to listed companies and to their Senior Executives. They have forced a review of internal procedures, practices and prevention training in respect of insiders within the Hermès Group.

On 1 February 2017, the Hermès Group adopted a new Code of Market Ethics formalising the steps taken and the obligations incumbent on people, whether or not they are senior executives, who have access to inside information. The new Code consolidates and replaces documents

released earlier, including the Stock Market Ethics Charter cited in previous registration documents. A summary of the new Code is made available each time it is updated on the website <http://finance.hermes.com/> on the "Corporate Governance" page, under "Management Bodies/The Supervisory Board".

It is structured as follows:

Review of definitions (inside information, insiders and similar, insider lists, trading days, AMF).

Internal procedures within the Group

Creation of "blackout" periods

The Code notes that Executive Chairmen, members of the Executive Committee, members of the Supervisory Board and members of the Executive Management Board of Émile Hermès SARL are qualified as "permanent insiders" (as defined in MAR).

Internally, Hermès International qualifies as "sensitive" persons any non-insiders among employees who are liable to hold sensitive or confidential information that is not classified as inside information. As a preventive measure and to facilitate accountability, these people are subject to specific blackout periods. A list of "sensitive" persons is established, and the relevant persons concerned are informed of their status.

Permanent insiders and sensitive persons are required to refrain from trading in the securities of the Company during blackout periods set out in the schedules drawn up and published each year.

The requirement to respect blackout periods covers all transactions on Hermès International shares. It applies to:

- ◆ permanent insiders from the time when quarterly revenue figures and annual and interim earnings figures are reported internally (the reporting of accounting items allowing numbers to be identified sufficiently clearly before they are made public);
- ◆ for permanent insiders and sensitive persons during "financial" blackout periods:
 - a period of 30 calendar days before the annual or interim financial statements are made public,
 - a period of 15 calendar days before the quarterly information is made public;
- ◆ for recipients of free shares (only for the sale of free shares), at the end of the retention period during "free share" blackout periods:
 - a period of ten trading days before and three trading days after the annual or interim financial statements are made public,
 - a period of ten trading days before and three trading days after the quarterly information is made public,
 - exceptionally, a period beginning when the Group issues a specific alert about a transaction prohibiting trading until a date ten trading days after the transaction is made public.

Qualification process and deferral of publication of inside information

Hermès International has established an Inside Information Committee (IIC), whose role is to identify and qualify inside information, to decide whether or not to defer its publication, and to identify insiders for each item of inside information (other than permanent insiders). The IIC consists of an Executive Chairman (Axel Dumas), the Executive Vice President Finance (Eric du Halgouet) and the Group Financial Operations and Investor Relations Director (Carole Dupont-Pietri).

Appointment of a Compliance Officer

Hermès International has appointed Nathalie Besombes (director of Company and Stock Market Law, Board Secretary) as Compliance Officer. The Compliance Officer is tasked with: establishing management procedures and tools for the insider lists, creating and updating the lists of permanent insiders, occasional insiders and sensitive people based on information received from the IIC, drafting, distributing and updating of the Code of Market Ethics, organising training of insiders, drawing up and publicising calendars of blackout periods applicable to permanent insiders, occasional insiders and sensitive persons, informing insiders and obtaining their explicit recognition of their obligations, and issuing oral advisory notice prior to completion of a transaction by permanent or occasional insiders.

Applicable legal rules and internal preventive measures, and the penalties

The Code of Market Ethics recommends compliance with rules of prudence and confidentiality, and sets out the requirement to refrain from share trading and the applicable reporting obligations, both to the AMF and internally.

It sets out the penalties in the event of criminal or administrative proceedings.

7.2.4 SHAREHOLDER PACTS AND AGREEMENTS

7.2.4.1 Priority acquisition right

A priority right to acquire Hermès International shares (AMF notice 211C2288) came into force on 13 December 2011. This priority acquisition right is stipulated for the benefit of H51, a simplified joint stock company with variable capital, and was initially granted by 102 natural persons and 33 legal entities (all members, held by members or for whom one of the parents is a member of the Hermès family group), representing a total of about 12.3% of the share capital of Hermès International.

By amendment (AMF notice 213C0716) which came into force on 17 June 2013, the price at which H51 could acquire the Hermès International shares from the members of the Hermès family group pursuant to this priority acquisition right would be equal to the average of the prices weighted by volumes (on the entire trading platform) of the Hermès International share during the 30 stock market trading days preceding the day of notification of the transfer, unless the said share is insufficiently liquid (as defined in the amendment), in which case an expert appraisal procedure will be implemented.

To the Company's knowledge:

- ◆ the organisation of the Hermès family group has not been significantly modified since the incorporation of the company H51 SAS;
- ◆ the priority acquisition right that H51 SAS benefits from covers most of the securities in the Company also held by the members of the Hermès family group;
- ◆ the priority acquisition right was granted by members of the Hermès family group and descendants of these members who do not yet directly or indirectly hold shares in the Company.

7.2.4.2 Dutreil agreements

The shareholder agreements below, coming under the Dutreil law and still in force in 2016, were brought to the Company's attention:

	Dutreil wealth tax agreement 2010.3	Dutreil wealth tax agreement 2010.4	Dutreil wealth tax agreement 2010.5	Dutreil wealth tax agreement 2011.4
Regime	Article 885 I bis of the French General Tax Code (<i>Code général des impôts</i> , CGI)	Article 885 I bis of the French General Tax Code (<i>Code général des impôts</i> , CGI)	Article 885 I bis of the French General Tax Code (<i>Code général des impôts</i> , CGI)	Article 885 I bis of the French General Tax Code (<i>Code général des impôts</i> , CGI)
Date of signature	28 December 2010	29 December 2010	28 December 2010	28 December 2011
Duration of the collective commitment	Six years from the date of registration (in this case, 29 December 2010)	Six years from the date of registration (in this case, 30 December 2010)	Six years from the date of registration (in this case, 30 December 2010)	Six years from the date of registration (in this case, 28 December 2011)
Procedures for renewal	Renewal by amendment	Renewal by amendment	Renewal by amendment	Renewal by amendment
Percentage of the share capital covered by the agreement on the date of its signature	58.79%	53.82%	42.56%	61.81%
Percentage of voting rights covered by the agreement on the date of its signature	67.55%	61.59%	49.29%	68.38%
Names of the signatories having the capacity of directors (within the meaning of Article L. 621-18-2-a)	On the date of signature of the agreement: ♦ Émile Hermès SARL, Executive Chairman and Active Partner ♦ Jérôme Guerrand, Chairman of the Supervisory Board ♦ Patrick Thomas, Executive Chairman	On the date of signature of the agreement: ♦ Émile Hermès SARL, Executive Chairman and Active Partner ♦ Jérôme Guerrand, Chairman of the Supervisory Board ♦ Patrick Thomas, Executive Chairman	On the date of signature of the agreement: ♦ Émile Hermès SARL, Executive Chairman and Active Partner ♦ Jérôme Guerrand, Chairman of the Supervisory Board ♦ Patrick Thomas, Executive Chairman	On the date of signature of the agreement: ♦ Émile Hermès SARL, Executive Chairman and Active Partner ♦ Éric de Seynes, Chairman of the Supervisory Board ♦ Patrick Thomas, Executive Chairman
Names of the signatories having close personal links with the Senior Executives (according to the meaning of Articles L. 621-18-2-c and R. 621-43-1 of the French Monetary and Financial Code (<i>Code monétaire et financier</i>))	All signatories	All signatories	All signatories	All signatories
Names of signatories holding at least 5% of the share capital and/or voting rights in the Company as of 31 December 2016	Axam SC ¹ Falaises SAS ¹ Flèches SAS ¹ Jakyval SA ¹ Pollux & Consorts SAS ¹ SDH SAS ¹ Théodule SC (now H2 SAS)	Axam SC ¹ Falaises SAS ¹ Flèches SAS ¹ Jakyval SA ¹ Pollux & Consorts SAS ¹ SDH SAS ¹ Théodule SC (now H2 SAS)	Axam SC ¹ Falaises SAS ¹ Flèches SAS ¹ Jakyval SA ¹ Pollux & Consorts SAS ¹ SDH SAS ¹ Théodule SC (now H2 SAS)	H51 SAS H2 SAS

(1) H51 SAS since 12 December 2011.

	Dutrel Transmission agreement 2014.1	Dutrel Transmission agreement 2014.2	Dutrel wealth tax agreement 2014.3
Regime	Article 787 B of the French General Tax Code (<i>Code général des impôts</i> , CGI)	Article 787 B of the French General Tax Code (<i>Code général des impôts</i> , CGI)	Article 885 I bis of the French General Tax Code (<i>Code général des impôts</i> , CGI)
Date of signature	13 June 2014	28 November 2014	30 December 2014
Duration of the collective commitment	Two years from the date of registration (in this case, 16 June 2014)	Two years from the date of registration (in this case, 9 December 2014)	Two years from the date of registration (in this case, 30 December 2014)
Contractual duration of the agreement			
Procedures for renewal	Non-renewable	Non-renewable	By express notification to the tax administration before 20 December 2016
Percentage of the share capital covered by the agreement on the date of its signature	56.82%	56.93%	52.42%
Percentage of voting rights covered by the agreement on the date of its signature	64.06%	64.21%	57.55%
Names of the signatories having the capacity of directors (within the meaning of Article L. 621-18-2-a)	On the date of signature of the agreement: <ul style="list-style-type: none"> ♦ Émile Hermès SARL, Executive Chairman and Active Partner ♦ Axel Dumas, Executive Chairman ♦ Éric de Seynes, Chairman of the Supervisory Board 	On the date of signature of the agreement: <ul style="list-style-type: none"> ♦ Émile Hermès SARL, Executive Chairman and Active Partner ♦ Axel Dumas, Executive Chairman 	On the date of signature of the agreement: <ul style="list-style-type: none"> ♦ Émile Hermès SARL, Executive Chairman and Active Partner ♦ Axel Dumas, Executive Chairman ♦ Éric de Seynes, Chairman of the Supervisory Board
Names of the signatories having close personal links with the Senior Executives (according to the meaning of Articles L. 621-18-2-c and R. 621-43-1 of the French Monetary and Financial Code (<i>Code monétaire et financier</i>))	All signatories	All signatories	All signatories
Names of signatories holding at least 5% of the capital and/or voting rights in the Company as at 31 December 2016	H51 SAS H2 SAS	H51 SAS H2 SAS	H51 SAS

	Dutreil Transmission agreement 2015.1	Dutreil Transmission agreement 2015.2	Dutreil Transmission agreement 2015.3	Dutreil wealth tax agreement 2015.1
Regime	Article 787 B of the French General Tax Code (<i>Code général des impôts</i> , CGI)	Article 787 B of the French General Tax Code (<i>Code général des impôts</i> , CGI)	Article 787 B of the French General Tax Code (<i>Code général des impôts</i> , CGI)	Article 885 I bis of the French General Tax Code (<i>Code général des impôts</i> , CGI)
Date of signature	25 March 2015	4 December 2015	21 December 2015	30 December 2015
Duration of the collective commitment	two years from the date of registration (in this case, 30 March 2015)	two years from the date of registration (in this case, 4 December 2015)	two years from the date of registration (in this case, 31 December 2015)	two years from the date of registration (in this case, 31 December 2015)
Contractual duration of the agreement	By express notification to the tax administration before 20 December 2016	Non-renewable	Non-renewable	By express notification to the tax administration before 20 December 2017
Percentage of the share capital covered by the agreement on the date of its signature	59.35%	53.20%	52.61%	52.59%
Percentage of voting rights covered by the agreement on the date of its signature	66.06%	58.29%	62.74%	62.68%
Names of the signatories having the capacity of directors (within the meaning of Article L. 621-18-2-a)	On the date of signature of the agreement: <ul style="list-style-type: none"> ♦ Émile Hermès SARL, Executive Chairman and Active Partner ♦ Axel Dumas, Executive Chairman 	On the date of signature of the agreement: <ul style="list-style-type: none"> ♦ Émile Hermès SARL, Executive Chairman and Active Partner ♦ Axel Dumas, Executive Chairman 	On the date of signature of the agreement: <ul style="list-style-type: none"> ♦ Émile Hermès SARL, Executive Chairman and Active Partner ♦ Axel Dumas, Executive Chairman 	On the date of signature of the agreement: <ul style="list-style-type: none"> ♦ Émile Hermès SARL, Executive Chairman and Active Partner ♦ Axel Dumas, Executive Chairman
Names of the signatories having close personal links with the Senior Executives (according to the meaning of Articles L. 621-18-2-c and R. 621-43-1 of the French Monetary and Financial Code (<i>Code monétaire et financier</i>))	All signatories	All signatories	All signatories	All signatories
Names of signatories holding at least 5% of the capital and/or voting rights in the Company as at 31 December 2016	H51 SAS H2 SAS	H51 SAS	H51 SAS	H51 SAS

Dutreil Transmission agreement 2016.1

Regime	Article 787 B of the French General Tax Code (<i>Code général des impôts</i> , CGI)
Date of signature	2 November 2016
Duration of the collective commitment	
Contractual duration of the agreement	two years from 21 November 2016
Procedures for renewal	Non-renewable
Percentage of the share capital covered by the agreement on the date of its signature	52.91%
Percentage of voting rights covered by the agreement on the date of its signature	62.56%
Names of the signatories having the capacity of directors (within the meaning of Article L. 621-18-2-a)	On the date of signature of the agreement: <ul style="list-style-type: none"> ♦ Émile Hermès SARL, Executive Chairman and Active Partner ♦ Axel Dumas, Executive Chairman
Names of the signatories having close personal links with the Senior Executives (according to the meaning of Articles L. 621-18-2-c and R. 621-43-1 of the French Monetary and Financial Code (<i>Code monétaire et financier</i>))	All signatories
Names of signatories holding at least 5% of the capital and/or voting rights in the Company as at 31 December 2016	H51 SAS

7.3 FINANCIAL AUTHORISATIONS

SUMMARY TABLE OF THE USE OF FINANCIAL DELEGATIONS OF AUTHORITY

In accordance with the provisions of Article L. 225-100 sub-paragraph 7 of the French Commercial Code (*Code de commerce*), the table below shows all of the delegations of competence and powers granted by the General Meeting to the Executive Management, in financial matters, distinguishing: delegations that remain valid; delegations used during the 2016 financial year, where applicable; new delegations submitted to the General Meeting of 6 June 2017.

	Resolution number	Duration of the authorisation Expiry	Characteristics	Use during the 2016 financial year
General Meeting of 2 June 2015				
Purchase of shares	11th	18 months (2 December 2016) ¹	Ceiling of 10% of the share capital Maximum purchase price €500 Maximum funds committed €850 million	See pages 258 and 259
Cancellation of treasury shares (general cancellation programme)	13th	24 months (2 June 2017) ¹	Limit of 10% of the capital	None

In accordance with Article L. 233-32 of the French Commercial Code (*Code de commerce*), the delegations of authority below granted pursuant to the 14th (purchase options), 15th (bonus shares), 17th (issue with maintenance of preferential subscription rights), 18th (issue with elimination of preferential subscription rights), 19th (capital increase reserved for members of a Company or Group savings plan), 20th (issue by private placement) and 21st (issue to compensate contributions in kind) resolutions may be implemented during a period of a public offering on the securities of the Company.

Granting stock options	14th	38 months (2 August 2018) ¹	The number of purchase options granted pursuant to the 14th resolution and the number of shares freely allocated pursuant to the 15th resolution may not represent a number of shares greater than 2% of the total number of existing shares at the time of the allocation without taking into account those already granted pursuant to previous authorisations	The purchase price of the shares shall be set by the Executive Management within the limits and according to the procedures specified in Article L. 225-177 sub-paragraph 4 of the French Commercial Code (<i>Code de commerce</i>), and shall be at least equal to the average of the prices quoted on the regulated market of Euronext Paris during the twenty stock market trading days preceding the allocation of the option, without being less than 80% of the average purchase price of the shares held. In the event of allocations to one or more Executive Chairmen: <ul style="list-style-type: none"> ♦ the Company must fulfil one or more of the conditions specified in Article L. 225-186-1 of the French Commercial Code (<i>Code de commerce</i>); and ♦ the purchase options may not be exercised before the termination of duties as Executive Chairmen, unless a quantity of shares resulting from option exercise has been fixed that they must keep registered until the cessation of their functions; ♦ the options granted will be subject to serious and demanding performance conditions, to be met over several years and defined at the time of issuance; ♦ the maximum percentage of shares for which Executive Chairmen may be granted the right to purchase options under this resolution will be 0.05% of the share capital at the date on which Executive Management decides to grant them, the sub-limit being charged within the 2% joint delegations ceiling under the 14th and 15th resolutions. 	None
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(1) This authorisation was cancelled, for the remaining duration and for the unused fraction, by new delegations of the same nature authorised by the General Meeting of 31 May 2016.

(2) These delegations are intended to be cancelled, for the remaining duration and for the unused fraction, in case of the adoption of new resolutions concerning new delegations of the same nature by the General Meeting of 6 June 2017.

	Resolution number	Duration of the authorisation Expiry	Characteristics	Use during the 2016 financial year	
Free allocations of the Company's existing ordinary shares	15th	38 months (2 August 2018) ¹	The number of purchase options granted pursuant to the 14th resolution and the number of shares freely allocated pursuant to the 15th resolution may not represent a number of shares greater than 2% of the total number of existing shares at the time of the allocation without taking into account those already granted pursuant to previous authorisations	In the event of allocations to one or more Executive Chairmen: <ul style="list-style-type: none"> the Company must fulfil one or more of the conditions specified in Article L. 225-197-6 of the French Commercial Code (<i>Code de commerce</i>); and the allocated shares may not be sold before the termination of duties as Executive Chairmen, unless a quantity of these shares has been fixed that they must keep registered until the cessation of their functions; the freely allocated shares will be subject to serious and demanding performance conditions to be satisfied for several years and defined at the time of their allocation; the maximum percentage of bonus shares that may be allocated shall be 0.05%, this sub-limit being offset against the limit of 2% common to the delegations of authority of the 14th and 15th resolutions. 	None
Capital increase by capitalisation of reserves, earnings and/or premiums and/or free allocation of shares and/or increase in the par value of existing shares	16th	26 months (2 August 2017) ²	The nominal amount of capital increases that may be carried out immediately and/or in the future pursuant to this delegation of authority may not be greater than 40% of the share capital on the date of the meeting; any capital increases carried out in accordance with this delegation shall not count against the limit common to the delegations granted in the 17th, 18th, 19th, 20th and 21st resolutions.	None	
Issues of shares and/or any securities giving access to capital with maintenance of preferential subscription rights	17th	26 months (2 August 2017) ²	The nominal amount of capital increases that may be carried out immediately and/or in the future pursuant to this delegation of authority may not be greater than 40% of the share capital on the date of the meeting; any capital increases carried out in accordance with this delegation being counted against the limit of 40% common to the delegations granted in the 17th, 18th, 19th, 20th and 21st resolutions. Discount fixed at 20% of the average of the prices quoted for the Company's share during the twenty stock market trading days preceding the day of the decision setting the date of opening of subscriptions	The nominal amount of the debt securities that may be issued immediately and/or in future pursuant to the present delegation of authority may not be greater than one billion euros, this limit being common to all of the 17th, 18th, 20th and 21st resolutions.	None

(1) This authorisation was cancelled, for the remaining duration and for the unused fraction, by new delegations of the same nature authorised by the General Meeting of 31 May 2016.

(2) These delegations are intended to be cancelled, for the remaining duration and for the unused fraction, in case of the adoption of new resolutions concerning new delegations of the same nature by the General Meeting of 6 June 2017.

	Resolution number	Duration of the authorisation Expiry	Characteristics		Use during the 2016 financial year
Issue of shares and/or any other securities giving access to capital, with elimination of preferential subscription rights, but with the right to introduce a priority period through a public offer	18th	26 months (2 August 2017) ²	The nominal amount of capital increases that may be carried out immediately and/or in future pursuant to the 19th (capital increase reserved for members of a Company or Group savings plan) resolution may not be greater than 1% of the share capital, this limit being offset against the limit of 40% common to the delegations of authority granted in the 17th, 18th, 19th, 20th and 21st resolutions. Discount fixed at 20% of the average of the prices quoted for the Company's share during the twenty stock market trading days preceding the day of the decision setting the date of opening of subscriptions.	The nominal amount of the debt securities that may be issued immediately and/or in future pursuant to the present delegation of authority may not be greater than one billion euros, this limit being common to all of the 17th, 18th, 19th, 20th and 21st resolutions	None
Capital increase without preferential subscription rights in favour of members of a savings plan	19th	26 months (2 August 2017) ²	The nominal amount of capital increases that may be carried out immediately and/or in future pursuant to the 19th (capital increase reserved for members of a Company or Group savings plan) resolution may not be greater than 1% of the share capital, this limit being offset against the limit of 40% common to the delegations of authority granted in the 17th, 18th, 19th, 20th and 21st resolutions. Discount fixed at 20% of the average of the prices quoted for the Company's share during the twenty stock market trading days preceding the day of the decision setting the date of opening of subscriptions.		None
Issue of shares and/or any other securities giving access to capital, with elimination of preferential subscription rights, by private placement covered by Article L. 411-2, II of the French Monetary and Financial Code (<i>Code monétaire et financier</i>)	20th	26 months (2 August 2017) ²	The nominal amount of capital increases that may be carried out immediately and/or in the future pursuant to this delegation of authority may not be greater than 20% per year of the share capital on the date of the meeting; any capital increases carried out in accordance with this delegation being counted against the limit of 40% common to the delegations granted in the 17th, 18th, 19th, 20th and 21st resolutions. Discount fixed at 20% of the average of the prices quoted for the Company's share during the twenty stock market trading days preceding the day of the decision setting the date of opening of subscriptions.	The nominal amount of the debt securities that may be issued immediately and/or in future pursuant to the present delegation of authority may not be greater than one billion euros, this limit being common to all of the 17th, 18th, 19th, 20th and 21st resolutions	None

(1) This authorisation was cancelled, for the remaining duration and for the unused fraction, by new delegations of the same nature authorised by the General Meeting of 31 May 2016.

(2) These delegations are intended to be cancelled, for the remaining duration and for the unused fraction, in case of the adoption of new resolutions concerning new delegations of the same nature by the General Meeting of 6 June 2017.

	Resolution number	Duration of the authorisation Expiry	Characteristics	Use during the 2016 financial year
Issue of shares and/or securities giving access to capital, with elimination of preferential subscription rights, in order to pay for contributions in kind granted to the Company relating to equity securities or securities giving access to capital.	21st	26 months (2 August 2017) ²	The nominal amount of capital increases that may be carried out immediately and/or in the future pursuant to this delegation of authority may not be greater than 10% of the share capital on the date of the meeting; any capital increases carried out in accordance with this delegation being counted against the limit of 40% common to the delegations granted in the 17th, 18th, 19th, 20th and 21st resolutions. Discount fixed at 20% of the average of the prices quoted for the Company's share during the twenty stock market trading days preceding the day of the decision setting the date of opening of subscriptions	None
General Meeting of 31 May 2016				
Purchase of shares	12th	18 months (30 November 2017) ²	Ceiling of 10% of the share capital Maximum purchase price €500 million Maximum funds committed €1,000 million	See pages 258 and 259
Cancellation of treasury shares (general cancellation programme)	13th	24 months (31 May 2018) ²	Limit of 10% of the capital	None

(1) This authorisation was cancelled, for the remaining duration and for the unused fraction, by new delegations of the same nature authorised by the General Meeting of 31 May 2016.

(2) These delegations are intended to be cancelled, for the remaining duration and for the unused fraction, in case of the adoption of new resolutions concerning new delegations of the same nature by the General Meeting of 6 June 2017.

	Resolution number	Duration of the authorisation Expiry	Characteristics		Use during the 2016 financial year
Granting stock options	14th	38 months (31 July 2019)	The number of purchase options granted pursuant to the 14th resolution and the number of shares freely allocated pursuant to the 15th resolution may not represent a number of shares greater than 2% of the total number of existing shares at the time of the allocation without taking into account those already granted pursuant to previous authorisations.	The purchase price of the shares shall be set by the Executive Management within the limits and according to the procedures specified in Article L. 225-177 sub-paragraph 4 of the French Commercial Code (<i>Code de commerce</i>), and shall be at least equal to the average of the prices quoted on the regulated market of Euronext Paris during the twenty stock market trading days preceding the allocation of the option, without being less than 80% of the average purchase price of the shares held. In the event of allocations to one or more Executive Chairmen: <ul style="list-style-type: none"> ◆ the Company must fulfil one or more of the conditions specified in Article L. 225-186-1 of the French Commercial Code (<i>Code de commerce</i>); and ◆ the purchase options may not be exercised before the termination of duties as Executive Chairmen; unless a quantity of shares resulting from option exercise has been fixed that they must keep registered until the cessation of their functions; ◆ the exercise price of the options will not include any discount; ◆ the options granted will be subject to serious and demanding performance conditions, to be met over several years and defined at the time of issuance; ◆ the maximum percentage of shares for which Executive Chairmen may be granted the right to purchase options under this resolution will be 0.05% of the share capital at the date on which Executive Management decides to grant them, the sub-limit being charged within the 2% joint delegations ceiling under the 14th and 15th resolutions. 	None
Free allocations of the Company's existing ordinary shares	15th	38 months (31 July 2019)	The number of purchase options granted pursuant to the 14th resolution and the number of shares freely allocated pursuant to the 15th resolution may not represent a number of shares greater than 2% of the total number of existing shares at the time of the allocation without taking into account those already granted pursuant to previous authorisations.	In the event of allocations to one or more Executive Chairmen: <ul style="list-style-type: none"> ◆ the Company must fulfil one or more of the conditions specified in Article L. 225-197-6 of the French Commercial Code (<i>Code de commerce</i>); and ◆ the allocated shares may not be sold before the termination of duties as Executive Chairmen, unless a quantity of these shares has been fixed that they must keep registered until the cessation of their functions; ◆ the freely allocated shares will be subject to serious and demanding performance conditions to be satisfied for several years and defined at the time of their allocation; ◆ the maximum percentage of bonus shares that may be allocated shall be 0.05%, this sub-limit being offset against the limit of 2% common to the delegations of authority of the 14th and 15th resolutions. 	See pages 140 and 146

(1) This authorisation was cancelled, for the remaining duration and for the unused fraction, by new delegations of the same nature authorised by the General Meeting of 31 May 2016.

(2) These delegations are intended to be cancelled, for the remaining duration and for the unused fraction, in case of the adoption of new resolutions concerning new delegations of the same nature by the General Meeting of 6 June 2017.

7.4 DIVIDEND POLICY

Subject to the investments needed for the Company's development and the corresponding financing requirements, the Company's current intention is to continue the "ordinary" dividend policy it has conducted over the past several years. The amount of dividends paid in each of the financial years included in the historical financial information is shown on page 238.

For the record, to distribute part of the large amount of cash available (more than a billion euros), an "exceptional" dividend of €5 was paid in 2012 and in 2015, as well as an "ordinary" dividend.

In view of the level of cash reached at the end of 2016, the Executive Management decided, for the sixth time, to pay an interim dividend of €1.50 per share. In future, the Executive Management will decide case by case, given the situation of the Group and its prospects, whether it is appropriate to pay interim dividends before the General Meeting. In accordance with the law, the time limit after which entitlement to dividends of Hermès International shares ceases is five years from the dividend payment date. After the five-year time limit expires, the Company pays over any unclaimed dividends to the tax centre to which it reports.

7.5 STOCK-MARKET INFORMATION

7.5.1 KEY STOCK MARKET DATA

(source bloomberg)

	2016	2015	2014
Number of shares as at 31 December	105,569,412	105,569,412	105,569,412
Average number of shares (excluding treasury shares)	104,518,900	104,395,884	104,267,723
Market capitalisation as at 31 December	€41.17 billion	€32.91 billion	€31.12 billion
Earnings per share (excluding treasury shares)	€10.53	€9.32	€8.24
Dividend per share	€3.75 ¹	€3.35	€7.95 ²
Average daily volume (Euronext)	54,302	65,475	31,375
12-month high share price	€399.00	€365.55	€317.40
12-month low share price	€281.20	€273.70	€223.95
12-month average share price	€345.52	€325.14	€252.40
Share price as at 31 December	€390.00	€311.75	€294.80

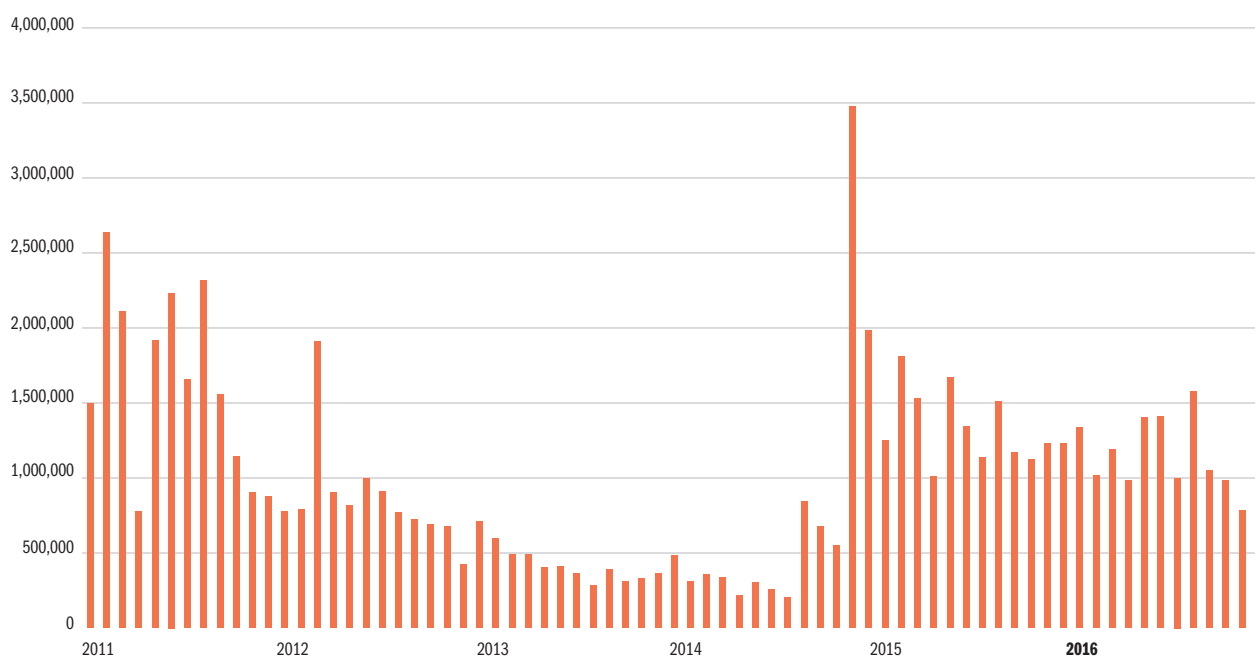
(1) Corresponds to an ordinary dividend of €3.75. Subject to approval by the Ordinary General Meeting of 6 June 2017. An interim dividend of €1.50 was paid on 24 February 2017.

(2) Corresponds to an ordinary dividend of €2.95 and an extraordinary dividend of €5.

7.5.2 HISTORY OF MONTHLY TRANSACTIONS

(number of shares¹)

(source bloomberg)



(1) Euronext.

7.5.3 HERMÈS SHARE PRICE HISTORY

In euros



SHARE PRICE TREND OVER THE PAST FIVE FINANCIAL YEARS

2012

Month	Price in euros			Monthly average of daily transactions on Euronext
	Highest	Lowest	Average closing price	
January	269.00	228.15	249.74	35,177
February	290.90	260.00	275.58	37,711
March	286.25	243.50	259.88	86,877
April	270.00	243.85	253.81	47,566
May	279.85	255.00	266.00	37,084
June	267.55	241.40	253.67	47,515
July	244.25	219.00	230.45	41,304
August	235.10	212.50	223.64	33,339
September	232.85	209.00	218.87	36,319
October	220.90	207.70	213.85	29,922
November	238.50	210.75	227.86	30,710
December	238.50	222.90	231.08	22,432

2013

Month	Price in euros			Monthly average of daily transactions on Euronext
	Highest	Lowest	Average closing price	
January	245.15	224.15	235.90	32,326
February	257.00	238.75	250.86	29,817
March	271.90	255.10	259.98	24,659
April	278.45	247.80	259.42	23,370
May	283.20	255.40	271.66	18,238
June	273.90	235.50	254.75	20,517
July	265.00	245.20	254.32	15,831
August	264.80	243.00	257.57	12,973
September	274.50	253.15	263.17	18,623
October	268.70	246.70	257.74	13,554
November	257.90	246.10	251.64	15,648
December	265.40	244.50	251.64	18,276

2014

Month	Price in euros			Monthly average of daily transactions on Euronext
	Highest	Lowest	Average closing price	
January	265.35	261.50	245.655	21,872
February	243.00	240.65	238.178	15,387
March	243.50	241.50	235.569	16,869
April	257.90	254.50	249.248	16,737
May	260.45	258.25	256.343	10,276
June	269.50	263.95	259.110	14,543
July	272.00	269.50	265.652	11,130
August	264.85	263.05	260.038	9,683
September	263.00	260.55	245.264	38,269
October	247.30	244.95	236.265	29,487
November	269.50	265.55	257.408	27,387
December	317.40	298.45	288.883	165,440

2015

Month	Price in euros			Monthly average of daily transactions on Euronext
	Highest	Lowest	Average closing price	
January	302.95	277.55	289.55	94,411
February	301.25	280.10	289.97	62,438
March	330.15	283.50	304.94	82,246
April	349.95	324.15	338.80	76,567
May	357.85	323.70	342.97	50,349
June	365.55	334.60	353.05	75,808
July	354.45	320.50	338.88	58,291
August	355.80	298.05	330.63	54,162
September	331.45	306.00	316.09	68,726
October	352.80	313.55	336.96	53,223
November	358.50	320.10	338.67	53,527
December	342.70	306.35	319.43	55,896

2016

Month	Price in euros			Monthly average of daily transactions on Euronext
	Highest	Lowest	average closing price	
January	313.75	289.00	302.21	61,630
February	327.65	281.20	312.33	63,532
March	335.00	305.90	319.25	48,338
April	316.75	289.20	306.72	56,607
May	327.80	310.40	319.29	44,750
June	343.60	314.00	329.35	63,689
July	385.80	333.70	356.52	67,016
August	399.00	377.85	389.66	43,484
September	394.40	349.00	372.03	71,571
October	378.70	358.00	367.93	50,120
November	393.40	363.65	374.33	44,626
December	397.90	383.75	389.70	37,282

7.6 SHAREHOLDER INFORMATION

7.6.1 RELATIONS WITH SHAREHOLDERS

Shareholders and investors may obtain information on the Hermès Group by contacting:

Mrs Carole Dupont-Pietri

Group Financial Operations and Investor Relations Director

Hermès International

13-15, rue de la Ville-l'Évêque – 75008 Paris Tel. +33 (0)1 40 17 49 26

E-mail: contact.finance@hermes.com

7.6.2 SECURITIES SERVICE

These shares are registered in a securities account held by:

BNP PARIBAS SECURITIES SERVICES

Services aux Émetteurs

LES GRANDS MOULINS DE PANTIN

9, rue du Débarcadère 93761 Pantin Cedex

Tel.: +33 (0)8 26 10 91 19

7.6.3 PUBLICLY AVAILABLE DOCUMENTS

Legal documents relating to the Company, and more broadly regulated information within the meaning of Article 221-1 of the AMF General Regulation are available on the Company's financial information site (<http://finance.hermes.fr>). They may also be consulted in print version during business hours at the Company's registered office. On this website, shareholders and investors can access information on the Group's management and governance bodies and the registration documents and financial media statements available in French and English for the last five financial years.

7.6.4 HOW TO BECOME A HERMÈS INTERNATIONAL SHAREHOLDER

Registered shares

Shareholders who opt for this method of administration automatically receive notices of General Meetings and a form to complete if they wish to receive a hard copy of the annual report. They may place orders to buy or sell shares with BNP Paribas Securities Services after signing a service agreement.

Fully registered shares are handled directly by BNP Paribas Securities Services. You must sign a service agreement to open a fully registered share account, setting out the terms and conditions for buying and selling shares via BNP Paribas Securities Services. The company covers the custody fees.

Administered registered shares are handled by another financial institution, of the shareholder's choice, that may charge custody fees.

Bearer shares

Bearer shares are handled by another financial institution that may apply custody fees. Shareholders who opt for this form of administration are not known to the Company and must make themselves known if they wish to obtain documents and attend General Meetings.

7.6.5 FINANCIAL CALENDAR

The dates of the publication of financial information (Revenue, annual and interim results) and of the General Meeting are available on the web at <http://finance.hermes.com>, under "Shareholder's Guide", "Financial calendar". The detailed calendar is available on page 320, Chapter 9, "Additional information".

7.6.6 CROSSING OF THRESHOLDS AND NOMINATIVE REGISTRATION REQUIREMENTS

Crossing of thresholds disclosures

	Statutory ownership thresholds (Articles L. 233-7 et seq. of the French Commercial Code (Code de commerce) and Articles L. 433-3 et seq. of the French Monetary and Financial Code (Code monétaire et financier)	Ownership thresholds under the Articles of Association (Article 11 of the Articles of Association)	Nominative registration requirement (Article 11 of the Articles of Association)
Recipients	The issuer The AMF, which makes this information public	The issuer	
Capital and voting rights thresholds upwards and downwards ¹	5%, 10%, 15%, 20%, 25%, 30%, 1/3, 50%, 2/3, 90% and 95% Owing to the existence of double voting rights, in practice, twenty-two thresholds must be monitored.	0.5% (or any multiple of this percentage)	From 0.5%
	<p>The thresholds may be attained after shares are acquired or sold, regardless of the means (purchase, transfer, merger, demerger, scrip dividends or by any other means) or following a change in the apportionment of voting rights (gain or loss of double voting rights).</p> <p>The shares to be taken into account include not just newly acquired shares, but the shares that the shareholder has the right to acquire at their sole initiative pursuant to an agreement (contract of sale, option, etc.) and those that the shareholder can acquire at their sole initiative, immediately or in the future, as a result of holding a financial instrument (bond redeemable for shares, equity swap, warrant, etc.), whether it gives rise to a physical settlement (delivery of shares) or a settlement in cash, subject to the exemptions provided for in Article L. 233-7 IV of the French Commercial Code (<i>Code de commerce</i>).</p> <p>By the 15th of each month, the Company publishes a report on its website (www.finance.hermes.com) disclosing the total number of shares, the total number of theoretical voting rights (including shares disqualified from voting) and the total number of exercisable voting rights (excluding shares disqualified from voting) that make up the share capital on the last day of the previous month.</p>		
Declaration time limit	Before the close of trading four trading days after a legal threshold was crossed	Before the close of trading five trading days after a threshold under the Articles of Association was crossed (even after crossing any of the legal thresholds)	Before the close of trading five trading days after a threshold under the Articles of Association was crossed A copy of the nominative registration application, sent by registered post with acknowledgement of receipt to the registered office within ten stock market trading days from the date on which the threshold is crossed, shall constitute a declaration of crossing the threshold in question.
Penalty for non-compliance with ownership threshold disclosure and nominative registration requirements	Shares exceeding the fraction that should have been declared are deprived of voting rights for any General Meeting held until the expiry of a period of two years following the date of regularisation of the notification	The shares exceeding the threshold giving rise to or having given rise to the declaration are deprived of voting rights. In the event of an adjustment, the corresponding voting rights can only be exercised once the period stipulated by law and current regulations has expired.	The shares exceeding the threshold giving rise to or having given rise to the declaration are deprived of voting rights.

(1) Based on the total number of theoretical voting rights.



COMBINED GENERAL MEETING OF 6 JUNE 2017

8.1	AGENDA	280
8.1.1	Ordinary business	280
8.1.2	Extraordinary business	281
8.2	PURPOSE AND DRAFT RESOLUTIONS	282
8.2.1	Ordinary business	282
8.2.2	Extraordinary business	294
8.3	SUPERVISORY BOARD'S REPORT TO THE COMBINED GENERAL MEETING OF 6 JUNE 2017	305
8.4	STATUTORY AUDITORS' REPORTS	306
8.4.1	Statutory Auditors' report on the annual financial statements	306
8.4.2	Statutory Auditors' report on the consolidated financial statements	306
8.4.3	Statutory Auditors' special report on related-party agreements and commitments	307
8.4.4	Statutory Auditors' report on the report prepared by the Chairman of the Supervisory Board	310
8.4.5	Report from one of the Statutory Auditors, designated as the independent third party organisation, on the consolidated social, environmental and societal information contained in the management report	310
8.4.6	Statutory Auditors' report on the capital decrease by cancellation of treasury shares (seventeenth resolution)	310
8.4.7	Statutory Auditors' report on the issue of shares and/or other transferable securities with maintenance and/or cancellation of the preferential subscription rights (nineteenth and twentieth resolutions)	311
8.4.8	Statutory Auditors' report on the issuance of shares and/or other securities convertible into equity securities reserved for members of a company or group savings plan (twenty-first resolution)	312
8.4.9	Statutory Auditors' report on the issue of shares and/or other transferable securities with cancellation of the preferential subscription rights (twenty-second resolution)	313
8.4.10	Statutory Auditors' report on the issue of shares and/or other transferable securities convertible into or exchangeable for equity securities to remunerate contributions in kind (twenty-third resolution)	314

8.1 AGENDA

8.1.1 ORDINARY BUSINESS

8.1.1.1 Presentation of reports to be submitted to the Ordinary General Meeting

Executive Management's reports

- ◆ On the financial statements for the year ended 31 December 2016 and on the Company's activity for the financial year.
- ◆ On the management of the Group and on the consolidated financial statements for the year ended 31 December 2016.
- ◆ On resolutions relating to ordinary business.

Report from the Chairman of the Supervisory Board

- ◆ On the corporate governance principles applied by the Company, with regard to the composition of the Supervisory Board and the application of the principle of balanced representation of women and men within the Board, the conditions for the preparation and organisation of the Supervisory Board's work, and the internal control and risk management procedures set up by the Company.

Supervisory Board's report

Statutory Auditors' reports

- ◆ On the annual financial statements.
- ◆ On the consolidated financial statements.
- ◆ On related-party agreements and commitments.
- ◆ Established pursuant to Article L. 226-10-1 of the French Commercial Code (*Code de commerce*) on the report of the Chairman of the Supervisory Board.

Report from one of the Statutory Auditors, designated as the independent third party organisation, on the consolidated social, environmental and societal information contained in the management report

8.1.1.2 Vote on resolutions relating to ordinary business

First resolution

Approval of the parent company financial statements.

Second resolution

Approval of the consolidated financial statements.

Third resolution

Executive Management discharge.

Fourth resolution

Allocation of net income - Distribution of an ordinary dividend.

Fifth resolution

Approval of related-party agreements and commitments.

Sixth resolution

Authorisation granted to Executive Management to trade in the Company's shares.

Seventh resolution

Notice regarding elements of compensation due or awarded for the financial year ended 31 December 2016 to Mr Axel Dumas, Executive Chairman.

Eighth resolution

Notice regarding elements of compensation due or awarded for the financial year ended 31 December 2016 to Émile Hermès SARL, Executive Chairman.

Ninth resolution

Re-election of Ms Monique Cohen as Supervisory Board member for a term of three years.

Tenth resolution

Re-election of Mr Renaud Momméja as Supervisory Board member for a term of three years.

Eleventh resolution

Re-election of Mr Éric de Seynes as Supervisory Board member for a term of three years.

Twelfth resolution

Appointment of Ms Dorothée Altmayer as a new member of the Supervisory Board for a term of three years.

Thirteenth resolution

Appointment of Ms Olympia Guerrand as a new member of the Supervisory Board for a term of one year.

Fourteenth resolution

Increase in the total amount of the directors' fees and Supervisory Board compensation.

Fifteenth resolution

Renewal of the term of office of the main Statutory Auditor PricewaterhouseCoopers Audit, for a term of six financial years, and the end of the term of office of the alternate Statutory Auditor Mr Étienne Boris.

Sixteenth resolution

Renewal of the term of office of the main Statutory Auditor Didier Kling & Associés, for a term of six financial years, and the end of the term of office of the alternate Statutory Auditor Ms Dominique Mahias.

8.1.2 EXTRAORDINARY BUSINESS

8.1.2.1 Presentation of reports to be submitted to the Extraordinary General Meeting

Executive Management's report

- ◆ On resolutions relating to extraordinary business.

Supervisory Board's report

Statutory Auditors' report

- ◆ On the capital decrease by cancellation of treasury shares (seventeenth resolution).
- ◆ On the issue of shares and/or other transferable securities with maintenance and/or cancellation of the preferential subscription rights (nineteenth and twentieth resolutions).
- ◆ On the issuance of shares and/or other securities convertible into equity securities reserved for members of a company or group savings plan (twenty-first resolution).
- ◆ On the issue of shares and/or other transferable securities with cancellation of the preferential subscription rights (twenty-second resolution).
- ◆ On the issue of shares and/or other transferable securities convertible into or exchangeable for equity securities to remunerate contributions in kind (twenty-third resolution).

8.1.2.2 Vote on resolutions relating to extraordinary business

Seventeenth resolution

Authorisation granted to Executive Management for the effect of reducing the share capital by cancellation of all or part of the treasury shares held by the Company (Article L. 225-209 of the French Commercial Code (*Code de commerce*)) - General Cancellation Programme.

Eighteenth resolution

Delegation of authority to the Executive Management to increase the share capital by capitalisation of reserves, profits and/or share pre-

miums, allocation of free shares, and/or increasing the par value of existing shares.

Nineteenth resolution

Delegation of authority to be granted to the Executive Management to decide to issue shares and/or any other securities carrying rights to the share capital with the continuation of preferential subscription rights.

Twentieth resolution

Delegation of authority to be granted to the Executive Management to decide to issue shares and/or any other securities carrying rights to the share capital with the elimination of preferential subscription rights but with the ability to establish a priority period through a public offering.

Twenty-first resolution

Delegation of authority to be granted to the Executive Management to decide to increase the share capital through the issue of shares and/or securities carrying rights to the share capital, reserved for members of a company or group savings plan, with the elimination of preferential subscription rights.

Twenty-second resolution

Delegation of authority to be granted to the Executive Management to decide to issue shares and/or any other securities carrying rights to the share capital, with the elimination of preferential subscription rights, by private placement referred to in Article L. 411-2, II of the French Monetary and Financial Code (*Code monétaire et financier*).

Twenty-third resolution

Delegation of authority to be granted to the Executive Management to decide to issue shares and/or securities carrying rights to the share capital, with the elimination of preferential subscription rights, in order to pay for contributions in kind granted to the Company applying to equity securities or securities carrying rights to the share capital.

Twenty-fourth resolution

Delegation of authority to carry out the formalities related to the General Meeting.

8.2 PURPOSE AND DRAFT RESOLUTIONS

Resolutions submitted to the Combined General Meeting of 6 June 2017 for approval

8.2.1 ORDINARY BUSINESS

FIRST, SECOND AND THIRD RESOLUTIONS: APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS (PARENT COMPANY AND CONSOLIDATED) – EXECUTIVE MANAGEMENT DISCHARGE

Purpose

For the first, second and third resolutions, we ask you to approve:

- ◆ the parent company financial statements for financial year 2016, which show net profits of €1,091,219,203.38, and the expenses and charges referred to in Article 39-4 of the French General Tax Code (*Code général des impôts*);
- ◆ the consolidated financial statements for financial year 2016;
- ◆ and discharge Executive Management of its management for said financial year.

You will find:

- ◆ the consolidated financial statements on page 160 et seq.;
- ◆ the parent company financial statements on page 214 et seq.;
- ◆ the Statutory Auditors' reports on the parent company financial statements and consolidated financial statements on pages 239 and 210.

First resolution:

Approval of the parent company financial statements

The General Meeting, acting with the quorum and majority requirements for Ordinary General Meetings, having considered the report of the Executive Management regarding the activity and situation of the Company, the report by the Supervisory Board and the Statutory Auditors' report for the financial year ended 31 December 2016, approved as they were presented the parent company financial statements for said financial year, including the statement of financial position, statement of profit or loss, and notes, which show a net profit of €1,092,219,203.38, as well as the transactions reflected in these accounts or described in these reports.

Pursuant to Article 223 *quater* of the French General Tax Code (*Code général des impôts*), the Meeting approves the expenses and charges mentioned in Article 39-4 of the French General Tax Code (*Code général des impôts*), which amounted in the 2016 financial year to €232,619, which generated a tax expense estimated at €77,540.

Second resolution:

Approval of the consolidated financial statements

The General Meeting, acting with the quorum and majority requirements for Ordinary General Meetings, having considered the report of the Executive Management regarding the activity and situation of the Group, the report by the Supervisory Board and the Statutory Auditors' report for the financial year ended 31 December 2016, approved as they were presented the consolidated financial statements for said financial year, including the statement of financial position, statement of profit or loss, and notes, which show a consolidated net profit of €1,104.2 million, as well as the transactions reflected in these accounts or described in these reports.

Third resolution:

Executive Management Discharge

The General Meeting, acting with the quorum and majority requirements for Ordinary General Meetings, gives discharge to the Executive Management for its management for the financial year beginning 1 January 2016 and ended 31 December 2016.

FOURTH RESOLUTION: ALLOCATION OF NET INCOME – DISTRIBUTION OF AN ORDINARY DIVIDEND

Purpose

In the fourth resolution, we submit to you for approval the appropriation of net income for the year, in the amount of €1,091,291,203.38. Of this amount, €273,504 is to be appropriated to the reserve for purchasing original works of art and €7,311,168.66 is to be distributed to the Active Partner, as stipulated in the Articles of Association.

We invite you to allocate additional reserves of €200,000,000. The Supervisory Board recommends that the ordinary dividend be fixed at €3.75 per share. This represents an increase of 11.9% in the ordinary dividend relative to the previous year.

In accordance with Article 243 bis of the French General Tax Code (Code général des impôts), for shareholder beneficiaries who are natural persons fiscally domiciled in France, this entire dividend will be automatically considered to determine their total income subject to the income tax schedule, and will be eligible for the allowance of 40% provided for in Article 158-3 of the French General Tax Code (Code général des impôts).

After the interim dividend of €1.50 per share paid on 24 February 2017, the remainder of the ordinary dividend for the year, which amounts to €2.25 per share, would be detached from the shares on 8 June 2017 and payable in cash on 12 June 2017 based on closing positions on 9 June 2017. 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		
	2015	2014	2013
Ordinary dividend	3.35	2.95	2.70
Extraordinary dividend	-	5.00	-
Amount eligible for the reduction provided by Article 158-3 of the French General Tax Code (<i>Code général des impôts</i>)	1.34	3.18	1.08

We note that the five-year summary of the Company’s financial data required under Article R. 225-102 of the French Commercial Code (*Code de commerce*) is presented on page 238.

Fourth resolution:

Allocation of net income – Distribution of an ordinary dividend

The General Meeting, acting under the quorum and majority requirements applicable to Ordinary General Meetings, noting that the profit for the year amounted to €1,091,219,203.38 and that the earlier retained earnings again amount to €1,055,083,061.18, and after noting that the legal reserve is provided in full, approves the allocation of these amounts, representing a distributable profit for the amount of €2,146,302,264.56, as proposed by the Supervisory Board, namely:

- ♦ to the reserve for purchasing original works of art, in the sum of: €273,504;
- ♦ to the Active Partner, pursuant to Article 26 of the Company’s Articles of Association, in the sum of: €7,311,168.66;
- ♦ to shareholders, as an ordinary dividend of €3.75 per share, being: €395,885,295¹;
- ♦ to other reserves in the sum of: €200,000,000;
- ♦ to retained earnings, the balance of: €1,542,832,296.90;
- ♦ **altogether:** €2,146,302,264.56.

The Ordinary General Meeting resolves that the remainder of the ordinary dividend for the year, which amounts to €2.25 per share after the payment of an interim dividend of €1.50 per share on 24 February 2017, shall be detached from the shares on 8 June 2017 and shall be payable in cash on 12 June 2017 based on closing positions on 9 June 2017.

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. In accordance with Article 243 bis of the French General Tax Code (Code général des impôts), it is specified that, for the shareholder beneficiaries who are natural persons fiscally domiciled in France, this entire dividend will be taken into account for the right to determine their total income subject to the income tax schedule, and will be eligible for the 40% provided for in Article 158-3 of the French General Tax Code (Code général des impôts).

It is also recalled that, in accordance with Article 119 bis of the French General Tax Code (*Code général des impôts*), the dividend distributed to shareholders not fiscally domiciled in France is subject to a withholding tax at a rate determined by the tax jurisdictions of the shareholder.

1. The total amount of the distribution referred to above is calculated on the basis of the number of shares outstanding as of 31 December 2016, being 105,569,412 shares, and may vary if the number of shares granting rights to a dividend changes between 1 January 2017 and the ex-dividend date, depending in particular on the changes in the number of treasury shares which are not entitled to the dividend in accordance with the provisions of Article L.225-210 paragraph 4 of the French Commercial Code and the final allocations of bonus shares, eligible for the dividend.

In accordance with the provisions of Article 47, I of law no. 65-566 of 12 July 1965, the General Meeting duly notes that dividends distributed to the shareholders in respect of the three previous financial years were as follows:

In euros	Financial year		
	2015	2014	2013
Ordinary dividend	3.35	2.95	2.70
Extraordinary dividend	-	5.00	-
Amount eligible for the reduction provided by Article 158-3 of the French General Tax Code (<i>Code général des impôts</i>)	1.34	3.18	1.08

FIFTH RESOLUTION: APPROVAL OF RELATED-PARTY AGREEMENTS AND COMMITMENTS

Purpose

For the fifth resolution, given the lack of any related-party agreements and commitments in financial year 2016, we ask you to note that there are no agreements to approve.

The agreements and commitments established and authorised during previous financial years whose performance continued during the last financial year are described in the Statutory Auditors' special report on the agreements and commitments referred to in Articles L. 226-10, L. 225-38 and L. 225-43 of the French Commercial Code (*Code de commerce*). Because they were already approved by the General Meeting, they are not being resubmitted to you for a vote.

This report appears on pages 307 to 309.

Fifth resolution:

Approval of related-party agreements and commitments

The General Meeting, acting under the quorum and majority requirements applicable to Ordinary General Meetings, having reviewed the Statutory Auditors' special report on the agreements and commitments pertaining to the combined provisions of Articles L. 226-10, L. 225-38 to

L. 225-43 of the French Commercial Code (*Code de commerce*), approves the aforementioned report in all its provisions and notes that there were no agreements or commitments established or performed during financial year 2016 to submit for its approval.

SIXTH RESOLUTION: AUTHORISATION OF COMPANY BUYBACK OF TREASURY SHARES

Purpose

For the sixth resolution, we ask you to renew the authorisation granted to the Executive Management to trade in the Company's shares.

Objectives

The shares may be repurchased to be allocated to the objectives permitted by regulation (EU) 596/2014 of 16 April 2014 on market abuse (MAR):

- ◆ objectives provided for in Article 5 of MAR: capital decrease, hedging of debt securities exchangeable for shares and coverage of employee shareholding plans;
- ◆ objectives provided for in Article 13 of MAR and under the sole market practice now accepted by the Financial Markets Authority (AMF): the implementation of a liquidity contract by an investment service provider acting independently;
- ◆ other objectives: acquisitions, hedging of equity securities exchangeable for shares and more generally to allocate them for the completion of any transactions in accordance with the regulations in force.

Limits of the authorisation:

- ◆ purchases and sales of securities representing up to 10% of the share capital would be authorised, i.e., for information purposes as of 31 December 2016: 10,556,941;
- ◆ the maximum purchase price (excluding costs) would be €600 per share;
- ◆ the maximum amount of funds to be committed would be €1,500 million. On the day of the General Meeting, treasury shares are not taken into account in this maximum amount;
- ◆ pursuant to the law, the total number of shares held at a given date may not exceed 10% of the share capital as of that date.

Duration of the authorisation

This authorisation would be valid for 18 months from the date of the General Meeting.

Sixth resolution:

Authorisation granted to the Executive Management to trade in the Company's shares

The General Meeting, acting under the quorum and majority requirements applicable to Ordinary General Meetings, having reviewed the Executive Management's Report:

- 1) authorises the Executive Management, with the option to sub-delegate, under the terms and conditions set by the law, in accordance with the provisions of Articles L. 225-209 *et seq.* of the French Commercial Code (*Code de commerce*) and regulation (EU) 596/2014 of 16 April 2014 on market abuse (MAR), to buy Company shares or have Company shares bought within the limits stipulated by legal and regulatory provisions, provided that:
 - the number of shares purchased by the Company during the term of the buyback programme shall not exceed 10% of the total number of shares in the Company, at any time; this percentage shall apply to share capital adjusted as a function of transactions that will affect it subsequent to this General Meeting; in accordance with the provisions of Article L. 225-209 of the French Commercial Code (*Code de commerce*), the number of shares used as a basis for calculating the 10% limit is the number of shares bought, less the number of shares sold during the term of the authorisation if these shares were purchased to provide liquidity under the conditions defined by the AMF General Regulation, and
 - the Company shall not at any time own more than 10% of its own shares on the date in question;
- 2) resolves that the shares may be bought with a view to:
 - objectives provided for in Article 5 of MAR:
 - cancelling all or part of the shares bought back in order to increase the return on equity and earnings per share, and/or to neutralise the dilutive impact of capital increases for shareholders, wherein such purpose is contingent upon adoption of a special resolution by the Extraordinary General Meeting,
 - reusing during the exercise of rights associated with debt securities giving entitlement by conversion, exercise, redemption, exchange, presentation of a warrant or in any other way, for the allocation of Company shares,
 - allotting or selling the shares to employees and Corporate Officers of the Company or a Group company, under the terms and conditions stipulated by law, as part of stock option plans (in accordance with Articles L. 225-179 *et seq.* of the French Commercial Code (*Code de commerce*)), or bonus share distributions (in accordance with Articles L. 225-197-1 *et seq.* of the French Commercial Code (*Code de commerce*)), or with respect to their participation in the Company's profit-sharing or through a share ownership plan or a company or group savings plan (or similar plan) under condi-

tions provided by law, in particular Articles L. 3332-1 *et seq.* of the French Labour Code (*Code du travail*),

- objectives provided for in Article 13 of MAR and under the sole market practice now accepted by the Financial Markets Authority (AMF):
 - ensuring the promotion of a secondary market or the liquidity of the shares through an investment service provider acting independently under a liquidity contract in accordance with an ethics charter recognised by the Financial Markets Authority (AMF),
- other objectives:
 - retaining the shares, in order subsequently to transfer the shares in payment, in exchange or as other consideration for a takeover bid initiated by the Company, it being specified that the number of shares purchased by the Company in view of retaining them and subsequently delivering them in payment or exchange under the terms of a merger, demerger or contribution shall not exceed 5% of the share capital,
 - reusing during the exercise of rights associated with equity securities giving entitlement by conversion, exercise, redemption, exchange, presentation of a warrant or in any other way, for the allocation of Company shares,
 - and more generally to allocate them to the completion of any transactions in accordance with the regulations in force.

This programme is also intended to enable the Company to operate toward any other purpose that may be decided, by law or regulations, including any market practice that may be approved by the Financial Markets Authority (AMF) subsequent to this General Meeting.

In such case, the Company would inform its shareholders by publishing a special notice;

- 3) resolves that, save for shares purchased in order to deliver them under stock option plans for the Company's employees or Corporate Officers, the purchase price per share shall be no higher than six hundred euros (€600), excluding incidental expenses;
- 4) resolves, however, that the Executive Management may adjust the aforementioned purchase price in the event of a change in the par value per share; a capital increase by capitalisation of reserves; a bonus share distribution; a stock split or reverse split; a write-off or reduction of the share capital; distribution of reserves or other assets; and any other transactions applying to equity, to take into account the effect of such transactions on the value of the shares;
- 5) resolves that the maximum amount of funds that may be committed to this share buyback programme shall be one billion five hundred million euros (€1,500 million);
- 6) resolves that the shares may be purchased by any means, including all or part of interventions on regulated markets, multilateral trading

systems, with systematic internalisers or OTC, including block purchases of securities (without limiting the portion of the buyback programme carried out by this means), by public offering to purchase or exchange or the use of options or derivatives (in compliance with legal and regulatory requirements while applicable), excluding the sale of put options, and at the time that the Executive Management deems appropriate, including during a public offering for the shares of the Company, in accordance with stock market regulations, either directly or indirectly via an investment services provider. The shares acquired pursuant to this authorisation may be retained, sold, or, more generally, transferred by any means, including by block sales and during times of public offerings;

- 7) grants full authority to the Executive Management to implement this delegation, and in particular:
- to decide and carry out the actual transactions enumerated by this authorisation; to determine the terms, conditions and procedures applicable thereto,

- to place all orders, either on or off market,
- to adjust the purchase price of the shares to take into account the effect of the aforementioned transactions on the value of the shares,
- to allocate or assign the acquired shares to the various objectives pursued under the applicable legal and regulatory conditions,
- to enter into all agreements, in particular for purposes of maintaining the stock transfer ledgers,
- to file all necessary reports with the Financial Markets Authority (AMF) and any other relevant authority,
- to undertake all necessary formalities, and
- to generally carry out all necessary measures;

- 8) resolves that this authorisation is granted for a period of 18 months as of this meeting.

For the remaining period and not exceeding the unused portion, this authorisation supersedes the authorisation granted by the Combined General Meeting of 31 May 2016 in its twelfth resolution (authorisation of Company buyback of treasury shares).

SEVENTH AND EIGHTH RESOLUTIONS: NOTICE OF COMPENSATION ELEMENTS DUE OR AWARDED TO THE EXECUTIVE CHAIRMEN FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

Purpose

The provisions of Law no. 2016-1691 on transparency, anti-corruption and modernisation of the economy, of 9 December 2016 (the «Sapin II law»), including articles L. 225-37-2 and L. 225-82-2 of the French Commercial code, concerning the approval at the General meeting of shareholders of the principles and criteria for determining, distribution and allocation of fixed, variable and exceptional portions of compensation for executive corporate officers (*ex-ante* vote), and subsequent approval of the amounts of compensation paid or allocated under these principles (*ex-post* vote) to executive and non-executive corporate officers, do not apply to sociétés en commandite par actions (partnerships limited by shares) under article L. 226-1 of the same Code which explicitly rules them out.

However, we will continue to comply with the AFEP-MEDEF corporate governance code (revised in November 2016) by submitting managers' compensation to an *ex-post* vote.

We remind you that the principles for setting the Executive Chairmen's compensation are outlined and capped in Article 17 of the Articles of Association as follows: each Executive Chairman is entitled to statutory compensation and, potentially, additional compensation, the maximum amount of which is set by the Ordinary General Meeting with the unanimous approval of the Active Partners. Within these limits, and taking into consideration the Group's performance for the past financial year, the Group's medium- and long-term strategic development challenges and the competitive environment in which it operates, on the recommendation of the CAG, the Active Partner decides each year on the actual compensation of each Executive Chairman.

1. Fixed compensation (or additional compensation) was initially set by a decision of the Ordinary General Meeting of 31 May 2001, which limited it to €457,347.05 and specified indexing, upwards only, on the increase in the 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. In accordance with the principle thus determined and to facilitate understanding of the procedures for calculating the additional compensation of Executive Chairmen before indexing, the Company has always called it "fixed compensation", by analogy with market practices.
2. The method for calculating variable compensation (or statutory compensation) stipulated in Article 17 of the Articles of Association has remained unchanged since it was introduced. It is according to the consolidated pre-tax earnings made pursuant to the previous financial year, within the limit of 0.20% of these earnings. This calculation method naturally results in variability in this component of compensation of Executive Chairmen, and is transparent and does not guarantee a minimum amount. With an objective of clarity, the statutory compensation of Executive Chairmen is known as "variable compensation", by analogy with market practices.

Changes to the two components of the compensation of Executive Chairmen depend upon objective and comprehensible quantitative criteria that have not changed for many years and that are public and predefined by nature. As per Article 26 of the Articles of Association, the Company pays Émile Hermès SARL, in its capacity as Active Partner, an amount equal to 0.67% of the distributable profit (being in 2016 – under the 2015 financial year – €5,646,531.33). However, this is not an executive compensation.

For the seventh and eighth resolutions, we propose issuing a favourable opinion on the elements of compensation due or awarded to the Executive Chairmen for the 2016 financial year presented in the two tables below. These resolutions, which constitute an ex-post vote, are proposed in accordance with Article 26.2 of the AFEP-MEDEF Corporate Governance Code (revised in November 2016).

It did not seem relevant for us to propose to you, as shareholders, a vote on the compensation of the Chairman of the Supervisory Board insofar as he:

- ◆ receives fixed compensation in the amount of €100,000 as provided in the rules of procedure of the Supervisory Board and that it is charged against the total amount of directors' fees approved by the General Meeting,
- ◆ receives no other elements of compensation of any kind whatsoever.

You have previously been made aware of this information.

Elements of compensation	Amount or value accounted for <i>in euros</i>	Presentation
Seventh resolution: Mr Axel Dumas		
		In accordance with Article 17 of the Articles of Association, each Executive Chairman is entitled to statutory compensation and, potentially, additional compensation, of which the maximum amount is set by the Ordinary General Meeting, with the unanimous approval of the Active Partners. Changes to the two components of the compensation of Executive Chairmen depend upon objective and comprehensible quantitative criteria that have not changed for several years and that are public and predefined by nature.
Gross annual fixed compensation (additional compensation)	From 1 January to 31 December 2016: €1,260,991 ◆ <i>Of which fixed component: €1,166,550</i> ◆ <i>Of which part indexed on increase in revenue: €94,441</i>	The General Meeting of 31 May 2001 decided to allocate to each Executive Chairman gross annual compensation in addition to their statutory compensation, subject to a limit of €457,347.05. This limit is indexed each year, but it can only be adjusted upwards. Since 1 January 2002, this amount has been indexed to growth in 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 (€2,028,368 for 2016). Within the limits defined above, the Executive Management Board of Émile Hermès SARL, Active Partner, sets the effective amount of the annual additional compensation payable to each Executive Chairman. The additional compensation of Mr Axel Dumas paid in 2016 was set by the Executive Management Board on 22 March 2016.
Gross annual variable compensation (statutory compensation)	From 1 January to 31 December 2016: €1,294,762	The gross annual compensation of each Executive Chairman for a given year shall not be more than 0.20% of the Company's consolidated income before tax (€3,025,636 for 2016) for the previous financial year. Within the maximum amounts set forth herein, the Executive Management Board of the Active Partner Émile Hermès SARL shall determine the effective amount of the annual compensation of each Executive Chairman. Thus, no minimum statutory compensation is guaranteed for Executive Chairmen. The statutory compensation for Mr Axel Dumas paid in 2016 was set by the Executive Management Board on 22 March 2016.
Deferred variable compensation	Not applicable	The principle of the allocation of a deferred variable compensation is not provided.
Multi-year variable compensation	Not applicable	No multi-year compensation arrangement was implemented in 2016.
Exceptional compensation	Not applicable	The principle of such compensation is not provided.
Share options, performance-based shares or any other element of long-term compensation	Stock options: n/a Performance-based shares: n/a Other items: n/a	No plan for stock options or performance-based shares benefiting the Executive Chairmen has been implemented during the 2016 financial year.
Compensation for assumption of duties	Not applicable	No such commitment exists.

Elements of compensation	Amount or value accounted for <i>in euros</i>	Presentation
Severance payment	€0	<p>The Company has pledged to pay Mr Axel Dumas compensation in an amount equal to 24 months of total compensation (statutory compensation and additional compensation) in case of termination of his Executive Chairman functions (decision taken by the Supervisory Board on 4 June 2013 and approved by the General Meeting of 3 June 2014 – tenth resolution “approval of the commitments due to Mr Axel Dumas on termination of his appointment as Executive Chairman” – pursuant to Article L. 225-42-1 of the French Commercial Code (<i>Code de commerce</i>)).</p> <p>The payment of a severance payment is subject to the subsequent termination of duties as Executive Chairman resulting:</p> <ul style="list-style-type: none"> ♦ either from a decision taken by Mr Axel Dumas by reason of a change of control over the Company, a change in the Executive Chairman of Émile Hermès SARL, which is an Executive Chairman of the Company, or a change in the Company’s strategy; ♦ or from a decision taken by the Company. <p>Moreover, the payment of such compensation is also subject to the following performance conditions, so that the conditions of his departure are in equilibrium with the situation of the Company: achieving budget targets in at least four out of the five previous years (with revenue and operating income growth measured at constant rates), without deterioration in the Hermès brand and corporate image.</p> <p>The Supervisory Board has considered that the deferred compensation commitment to Mr Axel Dumas meets the requirements of the AFEP-MEDEF Corporate Governance Code.</p>
Non-competition payment	Not applicable	Mr Axel Dumas is not subject to any non-competition agreement, therefore no compensation is made in this category.
Supplementary pension plan	<p><i>Pursuant to the Article 83 payment scheme:</i> No payment</p> <p><i>Pursuant to the Article 39 payment scheme:</i> No payment</p>	<p><i>Defined-contribution pension plan (Article 83 of the French General Tax Code)</i></p> <p>Mr Axel Dumas is eligible for the supplementary defined-contribution pension plan established for all employees of Hermès’ French companies that have joined it (4 June 2013 decision by the Supervisory Board approved by the General Meeting of 3 June 2014 – fifth resolution “approval of related-party agreements and commitments” – in accordance with Article L. 225-40 of the French Commercial Code (<i>Code de commerce</i>)).</p> <p>As with all employees of the Group:</p> <ul style="list-style-type: none"> ♦ the defined-contribution pension plan is funded as follows: 1.1% for the reference compensation for an amount of 1 time the annual social security ceiling (PASS), 3.3% for the inclusive reference compensation between 1x and 2x PASS, and 5.5% on the inclusive reference compensation between 2x and 6x PASS. Reference compensation means the gross annual compensation in accordance with Article L. 242-1 of the French Social Security Code (<i>Code de la sécurité sociale</i>); ♦ these contributions are distributed between the Company (90.91%) and the beneficiary (9.09%); ♦ the employer’s contributions are deductible from the tax base of companies, subject to the “forfait social” (corporate social contribution) of 20% and excluded from the base of social security contributions at the highest limit of these two values: 5% of PASS or 5% of the compensation withheld within the limits of 5x PASS. <p>For information, if Mr Axel Dumas had been able to liquidate his retirement entitlements on 31 December 2016, the estimated maximum gross amount of annual pension under the defined-contribution pension plan would be €2,637.08.</p> <p><i>Defined-benefit pension plan (Art. 39 of the French General Tax Code (Code général des impôts) – Article L. 137-11 of the French Social Security Code (Code de la sécurité sociale))</i></p> <p>Mr Axel Dumas is also eligible for the supplementary pension plan established in 1991 for Company Senior Executives (4 June 2013 decision by the Supervisory Board, approved by the General Meeting of 3 June 2014 – fifth resolution “approval of related-party agreements and commitments” – in accordance with Article L. 225-40 of the French Commercial Code (<i>Code de commerce</i>)).</p> <p>This pension plan is not closed. It is funded by the Company through a policy taken out with an outside insurer. Premiums paid to this organisation are deductible from the corporate tax base. They are also subject to the employer’s contribution to premiums at the rate of 24%. In addition, if applicable, provisions are included in the financial statements.</p> <p>As a fundamental condition of the pension regulations, in order to be eligible for the plan, beneficiaries must have reached the end of their professional career with the Company after at least ten years of service, and be eligible to draw pension benefits under the basic French social security regime.</p> <p>If all eligibility requirements are met, the annual pension under this plan, in accordance with the rules of the plan, would depend on:</p> <ul style="list-style-type: none"> ♦ the average yearly compensation for the last three years; ♦ a percentage depending on seniority and, in all cases, less than 3%. <p>Finally, the pension thus determined shall in no case exceed the amount of 8x the annual social security ceiling.</p> <p>For information, if Mr Axel Dumas had been able to liquidate his entitlements on 31 December 2016, the estimated maximum gross amount of the annual pension under the defined-benefit pension plans would be €30,609.</p>

Elements of compensation	Amount or value accounted for in euros	Presentation
Directors' fees	Not applicable	Executive Chairmen do not receive directors' fees, neither from the Company nor from its subsidiaries.
Valuation of benefits of any kind	€731	Mr Axel Dumas is eligible for a representation policy constituting his only benefit in kind. Mr Axel Dumas benefits from the collective and obligatory medical expenses plan, implemented by the Group for the benefit of all staff of entities in France who have adhered to this plan (decision made by the Supervisory Board on 19 March 2014).
Death and disability plan		Mr Axel Dumas is eligible for the death and disability plan established by the Group for the benefit of all staff (AGIRC affiliated) of the entities in France that have joined this plan (decision taken by the Supervisory Board on 19 March 2014). It provides, as is the case for all employees, the following gross lifetime benefits: <ul style="list-style-type: none"> (i) a disability pension at 51% of base compensation in case of Category 1 disability and 85% of base compensation in case of Category 2 or 3 disabilities. The base compensation (gross annual compensation) is limited to 8x the annual social security ceiling. The payment of the disability pension is discontinued when the recipient in question is no longer categorised as having a disability or permanent impairment and, at the latest, the day of the normal or early liquidation of the old age insurance pension from a compulsory retirement plan, for any reason whatsoever; (ii) a death benefit equal to a maximum of 380% of the reference compensation, capped at 8x PASS, depending on the family situation; (iii) contributions to the insurance funds are distributed between the Company (1.54% for tranche A, and 1.64% for tranches B and C) and the recipient (1.06% for tranche A and 1.16% for tranches B and C); (iv) these contributions are deductible from the tax base of companies, subject to the forfait social (corporate social contribution) at the rate of 8%, and excluded from the base of social security contributions, within the limit of an amount equal to the sum of 6% of PASS and 1.5% of earnings retained in the limit of 12x PASS.

n/a: not applicable.

Elements of compensation	Amount or value accounted for in euros	Presentation
Eighth resolution: Émile Hermès SARL		
		In accordance with Article 17 of the Articles of Association, each Executive Chairman is entitled to statutory compensation and, potentially, additional compensation, of which the maximum amount is set by the Ordinary General Meeting, with the unanimous approval of the Active Partners. Changes to the two components of the compensation of Executive Chairmen depend upon objective and comprehensible quantitative criteria that have not changed for several years and that are public and predefined by nature.
Gross annual fixed compensation (or additional compensation)	From 1 January to 31 December 2016: €500,000 ♦ Of which fixed component: €462,553 ♦ Of which part indexed on increase in revenue: €37,447	The General Meeting of 31 May 2001 decided to allocate to each Executive Chairman gross annual compensation in addition to their statutory compensation, subject to a limit of €457,347.05. This limit is indexed each year, but it can only be adjusted upwards. Since 1 January 2002, this amount has been indexed to growth in 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 (€2,028,368 for 2016). Within the limits defined above, the Executive Management Board of Émile Hermès SARL, Active Partner, sets the effective amount of the annual additional compensation payable to each Executive Chairman. The additional compensation paid to Émile Hermès SARL in 2016 was set by the Executive Management Board on 22 March 2016.
Gross annual variable compensation (or statutory compensation)	From 1 January to 31 December 2016: €756,409	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 (€3,025,636 for 2016) for the previous financial year. Within the maximum amounts set forth herein, the Executive Management Board of the Active Partner Émile Hermès SARL shall determine the effective amount of the annual compensation of each Executive Chairman. Thus, no minimum statutory compensation is guaranteed for Executive Chairmen. Statutory compensation paid to Émile Hermès SARL in 2016 was set by the Executive Management Board on 22 March 2016. Salary compensation paid to Émile Hermès SARL was set by the Executive Management Board on 22 March 2016.

Elements of compensation	Amount or value accounted for in euros	Presentation
Deferred variable compensation	Not applicable	The principle of the allocation of a deferred variable compensation is not provided.
Multi-year variable compensation	Not applicable	No multi-year compensation arrangement was implemented in 2016.
Exceptional compensation	Not applicable	The principle of such compensation is not provided.
Share options, performance-based shares or any other element of long-term compensation	Stock options: n/a Performance-based shares: n/a Other items: n/a	No plan for stock options or performance-based shares benefiting the Executive Chairmen has been implemented during the 2016 financial year. Émile Hermès SARL, a legal entity, is not eligible for the stock option or performance-based share plans.
Compensation for assumption of duties	Not applicable	No such commitment exists.
Severance payment	Not applicable	No such commitment exists.
Non-competition payment	Not applicable	No such commitment exists.
Supplementary pension plan	Not applicable	Émile Hermès SARL, a legal entity, is not eligible for a supplementary pension plan.
Directors' fees	Not applicable	Executive Chairmen do not receive directors' fees, neither from the Company nor from its subsidiaries.
Valuation of benefits of any kind	Not applicable	Émile Hermès SARL does not receive benefits of any kind.

n/a: not applicable.

Seventh resolution:

Notice regarding elements of compensation due or awarded for the financial year ended 31 December 2016 to Mr Axel Dumas, Executive Chairman

The General Meeting, consulted in application of the recommendation of § 26.2 of the AFEP-MEDEF Corporate Governance Code of November 2016, which constitutes the reference code used by the Company pursuant to Article L. 225-37 of the French Commercial Code (*Code de commerce*), having fulfilled the quorum and majority requirements for Ordinary General Meetings, gives a favourable opinion on elements of compensation due or awarded for the financial year ended 31 December 2016 to Mr Axel Dumas under his mandate as Executive Chairman, as presented in the statement of proposed resolutions.

Eighth resolution:

Notice regarding elements of compensation due or awarded for the financial year ended 31 December 2016 to Émile Hermès SARL, Executive Chairman

The General Meeting, consulted in application of the recommendation of § 26.2 of the AFEP-MEDEF Corporate Governance Code of November 2016, which constitutes the reference code used by the Company pursuant to Article L. 225-37 of the French Commercial Code (*Code de commerce*), having fulfilled the quorum and majority requirements for Ordinary General Meetings, gives a favourable opinion on elements of compensation due or awarded for the financial year ended 31 December 2016 to Émile Hermès SARL under its mandate as Executive Chairman, as presented in the statement of proposed resolutions.

NINTH, TENTH AND ELEVENTH RESOLUTIONS: RE-ELECTION OF SUPERVISORY BOARD MEMBERS

Purpose

The terms of three members of the Supervisory Board (Ms Monique Cohen, Mr Renaud Momméja and Mr Éric de Seynes) expire at the end of this meeting.

Given the upcoming expiry of their mandates, in the ninth, tenth and eleventh resolutions, the Active Partner proposes that you renew, for the statutory period of three years, the mandates of the following members of the Supervisory Board:

- ◆ Ms Monique Cohen;
- ◆ Mr Renaud Momméja;
- ◆ Mr Éric de Seynes.

These three mandates will thus expire at the end of the General Meeting called in 2020 to approve the financial statements for the financial year ended 31 December 2019.

Information on the persons whose re-election is submitted for your approval is provided on pages 98, 99 and 105.

Ninth resolution:

Re-election of Ms Monique Cohen as Supervisory Board member for a term of three years

On a proposal from the Active Partner, the General Meeting, acting under the quorum and majority requirements applicable to Ordinary General Meetings, renews, as a member of the Supervisory Board, the term of Ms Monique Cohen

Pursuant to Article 18.2 of the Articles of Association, her mandate for a period of three years, will expire at the end of the Annual Ordinary General Meeting called in 2020 to approve the financial statements for the financial year ended 31 December 2019.

Ms Monique Cohen has indicated that she is prepared to accept the renewal of her term, and that she is not legally prohibited from doing so in any manner whatsoever.

Tenth resolution:

Re-election of Mr Renaud Momméja as Supervisory Board member for a term of three years

On a proposal from the Active Partner, the General Meeting, acting under the quorum and majority requirements applicable to Ordinary General Meetings, renews, as a member of the Supervisory Board, the term of Mr Renaud Momméja

Pursuant to Article 18.2 of the Articles of Association, his mandate for a period of three years, will expire at the end of the Annual Ordinary General Meeting called in 2020 to approve the financial statements for the financial year ended 31 December 2019.

Mr Momméja has indicated that he is prepared to accept the renewal of his term, and that he is not legally prohibited from doing so in any manner whatsoever.

Eleventh resolution:

Re-election of Mr Éric de Seynes as Supervisory Board member for a term of three years

On a proposal from the Active Partner, the General Meeting, acting under the quorum and majority requirements applicable to Ordinary General Meetings, renews, as a member of the Supervisory Board the term of Mr Éric de Seynes

Pursuant to Article 18.2 of the Articles of Association, his mandate for a period of three years, will expire at the end of the Annual Ordinary General Meeting called in 2020 to approve the financial statements for the financial year ended 31 December 2019.

Mr de Seynes has indicated that he is prepared to accept the renewal of his term, and that he is not legally prohibited from doing so in any manner whatsoever.

TWELFTH AND THIRTEENTH RESOLUTIONS: APPOINTMENT OF NEW SUPERVISORY BOARD MEMBERS**Purpose**

For the twelfth and thirteenth resolutions, the Active Partner asks you to appoint as members of the Supervisory Board Ms Dorothée Altmayer and Ms Olympia Guerrand.

In application of the principle that the Supervisory Board should be renewed in stages by thirds in article 18.2 of the by-laws, the Supervisory Board drew lots to determine the term of appointment of the newly proposed members. The results were as follows:

- ◆ one year for Ms Olympia Guerrand ;
- ◆ three years for Ms Dorothée Altmayer.

Information about the persons whose appointment is subject to your approval is listed on page 107.

Twelfth resolution:**Appointment of Ms Dorothée Altmayer as a new member of the Supervisory Board for a term of three years**

On a proposal from the Active Partner, the General Meeting, acting under the quorum and majority requirements applicable to Ordinary General Meetings, appoints Ms Dorothée Altmayer as a member of the Supervisory Board for a term of three years.

In application of article 18.2 of the by-laws, to ensure the renewal of one third of the Supervisory Board each year and based on lots drawn at the Supervisory Board meeting of 21 March 2017, his/her term of appointment for three years will end at the end of the Annual Ordinary General Meeting held in 2020 to approve the financial statements for the year ended 31 December 2019. Ms Dorothée Altmayer has indicated that she is prepared to accept this appointment and that she does not exercise any function, and that she is not legally prohibited from doing so, in any manner whatsoever.

Thirteenth resolution:**Appointment of Ms Olympia Guerrand as a new member of the Supervisory Board for a term of one year**

On a proposal from the Active Partner, the General Meeting, acting under the quorum and majority requirements applicable to Ordinary General Meetings, appoints Ms Olympia Guerrand as a member of the Supervisory Board for a term of one year.

In application of article 18.2 of the by-laws, to ensure the renewal of one third of the Supervisory Board each year and based on lots drawn at the Supervisory Board meeting of 21 March 2017, his/her term of appointment for one year will end at the end of the Annual Ordinary General Meeting held in 2018 to approve the financial statements for the year ended 31 December 2017. Ms Olympia Guerrand has indicated that she is prepared to accept this appointment and that she does not exercise any function, and that she is not legally prohibited from doing so, in any manner whatsoever.

FOURTEENTH RESOLUTION: INCREASE IN TOTAL AMOUNT OF DIRECTORS' FEES**Purpose**

For the fourteenth resolution, we ask you to raise the directors' fees and the compensation of the Supervisory Board to €600,000 to take into account the appointment of the new Board members proposed in the twelfth and thirteenth resolutions.

This amount would be valid for each open financial year as of 1 January 2017 and until decided otherwise.

Fourteenth resolution:**Increase in the total amount of the directors' fees and Supervisory Board compensation**

The General Meeting, acting under the quorum and majority requirements applicable to Ordinary General Meetings, sets at €600,000

the total directors' fees and compensation that may be awarded to the Supervisory Board members and to the members of the committees created within it, for each open financial year as of 1 January 2017 and until decided otherwise.

FIFTEENTH AND SIXTEENTH RESOLUTIONS: RENEWAL OF THE TERM OF OFFICE OF THE STATUTORY AUDITORS

Purpose

The Audit Committee has recommended the renewal of the terms of office of the main Statutory Auditors whose terms are expiring.

The appointment of one or more alternate Statutory Auditors is henceforth required only if the main Statutory Auditor appointed is a natural person or single-member company (French Commercial Code (*Code de commerce*) Article L. 823-1 (2), amended by the Sapin II Law 2016-1691 of 9 December 2016). This provision has been in force since 11 December 2016.

For the fifteenth and sixteenth resolutions, we ask you:

- ♦ to renew the term of the Statutory Auditors of PricewaterhouseCoopers Audit and Didier Kling & Associés for a term of six financial years;
- ♦ to note that the terms of the alternate Statutory Auditors Mr Étienne Boris and Ms Dominique Mahias have expired.

Fifteenth resolution:

Renewal of the term of office of the main Statutory Auditor PricewaterhouseCoopers Audit for a term of six years, and the end of the term of office of the alternate Statutory Auditor Mr Étienne Boris

The General Meeting, acting under the quorum and majority requirements applicable to Ordinary General Meetings, reappoints as Statutory Auditor the Company:

PricewaterhouseCoopers Audit

63, rue de Villiers, 92208 Neuilly-sur-Seine Cedex

Nanterre Trade and Companies Register no. 672 006 483.

For a term of six financial years, i.e., until the end of the Annual Ordinary General Shareholders' Meeting held in 2023 to approve the financial statements for the financial year ended 31 December 2022.

The General Meeting notes that:

- ♦ since 11 December 2016, the appointment of one or more alternate Statutory Auditors is required only if the main Statutory Auditor appointed is a natural person or a single-member company (French Commercial Code (*Code de commerce*) amended Article L. 823-1 (2));
- ♦ the term of Mr Étienne Boris, alternate Statutory Auditor, has expired.

Sixteenth resolution:

Renewal of the term of office of the main Statutory Auditor Didier Kling & Associés for a term of six years and the end of the term of office of the alternate Statutory Auditor Ms Dominique Mahias

The General Meeting, acting under the quorum and majority requirements applicable to Ordinary General Meetings, reappoints as Statutory Auditor the firm:

Didier Kling & Associés

28, avenue Hoche, 75008 Paris

Paris Trade and Companies Register no. 342 061 942.

For a term of six financial years, i.e., until the end of the Annual Ordinary General Shareholders' Meeting held in 2023 to approve the financial statements for the financial year ended 31 December 2022.

The General Meeting notes that:

- ♦ since 11 December 2016, the appointment of one or more alternate Statutory Auditors is required only if the main Statutory Auditor appointed is a natural person or a single-member company (French Commercial Code (*Code de commerce*) amended Article L. 823-1 (2));
- ♦ the term of office of Ms Dominique Mahias, alternate Statutory Auditor, has expired.

8.2.2 EXTRAORDINARY BUSINESS

SEVENTEENTH RESOLUTION: AUTHORISATION TO REDUCE SHARE CAPITAL BY CANCELLATION OF SHARES

Purpose

For the seventeenth resolution, we ask you to renew the authorisation granted to the Executive Management to, on one or more occasions, in the amounts and at the times it so decides, cancel all or part of the shares purchased by the Company under the programme to purchase its own shares. This authorisation would enable the Company to cancel shares issued to cover stock options that are no longer exercisable or that have expired.

Limit

Up to a maximum of 10% of the share capital per 24-month period.

Duration of the authorisation

This authorisation would be valid for 24 months from the date of the General Meeting.

On page 310, you will find the Statutory Auditors' report on the 17th resolution.

Seventeenth resolution:

Authorisation granted to Executive Management to reduce the share capital by cancellation of all or part of the treasury shares held by the Company (Article L. 225-209 of the French Commercial Code (*Code de commerce*)) – general cancellation programme

The General Meeting, acting under the quorum and majority requirements applicable to Extraordinary General Meetings, having reviewed the Executive Management's report, the Supervisory Board's report and the Statutory Auditors' special report, and in accordance with Article L. 225-209 of the French Commercial Code (*Code de commerce*), hereby authorises the Executive Management to reduce the share capital on one or more occasions, in the amounts and at the times it so decides, by cancelling some or all of the shares acquired by the Company in connection with the share buyback programme referred to in the sixth resolution (authorisation of the Company to buy back its treasury shares) submitted to this General Meeting and/or pursuant to any authorisation

granted by a past or future General Meeting, up to a maximum of 10% of the share capital per 24 month period. The General Meeting delegates to the Executive Management full powers for purposes of this delegation, and in particular:

- ◆ to allocate the difference between the purchase price and the par value of the cancelled shares to whichever reserve account it sees fit, and to record the reductions in share capital resulting from the cancellations authorised by the present resolution;
- ◆ to amend the Company's Articles of Association accordingly, and to undertake all necessary formalities.

This delegation is granted to the Executive Management for a period of 24 months.

For the remaining period and not exceeding the unused portion, it supersedes the authorisation granted by the Combined General Meeting of 31 May 2016 in its thirteenth resolution (authorisation to reduce share capital by cancellation of shares).

EIGHTEENTH TO TWENTY-THIRD RESOLUTIONS: FINANCIAL DELEGATIONS OF AUTHORITY

Purpose

Issues of securities (general circumstances)

For the eighteenth, nineteenth and twentieth resolutions, we ask you to renew a number of resolutions that delegate to the Executive Management the authority to decide various issues of Company securities with or without preferential subscription rights.

As stipulated by law, these resolutions are designed to give the Executive Management the necessary flexibility to act in the Company's best interests, with the oversight of the Company's Supervisory Board and of the Executive Management Board of Émile Hermès SARL, Active Partner. The range of financial products and a fast-changing market require the utmost flexibility in order to choose the issue procedures that are most beneficial for the Company and its shareholders so as to quickly perform transactions based on any opportunities that may arise.

The Executive Management will therefore have the ability to issue ordinary shares, both in France and abroad, under any circumstances, along with:

- ◆ securities governed by Articles L. 228-91 *et seq.* of the French Commercial Code (*Code de commerce*) that are Company equity securities carrying rights immediately and/or over time to other Company equity securities, and/or give entitlement to the award of Company debt securities; and/or
- ◆ securities representing a lien that may or may not be governed by Articles L. 228-91 *et seq.* of the French Commercial Code (*Code de commerce*), and that carry rights or are likely to carry rights to Company equity securities to be issued; if necessary, these securities may also carry rights to existing Company equity securities and/or debt securities, up to the limits described herein below. The issue of securities that are debt securities giving entitlement to the award of other debt securities or existing equity securities may henceforth be decided by the Executive Management under the terms and conditions stipulated in Article L. 228-40 of the French Commercial Code (*Code de commerce*) in cases of issuing bonds or equity securities, without needing the authorisation of the General Meeting. These issues may entail either the continuation of shareholders' preferential subscription rights (nineteenth resolution) or the elimination of shareholders' preferential subscription rights (twentieth resolution). We ask you to eliminate the preferential subscription rights in order to help increase the chances of success of these shares by speeding up the placement of issues. Nonetheless, we would like to specify that in all issues without preferential subscription rights:
 - Executive Management may grant shareholders the option of subscribing shares by priority,
 - in case of an issue of independent equity warrants, after taking into consideration the issue price of said warrants, the sum that is passed down to or should be passed down to the Company for each share that will be issued must be equal to or higher than the weighted average of the prices of the last three stock market trading days on the Euronext Paris regulated market preceding the setting of the subscription price of the capital increase, potentially reduced by a maximum discount of 5% in accordance with the regulations in force. We also ask you to renew the customary delegation allowing the Company to increase the share capital by capitalisation of reserves (eighteenth resolution) within the limits described herein below.

Pursuant to Article L. 233-32 of the French Commercial Code (*Code de commerce*), these delegation must be implemented during a public offering for the Company's shares.

On page 311, you will find the Statutory Auditors' report on the 19th and 20th resolutions.

Capital increase with elimination of preferential subscription rights for the benefit of members of a company or group savings plan

For the twenty-first resolution, we ask you to delegate to the Executive Management all the authority to carry out, with the oversight of the Company's Supervisory Board and of the Executive Management Board of Émile Hermès SARL, Active Partner, a capital increase reserved for employees and Corporate Officers under the terms and conditions referred to in Article L. 225-129-6 of the French Commercial Code (*Code de commerce*), when these employees belong to a company or group savings plan, within the limits described herein below.

The discount is fixed at 20% of the average of the prices quoted for the Company's share during the 20 stock market trading days preceding the day of the decision setting the date of opening of subscriptions. Pursuant to Article L. 233-32 of the French Commercial Code (*Code de commerce*), this resolution must be implemented during a public offering for the shares of the Company.

On page 312, you will find the Statutory Auditors' report on the 21th resolution.

Issues of securities (through private placement or to pay for contributions in kind)

For the twenty-second resolution, we ask you to delegate to the Executive Management, under the terms and conditions stipulated in the provisions of Article L. 225-136-3 of the French Commercial Code (*Code de commerce*) and Article L. 411-2 II of the French Monetary and Financial Code and with the oversight of the Company's Supervisory Board and of the Executive Management Board of Émile Hermès SARL, Active Partner, the authority for the purpose of deciding the issue of shares and/or any other securities carrying rights to the share capital, without shareholders' preferential subscription rights, by means of a private placement reserved for qualified investors or a small group of investors as defined in Article D. 411-1 of the French Monetary and Financial Code, within the limits described herein below.

This resolution would allow the Company to benefit from any opportunities that could potentially include an investor or economic, trading or financial partner with the attribute of qualified investor in the Company's share capital. The issue price would be equal to or higher than the weighted average of the prices of the last three stock market trading days preceding the issue, reduced by a maximum discount of 5% if need be.

On page 313, you will find the Statutory Auditors' report on the 22nd resolution.

For the twenty-third resolution, we ask you to delegate to the Executive Management, under the terms and conditions stipulated by the provisions of Articles L. 225-129 *et seq.*, particularly Article L. 225-147 of the French Commercial Code (*Code de commerce*), and with the oversight of the Company's Supervisory Board and of the Executive Management Board of Émile Hermès SARL, Active Partner, the authority for the purpose of issuing shares and/or securities carrying rights to the share capital, with elimination of preferential subscription rights, in order to pay for the contributions in kind granted to the Company, within the limits described herein below.

This resolution would enable the Company to benefit from any opportunities in order to carry out external growth transactions in France or abroad, or to buy back minority investments in subsidiaries and associates within the Group with no impact on the Company's cash, and within the limit of 10% of the share capital.

On page 314, you will find the Statutory Auditors' report on the 23rd resolution.

Considering the volumes of awarded shares that are much lower than the total allowance authorised by the shareholders during the Extraordinary General Meeting of 31 May 2016, you are not asked to renew the financial delegations of authority relating to the award of stock options or bonus shares that are valid until 31 July 2019 (within the limits of the total allowance granted).

Limits

The individual and common limits of financial delegations of authority that you are being asked to grant to the Executive Management are as follows:

Resolutions	Individual limit of each delegation	Common limit to several delegations
	Maximum par value likely to be issued immediately and/or over time	
Equity securities	% of the share capital on the date of the General Meeting	
18th (capital increase by capitalisation of reserves)	40%	n/a
19th (issue with continuation of preferential subscription rights)	40%	
20th (issue without preferential subscription rights)	40%	
21st (capital increase reserved for members of a company or group savings plan)	1%	40%
22nd (issue by private placement)	20% per year	
23rd (issue in order to compensate contributions in kind)	10%	
Debt securities		Maximum par value
19th (issue with continuation of preferential subscription rights)	€1,000 million	
20th (issue without preferential subscription rights)	€1,000 million	€1,000 million
22nd (issue by private placement)	€1,000 million	
23rd (issue in order to compensate contributions in kind)	€1,000 million	

Duration of the delegations

These delegations would be valid for 26 months from the date of the General Meeting.

Eighteenth resolution:

Delegation of authority to the Executive Management to increase the share capital by capitalisation of reserves, profits and/or share premiums and allocation of free shares, and/or increasing the par value of existing shares

The General Meeting, acting in accordance with Articles L. 225-129-2 and L. 225-130 of the French Commercial Code (*Code de commerce*), under the quorum and majority requirements applicable to Extraordinary General Meetings, having reviewed the Executive Management's report and the Supervisory Board's report:

- 1) delegates to the Executive Management, with the oversight of the Company's Supervisory Board and of the Executive Management

Board of Émile Hermès SARL, Active Partner, the authority to increase the share capital, on one or more occasions, according to the procedures and at the times it so decides, by successive or simultaneous incorporation into the share capital of all or part of the reserves, profits or share, merger or contribution premiums, to be carried out through the creation and allocation of free shares or through an increase in the par value of the existing shares, or through the combined use of these two procedures;

- 2) resolves that in case of a capital increase that gives rise to the allocation of new bonus shares, the bonus shares that are awarded in proportion to old shares eligible for double voting rights will be eligible for this right upon their issue;

- 3) delegates to the Executive Management the authority to resolve, in case of a capital increase that gives rise to the allocation of new bonus shares, that fractional amounts will not be tradable and that the corresponding shares will be sold; the sums generated by the sale are allocated to the holders of the options under the terms and conditions stipulated by legal and regulatory provisions;
- 4) in case of use by the Executive Management of this delegation of authority, delegates to the Executive Management the authority to carry out all adjustments aiming to take into account the repercussions of transactions on the Company's share capital by a capitalisation of reserves, an allocation of free shares, a stock split or reverse split, distribution of reserves or other assets, an amortisation of share capital, or any other transaction applying to equity, and to set the procedures according to which, if necessary, the rights of the holders of securities carrying rights to the share capital will be preserved;
- 5) resolves that the par value of the capital increases likely to be performed immediately or over time under this delegation of authority may not exceed 40% of the share capital on the date of this meeting, as the capital increases performed in accordance with this delegation are not offset against the limit addressed in paragraph 4 of the nineteenth resolution (issue of securities with continuation of preferential subscription rights) submitted to this meeting;
- 6) grants the Executive Management full powers to implement this delegation, and particularly to set the terms and conditions of the transactions and determine the dates and methods of the capital increases that will be carried out under this delegation; to determine the conditions of the issues and/or the amount whose par value of the existing shares will be increased; to set the opening and closing dates of the subscriptions, the dividend dates, the procedures for payment for shares; to note the completion of the capital increases up to the amount of the shares that will actually be subscribed; and more broadly, to take all measures to ensure a successful outcome, perform all actions and formalities for the purpose of making the corresponding capital increase or increases final and add to the Articles of Association the consequent amendments; perform, either directly or through an agent, all transactions and formalities related to the share capital increases at its sole discretion and, if it deems it appropriate, allocate the capital increase expenses to the amount of the share premiums pertaining to these increases and withdraw from this amount the sums required to increase the statutory reserve to one-tenth of the new amount of share capital after each increase;
- 7) grants full authority to the Executive Management for the purpose of applying for the shares created as part of this resolution to be traded on a regulated market, wherever it decides;
- 8) confirms that, pursuant to Article L. 233-32 of the French Commercial Code (*Code de commerce*), this delegation may be implemented during public offerings on the shares of the Company;
- 9) resolves that this delegation granted to the Executive Management is valid for 26 months as of the date of this meeting.

For the remaining period and not exceeding the unused portion, this delegation supersedes the delegation granted by the Combined General Meeting of 2 June 2015 in its sixteenth resolution (capital increase by capitalisation of reserves).

Nineteenth resolution:

Delegation of authority to be granted to the Executive Management to decide to issue shares and/or any other securities carrying rights to the share capital with the continuation of preferential subscription rights

The General Meeting, acting under the quorum and majority requirements applicable to an Extraordinary General Meeting, after reviewing the Executive Management's report, the Supervisory Board's report and the Statutory Auditors' report, which were prepared in accordance with the law and with the provisions of Articles L. 225-129 to L. 225-129-6, L. 225-132 to L. 225-134 and L. 228-91 to L. 228-93 of the French Commercial Code (*Code de commerce*):

- 1) delegates to the Executive Management, with the oversight of the Company's Supervisory Board and of the Executive Management Board of Émile Hermès SARL, Active Partner, the authority to decide on the capital increase, on one or more occasions, in the amounts and at the times it so decides, both in France and abroad and/or on the international market, either in euros or in any other currency or currency unit set in reference to several currencies, with the continuation of preferential subscription rights, through the issue, either for free or against payment, of:
 - a) new ordinary shares of the Company,
 - b) securities governed by Articles L. 228-91 *et seq.* of the French Commercial Code (*Code de commerce*) that are Company equity securities that carry rights immediately and/or over time to other Company equity securities, and/or give entitlement to the award of Company debt securities, and/or
 - c) securities representing a lien that may or may not be governed by Articles L. 228-91 *et seq.* of the French Commercial Code (*Code de commerce*), and that carry rights or are likely to carry rights to Company equity securities to be issued; if necessary, these securities may also carry rights to existing Company equity securities and/or debt securities;
- 2) resolves that the subscription of the shares and the other securities referred to in paragraph 1 of this resolution may be carried out in cash, by clearing and settlement with liquid trade receivables payable by the Company, or in part by capitalisation of reserves, profits or share premiums;
- 3) resolves that the par value of the capital increases likely to be performed immediately and/or over time under this delegation may not exceed 40% of the share capital on the date of this meeting (individual limit);
- 4) resolves that the amount of the share capital increases likely to be performed immediately and/or over time under the nineteenth resolution (issue of securities with continuation of preferential subscription rights), the twentieth resolution (issue of securities with elimination of preferential subscription rights), the twenty-first resolution (capital increase reserved for members of a company or group

savings plan), the twenty-second resolution (issue of securities by private placement) and the twenty-third resolution (issue of securities in order to pay for contributions in kind) submitted to this meeting may not exceed 40% of the share capital on the date of the meeting (common limit) or be higher than the exchange value of this amount in case of an issue in foreign currency or in units of account set in reference to several currencies, an amount to which is added, where necessary, the par value of the additional shares to be issued in order to preserve the rights of the holders of securities giving entitlement to shares, in accordance with the legal or regulatory provisions or, where necessary, with contractual stipulations providing for other cases of adjustment;

- 5) resolves that the maximum par value of the debt securities likely to be issued immediately and/or over time under this delegation may not be higher than one billion euros (€1,000 million) (individual limit) or higher than the exchange value of this amount in case of an issue in foreign currency or in units of account set in reference to several currencies, and where required, this amount is increased by any redemption premium above face value;
- 6) resolves that the maximum par value of the debt securities that are likely to be issued under the nineteenth resolution (issue of securities with continuation of preferential subscription rights), the twentieth resolution (issue of securities with elimination of preferential subscription rights), the twenty-first resolution (capital increase reserved for members of a company or group savings plan), the twenty-second resolution (issue of securities by private placement) and the twenty-third resolution (issue of securities in order to pay for contributions in kind) submitted to this meeting may not be higher than one billion euros (€1,000 million) (common limit), and the debt securities may be issued in euros, a foreign currency or units of account set in reference to several currencies;
- 7) resolves that in case of an offer of subscription, shareholders may exercise, under the terms and conditions stipulated by law, their preferential subscription rights on an irrevocable basis, knowing that the Executive Management will have the ability to grant shareholders the right to apply for excess shares for a number of securities higher than that for which they may apply on an irrevocable basis, proportionally to the subscription rights they hold and, in any case, within the limit of their application;
- 8) resolves that if the irrevocable subscriptions and, where necessary, the free subscriptions have not absorbed the totality of an issue of securities, the Executive Management may use, in the order that it deems fit, one and/or another of the options provided for in the regulatory and legal provisions currently in force, including offering to the public all or a portion of the unsubscribed shares;
- 9) resolves that the issues of Company equity warrants in accordance with Article L. 228-91 of the French Commercial Code (*Code de commerce*) may be carried out either by an offer of subscription under the terms and conditions stipulated above or by a free allocation to owners of old shares. In case of a free allocation of warrants, the Executive Management will be able to resolve that the allotment rights of fractional amounts will not be tradable and that the corresponding warrants will be sold; the sums generated by the sale are allocated to the holders of the options under the terms and conditions stipulated by the legal and regulatory provisions currently in force;
- 10) as appropriate, notes and resolves that, where needed, the aforementioned delegation automatically constitutes, in favour of the holders of securities carrying rights over time to Company shares that are likely to be issued, the shareholders' waiving of their preferential subscription rights to shares that will be issued upon presentation of these securities;
- 11) resolves, in case of an issue of independent equity warrants, after taking into consideration the issue price of said warrants, that the sum that is passed down to or should be passed down to the Company for each share that will be issued in accordance with this delegation will in any case be equal to or higher than the par value of the share or the proportion of the share capital that it represents;
- 12) resolves, with respect to securities carrying rights to the share capital, having reviewed the Executive Management's report, that the subscription price of such securities will be determined by the Executive Management on the basis of the value of the Company's shares as defined in paragraph 11 above;
- 13) grants the Executive Management full authority to implement this delegation, specifically, with the purpose of:
- deciding and determining the dates and procedures of the issues and the form and characteristics of the securities to be created, determining the terms and conditions and prices of the issues, setting the amounts to be issued,
 - determining the date of first entitlement, with or without retroactive effect, of the shares to be issued and, where required, the terms and conditions of their buyback; where required, suspending the exercise of the share allocation rights related to the securities to be issued within a period not to exceed three months,
 - setting the terms according to which, where required, the rights of the holders of the securities carrying rights to the share capital over time will be preserved, in accordance with the legal and regulatory provisions,
 - more broadly, taking all the necessary steps, carrying out all the required formalities and establishing all agreements in order to successfully accomplish the planned issues and record the capital increase or increases resulting from any issue performed by using this delegation, and consequently amend the Articles of Association;
- 14) resolves that, in case of an issue of debt securities, the Executive Management will have full authority to determine their characteristics and particularly to decide whether or not they are subordinated, to set their interest rate, their term, the fixed or variable redemption price

with or without premium, the amortisation procedures based on market conditions, the conditions under which these securities will give entitlement to Company shares and to amend, during the lifetime of the relevant shares, the procedures referred to above, in compliance with applicable formalities;

- 15) resolves that the Executive Management may also allocate the issue costs of the shares and securities to the amount of the premiums pertaining to the capital increases, and withdraw from these premiums the sums needed to increase the statutory reserve to one-tenth of the amount of the share capital resulting from these increases;
- 16) grants full authority to the Executive Management for the purpose of applying for the shares created as part of this resolution to be traded on a regulated market, wherever it decides;
- 17) confirms that, pursuant to Article L. 233-32 of the French Commercial Code (*Code de commerce*), this delegation may be implemented during public offerings on the shares of the Company;
- 18) resolves that this delegation granted to the Executive Management is valid for 26 months as of the date of this Meeting. For the remaining period and not exceeding the unused portion, this delegation supersedes the delegation granted by the Combined General Meeting of 2 June 2015 in its seventeenth resolution (issue of securities with continuation of preferential subscription rights).

Twentieth resolution:

Delegation of authority granted to the Executive Management to decide to issue shares and/or any other securities carrying rights to the share capital with elimination of preferential subscription rights but with the ability to introduce a priority period through a public offering

The General Meeting, acting under the quorum and majority requirements applicable to an Extraordinary General Meeting, after reviewing the Executive Management's report, the Supervisory Board's report and the Statutory Auditors' report, which were prepared in accordance with the law and with the provisions of Articles L. 225-129 to L. 225-129-6, L. 225-135, L. 225-136, L. 225-148 and L. 228-91 to L. 228-93 of the French Commercial Code (*Code de commerce*):

- 1) delegates to the Executive Management, with the oversight of the Company's Supervisory Board and of the Executive Management Board of Émile Hermès SARL, Active Partner, the authority to decide on the capital increase, with elimination of preferential subscription rights and through a public offering, on one or more occasions, in the amounts and at the times it so decides, both in France and abroad and/or on the international market, either in euros or in any other currency or currency unit set in reference to several currencies, through the issue, either for free or against payment:
- a) of new ordinary shares of the Company,
- b) of securities governed by Articles L. 228-91 *et seq.* of the French Commercial Code (*Code de commerce*) that are Company equity securities that carry rights immediately and/or over time to other Company equity securities, and/or give entitlement to the award of Company debt securities, and/or

c) of securities representing a lien that may or may not be governed by Articles L. 228-91 *et seq.* of the French Commercial Code (*Code de commerce*), and that carry rights or are likely to carry rights to Company equity securities to be issued; if necessary, these securities may also carry rights to existing Company equity securities and/or debt securities issued in accordance with Article L. 228-92 (1) of the French Commercial Code (*Code de commerce*) for free or against payment and to be paid for in cash or by clearing and settlement with liquid trade receivables payable by the Company:

- made up of equity securities carrying rights, either immediately or over time, to other equity securities, or giving entitlement to the award of debt securities,
- or if they carry rights to equity securities to be issued;

2) resolves that the subscription of the shares and other securities mentioned in paragraph 1 of this resolution may be carried out in cash, by clearing and settlement with liquid trade receivables payable by the Company;

3) resolves that these issues may also be performed:

- for the purpose of paying for shares that would be contributed to the Company as part of a public offering including a component of exchange in accordance with the provisions of Article L. 225-148 of the French Commercial Code (*Code de commerce*),
- following the issue, by a company in which the Company holds directly or indirectly at the time of the issue, more than half the share capital or securities carrying rights to Company shares or the securities mentioned in subparagraphs b and c of paragraph 1 above, under the terms and conditions stipulated in Article L. 228-93 of the French Commercial Code (*Code de commerce*). The issue by said companies of the aforementioned securities will automatically constitute, in favour of the holders of these securities, the waiving by the Companies' shareholders of their preferential subscription rights to the ordinary shares or securities mentioned in subparagraphs b and c of paragraph 1 above to which the securities thus issued by these companies will give entitlement, as well as to the Company shares to be issued to which the securities mentioned in subparagraphs b and c of paragraph 1 above would give entitlement;

4) as part of this delegation, resolves to eliminate the preferential subscription rights of the shareholders to the securities to be issued, it being understood that the Executive Management may grant shareholders an option of priority subscription on all or part of the issue, within the time frame and under the terms and conditions it sets in accordance with the legal and regulatory provisions. This priority of subscription will not give rise to the creation of tradable options, but it may, if the Executive Management deems it appropriate, be exercised as irrevocably or free. Unsubscribed shares under this right will be subject to a public placement;

5) resolves that the par value of the capital increases likely to be performed immediately and/or over time under this delegation may not exceed 40% of the share capital on the date of this meeting, with the capital increases performed in accordance with this delegation being offset against the limit mentioned in paragraph 4 of the nine-

teenth resolution (issue of securities with continuation of preferential subscription rights) submitted to this meeting, or the exchange value of this amount in case of an issue in foreign currency or in units of account set in reference to several currencies, an amount to which is added, where necessary, the par value of the additional shares to be issued in order to preserve the rights of the holders of securities giving entitlement to shares in accordance with the legal and regulatory provisions or, where necessary, with contractual stipulations providing for other cases of adjustment;

- 6)** resolves that the maximum par value of the debt securities that may be issued under this delegation may not be higher than one billion euros (€1,000 million) (individual limit), or higher than the exchange value of this amount in case of issue in a foreign currency or in units of account set in reference to several currencies; this amount is increased where necessary, by any redemption premium above face value, and the amount of the issues carried out in accordance with this delegation is offset against the common limit mentioned in paragraph 6 of the nineteenth resolution (issue of securities with continuation of preferential subscription rights) submitted to this meeting; the debt securities may be issued in euros, foreign currency or units of account set in reference to several currencies;
- 7)** as appropriate, notes and resolves that, where needed, the aforementioned delegation automatically constitutes, in favour of the holders of securities carrying rights over time to Company shares that are likely to be issued, the shareholders' waiving of their preferential subscription rights to shares that will be issued upon presentation of these securities;
- 8)** resolves that, in case of an immediate issue or issue over time of shares, (i) the issue price for each share issued under this delegation will be equal to or higher than the minimum amount stipulated by the laws and regulations in force at the time of the use of the delegation (on that date, the weighted average of the prices of the last three stock market trading days on the Euronext Paris regulated market preceding the setting of the subscription price of the capital increase, potentially reduced by a maximum discount of 5%), and (ii) the issue price of the securities carrying rights to the share capital will be such that the sum collected immediately by the Company, plus, where necessary, the sum likely to be collected later by it, will be equal to or higher than the minimum issue price listed in paragraph (i) above for each share issued as a result of the issue of these other securities;
- 9)** resolves that if the shareholders' and public's subscriptions have not absorbed the entirety of an issue of securities, the Executive Management may use any of the options below, in the order it chooses:
- limit the issue to the amount of subscriptions under the terms and conditions stipulated by the laws in force at the time of use of this delegation,
 - freely distribute all or part of the unsubscribed shares among the persons of its choice;
- 10)** grants the Executive Management full authority to implement this delegation, specifically, with the purpose of:
- deciding and determining the dates and procedures of the issues and the form and characteristics of the securities to be created, determining the terms and conditions and prices of the issues, setting the amounts to be issued,
 - determining the date of first entitlement, with or without retroactive effect, of the shares to be issued and, where required, the terms and conditions of their buyback; where required, suspending the exercise of the share allocation rights related to the securities to be issued within a period not to exceed three months,
 - in case of an issue of securities for the purpose of paying for shares contributed as part of a public offering including an exchange component (public exchange offering), draw up the list of securities likely to be contributed to the exchange; set the terms and conditions of the issue, the exchange value and, where necessary, the amount of the cash distribution to pay without enforcing the procedures for determining the price mentioned in paragraph 8 of this resolution; and determine the issue procedures as part of either a public exchange offering, an alternative purchase bid or exchange offering, or a single offering proposing the purchase or exchange of the shares referred to against a payment in shares and in cash, or a public takeover bid or public exchange offering as the main procedure, combined with a public exchange offering or public takeover bid as a secondary procedure, or any other form of public offering in accordance with the laws and regulations that apply to the aforementioned public offering,
 - setting the terms according to which, where required, the rights of the holders of the securities carrying rights to the share capital over time will be preserved, in accordance with the legal and regulatory provisions,
 - more broadly, taking all the necessary steps, carrying out all the required formalities and establishing all agreements in order to successfully accomplish the planned issues and record the capital increase or increases resulting from any issue performed by using this delegation, and consequently amend the Articles of Association;
- 11)** resolves that, in case of an issue of debt securities, the Executive Management will have full authority to determine their characteristics and particularly to decide whether or not they are subordinated, to set their interest rate, their term, the fixed or variable redemption price with or without premium, the amortisation procedures based on market conditions, the conditions under which these securities will give entitlement to Company shares, and to amend, during the lifetime of the relevant shares, the procedures referred to above, in compliance with applicable formalities;
- 12)** resolves that the Executive Management may also allocate the issue costs of the shares and securities to the amount of the premiums pertaining to the capital increases, and withdraw from these premiums the sums needed to increase the statutory reserve to one-tenth of the amount of the share capital resulting from these increases;

- 13) grants full authority to the Executive Management for the purpose of applying for the shares created as part of this resolution to be traded on a regulated market, wherever it decides;
- 14) confirms that, pursuant to Article L. 233-32 of the French Commercial Code (*Code de commerce*), this delegation may be implemented during public offerings on the shares of the Company;
- 15) resolves that this delegation granted to the Executive Management is valid for 26 months as of the date of this meeting.

For the remaining period and not exceeding the unused portion, this delegation supersedes the delegation granted by the Combined General Meeting of 2 June 2015 in its eighteenth resolution (issue of securities with elimination of preferential subscription rights).

Twenty-first resolution:

Delegation of authority to be granted to the Executive Management to decide to increase the share capital through the issue of shares and/or securities carrying rights to the share capital, reserved for members of a company or group savings plan, with the elimination of preferential subscription rights

The General Meeting, acting under the quorum and majority requirements applicable to Extraordinary General Meetings, having reviewed the Executive Management's report and the Statutory Auditors' special report, in accordance with the legal provisions, and particularly Articles L. 225-129 to L. 225-129-6 and L. 225-138-1 of the French Commercial Code (*Code de commerce*) and L. 3332-1 *et seq.* of the French Labour Code:

- 1) delegates to the Executive Management the authority to decide to increase the share capital, on one or more occasions and at its sole discretion, if necessary by separate tranches, within the limit of one percent (1%) of the share capital on the date of this Meeting (not taking into account the consequences on the amount of share capital of the adjustments made to protect the holders of the rights attached to the securities carrying rights to the share capital), by the issue of shares and/or securities carrying rights to the Company's share capital, reserved for members of one or more company or group savings plans that would be implemented within the Group comprised of the Company and French or foreign companies that are affiliated with it under the terms and conditions of Article L. 225-180 of the French Commercial Code (*Code de commerce*) and Article L. 3344-1 of the French Labour Code;
- 2) resolves that the amount of the capital increases resulting from this delegation will be offset against the common limit mentioned in paragraph 4 of the nineteenth resolution (issue of securities with continuation of preferential subscription rights) submitted to this meeting;
- 3) resolves that this delegation eliminates shareholders' preferential subscription rights in favour of the aforementioned members of a company or group savings plan to the equity securities and securities to be issued under this resolution, and waives their preferential subscription rights to the shares to which the securities issued on the basis of this delegation may give entitlement;
- 4) resolves, in accordance with Article L. 3332-19 of the French Labour Code, to set the discount at 20% of the average listed prices of the Company share on the Euronext Paris regulated market during the 20 stock market trading days preceding the day of the decision setting the opening date of subscriptions. Nonetheless, the meeting authorises the Executive Management to substitute all or part of the discount by free share allocations carrying rights to the Company's share capital, to reduce or to not agree to a discount, within the legal or regulatory limits;
- 5) resolves that the Executive Management may, in line with the authorisation granted by the Combined General Meeting of 31 May 2016 in its fifteenth resolution (free share allocation), within the limits set by Article L. 3332-21 of the French Labour Code, carry out the free share allocation or allocation of securities carrying rights to the Company's share capital as part of the employer's matching contribution;
- 6) confirms that, pursuant to Article L. 233-32 of the French Commercial Code (*Code de commerce*), this delegation may be implemented during public offerings on the shares of the Company;
- 7) grants the Executive Management full powers, with the ability to sub-delegate, to implement this delegation and particularly to:
- determine all the terms and conditions of the transaction or transactions to occur,
 - set the terms and conditions of the issues that will be performed under this authorisation, particularly to decide on the amounts proposed for subscription; determine pursuant to legal requirements the companies whose members of a company or group savings plan may subscribe to shares or securities carrying rights to the share capital thus issued and, where necessary, may be eligible for bonus shares or securities carrying rights to the share capital; resolve that the subscriptions may be carried out directly or through company mutual funds or other structures or entities permitted by the applicable legal or regulatory provisions; determine the conditions, particularly of length of service, that the beneficiaries of the capital increases must fulfil; determine the issue prices, dates, time frames, terms and conditions of subscription, payment, release and dividend of the shares or securities carrying rights to the Company's share capital,
 - in case of a free share allocation or free allocation of securities carrying rights to the share capital, set the number of shares or securities carrying rights to the capital to be issued and the number to award to each beneficiary, and determine the dates, time frames, terms and conditions of the allocation of these shares or securities carrying rights to the share capital within the legal and regulatory limits in force, and particularly to opt to substitute either fully or partially the allocation of these shares or securities carrying rights to the share capital for the discounts stipulated herein above, or to offset the exchange value of these shares against the total amount of the employer's matching contribution, or to combine these two options,

- at its sole discretion, after each capital increase, allocate the costs of the capital increases to the amount of premiums that pertain to them and withdraw from this amount the sums needed to increase the statutory reserve to one-tenth of the new amount of share capital,
- perform all the actions and formalities for the purpose of accomplishing and recording the capital increase or increases performed under this authorisation, particularly amending the Articles of Association in consequence, and, more broadly, doing all that is required;

8) resolves that this delegation granted to the Executive Management is valid for 26 months as of the date of this meeting.

For the remaining period and not exceeding the unused portion, this delegation supersedes the delegation granted by the Combined General Meeting of 2 June 2015 in its nineteenth resolution (capital increase reserved for members of a company or group savings plan).

Twenty-second resolution:

Delegation of authority to be granted to the Executive Management to decide to issue shares and/or any other securities carrying rights to the share capital, with the elimination of preferential subscription rights, by private placement referred to in Article L. 411-2, II of the French Monetary and Financial Code (*Code monétaire et financier*)

The General Meeting, acting under the quorum and majority requirements applicable to Extraordinary General Meetings, after reviewing the Executive Management's report, the Supervisory Board's report and the Statutory Auditors' report, which were prepared in accordance with the law and with the provisions of Articles L. 225-129 to L. 225-129-6, L. 225-135, L. 225-136 and L. 228-91 to L. 228-93 of the French Commercial Code (*Code de commerce*):

- 1) with the oversight of the Company's Supervisory Board and of the Executive Management Board of Émile Hermès SARL, Active Partner, delegates to the Executive Management the authority to decide on the capital increase without preferential subscription rights and by the offering referred to in Article L. 411-2, II of the French Monetary and Financial Code, on one or more occasions, in the amounts and at the times it so decides, either in France or abroad and/or on the international market, either in euros or in any other currency or currency unit set in reference to several currencies, through the issue, either for free or against payment:
 - a) of new ordinary shares of the Company,
 - b) of securities governed by Articles L. 228-91 *et seq.* of the French Commercial Code (*Code de commerce*) that are Company equity securities that carry rights immediately and/or over time to other Company equity securities, and/or give entitlement to the award of Company debt securities, and/or
 - c) of securities representing a lien that may or may not be governed by Articles L. 228-91 *et seq.* of the French Commercial Code (*Code de commerce*), and that carry rights or are likely to carry rights to Company equity securities to be issued; if necessary, these securities may also carry rights to existing Company equity securities and/or debt securities;

- 2) resolves that the subscription of the shares and the other securities referred to in paragraph 1 of this resolution may be carried out in cash, by clearing and settlement with liquid trade receivables payable by the Company, or in part by capitalisation of reserves, profits or share premiums;
- 3) resolves that these issues may also be carried out: following the issue, by a company that the Company holds directly or indirectly at the time of the issue, of more than half the share capital or of securities carrying rights to Company shares or to the securities mentioned in subparagraphs b and c of paragraph 1 above, under the terms and conditions stipulated in Article L. 228-93 of the French Commercial Code (*Code de commerce*). The issue by said companies of the aforementioned securities will automatically constitute, in favour of the holders of these securities, the waiving by the Companies' shareholders of their preferential subscription rights to the ordinary shares or securities mentioned in subparagraphs b and c of paragraph 1 above to which the securities thus issued by these companies will give entitlement, as well as to the Company shares to be issued, to which the securities mentioned in subparagraphs b and c of paragraph 1 above would give entitlement;
- 4) decides to eliminate, under this delegation of authority, the preferential subscription rights of the shareholders to the securities to be issued;
- 5) resolves that the par value of the capital increases that are likely to be performed immediately and/or over time under this delegation may not be higher than the limit stipulated by the regulations applicable on the day of issue (on that date, 20% of the share capital per year) (individual limit), with the capital increases performed in accordance with this delegation being offset against the common limit mentioned in paragraph 4 of the nineteenth resolution (issue of securities with continuation of preferential subscription rights) submitted to this meeting, or higher than the exchange value of this amount in case of issue in foreign currency or units of account set in reference to several currencies, in addition to the par value of the additional shares to issue to preserve the rights of the holders of securities giving entitlement to shares, in accordance with the legal and regulatory provisions, or, where necessary, with contractual stipulations providing for other cases of adjustment;
- 6) resolves that the maximum par value of the debt securities that may be issued under this delegation may not be higher than one billion euros (€1,000 million) (individual limit), or higher than the exchange value of this amount in case of issue in a foreign currency or in units of account set in reference to several currencies; this amount is increased, where necessary, by any redemption premium above face value, and the amount of the issues carried out in accordance with this delegation are offset against the common limit mentioned in paragraph 6 of the nineteenth resolution (issue of securities with continuation of preferential subscription rights) submitted to this meeting; the debt securities may be issued in euros, foreign currency or units of account set in reference to several currencies;
- 7) as appropriate, notes and resolves that, where needed, the aforementioned delegation automatically constitutes, in favour of the holders of securities carrying rights over time to Company shares that are likely to be issued, the shareholders' waiving of their preferential

subscription rights with regard to shares that will be issued upon presentation of these securities;

- 8) resolves that, in case of an immediate issue or issue over time of shares,
- (i) the issue price for each share issued under this delegation will be equal to or higher than the minimum amount stipulated by the laws and regulations in force at the time of the use of the delegation (on that date, the weighted average of the prices of the last three stock market trading days on the Euronext Paris regulated market preceding the setting of the subscription price of the capital increase, potentially reduced by a maximum discount of 5%), and that
 - (ii) the issue price of the securities carrying rights to the share capital will be such that the sum collected immediately by the Company, plus, where necessary, the sum likely to be collected later by it, will be equal to or higher than the minimum issue price listed in paragraph (i) above for each share issued as a result of the issue of these other securities;
- 9) resolves that if the subscriptions have not absorbed the entirety of an issue of securities, the Executive Management may use any of the options below, in the order it chooses:
- limit the issue to the amount of subscriptions under the terms and conditions stipulated by the laws in force at the time of use of this delegation,
 - freely distribute all or part of the unsubscribed shares among the persons of its choice;
- 10) grants the Executive Management full powers to implement this delegation, specifically, with the purpose of:
- deciding and determining the dates and procedures of the issues and the form and characteristics of the securities to be created, determining the terms and conditions and prices of the issues, setting the amounts to be issued,
 - determining the date of first entitlement, with or without retroactive effect, of the shares to be issued and, where required, the terms and conditions of their buyback; where required, suspending the exercise of the share allocation rights related to the securities to be issued within a period not to exceed three months,
 - setting the terms according to which, where required, the rights of the holders of the securities carrying rights to the share capital over time will be preserved, in accordance with the legal and regulatory provisions,
 - more broadly, taking all the necessary steps, carrying out all the required formalities and establishing all agreements in order to successfully accomplish the planned issues and record the capital increase or increases resulting from any issue performed by using this delegation, and consequently amend the Articles of Association;
- 11) resolves that, in case of an issue of debt securities, the Executive Management will have full authority to determine their characteristics and particularly to decide whether or not they are subordinated, to set their interest rate, their term, the fixed or variable redemption price with or without premium, the amortisation procedures based on market conditions, the conditions under which these securities will give entitlement to Company shares, and to amend, during the lifetime of the relevant shares, the procedures referred to above, in compliance with applicable formalities;

- 12) resolves that the Executive Management may also allocate the issue costs of the shares and securities to the amount of the premiums pertaining to the capital increases, and withdraw from these premiums the sums needed to increase the statutory reserve to one-tenth of the amount of the share capital resulting from these increases;
- 13) grants full authority to the Executive Management for the purpose of applying for the shares created as part of this resolution to be traded on a regulated market, wherever it decides;
- 14) confirms that, pursuant to Article L. 233-32 of the French Commercial Code (*Code de commerce*), this delegation may be implemented during public offerings on the shares of the Company;
- 15) resolves that this delegation granted to the Executive Management is valid for 26 months as of the date of this meeting.

For the remaining period and not exceeding the unused portion, this delegation supersedes the delegation granted by the Combined General Meeting of 2 June 2015 in its twentieth resolution (issue of securities by private placement).

Twenty-third resolution:

Delegation of authority to be granted to the Executive Management to decide to issue shares and/or securities carrying rights to the share capital, with the elimination of preferential subscription rights, in order to pay for contributions in kind granted to the Company applying to equity securities or securities carrying rights to the share capital

The General Meeting, acting under the quorum and majority requirements applicable to Extraordinary General Meetings, after reviewing the Executive Management's report, the Supervisory Board's report and the Statutory Auditors' report, which were prepared in accordance with the law and with the provisions of Articles L. 225-129 *et seq.*, particularly Article L. 225-147 of the French Commercial Code (*Code de commerce*):

- 1) delegates to the Executive Management, with the oversight of the Company's Supervisory Board and of the Executive Management Board of Émile Hermès SARL, Active Partner, the authority to carry out, on the report of an independent appraiser, on one or more occasions, in the amounts at the times it so decides, both in France and abroad and/or on the international market, either in euros or in any other currency or unit of account set in reference to several currencies, in order to pay for the contributions in kind granted to the Company and comprised of equity securities or securities carrying rights to the share capital, when the provisions of Article L. 225-148 of the French Commercial Code (*Code de commerce*) do not apply, the issue of:
- a) new ordinary shares of the Company,
 - b) securities governed by Articles L. 228-91 *et seq.* of the French Commercial Code (*Code de commerce*) that are Company equity securities that carry rights immediately and/or over time to other Company equity securities, and/or give entitlement to the award of Company debt securities, and/or
 - c) of securities representing a lien that may or may not be governed by Articles L. 228-91 *et seq.* of the French Commercial Code (*Code de commerce*), and that carry rights or are likely to carry rights to Company equity securities to be issued; if necessary, these

securities may also carry rights to existing Company equity securities and/or debt securities;

- 2) decides to eliminate, under this delegation, the preferential subscription rights of the shareholders to the securities to be issued;
- 3) resolves that the par value of the capital increases that are likely to be performed immediately and/or over time under this delegation may not exceed 10% of the share capital on the date of this meeting (individual limit), with the capital increases performed in accordance with this delegation being offset against the common limit mentioned in paragraph 4 of the nineteenth resolution (issue of securities with continuation of the preferential subscription rights) submitted to this meeting, or the exchange value of this amount in case of issue in a foreign currency or in units of account set in reference to several currencies;
- 4) resolves that the maximum par value of the debt securities that may be issued under this delegation may not be higher than one billion euros (€1,000 million) (individual limit), or higher than the exchange value of this amount in case of issue in a foreign currency or in units of account set in reference to several currencies; this amount is increased where necessary, by any redemption premium above face value, and the amount of the issues carried out in accordance with this delegation is offset against the common limit mentioned in paragraph 6 of the nineteenth resolution (issue of securities with continuation of preferential subscription rights) submitted to this meeting; the debt securities may be issued in euros, foreign currency or units of account set in reference to several currencies;
- 5) as appropriate, notes and resolves that, where needed, the aforementioned delegation automatically constitutes, in favour of the holders of securities carrying rights over time to Company shares that are likely to be issued, the shareholders' waiving of their preferential subscription rights with regard to shares that will be issued upon presentation of these securities;
- 6) grants the Executive Management full authority to implement this delegation, specifically, with the purpose of:
 - deciding on and determining the dates and methods of the issues as well as the form and characteristics of the securities to be created in compensation of the contributions, approving the

report of the Statutory Auditor(s), approving the assessment of the contributions and, regarding said contributions, recording the completion, determining the terms and conditions and prices of the issues, setting the amounts to be issued,

- determining the date of first entitlement, with or without retroactive effect, of the shares to be issued and, where required, the terms and conditions of their buyback; where required, suspending the exercise of the share allocation rights related to the securities to be issued within a period not to exceed three months,
 - setting the terms according to which, where required, the rights of the holders of the securities carrying rights to the share capital over time will be preserved, in accordance with the legal and regulatory provisions,
 - more broadly, taking all the necessary steps, carrying out all the required formalities and establishing all agreements in order to successfully accomplish the planned issues and record the capital increase or increases resulting from any issue performed by using this delegation, and consequently amend the Articles of Association;
- 7) resolves that the Executive Management may also allocate the issue costs of the shares and securities to the amount of the premiums pertaining to the capital increases, and withdraw from these premiums the sums needed to increase the statutory reserve to one-tenth of the amount of the share capital resulting from these increases;
 - 8) grants full authority to the Executive Management for the purpose of applying for the shares created as part of this resolution to be traded on a regulated market, wherever it decides;
 - 9) confirms that, pursuant to Article L. 233-32 of the French Commercial Code (*Code de commerce*), this delegation may be implemented during public offerings on the shares of the Company;
 - 10) resolves that this delegation granted to the Executive Management is valid for twenty-six months as of the date of this meeting.

For the remaining period and not exceeding the unused portion, this delegation supersedes the delegation granted by the Combined General Meeting of 2 June 2015 in its twenty-first resolution (issue of securities in order to pay for contributions in kind).

TWENTY-FOURTH RESOLUTION: AUTHORITY

Purpose

The twenty-fourth resolution is a common resolution making it possible to undertake all the legal formalities of filing and disclosure required by law after the General Meeting.

Twenty-fifth resolution:

Delegation of authority to carry out the formalities related to the General Meeting

Acting under the quorum and majority requirements applicable

to Extraordinary General Meetings, the General Meeting confers full powers on any bearer of an extract or copy of these minutes recording its deliberations to carry out all legal publication or other formalities.

8.3 SUPERVISORY BOARD'S REPORT TO THE COMBINED GENERAL MEETING OF 6 JUNE 2017

In accordance with legal and regulatory requirements, we hereby present our report for the year ended 31 December 2016.

We first wish to inform you that:

- ◆ the Executive Management has kept us regularly informed of the Company's business operations and results;
- ◆ the statement of financial position, statement of profit or loss and notes thereto have been provided to us as required by law;
- ◆ transactions subject to prior approval by the Supervisory Board under the terms of special provisions contained in the Company's Articles of Association have been duly approved by us, as is duly demonstrated hereafter;
- ◆ the Supervisory Board has met on a regular basis to decide on various matters within its exclusive competence, under the terms of the Articles of Association.

1. OBSERVATIONS ABOUT THE PARENT COMPANY AND CONSOLIDATED FINANCIAL STATEMENTS

In the light of the comprehensive review already provided, we have no specific comments on the business performance or on the financial statements for the year ended 31 December 2016. We recommend that you approve the financial statements.

2. ALLOCATION OF NET INCOME

On 7 February 2017, the Executive Management decided to pay an interim dividend of €1.50 per share. This interim dividend was paid on 24 February 2017.

We recommend that you approve the proposed allocation of net income as set out in the resolutions submitted to you for approval, calling for a net ordinary dividend of €3.75 per share

After the deduction of the interim dividend, the balance of €2.25 per share will be detached as of 8 June 2017 and paid on 12 June 2017, following the positions adopted on 9 June 2017.

3. RELATED-PARTY AGREEMENTS AND COMMITMENTS

Because no related-party agreement requiring the authorisation of the Supervisory Board was established in 2016, we ask you to note that there are no such agreements or commitments to approve.

The agreements and commitments approved previously by the General Meeting are presented in the Statutory Auditors' special report on the agreements and commitments mentioned in Articles L. 226-10, L. 225-38 to L. 225-43 of the French Commercial Code that appears on pages 307 to 309.

None of these agreements changed significantly in their amounts or financial terms in 2016.

In 2016, no agreement was downgraded for no longer meeting the criteria to be considered a related-party agreement due to a change in circumstances.

Pursuant to Article L. 225-38 of the French Commercial Code (*Code de commerce*) amended by ordinance 2014-863 of 31 July 2014, the authorisation decisions of the Supervisory Board as of 1 August 2014 are all reasoned decisions. A review of regulated agreements and commitments has been carried out by the Supervisory Board every year since 2013, in accordance with proposal no. 27 of AMF recommendation no. 2012-05 regarding Shareholders' General Meetings of listed companies that were incorporated in the French Commercial Code (*Code de commerce*) (Article L. 225-40-1) by the above-cited ordinance.

Following the review in 2016, the Board had no comments to make.

4. ACTIVITY OF THE SUPERVISORY BOARD

On page 117 of the report by the Chairman of the Supervisory Board, you will find the activities of the Supervisory Board in 2016.

5. COMPOSITION OF THE SUPERVISORY BOARD

We fully commit to the proposition that has been made to you, to:

- ◆ renew, for the statutory period of three years, the mandates that are set to expire for:
 - Ms Monique Cohen,
 - Mr Renaud Momméja,
 - Mr Éric de Seynes;
- ◆ appoint to the Supervisory Board:
 - Ms Dorothée Altmayer,
 - Ms Olympia Guerrand.

The term of their appointment was determined by drawing lots at three years and one year, respectively, under the by-law rule of rotation by thirds each year.

On page 113 of the report by the Chairman of the Supervisory Board, you will find a progress report of the mission to change the composition of the Supervisory Board, entrusted since 2011 to the Compensation, Appointments and Governance Committee.

6. DIRECTORS' FEES

We fully support the proposal made to you to raise the total directors' fees and Supervisory Board compensation to €600,000 to take into account the proposed appointments of the new Board members.

7. STATUTORY AUDITORS

The Audit Committee has recommended the reappointment of the main Statutory Auditors whose term is expiring, and the Supervisory Board has issued a favourable recommendation on these renewals.

8. RECOMMENDATIONS ON PROPOSED RESOLUTIONS SUBMITTED TO THE COMBINED GENERAL MEETING OF 6 JUNE 2017

We are in favour of all the proposed resolutions submitted to you.

This concludes our report on the information and opinions we considered necessary to bring to your attention in connection with the present General Meeting, and we recommend that you vote to approve all the resolutions submitted to you.

Supervisory Board

8.4 STATUTORY AUDITORS' REPORTS

8.4.1 STATUTORY AUDITORS' REPORT ON THE ANNUAL FINANCIAL STATEMENTS

The report appears on page 239.

8.4.2 STATUTORY AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

The report appears on page 210.

8.4.3 STATUTORY AUDITORS' SPECIAL REPORT ON RELATED-PARTY AGREEMENTS AND COMMITMENTS

This is a free translation into English of the Statutory auditors' report issued in the French language and is provided solely for the convenience of English-speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

General Meeting called to approve the financial statements for the year ended 31 December 2016

To the shareholders,

In our capacity as Statutory Auditors for your Company, we present to you our report on related-party agreements and commitments.

Our responsibility is to report to you, based on the information provided to us, on the main terms and conditions, and the grounds for the Company's best interest, of agreements and commitments that have been disclosed to us or that we may have identified as part of our engagement, without commenting on their relevance or substance or identifying any undisclosed agreements and commitments. Under the provisions of Article R. 226-2 of the French Commercial Code (*Code de commerce*), it is your responsibility to determine whether the agreements and commitments are appropriate and should be approved.

Where applicable, it is also our responsibility to provide you with the information required by Article R. 226-2 of the French Commercial Code (*Code de commerce*) in relation to the implementation during the year of agreements and commitments already approved by the General Meeting.

We performed the procedures that we deemed necessary in accordance with professional practice as per the French national auditing body, *Compagnie nationale des commissaires aux comptes*, relating to such engagements. These procedures consisted in verifying that the information given to us is consistent with the underlying documents.

Agreements and commitments to be submitted for the approval of the General Meeting

Agreements and commitments authorised during the year

We hereby inform you that we have not been advised of any agreement or commitment authorised during the past financial year to be submitted for the approval of the General Meeting in accordance with the provisions of Article L. 226-10 of the French Commercial Code (*Code de commerce*).

Agreements and commitments already approved by the General Meeting

Agreements and commitments approved in previous years which were implemented during the year

In accordance with Article R. 226-2 of the French Commercial Code (*Code de commerce*), we have been informed that the following agreements and commitments, approved by the General Meeting in previous years, remained in effect during the year.

a) Service agreement with Émile Hermès SARL

Person concerned

Émile Hermès SARL, Executive Chairman of Hermès International.

Nature, purpose and provisions

At its meetings of 23 March 2005 and 14 September 2005, the Supervisory Board authorised your Company to enter into a service agreement with Émile Hermès SARL for the provision of routine legal and financial services. At its meeting of 1 September 2007, the Supervisory Board authorised the signature of an amendment to add secretarial services to this agreement. At its meetings of 25 January 2012 and 30 August 2012, the Supervisory Board authorised two amendments to this agreement to alter the price of the secretarial services and to exceptionally provide for share ownership monitoring.

In 2016, billing for services provided under the terms of this agreement amounted to €214,702.

b) Design mission contract with the RDAI firm

Person concerned

Mrs Sandrine Brekke, owner of more than a 10% interest in RDAI and member of the Executive Management Board of Émile Hermès SARL, Executive Chairman of Hermès International.

Nature, purpose and provisions

At its meetings of 3 July 2015 and 20 November 2015, the Supervisory Board authorised:

- ♦ an agreement between Hermès International and the architectural firm RDAI to undertake an assignment to design the office interior located 10-12 rue d'Anjou in Paris, on several floors and including procurement of furniture;
- ♦ an amendment to that agreement commissioning RDAI to undertake two studies, namely: (i) fitting out an additional level, and (ii) changing the programming and placement of some spaces for the other levels.

In 2016, billing for services provided under the terms of this agreement amounted to €8,200.

Grounds for the Company's best interest

Hermès International has leased an office building located 10-12 rue d'Anjou in Paris. That building is intended to bring together in one place all communication teams and will receive all the creators of the Group and the press in perfect conditions. The RDAI firm was chosen because it knows the architectural concept of the stores, since it created the concept, and it was therefore best placed to develop this property that will serve as a showcase for Group communication in line with the Hermès brand image. The fees were package deals and correspond to the market price.

c) Design mission contract with the RDAI firm*Person concerned*

Mrs Sandrine Brekke, owner of more than a 10% interest in RDAI and member of the Executive Management Board of Émile Hermès SARL, Executive Chairman of Hermès International.

Nature, purpose and provisions

At its meetings of 20 March 2003 and 15 September 2004, the Supervisory Board authorised an agreement and its amendment between your Company and the architectural firm RDAI to undertake an assignment to design Hermès stores.

This agreement has no effect in 2016.

Nature, purpose and provisions

The trademark licence agreements and their amendments provide for the following royalties:

Company	Period	Royalties paid in respect of 2016
Hermès Sellier	10 years, from 1 January 2007	€97,376,905
Hermès Horizons	10 years, from 1 January 2008	€267,808
Comptoir Nouveau de la Parfumerie	10 years, from 1 January 2007	€12,185,749
La Montre Hermès	10 years, from 1 January 2006	€3,303,622
Faubourg Italia	10 years, from 18 February 2011	€152,053

e) Deferred compensation commitments to a Corporate Officer*Person concerned*

Mr Axel Dumas, Executive Chairman of Hermès International.

Nature, purpose and provisions

On 4 June 2013, your Supervisory Board made the following commitments with regard to the compensation for Mr Axel Dumas:

- ◆ the benefit of the supplemental defined-contribution pension plan established for all of the personnel of the Group's French companies;
- ◆ the benefit of the additional retirement plan set up in 1991 for the benefit of the Company's Senior Executives. 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 ten years of seniority, and be eligible to draw pension benefits under the basic French social security regime. The annual pension resulting from this scheme, if all the conditions of eligibility are fulfilled, would be calculated based on the average compensation in respect of the last three years, and may not exceed eight times the annual Social Security ceiling;
- ◆ in the event that his appointment as Executive Chairman is terminated, the Company has also agreed to pay Mr Axel Dumas an amount equal to twenty-four months of compensation (sum of statutory com-

d) Trademark licence agreements*Persons concerned*

- ◆ Hermès International, direct or indirect shareholder with an interest of more than 10% in the licensed companies;
- ◆ for Comptoir Nouveau de la Parfumerie: Mr Matthieu Dumas, Supervisory Board member of Hermès International and director of Comptoir Nouveau de la Parfumerie;
- ◆ for Hermès Sellier: Éric de Seynes and Blaise Guerrand, Supervisory Board members of Hermès International and members of the Management Board of Hermès Sellier;
- ◆ for Hermès Horizons: Mr Axel Dumas, Executive Chairman and legal representative of Hermès International and Executive Chairman of Hermès Horizons;
- ◆ for La Montre Hermès: Mr Axel Dumas, Executive Chairman of Hermès International and director of La Montre Hermès.

pensation and supplemental compensation). This commitment had been made subject to the realisation of the following performance conditions, so that the conditions of his departure are in equilibrium with the situation of the Company: achieving budget targets in at least four out of the five previous years (with revenue and operating income growth measured at constant rates), without deterioration in the Hermès brand and corporate image.

The payment of this amount will be subject to termination resulting:

- either from a decision of the Executive Chairman by reason of a change of control of the Company, the replacement of the Executive Chairman of Émile Hermès SARL, or a change in the Company's strategy,
- or from a decision taken by the Company.

f) Maintenance, for a Corporate Officer, of collective health and welfare insurance in force in the Company for employees and Corporate Officers*Person concerned*

Mr Axel Dumas, Executive Chairman of Hermès International.

Nature, purpose and provisions

On 19 March 2014, your Supervisory Board authorised the continuation, for Mr Axel Dumas, of the collective benefits regarding health expenses and pension in force in the Hermès Group companies.

g) Employment contract of a Supervisory Board member

Person concerned

Mrs Julie Guerrand.

Nature, purpose and provisions

As authorised by the Supervisory Board at its meeting on 3 March 2011, Mrs Julie Guerrand has had an employment contract within the framework of her duties at Hermès International. On 1 October 2014, her employment contract was transferred to the Hermès Cuir Précieux division, where she took up new duties.

h) Non-competition commitment of a former Corporate Officer

Person concerned

Mr Patrick Thomas (former Executive Chairman of Hermès International).

Nature, purpose and provisions

At its meeting on 20 November 2013, your Supervisory Board authorised the signing of a non-competition commitment under the terms set out below:

- i) for a period of ten years, Mr Patrick Thomas undertakes not to carry out, whether personally or on behalf of third parties, any activity that competes with that of Hermès International Group, and in particular not to collaborate, in any capacity whatsoever and in any form whatsoever, with a company in the luxury sector that is active in the following geographical area: Europe and Asia;

Nature, purpose and provisions

The compensation of the Audit Committee and the Compensation, Appointments and Governance Committee (CAG) members was set as follows, from 2014:

<i>In euros</i>	Fixed annual amount	Maximum annual variable amount¹	Maximum total
Audit Committee Chairman	20,000	-	20,000
Audit Committee members	4,000	6,000	10,000
CAG Committee Chairman	20,000	-	20,000
CAG Committee members	4,000	6,000	10,000

(1) *Variable part calculated according to the attendance of the members.*

For 2016, the total amount owed by Hermès International with regard to their duties was €97,000 for all members of these two specialised committees.

Paris and Neuilly-sur-Seine, 11 April 2017

The Statutory Auditors

PricewaterhouseCoopers Audit

Christine Bouvry

Didier Kling & Associés

Christophe Bonte

Didier Kling

8.4.4 STATUTORY AUDITORS' REPORT ON THE REPORT PREPARED BY THE CHAIRMAN OF THE SUPERVISORY BOARD

The report appears on page 137.

8.4.5 REPORT FROM ONE OF THE STATUTORY AUDITORS, DESIGNATED AS THE INDEPENDENT THIRD PARTY ORGANISATION, ON THE CONSOLIDATED SOCIAL, ENVIRONMENTAL AND SOCIETAL INFORMATION CONTAINED IN THE MANAGEMENT REPORT

The report appears on page 85.

8.4.6 STATUTORY AUDITORS' REPORT ON THE CAPITAL DECREASE BY CANCELLATION OF TREASURY SHARES (SEVENTEENTH RESOLUTION)

This is a free translation into English of the Statutory auditors' report issued in the French language and is provided solely for the convenience of English-speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

Combined General Meeting of 6 June 2017

To the shareholders,

In our capacity as Statutory Auditors of your Company, and in accordance with the requirements of Article L. 225-209 of the French Commercial Code (*Code de commerce*) concerning share capital decreases by cancellation of repurchased shares, we hereby report to you on our assessment of the reasons for and the terms and conditions of the proposed share capital decrease.

The Company's Executive Management proposes that you confer upon it, for a period of 24 months as of the date of this General Meeting, all necessary powers to cancel, on one or more occasions and up to a maximum of 10% of the Company's share capital per period of 24 months, some or all of the shares held or purchased under the authorisation for your Company to buy back its own shares as provided pursuant to the terms of the aforementioned article.

We performed the procedures that we deemed necessary in accordance with professional practice as per the French national auditing body, Compagnie nationale des commissaires aux comptes, relating to such engagements. These procedures involve examining the fairness of the reasons for and the terms and conditions of the proposed share capital decrease, which is not considered to infringe upon the principle of equal treatment of shareholders.

We have no comments on the reasons for or the terms shareholders and conditions of the proposed share capital decrease.

Neuilly-sur-Seine and Paris, 11 April 2017

The Statutory Auditors

PricewaterhouseCoopers Audit

Christine Bouvry

Didier Kling & Associés

Christophe Bonte

Didier Kling

8.4.7 STATUTORY AUDITORS' REPORT ON THE ISSUE OF SHARES AND/OR OTHER TRANSFERABLE SECURITIES WITH MAINTENANCE AND/OR CANCELLATION OF THE PREFERENTIAL SUBSCRIPTION RIGHTS (NINETEENTH AND TWENTIETH RESOLUTIONS).

This is a free translation into English of the Statutory auditors' report issued in the French language and is provided solely for the convenience of English-speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

Combined General Meeting of 6 June 2017

To the shareholders,

In our capacity as Statutory Auditors of your Company, and pursuant to the duties provided for in Articles L. 228-92 and L. 225-135 *et seq.* of the French Commercial Code (*Code de commerce*), we hereby present our report on the Executive Management's requests to be delegated powers to issue shares and/or transferable securities, on which you are asked to vote.

On the basis of its report and the report of the Supervisory Board, your Executive Management Board asks that you delegate to it, under the supervision of the Supervisory Board and the Executive Management Board of Émile Hermès SARL, Active Partner, for a period of twenty-six (26) months from the date of this meeting, the authority to conduct the following transactions and to determine the final terms of such issues, and asks that you waive, where necessary, your preferential subscription rights:

- ◆ issues, with maintenance of the preferential subscription rights (nineteenth resolution), of ordinary shares and/or transferable securities convertible into or exchangeable for other equity securities and/or entitling holders to the allocation of debt securities and/or transferable securities convertible into new equity securities;
- ◆ issues, by way of a public offering, with cancellation of the preferential subscription rights (twentieth resolution), of ordinary shares and/or transferable securities convertible into or exchangeable for other equity securities and/or entitling holders to the allocation of debt securities and/or transferable securities convertible into new equity securities:
 - it being specified that such securities may be issued for the purpose of remunerating securities tendered to the Company as part of a public exchange offer where such securities satisfy the conditions laid down in Article L. 225-148 of the French Commercial Code (*Code de commerce*),
 - it being specified that transferable securities convertible into or exchangeable for equity securities of the Company may be issued as a result of the issuance, by any company directly or indirectly owning more than half of the share capital of the Company, or of which the Company directly or indirectly owns more than half of the share capital, of equity securities exchangeable for other equity securities or entitling holders to the allocation of debt securities or securities convertible into equity securities to be issued by the Company.

The aggregate nominal amount of capital increases liable to be carried out immediately and/or in the future pursuant to the nineteenth and twentieth resolutions may not exceed 40% of the share capital as of the date of the General Meeting. The maximum nominal amount of debt securities issuable under the nineteenth and twentieth resolutions is set at one billion euros (€1,000 million).

It is the responsibility of your Executive Management to prepare a report pursuant to Articles R. 225-113 *et seq.* of the French Commercial Code (*Code de commerce*). It is our responsibility to give our opinion on the fairness of the figures taken from the financial statements, on the proposal to cancel the preferential subscription rights and on certain other information concerning these transactions contained in this report.

We performed the procedures that we deemed necessary in accordance with professional practice as per the French national auditing body, *Compagnie nationale des commissaires aux comptes*, relating to such engagements. These procedures consisted in verifying the content of the Executive Management's report bearing on these transactions and the procedures for determining the issue price of the equity securities to be issued.

Subject to the subsequent review of the terms and conditions of the issues to be conducted, we have no comment to make concerning the terms and conditions for determining the issue price of the equity securities to be issued, as set out in the Executive Management's report in respect of the twentieth resolution.

Moreover, as this report does not specify how the issue price of the equity securities to be issued within the framework of the nineteenth resolution will be set, we cannot give our opinion on the choice of the elements used in the calculation of the issue price.

As the final terms and conditions under which any such issues will be made have not been set, we cannot express any opinion thereon or, as a result, on the proposal to cancel the preferential subscription rights in the twentieth resolution.

In accordance with Article R. 225-116 of the French Commercial Code (*Code de commerce*), we will prepare a supplementary report, where applicable, when these delegations of authority are used by your Executive Management in the event of issues of transferable securities convertible into or exchangeable for other equity securities or entitling holders to the allocation of debt securities, issues of transferable securities convertible into new equity securities and in the event of the issuance of shares with cancellation of the preferential subscription rights.

Paris and Neuilly-sur-Seine, 11 April 2017

The Statutory Auditors

PricewaterhouseCoopers Audit
Christine Bouvry

Didier Kling & Associés
Christophe Bonte

Didier Kling

8.4.8 STATUTORY AUDITORS' REPORT ON THE ISSUANCE OF SHARES AND/OR OTHER SECURITIES CONVERTIBLE INTO EQUITY SECURITIES RESERVED FOR MEMBERS OF A COMPANY OR GROUP SAVINGS PLAN (TWENTY-FIRST RESOLUTION)

This is a free translation into English of the Statutory auditors' report issued in the French language and is provided solely for the convenience of English-speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

Combined General Meeting of 6 June 2017

To the shareholders,

In our capacity as Statutory Auditors of your Company and pursuant to the duties provided for in Articles L. 228-92 and L. 225-135 *et seq.* of the French Commercial Code (*Code de commerce*), we hereby present our report on the Executive Management's request to be delegated powers to increase the share capital by issuing ordinary shares and/or securities convertible into equity securities with cancellation of the preferential subscription right reserved for employees belonging one or more company or group savings plans to be established within a group constituted by the Company and companies, French or foreign, within the scope of consolidation of the financial statements of your company pursuant to Article L. 3344-1 of the French Labour Code (*Code du travail*), in a maximum amount equivalent to 1% of the share capital of the Company as of the date of this meeting. You are called upon to vote on this request.

This capital increase is subject to your approval in accordance with the provisions of Articles L. 225-129-6 of the French Commercial Code (*Code de commerce*) and L. 3332-18 *et seq.* of the French Labour Code (*Code du travail*).

On the basis of its report, your Executive Management Board asks that you delegate to it, for a period of twenty-six (26) months, the authority to conduct a capital increase and that you cancel your preferential subscription right to the equity securities to be issued. Where applicable, it will be its responsibility to determine the final terms and conditions of issuance for such transactions.

It is the responsibility of your Executive Management to prepare a report pursuant to Articles R. 225-113 *et seq.* of the French Commercial Code (*Code de commerce*). It is our responsibility to give our opinion on the fairness of the figures taken from the financial statements, on the proposal to cancel the preferential subscription right and on certain other information concerning the issue contained in this report.

We performed the procedures that we deemed necessary in accordance with professional practice as per the French national auditing body, *Compagnie nationale des commissaires aux comptes*, relating to such engagements. These procedures consisted in verifying the content of the Executive Management's report bearing on this transaction and the procedures for determining the issue price of the equity securities to be issued.

Subject to the subsequent review of the terms and conditions of the issue to be conducted, we have no comment to make concerning the terms and conditions for determining the issue price of the equity securities to be issued, as set out in the Executive Management's report.

As the final terms and conditions under which any such issue will be made have not been set, we cannot express any opinion thereon or, as a result, on the proposal to cancel the preferential subscription right.

In accordance with Article R. 225-116 of the French Commercial Code (*Code de commerce*), we will prepare a supplementary report, where applicable, when this delegation of authority is used by your Executive Management in the event of an issue of shares and/or transferable securities convertible into other equity securities and in the event of the issue of transferable securities giving access to new equity securities.

Paris and Neuilly-sur-Seine, 11 April 2017

The Statutory Auditors

PricewaterhouseCoopers Audit

Didier Kling & Associés

Christine Bouvry

Christophe Bonte

Didier Kling

8.4.9 STATUTORY AUDITORS' REPORT ON THE ISSUE OF SHARES AND/OR OTHER TRANSFERABLE SECURITIES WITH CANCELLATION OF THE PREFERENTIAL SUBSCRIPTION RIGHTS (TWENTY-SECOND RESOLUTION)

This is a free translation into English of the Statutory auditors' report issued in the French language and is provided solely for the convenience of English-speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

Combined General Meeting of 6 June 2017

To the shareholders,

In our capacity as Statutory Auditors of your Company, and pursuant to the duties provided for in Articles L. 228-92 and L. 225-135 *et seq.* of the French Commercial Code (*Code de commerce*), we hereby present our report on the Executive Management's request to be delegated powers to issue shares and/or transferable securities, on which you are asked to vote.

On the basis of its report and the report of the Supervisory Board, your Executive Management Board asks that you delegate to it, under the supervision of the Supervisory Board and the Executive Management Board of Émile Hermès SARL, Active Partner, for a period of twenty-six (26) months from the date of this meeting, the authority to conduct the following transactions and to determine the final terms of such issues, and that you waive, where necessary, your preferential subscription rights:

- ♦ issues, by way of a public offering referred to in Article L. 411-2-II of the French Monetary and Financial Code (*Code monétaire et financier*), and within the limit of 20% of the share capital per year, with cancellation of the preferential subscription rights (twentieth resolution), of ordinary shares and/or other transferable securities convertible into or exchangeable for equity securities and/or entitling holders to the allocation of debt securities and/or transferable securities convertible into new equity securities:
 - it being specified that transferable securities convertible into or exchangeable for equity securities of the Company may be issued as a result of the issuance, by any company directly or indirectly owning more than half of the share capital of the Company, or of which the Company directly or indirectly owns more than half of the share capital, of equity securities exchangeable for other equity securities or entitling holders to the allocation of debt securities or transferable securities convertible into equity securities to be issued by the Company.

The aggregate nominal amount of capital increases liable to be carried out immediately and/or in the future pursuant to the twenty-second resolution may not exceed 20% of the share capital as of the date of this meeting. The maximum nominal amount of debt securities issuable pursuant to the twenty-second resolution is set at one billion euros (€1,000 million).

It is the responsibility of your Executive Management to prepare a report pursuant to Articles R. 225-113 *et seq.* of the French Commercial Code (*Code de commerce*). It is our responsibility to give our opinion on the fairness of the figures taken from the financial statements, on the proposal to cancel the preferential subscription rights and on certain other information concerning these transactions contained in this report.

We performed the procedures that we deemed necessary in accordance with professional practice as per the French national auditing body, *Compagnie nationale des commissaires aux comptes*, relating to such engagements. These procedures consisted in verifying the content of the Executive Management's report bearing on these transactions and the procedures for determining the issue price of the equity securities to be issued.

Subject to the subsequent review of the terms and conditions of the issues to be conducted, we have no comment to make concerning the terms and conditions for determining the issue price of the equity securities to be issued, as set out in the Executive Management's report in respect of the twenty-second resolution.

As the final terms and conditions under which any such issues will be made have not been set, we cannot express any opinion thereon or, as a result, on the proposal to cancel the preferential subscription rights in this resolution.

In accordance with Article R. 225-116 of the French Commercial Code (*Code de commerce*), we will prepare a supplementary report, where applicable, when these delegations of authority are used by your Executive Management in the event of the issue of transferable securities convertible into or exchangeable for equity securities and/or entitling holders to the allocation of debt securities, in the event of the issue of transferable securities convertible into new equity securities and in the event of the issuance of shares with cancellation of the preferential subscription rights.

Paris and Neuilly-sur-Seine, 11 April 2017

The Statutory Auditors

PricewaterhouseCoopers Audit

Christine Bouvry

Didier Kling & Associés

Christophe Bonte

Didier Kling

8.4.10 STATUTORY AUDITORS' REPORT ON THE ISSUE OF SHARES AND/OR OTHER TRANSFERABLE SECURITIES CONVERTIBLE INTO OR EXCHANGEABLE FOR EQUITY SECURITIES TO REMUNERATE CONTRIBUTIONS IN KIND (TWENTY-THIRD RESOLUTION)

This is a free translation into English of the Statutory auditors' report issued in the French language and is provided solely for the convenience of English-speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

Combined General Meeting of 6 June 2017

To the shareholders,

In our capacity as Statutory Auditors of your Company, and pursuant to the duties provided for in Articles L. 228-92 of the French Commercial Code (*Code de commerce*), we hereby present our report on the Executive Management's request to be delegated powers to issue shares and/or transferable securities, on which you are asked to vote.

On the basis of its report and the report of the Supervisory Board, your Executive Management Board asks that you delegate to it, under the supervision of the Supervisory Board and the Executive Management Board of Émile Hermès SARL, Active Partner, for a period of twenty-six (26) months from the date of this meeting, the authority to issue ordinary shares and/or transferable securities convertible into or exchangeable for equity securities and/or entitling holders to the allocation of debt securities and/or transferable securities convertible into or exchangeable for equity securities to be issued, in order to remunerate contributions in kind granted to the Company and comprising equity securities or transferable securities convertible into or exchangeable for equity securities within the limit of 10% of the share capital.

The capital increases liable to be carried out pursuant to the twenty-third resolution shall be deducted from the aggregate limit provided for in the nineteenth resolution, which corresponds to 40% of the share capital as of the date of this meeting. The maximum nominal amount of debt securities issuable under the twenty-third resolution is set at one billion euros (€1,000 million).

It is the responsibility of your Executive Management to prepare a report pursuant to Articles R. 225-113 *et seq.* of the French Commercial Code (*Code de commerce*). It is our responsibility to give our opinion on the fairness of the figures taken from the financial statements, on the proposed issue and on certain other information concerning this transaction contained in this report.

We performed the procedures that we deemed necessary in accordance with professional practice as per the French national auditing body, *Compagnie nationale des commissaires aux comptes*, relating to such engagements. These procedures consisted in verifying the content of the Executive Management's report bearing on this transaction and the procedures for determining the issue price of the equity securities to be issued.

As this report does not specify how the issue price of the equity securities to be issued within the framework of this resolution will be set, we cannot give our opinion on the choice of the elements used in the calculation of the issue price.

In accordance with Article R. 225-116 of the French Commercial Code (*Code de commerce*), we will prepare a supplementary report, where applicable, when this delegation of authority is used by your Executive Management in the event of the issue of transferable securities convertible into or exchangeable for equity securities or entitling holders to the allocation of debt securities, in the event of the issue of transferable securities convertible into new equity securities and in the event of the issuance of equity securities with cancellation of the preferential subscription rights.

Paris and Neuilly-sur-Seine, 11 April 2017

The Statutory Auditors

PricewaterhouseCoopers Audit

Didier Kling & Associés

Christine Bouvry

Christophe Bonte

Didier Kling

9

ADDITIONAL INFORMATION

9.1	PERSONS RESPONSIBLE FOR THE REGISTRATION DOCUMENT	318
9.1.1	Names and positions of persons responsible for information contained in the registration document	318
9.1.2	Declaration by persons responsible for the registration document	318
9.2	STATUTORY AUDITORS AND THEIR FEES	319
9.2.1	Principal Statutory Auditors	319
9.2.2	Substitute Statutory Auditors	319
9.3	REGULATORY INFORMATION CONSULTATION	320
9.3.1	2017 calendar	320
9.3.2	Financial information	320
9.4	INFORMATION INCORPORATED BY REFERENCE	321
9.5	CROSS-REFERENCE TABLE	322
9.5.1	Reconciliation table of the annual financial report	322
9.5.2	Reconciliation table of the management report	323
9.5.3	Cross-reference table for the registration document	324
9.5.4	CSR Correspondence table (Article 225-105)	327

9.1 PERSONS RESPONSIBLE FOR THE REGISTRATION DOCUMENT

9.1.1 NAMES AND POSITIONS OF PERSONS RESPONSIBLE FOR INFORMATION CONTAINED IN THE REGISTRATION DOCUMENT

Mr Axel Dumas, Executive Chairman.

Émile Hermès SARL, 23, rue Boissy-d'Anglas

75008 Paris, Executive Chairman

9.1.2 DECLARATION BY PERSONS RESPONSIBLE FOR THE REGISTRATION DOCUMENT

To the best of our knowledge, having taken all reasonable measures to ensure that such is the case, we hereby certify that the information contained in this registration document is in accordance with the facts and contains no omission likely to affect its import.

To the best of our knowledge, the financial statements have been prepared in accordance with the applicable accounting standards and give a fair view of the assets, liabilities and financial position and results of the Company and all the undertakings included in the consolidation, and that the management report – items of which are listed on page 323 (Reconciliation with management report) – presents a fair view of the development and performance of the business operations, results and financial position of the Company and all the undertakings included in the consolidation, and that it describes the main risks and uncertainties to which they are exposed.

We have received a letter from the Statutory Auditors certifying that they have audited the financial position and accounting information provided in this document and that they have read the document in its entirety.

Paris, 19 April 2017

Executive Management

Axel Dumas

Henri-Louis Bauer
Representative of Émile Hermès SARL

9.2 STATUTORY AUDITORS AND THEIR FEES

The Principal Statutory Auditors and Substitute Statutory Auditors serve for a term of six years.

If a Statutory Auditor is appointed to fill a vacancy left by the resignation of a Statutory Auditor or other reason, they are appointed for the remainder of their predecessor's term.

The terms of the Principal Statutory Auditors and Substitute Statutory Auditors will end in 2017.

The appointment of one or more Substitute Statutory Auditors is now required only if the Principal Statutory Auditor appointed is an individual or a single-member company (see the French Commercial Code, Article L. 823-1, paragraph 2 amended by law No. 2016-1691 - the Sapin II law - of 9 December 2016). This provision has been in force since 11 December 2016.

The Combined General Meeting of 6 June 2017 will be asked to:

- ♦ reappoint PricewaterhouseCoopers Audit and Didier Kling & Associés as Principal Statutory Auditors for a term of six years;
- ♦ duly note that the terms of Mr Étienne Boris and Mrs Dominique Mahias as Substitute Statutory Auditors have expired.

9.2.1 PRINCIPAL STATUTORY AUDITORS

PricewaterhouseCoopers

Member, Compagnie Régionale des Commissaires aux Comptes de Versailles.

63, rue de Villiers

92200 Neuilly-sur-Seine

Represented by Mrs Christine Bouvry

First appointment: Ordinary General Meeting of 30 May 2011.

Term of current office: Ordinary General Meeting called to approve the financial statements for 2016 (reappointment to be asked).

Didier Kling & Associés

Member, Compagnie Régionale des Commissaires aux Comptes de Paris.

28, avenue Hoche

75008 Paris

Independent member of Crowe Horwath International represented by: Mr Didier Kling, as a Corporate Officer of the holder of the position mandate, and Mr Christophe Bonte, as a Technical Partner

First appointment: Ordinary General Meeting of 31 May 1999.

Term of current office: Ordinary General Meeting called to approve the financial statements for 2016 (reappointment to be asked).

9.2.2 SUBSTITUTE STATUTORY AUDITORS

Mr Étienne Boris

63, rue de Villiers

92200 Neuilly-sur-Seine

First appointment: Ordinary General Meeting of 30 May 2011.

Term of current office: Ordinary General Meeting called to approve the financial statements for 2016.

Mrs Dominique Mahias

28, avenue Hoche 75008 Paris

First appointment: Ordinary General Meeting of 5 June 2007.

Term of current office: Ordinary General Meeting called to approve the financial statements for 2016.

9.3 REGULATORY INFORMATION CONSULTATION

9.3.1 2017 CALENDAR

Publication of Q1 2017 consolidated revenue	27/04/2017
Shareholders' Combined General Meeting	06/06/2017
Publication of Q2 2017 consolidated revenue	21/07/2017
Publication of H1 2017 consolidated results	13/09/2017
Publication of Q3 2017 consolidated revenue	08/11/2017

9.3.2 FINANCIAL INFORMATION

The Hermès financial website is available at <http://finance.hermes.com/en/>. On this website, shareholders and investors can access the following information, available in French and English, for the last five financial years.

Group overview

Group Overview

Hermès sectors

Stores and manufactures

Key Figures

Corporate governance

Group management

Executive Chairmen

Executive Committee

Management bodies

Supervisory Board

Composition

Rules of procedure

Ethics charter

Supervisory Board's report

Specialised committees of the Supervisory Board

Audit Committee

Presentation

Composition

Rules of procedure

Compensation, Appointments and Governance Committee

Presentation

Composition

Rules of procedure

Active Partner

Presentation

Composition of the Executive Management Board

Releases

All releases

Revenue

Results

Other releases

Reports and presentations

Half-year reports

Annual reports

Presentations

Other reports

Shareholder's guide

Hermès shareholder

Financial calendar

Hermès share

Dividends

General Meetings

Glossary

9.4 INFORMATION INCORPORATED BY REFERENCE

Pursuant to Article 28 of Regulation (EC) no. 809/2004 of 29 April 2004, this registration document incorporates by reference the following information, to which the reader is invited to refer:

- ♦ in respect of the year ended 31 December 2014: consolidated financial statements, parent company financial statements and Statutory Auditors' reports thereon, presented in the registration document filed with the Financial Markets Authority (AMF) on 16 April 2015 under reference number D15-0358, on pages 159 to 216, 221 to 247, 266 and 267, respectively;

- ♦ in respect of the year ended 31 December 2015: consolidated financial statements, parent company financial statements and Statutory Auditors' reports thereon, presented in the registration document filed with the Financial Markets Authority (AMF) on 14 April 2016 under reference number D16-0338, on pages 169 to 226, 231 to 255, 273 and 274, respectively.

All other information incorporated into this registration document in addition to the information described above has been replaced or updated by the information contained herein. Copies of this registration document are available as described on pages 276 and 320.

9.5 CROSS-REFERENCE TABLE

9.5.1 RECONCILIATION TABLE OF THE ANNUAL FINANCIAL REPORT

(Article 222-3 of the AMF General Regulation)

Page	Heading
213-238	Hermès International annual financial statements
159-209	Hermès Group consolidated financial statements Executive Management report (refer to reconciliation table of the Executive Management report)
318	Responsibility statement for the annual financial report
239	Statutory Auditors' report on the annual financial statements
210-211	Statutory Auditors' report on the consolidated financial statements
206	Statutory Auditors' fees
110-136	Report from the Chairman of the Supervisory Board on the corporate governance principles applied by the Company, on the conditions for the preparation and organisation of the Supervisory Board's work and on the internal control and risk management procedures instituted by the Company
137	Statutory Auditors' report on the report prepared by the Chairman of the Supervisory Board

9.5.2 RECONCILIATION TABLE OF THE MANAGEMENT REPORT

(Articles L. 225-100 et seq., L. 232-I, II and R. 225-102)

Page	Heading
6-7,15-28	Company situation and activity during the past financial year
n/a	Changes to the format of the accounts or valuation methods applied in previous years
152-153	Operating results of the Company, its subsidiaries and companies they control
13-14,272	Key financial performance indicators
6-7	Analysis of the progression in business activity, earnings and financial position
5	Progress made or challenges encountered
33-35	Description of main risks and uncertainties the Company faces
188-194	Indications about the use of financial instruments, objectives and Company policy for financial risk management
176	Important events since the closing date of the financial year and the date the report is established
156	Foreseeable developments of the Company and its outlook
92-106	Offices and positions held in any Company by each Corporate Officer during the past financial year
138-146,204,286-290	Total compensation and benefits of all kinds paid to each Corporate Officer during the past financial year
111,138-139	Commitments of any kind made by the Company benefiting its Corporate Officers
109	Transactions by directors with the securities of the Company
44-80	Key environmental and social matters
44-84	Human Resources information ¹
256	Employee ownership of share capital
63-80	Environmental information ¹
34	Information on the policy for the prevention of technological accident risks
154	Significant equity investments in companies based in France for capital and voting rights
n/a	Disposals of shares arising from the effect of regulating cross-shareholdings
254-255	Major shareholders and ownership structure as at 31 December 2015
n/a	Injunctions or fines for anti-competitive practices imposed by the Competition Board, which the Board prescribed to include in the annual report
125,253	Information on factors liable to affect the outcome of a public offering
90-91	Company's general management methods
139-140,144-146	Calculation elements and results of base adjustment conversion or exercise of securities giving access to capital and stock subscription or purchase options
258-259	Information on buybacks of shares
266-270	Summary of valid authorisations to increase capital
238	Table of the Company's results over the last five financial years
284	Number of dividends distributed during the last three financial years
33-34	Company research and development activities
154,226	Information on accounts payable due dates
38-84	Social and environmental orientations taken by the Company ¹
81-84	Societal information ¹

(1) Under Article L. 225-105 of the French Commercial Code (Code de commerce) regarding the social and environmental consequences of the Group's activities and its societal commitments in favour of sustainable development.

9.5.3 CROSS-REFERENCE TABLE FOR THE REGISTRATION DOCUMENT

The following table cross-references this document with the main headings required under EC Regulation no. 809/2004 enacting the terms of the European Parliament's "Prospectus" directive (2003/71/EC).

Items that are not applicable to Hermès International are marked "n/a".

Page	Headings in Appendix 1 of EC Regulation no. 809/2004
	1. Persons responsible
318	1.1. Persons responsible for information contained in the registration document
318	1.2. Declaration of persons responsible for registration document
	2. Statutory Auditors
319	2.1. Name and address of the Statutory Auditors of the Company financial statements
n/a	2.2. Statutory Auditors who have resigned, who have been removed or have not been reappointed during the period covered
13-14,150-151	3. Selected financial information
33-35	4. Risk factors
	5. Information concerning the issuer
10-12	5.1. History and development of the Company
242	5.1.1. Name and Company trade name
243	5.1.2. Company registration location and number
243	5.1.3. Date of incorporation and duration of the Company
243,276	5.1.4. Company headquarters and legal organisational structure of the Company, legislation governing its activities, country of origin, address and telephone number of its registered office
6-7	5.1.5. Important events in the development of the Company's activities
14,152	5.2. Investments
	6. Overview of activities
242	6.1. Main activities
15-22	6.1.1. Nature of operations conducted by the Company and its main activities
12	6.1.2. New products or services launched on the market
23-28	6.2. Principal markets
153	6.3. Exceptional events
33-34	6.4. Dependence
19	6.5. The basis for any statement from the Company regarding its competitive position
	7. Organisation
29	7.1. Brief summary of the Group
207-209,234	7.2. Company subsidiaries
	8. Fixed assets, plants and equipment
32	8.1. Major existing or proposed tangible assets
79	8.2. Environmental issues that may affect the utilisation of tangible assets
	9. Analysis of financial position and results
152	9.1. Financial position
152	9.2. Operating income
	10. Treasury and capital
153	10.1. Information regarding the short-term and long-term capital of the Company
166	10.2. Source and amount of Company cash flows
193-194	10.3. Information about the borrowing conditions and the financial structure of the Company
n/a	10.4. Information regarding any restriction to the use of capital, reasonably influencing or capable of influencing, directly or indirectly, the operations of the Company
186	10.5. Information regarding expected sources of financing
34	11. Research and development, patents and licences

Page	Headings in Appendix 1 of EC Regulation no. 809/2004
	12. Information regarding trends
156,176	12.1. Main trends at the end of the last financial year until the date of the registration document
156	12.2. Known trend or uncertainty likely to reasonably influence the perspectives of the Company
n/a	13. Predictions or estimations of earnings
	14. Administrative, management, supervisory bodies and group management
90-107	14.1. Administrative, management, or supervisory bodies
115	14.2. Conflicts of interest at the level of administrative, management, or supervisory bodies
	15. Compensation and benefits
138-146	15.1. Compensation of Corporate Officers
204	15.2. Total amounts set aside or accrued to provide pension, retirement or other benefits
	16. Operation of administration and management bodies
92-106	16.1. Expiry date of current mandates
115	16.2. Service contracts with members of the administrative, management, or supervisory bodies
120-124	16.3. Information on the Company's Compensation Committee and Audit Committee
125	16.4. Statement of compliance with the corporate governance regime in force in country of origin
	17. Employees
10,13,44-45,197	17.1. Number of employees
140,256	17.2. Shares and stock options
140	17.3. Arrangements for involving employees in the capital of the Company
	18. Main shareholders
254	18.1. Shareholders holding more than 5% of the share capital or voting rights
253	18.2. Existence of different voting rights
254	18.3. Control of the Company
261-265	18.4. All arrangements known to the Company whose implementation could result in a change of control at a later date
109,203-204,227	19. Related-party transactions
	20. Financial information concerning the assets, financial position and results of the Company
159-238	20.1. Historical financial information
n/a	20.2. Pro-forma financial information
214-217	20.3. Financial Statements
239	20.4. Verification of annual historical financial information
31/12/2016	20.5. Date of latest financial information
n/a	20.6. Intermediaries and other financial information
271	20.7. Dividend policy
238,283	20.7.1. Dividend per share
33-35	20.8. Litigation and arbitration
n/a	20.9. Significant changes in financial or trading position
	21. Additional information
154,186,225	21.1. Share capital
253-254	21.1.1. Subscribed capital, changes in capital and shares
n/a	21.1.2. Shares not representing capital
186,224,255-256	21.1.3. Shares held by the Company
140-146	21.1.4. Convertible securities, exchangeable or assorted with warrants, stock subscription options, stock options and performance-based share rights
244-245	21.1.5. Terms and conditions regulating any acquisition rights and/or obligations attached to capital subscribed but not paid, or an undertaking to increase the capital
140	21.1.6. Capital of any Group member under option or agreement
253	21.1.7. History of share capital
295-304	21.1.8. Financial authorisations proposed to the Extraordinary General Meeting

Page	Headings in Appendix 1 of EC Regulation no. 809/2004
243-251	21.2. Incorporation and Articles of Association
251	21.2.1. Corporate purpose
246-252	21.2.2. Terms regarding members of the administrative, management, or supervisory bodies
245-246	21.2.3. Rights, privileges and restrictions pertaining to shares by category
246	21.2.4. Modification of shareholder rights
250	21.2.5. General Meetings
n/a	21.2.6. Provisions relating to a change in Company control
245	21.2.7. Provisions relating to profit-sharing thresholds
244-245	21.2.8. Conditions governing capital modifications
262-265	22. Major contracts
n/a	23. Third-party information, expert statements and statements of interest
276,320	24. Public documents
154	25. Information about holdings

9.5.4 CSR CORRESPONDENCE TABLE (ARTICLE 225-105)

Pursuant to Article L. 225-102-1 of the French Commercial Code (*Code de commerce*), Hermès International presents the actions and directions taken by the Company to address the social and environmental consequences of its activities and fulfil its social commitments in favour of sustainable development in its management report. The correspondence between the detailed information in this registration document with the information required by the regulations (mentioned in Article R. 225-105-1 of the French Commercial Code (*Code de commerce*)) is presented below. Key elements of the methodological explanations are given in the corresponding sections.

Page	Heading
	Human resources information
	Employment
44-46	The total number and distribution of employees by sex, age and geographical area (permanent staff: open-ended contracts, and fixed-term contracts over nine months)
46	Hiring and firing (in France, only for individual dismissals)
47-48	Compensation and trends (in France, only for incentives, shareholdings and employee support activities)
	Labour Organisation
48	Organisation of working time
48	Absenteeism (<i>in France</i>)
	Labour relations
49	Organisation of social dialogue, including information, consultation and negotiation procedures with staff (<i>in France</i>) Collective agreements (<i>in France</i>)
	Health and safety
51-55	Health, safety and working conditions
49	Record of agreements signed with trade unions or employee representatives on safety at work (<i>in France</i>)
53	Accidents at work, including their frequency and severity, as well as occupational illnesses (<i>in France</i>)
	Training
41-42	Policies implemented in training
41	The total number of training hours (<i>in France</i>)
	Diversity and equal opportunity/equal treatment
49-50	Policies implemented and measures taken in favour of equality between women and men
50	Policies implemented and measures for employment and integration of disabled people (<i>in France</i>)
49-50	Policies implemented and measures taken to combat discrimination
	Promotion and respect for fundamental conventions of stipulations concerning ILO:
55	♦ with respect to freedom of association and collective negotiation
55	♦ for the elimination of discrimination in employment and occupation
55	♦ for the elimination of forced or compulsory labour
55	♦ for the effective abolition of child labour
	Environmental information
	General environmental policy
38-40,63-80	Organisation of the Company to take into account environmental issues
	Evaluation approaches or certification for environmental issues
38-40,63-80	Training and awareness-building for employees regarding the environment
38-40,63-80	Funds allocated to the prevention of environmental risks and pollution
80	The amount of provisions and guarantees for risks to the environment, provided that such information is not likely to cause serious harm to the Company in an ongoing dispute
	Pollution and waste management
76-80	Measures for prevention, reduction or reclamation of emissions in the air, water and soil, severely affecting the environment
58-61	Measures for prevention, recycling, and waste disposal
79,80	Consideration of noise and other forms of pollution generated by a specific activity

Page	Heading
	Sustainable use of resources
65-66,69-75	Water consumption and water supply according to constraints (water consumption is published only on the scope of the industrial department)
56,58	Consumption of raw materials and measures to improve efficiency in their use
67-75	Energy consumption, measures taken to improve energy efficiency and use of renewable energy (<i>energy consumption outside of electricity is published on the scope of the industrial department only</i>)
79	Land use
	Climate change
77-79	Release of greenhouse gases
63-79	Adapting to the consequences of climate change
	Protecting biodiversity
40,81,83-84	Steps taken to develop biodiversity
	Societal information
	Territorial, economic and social impact of the Company's activity
38-39,81	In terms of employment and regional development
38-39,81-82	On local populations
	Relations maintained with persons or organisations interested in the Company's activity
49	Conditions for dialogue with such persons or organisations
83-84	Actions of partnership or sponsorship
	Subcontracting and suppliers
38,61-62	Inclusion of social and environmental issues in the Company's purchasing policy
56	Significance of subcontracting and consideration in relations with suppliers and subcontractors for their social and environmental responsibility
	Loyalty of practices
55	Actions taken in support of human rights
34	Measures taken in support of the health and safety of consumers
	Other actions taken in support of human rights
55	Actions taken in support of human rights

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