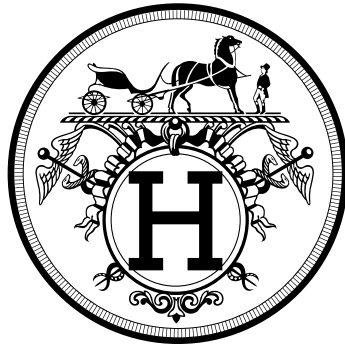




# HERMÈS

2010 ANNUAL REPORT  
OVERVIEW OF THE GROUP - REVIEW OF OPERATIONS







**2010 REGISTRATION DOCUMENT FILED WITH THE AUTORITÉ DES MARCHÉS FINANCIERS**

In accordance with Article 212-13 of the AMF General Regulation, this shelf-registration document, which contains the annual financial report and comprises Volume 1 and Volume 2 of the Annual Report, was filed with the AMF on 19 April 2011.

This document may be used in support of a financial transaction only if it is supplemented by an offering circular approved by the AMF.

**2010 ANNUAL REPORT  
GROUP OVERVIEW - REVIEW OF OPERATIONS**

**VOLUME 1**

**Hermès International**

Partnership limited by shares with share capital of €53,840,400.12 - Commercial and Company Register of Paris No. 572 076 396  
Registered office: 24, rue du faubourg Saint-Honoré, 75008 Paris. Tel.: + 33 (0)1 40 17 49 20. Fax: + 33 (0)1 40 17 49 21.

Legal filing, 2nd quarter of 2010. ISBN 978-2-35102-049-4

2010

*Sales to be told!*





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## **VOLUME 2**

- Presentation of Hermès International and Émile Hermès SARL
- Corporate Governance
- Information on the Share Capital
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- Parent Company Financial Statements
- Five-year Summary of Financial Data
- Annual General Meeting of 30 May 2011
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# MESSAGE FROM THE CHAIRMAN

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Bertrand Puech and Patrick Thomas.


In 2010 our designers were inspired by the theme “Tales to be told”. Hermès truly shone, making the most of the rich heritage that forms the basis of our individuality.

2009 was a year for prudence, but this year we gave our *métiers* and stores free rein to express themselves.

The prolific creativity of the leather goods, textiles, fashion accessories, ready-to-wear and other *métiers* strengthened our already rich product lines, providing our clients with a constant stream of delights and surprises.

Our *métiers* also devoted themselves to showcasing these creations, making the product offers lively and ensuring that supply remained smooth and continuous, thanks notably to a modern, integrated logistics system that was put into place.

Our stores harnessed Hermès’ distinctive creativity in increasingly more remarkable fashion, highlighted by a series of ambitious new openings: a space exclusively dedicated to menswear on Madison Avenue, New York, a new 1,400m<sup>2</sup> store on Paris’s Left Bank, and 11 other openings around the world in China, Japan, Singapore, Australia and the Netherlands.

Three new activities were added to our established sectors. Homeware, unveiled at the opening of our Left Bank store, now offers our customers furniture, carpets, furnishing fabrics and wallpaper. In the new department of “petit ”, a team of talented artists take discarded materials and objects and transform them into unique, magical creations. And finally, Shang Xia, a Chinese company with Chinese management, has been set up to design, produce, and sell a range of high-quality items based on Chinese craftsmanship.

In order to support the remarkably sustained growth, major efforts were made to ensure that in-store customer service was as personal and imaginative as possible.

Our subsidiaries John Lobb, Saint-Louis and Puiforcat also posted handsome results. The new perfume *Voyage d’Hermès* took off in style.

All this adds up to the finest year in Hermès’ history so far, in terms of both development and profitability which, all in all, is the best possible guarantee of our independence.

Responding to movements in our capital base, the Hermès family, the majority shareholder, reaffirmed their essential role in shaping the house’s philosophy and performance, and stated once more their strong determination to continue playing that same role in the long term.

These results were achieved thanks to the extraordinary commitment of every single person working for the house, as well as the shared knowledge of our business model.

We would like to extend our warmest thanks to each and every one of you.

We will no doubt continue to grow in 2011, especially with a theme that is so fitting for this house - “Hermès, contemporary artisan”.

Previous page: Spring-summer 2010 advertising campaign.

← Window display at 24, faubourg Saint-Honoré designed by Leïla Menchari, winter 2010.

**Patrick Thomas**  
Executive chairman

Émile Hermès SARL  
Executive chairman,  
represented by **Bertrand Puech**





# *Group Overview*

# GROUP MANAGEMENT

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The role of the Executive Chairmen 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 to the Supervisory Board and to General Meetings of shareholders. Hermès International's executive management is comprised of the Executive Chairmen and the Executive Committee, which consists of six Managing Directors, each of whom has well-defined areas of responsibility. Its role is to oversee the Group's strategic management.

## EXECUTIVE CHAIRMEN

**Patrick Thomas**  
Executive Chairman

**Émile Hermès SARL**  
Executive Chairman,  
represented by Bertrand Puech

## EXECUTIVE COMMITTEE

**Patrick Thomas**  
Executive Chairman

**Patrick Albaladejo**  
Deputy Managing Director  
Strategic Development & Corporate  
Image

**Axel Dumas**<sup>1</sup>  
Managing Director Operations

**Pierre-Alexis Dumas**  
Artistic Managing Director

**Beatriz González-Cristóbal Poyo**  
Managing Director  
Marketing

**Mireille Maury**  
Managing Director  
Finance & Administration

**Mineaki Saito**<sup>2</sup>  
Deputy Managing Director  
Marketing

**Guillaume de Seynes**  
Managing Director  
Manufacturing Division & Equity  
Investments

## MESSAGE FROM MANAGEMENT

On 11 March 2011, Japan was struck by a catastrophic earthquake of unprecedented magnitude. Our hearts and minds – and those of the entire Hermès family – go out to all the people who are suffering enormous hardship in the aftermath of this tragic disaster. We are deeply grateful to Hermès employees in

Japan and greatly admire the extraordinary courage and dignity they have shown in coping with this terrible situation. Hermès reiterates and stands firmly behind its long-term commitment to Japan – a market that sets the standard world-wide when it comes to appreciating quality and setting exacting requirements.



← Executive Committee.

# MANAGEMENT BODIES

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The Supervisory Board exercises ongoing control over company management. For this purpose, it has the same powers as the Statutory Auditors. The Supervisory Board determines the proposed earnings appropriation for the financial year to be submitted to the Annual General Meeting. The Active Partner must consult the Supervisory Board before making any decisions pertaining to strategic options, to consolidated operating and investment budgets or to recommendations to the General Meeting with respect to the distribution of share premiums, reserves and retained earnings. The Supervisory Board also submits to the Active Partner its considered recommendations on the appointment or possible revocation of the powers of the Executive Chairmen. The Audit Committee ascertains that the consolidated financial statements fairly and accurately reflect the Group's financial position. The role of the Compensation, Appointments and Governance Committee is to ascertain that the remuneration of the Executive Chairmen complies with the provisions of the Articles of Association and the decisions made by the Active Partner. The Committee also participates in drawing up proposed appointments of corporate executive officers and is responsible for monitoring corporate governance matters.



Jérôme Guerrand, Chairman  
of the Supervisory Board until 3 March 2011.



Éric de Seynes, Chairman  
of the Supervisory Board since 3 March 2011.

*On behalf of our house, I wish to extend our deepest thanks to Jérôme Guerrand for his commitment and devoted efforts during his twenty years of service as Chairman of the Supervisory Board, alongside Jean-Louis Dumas and Bertrand Puech. Under his leadership, his expertise and his attachment to the family's values have made a major contribution to furthering the Board's work and to good governance within our house. I assure you that I intend to pursue these efforts and to follow in this path.*

Éric de Seynes

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 Chairmen, after receiving the considered recommendation 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 net worth.

#### SUPERVISORY BOARD

**Éric de Seynes**<sup>1</sup>  
Chairman<sup>1</sup> and member<sup>2</sup>

**Jérôme Guerrand**  
Chairman and member<sup>3</sup>

**Maurice de Kervénoaël**  
Vice-Chairman

**Ernest-Antoine Seillière**  
Vice-Chairman

Charles-Éric Bauer  
Matthieu Dumas  
Julie Guerrand  
Olaf Guerrand<sup>1</sup>  
Renaud Momméja  
Robert Peugeot  
Guillaume de Seynes<sup>4</sup>  
Florence Woerth<sup>2</sup>

#### AUDIT COMMITTEE

**Maurice de Kervénoaël**  
Chairman

Charles-Éric Bauer  
Julie Guerrand<sup>5</sup>  
Renaud Momméja  
Robert Peugeot  
Florence Woerth<sup>2</sup>

#### COMPENSATION, APPOINTMENTS AND GOVERNANCE COMMITTEE

**Ernest-Antoine Seillière**  
Chairman

Matthieu Dumas  
Robert Peugeot

#### ACTIVE PARTNER

**Émile Hermès SARL,**  
represented by its Management Board:

**Bertrand Puech**  
Executive Manager, Chairman  
and Member of the Management Board

**Philippe Dumas**  
Vice-Chairman

**Hubert Guerrand**  
Vice-Chairman

Henri Louis Bauer  
Sandrine Brekke  
Frédéric Dumas  
Édouard Guerrand  
Agnès Harth  
Laurent E. Momméja  
Pascale Mussard  
Éric de Seynes<sup>6</sup>  
Guillaume de Seynes<sup>7</sup>

<sup>1</sup> Since 3 March 2011

<sup>2</sup> Since 7 June 2010

<sup>3</sup> Until 3 March 2011

<sup>4</sup> Until 7 June 2010

<sup>5</sup> Until 2 March 2011

<sup>6</sup> Until 4 June 2010

<sup>7</sup> Since 4 June 2010





## SIX GENERATIONS OF CRAFTSMEN

Today, Hermès employs 8,366 people worldwide and has 317 exclusive stores, 193 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 to build up the Hermès Group. In 1880, his son transferred the family business to its now-famous address, 24, faubourg Saint-Honoré, where he expanded into the saddlery business. Soon, he was supplying saddles and harnesses to aristocratic stables all over the world.

In 1918, with the advent of the automobile, the founder's grandson Émile Hermès foresaw the changes to come in transportation and envisioned a new kind of lifestyle. He launched a line of fine leather goods and luggage with "saddle stitching". The Hermès style was born and soon extended to clothing, jewellery, silver, diaries, silk scarves, and other items.

Émile Hermès also began a private collection, which was to become a source of inspiration for his designers.

During the 1950's, Émile Hermès' sons-in-law Robert Dumas and Jean-René Guerrand took charge of the Company and further diversified

its operations, while taking care to uphold the brand's integrity.

Beginning in 1978, and aided by other fifth- and sixth- generation members of the family, Jean-Louis Dumas brought a renewed freshness to Hermès by expanding into new crafts and establishing a global network of Hermès stores.

Twenty-eight years later, he handed the reins to Patrick Thomas, Co-Executive Chairman of Hermès since September 2004 (and Managing Director of the Group from 1989 to 1997).

The artistic directorship was passed to Pierre-Alexis Dumas since February 2011. Today, Hermès is active in fourteen different sectors: Leather Goods, Scarves, Ties, Men's and Women's Ready-to-Wear, Perfumes, Watches, Diaries, Hats, Footwear, Gloves, Enamel, Art of Living, Tableware and Jewellery. International in scope, Hermès has continued to grow while remaining a family firm with a uniquely creative spirit that blends precision manufacturing with traditional craftsmanship.



← Window display  
at 24, faubourg Saint-Honoré  
designed by Leïla Menchari,  
winter 1978.



For over 170 years, Hermès has been creating, inventing and innovating. Some of our models have never gone out of style, and are still popular today, decades after they were first designed. Reissued, reinterpreted and reinvented, these timeless creations have forged the identity of Hermès.

← *Les Maisons Enchantées*  
service in Faïence.

> 1837

- Harnesses

1867

- Saddles

Circa 1900

- *Haut à courroies* bag designed by Émile Hermès.

1903

- *Rocabar* blanket

1922

- Belts

1923

- Dual-handled handbag

1924

- Fabric gloves with zipper

1925

- First men's garment
- *Mallette à coins rapportés*

1927

- Wristwatches
- *Collier de chien* belt
- *Filet de selle* bracelet

1928

- *Ermeto* watch

> 1929

- Development of women's and men's fashions

1930

- Diaries
- *Sac à dépêches* briefcase
- *Kelly* handbag, designed by Robert Dumas

1937

- Silk scarves

1938

- *Chaîne d'ancre* bracelet, designed by Robert Dumas
- First garment with "silk scarf" pattern

1949

- Printed silk ties

1951

- *Eau d'Hermès*

1954

- Ashtrays
- Bath mats

1961

- *Calèche* fragrance for women

1968

- *Twillaine* knitwear and silk scarf garments



Bracelets in enamel.

> 1969

- *Constance* handbag

1970

- *Équipage* fragrance for men

1971

- *Nausicaa* bracelet

1972

- Hermès shoes for women

1974

- *Amazone* fragrance for women

1975

- *Kelly* watch

1976

- First complete men's ready-to-wear collection
- Enamel bracelets

1978

- *Ghillie* shoes

1979

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

1982

- John Lobb ready-to-wear shoes

1983

- *Clipper* watch

> 1984

- *Pivoines* porcelain
- *Parfum d'Hermès* fragrance for women

1985

- Silk gavroche scarf

1986

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

1993

- *Oxer* saddle
- Cristal Saint-Louis *Bubbles* crystal tableware

1994

- Soft bag range
- *Touareg* jewellery

1995

- *24, Faubourg* fragrance for women
- *Fourre-tout* bag
- *Sadhou* diamond ring

1996

- *Fanfare* crystal glasses
- *Charnière* steel flatware
- *Harnais* watch
- Puiforcat *Nantes* flatware

1997

- Hermès shoes for men

1998

- *Herbag* bag
- Twice-round watch bands
- *Quick* trainers
- Puiforcat *Wave* flatware



Chaîne d'ancre bracelet in silver.



Jardin des Orchidées service in porcelain.



Eau des Merveilles fragrance for women



Bracelet in rose gold with brown diamonds.



Pippa armchair.

#### > 1999

- *Hiris* fragrance for women

#### 2000

- *Corlandus* dressage saddle
- *Comète* flatware
- *Tandem* watch
- *Nil* and *Les matins de l'étang* porcelain

#### 2001

- Creation of *Détail* silk scarves
- *Onde* flatware
- *Rythme* porcelain and crystal collection
- *Essentielle* jumping saddle

#### 2002

- *Égypte* sandals in lacquer and leather
- *Picotin* handbag
- *Plein cuir* desk line

#### 2003

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

#### 2004

- *Eau des Merveilles* fragrance for women
- *Barénia* watch
- *Brasília* jumping saddle
- *Hermessence* fragrance collection

#### 2005

- *Herlight* suitcase
- *Kelly 2* watch
- *Un Jardin sur le Nil* fragrance
- *Balcon du Guadalquivir* porcelain

#### > 2006

- *Lindy* bag
- *Cape Cod 8 jours* watch
- *Terre d'Hermès* fragrance for men
- *Paris-Bombay* bag
- *Cheval d'Orient* service

#### 2007

- *Carré 70* in vintage silk
- *Kelly Calèche* fragrance for women
- *Fil d'argent* porcelain
- Rose gold and brown diamond jewellery

#### 2008

- *Jypsière* bag
- *Horizon* diary
- *Bardette Andaluz* (children's saddle)
- *Carré fluide* in silk jersey
- *Un Jardin après la Mousson* fragrance
- *Jardin des Orchidées* porcelain

#### 2009

- *Victoria* saddle
- Cross-dyed/Dip Dye carré
- *Colognes Hermès* collection
- *Mosaïque au 24* porcelain
- *Cape Cod Tonneau* watch

#### 2010

- Automatic *Arceau Chrono* watch
- Haute Bijouterie collection
- *Les Maisons enchantées* service in faïence
- *Tie* in heavy twill
- *Talaris* saddle
- *Voyage d'Hermès* fragrance
- *Kelly 35 So-black* bag
- *Toolbox 20* bag
- Furniture, Jean-Michel Frank collection

# KEY FIGURES

## KEY CONSOLIDATED DATA (in millions of euros)

	2010	2009	2008	2007	2006
Revenue	2,400.8	1,914.3	1,764.6	1,625.1	1 514.9
Recurring operating income	668.2	462.9	449.2	414.5	401.1
Operating income	668.2	462.9	449.2	423.7	415.2
Net income attributable to owners of the parent	421.7	288.8	290.2	288.0	268.4
Operating cash flows	571.5	401.1	378.9	356.6	321.7
Investments (excluding financial investments)	153.8	207.3	160.4	155.9	134.3
Shareholders' equity <sup>1</sup>	2,150.3	1,789.9	1,588.5 <sup>2</sup>	1,459.8 <sup>2</sup>	1,409.0
Net cash position	828.5	507.6	450.5	480.5	538.2
Restated net cash <sup>3</sup>	950.1	576.4	432.4	485.5	536.3
Economic value added <sup>4</sup>	332.7	191.6	190.8	196.5	197.7
Return on capital employed (ROCE) <sup>5</sup>	32%	21%	22%	25%	26%
Number of employees	8,366	8,057	7,894	7,455	6,825

<sup>1</sup> Equity excluding non-controlling interests.

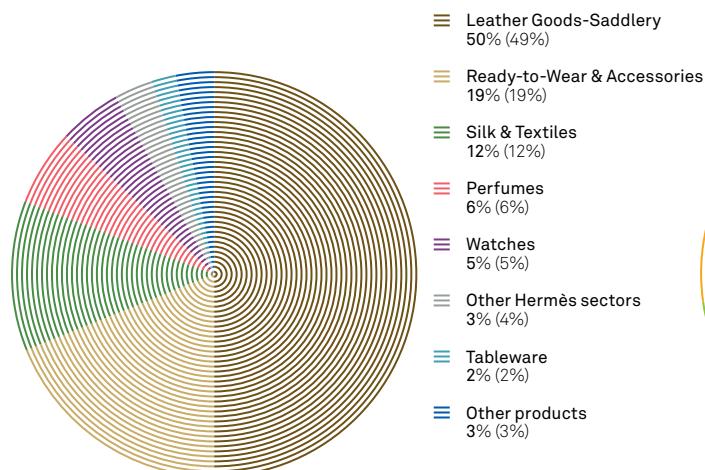
<sup>2</sup> After application of IAS 38 on the treatment of samples at the point of sale and of advertising and promotional expenditure.

<sup>3</sup> Includes non-liquid financial investments and borrowings.

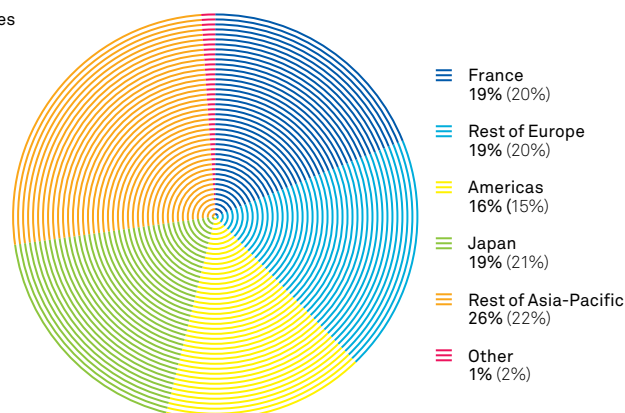
<sup>4</sup> Difference between adjusted operating income after tax on operating income and the weighted average cost of capital employed (net value of long-term capital and working capital).

<sup>5</sup> Difference between adjusted operating income after tax on operating income and the average cost of capital employed.

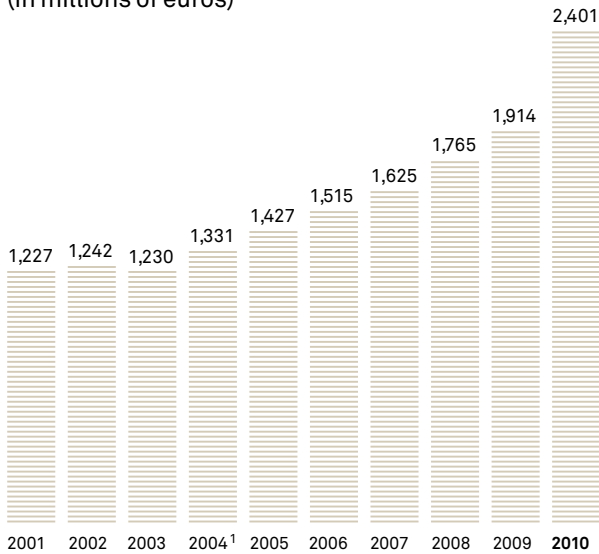
## BREAKDOWN OF REVENUE BY SECTOR 2010 (2009)



## BREAKDOWN OF REVENUE BY REGION 2010 (2009)

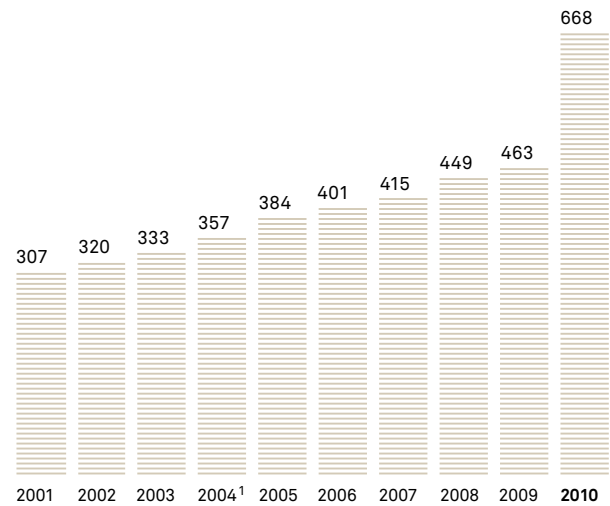


**CONSOLIDATED REVENUE**  
(in millions of euros)



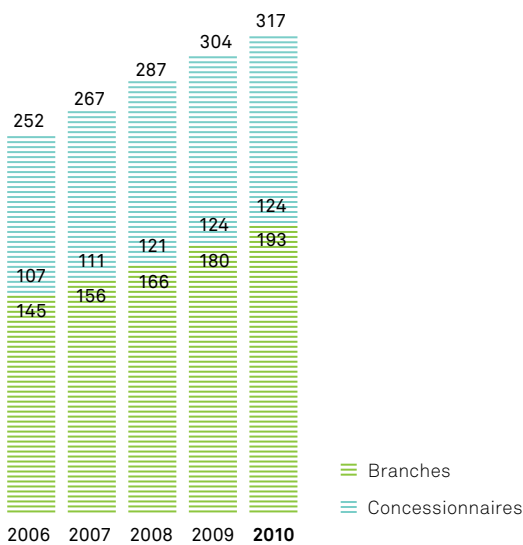
<sup>1</sup> 2004 figures are restated under IFRS.

**RECURRING OPERATING INCOME**  
(in millions of euros)



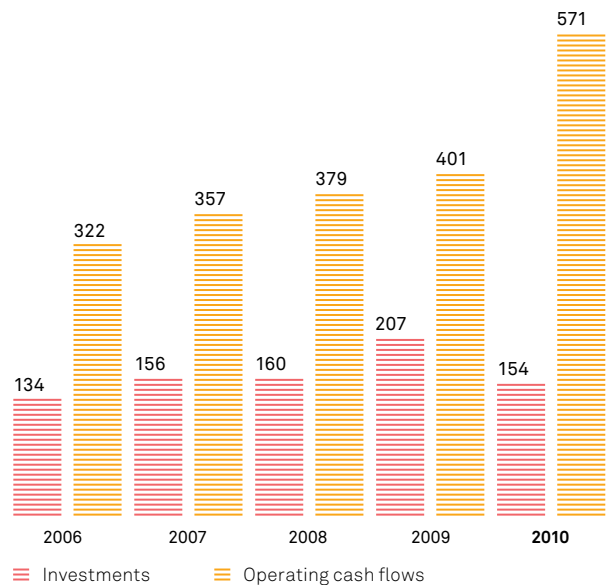
<sup>1</sup> 2004 figures are restated under IFRS.

**NUMBER OF EXCLUSIVE RETAIL OUTLETS**



■ Branches  
■ Concessionnaires

**INVESTMENTS (EXCLUDING FINANCIAL INVESTMENTS) AND OPERATING CASH FLOWS** (in millions of euros)

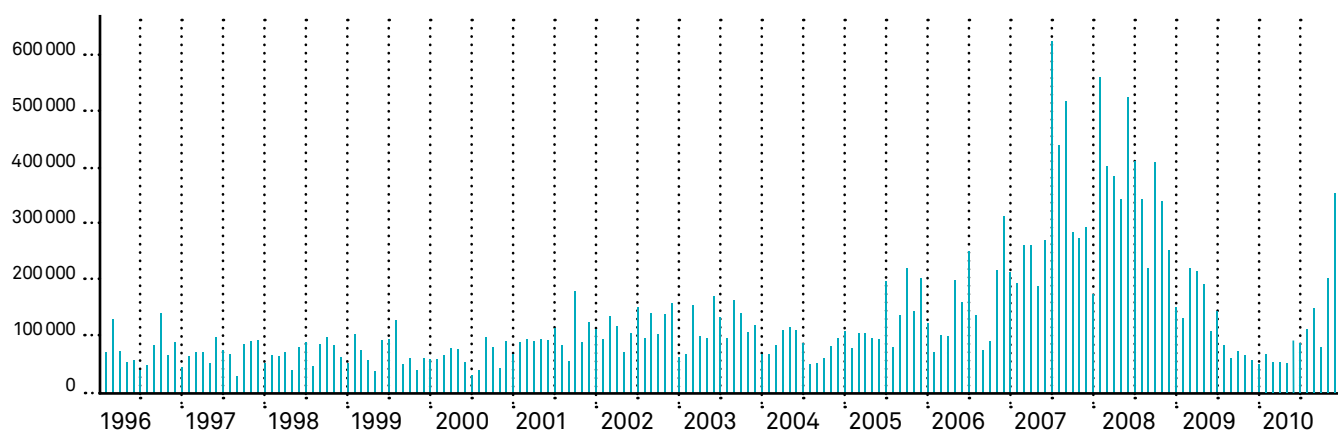


■ Investments      ■ Operating cash flows

## KEY STOCK MARKET DATA

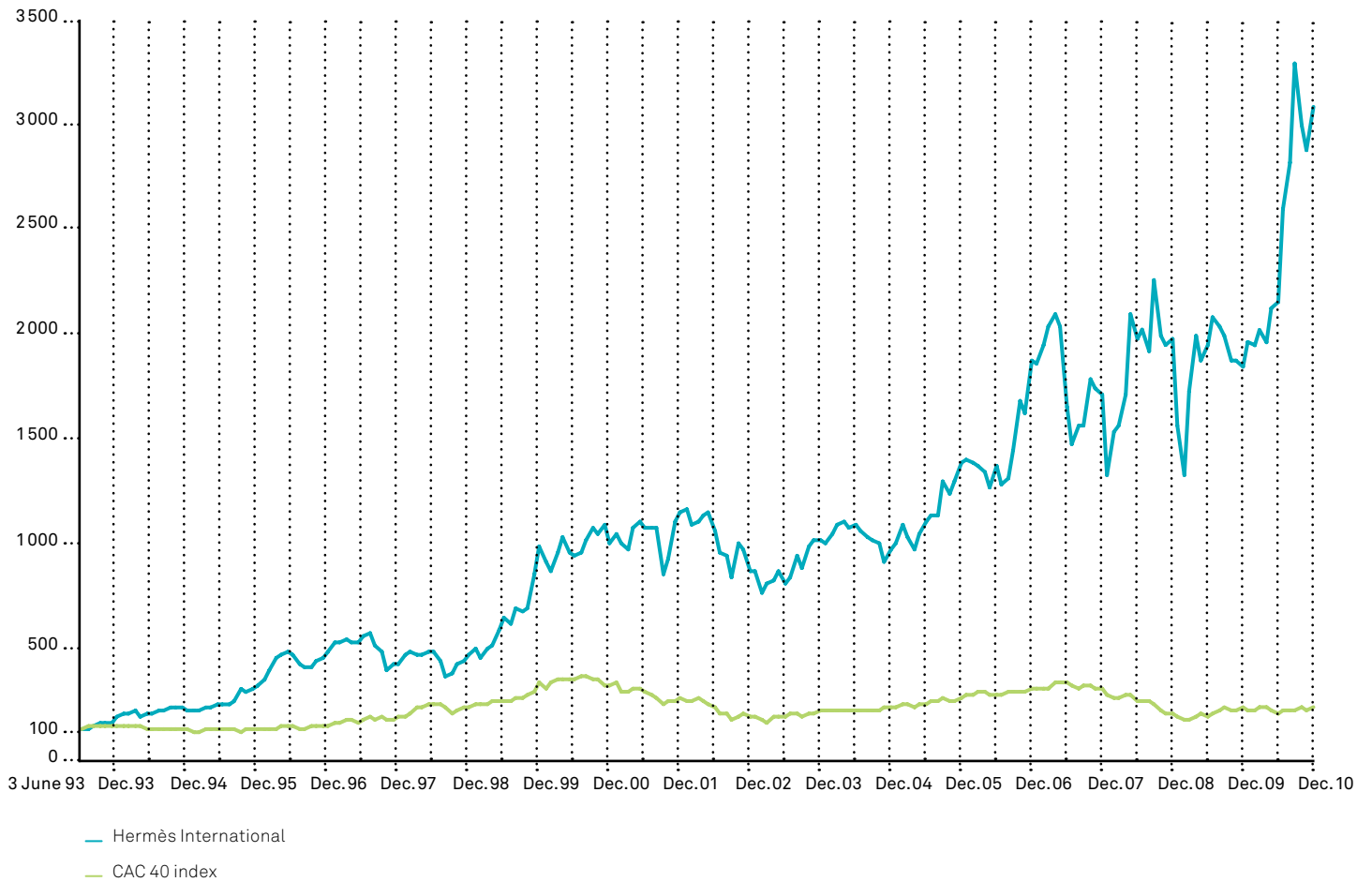
	2010	2009	2008
Number of shares as at 31 December	105,569,412	105,569,412	105,550,012
Average number of shares (excluding treasury shares)	105,162,445	105,128,870	105,074,019
Market capitalisation as at 31 December	€ 16.54 Bn	€ 9.85 Bn	10.55 Bn
Earnings per share (excluding treasury shares)	€ 4.01	€ 2.75	€ 2.76
Dividend per share	€ 1.50	€ 1.05	€ 1.03
Monthly average daily trading volume	124,790	117,933	370,644
12-month high share price	€ 207.75	€ 106.70	€ 131.89
12-month low share price	€ 92.00	€ 64.84	€ 59.42
12-month average share price	€ 125.67	€ 92.91	€ 92.11
Share price as at 31 December	€ 156.75	€ 93.31	€ 100.00

## AVERAGE DAILY TRADING VOLUME (NUMBER OF SHARES)





HERMÈS INTERNATIONAL SHARE PRICE <sup>1</sup> / CAC 40 INDEX (BASE: 100 ON 3 JUNE 1993)



<sup>1</sup> Figures adjusted to reflect stock splits.

The monthly share price trend for Hermès International over the past five years is shown in Volume 2, on page 82.

# SIMPLIFIED ORGANISATION CHART AS AT 31 DECEMBER 2010

## — Retail distribution of Hermès brand products

### HERMÈS INTERNATIONAL

The percentages in the chart represent direct or indirect ownership interests.

<b>Hermès Sellier</b> 99.77% Divisions Hermès Distribution France, Hermès Distribution Europe <i>France</i>	<b>Herlee</b> 100% <i>China</i>
<b>Hermès Bénélux Nordics</b> 100% <i>Belgium</i>	<b>Hermès (China)</b> 100% <i>China</i>
<b>Hermès GB</b> 100% <i>United Kingdom</i>	<b>Hermès Asia Pacific</b> 100% <i>China</i>
<b>Hermès GmbH</b> 100% <i>Germany</i>	<b>Hermès India Retail and Distributors</b> 51.01% <i>India</i>
<b>Hermès Iberica</b> 100% <i>Spain</i>	<b>Hermès Japon</b> 100% <i>Japan</i>
<b>Hermès Internacional Portugal</b> 100% <i>Portugal</i>	<b>Hermès Australia</b> 100% <i>Australia</i>
<b>Hermès Monte-Carlo</b> 100% <i>Principality of Monaco</i>	<b>Hermès Middle East South Asia</b> 100% <i>Southern Asia</i>
<b>Hermès Grèce</b> 100% <i>Greece</i>	<b>Saint-Honoré Consulting</b> 100% <i>India</i>
<b>Hermès Italie</b> 100% <i>Italy</i>	<b>Hermès South East Asia</b> 100% <i>Asia-Pacific</i>
<b>Hermès Prague</b> 100% <i>Czech Republic</i>	<b>Boissy Retail</b> 100% <i>Singapore – South Korea</i>
<b>Hermès Suisse</b> 100% <i>Switzerland</i>	<b>Hermès Korea</b> 94.59% <i>South Korea</i>
<b>Hermès Istanbul</b> 100 % <i>Turkey</i>	<b>Hermès Retail (Malaysia)</b> 70% <i>Malaysia</i>
<b>Hermès Canada</b> 100% <i>Canada</i>	<b>Hermès Singapore (Retail)</b> 80% <i>Singapore</i>
<b>Hermès de Paris (Mexico)</b> 51% <i>Mexico</i>	<b>Saint-Honoré Bangkok</b> 51% <i>Thailand</i>
<b>Hermès Argentina</b> 100 % <i>Argentina</i>	
<b>Hermès of Paris</b> 100% <i>USA</i>	

— Production and wholesale distribution  
of Hermès brand products  
Design, other brands and other sectors

— Production

— Minority holdings

<p><b>Hermès Sellier</b> 99.77% Divisions Hermès Maison – Hermès Soie et Textiles – Hermès Femme – Hermès Homme – Hermès Maroquinerie-Sellerie – Hermès Bijouterie – Hermès Vente aux voyageurs – Hermès Services Groupe – Hermès Commercial – Hermès Marketing – Hermès, Petit h <i>Hermès products - France</i></p>
<p><b>Comptoir Nouveau de la Parfumerie</b> 99.67% <i>Hermès perfumes - France</i></p>
<p><b>La Montre Hermès</b> 100% <i>Hermès watches - Switzerland</i></p>
<p><b>Clerc Thierry Créations</b> 100% <i>Hermès watches - Switzerland</i></p>
<p><b>Castille Investissements</b> 100% <i>Tableware - France</i></p>
<p><b>Compagnie des Arts de la table</b> 100% <i>La Table Hermès - Puiforcat - France</i></p>
<p><b>Compagnie des Cristalleries de Saint-Louis</b> 99.96% <i>Saint-Louis crystal - France</i></p>
<p><b>Holding Textile Hermès (ex Sport Soie)</b> 96.17% <i>Textile - France</i></p>
<p><b>Ateliers A.S.</b> 74.90% - <i>Enoly - France</i></p>
<p><b>Ateliers de tissage de Bussière et de Challes</b> 100% <i>Le Crin - Bucol - France</i></p>
<p><b>Créations Métaphores</b> 100% <i>Verel de Belval - Métaphores - France</i></p>
<p><b>Établissements Marcel Gandit</b> 100% - <i>France</i></p>
<p><b>SIEGL</b> 100% - <i>France</i></p>
<p><b>Société Nontronnaise de Confection</b> 100% <i>France</i></p>
<p><b>John Lobb</b> 100% <i>John Lobb shoes - France</i></p>
<p><b>JL &amp; Co</b> 100% <i>John Lobb shoes - United Kingdom</i></p>
<p><b>Hermès Intérieur &amp; Design</b> 100% - <i>France</i></p>
<p><b>Full More Group (ex Full More Shanghai)</b> 95% <i>ShangXia - China</i></p>

<p><b>Maroquinerie de Saint-Antoine</b> 100% <i>France</i></p>
<p><b>Maroquinerie de Sayat</b> 100% <i>France</i></p>
<p><b>Maroquinerie de Belley</b> 100% <i>France</i></p>
<p><b>La Manufacture de Seloncourt</b> 100% <i>France</i></p>
<p><b>La Maroquinerie Nontronnaise</b> 100% <i>France</i></p>
<p><b>Manufacture de Haute Maroquinerie</b> 100% <i>France</i></p>
<p><b>Maroquinerie des Ardennes</b> 100% <i>France</i></p>
<p><b>Ganterie de Saint-Junien</b> 100% <i>France</i></p>
<p><b>Gordon-Choisy</b> 100% <i>Tanneries - France</i></p>
<p><b>Hermès Cuirs Précieux</b> 100% <i>Tanneries - France</i></p>
<p><b>Exocuir</b> 100% <i>Switzerland</i></p>
<p><b>Louisiane Spa</b> 100% <i>Italy</i></p>
<p><b>T.C.I.M.</b> 100% <i>France</i></p>
<p><b>Michel Rettili</b> 100% <i>Italy</i></p>
<p><b>Reptile Tannery of Louisiana</b> 100% <i>USA</i></p>

<p><b>Perrin &amp; Fils</b> 39.52% <i>France</i></p>
<p><b>Compagnie Hermès de Participations</b> 100%</p>
<p><b>Jean Paul Gaultier</b> 45% <i>France</i></p>
<p><b>Vaucher Manufacture Fleurier</b> 21.05% <i>Switzerland</i></p>





# *Review of Operations*

# GENERAL TREND

In 2010, revenue rose by 25.4%, or by 18.9% at constant exchange rates. Operating income increased by 44.3%.

## EXCEPTIONAL SALES GROWTH IN 2010

During the Supervisory Board meeting on 3 March 2011, Management presented the audited accounts for 2010, with sales of 2,400.8 million euros, up 25.4% (+18.9% at constant exchange rates) and operating income of 668.2 million euros, up 44.3%. **“This performance reflects the quality of our corporate model and the efficiency of our staff who implement it”** Patrick Thomas declared.

## HARMONIOUS GROWTH IN REGIONS AND SECTORS (Data on a comparable basis and at constant exchange rates)

Sales in the group's own stores were up 31% at current exchange rates or 24% at constant exchange rates. The group continued to develop its distribution network, with 13 new branches opened and 9 others reno-vated or enlarged. Wholesale revenues were up 3% for the full year at comparable exchange rates.

In Europe (+18%), all countries performed strongly. A new Paris store was opened on Rue de Sèvres at the end of the year. Great interest was aroused by the originality of its interior architecture and the space devoted to home interiors. Elsewhere in Europe, the network was extended with a new branch in Amsterdam, while three other stores were renovated or enlarged. In the Americas (+24%), growth was sustained throughout the year, particularly in the group's own stores (+28%), boosted by the first Hermès store devoted to men, which was opened on Madison Avenue, New York, at the start of the year.

In Asia, sales rose 19% for the full year. In Japan, sales were

virtually stable. Growth in other countries (+38%) was driven by strong momentum in mainland China, Macao and Hong Kong. The extension of the network continued, with 10 new branch openings, including four in China.

Sales of Silks & Textiles grew 19%, boosted both by new women's silk collections, which were expanded to include exceptional new products in cashmere and silk, and by the increasing appeal of the new products to young customers.

Driven by small leather accessories and leather bags, where demand remained very strong, Leather Goods & Saddlery recorded growth of 21% in 2010.

Ready-to-Wear & Fashion Accessories (+18%) benefited from new ready-to-wear collections and growth in fashion accessories. In Perfumes, (+16%) sales were boosted by the successful launch of Voyage d'Hermès in March and by Terre d'Hermès, which continues to enjoy success year after year.

Watches recovered (+23%) while Tableware achieved a noticeable improvement (+11%).

### EXCEPTIONAL GROWTH IN EARNINGS AND CASH

Operating income rose 44.3% to 668.2 million euros from 462.9 million euros in 2009. The operating margin rose by 3.6 percentage points to 27.8%, the best performance recorded by the group since it went public in 1993.

Consolidated net income (421.7 million euros against 288.8 million euros) and net income per share grew by 46.0% compared with 2009.

Thanks to a 42.5% increase in operating cash flows and a significant reduction in the working capital requirement, net cash increased by 321 million euros to 829 million euros at the end of 2010 compared with 508 million euros at the end of 2009.

### INVESTMENTS SUSTAINED OVER 2010

Investments in operating activities, mainly channelled into developing the distribution network and strengthening production capacity, totalled 153.8 million euros.

The Group did not buy back any of its own shares in 2010, other than shares traded under the liquidity contract.

### INCREASED HEADCOUNT

The Hermès Group created 309 new jobs, mainly in sales and production. At the end of 2010, the Group had 8,366 employees.



→ The leather goods workshop in Pantin.





## ACTIVITY BY SECTOR

At Hermès, each *métier*, or sector, deploys its creativity and multi-faceted know-how to push beyond the boundaries of its respective domain. In 2010, as in previous years, a multitude of new products designed and created by Hermès were added to collections comprising over 50,000 items, thereby continuing to nurture growth.

	2010 (€m)	2010 (%)	2009 (€m)	2009 (%)	At current exchange rates	At constant exchange rates
Leather Goods-Saddlery	1,205	50%	936	49%	28.7%	20.8%
Ready-to-Wear & Accessories	445	19%	360	19%	23.8%	17.5%
Silk & Textiles	284	12%	227	12%	25.1%	18.9%
Other Hermès sectors	87	3%	78	4%	10.5%	5.8%
<b>Hermès Distribution Network</b>	<b>2,021</b>	<b>84%</b>	<b>1,601</b>	<b>84%</b>	<b>26.2%</b>	<b>19.0%</b>
Perfumes	138	6%	117	6%	17.4%	16.3%
Watches	113	5%	87	5%	29.9%	22.9%
Tableware	44	2%	38	2%	14.0%	11.1%
<b>Specialised distribution networks</b>	<b>294</b>	<b>13%</b>	<b>242</b>	<b>13%</b>	<b>21.4%</b>	<b>17.8%</b>
Other products	86	3%	71	3%	21.1%	18.8%
<b>Consolidated revenue</b>	<b>2,401</b>	<b>100%</b>	<b>1,914</b>	<b>100%</b>	<b>25.4%</b>	<b>18.9%</b>

### HERMÈS DISTRIBUTION NETWORK

In 2010, the Hermès exclusive network generated sales of €2,021 million, or 84% of consolidated revenue, the same as in 2009, and operating income of €680 million. This network consists of the business lines described below.

### LEATHER GOODS - SADDLERY

Leather goods and saddlery are Hermès' founding *métier* and account for 50% of sales. Products include handbags, luggage, diaries, small leather goods and equestrian items. In 2010, sales rose by 21% at constant exchange rates to €1,205 million.

The soul of Hermès leatherwork is revealed when authentic materials pass through the expert hands of our master saddlers and leatherworkers. The skills of these craftsmen, cultivated through the centuries, have been honed over many years through a patient dialogue between artisan and skin. As the leather is tamed and shaped by the hands of the craftsman, he perpetuates the masterful tradition of saddle- and harness-making, Hermès' founding métiers. From this perfect union of the physical and the technical emerge the myriad beautiful objects that make up the Leather Goods and Saddlery collections: equestrian items, travel goods, bags, small leather goods and diaries.

To keep up with demand, the group further expanded its

production capacity in 2010. More than two thousand craftsmen work in this sector, in some ten production facilities in Paris, Pantin and across France. Hermès rolled out on-site training programmes at each facility to further enhance the impressive skill sets of its craftsmen who devote their passion and expertise to crafting objects of incomparable creativity and quality.

Modernisation and construction work continued at the Belley, Nontron and faubourg Saint-Antoine (Paris) facilities and Hermès' historic workshop on faubourg Saint-Honoré, where custom orders are prepared, were renovated during the last quarter of 2010.

## BAGS AND LUGGAGE

In 2010, Hermès bags continued to prove that it is possible to innovate successfully and durably while cultivating the House's rich heritage. This year's highlights included the confirmed triumph of the *Jypsière* line, whose latest addition, the *Jypsière 28*, proved highly popular. Promising new models were unveiled while great classics were brought back into the spotlight and Hermès' legendary stars, the *Kelly* and the *Birkin*, continued to shine. Echoing this year's theme of "Tales to Be Told", each design in its own way offered a story to discover and pass on. New tales were born: the emblematic *Chaîne d'ancre* link was borrowed from its jewellery origins and turned into the shoulder strap for a bag bearing its celebrated name. Very Parisian, the bag is surprisingly roomy. Scaled down, it became a wallet whose offbeat, biker-inspired charm was underscored by a jewel-like chain – to be worn like a true king of the road. The *Chaîne d'ancre* link reappeared as a narrow, adjustable shoulder band and adorning the clasp of *Catenina*, the elegant little evening bag. Well-loved tales this year featured the vanity-case-inspired *Toolbox* – a veritable treasure chest – and the *Double sens* tote: crafted in astonishingly supple Clémence taurillon calfskin, this totally reversible bag offers a refreshing take on the sensible holdall. Old legends stepped back into the limelight as *Constance*, created in 1969, re-appeared in three new models: *Constance élan*, its elongated form faithful to the original; *Constance micro*, a little jewel of an evening bag and *Constance compact*, a chubby-cheeked charmer of a wallet whose highly practical square form has launched a new line of small leather goods. A hint of black magic hovered around the magnetic *So-black* versions of the

iconic *Kelly* and *Birkin* bags, whose metal findings were all finished in deep black. Both bags, crafted in matte black box calfskin and crocodile – the ultimate Hermès matériaux – came with matching black box and black bolduc ribbon, in a rare exception to the House's traditional colours.

Tales of wonder were woven into special fine leather goods pieces: for the opening of the Hermès Rive Gauche boutique, the *Kelly* was adorned in feather work inspired by the subtle shimmer of the location's historic mosaic. For Christmas, the *Constance* bag shone with festive brightness in a special edition whose clasp was adorned with a constellation of baguette-cut diamonds.

The Leather Goods division continued to broaden its offering for men, affirming the identity of *Plume homme* with two new models, *Plume 24 H* and *Plume 12 H*. These contemporary dress pieces are excellent companions for meetings and business trips, with compartments designed to fit every man's organisational needs.

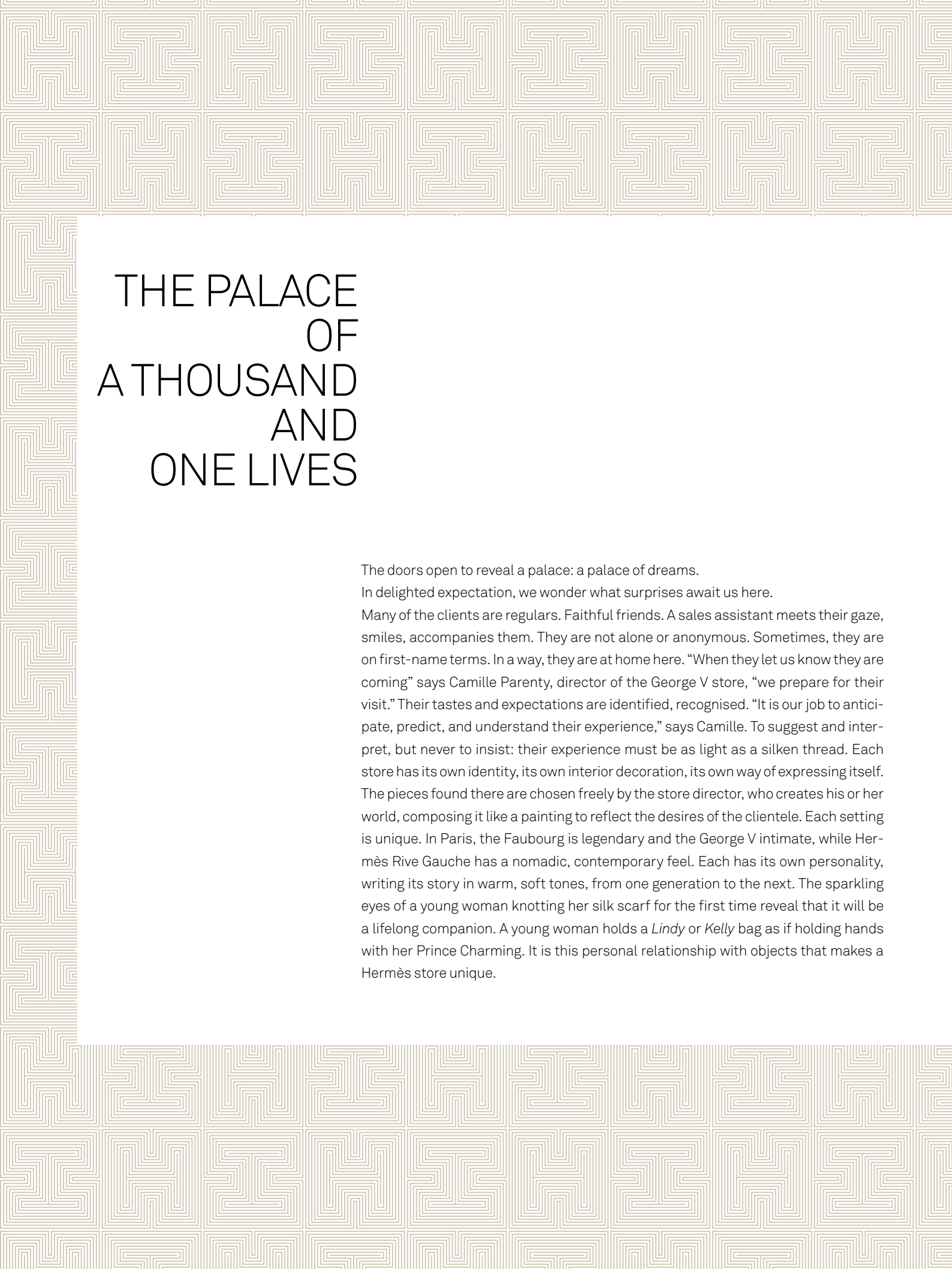
The *Étrivière shopping*, which boasts every detail of the stirrup leathers on a Hermès saddle – right down to the numbered notches to guarantee a perfect fit – is the answer to today's need for a sporty yet elegant men's tote. Last but not least, Hermès launched *Orion*, a new hard-sided, wheeled suitcase whose design, by Gabriele Pezzini, marries a streamlined silhouette and high-tech materials. With a brushed and anodised aluminium shell set off by two straps in natural cowhide and a fully leather-clad interior, this suitcase features a telescoping handle and multidirectional wheels, making it a magnificent object for any journey: easily stored, practical and quiet.



← *Toolbox 20* bag in Swift calfskin.  
↗ *Constance Élan* bag in Tadelakt calfskin.



← *Constance micro* bag in lizard skin.



# THE PALACE OF A THOUSAND AND ONE LIVES

The doors open to reveal a palace: a palace of dreams.

In delighted expectation, we wonder what surprises await us here.

Many of the clients are regulars. Faithful friends. A sales assistant meets their gaze, smiles, accompanies them. They are not alone or anonymous. Sometimes, they are on first-name terms. In a way, they are at home here. "When they let us know they are coming" says Camille Parenty, director of the George V store, "we prepare for their visit." Their tastes and expectations are identified, recognised. "It is our job to anticipate, predict, and understand their experience," says Camille. To suggest and interpret, but never to insist: their experience must be as light as a silken thread. Each store has its own identity, its own interior decoration, its own way of expressing itself. The pieces found there are chosen freely by the store director, who creates his or her world, composing it like a painting to reflect the desires of the clientele. Each setting is unique. In Paris, the Faubourg is legendary and the George V intimate, while Hermès Rive Gauche has a nomadic, contemporary feel. Each has its own personality, writing its story in warm, soft tones, from one generation to the next. The sparkling eyes of a young woman knotting her silk scarf for the first time reveal that it will be a lifelong companion. A young woman holds a *Lindy* or *Kelly* bag as if holding hands with her Prince Charming. It is this personal relationship with objects that makes a Hermès store unique.

## DIARIES AND SMALL LEATHER GOODS

The *Evelyn* line of small leather goods was inspired by the perforations on the *Evelyne* bag, but breaks away from its namesake with a hint of offbeat mischief. Designed for men or for women – hence the absence of a final “e” – the line offers wallets in three different formats – long, compact or classic – as well as a change purse and a card holder.

The *Remix* line, another creation for both men and women, charms with its highly functional design, featuring vertical compartments for easy storage – and retrieval – of everything one might need to carry in a wallet.

Though always faithful to the House’s traditions of paper and writing, Hermès is nevertheless fully connected to the high-tech instruments that now power our everyday lives, offering coloured leather cases for the BlackBerry® as well as an iPad®<sup>1</sup> holder, whose leather base and beautifully supple flap allow the user to work and play in different positions – inclined for typing; vertical for viewing.

## SADDLERY

The Saddlery division made a splash in the riding world in 2010 with a major new launch. Hermès’ passion and savoir-faire inspired the *métier* to reinvent itself with a radical redesign of the traditional saddle. The *Talaris* was born: a modular jumping saddle, a pioneer in its field. Hermès master saddler Laurent Goblet has created a saddletree whose every part is modular and easily put together. *Talaris* is made to fit the rider, the rider’s physique and the horse itself. It can be modified very rapidly to personalise the saddle, to adapt to other types of riding or to replace a worn piece. It can be put on, removed, disassembled and reassembled with ease.

To design this multi-functional saddle, the product of a bold idea and an ambitious dream, Laurent Goblet broke away from the classic saddletree. For while the frame remains the backbone of every saddle, its traditional anatomy in wood and steel is stubbornly rigid and resists any significant change. So, to meet the increasingly stringent demands of professional and amateur riders, Goblet turned to materials generally associated with

cutting-edge technologies. Carbon fibre and titanium make the frame strong, rugged, flexible and feather-light. High-performance polyamide and injection-moulded polyurethane provide comfort and support. Injected foam padding offers precision shaping, making it possible to alter density and redistribute pressure over the saddle. *Talaris* was perfected as a precision mechanical piece. Each component was carefully designed to snap perfectly into the main structure. Every assembly technique was revisited. Each and every function was integrated through ingenious fastenings. Every bit of the craftsman’s talent was put to work to find ingenious ways to affix the saddle’s parts to the carbon frame.

A Hermès exclusive, this saddletree, a distillation of technological prowess, is hand-clad by the saddler in meticulously selected leathers. Stitching on the seat, always a prime spot for wear and tear, has been eliminated. The only stitching that remains is the edging, in orange thread. Nothing is superfluous here. The *Talaris* has nothing to hide; the secret of its elegance lies in plain sight. Underneath, the saddle reveals its streamlined structure and the details of its carbon-lathed frame. Its technical and functional features serve the form and beauty of the object. The fruit of years of research and development, *Talaris* underwent technical, thermographic, radiographic and veterinary testing and was approved by a committee of professional riders in a series of comparative training sessions. This testing revealed indisputable advantages: the saddle adapts instantly to the back of any horse and to the form of every rider. Elongated and more slender, it allows for close contact between horse and rider. Designed to distribute the weight of the rider and to protect the animal’s spine, the carbon tree sets new standards for lightness, flexibility, dynamics, and balance. This new material, known for its strength, brings added safety. In addition, the carbon lathing of the frame acts as a shock absorber while relieving stress on the backs of horse and rider alike. The seat, padded in injected polyurethane, optimises the saddle’s ergonomic aspect, providing added comfort for the rider. The structure accommodates movement.

<sup>1</sup> The iPad® brand is the property of Apple, Inc.



→ BlackBerry® cases  
in Barénia and Swift calfskin.



→ *Evelyn* wallets and change purse  
in Barénia calfskin.



## READY-TO-WEAR

Ready-to-wear and accessories is Hermès' second-largest business line, accounting for 19% of consolidated sales. In 2010, it generated €445 million in sales, a rise of 18% at constant exchange rates.

## WOMEN'S READY-TO-WEAR

Jean-Paul Gaultier drew his inspiration for the spring-summer 2010 collection from 1930s tennis and seaside costumes, as immortalised in the photographs of Jacques-Henri Lartigue. A rounded take on the tennis collar was featured in fluid jersey for tops lengthened into dresses or jumpsuits.

Skirts, tops and dresses boasted pleats reminiscent of the 1930s. Wide-striped borders on pullovers recalled the "four musketeers" of the 1926 Davis Cup. Overcoats evoked the memory of seaside boardwalks in Biarritz. The earthy red of clay tennis courts contrasted with crisp blues and whites.

This breezy collection featured *H en fil* and *brides rebelles* pop prints with airy materials such as seersucker in a sleeveless shirt or baby-doll dress. Graphic and fluid, the *après-match* was embodied in a shawl-collar jacket and pantsuit in viscose jersey with contrasting edging.

Autumn-winter 2010 adopted the "London City" style of the 1960s. The spirit of *The Avengers* ran through the collection, and in particular the iconic allure of Emma Peel with her razor-sharp silhouette and tailored, Savile Row look. Leather featured in three-piece suits, collars and frock coats. Trapeze coats shimmered in roomy, supple fabrics, such as double-faced hammered cashmere or bison. Mohair was showcased in ultra-light coats, outdoor cardigans, and – the ultimate in refinement – a silk-lined pullover. The colourful sheen of printed panther accentuated the fluidity of dobby-loomed silk and the volume of printed taffetas.

After seven years of fruitful cooperation, Hermès and Jean-Paul Gaultier decided to part ways, as Jean-Paul Gaultier wished to focus on his own projects. The spring-summer 2011 collection, presented in October of 2010, was his last collection for Hermès. Hermès wishes to express its deepest appreciation to Mr Gaultier for his remarkable design contributions over the past seven years. Christophe Lemaire took over as artistic director of Hermès women's ready-to-wear for the autumn-winter 2011 collection, presented in March 2011.

## MEN'S READY-TO-WEAR

In her more than twenty years as designer of Hermès men's ready-to-wear collections, Véronique Nichanian has helped make Hermès a prominent name in the world of men's fashion. To celebrate the 2010 theme, Véronique Nichanian's spring-summer 2010 collection "told tales" of the bohemian soul, wavering between shadow and light. The sober grey tones of slate, verdigris and bronze played off summery touches of white, apple green and mandarin. A parade of natural fabrics betokened the spirit of high summer: cotton or silk seersucker, linen and cotton, pure linen, *washi* canvas... Leathers were worked for an airy feel: *veau papier* calfskin, perforated calfskin and nubuck lambskin beckoned to adventure. The collection accented contrasting volumes, with short jackets and narrow trousers or full-sleeved cagoules and wide, elastic-waist trousers. For the autumn-winter 2010 collection, Ms Nichanian's creations spoke of a casual sophistication that showcased assertive solids and the free expressiveness of microprints, woven Prince of wales plaids, stripes and prints. Neutral tones such as navy, grey, flannel, cement and pepper were mixed with Prussian blue and amaranth. Jackets and suits were featured in woollen seersucker for the wintertime; timeless *agneau gomme* lambskin and *Toilouvert* were showcased this season in a reversible "baseball" jacket. A newly innovative spirit shone through in unlined *Relax* rain jackets and sportswear in cashmere or technical wool. These contrasted with the exceptionally sensuous touch of fabrics such as hand-plaited cashmere, pure vicuna or perforated *Étrivière* mink for hooded sweatshirts. These beautiful tales reaffirmed the success of Hermès menswear in 2010 and were showcased in the first Hermès boutique entirely devoted to the world of the Hermès man, which opened in New York City in February.



→ Men's ready-to-wear autumn-winter 2010 collection.

## ACCESSORIES

Accessories encompass jewellery in enamel, leather, horn and lacquered wood; as well as shoes, belts, gloves and hats

### JEWELLERY ACCESSORIES

Printed enamel tells beautiful tales of horses ready for show, whether dressed and harnessed in the figurative “*Couvertures et tenues de jour*” or in the more abstract graphic look of “*Pour sortir*”. In homage to her grandmother, who embroidered bags in a workshop not far from the faubourg Saint-Honoré store, Karen Petrossian created *Cachemire de Tamara* in platinum, bronze, red or violet-green. The *Assam* and *Ariodante* bracelets in lacquered wood could be worn stacked, or mixed and matched with *Astral* leather bracelets in a meld of material and colour evocative of a palette by Mondrian. Winter was an occasion to revisit the House’s heritage and its traditional *métier* of saddlery. Drawing inspiration from the *Hermès Conservatoire*, the *Bérénice* recalls the clasp and hinges of a leather-clad suitcase, while numerous novelties play with and reinterpret the House’s traditional codes: the *So-black* finish made its *début* on the *Kelly double tour*, while the *Clic H* was featured in an extra-large edition; the bit closure of the *Pavane* was reinvented in miniature and oversized versions. The stirrup in all its forms featured as leitmotiv: Milanese mesh in pure metal for the *Bellini*, in a studded version or yet again in four- and six-round versions.



← Bracelet in Hunter cowhide.  
 ← ← Bracelets in  
 Evercalf calfskin  
 and lacquered wood.



## HERMÈS SHOES

For summer 2010, Hermès women's shoes offered a series of variations on the ghillie, playing with perforations, notching and pompom details. The theme returned in the sandal, pairing matte lizard and alligator, and again in a sporty shoe offered in white goatskin, the summer's uncontested success.

Ever faithful to the heritage of the Hermès shoe, espadrilles were reinterpreted by Pierre Hardy in mixes of materials and saturated colours, such as suede goatskin in yellow or celestial blue.

Ankle boots were at their summer best with the *Lennon* model in white patent kidskin; the *Lennon* in *étoupe* was a particular success among our customers, who crowned this colour a new Hermès essential. The emblematic *Oran* and *Night* sandals were featured in python for the summertime and leopard-print suede goatskin for the winter, continuing the House's infinite play on this chic and functional classic.

Winter illustrated the "Tales to be Told" theme in a lovely range of colours, from electric blue and vivid red for the *Bluff* ankle boot, *rouge H* for the iconic *Jumping* boot and a two-tone variation for the Puss-in-Boots-inspired *Babylone* boot, with its square heel.

The *Bal* pump celebrated the pairing of leather and silk, while

the *Baronne* and *Bagatelle* models played on a *Beauty and the Beast* theme, marrying soft feminine lines in powder kid suede with touches of marmot and mink. Hermès men's shoes offered a complete shoe wardrobe, with a pair to fit every circumstance and perfect for every occasion.

The *Wall Street* line, for lovers of classic, streamlined shoes, featured two new models, the *Alistair* and the *Austin*.

For a more relaxed look, the *Amico* loafer combined comfort and quality craftsmanship with its hand-stitched apron.

Espadrilles have been offered for several summers now, and this year their ranks were extended with the addition of quirky high- and low- top models in cotton canvass.

For autumn-winter 2010, the *Fumoir* line offered a resolutely high-fashion spirit for the modern-day "man-about-town": loafers, Oxfords and ankle boots featured in sober-toned, black-lined suede. For a fashion-forward evening look, a range of exotic skins such as lizard and alligator were rolled out.

Boots and ankle boots were paired with a range of different soles: crêpe for casual models, gum for the ultimate in flexibility and comfort or, for *Banquise* and *Belfast*, a thick leather outsole ingeniously paired with a gum insert to face winter's harshest weather.

↗ Sandals in suede goatskin and marmot.

→ Sandal in *Nappa* calfskin and sea serpent.



← Ankle boot in goatskin.







## BELTS

In 2010, Hermès belts offered a welter of material and colours to accompany the changing seasons. The lightweight and summery *Açores* in braided cotton offered a casual look for men and women alike. The *Étrivière 32 finesse* provided a more slender take on the emblematic *Étrivière* buckle, designed for easy wear with a suit. In the spirit of the *Quizz* buckle, the all-new *Athena* offered a lacquered buckle in a *Chaîne d'ancre* shape, available in a range of colours: white, Indian pink, orange and slate. The whimsical *Bricolo* belt, a new interpretation of the *Étrivière* belt, featured segmented black bridle leather hinged with saddle tacks; in a nod to the carpenter's rule, it folds and unfolds at will. The semi-rigid and shimmering *Bellini* belt makes an exceptional statement in all metal: silver- and palladium-plated Milanese mesh is accentuated with glossy loops to reflect the light. Launched in 2007, the "kit" echoed the colour pairings used in Hermès leather goods: iris/ruby, flax/Maltese blue, ruby/chocolate, etc. These same pairings were used in the leather links of the *Brio*, which can be interlaced, turned or removed as the wearer wishes.

## GLOVES

Inspired by this year's theme, the glove collections focused on creativity, playing with designs that scampered from one hand to the other: the well-received *Astuce* featured a perforated *calèche* carriage, while the *Absolue* offered an unexpected combination of silk and glazed lambskin. For winter, women and men's gloves were adorned with *étrivière double tour* bracelets. Materials were warm and comfortable: glazed lambskin for the women's *Babel* and stag skin for its masculine counterpart, the *Balthazar*.

The women's *Bagatelle*, with its cashmere knit, ensured a warm, cosy winter.

In 2010, a splendid partnership was forged with the Middle East; its result was a new technical glove, the *Fauconnier*. Designed according to traditional falconry techniques, this glove offers the ultimate in both comfort and safety.

## HATS

Yet again, Hermès reaffirmed its skill and creativity as a haberdasher in a plethora of new designs that showcased a range of exceptional materials. The sailing-inspired *Agathe* cap in indigo linen drill and the asymmetrical, wide-rimmed *Amazone* offered a sporty yet elegant allure and were especially popular in 2010.

Ingenious interpretations and combinations of different materials featured in a number of models: matte, glazed and polished lambskin plaited together in the *Aurore*; the bold, print-like look of sea snake skin in the *Adam*, or leather piping in the *Arles* for a look that married canvass and leather.

The mink and cashmere *Boa* and the cashmere and marmot *Bolchoï* offered cosy protection for even the coldest winter weather.

Hermès also perfected a new lustrous felt with a velvety finish, available in two unisex models, the *Belta* and the *Belleza*.

Lastly, in a nod to the women's ready-to-wear collections, the *Bémol* and *Brio* were offered in panther-print-inspired models.

← Felt bowler hat.

→ Belt in Barénia calfskin.

→ → Gloves in stag skin and *Étrivière* calfskin.

→ → Belt in bridle leather.





## SILK AND TEXTILES

Silk and Textiles is Hermès' third-largest sector and accounts for 12% of sales. In 2010, sales of carrés, ties and scarves totalled €284 million, up 19% at constant exchange rates.

### WOMEN'S SILKS

When Hermès is the storyteller, carrés become tales, legends, travelogues, and much more. We thrill beside a horseman's tireless journey across the world, we encounter a marquis in his most elegant finery, we dream of faraway isles and verdant paradises, we rediscover all our childhood heroes...

Scrolls unfurl around a large-scale H: the *H comme Histoires* pattern, designed by Dimitri Rybaltchenko, is a celebration of all these marvellous adventures. These myths, legends, love stories or fairytales, not to mention the fabled universe of the mythical god Hermès, whose powerful charm transports us through time and into dreams...

In 2010, Hermès continued its "socially responsible carré" project, begun in 2008, with the *L'Ombrelle magique* silk twill carré. The design, by Pierre Marie, was inspired by an umbrella cane from the Émile Hermès collection, and shows a young prince travelling the world. Part of the proceeds from sales of this carré was donated to the *Fondation de France* in support of its work for victims of the Haiti earthquake, and more specifically to rebuilding a school.

In 2010, the Hermès carré continued its ceaseless self-reinvention, this time with a giant carré in washed silk twill. Fluid, smooth, supple, velvety – this special silk twill is crafted following a completely original artisanal process. The giant-sized and incomparably soft giant carré plays by its own rules; lavish

abundance is the name of its game. Draped across the shoulders, knotted around the neck or waist, this carré can become a shawl, a skirt, a scarf – all the while, of course, remaining a carré. Exceptional stories abounded this year: in the *Ex-Libris* carré, a treasure in silk bedecked in light and shadow, tiny beads shimmered and shone to catch the eye, hand-sewn by master embroiderers in the Bombay region following a centuries-old process.

For its sixth edition of works of art on silk, Hermès invited renowned contemporary artist Daniel Buren to leave his imprint on House's emblematic silk scarf. His exceptionally broad-reaching and highly original design, titled *Photos-souvenirs au carré*, was a series of 365 unique scarves. His ambitious project affirms the melding of the world of Hermès and its time-honoured know-how with the contemporary art world. Photo printing on silk required an ink jet technique new to the House, providing the opportunity to call upon all our mastery and excellence in the field.

Lastly, Hermès honoured silk in 2010 through its *J'aime mon carré* ('I love my silk carré') promotional campaign. Throughout the year, thirty-four countries organised activities and cooperative projects with fashion magazines and helped the House to create a festive, dreamlike atmosphere. The online launch of [www.jaimemoncarré.com](http://www.jaimemoncarré.com) helped Hermès share its passion for this legendary square of silk, which never ceases to surprise with the tales it tells.



## MEN'S SILKS

For Hermès men's silks, invention is a constant throughout the year.

In 2010, the all-new Hermès tie in heavy twill was added to the twill tie stable. This tie features a weightier, more matte fabric with a more geometric pattern that makes its perfect drape even more irresistible to wear.

A new pattern was born with “*rencontre*” ties, whose motif evolves and changes along the length of the tie; new graphic possibilities also emerged with the first winners of the DesignBoom contest.

The *Tie 7*, little brother to the classic 9.1 cm twill tie, joined forces with the men's ready-to-wear department, enriching its offering and marking out a territory of its own with its colourful diagonal stripes. The Hermès spirit was embodied in heavy silk: for this year's theme, *Boston 8 cm* ties became messengers, speaking through *calligramme* poems on silk composed by fashion expert Olivier

Saillard, bringing us “Astro tie”, “Season tie”, “Lucky tie”, and others. Always in keeping with their times, the uniqueness of Hermès ties stood out in unexpected fabrics and widths – 5, 6 or 7 cm – and in shirtwaist cotton or printed cashmere and silk. The tie-foulard has also found its niche in our collections, reinventing a new, more relaxed look. In the “tie-less tie” family, the *GM losange* for men, an impeccable example of the house's unique brand of elegance in motion, was highly popular in 2010. Carrés for men were a success as well, available in a wide range of materials and patterns. Another standout in 2010 was the creation of a rich, innovative, and comprehensive range of scarves for summer and winter, organised around two major themes, “Timeless” and “Contemporary”: *Pure musique*, *Grand froid* and *Désert* were a few of the year's major successes.

↖ Silk twill ties 2.75 inches and handrolled heavy silk ties, 2.75 inches.  
→ Tie 7 *Calligramme* in silk twill.





# THE ENCHANTED BESTIARY

Leather, silk, cashmere, linen, wool, cotton: the world of Hermès is an enchanted bestiary. Each skin, each fabric is created in a unique encounter between man and nature. This magical union of noble material and supreme savoir-faire is nourished by adventure, curiosity and perfectionism. On Planet Hermès, there is a man who tracks crocodiles in the same way that Peter Pan follows his dreams. “There are three main species,” explains Guillaume de Seynes, executive vice president, who follows this adventurer closely: “the alligator, the *niloticus*, and the largest and most aggressive of all, renowned for the regularity of its scales: the *porosus*.” After many processes – cleaning, drying, tanning – the skin finally yields its full beauty when rubbed with agate stone, a technique touched with genius. In the same way, the world’s finest silk is perfected in the workshops of Lyon’s weavers, and in Nepal artisans spin and weave a cashmere as light as the clouds, while the Tuaregs of Mali work silver with a skill that is truly precious. The quest for perfection is stirring, thrilling, and never-ending. It is the Hermès signature.

## OTHER HERMÈS SECTORS

Hermès derived 3% of its sales from its other *métiers*, Jewellery and Art of Living. In 2010, aggregate sales from this sector rose by 6% at constant exchange rates to €87 million.

### JEWELLERY

The major event of 2010 was the launch of the first Hermès *Haute Bijouterie* collection. Comprising fourteen pieces unrivalled in style and the consummate know-how required to craft them, the collection drew its inspiration from the House's equestrian roots. Pierre Hardy captured the essence of the horsewhip and horseshoe in materials as rare as they are precious: diamonds, platinum, black jade,

rose gold, orange aventurine, pink opal.

The first *Haute Bijouterie* collection was presented to the press in April, and acclaimed by media in France and around the world. Spanish *Vogue* awarded its 2010 prize for excellence to the *Fouet* necklace, crafted in platinum and set with 3,669 diamonds. Customers were enchanted with these new designs, some twenty of which have already been made to order.



→ *Centaure* rings in rose gold, white gold and diamonds; and in rose gold, white gold, diamonds and aventurine.



## ART OF LIVING

The year 2010 was a major milestone for Hermès Maison.

The opening of the new Paris store in the rue de Sèvres marked the entry of Hermès Maison into the world of home interiors, with upholstery fabric, wallpaper, rugs and furniture, featuring the exclusive reissue of pieces by Jean-Michel Frank.

The faubourg Saint-Honoré store in Paris also welcomed new collections during a temporary exhibit in mid-December.

Hermès now offers a line of furniture faithful to the original work of Jean-Michel Frank. The *Confortable* chairs and sofas that make up the heart of this collection were first upholstered in unusual, noble leathers by Hermès in the 1920s. Two new collections of contemporary furniture by Hermès will be unveiled in 2011.

Hermès also presented its first collection of upholstery fabrics and wallpaper, crafted with the most exquisite savoir-faire and broadly inspired by the house's extraordinary heritage of pattern, illustration and design. Hand-knotted silk rugs, whose designs express rich texture with an understated, contemporary style, are the perfect finishing touch for the Hermès home interior, a faithful representation of the House's core values of elegance, timelessness and quality.

New and highly popular additions to the art of living collections included decorative objects such as the *Pléiade* photo frame in wood and leather, *Adage* crystal vases and *Finish* votive lights in painted porcelain. In textiles, new printed patterns danced across cashmere lap rugs, while our beach line featured the new *Nomade* beach rug in lightweight terry cloth.

Hermès remains devoted to the development of new sales tools, and innovated in 2010 with the "*Hermès, La Maison*" application for iPad®<sup>1</sup>, designed for the sales teams at the rue de Sèvres and Faubourg stores.

<sup>1</sup> The iPad® brand is the property of Apple, Inc.

→ Jean-Michel Frank collection.  
Round low tables in straw marquetry.  
*Confortable* club armchair in ivory goatskin.





## PRODUCTS DISTRIBUTED THROUGH SPECIALISED RETAIL NETWORKS

Three Hermès sectors – Perfumes, Watches, and Tableware – comprise products distributed to a broader public through specialised retail networks. In 2010, these sectors generated €294 million in sales, for an operating profit of €56 million.

### PERFUMES

Perfumes sales rebounded in 2010, generating 6% of total revenue, with sales of €138 million, up 16% at constant exchange rates.

*Terre d’Hermès* continued its remarkable growth in 2010, confirming its status as a major classic in men’s fragrances – it is now France’s fourth most popular men’s perfume.

A number of new creations were rolled out this year. *Voyage d’Hermès* was released in the first half of 2010. Faithful to the Hermès spirit of intrepid travel, house perfumer Jean-Claude Ellena imagined this creation as a journey, an invitation to discover, to encounter, to share. This woody, musky fragrance is at once lively and reassuring, forging bonds and inspiring a spirit of sharing, for men or women. For this new story in fragrance, designer Philippe Mouquet created an object that is the soul of travel. Available in stores since March, *Voyage d’Hermès* was acclaimed by both press and public.

*Eau Claire des Merveilles*, the fourth chapter in a saga begun in 2004, was launched in September: after *Eau des Merveilles*, *Parfum*

*des Merveilles* and *Elixir des Merveilles*, *Eau Claire* gives new momentum to our premier line of women’s fragrances, exploring a new facet of the original woody amber theme and playing with the sparkling clarity of aldehyde tempered by the presence of powdery notes. An exclusive in Hermès stores, the *Hermessence* line now boasts a ninth olfactive poem, *Iris Ukiyoé*, a veritable haiku in scent. A lover of Japanese prints, Jean-Claude Ellena wished to share in fragrance his admiration for this form of artistic expression, which places nature’s fragile beauty at the heart of its inspiration. Literally translated, this new *Hermessence* means “*Iris of images of the floating world*”; it reveals a bouquet of unexpected scents, hovering between orange flower and strokes of rose and mandarin.

Echoing its floral namesake, *Iris Ukiyoé* comes clad in a two-tone case of *Swift* calfskin, iris-coloured on the outside and orange within.

## WATCHES

This sector represents 5% of the Group's total business. Sales came to €113 million in 2010, an increase of 23% at constant exchange rates.

La Montre Hermès reaped the full benefits of the recovery in the global watch market, as reflected by sales generated by Hermès stores and specialised retail outlets. Revenue growth in this sector outstripped the average for the Swiss watch export market overall. It was driven by Asia – and by China in particular – as well as by a strong showing in North America and Western Europe. Hermès timepieces are now distributed through an extremely selective and high quality distribution network. The development of Watch and Watch & Jewellery stores strategically located in key markets such as Asia, the United States or Europe, has made a strong contribution to this sector's impressive results and has enhanced Hermès' image and historic legitimacy as a fine watchmaker.

To optimise its production processes and group synergy benefits, La Montre Hermès adopted and implemented a new integrated management system. Over the year, as part of its plan to expand its range of services, La Montre Hermès completed the launch of its global network of customer service outlets.

The 2010 Basel Show set the stage for unveiling the new design of the complete *Clipper* line and served as a showcase for the exceptional products that Hermès continues to develop and for our know-how as fine watchmakers,

as demonstrated by such models as the *Arceau*, *Cape Cod* émail, *Cape Cod* snow setting, the *Cape Cod* tourbillon watch and the *Arceau* perpetual calendar watch.

The latter two models are made with Vaucher movements, the result of a partnership between Vaucher and Hermès.

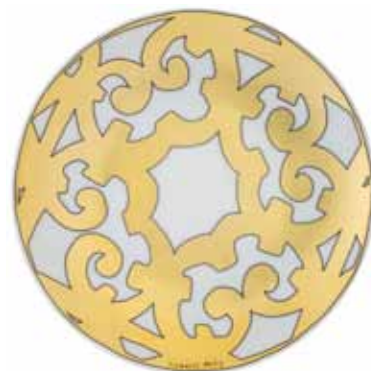
Another major event this year was the release of the new *Carré H* watch, born of an encounter between designer and architect Marc Berthier and the house of Hermès. This timepiece has captured the essence of balance and stability with boundless elegance. The rounded angles, subtly curved dial, gently domed upper glass and curved case compose an architectural object formed of squares within a square, enhanced by the clean guilloché lines on the face. The pure, modern design is set off by the surprising lightness of microbead blasted titanium, the material that La Montre Hermès selected for the case. The sapphire caseback reveals the finest mechanical movement available, built following the strictest rules of the craft: circular-grained baseplate, bridges with hand-polished angles and oscillating weight decorated with a sprinkling of "H's". Finally, a strap in black Barénia calfskin adds the perfect finishing touch to this creation, produced in a numbered, limited edition of 173 pieces.



→ *Arceau* skeleton watch in 950 platinum with matte alligator strap.

← *Carré H* watch in microbead blasted titanium, anthracite face with black Barénia calfskin strap.





## TABLEWARE

Tableware encompasses La Table Hermès, Les Cristalleries de Saint-Louis and Puiforcat. In 2010, sales for this sector totalled €44 million, up 11% at constant exchange rates.

The Tableware division continued to expand its stores, featuring Hermès, Puiforcat and Saint-Louis. Four new stores opened in 2010: in Kiev, in Düsseldorf (in the Franzen department store), in Shanghai (in the Plaza 66 Mall) and in Singapore (on Orchard Road, in the Renaissance Palace).

### LA TABLE HERMÈS

La Table Hermès regained momentum in 2010, with sales rising by 11% to €23 million.

The year opened with the launch of a new faïence table service, *Les Maisons enchantées*, which was unveiled at an artist's studio in Paris. The début of this twenty-one-piece service was a major event for Hermès, as it was the first time in many years that the House has focused on faïence. It was an opportunity to combine illustration and the most wildly dream-like forms: enchanting teacups, a vegetable dish, a lobed-edge platter, a sauceboat resembling a gardener's watering can... and of course the dessert plates, decorated with enchanted cottages, for which the service was named.

In the autumn, Hermès presented *Iliane*, a new line of flatware in solid steel designed by Rena Dumas, as well as several variations on the celebrated *Balcon du Guadalquivir* table service coloured in gold, platinum and black.

### LES CRISTALLERIES DE SAINT-LOUIS

Sales rebounded in 2010, with a 10% surge, underpinned primarily by lights and decorative objects, and by resilient business for the brand's major lines.

Growth was galvanised by the Middle East, Asia, Russia and the United States. Major French stores, particularly the one on rue

Royale, maintained significant momentum as well. The *Versailles* vase marked its anniversary in 2010. It was a year to celebrate in vivid colours, such as the lilac Roemer *Bubbles* champagne flute, or the opal blue *Bilbao* line.

2010 also featured a new foray into the world of home decorating with the *Veilleur de nuit* duo or the *Bilbao* line; there was much activity surrounding the *Vibration* and *Excess* lines, which were enhanced with decorative objects and gift suggestions. The olive-cut *Cléopâtre* line made itself at home in a modern, elegant bar setting, and was well received throughout the distribution network.

Production capacity was expanded with substantial investments, primarily to rebuild the glass-tank furnace and to replace a tunnel lehr.

### PUIFORCAT

In 2010, the house of Puiforcat began a new, contemporary chapter in its never-ending story as a creative silversmith.

Presented in January, the powerful design of the new *Zermatt* steel flatware collection was an immediate hit among customers and the press. Created by designer Patrick Jouin, each piece is conceived as an ingot of raw metal, becoming a sculpted object animated by a play of light and shadow. *Zermatt* received accolades from the *Observateur du design* and was acquired by the

↗ → *Balcon du Guadalquivir* porcelain service in gold.

→ → *Zermatt* steel flatware.  
→ → → *Veilleur de nuit* carafe.





collections of the National Museum of Modern Art at the Pompidou Centre in Paris. The *Champagne* collection, launched in autumn, was designed around the “*timbale à champagne*” champagne beaker, a unique tasting tool developed through a collaborative effort between Puiforcat and Bruno Paillard, maker of exceptional champagnes. With its silver beaker, daring champagne daggers and generous glasses, this collection transforms the tasting ritual into a cascade of experiences. Other new creations rolled out in autumn included new pieces based upon designs for the *Ruban* candleholder and the *Art déco* tea and coffee services by Jean Puiforcat, placing the spotlight on the visionary nature of the inventor of modern silversmithing in the 1930s. Sales in 2010 rose by 14% year-on-year to €5 million.



## OTHER GROUP BRANDS AND PRODUCTS

### JOHN LOBB BOOTMAKER

In 2010, John Lobb generated consolidated sales growth of 12% year-on-year. The company focused on developing its network of exclusive stores and inaugurated its first two locations in China, in Shanghai and Beijing. These openings also attracted many Chinese customers to the Mandarin Oriental and International Airport outlets in Hong Kong, which delivered robust growth.

The focus on supporting new markets paid off. In the United Arab Emirates, the John Lobb store opened in the Dubai Mall in 2009 met with unqualified success in 2010, its first full year of operation. In Moscow, sales soared as John Lobb consolidated its presence in the Gum department store and in specialised retail outlets.

The company formed new partnerships with celebrated department stores, including Le Bon Marché in Paris, France and Maison Degand in Brussels, Belgium. In John Lobb's other traditional markets such as the United Kingdom, the United States and Japan, sales grew appreciably owing to the unqualified success of the ready-to-wear collections and to high demand for special orders. The opening of a Parisian workshop at 32, rue de Mogador in 2009 boosted growth for the bespoke department. Efforts to foster interaction between craftsmen and customers paid off handsomely, as evidenced by the numerous encounters organised throughout the year and across the world. Every year, on Saint Crispin's Day, celebrated on 25 October, John Lobb reveals a numbered, special edition shoe – a tradition that has been observed – and eagerly anticipated – for the past fifteen years. The 2010 model was a virtuoso interpretation

of the double-buckle shoe, crafted from a single piece of leather – a prime example of John Lobb's consummate skills.

In ready-to-wear, the company continued to refocus its range on iconic models. A new collection of casual shoes in supple leather, including *Driver by John Lobb* indoor loafers, was greeted with enthusiasm.

John Lobb has built partnerships with several luxury hotels across the world, offering shoe care through *Butler Service by John Lobb*, which has allowed the brand to consolidate its visibility and prestige. The brand also added further prestige with the publication of marketing campaign through its website. Revealed this year and titled "190 steps", the campaign showcases the many steps required to create John Lobb shoes.

→ Samples of heavy silk.

→ → Natural Barénia calfskin.



## TEXTILES

Hermès' textile businesses include design, colour and dye works, engraving, printing, weaving and fabrication, and are grouped under Holding Textile Hermès, formerly known as Sport Soie. Sales were €16 million in 2010, up 12% year-on-year.

The fashion and luggage segments experienced vigorous growth this year, while upholstery fabrics – marketed under the brands Métaphores, Verel de Belval and Le Crin – regained stability despite the negative impact of the ongoing recession in this sector.

Upholstery fabrics woven in its workshops were selected to cover a section of the walls in the Rhône-Alpes Pavilion at the Shanghai World's Fair, providing an excellent opportunity for the business line to promote its public image.

Investment spending remained high, with a focus on renovating production facilities and upgrading equipment to meet ongoing quality improvement targets and new safety and environmental requirements.

## PRECIOUS LEATHER TANNING

Sales in the tanning sector advanced by 29% to €42 million from €33 million in 2009. This sector is responsible for purchasing, tanning, dyeing and finishing exotic skins for high-end markets such as fashion and leather goods (bags, small leather items, shoes, belts, clothing, etc.) as well as for luxury watch makers (watch straps).

Business picked up in all market segments in 2010, particularly in watchmaking, where demand for leather for watch bands rose considerably.

In 2010, the sector continued its efforts to improve quality across the entire supply chain and achieved remarkable progress within its own production facilities.

Hermès continues to invest heavily in tanning to consolidate its position and reputation for excellence in precious leathers, to maintain its lead in complying with environmental standards and best practice in all areas and to cut water and energy consumption.



## INTERIOR DESIGN


Hermès Intérieur & Design engineers and executes design projects and creative interiors. In 2010, the sector continued to expand through new projects and by progressively building its marketing network. Projects in 2010 included a partnership with Yamaha Motor France, which took form in the Yamaha VMax 1700H motorcycle, a legendary model whose non-mechanical parts – seat, fuel tank, handlebars, hand grips, lamp housings, mudguards, muffler – are entirely clad in leather. The toolkit stored beneath the motorcycle’s seat was also specially designed. For this project, Hermès selected Skipper buffalo hide, a matte, naturally waterproof leather that is easy to maintain, is suitable for outdoor use and accentuates the sporty look of the VMax. Worked in two shades of leather – black and chocolate – the cladding highlights the sculptural lines of this unique object and showcases its emotional force. The vehicle’s mechanical parts were also designed to complement the leatherwork, with the rear-view mirrors, radiator and gauge mounts crafted in brushed aluminium.


The project has generated a promising number of orders, which will be delivered in 2011.

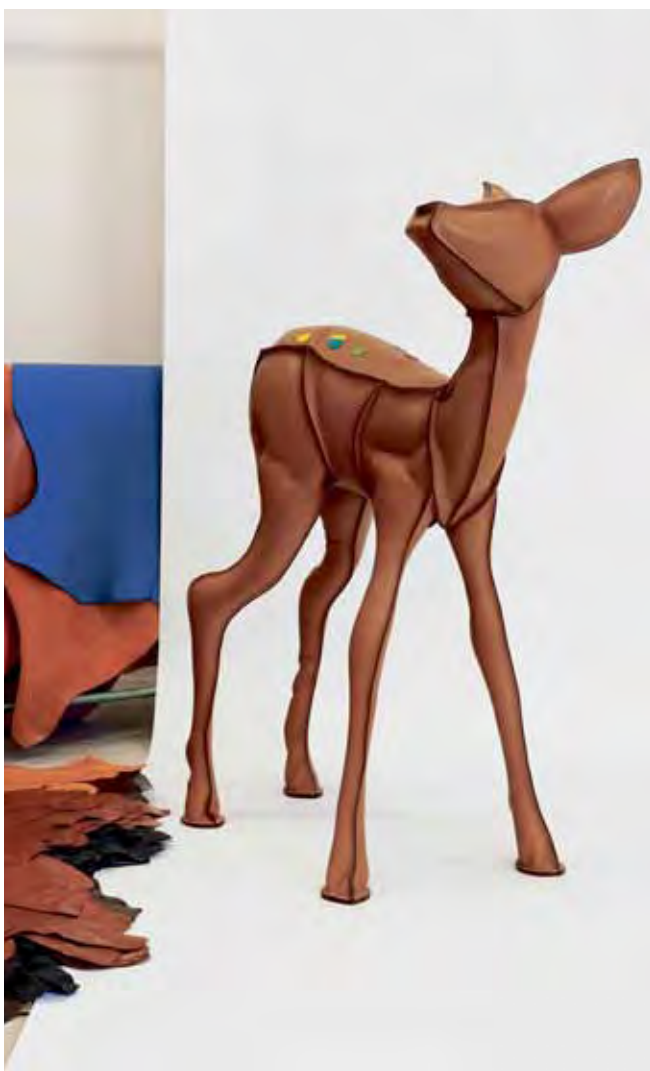
In 2010, Hermès Intérieur & Design also completed a number of private custom orders and has a solid order backlog for 2011 and beyond. For each project, Hermès assembles a dedicated team of designers and master craftsmen, then works closely with the customers to help define their Hermès dream in meticulous detail and to turn it into reality. Most of these projects are for car or jet interiors, private homes or offices.



## “PETIT ”

The new workshop in Hermès,  (pronounced “petit h”) – the brainchild of Pascale Mussard – brings together the House’s wealth of skills and materials in one place, where Hermès artists use them to make “re-creative” works. Scraps of leather, sponge, silk or horsehair, bits of porcelain and crystal, metal findings and much more – these beautiful, precious materials, set aside in our workshops, unused and brimming with potential, are reborn in the hands of our master leatherworkers, saddlers, silversmiths, seamstresses, glassblowers and potters... serving the vision of a variety of artists and designers.

This direct interaction between ideas and hands, inspired by these noble materials, brings to life marvellous, unexpected objects, which are sold through ephemeral travelling exhibits in Hermès stores. The first such event was held at the faubourg Saint-Honoré store from 13 November to 4 December in an exhibit space specially designed for the occasion. It met with great success among our customers, who were charmed by this unexpected and highly original offering of Hermès products. In 2011, the world of “petit ” will set sail for other shores, including Japan and the United States.



## SHANG XIA

One of the year's highlights was the September opening of Shang Xia, Hermès' new Chinese brand. The goal of the resolutely modern Shang Xia brand is to present traditional know-how from China and across Asia within a contemporary context and lifestyle.

Through Shang Xia, Hermès approaches the Chinese market with the utmost respect and creativity: its goal is to forge strong mutual bonds, as Shang Xia manufactures and sells its own products. These products are crafted in keeping with Hermès' core values – creativity, quality and commitment to excellence – using local skills, culture and resources.

Like Hermès, Shang Xia embodies a combination of age-old tradition and technological innovation. Drawing inspiration from the millenary heritage of China and greater Asia, the brand's first collection focused on home interiors, with a range of furniture, decorative objects, accessories, clothing and objects linked to the tea ceremony.

With the opening of the new brand's first store, Hermès has reaffirmed its passionate commitment to recognising and promoting craftsmanship and creative talent across the world.

## OTHER ACTIVITIES OF THE HERMÈS GROUP

This sector includes activities carried out at Hermès production sites for non-Group brands, notably the packaging of perfumes at Le Vaudreuil in Normandy.

↗ Fawn in gold buffalo hide and togo calfskin.

↗ ↗ Jewellery hooks in natural Barénia calfskin and porcelain: teapot and coffee pot spouts from the *Early America* and *Africa* sets. Necklace in silk twill: *Les Poneys de polo carré*.

## PARTNERSHIPS

### JEAN PAUL GAULTIER

Hermès initially acquired a stake in the Jean Paul Gaultier couture house in 1999 and now owns 45% of the company. Sales mainly consist of licence revenues from ready-to-wear, perfumes and accessories, the haute couture collections and retail sales in the Jean Paul Gaultier boutiques. In 2010, the company repositioned its product range and delivered revenue of €24 million, a rise of 5% on 2009.

### LES TISSAGES PERRIN

The Hermès Group owns a 39.5% interest in Les Tissages Perrin. Most of the business is focused on weaving for sectors as wide-ranging as ladies' lingerie, upholstery fabric, ready-to-wear and accessories. This business generated revenue of €20 million in 2010, or 4% less than in 2009.

### VAUCHER MANUFACTURE FLEURIER

Hermès has owned 21% of watchmaker Vaucher Manufacture Fleurier since 2007. Located in the heart of traditional watch-making territory, between Neufchatel in Switzerland and the French border, La Manufacture Vaucher has superior expertise in premium and prestige watch movements.

*Dressage* annual calendar watch, in white gold made by La Manufacture Vaucher.



*Detailed key financial data on investments in associates is provided in Volume 2, on page 153.*



# THE MAGICIAN

His life is not a novel, but a magical tale. And he is its magician. His fingers weave spells ; he has the patience of a saint and the humility of a prince. He has a taste for perfection, for challenges and adventure. Leather, silk, silver, crystal: each precious material entrusted to his expert hands is transformed into a charmed and charming object. He gives it life, as if it were a child. According to Laurence Quelier, director of manufacture in the workshop at Pantin, who speaks of the place like a family home, the birth of their first object sometimes draws an awed “It’s my baby!” from its creator. The artisan’s emotions, on seeing the fruition of their labours, are palpable. Into this object he has put all his skill, his heart and soul. “He takes its history to heart,” says Laurence, “and that of the house, too.” There is a real pride in belonging here. You can read it in his eyes, hear it in his words. You can see it in the work to which he adds his signature – a discreet, almost invisible signature – as if signing a painting. He does this not out of pride, but out of love. This is his work; it is unique, like the person who will adopt it. He pays homage to them both. Later, he will pass on his savoir-faire, just as it was once passed on to him. It is his treasure. This magic power must be learned over time, and through hard work. It demands perseverance, attention to others, a hunger to learn, and the determination to push one’s limits. If the artisan is a magician, that is because the realization of his work is also self-realization.



# ACTIVITY BY REGION

The Hermès Group's revenue totalled €2,401 million in 2010, a rise of 19% at constant exchange rates and of 25% at current exchange rates. All continents delivered impressive growth.

	2010 (€m)	2010 (%)	2009 (€m)	2009 (%)	At current exchange rates	At constant exchange rates
Europe	901	38%	755	40%	19.2%	18.0%
France	437	19%	370	20%	18.1%	18.1%
Rest of Europe	463	19%	385	20%	20.2%	17.9%
Americas	385	16%	294	15%	31.0%	24.1%
Asia-Pacific	1,084	45%	831	43%	30.5%	19.0%
Japan	453	19%	408	21%	11.0%	(0.8)%
Rest of Asia-Pacific	631	26%	423	22%	49.3%	38.0%
Other	31	1%	34	2%	(8.2)%	(8.8)%
Consolidated revenue	2,401	100%	1,914	100%	25.4%	18.9%

## EUROPE

Sales in Europe rose by 18% at constant exchange rates to €901 million in 2010 and accounted for 38% of the total for the consolidated entity.

In France, sales expanded by 18%. In November 2010, Hermès opened its third store in Paris, on rue de Sèvres, in the former Lutetia hotel's indoor swimming pool. The site is steeped in history and boasts original interior architecture with a vast selling area. It carries an extensive display of home furnishings and accessories, including furniture, upholstery fabric, wallpaper and carpeting. This new store fulfils three objectives: it gives Hermès an address on the Left Bank, it serves as a showcase for our Home Interiors universe and it is more than a shop – it is an inviting place inspired by the atmosphere of its lively neighbourhood. The space beckons visitors, encourages them to wander and to wonder, to explore the alcoves dedicated

to the wares of our partners – Baptiste the florist, Chaîne d'Encre, the Actes Sud bookstore and the Saint-Clair tea bar, aptly known as the Diving Board.

Elsewhere in France, the Strasbourg store was renovated and expanded. After a five-year absence, Hermès returned to Nantes in November. Lastly, the Montpellier concessionaire was renovated.

In the rest of Europe, growth averaged 18% at constant exchange rates over the year. Hermès expanded its distribution network: in September, the Zurich store relocated to larger premises and a second location was opened in Amsterdam, within the Bijenkorf department store. Four other stores were renovated: in Glasgow, Scotland; Munich, Germany; Antwerp, Belgium; and Bologna, Italy, where the interior layout was updated with pure, modern lines and new, light-refracting materials.

➤ Le Saut Hermès at the Grand Palais in Paris, April 2010.

A variety of events was held throughout the year. One of the most spectacular was Le Saut Hermès at the Grand Palais in April 2010, an event that will be held every year. This production is symbolic of the return of the horse to central Paris. It also gave Hermès its first opportunity to organise a CSI 5-star international dressage show. The Grand Palais' vaulted glass roof once again thrummed to the sound of horses' hooves beats, as it did when it first opened for the 1900 World's Fair. The focus this year was on silk products, once again, with *J'aime mon carré* events staged in Milan, Brussels and Madrid and mobile photo studios touring Europe. Lastly, Hermès chose its flagship store at 24, faubourg Saint-Honoré to launch its new line of "petit  " products, which was greeted enthusiastically by customers.





## AMERICAS

In 2010, the Hermès Group generated 16% of its sales in the Americas. Revenue for the region moved up 24% at constant exchange rates to €385 million.

In North America, after two difficult years, economic conditions improved considerably in 2010, particularly during the second half. The distribution network was enlarged with the addition of a new store dedicated entirely to men on Madison Avenue in New York City. Its architecture and materials, highlighted by the interplay of light and crystal, lend the space a masculine feel in an atmosphere of warmth and intimacy. The ground floor invites visitors to discover the world of ties, silk products, small leather goods, fashion accessories, diaries and fragrances. On the second level, visitors enter the world of casual dressing, where the ready-to-wear collection is at its sportiest and most informal, alongside collections of accessories – shoes, hats, travel bags – that embody the same spirit. The third level houses the classical, elegant, urban gentleman's universe: coats, suits, shirts and ties, dress shoes. Messenger bags and briefcases are also on display. The top storey is dedicated to custom and semi-custom apparel, the evening wear collection, the Pippa collection and a selection of exceptional objects reflecting the Hermès lifestyle in its masculine incarnation.

In addition to this highly successful new venue, two other stores in the United States were renovated or expanded. In Las Vegas, the emblematic Bellagio store closed in January 2010 after eleven years of uninterrupted magic, then reopened nine hours later at Crystals Mall in CityCenter. And in June 2010, the Chicago store inaugurated its new showcase at the corner of East Oak and Rush streets. In Latin America, the business climate improved after the downturn in 2009 sparked by the H1N1 flu. The Group continued to expand in the region, with a new concessionaire in Mexico, at the Palacio de Hierro in Guadalajara. Throughout 2010, numerous events were held in the Americas, including the Sprockets Toronto International Children's Film Festival organised with the Fondation Hermès and *J'aime mon carré* activities organised in Argentina in September and in Toronto, Canada in November.



➤ Inauguration of the Hermès Men's Store on Madison Avenue in New York City.

## ASIA-PACIFIC

In 2010, the Asia-Pacific region generated 45% of the Hermès Group's sales, with revenue totalling €1,084 million, up 19% year-on-year at constant exchange rates.

In Japan, sales edged down by 1% at constant exchange rates. Two new Hermès stores opened during the year, one Urawa Isetan to the north of Tokyo in March, the other in Sapporo Daimaru on Hokkaido Island in November. The Chiba Sogo and Iyotetsu Takashimaya concessionaires on Shikoku Island also became part of the retail network at the end of the first quarter. Like many countries, Japan celebrated the *J'aime mon carré* promotional tour, which travelled beyond Tokyo and across the nation. The vitality and magic of the different installations attracted new customers, both male and female.

In the rest of Asia, sales expanded by 38% at constant exchange rates. The distribution network continued to grow at a robust pace, with six new Hermès branches opened – four in China, one in Singapore and one in Australia. Three other stores were renovated or enlarged, including Shilla in Korea, which is now the second largest outlet in that country.

In July 2010, the Group opened its first concessionaire in Lebanon, in downtown Beirut. The store is on the ground floor of a 1920's building that is classified as a historic monument.

Among other events, silk products were highlighted with *J'aime mon carré* activities in Australia, Singapore and Malaysia. The Shanghai World's Fair set the stage for Leather Forever, an exhibition highlighting our craftsmen's leather goods and know-how installed in the building that will become our future "House".



↗ Window display at the Hermès store in Taiwan.




↗ Window display at the Hermès Ginza store in Tokyo.  
 ↗↗ Window display at the Hermès store in Sydney.

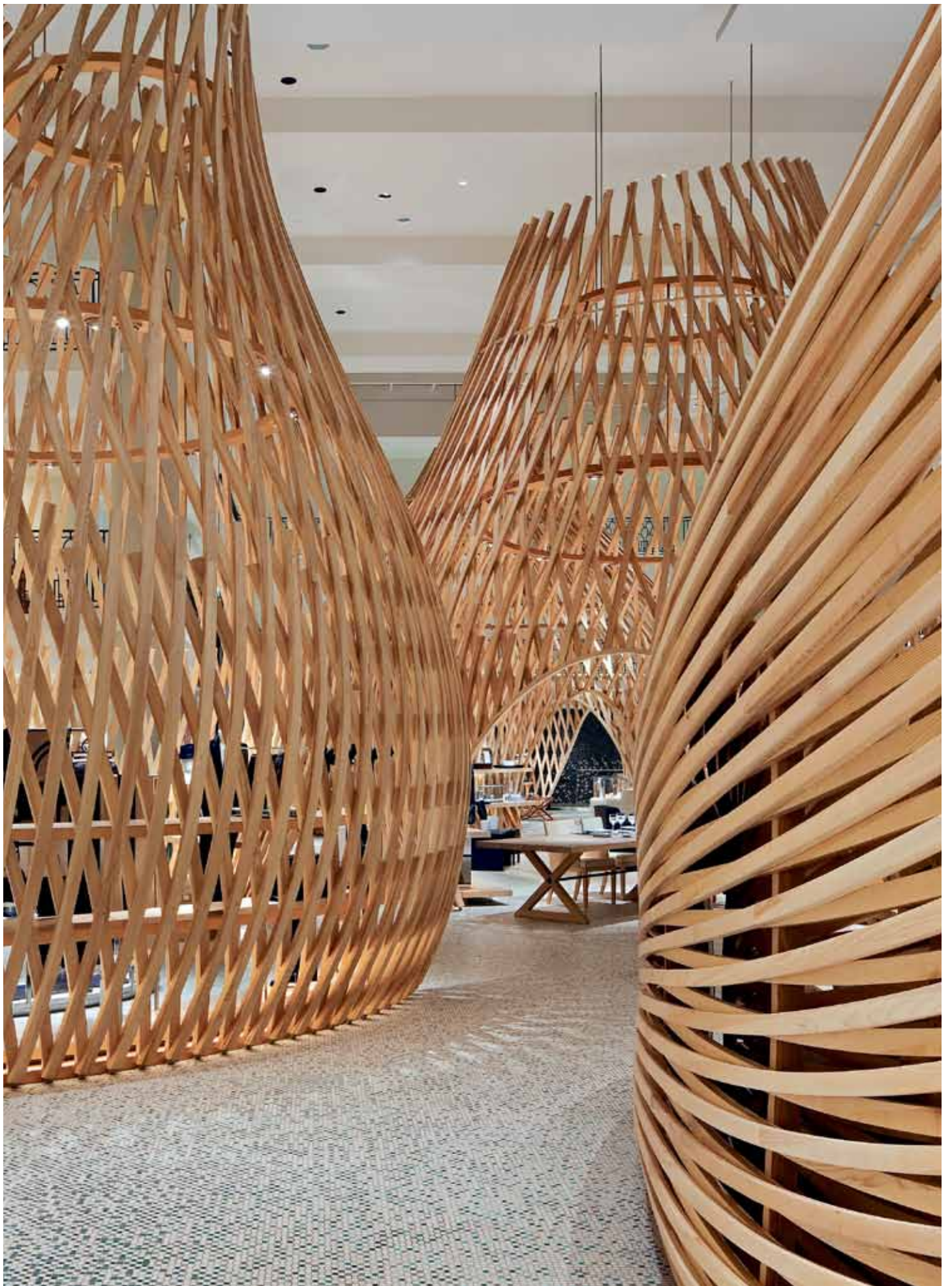
Next page: interior of the Hermès store on rue de Sèvres in Paris.

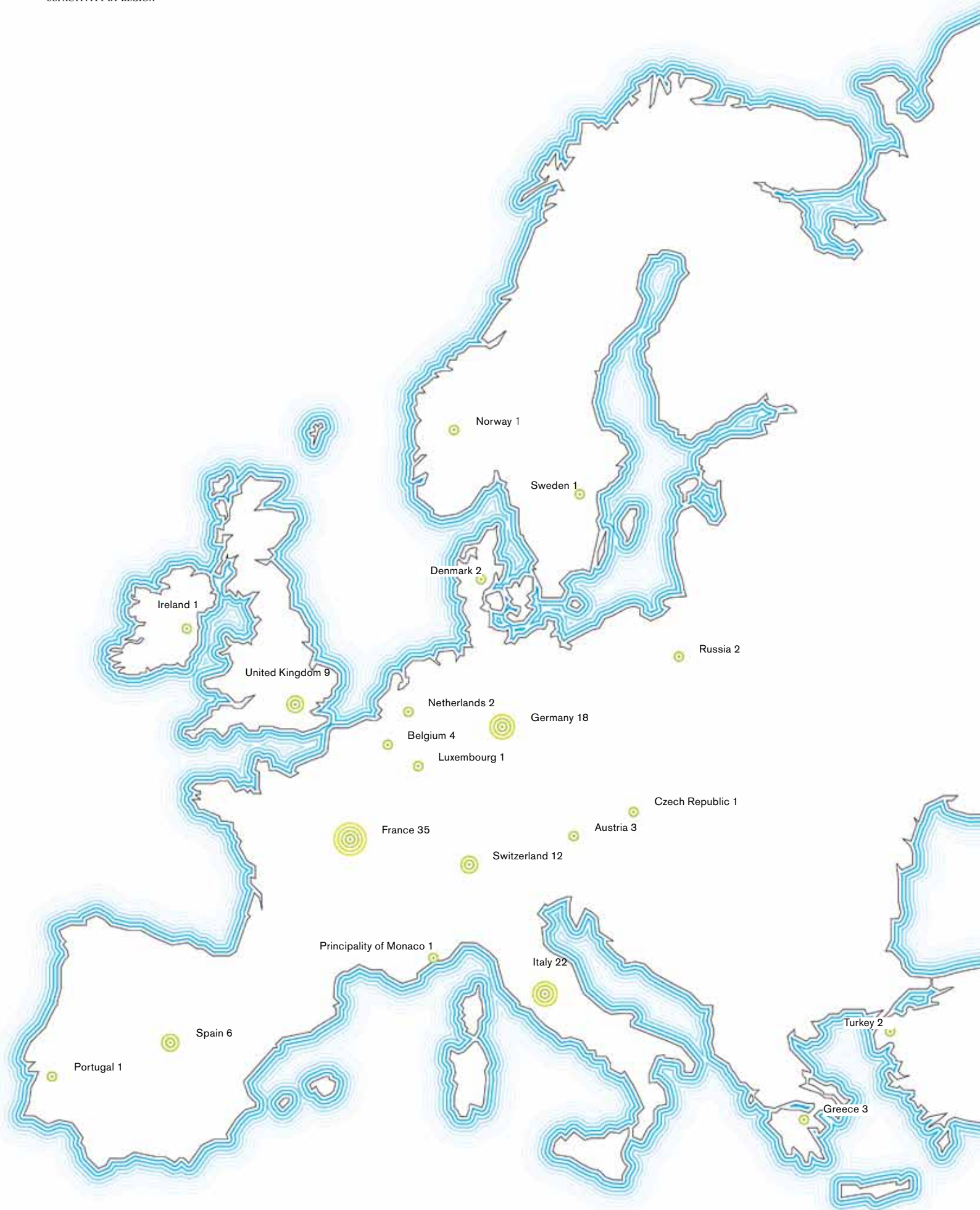


# ALI BABA'S CAVE

It is a gallery of extraordinary beauty and diversity, a real Ali Baba's cave, breathtaking in its riches. Everything is unique, distinctive, and vibrant. The Hermès kingdom is like no other: alive, dynamic, colourful, harmonious, and ever-changing. Tens of thousands of new subjects are born there every year. They are made to grow, to flourish and to endure. Here, legendary figures – the silk scarf, *Kelly bag* and *Chaîne d'ancre* bracelet – dance with striplings. Leather goods, saddles, perfumes, jewels, watches, tableware, ready-to-wear, precious objects for the home: the court is royal, the profusion magical, and the nuances of form and colour, infinite. The diversity of leathers, fabrics and models never ceases to amaze. Every piece adds its harmonious song to the visual symphony. It is an audacious fantasia. Later each will be worn with love and passion by its owner. This is what Axel Dumas, Managing director of Métier Hermès Leather and Saddlery, calls "giving free rein." With time, a new detail may modify its style and magnify its beauty. From one store to the next, each encounter will offer new discoveries, new surprises. In this constellation, creations are united by a family resemblance, a style that is never lost. In Hermès, there's no need to try to dazzle. You will be noticed.







## HERMÈS AROUND THE WORLD

Hermès products are available worldwide through a network of 317 exclusive stores and 21 other retail outlets. Hermès watches, perfumes and tableware are also sold through networks of specialised stores, in airport duty-free stores and on board aircraft.

## 338 RETAIL OUTLETS

### EUROPE

#### Austria: 3

3 stores (cessionnaires)

#### Belgium: 4

3 stores (branches):

Antwerp

Brussels

Knokke-le-Zoute

1 store (cessionnaire)

#### Czech Republic: 1

1 store (branch):

Prague

#### Denmark: 2

2 stores (cessionnaires)

#### France: 35

15 stores (branches):

Aix-en-Provence

Biarritz

Bordeaux

Cannes

Deauville

Lille

Lyon

Marseille

Paris faubourg Saint-Honoré

Paris George-V

Paris Sèvres

Rennes

Rouen

Saint-Tropez

Strasbourg

20 stores (cessionnaires)

#### Germany: 18

10 stores (branches):

Baden-Baden

Berlin (2)

Cologne

Düsseldorf

Frankfurt

Hamburg

Hanover

Munich

Nuremberg

8 stores (cessionnaires)

#### Greece: 3

2 stores (branches):

Athens

Mykonos

1 store (cessionnaire)

#### Ireland: 1

1 store (branch):

Dublin

#### Italy: 22

11 stores (branches):

Bologna

Capri

Florence

Milan

Naples

Padua

Palermo

Porto Cervo

Rome

Turin

Venice

11 stores (cessionnaires)

#### Luxembourg: 1

1 store (cessionnaire)

#### Norway: 1

1 store (cessionnaire)

#### Netherlands: 2

2 stores (branches):

Amsterdam

Amsterdam Bijenkorf

#### Portugal: 1

1 store (branch):

Lisbon

#### Principality of Monaco: 1

1 store (branch):

Monte-Carlo

#### Russia: 2

2 stores (cessionnaires)

#### Spain: 6

6 stores (branches):

Barcelona Paseo de Gracia

Madrid

Madrid Corte Inglés

Marbella

Pau Casals

Valencia

#### Sweden: 1

1 store (cessionnaire)

#### Switzerland: 12

9 stores (branches):

Basel

Bern

Crans

Geneva

Gstaad

Lausanne

Lugano

Saint-Moritz

Zurich

3 stores (cessionnaires)

#### Turkey: 2

1 store (branch):

Istanbul

1 store (cessionnaire)

#### United Kingdom: 9

8 stores (branches):

Glasgow

London Harrods

London Bond Street

London Royal Exchange

London Selfridges

London Sloane Street

Manchester

Manchester Selfridges

1 store (cessionnaire)

Window display at the Hermès store in Zurich.







## NORTH AMERICA

### Canada: 5

4 stores (branches):  
 Calgary  
 Montreal  
 Toronto  
 Vancouver  
 1 store (concessionaire)

### Caribbean: 2

1 store (branch):  
 Saint-Barthélemy  
 1 store (concessionaire)

### USA: 55

25 stores (branches):  
 Atlanta  
 Bergen County  
 Beverly Hills  
 Boston  
 Charlotte  
 Chicago  
 Dallas  
 Denver  
 Hawaii Ala Moana  
 Hawaii Duty Free Kalakaua

Hawaii Duty Paid Waikiki  
 Houston  
 King of Prussia  
 Las Vegas (CityCenter)  
 Las Vegas Wynn  
 Miami Bal Harbour  
 New York Madison  
 New York Man on Madison  
 New York Wall Street  
 Palm Beach  
 San Diego  
 San Francisco  
 Seattle  
 South Coast Plaza  
 Washington Fairfax  
 9 stores (concessionaires)  
 21 other retail outlets

### Mexico: 4

3 stores (branches):  
 Mexico Mazaryk  
 Mexico Palacio Perisur  
 Mexico Santa Fe  
 1 store (concessionaire)

## SOUTH AMERICA

### Argentina: 1

1 store (branch):  
 Buenos Aires

### Brazil: 1

1 store (concessionaire)

### Chile: 1

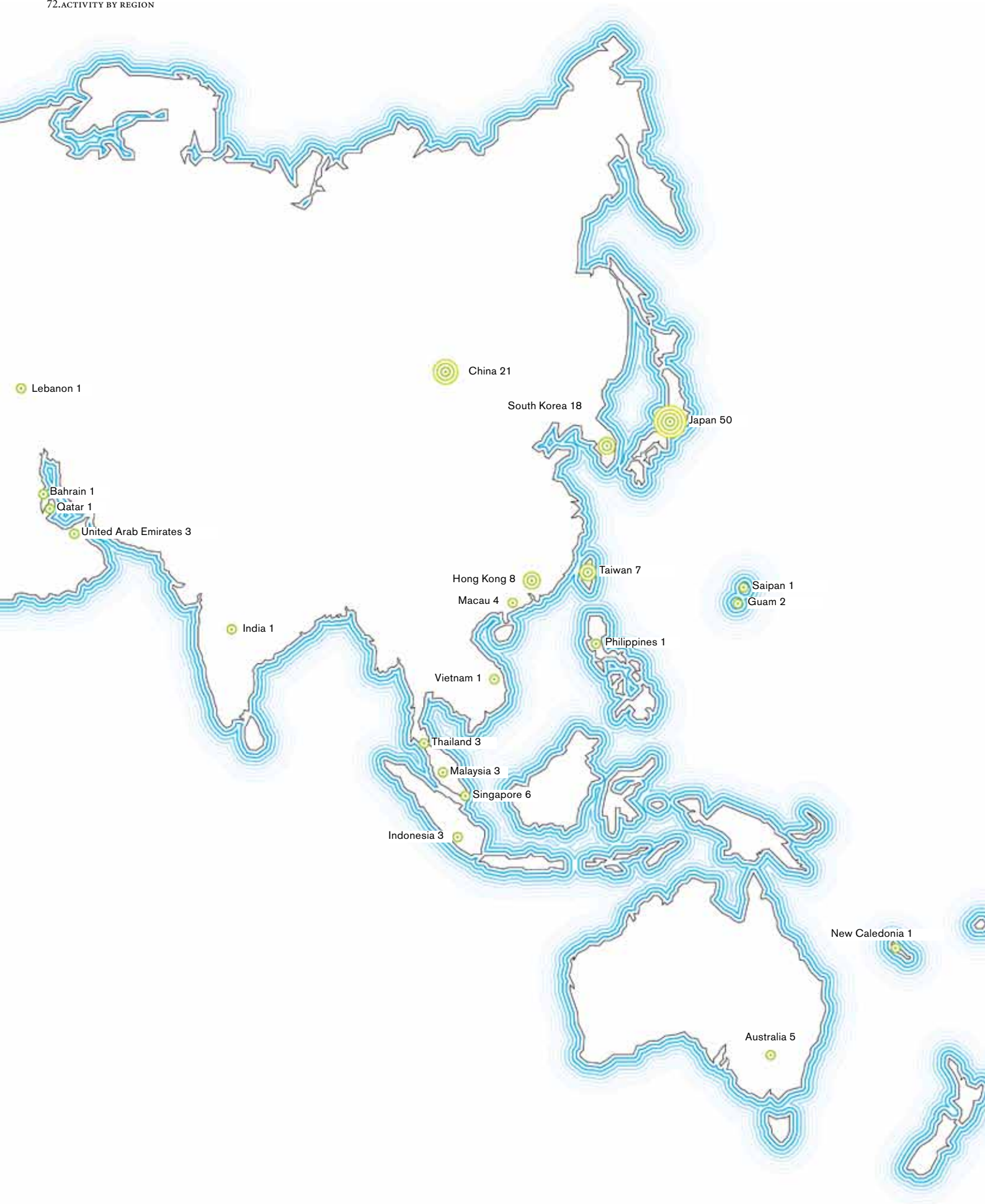
1 store (concessionaire)

### Panama: 1

1 store (concessionaire)

Window displays at the Hermès and Men's stores on Madison Avenue in New York city.





## ASIA

### China: 21

17 stores (branches):  
 Beijing China World  
 Beijing Palace Hotel  
 Beijing Park Life  
 Canton Guangzhou La Perle  
 Chengdu Maison-Mode  
 Dalian  
 Hangzhou Eurostreet  
 Hangzhou Tower  
 Harbin  
 Kunming Golden Eagle  
 Nanjing Deji  
 Qingdao Hisense Plaza  
 Shanghai  
 Shanghai IFC  
 Shenzhen City Crossing  
 Suzhou Matro  
 Wuxi Commercial Mansion  
 4 stores (concessionaires)

### Hong Kong: 8

8 stores (branches):  
 Galleria  
 HK Peninsula Hotel  
 Hong Kong Airport  
 Kowloon Elements  
 Lee Gardens  
 Ocean Center  
 Pacific Place  
 Sogo

### Macao: 4

4 stores (branches):  
 Four Seasons  
 Mandarin Oriental Macao  
 One Central  
 Wynn

### South Korea: 18

9 stores (branches):

Busan Paradise  
 Hyundai  
 Seoul Dosan Park  
 Seoul Galleria  
 Seoul Hyundai Coex  
 Seoul Shilla  
 Seoul Shinsegae Busan  
 Seoul Shinsegae North  
 Seoul Shinsegae South  
 9 stores (concessionaires)

### Indonesia: 3

3 stores (concessionaires)

### Japan: 50

28 stores (branches):  
 Chiba Sogo  
 Iyotetsu Takashimaya  
 Kobe Daimaru  
 Kobe Sogo  
 Kyoto Takashimaya  
 Nagoya JR Tokai Takashimaya  
 Osaka Hilton  
 Osaka Midusoji  
 Osaka Pisa Royal  
 Osaka Takashimaya  
 Sapporo Daimaru  
 Sendai Fujisaki  
 Tokyo Ginza  
 Tokyo Ikebukuro Seibu  
 Tokyo Isetan Shinjuku  
 Tokyo Marunouchi  
 Tokyo Nihombashi Mitsukoshi  
 Tokyo Nihombashi Takashimaya  
 Tokyo Ritz Carlton Hinokicho Park  
 Tokyo Shibuya Seibu  
 Tokyo Shibuya Tokyu  
 Tokyo Shinjuku Takashimaya  
 Tokyo Tachikawa Isetan  
 Tokyo Tamagawa Takashimaya

Umeda Hankyu  
 Urawa Isetan  
 Yokohama Sogo  
 Yokohama Takashimaya  
 22 stores (concessionaires)

### Malaysia: 3

2 stores (branches):  
 Kuala Lumpur  
 Kuala Lumpur Pavilion  
 1 store (concessionaire)

### Singapore: 6

4 stores (branches):  
 Liat Tower  
 Marina Bay Sands  
 Scottswalk  
 Takashimaya  
 2 stores (concessionaires)

### Taiwan: 7

6 stores (branches):  
 Flagship Taipei – Bellavista  
 Kaohsiung Han Shin  
 Mitsukoshi Tainan  
 Regent Taipei  
 Sogo Fuxing Taipei  
 Sogo Taichung  
 1 store (concessionaire)

### Thailand: 3

2 stores (branches):  
 Bangkok Emporium  
 Bangkok Siam Paragon  
 1 store (concessionaire)

### India: 1

1 store (branch):  
 New Delhi

### Vietnam: 1

1 store (concessionaire)

### Philippines: 1

1 store (concessionaire)

## MIDDLE EAST

### Barhein: 1

1 store (concessionaire)

### Qatar: 1

1 store (concessionaire)

### United Arab Emirates: 3

3 stores (concessionaires)

### Lebanon: 1

1 store (concessionaire)

## OCEANIA

### Australia : 5

5 stores (branches):  
 Brisbane  
 Gold Coast  
 Marina Mirage  
 Gold Coast Surfers Paradise  
 Melbourne  
 Sydney Skygarden

### Guam: 2

1 store (branch)  
 1 store (concessionaire)

### New Caledonia: 1

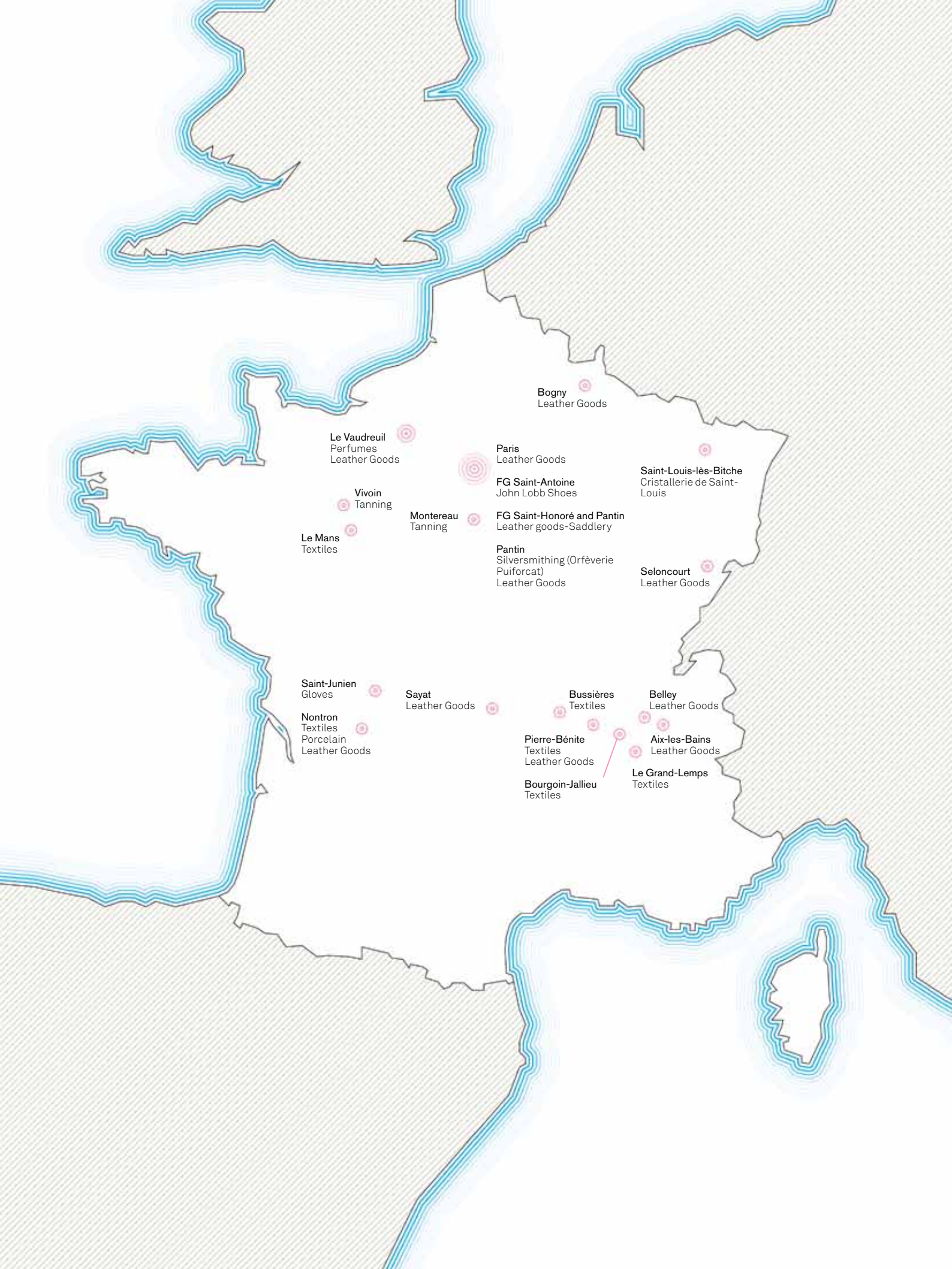
1 store (concessionaire)

### Saipan: 1

1 store (branch)

Window displays at the Hermès stores in Ginza and Osaka.





**Bogny**  
Leather Goods

**Le Vaudreuil**  
Perfumes  
Leather Goods

**Paris**  
Leather Goods

**Saint-Louis-lès-Bitche**  
Cristallerie de Saint-Louis

**Vivoin**  
Tanning

**FG Saint-Antoine**  
John Lobb Shoes

**Montereau**  
Tanning

**FG Saint-Honoré and Pantin**  
Leather goods-Saddlery

**Le Mans**  
Textiles

**Pantin**  
Silvermithing (Orfèverie  
Puiforcat)  
Leather Goods

**Seloncourt**  
Leather Goods

**Saint-Junien**  
Gloves

**Sayat**  
Leather Goods

**Bussières**  
Textiles

**Belley**  
Leather Goods

**Nontron**  
Textiles  
Porcelain  
Leather Goods

**Pierre-Bénite**  
Textiles  
Leather Goods

**Aix-les-Bains**  
Leather Goods

**Bourgoin-Jallieu**  
Textiles

**Le Grand-Lemps**  
Textiles

# ENVIRONMENT

The Hermès Group's manufacturing operations encompass thirty-three production units spread across twenty-seven sites, twenty-three of them in France, one in Great Britain, one in Italy, one in Switzerland and one in the United States. Hermès makes objects to extremely high quality standards, using traditional craftsmanship and natural materials like leather and silk. At all facilities and across all business lines, conservation of natural resources like water and energy and respect for the environment are our priority.

## OUR GOALS

Since 2003, the group Industrial Department has consistently operated an environmental programme for all sectors and members of its thirty-three production units, with the same objectives:

- To comply with environmental and workplace health and safety (EHS) regulations and to prepare for changes in such regulations whenever possible.
- To enhance production processes by choosing the cleanest possible technologies and the most environmentally friendly materials available.
- To conserve natural resources, particularly water and energy.
- To minimise waste production and to reuse and recycle whenever possible.
- To reduce the carbon footprint of our business operations.



## OUR ACCOMPLISHMENTS

### WATER: CONSERVING A VITAL NATURAL RESOURCE

Since 2002, Hermès has made conservation of water – a vital natural resource – a main priority, through two programmes designed to achieve the following goals.

#### Significant cutbacks in consumption:

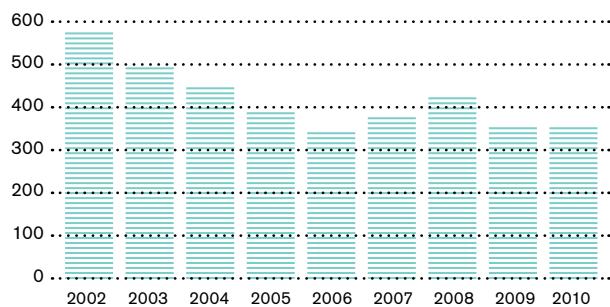
Between 2002 and 2010, the group's revenue nearly doubled, in-house production consistently accounted for approximately 75% of all products sold, the group acquired three exotic skin tanneries in mid-2007, and yet it managed to reduce aggregate water consumption by 38%.

In 2010, despite substantially higher production across all business sectors, Hermès' overall water consumption was about the same as in 2009. This accomplishment was made possible by a variety of measures in all of our operations, including:

- The use of measurement tools that have been installed to accurately analyse and control water consumption at each stage in the production process.
- Gradual development of recycling projects, for example to reuse water discharged by water softeners in washing machines at Ateliers AS.
- Upgrading equipment; as an example, the new washing machine for fabrics placed in service at SIEGL at the end of 2009 uses about 20% less water than its predecessor. At RTL, the exotic skin tannery in Louisiana, water consumption was slashed by 52% during the year after paddle vats were replaced with revolving drums and the plumbing system was updated.

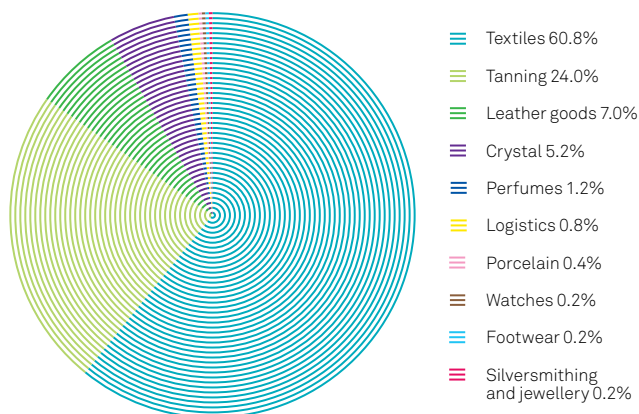
← Maroquinerie Nontronnaise in the verdant Perigord.

### CHANGE IN WATER CONSUMPTION (in thousands of cubic metres)



(including Hermès Cuirs Précieux as from 2008)

### WATER CONSUMPTION BY SECTOR



#### Improvement in the quality of pollutant releases:

Since 2002, substantial investments have been made to improve the quality of the pollutants released by our production facilities, such as the installation of the nanofiltration system at T.C.I.M. in 2008 and of a membrane bioreactor system at SIEGL in 2009. Moreover, since 2009, two facilities, Les Cristalleries de Saint-Louis and La Maroquinerie Nontronnaise, have used an environmentally-friendly Phytorestore system for effluent treatment.

In 2010, a new machine for applying and recovering the solvent used to clean the screen-printing tables was installed at Ateliers AS, thereby cutting the use of this chemical by 17%.

The two printing facilities, AS and SIEGL, continued to improve recovery of colours and chemicals, thereby lowering the COD (chemical oxygen demand, expressed in mg/l) of their pollutant releases by 23%.

#### ENERGY CONSERVATION

Growth in aggregate energy consumption was confined to 5% despite substantially higher production volumes and a colder winter than in 2009.

In 2010, the fuel oil-fired furnaces at Gordon-Choisy and at Pantin CIA were replaced with gas units. In addition, energy assessments were carried out by all sectors and at most production sites. Based on the findings of these assessments, various measures were adopted to improve energy efficiency. Établissements Marcel Gandit, T.C.I.M. and Maroquinerie de Belley added roofing insulation, while Maroquinerie des Ardennes improved the weatherproofing on its buildings

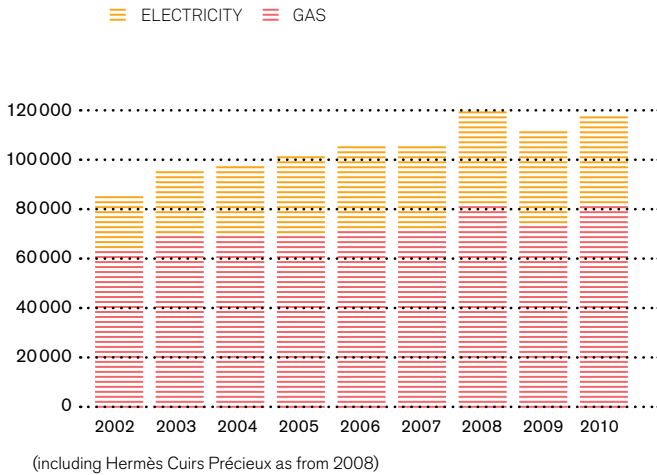
and La Manufacture de Seloncourt, John Lobb and the Bobigny logistics unit replaced their lighting systems with «low-energy» alternatives. In Leather goods, the overall electricity consumption was held down to 1%. La Maroquinerie Nontronnaise generated nearly half of its heating requirements through its wood-burning furnace, which uses renewable energy, and La Maroquinerie de Saint-Antoine switched from gas heating to the City of Paris district heating system.

#### REDUCING OUR CARBON FOOTPRINT

In mid-2010, Hermès obtained its overall Bilan Carbone® carbon audit. This is the culmination of the individual audits carried out at its distribution and production facilities based on the French Environment and Energy Management Agency (ADEME) method, with the help of an outside consultant, under a programme initiated in 2006.

Now that all the measurements have been analysed and synthesized, this cycle is complete, and action plans will be implemented. They will cover fossil fuel consumption and be integrated into the overall energy consumption review. Certain changes have already been implemented as a result of the carbon audits. As an example, the Tanning sector now ships untanned hides from the United States, Africa or Australia by sea instead of by air. This has reduced its carbon footprint per shipment by a factor of ten compared with air cargo, without jeopardising the cold chain, as the raw hides must be kept under constant refrigeration, to prevent spoilage. In another area, the Pierre-Bénite facility is reducing its carbon footprint through an inter-company transport plan (PDIE) to promote car-pooling

## CHANGE IN ENERGY CONSUMPTION



and to encourage employees to use eco-friendly transportation by taking advantage of the infrastructure in the greater Lyon area.

## ENCOURAGING PARTICIPATION

The Environment-Health-Safety-Fire Safety network, created in 2003, is overseen by the Industrial Department and coordinates Hermès' actions for these issues. The network comprises some twenty members who meet on a quarterly basis to exchange information on good practices, tools and results, to attend training sessions covering the new regulations, and to develop action plans for the future. All participants have access to the latest information through a common database.

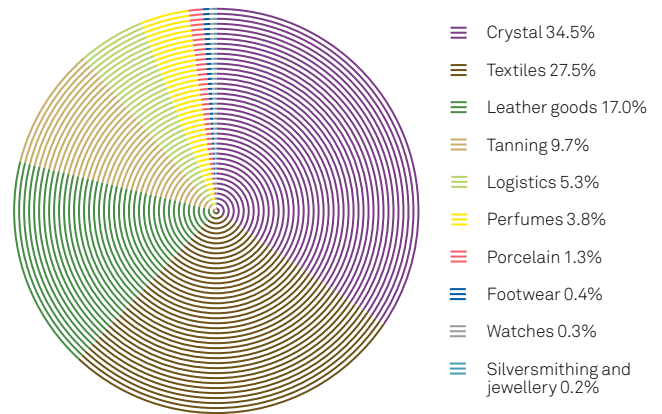
The second cycle of production site audits, which were carried out with an outside consulting firm, was completed in early 2010. The year was dedicated to addressing important matters that were brought to light during this cycle and these were successfully resolved, as verified by self-assessments.

A consultation procedure was set up for selecting the outside consultant to carry out the third audit cycle, which is scheduled for the years from 2011-2014, and for choosing the software to be used to track audit results and regulations.

The group operates an intranet site dedicated to building awareness of sustainable development issues and to providing information to employees both in and outside France.

The site covers all environmental issues addressed by Hermès, including measures adopted to reduce water consumption, energy use and carbon emissions as well as activities carried out by the network.

## GAS AND ELECTRICITY CONSUMPTION BY SECTOR



## CONCLUSION

The group did not set aside any provisions for environmental liabilities in the 2010 financial statements. None of the Group's companies was ordered by a court to pay compensation for environmental damages during the year.

*A detailed description of this programme in each sector appears in Volume 2, on page 93.*





# HERMÈS: A RESPONSIBLE, COMMITTED EMPLOYER

## DEVELOPING TALENT

### NOURISHING HERMÈS CULTURE AT THE SOURCE

The two-session IFH training programme has been conducted yearly since 1993; in 2010 it was intensified with the addition of a third session. More than sixty division managers took part in the ten-day programme this year. Its goal is to illuminate the house's vision and values by recounting the major milestones and minute moments that have contributed to Hermès' renown throughout its history. Participants came away from the programme with a deepened sense of house culture, and thus a renewed desire to continue generating new ideas and a stronger sense of commitment to the challenges and goals that motivate us.

### MOSAÏQUE: THE STORY OF HERMÈS AS A PATH TO BELONGING

Mosaïque, the orientation programme for new employees, was also stepped up in 2010. It now comprises six sessions. Created for new members of the Hermès team in Europe, the programme immerses them in a three-day journey through the world of Hermès, its many *métiers*, its know-how and its talents, combining discipline and creativity. More than two hundred people participated in this congenial introduction to the house, which offered an enjoyable opportunity to forge lasting bonds while opening doors to the complex and diverse world of Hermès.

→ The "Légendes" class of the *Mosaïque* programme. 24, rue du faubourg Saint-Honoré, November 2010.



← *Kelly en perles giant carré* in washed silk twill.

### GROWING AS A TEAM MANAGER

In 2010 four management training programmes were set up at different levels within the Group. These programmes use Hermès' values and its vision of leadership as teaching tools to encourage excellence in everyday leadership skills and to hone managers' abilities to pilot group projects while fostering teamwork. This year, more than one hundred and sixty managers participated in one of the two programmes, *Animateur Hermès 1 and 2* or *Ateliers de l'Animateur Hermès 1 and 2*.



## GUARANTEEING OUR CUSTOMERS A WARM WELCOME AND EXCEPTIONAL SERVICE

The year 2010 was a lively one in our stores, inspiring an intensive focus on skills development for sales staff.

This year's "Hermès Merchant School" (*École des Marchands Hermès*) was structured around two themes: product knowledge and the "art of selling". More than five hundred staff members in our global retail network took part in it, perfecting the art of building a personal relationship to ensure that each customer walks away from our stores with a memorable experience of his or her time in the world of Hermès. Training to familiarise staff with our products was held locally as well as through centralised sessions in Paris, to help sales representatives build general knowledge of products' history and the skill and artistry their manufacture requires, or to hone their command of the season's collections.

## FORMAL RECOGNITION OF SKILL SETTING TO ENSURE GREATER EMPLOYABILITY

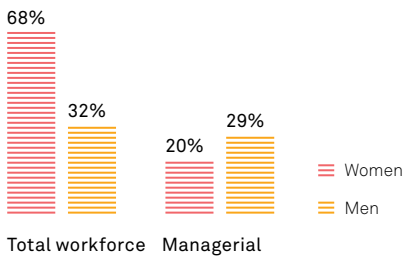
In 2010, in response to the business downturn caused by the recession, Les Cristalleries de Saint-Louis, with support from the Hermès Group, set up a series of measures intended to maintain and strengthen the division's human capital. These measures included a process known as *validation des acquis de l'expérience*, or VAE, through which employees may obtain an equivalency degree or certificate that officially recognises knowledge and skills acquired outside a traditional educational setting, particularly through work experience.

The Lorraine Region supported Les Cristalleries de Saint-Louis in the implementation of this programme through its VAE service hub, which helped to pilot the programme and assisted employees who wished to participate all the way through to the final interview. Les Cristalleries de Saint-Louis provided information to employees who wished to benefit from the VAE, and then guided them through the process of identifying the degree or certificate that corresponded with their work experience. Management also created work groups to help employees describe their work experience and to frame it in the appropriate terms and to practice interviews. This first phase of the programme took place in the first half of 2010. A total of twenty-five employees applied for equivalencies, ranging from certificates from the French Ministry of Employment to CAP vocational diplomas to Masters' degrees. Interviews for certificates from the French Ministry of Employment and secondary diplomas from the *Éducation Nationale* began in the last quarter of 2010; interviews for university-level degrees will be finished by the end of the first half of 2011.

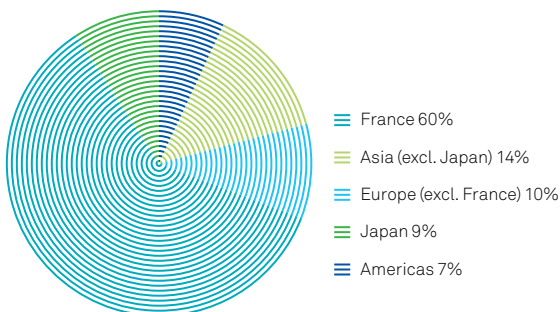
## DISTRIBUTION OF BONUS SHARES

In 2010 as in certain previous years, each employee was given thirty Hermès shares in recognition of their service and as further incentive to work towards achieving the Group's goals. This embodies Hermès' desire to cultivate loyalty to the Group and to foster a sense of belonging to a family-owned, forward-looking company.

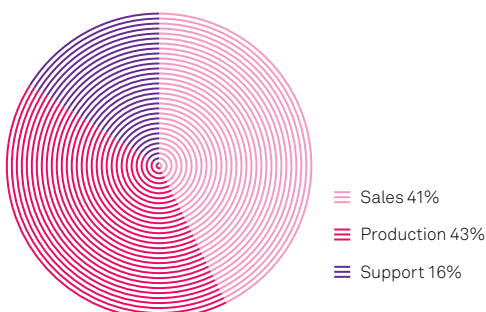
Breakdown  
of workforce by gender



Breakdown  
by region



Breakdown by job category



## HELPING EMPLOYEES TO FORGE STRONG BONDS

### TANDEM, NOW BRIDGING WORLDS WITHIN THE TEXTILE DIVISION

The Tandem programme was launched in 2008 to foster cross-disciplinary relationships between the leather and sales divisions. It was designed to help employees from these sectors to see their work from a different angle by exploring the skills and know-how required of a complementary *métier* other than their own, and thus to gain a better understanding of each other by spending time in each other's shoes. The programme's success exceeded all expectations. In addition to helping employees build strong new ties with one another, this simple idea has broadened its participants' perspectives on their own work.

Tandem proved to be an ideal solution to meeting a clear-cut professional need, and it was only natural to extend it to other *métiers* within the group. The programme now encompasses artisan leather cutters, sewing machine operators and glovemakers, as well as craftsmen and operators in the textiles division, including graphic artists, engravers, seamstresses, weavers, printers and textile inspectors.

In 2010, Tandem celebrated its second anniversary by opening its doors to the textile world and some fifty employees took part in the programme. In true resonance with the house's values, the programme deepened participants' sense of belonging and expanded their vision of their *métier*, thus adding even greater pleasure to it. Employees agreed that the experience of sharing know-how and getting to know one another was an extremely valuable one. Tandem will continue to grow in 2011, taking care to ensure that each exchange is a success.



### TALES TO BE TOLD: BRINGING ALIVE HERMÈS' TRADITION OF STORYTELLING IN OUR STORES ...

“When I arrived, he stood up. Between two whinnies he confided to me, ‘I’ve always dreamed of trading in these horseshoes for some riding boots’. No surprise there – at Hermès, horses are and always have been our main customer....”

What better storyteller than a sales representative? Every day of the year, they tell the stories of Hermès products, offering us a glimpse of the dreams hidden within them. In 2010, every store in our global distribution network was invited to tell a tale. It could be real or imagined, lived or dreamed, something that happened in a store or outside it, with a customer or within a team... all tales were welcome. Putting pen to paper to tell a story was a true exercise in style – and in teamwork!

Organised as a competition, the game piqued the interest of a great number of Hermès sales teams, who were excited by the challenge of collaborating on a project that showcased their creativity and their writing skills. The prize committee selected winners based on the poetry, magic, imagination, originality and emotion of their submissions.

The men’s ready-to-wear department at the 24 Faubourg store in Paris won first place for *Le pommier de Monsieur D* (Mr D’s Apple Tree). The prize committee awarded a special mention to the Dubai store for “The Second Night After The One Thousand”. Lastly, the Hermès store in the Nagoya International Airport received the Mousseline prize for “Dreams Blowing on the Wind”.

→ Awards ceremony for the “Tales to be told” competition. Paris, *Musée de la Chasse*, January 2010.

→ → Awards ceremony for the *Prix des Entrepreneurs*, Forum H, Paris, June 2010.

→ → → Launch party for the 2011 theme, “Hermès, contemporary artisan”.

### MADE IN HERMÈS IN HONG KONG

Some two hundred employees from nearly fifteen countries across Asia were invited to spend three days in Hong Kong. The trip to the island was organised in appreciation of their major contributions to Hermès’ growth over the past ten years, and to awaken their curiosity within the world of Hermès. Participants were given the opportunity to hand-stitch leather, to consider challenges the future may hold, to catch up with developments in the life of the company in Asia and throughout the world and to participate in workshops that enriched their knowledge of the house’s culture. These festive, fun-filled days were full of surprises and moments for reflection, and offered an ideal forum for conversation and intercultural dialogue – yet again showing that Hermès truly is a world without borders.



#### FORUM H: A BIENNIAL REUNION FOR STAFF IN PARIS AND THE GREATER PARIS AREA

Nearly one thousand people assembled for an afternoon at the *Palais des Congrès* in Paris for a final tribute in images to Jean-Louis Dumas, an inspiration and a leader for the preceding generation of craftsmen. The Forum also gave an overview of events affecting the house today, refocused attention on the Group's corporate vision, discussed results from the year 2009 and planned in 2010. The *Prix des Entrepreneurs* (Entrepreneurs' Prize) was awarded to the best entrepreneurial projects completed or launched in 2009. First prize went to the advertising team at Hermès Singapore for multiple promotional projects linked to *Petit Journal de la Soie*, aimed at attracting a younger audience. Second prize was awarded to support teams in Pantin in recognition of their initiatives in fostering dialogue and encouraging a spirit of service within the company, with the goal of "giving your all to help others succeed". Third prize went to a team from John Lobb for its Butler Service concept, which creates partnerships with luxury hotels to provide four different shoe-care services to customers.



#### PROMOTING AND SHOWCASING CRAFTSMANSHIP AND CRAFTSMEN

A major event, *La ronde des savoir-faire*, was held at the *Ateliers Hermès* in Pantin for some thousand staff members on 16 December to prepare for 2011, whose theme will be the contemporary artisan. The event included demonstrations of Hermès' many *métiers*, an introduction to the year's theme and a presentation of the programmes to be rolled out in manufacturing sites over the course of 2011. The event was the perfect occasion to prepare participants to embrace the coming year and its theme, which will celebrate the craftsmen who drive our *métiers* and inspire our workforce.



## PROMOTING SUSTAINABLE DEVELOPMENT AND ENVIRONMENTAL PROTECTION

After publishing the Hermès Code of Conduct and rolling out the Harmonie Hermès intranet site dedicated to sustainable development within the company in 2009, the Group dedicated further efforts to building momentum in the area of sustainable development and corporate social responsibility. This determination is evidenced by a range of practical measures taken on a local level by our subsidiaries and coordinated by the Group's Sustainable Development Committee.

## ENCOURAGING UNDERSTANDING AND ACCOMMODATING DIFFERENCES

In the spirit of progress fostered by the Sustainable Development Committee, many new programmes dedicated to employee welfare have emerged, on the recommendation of task forces organised to brainstorm ideas around issues such as disabilities, fighting addiction, equal opportunity, well-being in the workplace and literacy.

The Textiles division has spearheaded a number of initiatives to encourage the employment of persons with disabilities. The engraving company Gandit has sub-contracted its catering, housekeeping and industrial cleaning services to a specialised organisation that helps those with disabilities find work in adapted conditions. Staff at the site were also educated about issues pertaining to disabilities.

For six weeks, the HTH facility in Pierre-Bénite hosted a team of six persons from an ESAT (*Etablissement et Service d'Aide par le Travail*), an organisation that helps and employs the disabled. The team helped produce samples for the HTH collections. This cooperative effort was a success and will be repeated in 2011. For the past two years, the Manufacture de Pierre-Bénite has worked with an ESAT called *La Sandale du Pèlerin* to employ disabled persons to help prepare leathers, specifically to buff skins and cut straps.

For France's National Disability Awareness Week, two companies from the Textiles division, Créations Métaphores and SIEGL, invited URAPEDA, a regional group that offers courses in French sign language, to give two workshops, one that introduced employees to sign language and one that simulated the experience of deafness, immersing them in a silent world in which speech becomes a series of incomprehensible mouth movements. Employees thus discovered what it felt like to be isolated and cut off from the rest of the world, giving them an awareness of what it is like to live with such a disability. This will pave the way to better communication with certain co-workers. In Paris, through the organisation *Nos Quartiers ont des Talents*, members of the management team were invited to assist a young university graduate entering the job market as he or she looked for his or her first job.



### ENCOURAGING ENVIRONMENTAL AWARENESS ON THE INDIVIDUAL LEVEL

To help protect the environment, the Pierre-Bénite site near Lyon, which is home to the Ateliers A.S. textile printing facility, the HTH quality control unit and a leatherworking facility, implemented a two-pronged commuting plan to encourage car-pooling and cycling to work. An all-day information programme was held to raise awareness about alternative modes of transportation and to allow employees to test-drive electric bicycles.

### IMPROVING WELL-BEING AT WORK

Continuing growth and increased economic pressure have spurred the Human Resources Department to pay even closer attention to well-being among staff members, in particular those who engage in manual work, which is more physically demanding. As a result, many manufacturing facilities now offer morning warm-up sessions to ensure optimal comfort throughout the workday and to prevent musculoskeletal problems.

An experimental training programme to prevent work-related stress and psychological problems and designed to optimise working conditions was implemented at Maroquinerie de Sayat. This programme supplements existing measures, such as improved ergonomics at workstations and warm-up sessions. This experiment was explained to the site's employees in 2009 during a two-hour workshop led by a human resources consultant and a clinical psychologist who discussed subjects such as well-being in the workplace, factors affecting physical and mental health and ways to improve one's quality of life at work. Following this workshop, twenty-five employees volunteered to participate in a comprehensive seven-month programme composed of three workshops: a brainstorming session on stress management, communication techniques and time and priority management; a sophrology workshop and a yoga workshop. In 2011, a new group of employees will participate in this experimental programme, which will be enhanced by lessons learned from the workshops held in 2010.



← Launch party for the 2011 theme, "Hermès, contemporary artisan".

# FONDATION D'ENTREPRISE HERMÈS

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## FONDATION D'ENTREPRISE HERMÈS STRENGTHENS ITS PHILANTHROPIC COMMITMENT

Created in 2008, the *Fondation d'entreprise Hermès* (Hermès Corporate Foundation) structures its initiatives based on a five-year plan (2008-2012) set at its inception. Year after year, it has strengthened its philanthropic commitment in its different areas of activity, guided every step of the way by the unifying principle of *savoir-faire*. In 2010, the Foundation set up new strategic projects and programmes to expand the reach of its actions. The *Fondation d'entreprise Hermès* draws its core values from the culture of its two founding companies, Hermès International and Hermès Sellier. It defines its activities around four themes: promoting traditional craft skills, supporting the creative arts, fostering access to education and protecting biodiversity. One of the Foundation's special attributes, which showed more than ever this year, is its ability to build bridges among these different themes.

### PROMOTING TRADITIONAL CRAFT SKILLS

Reflecting the values and activities of the House, the Foundation has chosen to support organisations that preserve and uphold the practice of exceptional craft skills, both traditional and contemporary. Partnerships built around this theme have been highly diverse. The Foundation works in close cooperation with cultural institutions and organisations that foster economic development in this sector, as this is a crucial element in the continued vibrancy of the craft world.

In 2010, the Foundation provided backing for the “*Animal*” exhibit at the *Musée des Arts décoratifs* and to the “*Autres maîtres de l'Inde*” exhibit at the *Musée du Quai Branly*. For the third consecutive year, the Foundation lent its support for cultural programming at the *Cité de la Céramique* in Sèvres, and the *Cité de la Musique*, with which it partnered to create a full-scale reproduction of an early nineteenth-century piano built by a master piano-builder and his apprentice.

The Foundation is also sponsoring photographer Jean-Marc Tingaud's work in Japan, as he captures inside views of the country's “Living Treasures,” as well as a documentary by Marc Petitjean on one of these “Living Treasures,” kimono painter Kunihiko Moriguchi. The Foundation has provided funding for the restoration of works by Jean-Louis Forain, which will be exhibited in 2011 in a retrospective of the artist's work at the *Petit Palais* in Paris.

Lastly, the Foundation continues to build relationships with organisations close to home. In this spirit of neighbourly philanthropy, over the past three years, it has supported the founding and the development of *Maison Ravel* in Pantin, a departement-wide resource centre for skilled artisans.

### NEW PROGRAMMES TO SUPPORT THE CREATIVE ARTS

In 2010, the *Fondation d'entreprise Hermès* confirmed its leading role in the arts community and extended its activities as a producer through new programmes.

The Foundation established its first four artist-in-residence programmes at Maroquinerie de Sayat, Holding Textile Hermès, Maroquinerie des Ardennes and Les Cristalleries de Saint-Louis. *New Settings*, a programme that supports the performing arts, was also launched this year. Both programmes will be repeated each year.

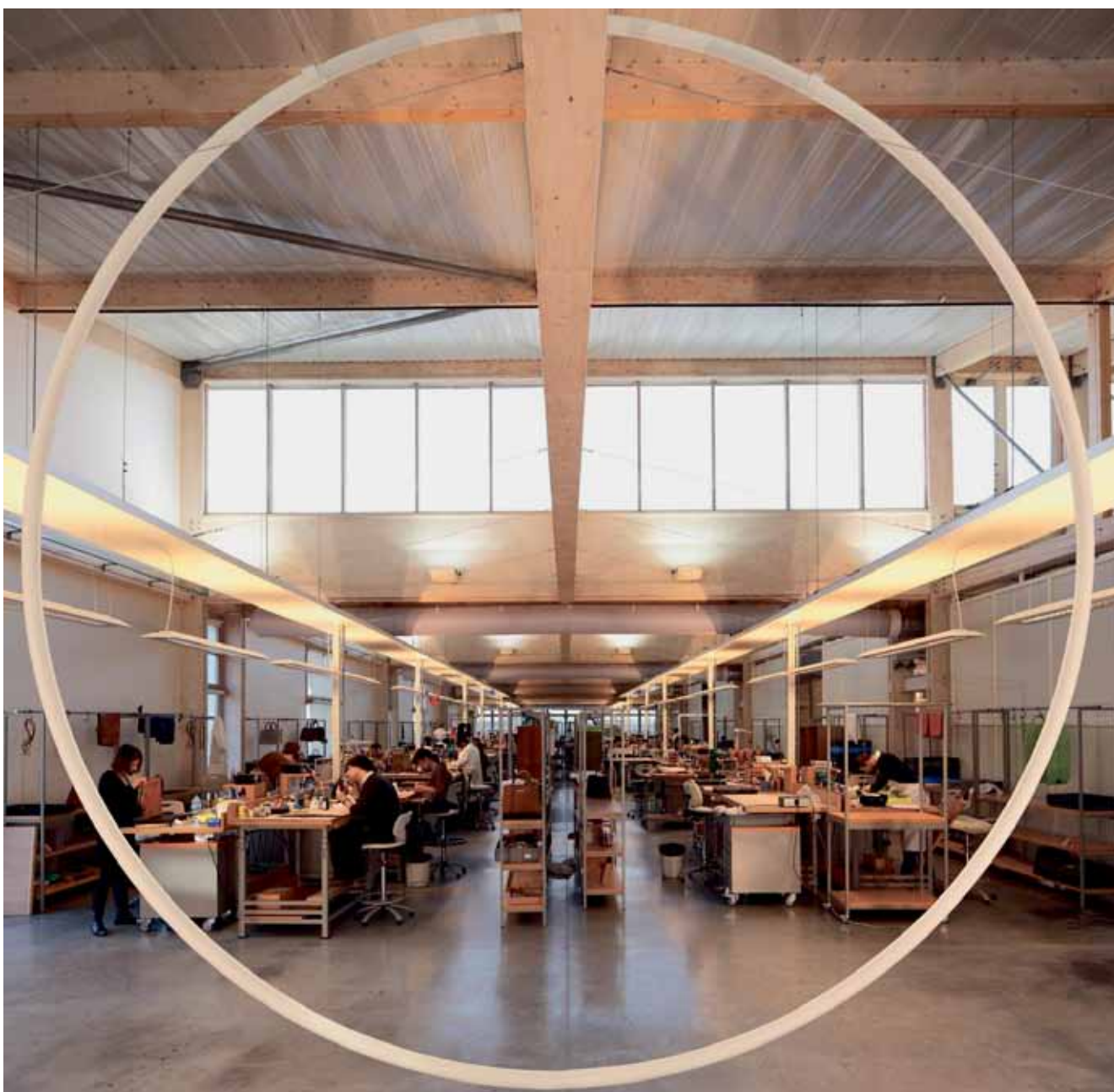
Invitations to submit projects for the *Prix Émile Hermès* design competition were extended beyond France's borders, and applications came from sixty-three countries in 2010.

These new strategic initiatives complement those already underway, including eighteen new shows in six exhibit spaces, *La Verrière* in Brussels (which celebrated its tenth anniversary this year), the *Forum* in Tokyo, the *Atelier Hermès* in Seoul, *Third Floor* in Singapore, *The Gallery at Hermès* in New York and *TH13* in Bern. HBox, the Foundation's initiative to support video art, travelled to Mexico, New York and Basel this year.





↳ *À travers* by Elisabeth Clark at the Maroquinerie de Sayat. 2010 artist-in-residence programme.





↳ *Dais nuptial et Twill de soie*. Benoît Piéron at Holding Textile Hermès. 2010 artist-in-residence programme.  
→ Unbaked bricks for *La Voûte Nubienne*, an environmentally friendly building alternative in sub-Saharan Africa.

The Foundation continues to commission four new video installations for HBox each year.

The *Fondation d'entreprise Hermès* expanded its support for the performing arts, for both the creation of new works and their performance before diverse audiences. Highlights this year included the co-production of *Babel*, a dance performance choreographed by Sidi Larbi Cherkaoui and Damien Jallet, which travelled to a number of cities this year and will continue touring through 2012. The Foundation also provided support for *Divine Féminin*, a musical and visual performance by *Traffic Quintet*, for Christian Rizzo's *L'Oubli, toucher du bois* and for two new contemporary music compositions by the *Ensemble Intercontemporain*. Other projects funded included the *Danse élargie* competition, the *Transforme* training programme for young choreographers at the *Fondation Royaumont*, the *Plastique Danse Flore* festival in Versailles, the *Centre national de la Danse* in Pantin and *Convoi Exceptionnel*, an organisation that promotes the performing arts in Africa. Lastly, the Foundation continued its support for *Shinbai, the flight of the Soul*, in Japan. In the field of design, in 2010, the Foundation maintained funding to the *Musée des Arts décoratifs* in Paris, to the *Design Parade* festival in Hyères, to the *Bourse Agora* and to *In Progress*, a project that questions the meaning of progress in today's world through exhibits, debates and lectures.

The Foundation again sponsored the Association for the International Diffusion of French Art through support for the Marcel Duchamp Prize for young visual and plastic artists.

#### ACCESS TO EDUCATION: AT THE CROSSROADS OF CULTURE AND SOLIDARITY

Another of the Foundation's goals is to extend Hermès' culture of humanism and solidarity to the less fortunate. Since education is a crucial tool for improving living conditions and building a better future, the Foundation sponsors education initiatives in numerous countries across the world. These projects all include artistic expression as an important vector for living

harmoniously in society and learning to function in an educational setting.

In 2010, on the recommendation of the Group's foreign subsidiaries, the Foundation funded a number of local projects dedicated to educating disadvantaged children. It selected eight programmes to support on a yearly or multi-year basis. These include Tara, a home in New Delhi, India that helps abandoned children prepare for school and university studies and the *Centre de formation aux métiers ruraux* in Thailand, which provides professional training to youth of the Karen people for economic and agricultural development.

The Foundation also continued to support initiatives selected in 2009, such as the *Ranch and Fence Musical Club* and the *Robot Club* in South Korea; the *Arts Access* programme at the Museum of Art and Design in New York; *Gol de Letra* in Brazil and the Special Delivery Program, a part of the *Sprockets Toronto International Film Festival* for Children.

Other organisations supported over the years by the *Fondation d'entreprise Hermès* include *Pour un sourire d'enfant* in Cambodia; *Mille pages aux enfants des dunes* in the Sahara of Mauritania; *Couleurs de Chine* in Myanmar, founded by François-Xavier Bagnoud; and, in France, *Théodora*, *La Source* and *A Chacun Son Everest*.

## PRESERVING BIODIVERSITY: A KEYSTONE TO DEVELOPMENT

In 2010, the Foundation partnered with IDDRI (the French Institute for Sustainable Development and International Relations) to organise a series of lectures and workshops on biodiversity. This programme is intended to disseminate knowledge by bringing together researchers from around the world, to raise awareness of the need to preserve biodiversity, to encourage action in this area and to rethink growth models. The programme opened at the *Musée du Quai Branly* in Paris on 16 February 2010 with a daylong conference on "*Biodiversité 2010, et après?*" (Biodiversity in 2010 and Beyond) and continued

with another daylong conference on "*Biodiversité et droits de propriété intellectuelle*" (Biodiversity and Intellectual Property Rights) held at the *Théâtre de la Cité internationale* on 17 June. Since 2009, the Foundation has also supported IDDRI's research programme focused on the impact of economic factors in decisions regarding biodiversity.

In other fields related to biodiversity, the Foundation finalised its three-year commitment to *La Voûte Nubienne*, an organisation that links vocational training and environmental protection through a positive cycle in which builders are given specialised training in the construction of environmentally sustainable brick homes in sub-Saharan Africa.

The Foundation's website now features over a hundred completed projects, and is its main information tool. To find out more, please visit [www.fondationentreprisehermes.org](http://www.fondationentreprisehermes.org).



# RISK MANAGEMENT

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## LIMITING INDUSTRIAL RISKS AND PROTECTING THE ENVIRONMENT

Hermès pays special attention to risk prevention in all of its manufacturing operations, encompassing thirty-three production sites, most of them located in France, and it does not operate any Seveso-rated facilities.

The Group Industrial Department works closely with the Industrial Officers in the business sectors to coordinate the implementation of processes designed to protect our manufacturing assets, our employees and the environment. These efforts are carried out jointly with the Property Management, Insurance & Prevention and Human Resources Departments. They encompass internal diagnostics and audits which are carried out by specialised third parties then integrated into operational action plans when appropriate. The key recommendations resulting from these diagnostics in the areas of organisation, procedures, training or investments are subject to careful follow-up, as the Group places a priority on safety when making budget choices.

As mentioned in the «Environment» section on page 74 of Volume 1, Hermès is committed to a stringent environmental protection and risk mitigation programme.

## MINIMISING RISKS TO OUR PROPERTY ASSETS

All property-related transactions are handled by the Property Development Department, which centralises and helps control critical processes, including:

- Identification and assessment of the viability of retail store locations, production facilities and administrative offices based on qualitative and technical criteria;
- Direct or indirect oversight of key construction projects in France, to ensure the work is carried out properly;
- Supervising inspection plans applicable to the Group's main sites and covering structural/fire safety issues, compliance with labour laws and environmental considerations.

These inspections are supplemented by prevention system reviews carried out by the Group's insurance companies.

Furthermore, the Property Safety Committee is responsible for oversight of potential risks and for ascertaining that Group safety rules are duly applied. It also systematically follows up on all action plans.

## PROTECTING OUR ASSETS THROUGH A PRUDENT INSURANCE PROGRAMME

The Group holds policies from leading insurers to provide property and casualty, operating loss and civil liability cover, as described in the «Insurance» section in Volume 2 (page 95).

In addition to this insurance cover, Hermès has adopted an active risk prevention policy and carefully follows up on recommendations issued by the insurers.

## COMPLIANCE WITH APPLICABLE LAWS IN ALL AREAS

The Group keeps abreast of changes in legislation in all relevant areas to ensure that it complies with French and foreign laws and regulations. It uses in-house resources and outside firms for its legal and regulatory watch.

Internally, to address the growing complexity of different areas of the law, the Legal Department is organised by centres of expertise specialising in each major branch of the law: intellectual property, corporate and securities, real estate, business law (contracts of all kinds, competition, distribution, consumer law). Labour and tax matters are respectively handled by the Group Human Resources Department and Group Tax Department, which work in conjunction with the Legal Department as necessary. In addition, in each region where the Group operates, Hermès uses leading local law firms that specialise in the many areas covered.

While the Group is involved in ongoing litigation, there are no pending settlements that are expected to produce a material 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 material impact on its financial condition or profitability and/or on the financial condition or profitability of the Group.

## RISKS ASSOCIATED WITH INTELLECTUAL PROPERTY RIGHTS

The Group continues actively to protect its creations in every possible way, including through the registration of brand names, trademarks, design marks and patents. The shapes of the Kelly and Birkin bags have been registered as three-dimensional trademarks in France and in other countries. Expanding the scope of protection of these rights has yielded significant, visible results in the Group's ongoing battle against counterfeiting. Hermès remains exposed to the sale of counterfeit goods over the internet. It prosecutes sites that offer counterfeit items to the public with the same steadfast determination that it fights brick-and-mortar stores that sell unlawful imitations and it has won an important case against a world-famous auction site.

## BALANCING AND SAFEGUARDING OUR DISTRIBUTION

Hermès holds a unique place in the luxury market and represents only a minute fraction of it (between 1% and 1.5% of a market that Bain & Company valued at just over €168 billion in 2010). Hence, the Group has relatively little exposure to general trends in the sector. Its extensive portfolio of products reduces the risk of dependence on any particular sector or range and its distribution is well-balanced geographically.

Hermès is present through over 338 sales outlets, 193 of which are directly operated by the Group (these account for 80% of revenue). It relies on a distribution organisation that significantly reduces customer risk.

Moreover, revenue has limited seasonal exposure: in 2010, the Group generated 55% of total sales in the second half, compared with 54% in both 2009 and 2008.

In each country where the Group operates, products are distributed through a selective distribution network specific to each house, in keeping with applicable local laws. Hermès is implementing a number of actions to ensure compliance with local requirements.

### CONSERVATIVE TREASURY AND CURRENCY MANAGEMENT

As the Group has a cash surplus, it is not exposed to liquidity risk and it applies a conservative policy in managing market risks, including interest rate and counterparty risks. Because the bulk of its production is in the euro zone and as it derives a significant percentage of its sales in US dollars, Hong Kong dollars and Japanese yen, Hermès is naturally exposed to currency risks. In this respect, treasury and currency management is centralised by the Group Treasury Department and follows stringent management and oversight rules. 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's investment policy places the priority on maintaining liquidity to minimise risk and to give it financial leeway to respond quickly and independently when it needs to make strategy changes.

The Group deals only with leading banks and financial institutions. Most cash surpluses are invested for the short term, mainly in money-market mutual funds with very low sensitivity offered by leading financial institutions.

Exposure to currency risk is systematically hedged on an annual basis as a function of projected cash inflows and outflows.

The Finance Department adjusts its procedures and tools on an ongoing basis to accommodate changes in its environment.

### IT RISK MONITORING AND MANAGEMENT

Hermès' expenditure on IT systems (equipment and maintenance) is on par with that of its peers in the sector. Its goal is to ensure good operational performance and to control IT-related risks.

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 system security audits have been carried out within the major subsidiaries to verify compliance with the Group's procedures. In 2010, work to further enhance IT systems security entailed harmonising the different systems in use around a standard ERP system and the continued roll-out of the new, state-of-the-art management tool for the stores and distribution subsidiaries. IT risk prevention work conducted in 2010 focused primarily on enhancing IT security infrastructures (particularly those connected to the internet), upgrading and enhancing payment systems security, and improving critical back-up and fault tolerance systems and procedures to ensure the continuity of operations in the event of an incident.

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

### CONTROL OVER SOURCING

Hermès retains control over production and over two-thirds of its products are manufactured in-house. Hermès has developed long-term relationships with its partners and suppliers, thereby protecting its sources of supply and critical know-how. Hermès carries out targeted audits to ascertain that its suppliers' operations 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.

### AN ACTIVE RISK MANAGEMENT APPROACH

The Audit and Risk Management Department plays a dual role within the Group. Firstly, it identifies risks and provides assistance to operational managers in developing action plans to strengthen internal controls. Secondly, it works with the relevant departments and participates in oversight of major risks and in the different risk monitoring committees.

Risk mapping projects are conducted within the different Hermès entities on a regular basis and risk maps have been drawn up for each of the main subsidiaries at least once over the past four years. Based on the findings of these analyses, action plans have been drawn up as needed.

The Audit and Risk Management Department dedicates special efforts to the development of business continuity plans for each of the Group's major entities, including a plan to be implemented in case of a pandemic. As described in the Executive Management's Report on internal control procedures (Volume 2, page 25), via internal audits, the Department plays a key role in providing a clear overall view of the Group's control over its key risks, particularly by analysing the internal control organisation for financial information.

The Audit and Risk Management Department works closely with the other departments to coordinate local actions in areas such as internal communications and self-assessment procedures, thereby helping to instil a culture of risk awareness that fosters a spirit of caution and initiative within the Company.





# CONSOLIDATED RESULTS

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## CONSOLIDATED RESULTS

In 2010, the Hermès Group's consolidated revenue amounted to €2,400.8 million, a year-on-year rise of 18.9% at constant exchange rates and of 25.4% at current exchange rates.

The gross margin rose by 2.8 percentage points over the year to 66.1%, owing to the favourable currency impact, growth in retail sales and the upturn in the production businesses.

Selling, marketing and administrative expenses amounted to €802.2 million, compared with €660.6 million in 2009. They included €126.4 million of advertising expenditures, which increased significantly (by 32.5% at constant exchange rates) and represented 5.3% of sales.

Other income and expenses came to €115.4 million, including €84.5 million of depreciation and amortisation charges, which rose owing to persistently high investments, as a large number of branches were newly opened or renovated over the past two years.

Operating income jumped by 44.3% to €668.2 million from €462.9 million in 2009. The operating margin advanced by 3.6 percentage points to 27.8% from 24.2 % in 2009.

Net financial income was €(12.5) million, about the same as the €(12.7) million registered in 2009. Net financial income comprises financial income from invested cash, foreign exchange gains and losses and financial provisions.

Income tax expense rose in proportion with pre-tax income, to €220.9 million from €148.2 million in 2009.

Net income attributable to non-controlling interests totalled €10.0 million compared with €6.7 million in 2009.

After a net loss of €3.1 million from associates, net income attributable to owners of the parent was €421.7 million, 46.0% higher than the €288.8 million registered in 2009.

## INVESTMENTS

In 2010, Hermès continued to expand at a robust pace, with investments of €153.8 million (excluding financial investments). Hermès continued to enlarge the distribution network, with over 25 stores opened or renovated, including 20 Hermès branches.

## FINANCIAL POSITION

Operating cash flows advanced by 42.5% to €571.5 million, amply covering total investments of €216.3 million and dividends of €119.1 million. After a substantial €92.4 million reduction in working capital requirement, the net cash position rose by €320.9 million to €828.5 million as at 31 December 2010 from €507.6 million at the end of 2009. Restated net cash (including non-current financial investments and borrowings) totalled €950.1 million as at 31 December 2010, compared with €576.4 million as at 31 December 2009.

Strong earnings growth drove up shareholders' equity to €2,150.3 million as at 31 December 2010 from €1,789.9 million a year earlier.

## BREAKDOWN OF INVESTMENTS

(in millions of euros)	2010	2009	2008
Operating investments	138.2	197.8 <sup>2</sup>	155.4
Investments in financial assets	15.5	9.5	5.1
<i>Subtotal - Investments (excluding financial investments)</i>	<i>153.8</i>	<i>207.2</i>	<i>160.4</i>
Financial investments <sup>1</sup>	62.5	69.8	1.9
<b>Total investments</b>	<b>216.3</b>	<b>277.1</b>	<b>162.3</b>

<sup>1</sup> Financial investments are investments whose sensitivity and maturity require that they be classified as financial assets in accordance with IFRS.

<sup>2</sup> During 2009, the Hermès Group purchased a building at 167 New Bond Street in London for €80 million.

## VALUE CREATION

The notions of economic value added and return on capital employed were implemented within Hermès several years ago as performance indicators for the Group's investments. Economic value added is the difference between adjusted operating income after operating tax and the weighted average cost of capital employed (net value of long-term assets and working capital). Return on capital employed is the difference between adjusted operating income after operating tax and the average cost of capital employed.

High earnings growth in 2010 drove up economic value added to €333 million from €192 million in 2009. Return on capital employed increased appreciably, from 21% to 32%, owing to a combination of strong earnings growth and a substantial fall in inventories.

## EXCEPTIONAL EVENTS

There were no exceptional events in 2010 other than those described under the heading Investments on the previous page.

In March 2011, Japan was struck by an earthquake and a tsunami. Hermès Japon took precautionary measures to protect its employees and temporarily closed certain stores. At this time, the consequences and financial impact of this catastrophe cannot be predicted, and the final outcome is highly uncertain.



→ Round low table in straw marquetry, Jean-Michel Frank collection.  
 Rectangular change tray, orange birman lacquered wood,  
 tab in natural chamonix calfskin. Rectangular change tray in laquered  
 wood, tab in black chamonix calfskin.



# PERSPECTIVES

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## FURTHER EXPANSION FOCUSED ON THE “CONTEMPORARY ARTISAN” THEME

After demonstrating the remarkable resilience of our business model in 2009 and staging a vigorous recovery in 2010, Hermès will continue to expand in 2011, with a dual focus on business growth and accentuating the house’s unique position as the ultimate in the quality of its craftsmanship. This year’s theme, “Contemporary artisan”, will give us the opportunity to reaffirm that for our house, artisanship is not just a convenient catchword, but a deep-seated conviction that lies at the very core of our business model. Hermès is now more closely attuned than ever to the changing aspirations of societies around the world, and we must continue to steer the course that has enabled us to create our widely acclaimed, unique universe of sumptuous luxury and our highly prized one-of-a-kind culture.

In 2010, our impressive growth was underpinned by the opening or renovation of twenty-five stores, including twenty Hermès branches. The two main events of the year were the new store on rue de Sèvres in Paris and the first Hermès store entirely dedicated to men, on Madison Avenue in New York City.

The group further enlarged its distribution network in Asia, with the addition of ten new branches, including four in China. After asserting its presence in three new countries in 2009 (Turkey, Brazil and Panama), Hermès ventured into more new territories in 2010 and opened its first store (a concessionaire) in Beirut, Lebanon.

In 2011, Hermès will maintain its long-term strategy of maintaining control over its know-how and distribution network. The group will continue to invest in projects to expand production capacity in its different sectors and in extending its distribution network, with an ambitious programme to open ten new branches and renovate some twenty stores in 2011. Nearly half of the new stores will be opened in Asia – in China, India and Korea – to accommodate the region’s vibrant growth.

The theme for 2011, “Hermès, Contemporary Artisan” focuses on the excellence and authenticity of the expertise in craftsmanship that is the foundation on which the house has built its success over time, and that will continue to underpin it in the future. The consummate skill of our craftsmen serves as the basis for our unrivalled quality and as the cornerstone for our ambitious, inspired creations.

To support these projects and its expansion into new regions and sectors, the group will continue to dedicate a substantial budget to advertising, so as to nurture the brand’s image and broaden its reach, especially in emerging markets, and to capitalise on the breadth and depth of the Hermès product ranges. It will also continue its active efforts to recruit new staff.



# SUMMARY CONSOLIDATED FINANCIAL STATEMENTS

## CONSOLIDATED STATEMENT OF INCOME FOR THE YEAR ENDED 31 DECEMBER 2010

(in millions of euros)	2010	2009
<b>Revenue (Note 3)</b>	<b>2,400.8</b>	<b>1,914.3</b>
Cost of sales (Note 4)	(815.0)	(701.7)
<b>Gross profit</b>	<b>1,585.8</b>	<b>1,212.6</b>
Selling, marketing and administrative expenses (Note 5)	(802.2)	(660.6)
Other income and expense (Note 6)	(115.4)	(89.1)
<b>Recurring operating income (Note 3)</b>	<b>668.2</b>	<b>462.9</b>
Other non-recurring income and expense	-	-
<b>Operating income</b>	<b>668.2</b>	<b>462.9</b>
Net financial income (Note 7)	(12.5)	(12.7)
<b>Pre-tax income</b>	<b>655.7</b>	<b>450.2</b>
Income tax expense (Note 8)	(220.9)	(148.2)
Net income from associates (Note 15)	(3.1)	(6.5)
<b>Consolidated net income</b>	<b>431.7</b>	<b>295.4</b>
Net income attributable to non-controlling interests (Note 21)	(10.0)	(6.7)
<b>Net income attributable to owners of the parent (Note 3)</b>	<b>421.7</b>	<b>288.8</b>
Earnings per share (in euros) (Note 9)	4.01	2.75
Diluted earnings per share (in euros) (Note 9)	4.00	2.74

## CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

(in millions of euros)	2010	2009
<b>Consolidated net income</b>	<b>431.7</b>	<b>295.4</b>
Actuarial gains and losses (Note 20.3)	(8.9)	(9.9)
Foreign currency adjustments (Note 20.3)	75.9	(5.5)
Derivatives included in equity (Note 20.3)	(25.3)	37.3
Gain/(loss) on sale of treasury shares (Note 20.3)	2.0	(0.3)
Income tax relating to components of other comprehensive income (Note 20.3)	11.8	(8.7)
<b>Comprehensive income</b>	<b>487.1</b>	<b>308.4</b>
Attributable to owners of the parent	475.2	301.6
Attributable to non-controlling interests	11.8	6.8

The note numbers refer to the Notes to the Consolidated Financial Statements in Volume 2 of the 2010 Annual Report.

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2010****ASSETS**

(in millions of euros)	31/12/2010	31/12/2009
<b>Non-current assets</b>	<b>1,354.8</b>	<b>1,175.6</b>
Goodwill (Note 10)	37.2	34.8
Intangible assets (Note 11)	75.2	61.2
Property, plant & equipment (Note 12)	774.2	685.1
Investment property (Note 13)	98.3	95.3
Financial assets (Note 14)	151.7	118.6
Investments in associates (Note 15)	14.3	15.0
Loans and deposits (Note 16)	24.3	21.0
Deferred tax assets (Note 8.3)	178.1	143.1
Other non-current assets (Note 18)	1.5	1.6
<b>Current assets</b>	<b>1,563.8</b>	<b>1,264.9</b>
Inventories and work in progress (Note 17)	468.6	485.8
Trade and other receivables (Note 18)	159.0	132.3
Current tax receivables (Note 18)	1.1	3.5
Other current assets (Note 18)	69.5	55.6
Fair value of financial instruments (Note 22.2.3)	21.7	58.2
Cash and cash equivalents (Note 19.1)	843.8	529.5
<b>TOTAL ASSETS</b>	<b>2,918.6</b>	<b>2,440.5</b>

The note numbers refer to the Notes to the Consolidated Financial Statements in Volume 2 of the 2010 Annual Report.



## EQUITY &amp; LIABILITIES BEFORE APPROPRIATION

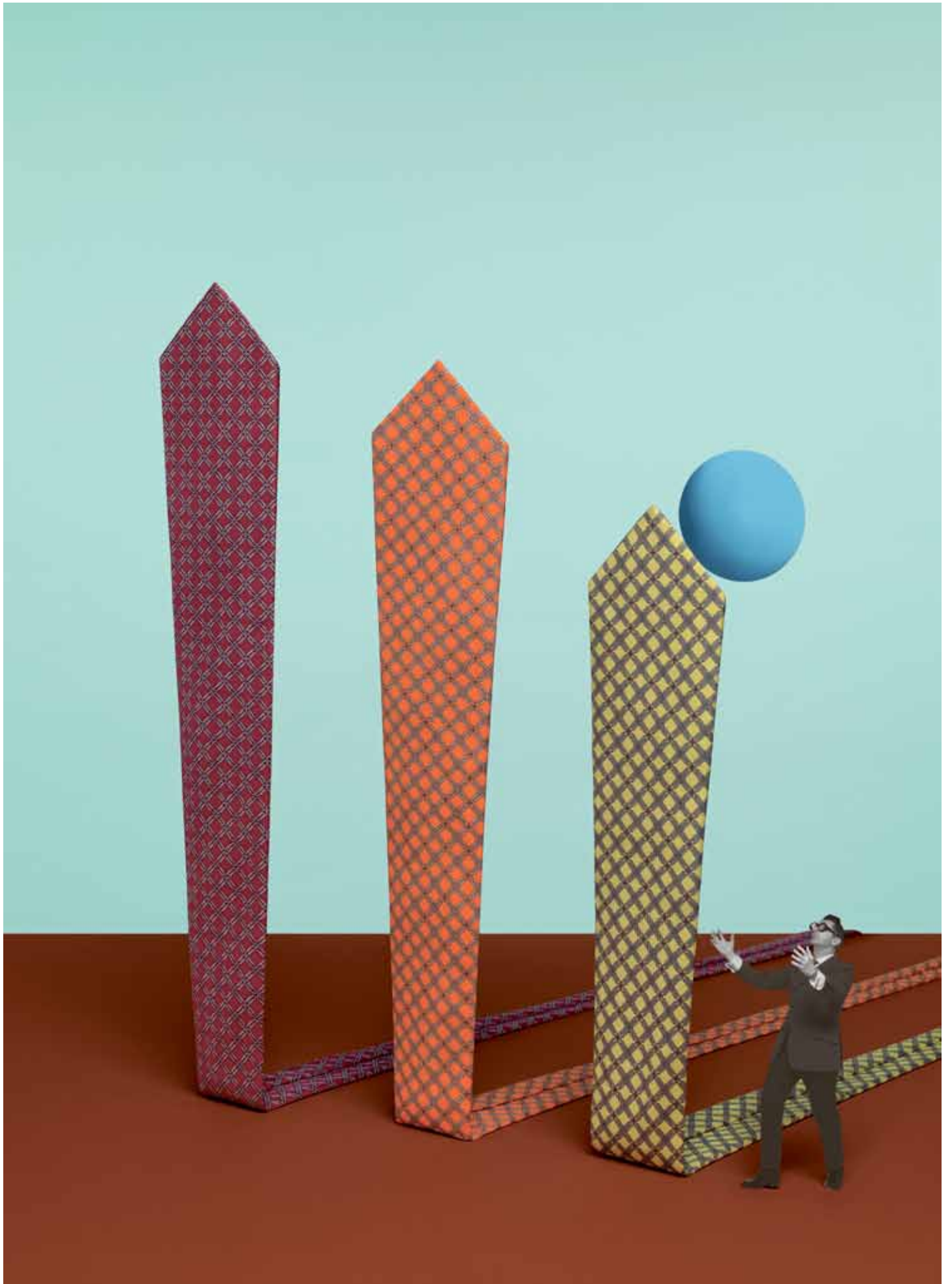
(in millions of euros)	31/12/2010	31/12/2009
<b>Equity</b>	<b>2,163.2</b>	<b>1,803.9</b>
Share capital (Note 20)	53.8	53.8
Share premium	49.6	49.6
Treasury shares (Note 20)	(33.0)	(32.5)
Reserves	1,621.3	1,451.6
Foreign currency adjustments (Note 20.1)	42.7	(31.4)
Derivatives included in equity (Note 20.2)	(5.9)	10.0
Net income attributable to owners of the parent (Note 3)	421.7	288.8
Non-controlling interests (Note 21)	12.9	14.0
<b>Non-current liabilities</b>	<b>130.8</b>	<b>115.4</b>
Borrowings and debt (Notes 22.3 and 22.4)	17.9	19.4
Provisions (Note 23)	14.4	7.5
Post-employment and other employee benefit obligations (Note 25)	56.3	54.6
Deferred tax liabilities (Note 8.3)	12.1	10.0
Other non-current liabilities (Note 26)	30.1	23.9
<b>Current liabilities</b>	<b>624.6</b>	<b>521.2</b>
Borrowings and debt (Notes 22.3 and 22.4)	26.0	45.4
Provisions (Note 23)	31.0	13.8
Post-employment and other employee benefit obligations (Note 25)	6.2	4.2
Trade and other payables (Note 26)	234.6	198.3
Fair value of financial instruments (Note 22.2.3)	30.1	36.8
Current tax liabilities (Note 26)	76.3	39.4
Other current liabilities (Note 26)	220.3	183.3
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>2,918.6</b>	<b>2,440.5</b>

The note numbers refer to the Notes to the Consolidated Financial Statements in Volume 2 of the 2010 Annual Report.

**CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2010**

(in millions of euros)	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income attributable to owners of the parent (Note 3)	421.7	288.8
Depreciation and amortisation (Notes 11 and 12)	97.1	81.7
Impairment losses (Notes 11 and 12)	3.8	2.8
Marked-to-market value of derivatives	7.1	3.9
Currency gains/(losses) on fair value adjustments	(8.3)	2.1
Change in provisions	23.2	7.4
Net income from associates (Note 15)	3.1	6.5
Net income attributable to non-controlling interests (Note 21)	10.0	6.7
Capital gains/(losses) on disposals	2.0	2.0
Deferred tax	2.8	(5.7)
Accrued expenses and income related to share-based payments (Note 30.4)	9.1	4.9
Other	-	0.2
<b>Operating cash flows</b>	<b>571.5</b>	<b>401.1</b>
Cost of net debt	3.5	4.2
Current tax expense	226.5	161.2
<b>Operating cash flows before cost of debt and current tax expense</b>	<b>801.5</b>	<b>566.5</b>
Change in working capital (Note 19.2)	59.5	59.2
Cost of net debt	(3.5)	(4.2)
Income tax paid	(193.6)	(164.0)
<b>Net cash from operating activities</b>	<b>663.8</b>	<b>457.5</b>
<b>CASH FLOWS USED IN INVESTING ACTIVITIES</b>		
Purchase of intangible assets (Note 11)	(23.9)	(19.2)
Purchase of property, plant and equipment (Notes 12 and 13)	(114.4)	(178.5)
Investments in associates	(15.5)	(9.5)
Purchase of other financial assets (Note 14.1)	(62.5)	(69.8)
Amounts payable relating to fixed assets	2.0	(1.7)
Proceeds from sales of operating assets	0.4	0.8
Proceeds from disposals of consolidated securities	0.1	-
Proceeds from sales of other financial assets (Note 14.1)	25.7	-
<b>Net cash used in investing activities</b>	<b>(188.1)</b>	<b>(277.9)</b>
<b>CASH FLOWS USED IN FINANCING ACTIVITIES</b>		
Dividends paid	(119.1)	(116.2)
Purchase of treasury shares	(0.5)	4.3
Borrowings	1.8	9.1
Reimbursements of borrowings	(23.1)	(25.7)
Other increases/(decreases) in equity	-	1.0
<b>Net cash used in financing activities</b>	<b>(140.9)</b>	<b>(127.5)</b>
Effect of changes in the scope of consolidation (Note 19.1)	0.1	0.9
Effect of foreign currency exchange on intragroup transactions	(26.5)	6.7
Effect of foreign currency exchange (Note 19.1)	12.5	(2.6)
<b>CHANGE IN NET CASH POSITION (Note 19.1)</b>	<b>320.9</b>	<b>57.1</b>
Net cash position at beginning of period (Note 19.1)	507.6	450.5
Net cash position at end of period (Note 19.1)	828.5	507.6
<b>CHANGE IN NET CASH POSITION (Note 19.1)</b>	<b>320.9</b>	<b>57.1</b>

The note numbers refer to the Notes to the Consolidated Financial Statements in Volume 2 of the 2010 Annual Report.





# SHAREHOLDER'S GUIDE

## FINANCIAL INFORMATION

Since 2005, Hermès International's annual report has been registered with the *Autorité des Marchés Financiers* (AMF) as a shelf-registration document. The annual report is prepared jointly by Hermès' Legal Department, Finance Department and Publishing Department and is available in French and English versions.

The Annual Report is available in hard copy or on CD-ROM free of charge upon written request sent to the Company.

The Annual Report may be consulted and downloaded on the Company's financial reporting website, [www.hermes-international.com](http://www.hermes-international.com).

Shareholders and investors can also find the following information on the site, in French and in English:

- quarterly sales;
- half-year and full-year results;
- monthly statements of the number of shares and voting rights;
- disclosures on the share buyback programme;
- documents needed to prepare for the Annual General Meeting;
- minutes of the Annual General Meeting and results of votes on resolutions submitted to shareholders;
- press releases;
- most recent Articles of Association;
- annual information documents;
- letters to the shareholders.

## 2011 CALENDAR (FOR INFORMATION ONLY)

Q1 2011 consolidated sales:	11 May 2011
Combined General Meeting of shareholders:	30 May 2011
Q2 2011 consolidated sales:	19 July 2011
H1 2011 consolidated net income:	31 August 2011
Q3 2011 consolidated sales:	9 November 2011

## SHAREHOLDER INFORMATION

The Letter to the Shareholders, which keeps shareholders informed on the Company's business and financial results, is available on [www.hermes-international.com](http://www.hermes-international.com).

Shareholders and investors may obtain information on the Hermès Group by contacting:

Mr Lionel Martin-Guinard  
Deputy Finance Manager  
Hermès International  
24, rue du Faubourg Saint-Honoré  
75008 Paris.  
Tel.: +33 (0) 1 40 17 49 26  
Fax: +33 (0) 01 40 17 49 54  
E-mail: [lionel.martin.guinard@hermes.com](mailto:lionel.martin.guinard@hermes.com)

Financial information website: [www.hermes-international.com](http://www.hermes-international.com).

During the lifetime of this Annual Report, the shareholders may consult the following documents relating to Hermès International on the Company's website ([www.hermes-international.com](http://www.hermes-international.com)) and/or at the Company's main administrative office at 13/15 rue de la Ville-l'Évêque, 75008 Paris, during business hours, or at its nearby annexe, by appointment only:

- the Company's Articles of Association;
- the registration documents for the last two financial years.

## HOW TO BUY HERMÈS INTERNATIONAL SHARES

### REGISTERED SHARES

These shares are registered in a securities account opened with:

#### BNP PARIBAS SECURITIES SERVICES

Services aux émetteurs

Immeuble G.M.P. Europe

9, rue du Débarcadère

93761 Pantin Cedex

Tel.: +33 (0) 826 10 91 19

Shareholders who opt for this method of administration automatically receive the Shareholders' Newsletter, 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 under the terms and conditions stipulated in the 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. The Company covers the custody fees.

Administered registered shares are handled by another financial institution that may apply 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 identify themselves if they wish to obtain documents and attend General Meetings.

## HOW TO PARTICIPATE IN GENERAL MEETINGS OF SHAREHOLDERS

All shareholders or representatives of shareholders are entitled to attend the Meeting and participate in the proceedings, regardless of the number of shares they hold. However, in order to attend the Meeting, to be represented at the Meeting or to vote by mail, shareholders must be shareholders of record as evidenced by registration of shares in their name (or in the name of the financial intermediary registered on their behalf if they are not residents of France) by 12:00 midnight (CET) on the third business day preceding the Meeting:

- in the register of registered shares held on behalf of the Company by its agent BNP Paribas Securities Services; or
- in a securities account held by the financial intermediary with which their shares are registered if the shares are bearer shares.

Shareholders may choose to participate in the General Meeting in one of three different ways:

- by attending the Meeting and voting in person;
- by voting by post: by casting their vote by postal ballot or by giving a proxy to the Chairman of the General Meeting or to another authorised representative;
- by voting online: by casting their vote online or by giving a proxy to the Chairman of the General Meeting or to another authorised representative.

### IF YOU WISH TO ATTEND THE GENERAL MEETING OF HERMÈS INTERNATIONAL

To expedite admittance to the General Meeting, shareholders are asked to obtain an admission card prior to the Meeting, which they will receive by post or which may be downloaded by following these instructions:

- If you did not opt to receive the meeting notice by e-mail, and your shares are registered shares, you will automatically receive the meeting notice together with the attendance form by post; you should complete the form and return it in the enclosed postage-paid envelope. In addition, all registered shareholders may now obtain an admission card online. You need only to log on to the GISproxy site using your access code, as described in the «Voting online» section below.
- If you hold bearer shares, you should request a certificate from your financial intermediary evidencing your status as a

shareholder as of the date of the request. Your financial intermediary will then forward this certificate to BNP Paribas Securities Services, which will send you an admission card. If you have not received your admission card by the third business day before the General Meeting and if you hold bearer shares, you should request a shareholding certificate from your custodian institution; if you hold registered shares, you may register directly at the General Meeting. On the day of the Meeting, all shareholders will be asked to submit evidence of their status as shareholders and proof of identity at the registration desk.

#### IF YOU ARE UNABLE TO ATTEND THE GENERAL MEETING OF HERMÈS INTERNATIONAL

Shareholders who are unable to attend the General Meeting may vote by post or online, either directly or by giving their proxy to the Chairman of the Meeting, or any other representative authorised for this purpose.

##### **If voting by post:**

If you hold registered shares, you will automatically receive the attendance form together with the meeting notice.

If you hold bearer shares, you should send a request to your custodian institution, which will forward the attendance form together with a shareholding certificate to BNP Paribas Securities Services. Requests for attendance forms will be honoured only if received by no later than Friday, 20 May 2011. The duly completed form should be returned using the enclosed postage-paid envelope and must be received by BNP Paribas Securities Services by no later than 12:00 midnight (CET) on Wednesday, 25 May 2011.

##### **Voting online:**

Shareholders may now vote online before the General Meeting via a dedicated secure website, by following the instructions below:

If you hold *registered shares*:

If you hold fully registered shares and wish to vote online, before the Meeting, you should log onto the website at the address shown below, using the identification number and password that was sent to you.

If you hold administered registered shares, you may request that your password be sent to you by post, by logging onto the GISproxy website, using the login code shown in the upper right corner of the attendance form enclosed with the meeting notice sent to you by post.

If you hold *bearer shares*:

If you hold bearer shares and wish to vote online before the General Meeting, you should request a shareholding certificate from the financial institution that is the custodian of your shares and provide your e-mail address. The custodian will send the shareholding certificate, together with your e-mail address, to BNP Paribas Securities Services, the manager of the online voting site. BNP Paribas Securities will use this e-mail address to send you a username and a password, which will enable you to log onto the site at the address shown below.

In both cases, you need only follow the instructions that will appear on the screen.

The secure website dedicated to voting will open on 9 May 2011. Shareholders may vote online before the General Meeting until 3:00 p.m. (CET) on the day before the meeting, i.e., until Sunday, 29 May 2011.

To avoid possible bottlenecks on the dedicated website, it is recommended that you not wait until the last minute before voting.

Address of the secure dedicated website: <https://gisproxy.bnpparibas.com/hermesinternational.pg>

It is specified that:

Shareholders who have already voted, applied for an admittance card or requested a shareholding certificate (Article R.225-85 of the Code de Commerce):

- may not choose another method of participating in the meeting;
- may opt to sell some of all of their shares.

However, if the sale takes place before 12:00 midnight (CET) on Wednesday, 25 May 2011, the Company shall invalidate or make the applicable changes to any postal vote, online vote, proxy, admission card or shareholding certificate, as appropriate. The authorised intermediary acting as custodian shall notify the Company or its agent of any such sale and shall forward the necessary information. Any sale or other transaction completed after 12:00 midnight CET on Wednesday,

25 May 2011, by any means whatsoever, shall not be notified by the authorised financial intermediary or taken into consideration by the Company, notwithstanding any agreement to the contrary.

**Proxies:**

In accordance with the provisions of Article R 225-79 of the French Commercial Code, notice of the appointment or revocation of a proxy may be made by post, under the same conditions as those applying to the appointment of a proxy, and must be sent to the General Meeting Department (*Service assemblées générales*) of BNP Paribas Securities Services.

Such notice may also be made online, and will be processed more rapidly, by following the instructions below:

If you hold *fully registered shares*:

- you may submit your request by logging onto Planetshares, 'My Shares', using your customary username and password, then going to "My shareholder area – My general meetings" and clicking on the «Appoint or Revoke Proxy» button.

If you hold *bearer shares or administered registered shares*:

- you should send an e-mail to [paris.bp2s.france.cts.mandats@bnpparibas.com](mailto:paris.bp2s.france.cts.mandats@bnpparibas.com)

This e-mail must contain the following information:

name of the company concerned, date of the general meeting, last name, first name, address, bank references of the shareholder, as well as the first name, last name and, if possible, the address of the proxy.

- Shareholders should ask the financial intermediary that manages their securities account to send a written confirmation to the General Meeting Department of BNP Paribas Securities Services – CTS Assemblées Générales – Les Grands Moulins de Pantin, 9, rue du Débarcadère, 93761 Pantin Cedex.

Only instructions pertaining to the appointment or revocation of proxies should be sent to the above e-mail address; any requests or instructions pertaining to other matters will not be considered and/or processed.

In order for instructions on the appointment or revocation of proxies submitted by e-mail to be duly taken into consideration, the confirmation notice must be received by no later than 3:00 p.m. (CET) on the day before the Meeting. Instructions to appoint or revoke a proxy sent by post must be received by no later than three calendar days before the date of the Meeting.

THRESHOLD	EQUIVALENT (%)	RELATED OBLIGATIONS
1/20 <sup>e</sup>	5.00%	
1/10 <sup>e</sup>	10.00%	Statement of intent
3/20 <sup>e</sup>	15.00%	Statement of intent
1/5 <sup>e</sup>	20.00%	Statement of intent
1/4	25.00%	Statement of intent
3/10 <sup>e</sup>	30.00%	File a public takeover bid or offer of exchange
1/3	33.33%	
1/2	50.00%	
2/3	66.66%	
18/20 <sup>e</sup>	90.00%	
19/20 <sup>e</sup>	95.00%	



## OWNERSHIP THRESHOLD DISCLOSURES

### STATUTORY OWNERSHIP THRESHOLDS (ARTICLES L. 233-7 ET SEQ. OF THE CODE DE COMMERCE AND ARTICLES L.433-3 ET SEQ. OF THE CODE MONETAIRE ET FINANCIER)

Any natural or legal person, acting alone or jointly, coming into possession of more than 5% of Hermès International's share capital or voting rights (see table below) is required to disclose to the Company the total number of shares or voting rights held. Such disclosure must also be made whenever the percentage of share capital or voting rights held falls below one of the thresholds indicated above.

Any person who is subject to this requirement must also disclose these facts to the AMF.

Owing to the existence of double voting rights, in practice, twenty-two thresholds must be monitored.

The thresholds may be attained after shares are acquired or sold, whether by means of 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). 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 its sole initiative pursuant to an agreement (contract of sale, option, etc.) and those that the shareholder can acquire at its sole initiative, immediately or in the future, as a result of holding a financial instrument (bond redeemable for shares, equity swap, warrant, etc.). Share ownership threshold disclosures must be filed no later than by the close of business on the fourth trading day following attainment of the threshold.

By the 15<sup>th</sup> of each month, the Company publishes a report on its website ([www.hermes-international.com](http://www.hermes-international.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.

### OWNERSHIP THRESHOLDS AS PROVIDED BY THE ARTICLES OF ASSOCIATION

Any natural or legal person, acting alone or jointly, coming into possession, in any manner whatsoever, within the meaning of Articles L 233-7 *et seq.* of the *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 as provided by Articles L. 233-7 *et seq.* of the *Code de Commerce*, is required to disclose to the Company the total number of shares it owns by sending a notice by registered post, return receipt requested to the registered office within five days from the date it has exceeded one of these thresholds.

Such disclosure must also be made, under the same conditions as those provided above, whenever the percentage of share capital and/or voting rights held falls below one of the aforesaid thresholds.

In the event of failure to comply with these requirements, the shares exceeding the threshold which is subject to disclosure shall be disqualified from voting.

In the event of an adjustment, the corresponding voting rights may be exercised only after expiration of the period stipulated by law and the applicable regulations.

Unless one of the thresholds covered by the aforesaid Article L. 233-7 is attained, 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.

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PP.26-27: Paolo Roversi (Publicis EtNous).

P.29: Lucie & Simon.

P.30: Marc Abel (*Talaris* saddle).

PP.32, 34: Vicente Sahuc.

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P.47: Mario Palmieri.

P.50: Paul Lepreux.

P.51: Claude Joray (*Arceau* squelette watch).

PP.52-53: Christophe Fillioux (*Balcon du Guadalquivir* porcelain), Patrick Burban (*Zermatt* flatware), Frédéric Goetz (*Veilleur de nuit* carafe).

P.55: Willy Vanderperre (heavy silk), Paul Lepreux (natural Barénia calfskin).

P.56: Frédéric Chehu.

P.57: Vincent Leroux.

P.58: Claude Joray.

P.60: Vicente Sahuc (ankle boots).

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# HERMÈS

2010 ANNUAL REPORT

OTHER INFORMATION CONTAINED IN THE SHELF-REGISTRATION DOCUMENT  
CONSOLIDATED FINANCIAL STATEMENTS AND PARENT COMPANY FINANCIAL STATEMENTS



**FILING OF REGISTRATION DOCUMENT  
WITH THE AUTORITÉ DES MARCHÉS FINANCIERS**

In accordance with Article 212-13 of the AMF General Regulation, this shelf-registration document, which contains the annual financial report and comprises Volume 1 and Volume 2 of the Annual Report, was filed with the AMF on 19 April 2011. This document may be used in support of a financial transaction only if it is supplemented by an offering circular approved by the AMF.

This document is a free translation into English of the "Document de Référence", originally prepared in French, and has no other value than an informative one. Should there be any difference between the French and the English version, only the French-language version shall be deemed authentic and considered as expressing the exact information published by Hermès.





**2010 ANNUAL REPORT  
OTHER INFORMATION CONTAINED IN THE SHELF-REGISTRATION DOCUMENT  
CONSOLIDATED FINANCIAL STATEMENTS AND PARENT COMPANY FINANCIAL STATEMENTS**

**VOLUME 2**

Hermès International

Partnership limited by shares with share capital of €53,840,400.12 - Commercial and Company Register of Paris no. 572 076 396  
Registered office: 24, rue du Faubourg Saint Honoré - 75008 Paris - Tel.: + 33 (0)1 40 17 49 20 - Fax: +33 (0)1 40 17 49 21 - Legal filing, 2nd quarter of 2011 - ISBN 978-2-35102-049-4





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# Overview of Hermès International and Émile Hermès SARL

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### OVERVIEW OF HERMÈS INTERNATIONAL

#### *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 sector.

Hermès International derives its funds from:

- dividends received from subsidiaries;
- royalties from trademarks, licensed exclusively to Group subsidiaries, to wit, Hermès Sellier, Comp-toir Nouveau de la Parfumerie, Compagnie des Arts de la Table, La Montre Hermès and Hermès Intérieur & Design (amounts received in 2010 are presented on page 226).

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 96 subsidiaries and sub-subsidiaries.

A simplified organisational chart of the Group appears in Volume 1, pages 24 and 25.

#### *Legal form*

Hermès International is a *société en commandite par actions* (partnership limited by shares). In this form of partnership, the share capital is divided into shares and there are two classes of partners: one or more Active Partners, with the status of "commerçant", 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 limited partners (or shareholders), who contribute capital, are liable in this capacity only up to the amount of their contribution;
- 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 same party may be both an Active Partner and a limited partner;
- a Supervisory Board is appointed by the Ordinary General Meeting of Shareholders 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, selected from among the Active Partners or from outside the Company, are chosen to manage the Company.

#### *Limited partners (shareholders)*

The limited partners:

- appoint the Supervisory Board members, who must be selected from among the limited partners,

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and the Statutory Auditors, at the General Meetings of Shareholders;

- vote on the accounts approved by the Executive Management; and
- appropriate earnings (including the distribution of dividends).

#### *Active Partner*

Since 1 April 2006, Émile Hermès SARL 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 considered recommendation of the Supervisory Board;
- takes the following decisions for the Group, on the Supervisory Board’s recommendation;
  - determines the Group’s strategic options;
  - determines the Group’s 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, indus-

trial 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-quarter 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 the Company:
  - descendants of Mr Émile-Maurice Hermès and his wife, born Julie Hollande; and
  - their spouses, but only as beneficial owners 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.

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).

#### *Executive Management*

The Executive Management ensures the management of Hermès International.

In accordance with the Articles of Association, the Company is administered by one or two Executive Chairmen, each having the same powers, who are physical persons and may be but are not required to be active or limited partners in the Company. The Executive Chairmen are appointed by the Annual General Meeting of Shareholders, on the recommendation of the Active Partner, after consultation with the Supervisory Board. Currently, the Company is administered by two Executive Chairmen:

- Émile Hermès SARL, which was appointed by a resolution approved by the Active Partners on 14 February 2006 (appointment effective as of 1 April 2006);
- Mr Patrick Thomas, who was appointed by a resolution approved by the Active Partners on 15 September 2004.

The term of office of the Executive Chairmen is open-ended.

#### *Supervisory Board*

The Company is governed by a Supervisory Board, which currently comprises ten members 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.

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 as the Statutory Auditors, 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. The Supervisory Board submits to the Active Partners for consideration its considered recommendation:

- on the appointment and dismissal of any Executive Chairman of the Company; and
- in case of the Executive Chairman's resignation, on reducing the notice period.

The Supervisory Board:

- 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.

The Active Partner must consult the Supervisory Board prior to making any decisions on the following matters:

- strategic options;
- consolidated operating and investment budgets; and
- proposals to the General Meeting on the distribution of share premiums, reserves and retained earnings.

Each year, the Supervisory Board presents to the Annual Ordinary General Meeting of Shareholders 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 functions exercised by the Supervisory Board do not entail any interference with the Executive Management, or any liability arising from the

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Management's actions or from the results of such actions.

#### *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 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 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 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 Management Board and Supervisory Board may make all decisions or issue all recommendations within their jurisdiction in a joint council meeting.

#### *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.

The Legal Department is located at 20, rue de la Ville-l'Évêque, 75008 Paris.

#### *Date created – Commercial and Company Register, APE Code*

Hermès International was created on 1 June 1938. It is registered with the Paris Commercial and Company Register under number 572 076 396, APE code 7010Z.

#### *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.

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## OVERVIEW OF ÉMILE HERMÈS SARL

#### *Legal form*

Émile Hermès SARL is a *société à responsabilité limitée à capital variable* (limited company with variable capital) and was created on 2 November 1989. Its partners are the direct descendants of Émile-Maurice Hermès and his spouse.

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.

#### *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 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.

#### *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 beneficial owners of shares.

In the light of the Company's purpose, no person shall be a partner if, for each share he owns in the Company, he does not have on deposit in the corporate accounts:

- a number of non-dismembered Hermès International shares undivided and free from any encumbrance or commitment to third parties equal to 9,000 (nine thousand); 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 18,000 (eighteen thousand).

#### *Executive Manager*

Émile Hermès SARL's Executive Manager is Mr Bertrand Puech, a grandson of Émile-Maurice Hermès. He was appointed on 5 June 2007.

#### *Management Board*

The Company is governed by a Management Board comprising three to twelve members, including the Executive Manager, who is an *ex-officio* member of the Board and who serves as Board Chairman.

Management Board members must be natural persons. At least two-thirds of the Management Board members must be selected from among partners in the Company.

The Executive Manager of Émile Hermès SARL shall act in accordance with the Management Board's recommendations in exercising its powers as Active Partner of Hermès International.

#### *Date created – Commercial and Company*

##### *Register – Registered office*

Émile Hermès SARL was created on 2 November 1989. It is registered with the Paris Commercial and Company Register under number 352 258 115. Its registered office is located at 23, rue Boissy-d'Anglas, 75008 Paris.

#### *Share capital – Total assets – Net income*

The authorised share capital is €343,840 and the share capital under the Articles of Association was €105,536 as at 31 December 2010.

It is divided into 6,596 shares with a par value of €16 each. As at 31 December 2010, Émile Hermès SARL had total assets of €15,128,295, including net income for the year of €286,717.







# Corporate Governance

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## Corporate governance – Report from the Chairman of the Supervisory Board on the corporate governance principles applied by the Company, on the conditions for preparation and organisation of the Supervisory Board's work and on the internal control and risk management procedures instituted by the Company

In accordance with the applicable regulations and with the recommendations issued by the Autorité des Marchés Financiers, we hereby submit our report on the corporate governance principles applied by the Company, on the conditions for preparation and organisation of the Supervisory Board's work and on the internal control procedures instituted by the Executive Management.

### Corporate governance code

#### • Corporate governance principles applied

The Supervisory Board has officially adopted the latest version of the AFEP/MEDEF recommendations on corporate governance, which was released in April 2010, as it deemed these recommendations to be entirely in keeping with the Group's corporate governance policy.

#### • AFEP/MEDEF recommendations not adopted and explanations

##### *Termination of employment contract upon appointment to a corporate office*

Mr Patrick Thomas was hired as an employee in August 2003, with reinstatement of his years of service with the Group in respect of the positions he held there from 1 April 1989 to 31 March 1997. This employment agreement was suspended when Mr Patrick Thomas was appointed to the position of Executive Chairman, on the understanding that it would automatically be reinstated upon the termination of his appointment as Executive Chairman. The Supervisory Board took the view that Mr Patrick Thomas was not obliged to abandon his contract of employment upon his appointment as Executive Chairman, as his permanent appointment could be revoked at will, and that he had successfully carried out his duties as an employee

over an extended period of time well before his appointment to his corporate office.

##### *Severance pay*

The Company has agreed to pay Mr Patrick Thomas an amount equal to 24 months' compensation in the event that his appointment as Executive Chairman is terminated (decision of the Supervisory Board on 19 March 2008, approved by the Annual General Meeting on 3 June 2008), subject to meeting certain performance criteria.

Further to a decision adopted by the Supervisory Board on 18 March 2009, severance pay is contingent upon termination of the appointment as Executive Chairman resulting:

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

The amount of such payment will automatically be charged, *ipso jure*, against the amount of any other compensation, particularly of a contractual nature, that may be due to Mr Patrick Thomas in respect of the termination of his employment agreement, which is suspended at this time.

Given the payment conditions defined, the Supervisory Board, acting on the recommendation of the Compensation Committee, found that there was no call for it to reconsider its deferred compensation commitment to Mr Patrick Thomas owing to the length of his service within the Group.

##### *Supervisory Board members qualify as independent regardless of length of service on the Board*

Because of the ownership structure of the Company, which is majority-owned by direct descendants of

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Mr Émile Hermès, several years ago, the Supervisory Board decided that it would be advisable to include members who are not related to the Hermès family group.

Given the characteristics of a *société en commandite par actions* under the law and under the Articles of Association, and due to the complexity of the Hermès Group's business activities, the Supervisory Board decided that length of service was a key criterion in assessing Supervisory Board members' competency and knowledge of the Group, and that they could not therefore be disqualified as independent members based on this criterion.

With respect to Mr Maurice de Kervénoaël, on the recommendation of the Compensation, Appointments and Governance Committee, the Supervisory Board deemed that the conversion in 2010 of Comptoir Nouveau de la Parfumerie into a *société anonyme* with a Board of Directors, in which Mr Maurice de Kervénoaël now serves as a Director, did not call his independence into question.

#### *Proportion of independent members on the Audit Committee*

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

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

#### **• Corporate governance measures adopted in 2010 and 2011**

At its meeting on 20 January 2010, the Supervisory Board decided to expand the duties and responsibilities of the Compensation and Appointments

Committee to include issues related to corporate governance.

In this respect, the Committee's duties and responsibilities are:

- to ascertain that the management bodies apply the Supervisory Board Rules of Procedure and the recommendations of the AFEF/MEDEF corporate governance code in their operations, *inter alia*;
- periodically to ascertain that independent Supervisory Board members meet the criteria pertaining to independence and objectiveness set out in the Supervisory Board Rules of Procedure;
- to recommend revisions to corporate governance rules, as needed;
- to review the composition of the special committees;
- to oversee the annual assessment of Supervisory Board practices.

At its meeting on 24 March 2010, the Supervisory Board adopted the Rules of Procedure for the Audit Committee and for the Compensation, Appointments and Governance Committee.

At its meeting on 7 June 2010, the Supervisory Board:

- reviewed the April 2010 version of the AFEF/MEDEF Code of corporate governance for listed companies;
- duly noted that 20% of the Supervisory Board members are women;
- appointed Mrs Florence Woerth as a new member of the Audit Committee, which at the time comprised six members.

At its meeting on 30 August 2010, the Supervisory Board:

- reviewed the situations of Mrs Florence Woerth and Mr Éric de Seynes to determine whether they meet the criteria pertaining to independence and

objectiveness set out in the Supervisory Board Rules of Procedure;

– duly noted that following the appointment of Mrs Florence Woerth to the Audit Committee, the percentage of independent members on the Audit Committee was in keeping with the percentage stipulated by the Audit Committee Rules of Procedure.

At its meeting on 17 November 2010, the Supervisory Board:

– reviewed a summary of the self-assessment of the Board's work carried out by the Compensation, Appointments and Governance Committee;

– duly took note of the 2010 matrix for assessing the independence of Supervisory Board members;

– set a target for increasing the percentage of women on the Board to at least 40% within six years (i.e. by 2016) as recommended by the April 2010 AFEP/MEDEF Code of Corporate Governance and as subsequently required by the Act of 13 January 2011;

– approved the principle of diversifying the composition of the Supervisory Board in terms of members' nationality or international experience in the near future, providing that the Supervisory Board remains French-speaking;

– drew lots to fix the term of offices for appointments to be proposed to the next General Meeting (first-time application of the rule for re-electing one-third of the Board each year): three one-year terms, three two-year terms and three three-year terms (the office held by Mrs Florence Woerth, which expires only in 2013, was not included in this drawing).

At its meeting on 26 January 2011, the Supervisory Board:

– adopted the new wording of the Supervisory Board Rules of Procedure;

– adopted a Code of Conduct for the Supervisory Board incorporating the clauses on professional conduct that were previously included in the Rules of Procedure and sets out rules for the prevention of insider trading;

– reviewed the individual situation of each Supervisory Board member and of the Executive Chairmen with respect to the rules governing multiple offices and determined that no member of the Board is in violation of such rules;

– duly noted the new general management structure of the Group.

At its meeting on 3 March 2011, the Supervisory Board:

– appointed a new member and a new Chairman of the Supervisory Board, as described on page 35;

– duly noted the resignation of Miss Julie Guerrand from her office as Audit Committee member effective as from 2 March 2011;

– duly noted the results of the Group's request for proposals for the joint audit over the period 2011-2016;

– was informed of the findings of the Compensation, Appointments and Governance Committee on the review of potential conflicts of interest of Supervisory Board members;

– found that all incumbent Audit Committee members had special expertise in finance or accounting;

– deemed that it was not incompatible for Miss Julie Guerrand to retain her seat on the Supervisory Board while holding an employment agreement for her position as Director of Corporate Development (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 agreement with no conditions other than that resulting from the

existence of a relationship of subordination with the company and the recognition of effective employment);

- found that the target set by the Act of 13 January 2011 requiring that the Supervisory Board comprise at least 20% of each gender by 2014 had already been achieved;
- reviewed the Code of Conduct on insider trading for employees who are considered to be insiders, which was drawn up by the Human Resources department and is to be instituted within the Group in the near future.

### Conditions governing the preparation and organisation of the Supervisory Board’s work

#### • Composition of the Supervisory Board

The Supervisory Board comprises ten members: Mr Jérôme Guerrand, Chairman since 3 March 2011; Mr Maurice de Kervénoaël and Mr Ernest-Antoine Seillière, Vice-Chairmen; and Mr Charles-Éric

Bauer, Mr Matthieu Dumas, Miss Julie Guerrand, Mr Olaf Guerrand, Mr Renaud Momméja, Mr Robert Peugeot and Mrs Florence Woerth.

Changes during 2010 and in early 2011 are shown on page 35.

Mrs Nathalie Besombes, who is in charge of Corporate Law and Securities Law, serves as Secretary of the Board under the Chairman’s supervision.

#### • Criteria for qualifying a Supervisory Board member as an “independent”

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

- they may not be a partner or member of the Management Board of Émile Hermès SARL, Active Partner;
- they must comply with the criteria set out in Article 8.4 of the AFEP/MEDEF Code of Corporate Governance, except the criterion pertaining to length of service, which has not been adopted (see explanations on page 16).

Attendance at Supervisory Board meetings in 2010			
Board member	Attendance	Applicable number of meetings	Individual attendance rate
Mr Jérôme Guerrand	6	6	100%
Mr Maurice de Kervénoaël	6	6	100%
Mr Ernest-Antoine Seillière	6	6	100%
Mr Charles-Éric Bauer	6	6	100%
Mr Matthieu Dumas	6	6	100%
Miss Julie Guerrand	6	6	100%
Mr Olaf Guerrand	n/a	n/a	n/a
Mr Renaud Momméja	6	6	100%
Mr Robert Peugeot	5	6	83%
Mr Éric de Seynes	3	3	100%
Mr Guillaume de Seynes	3	3	100%
Mrs Florence Woerth	4	4	100%
<b>Moyenne</b>			<b>98%</b>

n/a: not applicable.

In 2010, 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”: Messrs Maurice de Kervénoaël, Robert Peugeot and Ernest-Antoine Seillière, and Mrs Florence Woerth.

The Board resolved that one-third of the Supervisory Board members should be independent members. This proportion is observed.

• **Operation of the Supervisory Board**

The most recent version of the Supervisory Board Rules of Procedure, dated 26 January 2011, is reproduced in full on pages 32 à 34.

The following changes have been made:

– the clauses pertaining to professional conduct were deleted, as they are now included in a separate Code of Conduct

– a rule was added stipulating that the acceptance by the Executive Chairmen of any new office in a listed company is subject to approval by the Supervisory Board in accordance with the Supervisory Board’s decision on 17 November 2010 to follow the most recent AMF recommendations in this area (report of 12 July 2010).

The Rules of Procedure stipulate that Supervisory Board members must own a relatively large number of shares in the Company (200 shares) in the year in which they are appointed.

The Statutory Auditors and the Works Council representatives are systematically invited to attend all Supervisory Board meetings. The Supervisory Board meets at least four times per year.

During 2010, the Supervisory Board met six times, including once in joint council with the Management Board of Émile Hermès SARL. Nearly all members attended the meetings and the average attendance rate was 98%, as shown in the table on page 19.

Furthermore, as in previous years, the Chairman

of the Supervisory Board was invited to attend all meetings of the Management Board of Émile Hermès SARL.

To ensure that Supervisory Board meetings are held in due and proper form, a file containing background documents on matters appearing on the agenda is sent out to each Supervisory Board member prior to each meeting.

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

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

• **Role of the Supervisory Board**

The primary role of the Supervisory Board of a *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 appropriation



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of net income, and provides all recommendations and authorisations.

The Supervisory Board has delineated the due diligence procedures it carried out during the year ended 31 December 2010 in a report presented to the Annual General Meeting called to approve the financial statements (page 221).

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.

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

At the end of 2010, for the second year, the members of the Supervisory Board carried out a self-assessment of the Board's work. This self-assessment is conducted by using a questionnaire drawn up by the Compensation, Appointments and Governance Committee, which was more comprehensive than the questionnaire used in 2009 and addressed the following matters:

- organisation of the Board;
- Board meetings;
- contributions to the Board's work;
- the Committees;
- focuses and means for improving the operation of the Board;
- comments and suggestions.

All members of the Board participated in the self-assessment.

The results of this questionnaire, which are sent to the Board Secretary in envelopes marked "Personal and Confidential", are analysed by the Secretary and the consolidated results are sent to the Compensation, Appointments and Governance Committee without identifying the respondents. The Compensation, Appointments and Governance Committee presented a summary of the questionnaire results to the Supervisory Board on 17

November 2010. A vast majority of the responses gave the Board high marks for its operation: nearly 80% of the respondents ranked it "very good" or "good".

The analysis of the assessment shows that nearly all areas for improvement identified in 2009 have been satisfactorily resolved as a result of actions taken in 2010. The 2010 assessment indicates that improvements are expected in a limited number of areas. In 2011, the Compensation, Appointments and Governance Committee will take actions in coordination with the Board Secretary.

#### • **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 34).

#### • **Directors' fees and remuneration**

The principles for apportioning directors' fees are set out in the Supervisory Board Rules of Procedure (page 34).

At its meeting of 26 January 2011, the Supervisory Board apportioned directors' fees and compensation of €367,000 in respect of 2010 out of a total of €400,000 approved by a resolution adopted by the Shareholders at the Ordinary General Meeting of 7 June 2010.

The amounts paid to individual members in respect of 2009 and 2010 are set out in the Management Report, on pages 50 and 51.

#### • **Special committees**

Two special committees have been created:

- the Audit Committee (26 January 2005);
- the Compensation Committee (26 January 2005), to which the Board subsequently decided to assign

new duties and responsibilities; it was renamed “Compensation and Appointments Committee” on 18 March 2009 and “Compensation, Appointments and Governance Committee” on 20 January 2010.

These committees act under the collective and exclusive responsibility of the Supervisory Board. Their role is to research and to prepare for certain deliberations of the Board, to which they submit their opinions, proposals or recommendations.

*Compensation, Appointments  
and Governance Committee*

This Committee comprises the following members:

- Mr Ernest-Antoine Seillière, Chairman;
- Mr Matthieu Dumas, member;
- Mr Robert Peugeot, member.

The Committee’s duties and responsibilities are:

- with respect to compensation:
  - to receive information and make recommendations 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 share purchase options and bonus shares granted to Executive Committee members;
  - to draw up proposals and recommendations on the aggregate amount of directors’ fees and other compensation and benefits awarded to members of the Supervisory Board and of its special committees, and on the apportionment thereof, primarily on the basis of Board members’ attendance at meetings;
  - to review proposals for stock option plans 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 option plans 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 performance conditions and criteria to be met by the Executive Chairmen in order to receive stock options and/or supplemental pension benefits;
- 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;
- with respect to appointments:
  - to draw up recommendations for the Board to submit to the Active Partner after reviewing all information that the Board must take into consideration in its deliberations, i.e. striking an appropriate balance in the composition of the Board in the light of the composition and changes in the Company’s shareholder base, identifying and evaluating potential candidates, and examining the advisability of renewing terms of offices;
  - to draw up a procedure for selecting future independent directors to sit on the Board and to carry out its own reviews of potential candidates;
  - to prepare a succession plan for the corporate executive officers (the Executive Chairmen) to ensure that the Board is in a position to recommend potential successors to the Active Partner;
- with respect to corporate governance:
  - to ascertain that the management bodies apply the Supervisory Board Rules of Procedure and the recommendations of the AFEP/

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MEDEF corporate governance code in their operations, *inter alia*;

- periodically to ascertain that independent Supervisory Board members meet the criteria pertaining to independence and objectiveness set out in the Supervisory Board Rules of Procedure;
- to recommend revisions to corporate governance rules, as needed;
- to review the composition of the special committees,
- to oversee the annual assessment of Supervisory Board practices.

During 2010, the Compensation, Appointments and Governance Committee met four times. Nearly all members attended the meetings (the average attendance rate was 83%).

In 2010, the Compensation and Appointments Committee reviewed the following matters and issued recommendations thereon:

- scope of the Committee’s duties and responsibilities;
- appointment of Supervisory Board members;
- appointment of an independent member to the Supervisory Board;
- review of documents;
- appointment of a new Supervisory Board member;
- proposal to increase directors’ fees;
- proposed bonus share distribution plan;
- review of Executive Managers’ 2010 compensation;
- review of Executive Committee members’ compensation;
- presentation of procedures to be followed for the appointment/co-opting/re-election of Supervisory Board members;
- results of the assessment of the Supervisory Board’s work in 2010 and preparation of the summary to be submitted to the Supervisory Board;

- 2010 matrix for assessing the independence of Supervisory Board members;
- procedures for re-election of Supervisory Board members in 2011;
- work to be carried out following publication of the 2010 AMF report on corporate governance and executive compensation.

#### *Audit Committee*

The Audit Committee is composed of the following members:

- Mr Maurice de Kervénoaël, Chairman;
- Mr Charles-Éric Bauer, member;
- Miss Julie Guerrand, member (until 2 March 2011);
- Mr Renaud Momméja, member;
- Mr Robert Peugeot, member;
- Mrs Florence Woerth, member.

The Supervisory Board:

- identified those Audit Committee members who can be qualified as “independents”, i.e. Mr Maurice de Kervénoaël, Mr Robert Peugeot and Mrs Florence Woerth;
- found that all incumbent Audit Committee members had special expertise in finance or accounting.

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;
- to monitor the effectiveness of the internal control

and risk management systems, of the statutory audit of the parent company financial statements and, if applicable, of the consolidated financial statements by the Statutory Auditors;

- to ascertain compliance with the rules guaranteeing the independence and objectiveness of the Statutory Auditors;
- to participate in the procedure for selecting the Statutory Auditors.

During 2010, the Audit Committee met three times. Nearly all of its members attended the meetings (the average attendance rate was 90%).

In 2010, the Audit Committee reviewed the following matters:

- review of financial statements:
  - parent company and consolidated financial statements for the year ended 31 December 2009;
  - parent company and consolidated financial statements for the six months to 30 June 2010;
  - unrecognised commitments as at 31 December 2009;
  - Statutory Auditors' report on the 2009 full-year and 2010 half-year consolidated financial statements;
  - review of the press release on half-year and full-year results;
- review of internal control systems:
  - investment policy;
  - review of the report from the Chairman of the Supervisory Board;
  - review of the Audit and Risk Management Department in 2009 and the major focuses for 2010;
- field audit engagements:
  - Committee members carried out one audit assignment, with the support of the Audit and Risk Management Department, to check the effectiveness of the Group's internal control and risk management systems;

- special missions:

- annual self-assessment of Audit Committee operation;
- review of 2010 budget and verification that strategic guidelines were followed appropriately;
- approval of an audit charter by the Audit Committee Chairman;
- approval of the Audit Committee Rules of Procedure by the Supervisory Board.

#### *Compensation of Committee members*

Members of the special committees receive €10,000 per year and the chairmen of those committees receive €20,000 per year.

#### *Operation of the special Committees*

The rules applying to the composition, duties and responsibilities and operating procedures for each Board Committee are set out in Rules of Procedure proposed by the said Committee and approved by the Supervisory Board.

Each Committee meets when convened by its Chairman in writing or orally, at any place indicated in the notice of meeting.

The deliberations of each Committee meeting are recorded in minutes, which are entered in a special register and signed by the Committee chairman and by one of the members in attendance.

#### • **Factors liable to affect the outcome of a public offering**

Factors liable to affect the outcome of a public offering are described in the Management Report (page 70).

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

The terms and conditions for participating in general meetings are set out in Volume 1 (page 109).

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## Internal control and risk management procedures instituted by the Company

Pursuant to Articles L 225-37, L 225-68, L 823-19 and L 823-20 of the *Code de Commerce*, below is the report on the principal risk management and internal control procedures that the Executive Management has instituted within the Company, using the new “Reference Framework” as supplemented by the “Application Guide” published by the AMF in 2010, and the AFEF/MEDEF code of corporate governance.

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 3 March 2011.

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

Using the AMF recommendations as a guideline, Management has assigned the following objectives to the Group’s risk management system:

- to contribute to effective risk management in its businesses on an ongoing basis;
- to protect its employees;
- to safeguard everything that constitutes an asset for the Group, whether tangible (property inventory, cash) or intangible;
- to ensure the proper operation of the Company’s processes;
- to comply with the laws and regulations applicable to the Group’s businesses and to abide by the corporate Code of Conduct;
- to instil a risk management culture within senior management.

Risk management systems are designed to address major risks. They include methods for identifying and prioritising risks and for handling the main risks at the appropriate operating level in order to

reduce the Company’s exposure, for instance by strengthening internal control procedures. Internal control systems rely on 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 internal control system is designed by the Company and implemented under its responsibility. Its objectives are to ensure:

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

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

### • Internal control environment

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

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

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

The quality-oriented values and mentality shared by all employees serve as a solid foundation to underpin acceptance and observance of stringent internal control policies and procedures.

The way in which the two systems work together and their balance are contingent on the control environment which forms their common base, and more specifically, on the Company's ingrained risk management and internal control culture, management style and corporate values. In this area, to underpin the risk management culture promoted by the Group, in 2009, the Group adopted a formal Code of Conduct and has disseminated it to further strengthen this culture.

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

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

*Senior management*

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

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

*Audit Committee*

The Audit Committee was created in 2005 within the Supervisory Board. In accordance with Article

L 823-19 of the *Code de Commerce*, the Audit Committee, "acting under the exclusive and collective responsibility of the members of the Supervisory Board, is responsible for ensuring controls over:

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

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

In monitoring the preparation of financial information, the Audit Committee is responsible for ensuring that the existing risk identification and assessment process encompasses:

- identified risks;
- risks identified by the Executive Management and that may potentially have an impact on the accounts;
- any other risk that has not been mapped but that the Audit Committee may have identified in carrying out its controls.

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

*Audit and Risk Management Department*

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

- it identifies and analyses risks;
- it performs internal audits;
- it coordinates internal control actions.

The Audit and Risk Management Department coordinates the work of a team of internal auditors and a network of internal controllers, in France

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and in other countries. The Department reports to the Group's senior management, which guarantees its independence, and has unlimited authority to review any matter at its discretion. An audit charter setting out the duties and responsibilities of the internal auditors and their professional conduct and detailing their audit engagements was released and circulated in 2010.

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

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

The senior executives, the major functional and operating departments, and members of the Management Committees of the Group's various entities serve as the main conduits for applying the system; they are the main beneficiaries of the system and also key contributors to its proper operation.

Control activities carried out at the level of each entity fall under the joint responsibility of the chief executive officer and chief financial officer, as evidenced by the signature of a letter of affirmation relating to the quality of controls.

#### • **Risk management system**

The Group's risk management processes are underpinned by a variety of factors that contribute to risk identification, analysis and prioritisation, and to implementing the required action plans.

The ongoing risk mapping programme was initiated in 2004 and has been fine-tuned over the years.

Hermès International has also deployed specific processes to monitor certain risks through special committees or working groups. These committees meet on a regular basis (usually, once a month). For instance, committees assigned to prop-

erty risk and treasury risk meet to analyse the main risks identified and ascertain that existing control systems comply with Group procedures. These surveys of the main identifiable risks serve as a basis for internal control procedures and activities.

Implementation of risk-mitigation action plans falls under the responsibility of the relevant entities, business lines or functions.

The Audit and Risk Management Department is responsible for day-to-day oversight of the risk management system. It manages the risk mapping process designed to help the Group's companies to identify and analyse their main risks. It monitors the progress of the resulting action plans in the relevant entities on a regular basis and ensures that risk management procedures are observed and kept up to date.

The special committees monitor the risk areas mentioned above on a regular basis and the Audit and Risk Management Department may revise its work schedule to factor in any new risks identified during the year, either through comparative analyses or through alerts issued by the Group departments.

#### • **Internal control system**

##### *Organisation*

The Company's management is organised into an Executive Committee, a Management Committee and several special Committees, and ensures that strategic directions are followed consistently and that information is disseminated effectively. Detailed organisational charts and memoranda outlining strategic directions give staff members a thorough understanding of their role in the organisation and a way periodically to evaluate their performance by comparing it with stated targets. The sales organisation is based on an approach designed to foster a high level of accountability

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

In its human resources processes, Hermès has established hiring, training and skills development programmes designed to enable each individual effectively to perform his or her duties, now or in the future. Within Hermès International, the Finance Department has primary responsibility for preparation and control of financial information (see below).

Within the Group's Supervisory Board, two special Committees play a more specific role in the internal control system:

- the Audit Committee;
- the Compensation, Appointments and Governance Committee.

#### *Information systems*

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

The information systems are designed to ensure that the accounting and financial information produced complies with security, reliability, availability and relevance criteria. Specific rules on the

organisation and operation of all IT systems have been defined, applying to system access, validation of processing and year-end closing procedures, data archiving and record verification.

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

#### *Internal control procedures*

Hermès International and its subsidiaries have several manuals of internal control procedures applying to the business sectors, activities and regions.

All Group procedures are posted on one intranet site. This site contains the main procedures covering the Company's operating functions, including purchasing, sales, treasury, inventories, fixed assets, human resources, IT systems, as well as the store internal control procedures for the distribution subsidiaries, which cover sales, account collections, inventory management and store security. These procedures are managed by the Audit and Risk Management Department, which is responsible for posting them online, for updating them and for ensuring that they cover critical control points for the processes described. Highly formalised procedures are also applied to the logistics function, and one of the major logistics centres has obtained ISO 9001 certification. In addition, detailed manuals covering accounting and financial procedures have been drawn up and are updated on a regular basis.

With respect to financial and accounting processes, the Financial Manual contains all rules to be followed for financial reporting. It describes all accounting and financial procedures, as well as detailed instructions on bookkeeping and recordkeeping requirements. The Group Chart of



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Accounts, drawn up in accordance with International Financial Reporting Standards (IFRS), also sets out the rules for financial record-keeping. It is available on the intranet. Moreover, the Group Finance Department periodically issues instructions that are sent to the subsidiaries for the year-end account closing and at other times on any topic related to financial information.

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

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

- 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 currency procedure approved by the Supervisory Board for hedging currency risk, which describes all authorised financial instruments and sets limits on their use by members of the Hermès International Treasury Management Department;
- a foreign exchange agreement with each relevant subsidiary, which provides a framework for

the relationships between the Hermès Group and its subsidiaries, sets out cash management policy and rules, and defines the terms and conditions for calculating and applying the annual guaranteed exchange rates; and

- a Group cash investment policy, which is also 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.

#### *Risk analyses and self-assessments*

The Group's Executive Management analyses the accounts of the subsidiaries on a regular basis and meets with the senior executives of the main subsidiaries to obtain status reports, to assess risks and to define any corrective measures required to achieve the stated goals. This analysis is supplemented by risk mapping.

Self-assessment of internal control items is based on questionnaires to be completed by the 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.

At this time, the self-assessment questionnaires relate to the procedures applicable within the distribution sector to the subsidiaries' central support functions. Treasury management is covered in a specific questionnaire. In the interests of enhancing and achieving greater consistency in exchanges of information on internal control at all levels of the organisation, Hermès has instituted an internal control self-assessment tool, which is

available on the intranet and is managed by the Audit and Risk Management Department.

Moreover, as the parties responsible for internal and financial control of the parent company and the main entity within the Group, the Finance Departments of Hermès International and Hermès Sellier analyse their control of financial and accounting information based on the “Application Guide” associated with the “Reference Framework” published by the AMF.

#### *Internal control system monitoring*

The Audit and Risk Management Department is in large part responsible for monitoring the system. Auditors work on the basis of an audit plan approved by the Executive Management and by the Audit Committee, which is drawn up yearly and may be adjusted every six months if required. The Audit and Risk Management Department may call on outside firms to conduct specialised audits. Each year, the Audit and Risk Management Department presents a report on its work to the Audit Committee.

Upon completion of the audits, reports are prepared containing the audit findings, identifying risks and recommending solutions to remedy any problems. Proper implementation of the recommendations is verified during follow-up audits. The audit reports are sent to the managers of the audited subsidiaries or departments and to the Group’s general management or Executive Management.

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

The internal control system applicable to accounting and financial information is a key component of Hermès International’s overall management system. It is designed to ensure stringent financial oversight of the Company’s business activities. It

encompasses all processes involved in producing and reporting accounting and financial information and to meet the following goals:

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

#### *Oversight of the accounting and financial organisation*

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

The internal control process for accounting and financial information involves the following parties:

- The Group’s executive management, which includes the Executive Chairmen and the Executive Committee. As part of the parent company and consolidated financial statement review and approval process, the Executive Management receives all information that it deems to be useful, such as information on the main options applied for the reporting period, accounting estimates and changes in accounting methods. It analyses the subsidiaries’ accounts on a regular basis and meets with their senior executives from time to time, particularly during the budget preparation and account closing periods. Lastly, it reviews the findings of the Statutory Auditors;
- The Supervisory Board, which exercises ongoing control over the Company’s management. By consulting the Executive Management, the Board can verify that oversight and control systems are

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adequate to ensure that the financial information published by the Company is reliable;

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

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

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

#### *Procedures for preparing published accounting and financial information*

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

- that published accounting and financial information is impartial, objective and relevant in the light of user requirements; that reporting deadlines are

met (via a timetable for closing the accounts), and that such information is understandable;

- that year-end consolidated account closing procedures that meet these criteria are drawn up and circulated to all consolidated entities, namely via the Group Chart of Accounts, the Manual of Financial Procedures, and instructions sent to the subsidiaries;

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

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

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

The reporting and consolidation procedures call for the controls required to ensure the reliability of financial information. Reliability in preparation of the consolidated accounts is ensured by the use of the same information for both financial management and financial reporting, which is available through a common tool. Moreover, at each year-end closing date, the managing directors and finance directors of each subsidiary are required to provide a letter of affirmation in which they guarantee the reliability of financial information and internal control.

Lastly, as part of its audit engagements, the Audit and Risk Management Department ascertains that key controls applied to the preparation of accounting and financial information are properly implemented.

The Chairman of the Supervisory Board

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## Supervisory Board Rules of Procedure

(version dated 26 January 2011)

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### 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 practices, in the interests of ethics and greater effectiveness.

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### TITLE I – SUPERVISORY BOARD

#### A - Composition of the Board

##### ARTICLE 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 be applied towards purchasing these shares.

##### ARTICLE 2 - *Independence of Board members*

A Board member is independent if he or she has no relationship of any kind whatsoever with the Company, its Group or its management that is liable to compromise the exercise of his or her freedom of judgement in any way.

##### • **Independence criteria**

The independence criteria applicable to Board members are as follows:

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

- they must comply with the criteria set out in Article 8.4 of the December 2008 AFEP/MEDEF Code of Corporate Governance, except the criterion pertaining to length of service, which is expressly excluded.

##### • **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 he or she qualifies as an “independent director”.

The Board is required to report the findings of its review to the shareholders in the Annual report.

##### • **Proportion of independent members on the Board**

One-third of the Board members must be independent members.

##### ARTICLE 3 - *Professional conduct of members of the Board and their permanent representatives*

Members of the Supervisory Board undertake to abide by the rules contained in the Supervisory Board Code of Conduct and to apply them.

#### B - Operation of the Board

##### ARTICLE 1 - *Meetings of the Supervisory Board*

##### • **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

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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.

• **Attendance by persons who are not Board members**

The 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.

• **Minutes**

Minutes are drawn up following 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.

**ARTICLE 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.

**ARTICLE 3 - Continuing education for 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.

**ARTICLE 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.

**C - Assessment of the Board by its members**

The Board periodically carries out assessments of its performance covering its areas of responsibility and its commitment, by using an assessment matrix proposed by the Compensation, Appointments and Governance Committee.

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.

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**TITRE II – SPECIAL COMMITTEES OF THE SUPERVISORY BOARD**

The Board may create special 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:

- 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 Board Committee are set out in Rules of Procedure proposed by the said Committee and approved by the Supervisory Board.

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### TITRE III – COMMON PROVISIONS

#### ARTICLE 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 he is required to chair all meetings;
- €15,000 for the fixed component and €1,000 for the variable component per meeting, up to a maximum of five meetings per year, for each Vice-Chairman of the Supervisory Board;
- €15,000 for the fixed component and €1,000 for the variable component per meeting, up to a maximum of five meetings per year, for other Supervisory Board members;

- €20,000 for the fixed component and no variable component for the Chairmen of the Audit Committee and of the Compensation, Appointments and Governance Committee;

- €10,000 for the fixed component and no variable component for the other members of the Audit Committee and of the Compensation, Appointments and Governance Committee;

- if a member is appointed during the year, the outgoing member and his 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.

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.

#### ARTICLE 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 meetings, upon presentation of substantiating documents or receipts.

These reimbursements are capped and may not exceed the following amounts:

LOCATION OF PRINCIPAL RESIDENCE	CEILING
Europe (including France)	€1,200
North Africa and Middle East	€2,300
Americas	€4,500
Asia-Pacific	€4,500

These reimbursements apply only to meetings of the Board and of the Committees, and do not in any case apply to Annual General Meetings.

The corporate governance principles established by the Company are described in the Report from the Chairman of the Supervisory Board, on pages 16 to 31.

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### COMPOSITION AND OPERATION OF THE ADMINISTRATIVE, EXECUTIVE AND SUPERVISORY BODIES

The composition of the management bodies appears in Volume 1, pages 10 to 13 of the Annual Report. Their operation is described on pages 8 to 12 and 20.

#### *Changes during 2010 and the beginning of 2011*

On the recommendation of the Active Partner, the Annual General Meeting of 7 June 2010 elected Mrs Florence Woerth as a new Supervisory Board member for the standard term of office of three years set out in the Articles of Association.

At its meeting of 7 June 2010, the Supervisory Board:

- duly noted the resignation of Mr Guillaume de Seynes effective as from 7 June 2010 and co-opted Mr Éric de Seynes as Director to replace him, until the next re-election of the Board and subject to ratification of this appointment by the next Annual General Meeting of Hermès International Shareholders.

At its meeting of 3 March 2011, the Supervisory Board:

- duly noted the resignation of Mr Jérôme Guerrand from his offices of Chairman and Supervi-

sory Board member, for personal reasons, effective as from 3 March 2011;

- co-opted Mr Olaf Guerrand as a new Supervisory Board member to serve for the remainder of his predecessor's term and subject to ratification of this appointment by the next Annual General Meeting of Hermès International Shareholders;
- appointed Mr Éric de Seynes as the new Chairman of the Supervisory Board to serve for the remainder of his term as Supervisory Board member.

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### INFORMATION ON CORPORATE EXECUTIVE OFFICERS AND SUPERVISORY BOARD MEMBERS

The Executive Chairmen, Active Partner and Supervisory Board members are domiciled at the Company's registered office.

#### *Executive Chairmen*

**Mr Patrick Thomas**, a French national, age 64 in 2011, is not related to the Hermès family. He served as Managing Director of Hermès International from 1989 until 1997. He is a graduate of École Supérieure de Commerce de Paris (ESCP). He was Chairman of the Lancaster Group from 1997 until 2000 and Chairman and Chief Executive Officer of William Grant & Sons of the UK from 2000 until 2003. He returned to the Hermès Group on 15 July 2003 as Managing Director of Hermès International and was appointed Executive Chairman on 15 September 2004 for an open-ended term of office.

As at 31 December 2010, he was the legal owner of 3,503 Hermès International shares.

## Corporate Governance

### Summary information on corporate executive officers and Supervisory Board members

Name	Date of birth	Age in 2011	Office	Date first appointed	Term of office/ Expiry date	Years in office in 2011
Patrick Thomas	16/06/1947	64	Executive Chairman	15/09/2004	Open-ended	7
Émile Hermès SARL			Executive Chairman	01/04/2006 (et de 1990 à 1994)	Open-ended	5
Jérôme Guerrand <sup>(1)</sup>	15/10/1944	67	Chairman of the Supervisory Board	27/12/1990	03/03/2011	21
			Supervisory Board member	27/12/1990	03/03/2011	21
Éric de Seynes	09/06/1960	51	Chairman of the Supervisory Board	03/03/2011	2011	–
			Supervisory Board member	07/06/2010 (and from 2005 to 2008)	2011 General Meeting	1
Maurice de Kervénoaël	28/09/1936	75	Vice-Chairman of the Supervisory Board	02/06/2005	2011 General Meeting	6
			Supervisory Board member	03/06/2003 (and from 1995 to 2001)	2011 General Meeting	8
			Audit Committee Chairman	26/01/2005	2011 General Meeting	6
Ernest-Antoine Seillière	20/12/1937	74	Vice-Chairman of the Supervisory Board	02/06/2005	2011 General Meeting	6
			Supervisory Board member	31/05/1995	2011 General Meeting	16
			Chairman of the Compensation, Appointments and Governance Committee	26/01/2005	2011 General Meeting	6
Charles-Éric Bauer	09/01/1964	47	Supervisory Board member	03/06/2008	2011 General Meeting	3
			Audit Committee member	26/01/2005	2011 General Meeting	6
Matthieu Dumas	06/12/1972	39	Supervisory Board member	03/06/2008	2011 General Meeting	3
			Member of the Compensation, Appointments and Governance Committee	03/06/2008	2011 General Meeting	3
Julie Guerrand	26/02/1975	36	Supervisory Board member	02/06/2005	2011 General Meeting	6
			Audit Committee member <sup>(2)</sup>	26/01/2005	02/03/2011	6
Olaf Guerrand	28/02/1964	47	Supervisory Board member	03/03/2011	2011 General Meeting	–
Renaud Momméja	20/03/1962	49	Supervisory Board member	02/06/2005	2011 General Meeting	6
			Audit Committee member	03/06/2008	2011 General Meeting	3
Robert Peugeot	25/04/1950	61	Supervisory Board member	24/01/2007	2011 General Meeting	4
			Member of the Compensation, Appointments and Governance Committee	03/06/2008	2011 General Meeting	3
			Audit Committee member	03/06/2008	2011 General Meeting	3
Florence Woerth	16/08/1956	55	Supervisory Board member	07/06/2010	2013 General Meeting	1
			Audit Committee member	07/06/2010	2013 General Meeting	1

(1) Resigned effective on 03/03/2011.

(2) Resigned effective on 02/03/2011.



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*Émile Hermès SARL* (see paragraph below on the Active Partner).

The term of office of the Executive Chairmen is open-ended.

#### *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 Émile-Maurice Hermès and his spouse. Émile Hermès SARL's Executive Manager is Mr Bertrand Puech, a grandson of Émile-Maurice Hermès. The company is governed by a Management Board. Émile Hermès SARL's main purpose is to be the Active Partner of Hermès International.

The Company's *modus operandi* is described on pages 11 and 12.

Émile Hermès SARL has been Active Partner of Hermès International since 27 December 1990. Émile Hermès SARL was appointed Co-executive Manager on that date and held that office until 31 December 1994. On 1 April 2006, it was again appointed Co-executive Manager of Hermès International for an open-ended term. As at 31 December 2010, Émile Hermès SARL was the legal owner of 128,000 Hermès International shares.

It does not now hold nor has it in the past held any offices in any other company.

#### *Supervisory Board*

*M. Jérôme Guerrand*, who will turn 67 in 2011, is a French citizen and a direct descendant of Mr Émile-Maurice Hermès. He has served as Chairman of the Supervisory Board since 27 December 1990.

He submitted his resignation from his offices as Chairman and Supervisory Board member effective as from 3 March 2011, for personal reasons.

Mr Guerrand trained as an attorney and was a senior executive in the banking industry for over 25 years.

As at 31 December 2010, he was the legal owner of 64,199 Hermès International shares.

*M. Éric de Seynes*, who will turn 51 in 2011, is a French citizen and a direct descendant of Émile-Maurice Hermès. He was co-opted as Supervisory Board member on 7 June 2010 to replace Mr Guillaume de Seynes, who resigned. 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 Management Board of Émile Hermès from 2008 to 2010. He was appointed Chairman of the Supervisory Board on 3 March 2011 to replace Mr Jérôme Guerrand, who resigned.

He is a graduate of École Supérieure Libre des Sciences Commerciales Appliquées (ESLSCA) with a specialisation in marketing.

Until 2009, he successively served as: Head of Development for Mobil Oil Française, Director of Sponsoring for Seita, Marketing Director for Sonauto-Yamaha, Director of Marketing and Sales for Yamaha Motor France and Chairman of Groupe Option.

He is currently CEO-Chief Executive Officer of Yamaha Motor France, member of the Strategic Committee of Yamaha Motor Europe and Co-Chairman of *Chambre syndicale internationale de l'automobile et du motocycle*.

He holds full legal title to 3 Hermès International shares. In accordance with the provisions of the Supervisory Board Rules of Procedure, he has until 7 June 2011 to attain the minimum ownership threshold of 200 shares.

His term of office as Member of the Supervisory Board will expire at the end of the Annual General Meeting convened to approve the financial statements for 2010.

*Mr Maurice de Kervénoaël*, a French citizen who will be 75 in 2011, is not related to the Hermès family and is an independent director based on the criteria applied by the Company. He has been a Member of the Supervisory Board since 3 June 2003 and previously held that office from 1995 until 2001. He was appointed Vice-Chairman of the Supervisory Board on 2 June 2005. Mr de Kervénoaël has also served as Chairman of the Audit Committee since its inception on 26 January 2005. He is a graduate of École des Hautes Études Commerciales (HEC).

Mr de Kervénoaël is currently Executive Manager of MDK Consulting, Chairman of the Supervisory Board of Champagnes Laurent-Perrier, a Director on the Board of Holding Reinier (Groupe Onet) and Chairman of the Board of Directors of Mellerio International.

As at 31 December 2010, he was the legal owner of 203 Hermès International shares.

His term of office as Member of the Supervisory Board will expire at the end of the Annual General Meeting convened to approve the financial statements for 2010.

*Mr Ernest-Antoine Seillière*, a French citizen, age 74 in 2011, is not related to the Hermès family and is deemed to be an independent director based on the criteria adopted by the Company. He has been Vice-Chairman of the Supervisory Board since 2 June 2005 and a member of the Supervisory Board since 31 May 1995. He has also served as Chairman of the Compensation Committee

(renamed “Compensation, Appointments and Governance Committee”) since its inception on 26 January 2005.

He is a graduate of École Nationale d’Administration (ENA).

He was appointed Chairman of the Supervisory Board of Wendel on 31 May 2005.

As at 31 December 2010, he was the legal owner of 230 Hermès International shares.

His term of office as Member of the Supervisory Board will expire at the end of the Annual General Meeting convened to approve the financial statements for 2010.

*Mr Charles-Éric Bauer*, a French citizen, age 47 in 2011, is a direct descendant of Mr Émile-Maurice Hermès. He 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.

He 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.

As at 31 December 2010, he was the legal owner of 88,948 Hermès International shares.

His term of office as Member of the Supervisory Board will expire at the end of the Annual General Meeting convened to approve the financial statements for 2010.

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*Mr Matthieu Dumas*, age 39 in 2011, is a direct descendant of Mr Émile-Maurice Hermès. He has been a member of the Supervisory Board and of the Compensation, Appointments and Governance Committee since 3 June 2008.

He 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 served as Head of Brands at 13e Rue, NBC Universal group. He is currently Deputy Chief Executive Officer for all PureScreens brands.

He holds full legal title to 213 Hermès International shares.

His term of office as Member of the Supervisory Board will expire at the end of the Annual General Meeting convened to approve the financial statements for 2010.

*Miss Julie Guerrand*, a French national, age 36 in 2011, is a direct descendant of Mr Émile-Maurice Hermès. She 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 as a salaried employee of the Company (see below).

She holds a DEUG advanced degree in applied mathematics and the social sciences and a Master of Economics and Industrial Strategy from Université Paris IX-Dauphine. From 1998 until 2006, Miss Guerrand served first as Executive Assistant, then

as Authorised Representative, Assistant Director and later Deputy Director of the Financial Affairs Department (mergers and acquisitions counsel) at the Rothschild & Cie investment bank. 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. She was appointed Director of Corporate Development of Hermès International in March 2011.

As at 31 December 2010, she was the legal owner of 14,100 Hermès International shares.

Her term of office as Member of the Supervisory Board will expire at the end of the Annual General Meeting convened to approve the financial statements for 2010.

*Mr Olaf Guerrand*, who will turn 47 in 2011, a French citizen and a direct descendant of Émile-Maurice Hermès, was co-opted as Supervisory Board member on 3 March 2011 to replace Mr Jérôme Guerrand, who resigned.

He holds a Master's degree in International and European Law, a Master of Corporate Law from Université Paris II-Panthéon-Assas and a Master of Comparative Law from NYU (New York University). Mr Guerrand is admitted to the New York Bar. He began his career with Proskauer Rosé, Sullivan & Cromwell and Nomura in New York. He is co-founder of the Santa Aguila Foundation and of Coastal Care, an association dedicated to the preservation of shorelines around the world.

He currently sits on the board of a number of companies in the United States and Canada.

He holds full legal title to 1 Hermès International Share. His term of office as Member of the Supervisory Board will expire at the end of the Annual General Meeting convened to approve the financial statements for 2010.

*Mr Renaud Momméja*, who will be 49 in 2011, is a direct descendant of Mr Émile-Maurice Hermès. He has been a member of the Supervisory Board since 2 June 2005. He has also served as Audit Committee Member since 3 June 2008.

He is a graduate of École Supérieure Libre des Sciences Commerciales Appliquées (ESLSCA).

He served as Marketing Director at Carat Local Agence Conseil Media, then as Director of Carat Sud-Ouest and lastly, as Associate Director of Marand Momméja Associés Marketing Consultants. He is currently Executive Manager of SARL Tolazi, a corporate organisation and strategy consulting firm.

As at 31 December 2010, he was the legal owner of 121,139 Hermès International shares and the beneficial owner of 65,610 shares.

His term of office as Supervisory Board member will expire at the end of the Annual General Meeting convened to approve the financial statements for 2010.

*Mr Robert Peugeot*, a French citizen, age 61 in 2011, is not related to the Hermès family and is deemed to be an independent director based on the criteria adopted by the Company. He 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.

He holds degrees from École Centrale de Paris and from the graduate business school INSEAD (Institut Européen d'Administration des Affaires).

From 1998 until January 2007, he held various positions within the PSA Peugeot Citroën Group, where he served as member of the Executive Committee and was in charge of innovation and quality. He has been a Supervisory Board member

of Peugeot SA since February 2007 and Chairman of the Strategic Committee since December 2009. He has also served as a Director of Faurecia since February 2007.

He has been a Director of Société Foncière, Financière et de Participations – FFP since 1979 and has served as Chairman and CEO of that company since 2002. FFP is the largest shareholder of Peugeot SA and it has built up a portfolio of diversified investments. Mr Peugeot sits on the Board of Directors or Supervisory Board of the following companies: IDI Emerging Markets, Sanef, Zodiac, Holding Reinier, DKSH in Switzerland.

He is also an independent director of Imerys, of Sofina in Belgium and of Fomentos de Construcciones y Contratas in Spain.

As at 31 December 2010, he was the legal owner of 200 Hermès International shares.

His term of office as Member of the Supervisory Board will expire at the end of the Annual General Meeting convened to approve the financial statements for 2010.

*Mrs Florence Woerth*, a French citizen who will be 55 in 2011, is not related to the Hermès family and is an independent director based on the criteria applied by the Company. She has been a Member of the Supervisory Board since 7 June 2010. She has also been a member of the Audit Committee since 7 June 2010.

She holds degrees from Société française des analystes financiers (SFAF) and École des Hautes Études Commerciales (HEC). From February 2006 until October 2007, Mrs Woerth was Senior Private Banker for development and management of high net worth accounts, in charge of wealth management at La Compagnie 1818, the private banking arm of Groupe Caisse d'Épargne. She also served as Portfolio and Wealth Management Director and

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Manager, then as Executive Manager in charge of advertising and marketing for the private bank, Head of Business Development for very high net worth customers, and member of the Private Banking Executive Committee at Rothschild & Cie Gestion.

From November 2007 until June 2010, she was Head of Investments and Research in charge of financial asset management at Clymène.

Since December 2010, Mrs Worth has been a financial investment consultant.

As at 31 December 2010, she was the legal owner of 200 Hermès International shares.

Her term of office as Member of the Supervisory Board will expire at the end of the Annual General Meeting convened to approve the financial statements for 2012.

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#### OFFICES AND POSITIONS HELD BY THE CORPORATE EXECUTIVE OFFICERS AND SUPERVISORY BOARD MEMBERS AT ANY TIME DURING THE PAST FIVE YEARS

The list of offices and positions held by the corporate executive officers and Supervisory Board members at any time during the past five years appears on pages 56 à 66.

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#### STATEMENTS BY CORPORATE EXECUTIVE OFFICERS AND SUPERVISORY BOARD MEMBERS

According to the statements made to the Company by the corporate executive officers and Supervisory Board members:

- no corporate executive officer or Supervisory

Board member has been convicted of fraud within the last five years;

- no corporate executive officer or Supervisory Board member has been involved in any bankruptcy, sequestration or liquidation within the last five years in his or her capacity as a member of an administrative, management or supervisory body or as a senior executive;

- no corporate executive 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 executive 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).

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#### CONFLICTS OF INTEREST

In 2010 for the first time, the Company sent out a new, more detailed 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.

This questionnaire covers all possible situations, with specific examples. As a result, certain members reported situations that could present a potential conflict of interest, even though they had never qualified as such in the past

The Compensation, Appointments and Governance Committee analysed each of these situations and found that none of them constituted a conflict of interest as such for the relevant parties.

### TRANSACTIONS IN HERMÈS INTERNATIONAL SHARES HELD BY SENIOR EXECUTIVES AND IMMEDIATE FAMILY MEMBERS

In accordance with Article L 621-18-2 of the *Code Monétaire et Financier* and Article 223-22 of the AMF General Regulation, we hereby report to you transactions in the Company's shares effected by the Company's senior executives and their immediate family members during the past year.

Transaction date	Name and office held	Description of transaction	Type of instrument	Unit price	Transaction amount
17 February 2010	Charles-Éric Bauer, Supervisory Board member	Sale	Shares	€97.90	€695,090
17 February 2010	Almareen, a legal entity related to Charles-Éric Bauer, Supervisory Board member	Purchase	Shares	€97.90	€695,090
17 February 2010	Henri-Louis Bauer, member of the Management Board of Émile Hermès SARL, Active Partner and Executive Manager	Sale	Shares	€97.90	€695,090
17 February 2010	Aucleris, a legal entity related to Henri-Louis Bauer, member of the Management Board of Émile Hermès SARL, Active Partner and Executive Manager	Purchase	Shares	€97.90	€695,090
16 April 2010	Bertrand Puech, Executive Manager of Émile Hermès SARL, Active Partner and Executive Manager	Exchange	Shares	€99.90	€3,992,004
16 April 2010	HPF, a legal entity related to Bertrand Puech, Executive Manager of Émile Hermès SARL, Active Partner and Executive Manager	Exchange	Shares	€99.90	€56,193,750
16 April 2010	Théodule, a legal entity related to Bertrand Puech, Executive Manager of Émile Hermès SARL, Active Partner and Executive Manager	Exchange	Shares	€99.90	€367,381,251
21 May 2010	Jérôme Guerrand, Chairman of the Supervisory Board	Sale	Shares	€102.66	€2,232,933
22 July 2010	Florence Woerth, Supervisory Board member	Purchase	Shares	€123.60	€25,067.40
5 October 2010	Jérôme Guerrand, Chairman of the Supervisory Board	Sale	Shares	€168.89	€1,147,252
6 October 2010	Jérôme Guerrand, Chairman of the Supervisory Board	Sale	Shares	€169.86	€1,624,539
7 October 2010	Jérôme Guerrand, Chairman of the Supervisory Board	Sale	Shares	€171.16	€1,369,263
25 October 2010	Laurent Momméja, member of the Management Board of Émile Hermès SARL, Active Partner and Executive Chairman	Sale	Shares	€189	€567,000
25 October 2010	Société SC Clovis, a legal entity related to Laurent Momméja, member of the Management Board of Émile Hermès SARL, Active Partner and Executive Manager	Sale	Shares	€189	€1,228,500
22 October 2010	SAS SDH, a legal entity related to Éric de Seynes, Supervisory Board member	Sale (hedging transaction): Purchase of put financed by sale of call	Other financial instruments (calls)	€28.9203	€390,424.05
22 October 2010	SAS SDH, a legal entity related to Éric de Seynes, Supervisory Board member	Purchase (hedging transaction): Purchase of put financed by sale of call	Other financial instruments (puts)	€28.9203	€390,424.05
22 October 2010	SAS SDH, a legal entity related to Guillaume de Seynes, Executive Committee Member	Sale (hedging transaction): Purchase of put financed by sale of call	Other financial instruments (calls)	€28.9203	€390,424.05
22 October 2010	SAS SDH, a legal entity related to Guillaume de Seynes, Executive Committee Member	Purchase (hedging transaction): Purchase of put financed by sale of call	Other financial instruments (puts)	€28.9203	€390,424.05

No other corporate executive officer (Executive Chairman or Supervisory Board member) of Hermès International reported any trades in Hermès International shares in 2010.

No other member of senior management (Executive Committee member) of Hermès International reported any trades in Hermès International shares in 2010.

Neither did the Company receive any other reports of such trades from any of their immediate family members.

## OWNERSHIP INTERESTS OF CORPORATE EXECUTIVE OFFICERS, SENIOR EXECUTIVES AND SUPERVISORY BOARD MEMBERS IN THE COMPANY

As of 31 December 2010, the corporate executive officers, senior executives and Supervisory Board members' interests in the Company's share capital, as reported to the Company, were as follows:

	Shares held by legal owners and beneficial owners <sup>(1)</sup> (OGM called to vote on appropriation of earnings)				Shares held by legal owners and reversionary owners <sup>(1)</sup> (votes at other general meetings)			
	Number of shares	%	Number of vote	%	Number of shares	%	Number of votes	%
<b>Share capital as at 31/12/2010</b>	<b>105,569,412</b>	<b>100.00%</b>	<b>163,150,864</b>	<b>100.00%</b>	<b>105,569,412</b>	<b>100.00%</b>	<b>163,150,864</b>	<b>100.00%</b>
<b>Executive Chairmen</b>								
Émile Hermès SARL	128,000	0.12%	203,000	0.12%	128,000	0.12%	203,000	0.12%
Patrick Thomas	3,503	0.00%	3,506	0.00%	3,503	0.00%	3,506	0.00%
<b>Supervisory Board members</b>								
Charles-Éric Bauer	88,948	0.08%	177,878	0.11%	88,948	0.08%	177,878	0.11%
Mathieu Dumas	213	0.00%	216	0.00%	213	0.00%	216	0.00%
Jérôme Guerrand <sup>(2)</sup>	64,199	0.06%	78,699	0.05%	64,199	0.06%	78,699	0.05%
Julie Guerrand	14,100	0.01%	28,200	0.02%	14,100	0.01%	28,200	0.02%
Olaf Guerrand <sup>(3)</sup>	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Maurice de Kervénoaël	203	0.00%	206	0.00%	203	0.00%	206	0.00%
Renaud Momméja	121,139	0.11%	242,278	0.15%	252,359	0.24%	504,718	0.31%
Robert Peugeot	200	0.00%	200	0.00%	200	0.00%	200	0.00%
Ernest-Antoine Seillière	230	0.00%	260	0.00%	230	0.00%	260	0.00%
Éric de Seynes <sup>(4)</sup>	3	0.00%	6	0.00%	3	0.00%	6	0.00%
Florence Woerth <sup>(4)</sup>	200	0.00%	200	0.00%	200	0.00%	200	0.00%
<b>Executive Committee (excluding Executive Chairmen and Supervisory Board members)</b>								
Patrick Albaladejo	–	0.00%	–	0.00%	–	0.00%	–	0.00%
Beatriz González-Cristóbal Poyó	–	0.00%	–	0.00%	–	0.00%	–	0.00%
Axel Dumas <sup>(5)</sup>	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Pierre-Alexis Dumas	2,646,671	2.51%	5,179,342	3.17%	2,646,671	2.51%	5,179,342	3.17%
Mireille Maury	–	0.00%	–	0.00%	–	0.00%	–	0.00%
Mineaki Saito <sup>(6)</sup>	7,200	0.01%	7,200	0.00%	7,200	0.01%	7,200	0.00%
Guillaume de Seynes	200	0.00%	230	0.00%	200	0.00%	230	0.00%

n/a: not applicable. (1) The method of reporting and allocating voting rights is described on page 70. (2) Supervisory Board member until 3 March 2011. (3) Supervisory Board member since 3 March 2011. (4) Supervisory Board member since 7 June 2010. (5) Executive Committee Member since 2 May 2011. (6) Executive Committee Member since 2 May 2011.

### COMPENSATION AND BENEFITS PAID TO CORPORATE EXECUTIVE OFFICERS

The tables cited and presented on pages 49 à 55 have been numbered by reference to the AMF's recommendation of 22 December 2008 on information on executive compensation to be disclosed in shelf-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 as such, they received a dividend of €1.05 per share in 2010.

#### *Executive Chairmen*

- Compensation and benefits in kind
- Each Executive Chairman has the right to receive certain compensation under 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.

The gross annual remuneration 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 for the previous financial year.

Within the ceiling set forth herein, which amounts to €887,338 for 2010, the Management Board of the Active Partner Émile Hermès SARL determines the effective amount of the annual compensation pursuant to the Articles of Association payable to each Executive Chairman.

The Ordinary General Meeting of 31 May 2001 decided to allocate to each Executive Chairman gross annual compensation in addition to their compensation pursuant to the Articles of Association, subject to a ceiling of €457,347.05. This ceiling is indexed each year, but it can only be adjusted upwards. Since 1 January 2002, this amount has been indexed to 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.

Within the limits of the ceiling defined above, which for 2010 was €913,380, the Management Board of Émile Hermès SARL, Active Partner, sets the effective amount of the annual additional compensation payable to each Executive Chairman.

Both the compensation provided by the Articles of Association and the additional compensation are in the nature of "variable" salaries, since the calculation methods provided merely constitute ceilings subject to which the Active Partner is free to set the actual compensation of the Executive Chairmen as it sees fit. Thus, Executive Chairmen are not guaranteed any minimum compensation.

In order to make it easier to understand the manner of calculation of the compensation of the Executive Chairmen, the Company has always described

their additional compensation, before indexation, as "fixed compensation", by analogy with market practices. Mr Patrick Thomas proposed that the increase in the compensation of the Executive Chairmen for 2010 be limited to 1.6%, and the Management Board of Émile Hermès SARL adopted this proposal at its meeting on 23 March 2010. In 2010, each Executive Chairman will therefore actually receive compensation pursuant to the Articles of Association of €887,338, and additional remuneration of €829,256 (not including benefits in kind). Furthermore, Patrick Thomas expressly requested that the increase in his own compensation for 2011 be capped at 5%, which was accepted by the Management Board. In 2011, each Executive Manager will effectively receive:

1) gross annual compensation as authorised by the Articles of Association of:

- €1,305,162, or the maximum, to Émile Hermès SARL;
- €931,705 to Patrick Thomas, including an increase capped at 5% over the amount of compensation received in 2010;

2) gross annual additional individual compensation of:

- €1,085,783, or the maximum, to Émile Hermès SARL;
- €870,719 for Patrick Thomas, including an increase capped at 5% over compensation received in 2010.

A breakdown of effective compensation paid to the Executive Chairmen set by the Management Board of Émile Hermès SARL for the last two years is provided in [Table 2](#) on page 49.

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.



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Mr Patrick Thomas has the use of a company car. This is the only benefit in kind that he receives. Mr Bertrand Puech does not personally receive any compensation from Hermès International.

- Pension plan

Mr Patrick Thomas is eligible for the top-up pension scheme for senior management that was instituted in 1991. Under this scheme, an annual pension is paid which is calculated on the basis of years of service and annual compensation. The payments amount to a percentage of compensation for each year of service.

Mr Thomas is also eligible for the supplemental defined-contribution pension plan established for all employees of the Group's French companies. The maximum annual payments, including those received under mandatory and supplementary pension plans, may not in any event exceed 70% of annual compensation (compensation pursuant to the Articles of Association and additional compensation) for the last year of service. The base period used to calculate the benefits is three years. The beneficiary is also eligible for a reversion scheme, under which the surviving spouse receives 60% of annual compensation.

The total amount accrued to reserves for this purpose is shown in Note 29 of the Consolidated Financial Statements on page 175.

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 and be eligible to draw pension benefits under the basic state Social Security regime.

- Deferred compensation obligations

The Company has agreed to pay Mr Patrick Thomas an amount equal to 24 months' compensation (sum of remuneration as authorised by the Articles of Association and supplemental compensation)

in the event that his appointment as Executive Chairman is terminated (decision of the Supervisory Board on 19 March 2008, approved by the Combined General Meeting on 3 June 2008).

To ensure that the conditions of Mr Thomas' departure are in line with the Company's situation, this commitment is contingent on Mr Thomas achieving budget targets in at least four out of the five previous years (with revenue and operating profit growth measured at constant rates), without deterioration in the Hermès brand and corporate image.

On 18 March 2009, the Supervisory Board decided that the payment of this amount would be subject to the termination of Mr Thomas' appointment as Executive Chairman resulting:

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

Furthermore, the amount of this payment will automatically be charged, *ipso jure*, against the amount of any other compensation, particularly of a contractual nature, that may be due to Mr Patrick Thomas in respect of the termination of his employment agreement, which is suspended at this time. For the record, Mr Patrick Thomas was hired as an employee in August 2003, with reinstatement of his years of service with the Group in respect of the positions he held therein from 1 April 1989 to 31 March 1997. This employment agreement was suspended when Mr Patrick Thomas was appointed to the position of Executive Chairman, on the understanding that it would automatically be reinstated upon the termination of his appointment as Executive Chairman.

Mr Patrick Thomas is not covered by any commitment to deferred compensation in consideration of a non-competition undertaking.

- Options to subscribe for and/or to purchase shares – Bonus share distributions

This paragraph only concerns Mr Patrick Thomas, a natural person, in his capacity as Executive Chairman. No options to subscribe for or to purchase shares were granted to Mr Patrick Thomas in 2010.

As at 31 December 2010, he did not hold any options to subscribe for Hermès International shares and held 41,000 options to purchase Hermès International shares. Mr Patrick Thomas did not exercise any options to subscribe for new shares or to purchase existing shares of Hermès International in 2010.

Pursuant to Article L225-185, paragraph 4 of the *Code de Commerce*, at its meeting on 23 January 2008, the Supervisory Board decided that Mr Patrick Thomas could sell no more than 50% of shares in the Company obtained from the exercise of stock options before the end of his term of office as Executive Chairman. The Supervisory Board confirmed this restriction at its meeting on 20 January 2010.

No bonus shares or performance shares were granted to Mr Patrick Thomas in 2010.

Mr Patrick Thomas received 25 bonus shares of Hermès International in 2007 pursuant to the Executive Management’s decision of 30 November 2007 as detailed in Volume 2, page 21 of the 2007 Annual Report. This allotment, which was granted to all employees, was not subject to any performance criteria.

*Active Partner*

Under the terms of Article L 26 of the Articles of Association, the Company pays 0.67% of the distributable profits to the Active Partners. The amounts paid in respect of 2009 and 2010 are shown in the table below.

Compensation of the Active Partner	Distribution of profits in respect of the previous year	
	2010	2009
Émile Hermès SARL	€1,629,504.57	€1,725,135.11

*Supervisory Board, Audit Committee and Compensation, Appointments and Governance Committee*

- 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.

Since 2008, the rules for the allotment of directors’ fees include a variable component based on attendance at meetings.

The Supervisory Board adopted the following rules for the allotment of directors’ fees and compensation in respect of 2010:

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

- €10,000 for the fixed component and no variable component for the other members of the Audit Committee and of the Compensation, Appointments and Governance Committee;
- if a member is appointed during the year, the outgoing member and his 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.

The total amount of directors’ fees and compensation paid to the Supervisory Board members was set at €400,000 by the Ordinary General Meeting of 7 June 2010, until adoption of a decision to the contrary.

On 26 January 2011, the Supervisory Board apportioned the total annual amount of directors’ fees and compensation approved by the General Meeting based on the rules set out above and paid out an amount of €367,000.

**Table 3** on pages 50 and 51 shows compensation and benefits of all kinds due and/or paid to the corporate executive officers in respect of their office by Hermès International and the companies under its control.

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 agreement with no condition other than that resulting from the existence of a relationship of subordination with the company and the recognition of effective employment.

Mr Guillaume de Seynes was covered by an employment agreement in respect of his office as Deputy Managing Director before he was appointed as Supervisory Board member. He continues to be covered by this employment agreement and, in this respect, he receives compensation that is not tied to the corporate office he holds in the Company.

Since 7 March 2011, in her position as Director of

Corporate Development, Miss Julie Guerrand has been covered by an employment agreement and in this respect, she receives compensation that is not tied to the corporate office she holds in the Company.

- Options to subscribe for and/or to purchase shares – Bonus share distributions

No options to subscribe for or to purchase shares were allotted to Supervisory Board members during 2010, nor were any such options exercised by those persons.

No bonus shares were granted to any Supervisory Board members during 2010.

Under the terms of his employment agreement, Mr Guillaume de Seynes has been granted 30 bonus shares (“democratic” plan) and a maximum of 4,000 bonus shares in Hermès International subject to meeting performance criteria (“selective” plan) in 2010, under the conditions set out in the Executive Management’s decisions of 31 May 2010, which are detailed below and in **Table 11** on page 55.

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### OPTIONS TO SUBSCRIBE FOR SHARES AS AT 31 DECEMBER 2010

All share subscription option plans lapsed in 2009.

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### OPTIONS TO PURCHASE SHARES AS AT 31 DECEMBER 2010

The Executive Management was authorised to grant options to purchase shares to certain employees and corporate officers of Hermès International and of affiliated companies by the Extraordinary General Meetings of 3 June 2003, 6 June 2006 and 2 June 2009.

These grants of authority were not used in 2010.

After the three-for-one stock split on 10 June 2006, by a decision of 12 June 2006, the Executive Management made the following adjustments for plans remaining in effect as of that date:

- the number of shares to which all outstanding share purchase options entitle the holders was tripled;
- the exercise price of all outstanding stock options was divided by three.

Information on the terms and conditions applying to stock option plans that remained in effect at 1 January 2010 and reflecting these adjustments is shown in **Table 8** on pages 52 and 53. **Table 9** on page 54 shows the number of options to purchase shares granted to the ten non-executive employees who received the largest number of options and options exercised by such employees.

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### BONUS SHARE DISTRIBUTIONS AS AT 31 DECEMBER 2010

In accordance with Article L 225-197-4 of the Code de Commerce, we hereby report to you on bonus shares granted during 2010.

The Executive Management has been authorised to allot 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:

- by the Extraordinary General Meeting of 6 June 2006 (tenth resolution);
- by the Extraordinary General Meeting of 5 June 2007 (fifteenth resolution);
- by the Extraordinary General Meeting of 2 June 2009 (fifteenth resolution).

The total number of shares allotted for no consideration and the total number of share purchase options that were allotted and not yet exercised

is capped at 2% of the number of shares in the Company as of the allotment date.

When it granted the above authority, the General Meeting of 6 June 2006 resolved that the beneficiaries' entitlement to these shares would be fully vested only after a vesting period of at least two years from the date on which the rights are granted by the Executive Management and that the shares would be subject to a minimum two-year holding period as from the end of the vesting period.

The General Meetings of 5 June 2007 and 2 June 2009 approved the same conditions for beneficiaries who are employees of French subsidiaries; the Executive Management is authorised to waive the vesting period for employees of foreign subsidiaries providing that the holding period is at least four years.

Under the terms of these grants of authority, in 2010, the Executive Management granted:

- 229,860 bonus shares, or 30 shares per person, to 7,662 salaried employees and executives, i.e. all personnel with at least 9 months of service ("democratic" plan – Executive Management decision of 31 May 2010);
- a maximum of 188,500 bonus shares to 172 salaried employees and executives, subject to meeting performance criteria ("selective" plan – Executive Management decision of 31 May 2010).

Information on the terms and conditions applying to bonus share plans appears in **Table 11** on page 55.

Information on bonus shares granted to the ten non-executive employees who received the largest number of shares appears in **Table 12** on page 55.

Bonus share distributions 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 30.3, page 176).

**TABLES PREPARED IN ACCORDANCE WITH THE AMF RECOMMENDATION OF 22 DECEMBER 2008 PERTAINING TO INFORMATION ON EXECUTIVE COMPENSATION TO BE DISCLOSED IN SHELF-REGISTRATION DOCUMENTS**

*Table 1*

<b>Summary of compensation, stock options and shares granted to each Executive Chairman</b>	2010	2009
<b>Patrick Thomas</b>		
Compensation due in respect of the year (detailed in Table 2)	€1,716,594	€1,689,384
Value of stock options granted during the year (detailed in Table 4)	n/a	n/a
Value of performance shares granted during the year (detailed in Table 6)	n/a	n/a
<b>Total</b>	<b>€1,716,594</b>	<b>€1,689,384</b>
<b>Émile Hermès SARL</b>		
Compensation due in respect of the year (detailed in Table 2)	€1,716,594	€1,689,384
Value of stock options granted during the year (detailed in Table 4)	n/a	n/a
Value of performance shares granted during the year (detailed in Table 6)	n/a	n/a
<b>Total</b>	<b>€1,716,594</b>	<b>€1,689,384</b>

n/a : not applicable.

*Table 2*

<b>Gross annual compensation of the Executive Chairmen</b>	2010			2009		
	Ceilings approved by the Articles of Association or by the General Meeting	Amounts due (or granted) by the Management Board <sup>(1)</sup>	Amounts paid	Ceilings approved by the Articles of Association or by the General Meeting	Amounts due (or granted) by the Management Board <sup>(1)</sup>	Amounts paid
<b>Patrick Thomas</b>						
Variable compensation under the Articles of Association	€887,338	€887,338	€887,338	€910,758	€893,124	€893,124
Additional remuneration	€913,380	€829,256	€829,256	€877,037	€796,260	€796,260
<i>Fixed component</i>	€877,037	€796,260	€796,260	€807,808	€765,631	€765,631
<i>Percentage indexed to revenue growth</i>	€36,343	€32,996	€32,996	€69,229	€30,609	€30,629
Exceptional compensation	–	–	–	–	–	–
Directors' fees	n/a	n/a	n/a	n/a	n/a	n/a
Benefits in kind	n/a	n/a	€3,904	n/a	n/a	€3,924
<b>Émile Hermès SARL</b>						
Variable compensation under the Articles of Association	€887,338	€887,338	€887,338	€910,758	€893,124	€893,124
Additional remuneration	€913,380	€829,256	€829,256	€877,037	€796,260	€796,260
<i>Fixed component</i>	€877,037	€796,260	€796,260	€807,808	€765,631	€765,631
<i>Percentage indexed to revenue growth</i>	€36,343	€32,996	€32,996	€69,229	€30,609	€30,629
Exceptional compensation	–	–	–	–	–	–
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

(1) Management Board decision of 23 March 2010.

(2) Management Board decision of 17 March 2009.

n/a : not applicable.

Table 3

<b>Directors' fees and other compensation received by Hermès International Supervisory Board members Directors' fees received by non-executive corporate executive officers in companies controlled by Hermès International</b>	Amounts paid in 2011 in respect of 2010	Amounts paid in 2010 in respect of 2009
Total amount of directors' fees and compensation approved by the shareholders of Hermès International	€400,000	€282,000
Total amount of directors' fees and compensation actually paid by Hermès International	€367,000	€266,000
<b>Jérôme Guerrand</b>		
Compensation as Chairman of the Supervisory Board	€100,000	€100,000
Directors' fees – Hermès International	–	–
Directors' fees – Hermès Sellier	–	€5,000
Directors' fees – Comptoir Nouveau de la Parfumerie	€9,000	€10,000
<b>Maurice de Kervénoaël</b>		
Compensation as Audit Committee Chairman	€20,000	€10,000
Directors' fees – Hermès International		
– fixed component	€15,000	€15,000
– variable component based on attendance	€5,000	€4,000
Directors' fees – Comptoir Nouveau de la Parfumerie	€9,000	€10,000
<b>Ernest-Antoine Seillière</b>		
Compensation as Chairman of the Compensation, Appointments and Governance Committee	€20,000	€10,000
Directors' fees – Hermès International		
– fixed component	€15,000	€15,000
– variable component based on attendance	€5,000	€3,000 <sup>(1)</sup>
<b>Charles-Éric Bauer</b>		
Compensation as Audit Committee Member	€10,000	€5,000
Directors' fees – Hermès International		
– fixed component	€15,000	€12,000
– variable component based on attendance	€5,000	€4,000
<b>Matthieu Dumas</b>		
Compensation as member of the Compensation, Appointments and Governance Committee	€10,000	€5,000
Directors' fees – Hermès International		
– fixed component	€15,000	€12,000
– variable component based on attendance	€5,000	€4,000
<b>Julie Guerrand</b>		
Compensation as Audit Committee Member	€10,000	€5,000
Directors' fees – Hermès International		
– fixed component	€15,000	€12,000
– variable component based on attendance	€5,000	€4,000
<b>Renaud Momméja</b>		
Compensation as Audit Committee Member	€10,000	€5,000
Directors' fees – Hermès International		
– fixed component	€15,000	€12,000
– variable component based on attendance	€5,000	€4,000
Directors' fees – Comptoir Nouveau de la Parfumerie	€9,000	€10,000

(1) Including €1,000 paid in 2009.

Table 3 (continued)

<b>Directors' fees and other compensation received by Hermès International Supervisory Board members Directors' fees received by non-executive corporate executive officers in companies controlled by Hermès International</b>	Amounts paid in 2011 in respect of 2010	Amounts paid in 2010 in respect of 2009
<b>Robert Peugeot</b>		
Compensation as Audit Committee Member	€10,000	€5,000
Compensation as member of the Compensation, Appointments and Governance Committee	€10,000	€5,000
Directors' fees – Hermès International	€15,000	€12,000
– fixed component	€5,000	€3,000 <sup>(1)</sup>
– variable component based on attendance		
<b>Éric de Seynes</b>		
Directors' fees – Hermès International		
– fixed component	€7,500	n/a
– variable component based on attendance	€3,000	n/a
Directors' fees – Hermès Sellier	€12,000	–
<b>Guillaume de Seynes</b>		
Directors' fees – Hermès International	–	–
<b>Florence Woerth</b>		
Compensation as Audit Committee Member	€5,000	n/a
Directors' fees – Hermès International		
– fixed component	€7,500	n/a
– variable component based on attendance	€4,000	n/a

(1) Including €1,000 paid in 2009.

Table 4

<b>Options to subscribe for or to purchase shares granted during the year to the Executive Chairmen by Hermès International and any Group company</b>						
Name of corporate executive officer	Plan no. and date	Option type	Value of options based on method adopted for consolidated financial statements	Number of options granted during the year	Exercise price	Exercise period
Patrick Thomas	n/a	n/a	n/a	–	n/a	n/a

n/a : not applicable.

Table 5

<b>Options to subscribe for or to purchase shares exercised during the year by the Executive Chairmen of Hermès International</b>			
Name of corporate executive officer	Plan no. and date	Number of options exercised during the year	Exercise price
Patrick Thomas	n/a	–	n/a
<b>Total</b>	<b>n/a</b>	<b>–</b>	<b>n/a</b>

n/a : not applicable.

Table 6

Performance shares granted to each corporate officer						
Performance shares granted by the shareholders during the year to each corporate officer by the issuer and all Group companies (list of names)	Plan no. and date	Number of shares granted during the year	Value of shares based on method adopted for consolidated financial statements	Acquisition date	Vesting date	Performance criteria
Patrick Thomas	n/a	–	n/a	n/a	n/a	n/a
Guillaume de Seynes	31/05/2010 (plan b)	4,000 <sup>(1)</sup>	€100.56	01/06/2014	02/06/2016	In 2010 and 2011, meeting performance criteria <sup>(2)</sup> defined by reference to budget approved by Supervisory Board
	31/05/2010 (plan c)	30	€100.56	01/06/2014	02/06/2016	None <sup>(3)</sup>
<b>Total</b>	<b>n/a</b>	<b>–</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>

n/a : not applicable.

(1) Maximum.

(2) Information on the nature and level of performance targets is confidential.

(3) This grant was made to all employees and was not subject to meeting performance criteria.

Table 7

Number of performance shares that became available during the year			
Name of corporate officer	Plan no. and date	Number of shares that became available during the year	Vesting conditions
Patrick Thomas	n/a	–	n/a
<b>Total</b>	<b>n/a</b>	<b>–</b>	<b>n/a</b>

n/a : not applicable.

Table 8

History of stock option grants Information on stock options				
General Meeting of 25/05/1998 – Share subscription or purchase options	Plan no. 1	Plan no. 2	Plan no. 3	Plan no. 4
Date of Executive Management decision	Expired	Expired	Expired	Expired
Total number of shares that may be subscribed or purchased				
Number of shares that may be subscribed or purchased by Executive Chairmen and Supervisory Board members				
Patrick Thomas				
Guillaume de Seynes				
Options exercisable as of				



Table 8 (continued)

	Plan no. 1	Plan no. 2	Plan no. 3	Plan no. 4
Expiration date	Expired	Expired	Expired	Expired
Subscription or purchase price				
Terms for exercising options (if plan comprises several tranches)				
Aggregate number of shares subscribed at 28/02/2010				
Aggregate number of options cancelled or forfeited				
Number of options outstanding at year-end				
<b>General Meeting of 03/06/2003 – Share purchase options</b>	Plan no. 5		Plan no. 6	
Date of Executive Management decision	04/07/2003		15/12/2004	
Total number of shares that may be purchased	42,000		84,000	
<i>Number of shares that may be purchased by Executive Chairmen and Supervisory Board members in office on option grant date</i>	–		30,000	
Patrick Thomas	–		30,000	
Guillaume de Seynes	n/a		n/a	
Options exercisable as of	04/07/2005		16/12/2004	
Expiration date	03/07/2010		15/12/2011	
Purchase price	€40.40		€44.43	
Terms for exercising options (if plan comprises several tranches)	n/a		n/a	
Aggregate number of shares purchased as of 28/02/2010	42,000		54,000	
Aggregate number of options cancelled or forfeited	–		–	
Number of share purchase options outstanding at year-end	–		30,000	
<b>General Meeting of 06/06/2006 – Share purchase options</b>	Plan no. 7			
Date of Executive Management decision	02/01/2008			
Total number of shares that may be purchased	244,420			
<i>Number of shares that may be purchased by Executive Chairmen and Supervisory Board members in office on option grant date</i>	14,300			
Patrick Thomas	11,000			
Guillaume de Seynes	3,300			
Options exercisable as of	03/01/2012			
Expiration date	02/01/2015			
Purchase price	€82.40			
Terms for exercising options (if plan comprises several tranches)	n/a			
Aggregate number of shares purchased as of 28/02/2010	–			
Aggregate number of options cancelled or forfeited	18,150			
Number of share purchase options outstanding at year-end	226,270			
<b>General Meeting of 02/06/2009 – Share purchase options</b>	No plan established in 2009 and 2010			

n/a : not applicable.

Table 9

<b>Number of options to subscribe for or to purchase shares granted to the ten non-executive employees who received the largest number of options and options exercised by such employees</b>	Total number of options granted/ number of shares purchased or subscribed	Weighted average price	Plan no. 1	Plan no. 2	Plan no. 3	Plan no. 4	Plan no. 5	Plan no. 6	Plan no. 7
Options granted during the year to the ten employees of the issuer and any company included in the issuer's scope of consolidation who received the largest number of options (aggregate information)	–	–					–	–	–
Options held in the issuer and the aforesaid companies that were exercised during the year by the ten employees of the issuer and of such companies who purchased or subscribed for the largest number of shares under these options (aggregate information)	–	–	Expired	Expired	Expired	Expired	–	–	–

Table 10

Senior executives (natural persons)	Employment agreement (suspended)	Supplementary pension scheme	Compensation or benefits due or liable to be due upon termination or change in function	Compensation under a non-competition clause
Patrick Thomas, Executive Chairman Term began: 15/09/2004 Term ends: Indefinite	yes	yes	yes	yes

**Table 11**

<b>Information on bonus share distribution plans in effect as at 1 January 2010</b>							
Date of Executive Management decision	Total number of shares granted	Shares granted to senior executives <sup>(1)</sup>	Number of senior executives concerned <sup>(1)</sup>	Ownership transfer date of shares granted	Date from which shares may be sold	Number of shares vested <sup>(4)</sup> as at 31/12/2010	Number of shares forfeited as at 31/12/2010
<b>General Meeting of 06/06/2006 – Bonus shares</b>							
None							
<b>General Meeting of 05/06/2007 – Bonus shares</b>							
30/11/2007 (Plan a)	170,025	150	6	02/12/2011	03/12/2013 <sup>(2)</sup> 02/12/2011 <sup>(3)</sup>	350	21,800
<b>General Meeting of 02/06/2009 – Bonus shares</b>							
31/05/2010 (Plan b)	188,500	24,000	6	01/06/2014 <sup>(2)</sup> 01/06/2016 <sup>(3)</sup>	02/06/2016	0	0
31/05/2010 (Plan c)	229,860	180	6	01/06/2014 <sup>(2)</sup> 01/06/2016 <sup>(3)</sup>	02/06/2016	0	0

(1) For purposes of Table 11, "senior executives" include the Executive Chairmen, the members of the Supervisory Board and the members of the Executive Committee as of the grant date.

(2) Beneficiaries employed by the Company and its French subsidiaries.

(3) Beneficiaries employed by the Company's foreign subsidiaries.

(4) Including through waiver of the vesting period in accordance with plan regulations (in case of death or disability).

**Table 12**

<b>Number of bonus shares granted to the ten non-executive employees who received the largest number of shares</b>	Total number of shares granted	Date of plan
Shares granted during the year to the ten employees of the issuer and any company included in the issuer's scope of consolidation who received the largest number of shares (aggregate information)	36,000 300	31/05/2010 (Plan b) 31/05/2010 (Plan c)

Tables 1-10 above were numbered by reference to the AMF's recommendation of 22 December 2008 pertaining to information on executive compensation to be disclosed in shelf-registration documents.

Tables 11 and 12 were numbered by Hermès International.

## Corporate appointments and offices held by the corporate officers and Supervisory Board members at any time during the past five years

Patrick Thomas

Date of birth: 16 June 1947

### Offices and positions held during 2010

Company name	Country	Office
Hermès International	H ♦ France	Executive Manager
Ateliers A.S.	H France	Permanent Representative of Holding Textile Hermès, formerly Sport Soie, Director
Ateliers A.S.	H France	Permanent Representative of Hermès International, Director
Boissy Mexico	H Mexico	Acting Director
Boissy Retail	H Singapore	Chairman
Boissy Singapore Pte Ltd	H Singapore	Director
Castille Investissements	H France	Director
Castille Investissements	H France	Permanent Representative of Hermès International, Chairman
Compagnie des Cristalleries de Saint-Louis	H France	Permanent Representative of Hermès International, Director
Compagnie Hermès de Participations	H France	Permanent Representative of Hermès International, Chairman
Créations Métaphores	H France	Permanent Representative of Hermès International, Director
Full More Group	H Hong Kong	Chairman and Director
Full More Trading (Shanghai), renamed Shang Xia Trading (Shanghai) Co, Ltd	H China	Executive Manager
Gaulme	France	Vice-Chairman and Supervisory Board member
Grafton Immobilier	H France	Permanent Representative of Hermès International, Chairman
Hercia	H France	Permanent Representative of Hermès International, Chairman
Herlee	H Hong Kong	Chairman and Director
Hermès (China)	H China	Chairman and Director
Hermès Asia Pacific	H Hong Kong	Chairman and Director
Hermès Australia	H Australia	Director
Hermès Benelux Scandinavie, renamed Hermès Benelux Nordics	H Belgium	Director
Hermès Canada	H Canada	Chairman and Director
Hermès de Paris (Mexico)	H Mexico	Acting Director
Hermès do Brasil	H Brazil	Member of the Consultative Committee
Hermès GB Limited	H United Kingdom	Chairman and Director
Hermès Grèce	H Greece	Director
Hermès Iberica	H Spain	Director
Hermès Immobilier Genève	H Switzerland	Chairman and Director
Hermès Italie	H Italy	Chairman of the Board and Director
Hermès Japon	H Japan	Director
Hermès Korea	H South Korea	Chairman and Legal Representative
Hermès Monte-Carlo	H Principality of Monaco	Permanent Representative of Hermès Sellier, deputy Director Permanent Representative of Hermès International, deputy Chairman
Hermès of Hawai	H USA	Chairman of the Board and Director
Hermès of Paris	H USA	Chairman of the Board and Director

H Hermès Group company    ♦ Listed company

Company name	Country	Office
Hermès Prague	H Czech Republic	Supervisory Board member
Hermès Retail (Malaysia)	H Malaysia	Chairman and Director
Hermès Sellier	H France	Permanent Representative of Hermès International, Managing Director, Hermès Jewellery and Hermès Leather Goods-Saddlery divisions
Hermès Singapore (Retail)	H Singapore	Director
Hermès South East Asia	H Singapore	Director
Hermtex	H USA	Chairman of the Board and Director
Holding Textile Hermès	H France	Chairman
Holding Textile Hermès, formerly Sport Soie	H France	Permanent Representative of Hermès International, Chairman
Immauger	H France	Permanent Representative of Hermès International, Executive Manager
Isamyol 11, renamed Immobilière du 5 rue de Fürstemberg	H France	Permanent Representative of Hermès International, Chairman
Isamyol 12, renamed Ateliers de Tissage de Bussièrès et de Challes	H France	Permanent Representative of Hermès International, Chairman
Isamyol 16	H France	Permanent Representative of Hermès International, Chairman
Isamyol 17	H France	Permanent Representative of Hermès International, Chairman
Isamyol 18	H France	Permanent Representative of Hermès International, Chairman
John Lobb	H France	Permanent Representative of Hermès International, Director
John Lobb Japan	H Japan	Director
Lacoste	France	Director
La Montre Hermès	H Switzerland	Director
Leica Camera AG	◆ Germany	Supervisory Board member
Massilly Holding	France	Vice-Chairman and Supervisory Board member
Motsch George V	H France	Permanent Representative of Hermès International, Chairman
Rémy Cointreau	◆ France	Director
Saint-Honoré (Bangkok)	H Thailand	Director
SAS Ateliers Nontron	H France	Permanent Representative of Hermès International, Chairman
SC Honossy	H France	Permanent Representative of Hermès International, Executive Manager
SCI Auger-Hoche	H France	Permanent Representative of Hermès International, Executive Manager
SCI Boissy les Mûriers	H France	Permanent Representative of Hermès International, Executive Manager
SCI Boissy Nontron	H France	Permanent Representative of Hermès International, Executive Manager
SCI Édouard VII	H France	Permanent Representative of Hermès International, Executive Manager
SCI Les Capucines	H France	Permanent Representative of Hermès International, Executive Manager
Sipryl Informatique (GIE)	France	Director

H Hermès Group company    ◆ Listed company

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## Corporate appointments and offices held by the corporate officers and Supervisory Board members at any time during the past five years

### Other offices and positions held during the previous four years and ending before 1 January 2010

Company name	Country	Office
Banque Neuflyze OBC	France	Supervisory Board member
Héraklion	H France	Permanent Representative of Hermès International, member of the Management Board
Hermès India Retail & Distributors Private Ltd	H Inde	Director
Hermès Korea Travel Retail	H South Korea	Chairman and Legal Representative
Hermès Gainier, renamed Hermès Intérieur & Design	H France	Permanent Representative of Hermès International, Chairman
Hermès Holding US	H USA	Chairman (Chairman and CEO)
Hermès Interactif	H France	Corporate officer
Hermès International	H ♦ France	Managing Director
Hermès Monte-Carlo	H Principality of Monaco	Permanent Representative of Holding Textile Hermès, formerly Sport Soie, Director
Isamyol 15, renamed Hermès Voyageur	H France	Permanent Representative of Hermès International, Chairman
Isamyol 9	H France	Permanent Representative of Hermès International, Chairman
John Lobb (Hong Kong) Limited	H Hong Kong	Director
Saint-Honoré Chile	H Chile	Acting Director
SCI Florian Mongolfier	H France	Executive Manager
Wally Yachts	Luxembourg	Director

### Bertrand Puech

Date of birth: 18 February 1936

### Offices and positions held during 2010

Company name	Country	Office
Hermès International	H ♦ France	Permanent Representative of Émile Hermès SARL, Executive Manager
Compagnie Hermès de Participations	H France	Member of the Management Board
Émile Hermès SARL	France	Executive Manager and Chairman of the Management Board
Hermès of Paris	H USA	Director
HDGP	France	Chairman
HPF	France	Executive Manager
Isamyol 11, renamed Immobilière du 5 rue de Fürstemberg	H France	Corporate officer
Isamyol 12, renamed Ateliers de Tissage de Bussières et de Challes	H France	Corporate officer
John Lobb	H France	Director
Posettes	France	Executive Manager
Théodule	France	Executive Manager

H Hermès Group company    ♦ Listed company

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**Other offices and positions held during the previous four years and ending before 1 January 2010**

<b>Company name</b>	<b>Country</b>	<b>Office</b>
Ateliers A.S.	H France	Permanent Representative of Holding Textile Hermès, formerly Sport Soie, Director
Auger Hoche	H France	Executive Manager
Boissy Mexico	H Mexico	Acting Director
Briand Villiers I	France	Executive Manager
Hermès Sellier	H France	Member of the Management Board
Isamyol 10, renamed Grafton Immobilier	H France	Corporate officer
Jakyval	Luxembourg	Director
Motsch George V	H France	Executive Manager
Sifah	France	Executive Manager
Société Nontronnaise de Confection	H France	Chairman of the Board and Managing Director
28-30-32, rue du Faubourg-Saint-Honoré	France	Chairman

**Jérôme Guerrand**

Date of birth: 15 October 1944

**Offices and positions held during 2010**

<b>Company name</b>	<b>Country</b>	<b>Office</b>
Hermès International	H ♦ France	Chairman of the Supervisory Board
Antonino	France	Executive Manager
Comptoir Nouveau de la Parfumerie	H France	Vice-Chairman and Supervisory Board member
Comptoir Nouveau de la Parfumerie	H France	Director
Jakyval	Luxembourg	Director
J.L. & Co	H United Kingdom	Director
Société civile immobilière du 74, rue du Faubourg-Saint-Antoine	France	Co-Executive Manager

**Other offices and positions held during the previous four years and ending before 1 January 2010**

<b>Company name</b>	<b>Country</b>	<b>Office</b>
Hermès Sellier	H France	Member of the Management Board
Hermès Sellier	H France	Director
Morethanhotels Limited	United Kingdom	Director

H Hermès Group company    ♦ Listed company

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Corporate appointments and offices held by the corporate officers  
and Supervisory Board members at any time during the past five years

**Éric de Seynes**

Date of birth: 9 June 1960

**Offices and positions held during 2010**

Company name	Country	Office
Hermès International	H ♦ France	Supervisory Board member
Brame et Lorenceau	France	Director
Émile Hermès SARL	France	Member of the Management Board
Hermès Sellier	H France	Member of the Management Board
Les Producteurs	France	Director
Naturéo Finance SAS	France	Member of the Management Board
Sféric	France	Chairman and Member of the Management Board
Yamaha Motor France	France	Director and CEO-Chief Executive Officer

**Other offices and positions held during the previous four years and ending before 1 January 2010**

Company name	Country	Office
Groupe Option SAS	France	Chairman
Hermès International	H ♦ France	Supervisory Board member and Audit Committee member
Option Organisation SAS	France	Chairman
Option Sports Événements SAS	France	Chairman
SIGO SAS	France	Chairman
Éditions Signes de Caractère SARL	France	Executive Manager

**Maurice de Kervénoaël**

Date of birth: 28 September 1936

**Offices and positions held during 2010**

Company name	Country	Office
Hermès International	H ♦ France	Vice-Chairman and Supervisory Board member, Chairman of the Audit Committee
Comptoir Nouveau de la Parfumerie	H France	Supervisory Board member
Comptoir Nouveau de la Parfumerie	H France	Director
Holding Reinier	France	Member of the Board of Directors
Laurent-Perrier	♦ France	Chairman and Supervisory Board member
MDK Consulting	France	Executive Manager
Jouan-Picot	France	Executive Manager
Mellerio International	France	Chairman of the Board

H Hermès Group company    ♦ Listed company



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**Other offices and positions held during the previous four years and ending before 1 January 2010**

<b>Company name</b>	<b>Country</b>	<b>Office</b>
Charles Riley Consultants International	France	Director
Comptoir Nouveau de la Parfumerie H	France	Chairman of the Supervisory Board
Onet	France	Supervisory Board member
Petit Bateau	France	Chairman
SIA Groupe SA	France	Chairman and Supervisory Board member

**Ernest-Antoine Seillière**

Date of birth: 20 December 1937

**Offices and positions held during 2010**

<b>Company name</b>	<b>Country</b>	<b>Office</b>
Hermès International	H ♦ France	Vice-Chairman and Supervisory Board member, Chairman of the Compensation, Appointments and Governance Committee
Aseas Participations	France	Executive Manager
Bureau Veritas	♦ France	Supervisory Board member
Gras Savoye & Cie	France	Supervisory Board member
Legrand	♦ France	Director
Odysseas	France	Executive Manager
PSA Peugeot Citroën (Peugeot SA)	♦ France	Supervisory Board member
Sofisamc	Switzerland	Director
Wendel	♦ France	Chairman of the Supervisory Board
Wendel-Participations	France	Director

**Other offices and positions held during the previous four years and ending before 1 January 2010**

<b>Company name</b>	<b>Country</b>	<b>Office</b>
Bureau Veritas	♦ France	Permanent Representative of Oranje Nassau Groep BV, Supervisory Board member
Capgemini	♦ France	Director, vice-Chairman of the Board
Editis Holding	France	Supervisory Board member
Legrand Holding, renamed Legrand	♦ France	Chairman of the Board
Lumina Parent	Luxembourg	Chairman of the Board
Oranje Nassau Groep BV	Netherlands	Chairman of the Supervisory Board
Société Lorraine de Participations Sidérurgiques, merged with and into Wendel-Participations	France	Chairman of the Board and Managing Director
Trader Classified Media	Netherlands	Chairman of the Supervisory Board

H Hermès Group company ♦ Listed company

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Corporate appointments and offices held by the corporate officers  
and Supervisory Board members at any time during the past five years

**Charles-Éric Bauer**

Date of birth: 9 January 1964

**Offices and positions held during 2010**

<b>Company name</b>	<b>Country</b>	<b>Office</b>
Hermès International	H ♦ France	Supervisory Board member, Audit Committee member
Hem Fi	France	Associate Director
Almareen	France	Executive Manager
Yundal	France	Executive Manager
SAS Pollux & Consorts	France	Executive Committee Member
SC Sabarots	France	Co-Executive Manager
Samain B2	France	Co-Executive Manager

**Other offices and positions held during the previous four years and ending before 1 January 2010**

<b>Company name</b>	<b>Country</b>	<b>Office</b>
Hermès Sellier	H France	Member of the Management Board

**Matthieu Dumas**

Date of birth: 6 December 1972

**Offices and positions held during 2010**

<b>Company name</b>	<b>Country</b>	<b>Office</b>
Hermès International	H ♦ France	Supervisory Board member and member of the Compensation and Appointments Committee
Eaque	France	Executive Manager
AMMCE	France	Executive Manager
AXAM	France	Executive Manager
L.D.M.D.	France	Executive Manager
PureScreens	France	Deputy Managing Director

**Other offices and positions held during the previous four years and ending before 1 January 2010**

<b>Company name</b>	<b>Country</b>	<b>Office</b>
Cuisine TV, groupe Canal +	France	Director of Marketing and Development
13° Rue, groupe NBC Universal	France	Head of Brands

H Hermès Group company    ♦ Listed company

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## Julie Guerrand

Date of birth: 26 February 1975

### Offices and positions held during 2010

Company name		Country	Office
Hermès International	H ♦	France	Supervisory Board member, Audit Committee member
Antonino		France	Executive Manager
Groupement forestier Forêt de Saint-Fargeau		France	Executive Manager
Jakyval		Luxembourg	Director
Jerocar		France	Executive Manager
La Mazarine-SCIFAH		France	Executive Manager
Paris Orléans	♦	France	Director of Equity Investments
SCI Apremont		France	Executive Manager
SCI Briand Villiers I		France	Executive Manager
SCI Briand Villiers II		France	Executive Manager
SCI Petit Musc		France	Executive Manager
SCTI		France	Executive Manager
Société Immobilière du Dragon		France	Executive Manager
Val d'Isère Carojero		France	Executive Manager

### Other offices and positions held during the previous four years and ending before 1 January 2010

Company name		Country	Office
Rothschild & Cie		France	Deputy Director

## Olaf Guerrand

Date of birth: 28 February 1964

### Offices and positions held during 2010

Company name		Country	Office
Hermès of Paris	H	USA	Director
Saida 2		Morocco	Director

### Other offices and positions held during the previous four years and ending before 1 January 2010

Company name		Country	Office
Émile Hermès SARL		France	Unregistered auditor
Hermès Sellier	H	France	Member of the Management Board

H Hermès Group company    ♦ Listed company

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## Corporate appointments and offices held by the corporate officers and Supervisory Board members at any time during the past five years

### Renaud Momméja

Date of birth: 20 March 1962

#### Offices and positions held during 2010

Company name	Country	Office
Hermès International	H ♦ France	Supervisory Board member and Audit Committee member
28-30-32, rue du Faubourg-Saint Honoré	France	Chairman
Binc	France	Executive Manager
Comptoir Nouveau de la Parfumerie	H France	Supervisory Board member
Comptoir Nouveau de la Parfumerie	H France	Director
GFA Château Fourcas Hosten	France	Co-Executive Manager
J.L. & Co	H United Kingdom	Director
Rose Investissement	France	Executive Manager
SARL Tolazi	France	Executive Manager
SAS Pollux & Consorts	France	Chairman
SC Altizo	France	Executive Manager and majority shareholder
SC Lor	France	Co-Executive Manager
SCI Briand Villiers I	France	Executive Manager
SCI Briand Villiers II	France	Executive Manager
SCI de l'Univers	France	Executive Manager
Société civile du Château Fourcas Hosten	France	Permanent Representative of Lor, Executive Manager
Société civile immobilière du 74, rue du Faubourg-Saint-Antoine	France	Co-Executive Manager
Société Immobilière du Faubourg Saint-Honoré "SIFAH"	France	Executive Manager

#### Other offices and positions held during the previous four years and ending before 1 January 2010

Company name	Country	Office
Cabinet de conseil Marketing Marand Momméja Associés	France	Associate Director
Catapult Asset Management	United Kingdom	Director
Newsweb	France	Permanent Representative of Altizo, Supervisory Board member
Société civile du Château Fourcas Hosten	France	Executive Manager and Partner

H Hermès Group company    ♦ Listed company

## Robert Peugeot

Date of birth: 25 April 1950

### Offices and positions held during 2010

Company name	Country	Office
Hermès International	H ♦ France	Supervisory Board member, Audit Committee member, member of the Compensation, Appointments and Governance Committee
Alpine Holding	Austria	Director (until 10/12/2010)
B-1998, SL	Spain	Director (until 10/12/2010)
SCI CHP Gestion	France	Executive Manager
DKSH	Switzerland	Director
Établissements Peugeot Frères	France	Director
Faurecia	♦ France	Director
FCC Construcción, SA	Spain	Director (until 10/12/2010)
Financière Guiraud SAS	France	Legal Representative of Société Foncière, Financière et de Participations – FFP, Chairman
Fomentos de Construcciones y Contratas, SA	♦ Spain	Director
Holding Reinier	France	Director
IDI-EM	Luxembourg	Supervisory Board member
Imerys	♦ France	Director
Immeubles et Participations de l'Est	France	Director (until 18/11/2010)
LFPF – La Française de Participations Financières	France	Director (until 19/07/2010)
PSA Peugeot Citroën (Peugeot SA)	♦ France	Supervisory Board member
SCI Rodom	France	Executive Manager
Sanef	France	Director
Simante S.L.	Spain	Chairman and CEO
Société Foncière, Financière et de Participations – FFP	♦ France	Chairman and CEO
SOFINA	Belgium	Director
WRG – Waste Recycling Group Ltd	United Kingdom	Director (until 10/12/2010)
Zodiac Aérospace	France	Permanent Representative of Société Foncière, Financière et de Participations – FFP, Supervisory Board member

### Other offices and positions held during the previous four years and ending before 1 January 2010

Company name	Country	Office
Aviva France	France	Supervisory Board member
Aviva Participations	France	Director
GIE de recherche et d'études PSA Renault	France	Director
Citroën Danemark A/S	Denmark	Director
Citroën Deutschland Aktiengesellschaft	Germany	Supervisory Board member
Citroën UK Ltd	United Kingdom	Director

H Hermès Group company    ♦ Listed company

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Corporate appointments and offices held by the corporate officers  
and Supervisory Board members at any time during the past five years

**Florence Woerth**

Date of birth: 16 August 1956

**Offices and positions held during 2010**

<b>Company name</b>	<b>Country</b>	<b>Office</b>
Hermès international	H ♦ France	Supervisory Board member
Association Jean Bernard	France	Member of the Board of Directors
SC Conde	France	Executive Manager
Expert Isi Conseil	France	Chairman
Écurie Dam's	France	Chairman

**Other offices and positions held during the previous four years and ending before 1 January 2010**

<b>Company name</b>	<b>Country</b>	<b>Office</b>
Clymène	France	Head of Investment and Research

H Hermès Group company    ♦ Listed company







# Information on the share capital and on the Shareholders

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## Information on the share capital

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### SHARE CAPITAL

	Amount	Number of shares	Par value
As at 01/01/2010	€53,840,400.12	105,569,412	€0.51
As at 31/12/2010	€53,840,400.12	105,569,412	€0.51
As at General Meeting date	€53,840,400.12	105,569,412	€0.51

All shares are fully paid.

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### VOTING RIGHTS

By the 15th of each month, 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 ([www.hermes-international.com](http://www.hermes-international.com)).

The number of voting rights published on Hermès International's website from May 2010 to February 2011 inclusive has been amended to correct substantive errors on the part of the institution appointed by the Company as custodian of its register of shareholders. As at 28 February 2011, there were 168,486,740 voting rights outstanding (not 163,743,620, as indicated in the report on the total number of voting rights published on 10 March 2011).

The information contained in this registration document takes these into account, with the exception of the information on share ownership threshold disclosures filed in 2010.

Each share gives the holder the right to at least one vote in General Meetings of shareholders, except for treasury shares held by the Company, which have no voting rights. Ownership of certain shares is split between a beneficial owner and a legal owner. In accordance with the Articles of Association, voting rights attached to the shares are exercised by the legal owners at all general meetings

(ordinary, extraordinary or special meetings), save for decisions regarding the appropriation of net income, in which case the beneficial owner 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 premium, reserve 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. 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 257).

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### 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 corporate form, stipulated by law or by the Articles of Association, and which are liable to have an effect in case of a takeover bid, namely:

- the Executive Chairmen may only be appointed or dismissed by the Active Partner;
- Émile Hermès SARL, the Active Partner, must

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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 259);

- the Company may be converted into a SARL (limited liability company) or SA (corporation) only with the consent of the Active Partner; and
- decisions taken by the general meetings of partners (shareholders) are valid only if approved by the Active Partner no later than by the end of the same 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 legal owners at all general meetings, except for decisions regarding the appropriation of net income, in which case the beneficial owner 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 shares and/or voting rights, or any multiple of that fraction, must disclose this fact.

Lastly, the Executive Management has a grant of authority to carry out capital increases.

### CHANGES IN SHARE CAPITAL OVER THE PAST THREE YEARS

No material transaction affecting the share capital has been effected over the past three years. All changes in the share capital over the period are due exclusively to the exercise of stock options or to the cancellation of treasury shares.

Date	Transaction	Share capital after transaction	Number of shares after transaction	Par value	Share premium	Number of shares issued [I]/ cancelled [C]
07/01/2008	Capital increase of €7,905 for options exercised by employees between 1 July 2007 and 31 December 2007	€54,105,499.14	106,089,214	€0.51	€51.58 €41.08	500 [E] 15 000 [E]
07/07/2008	Capital increase of €18,360 for options exercised by employees between 1 January 2008 and 30 June 2008	€54,123,859.14	106,125,214	€0.51	€51.58 €44.27	15,000 [E] 21 000 [E]
09/12/2008	Capital decrease of €326,758.02 from cancellation of treasury shares	€53,797,101.12	105,484,512	€0.51		640,702 [A]
12/01/2009	Capital increase of €33,405 for options exercised by employees between 1 July 2008 and 31 December 2008	€53,830,506.12	105,550,012	€0.51	€51.58	65 500 [E]
06/07/2009	Capital increase of €9,894 for options exercised by employees between 1 January 2009 and 30 June 2009	€53,840,400.12	105,569,412	€0.51	€51.58	19,400 [E]

There have been no other changes to the share capital since 06/07/2009.

## DELEGATIONS OF AUTHORITY AND POWERS GRANTED TO THE EXECUTIVE MANAGEMENT BY THE SHAREHOLDERS

In accordance with the provisions of Article L 225-100, paragraph 7 of the *Code de Commerce*, the table below summarises the delegations of authority and powers granted to the Executive Management by the General Meeting of Shareholders for purposes of increasing the share capital. It shows all authorisations currently in effect, any authorisations used during 2010, and new authorisations to be submitted to the shareholders at the General Meeting of 30 May 2011.

Existing grants of authority and grants proposed to the Combined General Meeting of 30 May 2011	Date of General Meeting <i>Resolution No.</i>	Term of authorisation <i>Expires<sup>(1)</sup></i>	Characteristics	Used during 2010
<b>Issues made by capitalisation of reserves</b>				
Capital increase by capitalisation of reserves, earnings or share premiums	2 June 2009 <i>Tenth</i>	26 months <i>2 June 2011</i>	Nominal ceiling 20% of share capital <sup>(2)</sup>	None
Capital increase by capitalisation of reserves, earnings or share premiums	30 May 2011 <i>Twenty-fourth</i>	26 months <i>30 July 2013</i>	Nominal ceiling 20% of share capital	–
<b>Issues with pre-emptive subscription rights</b>				
All securities giving access to equity	2 June 2009 <i>Eleventh</i>	26 months <i>2 August 2011</i>	Nominal ceiling 20% of share capital <sup>(2)</sup>	None
All securities giving access to equity	30 May 2011 <i>Twenty-fifth</i>	26 months <i>30 July 2013</i>	Nominal ceiling 20% of share capital <sup>(2)</sup>	–
<b>Issues without pre-emptive subscription rights</b>				
All securities giving access to equity	2 June 2009 <i>Twelfth</i>	26 months <i>2 August 2011</i>	Nominal ceiling 20% of share capital <sup>(2) (3)</sup>	None
All securities giving access to equity	30 May 2011 <i>Twenty-sixth</i>	26 months <i>30 July 2013</i>	Nominal ceiling 20% of share capital	–
Employee rights issue	2 June 2009 <i>Thirteenth</i>	26 months <i>2 August 2011</i>	Ceiling 1% of outstanding shares	None
Share issue for employees belonging to share ownership plan	30 May 2011 <i>Twenty-seventh</i>	26 months <i>30 July 2013</i>	Ceiling 1% of outstanding shares	–
<b>Share buyback programme</b>				
Share buyback	2 June 2009 <i>Seventh</i>	18 months <i>2 December 2010</i>	Ceiling 10% of share capital Maximum purchase price €200 Maximum amount of funds committed €750m	See page 81
Share buyback	7 June 2010 <i>Eighth</i>	18 months <i>7 December 2011</i>	Ceiling 10% of share capital Maximum purchase price €200 Maximum amount of funds committed €850m	See page 81
Share buyback	30 May 2011 <i>Twenty-first</i>	18 months <i>30 November 2012</i>	Ceiling 10% of share capital Maximum purchase price €250 Maximum amount of funds committed €1bn	–
Cancellation of shares purchased (general cancellation programme)	2 June 2009 <i>Ninth</i>	24 months <i>2 June 2011</i>	Maximum 10% of share capital	None
Cancellation of shares purchased (general cancellation programme)	7 June 2010 <i>Tenth</i>	24 months <i>7 June 2012</i>	Maximum 10% of share capital	None
Cancellation of shares purchased (general cancellation programme)	30 May 2011 <i>Twenty-third</i>	24 months <i>30 May 2013</i>	Maximum 10% of share capital	–
<b>Bonus issues and share purchase options</b>				
Bonus share distribution to employees and corporate executive officers	2 June 2009 <i>Fifteenth</i>	38 months <i>2 August 2012</i>	Ceiling 2% of share capital <sup>(4)</sup>	See page 48
Bonus share distribution to employees and corporate executive officers	30 May 2011 <i>Twenty-ninth</i>	38 months <i>30 July 2014</i>	Ceiling 2% of share capital <sup>(4)</sup>	–
Options to purchase existing shares	2 June 2009 <i>Fourteenth</i>	38 months <i>2 August 2012</i>	Ceiling 2% of outstanding shares <sup>(4)</sup>	None
Options to purchase existing shares	30 May 2011 <i>Twenty-eighth</i>	38 months <i>30 July 2014</i>	Ceiling 2% of outstanding shares <sup>(4)</sup>	–

(1) The expiration dates take into account authorisations that cancelled and superseded authorisations granted for similar purposes, for the remainder of the term of the initial authorisation. (2) Combined ceiling: 20% of share capital, 2% of share capital. (3) Terms and conditions for setting price described in Volume 2 of the 2008 registration document on page 201. (4) Combined ceiling: 2% of the share capital.

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## Information on the Shareholders

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### APPROXIMATE NUMBER OF SHAREHOLDERS

At least once each year, the Company uses the Euro-clear France “identifiable bearer shares” procedure to identify its shareholders. At the time of the last request on 31 January 2011, there were approximately 15,000 shareholders, compared with some 15,000 as at 31 December 2009 and 16,000 as at 30 December 2008.

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### MAIN SHAREHOLDERS AS AT 31 DECEMBER 2010

To the Company’s knowledge, no shareholder, other than those listed in the tables on page 79, directly hold 5% or more of the share capital or voting rights.

SAS SDH, SAS POLLUX & CONSORTS, SC FLÈCHES, SAS FALAISES, SC AXAM, SA JAKYVAL and SC THÉODULE are owned exclusively by members of the Hermès family group.

The ownership interests of corporate officers, senior executives and Supervisory Board members are listed on page 43.

Material changes in ownership of the share capital over the past three years are described below, under “Ownership threshold disclosures”.

To the Company’s knowledge, there has been no significant change between 31 December 2010 and the date on which this registration document was filed with the AMF.

#### *Measures taken to prevent abusive control*

Please refer to the sections on “Corporate governance” on page 16 and “Conflicts of interest” on page 41.

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### SHARE OWNERSHIP THRESHOLD DISCLOSURES

#### *Share ownership threshold disclosures in 2010*

Mr Jean-Louis Dumas, who held over 5% of the voting rights (appropriation of earnings) as at 31 December 2009, passed away on 1 May 2010.

In 2010, four reports on the attainment of share ownership thresholds were filed:

- *AMF Notice No. 210C0359.* On 15 April 2010, Théodule, a *société civile* (non-commercial partnership), disclosed that it had individually moved above the 5% ownership threshold in Hermès International and that it individually held 5,289,090 Hermès International shares representing 6,459,090 voting rights, or 5.01% of the share capital and 3.84% of the voting rights in that company.

- *AMF Notice No. 210C1109.* LVMH Moët Hennessy Louis Vuitton, a *société anonyme* (limited liability company), disclosed that it had moved above the following thresholds:

- On 21 October 2010, indirectly, through companies that it controls, 5% of the share capital and voting rights and 10% of the share capital of Hermès International, and that, as of that date, it held 15,016,000 Hermès International shares representing a like number of voting rights, or 14.22% of the share capital and 8.95% of the voting rights in that company, broken down as follows:

	No. of shares	% of shares	No. of voting rights	% of voting rights
Sofidiv SAS	9,800,000	9.28	9,800,000	5.84
Hannibal SA	730,000	0.69	730,000	0.44
Altair Holding LLC	908,400	0.86	908,400	0.54
Ivelford Business SA	2,200,000	2.08	2,200,000	1.31
Bratton Services Inc.	837,600	0.79	837,600	0.50
Ashbury Finance Inc.	540,000	0.51	540,000	0.32
<b>Total LVMH Moët Hennessy Louis Vuitton</b>	<b>15,016,000</b>	<b>14.22</b>	<b>15,016,000</b>	<b>8.95</b>

– On 24 October 2010, indirectly, through companies that it controls, 10% of the voting rights and 15% of the share capital of Hermès International, and that, as of that date, it held 18,017,246 Hermès International shares representing a like number of voting rights, or 17.07% of the share capital and 10.74% of the voting rights in that company, broken down as follows:

	No. of shares	% of shares	No. of voting rights	% of voting rights
Sofidiv SAS	12,801,246	12.13	12,801,246	7.63
Hannibal SA	730,000	0.69	730,000	0.44
Altair Holding LLC	908,400	0.86	908,400	0.54
Ivelford Business SA	2,200,000	2.08	2,200,000	1.31
Bratton Services Inc.	837,600	0.79	837,600	0.50
Ashbury Finance Inc.	540,000	0.51	540,000	0.32
<b>Total LVMH Moët Hennessy Louis Vuitton</b>	<b>18,017,246</b>	<b>17.07</b>	<b>18,017,246</b>	<b>10.74</b>

Furthermore, pursuant to Article L 223-14 III 3° and IV of the AMF General Regulation, the declarant disclosed that it held a cash-settled

equity swap contract for the equivalent of 204,056 Hermès International shares, which will mature at the end of the unwind period, beginning on 4 April 2014.

Simultaneously, LVMH Moët Hennessy Louis Vuitton filed the following declaration of intent: “Statement of objectives of LVMH Moët Hennessy Louis Vuitton for the next six months.

LVMH Moët Hennessy Louis Vuitton declares that:

- it is not acting in concert with a third party;
  - it does not intend to seek representation on the Supervisory Board of Hermès International, in its own name or by the appointment of a representative;
  - it plans to pursue, where appropriate, its acquisitions of Hermès International shares according to market conditions;
  - it has not entered into any temporary agreement of sale targeting the shares or voting rights of the issuer;
  - it financed the purchase of the Hermès International shares from its group’s own funds;
  - it does not plan to take control of Hermès International or to file a public takeover bid, and, consequently, it is not considering any of the transactions cited in Article 223-17 I 6° of the AMF General Regulation.”
- LVMH Moët Hennessy Louis Vuitton also stated that:
- “LVMH Moët Hennessy Louis Vuitton’s investment in Hermès International is strategic and for the long term. LVMH Moët Hennessy Louis Vuitton supports the strategic vision, development and positioning of Hermès International.”

• *AMF Notice No. 210C1299*. On 17 December 2010, LVMH Moët Hennessy Louis Vuitton, a *société*

*anonyme* (limited liability company), disclosed that it had indirectly, through companies that it controls, moved above the 20% threshold of the share capital of Hermès International, and that it held 21,338,675 Hermès International shares representing a like number of voting rights, or 20.21% of the share capital and 12.73% of the voting rights in that company, broken down as follows:

	No. of shares	% of shares	No. of voting rights	% of voting rights
LVMH Fashion Group	16,852,675	15.96	16,852,675	10.05
Altair Holding LLC	908,400	0.86	908,400	0.54
Ivelford Business SA	2,200,000	2.08	2,200,000	1.31
Bratton Services Inc	837,600	0.79	837,600	0.50
Ashbury Finance Inc.	540,000	0.51	540,000	0.32
<b>Total LVMH Moët Hennessy Louis Vuitton</b>	<b>21,338,675</b>	<b>20.21</b>	<b>21,338,675</b>	<b>12.73</b>

Furthermore, pursuant to Article L 223-14 III 3° and IV of the AMF General Regulation, LVMH Moët Hennessy Louis Vuitton disclosed that it held a cash-settled equity swap contract for the equivalent of 204,056 Hermès International shares, which will mature at the end of the unwind period, beginning on 4 April 2014.

Simultaneously, LVMH Moët Hennessy Louis Vuitton filed the following declaration of intent: “Statement of objectives of LVMH Moët Hennessy Louis Vuitton for the next six months.

LVMH Moët Hennessy Louis Vuitton declares that:

- it is not acting in concert with a third party;
- it does not intend to seek representation on the Supervisory Board of Hermès International,

in its own name or by the appointment of a representative;

- it plans to pursue, where appropriate, its acquisitions of Hermès International shares according to market conditions;

- it has not entered into any temporary agreement of sale targeting the shares or voting rights of the issuer;

- it financed the purchase of the Hermès International shares from its group’s own funds;

- it does not plan to make a bid for Hermès International or seek control of the Company, and consequently, it is not considering any of the transactions cited in Article 223-17 I 6° of the AMF General Regulation.

LVMH’s investment in Hermès International is strategic and for the long term. LVMH supports the strategic vision, the development and positioning of Hermès International.”

*Ownership threshold disclosures during the past two financial years*

In 2009, three ownership threshold disclosures were filed:

- *AMF Notice No. 209C0471.* On 20 March 2009, Mr Jérôme Guerrand moved below the 5% voting rights threshold. He reported that, as of that date, he owned directly, and indirectly, through Jakyval, a company that he controls, 5,486,332 shares, representing 5,814,330 voting rights (applicable to the resolution on appropriation of net income), i.e. 5.20% of the share capital and 3.50% of the voting rights.

- *AMF Notice No. 209C0670.* On 30 April 2009, Jakyval, a *société anonyme* (limited liability company) established under the laws of Luxem-



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bourg, moved above the 5% threshold for voting rights held by an individual shareholder. It reported that, as of that date, it held 5,344,332 shares, and a like number of voting rights, that is, 5.06% of the share capital and 3.22% of the voting rights.

- AMF Notice No. 209C0711. On 7 May 2009, Mr Jérôme Guerrand moved below the 5% ownership threshold. He reported that he individually owned 107,000 shares (0.1% of the total) and held 214,000 voting rights (0.13% of the total) as of that date.

In 2008, one ownership threshold disclosure was filed:

- *AMF Notice No. 208C0211*. On 5 June 2007, Mr Jérôme Guerrand individually moved above the 5% ownership and voting rights threshold. He reported that, as of that date, he owned 5,461,302 shares, representing 10,922,604 voting rights (applicable to the resolution on appropriation of net income), i.e. 5.11% of the share capital and 6.34% of the voting rights. Mr Jérôme Guerrand also disclosed that as at 28 January 2008, he held 5,461,302 shares representing 10,922,604 voting rights (applicable to the resolution on appropriation of net income), or 5.15% of the share capital and 6.37% of the voting rights.

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## AMF DECISION

- AMF Decision No. 211C0024. At its meeting of 6 January 2011, the Autorité des Marchés Financiers granted an exemption to the requirement to file a proposed public offer to buy out the shares of Hermès International (hereinafter “Hermès”), following a petition filed by fifty-two natural

persons and their family companies that are direct shareholders of Hermès (hereinafter, the “claimants”, who are identified in the aforesaid AMF Decision, which is available on the website [www.amf-france.org](http://www.amf-france.org)).

Extracts from the AMF’s decision are reproduced below.

“On 3 December 2010, the claimants entered into an agreement, contingent upon obtaining a decision exempting them from filing a public takeover bid for Hermès shares that cannot be appealed, whereby they undertook to carry out the following transactions, directly or indirectly:

- to transfer part of their Hermès shares to a holding company that will hold over 50% of the share capital and voting rights in the Company;
- to grant the holding company a priority right to buy the Hermès shares that have not been transferred to it (i.e. approximately 12.6% of the share capital) [...].

After completing these transactions, the holding company will own approximately 50.2% of Hermès’ share capital and at least the same percentage of voting rights, and it shall have a priority right to buy those shares held by the Hermès family group and that were not transferred to it (i.e. approximately 12.6% of the share capital).

Consequently, the holding company will move above the threshold of one-third of the share capital and voting rights of Hermès (or, as from 1 February 2011, the threshold of 30% of the share capital and voting rights of Hermès), which will require it to file a public takeover bid for the remainder of the Hermès shares in accordance with Article 234-2 of the AMF General Regulation.”

Pursuant to Articles 234-8.234-9 7° and 234-10 of the General Regulation, during its meeting on 6 January 2011, the AMF granted the Hermès

family group, as defined by the claimants, an exemption from the requirement to file a proposal for a public offering.

This decision was appealed by two parties:

- the Association for the defence of minority shareholders (ADAM), on 14 January 2011;
- Mr Patrick Repplinger, on 17 January 2011.

These appeals are currently pending before the Paris Court of Appeals, which is expected to hand down a ruling during 2011.

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#### EMPLOYEE OWNERSHIP OF SHARE CAPITAL

Registered shares held by employees of the Group (excluding corporate executive officers and Supervisory Board members) represented 0.12% of the share capital as at 31 December 2010.

No shares are owned by employees of the Company or any affiliated entities via the corporate employee share savings scheme or dedicated employee investment fund.

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#### PLEDGING OF SHARES

Duly registered shares are not encumbered by any material pledges.

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#### TREASURY SHARES

As at 31 December 2010, Hermès International held 406,650 of its own shares, purchased under the terms of the share buyback programme described on page 81.

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#### 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 dividend policy it has conducted over the past several years. The amount of dividends paid in each of the years included in the historical financial information is shown on page 215.

Owing to the strong cash position at the end of 2010, on 3 February 2011, the Executive Management decided to pay an interim dividend for the first time. In the future, the Executive Management will decide, on a case-by-case basis, whether it is appropriate to pay an interim dividend before the General Meeting.

The time limit after which entitlement to dividends on Hermès International shares ends is the time limit laid down by the law in this respect, to wit, five years as 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.

## OWNERSHIP OF SHARE CAPITAL AND VOTING RIGHTS AS AT 31 DECEMBER 2010

	Share capital		Voting rights <sup>(1)</sup>			
			Appropriation of net income		Autres	
	Number	%	Number	%	Number	%
SAS SDH	9,548,996	9.05	19,073,836	11.69	19,073,836	11.69
SAS POLLUX & CONSORTS	6,602,525	6.25	12,164,450	7.46	12,164,450	7.46
SC FLÈCHES	5,869,213	5.56	11,721,433	7.18	11,721,433	7.18
SAS FALAISES	5,567,610	5.27	11,135,220	6.83	11,135,220	6.83
SC AXAM	5,559,480	5.27	11,118,960	6.82	11,118,960	6.82
SA JAKYVAL	5,344,332	5.06	5,344,332	3.28	5,344,332	3.28
SC THÉODULE	5,289,090	5.01	6,459,090	3.96	6,459,090	3.96
Other members of the Hermès Family group	22,509,287	21.32	39,571,979	24.25	43,651,979	26.76
<b>Sub-total Hermès family group <sup>(2)</sup></b>	<b>66,290,533</b>	<b>62.79</b>	<b>116,589,300</b>	<b>71.46</b>	<b>120,669,300</b>	<b>73.96</b>
LVMH Moët Hennessy Louis Vuitton	21,338,675	20.21	21,338,675	13.08	21,338,675	13.08
Free float <sup>(3)</sup>	17,533,554	16.61	25,222,889	15.46	21,142,889	12.96
Treasury shares	406,650	0.39	0	0.00	0	0.00
<b>Total</b>	<b>105,569,412</b>	<b>100.00</b>	<b>163,150,864</b>	<b>100.00</b>	<b>163,150,864</b>	<b>100.00</b>

## CHANGE IN OWNERSHIP AND VOTING RIGHTS

	31/12/2010			31/12/2009			31/12/2008		
	Share capital	Voting rights <sup>(1)</sup>		Share capital	Voting rights <sup>(1)</sup>		Share capital	Voting rights <sup>(1)</sup>	
		Appropriation of net income	Other		Appropriation of net income	Other		Appropriation of net income	Other
SAS SDH	9.05%	11.69%	11.69%	9.05%	11.40%	11.40%	9.05%	11.20%	11.20%
SAS POLLUX & CONSORTS	6.25%	7.46%	7.46%	6.25%	7.27%	7.27%	6.26%	7.14%	7.14%
SC FLÈCHES	5.56%	7.18%	7.18%	5.56%	6.81%	6.81%	5.56%	6.28%	6.28%
SAS FALAISES	5.27%	6.83%	6.83%	5.27%	6.66%	6.66%	5.27%	6.54%	6.54%
SC AXAM	5.27%	6.82%	6.82%	5.27%	6.65%	6.65%	5.27%	6.53%	6.53%
Mr Jérôme Guerrand	Less than 5% <sup>(4)</sup>			Less than 5% <sup>(4)</sup>			5.16%	6.19%	inf. à 5% <sup>(4)</sup>
SA JAKYVAL	5.06%	3.28%	3.28%	5.06%	< 5% <sup>(4)</sup>	< 5% <sup>(4)</sup>	Less than 5% <sup>(4)</sup>		
SC THÉODULE	5.01%	3.96%	3.96%	Less than 5% <sup>(4)</sup>			Less than 5% <sup>(4)</sup>		
Mr Jean-Louis Dumas † <sup>(5)</sup>	n/a	n/a	n/a	4.87%	6.14%	< 5% <sup>(4)</sup>	4.81%	5.96%	< 5% <sup>(4)</sup>
Other members of the Hermès Family group	21.32%	24.25%	26.76%	21.49%	26.07%	35.80%	21.66%	21.86%	37.55%
<b>Sub-total Hermès family group <sup>(2)</sup></b>	<b>62.79%</b>	<b>71.46%</b>	<b>73.96%</b>	<b>62.82%</b>	<b>71.00%</b>	<b>74.58%</b>	<b>63.04%</b>	<b>71.71%</b>	<b>75.24%</b>
LVMH Moët Hennessy Louis Vuitton	20.21%	13.08%	13.08%	Less than 5% <sup>(6)</sup>			Less than 5% <sup>(6)</sup>		
Free float <sup>(3)</sup>	16.61%	15.46%	12.96%	36.78%	29.00%	25.42%	36.48%	28.29%	24.76%
Treasury shares	0.39%	0.00%	0.00%	0.40%	0.00%	0.00%	0.48%	0.00%	0.00%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>

(1) Voting rights exercisable at General Meetings. In accordance with Article 12 of the Company's Articles of Association, voting rights attached to the shares are exercised by the legal owners at all General Meetings (ordinary, extraordinary or special meetings), save for decisions regarding the appropriation of net income, in which case the beneficial owner shall exercise the voting rights. The method of reporting and allocating voting rights is described on page 70.

(2) The Hermès family group comprises the partners of Émile Hermès SARL (whose identity appears in the aforesaid AMF Decision, which is available on the website [www.amf-france.org](http://www.amf-france.org)), their spouses, children and grandchildren, and their family holding companies that are direct and indirect shareholders of Hermès International and Émile Hermès SARL.

(3) Including Mr Nicolas Puech, who told the press on 13 March 2011 that he held an interest of "just under 6%". He had disclosed that he had moved above the 5% voting rights threshold on 1 November 1996.

(4) Ownership included in the Hermès family group sub-total.

(5) Deceased on 1 May 2010.

(6) Ownership included under "Free Float".

n/a : not applicable.

## Information on the Shareholders

### SHAREHOLDERS' AGREEMENTS

To the Company's knowledge, there are no shareholders' agreements other than the following, which are covered by the Dutreil law..

	Dutreil Transmission agreement 2008.1	Dutreil Transmission agreement 2009.1	Dutreil Transmission agreement 2010.1	Dutreil ISF wealth tax agreement 2010.2	Dutreil ISF wealth tax agreement 2010.3	Dutreil ISF wealth tax agreement 2010.4	Dutreil ISF wealth tax agreement 2010.5
Governed by	CGI - Article 787 B	CGI - Article 787 B	CGI - Article 787 B	CGI -Article 885 I bis	CGI - Article 885 I bis	CGI - Article 885 I bis	CGI - Article 885 I bis
Date of signature	22 December 2008	2 May 2009	28 October 2010	28 December 2010	28 December 2010	29 December 2010	28 December 2010
Term of parties' commitment	Two years from the registration date (i.e., from 22 December 2008)	Two years from the registration date (i.e., from 5 May 2009)	Until 1 November 2012	Two years from the registration date (i.e., from 29 December 2010)	Six years from the registration date (i.e., from 29 December 2010)	Six years from the registration date (i.e., from 30 December 2010)	Six years from the registration date (i.e., from 30 December 2010)
Contractual term of agreement	Two years from the registration date	Two years from the registration date	Until 1 November 2012	Two years from the registration date	Six years from the registration date	Six years from the registration date	Six years from the registration date
Renewal terms	(Extended by individual agreements with the beneficiaries of the transmission agreement)	(Extended by individual agreements with the beneficiaries of the transmission agreement)	(Extended by individual agreements with the beneficiaries of the transmission agreement)	Tacitly renewable for further one-year periods	Tacitly renewable for further one-year periods	Tacitly renewable for further one-year periods	Tacitly renewable for further one-year periods
Percentage of share capital covered by agreement as of signature date	32.14% (over 20% of the shares)	26.22% (over 20% of the shares)	29.84% (over 20% of the shares)	58.79%	58.79%	53.82%	42.56%
Percentage of voting rights covered by agreement as of signature date	Over 20% of voting rights (not detailed in signed document)	Over 20% of voting rights (not detailed in signed document)	Over 20% of voting rights (not detailed in signed document)	67.55%	67.55%	61.59%	49.29%
Signatory parties with 'senior executive' status (within the meaning of L621-18-2-a)	As of the date of signature of the agreement: – Bertrand Puech, Executive Manager of Émile Hermès SARL, Active Partner – Émile Hermès SARL, Active Partner – Patrick Thomas, Executive Chairman – Jérôme Guerrand, Chairman of the Supervisory Board	As of the date of signature of the agreement: – Émile Hermès SARL, Active Partner – Jérôme Guerrand, Chairman of the Supervisory Board	As of the date of signature of the agreement: – Émile Hermès SARL, Active Partner – Jérôme Guerrand, Chairman of the Supervisory Board	As of the date of signature of the agreement: – Émile Hermès SARL, Executive Manager and Active Partner – Jérôme Guerrand, Chairman of the Supervisory Board – Patrick Thomas, Executive Chairman	As of the date of signature of the agreement: – Émile Hermès SARL, Executive Manager and Active Partner – Jérôme Guerrand, Chairman of the Supervisory Board – Patrick Thomas, Executive Chairman	As of the date of signature of the agreement: – Émile Hermès SARL, Executive Manager and Active Partner – Jérôme Guerrand, Chairman of the Supervisory Board – Patrick Thomas, Executive Chairman	As of the date of signature of the agreement: – Émile Hermès SARL, Executive Manager and Active Partner – Jérôme Guerrand, Chairman of the Supervisory Board – Patrick Thomas, Executive Chairman
Signatory parties with close personal ties with senior executives (within the meaning of Articles L 621-18-2 c and R 621-43-1 of the Code Monétaire et Financier)	All signatory parties	All signatory parties	All signatory parties	All signatory parties	All signatory parties	All signatory parties	All signatory parties
Names of signatory parties holding at least 5% of the share capital and/or voting rights in the Company	Mr Jérôme Guerrand POLLUX & Consorts SAS SDH SAS FALAISES SAS	Mr Jérôme Guerrand POLLUX & Consorts SAS SDH SAS FALAISES SAS JAKYVAL SC	FALAISES SAS FLÈCHES SAS JAKYVAL SA POLLUX & Consorts SAS SDH SAS Théodule SC	AXAM SC FALAISES SAS FLÈCHES SAS JAKYVAL SA POLLUX & Consorts SAS SDH SAS THÉODULE SC	AXAM SC FALAISES SAS FLÈCHES SAS JAKYVAL SA POLLUX & Consorts SAS SDH SAS THÉODULE SC	AXAM SC FALAISES SAS FLÈCHES SAS JAKYVAL SA POLLUX & Consorts SAS SDH SAS THÉODULE SC	AXAM SC FALAISES SAS FLÈCHES SAS JAKYVAL SA POLLUX & Consorts SAS SDH SAS THÉODULE SC

## Share buyback programme

In accordance with the provisions of Article L 225-209 of the *Code de Commerce*, we hereby present our report on the Company's share buyback programme for 2009, pursuant to the authorisations granted by the shareholders at the General Meetings indicated below:

Programme authorised by General Meeting of	2 June 2009 (effective until 7 June 2010)	7 June 2010 (effective since 8 June 2010)
Date of Executive Management decision	18 March 2009	24 March 2010
Maximum number of shares	10% of the share capital	10% of the share capital
Maximum authorised amount	€750m	€850m
Maximum purchase price	€200	€200

During the year ended 31 December 2010, the Executive Management carried out the transactions listed in the tables below under the share buyback programmes authorising the Executive Management to trade in the Company's own shares under the terms of Article L 225-209 of the *Code de Commerce*.

	From 01/01/2010 to 07/06/2010	From 08/06/2010 to 31/12/2010	Total
<b>Not covered by liquidity contract</b>			
Number of shares registered in the Company's name as at 31/12/2009	372,000	–	372,000
Number of shares bought	–	–	–
Reason for purchase	–	–	–
Average purchase price	–	–	–
Number of shares sold	350	–	350
Average selling price	€78.18	–	€78.18
Net transaction costs, excluding VAT	–	–	–
Number of cancelled shares	–	–	–
Average price of cancelled shares	–	–	–
Number of shares registered in the Company's name as at 31/12/2010	371,650	–	371,650
Number of shares:			
– Allotted to share purchase options	250,000	–	250,000
– Allotted to bonus issue	121,650	–	121,650
– Cancelled	–	–	–
Net value at purchase cost	€27,653,434	–	€27,653,434
Net value at closing price	€58,256,137	–	€58,256,137
Par value	€189,542	–	€189,542
Percentage of share capital involved	0.35%	–	0.35%
<b>Covered by liquidity contract</b>			
Number of shares registered in the Company's name as at 31/12/2009	50,000	–	50,000
Funds allocated (liquidity account)	€10,000,000	€10,000,000	€10,000,000
Number of shares bought	95,041	154,989	250,030
Average purchase price	€99.79	€146.61	€128.82
Number of shares sold	106,041	158,989	265,030
Average selling price	€101.50	€144.29	€127.17
Number of shares registered in the Company's name as at 31/12/2010	39,000	(4,000)	35,000
Net value at purchase cost	€3,973,351	€1,374,212	€5,347,563
Net value at closing price	€6,113,250	€(627,000)	€5,486,250
Par value	€19,890	€(2,040)	€17,850
Percentage of share capital involved	0.04%	0.00%	0.03%

A report on any such transactions since 1 January 2011 will be submitted to you at the Annual General Meeting called in 2012 to approve the financial statements for the year ending 31 December 2011.

The Executive Management

## Change in share price over the past five years\*

2006				
Month	Closing price (€)			Monthly average daily trading volume
	High	Low	Average	
January	72.53	68.50	71.37	73,667
February	71.67	67.60	69.48	105,079
March	72.60	69.03	70.68	103,066
April	70.33	65.50	67.85	204,279
May	67.83	59.40	64.15	164,192
June	69.55	63.03	65.61	256,481
July	69.20	63.25	65.88	140,515
August	67.50	61.85	64.26	77,675
September	74.20	63.80	68.30	92,834
October	87.45	70.95	75.93	222,109
November	89.30	81.00	83.73	320,382
December	97.00	81.60	88.94	218,568

2007				
Month	Closing price (€)			Monthly average daily trading volume
	High	Low	Average	
January	96.90	91.20	92.96	199,317
February	103.69	91.80	95.73	267,736
March	107.50	94.20	101.20	268,007
April	108.70	102.90	106.50	192,698
May	108.60	101.61	104.45	277,394
June	103.80	83.06	89.27	637,127
July	84.64	71.67	78.59	448,523
August	86.00	70.00	76.78	528,695
September	80.79	76.75	78.84	290,265
October	92.84	78.30	88.22	279,543
November	92.40	79.62	84.13	300,309
December	91.20	83.21	86.67	179,400

2008				
Month	Closing price (€)			Monthly average daily trading volume
	High	Low	Average	
January	87.45	59.42	70.52	574,989
February	84.00	67.16	77.03	410,448
March	82.00	71.11	77.83	391,730
April	88.74	74.51	80.86	349,275
May	112.70	87.47	100.32	536,274
June	107.92	93.83	100.07	420,914
July	105.00	86.03	94.94	350,625
August	107.47	92.21	99.38	224,213
September	117.00	91.50	101.59	418,720
October	118.80	76.01	98.12	347,059
November	131.89	92.75	101.61	258,699
December	111.66	94.14	102.43	154,611

2009				
Month	Closing price (€)			Monthly average daily trading volume
	High	Low	Average	
January	104.65	75.01	87.85	133,436
February	83.60	65.66	74.50	223,503
March	87.56	64.84	74.96	218,118
April	103.00	84.00	92.46	195,080
May	104.10	94.51	99.92	111,435
June	101.00	88.91	93.88	146,674
July	106.70	92.29	99.28	85,991
August	106.30	98.65	102.04	62,496
September	102.95	97.00	100.09	74,879
October	101.10	94.29	97.61	66,937
November	99.95	92.52	96.47	59,159
December	98.68	91.80	94.91	50,477

2010				
Month	Closing price (€)			Monthly average daily trading volume
	High	Low	Average	
January	100.50	92.00	96.13	68,702
February	100.40	93.80	97.39	56,061
March	105.95	98.88	103.22	54,517
April	103.50	97.53	100.20	52,133
May	110.45	97.54	103.90	95,700
June	114.35	105.00	110.31	88,705
July	132.85	106.15	118.27	112,613
August	150.00	131.80	139.16	152,411
September	168.85	140.95	156.74	82,063
October	207.75	152.35	172.84	205,924
November	168.00	136.30	149.06	359,308
December	167.35	143.30	154.22	155,551

\* Figures adjusted to reflect three-for-one stock split on 10 June 2006.







## Information on the parent company financial statements, on accounts payable maturities, on subsidiaries and associates

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- 86 Information on parent company financial statements
- 86 Information on accounts payable
- 86 Information on subsidiaries and associates

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## INFORMATION ON THE PARENT COMPANY FINANCIAL STATEMENTS

The parent company financial statements as presented were approved by the Executive Management on 2 February 2011 and will be submitted to the shareholders for approval at the Annual General Meeting of 30 May 2011. The parent company financial statements were also reviewed by the Audit Committee at its meeting of 2 March 2011.

### *Revenue*

Revenue amounted to €90.9 million in 2010, an increase of 36% on the €67.0 million registered in 2009.

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 sales of the production subsidiaries.

### *Statement of financial position and statement of income*

Hermès International's statement of financial position and statement of income appear on pages 185 to 187.

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 2010, total assets amounted to €1,635.9 million compared with €1,348.4 at 31 December 2009. The statement of income shows net income of €325.2 million, compared with €243.2 million in 2009.

As at 31 December 2010, 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.

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## INFORMATION ON ACCOUNTS PAYABLE DUE DATES

Pursuant to Article L 441-6-1 of the *Code de Commerce* and of Decree No. 2008-1492 of 30 December 2008, a breakdown of trade accounts payable by due date is provided on page 199.

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## 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 consolidated financial statements (Note 32, page 179).

- *Merger of Holding Textile Hermès with and into Sport Soie (renamed Holding Textile Hermès).* The merger was made effective as of 1 January 2010 to simplify the organisation of the Textiles division within the Hermès Group.
- *Capital transactions:*
  - in Castille Investissements, John Lobb, Hermès Voyageur and Société d'Impression sur Étoffes du Grand Lemps, to recapitalise these entities;
  - in Maroquinerie de Saint-Antoine, to recapitalise this entity;
  - in Ateliers Tissage de Bussières et de Challes, to facilitate the partial transfer of assets described on the following page.

- 
- *Change of company name:*
    - Isamyol 11 was renamed Immobilière du 5 rue de Fürstemberg;
    - Isamyol 12 was renamed Ateliers de Tissage de Bussièrès et de Challes;
    - Hermès Bénélux Scandinavie was renamed Hermès Bénélux Nordics;
    - Full More Trading (Shanghai) Co., Ltd was renamed Shang Xia Trading (Shanghai) Co., Ltd.
  - *Conversion from société anonyme (limited liability company) to société par actions simplifiée (simplified limited liability company):*
    - of Castille Investissements;
    - of John Lobb.
  - *Change of management method.* On 8 June 2010, Comptoir Nouveau de la Parfumerie, a *société anonyme* governed by a Management Board and a Supervisory Board, converted its management to a one-tier system with a Board of Directors.
  - *Partial asset transfer.* On 25 October 2010, in a transaction backdated to 1 January 2010, Holding Textile Hermès transferred its clothing and upholstery textiles production and sales division to Ateliers de Tissage de Bussièrès et de Challes.
  - *Sale of business goodwill components and of a building.* On 27 October 2010, Créations Métaphores sold components of business goodwill attached to the industrial commission weaving of rayon silk or other textiles, purchasing of thread of all types, weaving, production and sale of unbleached and finished fabrics and any other natural fibres, particularly horsehair, with operations located in Challes, together with the property complex in which the aforesaid goodwill components were used.
  - *Creation of HCP Asia Leather.* The company was created on 15 December 2010. It is wholly-owned by Hermès Cuirs Précieux.



# Property and Insurance

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90 Property

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## Property

The Group owns its original registered office at 24, rue du Faubourg Saint-Honoré and 19-21, rue Boissy d'Anglas in Paris (75008). This facility houses the flagship Faubourg store, which was partially renovated and expanded in 2007, and administrative offices. Since 2007, the Group has also occupied office space near its registered office, on rue de la Ville-l'Évêque, Paris (75008), which it rents from third parties under commercial lease agreements. The employees of Hermès International were relocated to two locations: Faubourg Saint-Honoré and rue de la Ville-l'Évêque. The Group occupies some 22,000 m<sup>2</sup> of office space in Paris. This area includes the Faubourg Saint-Antoine site encompassing a leather goods production facility covering nearly 2,000 m<sup>2</sup>, in which the Group carried out substantial improvements in 2010. The Group also owns two logistics centres, one in Bobigny, in the Paris area (approximately 21,000 m<sup>2</sup>), the other in Nontron. Moreover, it owns a substantial base in Pantin, where Ateliers Hermès set up its facility in 1992, as well as office and warehouse space in adjacent or nearby buildings. The Group owns most of these sites. These operations cover a floor area of nearly 30,000 m<sup>2</sup>, organised into different business sectors such as leather goods, ready-to-wear, or silversmithing and jewellery. This area will be nearly doubled in the near future, once the Group completes the work on expanding its Pantin facility initiated in 2010. The

project involves erecting a complex of buildings and equipment designed to accommodate growth for the various business sectors.

The Group owns 28 of the 33 production units it operates, including three tanneries acquired in 2007 following the purchase of the Soficuir group. These production units are spread across 27 sites, 23 of them in France, one in Great Britain, one in Italy, one in Switzerland and one in the United States (for a detailed list, please see page 96).

Hermès products are available worldwide through a network of 317 exclusive stores. A detailed list of these appears in Volume 1, pages 68 to 73, of the Annual Report. Of the 317 Hermès exclusive retail outlets throughout the world, 193 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, and in Geneva, Switzerland. The branches are located in the following regions: 71 in Europe (including 16 in France), 34 in the Americas (including 24 in the US), 81 in Asia (including 28 in Japan), and 7 in the rest of the Asia-Pacific region. In 2010, the distribution network was enlarged with the addition of 13 Hermès exclusive retail outlets (all of them branches) around the world.

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 insurance programmes are placed with leading insurance companies, via several of the top ten brokers in France.

The main international insurance programmes cover:

1) Property damage and operating losses that may affect our production sites, logistics centres, distribution centres or administrative offices, 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 an earthquake insurance policy covering €40 million in direct damage and operating losses. It secured this policy several years ago.

This insurance coverage is supplemented by a prevention/engineering programme and preven-

tion inspections were carried out at 67 distribution sites in 2010. Implementation of the main recommendations issued is monitored through a formally documented system.

2) Financial liability for damages to persons, property and intangibles caused to third parties in the conduct of our business operations or by our products. This policy is underwritten by Chartis. The amount of coverage under this policy takes into account the nature of our operations. The upper cover limit per occurrence is €30 million and deductibles range from €1,000 to €10,000.

3) Transportation of our products between our production sites and to our distribution network. A two-year policy was secured from ACE.

In 2010, no material claims for damages were filed under these policies, other than the fire at the Antwerp shop, which was covered by our insurance company under our direct damage and operating loss policy.

The aggregate cost of our insurance policies amounts to approximately 0.18% of total revenue.





## NRE annexes: Environmental information

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95 Natural resources consumption

96 Production sites

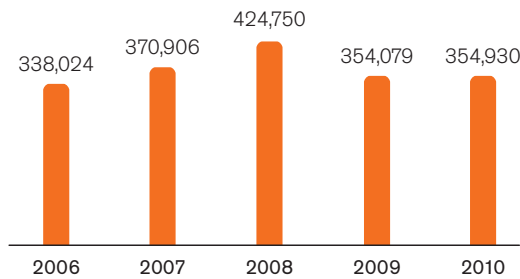
97 Results by sector



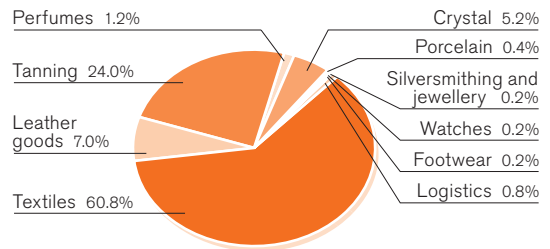


## Natural resources consumption

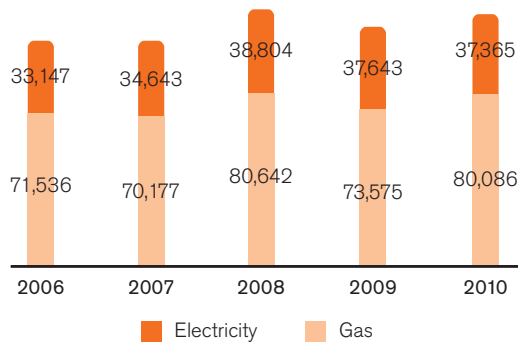
### • Change in water consumption <sup>(1)</sup> (m<sup>3</sup>)



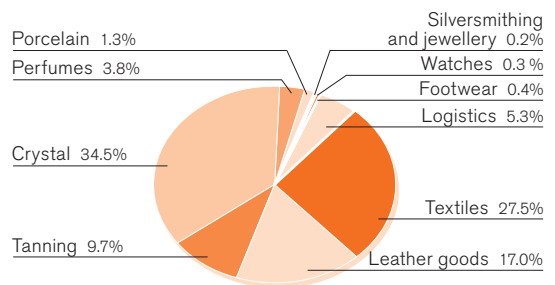
### • Breakdown of water consumption by sector - 2010 (m<sup>3</sup>)



### • Change in energy consumption <sup>(1)</sup> (MWh)



### • Breakdown of energy consumption by sector - 2010 (MWh)



(1) Including Hermès Cuir Précieux as from 2008.

## Production sites

The Hermès Group operates 33 production units on 27 sites (23 in France, 1 in Great Britain, 1 in Italy, 1 in Switzerland and 1 in the United States) and a logistics centre in Bobigny (France).

Sector	Company name ( <i>production site</i> )
Leather goods	Hermès Sellier ( <i>Faubourg Saint-Honoré, Pantin-Pyramide, Pantin-CIA, Pierre-Bénite</i> ) Maroquinerie de Saint-Antoine ( <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> ) La Manufacture de Seloncourt ( <i>Seloncourt</i> ) Manufacture de Haute Maroquinerie ( <i>Aix-les-Bains</i> ) La Maroquinerie Nontronnaise ( <i>Nontron</i> ) Ganterie de Saint-Junien ( <i>Saint-Junien</i> ) Comptoir Nouveau de la Parfumerie ( <i>Le Vaudreuil</i> )
Tanning	Gordon-Choisy ( <i>Montereau</i> ) Tanneries des Cuirs d'Indochine et de Madagascar ( <i>Vivoin</i> ) Michel Rettilli ( <i>Cuneo/Italy</i> ) Reptile Tannery of Louisiana ( <i>Lafayette/USA</i> )
Perfumes	Comptoir Nouveau de la Parfumerie ( <i>Le Vaudreuil</i> )
Textiles	Créations Métaphores ( <i>Saint-André-le-Gaz</i> ) Société d'Impression sur Étoffes du Grand-Lemps (SIEGL) ( <i>Le Grand-Lemps</i> ) Ateliers A. S. ( <i>Pierre-Bénite</i> ) Ateliers de Tissage de Bussières et de Challes ( <i>Bussières, Challes</i> ) Établissements Marcel Gandit ( <i>Bourgoin-Jallieu</i> ) Société Nontronnaise de Confection ( <i>Nontron</i> ) Holding Textile Hermès, formerly Sport Soie (HTH) ( <i>Pierre-Bénite</i> )
Crystal	Compagnie des Cristalleries de Saint-Louis ( <i>Saint-Louis-lès-Bitche</i> )
Silversmithing and jewellery	Compagnie des Arts de la Table (Puiforcat) ( <i>Pantin-CIA</i> )
Porcelain and enamel	Compagnie des Arts de la Table ( <i>Nontron</i> )
Watches	La Montre Hermès ( <i>Biel/Switzerland</i> )
Footwear	John Lobb ( <i>Paris-rue de Mogador, Northampton/United Kingdom</i> )
Logistics	Hermès Sellier ( <i>Bobigny</i> )

### LEATHER GOODS

#### • Environment, Health and Safety (EHS) organisation

The Hermès Leather Goods division comprises thirteen production facilities, a workshop at the site in Le Vaudreuil (Comptoir Nouveau de la Parfumerie) and a saddlery shop at rue du Faubourg Saint-Honoré.

Within the Leather Goods division, a multidisciplinary task force including the EHS and site maintenance officers, the persons in charge of continuous improvement and an occupational physician and nurse assembles four times a year for activities such as training and information sessions, visits, meetings and audit exercises. The task force is led by the division's Environment, Health and Safety (EHS) and Sustainable Development Director, who was appointed in April 2009.

In 2010, the task force's seminars addressed issues such as climate change and the collection, sorting and reclamation of waste. The task force also attended the Pollutec exhibition and participated in a training session on energy-efficient building management.

#### • Production facilities

Of the division's thirteen production sites, the four located in the greater Paris area account for the bulk of its water and energy consumption. This is due to the fact that the main site in the Paris area – Pyramide in Pantin – houses other Group facilities, including administrative offices, cafeterias, and meeting facilities such as the Podium, where many Group events are held.

Renovation work on the Maroquinerie de Saint-Antoine site in Paris was completed in 2010. All facilities outside of the greater Paris area, with the exception of the Saint-Junien and Selon-

court sites, are of recent design. In particular, the Maroquinerie de Belley facility was completely renovated in 2009, while the Bogny-sur-Meuse, Sayat, Pierre-Bénite and Nontron facilities were all built within the past seven years.

2010 was the first full year of operation at Nontron, which was built to HQE environmental quality standards. Positive results were derived from technical innovations such as a wood-fired boiler, photothermal solar panels, a green roof and Jardins Filtrants® water gardens, which naturally purify domestic wastewater.

#### • Figures

The figures below represent aggregate data for the Leather Goods division, not including the Le Vaudreuil and Faubourg Saint-Honoré workshops, which are included elsewhere.

	2006	2007	2008	2009	2010
Water (m <sup>3</sup> )	29,100	30,905	23,346	30,202	24,812
Electricity (MWh)	9,239	10,607	11,063	11,297	11,399
Gas (MWh)	7,758	7,755	9,130	7,410	8,572
Fuel oil (MWh)	1,752	1,382	1,037	953	726
OIW (t)	685	684	670	640	633
HIW(t)	18	15	21	29	37

#### • Water

While the bulk of the Leather Goods division's water consumption is for domestic use, water also supplies the automatic fire sprinkler system, outdoor sprinklers for green spaces at certain sites and back-up air conditioning systems at Pyramide. Since 2008, all sites have been equipped with water-based cleaning tables to wash production tools, eliminating all industrial wastewater.

Pantin-Pyramide accounts for nearly half of the division's total water consumption, as it is home to a range of different activities and hosts events in spaces such as the Podium. In 2010, water

consumption dropped by some 18% from its 2009 level, a reduction of over 5,000 m<sup>3</sup>. This was due to a combination of factors:

- Production facility at Maroquinerie des Ardennes: In 2009, a leak in the automatic fire sprinkler system was responsible for an estimated 2,000 m<sup>3</sup> of excess consumption over the year;
- Production facility at La Maroquinerie Nontronnaise: In 2009, filling the fire protection water tank required approximately 500 m<sup>3</sup> of municipal water. The tank is now topped up using water from a spring on the site.
- Pierre-Bénite: In 2010, water consumption was cut by some 1,200 m<sup>3</sup> by turning off the automatic lawn sprinkler system during the summer, when the weather was more overcast than usual.

#### • Energy

Total energy consumption (electricity, gas and fuel oil) rose by 5% year-on-year, from 19,660 MWh in 2009 to 20,697 MWh in 2010. Electricity is used for production tools (cutting machines, leather marking machines, work station lighting) and to light common areas, in some water heaters and to run the air conditioning, ventilation and cooling units in work areas.

Gas is used only for heating, not in the production process. Fuel oil was used to heat the CIA site in Pantin during the first half of 2010, for the last time. The fuel oil boiler was replaced by a gas-fired unit in the autumn.

Detailed energy diagnostics, initiated in 2009, were carried out at Bogny-sur-Meuse, Sayat, Nontron, Seloncourt, Aix-les-Bains and Pierre-Bénite in 2010. These diagnostics are part of a three-year plan budgeted for 2010-2013 and are conducted with an engineering firm that specialises in climate control.

In 2010, roof replacement work began at Seloncourt; at Aix-les-Bains work began to change the ventilation system in one workshop and to install a new dust extraction system in the sanding area.

#### *Electricity*

The substantial increases in energy consumption until 2007 were due mainly to expanded production capacity (through new construction or extensions to existing sites). Electricity consumption has remained relatively stable since 2008, edging up by 3% over the past three years. Between 2009 and 2010, electricity consumption rose by less than 1%. This modest rise is due to the increased floor area of the new Nontron facility, which is much larger than the workshops it replaces, and therefore requires more lighting. 2010 was its first full year of operation.

Conversely, other facilities have helped contain overall consumption by the Leather Goods division by cutting electricity use in the following ways:

- After a 13% fall in consumption in 2009, Maroquinerie des Ardennes reduced its electricity use by an additional 4% in 2010 by replacing weather stripping in buildings, turning off freeze protection heating cables once frost dates had passed and eliminating unnecessary lighting in low-traffic areas.
- After a shift to low-energy lighting reduced electricity use by 3% at Seloncourt in 2009, in 2010, LED lighting was installed in one of the facility's workshops and low-energy lighting was installed in all common areas. In December 2009, the cold units were replaced with more energy-efficient equipment and the settings on building management systems were improved.

As a result, the facility slashed its electricity consumption by 17% year-on-year.

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### *Fossil fuels*

Gas consumption rose by 16% between 2009 and 2010.

In 2010, the CIA Pantin site replaced its fuel oil furnace with a gas-fired unit.

The Group has made ongoing efforts to rein in gas consumption since 2009:

- work to improve weatherisation at Belley was completed during the summer of 2010. The full-year impact of this will be measurable at the end of 2011;

Furnace settings were adjusted to optimise the heating cycle at the Pierre-Bénite, Ardennes and Sayat facilities, thereby cutting their respective gas consumption by 45%, 28% and 18% between 2008 and 2009. Though consumption increased at certain sites, including Pierre-Bénite and Sayat, owing to unusually harsh weather in those areas in November and December, these efforts continued to prove their effectiveness in 2010;

- the photovoltaic solar panels used to heat the domestic water supply at the Nontron leather goods factory fully meet the facility's requirements;

- the wood furnace at Maroquinerie de Nontron was placed in service in the autumn of 2009. A gas furnace has been installed as a back-up to the wood furnace and provides heating in the mid-season. The wood furnace produces 49% of the facility's heat; the gas furnace produces 51%. The goal is to scale up heat production from wood in the years ahead;

- Maroquinerie de Saint-Antoine is now heated by the City of Paris' municipal heating network, instead of its own gas furnace.

### • **Waste**

Water-based glues are now used almost universally at all production facilities, which has eliminated

solvent waste, a source of HIW (Hazardous Industrial Waste).

Water-based cleaning tables for washing brushes and glue containers have been installed in all production facilities. Wastewater from the cleaning tables is treated by the cleaning-table supplier in compliance with regulations. As a result, paint brushes and containers are now reusable.

Leather scrap, which accounts for the bulk of the division's OIW (Ordinary Industrial Waste), is recycled.

The increase in HIW in Leather Goods is due mainly to improved sorting and to final waste from the cleaning tables, which is classified as HIW and removed to a specialised disposal facility.

### • **Bilan Carbone®**

The Bilan Carbone® carbon audit is a way of identifying activities that produce greenhouse gases, measuring their emissions and calculating their Carbon Dioxide Equivalent in tonnes. Bilan Carbone® audits were carried out at all Leather Goods production facilities between 2006 and 2009. Initial overall findings from the audits point to a number of areas for improvement, including:

- logistics and transportation of incoming materials: a centre for warehousing skins has been located near Lyon to serve our production sites in the Rhone-Alps region, thus reducing the distance travelled by raw materials;

- the heating and cooling systems used within the facilities: detailed energy diagnostics will allow adapted energy-saving measures to be put in place, thereby improving Bilan Carbone® results;

- employee transportation: the Pierre-Bénite facility has launched an inter-company transport plan in conjunction with other Group entities located on the site. The goal is to reduce the

use of cars by optimising commutes and travel time, raising awareness among employees and promoting alternative forms of transportation such as car-pooling, mass transit, bicycling, or walking in cooperation with partners such as SNCF, local community institutions and the ADEME. The Pierre-Bénite site (Hermès Sellier, Atelier A.S. and HTH) won second prize in the over-500-employee category in the greater Lyon area's latest car-pooling competition.

• **Health and safety**

All Leather Goods division production facilities comply with the latest workplace health and safety regulations, such as workplace risk documentation, orientation booklets and prevention plans. In 2010, as in the past several years, efforts focused on ergonomics, a recurring topic in the EHS task force's quarterly meetings. Improvements are made with the help of a specialised outside consultant.

Production sites have replaced solvent-based adhesives with water-based adhesives nearly across the board. In addition, gluing machines at certain facilities have been equipped with cartridge filters with a sensor that indicates clogging. The indoor air quality in the workshops is tested on a regular basis.

**TANNING**

The Tannery division's scope has grown from a single site in July 2007 (Gordon-Choisy, France) to include three other facilities: Tannerie des Cuirs d'Indochine et de Madagascar (T.C.I.M. in Vivoin, France), Michel Rettili (Cuneo, Italy) and Reptile Tannery of Louisiana (Lafayette, Louisiana, USA)

Today, these four tanneries form Hermès Cuir Précieux (HCP).

EHS actions are overseen by three dedicated officers in each tannery and by the plant managers, all of whom report to the division's Head of Production.

• **Figures**

	2008	2009	2010
Water (m <sup>3</sup> )	117,971	95,809	85,215
Electricity (MWh)	3,445	3,260	3,256
Gas (MWh)	7,093	7,567	8,104

• **Water**

The Tannery division accounts for roughly one-quarter of the Group's aggregate water consumption and taking steps to conserve water is a major priority for the teams working in each facility:

- Gordon-Choisy continued its efforts to cut water use, and following a 30% reduction between 2006 and 2009, water consumption fell by an additional 6% between 2009 and 2010, despite a 23% rise in the number of centimetres tanned (the best indicator of the facility's output). In addition to enhanced employee awareness, this improvement is due to a change in the rinsing process (the first phase in tanning), the first stage of which was completed in 2010. Work began on replacing old equipment (called "paddle vats") with a new-generation revolving drum, which uses less water and provides for better quality control over production. These modernisation efforts will continue in 2011 and 2012.

The installation of new, more energy-efficient gas boilers also actively contributed to lower water and energy consumption;

- T.C.I.M. slashed its water consumption by 28% between 2008 and 2010 on a similar level of



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production over those two years, continuing an initiative begun in 2007 with modernised equipment and updated rinsing, tanning, re-tanning, and dyeing processes. The site also started the first phase of a project to recycle water for production-related needs. This is possible thanks to the site's sophisticated effluent processing station, and in particular the nanofiltration system added to the station in 2008;

– Michel Rettili boasts the lowest water consumption per centimetre of output of any facility in the division, and further reduced its consumption relative to production by improving its order initiation process in 2010.

Water consumption at the site rose by only 20% over the year, despite a 61% jump in the number of centimetres delivered.

– RTL slashed its water use by 52% over 2010 by phasing out paddle vats, optimising its water supply system and overhauling its effluent evacuation system. Lower production in 2010 also contributed to the fall in water consumption.

The division's four tanneries fully comply with the stringent local regulatory requirements regarding the treatment of effluent from tanning processes.

#### • Energy

At T.C.I.M., RTL and Michel Rettili, major renovation work began in 2007 to enhance energy efficiency, including re-roofing, insulated suspended ceilings, removing fuel oil furnaces, renovating the steam system, upgrading the electrical system and installing more efficient lighting in workshops.

The Gordon-Choisy tannery also continued to make improvements. It replaced its fuel oil heating system with gas furnaces, installed a new heating process for process water and is gradually

improving the insulation in its workshops as it replaces its roof. The 7% increase in gas consumption in 2010 is attributable entirely to colder-than-normal temperatures in November and December and to the switch from fuel oil to gas heating at Gordon-Choisy.

#### • Waste

In recent years, all tanning facilities have pursued a policy of waste reduction. High OIW volumes logged over the past three years were due to extensive renovations and refurbishment of buildings and equipment.

#### • Bilan Carbone®

Between 2008 and 2009, each of the division's four tanneries carried out a Bilan Carbone® carbon audit to determine the carbon footprint of the division as a whole. The consolidated results of Hermès Cuir Précieux made it possible to identify and to initiate measures for improving the division's main source of carbon emissions, which is air shipping of its raw materials; namely raw reptile hides.

By switching to shipping by sea rather than air, the division could cut its greenhouse gas emissions by a factor of more than ten. This is a unique opportunity to reduce the division's carbon footprint appreciably.

Hermès Cuirs Précieux tans the skins of exotic species that come from faraway places. The three main species are *Crocodilus porosus*, which lives in Australia and Oceania, *Crocodilus niloticus*, an African species, and *Alligator mississippiensis*, which lives mainly in the bayous of Florida and Louisiana in the United States. As they are natural products, the hides of these reptiles are very fragile and susceptible to rot and decay in their untanned form. They must therefore be shipped rapidly over

thousands of kilometres to be transformed into durable leather in one of Hermès' tanneries.

In the past, air cargo was systematically used to minimise shipping times and to ensure the safe transport of these highly valuable hides, each of which requires several years of care as it is farmed. Given the hides' extreme fragility, detailed procedures had to be drawn up before considering the transition from air to sea shipping. To ensure that the untanned skins are kept stable and properly preserved during transport, three criteria must be met: the temperature must remain at 3°C, humidity must be maintained at 60% and they must travel in absolute darkness. If these conditions are met, transport time ceases to be an important variable, and shipping by sea is an entirely viable option.

To ensure these conditions were met, "tracers" that continuously record these three critical variables were installed on a series of test shipments. In January 2010, a first test shipment was sent from the United States to France to determine whether the cold chain was unbroken and other conditions were continuously observed. The results were satisfactory in all respects.

Now, shipping exotic skins by sea is preferred to air transport, particularly for alligator skins travelling from our Lafayette unit to Europe. The viability of shipping the skins of *Crocodilus niloticus* from Cape Town, South Africa to Le Havre, France by sea was also tested, and ship transport for *niloticus* skins will be phased in over 2011. A solution for transporting hides from Australia to France by sea is also under review.

#### • Health and safety

In 2010, the following actions were implemented to improve health and safety in the workplace:

- at T.C.I.M.: upgrading workstations, periodic

inspections of employee exposure to certain chemicals or to noise, fire drills and training;

- at Gordon-Choisy: development of a noise map, implementation of a training programme tailored to sector risks and installation of emergency supply cabinets for personnel trained and certified in rescue and first-aid techniques;

- at the RTL facility: completion of all items identified by the safety audit and institution of a monthly training programme for all personnel.

## PERFUMES

In 2010, the majority of investments were dedicated to fire protection and better vehicle traffic safety at Le Vaudreuil. Enhancements to the fire protection system now ensure it remains functional even during maintenance and testing, as part of a policy instituted in 2008 to reduce the risk of major accidents. The second project entailed building a new entrance to the site, making all traffic through the site one-way and removing points of intersection. A pedestrian walkway was also built to separate foot traffic from vehicle traffic.

#### • Figures

	2006	2007	2008	2009	2010
Water (m <sup>3</sup> )	6,251	5,426	5,644	5,777	4,359
Electricity (MWh)	1,206	1,422	1,422	1,430	1,446
Gas (MWh)	2,372	2,246	2,376	2,332	3,032
Fuel oil (MWh)	0.8	0.8	0.8	0.8	0.8
OIW (t)	426	375	361	341	351
HIW (t)	46	46	59	79	114

#### • Water

In 2010, water consumption at Le Vaudreuil declined again, for an overall reduction of 56%

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for the period 2005-2010. A non-Group company leased a part of the facility and was responsible for a significant portion of total water consumption. It moved out in 2010.

Washroom use accounts for some 80% of the facility's total water consumption. During the year, secondary metres were installed to monitor use in production and by the cafeteria. As a result, in 2011 it will be possible to analyse consumption in more detail and to develop targeted action plans for conservation.

#### • Energy

The reliability of the energy monitoring platform was enhanced during 2010. Detection thresholds will be incorporated in 2011 to identify any deviations in the facility's energy consumption as rapidly as possible.

In 2010, electricity consumption was stable despite a more than 30% rise in production volume. Nearly 50% of the facility's electricity consumption is for general heating, cooling and ventilation; some 20% is for air compressors used in production; other production equipment and lighting accounts for the balance. As part of the energy efficiency improvement programme, a variable-speed compressor was installed at the end of the year to replace the existing units. The resulting energy savings are expected to flow through in 2011. Gas consumption rose by nearly 30%. Gas is used mainly for heating the premises. Cold weather accounted for nearly one-third of the increase; the decision to maintain higher temperatures in the warehouses to improve working and product storage conditions accounted for most of the rest.

The balance of this rise in gas consumption is due to the installation of an air handling system in the production area, which helped to stabilise

temperatures and enhanced quality control of the products.

#### • Air quality

In 2010, the level of VOCs (volatile organic compounds) released into the atmosphere was measured at 0.69%. The recommended maximum for the perfume industry is 5%. VOC emissions mainly consist of ethanol, which is not bio-cumulative, disperses rapidly, biodegrades easily and poses no measurable threat to flora and fauna. These good results are due to lowering the temperature in the production area during the summer, which reduces evaporation, and by a change in rinsing procedures.

#### • Waste

At Le Vaudreuil, efforts continued to increase the volume of waste recycled. In 2010, the percentage rose to 54% as new types of obsolete components were disposed of through recycling programmes. The rest of the waste is disposed of through a process that uses it for energy production. In addition, the OIW disposal containers are analysed on a regular basis to identify new opportunities for recycling and to ensure that the direct sorting of waste in the packaging shop and the warehouses is done effectively.

The destruction of obsolete products was entirely responsible for the increase in HIW volumes.

#### • Bilan Carbone®

A Bilan Carbone® audit was conducted at the Le Vaudreuil facility in 2009. Based on its findings, improvement measures were identified and undertaken.

In 2010, the bottle for the new Voyage d'Hermès fragrance was designed to be refillable, and a refill is offered for sale, thereby extending the bottle's

life cycle. In logistics, a system was put in place to monitor different freight transport modes for finished products, in order to better measure this activity's impact on the division's overall carbon footprint.

• **Health and safety**

In 2010, a full-time nurse was hired to work at the Le Vaudreuil facility as a member of the HSE department, thereby expanding its expertise in workplace health conditions. This new addition has also helped to raise awareness of ergonomics and other health issues, subjects that are particularly important during periods of heavy production. Under the health and safety action plan, monthly meetings are held to address topics safety-related in each workshop, safety results are posted at the employee entrance, quarterly training sessions are held with personnel certified in rescue and first-aid techniques and in fire-fighting assistance (*Sauveteurs Secouristes du Travail* and *Équipiers de Seconde Intervention*). These measures are supplemented by site audits of all departments on EHS issues conducted every six months by a team of internal auditors and a member of the CHSCT (the health, safety and working conditions committee).

**TEXTILES**

Each of the eight sites in the Textiles division applies EHS policy through a programme set up at the beginning of each year by a sector-wide coordinator, with support from the Technical Director and the EHS Officer at Ateliers A.S. Total EHS-related expenditures came to €0.8 million in 2010.

• **Figures**

	2006	2007	2008	2009	2010
Water (m <sup>3</sup> )	235,000	260,000	241,000	198,775	215,800
Electricity (MWh)	9,887	9,678	10,075	9,266	9,520
Gas (MWh)	22,111	21,897	22,254	20,443	22,810
OIW (t)	346	469	306	239	345
HIW (t)	260	334	387	409	488

• **Water**

The Textiles division still accounts for most of the Group's water consumption (60.8% in 2010). Reducing water consumption at its production facilities is therefore a major environmental priority for the division and for the Group as a whole. The water conservation programme cut the division's aggregate water consumption by 17% between 2007 and 2010 and by 47% between 2002 and 2010.

At Ateliers A.S., a broad range of water conservation techniques have been applied over the past six years. In 2010, two water-recycling projects were initiated. The first recovers water used for back-washing the water softening units for the washing machines in the south workshop, and generated savings of 12,000 m<sup>3</sup> per year. The second recovers cooling water used in the dyeing workshop for use in the fabric washing machine, and cut water consumption by 7,000 m<sup>3</sup> per year, as well as reducing energy consumption. An improvement in the process for washing the mixing valves in the dye kitchen yielded savings of 6,000 m<sup>3</sup> per year. Additional savings are expected in the future from improvements in other areas, such as less frequent filter cleaning. These various measures limited the increase in water consumption at Ateliers A.S. to 5% between 2009 and 2010, despite a 21% increase in production.

At SIEGL, all improvement measures also continued. The new machine used to wash fabric

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installed at the end of 2009, which replaced a machine that previously accounted for nearly half the facility's total water consumption, held down growth in water consumption to 14% despite a 21% surge in production volume. The percentage of effluent recycled after processing is rising steadily. At the beginning of 2009, Établissements Marcel Gandit installed a new automatic scouring line and a new frame developing line that included a water recycling system, thereby cutting back water consumption by 26% per square metre of frame. The facility's consumption declined by 14% year-on-year in 2010, despite a 12% increase in production. Moreover, the use of silver halide film was slashed by 77% between 2008 and 2010, owing to the increased use of wax-jet screen engraving technology, which also lowered water consumption for the division.

As a result of these measures, the Textiles division's water consumption advanced by only 9% between 2009 and 2010, while production volume jumped by 21%.

#### • Effluent

The main focuses of the ongoing wastewater quality improvement programme were:

- continued efforts to find substitutes for certain chemicals;
- recovery of chemicals before tools and fabrics are washed;
- reduction of chemical consumption;
- improvement of wastewater treatment systems.

In 2010, in keeping with these principles, the new machine for removing and recovering the stripping product from printing tables at Ateliers A.S. cut the use of this solvent by over 17%. Improved colour and product recovery also helped limit pollution concentration in water and reduced water consumption. Chemical oxygen demand (COD,

expressed in mg/l) of effluent at Ateliers A.S. fell by 23%.

Likewise, at SIEGL, the membrane bioreactor that both treats and recycles water proved highly effective and reduced COD by 24%. New processes are currently being tested in an effort to reduce the use of stripping solvents for printing tables.

In addition to these actions, the photoengraver Etablissements Marcel Gandit completed work on its chemical retention system and installed systems for sealing off its sewer pipes in the event of an accident, with the approval of the local emergency response department.

#### • Energy

The Textile division is the Group's second-largest energy consumer and accounts for 27.5% of the Group's aggregate consumption. In 2008, energy diagnostics were carried out at Ateliers A.S. and HTH in order to better grasp the functioning of production and heating systems and to identify potential areas for improvement. Despite these efforts, the Textiles division's aggregate gas and electricity consumption rose by 12% and 3% respectively between 2009 and 2010. This was due both to growth in production and to adverse weather conditions.

Overall, the amount of electrical power used at Pierre-Bénite declined after the cooling unit at Sport Soie was replaced and the cooling unit dedicated to the 7/8 workshop was shut down in 2009. At the end of 2009, one of the boilers at Pierre-Bénite was replaced with a more efficient system for heating the HTH building and for air conditioning at Ateliers A.S. Gas consumption climbed by just 11%, despite a 21% increase in production. At the Bussières weaving facility, electricity and gas consumption rose by 10% and 25% respectively, owing to a 30% increase in production. For gas, the

heating season was extended owing to unusually cold weather during the winter of 2010.

At Etablissements Marcel Gandit, insulation of building roofs cut gas consumption by 14%.

Aerator and agitator function was further optimised at SIEGL, which lowered electricity consumption and improved the nitrification and denitrification process. All employees were encouraged to take steps to conserve energy. Over the year, gas and electricity consumption rose by 13% and 10% respectively, in direct proportion with the increase in production.

• **Waste**

The Textiles division's goal is to continually improve waste management and its removal to certified waste treatment facilities. It is worth noting that measures to reduce pollution in wastewater releases have caused HIW to rise (by 19%), mainly due to the increase in production. The volume of OIW climbed by 44%, owing primarily to increased production and to the disposal of obsolete tools.

• **Bilan Carbone®**

A Bilan Carbone® audit was conducted at Sport Soie, Gandit and Ateliers A.S. An action plan was drawn up based on results of the analysis of the major items covered by the audit, which for the Pierre-Bénite site included energy, raw materials (production of cotton, silk, metals for photoengraving, etc.), freight, and commuting to and from work. Actions initiated have reduced energy consumption, in particular by increasing awareness of good practice for building use, by recycling photoengraver frames and by setting up an inter-company transport plan in cooperation with the Leather Goods production facility at Pierre-Bénite. Moreover, the energy required for water treatment increases energy use, and thus the Bilan Carbone®

results, hence, any reduction in water consumption – a focus of efforts since 2002 – affects energy consumption.

• **Health and safety**

Personnel were made aware of EHS-related issues through site visits, meetings, regular poster campaigns and appropriate signage. Training sessions were held regularly, particularly for electrical risk, appropriate storage and shipping techniques and managing chemicals.

In 2010, many actions were carried out in coordination with the facilities' workplace health and safety committees (CHSCT). These included:

- updating of procedures (handling chemicals, orientation for new employees, etc.);
- ergonomic studies of workstations, the installation of new inspection machines, overhaul of the lighting system for work areas, the installation of new varnish cleaning tables and adjustable trestles in the photoengraving shop, etc.;
- workshop audits were carried out regularly by multidisciplinary teams, and followed up by action plans;
- asbestos removal in the archive rooms at Etablissements Marcel Gandit.

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**CRYSTAL**

At Compagnie des Cristalleries de Saint-Louis, two people are responsible for environmental, health and safety-related issues: an Environmental/New Construction Manager and a Health and Safety Officer.

In 2010, €0.4 million was invested in a series of projects to improve environmental performance and workplace health and safety at the facility.

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## • Figures

	2007	2008	2009	2010
Water (m <sup>3</sup> )	35,425	30,010	17,558	18,461
Electricity (MWh)	8,107	8,400	8,118	7,548
Gas (MWh)	33,962	35,089	31,799	33,028
Fuel oil (MWh)	82	92	101	168
OIW (t)	113	84	84	132
HIW (t)	1,279	1,106	1,228	1,086
Of which recycled/ reclaimed (t)	971	818	1052	935

## • Water

Between 2007 and 2010, water consumption declined by nearly 48%. This resounding success was brought about through careful, stringent water conservation efforts and staff motivation.

The increase in water consumption in 2010 is attributable to reconditioning the B3 continuous casting furnace and the extra production needed to eliminate the backlog. Several leaks were also found in the domestic water supply network.

## • Energy

Energy consumption skewed upward due to an atypical year in 2010, when major projects were carried out, including:

- the complete renovation of the main firing tool – the continuous casting glass tank furnace – which was shut down for five weeks, thereby reducing electricity consumption;
- the one-time burning off of the natural evacuating systems of the twelve-pot furnace using a gas burner pushed up gas consumption;
- the use of power generators while the electricity was shut off to perform the work on the tank furnace resulted in higher fuel oil consumption.

In the years ahead, energy consumption will be affected by the installation of a new evacuation and filtering system for the twelve-pot furnace

and the replacement of the annealing tunnel in the main production area, as this equipment operates continuously.

## • Waste

The increase in OIW was due entirely to the volume of refractory materials removed from the glass tank furnace during the renovation work in the summer. All of these products are recycled. The reduction in HIW tonnage in 2010 was due to cleaning out of stored cullet in 2009.

## • Effluent and atmospheric emissions

Investments in the field of effluents and atmospheric emissions are designed to limit their impact on employee health and on the environment.

All industrial wastewater undergoes a presettling process at the workshop where it is generated, after which it is collected at a single point. It is then run through a settling tank and purified in specialised filtration gardens, which were installed during the first half of 2009. The quality of the water ultimately discharged into the environment complies with the specifications set by local authorities. Sludge is collected twice a year and removed to an approved discharge site.

The facility's ammonia-processing centre (a workshop that clarifies ammonia-rich water from the rinsing stage of the chemical etching process) was extensively modernised in October 2009. Waste from the processing centre is treated in a specialised facility.

The chemical etching and polishing workshop was renovated in 2007: tempering processes, scrubbing towers, electrical distribution systems, vacuums and safety devices were all replaced. These expenditures helped decrease acid levels in water vapour emitted by the facility, and the facility now consumes fewer chemical reagents than it

did previously for the same production output. Reclaiming hexafluosilicic acid, a by-product, has reduced the use of neutralisation reagents by 30%.

New exhaust and dust extraction systems were installed for the composition mixing workshop and the twelve-pot furnace, and placed in service in October 2010. Releases of purified air into the atmosphere now meet or surpass specifications set by the local authorities.

Despite increasingly stringent regulations, and despite the fact that a number of measures still need to be taken, it is worth remarking that a comprehensive site inspection by the DREAL (regional department of the environment, housing and development) in October 2010 noted many positive points, which reflects the impact of investments in complex facilities initiated a decade ago, and of their careful operation.

• **REACH**

When REACH regulations went into effect, crystal was pre-registered as a substance of variable composition as a precaution, in close collaboration with the *Fédération des Cristalleries et Verreries à la Main et Mixtes* (Federation of Handmade and Mixed Crystal Glassworks). In 2009, work began in cooperation with the Federation to provide a technical basis for including crystal in the glass family, which would exempt it from registration requirements.

• **Health and safety**

Numerous actions were undertaken in 2010 to further decrease the frequency and severity of workplace accidents at the facility:

- new, medically equipped occupational medicine and infirmary facilities were built within the factory, and a nurse was hired in May;

- since September, safety work clothing maintained by an outside firm has been provided for the thirty most highly exposed employees;
- asbestos roofing in the jug and carafe workshop was removed using appropriate procedures;
- the washrooms in the main production hall and the access ramp there and in the cutting workshop were refurbished;
- a large-capacity passenger elevator was installed to replace the cargo lift in the cutting shop;
- an additional exhaust system was installed for crystal cleaning operations;
- the 16 workstations in the repair facility were moved so they could be linked to the air treatment and exhaust system in the cutting shop;
- workplace health and safety management training was held for CHSCT committee members and supervisors;
- updated training was provided for the factory's 37-member workplace first-aid team.

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**SILVERSMITHING AND JEWELLERY**

An EHS Officer works with the head of production to oversee environment, health and safety for the production workshop.

• **Figures**

	2006	2007	2008	2009	2010
Water (m <sup>3</sup> )	792	719	698	696	853
Electricity (MWh)	187	164	173	173	190
Gas (MWh)	18	18	19	18	17

• **Water**

Substantially higher water consumption in 2010 was due to two non-recurring factors:

- a malfunction of the overflow sensors in the



workshop's stripping tanks, which was repaired at the end of the year;

– a leak in the domestic hot water supply system while the plant was closed for the annual holiday.

#### • Energy

Gas is used for the blowpipes, for welding and brazing. Electricity consumption is directly proportional to the use of the equipment that it powers.

#### • Pollutant releases

In 2005, closed-circuit resin-based recycling systems for electroplating baths were installed in the Puiforcat workshop and in the prototype workshop. Every year, an outside specialist regenerates the filtration resins of the electroplating bath and disposes of the used bath liquids and of waste produced in the process. Instructions were entirely rewritten for using and maintaining the baths and for the alarm system, and posted at all workstations. To prevent accidental pollution, the chemicals are stored in special cabinets and the baths are installed on retention tanks.

#### • Health and safety

In 2010, the following measures have been taken to improve workplace health and safety:

- a complete documentation review was carried out;
- an orientation booklet for new hires was created;
- training in chemical risks was initiated;
- the blowpipes in the workshop were serviced and reconditioned;
- mats held down by suction cups were installed in the workshop to prevent falls;
- all employees wear anti-skid safety shoes;
- fire first responders received training.

## PORCELAIN AND ENAMEL

The main activities at the Nontron site are the decoration of blank porcelain and the production of enamelled bracelets. An EHS Officer who reports to the Facility Manager was appointed in 2009.

#### • Figures

	2006	2007	2008	2009	2010
Water (m <sup>3</sup> )	1,010	875	2,136	803	1,196
Electricity (MWh)	801	833	918	846	936
Gas (MWh)	447	538	530	478	547
Fuel oil (MWh)	73	62	74	55	55
OIW (t)	88	90	91	75	65
HIW (t)	0.7	0.3	1.0	1.7	3.9

#### • Water

The Nontron facility uses water in its production process, for both porcelain and its growing enamel operations, as well as for the usual domestic purposes. In porcelain, before the chromolithographs are applied, the patterns are soaked in hot water, which must be replaced on a regular basis. In the enamelling process, the raw material is suspended in water, then ground and mixed before entering spray booths, where particles are recovered via a water wash. In this activity, water is also used to clean instruments, paint guns, spray booths, jar mills, etc.

In 2010, water consumption was 49% higher than in 2009. This sharp increase was due to growth in porcelain production, which topped 15%, and the surge in enamel volumes, which nearly doubled year-over-year in 2010. The percentage of water used for domestic purposes rose in line with growth in production staff, with over thirty employees added during the year.

• **Energy**

Total energy consumption (electricity, gas and fuel oil) rose by 11.5% year-on-year. The 11% increase in electricity consumption mainly reflects higher enamel output, which requires the use of an additional kiln. In porcelain, volume growth and the seasonal nature of demand required that the kiln be operated in two shifts over four months of the year. Gas is used exclusively for heating the premises, and the rise in consumption reflects the direct impact of the severe winter in 2010.

• **Waste**

OIW volume declined by over 13%. The quantity of porcelain pieces scrapped fell sharply, after two years of culling obsolete inventories in 2008 and 2009. The improvement in the process yield in the various workshops helped to reduce total OIW in 2010.

The increase in HIW was due to the substantial rise in production of enamel in 2010. A station for processing wastewater was installed in the enamel workshop in 2009 and residues are eliminated through a specialised treatment facility.

• **Health and safety**

After the health and safety organisation was set up, the following actions were taken in 2010:

- drafting and circulation of an orientation booklet for new employees;
- training of part of the staff in chemical risks;
- initiation of a study of the facility's lighting and energy use with the help of a specialised consultant.

An ergonomist was also commissioned to improve the workstations of porcelain decorators and staff who work in picking, packing and shipping.

**WATCHES**

The factory at Biel, built in 1999, is dedicated to watch assembly. A leather watchband production unit was added to the facility in 2006. It complies with Switzerland's stringent environmental and workplace health and safety standards at the municipal, canton and federal levels.

Since June 2008, the head of watch production has also been responsible for handling environmental, health and safety issues at the site. An EHS Committee meets monthly and performs inspection tours. All employees are made aware of EHS issues through team meetings or individual training sessions. In 2010, as a result of these efforts, the facility obtained Highly Protected Risk certification following an external audit.

• **Figures**

	2006	2007	2008	2009	2010
Water (m <sup>3</sup> )	742	746	607	1,012	707
Electricity (MWh)	323	350	343	337	357
Unreclaimed OIW (t)	12	13	20	20	20
Unreclaimed OIW (m <sup>3</sup> )	60	65	70	101	195
HIW (t)	20	20	20	20	138

• **Water**

In 2010, water consumption dropped by nearly 30% year-on-year and was restored to its pre-2009 level. Most of the increase in 2009 was due to work to extend the network of sprinklers. Water consumption is monitored on a monthly basis.

• **Energy**

Electricity consumption edged up nearly 6% due to the installation of a new air conditioning system for the Company's IT servers and to a very hot summer (along with 2005, the hottest in the last

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100 years), which required more air conditioning than usual.

• **Waste**

The volume of unreclaimed OIW was stable, while recycled OIW volume rose by 93%, due to the fact that leather scraps stored since 2009 were destroyed in 2010. Ordinarily, OIW volume increases at the same rate as production, which expanded by over 15% in 2010.

HIW corresponds to used watch batteries, which are collected and dispatched to a specialised treatment facility. In 2010, HIW waste volume was higher than usual due to the disposal of used or expired products.

• **Health and safety**

The highlight of 2010 was the “Highly Protected Risk” certification obtained after an external audit, which reflects the viability of the production facility’s awareness-building, training and investment programmes over the past five years.

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**FOOTWEAR**

In 2009, the production managers at John Lobb-Northampton and John Lobb-Paris were put in charge of EHS-related issues.

• **Figures**

The figures below are for the Northampton production facility.

	2006	2007	2008	2009	2010
Water (m <sup>3</sup> )	520	459	809	861	847
Electricity (MWh)	233	227	237	219	233
Gas (MWh)	257	226	206	213	200

• **Water and energy**

Most water consumption is for washroom use and for the heating system. Water is also used during the production process, to prepare soles. Consumption has fluctuated little over the past three years, reflecting a nearly stable workforce and unchanged production process.

Total energy consumption edged down over the past five years. Energy-efficient lighting was gradually installed over the third quarter of 2010. The full-year impact will flow through as from 2011. Most gas is used for heating, so consumption depends on the weather. In 2010, the number of hours of heat use and temperature regulation were fine-tuned, thereby reducing gas consumption.

• **Waste**

The facility has signed a contract with a specialised company for the collection, removal and treatment of waste. Leather scraps, sharp objects, paper as well as cardboard are sorted out and disposed of separately. The facility has adopted selective waste sorting practices and appropriate signage has been posted. Waste is collected on a daily basis.

• **Health and safety**

In 2009, the Northampton facility adopted a new Health and Safety Policy, as required by UK regulations. During 2010, all employees at the site received training to familiarise them with this policy.

An outside consultant specialising in workplace health and safety issues provides support to follow up on the facility’s obligations in this area and keep them up to date. Follow-up procedures have been instituted to ensure that these obligations are analysed and monitored on a regular basis.

## LOGISTICS

### • Figures

	2006	2007	2008	2009	2010
Water (m <sup>3</sup> )	2,800	2,900	2,529	2,586	2,680
Electricity (MWh)	2,751	2,653	2,728	2,694	2,480
Gas (MWh)	3,648	2,987	3,945	3,316	3,776
OIW (t)	306	316	250	170	136
Of which recycled/ reclaimed (t)	242	155	83	124	107

### • Water and energy

Water consumption fell by about 4% between 2006 and 2010 despite a substantial increase in production. This reflects efforts to raise employee awareness in this area. In 2010, major work was initiated to complete the separation of rainwater runoff from wastewater, together with an overhaul of on-site roadways.

A variety of measures have been taken to cut electricity consumption since 2005:

- the night security lighting system for the warehouses was automated with the installation of motion sensors;
- existing lighting fixtures were replaced by low-energy or more efficient devices as upkeep was performed on the building. In 2010, these actions were stepped up at the logistics warehouse, primarily on the ground floor and first floor of Building 2, with an overhaul of the entire lighting system;

– on the first floor, the electrical installation was centralised around a switch bay.

Unusually cold weather during the months of November and December 2010 resulted in an increase in gas consumption between 2009 and 2010.

### • Waste

Year after year, the gradual transition to re-usable containers, such as roll-containers and bins, between the Group's various production facilities and the logistics centre in Bobigny, has reduced the use of cardboard for packaging and therefore the volume of OIW at the site. The percentage of OIW waste that is recycled continues to rise owing to collection and sorting efforts. The site does not generate any HIW.

### • Health and safety

Galvanised by a 46% drop in accidents between 2008 and 2009, in 2010, Logistics continued its efforts to raise employee awareness regarding safety and security issues, and pursued its staff training programme in this area. In addition to these ongoing efforts, a team was established in 2009 to analyse accidents and to institute corrective measures. These two factors helped to push down the number of accidents on the site again in 2010.





## NRE annexes: Human resources

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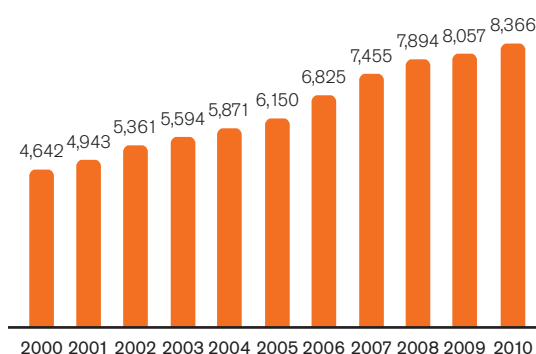


## Human resources information

### TOTAL HEADCOUNT

As at 31 December 2010, the Hermès Group had a total of 8,366 employees. During the year, it created 309 new jobs, primarily in sales.

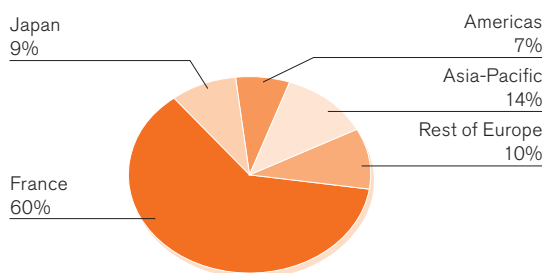
Over the past ten years, the Group's headcount has nearly doubled.



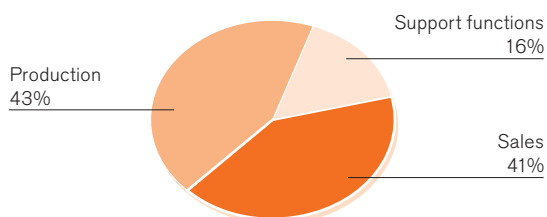
### WORKFORCE BY REGION

	Number of permanent active paid employees*		Change
	2010	2009	2010/2009
France	5,095	5,024	+1%
Rest of Europe	857	825	+4%
Americas	557	522	+7%
Asia-Pacific	1,136	968	+17%
Japan	721	718	n. s.
<b>Group workforce</b>	<b>8,366</b>	<b>8,057</b>	<b>+4%</b>

\* Open-ended agreements and fixed-term contracts with a term of more than nine months.  
n. s.: non significant.



### WORKFORCE BY JOB CATEGORY



Sales staff includes:

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

Production staff includes:

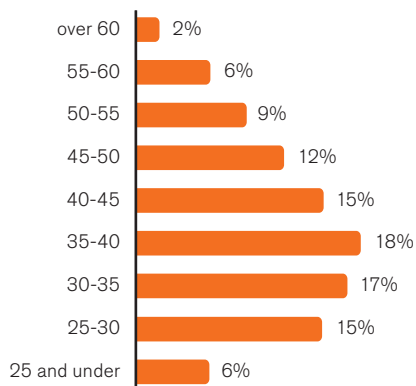
- all people who take part in the physical production of finished goods;
- all people in direct contact with finished goods, that is, employees who work in production without taking part in the actual process of physical production.

Support staff includes:

- all people who employ a specific skill or expertise in design or other creative fields;
- all people who are members of departments such as Executive Management, Finance, Human Resources, Administration, Legal, IT, Press, Public Relations, etc.

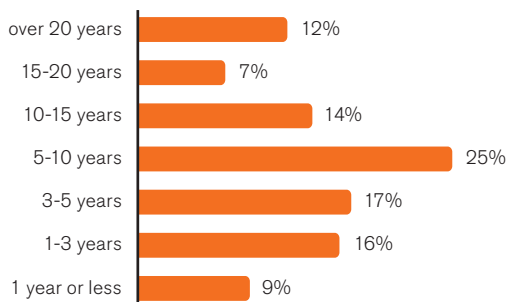
### WORKFORCE BY AGE

The distribution of the Group's workforce by age remained stable. The average employee age is 39.



### WORKFORCE BY LENGTH OF SERVICE

The average length of service is nine years and nearly 43% of staff members have been with the Group for less than five years.



### NEW EMPLOYEES

In 2010, the Group created 309 new jobs. Of these, 249 were covered by open-ended contracts. The biggest increase was in sales, with a 7.4% increase in the sales force to fill positions in new stores opened during the year.

The workforce expanded most significantly outside of France, primarily in the Asia-Pacific region and principally in China, where several new branches were added to the distribution network.

The breakdown of new jobs created in 2010 by region and by job category is shown below.

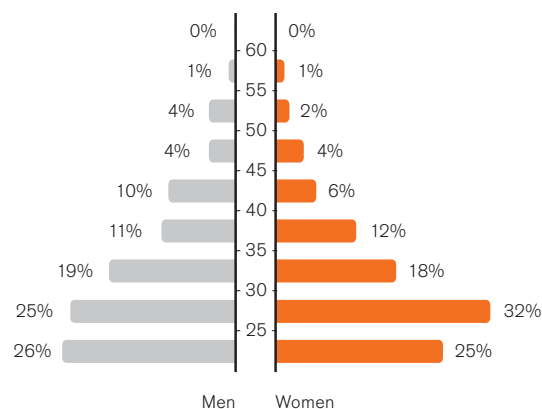
Americas	+7%
Asia-Pacific	+17%
Rest of Europe	+4%
France	+1%
Japan	n. s.
<b>Total - Group</b>	<b>+4%</b>

n. s.: not significant.

Sales	+7%
Production	n. s.
Support functions	+4%
<b>Total - Group</b>	<b>+4%</b>

n. s.: not significant.

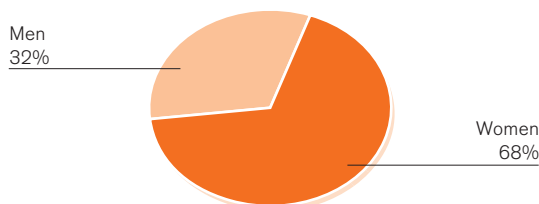
Over 750 new employees joined the Group in 2010. The average age of new employees in 2010 was 31 for women and 32 for men.



### GENDER EQUALITY

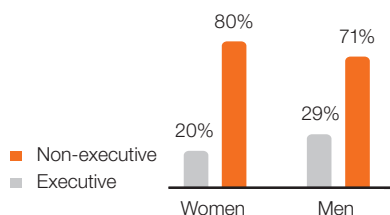
The majority of the Group's workforce (68%) is made up of women, who are represented at all

levels of the Group's hierarchy, in all sectors and in all employee representative bodies.

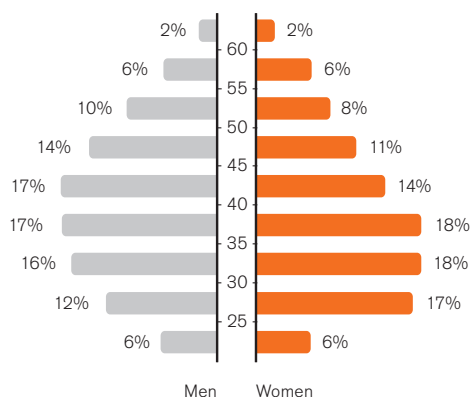


Analysis of workforce by gender and job category

	Women	Men
Sales	43%	35%
Production	41%	47%
Support functions	16%	18%



Age distribution for men and women was as follows:



## EMPLOYMENT OF DISABLED WORKERS

The number of officially disabled persons employed by Hermès rose over last year, and in 2010, these represented 3% of France's workforce, i.e. 150 people.

## REMUNERATION AND TRAINING

The Group's aggregate payroll amounted to €325 million in 2010 compared with €299 million in 2009, plus €105 million of payroll taxes and employer contributions, €31 million in incentive schemes and profit sharing and €1.3 million for employee support activities.

The rise in payroll costs (adjusted for currency impact) reflects increases in both headcount and salaries in all regions.

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 is determined primarily by employee qualifications and local job market factors. The Group's remuneration policy is based on rewarding employee initiative and skills development while ensuring internal and external fairness.

In addition, several years ago, the Hermès Group instituted an active training policy for its personnel.

## EMPLOYEE SUPPORT ACTIVITIES

The total amount paid to works councils for employee support activities rose by 2% in 2010:

(€m)	2008	2009	2010
Employee support activities	1.2	1.3	1.3

## INCENTIVE SCHEMES AND PROFIT-SHARING

(€m)	Incentive schemes	Profit sharing
2005	6.1	11.0
2006	7.5	12.3
2007	7.9	14.4
2008	10.4	14.7
2009	11.8	16.2
2010	14.0	17.0



## Consolidated financial statements

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## Consolidated statement of income for the year ended 31 December 2010

	in millions of euros	
	2010	2009
<b>Revenue</b> (Note 3)	<b>2,400.8</b>	<b>1,914.3</b>
Cost of sales (Note 4)	(815.0)	(701.7)
<b>Gross profit</b>	<b>1,585.8</b>	<b>1,212.6</b>
Selling, marketing and administrative expenses (Note 5)	(802.2)	(660.6)
Other income and expense (Note 6)	(115.4)	(89.1)
<b>Recurring operating income</b> (Note 3)	<b>668.2</b>	<b>462.9</b>
Other non-recurring income and expense	–	–
<b>Operating income</b>	<b>668.2</b>	<b>462.9</b>
Net financial income (Note 7)	(12.5)	(12.7)
<b>Pre-tax income</b>	<b>655.7</b>	<b>450.2</b>
Income tax expense (Note 8)	(220.9)	(148.2)
Net income from associates (Note 15)	(3.1)	(6.5)
<b>CONSOLIDATED NET INCOME</b>	<b>431.7</b>	<b>295.4</b>
Net income attributable to non-controlling interests (Note 21)	(10.0)	(6.7)
<b>NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT</b> (Note 3)	<b>421.7</b>	<b>288.8</b>
Earnings per share (in euros) (Note 9)	4.01	2.75
Diluted earnings per share (in euros) (Note 9)	4.00	2.74

### Consolidated statement of other comprehensive income

	in millions of euros	
	2010	2009
<b>Consolidated net income</b>	<b>431.7</b>	<b>295.4</b>
Actuarial gains and losses (Note 20.3)	(8.9)	(9.9)
Foreign currency adjustments (Note 20.3)	75.9	(5.5)
Derivatives included in equity (Note 20.3)	(25.3)	37.3
Gain/(loss) on sale of treasury shares (Note 20.3)	2.0	(0.3)
Income tax relating to components of other comprehensive income (Note 20.3)	11.8	(8.7)
<b>Comprehensive income</b>	<b>487.1</b>	<b>308.4</b>
– attributable to owners of the parent	475.4	301.6
– attributable to non-controlling interests	11.8	6.8

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## Consolidated statement of financial position as at 31 December 2010

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### ASSETS

	in millions of euros	
	31/12/2010	31/12/2009
<b>Non-current assets</b>	<b>1,354.8</b>	<b>1,175.6</b>
Goodwill (Note 10)	37.2	34.8
Intangible assets (Note 11)	75.2	61.2
Property, plant & equipment (Note 12)	774.2	685.1
Investment property (Note 13)	98.3	95.3
Financial assets (Note 14)	151.7	118.6
Investments in associates (Note 15)	14.3	15.0
Loans and deposits (Note 16)	24.3	21.0
Deferred tax assets (Note 8.3)	178.1	143.1
Other non-current assets (Note 18)	1.5	1.6
<b>Current assets</b>	<b>1,563.8</b>	<b>1,264.9</b>
Inventories and work-in-progress (Note 17)	468.6	485.8
Trade and other receivables (Note 18)	159.0	132.3
Current tax receivables (Note 18)	1.1	3.5
Other current assets (Note 18)	69.5	55.6
Fair value of financial instruments (Note 22.2.3)	21.7	58.2
Cash and cash equivalents (Note 19.1)	843.8	529.5
<b>TOTAL ASSETS</b>	<b>2,918.6</b>	<b>2,440.5</b>

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## EQUITY AND LIABILITIES

### Before appropriation

in millions of euros

	31/12/2010	31/12/2009
<b>Equity</b>	<b>2,163.2</b>	<b>1,803.9</b>
Share capital (Note 20)	53.8	53.8
Share premium	49.6	49.6
Treasury shares (Note 20)	(33.0)	(32.5)
Reserves	1,621.3	1,451.6
Foreign currency adjustments (Note 20.1)	42.7	(31.4)
Derivatives included in equity (Note 20.2)	(5.9)	10.0
Net income attributable to owners of the parent (Note 3)	421.7	288.8
Non-controlling interests (Note 21)	12.9	14.0
<b>Non-current liabilities</b>	<b>130.8</b>	<b>115.4</b>
Borrowings and debt (Notes 22.3 and 22.4)	17.9	19.4
Provisions (Note 23)	14.4	7.5
Post-employment and other employee benefit obligations (Note 25)	56.3	54.6
Deferred tax liabilities (Note 8.3)	12.1	10.0
Other non-current liabilities (Note 26)	30.1	23.9
<b>Current liabilities</b>	<b>624.6</b>	<b>521.2</b>
Borrowings and debt (Notes 22.3 and 22.4)	26.0	45.4
Provisions (Note 23)	31.0	13.8
Post-employment and other employee benefit obligations (Note 25)	6.2	4.2
Trade and other payables (Note 26)	234.6	198.3
Fair value of financial instruments (Note 22.2.3)	30.1	36.8
Current tax liabilities (Note 26)	76.3	39.4
Other current liabilities (Note 26)	220.3	183.3
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>2,918.6</b>	<b>2,440.5</b>

## Consolidated statement of changes in equity as at 31 December 2010

### Before appropriation

	Share capital (note 20)	Share premium	Treasury shares (note 20)
<b>As at 31 December 2008</b>	<b>53.8</b>	<b>48.6</b>	<b>(36.8)</b>
Net income attributable to owners of the parent	–	–	–
Other comprehensive income	–	–	–
<i>Sub-total</i>	–	–	–
Change in share capital and share premium	–	1.0	–
Purchase or sale of treasury shares	–	–	4.3
Share-based payment	–	–	–
Dividends paid	–	–	–
Other	–	–	–
<b>As at 31 December 2009</b>	<b>53.8</b>	<b>49.6</b>	<b>(32.5)</b>
Net income attributable to owners of the parent	–	–	–
Other comprehensive income	–	–	–
<i>Sub-total</i>	–	–	–
Change in share capital and share premium	–	–	–
Purchase or sale of treasury shares	–	–	(0.5)
Share-based payment	–	–	–
Dividends paid	–	–	–
Other <sup>(1)</sup>	–	–	–
<b>As at 31 December 2010</b>	<b>53.8</b>	<b>49.6</b>	<b>(33.0)</b>

(1) Following the application of the revised versions of IFRS 3 and IAS 27, all acquisitions or disposals of non-controlling interests that do not result in a change in control are recognised within equity. This accounting policy has no effect on net income. Please refer to Notes 2 and 21 for further details.

in millions of euros

Reserves and net income attributable to owners of the parent	Derivatives (note 20.2)	Foreign currency adjustments (note 20.1)	Actuarial gains and losses (note 25)	Shareholders' equity	Non-controlling interests (note 21)	Equity	Number of shares outstanding (note 9)
<b>1,574.7</b>	<b>(15.1)</b>	<b>(25.7)</b>	<b>(11.1)</b>	<b>1,588.5</b>	<b>14.0</b>	<b>1,602.5</b>	<b>105,550,012</b>
288.8	–	–	–	288.8	6.7	295.4	–
(0.2)	25.1	(5.6)	(6.5)	12.8	0.1	12.9	–
288.6	25.1	(5.6)	(6.5)	301.6	6.8	308.4	–
–	–	–	–	1.0	–	1.0	19,400
–	–	–	–	4.3	–	4.3	–
4.9	–	–	–	4.9	–	4.9	–
(109.9)	–	–	–	(109.9)	(6.3)	(116.2)	–
(0.3)	–	–	–	(0.3)	(0.6)	(0.8)	–
<b>1,757.9</b>	<b>10.0</b>	<b>(31.4)</b>	<b>(17.6)</b>	<b>1,789.9</b>	<b>14.0</b>	<b>1,803.9</b>	<b>105,569,412</b>
421.7	–	–	–	421.7	10.0	431.7	–
1.3	(15.9)	74.1	(5.8)	53.7	1.8	55.5	–
423.0	(15.9)	74.1	(5.8)	475.4	11.8	487.1	–
–	–	–	–	–	–	–	–
–	–	–	–	(0.5)	–	(0.5)	–
9.1	–	–	–	9.1	–	9.1	–
(112.0)	–	–	–	(112.0)	(7.0)	(119.1)	–
(11.6)	–	–	–	(11.6)	(5.9)	(17.5)	–
<b>2,066.4</b>	<b>(5.9)</b>	<b>42.7</b>	<b>(23.4)</b>	<b>2,150.3</b>	<b>12.9</b>	<b>2,163.2</b>	<b>105,569,412</b>

## Consolidated statement of cash flows for the year ended 31 December 2010

Before appropriation	in millions of euros	
	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income attributable to owners of the parent (Note 3)	421.7	288.8
Depreciation and amortisation (Notes 11 et 12)	97.1	81.7
Impairment losses (Notes 11 et 12)	3.8	2.8
Marked-to-market value of derivatives	7.1	3.9
Currency gains/(losses) on fair value adjustments	(8.3)	2.1
Change in provisions	23.2	7.4
Net income from associates (Note 15)	3.1	6.5
Net income attributable to non-controlling interests (Note 21)	10.0	6.7
Capital gains/(losses) on disposals	2.0	2.0
Deferred tax	2.8	(5.7)
Accrued expenses and income related to share-based payments (Note 30.4)	9.1	4.9
Other	–	0.2
<b>Operating cash flows</b>	<b>571.5</b>	<b>401.1</b>
Net cost of debt	3.5	4.2
Current tax expense	226.5	161.2
<b>Operating cash flows before cost of debt and current tax expense</b>	<b>801.5</b>	<b>566.5</b>
Change in working capital (Note 19.2)	59.5	59.2
Net cost of debt	(3.5)	(4.2)
Income tax paid	(193.6)	(164.0)
<b>Net cash from operating activities</b>	<b>663.8</b>	<b>457.5</b>
<b>CASH FLOWS USED IN INVESTING ACTIVITIES</b>		
Purchase of intangible assets (Note 11)	(23.9)	(19.2)
Purchase of property, plant and equipment (Notes 12 et 13)	(114.4)	(178.5)
Investments in associates	(15.5)	(9.5)
Purchase of other financial assets (Note 14.1)	(62.5)	(69.8)
Amounts payable relating to fixed assets	2.0	(1.7)
Proceeds from sales of operating assets	0.4	0.8
Proceeds from disposals of consolidated securities	0.1	–
Proceeds from sales of other financial assets (Note 14.1)	25.7	–
<b>Net cash used in investing activities</b>	<b>(188.1)</b>	<b>(277.9)</b>
<b>CASH FLOWS USED IN FINANCING ACTIVITIES</b>		
Dividends paid	(119.1)	(116.2)
Purchase of treasury shares	(0.5)	4.3
Borrowings	1.8	9.1
Reimbursements of borrowings	(23.1)	(25.7)
Other increases/(decreases) in equity	–	1.0
<b>Net cash used in financing activities</b>	<b>(140.9)</b>	<b>(127.5)</b>
Effect of changes in the scope of consolidation (Note 19.1)	0.1	0.9
Effect of foreign currency exchange on intragroup transactions	(26.5)	6.7
Effect of foreign currency exchange (Note 19.1)	12.5	(2.6)
<b>CHANGE IN NET CASH POSITION (Note 19.1)</b>	<b>320.9</b>	<b>57.1</b>
Net cash position at beginning of period (Note 19.1)	507.6	450.5
Net cash position at end of period (Note 19.1)	828.5	507.6
<b>CHANGE IN NET CASH POSITION (Note 19.1)</b>	<b>320.9</b>	<b>57.1</b>

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## Notes to the consolidated financial statements

Hermès International is a *société en commandite par actions* (partnership limited by shares) established under French law. It is listed on the 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). Hermès International will be dissolved automatically on 31 December 2090, except in the event of early dissolution or unless the term is extended.

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 3 March 2011 and will be submitted to the shareholders for approval at the Annual General Meeting on 30 May 2011. The consolidated financial statements for 2010 were also reviewed by the Audit Committee at its meeting on 2 March 2011.

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### NOTE 1 - ACCOUNTING POLICIES AND PRINCIPLES

#### 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 2010. Under European Regulation 1606/2002 of 19 July 2002 (available on the [www.eur-lex.europa.eu](http://www.eur-lex.europa.eu) website), 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 and interpretations

As at 31 December 2010, the Group applied the revised standards IFRS 3 – *Business Combinations* and IAS 27 – *Consolidated and Separate Financial Statements*. In accordance with these revised standards, in 2010, any increase in equity interests was recorded directly in equity.

The following standards and interpretations, whose application is mandatory as from 31 December 2010, did not produce any impact on the consolidated financial statements:

- ◆ Annual Improvements to IFRSs (2007-2009);
- ◆ Amendments to IFRS 2 – *Group Cash-settled Share-based Payment Transactions*;
- ◆ Amendments to IFRS 5 – *Plan to sell the controlling*

*interest in a subsidiary*, published in May 2008 as part of the annual improvements to IFRSs;

- ◆ Amendments to IAS 39 – *Eligible Hedged Items*;
- ◆ IFRIC 12 – *Service Concession Arrangements*;
- ◆ IFRIC 15 – *Agreements for the Construction of Real Estate*;
- ◆ IFRIC 16 – *Hedges of a Net Investment in a Foreign Operation*;
- ◆ IFRIC 17 – *Distributions of Non-cash Assets to Owners*; and
- ◆ IFRIC 18 – *Transfers of Assets from Customers*.

##### 1.1.2. Non-mandatory standards and interpretations

As at 31 December 2010, the Group did not opt for prospective application of the following non-mandatory standards and interpretations:

- ◆ Amendments to IAS 24 – *Related Party Disclosures*;
- ◆ Amendments to IAS 32 – *Classification of Rights Issues* (applicable to financial years commencing on or after 1 February 2010);
- ◆ IFRIC 19 – *Extinguishing Financial Liabilities with Equity Instruments*;
- ◆ IFRIC 14 – *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*.

These standards and interpretations are not expected to produce any impact on the measurement of financial data.

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### **1.1.3. Differences between the accounting standards applied and IFRSs adopted by IASB**

As at 31 December 2010, several standards and interpretations had been published by IASB but had not yet been adopted by the European Union, in particular:

- ◆ Annual Improvements to IFRSs (2009-2011);
- ◆ IFRS 9 – *Financial Instruments* – Phase I; and
- ◆ Amendments to IFRS 7 – *Disclosures – Transfers of Financial Assets*.

## **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 income attributable to non-controlling interests are identified separately under "Non-controlling interests" in the consolidated statement of financial position and the consolidated statement of income.

### **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.

### **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%, are accounted for using the equity method.

### **1.2.4 - Newly consolidated and deconsolidated companies**

Subsidiaries are included in the consolidation 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 - Conversion of foreign-currency items**

### **1.3.1 - 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 income 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 income 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 intragroup transactions**

The effect on the statement of income of intragroup 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 subject to corporate 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.

IAS 12 – *Income Taxes* specifies that deferred tax balances shall not be classified as non-current.

#### **1.6 - First-time consolidation and goodwill**

In accordance with IFRS 3 – *Business Combinations*, business combinations carried out prior to 1 January 2010 were accounted for using the purchase method. When a company under exclusive control is consolidated for the first time, the assets, liabilities and contingent liabilities of the acquired company are measured at fair value, in accordance with IFRS rules. This valuation is carried out within no more than one year, in the currency of the acquired entity.

The resulting valuation adjustments are recognised 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 acquisition cost and the share of net assets measured at fair value, is recognised under goodwill.

The revised versions of IFRS 3 – *Business Combinations* and IAS 27 – *Consolidated and Separate Financial Statements* amended the rules for recognising and measuring transactions carried out after 1 January 2010. 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 non-controlling interests purchased or sold and the net carrying value is directly recorded in equity.

The valuation of identifiable intangible assets recognised 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, 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).

Goodwill of associates is recognised under "Investments in associates". When impairment criteria as defined by IAS 36 – *Impairment of Assets* indicate that these investments may be impaired, the amount of such impairment is determined in accordance with the rules defined by IAS 36.

Goodwill impairment is not 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; and
- ◆ 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.

Other intangible assets are amortised on a straight-line basis over periods ranging from one to five years maximum and are deemed to be fixed assets with a finite life.

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.

#### **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: 30 to 50 years;
- ◆ leasehold improvements, furniture and fixtures: 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 fittings);
- ◆ machinery, plant and equipment: 10 to 20 years;
- ◆ other: 3 to 10 years maximum.

The different components of an asset are recorded as separate items when their estimated lives, and therefore the periods over which they are depreciated, differ significantly. Where an asset 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 assets represent the difference between the sale proceeds and the net carrying amount of the divested asset, and are included in "Other operating income and expense".

#### **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 expense 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 fiscal year.

Leases that do not meet the criteria of finance leases are treated as operating leases, in which case the rents are recorded under income 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". 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 intangible assets and property, plant and equipment 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.

#### **1.8.1 - Model**

In determining the recoverable amount of intangible 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 flow (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 for the Group (9.28% in 2010) 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:

- ◆ sales units (branches), which are treated independently from one another;
- ◆ businesses centred on production or distribution of one type of product, such as Perfumes, Watches or Tableware;
- ◆ separate production activities (Leather Goods production, Silk Products production);
- ◆ associates;
- ◆ investment property.

### **1.9 - Financial assets and liabilities**

In accordance with IFRS, 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.

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### **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 income**

These financial assets and liabilities are classified as such at the inception of the transaction for the following reasons:

- ◆ they were bought with the intention of reselling them in the near future;
- ◆ they are derivatives that do not qualify as hedging instruments (trading derivatives); or
- ◆ the Group has elected to classify them in this category as allowed by IAS 39.

These assets are initially recognised at acquisition cost excluding incidental acquisition expenses. For each closing period, they are measured at fair value. Changes in fair value are recorded in the statement of income under "Other financial income and expense".

Dividends and interest received on these assets are also recognised in the statement of income under "Other financial income and expense".

#### **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 income under "Other financial income and expense".

#### **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 income under "Other financial income and expense".

#### **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 shareholders' equity in

"Derivatives included in equity". For instruments quoted in an active market, the fair value is the market value. If the fair value cannot be reliably estimated by other generally accepted valuation methods such as discounted future cash flows, these instruments are valued at acquisition cost less accumulated impairment.

For available-for-sale financial assets represented by debt securities, interest is calculated at the effective interest rate and credited to the statement of income under "Other financial income and expense".

#### **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 income under "Gross cost of debt" over the duration of the financial debt.

#### **F. Derivative financial instruments**

##### *Scope*

The scope of derivative financial instruments 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.

##### *Measurement and recognition*

Derivatives are initially recorded at fair value, based on quoted prices and market data available from external sources. The Group may also base its valuation on internal models recognised by market participants and including data directly derived from the above mentioned observable data.

Changes in the fair value of these derivatives are recorded in the statement of income, unless they are classified as cash flow hedges, as described below. Changes in the fair value of such hedging instruments are recorded directly in shareholders' equity, under "Derivatives included in equity", excluding the ineffective portion of the hedge, which is recorded in the statement of income under "Other financial income and expense". 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 income in the same way as for the hedged item.

Only derivative instruments external to the Group qualify for hedge accounting, and gains or losses on internal derivatives are eliminated in the consolidated financial statements. However, in a cash flow hedging relationship initiated via derivatives internal to the Group, hedge accounting is applied if it can be demonstrated that the internal derivatives will be matched with similar transactions external to the Group.

### *Derivatives classified as hedges*

The Group uses derivatives to hedge its foreign exchange risks.

The Group applies the criteria defined by IAS 39 – *Financial Instruments: Recognition and Measurement* in classifying derivatives as hedges:

- 1) the instrument must hedge changes in fair value or cash flows attributable to the risk hedged, and the effectiveness of the hedge (i.e. the degree to which changes in the value of the hedging instrument offset changes in the value of the hedged item or future transaction) must be between 80% and 125%;
- 2) in cash flow hedges, the future transaction being hedged must be highly probable;
- 3) reliable measurement of the effectiveness of the hedge must be possible;
- 4) the hedge must be supported by appropriate documentation from its inception.

The Group classifies hedges in the following categories:

- a) **Fair value hedges.** These instruments hedge the

exposure to changes in the fair value of an asset or liability recorded in the statement of financial position, or a firm commitment to purchase or sell an asset. Changes in the fair value of the hedged item attributable to the hedged component of that item are recorded in the statement of income and offset by corresponding variations in the fair value of the hedging instrument. Only the ineffective portion of the hedge has an impact on income.

- b) **Cash flow hedges.** These instruments hedge highly probable future transactions from the variability in cash flows generated by the hedged transaction by offsetting the latter by changes in the value of the hedging instrument.

### **G. Cash and cash equivalents**

Cash and cash equivalents comprise liquid assets and short-term investments, usually maturing within three months or less of the acquisition date, and with negligible risk of fluctuation 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 equity.

### **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 income under "Other

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financial income and expense". 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 income.

#### **1.9.3. Classification of valuation techniques used for financial instruments**

In accordance with IFRS 7 – *Financial Instruments: Disclosures*, assets and liabilities recognised at fair value are measured as follows:

- ◆ Level 1: Quoted prices in an active market. When available, quoted prices in an active market are the preferred valuation technique for determining market value;
- ◆ Level 2: Internal model using observable inputs based on internal valuation techniques. These techniques rely on standard mathematical calculation methods based on observable market data, such as term prices and yield curves. Most market-traded derivative financial instruments are measured using models customarily used by market operators to value such financial instruments;
- ◆ Level 3: Internal model based on non-observable inputs. The fair value of the carrying amounts used is a reasonable estimate of market value. This method applies mainly to non-current financial assets.

In 2010, the valuation techniques used to measure the fair value of financial assets and liabilities were not changed.

#### **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**

Shares held in treasury 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 net income.

#### **1.12 - Revenue and trade receivables**

Revenue consists of sales of purchased 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.

#### **1.12.1 Credit risk**

Credit risk arises from the potential inability of customers 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 income when the carrying amount of the asset is higher than its recoverable amount.

### 1.13 - Other non-recurring income and expense

“Non-recurring operating income and expense” 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.

This line item therefore includes significant amounts of income and expense items generated by unusual or infrequent events. It does not include impairment losses on fixed assets inasmuch as these items occur on a recurring basis.

### 1.14 - Operating segments

In accordance with IFRS 8 – *Operating Segments*, the segment information presented is based on internal reporting used by management to assess the performance of the different business sectors.

#### 1.14.1 - Information by operating segment

The Hermès Group’s business comprises two main segments: distribution through the Hermès exclusive network and distribution via specialised outlets. These two main business segments have separate strategies and structures and are exposed to different risks and rates of return. Sales from these two segments accounts for more than 90% of the Group’s revenue, and the business activities that are not classified into one of these segments are not materially significant when taken individually.

Distribution through the Hermès exclusive network encompasses the following business lines:

- ◆ Silk and Textiles;
- ◆ Leather Goods and Saddlery, which includes bags and luggage, saddlery and horse riding gears, diaries and small leather goods;
- ◆ Ready-to-wear and Fashion Accessories, which includes men and women’s clothing, belts, jewellery accessories, gloves, hats and Hermès shoes;
- ◆ Other Hermès sectors, which includes jewellery and Art of Living products.

Distribution via specialised outlets comprises the following business lines:

- ◆ Perfumes;
- ◆ Watches;

- ◆ Tableware.

“Other” products not included in these two sectors include John Lobb shoes and products manufactured for brands outside the Group (textile printing, perfumes, tanning, etc.).

#### 1.14.2 - Information by geographical segment

The definition of geographical segments is based, *inter alia*, on proximity of business operations, relationships between operations in different geographical areas, underlying currency risks, and management responsibilities and the Group’s structure.

### 1.15 - Commitments to buy out non-controlling interests

The Group has given the non-controlling shareholders of certain subsidiaries a commitment to buy out their shares.

The Group recognises these commitments, when they have been entered into prior to the application of revised IFRS 3, as follows:

- ◆ the amount of the commitment as of the closing date is recorded under “Non-current liabilities”;
- ◆ the corresponding non-controlling interests are reclassified in the above-mentioned line item.

Any difference between the amount of the commitment and the reclassified non-controlling interests is recorded under “Goodwill”, the value of which varies commensurately with the value of the commitment. This method of recognition has no impact on the method of presenting non-controlling interests in the statement of income.

The adoption of the amendments to IFRS 3 – *Business Combinations* does not change the accounting method for these past commitments. Pursuant to this standard, which is applicable as from 1 January 2010, only business combinations with an acquisition date later than 1 July 2009 are concerned.

### 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

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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 - Post-employment and other employee benefit obligations**

In keeping with the laws and practices in each country where it operates, the Group participates in post-employment and other retirement benefit schemes for employees and in top-up schemes for executives and senior managers.

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.

For defined-benefit plans, the Group's obligations are calculated annually by an independent actuary using the projected credit unit method. This calculation is based on actuarial assumptions and takes into account the employee's expected 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 for each country where the obligations are located. It is recognised on a pro-rata basis to employee 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.

The expense recognised in the statement of income is the sum of:

- ◆ the past service cost, which constitutes the increase in obligations arising from the vesting of one additional year of rights; and
- ◆ the interest cost, which reflects the increase in the present value of the obligations during the period.

The Hermès Group has applied the SoRIE amendment to IAS 19 - *Employee Benefits*, on the method of recognising actuarial gains and losses on post-employment benefits. All such gains and losses are now recorded under equity over the period in which they are recognised.

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.

### **1.18 - Income tax expense**

Income tax expense includes:

- ◆ the current tax for the 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 year-end (full reserve) at the tax rate in force on that date, or at the rate for the subsequent year where known. Previous deferred tax is revalued using the same rate (liability method).

The main categories of deferred tax apply to restatements of internal profits on inventories, provisions for inventories and timing differences.

If a recovery risk arises on some or all of a deferred tax asset, an impairment is recorded.

Deferred tax is also recognised on unrealised gains on investments in associates. In accordance with IAS 12 – *Income Taxes*, these gains represent the difference between the consolidated value of these investments and their tax value. They are taxed at the reduced rate of 1.7%. This reduced rate has been adopted based on the following factors:

- ◆ the Hermès Group does not intend to sell these investments in the medium term;
- ◆ no dividend distributions from these investments are expected in the medium term.

Foreign currency differences arising from the conversion of deferred tax income or expense are recognised in the statement of income in deferred tax income or expense.

#### **1.18.2 - Group tax election**

Since 1 January 1988, the company has opted for a group tax election under French tax law. Under the terms of an agreement between the parent company and the subsidiaries included in the group tax election, projected and actual tax savings or liabilities generated by the Group are recognised in the parent company's statement of income 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 tax 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 average number of ordinary shares outstanding during the period is the number of ordinary shares outstanding at the beginning of the period, adjusted by the number of ordinary shares bought back or issued during the period multiplied by a time-weighting factor.

Diluted earnings per share is adjusted for the effects of all potentially dilutive ordinary shares that may be created as a result of the conversion of convertible instruments, the exercise of stock options or share warrants, or the issuance of new shares.

#### **1.21 - Share subscription options and share purchase options**

Share subscription options and share purchase options granted to employees are recognised as expenses at fair value, with a corresponding increase in equity over the vesting period.

The fair value of stock options is determined using a binomial model, which takes into account the attributes

of the plan (exercise price, exercise period), market data at the time of allotment (risk-free rate, share price, volatility, expected dividends) and assumptions on the beneficiaries' behaviour.

Only the plans granted after 7 November 2002 under which options were not vested as of 1 January 2005 are recognised in accordance with IFRS 2 – *Share-based Payment*.

#### **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 comparative historical data and on a variety of assumptions, which it deems to be the most reasonable and probable under the circumstances. Accounting principles that require the use of assessments and estimates are also described in the relevant notes.

Furthermore, IAS 1 - *Presentation of Financial Statements* requires that the main assumptions and sources of uncertainty underlying such estimates be described, whenever there is a significant risk that the estimated amounts of assets and liabilities will be materially adjusted during the following period. In this case, the notes include information which, by its nature or scope, helps users of the financial statements to understand the judgments management has made, including but not limited to:

- ◆ the nature of the assumption or estimate;
- ◆ the sensitivity of carrying amounts to the methods, assumptions and estimates underlying their calculation;
- ◆ the expected resolution of any uncertainty and the range of reasonably possible outcomes within the next financial year; and
- ◆ an explanation of any changes made to past assumptions if the uncertainty remains unresolved.

The main items that require the use of assessments and estimates are as follows:

**1.22.1 - Depreciation and amortisation periods for property, plant & equipment and intangible assets**  
Estimates and assumptions are used to calculate the



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estimated useful life of these assets in order to determine the period over which they should be depreciated or amortised and to recognise any impairment in value. This useful life is determined in accordance with the Group's accounting principles, which are applied uniformly and systematically by all subsidiaries. These periods are shown in Note 1.7.

#### **1.22.2 - Impairment of fixed assets**

The value of fixed assets has been reviewed in detail in order to determine whether any impairment loss must be recognised in accordance with the model described in Note 1.8. The impairment testing model and the assumptions used are estimates based on management's judgment, past events and, whenever available, information from external sources. These have been applied in determining discount rates, terminal values, sales projections, and operating margins.

#### **1.22.3 - Provisions**

A provision is a liability of uncertain timing or amount. Estimates and assumptions are used in calculating provisions and may be a source of uncertainty. When there is significant uncertainty, which may in particular be the case in analysing provisions for risks and litigation, the provision is assessed on the basis of the scenario that

is deemed to be the most probable and/or the most conservative, in accordance with the principles set forth in Note 1.16.

#### **1.22.4 - Post-employment and other employee benefit obligations**

Obligations under defined-benefit plans are calculated based on assumptions provided by an independent actuary, in accordance with the principles described in Note 1.17.

#### **1.22.5 - Deferred tax**

Deferred tax assets and liabilities are recognised in accordance with the principles described in Note 1.18. When an entity has recognised tax losses in the recent past, as a general rule, no deferred tax asset is recognised until there is a reasonable certainty that it will return to profits.

#### **1.23 - Subsequent events**

No significant event has occurred since the 31 December 2010 closing.

The dividend that was proposed after the closing date but before the publication date of the financial statements is €1.50 per share. A €1.00 interim dividend was paid on 10 February 2011.

## NOTE 2 - CHANGES IN THE SCOPE OF CONSOLIDATION

	Interest		Method	
	31/12/2010	31/12/2009	31/12/2010	31/12/2009
<b>Additions</b>				
Ateliers de Tissage de Bussières et de Challes	96.17%	–	Full	–
HCP Asia Leather	100.00%	–	Full	–
Immobilière du 5 rue de Fürstemberg	100.00%	–	Full	–
<b>Removals</b>				
Holding Textile Hermès	–	100.00%	–	Full
Erbé Maroquinier	–	99.77%	–	Full
WHY S.A.M.	–	55.00%	–	EA
<b>Other changes</b>				
Ateliers A. S.	72.03%	74.18%	Full	Full
Créations Métaphores	96.17%	80.00%	Full	Full
Créations Métaphores Inc.	96.17%	80.00%	Full	Full
Établissements Marcel Gandit	96.17%	100.00%	Full	Full
Herlee	100.00%	90.00%	Full	Full
Hermès (China) Co. Ltd	100.00%	90.00%	Full	Full
Hermès Retail (Malaysia)	70.00%	51.00%	Full	Full
Holding Textile Hermès (previously Sport Soie)	96.17%	95.50%	Full	Full
John Lobb	99.99%	100.00%	Full	Full
Les Tissages Perrin	38.47%	40.00%	EA	EA
Perrin & Fils	38.01%	39.52%	EA	EA
SCI du Bas Verel	38.47%	40.00%	EA	EA
SCI La Brocattelle	38.01%	39.52%	EA	EA
Société d'Impression sur Étoffes du Grand-Lemps	96.17%	100.00%	Full	Full
Société Nontronnaise de Confection	96.17%	100.00%	Full	Full
Velours Blafo	25.09%	26.09%	EA	EA

Consolidation methods: Full: fully consolidated; EA: equity-accounted.

The main changes in the scope of consolidation during 2010 were the following:

- The following transactions were carried out within the Silk division to rationalise legal structures and operational processes:

**Merger of Holding Textile Hermès with and into Sport Soie (renamed Holding Textile Hermès)**

This merger was effective as of 1 January 2010. The transaction had no impact on the Group's consolidated financial statements.

**First-time consolidation of Ateliers de Tissage de Bussières et de Challes**

Following a change in the corporate name and purpose of the *société par actions simplifiée* (limited partnership) Isamyol 12, Ateliers de Tissage de Bussières et de Challes was added to the Group's scope of consolidation. On 25 October 2010, in a transaction backdated to 1 January 2010, Holding Textile Hermès transferred its clothing and furniture textiles production and sales operations to the company, whose share capital, consisting of 127,562 shares, is wholly owned by Holding Textile Hermès.

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#### **First-time consolidation of Immobilière du 5 rue de Fürstemberg**

Following a change in the corporate name and purpose of the *société par actions simplifiée* (limited partnership) Isamyol 11, Immobilière du 5 rue de Fürstemberg was added to the Group's scope of consolidation. Its share capital, consisting of 2,500 shares, is wholly owned by Hermès International.

Effective as at 30 April 2010, Créations Métaphores assigned to the said company a lease for premises located at 5 rue de Fürstemberg in Paris.

Furthermore, the merger of Holding Textile Hermès and Sport Soie resulted in minor changes in the ownership percentages in Ateliers A.S., Etablissements Marcel Gandit, Les Tissages Perrin, Perrin & Fils, SCI du Bas Verel, SCI La Brocatelle, Société d'Impression sur Etoffes du Grand-Lemps, Société Nontronnaise de Confection and Velours Blafo.

#### **▪ Other transactions:**

##### **Creation of HCP Asia Leather**

A dedicated legal entity was created to develop marketing and sales of leather in Asia. Its share capital comprises 50 shares and is wholly owned by Hermès Cuir Précieux.

##### **Universal transfer of assets from Erbé Maroquinier to Hermès Sellier**

To simplify the existing structure, Erbé Maroquinier transferred all of its assets and liabilities to its sole shareholder, Hermès Sellier, on 12 January 2010.

This transaction did not impact the Group's consolidated financial statements.

##### **Disposal of Hermès International's stake in WHY S.A.M.**

H.W., renamed WHY S.A.M., was created in July 2008. In March 2009, Hermès acquired 10% of Wally Yachts S.A., the shareholder in the WHY S.A.M. joint venture. In February 2010, given the complexity of the technical studies and of the required mastering of nautical engineering, the lead of the project was given to a sole

project manager. Hermès naturally turned it over to Wally Yachts S.A. and sold its entire interest in Wally Yachts S.A. and WHY S.A.M. The disposal was completed in February 2010. The impact on the Group's consolidated financial statements in 2010 is not material.

##### **Increase in the interests held in Créations Métaphores and Créations Métaphores Inc.**

Effective as of 1 January 2010, Hermès International exercised its call option on 87,292 shares of Création Métaphores for €1, thereby increasing the Group's ownership percentage to 100% (96.17% after the merger of Holding Textile Hermès and Sport Soie). As Créations Métaphores Inc. is wholly-owned by Créations Métaphores, the ownership percentage in that company also increased to 100%.

This transaction produced no impact on the Group's consolidated financial statements.

##### **Increase in the interests held in Herlee and Hermès (China) Co. Ltd.**

On 25 August 2010, Hermès International increased its ownership interest in Herlee from 90% to 100%. Consideration paid for this transaction amounted to €15 million. As Hermès (China) Co. Ltd. is wholly-owned by Herlee, the percentage ownership in that company also increased to 100%.

In accordance with revised IFRS 3 and IAS 27, as this transaction was an equity transaction with no change in control, the €11.1 million difference between the price paid and the prior carrying value of the non-controlling interest was recorded directly in equity.

##### **Increase in the interest held in Hermès Retail (Malaysia)**

On 31 August 2010, Hermès Singapore (Retail) increased its ownership interest in Hermès Retail (Malaysia) from 51% to 70%. Consideration paid for this transaction amounted to SGD0.7 million (approximately € 0.4 million).

In accordance with revised IFRS 3 and IAS 27, as this transaction was an equity transaction with no change in control, the €0.1 million difference between the price paid and the prior carrying value of the non-controlling interest was recorded directly in equity.

NOTE 3 - SEGMENT INFORMATION

The information below is shown after consolidation adjustments and eliminations (see Note 1.14).

**3.1 - Information by operating segment**

in millions of euros

2010	Hermès network	Specialised networks	Other	Total
<b>Revenue</b>	<b>2,020.6</b>	<b>294.0</b>	<b>86.2</b>	<b>2,400.8</b>
Selling, marketing and administrative expenses	(641.6)	(87.6)	(73.0)	(802.2)
Depreciation and amortisation	(54.7)	(14.2)	(15.6)	(84.5)
Operating provisions	(21.8)	(6.7)	3.5	(25.0)
Impairment losses	–	(3.4)	(0.3)	(3.8)
<b>Operating income</b>	<b>679.5</b>	<b>55.7</b>	<b>(67.0)</b>	<b>668.2</b>
<i>Operating margin by segment</i>	33.6%	19.0%		27.8%
Net financial income			(12.5)	(12.5)
Net income from associates			(3.1)	(3.1)
Income tax expense			(220.9)	(220.9)
Net income attributable to non-controlling interests			(10.0)	(10.0)
<b>Net income attributable to owners of the parent</b>	<b>679.5</b>	<b>55.7</b>	<b>(313.6)</b>	<b>421.7</b>

in millions of euros

2009	Hermès network	Specialised networks	Other	Total
<b>Revenue</b>	<b>1,600.9</b>	<b>242.2</b>	<b>71.2</b>	<b>1,914.3</b>
Selling, marketing and administrative expenses	(516.3)	(69.5)	(74.9)	(660.6)
Depreciation and amortisation	(44.3)	(11.2)	(15.2)	(70.7)
Operating provisions	(11.3)	(3.2)	(3.5)	(18.1)
Impairment losses	–	(0.9)	(1.9)	(2.8)
<b>Operating income</b>	<b>507.1</b>	<b>44.1</b>	<b>(88.3)</b>	<b>462.9</b>
<i>Operating margin by segment</i>	31.7%	18.2%		24.2%
Net financial income			(12.7)	(12.7)
Net income from associates			(6.5)	(6.5)
Income tax expense			(148.2)	(148.2)
Net income attributable to non-controlling interests			(6.7)	(6.7)
<b>Net income attributable to owners of the parent</b>	<b>507.1</b>	<b>44.1</b>	<b>(262.5)</b>	<b>288.8</b>

### 3.2 - Information by geographical area

in millions of euros

2010	France	Rest of Europe	Japan	Rest of Asia-Pacific	Americas	Other <sup>(1)</sup>	Holding Company	Total
<b>Revenue</b>	<b>437.2</b>	<b>463.4</b>	<b>453.2</b>	<b>630.9</b>	<b>384.7</b>	<b>31.3</b>	<b>-</b>	<b>2,400.8</b>
Selling, marketing and administrative expenses	(139.5)	(140.0)	(161.8)	(172.2)	(126.8)	(10.6)	(51.4)	(802.2)
Depreciation and amortisation	(8.7)	(17.0)	(13.4)	(20.0)	(15.8)	(0.4)	(9.3)	(84.5)
Operating provisions	(4.8)	(10.4)	(9.7)	(3.9)	(1.1)	(0.1)	5.1	(25.0)
Impairment losses	(3.5)	(0.3)	-	-	-	-	-	(3.8)
<b>Operating income</b>	<b>102.0</b>	<b>110.0</b>	<b>152.0</b>	<b>248.1</b>	<b>115.3</b>	<b>3.1</b>	<b>(62.2)</b>	<b>668.2</b>
<i>Operating margin by segment</i>	23.3%	23.7%	33.5%	39.3%	30.0%	10.0%		27.8%
Net financial income							(12.5)	(12.5)
Net income from associates							(3.1)	(3.1)
Income tax expense							(220.9)	(220.9)
Net income attributable to non-controlling interests							(10.0)	(10.0)
<b>Net income attributable to owners of the parent</b>	<b>102.0</b>	<b>110.0</b>	<b>152.0</b>	<b>248.1</b>	<b>115.3</b>	<b>3.1</b>	<b>(308.7)</b>	<b>421.7</b>

(1) Including sales to airlines and sales in the Middle East and Africa.

in millions of euros

2009	France	Rest of Europe	Japan	Rest of Asia-Pacific	Americas	Other <sup>(1)</sup>	Holding Company	Total
<b>Revenue</b>	<b>370.1</b>	<b>385.4</b>	<b>408.4</b>	<b>422.6</b>	<b>293.7</b>	<b>34.1</b>	<b>-</b>	<b>1,914.3</b>
Selling, marketing and administrative expenses	(114.7)	(113.9)	(139.8)	(122.8)	(102.9)	(10.2)	(56.3)	(660.6)
Depreciation and amortisation	(7.3)	(13.5)	(12.0)	(16.1)	(11.8)	(0.4)	(9.5)	(70.7)
Operating provisions	(2.1)	(5.0)	(4.5)	(3.1)	(0.6)	(0.4)	(2.4)	(18.1)
Impairment losses	(2.1)	(0.6)	(0.1)	-	-	-	-	(2.8)
<b>Operating income</b>	<b>95.2</b>	<b>94.8</b>	<b>122.6</b>	<b>144.4</b>	<b>73.6</b>	<b>4.9</b>	<b>(72.5)</b>	<b>462.9</b>
<i>Operating margin by segment</i>	25.7%	24.6%	30.0%	34.2%	25.1%	14.3%		24.2%
Net financial income							(12.7)	(12.7)
Net income from associates							(6.5)	(6.5)
Income tax expense							(148.2)	(148.2)
Net income attributable to non-controlling interests							(6.7)	(6.7)
<b>Net income attributable to owners of the parent</b>	<b>95.2</b>	<b>94.8</b>	<b>122.6</b>	<b>144.4</b>	<b>73.6</b>	<b>4.9</b>	<b>(246.7)</b>	<b>288.8</b>

(1) Including sales to airlines and sales in the Middle East and Africa.

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## Notes to the consolidated financial statements

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### NOTE 4 - COST OF SALES

All commissions are included in cost of sales. Impairment of inventories, losses on inventories, and the portion of depreciation that is allocated to the production cost of goods sold are included in the cost of sales.

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### NOTE 5 - SELLING, MARKETING AND ADMINISTRATIVE EXPENSES

	in millions of euros	
	2010	2009
Advertising and marketing expenses	(126.4)	(91.4)
Other selling and administrative expenses	(675.8)	(569.2)
<b>Total</b>	<b>(802.2)</b>	<b>(660.6)</b>

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### NOTE 6 - OTHER INCOME AND EXPENSE

	in millions of euros	
	2010	2009
Depreciation and amortisation (Note 3)	(84.5)	(70.7)
Net change in recurring provisions	(23.2)	(10.3)
Cost of defined-benefit plans (Note 25.3.5)	(9.9)	(7.8)
Impairment losses (Note 3)	(3.8)	(2.8)
Other income/(expense)	6.0	2.5
<b>Total</b>	<b>(115.4)</b>	<b>(89.1)</b>

Total depreciation and amortisation of tangible and intangible assets included in operating expenses (other income and expense and cost of sales) amounted to €97.1 million in 2010, compared with €81.7 million in 2009.

## NOTE 7 - NET FINANCIAL INCOME

	in millions of euros	
	<b>2010</b>	<b>2009</b>
Income from cash and cash equivalents	5.1	5.3
Gross cost of debt	(0.3)	0.3
– of which: income from hedging instruments	0.6	1.5
<b>Net cost of debt</b>	<b>4.8</b>	<b>5.6</b>
Other financial income and expense	(17.3)	(18.3)
– of which: ineffective portion of cash flow hedges (Note 22.2.4)	(9.3)	(9.5)
<b>Total</b>	<b>(12.5)</b>	<b>(12.7)</b>

## NOTE 8 - INCOME TAX EXPENSE

### 8.1 - Breakdown of income tax expense

	in millions of euros	
	<b>2010</b>	<b>2009</b>
Current tax	(226.5)	(161.2)
Deferred tax	5.5	13.0
<b>Total</b>	<b>(220.9)</b>	<b>(148.2)</b>

### 8.2 - Rationalisation of income tax expense

The effective tax rate was 33.7% in 2010, compared with 32.9% in 2009. The difference between the

theoretical tax and the actual tax for 2010 is explained as follows:

	in millions of euros	
	<b>2010</b>	<b>2009</b>
Net income attributable to owners of the parent	421.7	288.8
Net income from associates	(3.1)	(6.5)
Net income attributable to non-controlling interests	(10.0)	(6.7)
<b>Income tax expense</b>	<b>(220.9)</b>	<b>(148.2)</b>
Pre-tax income	655.7	450.2
Effective tax rate	33.7%	32.9%
Current tax rate in France	34.4%	34.4%
Theoretical tax charge	(225.6)	(154.9)
<i>Reconciliation items</i>		
– differences relating to foreign tax (primarily the tax rate)	20.2	10.5
– permanent timing differences and transactions taxed at a reduced rate	(15.6)	(3.9)
<b>Total</b>	<b>(220.9)</b>	<b>(148.2)</b>

## Notes to the consolidated financial statements

### 8.3 - Deferred tax

Deferred tax is recognised on all differences between values for tax purposes and values for accounting purposes using the liability method. Discounting is not

applied to deferred tax. The net change in deferred tax assets and liabilities is broken down as follows:

in millions of euros

	2010	2009
Deferred tax assets as at 1 January	143.1	141.2
Deferred tax liabilities as at 1 January	10.0	9.6
<b>Net deferred tax assets as at 1 January</b>	<b>133.1</b>	<b>131.6</b>
Impact on the statement of income	5.5	13.0
Impact on the scope of consolidation	–	–
Impact of foreign currency movements	15.6	(2.8)
Other <sup>(1)</sup>	11.7	(8.7)
<b>Net deferred tax assets as at 31 December</b>	<b>165.9</b>	<b>133.1</b>
Deferred tax assets as at 31 December	178.1	143.1
Deferred tax liabilities as at 31 December	12.1	10.0

(1) Other items relate to 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 20.3).

As at 31 December 2010, deferred taxes mainly related to the following adjustments:

in millions of euros

	2010	2009
Internal margins on inventories and impairment on inventories	109.7	91.4
Employee obligations	29.1	26.6
Derivative instruments	5.7	(3.4)
Impairment losses	5.9	4.9
Stock option plans	1.8	1.4
Restricted provisions	(14.6)	(13.4)
Other	28.3	25.6
<b>Total</b>	<b>165.9</b>	<b>133.1</b>

As at 31 December 2010, tax loss carry-forwards and other temporary differences that did not give rise to the recognition of deferred tax assets represented potential tax savings of €2.8 million.



## NOTE 9 - EARNINGS PER SHARE

Earnings per share is calculated on the basis of the weighted average number of shares outstanding during the year.

The weighted average number of shares outstanding during the year and those of previous years are adjusted to take into account any bonus share issues and stock splits occurring during the year, and of shares held in treasury.

Diluted earnings per share is adjusted to reflect shares to be issued in connection with stock option plans implemented by the Executive Management.

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:

	2010	2009
<b>Numerator (in millions of euros)</b>		
Basic net income	421.7	288.8
Adjustments	–	–
Diluted net income	421.7	288.8
<b>Denominator (in number of shares)</b>		
<b>Weighted average number of ordinary shares</b>	<b>105,162,445</b>	<b>105,128,870</b>
<b>Basic earnings per share</b>	<b>4.01</b>	<b>2.75</b>
Weighted average number of ordinary shares under option	654,730	202,483
Weighted average number of shares that would have been issued at fair value	(389,022)	(120,129)
<b>Weighted average number of diluted ordinary shares</b>	<b>105,428,153</b>	<b>105,211,224</b>
<b>Diluted earnings per share</b>	<b>4.00</b>	<b>2.74</b>
Annual average price per share	125.67 €	92.91 €
Average exercise price for shares under option	74.67 €	55.12 €

## Notes to the consolidated financial statements

### NOTE 10 - GOODWILL

	in millions of euros					
	31/12/2009	Increases	Decreases	Currency impact	Other	31/12/2010
Goodwill	68.2	–	(0.4)	7.8	–	75.6
<b>Total gross value</b>	<b>68.2</b>	<b>–</b>	<b>(0.4)</b>	<b>7.8</b>	<b>–</b>	<b>75.6</b>
Amortisation booked before 1 January 2004	33.2	–	–	4.4	–	37.5
Impairment losses	0.2	0.7	–	–	–	1.0
<b>Total amortisation and impairment losses</b>	<b>33.4</b>	<b>0.7</b>	<b>–</b>	<b>4.4</b>	<b>–</b>	<b>38.5</b>
<b>Total net value</b>	<b>34.8</b>	<b>(0.7)</b>	<b>(0.4)</b>	<b>3.5</b>	<b>–</b>	<b>37.2</b>

As at 31 December 2010, the largest components of the net value of goodwill were €18.2 million for Hermès Japon and €14.2 million for Hermès Cuir Précieux. It is noted that the cash generating units (CGUs) on which impairment losses have been recognised are not

individually material when compared with the Group's overall business. Furthermore, no goodwill with an indefinite life is allocated to several CGUs.

### NOTE 11 - INTANGIBLE ASSETS

	in millions of euros					
	31/12/2009	Increases	Decreases	Currency impact	Other	31/12/2010
Leasehold rights	48.0	4.8	(0.7)	1.7	(0.1)	53.7
Concessions, patents, licences and software <sup>(1)</sup>	24.8	3.8	(1.7)	2.1	2.7	31.7
Other intangible assets <sup>(1)</sup>	59.4	5.3	(1.3)	1.4	7.3	72.0
Work in progress <sup>(1)</sup>	10.9	10.0	(0.6)	0.2	(9.8)	10.7
<b>Total gross value</b>	<b>143.2</b>	<b>23.9</b>	<b>(4.4)</b>	<b>5.4</b>	<b>0.1</b>	<b>168.1</b>
Amortisation of leasehold rights	21.8	2.8	(0.7)	0.3	–	24.2
Amortisation of concessions, patents, licences and software	21.2	2.2	(1.7)	1.5	–	23.3
Amortisation of other intangible assets	37.4	7.4	(1.3)	1.0	–	44.5
Impairment losses <sup>(2)</sup>	1.6	0.1	(0.6)	–	–	1.0
<b>Total amortisation and impairment losses</b>	<b>82.0</b>	<b>12.4</b>	<b>(4.3)</b>	<b>2.8</b>	<b>–</b>	<b>93.0</b>
<b>Total net value</b>	<b>61.2</b>	<b>11.4</b>	<b>(0.1)</b>	<b>2.5</b>	<b>0.1</b>	<b>75.2</b>

(1) Investments made during the year mainly related to setting up integrated management software applications for several subsidiaries.

(2) Impairment losses relate to production operations and stores deemed not to be sufficiently profitable according to the criteria set out in IAS 36 - *Impairment of Assets*.

## NOTE 12 - PROPERTY, PLANT & EQUIPMENT

in millions of euros

	31/12/2009	Increases <sup>(1)</sup>	Decreases	Currency impact	Other	31/12/2010
Land	135.0	1.9	–	23.3	–	160.1
Buildings <sup>(2)</sup>	396.2	6.4	(7.0)	36.0	14.5	446.0
Machinery, plant and equipment	141.3	9.8	(2.3)	1.7	3.4	153.9
Other tangible assets	517.9	61.3	(22.1)	31.1	(2.0)	586.2
Work in progress	24.0	35.0	(0.4)	0.4	(15.2)	43.8
<b>Total gross value</b>	<b>1,214.4</b>	<b>114.3</b>	<b>(31.8)</b>	<b>92.5</b>	<b>0.6</b>	<b>1,390.0</b>
Depreciation of buildings	132.9	18.0	(4.3)	11.5	4.4	162.4
Depreciation of machinery, plant and equipment	93.7	10.7	(2.2)	1.1	1.2	104.5
Depreciation of other tangible assets	286.9	54.0	(19.6)	17.8	(6.7)	332.5
Impairment losses <sup>(3)</sup>	15.8	3.7	(3.6)	0.5	–	16.4
<b>Total depreciation and impairment losses</b>	<b>529.3</b>	<b>86.4</b>	<b>(29.7)</b>	<b>30.8</b>	<b>(1.1)</b>	<b>615.7</b>
<b>Total net value</b>	<b>685.1</b>	<b>27.9</b>	<b>(2.1)</b>	<b>61.7</b>	<b>1.7</b>	<b>774.2</b>

(1) Investments made during the year related mainly to the opening and renovation of stores and capital expenditure to expand production capacity.

(2) "Buildings" includes a building in Milan held under a finance lease, with a gross value of €1.1 million. The building is depreciated over 15 years, commencing on 18 July 2007. As at 31 December 2010, the amount of the debt incurred to finance this building was €1.0 million, at an annual interest rate of 5.4%.

(3) Impairment losses relate to production operations and stores deemed not to be sufficiently profitable according to the criteria set out in IAS 36 - *Impairment of Assets*. 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

in millions of euros

	31/12/2009	Increases	Decreases	Currency impact	Other	31/12/2010
Land	29.0	–	–	1.6	–	30.6
Buildings	68.2	0.1	–	3.8	–	72.0
<b>Total gross value</b>	<b>97.2</b>	<b>0.1</b>	<b>–</b>	<b>5.4</b>	<b>–</b>	<b>102.6</b>
Depreciation	1.9	2.2	–	0.2	–	4.3
<b>Total net value</b>	<b>95.3</b>	<b>(2.1)</b>	<b>–</b>	<b>5.2</b>	<b>–</b>	<b>98.3</b>

## Notes to the consolidated financial statements

It is noted that neither the Group nor its subsidiaries are bound by any contractual obligation to buy, build or develop any investment property, existing or otherwise.

Moreover, the costs incurred for the upkeep, maintenance and improvement of investment assets are not material, nor, to the best of our knowledge at this time, are they likely to change materially over the next several years.

Rental income from investment property amounted to €4.1 million in 2010.

As at 31 December 2010, the estimated fair value of investment property was over €98 million. This estimate is based on valuation work carried out by independent experts at appropriate intervals. The valuations are mainly based on real estate transactions for comparable properties and on indicators established by recognised organisations or professionals.

### NOTE 14 - FINANCIAL ASSETS

#### 14.1 - Available-for-sale securities

in millions of euros

	31/12/2009	Increases	Decreases	Currency impact	Other	31/12/2010
Forward investments and accrued interest <sup>(1)</sup>	95.4	61.3	(25.0)	–	0.9	132.5
Liquidity contract	6.7	2.6	–	–	–	9.3
Other financial assets <sup>(2)</sup>	6.9	0.6	(0.4)	0.5	–	7.5
Other non-consolidated investments <sup>(3)</sup>	8.6	–	(8.2)	–	–	0.4
<b>Total gross value</b>	<b>117.7</b>	<b>64.4</b>	<b>(33.6)</b>	<b>0.5</b>	<b>0.8</b>	<b>149.8</b>
Impairment	12.5	0.2	(8.2)	–	–	4.5
<b>Total</b>	<b>105.1</b>	<b>64.3</b>	<b>(25.5)</b>	<b>0.5</b>	<b>0.8</b>	<b>145.2</b>

(1) Forward investments are investments whose sensitivity and maturity require their classification as financial assets pursuant to IFRS.

(2) As at 31 December 2010, other financial assets included €2.5 million in life insurance in Japan, *inter alia*.

(3) Other available-for-sale non-consolidated investments do not include any listed securities.

#### 14.2 - Held-to-maturity securities

in millions of euros

	31/12/2009	Increases	Decreases	Currency impact	Other	31/12/2010
Gaulme convertible bonds and accrued interest	8.1	0.1	(0.1)	–	–	8.1
Gaulme convertible current account advance	–	5.0	–	–	–	5.0
Vaucher participating loan	5.4	–	–	1.0	–	6.4
<b>Total gross value</b>	<b>13.5</b>	<b>5.1</b>	<b>(0.1)</b>	<b>1.0</b>	<b>–</b>	<b>19.5</b>
Impairment	0.1	13.0	–	–	–	13.0
<b>Total</b>	<b>13.4</b>	<b>(7.8)</b>	<b>(0.1)</b>	<b>1.0</b>	<b>–</b>	<b>6.5</b>

## NOTE 15 - INVESTMENTS IN ASSOCIATES

### 15.1 - Value of investments in associates

in millions of euros

	31/12/2010	31/12/2009
Vaucher Manufacture Fleurier	4.2	6.1
Groupe Perrin	7.8	7.4
Leica Camera Japan Co	2.2	1.4
Gaulme	-	-
Maroquinerie Thierry	0.1	0.1
<b>Total</b>	<b>14.3</b>	<b>15.0</b>

These entities all have a 31 December financial year-end.

### 15.2 - Change in investments in associates

in millions of euros

	2010	2009
<b>Investments in associates as at 1 January</b>	<b>15.0</b>	<b>15.7</b>
Impact of changes in the scope of consolidation	(0.1)	-
Net income from associates	(3.1)	(6.5)
Dividends paid	(0.1)	(0.1)
Change in foreign exchange rates	1.2	(0.1)
Other <sup>(1)</sup>	1.4	6.0
<b>Investments in associates as at 31 December</b>	<b>14.3</b>	<b>15.0</b>

(1) Reclassification of the share of negative equity.

### 15.3 - Information on associates

in millions of euros

Statutory information 2010	% interest	Market capitalisation	Revenue	Net income	Fixed assets	Equity	Total assets
Gaulme	45.00%	n/a	24.4	(3.0)	26.5	10.2	44.1
Groupe Perrin	38.01%	n/a	19.6	0.9	9.6	20.2	29.8
Leica Camera Japan Co	49.00%	n/a	13.1	0.8	1.7	4.5	11.0
Maroquinerie Thierry <sup>(1)</sup>	43.82%	n/a	2.8	-	0.5	0.6	1.3

n/a: not applicable.

(1) Information as of 30 September 2010.

## Notes to the consolidated financial statements

in millions of euros

Statutory information 2009	% interest	Market capitalisation	Revenue	Net income	Fixed assets	Equity	Total assets
Gaulme	45.00%	n/a	23.4	(3.5)	27.2	13.7	41.8
Groupe Perrin	39.52%	n/a	20.5	0.5	10.6	19.4	29.4
Leica Camera Japan Co	49.00%	n/a	8.4	0.3	1.5	2.8	7.5
Maroquinerie Thierry <sup>(1)</sup>	43.82%	n/a	2.5	–	0.4	0.5	1.1
WHY S.A.M.	50.00%	n/a	–	(4.4)	–	(4.4)	1.0

n/a: not applicable.

(1) Information as of 30 September 2009.

## NOTE 16 - LOANS AND DEPOSITS

in millions of euros

	31/12/2009	Increases	Decreases	Currency impact	Other	31/12/2010
Loans and deposits <sup>(1)</sup>	23.0	2.5	(1.1)	2.7	(0.2)	26.9
Impairment	2.0	0.5	(0.1)	0.2	–	2.6
<b>Total</b>	<b>21.0</b>	<b>2.0</b>	<b>(1.0)</b>	<b>2.5</b>	<b>(0.2)</b>	<b>24.3</b>

(1) Security deposits amounted to €22.8 million as at 31 December 2010, compared with €18.9 million as at 31 December 2009.

## NOTE 17 - INVENTORIES AND WORK IN PROGRESS

in millions of euros

	31/12/2010			31/12/2009		
	Gross	Impairment	Net	Gross	Impairment	Net
Purchased items, semi-finished and finished goods	457.6	166.5	291.1	459.7	141.9	317.7
Raw materials and work in progress	249.7	72.2	177.5	223.2	55.2	168.1
<b>Total</b>	<b>707.3</b>	<b>238.7</b>	<b>468.6</b>	<b>682.9</b>	<b>197.1</b>	<b>485.8</b>
Net inventory impairment charge	–	(27.7)	–	–	(31.0)	–

No inventories were pledged as debt collateral.

## NOTE 18 - TRADE AND OTHER RECEIVABLES

in millions of euros

	31/12/2010			31/12/2009
	Gross	Impairment	Net	Net
Trade and other receivables	164.2	5.1	159.0	132.3
<i>Of which: – amount not yet due</i>	<i>127.0</i>	<i>0.7</i>	<i>126.3</i>	93.7
<i>– amount payable <sup>(1)</sup></i>	<i>37.2</i>	<i>4.4</i>	<i>32.8</i>	38.6
Current tax receivables	1.1	–	1.1	3.5
Other current assets	69.8	0.3	69.5	55.6
Other non-current assets	1.5	–	1.5	1.6
<b>Total</b>	<b>236.6</b>	<b>5.5</b>	<b>231.2</b>	<b>193.0</b>

(1) The amount of trade and other receivables payable is broken down as follows:

in millions of euros

	31/12/2010	31/12/2009
Less than 3 months	35.3	37.8
Between 3 and 6 months	(0.5)	3.9
Between 6 months and 12 months	(2.0)	(3.2)

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 securing accounts receivable insurance cover, inasmuch as local

conditions permit it. Consequently, the risk of non-recovery is low, as evidenced by accounts receivable impairment, which amounted to approximately 3% of the gross value in 2010, compared with less than 4% in 2009. There is no significant concentration of credit risk.

## NOTE 19 - CASH AND CASH EQUIVALENTS

### 19.1 - Change in net cash position

in millions of euros

	31/12/2009	Cash flows	Currency impact	Impact on the scope of consolidation	Other	31/12/2010
Cash and cash equivalents	148.7	3.6	12.1	0.1	0.6	165.0
Marketable securities <sup>(1)</sup>	380.7	297.3	1.4	–	–	679.3
<i>Sub-total</i>	<i>529.4</i>	<i>300.8</i>	<i>13.4</i>	<i>0.1</i>	<i>0.6</i>	<i>844.3 <sup>(2)</sup></i>
Bank overdrafts and current accounts in debit	(21.8)	6.2	(0.2)	–	–	(15.8)
<b>Net cash position</b>	<b>507.6</b>	<b>307.1</b>	<b>13.2</b>	<b>0.1</b>	<b>0.6</b>	<b>828.5</b>

(1) Mainly comprising investments in the euro money market.

(2) Including a €0.5 million mark-to-market impact on cash and cash equivalents.

All cash and cash equivalents mature in less than three months and have a sensitivity of less than 0.5%. Gains and losses realised over the year and recognised

in the statement of income amounted to €1.9 million in 2010, compared with €3.0 million in 2009. There were no unrealised gains or losses as at 31 December 2010.

**19.2 - Change in working capital**

in millions of euros

	31/12/2009	Change in working capital	Other cash flows	Currency impact	Impact from revaluation of financial and hedging instruments	Other	31/12/2010
Inventories and work in progress	485.8	(41.2)	–	24.0	–	–	468.6
Trade and other receivables	132.3	11.0	–	12.2	3.6	(0.1)	159.0
Other current assets	55.6	10.3	–	2.7	–	1.0	69.5
Other non-current assets	1.6	(1.3)	–	–	–	1.1	1.5
Available-for-sale securities (excluding liquidity contract and forward investments)	15.5	0.1	(8.2)	0.5	–	–	7.9
Accrued interest on investments	0.7	1.5	–	–	–	–	2.2
Held-to-maturity securities	13.5	5.0	–	1.0	–	–	19.5
Loans and deposits	23.0	1.4	–	2.7	–	(0.2)	26.9
Deferred tax assets with a cash impact	96.3	8.3	–	10.8	–	–	115.5
Trade payables (excluding amounts payable relating to fixed assets)	(174.3)	(25.0)	–	(6.5)	1.1	–	(204.7)
Other liabilities and miscellaneous items (excluding current tax expense)	(209.1)	(30.6)	–	(8.7)	4.2	1.7	(242.5)
Net change in the fair value of derivatives	21.4	0.9	–	–	(33.2)	2.4	(8.5)
<b>Change in working capital</b>	<b>462.5</b>	<b>(59.5)</b>	<b>(8.2)</b>	<b>38.7</b>	<b>(24.3)</b>	<b>5.9</b>	<b>415.1</b>

**NOTE 20 - SHAREHOLDERS' EQUITY**

As at 31 December 2010, Hermès International's share capital consisted of 105,569,412 fully-paid shares with a par value of €0.51 each. 406,650 of these shares are treasury shares.

There was no change in the share capital in 2010.

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 "shareholders' equity" as shown in the consolidated statement of changes in equity. More specifically, shareholders' 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. In 2010, 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. Shareholders' 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

### 20.1 - Foreign currency adjustments

The change in foreign currency adjustments in 2010 is analysed below:

	in millions of euros	
	2010	2009
<b>Change in foreign currency adjustments</b>		
Japanese yen	25.4	(5.6)
Swiss franc	17.4	0.6
Singapore dollar	11.6	(0.2)
U.S. dollar	9.0	(4.4)
Hong Kong dollar	6.5	(1.9)
Pound sterling	5.6	0.9
Chinese yuan	2.2	(0.4)
Australian dollar	1.5	1.3
South Korean won	(1.2)	4.8
Other currencies	(3.8)	(0.8)
<b>Total</b>	<b>74.1</b>	<b>(5.6)</b>

### 20.3 - Other comprehensive income

In 2010, other comprehensive income was broken down as follows:

	in millions of euros		
	Gross impact	Income tax relating to components of other comprehensive income	Net impact
Actuarial gains and losses (Note 25.3.4)	(8.9)	3.0	(5.8)
Foreign currency adjustments (Notes 20.1 and 21)	75.9	–	75.9
Derivatives included in equity (Note 20.2)	(25.3)	9.4	(15.9)
Gain/(loss) on sale of treasury shares	2.0	(0.7)	1.3
<b>Balance as at 31 December 2010</b>	<b>43.7</b>	<b>11.8</b>	<b>55.5</b>

	in millions of euros		
	Gross impact	Income tax relating to components of other comprehensive income	Net impact
Actuarial gains and losses (Note 25.3.4)	(9.9)	3.4	(6.5)
Foreign currency adjustments (Notes 20.1 et 21)	(5.5)	–	(5.5)
Derivatives included in equity (Note 20.2)	37.3	(12.2)	25.1
Gain/(loss) on sale of treasury shares	(0.3)	0.1	(0.2)
<b>Balance as at 31 December 2009</b>	<b>21.6</b>	<b>(8.7)</b>	<b>12.9</b>

situation. Hermès International has never been in this position and has always met this requirement.

### 20.2 - Derivatives included in equity

In 2010, changes in derivatives were broken down as follows (after tax):

	in millions of euros	
	2010	2009
<b>Balance as at 1 January</b>	<b>10.0</b>	<b>(15.1)</b>
Amount transferred to equity during the year for derivatives	(10.4)	14.4
Amount transferred to equity during the year for financial investments	0.4	0.7
Adjustments in the value of derivatives at closing	(6.4)	10.4
Fair value adjustments of marked-to-market financial investments	0.5	(0.4)
<b>Balance as at 31 December</b>	<b>(5.9)</b>	<b>10.0</b>

NOTE 21 - NON-CONTROLLING INTERESTS

	in millions of euros	
	2010	2009
<b>Balance as at 1 January</b>	<b>14.0</b>	<b>14.0</b>
Net income attributable to non-controlling interests	10.0	6.7
Dividends paid to non-controlling interests	(7.0)	(6.3)
Exchange rate adjustment on foreign entities	1.8	0.1
Other changes <sup>(1)</sup>	(5.9)	(0.6)
<b>Balance as at 31 December</b>	<b>12.9</b>	<b>14.0</b>

(1) Mainly corresponds to the purchase of non-controlling interests in Herlee and Hermès (China) Ltd.

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.

**22.2 - Currency risk**

Most of the Group's currency 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 currency exposure management policy is based on the following principles:

- the manufacturing subsidiaries invoice the distribution subsidiaries in their local currency, which automatically concentrates the currency risk on the manufacturing subsidiaries;
- the Group's net currency exposure 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 are authorised;
- all other non-operating transactions are hedged against currency risk as soon as the commitment is firm and definitive. It corresponds to financial risks arising from intercompany 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.

An integrated software package is used for the administrative management of these transactions and to monitor the back office in real time. In addition, Hermès International's Internal Audit Department ascertains compliance with these rules.

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 currency exposure 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 currency 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 positions

in millions of euros

Currency	Amount receivable/ (payable)	Future cash flows	Net position before hedging	Unrecognised position <sup>(1)</sup>	Net position after hedging	Hedging ratio
<b>As at 31/12/2010</b>						
US dollar	(1.1)	198.2	197.1	(197.1)	–	100%
Hong Kong dollar	(7.7)	98.5	90.8	(97.0)	(6.2)	107%
Singapore dollar	12.0	86.0	97.9	(89.0)	9.0	91%
Euro <sup>(2)</sup>	(5.6)	(43.9)	(49.5)	45.4	(4.1)	92%
Australian dollar	1.3	8.2	9.5	(9.6)	(0.2)	102%
Canadian dollar	2.4	11.2	13.6	(12.4)	1.2	91%
New Turkish lira	(0.3)	2.2	1.9	(3.0)	(1.1)	159%
Thai baht	1.0	7.3	8.2	(8.9)	(0.7)	108%
United Arab Emirates dirham	–	(0.7)	(0.7)	1.3	0.6	185%
Czech koruna	0.2	1.5	1.8	(1.7)	–	99%
South Korean won	–	(4.7)	(4.8)	4.7	–	99%
Mexican peso	0.9	3.6	4.5	(4.2)	0.4	92%
Swiss franc	8.5	17.2	25.7	(27.7)	(2.0)	108%
Pound sterling	(1.4)	35.6	34.2	(32.8)	1.4	96%
Japanese yen	125.4	165.1	290.4	(301.9)	(11.4)	104%
<b>Total</b>	<b>135.4</b>	<b>585.3</b>	<b>720.6</b>	<b>(733.8)</b>	<b>(13.1)</b>	<b>102%</b>
<b>As at 31/12/2009</b>						
US dollar	40.2	143.8	184.0	(165.0)	18.9	90%
Hong Kong dollar	12.6	67.9	80.5	(73.2)	7.3	91%
Singapore dollar	7.1	62.0	69.1	(64.2)	5.0	93%
Euro <sup>(2)</sup>	(0.8)	(28.5)	(29.4)	32.2	2.9	110%
Australian dollar	0.9	0.4	1.3	1.0	2.3	- 78%
Canadian dollar	1.9	9.5	11.4	(10.8)	0.7	94%
New Turkish lira	0.6	1.3	1.9	(1.3)	0.6	70%
Thai baht	0.9	6.1	7.0	(6.6)	0.4	94%
United Arab Emirates dirham	0.1	(0.5)	(0.5)	0.9	0.4	191%
Czech koruna	0.6	1.3	1.9	(1.6)	0.3	86%
South Korean won	(0.1)	(3.3)	(3.4)	3.3	(0.1)	98%
Mexican peso	1.1	3.7	4.8	(4.9)	(0.1)	103%
Swiss franc	14.5	18.6	33.1	(33.8)	(0.7)	102%
Pound sterling	2.6	27.9	30.5	(31.8)	(1.3)	104%
Japanese yen	139.4	136.0	275.3	(278.6)	(3.2)	101%
<b>Total</b>	<b>221.6</b>	<b>446.2</b>	<b>667.8</b>	<b>(634.4)</b>	<b>33.4</b>	<b>95%</b>

(1) Sale/(purchase). (2) Euro currency risk for subsidiaries that use a different functional currency.

### 22.2.2 - Sensitivity to currency fluctuations

The sensitivity of equity to currency 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 1% rise in the currencies to which the Group is exposed as of the closing date would lead to a

€5.2 million increase in equity (before tax) in the fair value reserve. A 1% fall would lead to a €4.9 million decrease (before tax).

Moreover, a 1% rise in the currencies to which the Group is exposed as of the closing date would lead to a €0.1 million increase in net income. An equivalent fall would lead to a €0.1 million decrease.

## Notes to the consolidated financial statements

### 22.2.3 - Analysis of currency contracts

in millions of euros

Contracts	Nominal amount of unrecognised position (gross) <sup>(1)</sup>	Nominal amount of unrecognised position (net) <sup>(2)</sup>	Market value of contracts as at 31 December 2010 <sup>(3)</sup>			
			Future cash flow hedge	Fair value hedge	Unallocated	Total
<b>Put options purchased <sup>(4)</sup></b>						
US dollar	54.4	61.9	2.4	–	–	2.4
Japanese yen	86.9	48.3	2.0	–	0.3	2.3
Singapore dollar	36.9	36.9	0.5	–	–	0.5
Hong Kong dollar	30.4	30.4	1.3	–	–	1.3
Pound sterling	10.2	10.2	0.3	–	–	0.3
Australian dollar	(3.8)	(3.8)	0.2	–	–	0.2
	<b>215.0</b>	<b>183.8</b>	<b>6.7</b>	<b>–</b>	<b>0.3</b>	<b>7.0</b>
<b>Forward currency contracts <sup>(5)</sup></b>						
US dollar	136.3	136.3	2.4	–	–	2.4
Japanese yen	116.9	116.9	(8.2)	–	–	(8.2)
Hong Kong dollar	65.6	65.6	0.1	–	–	0.1
Singapore dollar	47.7	47.7	(4.6)	–	–	(4.6)
Swiss franc	16.8	16.8	(2.0)	–	–	(2.0)
Australian dollar	12.0	12.0	(1.4)	–	–	(1.4)
Other	1.7	1.6	–	–	–	–
	<b>397.0</b>	<b>396.8</b>	<b>(13.7)</b>	<b>–</b>	<b>–</b>	<b>(13.7)</b>
<b>Treasury swaps <sup>(5)</sup></b>						
Japanese yen	136.7	125.1	(0.3)	–	(0.6)	(0.9)
US dollar	(1.1)	(8.3)	0.1	–	(0.4)	(0.3)
Hong Kong dollar	1.0	(5.3)	0.1	–	(0.1)	–
Singapore dollar	4.3	5.0	(0.1)	–	–	(0.1)
Swiss franc	10.9	10.3	–	–	(0.2)	(0.3)
Australian dollar	1.4	1.6	(0.1)	–	–	(0.1)
Other	(0.3)	(1.3)	0.2	–	–	0.2
	<b>153.0</b>	<b>127.0</b>	<b>(0.2)</b>	<b>–</b>	<b>(1.3)</b>	<b>(1.5)</b>
<b>Put options sold <sup>(4)</sup></b>						
Japanese yen	(38.6)	–	–	–	(0.3)	(0.3)
US dollar	7.5	–	–	–	–	–
	<b>(31.1)</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(0.3)</b>	<b>(0.3)</b>
<b>Total</b>	<b>733.8</b>	<b>707.7</b>	<b>(7.2)</b>	<b>–</b>	<b>(1.3)</b>	<b>(8.5)</b>

(1) Nominal amount of all unrecognised instruments. (2) Nominal amount of derivatives allocated to hedge foreign exchange risks. (3) Gain/(loss). (4) Put/(Call).

(5) Sale/(purchase).

in millions of euros

Contracts	Nominal amount of unrecognised position (gross) <sup>(1)</sup>	Nominal amount of unrecognised position (net) <sup>(2)</sup>	Market value of contracts as at 31 December 2009 <sup>(3)</sup>			
			Future cash flow hedge	Fair value hedge	Unallocated	Total
<b>Put options purchased <sup>(4)</sup></b>						
US dollar	43.8	43.1	2.5	–	–	2.5
Japanese yen	40.2	40.2	2.4	–	–	2.4
Singapore dollar	22.6	22.6	0.6	–	–	0.6
Hong Kong dollar	22.0	22.0	1.1	–	–	1.1
Pound sterling	9.1	9.1	0.3	–	–	0.3
Euro	1.7	0.8	–	–	–	–
Chinese yuan	0.4	–	–	–	–	–
Australian dollar	(2.5)	(2.5)	0.2	–	–	0.2
	<b>137.2</b>	<b>135.3</b>	<b>7.2</b>	<b>–</b>	<b>–</b>	<b>7.2</b>
<b>Forward currency contracts <sup>(5)</sup></b>						
US dollar	98.0	99.1	6.6	–	–	6.6
Japanese yen	95.9	95.9	4.9	–	–	4.9
Hong Kong dollar	43.3	43.8	2.1	(0.1)	–	2.0
Singapore dollar	39.4	39.4	(1.7)	–	–	(1.7)
Other	25.7	24.5	(1.0)	0.4	(0.3)	(0.9)
	<b>302.2</b>	<b>302.6</b>	<b>10.9</b>	<b>0.3</b>	<b>(0.3)</b>	<b>10.9</b>
<b>Treasury swaps <sup>(5)</sup></b>						
Japanese yen	142.5	138.9	–	3.2	–	3.2
US dollar	23.2	20.9	–	(0.2)	–	(0.2)
Hong Kong dollar	8.0	7.5	–	(0.1)	–	(0.1)
Singapore dollar	2.1	2.0	–	–	–	–
Other	19.4	20.2	–	(0.1)	–	(0.1)
	<b>195.4</b>	<b>189.5</b>	<b>–</b>	<b>2.9</b>	<b>–</b>	<b>2.9</b>
<b>Put options sold <sup>(4)</sup></b>						
Chinese yuan	(0.4)	–	–	–	–	–
	<b>(0.4)</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Total</b>	<b>634.4</b>	<b>627.4</b>	<b>18.1</b>	<b>3.2</b>	<b>(0.3)</b>	<b>20.9</b>

(1) Nominal amount of all unrecognised instruments. (2) Nominal amount of derivatives allocated to hedge foreign exchange risks. (3) Gain/(loss). (4) Put/(Call). (5) Sale/(purchase).

#### Reconciliation with statement of financial position items

in millions of euros

	31/12/2010	31/12/2009
Fair value of financial instruments – assets	21.7	58.2
Fair value of financial instruments – liabilities	(30.1)	(36.8)
<b>Net financial instruments position</b>	<b>(8.5)</b>	<b>21.4</b>
Equity derivatives	–	(0.5)
<b>Net currency position</b>	<b>(8.5)</b>	<b>20.9</b>

#### 22.2.4 - Ineffective portion of cash flow hedges

The ineffective portion of cash flow hedges recorded in net income was -€9.3 million (including +€1.2 million from over-hedging), compared with -€9.5 million

(including +€2.9 million from over-hedging) in 2009 (see Note 7). The impact of the effective portion of the hedges recorded in equity is shown in Note 20.2.

**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. These investments are carried at their fair value.

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.

It applies the same risk monitoring and management procedures as for currency transactions.

Interest rate risks are presented only for net cash items, as no interest rate risk has been identified on other financial assets and liabilities.

As at 31/12/2010

in millions of euros

	< 1 year	1 to 5 years	> 5 years	Total	Variable rate	Fixed rate
<b>Financial assets</b>	<b>843.8</b>	<b>–</b>	<b>–</b>	<b>843.8</b>	<b>643.8</b>	<b>200.0</b>
Euro	688.4	–	–	688.4	488.4	200.0
Chinese yuan	41.8	–	–	41.8	41.8	–
US dollar	20.8	–	–	20.8	20.8	–
Japanese yen	17.6	–	–	17.6	17.6	–
Other	75.3	–	–	75.3	75.3	–
<b>Financial liabilities <sup>(1)</sup></b>	<b>26.0</b>	<b>9.9</b>	<b>0.7</b>	<b>36.5</b>	<b>20.1</b>	<b>16.4</b>
Euro	14.0	0.7	0.7	15.3	14.4	1.0
Japanese yen <sup>(2)</sup>	6.6	8.0	–	14.6	1.3	13.3
Other	5.4	1.2	–	6.5	4.5	2.1
<b>Net cash before hedging</b>	<b>817.9</b>	<b>(9.9)</b>	<b>(0.7)</b>	<b>807.3</b>	<b>623.7</b>	<b>183.6</b>
<b>Net cash after hedging</b>	<b>817.9</b>	<b>(9.9)</b>	<b>(0.7)</b>	<b>807.3</b>	<b>623.7</b>	<b>183.6</b>

(1) Excluding commitments to buy out non-controlling interests (€7.3 million as at 31 December 2010).

(2) Mainly consists of long-term amortisable fixed-rate loans contracted by Hermès Japon to finance the purchase of the land and construction of the Ginza store in Tokyo. These loans are guaranteed by Hermès International but are not covered by any real collateral or by any specific covenants.

in millions of euros

	< 1 year	1 to 5 years	> 5 years	Total	Variable rate	Fixed rate
<b>Financial assets</b>	<b>843.8</b>	<b>–</b>	<b>–</b>	<b>843.8</b>	<b>643.8</b>	<b>200.0</b>
Cash and cash equivalents	843.8	–	–	843.8	643.8	200.0
<b>Financial liabilities <sup>(1)</sup></b>	<b>26.0</b>	<b>9.9</b>	<b>0.7</b>	<b>36.5</b>	<b>20.1</b>	<b>16.4</b>
Medium and long term debt	–	9.9	0.7	10.6	0.4	10.2
Bank overdrafts and short-term debt	25.7	–	–	25.7	19.5	6.2
Current accounts in debit	0.2	–	–	0.2	0.2	–
<b>Net cash before hedging</b>	<b>817.9</b>	<b>(9.9)</b>	<b>(0.7)</b>	<b>807.3</b>	<b>623.7</b>	<b>183.6</b>
<b>Net cash after hedging</b>	<b>817.9</b>	<b>(9.9)</b>	<b>(0.7)</b>	<b>807.3</b>	<b>623.7</b>	<b>183.6</b>

(1) Excluding commitments to buy out non-controlling interests (€7.3 million as at 31 December 2010).

As at 31/12/2009

in millions of euros

	< 1 year	1 to 5 years	> 5 years	Total	Variable rate	Fixed rate
<b>Financial assets</b>	<b>529.5</b>	<b>–</b>	<b>–</b>	<b>529.5</b>	<b>529.5</b>	<b>–</b>
Euro	414.3	–	–	414.3	414.3	–
Chinese yuan	23.7	–	–	23.7	23.7	–
US dollar	18.2	–	–	18.2	18.2	–
Swiss franc	16.3	–	–	16.3	16.3	–
Other	57.0	–	–	57.0	57.0	–
<b>Financial liabilities <sup>(1)</sup></b>	<b>45.4</b>	<b>12.3</b>	<b>1.0</b>	<b>58.7</b>	<b>40.7</b>	<b>18.0</b>
Euro	8.4	0.7	1.0	10.0	8.7	1.3
Japanese yen <sup>(2)</sup>	7.6	10.9	–	18.5	3.3	15.2
Chinese yuan <sup>(3)</sup>	14.8	–	–	14.8	14.8	–
Other	14.6	0.8	–	15.4	13.9	1.4
<b>Net cash before hedging</b>	<b>484.1</b>	<b>(12.3)</b>	<b>(1.0)</b>	<b>470.8</b>	<b>488.7</b>	<b>(18.0)</b>
<b>Net cash after hedging</b>	<b>484.1</b>	<b>(12.3)</b>	<b>(1.0)</b>	<b>470.8</b>	<b>488.7</b>	<b>(18.0)</b>

(1) Excluding commitments to buy out non-controlling interests (€6.1 million as at 31 December 2009).

(2) Mainly consists of long-term amortisable fixed-rate loans contracted by Hermès Japon to finance the purchase of the land and construction of the Ginza store in Tokyo. These loans are guaranteed by Hermès International but are not covered by any real collateral or by any specific covenants.

(3) Mainly consists of short-term loans contracted to finance capital expenditure and work on the Shanghai House of Hermès. These loans are guaranteed by Hermès International but are not covered by any real collateral or by any specific covenants.

in millions of euros

	< 1 year	1 to 5 years	> 5 years	Total	Variable rate	Fixed rate
<b>Financial assets</b>	<b>529.5</b>	<b>–</b>	<b>–</b>	<b>529.5</b>	<b>529.5</b>	<b>–</b>
Cash and cash equivalents	529.5	–	–	529.5	529.5	–
<b>Financial liabilities <sup>(1)</sup></b>	<b>45.4</b>	<b>12.3</b>	<b>1.0</b>	<b>58.7</b>	<b>40.7</b>	<b>18.0</b>
Medium and long term debt	–	12.3	1.0	13.3	0.6	12.7
Bank overdrafts and short-term debt	43.5	–	–	43.5	38.2	5.3
Current accounts in debit	1.9	–	–	1.9	1.9	–
<b>Net cash before hedging</b>	<b>484.1</b>	<b>(12.3)</b>	<b>(1.0)</b>	<b>470.8</b>	<b>488.7</b>	<b>(18.0)</b>
<b>Net cash after hedging</b>	<b>484.1</b>	<b>(12.3)</b>	<b>(1.0)</b>	<b>470.8</b>	<b>488.7</b>	<b>(18.0)</b>

(1) Excluding commitments to buy out non-controlling interests (€6.1 million as at 31 December 2009).

### 22.3.1 - Equity risk

The Group does not directly invest its cash in equities. Hence, it has no significant and identifiable exposure to equity risk.

### 22.3.2 - Sensitivity to changes in interest rates

A uniform 1 percentage point change in interest rates

would have had a positive impact of €6.2 million on 2010 consolidated pre-tax income (€4.8 million in 2009).

The market value of marketable securities is equivalent to their carrying amount.

Financial liabilities do not include the debt associated with employee profit-sharing, which is included under "Other liabilities".

**22.4 - Fair value of financial assets and financial liabilities**

in millions of euros

2010	Carrying amount	Fair Value	Interest rate	Effective interest rate
Financial investments (Note 14.1)	132.5	132.5	–	–
Liquidity contract (Note 14.1)	9.3	9.3	–	–
Other financial assets (Note 14.1)	3.2	3.2	–	–
Other non-consolidated investments (Note 14.1)	0.2	0.2	–	–
<b>Available-for-sale securities (Note 14.1)</b>	<b>145.2</b>	<b>145.2</b>	<b>–</b>	<b>–</b>
Gaulme convertible bonds and accrued interest (Note 14.2)	0.1	0.1	1.4%	1.4%
Gaulme convertible current account advance (Note 14.2)	–	–	Eonia +1%*	Eonia +1%*
Vaucher participating loan (Note 14.2)	6.4	6.4	–	–
<b>Held-to-maturity securities (Note 14.2)</b>	<b>6.5</b>	<b>6.5</b>	<b>–</b>	<b>–</b>
<b>Loans and deposits (Note 16)</b>	<b>24.3</b>	<b>24.3</b>	<b>–</b>	<b>–</b>
<b>Cash and cash equivalents (Note 19)</b>	<b>843.8</b>	<b>843.8</b>	<b>–</b>	<b>–</b>
Bank overdrafts (Note 22)	15.6	15.6	–	–
Commitments to buy out non-controlling interests (Note 22)	7.3	7.3	–	–
Loan - Japan (Note 22)	13.3	13.3	1.7%	1.7%
Other loans (Note 22)	7.4	7.4	**	–
Current accounts in debit (Note 22)	0.2	0.2	**	–
<b>Financial liabilities</b>	<b>43.9</b>	<b>43.9</b>	<b>–</b>	<b>–</b>

\* Interest is payable at maturity.

\*\* Interest rates are variable rates.



in millions of euros

2009	Carrying amount	Fair Value	Interest rate	Effective interest rate
Financial investments (Note 14.1)	95.4	95.4	–	–
Liquidity contract (Note 14.1)	6.7	6.7	–	–
Other financial assets (Note 14.1)	2.7	2.7	–	–
Other non-consolidated investments (Note 14.1)	0.3	0.3	–	–
<b>Available-for-sale securities (Note 14.1)</b>	<b>105.1</b>	<b>105.1</b>	<b>–</b>	<b>–</b>
Gaulme convertible bonds and accrued interest (Note 14.2)	8.1	8.1	0.5%	0.5%
Vaucher participating loan (Note 14.2)	5.4	5.4	–	–
<b>Held-to-maturity securities (Note 14.2)</b>	<b>13.5</b>	<b>13.5</b>	<b>–</b>	<b>–</b>
<b>Loans and deposits (Note 16)</b>	<b>21.0</b>	<b>21.0</b>	<b>–</b>	<b>–</b>
<b>Cash and cash equivalents (Note 19)</b>	<b>529.5</b>	<b>529.5</b>	<b>–</b>	<b>–</b>
Bank overdrafts (Note 22)	19.9	19.9	–	–
Commitments to buy out non-controlling interests (Note 22)	6.1	6.1	–	–
Loan - Japan (Note 22)	16.7	16.7	1.7%	1.7%
Loan - China (Note 22)	13.5	13.5	4.6%	4.6%
Other loans (Note 22)	6.6	6.6	*	–
Current accounts in debit (Note 22)	1.9	1.9	*	–
<b>Financial liabilities</b>	<b>64.8</b>	<b>64.8</b>	<b>–</b>	<b>–</b>

\* Interest rates are variable rates.

**22.4.1 - Classification of financial assets and liabilities measured at fair value**

in millions of euros

	<b>Fair value as at 31 December at fair value 2010</b>	<b>Of which measured</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Currency options purchased (Note 22.2.3)	7.0	7.0	–	7.0	–
Forward currency contracts (Note 22.2.3)	(13.7)	(13.7)	–	(13.7)	–
Treasury swaps (Note 22.2.3)	(1.5)	(1.5)	–	(1.5)	–
Equity derivatives (Note 22.2.3)	(0.3)	(0.3)	–	(0.3)	–
<i>Net financial instruments position (Note 22.2.3)</i>	<i>(8.5)</i>	<i>(8.5)</i>	–	<i>(8.5)</i>	–
Marketable securities (Note 19.1)	679.3	349.3	349.3	–	–
Forward investments (Note 14.1)	132.5	80.3	80.3	–	–

in millions of euros

	<b>Fair value as at 31 December at fair value 2009</b>	<b>Of which measured</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Currency options purchased (Note 22.2.3)	7.2	7.2	–	7.2	–
Forward currency contracts (Note 22.2.3)	10.9	10.9	–	10.9	–
Treasury swaps (Note 22.2.3)	2.9	2.9	–	2.9	–
Equity derivatives (Note 22.2.3)	0.5	0.5	–	0.5	–
<i>Net financial instruments position (Note 22.2.3)</i>	<i>21.4</i>	<i>21.4</i>	–	<i>21.4</i>	–
Marketable securities (Note 19.1)	380.7	380.7	380.7	–	–
Forward investments (Note 14.1)	95.4	44.7	44.7	–	–

A definition of each level is provided in Note 1.9.3.

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## NOTE 23 - PROVISIONS

in millions of euros

	31/12/2009	Accruals	Reversals <sup>(1)</sup>	Currency impact	Other and reclassifications	31/12/2010
Current provisions	13.8	23.1	(10.1)	2.0	2.2	31.0
Non-current provisions	7.5	10.9	(5.4)	0.1	1.2	14.4
<b>Total</b>	<b>21.3</b>	<b>34.0</b>	<b>(15.5)</b>	<b>2.2</b>	<b>3.3</b>	<b>45.4</b>

(1) Including €8.8 million reversed and used and €6.7 million reversed and unused.

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## NOTE 24 - EMPLOYEES

The geographical breakdown of the total number of employees is as follows:

	31/12/2010	31/12/2009
France	5,095	5,024
Rest of Europe	857	825
Rest of the world	2,414	2,208
<b>Total</b>	<b>8,366</b>	<b>8,057</b>

By category, the breakdown is as follows:

	31/12/2010	31/12/2009
Production	3,581	3,561
Sales	3,405	3,172
Other (design, marketing, administration)	1,380	1,324
<b>Total</b>	<b>8,366</b>	<b>8,057</b>

Total personnel costs amounted to €540.2 million in 2010, compared with €483.7 million in 2009.

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## 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 schemes).

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

## Notes to the consolidated financial statements

using the projected credit units method, based on actuarial assumptions that take into consideration specific conditions, primarily macroeconomic conditions, in the different countries in which the Group operates.

Changes in actuarial assumptions and experience effects give rise to actuarial gains or losses, which are recognised in accordance with the SoRIE method. Under this method, all actuarial gains and losses are recorded in equity when recognised.

For the Group, the main defined benefit plans apply mainly to:

– Retirement benefits in France, Italy, Switzerland and Japan. 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 longstanding 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;

– A supplemental pension scheme for executives in France or in other countries.

	in millions of euros						
	< 1 year	> 1 year	2010	2009	2008	2007	2006
Post-employment and similar benefit obligations	6.2	56.3	62.5	58.8	51.9	43.8	40.6
<b>Total</b>	<b>6.2</b>	<b>56.3</b>	<b>62.5</b>	<b>58.8</b>	<b>51.9</b>	<b>43.8</b>	<b>40.6</b>

### 25.2 - Actuarial assumptions as at 31 December 2010

Actuarial assumptions are reviewed annually. For 2010, the following actuarial assumptions were used:

	France	Italy	Switzerland	Japan	Rest of Asia
Retirement age	62/65 years	60/62 years	64/65 years	60 years	55/65 years
Increase in salaries	2.5 to 4.0%	2.0 to 2.5%	2.2%	2.5%	3 to 5%
Increase in Social Security ceiling	2.5%	n/a	n/a	n/a	n/a
Expected rate of return on plan assets	4.5%	n/a	3.0%	n/a	2.35 to 3.70%
Discount rate	4.5%	4.5%	2.5%	1.8%	1.75 to 4.4%

n/a: not applicable.

#### 2009 assumptions

	France	Italy	Switzerland	Japan	Rest of Asia
Retirement age	61/65 years	60/62 years	63/64 years	60 years	55 years
Increase in salaries	2.0 to 4.0%	2.0 to 2.5%	2.2%	2.5%	3 to 5%
Increase in Social Security ceiling	2.5%	n/a	n/a	n/a	n/a
Expected rate of return on plan assets	4.5%	n/a	3.0%	n/a	2.3 to 4.9%
Discount rate	5.0%	5.0%	3.3%	1.8%	1.9 to 7.7%

n/a: not applicable.

The discount rates applied are obtained based on corporate bond yields with the same maturity as that of the obligation.

The expected rates of return on plan assets are determined as a function of the composition of the asset portfolios, based on expected returns representative of the risk and track record for each type of asset.

### 25.3 - Change in provisions recognised in the statement of financial position

in millions of euros

	Defined benefit pension plans	Other defined benefit plans	2010	2009	2008	2007	2006
<b>Provisions at beginning of period</b>	<b>57.4</b>	<b>1.4</b>	<b>58.8</b>	<b>51.9</b>	<b>43.8</b>	<b>40.6</b>	<b>41.1</b>
Foreign currency adjustments	4.4	–	4.4	(0.8)	3.7	(0.6)	(1.3)
Pension expense	9.8	0.1	9.9	7.8	7.8	7.0	1.6
Benefits/contributions paid	(19.0)	–	(19.0)	(10.1)	(4.8)	(2.7)	(4.3)
Actuarial gains and losses/Limits on plan assets	8.1	–	8.1	9.9	1.8	(1.8)	3.2
Change in the scope of consolidation	–	–	–	0.1	–	0.7	–
Adjustment to opening equity	–	–	–	–	0.3	0.5	0.2
Other	0.3	–	0.3	–	(0.8)	0.1	0.1
<b>Provisions at end of period</b>	<b>61.0</b>	<b>1.6</b>	<b>62.5</b>	<b>58.8</b>	<b>51.9</b>	<b>43.8</b>	<b>40.6</b>

#### 25.3.1 - Reconciliation of the value of post-employment and other employee benefit obligations

in millions of euros

	Defined benefit pension plans	Other defined benefit plans	2010	2009	2008	2007	2006
<b>Present value of obligations at beginning of period</b>	<b>83.0</b>	<b>1.4</b>	<b>84.4</b>	<b>72.9</b>	<b>56.3</b>	<b>53.0</b>	<b>55.7</b>
Foreign currency adjustments	6.9	–	6.9	(0.7)	4.5	(0.8)	(1.4)
Service cost	7.2	0.1	7.3	6.3	5.6	5.2	4.9
Interest cost	3.5	–	3.5	3.1	2.6	2.0	1.5
Benefits paid	(4.6)	–	(4.6)	(6.3)	(4.3)	(3.2)	(10.2)
Employee contributions	0.8	–	0.8	0.7	0.6	0.3	–
Actuarial gains and losses	7.8	–	7.8	9.7	2.1	(2.3)	2.8
Change of plan	–	–	–	–	–	–	(4.4)
Unrecognised past service costs	0.2	–	0.2	0.2	0.3	–	1.7
Change in the scope of consolidation	–	–	–	0.1	0.2	1.6	–
Other	0.4	–	0.4	(1.6)	5.0	0.5	2.4
<b>Present value of obligations at end of period</b>	<b>105.2</b>	<b>1.6</b>	<b>106.7</b>	<b>84.4</b>	<b>72.9</b>	<b>56.3</b>	<b>53.0</b>

**25.3.2 - Fair value of pension plans**

in millions of euros

	2010	2009	2008	2007	2006
<b>Fair value of obligations at beginning of period</b>	<b>24.6</b>	<b>19.8</b>	<b>11.1</b>	<b>10.7</b>	<b>14.6</b>
Employer contributions	9.5	9.1	1.5	1.8	2.9
Employee contributions	0.8	0.7	0.6	0.3	–
Benefits paid	(3.2)	(5.2)	(1.0)	(2.3)	(8.7)
Expected return on plan assets	1.0	0.7	0.6	0.4	0.5
Financial expense	–	–	–	–	(0.1)
Foreign currency adjustments	2.5	0.1	0.8	(0.2)	(0.1)
Actuarial gains & losses	(0.3)	(0.5)	0.7	(0.1)	(0.1)
Changes in the scope of consolidation	–	–	0.1	0.8	–
Others	8.1	(0.1)	5.3	(0.3)	1.7
<b>Fair value of obligations at end of period</b>	<b>43.0</b>	<b>24.6</b>	<b>19.8</b>	<b>11.1</b>	<b>10.7</b>

**25.3.3 - Analysis of provision for post-employment and similar benefit obligations**

in millions of euros

	Defined benefit pension plans	Other defined benefit plans	31/12/2010	31/12/2009	31/12/2008	31/12/2007
Present value of funded obligations	78.1	–	78.1	61.2	51.2	37.8
Fair value of plan assets	(43.0)	–	(43.0)	(24.6)	(19.8)	(11.1)
<b>Excess of obligations/(assets) in funded plans</b>	<b>35.1</b>	<b>–</b>	<b>35.1</b>	<b>36.6</b>	<b>31.5</b>	<b>26.7</b>
Present value of unfunded obligations	27.0	1.6	28.6	23.2	21.7	18.5
Unrecognised past service costs	(1.2)	–	(1.2)	(1.2)	(1.6)	(1.5)
Unrecognised net assets	–	–	–	0.1	0.3	–
<b>Net defined benefit obligations</b>	<b>61.0</b>	<b>1.6</b>	<b>62.5</b>	<b>58.8</b>	<b>51.9</b>	<b>43.8</b>
Breakdown of obligations - assets	–	–	–	–	–	–
Breakdown of obligations - liabilities	61.0	1.6	62.5	58.8	51.9	43.8
<b>Net obligations</b>	<b>61.0</b>	<b>1.6</b>	<b>62.5</b>	<b>58.8</b>	<b>51.9</b>	<b>43.8</b>

### 25.3.4 - Changes in actuarial gains and losses

in millions of euros

<b>Actuarial gains and losses recognised in equity as at 1 January 2007</b>	<b>16.7</b>
Experience gains and losses	3.0
Impact of changes in assumptions	(5.0)
Other actuarial gains and losses	0.2
<b>Actuarial gains and losses recognised in equity as at 31 December 2007</b>	<b>14.9</b>
Experience gains and losses	1.7
Impact of changes in assumptions	0.5
Impact of limits on plan assets	0.3
Other actuarial gains and losses	(0.4)
<b>Actuarial gains and losses recognised in equity as at 31 December 2008</b>	<b>17.0</b>
Experience gains and losses	(0.8)
Impact of changes in assumptions	10.4
Impact of limits on plan assets	(0.2)
Other actuarial gains and losses	0.4
<b>Actuarial gains and losses recognised in equity as at 31 December 2009</b>	<b>26.9</b>
Experience gains and losses	1.3
Impact of changes in assumptions	6.6
Impact of limits on plan assets	(0.1)
Other actuarial gains and losses	1.1
<b>Actuarial gains and losses recognised in equity as at 31 December 2010</b>	<b>35.7</b>

### 25.3.5 - Analysis of expenses recognised in the statement of income

in millions of euros

	Defined benefit pension plans	Other defined benefit plans	2010	2009	2008	2007	2006
Service costs	7.2	0.1	7.3	6.3	5.6	5.2	4.9
Interest costs	3.5	–	3.5	3.1	2.6	2.1	1.4
Expected return on plan assets	(1.0)	–	(1.0)	(0.7)	(0.6)	(0.5)	(0.5)
(Gains)/loss resulting from change in plan	–	–	–	–	–	–	(4.4)
Unrecognised past service cost	0.2	–	0.2	0.2	0.2	0.2	–
Net actuarial (gains)/losses recognised during the year	–	–	–	–	(0.1)	(0.4)	(0.1)
Other	–	–	–	(1.1)	0.1	0.4	0.3
<b>Cost of defined benefit plans</b>	<b>9.8</b>	<b>0.1</b>	<b>10.0</b>	<b>7.8</b>	<b>7.8</b>	<b>7.0</b>	<b>1.6</b>

### 25.4 - Plan assets

The average breakdown by asset type is as follows:

in millions of euros

	31/12/2010		31/12/2009		31/12/2008		31/12/2007	
	Value	Breakdown	Value	Breakdown	Value	Breakdown	Value	Breakdown
Equities	3.4	8%	1.8	7%	2.1	11%	1.1	10%
Bonds	32.1	75%	17.7	72%	13.4	68%	8.5	77%
Other	7.5	18%	5.1	21%	4.3	22%	1.5	13%
<b>Total</b>	<b>43.0</b>	<b>100%</b>	<b>24.6</b>	<b>100%</b>	<b>19.8</b>	<b>100%</b>	<b>11.1</b>	<b>100%</b>

### 25.5 - Information by geographical area

in millions of euros

	31/12/2010		31/12/2009		31/12/2008		31/12/2007	
	Value	Breakdown	Value	Breakdown	Value	Breakdown	Value	Breakdown
France	60.8	57%	51.7	61%	42.8	59%	37.5	67%
Rest of Europe	21.2	20%	14.3	17%	13.8	19%	5.2	9%
Japan	22.0	21%	16.4	19%	15.0	21%	12.0	21%
Rest of Asia Pacific	2.7	3%	2.0	3%	1.4	1%	1.6	3%
<b>Present value of obligations</b>	<b>106.7</b>	<b>100%</b>	<b>84.4</b>	<b>100%</b>	<b>72.9</b>	<b>100%</b>	<b>56.3</b>	<b>100%</b>
France	26.0	60%	11.5	47%	7.6	39%	6.5	59%
Rest of Europe	15.3	36%	11.7	47%	11.1	56%	3.4	31%
Rest of Asia-Pacific	1.7	4%	1.5	6%	1.1	5%	1.2	10%
<b>Fair value of plan assets</b>	<b>43.0</b>	<b>100%</b>	<b>24.6</b>	<b>100%</b>	<b>19.8</b>	<b>100%</b>	<b>11.1</b>	<b>100%</b>
France	–	–	0.1	100%	0.1	31%	–	–
Rest of Asia-Pacific	–	–	–	–	0.2	69%	–	–
<b>Unrecognised net assets</b>	<b>–</b>	<b>–</b>	<b>0.1</b>	<b>100%</b>	<b>0.3</b>	<b>100%</b>	<b>–</b>	<b>–</b>
France	(1.2)	100%	(1.2)	100%	(1.6)	100%	(1.5)	100%
<b>Unrecognised past service costs</b>	<b>(1.2)</b>	<b>100%</b>	<b>(1.2)</b>	<b>100%</b>	<b>(1.6)</b>	<b>100%</b>	<b>(1.5)</b>	<b>100%</b>
France	33.7	54%	39.2	67%	33.6	65%	29.6	68%
Rest of Europe	5.9	9%	2.6	4%	2.8	5%	1.8	4%
Japan	22.0	35%	16.4	28%	15.0	29%	12.0	27%
Rest of Asia-Pacific	1.0	2%	0.6	1%	0.5	1%	0.4	1%
<b>Provisions for post-employment and similar benefit obligations</b>	<b>62.5</b>	<b>100%</b>	<b>58.8</b>	<b>100%</b>	<b>51.9</b>	<b>100%</b>	<b>43.8</b>	<b>100%</b>



## NOTE 26 - TRADE PAYABLES AND OTHER LIABILITIES

	in millions of euros	
	<b>31/12/2010</b>	<b>31/12/2009</b>
Suppliers	204.7	174.3
Amounts payable relating to fixed assets	29.9	24.0
<b>Trade and other payables</b>	<b>234.6</b>	<b>198.3</b>
Current tax liabilities	76.3	39.4
Other current liabilities	220.3	183.3
Other non-current liabilities	30.1	23.9
<b>Trade payables and other liabilities</b>	<b>561.3</b>	<b>444.9</b>

## NOTE 27 - UNRECOGNISED COMMITMENTS, CONTINGENT ASSETS AND CONTINGENT LIABILITIES

### 27.1 - Financial commitments

	in millions of euros				
	< 1 year	1 to 5 years	> 5 years	31/12/2010	31/12/2009
Bank guarantees given	0.1	6.3	1.1	7.5	1.2
Bank guarantees received	-	-	-	-	4.0
Repurchases of securities (guarantees given)	-	-	1.3	1.3	2.5
Repurchases of securities (guarantees received)	-	8.0	-	8.0	6.7
Irrevocable commitments received to purchase financial assets (put options received)	1.4	8.1	16.1	25.6	25.2
Other commitments	9.9	4.2	-	14.1	17.7
Finance leases	0.1	0.2	0.7	1.0	1.0

Future non-cancellable commitments on lease agreements for all stores operated by the Group worldwide are as follows:

	in millions of euros				
	year 1 >	to 1 years 5	years 5 <	Total	WACC
Minimum payments to be made on rental agreements in 2010	60.2	168.6	85.3	314.1	9.28%
Minimum payments to be made on rental agreements in 2009	55.6	151.0	95.6	302.2	7.62%

### 27.2 - Other unrecognised 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 2010. 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 booked when a risk is identified and when its cost can be estimated.

## NOTE 28 - RELATED-PARTY TRANSACTIONS

In 2010, transactions with equity-accounted associates were not material relative to the Group's overall business activities.

Relationships with other related parties, within the meaning of IAS 24 – *Related Party Disclosures* can be summarised as follows:

– RDAI: The architectural firm RDAI was commissioned for a design mission to apply the architectural concept to all Hermès Group stores. Fees paid by the Hermès Group amounted to €6.1 million before tax in 2010 and €6.9 million before tax in 2009;

– Émile Hermès SARL. Active Partner: Émile Hermès

SARL is a *société à responsabilité limitée à capital variable* (limited company with variable capital), whose partners are direct descendants of Émile-Maurice Hermès and his spouse. The company's Executive Chairman is Mr Bertrand Puech and it is governed by a Management Board. Each year, Hermès International pays the Active Partner a sum equal to 0.67% of distributable profits. Furthermore, Hermès International invoices Émile Hermès SARL for certain expenses incurred. In 2010, the amount invoiced was €0.1 million, the same as in 2009.

**Lease agreements with related parties**

Address	Lessor	Lessee	Lease	Duration	Start	End	Security
Building located at 28/30/32, rue du Faubourg-Saint-Honoré	SAS 28/30/32 rue du Faubourg-Saint-Honoré	Hermès International	Commercial lease	9 years	01/01/2007	31/12/2015	3 months
Building located at 28/30/32, rue du Faubourg-Saint-Honoré	SAS 28/30/32 rue du Faubourg-Saint-Honoré	Hermès Sellier	Commercial lease	9 years	01/01/2007	31/12/2015	3 months
Building located at 26, rue du Faubourg-Saint-Honoré	SIFAH (SCI)	Hermès Sellier	Commercial lease	9 years	01/01/2005	31/12/2013	3 months
Building located at 26, rue du Faubourg-Saint-Honoré	SIFAH (SCI)	Hermès International	Commercial lease	9 years	01/01/2008	31/12/2016	3 months
Building located at 23, rue Boissy-d'Anglas	SAS 28/30/32 rue du Faubourg-Saint-Honoré	Hermès Sellier	Commercial lease	9 years	01/01/2009	31/12/2017	3 months
Building located at 74, rue du Faubourg-Saint-Antoine	SCI 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	01/07/2005	30/06/2014	3 months

Total lease expenses related to the above agreements amounted to €8.1 million in 2010, the same as in 2009.

All related-party transactions described have been effected on arm's length terms, that is, on terms that would apply if the transaction had occurred between unrelated parties.

## NOTE 29 - EXECUTIVE COMPENSATION

Remuneration paid to Corporate Executive Officers, Executive Managers and Supervisory Board members of the Group in 2010 amounted to €12.3 million, compared

with €13.1 million in 2009. It was broken down as follows for each category of remuneration:

	in millions of euros	
	<b>2010</b>	<b>2009</b>
Short-term benefits	9.2	9.3
Post-employment benefits	2.3	3.3
Other long-term benefits	0.2	0.2
Share-based payments	0.6	0.3
<b>Total</b>	<b>12.3</b>	<b>13.1</b>

## NOTE 30 - SHARE-BASED PAYMENTS

### 30.1 - Share subscription options

	2010		2009	
	Number of options	Value of shares (€M) <sup>(1)</sup>	Number of options	Value of shares (€M) <sup>(1)</sup>
<b>Outstanding as at 1 January</b>	-	-	19,400	1.0
- <i>exercisable</i>	-	-	19,400	1.0
Options issued	-	-	-	-
Options exercised	-	-	(19,400)	(1.0)
Options cancelled	-	-	-	-
- <i>expired</i>	-	-	-	-
- <i>forfeited</i>	-	-	-	-
<b>Outstanding as at 31 December</b>	-	-	-	-
- <i>exercisable</i>	-	-	-	-
<i>Weighted average exercise price</i>	-	-	-	-

(1) Weighted average price.

Detailed information on share subscription options is presented in Table 8 on page 52.

**30.2 - Share purchase options**

	2010		2009	
	Number of options	Value of shares (€M) <sup>(1)</sup>	Number of options	Value of shares (€M) <sup>(1)</sup>
<b>Outstanding as at 1st January</b>	<b>262,870</b>	<b>20.6</b>	<b>343,420</b>	<b>24.5</b>
– exercisable	30,000	1.3	99,000	4.3
Options issued	–	–	–	–
Options exercised	–	–	(69,000)	(3.0)
Options cancelled	(6,600)	(0.6)	(11,550)	(0.9)
– expired	–	–	–	–
– forfeited	(6,600)	(0.6)	(11,550)	(0.9)
<b>Outstanding as at 31 December</b>	<b>256,270</b>	<b>20.0</b>	<b>262,870</b>	<b>20.6</b>
– exercisable	30,000	1.3	30,000	1.3
Weighted average exercise price	€89.10	–	€78.37	–

(1) Weighted average price.

Detailed information on share purchase options is presented in Table 8 on page 53.

**30.3 - Bonus share issues****30.3.1 - New plans issued in 2010**

Effective on 1 June 2010, the Executive Management awarded 229,860 bonus shares to 7,662 salaried employees, in accordance with the authorisations granted by the Shareholders' Meetings of 3 June 2008 and 2 June 2009. The vesting period under this plan is four years for French residents (plus a lock-up period of two years) and six years for residents of other countries. The shares will be allotted only to those beneficiaries who are still employed by the Group at the end of this period. The main features of the plan are as follows:

- Share price on award date: €107.60;
- Fair value per share: €100.56 for French residents and €100.73 for residents of other countries. A dividend rate of 1.1% per year was applied;
- The fair value of the shares includes a non-transferability discount of €2.40 per share;
- Risk-free rate: 2%;
- Discounted average turnover rate over the benefit vesting period: 18.6% for French residents and 26.5% for residents of other countries.

The IFRS charge (excluding employer's tax) in 2010 with respect to the plan amounted to €2.4 million.

Effective on 1 June 2010, the Executive Management instituted a selective bonus share plan and awarded 188,500 shares thereunder, pursuant to the authorisations granted by the Shareholders' Meetings of 3 June 2008 and 2 June 2009. The vesting period under this plan is four years for French residents (plus a lock-up period of two years) and six years for residents of other countries. The shares will be allotted only to those beneficiaries who are still employed by the Group at the end of this period and only if certain criteria are met, based primarily on the Group's performance in 2010 and 2011. The main features of the plan are as follows:

- Share price on award date: €107.60;
- Fair value per share: €100.56 for French residents and €100.73 for residents of other countries. A dividend rate of 1.1% per year was applied;
- The fair value of the shares reflects a liquidity discount of €2.40 per share;
- Risk-free rate: 2%;
- Discounted average turnover rate over the benefit vesting period: 5.9% for French residents and 8.7% for residents of other countries.

The IFRS charge (excluding employer's tax) in 2010 with respect to the plan amounted to €2.3 million.

### 30.3.2 - Bonus share plans

	2010		2009	
	Number of options	Value of shares (€M) <sup>(1)</sup>	Number of options	Value of shares (€M) <sup>(1)</sup>
<b>Outstanding as at 1 January</b>	<b>154,400</b>	<b>13.0</b>	<b>164,100</b>	<b>13.8</b>
– exercisable	–	–	–	–
Options issued	418,360	42.1	–	–
Options exercised	(350)	–	–	–
Options cancelled	(6,175)	(0.5)	(9,700)	(0.8)
– expired	–	–	–	–
– forfeited	(6,175)	(0.5)	(9,700)	(0.8)
<b>Outstanding as at 31 December</b>	<b>566,235</b>	<b>54.5</b>	<b>154,400</b>	<b>13.0</b>
– exercisable	–	–	–	–
Weighted average exercise price	€73.56	–	€84.06	–

(1) Weighted average price before application of turnover rate at issue.

### 30.4 - Expense for the year

	in millions of euros	
	2010	2009
Bonus share distributions	7.7	3.3
Share purchase options	1.4	1.6
<b>Expense for the year</b>	<b>9.1</b>	<b>4.9</b>

NOTE 31 - INFORMATION ON FEES PAID TO AUDITORS AND ADVISORS

Fees paid to the Statutory Auditors and to members of their networks in 2010 are broken down as follows:

in millions of euros

	Deloitte Network				Crowe Horwath, Cabinet Didier Kling & Associés			
	2010	Break-down	2009	Break-down	2010	Break-down	2009	Break-down
<b>Audit</b>								
Statutory audits	1.5	88%	1.4	94%	0.2	100%	0.2	100%
– <i>Hermès International (parent company)</i>	0.3	18%	0.3	19%	0.1	40%	0.1	39%
– <i>Fully consolidated subsidiaries</i>	1.2	70%	1.1	75%	0.1	60%	0.1	61%
Other legal and related services	0.2	12%	0.1	6%	–	–	–	–
– <i>Hermès International (parent company)</i>	0.1	6%	–	–	–	–	–	–
– <i>Fully consolidated subsidiaries</i>	0.1	6%	0.1	6%	–	–	–	–
<i>Sub-total</i>	1.7	100%	1.5	100%	0.2	100%	0.2	100%
<b>Other services</b>								
Legal, tax and corporate matters	–	–	–	–	–	–	–	–
<i>Sub-total</i>	–	–	–	–	–	–	–	–
<b>Total</b>	<b>1.7</b>	<b>100%</b>	<b>1.5</b>	<b>100%</b>	<b>0.2</b>	<b>100%</b>	<b>0.2</b>	<b>100%</b>

The imbalance between the two audit firms is due to the fact that the Deloitte network is in charge of auditing for nearly all of the Hermès Group's foreign subsidiaries.

## NOTE 32 - SCOPE OF CONSOLIDATION

### List of companies consolidated as at 31 December 2010

Company	Head office	2010 percentage			Registered n° (France)
		Control	Interest	Method*	
Hermès International	24, rue du Faubourg-Saint-Honoré, 75008 Paris	Parent	Parent	Parent	572 076 396
Ateliers A. S.	131, avenue Henri-Barbusse, 69310 Pierre-Bénite (France)	74.90	72.03	Full	954 503 843
Ateliers de Tissage de Bussières et de Challes	16, chemin des Mûriers, 69310 Pierre-Bénite (France)	100.00	96.17	Full	440 252 740
Boissy Mexico	Avenida Presidente Mazaryk 422, Local "A" Col Polanco, 11560 Mexico D.F. (Mexico)	51.00	51.00	Full	-
Boissy Retail	One Marina Boulevard, #28-00, Singapore 018989 (Singapore)	100.00	100.00	Full	-
Boissy Singapore	One Marina Boulevard, #28-00, Singapore 018989 (Singapore)	100.00	80.00	EA	-
Castille Investissements	24, rue du Faubourg-Saint-Honoré, 75008 Paris	100.00	100.00	Full	352 565 451
Clerc Thierry Créations	Sur-La-Cluse 17, CH-2300 La Chaux-de-Fonds (Switzerland)	100.00	100.00	Full	-
Compagnie des Arts de la Table	23, rue Boissy-d'Anglas, 75008 Paris	100.00	100.00	Full	380 059 188
Compagnie des Cristalleries de Saint-Louis	Saint-Louis-lès-Bitche, 57620 Lemberg (France)	99.96	99.96	Full	353 438 708
Compagnie Hermès de Participations	23, rue Boissy-d'Anglas, 75008 Paris	100.00	100.00	Full	413 818 147
Comptoir Nouveau de la Parfumerie	23, rue Boissy-d'Anglas, 75008 Paris	99.67	99.67	Full	542 053 285
Créations Métaphores	21, rue Cambon, 75001 Paris	100.00	96.17	Full	602 013 583
Créations Métaphores Inc.	55 East 59th Street, 10022 New York (USA)	100.00	96.17	Full	-
Établissements Marcel Gandit	51, rue Jean-Jaurès, 38300 Bourgoin-Jallieu (France)	100.00	96.17	Full	583 620 778
Exocuir	69, rue du Rhône, 1207 Geneva (Switzerland)	100.00	100.00	Full	-
Ex-Pili	25/F Chinachem Leighton Plaza, 29 Leighton Road, Causeway Bay (Hong Kong)	100.00	100.00	Full	-
Financière Saint-Honoré	9, avenue Eugène-Pittard, 1211 Geneva 12 (Switzerland)	100.00	100.00	Full	-
Full More Group	25/F, Chinachem Leighton Plaza, 29 Leighton Road, Causeway Bay (Hong Kong)	95.00	95.00	Full	-
Ganterie de Saint-Junien	18, rue Louis-Codet, 87200 Saint-Junien (France)	100.00	100.00	Full	391 581 196
Gaulme	325, rue Saint-Martin, 75003 Paris	45.00	45.00	EA	380 681 833
Gordon-Choisy	33, avenue de Wagram, 75017 Paris	100.00	100.00	Full	662 044 833
Grafton Immobilier	23, rue Boissy-d'Anglas, 75008 Paris	100.00	100.00	Full	440 256 444
HCP Asia Leather	One Marina Boulevard, #28-00, Singapore 018989 (Singapore)	100.00	100.00	Full	-
Herlee	25/F Chinachem Leighton Plaza, 29 Leighton Road, Causeway Bay (Hong Kong)	100.00	100.00	Full	-
Hermès Argentina	Avenida Alvear 1981, 1129 Buenos Aires (Argentina)	100.00	99.99	Full	-
Hermès Asia Pacific	25/F Chinachem Leighton Plaza, 29 Leighton Road, Causeway Bay (Hong Kong)	100.00	100.00	Full	-
Hermès Australia	Level 11, 70 Castlereagh Street, Sydney NSW 2000 (Australia)	100.00	100.00	Full	-
Hermès Benelux Nordics	50, boulevard de Waterloo, 1000 Brussels (Belgium)	100.00	100.00	Full	-
Hermès Canada	131 Bloor Street West, Toronto, Ontario M5S 1R1 (Canada)	100.00	100.00	Full	-

\* Consolidation method Full: Fully consolidated – EA : Equity-accounted.

## Notes to the consolidated financial statements

Company	Head office	2010 percentage			Registered n° (France)
		Control	Interest	Method*	
Hermès (China) Co. Ltd	30/F Hong Kong Plaza, N° 283 Huaihai Central Road Shanghai (China)	100.00	100.00	Full	-
Hermès Cuir Précieux	33, avenue de Wagram, 75017 Paris	100.00	100.00	Full	398 142 695
Hermès de Paris (Mexico)	Avenida Presidente Mazaryk 422, Local "A" Col Polanco, 11560 Mexico D.F. (Mexico)	51.00	51.00	Full	-
Hermès GB	1 Bruton Street, London W1J 6TL (United Kingdom)	100.00	100.00	Full	-
Hermès GmbH	Marshallstrasse 8, 80539 Munich (Germany)	100.00	100.00	Full	-
Hermès Grèce	Rue Stadiou 4 et rue Voukourestiou 1, City Link, 10564 Syntagma Athens (Greece)	100.00	100.00	Full	-
Hermès Holding GB	1 Bruton Street, London W1J 6TL (United Kingdom)	100.00	100.00	Full	-
Hermès Iberica	José Ortega y Gasset 12, 28006 Madrid (Spain)	100.00	100.00	Full	-
Hermès Immobilier Genève	C/- Hermès (Suisse) 4, rue de la Tour-de-l'Île, 1204 Geneva (Switzerland)	100.00	100.00	Full	-
Hermès India Retail and Distributors	G/5-9 Shopping Arcade, The Oberoi, Dr Zakir Hussain Marg, 110003 New Delhi (India)	51.01	51.01	Full	-
Hermès Intérieur & Design	23, rue Boissy-d'Anglas, 75008 Paris	100.00	100.00	Full	480 011 527
Hermès Internacional Portugal	Largo do Chiado 9, 1200-108 Lisbon (Portugal)	100.00	100.00	Full	-
Hermès Istanbul	Abdi İpekçi Cad. No: 79 Nisantasi, Sisli, Istanbul (Turkey)	100.00	100.00	Full	-
Hermès Italie	Via G. Serbelloni 1, 20122 Milan (Italy)	100.00	100.00	Full	-
Hermès Japon	4-1, Ginza 5-Chome, Chuo-ku, Tokyo 104-0061 (Japan)	100.00	100.00	Full	-
Hermès Korea	630-26 Shinsa-Dong Gangnam-gu, Seoul 135-895 (South Korea)	94.59	94.59	Full	-
Hermès Middle East South Asia	One Marina Boulevard, #28-00, Singapore 018989 (Singapore)	100.00	100.00	Full	-
Hermès Monte-Carlo	11-13-15, avenue de Monte-Carlo, 98000 Monaco	100.00	100.00	Full	-
Hermès of Paris	55 East, 59th Street, 10022 New York (USA)	100.00	100.00	Full	-
Hermès Prague	Parizska 12/120, 11000 Prague (Czech Republic)	100.00	100.00	Full	-
Hermès Retail (Malaysia)	Level 16, Menara Asia Life, 189 Jalan Tun Razak, 50400 Kuala Lumpur (Malaysia)	70.00	70.00	Full	-
Hermès Sellier	24, rue du Faubourg-Saint-Honoré, 75008 Paris	99.77	99.77	Full	696 520 410
Hermès Singapore (Retail)	One Marina Boulevard, #28-00, Singapore 018989 (Singapore)	80.00	80.00	Full	-
Hermès Suisse	4, rue de la Tour-de-l'Île, 1204 Geneva (Switzerland)	100.00	100.00	Full	-
Hermès South East Asia	One Marina Boulevard, #28-00, Singapore 018989 (Singapore)	100.00	100.00	Full	-
Hermès Voyageur	23, rue Boissy-d'Anglas, 75008 Paris	100.00	100.00	Full	480 011 535
Holding Textile Hermès previously Sport Soie	16, chemin des Mûriers, 69310 Pierre-Bénite (France)	96.17	96.17	Full	592 028 542
Immauger	23, rue Boissy-d'Anglas, 75008 Paris	100.00	100.00	Full	377 672 159
Immobilière du 5 rue de Fürstemberg	23, rue Boissy-d'Anglas, 75008 Paris	100.00	100.00	Full	440 252 849
J. L. & Company Limited	Westminster Works, Oliver Street, Northampton NN2 7JL (United Kingdom)	100.00	100.00	Full	-
John Lobb	23, rue Boissy-d'Anglas, 75008 Paris	99.99	99.99	Full	582 094 371
John Lobb Japan	3-1-1 Marunouchi, Chiyoda-Ku, Tokyo 100-0005 (Japan)	100.00	100.00	Full	-
John Lobb (Hong Kong) Ltd	25/F Chinachem Leighton Plaza, 29 Leighton Road, Causeway Bay (Hong Kong)	100.00	100.00	Full	-

\* Consolidation method Full: Fully consolidated – EA : Equity-accounted.



Company	Head office	2010 percentage			Registered n° (France)
		Control	Interest	Method*	
La Manufacture de Seloncourt	18, rue de la Côte, 25230 Seloncourt (France)	100.00	100.00	Full	407 836 329
La Maroquinerie Nontronnaise	Route de Saint-Martin-le-Pin, 24300 Nontron (France)	100.00	100.00	Full	403 230 436
La Montre Hermès	Erlenstrasse 31 A, 2555 Brügg (Switzerland)	100.00	100.00	Full	-
La Montre Hermès Pacific Limited	22/F Chinachem Leighton Plaza, 29 Leighton Road, Causeway Bay (Hong Kong)	100.00	100.00	Full	-
La Montre Hermès Shanghai	Room 2609, Westgate Tower, N° 1038, Nanjing Xi Road, Shanghai 200041 (China)	100.00	100.00	Full	-
Leica Camera Japan Co	1-7-1 Yurakucho Chiyoda-ku, Tokyo 100-0006 (Japan)	49.00	49.00	EA	-
Les Tissages Perrin**	ZA Les Chaumes, 38690 Le Grand-Lemps (France)	97.94	39.64	EA	400 135 034
Louisiane Spa	Via Marostica 40, 20135 Milan (Italy)	100.00	100.00	Full	-
Manufacture de Haute Maroquinerie	ZAE Les Combaruches, 825, bd Jean-Jules-Herbert, 73100 Aix-les-Bains (France)	100.00	100.00	Full	409 548 096
Maroquinerie de Belley	23, rue Boissy-d'Anglas, 75008 Paris	100.00	100.00	Full	428 128 425
Maroquinerie de Saint-Antoine	12-14, rue Auger, 93500 Pantin (France)	100.00	100.00	Full	409 209 202
Maroquinerie de Sayat	12-16, rue Auger, 93500 Pantin (France)	100.00	100.00	Full	411 795 859
Maroquinerie des Ardennes	23, rue Boissy-d'Anglas, 75008 Paris	100.00	100.00	Full	428 113 518
Maroquinerie Thierry	ZI Les Bracots, rue des Fougères, 74890 Bons-en-Chablais (France)	43.82	43.82	EA	312 108 368
Michel Rettili Srl	Via Marostica 40, 20135 Milan (Italy)	100.00	100.00	Full	-
Motsch-George V	23, rue Boissy-d'Anglas, 75008 Paris	100.00	100.00	Full	440 252 476
Perrin & Fils	ZA Les Chaumes, 38690 Le Grand-Lemps (France)	39.52	38.01	EA	573 620 143
Reptile Tannery of Louisiana Inc.	105, Dorset Avenue, Lafayette, Louisiana 70501 (USA)	100.00	100.00	Full	-
Saint-Honoré (Bangkok)	Room G03/2, The Emporium Shopping Mall, 622 Sukhumvit Road, Klongton, Klongtoey, Bangkok 10330 (Thailand)	51.00	51.00	Full	-
Saint-Honoré Consulting	C-28 Connaught Place, 110001 New Delhi (India)	100.00	100.00	Full	-
SC Honossy	23, rue Boissy-d'Anglas, 75008 Paris	100.00	100.00	Full	393 178 025
SCI Auger-Hoche	12-22, rue Auger, 93500 Pantin (France)	100.00	100.00	Full	335 161 071
SCI Boissy Les Mûriers	23, rue Boissy-d'Anglas, 75008 Paris	100.00	100.00	Full	351 649 504
SCI Boissy Nontron	23, rue Boissy-d'Anglas, 75008 Paris	100.00	100.00	Full	442 307 021
SCI du Bas Verel**	5, rue Docteur-Roux, 38490 Saint-André-le-Gaz (France)	100.00	38.47	EA	430 020 396
SCI La Brocatelle**	45, chemin du Barbaillon, 38690 Le Grand-Lemps (France)	100.00	38.01	EA	495 198 558
SCI Les Capucines	ZI les Bracots, 74890 Bons-en-Chablais (France)	60.00	77.53	Full	408 602 050
Shang Xia Trading (Shanghai) Co., Ltd	Room 6F-1, No. 137 Julu Road, Luwan District, Shanghai (China)	100.00	95.00	Full	-
Société d'Impression sur Étoffes du Grand-Lemps	202, chemin du Violet, 38690 Le Grand-Lemps (France)	100.00	96.17	Full	573 621 224
Société Nontronnaise de Confection	Les Belles Places, 10, rue Jean-Moulin, 24300 Nontron (France)	100.00	96.17	Full	380 041 939
Tanneries des Cuirs d'Indochine et de Madagascar	33, avenue de Wagram, 75017 Paris	100.00	100.00	Full	582 025 755
Vaucher Manufacture Fleurier	Rue de l'Hôpital 33, 2114 Fleurier (Switzerland)	21.05	21.05	EA	-
Velours Blafo**	7, rue de Catalogne, 69150 Décines-Charpieu (France)	66.00	25.09	EA	352 497 549

\* Consolidation method Full: Fully consolidated – EA : Equity-accounted.

\*\* Companies majority-owned by Perrin & Fils, in which the Hermès Group holds a 39.52% controlling interest.



## Parent company financial statements

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## Statement of income for the year ended 31 December 2010

	in millions of euros	
	2010	2009
<b>Operating revenue</b>	<b>117.0</b>	<b>78.2</b>
Revenue (Note 2)	90.9	67.0
Other revenue	0.5	0.8
Reversals of provisions and expense reclassifications	25.6	10.4
<b>Operating expense</b>	<b>140.9</b>	<b>112.8</b>
Supplies	1.9	1.4
External services	16.2	12.6
Other external services	41.4	35.0
Taxes and duties (other than income tax)	4.0	3.7
Salaries	25.3	26.7
Social security and similar expense	28.3	20.4
Depreciation, amortisation, provisions and impairment	20.9	10.4
Other expense	2.9	2.7
<b>OPERATING INCOME/(LOSS)</b>	<b>(23.9)</b>	<b>(34.6)</b>
<b>Financial income</b>	<b>405.4</b>	<b>308.3</b>
Income from subsidiaries and associates	369.1	290.4
Other interest and similar income	5.6	4.6
Reversals of provisions and impairment (Note 10)	24.7	10.4
Foreign exchange gains	4.1	–
Net income from disposals of marketable securities	1.9	2.9
<b>Financial expense</b>	<b>53.7</b>	<b>43.7</b>
Accruals to provisions and impairment (Note 10)	51.7	42.5
Foreign exchange losses	–	0.8
Interest and similar expense	2.0	0.4
<b>NET FINANCIAL INCOME</b>	<b>351.7</b>	<b>264.6</b>
<b>RECURRING OPERATING INCOME</b>	<b>327.8</b>	<b>230.0</b>
Exceptional income (Note 3)	2.8	–
Exceptional expense (Note 3)	8.4	0.7
<b>NET EXCEPTIONAL INCOME</b>	<b>(5.6)</b>	<b>(0.7)</b>
<b>INCOME BEFORE TAX AND EMPLOYEE PROFIT-SHARING</b>	<b>322.2</b>	<b>229.3</b>
Employee profit-sharing	(3.1)	(2.6)
Income tax expense (Note 4)	6.1	16.5
<b>NET INCOME</b>	<b>325.2</b>	<b>243.2</b>

## Statement of financial position as at 31 December 2010

### ASSETS

	in millions of euros	
	31/12/2010	31/12/2009
<b>NON-CURRENT ASSETS</b>	<b>566.6</b>	<b>531.5</b>
<b>Intangible assets (Note 5)</b>	<b>2.8</b>	<b>2.3</b>
Licences, patents and trademarks	1.0	0.5
Other	1.8	1.8
<b>Property, plant &amp; equipment (Note 5)</b>	<b>16.6</b>	<b>18.5</b>
Land	0.3	0.3
Buildings	–	–
Other	16.1	17.8
Work in progress	0.2	0.4
<b>Financial assets (Note 6)</b>	<b>547.2</b>	<b>510.8</b>
Investments in subsidiaries and associates	395.4	398.3
Other long-term securities	2.7	2.8
Other financial assets	149.1	109.7
<b>CURRENT ASSETS</b>	<b>1,066.3</b>	<b>815.7</b>
Operating receivables (Note 7)	51.9	45.2
Other receivables (Note 7)	362.7	379.2
Marketable securities (Note 8)	633.6	365.2
Derivatives	13.1	10.3
Cash	5.0	15.8
<b>PREPAYMENTS (Note 7)</b>	<b>3.0</b>	<b>1.2</b>
<b>TOTAL ASSETS</b>	<b>1,635.9</b>	<b>1,348.4</b>

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EQUITY AND LIABILITIES

Before appropriation

in millions of euros

	31/12/2010	31/12/2009
<b>EQUITY</b>	<b>1,397.3</b>	<b>1,184.1</b>
Share capital (Note 9)	53.8	53.8
Share premium (Note 9)	49.6	49.6
Legal reserve (Note 9)	5.7	5.7
Retained earnings (Note 9)	962.8	831.7
Net income for the year (Note 9)	325.2	243.2
Restricted reserves (Note 10)	0.2	0.1
<b>PROVISIONS FOR CONTINGENCIES AND LOSSES (Note 10)</b>	<b>27.9</b>	<b>33.9</b>
<b>LIABILITIES</b>	<b>210.7</b>	<b>130.4</b>
Financial liabilities (Note 11)	14.4	24.7
Derivatives	1.3	0.1
Operating liabilities (Note 11)	52.6	35.7
Other liabilities (Note 11)	142.4	69.9
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>1,635.9</b>	<b>1,348.4</b>

## Statement of changes in equity as at 31 December 2010

	in millions of euros						
	Share capital (Note 9)	Share premium (Note 9)	Legal reserve and retained earnings (Note 9)	Net income for the year (Note 9)	Restricted provisions (Note 10)	Equity	Number of shares outstanding (Note 9)
<b>Balance as at 31 December 2008 before appropriation of net income</b>	<b>53.8</b>	<b>48.6</b>	<b>689.8</b>	<b>257.5</b>	<b>0.1</b>	<b>1,049.9</b>	<b>105,550,012</b>
Appropriation of 2008 net income	-	-	147.5	(147.5)	-	-	-
Dividends paid in respect of the year	-	-	-	(110.0)	-	(110.0)	-
Change in share capital and share premium	-	1.0	-	-	-	1.0	19,400
Net income for 2009	-	-	-	243.2	-	243.2	-
Other changes during the period	-	-	-	-	-	-	-
<b>Balance as at 31 December 2009 before appropriation of net income</b>	<b>53.8</b>	<b>49.6</b>	<b>837.3</b>	<b>243.2</b>	<b>0.1</b>	<b>1,184.1</b>	<b>105,569,412</b>
Appropriation of 2009 net income	-	-	131.2	(131.2)	-	-	-
Dividends paid in respect of the year	-	-	-	(112.0)	-	(112.0)	-
Net income for 2010	-	-	-	325.2	-	325.2	-
Other changes during the period	-	-	-	-	-	-	-
<b>Balance as at 31 December 2010 before appropriation of net income</b>	<b>53.8</b>	<b>49.6</b>	<b>968.5</b>	<b>325.2</b>	<b>0.2</b>	<b>1,397.3</b>	<b>105,569,412</b>



## Statement of cash flows for the year ended 31 December 2010

	in millions of euros	
	2010	2009
Net income	325.2	243.2
Depreciation and amortisation (Note 5)	3.2	3.3
Change in provisions and impairment	30.5	31.9
Capital gains/(losses) on disposals	5.6	0.7
<b>OPERATING CASH FLOWS</b>	<b>364.5</b>	<b>279.1</b>
Trade and other receivables	(12.0)	11.9
Trade payables and other liabilities	14.9	(7.9)
<b>CHANGE IN WORKING CAPITAL</b>	<b>2.9</b>	<b>4.0</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>367.4</b>	<b>283.1</b>
Purchase of intangible assets (Note 5)	(1.6)	(1.5)
Purchase of property, plant & equipment (Note 5)	(0.3)	(0.7)
Investments in subsidiaries and associates (Note 6)	(41.5)	(106.9)
Purchase of other financial assets (Note 6)	(84.3)	(70.7)
Disposals	48.1	1.3
Change in receivables and payables relating to fixed assets	(0.7)	(1.6)
<b>CASH FLOWS USED IN INVESTING ACTIVITIES</b>	<b>(80.3)</b>	<b>(180.1)</b>
Dividends paid	(112.0)	(110.0)
Increase/(decrease) in equity (Note 9)	–	1.0
<b>CASH FLOWS USED IN FINANCING ACTIVITIES</b>	<b>(112.0)</b>	<b>(109.0)</b>
<b>CHANGE IN NET CASH POSITION</b>	<b>175.1</b>	<b>(6.0)</b>
Net cash position at beginning of period	652.1	658.1
Net cash position at end of period	827.2	652.1
<b>CHANGE IN NET CASH POSITION</b>	<b>175.1</b>	<b>(6.0)</b>

Liabilities relating to employee profit-sharing have been reclassified into Other liabilities and the subsidiaries' current accounts have been reclassified into Cash assets or liabilities.

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The financial year covers the 12 months from 1 January through 31 December 2010.

The following notes are an integral part of the financial statements.

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## NOTE 1 - ACCOUNTING POLICIES AND PRINCIPLES

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 the general rules for the preparation and presentation of the annual financial statements.

### 1.1 - Intangible assets

Intangible assets include the purchase of original works of arts 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 three 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 booked 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 face 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 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 less than the exercise price. An impairment charge is recorded to cover any decline in the market price of the shares; it is based on the difference between the net carrying amount of the shares and the average stock market price for the month immediately preceding the closing date.

### 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 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 as an expense 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 expense**

Since 1 January 1988, the Company has opted for a group tax election under French tax law. Under the terms of an agreement between the parent company and the subsidiaries included in the group tax election, projected and actual tax savings or liabilities generated by the Group are recognised in income (temporary or definite) 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 election.

The main companies included in the group tax election are Hermès International, Ateliers de Tissage de Busières et de Challes, Castille Investissements, Compagnie des Arts de la Table, Compagnie des Cristalleries de Saint-Louis, Compagnie Hermès de Participations, Comptoir Nouveau de la Parfumerie, Établissements Marcel Gandit, Ganterie de Saint-Junien, Gordon-Choisy, Grafton Immobilier, Hermès Cuir Précieux, Hermès Intérieur & Design, Hermès Sellier, Holding Textile Hermès (formerly Sport Soie), Immauger, Immobilière du 5 rue de Fürstemberg, John Lobb, La Manufacture de Seloncourt, La Maroquinerie Nontronnaise, Manufacture de Haute Maroquinerie, Maroquinerie de Belley, Maroquinerie des Ardennes, Maroquinerie de

Sayat, Maroquinerie de Saint-Antoine, Motsch George V, SC Honossy, SCI Auger-Hoche, SCI Boissy Les Mûriers, SCI Boissy Nontron, Société d'Impression sur Étoffes du Grand-Lemps, Société Nontronnaise de Confection and Tanneries des Cuir d'Indochine et de Madagascar.

#### **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 income is the sum of:

- the past service cost, which reflects the increase in obligations arising from the vesting of one additional year of benefits; and
- 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 10% 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 - REVENUE

	in millions of euros	
	<b>2010</b>	<b>2009</b>
Sales of services	48.9	29.6
Royalties	42.0	37.4
<b>REVENUE</b>	<b>90.9</b>	<b>67.0</b>

Sales of services are amounts charged back to subsidiaries for advertising and public relations services, rent, staff provided on secondment, insurance and

professional fees. Royalties are calculated based on the production subsidiaries' revenue.

## NOTE 3 - NET EXCEPTIONAL INCOME

	in millions of euros	
	<b>2010</b>	<b>2009</b>
<b>Exceptional income</b>	<b>2.8</b>	–
Disposals of property, plant and equipment and financial assets	2.8	–
<b>Exceptional expense</b>	<b>(8.4)</b>	<b>(0.7)</b>
Exceptional charges on management transactions	(0.1)	–
Disposals of property, plant and equipment and financial assets	(8.3)	(0.7)
Reserves for accelerated depreciation	–	–
<b>NET EXCEPTIONAL INCOME</b>	<b>(5.6)</b>	<b>(0.7)</b>

## NOTE 4 - INCOME TAX EXPENSE

### 4.1 - Analysis of income tax expense

	in millions of euros	
	<b>2010</b>	<b>2009</b>
<b>Pre-tax income</b>	<b>319.1</b>	<b>226.6</b>
Income before tax and employee profit-sharing	322.2	229.3
Employee profit-sharing	(3.1)	(2.6)
<b>Income tax expense</b>	<b>6.1</b>	<b>16.5</b>
Tax (parent company only)	(1.3)	6.1
– tax on net exceptional income	1.9	0.2
– tax on other items	(3.2)	5.9
Tax arising from group tax election	7.4	10.4
<b>NET INCOME</b>	<b>325.2</b>	<b>243.2</b>

## Notes to the financial statements

Hermès International recognised a tax credit of €6.1 million in 2010, compared with a tax credit of €16.5 million in 2009. In addition, Hermès International is jointly liable for payment of the tax of the fiscally consolidated group, which amounted to €96.3 million in 2010 compared with €82.7 million in 2009.

Income tax expense takes into account the additional tax contribution of 3.30%.

Hermès International's corporate income tax expense only includes applicable exemptions under the terms of the parent-daughter regime for income from investments in subsidiaries. The income tax credit takes into

account the effect of the group tax election arising from tax losses for certain subsidiaries and from offsetting the share of fees and expenses on income from investments in subsidiaries.

### 4.2 - Increases or decreases in future tax liability

As at 31 December 2010, the future tax liability was reduced by an estimated €3.1 million compared with €8.4 million as at 31 December 2009. These figures are due entirely to expenses that are temporarily non deductible. Increases or decreases in future tax liability take into account the 3.30% social contribution.

## NOTE 5 - INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

in millions of euros

	Gross value as at 31/12/ 2009	Increases	Decreases	Other	Gross value as at 31/12/ 2010	Deprecia- tion and amor- tisation	Net value as at 31/12/ 2010
<b>Intangible assets</b>	<b>9.6</b>	<b>1.6</b>	–	–	<b>11.2</b>	<b>(8.4)</b>	<b>2.8</b>
Licences, patents and trademarks	0.5	0.5	–	–	1.0	–	1.0
Other	9.1	1.1	–	–	10.2	(8.4)	1.8
<b>Property, plant &amp; equipment</b>	<b>25.7</b>	<b>0.3</b>	<b>(0.6)</b>	–	<b>25.4</b>	<b>(8.8)</b>	<b>16.6</b>
Land	0.3	–	–	–	0.3	–	0.3
Buildings	0.5	–	–	–	0.5	(0.5)	–
Other	24.5	0.3	(0.6)	0.2	24.4	(8.3)	16.1
Work in progress	0.4	–	–	(0.2)	0.2	–	0.2
<b>INTANGIBLE ASSETS AND PROPERTY, PLANT &amp; EQUIPMENT</b>	<b>35.3</b>	<b>1.9</b>	<b>(0.6)</b>	–	<b>36.6</b>	<b>(17.2)</b>	<b>19.4</b>

## NOTE 6 - FINANCIAL ASSETS

The list of equity investments is presented at the end of the notes to the financial statements.

in millions of euros

	Gross value as at 31/12/2009	Purchases/ Subscrip- tions	Disposals	Gross value as at 31/12/2010	Provisions for impairment (Note 10)	Net value as at 31/12/2010
<b>Investments in subsidiaries and associates</b>	<b>565.5</b>	<b>41.5</b>	<b>–</b>	<b>607.0</b>	<b>(211.6)</b>	<b>395.4</b>
Castille Investissements <sup>(1)</sup>	107.3	23.1	–	130.4	(129.4)	1.0
Herlee	4.5	15.0	–	19.5	(6.5)	13.0
Hermès Voyageur <sup>(1)</sup>	–	0.3	–	0.3	(0.3)	–
John Lobb <sup>(1)</sup>	8.5	2.1	–	10.6	(9.8)	0.8
Maroquinerie de Saint-Antoine <sup>(1)</sup>	2.6	1.0	–	3.6	(3.6)	–
Other <sup>(2)</sup>	442.6	–	–	442.6	(62.0)	380.6
<b>Other financial assets</b>	<b>114.0</b>	<b>85.0</b>	<b>(45.5)</b>	<b>153.5</b>	<b>(4.4)</b>	<b>149.1</b>
Investments in financial assets	102.5	83.8	(45.0)	141.3	–	141.3
Treasury shares (liquidity contract) <sup>(3)</sup>	4.8	0.5	–	5.3	–	5.3
Deposits and guarantees	2.0	0.6	(0.1)	2.5	–	2.5
Outstanding loans and advances	4.7	0.1	(0.4)	4.4	(4.4)	–
<b>Other long-term securities</b>	<b>11.2</b>	<b>–</b>	<b>(8.3)</b>	<b>2.9</b>	<b>(0.2)</b>	<b>2.7</b>
<b>FINANCIAL ASSETS</b>	<b>690.7</b>	<b>126.5</b>	<b>(53.8)</b>	<b>763.4</b>	<b>(216.2)</b>	<b>547.2</b>

The list of equity investments is presented at the end of the notes to the financial statements.

(1) These subsidiaries are wholly-owned by Hermès International.

(2) Other provisions for impairment mainly relate to Compagnie Hermès de Participations, Comptoir Nouveau de la Parfumerie, Hermès Cuir Précieux, Maroquinerie de Belley, Maroquinerie Nontronnaise, Hermès Argentina and to the shares in SCI Auger-Hoche.

(3) As at 31 December 2010, Hermès International held 35,000 treasury shares pursuant to a liquidity contract. These shares were valued on the basis of their stock market price when they were purchased, i.e. €152.78 per share.

## Notes to the financial statements

### NOTE 7 - ANALYSIS OF ASSETS BY MATURITY

in millions of euros

	31/12/2010				31/12/2009	
	< 1 year	> 1 year and < 5 years	Gross amount	Impairment	Net amount	Net amount
<b>Other financial assets</b> (note 6)	<b>99.8</b>	<b>53.7</b>	<b>153.5</b>	<b>(4.4)</b>	<b>149.1</b>	<b>109.7</b>
Outstanding loans and advances	–	4.4	4.4	(4.4)	–	0.4
Other	99.8	49.3	149.1	–	149.1	109.3
<b>Current assets</b>	<b>415.0</b>	<b>–</b>	<b>415.0</b>	<b>(0.4)</b>	<b>414.6</b>	<b>424.4</b>
Trade and other receivables	38.8	–	38.8	(0.4)	38.4	36.5
Other operating receivables	13.5	–	13.5	–	13.5	8.8
Other receivables <sup>(1)</sup>	362.7	–	362.7	–	362.7	379.2
<b>Prepayments</b>	<b>3.0</b>	<b>–</b>	<b>3.0</b>	<b>–</b>	<b>3.0</b>	<b>1.2</b>
Advertising and marketing fees	2.0	–	2.0	–	2.0	1.0
Rents	1.0	–	1.0	–	1.0	–
Other	–	–	–	–	–	0.2
<b>TOTAL</b>	<b>517.8</b>	<b>53.7</b>	<b>571.5</b>	<b>(4.8)</b>	<b>566.7</b>	<b>535.4</b>

(1) Other receivables mainly comprise financial current accounts with subsidiaries.

in millions of euros

	31/12/2010	31/12/2009
<b>Other financial assets</b>		
Within 1 year	99.8	29.3
Between 1 and 5 years	53.7	84.7
<b>Current assets</b>		
Within 1 year	415.0	424.8
Between 1 and 5 years	–	–
<b>Prepayments</b>		
Within 1 year	3.0	1.2
Between 1 and 5 years	–	–



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## NOTE 8 - MARKETABLE SECURITIES

	in millions of euros	
	31/12/2010	31/12/2009
Mutual funds	275.9	317.5
Negotiable debt securities	330.0	20.0
Treasury shares <sup>(1)</sup>	27.7	27.7
<b>MARKETABLE SECURITIES</b>	<b>633.6</b>	<b>365.2</b>

(1) Includes 371,650 Hermès International treasury shares acquired under employee stock option or bonus share plans, in addition to the 50,000 other treasury shares held pursuant to a liquidity contract (see Note 6).

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## NOTE 9 - EQUITY

As at 31 December 2010, 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 2009.

Effective as of 1 June 2010, the Executive Management granted 229,860 bonus shares to 7,662 salaried employees, pursuant to authorisations conferred by the Annual General Meeting of 2 June 2009. The vesting period under this plan is 4 years for French residents (plus a lock-up period of 2 years) and 6 years for residents of other countries. Granting of the shares is contingent on the beneficiaries being employed by the Group at the end of this period. The main characteristics of the plan are the following:

- share price on grant date: €107.60;
- fair value per share: €100.56 for French residents and €100.73 for residents of other countries; this reflects a dividend yield of 1.1% per year;
- the fair value per share includes a discount of €2.40 per share to factor in the lock-up period;
- risk-free rate: 2%;
- average employee turnover rate discounted over the vesting period: 18.6% for French residents and 26.5% for residents of other countries.

The cost of the plan (excluding employer's taxes) amounted to €3.7 million in 2010.

Effective as of 1 June 2010, the Executive Management issued a selective bonus share plan and granted 188,500 shares, pursuant to authorisations granted by the Annual General Meeting of 2 June 2009. The vesting period under this plan is 4 years for French residents (plus a lock-up period of 2 years) and 6 years for residents of other countries. Granting of the shares is contingent on the beneficiaries being employed by the Group at the end of this period and by the attainment of certain criteria, based mainly on the Group's performance in 2010 and 2011. The main characteristics of the plan are the following:

- share price on grant date: €107.60;
- fair value per share: €100.56 for French residents and €100.73 for residents of other countries; this reflects a dividend yield of 1.1% per year;
- the fair value per share includes a discount of €2.40 per share to factor in the lock-up period;
- risk-free rate: 2%;
- average employee turnover rate discounted over the vesting period: 5.9% for French residents and 8.7% for residents of other countries.

The cost of the plan (excluding employer's taxes) amounted to €3.6 million in 2010.

## Notes to the financial statements

### NOTE 10 - PROVISIONS

	in millions of euros				
	31/12/2009	Accruals	Reversals		31/12/2010
			Provisions used	Provisions unused	
<b>Provisions for impairment</b>	<b>180.3</b>	<b>52.8</b>	<b>(8.2)</b>	<b>(8.3)</b>	<b>216.6</b>
Financial assets (note 6)	179.9	52.8	(8.2)	(8.3)	216.2
Trade and other receivables	0.4	–	–	–	0.4
<b>Restricted provisions</b>	<b>0.1</b>	<b>0.1</b>	<b>–</b>	<b>–</b>	<b>0.2</b>
Accelerated depreciation	0.1	0.1	–	–	0.2
<b>Provisions for contingencies and losses</b>	<b>33.9</b>	<b>20.8</b>	<b>(7.6)</b>	<b>(19.2)</b>	<b>27.9</b>
Provisions for contingencies <sup>(1)</sup>	15.9	3.6	(1.7)	(11.1)	6.7
Provisions for losses <sup>(2)</sup>	18.0	17.2	(5.9)	(8.1)	21.2
<b>TOTAL</b>	<b>214.3</b>	<b>73.7</b>	<b>(15.8)</b>	<b>(27.5)</b>	<b>244.7</b>

(1) Provisions for contingencies include: provisions for risks arising on the Company's subsidiaries, to cover the Company's share of negative net equity, in accordance with accounting principles and policies, and provisions for ongoing litigation.

(2) Provisions for losses mainly include retirement benefits and expenses associated with the supplementary pension scheme for executives and senior managers. These amounts are periodically paid over to pension funds. They also include the cost of the November 2007 and May 2010 bonus share issue plans (see Note 9).

### NOTE 11 - ANALYSIS OF LIABILITIES BY MATURITY

	in millions of euros			
	31/12/2010			31/12/2009
	< 1 an	> 1 year and < 5 years	Net amount	Net amount
<b>Financial liabilities</b>	<b>7.6</b>	<b>6.8</b>	<b>14.4</b>	<b>24.7</b>
Bank borrowings <sup>(1)</sup>	6.4	–	6.4	17.5
Other borrowings and debt <sup>(2)</sup>	1.2	6.8	8.0	7.2
<b>Operating liabilities</b>	<b>52.6</b>	<b>–</b>	<b>52.6</b>	<b>35.7</b>
Trade payables and related accounts <sup>(3)</sup>	14.8	–	14.8	16.0
Tax and employee-related liabilities <sup>(4)</sup>	37.8	–	37.8	19.7
<b>Other liabilities</b>	<b>142.4</b>	<b>–</b>	<b>142.4</b>	<b>69.9</b>
Amounts payable relating to fixed assets	0.8	–	0.8	1.5
Other	141.6	–	141.6	68.4
<b>TOTAL</b>	<b>202.6</b>	<b>6.8</b>	<b>209.4</b>	<b>130.3</b>

(1) Bank current accounts.

(2) Funds held in trust for employees under the statutory employee profit-sharing scheme.

(3) Including €8 million in invoices not yet received.

(4) Including €15.4 million in tax and employee-related liabilities payable.

in millions of euros

	31/12/2010	31/12/2009
<b>Financial liabilities</b>		
Within 1 year	7.6	18.6
Between 1 and 5 years	6.8	6.1
<b>Operating liabilities</b>		
Within 1 year	52.6	35.7
Between 1 and 5 years	–	–
<b>Other liabilities</b>		
Within 1 year	142.4	69.9
Between 1 and 5 years	–	–

#### Information on accounts payable

in millions of euros

	31/12/2010		
	Group	Non-Group	Total
<b>Trade payables</b>	<b>1.7</b>	<b>13.1</b>	<b>14.8</b>
<b>Total past due</b>	<b>1.0</b>	<b>0.8</b>	<b>1.8</b>
– less than 30 days	0.7	0.5	1.2
– 30 to 90 days	0.1	0.2	0.3
– over 90 days	0.2	0.1	0.3
<b>Total coming due</b>	<b>0.7</b>	<b>12.3</b>	<b>13.0</b>
– within 30 days	0.7	12.3	13.0
– within 30 to 60 days	–	–	–

in millions of euros

	31/12/2009		
	Group	Non-Group	Total
<b>Trade payables</b>	<b>2.0</b>	<b>14.0</b>	<b>16.0</b>
<b>Total past due</b>	<b>0.7</b>	<b>1.7</b>	<b>2.4</b>
– less than 30 days	0.2	0.8	1.0
– 30 to 90 days	0.2	0.6	0.8
– over 90 days	0.3	0.3	0.6
<b>Total coming due</b>	<b>1.3</b>	<b>12.3</b>	<b>13.6</b>
– within 30 days	1.3	12.3	13.6
– within 30 to 60 days	–	–	–

NOTE 12 - FINANCIAL STATEMENT ITEMS RELATED TO SUBSIDIARIES AND ASSOCIATES

Transactions with companies accounted for by the equity method were not material by comparison with the overall business activities of Hermès International in 2010. Relationships with other related parties are summarised as follows:

- RDAI: RDAI was commissioned to undertake a design assignment for the application of the architectural concept to all Hermès Group stores. Fees paid by Hermès International amounted to less than €0.1 million (excluding VAT) in 2010 and in 2009;
- 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 Émile-Maurice Hermès and his spouse. Émile Hermès SARL's Executive Manager is Mr Bertrand Puech. The Company is governed by a 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 €0.1 million in this respect in 2010, the same as in 2009.

**Lease agreements with related parties**

Address	Lessor	Lessee	Lease type	Lease term	Start date	End date	Security deposit
Building located at 28/30/32, rue du Faubourg-Saint-Honoré	SAS 28/30/32 rue du Faubourg-Saint-Honoré	Hermès International	Commercial lease	9 years	01/01/2007	31/12/2015	3 months
Building located at 26, rue du Faubourg-Saint-Honoré	SIFAH (SCI)	Hermès International	Commercial lease	9 years	01/01/2008	31/12/2016	3 months
Building located at 74, rue du Faubourg-Saint-Antoine	SCI 74 rue du Faubourg-Saint-Antoine	Hermès International	Commercial lease	9 years	01/07/2008	30/06/2017	3 months

Total rental expense for the above leases amounted to €4.8 million in 2010. All of the transactions described were carried out on an arm's length basis.

## NOTE 13 - EXPOSURE TO MARKET RISKS AND FINANCIAL COMMITMENTS

### 13.1 - Currency risk

Most of the Group's currency 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.

#### 13.1.1 - Net currency positions

As at 31/12/2010

in millions of euros

Currency	Amount receivable/ (payable)	Future cash flows	Net position before hedging	Off-balance sheet position <sup>(1)</sup>	Net position after hedging	Hedging ratio	1% sensitivity
Swiss franc	9.3	5.3	14.6	(12.7)	2.0	86%	–
US dollar	(27.6)	0.9	(26.7)	27.7	1.1	104%	–
Australian dollar	0.2	0.1	0.3	0.5	0.8	(175)%	–
Japanese yen	113.9	1.1	114.9	(114.5)	0.5	100%	–
Hong Kong dollar	(22.5)	0.4	(22.1)	21.7	(0.5)	98%	–
Singapore dollar	0.5	0.6	1.1	(0.5)	0.6	42%	–
Pound sterling	(7.2)	(0.2)	(7.4)	7.9	0.4	106%	–
Turkish lira	(0.1)	–	(0.1)	(0.8)	(1.0)	(717)%	–
Mexican peso	0.4	0.1	0.5	(0.1)	0.4	19%	–
<b>Total</b>	<b>66.8</b>	<b>8.3</b>	<b>75.1</b>	<b>(70.7)</b>	<b>4.4</b>	<b>94%</b>	<b>–</b>

(1) Sale/(Purchase).

As at 31/12/2009

in millions of euros

Currency	Amount receivable/ (payable)	Future cash flows	Net position before hedging	Off-balance sheet position <sup>(1)</sup>	Net position after hedging	Hedging ratio	1% sensitivity
Swiss franc	11.7	1.8	13.6	(11.9)	1.7	88%	–
US dollar	8.4	0.7	9.1	(8.0)	1.2	88%	–
Australian dollar	0.5	0.1	0.6	–	0.6	5%	–
Japanese yen	130.1	2.0	132.1	(131.8)	0.2	100%	–
Czech koruna	0.4	–	0.4	(0.3)	0.1	82%	–
Canadian dollar	–	–	–	–	–	11%	–
Thai baht	–	–	–	–	–	(160)%	–
Hong Kong dollar	(4.7)	0.4	(4.3)	3.8	(0.5)	89%	–
Singapore dollar	0.1	0.4	0.5	(1.4)	(0.9)	280%	–
Pound sterling	(2.3)	0.3	(2.1)	(0.4)	(2.4)	(19)%	–
<b>Total</b>	<b>144.2</b>	<b>5.7</b>	<b>149.9</b>	<b>(150.0)</b>	<b>–</b>	<b>100%</b>	<b>–</b>

(1) Sale/(Purchase).

## Notes to the financial statements

### 13.1.2 - Analysis of currency contracts

As these hedging contracts are negotiated over the counter exclusively with leading banks, the Com-

pany is not exposed to any significant counterparty risk.

in millions of euros

	Nominal amount of unrecognised position (gross) <sup>(1)</sup>	Nominal amount of unrecognised position (net) <sup>(2)</sup>	Market value of contracts as at 31/12/2010 <sup>(3)</sup>			Total
			Future cash flow hedge	Fair value hedge	Unallocated	
<b>Put options purchased <sup>(4)</sup></b>						
Pound sterling	10.2	10.2	0.3	–	–	0.3
Hong Kong dollar	30.4	30.4	1.3	–	–	1.3
Japanese yen	86.9	48.3	2.0	–	0.3	2.3
Singapore dollar	36.9	36.9	0.5	–	–	0.5
US dollar	61.9	61.9	2.4	–	–	2.4
	<b>226.2</b>	<b>187.6</b>	<b>6.5</b>	<b>–</b>	<b>0.3</b>	<b>6.8</b>
<b>Forward currency contracts <sup>(5)</sup></b>						
Hong Kong dollar	(30.0)	(30.0)	0.1	–	–	0.1
Japanese yen	(47.2)	(47.2)	0.1	–	–	0.1
Singapore dollar	(36.4)	(36.4)	2.3	–	–	2.3
US dollar	(61.0)	(61.0)	0.7	–	–	0.7
Other	(4.8)	(4.8)	(0.6)	–	–	(0.6)
	<b>(179.3)</b>	<b>(179.3)</b>	<b>2.6</b>	<b>–</b>	<b>–</b>	<b>2.6</b>
<b>Treasury swaps <sup>(5)</sup></b>						
Hong Kong dollar	(22.1)	(22.9)	–	–	(0.2)	(0.2)
Japanese yen	113.4	113.4	–	–	(0.4)	(0.4)
Singapore dollar	(0.1)	0.2	–	–	–	–
US dollar	(28.7)	(27.7)	–	–	(0.5)	(0.5)
Other	(0.1)	(0.5)	–	–	0.3	0.3
	<b>62.4</b>	<b>62.5</b>	<b>–</b>	<b>–</b>	<b>(0.7)</b>	<b>(0.7)</b>
<b>Put options sold <sup>(4)</sup></b>						
Japanese yen	(38.6)	–	–	–	(0.3)	(0.3)
	<b>(38.6)</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(0.3)</b>	<b>(0.3)</b>
<b>Total</b>	<b>70.7</b>	<b>70.9</b>	<b>9.1</b>	<b>–</b>	<b>(0.7)</b>	<b>8.4</b>

(1) Nominal amount of all unrecognised instruments. (2) Nominal amount of derivatives allocated to hedge foreign exchange risks. (3) Gain/(Loss). (4) Put/Call. (5) Sale/(Purchase).

in millions of euros

	Nominal amount of unrecognised position (gross) <sup>(1)</sup>	Nominal amount of unrecognised position (net) <sup>(2)</sup>	Market value of contracts as at 31/12/2009 <sup>(3)</sup>			Total
			Future cash flow hedge	Fair value hedge	Unallocated	
<b>Put options purchased <sup>(4)</sup></b>						
Yuan	0.4	–	–	–	–	–
Euro	1.7	0.8	–	–	–	–
Pound sterling	9.1	9.1	0.3	–	–	0.3
Hong Kong dollar	22.0	22.0	1.1	–	–	1.1
Singapore dollar	22.6	22.6	0.6	–	–	0.6
Japanese yen	40.2	40.2	2.4	–	–	2.4
US dollar	43.8	43.1	2.6	–	–	2.6
	<b>139.8</b>	<b>137.8</b>	<b>7.0</b>	<b>–</b>	<b>–</b>	<b>7.0</b>
<b>Forward currency contracts <sup>(5)</sup></b>						
Hong Kong dollar	(21.6)	(21.6)	(0.4)	–	–	(0.4)
Singapore dollar	(22.2)	(22.2)	–	–	–	–
Japanese yen	(38.1)	(38.1)	(1.6)	–	–	(1.6)
US dollar	(43.1)	(42.4)	(1.3)	–	–	(1.3)
Other	(7.7)	(7.7)	–	–	(0.3)	(0.3)
	<b>(132.7)</b>	<b>(132.0)</b>	<b>(3.3)</b>	<b>–</b>	<b>(0.3)</b>	<b>(3.6)</b>
<b>Treasury swaps <sup>(5)</sup></b>						
Japanese yen	129.8	130.3	–	3.0	–	3.0
US dollar	7.2	4.1	–	–	–	–
Singapore dollar	0.1	–	–	–	–	–
Hong Kong dollar	(4.2)	(4.1)	–	–	–	–
Other	10.4	10.8	–	0.1	–	0.1
	<b>143.3</b>	<b>141.1</b>	<b>–</b>	<b>3.1</b>	<b>–</b>	<b>3.1</b>
<b>Put options sold <sup>(4)</sup></b>						
Yuan	(0.4)	–	–	–	–	–
	<b>(0.4)</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Total</b>	<b>150.0</b>	<b>146.9</b>	<b>3.7</b>	<b>3.1</b>	<b>(0.3)</b>	<b>6.5</b>

(1) Nominal amount of all unrecognised instruments. (2) Nominal amount of derivatives allocated to hedge foreign exchange risks. (3) Gain/(Loss). (4) Put/Call. (5) Sale/(Purchase).

### 13.2 - Other financial commitments as at 31 December 2010

in millions of euros

	Gross commitments given	Residual commitments given	Commitments received
Bank guarantees <sup>(1) (2)</sup>	255.8	36.4	–
Repurchase of securities	1.3	1.3	16.0
Actuarial (gains)/losses on post-employment benefit obligations	19.5	–	–

(1) Consists of residual balance of loans to be reimbursed or the amount of credit lines/facilities actually used as at 31 December 2010.

(2) Mainly relates to guarantees given on loans contracted by Hermès International's subsidiaries or on Group credit lines/bank facilities. Material guarantees given bear interest at a rate in line with market conditions applied by banks.

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## Notes to the financial statements

Two “umbrella” guarantees have been granted to HSBC and BNP Paribas for maximum principal amounts of €75 million and €100 million respectively to give subsidiaries designated by Hermès International access to an aggregate Group bank facility. As at 31 December 2010, the amounts drawn on these credit facilities amounted to €5.6 million and €3 million respectively.

The amount of the subsidiaries' tax losses that Hermès International is liable for refunding to its subsidiaries under the group tax election agreement amounted to €47.6 million as at 31 December 2010 compared with €47.7 million as at 31 December 2009. The tax losses for 2010 were offset as the tax losses in Heraklion and Holding Textile Hermès, which were merged into other entities, were extinguished.

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### NOTE 14 - EMPLOYEES

The Company's average number of employees is broken down as follows:

	31/12/2010	31/12/2009
Executive/managerial staff	240	231
Support staff	20	23
<b>TOTAL</b>	<b>260</b>	<b>254</b>

In accordance with CNC (*Conseil National de la Comptabilité*) Notice No. 2004-F CU, employees

had accumulated 20,036 training hours under their individual training rights as at 31 December 2010.

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### NOTE 15 - POST-EMPLOYMENT BENEFIT OBLIGATIONS

As at 31 December 2010, the value of post-employment benefit obligations amounted to €42.1 million. Amounts due in respect of statutory retirement benefits and supplemental pension schemes have been paid over to an insurance company; the value of the funds is €18.1 million. A provision of €3.9 million has been accrued to cover the remainder of these obligations (see Note 10). For 2010, the following actuarial assumptions were used:

– retirement age (in years): 62 to 65

– increase in salaries: 3%-4%

– discount rate: 4.5%

– expected rate of return on plan assets: 4.5%

After applying the “corridor” method, actuarial differences amounted to €19.5 million as at 31 December 2010 compared with €16.7 million as at 31 December 2009. The unrecognised past service cost, connected to a change in the plan made in 2006, amounted to €0.8 million as at 31 December 2010 compared with €1.0 million as at 31 December 2009.

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### NOTE 16 - EXECUTIVE COMPENSATION

Gross aggregate remuneration paid to corporate officers and directors in respect of 2010 amounted to €3.8 million, including €0.4 million in directors' fees.

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## List of investments in subsidiaries and associates as at 31 December 2010

### INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES AND OTHER LONG-TERM SECURITIES

	in thousands of euros	
	Number of shares	Net value
<b>Carrying value greater than €100,000</b>		
Castille Investissements	37,000	1,041
Compagnie Hermès de Participations	4,200,000	8,619
Comptoir Nouveau de la Parfumerie	753,501	25,553
ERM Warenhandels GmbH	1	1,263
ERM-WHG Warenhandels GmbH	1	1,235
Financière Saint-Honoré	3,000	1,694
Ganterie de Saint-Junien	14,000	338
Gordon-Choisy	95,675	1,663
Grafton Immobilier	5,174,500	82,792
Herlee	50,000,000	12,948
Hermès Argentina	37,747	1,483
Hermès Asia Pacific	314,999,999	43,483
Hermès Australia	6,500,000	4,409
Hermès Benelux Nordics	57,974	3,164
Hermès Canada	1,000	1,501
Hermès Cuir Précieux	232,143	21,830
Hermès de Paris (Mexico)	5,850,621	1,134
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 India Retail and Distributors	4,813,074	517
Hermès Internacional Portugal	799,200	843
Hermès Istanbul	259,999	2,700
Hermès Italie	412,200	13,196
Hermès Japon	4,400	13,727
Hermès Middle East South 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, anciennement dénommée Sport Soie	5,945	12,652
John Lobb	377,332	840
La Manufacture de Seloncourt	2,398,536	3,639
Manufacture de Haute Maroquinerie	430,000	3,111
Maroquinerie de Belley	647,172	6,819
Maroquinerie de Sayat	295,649	9,118
Maroquinerie des Ardennes	284,063	10,527
SC Honossy	210,099	3,203
SCI Auger-Hoche	4,569,401	9,819
SCI Boissy Les Mûriers	8,699	1,326
SCI Boissy Nontron	99,999	914
SCI Les Capucines	24,000	366
SCI Immauger	1,375	2,096
<b>Carrying value less than €100,000</b>		<b>375</b>
<b>TOTAL</b>		<b>398,086</b>

## List of subsidiaries and associates as at 31 December 2010

### COMPANIES OR GROUPS OF COMPANIES

A – Detailed information on investments in subsidiaries and associates with a gross carrying value exceeding 1% of the share capital of Hermès International

		Share capital		Equity	
		[in '000]		[in '000]	
<b>1. SUBSIDIARIES (AT LEAST 50% OF THE SHARE CAPITAL HELD BY THE COMPANY)</b>					
Castille Investissements	Paris	EUR	37	EUR	879
Compagnie Hermès de Participations	Paris	EUR	42,000	EUR	5,453
Comptoir Nouveau de la Parfumerie	Paris	EUR	9,072	EUR	21,536
ERM Warenhandels Gmbh	Vienna (Austria)	EUR	35	EUR	35
ERM-WHG Warenhandels Gmbh	Vienna (Austria)	EUR	35	EUR	35
Financière Saint-Honoré	Geneva (Switzerland)	CHF	3,000	CHF	14,393
Gordon-Choisy	Paris	EUR	1,531	EUR	8,139
Grafton Immobilier	Paris	EUR	82,792	EUR	83,455
Herlee	Causeway Bay (Hong Kong)	HKD	57,200	HKD	120,703
Hermès Argentina	Buenos Aires (Argentina)	ARS	3,974	ARS	8,159
Hermès Asia Pacific	Causeway Bay (Hong Kong)	HKD	315,000	HKD	1,223,798
Hermès Australia	Sydney (Australia)	AUD	6,500	AUD	13,379
Hermès Benelux Nordics	Brussels (Belgium)	EUR	2,665	EUR	7,349
Hermès Canada	Toronto (Canada)	CAD	2,000	CAD	13,141
Hermès Cuir Précieux	Paris	EUR	4,500	EUR	3,123
Hermès de Paris (Mexico)	Mexico City (Mexico)	MXN	1,705	MXN	71,151
Hermès GmbH	Munich (Germany)	EUR	7,200	EUR	15,570
Hermès Grèce	Athens (Greece)	EUR	1,700	EUR	2,511
Hermès Holding GB	London (United Kingdom)	GBP	7,360	GBP	12,410
Hermès Iberica	Madrid (Spain)	EUR	4,228	EUR	13,563
Hermès Immobilier Genève	Geneva (Switzerland)	CHF	70,000	CHF	63,220
Hermès India Retail and Distributors	New Delhi (India)	INR	94,355	INR	22,859
Hermès Internacional Portugal	Lisbon (Portugal)	EUR	800	EUR	683
Hermès Intérieur & Design	Paris	EUR	460	EUR	(2,223)
Hermès Istanbul	Istanbul (Turkey)	TRY	6,500	TRY	5,383
Hermès Italie	Milan (Italy)	EUR	7,786	EUR	24,298
Hermès Japon	Tokyo (Japan)	JPY	220,000	JPY	15,393,152
Hermès of Paris	New York (USA)	USD	11,418	USD	186,475
Hermès Prague	Prague (Czech Republic)	CZK	8,018	CZK	39,208
Hermès Sellier	Paris	EUR	4,976	EUR	206,698
Hermès South East Asia	Singapore (Singapore)	SGD	1,000	SGD	101,485
Holding Textile Hermès, ancien <sup>t</sup> dénommée Sport Soie	Lyon	EUR	99	EUR	18,616
John Lobb	Paris	EUR	200	EUR	453
La Manufacture de Seloncourt	Seloncourt	EUR	2,399	EUR	3,062
Manufacture de Haute Maroquinerie	Aix-les-Bains	EUR	6,450	EUR	2,243
Maroquinerie de Belley	Paris	EUR	7,766	EUR	6,419
Maroquinerie de Saint-Antoine	Pantin	EUR	1,680	EUR	(367)
Maroquinerie de Sayat	Pantin	EUR	4,730	EUR	8,412
Maroquinerie des Ardennes	Paris	EUR	4,545	EUR	10,647
SC Honossy	Paris	EUR	3,151	EUR	2,667
SCI Auger-Hoche	Pantin	EUR	6,946	EUR	9,475
SCI Boissy Les Mûriers	Paris	EUR	1,322	EUR	3,156
SCI Boissy Nontron	Paris	EUR	1,000	EUR	896
SCI Immauger	Paris	EUR	2,269	EUR	2,767

### 2. ASSOCIATES (10% TO 50% OF THE SHARE CAPITAL HELD BY THE COMPANY)

B – Aggregate information on other subsidiaries and associates

#### 1. SUBSIDIARIES (not included in A)

- France (aggregate)
- Other countries (aggregate)

#### 2. ASSOCIATES (not included in A)

- France (aggregate)
- Other countries (aggregate)

#### TOTAL





## Five-year summary of the Company's financial data

	2010	2009	2008	2007	2006
<b>Share capital at year-end</b>					
Share capital (in millions of euros)	53.8	53.8	53.8	54.1	54.5
Number of shares outstanding	105,569,412	105,569,412	105,550,012	106,089,214	106,874,814 <sup>(1)</sup>
<b>Aggregate results of operations</b>					
(in millions of euros)					
Revenue excluding VAT	90.9	67.0	72.4	64.9	50.8
Income before tax, employee profit-sharing, depreciation, amortisation, provisions, and impairment	344.1	261.3	276.4	202.6	229.7
Corporate income tax (income)	(6.1)	(16.5)	(2.9)	(4.4)	(9.2)
Employee profit-sharing (expense)	3.1	2.6	2.4	2.1	1.9
Income after tax, employee profit-sharing, depreciation, amortisation, provisions, and impairment	325.2	243.2	257.5	196.8	225.6
Profits distributed as dividends (including treasury shares)	158.4 <sup>(2)</sup>	112.0	110.0	106.3	103.0
<b>Earnings per share</b>					
(en euros)					
Income after tax and employee profit-sharing but before depreciation, amortisation, provisions and impairment	3.29	2.61	2.62	1.93	2.22 <sup>(1)</sup>
Income after tax, employee profit-sharing, depreciation, amortisation, provisions, and impairment	3.08	2.30	2.44	1.86	2.11 <sup>(1)</sup>
Net dividend paid per share	1.50 <sup>(2)</sup>	1.05	1.03	1.00	0.95 <sup>(1)</sup>
<b>Personnel</b>					
Average number of employees	260	254	248	214 <sup>(3)</sup>	216 <sup>(3)</sup>
Total payroll (in millions of euros)	25.3	26.7	23.0	21.5	18.9
Employee benefits paid during the year (in millions of euros)	28.3	20.4	12.0	8.1	9.9

(1) After three-for-one stock split on 10 June 2006.

(2) Subject to approval by the Ordinary General Meeting of 30 May 2011, and including the interim dividend of €1.00 paid on 10 February 2011.

(3) Permanent staff on the payroll at end of period.



# Combined General Meeting of 30 May 2011

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  - *Statutory Auditors' special report on the granting of stock purchase options to salaried employees and/or corporate officers (twenty-eighth resolution)*
  - *Statutory Auditors' special report on the granting of existing shares for no consideration to salaried employees and/or corporate officers (twenty-ninth resolution)*
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# Agenda of the Combined General Meeting of 30 May 2011

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## I – ORDINARY BUSINESS

### [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 2010 and on the Company's business operations for the period;
- on the management of the Group and on the consolidated financial statements for the year ended 31 December 2010;
- on resolutions relating to ordinary business.

#### **Report from the Chairman of the Supervisory Board:**

- on the corporate governance principles applied by the Company, on the conditions for preparation and organisation of the Supervisory Board's work and on the internal control and risk management procedures instituted by the Company.

#### **Supervisory Board's report.**

#### **Statutory Auditors' reports:**

- on the financial statements;
- on the consolidated financial statements;
- on regulated agreements and commitments with third parties;
- on the Report from the Chairman of the Supervisory Board.

### [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**

Discharge.

#### **Fourth resolution**

Appropriation of net income.

#### **Fifth resolution**

Approval of related-party agreements and commitments.

#### **Sixth resolution**

Ratification of the appointment of Mr Éric de Seynes, who was co-opted as a new Supervisory Board member.

#### **Seventh resolution**

Ratification of the appointment of Mr Olaf Guerrand as a new Supervisory Board member.

#### **Eighth resolution**

Re-election of Mr Matthieu Dumas as Supervisory Board member for a term of one year.

#### **Ninth resolution**

Re-election of Mr Olaf Guerrand as Supervisory Board member for a term of one year.



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**Tenth resolution**

Re-election of Mr Robert Peugeot as Supervisory Board member for a term of one year.

**Eleventh resolution**

Re-election of Mr Charles-Éric Bauer as Supervisory Board member for a term of two years.

**Twelfth resolution**

Re-election of Miss Julie Guerrand as Supervisory Board member for a term of two years.

**Thirteenth resolution**

Re-election of Mr Ernest-Antoine Seillière as Supervisory Board member for a term of two years.

**Fourteenth resolution**

Re-election of Mr Maurice de Kervénoaël as Supervisory Board member for a term of three years.

**Fifteenth resolution**

Re-election of Mr Renaud Momméja as Supervisory Board member for a term of three years.

**Sixteenth resolution**

Re-election of Mr Éric de Seynes as Supervisory Board member for a term of three years.

**Seventeenth resolution**

Appointment of PricewaterhouseCoopers Audit as new principal Statutory Auditor.

**Eighteenth resolution**

Re-appointment of Didier Kling & Associés as principal Statutory Auditor for a term of six years.

**Nineteenth resolution**

Appointment of Mr Etienne Boris as new alternate Auditor.

**Twentieth resolution**

Re-appointment of Mrs Dominique Mahias as alternate Auditor for a term of six years.

**Twenty-first resolution**

Authorisation to the Executive Management to trade in the Company's shares.

**Twenty-second resolution**

Powers.

II – EXTRAORDINARY BUSINESS

**[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' reports:**

- on the capital decrease by cancellation of own shares purchased (twenty-third resolution);
- on the issue of shares and/or other securities with the retention and/or waiver of preferential subscription rights (twenty-fifth and twenty-sixth resolutions);
- on the employee rights issue reserved for members of an employee share ownership plan (twenty-seventh resolution);
- on the granting of stock purchase options to salaried employees and/or corporate officers (twenty-eighth resolution);
- on the granting of existing shares for no consideration to salaried employees and/or corporate officers (twenty-ninth resolution).

**[2] Vote on resolutions relating to extraordinary business**

**Twenty-third resolution**

Authorisation to cancel some or all of the shares purchased by the Company (Article L 225-209).

**Twenty-fourth resolution**

Grant of authority to the Executive Management to increase the share capital by capitalisation of reserves, earnings and/or share premiums.

**Twenty-fifth resolution**

Grant of authority to the Executive Management to issue negotiable securities giving access to equity with pre-emptive rights retained.

**Twenty-sixth resolution**

Grant of authority to the Executive Management to issue negotiable securities giving access to equity with pre-emptive rights waived.

**Twenty-seventh resolution**

Grant of authority to the Executive Management to carry out capital increases reserved for employees belonging to a share savings scheme.

**Twenty-eighth resolution**

Authorisation to the Executive Management to award share purchase options.

**Twenty-ninth resolution**

Authorisation to the Executive Management to award ordinary shares in the Company for no consideration.

**Thirtieth resolution**

Powers.

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## Description of proposed resolutions

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

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### I – ORDINARY BUSINESS

#### Approval of the financial statements and discharge

In the first, second and third resolutions, we ask that you duly note the amount of expenses and charges covered by Article 39-4 of the *Code Général des Impôts*, which totalled €148,178; that you approve the parent company financial statements and consolidated financial statements for the year ended 31 December 2010 as they have been presented to you; and that you grant final discharge to the Executive Management for its management of the Company for the said financial year.

#### Appropriation of net income

In the fourth resolution, we submit to you for approval the appropriation of net income for the year, in the amount of €325,246,808.72. Of this amount, €252,871 is to be appropriated to the reserve for purchasing original works of art and, pursuant to the Articles of Association, €2,179,153.62 is to be distributed to the Active Partner.

The Supervisory Board recommends that you fix the dividend at €1.50 per share. This represents an increase of 43% in the dividend relative to the previous year.

In accordance with Article 243 bis of the *Code Général des Impôts*, this dividend entitles shareholders who are natural persons and liable for income tax in France to a 40% tax allowance, as provided by Article 158-3 of the *Code Général des Impôts*.

After the interim dividend of €1.00 per share paid on 10 February 2011, the remainder of the dividend

for the year, which amounts to €0.50 per share, would be detached from the shares on 3 June 2011 and payable in cash on 8 June 2011 based on closing positions on 7 June 2011. 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	2007	2008	2009
Dividend	1.00	1.03	1.05
Amount eligible for tax allowance pursuant to Article 158-3 of the <i>Code Général des Impôts</i>	40 %	40 %	40 %

We note that the five-year summary of the Company's financial data required under Article R 225-102 of the *Code de Commerce* is presented on page 209.

#### Related-party agreements and commitments

In the fifth resolution, we ask that you:

- formally note the related-party agreements and commitments covered by Articles L 226-10 and L 225-38 to L 225-40 of the *Code de Commerce*, which are described in the Statutory Auditors' special report on pages 226 to 228;
- formally note that no new agreements or commitments requiring your approval were entered into during the year.

#### Ratification of the appointment of two co-opted Supervisory Board members

In the sixth and seventh resolutions, you are asked to ratify the appointment as Supervisory Board members of Mr Éric de Seynes, who was co-opted by the Board on 7 June 2010 to replace Guillaume

de Seynes, and of Mr Olaf Guerrand, who was co-opted by the Supervisory Board on 3 March 2011 to replace Mr Jérôme Guerrand.

Information on the persons who have been co-opted and whose appointment is submitted to you for approval is provided on pages 37, 39, 60 and 63.

### **Re-election of Supervisory Board members**

The term of office of all the Supervisory Board members other than Mrs Florence Woerth expires at the end of this Meeting.

In the eighth to sixteenth resolutions, the Active Partner proposes that you re-elect the nine Supervisory Board members whose terms of office are expiring. For the first-time application of the rule that one-third of its members are to stand for re-election each year, the Supervisory Board drew lots to fix the term of office of the members whom you are asked to re-elect. This random drawing resulted in the following terms of office:

- one year for Mr Matthieu Dumas, Mr Olaf Guerrand and Mr Robert Peugeot;
- two years for Mr Charles-Éric Bauer, Miss Julie Guerrand and Mr Ernest-Antoine Seillière;
- three years for Mr Maurice de Kervénoaël, Mr Renaud Momméja and Mr Éric de Seynes.

Information on the persons whose re-election is submitted to your approval is provided on pages 38 to 40 and 60 to 65.

### **Term of office of the principal Statutory Auditors and alternate Auditors**

In the seventeenth to twentieth resolutions, we ask that you:

- re-appoint the principal Statutory Auditor Didier Kling & Associés and the alternate Auditor Mrs Dominique Mahias, for a term of office of six years;

- appoint as new principal Statutory Auditor PricewaterhouseCoopers Audit and Mr Etienne Boris as alternate Auditor, for a term of office of six years.

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

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

- purchases and sales of shares representing up to 10% of the share capital would be authorised;
- the maximum purchase price (excluding costs) would be two hundred and fifty euros per share. The maximum amount of funds to be committed would be one billion euros, in accordance with Article L 225-210 of the *Code de Commerce*. This authorisation would be valid for eighteen months from the date of the General Meeting.

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## **II – EXTRAORDINARY BUSINESS**

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

In the twenty-third resolution, you are asked to renew the authorisation granted to the Executive Management to cancel some or all of the shares purchased by the Company on the stock market under the share buyback programme, on one or more occasions, up to a maximum of 10% of the share capital.

This authorisation would enable the Company to cancel shares issued to cover stock options that are no longer exercisable or that have expired. This authorisation would be valid for twenty-four months from the date of the General Meeting.

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### **Grants of authority to the Executive Management - Capital increases (general case)**

In the twenty-fourth, twenty-fifth and twenty-sixth resolutions, you are asked to renew a number of resolutions to grant the Executive Management a set of authorisations to enable it, where applicable, to carry out various financial transactions entailing capital increases, with the retention or waiver of pre-emptive rights.

As provided by law, these resolutions are intended to give the Executive Management the flexibility needed to act in your Company's best interests, under the control of the Company's Supervisory Board and of the Management Board of Émile Hermès SARL, Active Partner.

The diversity of financial products and rapidly shifting market trends require that Management have utmost flexibility to choose the types of issues that are most advantageous for the Company and its shareholders, so that Management will be able to carry out transactions rapidly, as opportunities arise.

The Executive Management would be authorised, under all circumstances, in France and in other countries, to issue shares in the Company and any securities of any kind giving access to shares in the Company, immediately and/or in the future, within the limits of the ceiling set out below. In accordance with Article L 233-32 of the *Code de Commerce*, these authorisations would be suspended during times of public offering, unless they are part of the normal course of the Company's business operations and their implementation would not be liable to cause the public offering to fail.

The total amount of immediate and/or future capital increases that may be effected shall not exceed 20% of the share capital as of the date of

the General Meeting (this ceiling applies separately to the twenty-fourth resolution and is a combined ceiling for the twenty-fifth, twenty-sixth and twenty-seventh resolutions), not including the par value of any additional shares to be issued, as required by law, to safeguard the rights of holders of securities granting rights to shares in the Company.

Likewise, the nominal amount of any debt securities that may be issued pursuant to the above grant of authority shall not exceed 20% of the share capital.

These issues may be effected with the pre-emptive rights of shareholders retained (twenty-fifth resolution), or with pre-emptive rights waived (twenty-sixth resolution).

You are asked to waive your pre-emptive rights to increase the chances of success of share issues by speeding up the placement process.

We note, however, that for all issues without pre-emptive rights:

- the Executive Management may grant the shareholders a priority subscription right;
- the amount collected or to be collected by the Company for each share to be issued, after deducting the issue price of stand-alone share purchase warrants in the event of an issue of such warrants, shall be at least equal to the weighted average market price of the shares during the last three trading days before the start of the issue of the securities, which may potentially carry a maximum discount of 5%, in accordance with the applicable regulations.

As usual, you are also asked to renew the authority granted to the Executive Management to increase the share capital by capitalisation of reserves (twenty-fourth resolution).

**Grants of authority to the Executive Management – Share issue for employees belonging to a share ownership scheme**

In the twenty-seventh resolution, we ask that you grant to the Executive Management full powers, under the supervision of the Company's Supervisory Board and of the Management Board of Émile Hermès SARL, Active Partner, to carry out a share issue reserved for employees and corporate officers of the Company under the conditions set out in Article L 225-180 of the *Code de Commerce*, providing that such employees are members of a company or Group employee share ownership plan.

The maximum number of ordinary shares that may be issued under the terms of this grant of authority shall not exceed 1% of the total number of ordinary shares in the Company at the time of the decision to carry out the share issue.

**Grants of authority to the Executive Management - Stock options**

In the twenty-eighth resolution, we ask that you renew the authorisation to Executive Management to grant options to purchase shares to employees and corporate officers of the Company and its subsidiaries, and their spouses, so as to continue the Group's policy of giving employees a stake in the Company's growth.

The total number of options that may be granted and that have not yet been exercised and the total number of bonus shares granted under the terms of the twenty-ninth resolution shall not represent more than 2% of the total number of ordinary shares outstanding on the date on which the options to purchase shares would be granted, not including those options granted under the terms of previous authorisations. The purchase price of the shares would be fixed by the Executive Manage-

ment within the limitations and in accordance with the terms and conditions stipulated by law.

Given currently applicable regulations, the purchase price will be equal to 100% of the average of opening share prices during the twenty trading days preceding the day on which the options would be granted. This price would not be subject to change during the exercise period of the options unless the Company were to enter into the financial transactions covered by Article L 225-181 of the *Code de Commerce*. In this case, the Executive Management would adjust the number of shares and the price in accordance with the applicable statutory provisions.

The options would be exercisable within two to seven years as from the option grant date.

In accordance with the new statutory provisions, in the event of a grant of share purchase options to an Executive Chairman, the Company would ensure that it would either:

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

Furthermore, in accordance with the AFEP/MEDEF Code of Corporate Governance applied by the Company, any options granted to the Executive Management would be contingent upon meeting performance criteria defined at the time of the grant.

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

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### **Grants of authority to the Executive Management - Bonus issues**

In the twenty-ninth resolution, we ask that you renew the authorisation to the Executive Management to grant ordinary shares in the Company for no consideration.

The total number of shares granted for no consideration and the total number of share purchase options granted pursuant to the twenty-eighth resolution and not yet exercised shall not represent more than 2% of the total number of ordinary shares outstanding on the bonus share or option grant date, not including those options granted under the terms of previous authorisations.

The vesting period for the shares granted shall not be less than two years, plus a holding period by the beneficiaries of no less than two years, except in the special cases set out in the resolution.

As in the case of options to purchase shares, in accordance with the new statutory provisions, in

the event of a bonus share distribution to the Executive Management, the Company would either:

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

Furthermore, in accordance with the AFEP/MEDEF Code of Corporate Governance applied by the Company, any bonus shares granted to the Executive Management would be contingent upon meeting performance criteria defined at the time of the grant.

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

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## **Information on Board members whose re-election and/or co-optation is submitted to the General Meeting for approval**

Information on Supervisory Board members whom you are asked to re-elect and/or ratify the appointment as co-opted members, to wit, Mr Charles-Éric Bauer, Mr Matthieu Dumas, Miss Julie Guerrand, Mr Olaf Guerrand, Mr Maurice de Kervénoaël, Mr Renaud Momméja, Mr Robert Peugeot, Mr Ernest-Antoine Seillière and Mr Éric de Seynes, is provided on pages 37 to 40 and 60 to 65.



**I**n accordance with legal and regulatory requirements, we hereby present our report for the year ended 31 December 2010.

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 income 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;
- ◆ 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. Comments on the parent company financial statements 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 2010.

We recommend that you approve the financial statements.

### **2. Appropriation of net income**

On 2 February 2011, the Executive Management decided to pay an interim dividend of €1.00 per share. This interim dividend was paid on 10 February 2011.

We recommend that you approve the proposed appropriation of net income as set out in the resolutions submitted to you for approval, calling for a net dividend of €1.50 per share.

After deducting the interim dividend, the balance, or €0.50 per share, would be detached from the shares on 3 June 2011 and payable on 8 June 2011.

### **3. Work of the Supervisory Board**

#### *Related-party agreements and commitments*

The Executive Management did not inform us of any agreements to be entered into during the year ended 31 December 2010 and covered by the combined provisions of Articles L 226-10 and L 225-38 through L 225-43 of the *Code de Commerce*. The Statutory Auditors' special report on pages 226 to 228 gives a brief description of agreements and commitments approved during previous years and that remained in effect during the financial year.

#### *Recommendations, authorisations and other items*

In 2010, the Supervisory Board:

- reviewed the 2010 budget and Strategic Guidelines;
- issued a favourable opinion on instituting a “democratic” bonus share distribution plan and a “selective” bonus share distribution plan contingent on meeting performance criteria;
- decided on the apportionment of directors' fees and compensation payable to the Board members in respect of 2009;
- amended the Supervisory Board Rules of Procedure to specify that the 200 shares that Supervisory Board members are required to own must be registered shares;
- approved the Rules of Procedure of the Audit Committee and of the Compensation, Appointments and Governance Committee;
- appointed Mrs Florence Woerth as a new Audit Committee member;
- formally noted the decisions to be taken following

the new guidelines issued by the AMF on corporate governance, executive compensation and the prevention of insider trading;

– formally noted the April 2010 version of the AFEP/MEDEF Code of corporate governance for listed companies;

– formally noted that 20% of the Supervisory Board members are women;

– familiarised itself with the AMF market advisory group report on the responsibility of Audit Committee members;

– formally noted a summary of the assessment of the Board's performance carried out by the Compensation, Appointments and Governance Committee;

– reviewed the reports and work performed by the Audit Committee and its self-assessment;

– reviewed the reports and work performed by the Compensation, Appointments and Governance Committee;

– reviewed documents on forecasting and planning;

– renewed the global authorisation to the Executive Management to grant endorsements and guarantees on behalf of subsidiaries for 2010, subject to a ceiling;

– decided on the proposed appropriation of earnings to be submitted to the Combined General Meeting of 7 June 2010;

– issued a favourable opinion on the proposed resolutions submitted to the Combined General Meeting of 7 June 2010 and familiarised itself with the reports drawn up by the Executive Management;

– approved the report from the Chairman of the Supervisory Board on the conditions governing the preparation and organisation of the Supervisory Board's work and on the internal control procedures implemented by the Company;

– approved the wording of the prudential rules applicable by the subsidiaries, together with updated lists of the authorised signatories and banks of Hermès International;

– formally noted the summary statement of services provided by Hermès International to Émile Hermès SARL in 2009 and projections for 2010;

– co-opt Mr Éric de Seynes as Supervisory Board member to replace Mr Guillaume de Seynes, who resigned;

– formally noted the regulations applicable to insider trading relating to the use or communication of privileged information;

– formally noted the regulations relating to share ownership threshold disclosures;

– formally noted the regulations relating to disclosure requirements for senior managers;

– formally noted the applicable Rules of Procedure (of the Supervisory Board, Audit Committee and Compensation, Appointments and Governance Committee);

– formally noted the rules for reimbursement of expenses applicable to Supervisory Board members;

– formally noted a decision by the French Court of Appeal (*Cour de Cassation*, Commercial Section, 30 March 2010) pertaining to directors' liability;

– reviewed the situation of certain equity investments;

– formally noted proposals for acquisitions, disposals and equity investments;

– formally noted proposed investment projects;

– formally noted the procedures to be followed for the appointment/co-opting/re-election of Supervisory Board members;

– drew lots to set the term of office for members whose re-election is to be proposed to the next General Meeting (first-time application of the rule set out in the Articles of Association that one-third

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of Supervisory Board members are to stand for re-election each year);

- reviewed compliance by the new Supervisory Board members with the requirement that all members own at least 200 registered shares of Hermès International;
- reviewed the conditions and consequences of acquiring a 17.1% equity stake in Hermès International.

#### **4. Recommendations on proposed resolutions submitted to the Combined General Meeting of 30 May 2011**

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.

#### **5. Composition of the Supervisory Board**

At the Supervisory Board meeting on 3 March 2011, Mr Jérôme Guerrand tendered his resignation from the Board for personal reasons. We wish to express our gratitude and to extend our sincerest thanks to Mr Guerrand for his invaluable contributions to the work of the Supervisory Board, on which he has served as Chairman since 1990. During the same meeting, on the recommendation of the Compensation, Appointments and Governance Committee, the Supervisory Board appointed Mr Éric de Seynes as Chairman of the

Supervisory Board and co-opted Mr Olaf Guerrand as a new Supervisory Board member.

We are fully in favour of the proposed ratification of the appointment of new Supervisory Board members, who were co-opted by the Board:

- Mr Éric de Seynes (co-opted on 7 June 2010) to replace Mr Guillaume de Seynes;
- Mr Olaf Guerrand (co-opted on 3 March 2011) to replace Mr Jérôme Guerrand).

We are also fully in favour of the proposed re-election of the members whose office is about to expire, to wit:

- Mr Charles-Éric Bauer;
- Mr Matthieu Dumas;
- Miss Julie Guerrand;
- Mr Olaf Guerrand;
- Mr Maurice de Kervénoaël;
- Mr Renaud Momméja;
- Mr Robert Peugeot;
- Mr Ernest-Antoine Seillière;
- Mr Éric de Seynes.

Under the Articles of Association, one-third of the Board members are to stand for re-election each year. To apply this rule for the first time, the term of these offices (one, two or three years) was determined by a random drawing.

#### **6. Statutory Auditors**

The Audit Committee participated in the procedure for selecting the Statutory Auditors whose appointment is proposed to you, and the Supervisory Board issued a favourable recommendation on this appointment.

The Supervisory Board

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## Statutory Auditors' report on the financial statements

*This is a free translation into English of the Statutory Auditors' report issued in French and is provided solely for the convenience of English speaking readers. The Statutory Auditors' report includes information specifically required by French law in such reports, whether qualified or not. This information is presented below the 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 captions or on information taken outside of the financial statements. This report also includes information relating to the specific verification of information given in the management report. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.*

**I**n compliance with the assignment entrusted to us by your Annual General Meeting, we hereby report to you, for the year ended December 31, 2010, 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 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 sampling 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 policies 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 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 2010, 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 matters:

– Note 1 of the notes to the financial statements describes the accounting methods and principles applied to determine the value of long-term investments. We have verified the soundness of these accounting methods and, as needed, the consistency of the values in use of participating interests with the values used in preparing the consolidated financial statements and with the related information provided in the notes to the financial statements.

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 other specific verifications required by 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 relating to remuneration and benefits received by corporate officers and any other commitments made in their favour, we have verified its consistency with the 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 to the accuracy and fair presentation of this information.

In accordance with the law, we verified that information concerning the purchase of investments and controlling interests and the identity of Shareholders and holders of the voting rights have been properly disclosed in the management report.

Paris and Neuilly-sur-Seine, 9 March 2011

The Statutory Auditors

Didier Kling & Associés  
Didier Kling      Bernard Roussel

Deloitte & Associés  
David Dupont-Noel

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## Statutory Auditors' report on the consolidated financial statements

*This is a free translation into English of the Statutory Auditors' report issued in French and is provided solely for the convenience of English speaking readers. The Statutory Auditors' report includes information specifically required by French law in such reports, whether modified or not. This information is presented below the opinion on the consolidated financial statements and includes explanatory paragraphs 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 captions or on information taken outside of the consolidated financial statements. This report also includes information relating to the specific verification of information given in the group management report. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.*

**I**n compliance with the assignment entrusted to us by your Annual General Meeting, we hereby report to you, for the year ended December 31, 2010, 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 Executive Management. Our role is to express an opinion on these consolidated financial statements, based on our audit.

### 1. Opinion on the consolidated financial statements

We conducted our work in accordance with professional standards applicable in France. Those standards require that we plan and perform the audit to obtain reasonable assurance on 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 policies used and the reasonableness of accounting estimates made, as well as the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our 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 as at December 31, 2010, and of the results of its operations for the year then ended, in accordance with International Financial Reporting Standards 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:

- Every year, the Company tests goodwill and assets with an indefinite life for impairment and assesses whether there is any indication of an impairment loss for non-current assets, in accordance with the procedures described in Note 1.8 to the consolidated financial statements. We reviewed the impairment testing methods applied and determined that these estimates were reasonable.

- Note 1.17 to the consolidated financial statements describes the methods used to measure post-employment and other employee benefit obligations. These obligations, in connection with defined benefit plans, have been assessed by independent actuaries. Our work included reviewing the data and assumptions used and ascertaining that the information provided in Note 25 to the consolidated financial statements is appropriate. 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 the information presented in the Group's management report, in accordance with professional standards applicable in France. We have no matters to report as to its fair presentation and its consistency with the consolidated financial statements.

Paris and Neuilly-sur-Seine, 9 March 2011  
The Statutory Auditors

Didier Kling & Associés  
Didier Kling      Bernard Roussel

Deloitte & Associés  
David Dupont-Noel

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## Statutory Auditors' special report on regulated agreements and commitments with third parties

*This is a free translation into English of the Statutory Auditors' special report on regulated agreements and regulated commitments issued in French and is provided solely for the convenience of English speaking readers. This report on regulated agreements and regulated commitments should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France. It should be understood that the agreements reported on are only those provided by the French Commercial Code and the report does not apply to those related party agreements described in IAS 24 or other equivalent accounting standards.*

**I**n our capacity as Statutory Auditors of Hermès International, we hereby present our report on regulated agreements and commitments with third parties.

It is our responsibility, based on information provided to us, to report to you on the principal terms and conditions of those agreements and commitments that have been brought to our attention or that we may have discovered in the course of our engagement, without expressing an opinion on their usefulness and appropriateness or identifying other such agreements and commitments.

It is your responsibility, pursuant to Article R 226-2 of the French Commercial Code (*Code de Commerce*), to assess the benefit arising from these agreements and commitments for the purpose of approving them.

Our role is also to provide you with the information required by Article R 226-2 of the French Commercial Code on the performance of any agreements and commitments approved by the Shareholders in prior years and that remained in effect in 2010.

We have performed the procedures we deemed necessary pursuant to the professional guidelines set forth by the French Institute of Statutory Auditors (*Compagnie Nationale des Commissaires aux Comptes*) with regard to this engagement. Those procedures consisted of verifying the information provided to us with the relevant source documents.

### **I. Agreements and commitments authorised during the year**

We were not informed of any agreement or commitment authorised during the year ended 31 December 2010 and that is subject to approval by the Shareholders pursuant to Article L 226-10 of the French Commercial Code.

### **II. Agreements and commitments entered into and authorised in prior years and remaining in effect during the year ended 31 December 2010**

In accordance with Article R 226-2 of the French

Commercial Code, it has been drawn to our attention that the following agreements and commitments entered into and authorised by the Shareholders in prior years remained in effect during the year ended 31 December 2010.

#### *a) Trademark licence agreements*

The operating licence agreements for the Hermès brand granted to Hermès Sellier, Comptoir Nouveau de la Parfumerie, Compagnie des Arts de la Table, La Montre Hermès and Hermès Intérieur & Design were renewed and their terms and conditions were revised as authorised by your Supervisory Board on 13 September 2006 and acts of confirmation were signed as authorised by your Supervisory Board on 18 March and 27 August 2009.

Licence fees registered by your Company for these products during 2010 amounted to €42,006,399 excluding VAT, broken down by licensee as follows:

– Hermès Sellier	€33,482,035
– Comptoir Nouveau de la Parfumerie	€4,999,186
– Compagnie des Arts de la Table	€550,740
– La Montre Hermès	€2,937,266
– Hermès Intérieur & Design	€37,172

#### *b) Compensation of members of the special Committees*

At its meetings on 26 January 2005, 2 June 2005 and 24 March 2010, your Supervisory Board decided to set the annual compensation of each Committee Chairman of the Audit Committee and the Governance, Appointments and Compensation Committee at €20,000 and at €10,000 for the other members.

Hermès International granted a total of €105,000 to all Committee members as a whole in consideration for the performance of their duties for the year ended 31 December 2010.

#### *c) Service agreement*

On 23 March 2005 and 14 September 2005, your Supervisory Board authorised Hermès International to enter into a service agreement with Émile Hermès SARL for the provision of routine legal and financial services. On 11 December 2007, your Supervisory Board authorised

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the signature of an amendment to this agreement, which added secretarial services.

Hermès International billed €118,594 (excluding VAT) for services provided under the terms of this agreement in 2010.

*d) Design assignment agreement*

Signature of an agreement and its amendment between Hermès International and RDAI to undertake a design assignment for the application of the architectural concept to Hermès stores (Supervisory Board meetings held on 20 March 2003 and 15 September 2004).

Hermès International paid €28,600 (excluding VAT) in fees in connection with this assignment in respect of 2010.

*e) Commercial lease - 26, rue du Faubourg-Saint-Honoré*

On 24 January 2007, your Supervisory Board authorised the signature of a commercial lease for premises located at 26, rue du Faubourg Saint-Honoré, 75008 Paris, for use as retail, storage and technical premises, for a fixed term of nine years, retroactively to 1 January 2005, in consideration for an annual rent of €696,000 excluding VAT and charges. This lease was granted by SIFAH to Hermès International and the rent was fixed at market prices following an appraisal carried out by both parties.

In 2010, the amount paid in rents amounted to €822,895 excluding VAT. Tax on offices as well as property tax amounting to €47,492 excluding VAT were charged back.

*f) Guarantees given*

- “Umbrella” guarantee for a maximum principal amount of €75,000,000 granted to HSBC bank to provide subsidiaries designated by Hermès International with access to an aggregate group bank facility (Supervisory Board meeting held on 26 January 2005).

- Guarantee granted to London & Provincial Shop Centres on behalf of Hermès GB Ltd in connection with the leasing of store premises at 179/180 Sloane Street, London and covering the performance by Hermès GB Ltd of all its obligations as tenant under that lease (Supervisory Board meeting held on 16 February 1988).

- Global authorisation to Executive Management to grant deposits and guarantees during 2010 on behalf of subsidiaries whose share capital is held over 50%, directly or indirectly, by Hermès International, subject to a total maximum amount for all commitments of

€10,000,000 and an individual maximum amount for each commitment of €3,000,000.

- Guarantee granted to 693 Madison Avenue Company L.P. on behalf of Hermès of Paris Inc. in connection with the leasing of store premises at 691-693-695 Madison Avenue in New York and covering the performance by Hermès of Paris Inc. of all its obligations as tenant under that lease (Supervisory Board meeting held on 23 September 1998).

- Guarantee granted to Carlton House Inc. on behalf of Hermès of Paris in connection with the leasing of the John Lobb store at 680 Madison Avenue in New York and covering the performance by Hermès of Paris Inc. of all its obligations as tenant under that lease (Supervisory Board meeting held on 23 March 1999).

- Guarantee granted on behalf of Hermès Japon in connection with a loan of an initial amount of JPY 5,000,000,000 from Japan Development Bank repayable at any time up to and including 20 May 2013 (Supervisory Board meeting held on 25 May 1998). A commission of JPY 3,018,542 (€23,538) was billed for the year.

- Guarantee granted on behalf of the Japanese subsidiary Hermès Japon in connection with a loan of an initial amount of JPY 2,500,000,000 from Japan Development Bank repayable at any time up to and including 20 April 2013 (Supervisory Board meeting held on 23 March 1999). A commission of JPY 1,476,667 (€11,515) was billed for the year.

- Guarantee granted to 23 Wall Commercial Owners LLC on behalf of your subsidiary Hermès of Paris Inc. to cover the obligations incurred by Hermès of Paris under the terms of a lease for retail premises located on the ground floor of 15 Broad Street in New York (Supervisory Board meeting held on 25 January 2006).

- Joint and several or first demand guarantee granted on behalf of South Coast Plaza to cover the obligations incurred by JL & Co under a lease for retail premises located in the South Coast Plaza shopping centre in California, USA, for a term of ten years commencing on 1 May 2007.

- Indefinite joint and several guarantee granted on behalf of The Streets of Buckhead Development Co to cover the obligations incurred by JL & Co for a proposed lease of retail premises in Atlanta (Georgia, USA) for a ten year term, approved by the Supervisory Board at its meeting on 19 March 2008.

- Joint and several guarantee granted on behalf of Mrs Maria del Carmen Ordonez de Briozzo to cover the obligations incurred by Hermès Argentina following

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## Statutory Auditors' special report on regulated agreements and commitments with third parties

the transfer to the latter of the lease agreement for the premises of the Hermès store in Buenos Aires for a term of ten years, approved by the Supervisory Board at its meeting on 30 August 2007.

- Guarantee granted to BNP Paribas (China) on behalf of Hermès China in respect of a loan of a principal amount of CNY65,000,000 (equivalent to €7,367,943 as at 31 December 2010) secured to finance investment and work relating to the Maison Shanghai (Supervisory Board meeting held on 9 December 2008).
- “Umbrella” commitment of a maximum principal amount of €100,000,000 in favour of BNP Paribas to guarantee subsidiary operating credit lines (Supervisory Board meeting held on 9 December 2008).

None of these guarantees were drawn in 2010.

### *g) Commitments with a Corporate Executive Officer*

- Top-up pension scheme granted to a Corporate Executive Officer

On 13 September 2006, your Supervisory Board authorised an amendment to the rules governing the top-up pension scheme set up in 1991 for the Company's senior executives, including the Chief Executive Officer. The main changes related to the scope of this scheme, its potential beneficiaries, the terms and conditions for awarding benefits, and coverage provided under the plan. Under this scheme, the beneficiary will receive annual payments calculated on years of service and annual remuneration. The payments amount to a percentage of remuneration for each year of service. The beneficiary is also eligible for a reversion scheme, under which the surviving spouse receives 60% of annual compensation. Like all employees of the Group's French subsidiaries, the Chief Executive Officer, who is a natural person, is also eligible for the supplemental defined-contribution pension plan that was set up in 2006. The maximum annual payment including payments under the manda-

tory plans and any supplemental plans set up within the Group may not exceed 70% of remuneration, including the fixed and variable components of salary and other compensation paid during the last year of service.

- General death and disability regime, also covering the Chief Executive Officer

On 1 October 2004, Hermès International introduced a health insurance regime and collective death and disability regime conferring the same rights on the Chief Executive Officer as other Company employees. Based on current Social Security texts and certain prevailing practices, this system must be considered optional. Therefore, in order to take into account changes in the legal and regulatory environment since 2003, it was decided to introduce (as defined by the Social Security Department in its Circular dated July 2006) a mandatory regime. This new regime, which was approved by the Supervisory Board at its meeting on 9 December 2008, replaced the preceding regime with effect from 1 January 2009, in accordance with case law procedures on changes in practice. This new format does not in any way amend the guarantees under the two regimes, which remain unchanged.

- Commitment to Mr Patrick Thomas, in connection with the termination of his contract as Corporate Executive Officer

At its meeting on 19 March 2008, your Supervisory Board authorised an agreement between your Company and Mr Patrick Thomas in connection with the termination of his contract as Corporate Executive Officer, providing for payment of compensation amounting to 24 months' remuneration, subject to meeting the following performance conditions: reaching at least four budgets (revenue and operating growth rate measured at constant rates) in the last five years, with no deterioration in the Hermès brand/corporate image

Paris and Neuilly-sur-Seine, 9 March 2011

The Statutory Auditors

Didier Kling & Associés  
Didier Kling      Bernard Roussel

Deloitte & Associés  
David Dupont-Noel



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## Statutory Auditors' report on the capital decrease by cancellation of own shares purchased (twenty-third resolution)

*This is a free translation into English of the Statutory Auditors' report on the capital decrease by cancellation of own shares purchased issued in French and is provided solely for the convenience of English speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.*

**I**n our capacity as Statutory Auditors of Hermès International, and in accordance with Article L 225-209 of the French Commercial Code (*Code de Commerce*) concerning capital decreases by cancellation of own shares purchased, we hereby report to you on our assessment of the reasons for and the terms and conditions of the proposed capital decrease.

To implement the authorisation for the Company to buy back its own shares in accordance with the aforesaid Article, the Executive Management proposes that the shareholders confer upon it, for a period of twenty four months, all necessary powers to cancel, on one or more occasions, up to a maximum of 10% of your Company's share capital per twenty four month period, all or part of the own shares held or purchased by the Company

on the stock market as part of the share buyback programme covered in the twenty-first resolution submitted to this Meeting, and/or any authorisation conferred by a past or subsequent General Meeting.

We have performed the procedures we deemed necessary pursuant to the professional guidelines set forth by the French Institute of Statutory Auditors (*Compagnie Nationale des Commissaires aux Comptes*) with regard to this engagement. These procedures involved examining the fairness of the reasons for and the terms and conditions of the proposed share capital decrease.

We have no comments on the reasons for or the terms and conditions of the proposed share capital decrease.

Paris and Neuilly-sur-Seine, 9 March 2011  
The Statutory Auditors

Didier Kling & Associés  
Didier Kling      Bernard Roussel

Deloitte & Associés  
David Dupont-Noel

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## Statutory Auditors' report on the issue of shares and/or other securities with the retention and/or waiver of pre-emptive rights (twenty-fifth and twenty-sixth resolutions)

*This is a free translation into English of the Statutory Auditors' report on the issue of shares and/or other securities with the retention and/or waiver of pre-emptive rights issued in French and is provided solely for the convenience of English speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.*

**A**s Statutory Auditors of Hermès International and pursuant to the engagement set forth in the French Commercial Code (*Code de Commerce*) and notably Articles L 225-135, L 225-136 and L 228-92, we hereby report to you on the proposed delegation of authority to the Executive Management to carry out one or more capital increases via the issue of shares and/or any other securities with the retention and/or waiver of pre-emptive rights, transactions on which the Shareholders are asked to vote.

Your Executive Management proposes, under the supervision of the Supervisory Board of your Company and the Management Board of Émile Hermès SARL, Active Partner, and based on its report, that you delegate to it for a period of twenty-six months, the authority to decide on the following transactions and to set the final terms and conditions of these issues, and asks that you waive your pre-emptive rights, as necessary:

- Issue of shares and/or securities of any kind, including if such securities are issued pursuant to Article L 228-92 of the French Commercial Code, giving access immediately and/or in the future to shares in the Company, issued free of charge or for valuable consideration, with retention of your pre-emptive right (25th resolution);
- Issue of shares and/or securities of any kind, including if such securities are issued pursuant to Article L 228-92 of the French Commercial Code, giving access immediately and/or in the future to shares in the Company, issued free of charge or for valuable consideration, with waiver of your pre-emptive right but with a priority subscription right to all or part of the issue (26th resolution), it being specified that these securities may be issued for the purpose of paying for shares that may be transferred to the Company under a public offer of exchange for the shares of a company, under the terms and conditions set forth in Article L 225-148 of the French Commercial Code, or following the issuance by a company in which the Company directly or indirectly holds more than one-half of the share capital, of securities granting rights to equity in the Company under the

terms and conditions set forth in Article L 228-93 of the French Commercial Code.

The maximum nominal value of potential capital increases likely to be carried out, immediately and/or in the future, pursuant to the 25th, 26th and 27th resolutions, as well as potential issues of debt securities likely to be carried out pursuant to the 25th and 26th resolutions, may not exceed 20% of the share capital as of the date of this meeting, to which will be added, as necessary, the nominal amount of additional shares to be issued to preserve the rights of holders of securities giving rights to shares.

It is your Executive Management's responsibility to draw up a report, in accordance with Articles R 225-113, R 225-114 and R 225-117 of the French Commercial Code. Our responsibility is to express an opinion on the fairness of the figures drawn from the financial statements, on the proposal to waive your pre-emptive rights and on certain other information relating to these transactions, which we provide in this report.

We have performed the procedures we deemed necessary pursuant to the professional guidelines set forth by the French Institute of Statutory Auditors (*Compagnie Nationale des Commissaires aux Comptes*) with regard to this engagement. These guidelines require that we perform procedures to verify the information disclosed in the Executive Management's Report pertaining to these transactions and the methods used to set the issue price of the equity securities to be issued.

Subject to subsequent review of the terms and conditions of the proposed issues, we have no comment to make on the methods used to set the issue price of the equity securities to be issued pursuant to the 26<sup>th</sup> resolution and described in the Executive Management's Report.

As the report does not set out the procedures for determining the issue price of the equity securities to be

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issued under the authorisation conferred by the 25th resolution, we cannot express an opinion on the choice of the items used to calculate the issue price.

As the issue price of the equity securities to be issued has not been determined, we are not expressing an opinion on the final terms and conditions under which the issues will be carried out, and, consequently, on the proposal to waive your pre-emptive rights submitted to you in the 26<sup>th</sup> resolution.

In accordance with Article 225-116 of the French Commercial Code, we will prepare a supplemental report if and when your Executive Management makes use of these authorisations to carry out issues with a waiver of pre-emptive rights or to issue any securities giving access to shares in the Company and/or to the allotment of debt securities.

Paris and Neuilly-sur-Seine, 9 March 2011

The Statutory Auditors

Didier Kling & Associés  
Didier Kling      Bernard Roussel

Deloitte & Associés  
David Dupont-Noel

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## Statutory Auditors' report on the share issue reserved for members of an employee share ownership plan (twenty-seventh resolution)

*This is a free translation into English of the Statutory Auditors' report on the share issue reserved for members of an employee share ownership plan issued in French and is provided solely for the convenience of English speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.*

In our capacity as Statutory Auditors of Hermès International, and in accordance with the requirements of Articles L 225-135 *et seq.* of the French Commercial Code (*Code de Commerce*), we have drawn up this report on the proposed resolution to grant to your Executive Management the authority (with the option further to delegate such authority to any person authorised by law) to increase the share capital, on one or more occasions, by issuing shares or any other negotiable securities giving access to equity in the Company, with pre-emptive rights waived, reserved for employees who are members of any company or group employee stock ownership plan(s) that may be instituted within the group consisting of the Company and the French or foreign entities included in the Company's scope of consolidation, pursuant to Article L 3344-1 of the French Labour Code (*Code du Travail*). You are asked to vote on this resolution.

This proposed resolution is submitted to you for approval pursuant to the provisions of Article L 225-129-6 of the French Commercial Code and Articles L 3332-18 *et seq.* of the French Labour Code.

The total number of shares that may be issued, on one or more occasions, under the terms of this grant of authority is capped at 1% of the Company's share capital as of the date of this General Meeting.

On the basis of its report, your Executive Management proposes that you grant it the authority, for a period of twenty-six months, to carry out one or more share issues and that you waive your pre-emptive rights to subscribe to any such share issues. Your Executive Management would be responsible for determining the final terms and conditions of any such issues.

It is your Executive Management's responsibility to draw up a report, in accordance with Articles R 225-113 and R 225-114 of the French Commercial Code. Our responsibility is to express an opinion on the fairness of the figures drawn from the financial statements, on the proposal to waive your pre-emptive rights and on certain other information relating to the share issue, which we provide in this report. We have performed the procedures we deemed necessary pursuant to the professional guidelines set forth by the French Institute of Statutory Auditors (*Compagnie Nationale des Commissaires aux Comptes*) with regard to this engagement. These guidelines require that we perform procedures to verify the information disclosed in the Executive Management's report pertaining to this transaction and the methods used to set the issue price of the equity securities to be issued.

Subject to subsequent review of the terms and conditions of each share issue that the Executive Management may decide to carry out pursuant to this authority, we have no comment to make on the methods used to set the price of the shares to be issued as described in the Executive Management's report.

As the issue price of the equity securities to be issued has not been set, we are not expressing an opinion on the final terms and conditions under which the issues will be carried out, and, consequently, on the proposal to waive your pre-emptive rights submitted to you.

In accordance with Article R 225-116 of the French Commercial Code, we will prepare a supplemental report on any share issue that your Executive Management may decide to carry out under the terms of the proposed authorisation.

Paris and Neuilly-sur-Seine, 9 March 2011

The Statutory Auditors

Didier Kling & Associés  
Didier Kling      Bernard Roussel

Deloitte & Associés  
David Dupont-Noel

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## Statutory Auditors' special report on the granting of stock purchase options to salaried employees and/or corporate officers (twenty-eighth resolution)

*This is a free translation into English of the Statutory Auditors' report on the granting of stock purchase options to salaried employees and/or corporate officers issued in French and is provided solely for the convenience of English speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.*

In our capacity as Statutory Auditors of Hermès International, and in accordance with the requirements of Articles L 225-177 and R 225-144 of the French Commercial Code (*Code de Commerce*), we have drawn up this report on the granting of stock purchase options to employees and/or corporate officers (or to certain categories of them) of Hermès International and its affiliated companies or groups, as defined in Article L 225-180 of the French Commercial Code.

It is your Executive Management's responsibility to draw up a report on the reasons for granting stock purchase options as well as the proposed methods used to set the purchase price. Your Executive Management proposes that you authorise it, for a period of thirty-eight months as of the date of this Meeting, to grant stock purchase options, on one or more occasions, up to a maximum of 2% of the Company's ordinary shares on the date on which these options will be granted,

where in this is a combined ceiling including the bonus share issue set out in the twenty-ninth resolution. Our responsibility is to express an opinion on the proposed methods used to set the purchase price.

We performed the procedures that we deemed necessary in accordance with the professional guidelines of the French Institute of Statutory Auditors (*Compagnie Nationale des Commissaires aux Comptes*) relating to this type of engagement. These procedures entailed verifying that the proposed methods used to set the share purchase price are mentioned in the Executive Management's report, that they comply with the legal provisions and provide shareholders with explanations, and that they do not appear obviously inappropriate.

We have no comments to make on the proposed methods.

Paris and Neuilly-sur-Seine, 9 March 2011

The Statutory Auditors

Didier Kling & Associés  
Didier Kling      Bernard Roussel

Deloitte & Associés  
David Dupont-Noel

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## Statutory Auditors' special report on the grant of existing shares for no consideration to salaried employees and/or corporate officers (twenty-ninth resolution)

*This is a free translation into English of the Statutory Auditors' report on the grant of existing shares for no consideration to salaried employees and/or corporate officers issued in French and is provided solely for the convenience of English speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.*

In our capacity as Statutory Auditors of Hermès International, and in accordance with the requirements of Articles L 225-197-1 of the French Commercial Code (*Code de Commerce*), we have drawn up this report on the proposed grant of existing shares, for no consideration, to employees and/or corporate officers (or certain categories of them) of Hermès International or of companies or groups affiliated therewith, under the conditions stipulated by Article L 225-197-2 of the French Commercial Code.

Your Executive Management proposes that you authorise it, for a period of thirty-eight months as of the date of this Meeting, to grant existing shares for no consideration, on one or several occasions, up to a maximum of 2% of the Company's ordinary shares as of the grant date of the bonus shares, wherein this is a combined ceiling including the share purchase options that have been granted but not yet exercised. It is the

Executive Management's responsibility to draw up a report on this transaction which it wishes to carry out. Our responsibility is to make comments on the information which is provided to you on the proposed transaction, as necessary.

We have performed the procedures we deemed necessary pursuant to the professional guidelines set forth by the French Institute of Statutory Auditors (*Compagnie Nationale des Commissaires aux Comptes*) with regard to this engagement. These procedures entailed verifying ascertaining that the proposed methods used to set the purchase price of the shares and disclosed in the Management Report comply with the applicable laws and regulations.

We have no comments to make on the information provided in the Executive Management's report on the proposed transaction to grant bonus shares.

Paris and Neuilly-sur-Seine, 9 March 2011

The Statutory Auditors

Didier Kling & Associés  
Didier Kling      Bernard Roussel

Deloitte & Associés  
David Dupont-Noel

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## Statutory Auditors' report on the report prepared by the Chairman of the Supervisory Board

*This is a free translation into English of the Statutory Auditors' report on the report prepared by the Chairman of the Supervisory Board issued in French and is provided solely for the convenience of English speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.*

**I**n our capacity as Statutory Auditors of Hermès International, 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 the Supervisory Board of your Company in accordance with Article L.226-10-1 of the French Commercial Code for the year ended 31 December 2010.

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 in particular relating to corporate governance. It is our responsibility:

- to report to you our observations on the information set out in the Chairman's report on internal control and risk management procedures relating to the preparation and processing of financial and accounting information; and
- to attest that the report sets out the other information required by Article L 226-10-1 of the French Commercial Code, it being specified that it is not our responsibility to assess the fairness of this information.

We conducted our work in accordance with professional standards applicable in France.

### **Information concerning the internal control and risk management procedures relating to the preparation and processing of financial and accounting 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 financial and accounting 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 financial and accounting 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 financial and accounting 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 internal control and risk management procedures relating to the preparation and processing of financial and accounting 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.

### **Other information**

We attest that the Chairman's report sets out the other information required by Article L 226-10-1 of the French Commercial Code.

Paris and Neuilly-sur-Seine, 9 March 2011  
The Statutory Auditors

Didier Kling & Associés  
Didier Kling      Bernard Roussel

Deloitte & Associés  
David Dupont-Noel

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## Resolutions submitted to the combined General Meeting of 30 May 2011

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### I - ORDINARY BUSINESS

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#### First resolution

**Approval of the parent company financial statements**

The Ordinary General Meeting, having heard the Executive Management's report on the Company's operations and situation, the Supervisory Board's report and the Statutory Auditors' report for the year ended 31 December

2010, approves the financial statements, the balance sheet and the notes thereto as presented, as well as the transactions they reflect. The General Meeting duly notes that the expenses and charges covered by Article 39-4 of the *Code Général des Impôts* amounted to €148,178 for the year ended 31 December 2010.

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#### Second resolution

**Approval of the consolidated financial statements**

The Ordinary General Meeting, having heard the Management Report on the Group's operations and situation, the Supervisory Board's report and the Statutory

Auditors' report for the year ended 31 December 2010, approves the consolidated financial statements as presented, and showing consolidated net income of €421,679,023.

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#### Third resolution

**Discharge**

Consequently, the General Meeting gives the Executive Management final discharge for its management of the

Company during the year commencing on 1 January 2010 and ending on 31 December 2010.

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#### Fourth resolution

**Appropriation of net income**

The Ordinary General Meeting notes that net income for the year amounted to €325,246,808.72 and retained earnings, to €962,847,452.02, and approves the appropriation of these sums totalling €1,288,094,260.74, as proposed by the Supervisory Board:

- ♦ to the legal reserve: none, as the legal reserve amounts to one-tenth of the share capital;

- ♦ to the reserve for purchasing original works of art: €252,871;

- ♦ to the Active Partner, pursuant to Article 26 of the Company's Articles of Association: €2,179,153.62;

- ♦ to shareholders holding shares existing at 31 December 2010, a dividend of €1.50 per share, totalling €158,354,118.12;

- ♦ to retained earnings, the balance of: €1,127,308,118.12;

- ♦ total amount appropriated: €1,288,094,260.74.

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The General Meeting resolves that the remainder of the dividend for the year, which amounts to €0.50 after the payment of an interim dividend of €1.00 per share on 10 February 2011, shall be detached from the shares on 3 June 2011 and shall be payable in cash on 8 June 2011 based on closing positions on 7 June 2011.

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 *Code Général des Impôts*, this dividend entitles shareholders who are natural persons and liable for income tax in France to a 40% tax allowance, as provided by Article 158-3 of the *Code Général des Impôts*.

In accordance with the provisions of Article 47 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:

<b>In euros</b>			
Financial year	2009	2008	2007
Dividend	1.05	1.03	1.00
Amount eligible for tax allowance pursuant to Article 158-3 of the <i>Code Général des Impôts</i>	40%	40%	40%

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## Fifth resolution

### **Approval of related-party agreements and commitments**

The Ordinary General Meeting, having heard the Statutory Auditors' special report on related-party agreements and commitments covered by the combined provisions

of Articles L 226-10 and Articles L 225-38 through L 225-43 of the *Code de Commerce*, duly notes that no new agreement or commitment requiring its approval was entered into during the year.

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## Sixth resolution

### **Ratification of the appointment of Mr Éric de Seynes, who was co-opted as Supervisory Board member**

The General Meeting, acting under the quorum and majority requirements applicable to ordinary general meetings, hereby ratifies the appointment as

Supervisory Board member of the Company of Mr Éric de Seynes, who was co-opted by the Supervisory Board at its meeting of 7 June 2010, to replace Mr Guillaume de Seynes, who resigned, for the remainder of his predecessor's term of office, which will expire at the end of this meeting.

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## Seventh resolution

### **Ratification of the appointment of Mr Olaf Guerrand, who was co-opted as a Supervisory Board member**

The General Meeting, acting under the quorum and majority requirements applicable to ordinary general meetings, hereby ratifies the appointment as

Supervisory Board member of the Company of Mr Olaf Guerrand, who was co-opted by the Supervisory Board at its meeting of 3 March 2011, to replace Mr Jérôme Guerrand, who resigned, for the remainder of his predecessor's term of office, which will expire at the end of this meeting.

Eighth resolution

**Re-election of Mr Matthieu Dumas as Supervisory Board member for a term of one year**

On the recommendation of the Active Partner, the General Meeting re-elects

Mr Matthieu Dumas

as Supervisory Board member.

Pursuant to Article 18.2 of the Articles of Association, in order to ensure that one-third of the Supervisory

Board members will stand for re-election each year, and following the drawing of lots at the Supervisory Board meeting on 17 November 2010, his term of office will expire at the end of the Annual General Meeting convened to vote on the financial statements for the year ended 31 December 2011.

Mr Dumas has indicated that he is prepared to accept this appointment and that he is not legally prohibited from doing so in any manner whatsoever.

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Ninth resolution

**Re-election of Mr Olaf Guerrand as Supervisory Board member for a term of one year**

On the recommendation of the Active Partner, the General Meeting elects

Mr Olaf Guerrand

as Supervisory Board member.

Pursuant to Article 18.2 of the Articles of Association, in order to ensure that one-third of the Supervisory Board

members will stand for re-election each year, and following the drawing of lots at the Supervisory Board meeting on 17 November 2010, his term of office will expire at the end of the Annual General Meeting convened to vote on the financial statements for the year ended 31 December 2011.

Mr Guerrand has indicated that he is prepared to accept this appointment and that he is not legally prohibited from doing so in any manner whatsoever.

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Tenth resolution

**Re-election of Mr Robert Peugeot as Supervisory Board member for a term of one year**

On the recommendation of the Active Partner, the General Meeting re-elects

Mr Robert Peugeot

as Supervisory Board member.

Pursuant to Article 18.2 of the Articles of Association, in order to ensure that one-third of the Supervisory Board

members will stand for re-election each year, and following the drawing of lots at the Supervisory Board meeting on 17 November 2010, his term of office will expire at the end of the Annual General Meeting convened to vote on the financial statements for the year ended 31 December 2011.

Mr Peugeot has indicated that he is prepared to accept this appointment and that he is not legally prohibited from doing so in any manner whatsoever.

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## Eleventh resolution

### **Re-election of Mr Charles-Éric Bauer as Supervisory Board member for a term of two years**

On the recommendation of the Active Partner, the General Meeting re-elects

Mr Charles-Éric Bauer

as Supervisory Board member.

Pursuant to Article 18.2 of the Articles of Association, in order to ensure that one-third of the Supervisory Board

members will stand for re-election each year, and following the drawing of lots at the Supervisory Board meeting on 17 November 2010, his term of office will expire at the end of the Annual General Meeting convened to vote on the financial statements for the year ended 31 December 2012.

Mr Bauer has indicated that he is prepared to accept this appointment and that he is not legally prohibited from doing so in any manner whatsoever.

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## Twelfth resolution

### **Re-election of Miss Julie Guerrand as Supervisory Board member for a term of two years**

On the recommendation of the Active Partner, the General Meeting re-elects

Miss Julie Guerrand

as Supervisory Board member.

Pursuant to Article 18.2 of the Articles of Association, in order to ensure that one-third of the Supervisory Board

members will stand for re-election each year, and following the drawing of lots at the Supervisory Board meeting on 17 November 2010, her term of office will expire at the end of the Annual General Meeting convened to vote on the financial statements for the year ended 31 December 2012.

Miss Guerrand has indicated that she is prepared to accept this appointment and that she is not legally prohibited from doing so in any manner whatsoever.

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## Thirteenth resolution

### **Re-election of Mr Ernest-Antoine Seillière as Supervisory Board member for a term of two years**

On the recommendation of the Active Partner, the General Meeting re-elects

Mr Ernest-Antoine Seillière

as Supervisory Board member.

Pursuant to Article 18.2 of the Articles of Association, in order to ensure that one-third of the Supervisory Board

members will stand for re-election each year, and following the drawing of lots at the Supervisory Board meeting on 17 November 2010, his term of office will expire at the end of the Annual General Meeting convened to vote on the financial statements for the year ended 31 December 2012.

Mr Seillière has indicated that he is prepared to accept this appointment and that he is not legally prohibited from doing so in any manner whatsoever.

Fourteenth resolution

**Re-election of Mr Maurice de Kervénoaël  
as Supervisory Board member for a term  
of three years**

On the recommendation of the Active Partner, the General Meeting re-elects

Mr Maurice de Kervénoaël

as Supervisory Board member.

Pursuant to Article 18.2 of the Articles of Association, in order to ensure that one-third of the Supervisory Board

members will stand for re-election each year, and following the drawing of lots at the Supervisory Board meeting on 17 November 2010, his term of office will expire at the end of the Annual General Meeting convened to vote on the financial statements for the year ended 31 December 2013.

Mr de Kervénoaël has indicated that he is prepared to accept this appointment and that he is not legally prohibited from doing so in any manner whatsoever.

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Fifteenth resolution

**Re-election of Mr Renaud Momméja  
as Supervisory Board member for a term  
of three years**

On the recommendation of the Active Partner, the General Meeting re-elects

Mr Renaud Momméja

as Supervisory Board member.

Pursuant to Article 18.2 of the Articles of Association, in order to ensure that one-third of the Supervisory Board

members will stand for re-election each year, and following the drawing of lots at the Supervisory Board meeting on 17 November 2010, his term of office will expire at the end of the Annual General Meeting convened to vote on the financial statements for the year ended 31 December 2013.

Mr Momméja has indicated that he is prepared to accept this appointment and that he is not legally prohibited from doing so in any manner whatsoever.

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Sixteenth resolution

**Re-election of Mr Éric de Seynes as Supervisory  
Board member for a term of three years**

On the recommendation of the Active Partner, the General Meeting re-elects

Mr Éric de Seynes

as Supervisory Board member.

Pursuant to Article 18.2 of the Articles of Association, in order to ensure that one-third of the Supervisory Board

members will stand for re-election each year, and following the drawing of lots at the Supervisory Board meeting on 17 November 2010, his term of office will expire at the end of the Annual General Meeting convened to vote on the financial statements for the year ended 31 December 2013.

Mr de Seynes has indicated that he is prepared to accept this appointment and that he is not legally prohibited from doing so in any manner whatsoever.

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## Seventeenth resolution

### **Appointment of new Statutory Auditors**

The General Meeting of the shareholders duly notes that the term of office of the Statutory Auditors Deloitte & Associés will expire at the end of this meeting and decides not to renew the said term of office.

The General Meeting of the shareholders appoints as Statutory Auditors:

PricewaterhouseCoopers Audit  
63, rue de Villiers - 92208 Neuilly-sur-Seine Cedex  
672 006 483 RCS Nanterre

for a term of six years, that is, until the end of the Ordinary Annual General Meeting of shareholders to be held in 2017 to approve the financial statements for the year ended 31 December 2016.

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## Eighteenth resolution

### **Re-appointment of Didier Kling & Associés as Statutory Auditors**

The General Meeting of the shareholders re-appoints as Statutory Auditors:

Didier Kling & Associés  
Head office: 41, avenue de Friedland  
75008 Paris  
342 061 942 RCS Paris

for a term of six years, that is, until the end of the Ordinary Annual General Meeting of shareholders to be held in 2017 to approve the financial statements for the year ended 31 December 2016.

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## Nineteenth resolution

### **Appointment of new alternate Auditor**

The General Meeting of the shareholders duly notes that the term of office of the alternate Auditors, BEAS, expires at the end of this meeting, and decides not to renew the said term of office.

The General Meeting of the shareholders appoints as alternate Auditor:

Mr Étienne Boris  
63, rue de Villiers  
92208 Neuilly-sur-Seine Cedex

for a term of six years, that is, until the end of the Ordinary Annual General Meeting of shareholders to be held in 2017 to approve the financial statements for the year ended 31 December 2016.

Twentieth resolution

**Re-appointment of Mrs Dominique Mahias  
as alternate Auditor**

The General Meeting of the shareholders re-appoints  
as alternate Auditor:

Mrs Dominique Mahias  
41, avenue de Friedland  
75008 Paris

for a term of six years, that is, until the end of the Ordinary Annual General Meeting of shareholders to be held in 2017 to approve the financial statements for the year ended 31 December 2016.

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Twenty-first resolution

**Authorisation 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:

- ◆ Authorises the Executive Management, with the option further to delegate such authority, in accordance with the provisions of Articles L 225-209 *et seq.* of the *Code de Commerce* and European Commission Regulation 2273/2003 of 22 December 2003, to arrange for the Company to buy back its own shares, within the limitations stipulated by the applicable laws and regulations, subject to the following restrictions:
  - 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 *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 the shares are 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.
- ◆ Resolves that the shares may be bought with a view to:
  - ensuring that liquidity is provided for the shares on

the equity market by an investment services provider acting entirely independently under a liquidity contract that complies with a code of conduct recognised by the Autorité des Marchés Financiers;

- cancelling the shares, 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;
- 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 partial merger shall not exceed 5% of the share capital;
- allotting the shares to employees and corporate executive officers of the Company or an affiliated company, under the terms and conditions stipulated by law, as part of share purchase option plans (in accordance with Articles L 225-179 *et seq.* of the *Code de Commerce*), or bonus share distributions (in accordance with Articles L 225-197-1 *et seq.* of the *Code de Commerce*), or as part of the Company's employee profit sharing schemes or of an employee share ownership or savings plan;
- delivering the shares for the exercise of rights attached to securities entitling the holders to the allotment of shares in the Company, by conversion, exercise, redemption, exchange or by any other means, in accordance with stock market regulations.

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This programme would also be intended to enable the Company to trade in its own shares for all other purposes that are or may in the future be authorised by the applicable laws or regulations. In such case, the Company would inform its shareholders by publishing a special notice;

- ◆ Resolves that, save for shares purchased in order to deliver them under stock option plans for the Company's employees or corporate executive officers, that the purchase price per share shall be no higher than two hundred fifty (250) euros, excluding incidental expenses;

- ◆ Resolves, however, that the Executive Management may adjust the aforesaid 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 shareholders' equity, to take into account the effect of such transactions on the value of the shares;

- ◆ Resolves that the maximum amount of funds that may be committed to this share buyback programme shall be one billion euros (€1,000,000,000);

- ◆ Resolves that the shares may be purchased by any means, including partially or entirely by purchase on the stock market, block purchase, off-market purchase, public offerings to buy or exchange shares, or by the use of options or derivatives (in accordance with the

then-applicable laws and regulations and excluding the sale of puts), at such times as the Executive Management shall deem appropriate, including times of public offerings, in compliance with stock market regulations. 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;

- ◆ Confers all powers on the Executive Management for purposes of this authorisation, with the option further to delegate such powers, and in particular:

- to effect all transactions; 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 aforesaid transactions on the value of the shares;

- to enter into all agreements, in particular for purposes of maintaining the stock transfer ledgers;

- to file all necessary reports with the Autorité des Marchés Financiers and any other relevant authority;

- to undertake all necessary formalities;

- ◆ Resolves that this authorisation is granted for a period of eighteen months from the date of this Meeting, and that it supersedes the authorisation granted under the eighth resolution adopted by the Combined General Meeting of 7 June 2010 and cancels the unused portion of that authorisation.

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## Twenty-second resolution

### **Powers**

The Ordinary 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.

## II - EXTRAORDINARY BUSINESS

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### Twenty-third resolution

**Authorisation to cancel some or all of the shares purchased by the Company (Article L 225-209) - General share cancellation programme**

The General Meeting, acting under the quorum and majority requirements applicable to extraordinary general meetings, having reviewed the Management Report, the Supervisory Board's report and the Statutory Auditors' special report, and in accordance with Article L 225-209 of the *Code de Commerce*, hereby authorises the Executive Management to reduce the share capital by cancelling some or all of the shares acquired by the Company in connection with the share buyback programme covered by the twenty-first resolution submitted to the present meeting and/or pursuant to any authorisation granted by a past or future general meeting, on one or more occasions, up to a maximum of 10% of the share capital per period of twenty-four months.

The Meeting delegates to the Executive Management full powers for purposes of this authorisation, and in particular:

- to allocate the difference between the purchase price and the par value of the 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 authorisation is granted to the Executive Management for a period of twenty-four months. It supersedes the authorisation granted under the tenth resolution adopted by the Combined General Meeting of 7 June 2010 and cancels the unused portion of that authorisation.

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### Twenty-fourth resolution

**Grant of authority to the Executive Management to increase the share capital by capitalisation of reserves, earnings and/or share premiums and by allotting bonus shares and/or by increasing the par value of existing shares**

The Extraordinary General Meeting, acting in accordance with the quorum and majority requirements applicable to ordinary general meetings and with Articles L 225-129-2 and L 125-130 of the *Code de Commerce*, having reviewed the Management Report and the Supervisory Board's report:

1) Grants to the Executive Management, under the supervision of the Company's Supervisory Board and the Management Board of the Active Partner Émile Hermès SARL, the authority to carry out a capital increase, on one or more occasions, at the times and in accordance with the terms and conditions it shall define, by the successive or simultaneous capitalisation of all or part of the amounts in the reserve, retained earnings or share premium accounts, to be effected by creating

and distributing bonus shares or by increasing the par value of the shares or by a combination of these two procedures;

2) Resolves that in the event of a bonus share distribution, those shares to be allocated to existing shares that are entitled to double voting rights shall also be entitled to this right as soon as they are issued;

3) Grants to the Executive Management the following authority, in the event of a bonus share distribution:

- ◆ to determine that fractional rights will not be negotiable and that the corresponding shares will be sold; proceeds from the sale shall be allotted to the rights holders under the terms and conditions stipulated by the applicable laws and regulations;
- ◆ to undertake any adjustments needed to take into consideration the effect of transactions affecting the Company's share capital and, more specifically, any change in the par value per share, capital increase by capitalisation of reserves, distribution of bonus shares, stock split or reverse split, distribution of reserves or other



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assets, or any other transactions applying to shareholders equity, and to determine the measures required to safeguard the rights of any holders of securities granting future rights to equity in the Company;

4) Resolves that the nominal amount of capital increases that may be effected immediately and/or in the future pursuant to this grant of authority shall not exceed 20% of the share capital as of the date of this meeting, wherein any capital increases carried out in accordance with this grant of authority shall not count against the ceiling set out in paragraph 2 of the twenty-fifth resolution;

5) Confers the broadest of powers on the Executive Management for purposes of this grant of authority, and in particular, to determine the dates of the capital increases, to set the price and the terms and conditions of the issues and/or the amount by which the par value of existing shares shall be increased, and, generally, to

take all measures to ensure such issues are completed, to undertake all actions and accomplish all formalities necessary for the completion of the corresponding capital increase or increases, and to amend the Articles of Association accordingly;

6) Confers on the Executive Management all powers for purposes of applying for admission of the securities created under the terms of this resolution for trading on an organised exchange, wherever it shall deem it appropriate;

7) Resolves that this authority shall be valid for a period of twenty-six months from the date of this General Meeting.

This grant of authority supersedes the authority granted under the tenth resolution adopted by the Combined General Meeting of 2 June 2009 and cancels the unused portion of that authority.

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## Twenty-fifth resolution

### **Grant of authority to the Executive Management to increase the share capital by issuing shares or any other securities giving access to equity with pre-emptive rights retained**

The General Meeting, acting under the quorum and majority requirements applicable to extraordinary general meetings, having reviewed the Management Report, the Supervisory Board's report and the Statutory Auditors' report drawn up in accordance with the law, and in accordance with Articles L 225-129-2 *et seq.* and Articles L 228-91 *et seq.* of the *Code de Commerce*:

1) Grants to the Executive Management, under the supervision of the Company's Supervisory Board and of the Management Board of the Active Partner Émile Hermès SARL, the authority to increase the share capital, on one or more occasions, in the proportions and at such times as it shall deem appropriate, in France and/or in other countries and/or in the international market, in euros, in any other currency or in any monetary unit pegged to a basket of currencies, with pre-emptive rights retained, by issuing: a) new shares in the Company issued free of charge or for valuable consideration and to be paid for in cash or by set-off against liquid claims due by the Company, with or without a share premium; b) any securities of any kind whatsoever, that are compatible with legal provisions, including if such

securities are issued pursuant to Article L 228-92 of the *Code de Commerce*, giving immediate and/or future rights to shares in the Company, issued free of charge or for valuable consideration and to be paid for in cash or by set-off against liquid claims due by the Company;

2) Resolves that the nominal amount of capital increases that may be effected immediately and/or in the future pursuant to this grant of authority shall not exceed 20% of the share capital as of the date of this Meeting, wherein this is the combined ceiling for all capital increases that may be effected pursuant to this authority and the authorities granted by the twenty-sixth and twenty-seventh resolutions, or the equivalent value thereof in the event of an issue in other currency or in any monetary unit pegged to a basket of currencies, not including the par value of any additional shares to be issued, as required by law, to safeguard the rights of holders of securities granting rights to shares in the Company, in accordance with the applicable laws or regulations, or with any contractual stipulations providing for other cases of adjustment;

3) Further resolves that the nominal amount of any debt securities that may be issued pursuant to this grant of authority shall not exceed 20% of the share capital as of the date of this Meeting, wherein this is the combined ceiling for all issues that may be effected pursuant to

this authority and the authority granted by the twenty-sixth resolution, and wherein the debt securities may be issued in euros, in other currencies or in any monetary unit pegged to a basket of currencies;

4) Resolves that in the event of an offer to subscribe for shares, the shareholders shall have a pre-emptive right, as provided by law, to subscribe a minimum number of securities in proportion to the number of shares they hold; the Executive Management may further grant shareholders a priority right to subscribe any securities not taken up under those pre-emptive rights, in proportion to their subscription rights and within the limits of their application;

5) Resolves that, if the shareholders' pre-emptive and, where applicable, priority rights, do not take up an entire issue of securities, the Executive Management shall be entitled to make use of any of the options allowed by the then-applicable laws and regulations, including offering all or part of the unsubscribed shares to the public;

6) Resolves that issues of warrants to purchase shares of the Company pursuant to Article L 228-91 of the *Code de Commerce* may be effected either by way of a subscription offering under the terms and conditions set out above, or by the distribution of such warrants to the owners of existing shares for no consideration.

In the event of warrants allotted for no consideration, the Executive Management shall have the power to decide that subscription rights giving rise to fractional shares shall not be negotiable and that the corresponding warrants shall be sold; the proceeds from such sales shall be allocated to the holders of the rights under the terms and conditions set out by the then-applicable laws and regulations;

7) Duly notes and resolves, as necessary and if applicable, that the aforesaid grant of authority automatically entails a waiver by the Shareholders of their pre-emptive right to apply for shares in the Company that will be issued upon presentation of such securities in favour of the holders of securities giving future rights to shares in the Company;

8) Resolves that the amount collected or to be collected by the Company for each share issued under the terms of this grant of authority, after deducting the issue price of stand-alone share purchase warrants in the event of an issue of such warrants, shall be at least equal to the par value of the share or the fraction of the share capital that it represents;

9) Resolves that, having reviewed the Executive Management's report, in the event of an issue of securities giving access to equity, the subscription price of such securities shall be determined by the Executive Management based on the value of the Company's share as defined in paragraph 8 above;

10) Confers the broadest of powers on the Executive Management for purposes of this grant of authority, and in particular:

- ◆ to determine the dates of the issues and the form and characteristics of the securities to be issued, the price and conditions of the issues, and the amounts to be issued;

- ◆ to set the dividend entitlement date, which may be retroactive, of the securities to be issued and, if applicable, the terms and conditions for their redemption, and to suspend, if applicable, the exercise of rights to the allotment of shares attached to the securities to be issued for a period not to exceed three months;

- ◆ to determine the measures required to safeguard the rights of any holders of securities granting future rights to equity in the Company, in accordance with the applicable laws and regulations;

- ◆ more generally, to do all that is necessary, to undertake all necessary formalities and to enter into all agreements required to complete any issue, to officially record the capital increase(s) resulting from the use of this grant of authority and to amend the Articles of Association accordingly;

11) Resolves that, in the event of an issue of debt securities, the Executive Management shall have all powers, and more specifically, the powers to decide whether or not such securities shall be subordinated, to set their interest rate, their term to maturity, the conditions of their redemption at a fixed or variable price, with or without a premium, the terms and conditions for their amortisation as a function of market conditions, the conditions under which such securities shall grant rights to equity in the Company, and, during the lifetime of the relevant securities, to amend the above terms and conditions, in compliance with the applicable formalities;

12) Resolves that the Executive Management may also allocate the incidental expenses incurred in connection with the issues of shares and securities to the share premium account associated with capital increases, and to draw from this account the sums needed to increase

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the legal reserve to one-tenth of the amount of capital arising from such increases;

13) Confers on the Executive Management all powers for purposes of applying for admission of the securities created under the terms of this resolution for trading on an organised exchange, wherever it shall deem it appropriate;

14) Resolves that this authority shall be valid for a period of twenty-six months from the date of this General Meeting.

This grant of authority supersedes the authority granted under the eleventh resolution adopted by the Combined General Meeting of 2 June 2009 and cancels the unused portion of that authority.

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## Twenty-sixth resolution

### **Grant of authority to the Executive Management to increase the share capital by issuing shares or any other securities giving access to equity with pre-emptive rights waived but with a priority subscription period**

The General Meeting, acting under the quorum and majority requirements applicable to extraordinary general meetings, having reviewed the Management Report, the Supervisory Board's report and the Statutory Auditors' report drawn up in accordance with the law, and in accordance with Articles L 225-129-2, L 225-135 and L 228-92 *et seq.* of the *Code de Commerce*:

1) Grants to the Executive Management, under the supervision of the Company's Supervisory Board and of the Management Board of the Active Partner Émile Hermès SARL, the authority to increase the share capital by way of one or more public share offerings without pre-emptive rights, in the proportions and at such times as it shall deem appropriate, in France and/or in other countries and/or in the international market, in euros, in any other currency or in any monetary unit pegged to a basket of currencies, by issuing:

a) new shares in the Company free of charge or for valuable consideration and to be paid for in cash or by set-off against liquid claims due by the Company, with or without a share premium;

b) any securities of any kind whatsoever that are compatible with legal provisions, including if such securities are issued pursuant to Article L 228-92 of the *Code de Commerce*, giving immediate and/or future access to shares in the Company issued free of charge or for valuable consideration, and to be paid for in cash or by set-off against liquid claims due by the Company;

2) Resolves that such issues may also be effected:

◆ for the purpose of paying for shares that may be transferred to the Company under a public offer of exchange for the shares of a company, including all securities issued by such company, under the terms and conditions provided by Article L 225-148 of the *Code de Commerce*;

◆ following the issuance by a company in which the Company directly or indirectly holds more than one-half of the share capital, securities giving access to equity in the Company under the terms and conditions provided by Article L 228-93 of the *Code de Commerce*;

3) Resolves, as part of this grant of authority, to exclude the shareholders' pre-emptive rights to the securities to be issued, it being understood that the Executive Management may confer on the shareholders an option to subscribe for all or part of the issue during a priority period, under the terms and conditions and during a period it shall determine, in accordance with the applicable laws and regulations. This priority subscription right shall not create negotiable rights; however, if the Executive Management deems this appropriate, it may be exercisable under the shareholders' pre-emptive rights or any preferential rights. Any securities not subscribed for by shareholders exercising this right shall be offered for sale to the public;

4) Resolves that the nominal amount of capital increases that may be effected immediately and/or in the future pursuant to this grant of authority shall not exceed 20% of the share capital as of the date of this meeting (wherein all capital increases that may be effected pursuant to this authority shall count against the combined ceiling set out in paragraph 2 of the twenty-fifth resolution), or the equivalent value thereof in the event

of an issue in another currency or in any monetary unit pegged to a basket of currencies, not including the par value of any additional shares to be issued, as required by law, to safeguard the rights of holders of securities giving access to shares in the Company, in accordance with the applicable laws or regulations, or with any contractual stipulations providing for other cases of adjustment;

5) Further resolves that the nominal amount of any debt securities that may be issued pursuant to this grant of authority shall not exceed 20% of the share capital as of the date of this Meeting, wherein all issues that may be effected pursuant to this authority shall count against the combined ceiling set out in paragraph 3 of the twenty-fifth resolution, and wherein the debt securities may be issued in euros, in any other currencies or in any monetary unit pegged to a basket of currencies;

6) Duly notes and resolves, as necessary and where applicable, that the aforesaid grant of authority automatically entails a waiver by the Shareholders of their pre-emptive right to apply for any shares in the Company that will be issued upon presentation of such securities in favour of the holders of securities giving future entitlement to shares in the Company;

7) Resolves that, in the event of an immediate or future issue of shares, the issue price for each of the shares issued under the terms of this authority shall be at least equal to the minimum as provided by the laws and regulations applicable at the time the authority is used, and that the issue price of securities giving access to equity shall be such that the amount received immediately by the Company plus any amount that it is liable to receive subsequently will, for each share issued as a result of the issuance of such other securities, be at least equal to the minimum issue price defined in the foregoing paragraph;

8) Resolves that if applications received from the shareholders and from the public do not take up an entire issue of securities, the Executive Management shall be entitled to make use of one or both of the following options, in the order that it shall determine:

- ◆ to limit the issue to the amount of applications received, under the terms and conditions stipulated by the laws applicable at the time this authority is used;
- ◆ to offer all or part of the unsubscribed shares to persons of its choice;

9) Confers the broadest of powers on the Executive Management for purposes of this grant of authority, and in particular:

- ◆ to determine the dates of the issues and the form and characteristics of the securities to be issued, the price and conditions of the issues, and the amounts to be issued;
- ◆ to set the dividend entitlement date, which may be retroactive, of the securities to be issued and, if applicable, the terms and conditions for their redemption, and to suspend, if applicable, the exercise of rights to the allotment of shares attached to the securities to be issued for a period not to exceed three months;
- ◆ to determine the measures required to safeguard the rights of any holders of securities granting future rights to equity in the Company, in accordance with the applicable laws and regulations;
- ◆ more generally, to do all that is necessary, to undertake all necessary formalities and to enter into all agreements required to complete any issue, to officially record the capital increase or increases resulting from the use of this grant of authority and to amend the Articles of Association accordingly;

10) Resolves that, in the event of an issue of debt securities, the Executive Management shall have all powers to determine their characteristics, and more specifically, to decide whether or not such securities shall be subordinated, to set their interest rate, their term to maturity, the conditions of their redemption at a fixed or variable price, with or without a premium, the terms and conditions for their amortisation as a function of market conditions, the conditions under which such securities shall grant rights to shares in the Company, and, during the lifetime of the relevant securities, to amend the above terms and conditions, in compliance with the applicable formalities;

11) Resolves that the Executive Management may also allocate the incidental expenses incurred in connection with the issues of shares and securities to the share premium account associated with capital increases, and to draw from this account the sums needed to increase the legal reserve to one-tenth of the amount of capital arising from such increases;

12) Confers on the Executive Management all powers for purposes of applying for admission of the securities created under the terms of this resolution for trading on an organised exchange, wherever it shall deem it appropriate;

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13) Resolves that this authority shall be valid for a period of twenty-six months from the date of this General Meeting.

This authority supersedes the authority granted under

the twelfth resolution adopted by the Combined General Meeting of 2 June 2009 and cancels the unused portion of that authority.

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## Twenty-seventh resolution

### **Grant of authority to the Executive Management to carry out capital increases reserved for employees belonging to a share savings scheme**

The General Meeting, acting under the quorum and majority requirements applicable to extraordinary general meetings, having reviewed the Management Report and the Statutory Auditors' special report, and in accordance with Articles L 225-129 to L 225-129-6 and L 225-138-1 of the *Code de Commerce* and Articles L 3332-1 *et seq.* of the *Code du Travail*:

- ◆ Grants authority to the Executive Management, with the option further to delegate such authority as authorised by law, to carry out capital increases, on one or more occasions and at its sole discretion, including by separate tranches, up to a maximum of one per cent (1%) of the share capital as of the date of this Meeting (not including the effect on the amount of share capital of adjustments effected to protect the holders of rights attached to the securities giving access to equity) by issuing shares or securities giving access to equity and reserved for members of any corporate or group employee share ownership plan(s) that may be instituted within the group consisting of the Company and the French or foreign companies included in the scope of consolidation, pursuant to Article L 3344-1 of the *Code du Travail*;

- ◆ Resolves that the amount of any capital increases effected pursuant to this authority shall count towards the ceiling set out in paragraph 2 of the twenty-fifth resolution;

- ◆ Resolves that this grant of authority entails the waiver by the shareholders of their pre-emptive rights to the equity securities and negotiable securities to be issued pursuant to this resolution in favour of those persons belonging to a corporate or group employee share ownership plan, and the waiver of their pre-emptive right to any shares to which the securities issued pursuant to this authority may give rights;

- ◆ Resolves, pursuant to Article L 3332-19 of the *Code*

*du Travail*, to fix the discount at 20% of the average quoted price of the Company's shares on the stock exchange during the last twenty trading days preceding the date of the decision setting the opening date of the issue. However, the shareholders authorise the Executive Management to offer bonus shares or securities giving access to equity in lieu of the discount, or to reduce or not grant the discount, within the limitations stipulated by law or by regulations;

- ◆ Resolves that under the terms of the authorisation granted by the twenty-eighth resolution, and within the limitations stipulated by Article L 3332-19 of the *Code du Travail*, the Executive Management may award bonus shares or securities giving access to the Company's equity as part of the employer top-up scheme;

- ◆ Resolves that this authorisation shall be valid for a period of twenty-six months as from the date of this Meeting;

- ◆ Confers the broadest of powers on the Executive Management, with the option further to delegate this authority, for purposes of this authority, and in particular:

- to determine all terms and conditions of the transaction or transactions to be carried out, and more particularly:

- to determine the terms and conditions of any issues to be effected pursuant to this authority, and in particular to set the amounts to be offered for subscription, to draw up, in accordance with the applicable laws, the list of companies in which the members of an employee share ownership plan are eligible to subscribe for the shares or securities to be issued and giving access to equity and, where applicable, to receive bonus shares or securities giving access to equity' to decide whether subscriptions will be effected directly or through employee mutual funds or other structures or entities allowed by the applicable laws or regulations; to determine the conditions, particularly with respect to years of service, that the beneficiaries of the share issues shall meet; to set the issue price, dates, periods, terms and conditions

pertaining to subscription, payment, delivery and dividend ranking of the shares or securities giving access to the Company's equity;

- in the event of issues of bonus shares or securities giving access to equity, to determine the number of shares or securities giving access to equity to be issued, the number to be allotted to each beneficiary, and to determine the dates, periods, and terms and conditions of allotment of such shares or securities giving access to equity within the limitations stipulated by applicable laws and regulations, and in particular, to opt either to allot all or part of such shares or securities giving access to equity in lieu of the aforesaid discounts; or to allocate the equivalent value of such shares to the total amount of the employer top-up scheme, or to use a combination of these two options;

- at its sole discretion, after each capital increase, to allocate the incidental expenses incurred in connection with the issues to the share premium account and to draw from this account the sums needed to increase the Company's legal reserve to one-tenth of the new share capital;
- to undertake all actions and accomplish all formalities necessary for completing and registering the capital increase or increases carried out under this authorisation, to amend the Articles of Association accordingly, and in general, to do all that is necessary.

This authority supersedes the authorisation granted under the thirteenth resolution adopted by the Combined General Meeting of 2 June 2009 and cancels the unused portion of that authorisation.

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## Twenty-eighth resolution

### **Authorisation to the Executive Management to award share purchase options**

The Extraordinary General Meeting, acting under the quorum and majority requirements applicable to extraordinary general meetings, having reviewed the Management Report, the Statutory Auditors' special report and the Supervisory Board's report, resolves to authorise the Executive Management, in accordance with Articles L 225-177 *et seq.* of the *Code de Commerce*, to allot, up to the limits set by the applicable legislation:

- on one or more occasions;
- to all or some employees and corporate executive officers of Hermès International and companies or groups affiliated therewith under the conditions covered by Article L 225-180 of the *Code de Commerce*, options to buy Hermès International shares that the Company has acquired under statutory conditions.

The Executive Management may use this authorisation, at such time or times as it may deem appropriate, for a period of 38 (thirty-eight) months as from the date of this Meeting.

The total number of options that may be granted under this authorisation shall not be such that the total number of options granted pursuant to this resolution and the total number of bonus shares distributed pursuant to the twenty-ninth resolution would amount to more than 2%

of the total number of ordinary shares in the Company outstanding as of the option grant date. The options may be exercised by the beneficiaries within a maximum of seven years as from the option grant date.

The purchase price of the shares shall be set by the Executive Management, within the limits and in accordance with the conditions stipulated in Article L 225-177, paragraph 4 of the *Code de Commerce*; it shall not be less than the average quoted price of the shares on the stock exchange during the last twenty trading days preceding the option grant date.

The shareholders grant the broadest of powers to the Executive Management, acting within the limits set forth above, for purposes of this resolution, and in particular:

- ◆ to determine the terms and conditions of the transaction, in particular the conditions under which the options will be granted, the time or times at which the options may be allotted and exercised, the list of the beneficiaries of the options and the number of shares that each beneficiary may acquire;
- ◆ to determine the conditions for exercising the options;
- ◆ to stipulate any lock-up period for the shares resulting from the exercise of the options and/or period during which such shares cannot be converted to bearer shares, it being specified that such lock-up period shall

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not exceed three years from the option exercise date;  
◆ to provide for the possibility of temporarily suspending the exercise of options for a maximum of three months in the event of a financial transaction entailing the exercise of a right attached to the shares.

In the event that options are allotted to one or more Executive Chairmen:

◆ resolves that the Executive Management shall ascertain that the Company fulfils one or more of the conditions stipulated in Article L 225-186-1 of the *Code de Commerce*, and shall take every necessary measure in this respect;

◆ resolves that the Supervisory Board shall ensure that the relevant Executive Chairman or Chairmen may not exercise their options until after they have left office, or that it shall set a number of shares resulting from the

exercise of options they must hold in registered form until after they have left office.

If, during the period in which the options were granted, the Company undertakes one of the financial or securities transactions provided by law, in order to take into account the effect of any such transaction, the Executive Management shall adjust the number and price of the shares included in the options granted.

Each year, the Executive Management shall report to the Ordinary General Meeting on the transactions carried out pursuant to this authority.

This authorisation supersedes the authorisation granted under the fourteenth resolution adopted by the Combined General Meeting of 2 June 2009 and cancels the unused portion of that authorisation.

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## Twenty-ninth resolution

### **Authorisation to the Executive Management to award ordinary shares in the Company for no consideration**

The General Meeting, acting under the quorum and majority requirements applicable to extraordinary general meetings, having reviewed the Management Report, the Statutory Auditors' report and the Supervisory Board's report, and in accordance with the provisions of Article L 225-197-1 *et seq.* of the *Code de Commerce*:

◆ Authorises the Executive Management to grant bonus shares to some or all employees and/or corporate executive officers of the Company or in affiliated companies or groups under the conditions set out in Article L 225-197-2 of the *Code de Commerce*, by allotting existing ordinary shares of the Company for no consideration. The existing shares that may be distributed pursuant to this resolution must have been purchased by the Company either in accordance with Article L 225-208 of the *Code de Commerce*, or as part of the share buyback programme authorised by the twenty-first resolution submitted to this Meeting under the terms of Article L 225-209 of the *Code de Commerce* or any share buyback programme applicable previously or in the future;

◆ Resolves that the Executive Management shall determine the identity of the beneficiaries or the categories of beneficiaries of the bonus shares as well as the conditions and any criteria applying to distribution of the shares;

◆ Resolves that the Executive Management shall determine the dates on which the bonus shares will be distributed, within the conditions and limitations stipulated by law;

◆ Resolves that the total number of ordinary shares distributed for no consideration under the terms of this authorisation shall not be such that the total number of bonus shares distributed pursuant to this resolution and the total number of share purchase options granted and not yet exercised amounts to more than 2% of the total number of ordinary shares in the Company as of the bonus share distribution date, not including those already conferred under authorisations granted by previous General Meetings;

◆ Resolves that the Executive Management shall determine, for each distribution, the vesting period at the end of which the ordinary shares shall be fully vested, wherein this period shall not be less than two years, unless new provisions of the law reducing the minimum vesting period were to be enacted, in which case the Executive Management would be authorised to reduce the said vesting period; however, in the event of the beneficiary's death, his or her heirs may request that the shares be distributed within six months after the date of death; furthermore, the shares will be distributed before the end of the vesting period in the event that the beneficiary becomes disabled, providing that such disability is a Category 2 or Category 3 disability

as defined by Article L 341-4 of the *Code de la Sécurité Sociale*;

◆ Resolves that at the time of each distribution, the Executive Management shall fix the period during which the beneficiaries must hold the shares, wherein this holding period shall not be less than two years from the date on which the shares are fully vested, for beneficiaries who are employees of French subsidiaries, and that the Executive Management may waive the said holding period for beneficiaries who are employees of foreign subsidiaries providing that the vesting period indicated in the preceding paragraph is at least four years; however, the shares shall be freely assignable in the event of the beneficiary's death, or should the beneficiary become disabled, providing that such disability is a Category 2 or Category 3 disability as defined by Article L 341-4 of the *Code de la Sécurité Sociale*.

In the event that bonus shares are granted to one or more Executive Chairmen:

◆ Resolves that the Executive Management shall ascertain that the Company fulfils one or more of the conditions stipulated in Article L 225-197-6 of the *Code de Commerce*, and shall take every necessary measure in this respect;

◆ Resolves that the Supervisory Board shall ascertain that the relevant Executive Chairman or Chairmen shall not sell the shares distributed until after they have left office, or shall set a number of such shares that they must retain in registered form until after they have left office;

◆ Authorises the Executive Management to determine any applicable conditions and criteria for distribution of the shares, including but not limited to the number of

years of service, conditions with respect to maintaining employment or the term of office during the vesting period, and any other financial condition or condition relating to individual or collective performance;

◆ Authorises the Executive Management to record the bonus shares distributed in a registered account in the name of their owner, showing any lock-up period over the full duration of such period;

◆ Authorises the Executive Management to undertake, during the vesting period of the bonus shares, any adjustments needed to take into consideration the effect of transactions affecting the Company's share capital and, more specifically, to determine the conditions under which the number of ordinary shares granted will be adjusted;

◆ More generally, grants the broadest of powers to the Executive Management, with the option further to delegate such powers as provided by law, to enter into all agreements, to draw up all documents, to carry out all formalities, and to undertake all filings with all relevant organisations, and, in general, to do all that is necessary. The period during which the Executive Management may use this authorisation, on one or more occasions, is thirty-eight (38) months from the date of this Meeting. Each year, the Executive Management will report to the General Meeting on the number of shares distributed pursuant to this resolution under the conditions provided by law, and more particularly, by Article L 225-197-4 of the *Code de Commerce*.

This authorisation supersedes the authorisation granted under the fifteenth resolution adopted by the Combined General Meeting of 2 June 2009 and cancels the unused portion of that authorisation.

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## Thirtieth resolution

### **Powers**

The Extraordinary 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.







## Additional legal information

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## Articles of Association of Hermès International (commented)

(updated following the decisions of the Combined General Meeting of 7 June 2010)

Comments are indicated by a vertical line down the left margin.

### 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 offices 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* 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, 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;
- one or more Executive Chairmen, selected from among the Active Partners or from outside the Company, are chosen to manage the Company; the first Executive Chairman (or chairmen) is appointed by the Articles of Association;
- the Supervisory Board is appointed by the Ordinary General Meeting of Shareholders (Active Partners, even if they are also limited partners, cannot vote on their appointment). The first members of the Supervisory Board are appointed by the Articles of Association.

### 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 - DURATION

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, 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 the shares is €0.51 each, after two three-for-one splits since the initial public offering, on 6 June 1997 and 10 June 2006.

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## 7 - CAPITAL INCREASES AND REDUCTIONS

**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 premium, reserve 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 of Shareholders, 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 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.

**9.2** - The Company may, at any time, in accordance with the applicable laws and regulations, request from the central custodian or any securities clearing organisation information 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 effected 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

When the shares are admitted to trading on a regulated market or a financial instruments market that admits trading in shares registered on a securities account with an authorised intermediary under the conditions provided by Article L 211-4 of the *Code Monétaire et Financier*, any natural or legal person, acting alone or jointly, coming into possession, in any manner whatsoever, within the meaning of Articles L 233-7 *et seq.* of the *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 moving beyond any of the legal thresholds covered by Article L 233-7 *et seq.* of the *Code de Commerce*, is required to disclose to the Company the total number of shares it owns by sending a notice by registered post, return receipt requested to the registered office within five days from the date it has moved beyond one of the aforesaid thresholds. Such disclosure must also be made, under the same conditions as those

provided above, whenever the percentage of share capital and/or voting rights held falls below one of the aforesaid thresholds. In the event of failure to comply with the above requirements, the shares exceeding the threshold which is subject to disclosure shall be disqualified from voting.

In the event of an adjustment, the corresponding voting rights may be exercised only after expiration of the period stipulated by law and the applicable regulations. Unless one of the thresholds covered by the aforesaid 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 General Meetings of Shareholders.

However, 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 premium, reserve 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 legal owners at all General Meetings (ordinary, extraordinary or special meetings), save for decisions regarding the appropriation of net income, in which case the beneficial owner 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 General Meeting of Shareholders.

**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 him, such Active Partner

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shall automatically lose his 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, an Extraordinary General Meeting of Shareholders 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 person.

If an Active Partner loses his status as such, he shall have the right to receive his 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, an Extraordinary General Meeting of Shareholders 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 person.

This also applies if the Company has only one Active Partner and if that Active Partner loses his status as such for any reason whatsoever. The heirs, assigns 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 considered recommendation under the conditions provided in the article entitled "Executive Management". Acting by unanimous consent, the Active Partners:

- ◆ on the Supervisory Board's recommendation;
- ◆ determine the Group's strategic options,
- ◆ determine the Group's 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 the Company:
  - descendants of Mr Émile-Maurice Hermès and his wife, born Julie Hollande; and

- their spouses, but only as beneficial owners 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 his status as Active Partner immediately upon termination of his 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 Chairman or 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 person, which may be but is not required to be an Active Partner.

At this time, the Company is administered by two Executive Chairmen:

- Mr Patrick Thomas, who was appointed by a resolution approved by the Active Partners, on the considered recommendation of the Supervisory Board, dated 15 September 2004;
- Émile Hermès SARL, which was appointed by a resolution approved by the Active Partners, on the considered recommendation of the Supervisory Board, dated 14 February 2006 (appointment effective as of 1 April 2006).

**15.2** - The Executive Chairmen'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 considered recommendation. 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 - POWERS 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. Each Executive Chairman 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 General Meetings of Shareholders.

### **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 of powers**

The Executive Chairman may, under his responsibility, delegate all powers as he sees fit and as required for the proper operation of the Company and its group. He 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 Managing Director.

## **17 - REMUNERATION OF THE EXECUTIVE MANAGEMENT**

The Executive Chairman (or, where there is more than one, each Executive Chairman) shall have the right to receive remuneration fixed by the Articles of Association and, potentially, additional remuneration, the maximum amount of which shall be determined by the Ordinary



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General Meeting, with the approval of the Active Partner or, if there are several Active Partners, with their unanimous approval.

The gross annual remuneration of the Executive Chairman (or, where there is more than one, of each Executive Chairman) for the 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 remuneration 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 Management Board of the Active Partner Émile Hermès SARL shall determine the effective amount of the annual remuneration of the Executive Chairman (or, where there is more than one, of each Executive Chairman).

Details on the remuneration of the Executive Chairmen are presented in the Executive Management's Report on corporate governance (pages 43 to 46).

## 18 - SUPERVISORY BOARD

The composition of the Supervisory Board is described in the report from the Chairman of the Supervisory Board (page 19).

**18.1** - The Company is governed by a Supervisory Board consisting of three to fifteen members selected from among Shareholders who are not Active Partners, legal representatives of an Active Partner, or Executive Chairmen. 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 23 March 2010, the Active Partner set the number of Supervisory Board members at ten.

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 he were a Supervisory Board member in his own name, without prejudice to the joint and several liability of the legal entity he represents. The permanent representative

serves for the same term of office as the legal entity he represents.

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 reappointed by the Ordinary General Meeting of Shareholders. The Active Partners may, at any time, propose that one or more new Supervisory Board members 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 seventy-five 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 his or their absence, the Executive Chairman, or in his absence, the Statutory Auditor or Auditors, shall immediately call an Ordinary General Meeting of Shareholders for the purpose of filling the vacancies to bring the number of Board members up to the required minimum.

## **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 19).

**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 consent 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 his colleagues to represent him 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 videoconferencing 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 videoconferencing 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 - POWERS 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 as the Statutory Auditors. 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 considered recommendation:

- ◆ 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 appropriation of net income 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
- ◆ any proposal submitted to the General Meeting pertaining to the appropriation of share premiums, reserves or retained earnings.

**20.6** - Each year, the Supervisory Board presents a report to the Annual Ordinary General Meeting of Shareholders 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.

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The Supervisory Board's report for the year ended 31 December 2010 is presented on page 221.

This report, together with the Company's balance sheet 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 General Meeting of Shareholders 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 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; for purposes of this council, Émile Hermès SARL is represented by its 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 consent 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 his 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 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 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 - REMUNERATION OF THE SUPERVISORY BOARD**

Supervisory Board members may receive, as Director's fees, annual compensation, the amount of which is determined by the Ordinary General Meeting of Shareholders and shall remain unchanged until such time as a new resolution is adopted by the 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 - GENERAL MEETINGS OF SHAREHOLDERS**

**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 three business days before the date of the meeting before 12:00 a.m., Paris time. Shareholders owning bearer shares must obtain an admittance 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 *Code Civil*, in the first sentence of 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 third business day preceding the Meeting, at 12:00 midnight, CET, the Company will void or amend any proxy or voting instructions sent before that date accordingly. Persons invited by the Executive Management or by the Chairman of the Supervisory Board may also attend General Meetings. The Active Partners may attend General Meetings of Shareholders. Active Partners that are legal entities are represented by a legal representative or by any person, Shareholder or otherwise, designated thereby.

**The Annual 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.**

**24.3 - L24.3** - General meetings are chaired by the Chairman of the Supervisory Board or, in his 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 appropriation of net income 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 duly to record of such approval.

## **25 - ACCOUNTS**

Each financial year consists of twelve months, commencing on 1 January and ending on 31 December.

## **26 - APPROPRIATION 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.

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## Persons Responsible

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### PERSONS RESPONSIBLE FOR INFORMATION CONTAINED IN THE SHELF-REGISTRATION DOCUMENT

Mr Patrick Thomas, Executive Chairman.

Émile Hermès SARL, 23, rue Boissy-d'Anglas,  
75008 Paris, Executive Manager.

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### DECLARATION BY PERSONS RESPONSIBLE FOR THE SHELF-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 shelf-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 consoli-

ation, and that the Management Report presents a fair view of the development and performance of the Company's business operations, results and financial position and all the undertakings included in the consolidation, as well as a description of 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 and accounting information provided in this document and that they have read the document in its.

Paris, 18 April 2011  
The Executive Management

Patrick Thomas



Bertrand Puech  
Representing Émile Hermès SARL



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## Auditors

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### STATUTORY AUDITORS

**Deloitte & Associés**

Member, Compagnie Régionale des Commissaires aux Comptes de Versailles.

185, avenue Charles-de-Gaulle

92200 Neuilly-sur-Seine

Represented by Mr David Dupont-Noël

First appointed at the Annual General Meeting of 20 December 1982.

Term of appointment expires at the Annual General Meeting convened to approve the 2010 accounts.

**Didier Kling & Associés**

Member, Compagnie Régionale des Commissaires aux Comptes de Paris.

41, avenue de Friedland

75008 Paris

Independent member of Crowe Horwath International

Represented by Messrs. Didier Kling and Bernard Roussel

First appointed at Annual General Meeting of 31 May 1999.

Term of appointment expires at the Annual General Meeting convened to approve the 2010 accounts.

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### ALTERNATE AUDITORS

**BEAS**

7/9, villa Houssay

92524 Neuilly-sur-Seine

First appointed at the Annual General Meeting of 2 June 2005.

Term of appointment expires at the Annual General Meeting convened to approve the 2010 accounts.

**Mrs Dominique Mahias**

41, avenue de Friedland

75008 Paris

First appointed at the Annual General Meeting of 5 June 2007.

Term of appointment expires at the Annual General Meeting convened to approve the 2010 accounts.

The Principal Statutory Auditors and alternate 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, he is appointed for the remainder of his predecessor's term.

At the General Meeting of 30 May 2011, the Shareholders will be asked to vote on the reappointment or replacement of the Auditors whose term of office expires at the end of that meeting.

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## Information incorporated by reference

Pursuant to Article 28 of EC Regulation 809-2004 of 29 April 2004, this shelf-registration document incorporates by reference the following information, to which the reader is invited to refer:

- in respect of the year ended 31 December 2008: consolidated financial statements, parent company financial statements and Statutory Auditors' reports thereon, presented in the Shelf-Registration Document filed with the AMF on 9 April 2009 under reference number D09-0218, on pages 109-168, 171-195, 207 and 208, respectively.
- in respect of the year ended 31 December 2009: consolidated financial statements, parent company

financial statements and Statutory Auditors' reports thereon, presented in the Shelf-Registration Document filed with the AMF on 14 April 2010 under reference number R10-0259, on pages 117-174, 177-201, 212 and 213, respectively.

All other information incorporated into this shelf-registration document in addition to the information described above has been replaced or updated by the information contained herein. Copies of this Shelf-Registration Document are available as described in Volume 1, page 107, under the section entitled "Shareholder's Guide".

## Cross-reference table

The following table cross-references this document with the main headings required under Regulation EC 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".

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