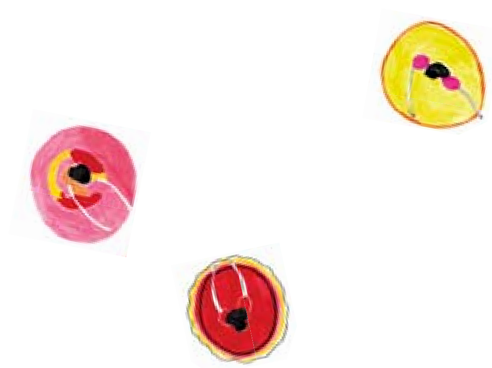
# HERMÈS

2007 ANNUAL REPORT

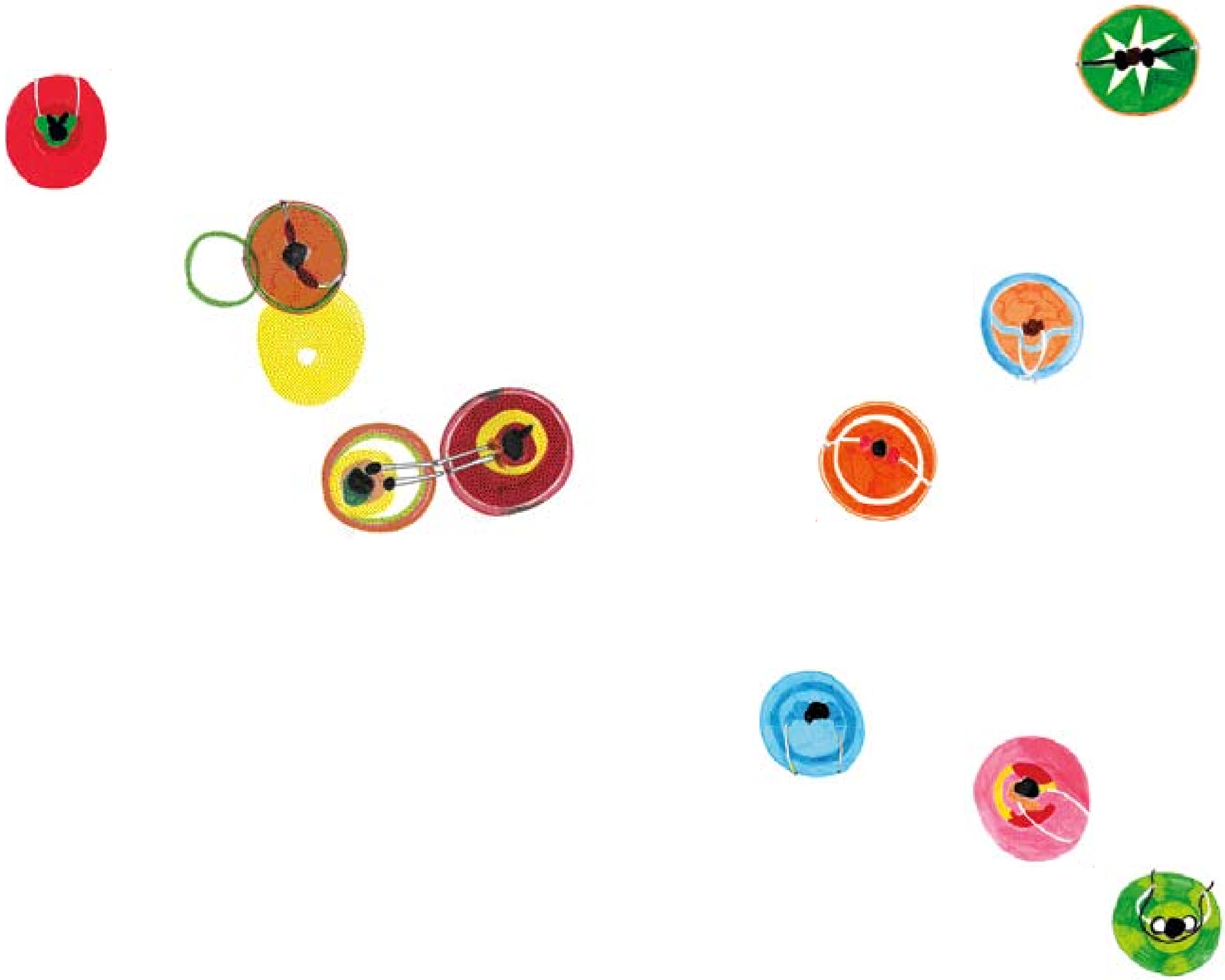
In accordance with Article 621-8-1-I of the Code Monétaire et Financier and of the General Regulations, and more specifically Article 212-13 thereof, the Autorité des Marchés Financiers (AMF) has registered this shelf-registration document, comprising Volume 1 and Volume 2 of the Annual Report, on 14 April 2008 under number R08-023. This document may be not used in support of a financial transaction unless accompanied by an offering circular approved by the AMF. It has been drafted by the issuer and is the responsibility of its signatories. However, this registration does not imply that the accounting and financial items shown have been verified by the AMF.

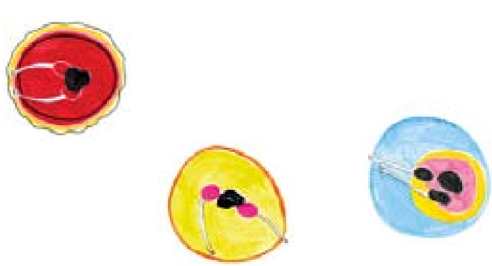
**Volume I**
**INTRODUCTION TO THE GROUP**
**Review of Operations**



Hermès International
Partnership limited by shares with share capital of €54,105,499.14 - 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 2008 – ISBN 978-2-35102-043-2

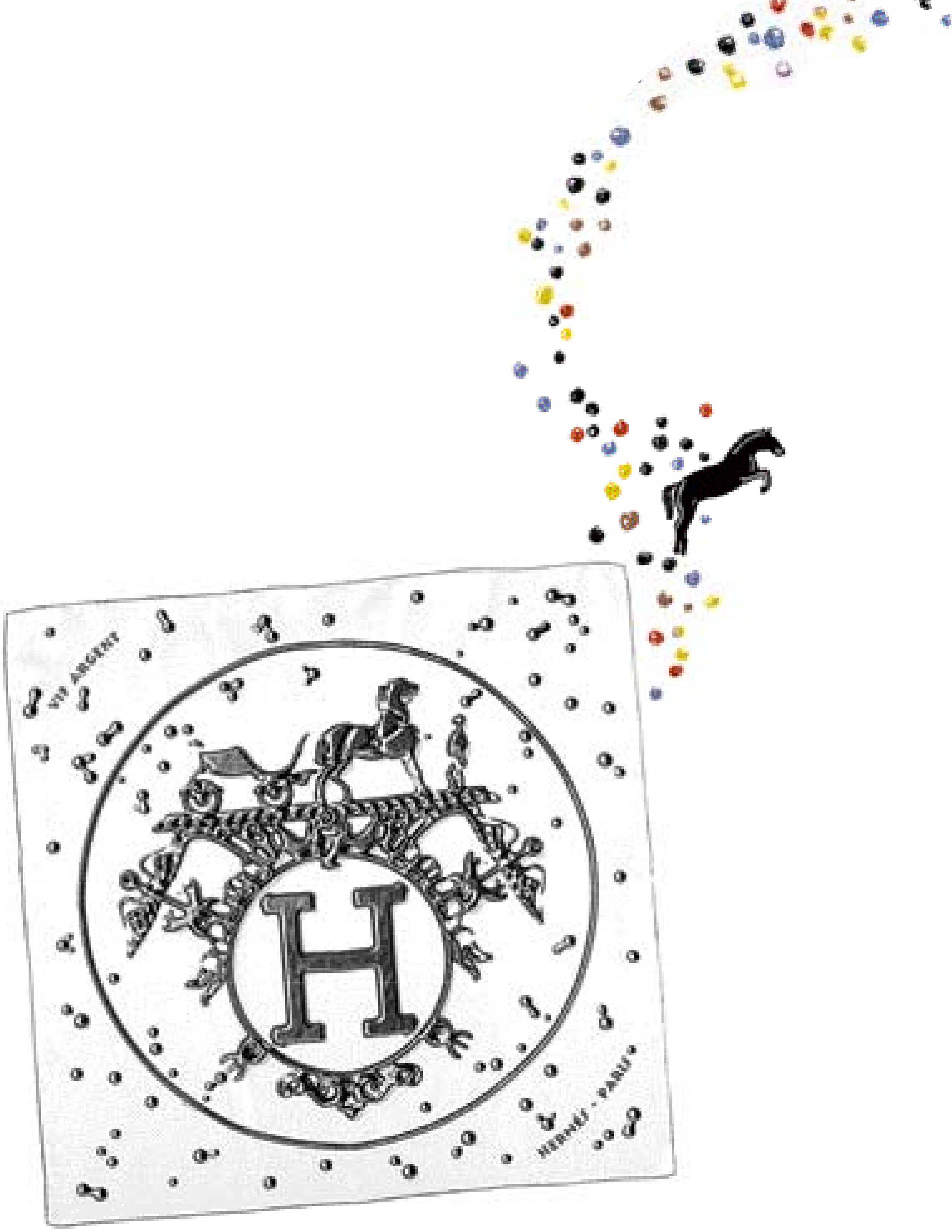
# 2007: Shall we dance…?







*Information required by the New Economic Regulations (NRE) act.




*Vif Argent* silk twill *carré*.

# A Message from the Executive Management Team

In 2007, driven by its artistic department, Hermès created some exciting new products while maintaining the enduring success of its designs. This passion has been felt within,the dynamism of the métiers and the growth acceleration in all continents. With the alliance of creativity and outstanding craftsmanship, Hermès has continued to affirm its unique status. Silk, fashion accessories, men's ready-to-wear, jewellery and the art of living have all driven growth, based notably on a balanced share of sales across the métiers and territories, providing fresh proof of the judicious nature of our strategic direction.

The mastery of skills and the reliability of our supplies were consolidated by the acquisition of the Soficuir workshops and in raising our stake in the Vaucher watchmaking business.

Hermès successfully established locations which will be essential to its future development, notably in New York (Wall Street), Moscow and above all, China, where we doubled our sales over the year. The enlargement of our flagship Parisian store at 24 Faubourg Saint-Honoré has provided an enhanced showcase for the richness and abundance of our offer and our métiers.

The rigorous selection of materials and application of our know-how, combined with the improvement of our customer service, the fostering of corporate spirit and increased decentralisation have all served to stimulate our teams and improve our performance. The fall in the American and Japanese currencies impacted upon our results, but did not undermine our stability or our confidence.

Hermès is ready to meet the challenge of the unsettled international environment that lies before us in 2008, and to offer its clients objects which are ever more desirable, reliable and meaningful.

The "Indian fantasies" that will inspire our House in 2008, will reveal an Hermès which is light, joyous and playful, an Hermès which speaks to us of profusion, colour, sensuality and beauty. There are a myriad of occasions which lie before us, ready for surprise and enchantment.

Bertrand Puech and Patrick Thomas.

**Patrick Thomas**
Chief Executive Officer

Émile Hermès SARL
Gérant,
represented by Bertrand Puech

# Introduction to the Group

# Group management

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 is managed by the Executive Chairmen with the support of an Executive Committee formed by a team of five Managing Directors, each of whom has well-defined areas of responsibility.

Executive Committee

## EXECUTIVE CHAIRMEN

**Patrick Thomas**
Executive Chairman

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

## EXECUTIVE COMMITTEE

**Patrick Thomas**
Executive Chairman

**Christian Blanckaert**
Managing Director
International Affairs

**Mireille Maury**
Managing Director
Finance & Administration

**Pierre-Alexis Dumas**
Artistic Director

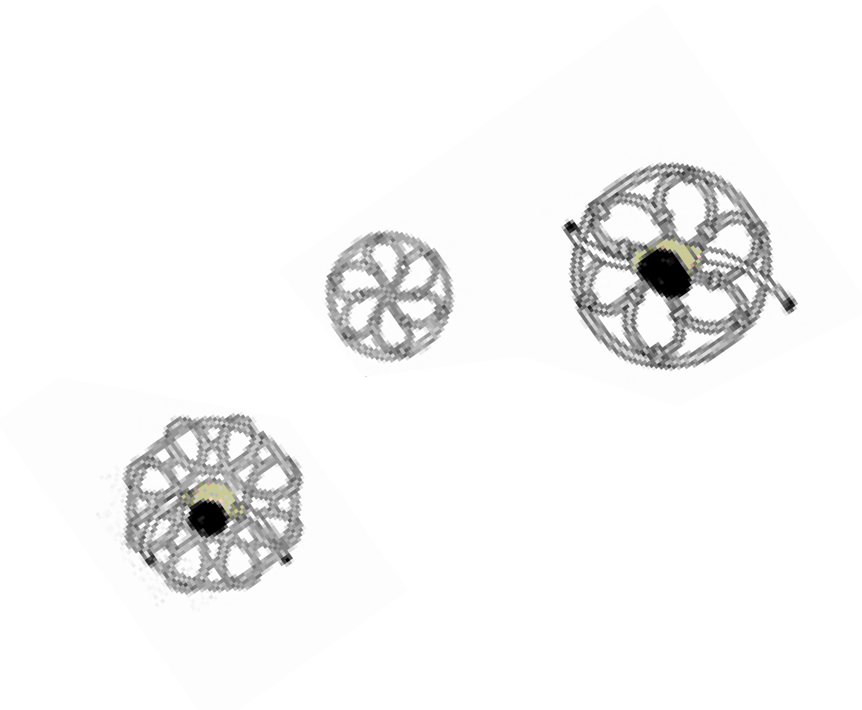
**Patrick Albaladejo**
Deputy Managing Director
Strategic Development
& Corporate Image

**Guillaume de Seynes**
Deputy Managing Director

# ARTISTIC DEPARTMENT

**“There is no creation without memory.”**

The directors of the Artistic Department oversee the creative process at Hermès and ensure its harmonious outcome.
To **Pierre-Alexis Dumas** and **Pascale Mussard**, this means constantly reinventing the Hermès legacy, drawing inspiration from changes in our contemporary world while reaching back to the very foundations of the Hermès tradition.
Through dialogue with Hermès designers and craftspeople, the artistic directors assure all work is in keeping with the very essence of Hermès: creating unique, timeless and sometimes unexpected objects of exceptional quality.



# Management bodies

The Supervisory Board exercises ongoing control over company management. For this purpose, it has the same powers as the Statutory Auditors. Each year, the Supervisory Board determines the proposed earnings appropriation to be submitted to the General Meeting. The Active Partners must consult the Supervisory Board before taking 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 Partners 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 Remuneration Committee's role is to ascertain that the remuneration of the Executive Chairmen complies with the reserves of the Articles of Association and the decisions made by the Active Partner.

Jérôme Guerrand
Chairman of the Supervisory Board

## SUPERVISORY BOARD

**Jérôme Guerrand**
Chairman

**Maurice de Kervénoaël**
Vice-Chairman

**Ernest-Antoine Seillière**
Vice-Chairman

**Frédéric Dumas**
**Julie Guerrand**
**Agnès Harth**
**Renaud Momméja**
**Robert Peugeot** [1]
**Éric de Seynes**

## AUDIT COMMITTEE

**Maurice de Kervénoaël**
Chairman

**Charles-Éric Bauer**
**Julie Guerrand**
**Éric de Seynes**

## REMUNERATION COMMITTEE

**Ernest-Antoine Seillière**
Chairman

**Bertrand Puech**

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 takes all decisions pertaining to strategic options, to consolidated operating and investment budgets, and to 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.

## ACTIVE PARTNER

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

**Bertrand Puech**
Executive Manager, Chairman [2]
and Member of the Management Board

**Olivier Dumas**
Vice-Chairman [3]

**Patrick Guerrand**
Vice-Chairman

**Marie-France Bauer**
**Sandrine Brekke** [2]
**Thierry Dumas**
**Hubert Guerrand**
**Xavier Guerrand** [4]
**Agnès Harth**
**Isaline Momméja**
**Pierre de Seynes**

**1.** Since 24 January 2007 - **2.** Since 5 June 2007
**3.** Since 30 August 2007 - **4.** Since 24 January 2007

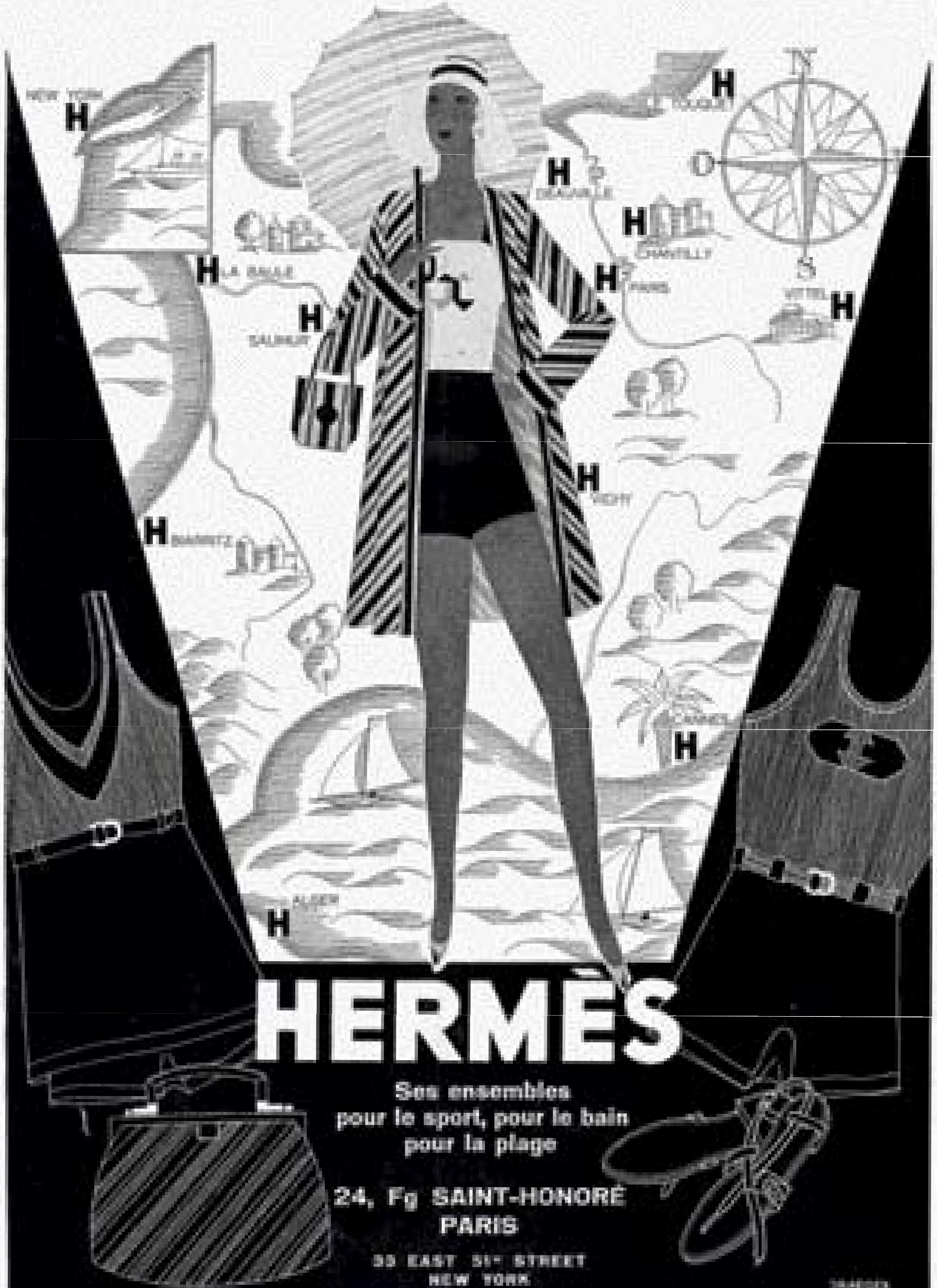

E. HERMÈS
PARIS

# Six generations of craftsmen

Today, Hermès employs 7,455 people worldwide and has 267 exclusive stores, 156 of which are directly operated. Although it has achieved international stature, Hermès has never lost its human touch and still nurtures a tradition of fine craftsmanship.

One of the first Hermès saddles.
Conservatoire des Créations Hermès.

Thierry Hermès, a harness-maker, set up his business in Paris in 1837. Five generations of his descendants have worked to build up the Hermès Group. In 1880 his son transferred the family concern to a now-famous address, 24 Faubourg Saint-Honoré, where he branched out into saddlery. 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 to assemble a private collection, which would become a source of inspiration for his designers. During the 1950s, 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 instilled fresh vigour into 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 and Pascale Mussard. Today, Hermès is active in fourteen different areas: 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 and traditional craftsmanship.


HERMÈS
Ses ensembles
pour le sport, pour le bain
pour la plage
24, Fg SAINT-HONORÉ
PARIS
33 EAST 51st STREET
NEW YORK

**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.**

1837
- Harnesses

1867
- Saddles

**Circa 1900**
- *Haut à courroies* bag

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

1937
- Silk scarves

1938
- *Chaîne d'ancre* bracelet
- First garment with 'silk scarf' pattern

1949
- Printed silk ties

Advertisement in *Biarritz Illustré*, August 1930.

Enamel bracelets

Created in 2004, the *Hermessence* collection
was augmented by a seventh fragrance in 2007: *Brin de Réglisse.*

**1951**
- *Eau d'Hermès*

**1954**
- Ashtrays
- Bath mats

**1961**
- *Calèche* perfume

**1968**
- *Twillaine* knitwear and silk scarf garment

**1969**
- *Constance* handbag

**1970**
- *Équipage* fragrance for men

**1972**
- Hermès shoes for women

**1974**
- *Amazone* perfume

**1976**
- First complete men's ready-to-wear collection
- Enamel bracelets

**1979**
- *Eau de Cologne Hermès*, renamed *Eau d'Orange Verte* in 1997

**1980**
- Pleated scarvess

**1982**
- John Lobb, ready-to-wear shoes

**1983**
- *Clipper* watch

**1984**
- *Pivoines* service in porcelain
*Parfum d'Hermès* perfume

**1985**
- Silk gavroche scarf

**1986**
- *Bel Ami* fragrance for men
- *Toucans* service in porcelain
- *Pippa* furniture line

**1993**
- *Oxer* saddle
- Cristal Saint-Louis *Bubbles* crystal tableware

**1994**
- The soft bag range
- *Touareg* jewellery

**1995**
- *24 Faubourg* perfume
- *Fourre-tout* bag
- *Sadhou* diamond ring

**1996**
- *Fanfare* crystal glasses
- *Charnière* steel flatware
- *Harnais* watch
- Puiforcat *Nantes* flatware

*Quick* shoes for women.

*Rouge H Cape Cod* watch on twice-round watch strap in calfskin.

*Jeu des omnibus et Dames blanches Silkypop* bag in silk twill and Skipper buffalo.

1997
- Hermès shoes for men

1998
- *Herbag* bag
- Creation of new fabrics: *Amazonia* and *Crinolin*
- Twice-round watch strap
- *Rocabar* fragrance for men
- *Quick* trainers
- Puiforcat *Wave* flatware

1999
- Creation of a new fabric: *Vibrato*
- *Belt*, *Espace*, *Sésame*, and *Kepler* watches
- *Hiris* fragrance for women

2000
- *Rouge Hermès* perfume
- *Corlandus* dressage saddle
- *Comète* flatware
- *Nil* and *Les matins de l'étang* porcelain
- *Tandem* watch

2001
- Creation of *Détail* silk scarves
- *Onde* flatware
- *Nomade*, *Nomade Boussole* and *Cape Cod Deux Zones* watches
- *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* perfume
- *Twilly* in silk twill
- *Dressage* men's automatic watch in gold
- *Étrivière* briefcase

2004
- *Eau des Merveilles* perfume
- *Barénia* watch
- *Brasilia* jumping saddle
- *Cheval surprise* silk twill scarf
- *Skipper* bracelet in silver with silk cord
- *Hermessence* fragrance collection

2005
- *Herlight* suitcase
- *Heeboo* bag
- *Kelly 2* watch
- *Un Jardin sur le Nil* perfume
- *Balcons du Guadalquivir* porcelain

2006
- *Mirage* belt
- *Cape Cod 8 Jours* watch
- *Terre d'Hermès* fragrance for men
- *Paris-Bombay* bag
- *Cheval d'Orient* service

2007
- *Lindy* bag
- *Silkypop* bag
- *Kelly* line of small leather accessories
- *Carré 70* in vintage silk
- *Kelly Calèche* perfume
- Jewellery in rose gold and brown diamonds
- *Fil d'argent* porcelain

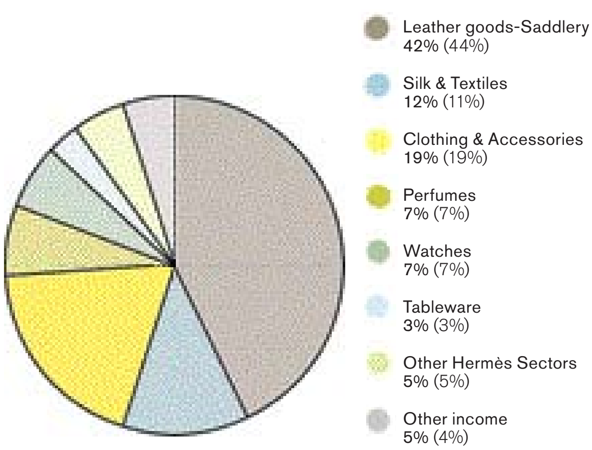
# Key figures

## Key consolidated data (in millions of euros)

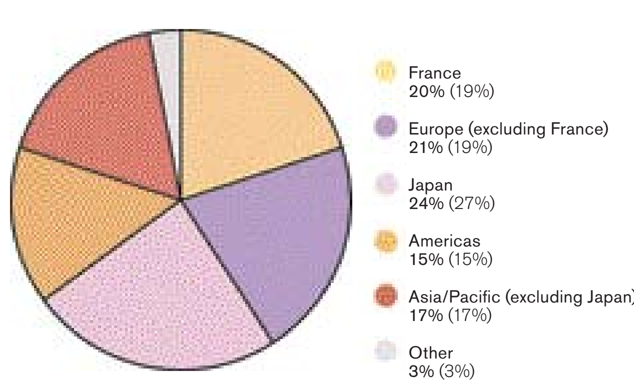
| | 2007 | 2006 | 2005 | 2004[1] | 2003 |
|---|---|---|---|---|---|
| Sales | 1,625.1 | 1,514.9 | 1,427.4 | 1,331.4 | 1,230.0 |
| Recurring operating income | 414.5 | 401.1 | 383.5 | 357.1 | 332.8 |
| Operating income | 423.7 | 415.2 | 383.5 | 357.1 | 332.8 |
| Net income - Group's share | 288.0 | 268.4 | 247.0 | 213.9 | 216.8 |
| Operating cash flow[2] | 356.6 | 321.7 | 305.9 | 291.7 | 258.7 |
| Capital expenditure and investments (excl. financial investments) | 155.9 | 134.3 | 118.5 | 118.8 | 94.2 |
| Shareholders' equity after minorities (before appropriation) | 1,462.4 | 1,409.0 | 1,380.2 | 1,272.2 | 1,159.0 |
| Net cash position | 480.5 | 538.2 | 584.7 | 565.3 | 454.2 |
| Restated net cash[3] | 485.5 | 536.3 | 584.5 | 534.6 | 454.2 |
| Economic value added[4] | 196.5 | 197.7 | 188.0 | 146.6 | 140.7 |
| Return on capital employed (ROCE)[5] | 25% | 26% | 27% | 25% | 23% |
| Number of employees | 7,455 | 6,825 | 6,150 | 5,871 | 5,594 |

1 2004 figures restated under IFRS.
2 After cost of debt and tax.
3 Restated net cash includes non-liquid financial investments and borrowings.
4 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 requirements).
5 Operating income (after tax on operating income) as a percentage of average capital employed.

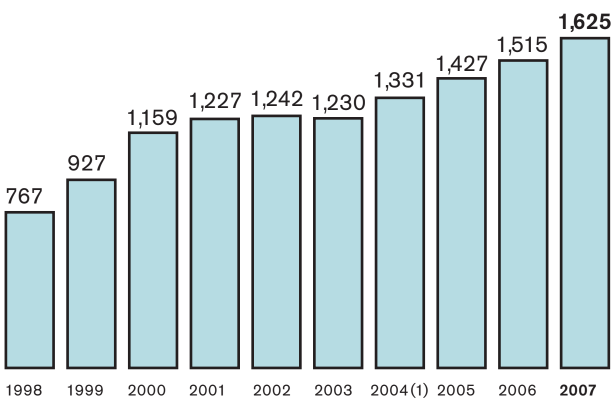
## Breakdown of sales by sector 2007 (2006)




## Breakdown of sales by region 2007 (2006)

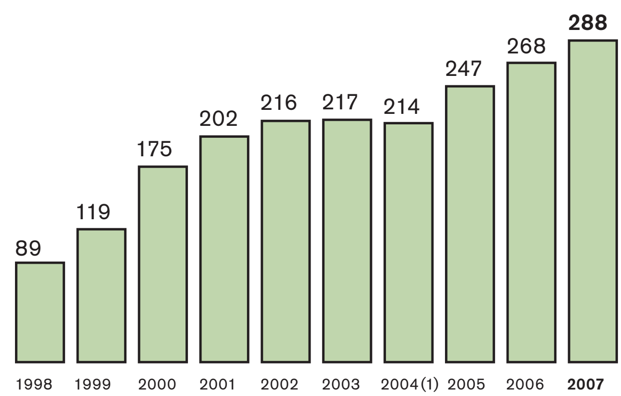


## Consolidated sales (in millions of euros)



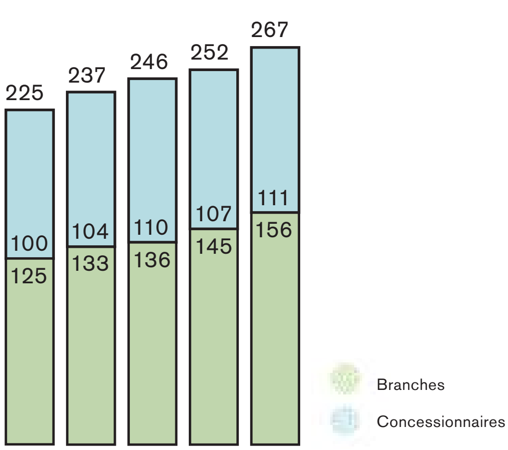

(1) 2004 figures are restated under IFRS.

## Consolidated net income (Group's share) (in millions of euros)

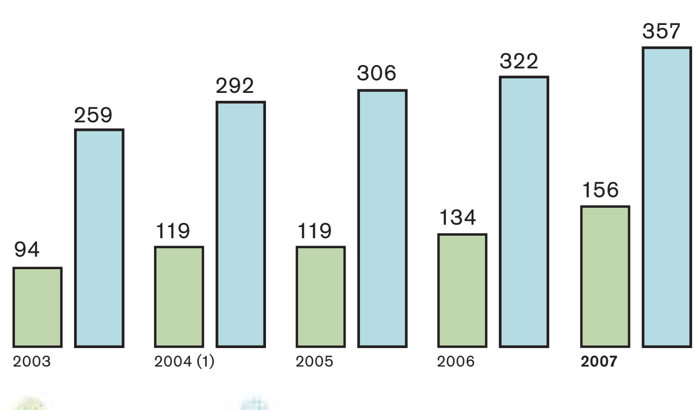



(1) 2004 figures are restated under IFRS.

## Number of exclusive retail outlets




## Investments (excl. financial investments) and cash flow (in millions of euros)



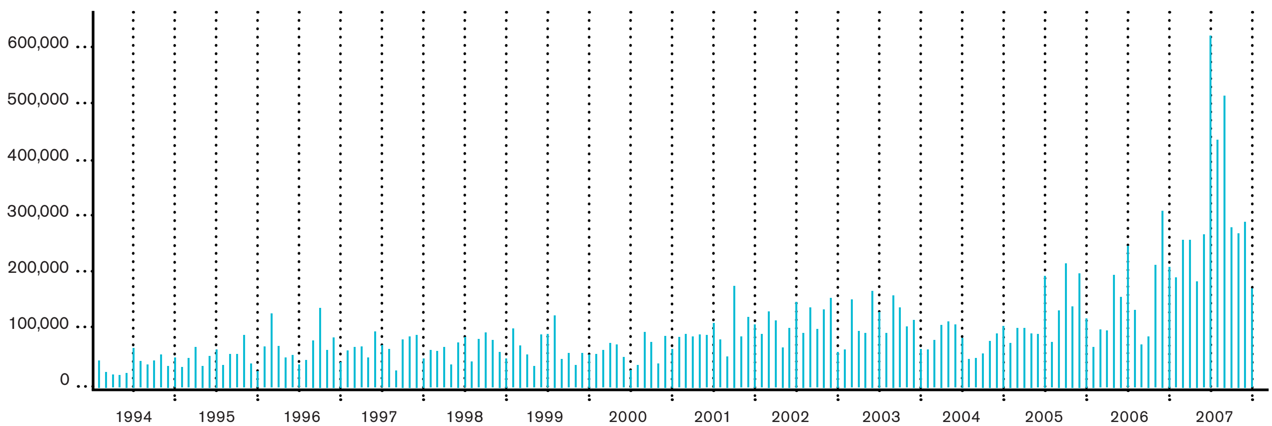

(1) 2004 figures are restated under IFRS.

## Key stock market data

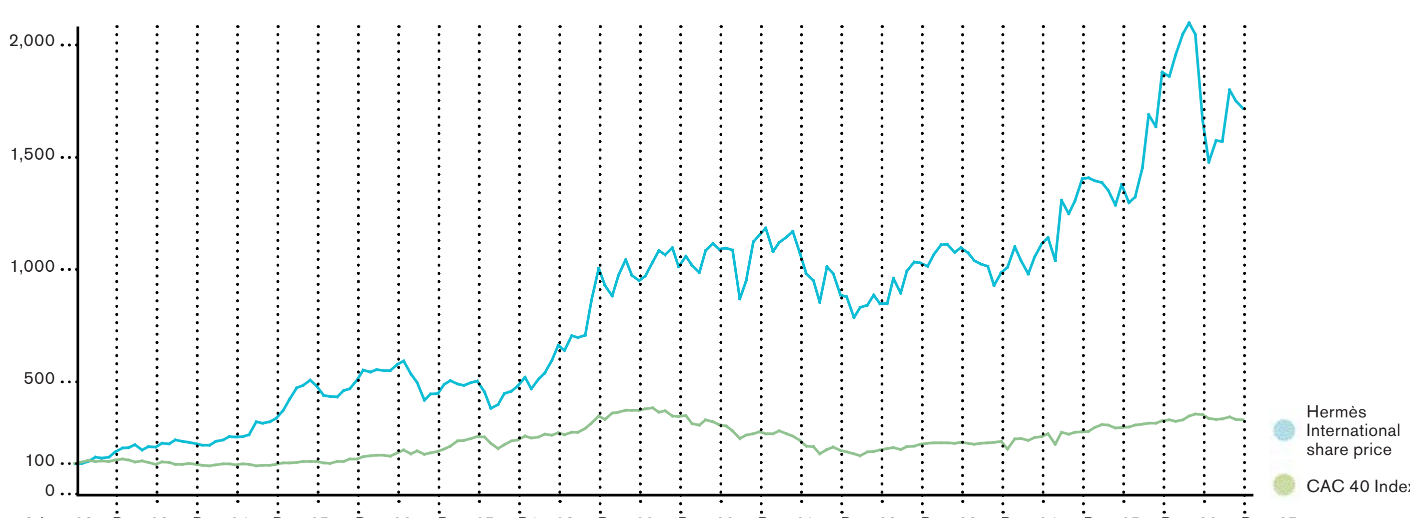
| | 2007 | 2006[1] | 2005[1] |
|---|---|---|---|
| Number of shares at 31 December | 106,089.214 | 106,874.814 | 109,001.562 |
| Average number of shares (excluding treasury shares) | 106,143.973 | 107,031.756 | 108,967.464 |
| Market capitalisation at 31 December | €9.17 bn | €10,13 bn | €7.81 bn |
| Earnings per share (excluding treasury shares) | €2.71 | €2.51 | €2.27 |
| Dividend per share | €1.00 | €0.95 | €0.83 |
| Average daily trading volume over the month | 325.714 | 166.147 | 136.074 |
| 12-month high share price | €108.70 | €97.00 | €71.63 |
| 12-month low share price | €70.00 | €59.40 | €47.03 |
| 12-month average share price | €90.12 | €71.21 | €56.60 |
| Share price at 31 December | €86.44 | €94.75 | €70.43 |

[1] After 3-for-1 stock split applied to comparative figures.

## Average daily trading volume (number of shares)




## Hermès International share price[2]/CAC 40 Index (Base 100: 3 June 1993)




2 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 54.

# Simplified organisation chart at 31 December 2007

## Hermès International

### Hermès Sectors (production and distribution)

**Leather goods-Saddlery and Other Hermès Products**
- **Hermès Sellier**
- **Maroquinerie de Saint-Antoine**
- **Maroquinerie de Sayat**
- **Ganterie de Saint-Junien**
- **La Manufacture de Seloncourt**
- **La Maroquinerie Nontronnaise**
- **Manufacture de Haute Maroquinerie**
- **Maroquinerie de Belley**
- **Maroquinerie des Ardennes**
- **Hermès Intérieur & Design**

**Textiles**
- **Holding Textile Hermès (Bucol)**
  Ateliers A.S. (Enoly)
  Créations Métaphores (Verel de Belval - Le Crin)
  Établissements Marcel Gandit
  SIEGL
  Société Nontronnaise de Confection
  Sport-Soie

**Watches**
- **La Montre Hermès**

**Perfumes**
- **Comptoir Nouveau de la Parfumerie**

**Tableware**
- **Castille Investissements**
  Compagnie des Arts de la Table
  (La Table Hermès - Puiforcat)
  Compagnie des Cristalleries de Saint-Louis

**Footwear**
- **John Lobb**
- **JL & Co**

### Main equity investments

**Perrin & Fils**
39.5%

**Jean Paul Gaultier**
35%

**Vaucher Manufacture Fleurier**
21%

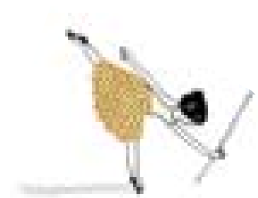
## Hermès distribution

**Europe**
- **Hermès Benelux - Scandinavie**
- **Hermès GB**
- **Hermès GmbH**
- **Hermès Grèce**
- **Hermès Iberica**
- **Hermès International Portugal**
- **Hermès Italie**
- **Hermès Monte-Carlo**
- **Hermès Prague**
- **Hermès Suisse**

**Americas**
- **Hermès Argentina**
- **Hermès Canada**
- **Hermès de Paris (Mexico)**
- **Hermès of Paris (USA)**
- **Saint-Honoré Chile**

**Asia-Pacific**
- **Herlee**
  Saint-Honoré Shanghai
  Commercial & Trading
- **Hermès Australia**
- **Hermès Japon**
- **Hermès Asia Pacific**
- **Hermès South East Asia**
  Boissy Retail
  Hermès Korea
  Hermès Retail (Malaysia)
  Hermès Singapore (Retail)
  Saint-Honoré (Bangkok)

**Tanneries**
- **Soficuir**
  T.C.I.M.
  Exocuirs
  Louisiane Spa
  Michel Rettili
  R.T.L.
- **Gordon-Choisy**



# Review of operations

# General trend

In 2007, sales rose by 7.3% on a reported basis and by 12.5% at constant exchange rates. Earnings per share advanced by 8.2%.

The Hermès Group's sales came to €1,625.1m in 2007. They expanded by 12.5% at constant exchange rates, driven by stronger growth, which reached 16.2% in the second half. At current exchange rates, growth was held down to 7.3% due to a severe adverse currency impact. Over the year, sales growth on a like-for-like basis and at constant exchange rates was 10.8%, adjusted for the acquisition of the remaining shares in the Soficuir group.

**Growth across all continents (like-for-like, at constant exchange rates)**

The distribution network continued to expand in 2007, with over 40 stores opened or renovated, including 25 Hermès branches.

Business momentum remained strong throughout the year, in both Europe, where sales rose by 14%, and in the Americas, where growth accelerated to 14% over the year following an excellent fourth quarter.

Business was less buoyant in Japan, where sales moved up 3%. Rapid expansion in China fuelled solid growth of 15% in Asia excluding Japan.

**All segments registered growth (like-for-like, at constant exchange rates)**

The new collections presented by all business segments were extremely well received by customers.

Leather Goods and Saddlery delivered growth of 8% in 2007, driven by sales of leather bags, which jumped 16% over the year.

Sales of Silk & Textiles surged 16%, as did those of "Other Hermès Sectors", encompassing Jewellery and Art of Living. Growth was 13% in Clothing & Accessories and 20% in Perfumes.

In Tableware, sales remained on an uptrend, with a jump of 17%, while in Watches, they edged up 1%.

**Earnings growth**

Recurring operating income advanced by 3.4% year-on-year to €414.5m from €401.1m in 2006.

After net financial income, which expanded by €12.6m, and including an exceptional gain of €9.2m from the disposal of the remaining Leica Camera AG bonds, the Group's consolidated net income rose by 7.3% to €288m from €268.4m in 2006.

The net margin was stable at 17.7%.

Earnings per share moved up 8.2%.

At constant exchange rates, operating income would have advanced by 14.4% and net income, by 18.2%.

# H BOX

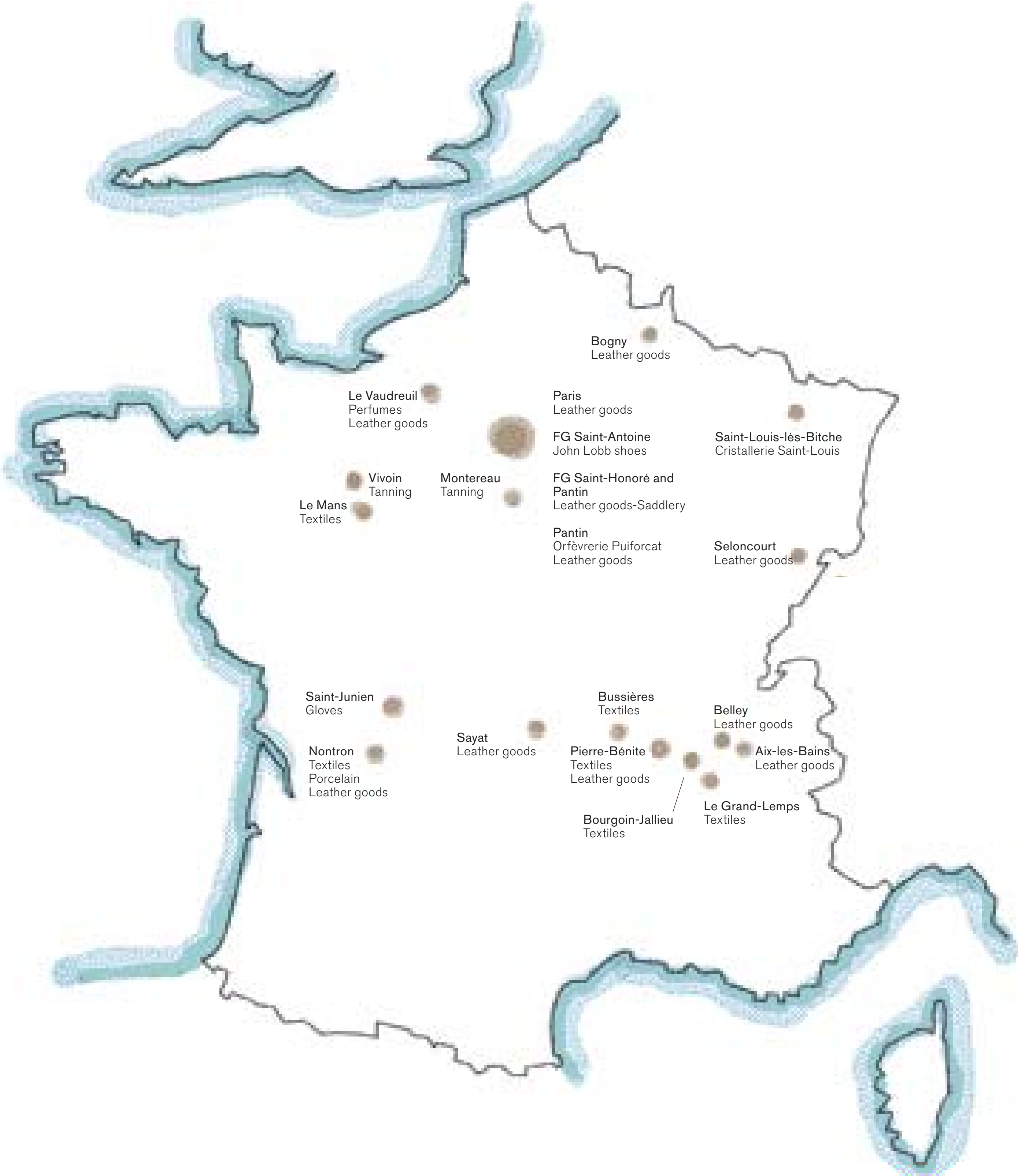
**Persistently high investments in 2007**
Hermès' investments came to €156m in 2007. They were dedicated primarily to expanding the distribution network and increasing production capacity.
In keeping with its strategy of controlling its know-how, in July 2007, Hermès International, which already owned 49% of Soficuir, a group specialising in selecting, buying and tanning exotic skins, acquired the remaining shares in that company.
Hermès also bought back €101m of its own shares and cancelled €73m of these during the year.

Cash flow rose to €356.6m in 2007, 10.8% above the €321.7m registered in 2006.

**Many new jobs created**
Hermès had 7,455 employees at the end of 2007, following the addition of 630 new staff members, including nearly 230 from the consolidation of the Soficuir group. Most of the other new employees were hired to fill new jobs in production and sales.

## Creative spirits in motion

This singular "picture box" is the result of Hermès Artistic Directors Pierre-Alexis Dumas and Pascale Mussard's quest to invent a new form of patronage for video artists, whose work is a consummate expression of movement. With the help of architect Didier Fiuza Faustino, they conceived a mobile projection space, designed to provide the ultimate screening experience for ten or so viewers.
The works projected on the H Box big screen are commissioned and produced by Hermès from eight video artists of diverse cultural and national backgrounds. Each year, half of the programme will be replaced with the work of four new artists.
Hosted by major contemporary art venues, the H Box will travel the world, bringing the arts to a wide range of audiences and gazes.




Hermès operates thirty-three production units (on twenty-six sites), twenty-two of them in France. It also has four sites outside France: one in Italy, one in Switzerland, one in the United States and one in Great Britain.

# Activity by sector

At Hermès, each métier, or business sector, represents a special set of skills and techniques related to a particular family of products. Every year the collections, which already comprise some 50,000 references, are enhanced with 400 exquisite new items, all designed and created within the Group. This dynamic of creation and innovation brought strong growth to all métiers in 2007.

## LEATHER GOODS

**Leather goods and saddlery are the historical foundation of Hermès, and currently account for 42% of Group sales. The products range from handbags, luggage, and diaries to small leather goods and equestrian items. In 2007, sales reached €675 million, up 8% at constant exchange rates.**

Drawing on its roots in harness- and saddle-making, – the source of its exceptional savoir-faire, – Hermès Leather Goods combine tradition and innovation to create products that resonate with their times. From the world of the horse-rider to that of the traveller, this sector owes its inspired evolution to a constant, fluid exchange between designers and craftsmen.
In 2007, Hermès' leather products were made by more than one thousand seven hundred saddle makers and leatherworkers in some ten workshops in Paris, Pantin, and other parts of France. These master craftsmen, carrying on the traditional methods of saddlery, create objects of truly exceptional elegance and quality. Their skilful mastery, combined with an extremely rigorous leather selection process, makes Hermès products unique. These are always available in a variety of sizes, colours, and materials.

With demand constantly outstripping supply, the Group chose to expand its production capacity in 2007. Among others, the Sayat, Seloncourt, and Belley leather workshops were renovated or enlarged. At the same time, in line with its growth strategy for this key sector, Hermès pursued its training and skills enhancement programmes for personnel. In 2007, our workshops welcomed nearly 200 new employees.

Above: Small bag in flannel and *Barénia* calfskin.
Bottom: Messenger bag in *Clémence taurillon* calfskin.

**Bags and luggage**

One of the important creations of 2007 – the year of dance – was the *Lindy* bag, an expression of pure sensuality. The handles of this roomy bag, crafted of rich, soft leather, are located on the two smaller ends of its oblong form to preserve the supple drape of the front and back. The unusual positioning of the handles endows the bag with an original, elegant spirit and gives it a polygonal shape with a large, very practical opening. An ingenious sliding strap system allows the bag to be carried over the shoulder, held against the body or in the hands, depending on one's mood.

Combine leather and printed silk, two of the House's emblematic materials, and what do you get? The charming and playful *Silkypop* bag. Unzip the leather case and out pops a clever surprise: a colourful silk bag that becomes a fun, practical accessory. This take-anywhere companion is sure to become a favourite item, as the bag comes in a variety of colours and prints that change with the seasons.

The equestrian world was evoked, too, with felt, a material traditionally used for saddlecloths or horse gaiters. Here, it lends its soft firmness to two lines, *Feudou* and *Camail*. The *Camail* bag plays with the aesthetic codes of riding, with adjustable striped or leather straps, while a coloured eyelet gives a glimpse of the exterior pocket.
*Steve*, the symbol of relaxed elegance, is a new men's line that can be adapted to any lifestyle. The messenger bag holds the city dweller's computer and papers, while the travel bag is ideal for more nomadic souls.
To celebrate its tenth anniversary, the *Victoria* luggage line welcomed the functional and sophisticated *Fourre-tout 35* to its ranks. This lightweight, practical bag can be taken anywhere and used as a sports tote, handbag or briefcase, depending on the occasion.

# THE LINDY BAG

**"And then it came to me: I could reverse the handles…"**

"It all began with a very simple observation", recalls Frédéric Vidal, who designed the *Lindy* bag. "With a classic model, you have to hold your arm away from you to keep the bag parallel to your body, and I was looking for a more natural, less restrictive posture. So I put the handles on either end of the bag."
This change to the bag's architecture produced an unexpected result. "While working on the prototype in 2006, I realised that the bag folded in on itself in a very elegant way. The front and back of the bag were freed, taking on a supple drape and the curves that characterise the Lindy. And that's how the model was born."

**This inimitable allure soon inspired its name, which evokes sensuality, freedom, and quirky charm.**
A wide opening, two lateral pockets on the outside of the bag and a free-moving strap attached to the handles. In spite of its seemingly modest proportions, the *Lindy* is a roomy bag, and very easy to use. At once structured and supple, it is easy to carry and an indispensable companion for all occasions.

**To accomplish this unique mix of curve and rigidity, and to set off the design, the Lindy requires supple materials.**
The *Lindy* was first launched in *Clémence taurillon* leather, *Swift* calfskin and in a combination of *toile H* and *Swift* calfskin. Starting in winter 2007, it was made available in *Evergrain* and ultra-supple crocodile, a very refined material borrowed from ready-to-wear collections.

The bag closes with an elegant clasp, inspired by a saddle tack and engraved with the House name. "With its bold personality, the *Lindy* is a perfect vehicle for the Hermès spirit: it plays with tradition, offers new options… all with profound respect for the House's emblematic savoir-faire and materials."

Top: *Cochon*, *Hérisson* and *Tortue* coin purses in the *Arche de Noé line*.
Bottom: *Brasilia* jumping saddle.

**Diaries**

This year saw three new additions to our family of notebooks and refillable diaries. The *Ex-libris* is branded with the House's emblem. The light-as-a-feather *Gazar* is decorated with a perforated H insignia. A note of humour has been added to the *Tie bloc* notebook, which now sports a tie-shaped leather flap.

**Small leather goods**

Small leather goods are sized to "slip into your bag". The *Kelly* line is the newest addition to the family, added in 2007 and featuring models decorated with straps, a flap, a pearly clasp, or the famous *clochette*... little nods to the legendary bag. The new range includes miniature organisers, wallets and key-rings and is already available in four materials, including *Evercalf* calfskin.
New models were added to other lines, like the *Béarn* miniature wallet, the *Azap* business card holder, and the *Socrates* wallet in the *MC²* line. In 2007, the *Arche de Noé* line of fanciful coin purses included a pig *(Cochon)*, in honour of the Chinese New Year, a tortoise *(Tortue)* and a hedgehog *(Hérisson)*.

**Riding gear**

The saddle is the emblem of Hermès' original métier. With it go a number of accessories, including clothing and equipment for horse and rider. Our renowned line is intended for both professionals and amateurs.
In equestrian circles, Hermès is a tradition and, at the same time, one of the riding world's most audacious innovators. The *Élastique* bridle, whose novel structure limits the pressure exerted on the horse's neck, is 2007's testament to this innovative spirit. The *Brasilia* saddle, created in cooperation with Brazilian horseman Rodrigo Pessoa in 2005, proved its success in 2007: it was with this model that American rider Kent Farrington qualified for the 2008 World Cup.

*Kelly Secret* notebook in *Swift* calfskin.

Men's ready-to-wear collection, autumn-winter 2007.

## CLOTHING & ACCESSORIES

**Clothing & Accessories is the Hermès Group's second-largest business line, accounting for 19% of its consolidated sales. The sector generated sales of €315 million in 2007, a rise of 13% at constant exchange rates.**

### Women's ready-to-wear

Jean Paul Gaultier has been designing women's ready-to-wear for Hermès since the autumn-winter 2004 collection. Faithful to the Hermès spirit, he mixes materials in new, inventive ways for each new collection.

Our major classics took the spotlight this year, their structured shapes revisited with a playful touch. Menswear, altered and enriched with gauzy fabrics like chiffon and georgette, inspired a style at once comfortable and highly feminine. Suits stepped out with long or short fitted coats, nipped at the waist for a more refined shape. In a season highlighted by a resurgence of dresses and skirts, the *Carcoat* was a standout, both functional and elegant, its form revealing a pleated-look skirt. Customer interest in polo dresses, with their relaxed, urban look, opens the door to a new direction in design.

Beautiful fabrics always meet with success, and with good reason. Along with "tweeded", *double face* and *Jacquard* H cashmeres, long cardigan knits were highly popular. Jersey items, a mainstay of the spring-summer collection, were decorated with contrasting topstitching, echoing an equestrian aesthetic. For winter, leathers brought new sophistication to the trench coat in soft crocodile skin or, for everyday wear, in patinated calfskin.

### Men's ready-to-wear

Designer Véronique Nichanian has been dressing the Hermès man for nearly twenty years, contributing to the House's prominence in men's fashion.

The spring-summer collection offered sleek urban shapes and contrasting volumes that mixed fabrics in solid colours, stripes, miniature checks or prints.

The colour range featured mineral and vegetable tints (putty, steel, slate, cactus) set off by lighter accents (acidic, wisteria, lagoon, white). The collection showcases exceptional fabrics and refined details

## ULTRA-SUPPLE CROCODILE

**Elegant paradox**

Crocodile, a refined leather with a unique look, has long inspired designers, but until now, its natural rigidity lent itself more to leather goods than to ready-to-wear. Now, through an exclusive process, Hermès has created an ultra-supple crocodile skin flexible enough meet the demands of textile work.

The skins are re-tanned, thoroughly oiled and then tumbled dry. The result is an astonishingly flexible leather, supple and silky-soft to the touch, reminiscent of dipped lambskin. This exceptional treatment of the scales leaves crocodile skin extraordinarily lightweight, and has allowed for the creation of sensual, supple and highly wearable models.

Top: Calfskin bracelet.
Bottom: Women's ready-to-wear collection, autumn-winter 2007.

with suits in Super 200s wool, jackets in calfskin suede with a "mini-madras" motif or reversible dipped lambskin and *Toilovent* for the sportswear models. This year's star design, the 24 Sport suit, with its pointed collar and gusseted pockets, was an immediate hit, particularly in 100% patinated linen.

The theme of contrast ran through the autumn winter-collection, mingling strictness and sensuality through contrasting colours and unusual fabric combinations. Graphite, ink, chocolate and black gained new momentum with touches of stormy colours, lichen and flashes of pure white. The *Grand Nord* parka, with removable beaver vest and coyote collar, was a highlight of the season, confirming the success of our sportswear lines. Once again, leather took centre stage, from *Barénia* calfskin with contrasting stitching to crocodile or matt lizard skins. Vicuña appeared in collections for the first time ever. Its extraordinary texture was set off in an exclusive straight coat with a removable sheared mink lining. Knits proved very popular, including versions for city wear in extra-fine wool with regimental stripes and casual knits, in cashmere, wool and thrown yak wool combined with *toile tempête*.

## ACCESSORIES

This department comprises enamel and leather jewellery, shoes, belts, gloves and hats.

### Jewellery accessories

Lacquer has taken centre stage in the latest collections. Its vivid array of colours adds playful brightness to cufflinks, mobile telephone ornaments and, of course, to our ever-popular pendants and earrings, whose ranks continue to grow. Horn reaffirmed its appeal among our products with the introduction of new colours for bracelets, pendants, necklaces and barrettes. The *Carnet de timbres* and *Recherche H* bracelets, created in 2007, showed off the infinite pattern and colour

*Isidore* necklace in horn and matt crocodile.

*Pass Pass* boot with removable spat.

Sandals in nubuck calfskin.

variations that can be achieved with printed enamel – a staple in our collections for nearly thirty years.
Tradition and innovation have always intertwined in our leather jewellery, which yet again offered unique and surprising creations like the *Pasha* bracelet in braided leather, the exciting new *Nami* line, and the men's *Poker* bracelet designed by Philippe Mouquet.

**Hermès Shoes**

The women's collection drew its inspiration from the world of dance, our theme for 2007. Lightweight and supple, our *Pretty* ballerina flats and *Osée* sandals are tied with ribbons like the ones worn by prima ballerinas.
The *Parenthèse* boot, which appeared in our advertising campaign, is adorned with braided leather interlacing, evoking the imagery of folklore and the arabesque. Our ever-popular *découpe H* met with continued success in the spring-summer season, brought to new heights with the *Oasis* and *Ottomane* models. Boots, the stars of the autumn-winter season, appeared in a parade of beautiful leathers with exceptional models like the thigh-high *Plus*. For men, our *Origine* espadrilles, present throughout the runway shows, met with great enthusiasm from customers. Well-received too were our new flexible shoe models like the *Odwaldo*, which features an elasticised upper. 2007 was also a year for new classics like the H-embossed *Opus* loafer or our natty *Poker* oxfords, available in five different models. The *Net* and *Ninja* sportswear models, enriched with a surprising new interpretation in Nile crocodile leather are an unquestionable success. The autumn-winter 2007 collection celebrated ten years of men's shoes with a reissue of the *Président* model with an up-to date square toe.

### Belts

The autumn-winter collection set the stage for a veritable revolution in the concept of the Hermès belt: the "kit" was born. With this system of interchangeable buckles, customers can now match their belt to their mood, personalising it with the leather and buckle of their choice. The range was rounded out with models for more elegant wear like the *Odéon*, which knots at the waist, or the *Olga*, whose metal chain rests on the hips. Two bold new items – *Oracle*, with a high, wide waist, and the *Collier de chien* belt – were greeted enthusiastically by both the press and our customers. And this year's technical innovations brought forth the new *Octave* belt, crafted using a water jet cutting system, and a geometrical, refined version of the timeless H-belt adorned with gold and diamonds.

### Gloves

Gloves, in a wealth of materials, offer a touch of elegance in any season. The stars of the 2007 collection were *Olivia* gloves with an *H Évelyne* motif and a model with straight piped seams decorated with saddle tacks, both ingenious twists on the House's traditional codes.
The *Conduite*, crafted in peccary, heralded the much-awaited return of the sport glove. For winter, the *Pôle Nord* muff is available in a number of materials, including glazed lambskin and nutria for incomparable softness.

### Hats

Each season, Hermès puts its unmatched expertise to work for a range of original hat designs to go with its ready-to-wear collections. In homage to the year of the dance, 2007 featured fluid and feminine forms in caps and hats that took the stage beside other timeless models. Our collections were very popular thanks to a focus on materials like leather, Lurex knits, and unusual fabrics.

**Top:** Crocodile belt with silver-plated metal buckle.

**Left:** Gloves in glazed lambskin.
**Right:** Hat in linen drill and *Étrivière* sheepskin.
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Muff in deerskin and *Teddy* lambskin.

# THE CARRÉ 70 IN VINTAGE SILK

**“Our challenge was to rework the legend without losing touch with its memory.”**

The Hermès *carré* turned 70 in 2007. A celebration was in order, but how to fête something that has become such an institution? “A legacy like that is anything but a problem!” responds Bali Barret, the artistic director of Women’s Silks. “On the contrary: it is magnificent grounds for creativity – re-wording the legend, playing with traditional codes to reinvent an object in keeping with its own roots – a truly exciting exercise.”
The result is faithful to the Hermès spirit both in its unusual form, its special feel, and its bold design: the *carré 70* in vintage silk turns convention on its head.
**“Vintage silk is about the patina of time, as if the *carré* had lived another life before this one, or had a memory, had been passed down to you by your mother, or your grandmother…”.**
Its new material is obtained through a complex weave process. “You get a much more supple, softer, more fluid silk, which recreates the feel of an old *carré*, a sentimental object not everyone was lucky enough to inherit – a *carré* whose story is yours alone.”

**“Our inspiration was 100% Hermès for the designs, as well.”**
The six designs created for the *carré 70* were conceived as nods to the Hermès legacy. Three are variations of emblematic designs in new colours, including *Jeu des omnibus et Dames blanches*, the first *carré*, from 1937. The other three are original creations inspired by themes that symbolise Hermès, “the world of horse-riding and that mix of classicism and fancy so uniquely Hermès.”
**“It’s meant for the men and women who come to Hermès seeking today’s *zeitgeist* and are proud to wear it in a new way.”**
The launch of the *carré 70* was received with great enthusiasm, in particular as a response to our younger customers’ expectations. Its smaller size and supple, sensual hand make it easy to wear – both fun and inventive. This “baby brother” is indeed a worthy heir to the *carré* legacy, and should give new momentum to the *carré* collections as a whole.


## SILK AND TEXTILES

**Silk and Textiles are Hermès' third-largest sector, accounting for 12% of Group sales. In 2007, sales of *carrés*, ties and scarves totalled €193 million, up 16% at constant exchange rates.**

Top: *En duo carré* (55 cm x 55 cm) in cotton.
Centre: *Swinging Saint-Germain carré 70* in vintage silk.
Bottom: *Fantaisie à cheval carré 70* in vintage silk.

### The *carré*

The year 2007 was the 70th anniversary of the Hermès *carré*. In seventy years of creativity and history, the *carré*, in its myriad formats and materials, has always stayed abreast of its times. To illustrate this legacy, Hermès has come out with the *carré 70* in a 70 cm x 70 cm format in vintage silk, with a look that suggests the patina of time. Available in six emblematic designs, this new bestseller has charmed a new range of customers seeking a different, lighter angle.
Classic *carrés* (90 cm x 90 cm) in silk twill saw continued growth in 2007, celebrating the Year of Dance with kinetic designs like the *Joséphine danse*, *Belle du Mexique* and *En duo*.
Yet again, accessories yoked together savoir-faire and creativity to bring forth the remarkable *Twist & Silk* scarf line, whose fringes are handmade from printed *carrés*, as well as exceptional pieces like a fringed throw in printed leather, made using a new screen printing technique on dipped lambskin.
This year, Hermès gave a star solo to sensual materials with the gravity-defying *Plume* stole in silk and cashmere chiffon hand-woven from Mongolian fibres.
For a season, the *carré* graciously lent itself to lace-like delicacy, while the *gavroche* scarf was taken to new heights in sable-trimmed chiffon.

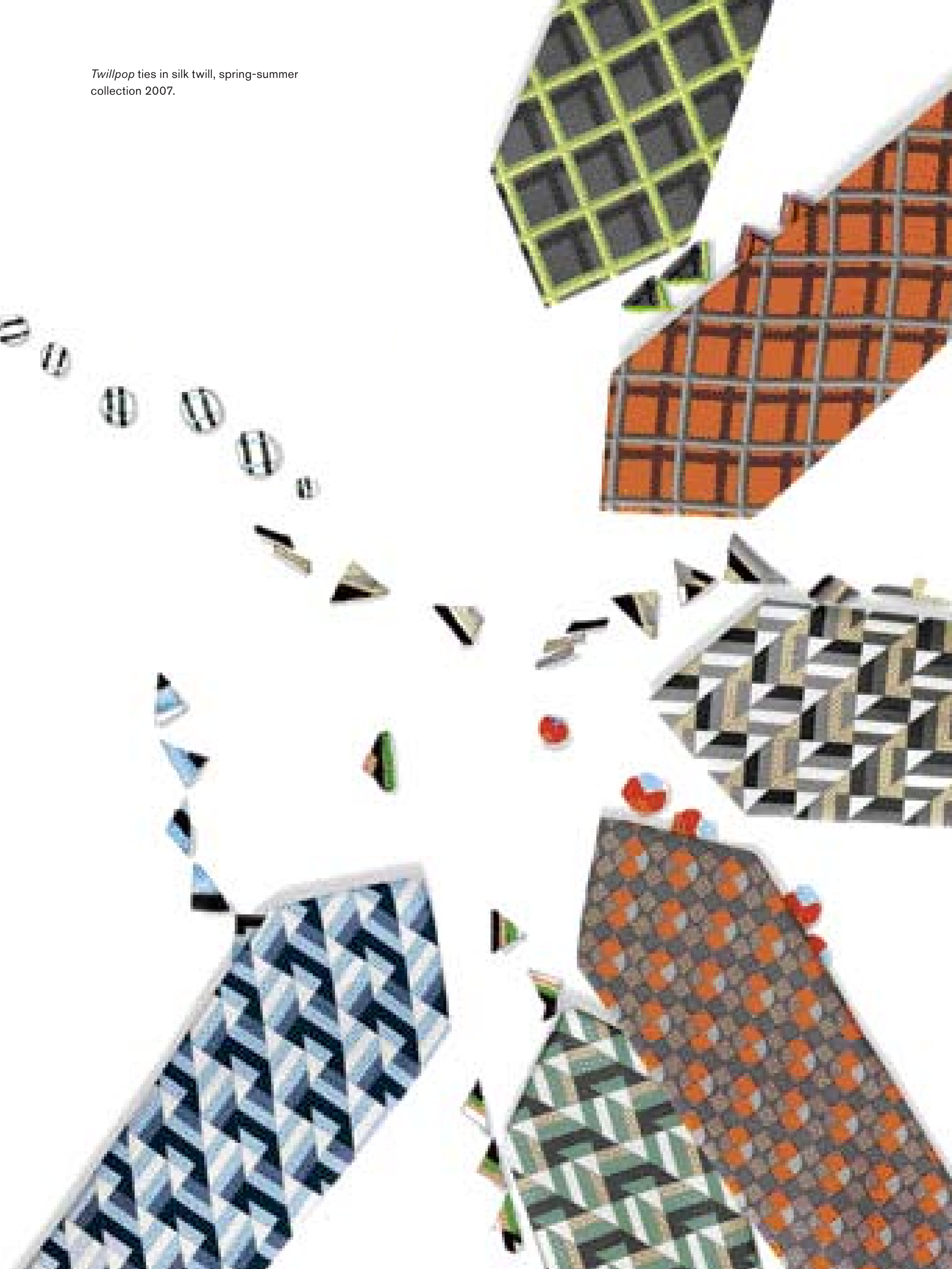
Top: cashmere and nutria scarf.
Bottom: ties in heavy silk.

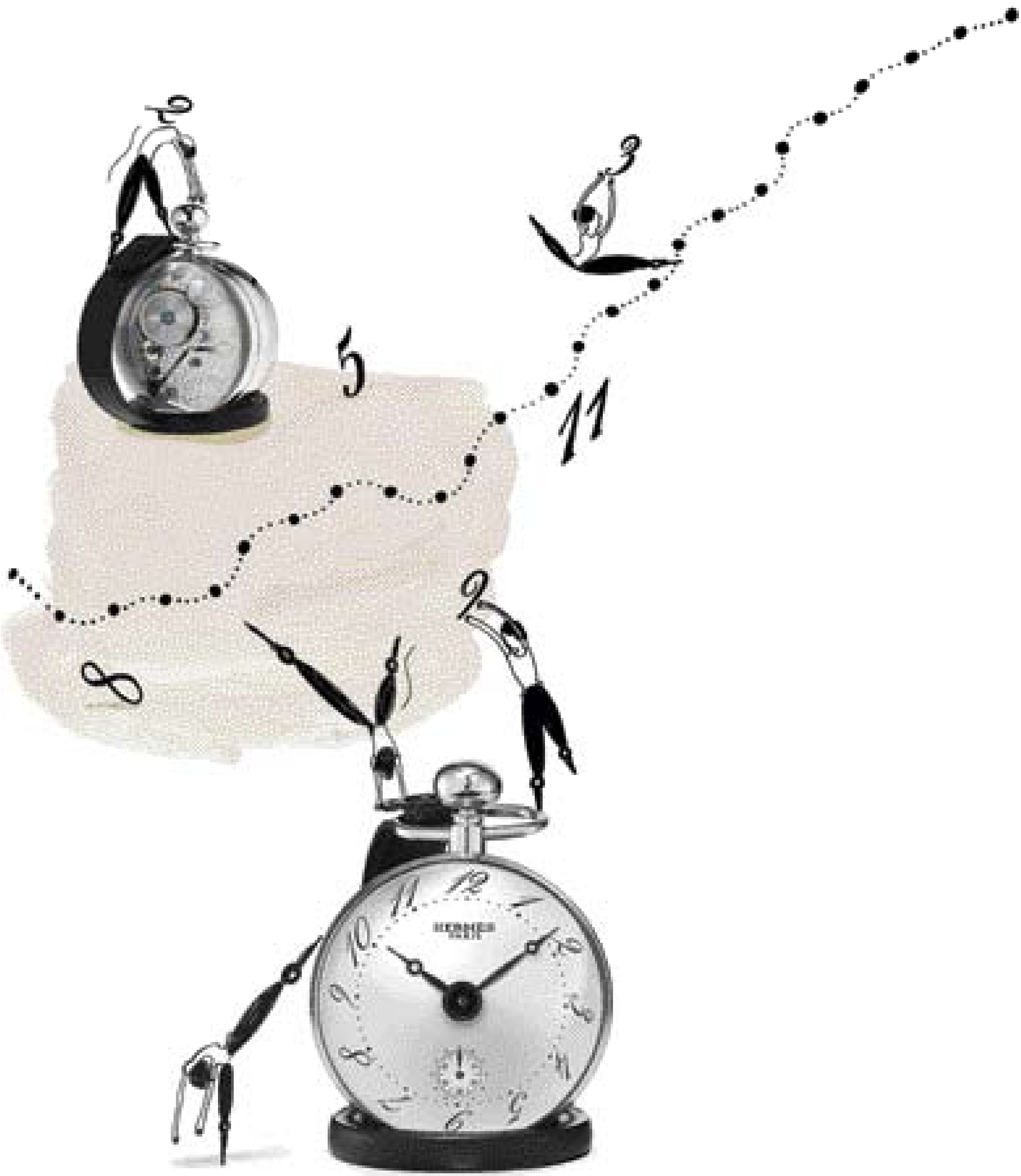
**Ties**

Ties and other textile accessories for men offer something for every style and mood, from completely classic to utterly audacious. The 2007 collection was built around innovative materials, which put the spotlight on creative designs.
The *Twillpop* tie, inspired by 1970s archive drawings where geometric patterns dance to optical rhythms, stepped into the role of new "geometrical fancy print". This same cheery touch presides in the *Liverpool* heavy silk tie, and takes on good luck symbols in the *Lucky* tie. Our classic patterns have been updated in daring colour schemes, while our fancy ties have remained more traditional with smaller patterns and more classic colours, without losing any of their whimsy or freshness. Our five-fold silk knit tie is triumph of technical prowess – minimalist elegance in its purest form. Accessories for more casual days, such as silk, cashmere, or cotton *carrés* or the *losanges* in solid colours, or prints, took on a new masculine elegance.

The *Pur bonheur* in knitted cashmere – a touch of softness – was added to our scarf offering. Men, too, were afforded their exceptional accessories with the *Pôle Nord* scarf in cashmere- and silk-lined nutria

*Twillpop* ties in silk twill, spring-summer collection 2007.






The *Boule* pocket watch in steel and *Barénia* calfskin.

## WATCHES

**With sales at €105 million in 2007 – an increase of 1% at constant exchange rates – this sector generated 7% of the Group's total business.**

New versions of our timeless models – *Clipper*, *Heure H* and *Cape Cod* – brought these lines ever-greater success. Notably, Clipper confirmed its rank as a standout with the launch of the COSC-certified *Chrono Automatique Valjoux* model. Women's watches welcomed a new addition, the *Passe-passe*, which features interchangeable watch straps. The *Arcole mini* and the *Tandem manchette*, two exceptional pieces in gold and diamonds, augmented the jewellery range. Hermès has definitively made a name for itself in the world of fine mechanical watchmaking with the creation of two exceptional timepieces, the *Cape Cod Moon Phases* and *Dressage Annual Calendar*. Both models are fitted with remarkable automatic winding mechanisms developed by Vaucher Manufacture Fleurier.
In honour of the House's 170th birthday, they issued two limited editions of 170 numbered pieces, one in rose gold and the other in white gold, thus winning over an exacting clientele with a love for precision and detail. In line with agreements signed in 2006, Hermès increased its stake in Vaucher to 21%.

Top: The *Cape Cod Moon Phases* watch.
Bottom: The *Dressage Annual Calendar* watch.

# KELLY CALÈCHE PERFUME

**"I wanted to make a perfume as light as an angel's wing, that evoked leather through flowers."**


To compose *Kelly Calèche*, House perfumer Jean-Claude Ellena drew his inspiration from a visit to the Hermès leather vault. "I discovered a world of textures and scents, where the most beautiful skins smelled of flowers!"
He recalled a line from *Jean le bleu*, a novel by Jean Giono: "I remember my father making slippers of angel skin for some thousand-footed god."
This idea of "angel skin" remained his guiding inspiration as he directed his theatre of fragrances.

**Orchestrated by Hermès, *Kelly Calèche* is an encounter between the essence of leather and the spirit of feminine fragrance.**
This perfume "*à fleur de cuir*" – a floral scent that recreates the spirit of leather – is a spirited, mischievous homage to two of the House's most celebrated symbols, the *Kelly* – a bag that is constantly reinvented – and the *calèche* (barouche), the namesake of Hermès first perfume and the House's signature image. Jean-Claude Ellena sought to bring a cheeky, whimsical note to the scent, "to infuse it with *joie de vivre*, light-heartedness, movement… like a kiss of fragrance on the skin."

**The traditional bottle, inspired by a carriage lantern, has been redesigned with an unexpected twist.**
Designer Philippe Mouquet kept the Calèche bottle's slender lines and thick glass base, but he spirited away the stopper. Twist the metal clasp – inspired by the *Kelly* bag – at the neck of the bottle, and a clever mechanism reveals the spray.

***Kelly Calèche* reveals a fresh facet of the contemporary Hermès woman.**
Like a light, playful caress, this new feminine scent is the perfect companion to a woman in motion, irreverent and untamed, with a supple self-assurance, light-hearted and joyful. A free spirit sure of her roots, who blazes her own path.

## PERFUMES

**Hermès Perfumes account for 7% of consolidated sales. They amounted to €119 million in 2007, a rise of 20% at constant exchange rates.**

*Kelly Calèche*, Hermès' latest women's fragrance, emerged in the summer of 2007 from an encounter between our emblematic bag and the world of perfumes. House perfumer Jean-Claude Ellena created a floral-leather fragrance – at once joyous and feminine – to express his memories of the Hermès leather vaults. Philippe Mouquet took the soft, elongated lines of the original *Calèche* bottle and gave them a dressy new twist with a functional top decorated with the *Kelly* bag's signature clasp.
In an elegant sleight of hand, a turn of the clasp slides the bottle top down to reveal the spray mechanism.
All of our perfume lines enjoyed vigorous momentum in 2007. *Terre d'Hermès* enjoys continuing popularity, and the fragrance has taken its place as a Hermès classic. A limited edition *Flacon H* bottle was issued in March to celebrate its first anniversary. The original bottle's designer, Philippe Mouquet, designed a visual interplay of overlapping Hs, which – like the perfume – seem to float toward the sky.
Available exclusively in Hermès stores, the *Hermessence* line for men and women was enriched with a seventh "olfactory poem", *Brin de Réglisse*. At the heart of the scent, the purest lavender is transformed in combination with the deep and sensual perfume of liquorice. This offbeat, enchanting alchemy is echoed in the bottle's leather sheath, in *raisin* box calf, whose sober cutch colour is illuminated with hints of violet.

Top: *Brin de Réglisse*, the seventh fragrance in the *Hermessence* collection.
Bottom: *Terre d'Hermès* eau de toilette in the limited edition *Flacon H* bottle.

# BROWN DIAMONDS

**“We wanted to put some colour in our jewellery...”**

“... Until now, Hermès had never worked with anything but white diamonds. Therefore we needed to break away from our traditional aesthetic, and work with a different set of ideas,” said Axel Dumas, Director of Hermès Jewellery. Pierre Hardy’s research led him to the brown diamond, which immediately seemed like a natural choice.
For Axel Dumas, “it’s an appropriate colour for Hermès, very lively, with a colour scale very similar to natural leather. Combined with rose gold, it takes on very rich tones, and resembles a patinated leather like *Barénia*.”

**“A brown diamond demands much from human hands to fully express its beauty.”**
The diamonds must be stones of the highest quality, with rich dark fire, cut with exacting care by the best diamond cutters.
“We gave particular focus to the cut, because we wanted very luminous diamonds.” The gem setter must then work meticulously to ensure that the stones are set harmoniously, seeking a subtle balance with a thousand shades of brown. It is only then that the jewel begins to take form in the hands of the craftsman. Patience is a must, as “a fine setting is of the essence – it’s what sets the perfect balance between gem and metal.”

**“The brown diamond offers colourful variations on classic models.”**
In addition to the unique pieces created for the reopening of the 24 Faubourg Saint-Honoré store, the Brown diamond collection was launched with three flagship models: the *Quark* ring, pavé-set with 320 diamonds, the *Boucle sellier* bracelet, which is matched to *cocaon* crocodile, and the *Nausicaa* line, designed by Jean-Louis Dumas in 1971 and reinterpreted and re-proportioned by Pierre Hardy in rose gold and brown diamonds.
“At once lively and refined, both mineral and warm, the brown diamond fits perfectly into the Hermès universe.” Popular among customers, the new jewellery line is easier to wear during the day and neatly represents the Hermès look with its “leather” aspect.

## OTHER HERMÈS MÉTIERS

**Hermès derives 5% of its total sales from other métiers, which include jewellery and art of living. In 2007, sales for these business lines totalled €85 million, up 16% at constant exchange rates.**

### Jewellery

Sales, particularly for the gold and diamond collections, ran high all year long. Hermès recast classic pieces in a new collection of jewellery in rose gold and brown diamonds. Combined, the two elements evoke natural leather tones, in a nod to *Barénia*, one of the company's emblematic leathers.

In order to bolster the Hermès offering in ring designs, a new collection of fine gemstone pieces cut to resemble the "Russian edge" studs in our chokers, was brought out in 2007.

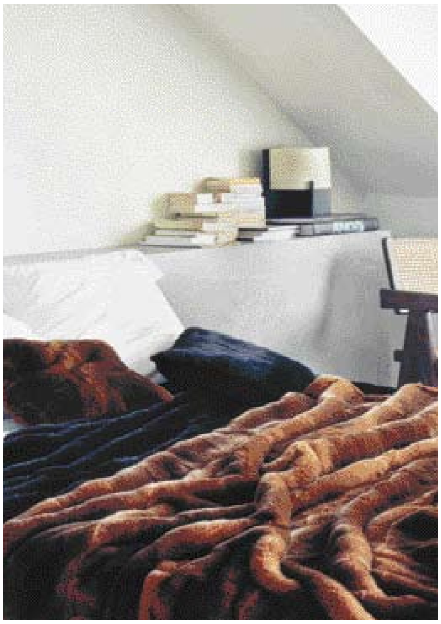
The reopening of the Faubourg store was an occasion to create unique pieces like the *Nausicaa clou d'H* ring, with its extraordinary twenty-carat aquamarine, the *Torsade* necklace, shaded from brown to white diamonds or the exceptional "tutti-frutti" edition of the timeless *Chaîne d'ancre*, dressed for the occasion in pavé-set diamonds mounted on three different colours of gold.

### Art of living

This sector combines a number of ranges with a "spirit of home" approach: textiles for beach or interior, decorative objects, gifts for newborns, furniture, toys, etc. These highly creative collections offer outstanding and original objects for every part of the home.

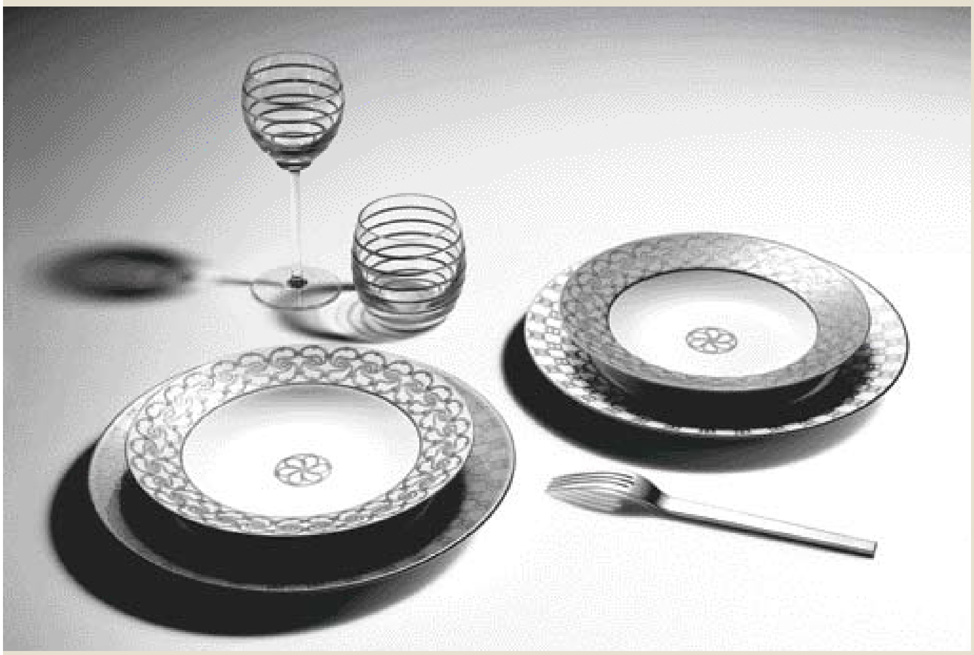
A major highlight in 2007 was Orylag®, a new material of unparalleled softness that spurred new sales with cosy blankets and cuddly toys. The *Pippa* line, created by Rena Dumas in 1985, enjoys great popularity and continues to grow. The collection, motivated by a constant quest for perfection and rare techniques and skills, is a showcase for gorgeous materials. Sales of the timeless Hermès bathroom rug – a legendary item – were spurred by the arrival of new designs and colour schemes. Customers also appreciated our classic models, revisited in subtle plays of grey tones.

**Above:** Yellow gold necklace.
**Below:** plaid throws and cushions in Orylag® lined in goatskin suede



# *FIL D'ARGENT*

**"We wanted something very simple and geometrical; something that stood for our equestrian heritage."**



It all began with the idea of mixing our tableware collections with patterns from Hermès textiles. So it seemed only natural to call upon Henri d'Origny to create such a link between porcelain and fabric. For the artist, whose characteristic buckles decorate countless *carrés* and ties, this project was a first. "I have always found great beauty in Hermès metal pieces – the clasps, the stirrups, the bits – so I used three chain designs to compose an interplay of different interlocked metals, all using a "*fil d'argent*" (silver thread) whose gauge remained constant. Only the number of rows and their path varied depending on the space they occupied."

**"Metal arabesques, brought to new heights by the skill of our craftsmen."**

The project represented a real technical challenge for the Hermès workshops, as this metallic effect had never before been achieved on porcelain. A true feat in craftsmanship using chromolithography, a process that prints in multiple layers – six for *Fil d'argent* – with accenting in pure platinum. The resulting "fine metalwork" makes the motif seem so shiny, so tactile, so real, that "you can't help running your fingers over it."

**"It's an invitation to play with tone and harmony, to invent sinuous interplays of coordinating elements."**

*Fil d'argent*, with two luminous tones of clear white and "*drap de cocher*" grey, is composed of pieces specially designed to create an all-platinum collection.
The *chevrons platine* serving dish is sand-engraved using a Hermès-patented technique, and then set off with matt and glossy platinum that adds relief to the designs.
When used with the *Fanfare* crystal service and matching embroidered table linen, this two-tone line offers multifaceted table settings that customers can mix and match at will.

## TABLEWARE

**The Tableware métier encompasses La Table Hermès, Les Cristalleries de Saint-Louis and Puiforcat. Tableware sales grew 17% at constant exchange to €51 million in 2007.**

### La Table Hermès

In 2007, sales by La Table Hermès generated €26 million, up 15% at constant exchange rates. Building on business activity in 2006, its popularity once again reaffirmed that Hermès is in the vanguard of French tableware. Customer enthusiasm continued unabated for the *Balcons du Guadalquivir* porcelain service and for our formal dinner service *Cheval d'Orient* – both collections have been immensely popular since their creation. The launch of the *Fil d'argent* service in the second half of 2007 was a success that bodes well for its future. The service was inspired by the craftsmanship of the *lormier*, or master harness-maker, who crafts metal harness components. Each piece in the collection features a motif of interlinking buckles and arabesques. These interlacing chains are set off using an advanced technique in which platinum leaf is applied in relief to the surface of the piece.

### Les Cristalleries de Saint-Louis

Les Cristalleries de Saint-Louis' sales moved up 13% to €17 million in 2007. Thanks to our continued work to streamline our offering, sales have risen sharply over the last two years.
The classic *Tommy* service, designed in 1928, remains a bestseller, and its continued popularity reflects the brilliance and technical prowess of our master glass workers.
A new collection, *Excess*, was added to our line of table glasses, the mainstay of the Cristalleries' business. The collection, designed by Hervé Van der Straeten, was greeted as enthusiastically as the *Bubbles* collection was in 1992.

Les Cristalleries de Saint-Louis:
15-light *Excess* chandelier.
*Excess* glasses.

# THE MUSÉE SAINT-LOUIS

**Treasure trove**

Designed by the architecture firm of Lipsky + Rollet, the Saint-Louis crystal museum stands within the Saint-Louis manufacturing works, enclosed by thick glass walls and lit by five magnificent crystal chandeliers. Visitors walk up a gently sloping four-level ramp in solid pine nearly a kilometre long that wraps around a period kiln.

The structure evokes a giant-sized set of shelves with some fifteen hundred pieces on display, from the first Saint-Louis glass, which appeared in 1775, to contemporary pieces.

The visit is a learning experience; videos in twenty installations show representative pieces, explain a technique or illustrate a specific style. Visitors are immersed in over two centuries of history and heritage as they ascend through the collection.

On the light fixtures market – which is currently very buoyant – Saint-Louis shines, exhibiting a full range of savoir-faire from its most classic models to contemporary designs like the all-new *Excess*. The MGM Grand Macau casino resort, which opened last December, has four of these dazzling chandeliers, including the *Maharadjah*, whose 140 lights give it a spectacular brilliance. Another highlight in 2007 was the grand opening of *La Grande Place*, a museum dedicated to Saint-Louis crystal in Saint-Louis-lès-Bitche. Four centuries of manufacturing history are showcased in the museum, whose unique architectural design is a backdrop for the magnificent creations of glassmakers past and present and for the manufacturing techniques and highly-prized skills passed down by generations of workers at Saint-Louis.

***Puiforcat***

Puiforcat sales surged by 34% in 2007 to €8 million.

All our flatware lines, from solid silver to stainless steel, were immensely popular throughout the year. The new *Guéthary* and *Virgule* lines were particularly well received. Innovation, a core value at Puiforcat, continued to shine, with the addition of Corian to the new lines. Corian, which recalls Bakelite, is an ideal complement to silver items and halloware, as may be seen in the *Central Park* service. The opening of two new "three-brand" stores (La Table Hermès, Saint-Louis and Puiforcat) in Macao and Moscow also sparked growth.

*Guéthary* forks by Puiforcat.

# OTHER BRANDS AND PRODUCTS

## John Lobb Bootmaker

Sales of John Lobb shoes jumped 23% year-on-year to €18 million in 2007. The *Curving* line saw continuing popularity across all points of sale. New ready-to-wear models, particularly the *Prestige* range, were very well received. Bespoke shoes, John Lobb's traditional business line, experienced significant growth thanks to an even stronger focus on the profession of last making.
It has become John Lobb's tradition to release a limited edition shoe at the end of each year, in honour of St. Crispin's day. A laser-decorated model, the first of its kind, marked the occasion in 2007.
Four new stores were opened in 2007, in Geneva, Switzerland, Nagoya and Osaka, Japan and Los Angeles, USA. The Rue François-Ier store in Paris was also renovated this year.

## Textiles

Our textile business, grouped together under Holding Textile Hermès, includes design, colour and dye works, engraving, printing, weaving and production. In 2007, these business lines received the official French title of *Entreprises du patrimoine vivant*, which is awarded to companies considered outstanding for their history, heritage, ability to innovate and rare and specialised know-how. This distinction is fitting recognition of the segment's contribution to the growth of the Group's silk business. Textiles sales to non-Group companies edged down 4% year-on-year to €21 million in 2007. Of note during the year was the consolidation of our holdings in fashion and furniture. And new technologies were brought to printing and weaving techniques through partnerships with manufacturing companies.

## Tanning

Soaring demand boosted tanning sales to €39 million in 2007 from €10 million in 2006.
In the second half of 2007, Hermès International bolstered its presence in the exotic skin tannery market (crocodile, ostrich, lizard etc.) by acquiring the shares of the Soficuir group that it did not already own. Hermès previously had a 49.6% stake in the company.
Soficuir and Gordon-Choisy, which was purchased in 1996, form a tanning division with 320 employees across four production sites in France, Italy, and the USA (state of Louisiana). These specialised companies are responsible for purchasing, tanning, dyeing and finishing exotic skins for high-end markets such as fashion and leather goods (clothing, bags, small leather goods, shoes, belts etc.) or watches (straps).
This acquisition gives Hermès even tighter control over its exotic skin supplies.

Top: John Lobb shoes.

# *L'HÉLICOPTÈRE PAR HERMÈS*

**IFO: Innovative Flying Object.**
*L'Hélicoptère par Hermès* is the fruit of a unique mix of talent and know-how – a new concept for private air travel that puts the passenger in the seat of honour. Designer Gabriele Pezzini has created a spare, functional interior with a redesigned undercarriage that provides easy access to the craft. Its large cabin, done entirely in the *toile H* fabric that typifies Hermès travel goods, holds four seats upholstered in supple, durable *taurillon* leather. All the materials were selected and treated to soften noise and vibrations, for an exceptionally comfortable environment.

## Interior Design

Hermès Intérieur & Design, created in 2007, is a creative team of passionate experts dedicated to interior design projects that strongly express our brand image. Its mission: designing and executing personalised décors for yachts, luxury cars, prestigious buildings or even private aircraft. Artists, designers and craftsmen provide the innovation, advice and know-how customers need to realize their dream interiors – in a direct and perfectionist relationship.
Its first project, *L'Hélicoptère par Hermès*, was the result of a close partnership with Eurocopter in which Hermès designed and manufactured all components of the helicopter that required the House's materials and expertise. The Hermès watchwords of "elegance in motion" are perfectly illustrated by this new creation, which once again demonstrated the House's connection to aesthetic and distinguished style. *L'Hélicoptère par Hermès* meets all of Eurocopter's established technical and technological standards and will be available for sale in different colour schemes. Deliveries will begin in 2008.

## Other activities of the Hermès Group

This sector comprises business carried out at Hermès production sites for non-Group brands, namely, the packaging of perfumes at Le Vaudreuil in Normandy.

# PARTNERSHIPS

### Jean Paul Gaultier

Since 1999, Hermès has owned a 35% stake in the Jean Paul Gaultier fashion house. 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. Consolidated sales edged up 1% year-on-year to €30 million in 2007. Jean Paul Gaultier ready-to-wear and haute couture collections, coupled with the successful launch of *Fleur du Mâle* perfume helped drive business in 2007. The voluptuous, seductive fragrance comes in a graceful, pure white bottle.

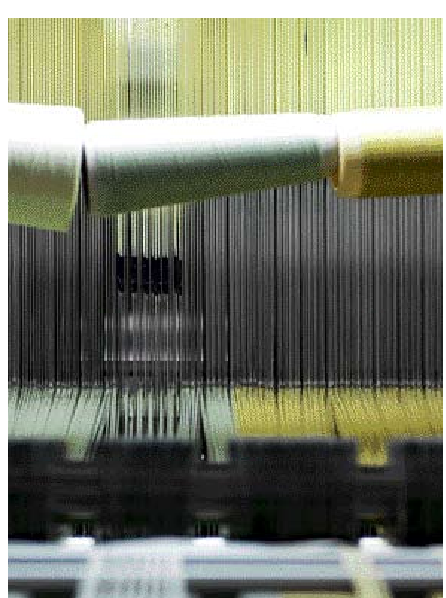
### Les Tissages Perrin

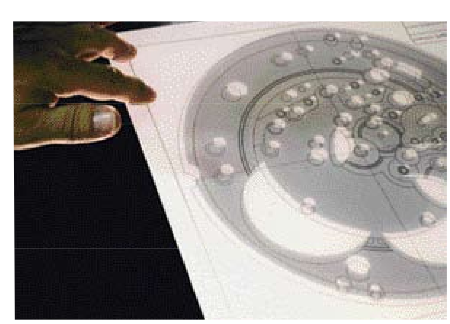
The Hermès Group owns a 39.5% stake in Les Tissages Perrin. Most of its business is in weaving for sectors as wide-ranging as ladies' lingerie, upholstery fabric, ready-to-wear and accessories. This business generated sales of €27 million in 2007, a rise of 7% on 2006.

### Vaucher Manufacture Fleurier

In 2007, Hermès increased its interest in watch-movement maker Vaucher to 21%. Located in the heart of traditional watch-making territory, between Neuchâtel in Switzerland and the French border, Vaucher Manufacture Fleurier has superior expertise in premium and prestige watch movements.

Detailed key financial data on investments in associates is provided in Volume 2 on page 121.





**Left:** Silk weaving.
**Right:** Inspecting and calibrating a mainplate using backprojection at the Vaucher watch movement factory (January 2008).

Above: The Hermès store at 24 Faubourg Saint-Honoré in Paris.
Page at right: Animated display outside the Hermès store on Sloane Street in London.
Hermès stores in Brussels and Moscow (Gum).

# Activity by region

In 2007, the Hermès Group delivered solid growth
across all continents.



## EUROPE

Sales in Europe rose by 18% at constant exchange rates to €673 million, or 41% of the consolidated total.
In France, sales increased by 12%. Hermès celebrated the makeover of its flagship store at 24 Faubourg Saint-Honoré in Paris on 24 October by throwing a grand 24-hour party spiced with entertainment and special events. At its centre, the store features a glass staircase designed by Rena Dumas Architecture Intérieure that forms a transparent, timeless bridge between the original structure and the new area dedicated to women's fashions.
In France, sales increased by 12%. At the inauguration of the newly renovated store in Lyon, the central theme was silk.
In the rest of Europe, sales growth was a handsome 25%, underpinned by an ambitious store opening programme. In Italy, a new location was opened in Porto Cervo and the Rome store was renovated. In London, after reopening the Sloane Street store, Hermès inaugurated a new boutique at Selfridges.
Sales also trended up in Germany and Switzerland, where business was driven by the acquisition of a concession in Crans and the renovation of the branch in Bern. In Spain, Hermès opened an outlet in the Castellana Store, which is at the heart of the Corte Inglés shopping complex in Madrid. In Belgium, the Brussels store fêted its reopening with dance, the theme of the year.
In Moscow, the new location in the Gum met with unqualified success. This second outlet in Moscow confirms Hermès's potential for growth in Russia.
New e-commerce sites were created for Germany and in the United Kingdom and customers in those countries can now purchase our products online.
Throughout the year, a multitude of events gave customers the chance to experience unique, magical moments. The H Box displayed at Centre Georges Pompidou at the end of 2007 was greeted enthusiastically. This innovative device was conceived by young, up-and-coming artists sponsored by Hermès. The video and audio space will travel across Europe in 2008, with stopovers in other prestigious locations, before flying off to Asia.
Standing proudly behind its 170-year tradition, the Company introduced the Prix Émile Hermès, which will be awarded to innovative designers on the theme "*légèreté au quotidien* - everyday lightness" interpreted through objects for travel and the home. This European prize reflects Hermès' relentless quest for constant innovation and quality in the objects that carry its name.

# THE HERMÈS STORE ON WALL STREET


**Off the beaten path**
For its second store in New York, Hermès decided to place its bets on the revival of Lower Manhattan, where the city's financial district is becoming a prime residential area. Located across the street from the New York Stock Exchange, No. 15 Broad Street is an old building typical of Wall Street. The new store covers 450 square metres on the ground floor of the building and is built around a central courtyard.
Designed by interior architects RDAI, the space exudes warmth. The store features a large area dedicated to men's fashions and custom-tailoring services. For Hermès USA Chairman Robert Chavez, this new location is an opportunity for Hermès to help breathe new life into a historical district in a period of renewal.

## AMERICAS

Hermès derives 15% of consolidated sales from the Americas. In 2007, sales in the region jumped by 15% year-on-year at constant exchange rates to €245 million. In the US, sales growth was robust except in Hawaii, where business was adversely affected by the downturn in tourism. During the month of June, Hermès inaugurated the Wall Street store in the heart of New York's historical business district – a bold move in keeping with the company's pioneering spirit.
A new branch opened its doors in Bergen County, New Jersey, and the Palm Beach (Florida) location was renovated at the beginning of 2007. Business also ran higher in Canada, Mexico and Latin America.
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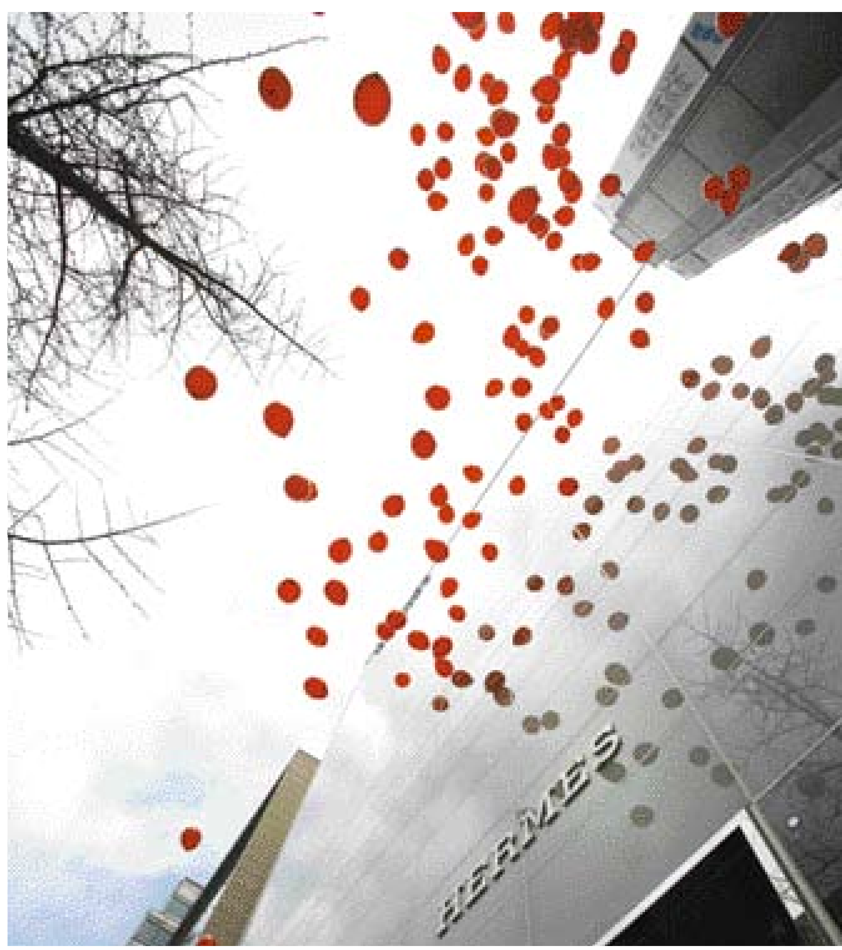
## ASIA

In Asia, sales expanded by 7% year-on-year at constant exchange rates to €664 million. Hermès generates 41% of its consolidated sales in the region. In Japan, growth was 3% at constant exchange rates despite the lacklustre business climate. The new location in Osaka's Midosuji district opened for business. The store has over 800 square metres of floor space and is based on an original concept that focuses on premium service in keeping with House tradition. Hermès also inaugurated another store in Tokyo, in Hinokicho Park. Lastly, the Takashimaya branch in Yokohama reopened during 2007 after undergoing a complete facelift.
Elsewhere in the Asia-Pacific region, sales grew 15% at constant exchange rates. Sales to local customers moved up sharply in Hong Kong and Singapore, as well as in Taiwan, where the Sogo Fuxing store in Taipei reopened after moving to a new location. In Korea, growth was sparked by the highly successful Dosan Park House of Hermès in Seoul, the renovation of the two

branches in the city and the opening of a new outlet. In China, sales were driven by the newly renovated, enlarged Shanghai store inaugurated in June and by two new locations opened mid-year, one in Chengdu, the other in Hangzhou. During the latter part of 2007, Hermès inaugurated a second store in Malaysia, created a new space dedicated to tableware in Macao and renovated a duty-free shop in Saipan.
This momentum partly offset erosion in Sales to Travellers in the duty-free shops in Korea and Japan.

Exhibition staged by Hilton McConnico: *Once Upon a Silk*, in Hong Kong, from 29 June to 8 July 2007, followed by *The Tale of Silk* in Shanghai from 8 September to 7 October 2007.



The Midosuji store in Osaka.


Sweden: 1
Denmark: 2
Ireland: 1
Russia: 2
United Kingdom: 9
Netherlands: 1
Germany: 17
Belgium: 4
Luxembourg: 1
Czech Republic: 1
France: 33
Austria: 3
Switzerland: 11
Principality of Monaco: 1
Italy: 23
Spain: 5
Portugal: 1

## HERMÈS AROUND THE WORLD

Hermès products are available worldwide through a network of 267 exclusive stores and 42 other retail outlets. Hermès watches, perfumes and tableware are also sold through networks of specialist stores, in airport duty-free stores and on board aircraft.


### 309 retail outlets

#### Europe

**Germany: 17**
10 stores (branches):
Baden-Baden
Berlin (2)
Cologne
Düsseldorf
Frankfurt
Hamburg
Hanover
Munich
Nuremberg
5 stores (concessionnaires)
2 other retail outlets
**Austria: 3**
3 stores (concessionnaires)
**Belgium: 4**
3 stores (branches):
Antwerp
Brussels
Knokke-le-Zoute
1 store (concessionnaire)
**Denmark: 2**
2 stores (concessionnaires)
**Spain: 5**
5 stores (branches):
Barcelona
Madrid José Ortega y Gasset
Madrid Corte Inglés
Marbella
Valencia
**France: 33**
15 stores (branches):
Aix-en-Provence
Biarritz
Bordeaux
Cannes
Deauville
Lille
Lyon
Marseille
Paris Faubourg Saint-Honoré
Paris George-V
Paris Hilton
Rennes
Rouen
Saint-Tropez
Strasbourg
18 stores (concessionnaires)
**United Kingdom: 9**
7 stores (branches):
Glasgow Frasers
London Harrods
London New Bond Street
London Royal Exchange
London Selfridges
London Sloane Street
Manchester
2 stores (concessionnaires)
**Greece: 2**
1 store (branch):
Athens
1 store (concessionnaire)
**Ireland: 1**
1 store (branch):
Dublin
**Italy: 23**
11 stores (branches):
Bologna
Capri
Florence
Milan
Naples
Padua
Palermo
Porto Cervo
Rome
Turin
Venice
12 stores (concessionnaires)
**Luxembourg: 1**
1 store (concessionnaire)
**Netherlands: 1**
1 store (branch):
Amsterdam
**Portugal: 1**
1 store (branch):
Lisbon
**Principality of Monaco: 1**
1 store (branch):
Monte-Carlo
**Czech Republic: 1**
1 store (branch):
Prague
**Russia: 2**
2 stores (concessionnaires)
**Sweden: 1**
1 store (concessionnaire)
**Switzerland: 11**
9 stores (branches):
Basle
Bern
Crans
Geneva
Gstaad
Lausanne
Lugano
Saint-Moritz
Zurich
2 stores (concessionnaires)


## North America
**Canada: 4**
3 stores (branches):
Montreal
Toronto
Vancouver
1 store (concessionnaire)
**Caribbean: 2**
1 store (branch):
Saint-Barthélemy
1 store (concessionnaire)
**USA: 69**
19 stores (branches):
Atlanta
Bal Harbour
Bergen County
Beverly Hills
Boston
Charlotte
Chicago
Dallas
Hawaii Ala Moana
Hawaii Duty Free Kalakaua
Hawaii Duty Paid Waikiki
Houston
Las Vegas
New York Madison
New York Wall Street
Palm Beach
San Francisco
South Coast Plaza
Washington D.C.
10 stores (concessionnaires)
40 other retail outlets
**Mexico: 2**
2 stores (branches):
Mexico Mazaryk
Mexico Palacio Perisur

## South America
**Argentina: 1**
1 store (branch):
Buenos Aires
**Chile: 1**
1 store (branch):
Santiago

## Near and Middle East
**Dubai: 1**
1 store (concessionnaire)
**Turkey: 1**
1 store (concessionnaire)


## Asia

China: 11
8 stores (branches):
Canton
Chengdu
Dalian
Hangzhou Eurostreet
Hangzhou Tower
Beijing China World Trade Center
Beijing Peninsula Palace
Shanghai
3 stores (concessionnaires)
Hong Kong: 7
7 stores (branches):
Hong Kong Airport
Galleria
The Lee Gardens
Pacific Place
Peninsula Hotel
Sogo
Sun Plaza
Macao: 1
1 store (branch)

South Korea: 15
7 stores (branches):
Busan Paradise
Hyundai
Seoul Dosan Park
Seoul Galleria
Seoul Hyundai Coex
Seoul Shilla
Seoul Shinsegae
8 stores (concessionnaires)
Indonesia: 2
2 stores (concessionnaires)
Japan: 50
22 stores (branches):
Kobe Sogo
Kyoto Takashimaya
Osaka Hilton Plaza
Osaka Midosuji
Osaka Pisa Royal
Osaka Sogo Shinsaibashi
Osaka Takashimaya
Sendai Fujisaki
Tokyo Ginza
Tokyo Ikebukuro Seibu
Tokyo Marunouchi
Tokyo Mitsukoshi Nihombashi
Tokyo Nihombashi Takashimaya
Tokyo Ritz-Carlton Hinokicho Park
Tokyo Shibuya Seibu
Tokyo Shibuya Tokyu
Tokyo Shinjuku Isetan
Tokyo Shinjuku Takashimaya
Tokyo Tachikawa Isetan
Tokyo Tamagawa Takashimaya
Yokohama Sogo
Yokohama Takashimaya
28 stores (concessionnaires)

Malaysia: 3
2 stores (branches):
Kuala Lumpur KLCC
Kuala Lumpur Pavilion
1 store (concessionnaire)
Singapore: 4
3 stores (branches):
Liat Towers
Scottswalk
Takashimaya
1 store (concessionnaire)
Taiwan: 6
5 stores (branches):
Kaohsiung Hanshin
Taichung Sogo
Tainan Mitsukoshi
Taipei Sogo Fuxing
Taipei Regent
1 store (concessionnaire)
Thailand: 3
2 stores (branches):
Bangkok Emporium
Bangkok Siam Paragon
1 store (concessionnaire)

## Oceania

Australia: 4
4 stores (branches):
Gold Coast Marina Mirage
Gold Coast Surfers Paradise
Melbourne
Sydney
Guam: 2
1 store (branch)
1 store (concessionnaire)
New Caledonia: 1
1 store (concessionnaire)
Saipan: 1
1 store (branch)

*Derviche* mini-mobile in palissandre wood

# Environment

## OUR RESPONSIBILITY

The Hermès group operates thirty three production units spread across twenty six sites (twenty two of them in France, one in Great Britain, one in Italy, one in Switzerland and one in the United States. Hermès manufactures products to extremely high quality standards, applying traditional methods and the craftsman's skills to natural materials like silk and leather.

Our production facilities must meet a three-pronged challenge: to minimise the use of natural resources like water and energy, to ensure raw materials are used judiciously and to control both the quality and quantity of waste.

This requires that we implement tools for measurement and analyses, seek out the best possible advice from independent auditors and experts, train qualified teams and, finally, that personnel be involved in all of these areas.

*A list of our production sites and their location appears in Volume 2 on page 73.*

## OUR GOALS

We continued to implement the environmental programme initiated in early 2003 and to work towards the same goals:

• To comply with the regulatory requirements of the Environment, Health & Work Safety, (EHS) network and to anticipate changes whenever possible;

• To improve production processes by using the cleanest, most environmentally-friendly technologies and products whenever possible;

• To show respect for natural resources and conserve energy;

• To minimise waste production and to recycle whenever possible;

• To ensure that production facilities fit into their surroundings and to employ systems to prevent accidental emissions and reduce noise and other pollution.

To round out the program, we began measuring greenhouse gas emissions in 2007, with a view to creating reduction plans.

The results of this programme are measured by various indicators outlined in Volume 2 of the Annual Report (page 67).

## OUR COMMITMENT

The Environmental Network created in 2003 became the EHS (Environment, Health and Work Safety) network in 2007. It is composed of ten EHS Sector Officers.

The role of each Sector Officer is:

• To help design and implement the company's environmental, health and work safety policy in conjunction with his direct superior;

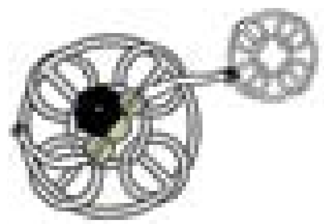
• To inform, educate and train staff on environmental, health and safety issues;

• To coordinate environmental and energy cost control;

• To examine more ecological alternatives for operating processes whenever possible while complying with health and safety regulations and working in conjunction with the relevant department heads;

• To participate in assessing the environmental impact and the health and safety aspects of all chemicals entering and leaving the site;

• To act as the company's representative for environmental policy issues both in-house and externally.



The EHS network works with permanent representatives from the Human Resources and Property Management Departments and taps their knowledge and skills to extend its scope and reach.

The manufacturing division trains, leads and coordinates this network to ensure that the Group achieves its goals.

Top: The SIEGL site in Isère.
Right: A proof made before final printing.

During 2007, members of the EHS Network met once each quarter to exchange information and best practices and to monitor technical developments. A large number of concise, easy-to-read informational documents were drawn up, presented, explained and distributed. These included safety data sheets, chemical exposure sheets and clear and comprehensive guidelines for each job, describing appropriate protective equipment and technical dossiers on various EHS-related issues. The network is also archiving these documents in an online library available on the Group intranet. Members of the network also supplemented their environmental audit training by attending sessions on workplace health and safety, including on-site training in workshops.

To bolster these initiatives, the manufacturing division made the environment the theme of its annual seminar. Some seventy employees involved in the Group's manufacturing operations – including production, quality control, procedures, purchasing, logistics and maintenance – took part in the seminar. Specialists from outside the company covered a range of topics in presentations on global warming; the Carbon Audit; innovative, plant-based water purification systems; the new European REACH regulations; and HQE environmental quality standards for buildings. Group operations managers assigned to manufacturing and production rounded out these presentations with reports on the results of their environmental policies.

Following on the eleven audits carried out in 2006, an outside firm performed an additional eight on-site audits covering matters related to the environment and workplace health and safety. Action plans and proposed areas of improvement drawn up in response to the audit findings will in turn be the subject of follow-up audits to ensure that plans are on track and progressing smoothly. Eight such action plans were evaluated in 2007.

## RESULTS

The Group did not book any reserves for environmental liabilities in the 2007 accounts and none of its companies was ordered by a court to pay compensation for environmental damages during the year.
2007 results are in keeping with the programme initiated in 2002.
The Group owes these accomplishments to the participation of all parties involved in the production process and to their dedication to environmental protection and health and safety in the workplace.

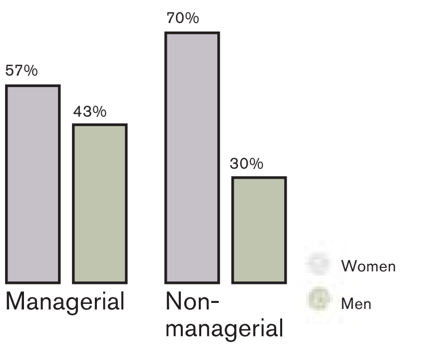
Top: The Hermès leather vault.
Opposite: Manufacturing Hermès perfumes at the Vaudreuil site in Normandy.


*Kelly Calèche* women's fragrance

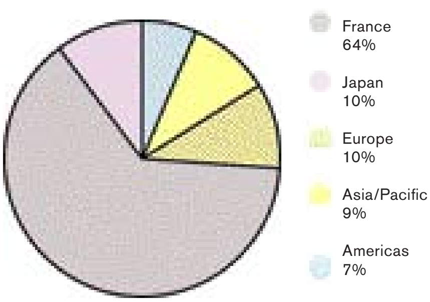
# Hermès: a responsible employer

The Group initiated an array of human resources development activities in 2007. From internal communications to training programmes, Hermès continues to educate and encourage staff members through a wide array of projects.

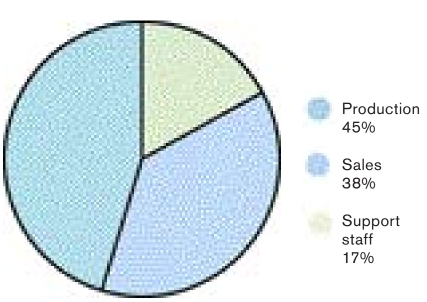
Analysis of workforce by gender




Analysis of workforce by region




Analysis of workforce by job category




## IN-HOUSE COMMUNICATION: DEVELOPING CROSS-DISCIPLINARY RELATIONSHIPS

*Ateliers de l'imaginaire*, a project initiated in 2006 by a few "pioneers", flourished in 2007 as some 2,500 staff members responded to our invitation to dream by submitting their entries.

Nearly 170 staff members from all Group subsidiaries, drawn at random and divided into groups of ten, spent one week living a dream of their choice, for a total of 17 unique and highly original experiences.

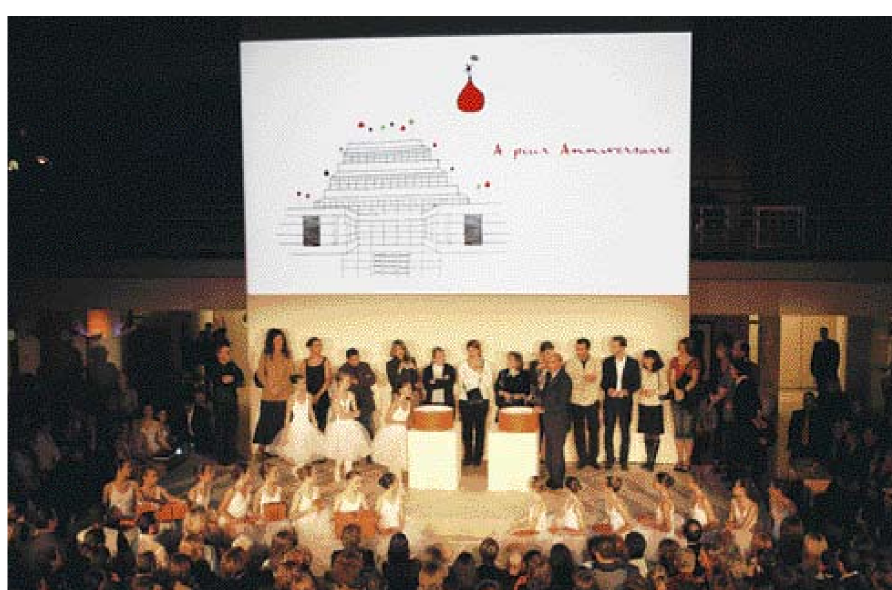
These trips were an occasion to come together and discover new things, and for people who would not normally have encountered one another to forge strong new bonds. They are proof that being a part of Hermès means having the chance to transcend the traditional barriers of language, culture and profession to come together around a shared passion.

Two hundred Hermès managers from around the world came together for a three-day retreat in Barcelona to reflect on "what uniqueness means at Hermès". Through visits to the city's cultural attractions and workshops whose moderators focused on a variety of different approaches, participants came up with their own answers to the question, "How can we continue to stand out in today's changing world?" Beyond its primary mission – to nourish our corporate vision and look towards the future – the retreat was an opportunity for many staff members to forge a deeper bond with Hermès.

A grand party was thrown to honour the 15th anniversary of the *Ateliers de Pantin* on 6 December to celebrate the site and its dedication to *"bien-faire, bien-vivre et bien-être au service de l'art, de l'artisanat et de l'architecture"* (excellence in art, craftsmanship and architecture). Nearly 2,000 staff members from the greater Paris area participated in the anniversary celebration, which was, naturally, themed for the year of the dance.

*Toile H*, Hermès' intranet site, celebrated its first full year of operation on 24 February 2007. Group subsidiaries contribute extensively to the site, sharing news about Company life and developments in the broadest sense.

Lastly, as part of its effort to involve personnel more closely with the Group's future and to recognise each employee's individual commitment, at the end of the year the Hermès International Supervisory Board approved a bonus share issue for Hermès employees to give all staff an opportunity to own shares in Hermès.

Top: The *Toile H* intranet site.
Opposite: *Ateliers de Pantin* – 15th anniversary celebration.

## TRAINING

**Training helps to sustain Hermès' culture of excellence, to stimulate the exchange of ideas and information among different sectors and regions and to enhance knowledge and skills throughout the Group.**

### Optimising relationships with customers and anticipating their needs

In 2007, more than 100 sales associates from our retail distribution network in France, Switzerland, Singapore and Hong Kong attended our new training programme at the "Hermès 2 Selling School" (Ecole des Marchands Hermès 2). The programme's goal is to impart a more thorough understanding of local customers and culture.
The Hermès Selling School continued to dispense training to new staff and was extended to new markets.
Over 100 sales personnel assigned to the "Sales to Travellers" segment in Europe and Japan, as well as local sales staff in France and Germany attended the sessions.

### Enhancing product knowledge to give customers better service and information

Sales associates need to be thoroughly familiar with our products in order to present them to customers in their best light. In order fully to capture the spirit of our collections, they must discover and understand the craft underlying each product, observe the precision and care that goes into every gesture, and see, touch and feel the materials.
In 2007, over 150 sales personnel attended sessions in Paris run by product development staff from each of our sectors to give them general or highly specific information to help them better to fulfil their roles as knowledgeable ambassadors to the public.

### Taking our teams to new heights

Hermès Team Leader (*Animateur Hermès*) 1 and 2 programmes and Hermes Team Leader Workshops (*Ateliers de l'animateur Hermès*) helped 85 staff members hone their managerial skills. These programmes and workshops are designed to instil a commitment to Hermès values and to our culture of excellence, to encourage employee recognition and initiative and to teach how to delegate authority.

### Skills enhancement

In 2007, the Group continued to deploy *Profession: industriel*, a programme that gives production managers the tools they need in areas such as finance and labour relations and to provide information on real estate, environmental and manufacturing regulations.

Ring in rose gold and brown diamonds

# Risk management

## PROTECTING OUR HERITAGE AND SAFEGUARDING OUR FUTURE

**During 2007, Hermès continued its active policy of managing its main risks, primarily in the areas described below.**

### Limiting industrial risks and protecting the environment

Hermès is involved in manufacturing through its thirty-three production units, most of which are located in France, and it pays close attention to risk prevention. Hermès does not operate any Seveso-rated sites.

The Group Industrial Department, which is organised as a network comprising the Industrial Officers of the business sectors and production sites, coordinates implementation of processes designed to protect our manufacturing assets, our employees and the environment. This activity is carried out in cooperation with the heads of property management, insurance and human resources.

It encompasses internal diagnostics and audits carried out by specialised outside firms, which are then integrated into operational action plans.

The key recommendations resulting from the 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 elsewhere in this report, Hermès is committed to a stringent environmental protection and risk reduction programme.

### Minimising risks to our property assets

All property-related transactions are handled by the Property Development Department, which centralises the following processes:

- identification and approval of sites for distribution, and production facilities and administrative offices, following qualitative and technical surveys;
- for key construction projects, oversight, directly or through contractors, to ensure the work is carried out properly;
- supervision of an inspection plan applying to the Group's main sites and covering structural/fire safety issues, the labour code and environmental considerations. These inspections are supplemented by preventive checks carried out by our insurers.

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, primarily to provide property and casualty, operating loss and civil liability cover, as described in Volume 2.

In addition to this significant financial outlay, Hermès has instituted preventive measures and carried out special studies in order better to cover certain risks.

**Compliance with applicable laws in all areas**

The Group keeps abreast of changes in legislation in all relevant areas to remain in compliance with all relevant French and foreign laws and regulations. Responsibility for this lies with the Group's Legal Department, with the support of outside law firms in all countries where the Group is present via its distribution network. And while the Group is involved in ongoing litigation, any pending settlements are not likely to have a material impact on its business or financial results.

Over the past few years, French business law has undergone significant reforms, particularly as regards listed companies. Under the new Autorité des Marchés Financiers (AMF) General Regulation, the Group must comply with more stringent requirements. In response to these changes, the Group is gradually setting up systems to keep employees, managers and shareholders up-to-date on applicable regulations and to help us adapt to new frames of reference for corporate governance and internal auditing.

The Company is not aware of any existing or potential governmental, legal or arbitration proceedings that may have, or recently have had, a material impact on its financial condition or profitability and/or on the financial condition or profitability of the Hermès Group.

**Risks associated with intellectual property rights**

All Group creations are subject to an active and thorough protection policy that covers brands, patents, drawings and models. In addition, so-called "three-dimensional" trademarks have been obtained in France and abroad for certain types of products that are considered to be as well known as the brand itself. This protection strategy brings the Group satisfactory results in its constant battle against counterfeiting.

The internet has emerged as a new outlet for counterfeit goods. Given the scope of the abuses and the extreme volatility of the medium, (in terms of product, sellers, advertisements, etc.) the Group must constantly adapt and update the measures it takes to combat such counterfeiting, which must address the special attributes of this market. The Group systematically takes action against all infringement of its intellectual property rights and earmarks significant sums to fight counterfeiting each year.

**Balancing and safeguarding our distribution**

Hermès holds a unique place in the luxury market and represents only a fraction of it (approximately 1% of a market that Bain & Company has valued at €141 billion). Hence, it 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 300 sales outlets, 156 of which are directly operated by the Group (these account for 70% of sales). It relies on a distribution organisation that significantly reduces customer risk. Moreover, sales have limited seasonal exposure: the Group generated 56% of total sales in the second half of 2007, compared with 54% in 2006 and 55% in 2005.

In accordance with the applicable laws in each country where the Group operates, products are distributed through a selective distribution network specific to each local company.
Hermès has implemented a number of concrete actions to ensure compliance with its selective distribution system.

**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 to manage market risks, including interest rate and counterparty risk. Because the bulk of its production is in the euro zone and as it derives a significant percentage of sales in dollars and yens, the Group is naturally exposed to currency risks.
Treasury and currency management has been centralised by the Group's Treasury Department and follows stringent management and oversight rules. Every month, 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 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.
Exposure to currency risks is systematically hedged on an annual basis as a function of projected cash inflows and outflows.

**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.
In 2007, work on IT security continued, using a standard ERP system to coordinate the different systems in use.
A new store management tool was rolled out to replace existing applications and work is underway to bring the IT systems of recently acquired subsidiaries in line with Company standards.
In IT risk prevention, risk mapping was carried out for all subsidiaries.
This was supplemented by security and intrusion testing and an audit of the IT Department. If warranted by the audit findings, detailed action plans are drawn up and monitored by the IT oversight committee.
As business continuity is a key concern, substantial investments are made for backup equipment and to draw up formal IT emergency plans.

**Controlling our funds flows**

Hermès has retained 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.
In some cases, it will buy into carefully selected companies to ensure the stability of these relationships.
For example, Hermès acquired stakes in watch-movement maker Vaucher Manufacture Fleurier in 2006 and 2007 and in the tanning company Soficuir in 2007, which is now a wholly-owned subsidiary.
Significant work has also been carried out to optimise and secure the supply chain, and the Group's main logistics site received ISO 9001 certification in 2006. In 2007, work began on business continuity plans for logistics operations.

**An active risk management approach**

Since 2006, the Audit and Risk Management Department has played a dual role within the Group. First, it identifies risks and provides assistance to operational managers in carrying out action plans in the area of controls. Second, it participates in overseeing the major risks discussed above and in monitoring committees.

In 2007, management committees worked on rolling out extensive risk mapping projects throughout the group. Action plans were prepared as needed to follow up on these analyses. The Audit and Risk Management Department also coordinated a number of risk mitigation plans, including a crisis management plan and a "Bird Flu" plan. As described in the Executive Management's report on internal control procedures (Volume 2, page 26), the Department carried out internal audits to obtain a clearer overall vision for managing key risks within the Group, including an analysis of the internal control organisation for financial information.

The Audit and Risk Management Department works closely with the other departments mentioned above 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.

*Lindy* 30 bag in ultra-soft matt crocodile

# Consolidated results

## CONSOLIDATED RESULTS

In 2007, the Hermès Group registered consolidated sales of €1,625.1 million, an advance of 12.5% at constant exchange rates (7.3% at real exchange rates).

The gross margin edged down 0.5 percentage point year-on-year to 64.9% due to the consolidation of the Soficuir group as from 1 July 2007.

Selling, marketing and administrative expenses amounted to €570.4 million compared with €537.3 million in 2006. They consisted mainly of advertising expenditure, which came to €93.2 million in 2007.

Other income and expense was €69.6 million compared with €51.6 million in 2006. This item mainly includes €56.3 million in depreciation charges, which increased due to the rapid pace of new store openings and branch renovations over the past two years.

Recurring operating income moved up 3.4% (14.4% at constant exchange rates) to €414.5 million, from €401.1 million in 2006.

After a gain of €9.2 million from the disposal of the remaining Leica Camera AG bonds, the Group's consolidated net income rose by 2.1% (12.7% at constant exchange rates) to €423.7 million, for an operating margin of 26.1%.

Net financial income was €12.3 million, compared with a loss of €0.3 million in 2006. The change was due primarily to the favourable impact from adjustments in the value of hedging instruments.

The tax charge amounted to €143.8 million euros compared with €136.2 million in 2006. Minority interests totalled €5.8 million against €4.4 million euros in 2006.

The increase in the share of net income of associates (a profit of €1.6 million in 2007 against a loss of €5.9 million in 2006) was due primarily to the share of the loss in the Leica Camera AG group recognised in 2006.

Consolidated net income rose by 7.3% (18.2% at constant exchange rates) to €288.0 million from €268.4 million in 2006.

Earnings per share advanced by 8.2% year-on-year.

The Group generated cash flow of €356.6 million in 2007, up 10.8% on the €321.7 million recorded in 2006.

# INVESTMENTS

Hermès continued to make substantial investments in 2007. These came to €155.9 million for the year (not including financial investments) and were entirely financed from cash flow.
The distribution network continued to expand in 2007, with over 40 stores opened or renovated, including 25 Hermès branches.

In addition, during 2007, the Hermès Group:
• Increased its minority stake in Vaucher Manufacture Fleurier, which specialises in the design, production and assembly of fine mechanical watch movements. The Hermès Group's interest in the company rose from 13% to 21% following a capital increase.
• Sold the remainder of its convertible bonds in the Leica Camera AG group to the core shareholder.
ACM Projektentwicklung GmbH.
• Acquired the remainder of the shares it did not already own in 49%-owned Soficuir International, a company specialising in supplying and tanning exotic skins, thereby becoming that company's sole shareholder.

## Breakdown of investments

| (in millions of euros) | **2007** | **2006** | **2005** |
|---|---|---|---|
| Operating investments | 119.9 | 123.2 | 99.6 |
| Financial investments | 36.0 | 11.1 | 18.9 |
| *Sub-total - capital expenditure and investments (excluding financial investments)* | *155.9* | *134.3* | *118.5* |
| Financial investments | 20.4 | - | 24.2 |
| **Total investments** | **176.3** | **134.3** | **142.7** |

## FINANCIAL POSITION

The €356.6 million of cash flow generated in 2007 enabled the Group to finance all of its investments and dividends.

After buying back €101 million of shares then cancelling €73 million of shares, the Group's cash amounted to €480.5 million at 31 December 2007, compared with €538.2 million at 31 December 2006.

Restated net cash (including financial investments and borrowings) totalled €485.5 million at 31 December 2007, compared with €536.3 million at 31 December 2006.

Shareholders' equity increased once again owing to the earnings generated by the Group. It rose from €1,409 million (Group share) at 31 December 2006 to €1,462.4 million at 31 December 2007.

## VALUE CREATION

The notions of economic value added and return on capital employed were introduced at the Hermès Group several years ago as performance indicators for the Group's investments.

Economic value added went from €197.7 million in 2006 to €196.5 million in 2007. The return on capital employed slipped from 26.1% to 25% due to the large sums dedicated to investments, in both operations and acquisitions.

## EXCEPTIONAL EVENTS

There were no exceptional events in 2007.

# Outlook


## EXPANSION TO CONTINUE IN 2008

During 2007, Hermès opened or renovated over forty stores, including twenty-five branches. The main ones were the new store on Wall Street in the United States, another in Osaka, Japan, and the expanded flagship location at 24 Faubourg Saint-Honoré, which reopened in October.
This momentum will continue in 2008, with an ambitious programme to enlarge the distribution network. More than forty stores will be renovated, expanded or created.

The new branches include two locations in the United States, three new stores in China including one in Beijing, and several projects elsewhere in Asia, in Hong Kong, Macao, Korea and India, where Hermès will open its first store, in New Delhi. The renovation and expansion programme will focus mainly on Europe and Asia.

Hermès will continue to dedicate substantial investments to strengthen its distribution networks, to increase production capacity in its sectors and to enhance its know-how. In 2008, the Group plans to refurbish or expand several facilities specialising in leather goods, and notably the Nontron unit. The Group will also start to review a project to enlarge Ateliers Hermès de Pantin as part of its business development plan.

We intend to strengthen our presence in fine watchmaking and will unveil our new, exclusive H1 movement, developed in partnership with Vaucher Manufacture Fleurier, at the Basle Fair.

We will take a second key step to expand our online presence during the first quarter. For the past five years, our e-commerce presence has been confined to websites dedicated exclusively to online sales. In 2008, Hermès will launch its first corporate communication site. The new site, which will be in the form of an informal magazine, will offer users the opportunity to discover the House's universe using an intuitive and original interface. This initiative will significantly step up the dissemination of a more thorough understanding of the Hermès spirit in countries where use of the internet is widespread, including China and Korea and, of course, the United States.

In 2008, the Year of India, the House will draw its inspiration from the India of dreams – mischievous, lively and optimistic – to create surprising and useful items with a unique style, combining exceptional materials and consummate technical skill, as always.

Throughout the year, the Group will place special emphasis on highlighting the breadth and depth of the men's collections. This will showcase Hermès' position as a frontrunner in the world of men's fashions.

Top: Cover of *Le Monde d'Hermès*, spring-summer 2008

*Fil d'argent* teacup and saucer.

# Summary consolidated financial statements

## Consolidated income statement

| (in millions of euros) | **2007** | **2006** |
|---|---|---|
| Sales (notes 3 and 4) | 1,625.1 | 1,514.9 |
| Cost of sales | (570.6) | (524.9) |
| Gross profit (note 5) | 1,054.5 | 990.0 |
| Selling, marketing and administrative expenses (note 6) | (570.4) | (537.3) |
| Other income and expense (note 8) | (69.6) | (51.6) |
| Recurring operating income | 414.5 | 401.1 |
| Other non-current income and expense (note 9) | 9.2 | 14.1 |
| Operating income | 423.7 | 415.2 |
| Net financial income (note 10) | 12.3 | (0.3) |
| Pre-tax income | 436.0 | 414.9 |
| Corporate income tax (note 11) | (143.8) | (136.2) |
| Share of net income of associates (note 12) | 1.6 | (5.9) |
| **Consolidated net income** | **293,8** | **272.8** |
| Minority interests (note 13) | (5.8) | (4.4) |
| **Net income - Group's share** | **288.0** | **268.4** |
| Earnings per share (in euros) (note 14) | 2.71 | 2.51 |
| Diluted earnings per share (in euros) (note 14) | 2.71 | 2.51 |

The note numbers refer to the notes to the consolidated financial statements in Volume 2 of the 2007 Annual Report.

## Consolidated balance sheet

### Assets

| (in millions of euros) | 31/12/2007 Gross | Depreciation amortisation and impairment | Net value | 31/12/2006 Net value |
|---|---|---|---|---|
| **Non-current assets** | **1,355.5** | **511.0** | **844.5** | **804.0** |
| Goodwill (note 15) | 63.4 | 31.0 | 32.4 | 18.9 |
| Intangibles (note 16) | 100.5 | 60.2 | 40.3 | 36.5 |
| Property, plant and equipment (note 17) | 984.5 | 415.0 | 569.5 | 537.8 |
| Investment property (note 18) | 13.1 | 1.2 | 11.9 | 11.7 |
| Available-for-sale securities (note 21) | 12.2 | 2.3 | 9.9 | 17.2 |
| Held-to-maturity securities (note 21) | 35.0 | - | 35.0 | 23.7 |
| Investments in associates (note 12) | 21.8 | - | 21.8 | 33.9 |
| Loans and deposits (note 22) | 16.4 | 1.2 | 15.2 | 14.2 |
| Deferred tax assets (note 11) | 108.4 | - | 108.4 | 110.1 |
| Other non-current assets | 0.2 | 0.1 | 0.1 | - |
| **Curent assets** | **1,379.8** | **159.2** | **1,220.6** | **1,142.0** |
| Inventories and work in progress (note 20) | 585.1 | 153.0 | 432.1 | 349.7 |
| Trade receivables (note 23) | 140.4 | 5.0 | 135.4 | 118.1 |
| Current tax receivables (notes 11-23) | 2.5 | - | 2.5 | 0.9 |
| Other receivables (note 23) | 63.0 | 1.2 | 61.8 | 55.0 |
| Financial instruments at fair value (note 25) | 58.9 | - | 58.9 | 47.9 |
| Cash and cash equivalents (notes 24-25) | 529.9 | - | 529.9 | 570.4 |
| **Total assets** | **2,735.3** | **670.2** | **2,065.1** | **1,946.0** |

The note numbers refer to the notes to the consolidated financial statements in Volume 2 of the 2007 Annual Report.

## Equity & liabilities

Before appropriation

(in millions of euros)

| | 31/12/2007 | 31/12/2006 |
|---|---|---|
| **Shareholders' equity** | **1,475.1** | **1,424.2** |
| Share capital | 54.1 | 54.5 |
| Share premium | 43.5 | 41.6 |
| Treasury shares | (33.8) | (6.6) |
| Reserves | 1,138.8 | 1,049.9 |
| Translation adjustment | (45.2) | (14.7) |
| Derivatives included in equity | 17.0 | 15.9 |
| Net income for the year | 288.0 | 268.4 |
| Minority interests (note 13) | 12.7 | 15.2 |
| **Non-current liabilities** | **99.6** | **109.2** |
| Borrowings and debt (note 25) | 25.3 | 24.0 |
| Reserves (note 26) | 1.5 | - |
| Post-employment and other employee benefits (note 27) | 39.8 | 36.0 |
| Deferred tax liabilities (note 11) | 8.1 | 21.2 |
| Other non-current liabilities (note 28) | 24.9 | 28.0 |
| **Current liabilities** | **490.4** | **412.6** |
| Borrowings and debt (note 25) | 60.7 | 43.0 |
| Reserves (note 26) | 15.1 | 11.0 |
| Pension and other employee benefits (note 27) | 4.0 | 4.7 |
| Trade payables (note 28) | 204.7 | 163.4 |
| Financial instruments at fair value (note 25) | 32.6 | 28.0 |
| Current tax liabilities (notes 11-28) | 34.6 | 33.2 |
| Other current liabilities (note 28) | 138.7 | 129.3 |
| **Total equity and liabilities** | **2,065.1** | **1,946.0** |

The note numbers refer to the notes to the consolidated financial statements in Volume 2 of the 2007 Annual Report.

## Consolidated statement of cash flows

Before appropriation

| (in millions of euros) | 31/12/2007 | 31/12/2006 |
|---|---|---|
| **Operating cash flow*** | **356.6** | **321.7** |
| **Operating cash flow before cost of debt and current tax charge** | **502.3** | **469.7** |
| Inventories and work in progress | (60.8) | (37.4) |
| Trade receivables | (4.9) | (13.8) |
| Other receivables and miscellaneous items (excluding current tax charge) | (3.7) | (4.8) |
| Accounts payable | 24.7 | 14.7 |
| Other liabilities and miscellaneous items (excluding current tax charge) | 14.9 | 5.9 |
| Change in fair value of derivatives | 0.1 | 0.6 |
| **Change in operating working capital requirement** | **(29.7)** | **(34.8)** |
| **Cash flow from operating activities** | **472.6** | **434.9** |
| Cost of net debt | 11.8 | 0.2 |
| Corporate income tax paid | (159.6) | (141.8) |
| **Net cash flow from operating activities** | **324.8** | **293.3** |
| Acquisitions of intangibles | (13.3) | (10.0) |
| Acquisitions of property, plant and equipment | (106.6) | (113.2) |
| Acquisitions of investments in associates | (36.0) | (11.1) |
| Acquisitions of other long-term investments | (20.4) | - |
| Amounts payable relating to non-current assets | 13.9 | 5.7 |
| Proceeds from sales of non-current operating assets | 4.4 | 1.5 |
| Proceeds from disposals of interests in consolidated companies | - | 12.8 |
| Proceeds from disposals of other long-term investments | 15.0 | 15.6 |
| **Cash used in investing activities** | **(143.0)** | **(98.7)** |
| Dividends paid | (106.6) | (95.0) |
| Purchases of treasury shares | (100.6) | (136.2) |
| Borrowings | 5.7 | 6.9 |
| Loan reimbursements | (9.1) | (12.4) |
| Other increases/(decreases) in equity | 2.0 | 5.7 |
| **Cash used in financing activities** | **(208.6)** | **(231.0)** |
| Effect of changes in scope of consolidation | (20.9) | (2.9) |
| Effect of foreign exchange differences | (10.0) | (7.2) |
| **Change in net cash position** | **(57.7)** | **(46.5)** |
| | | |
| Net cash position at 1 January (**) | 538.2 | 584.7 |
| Net cash position at 31 December(**) | 480.5 | 538.2 |
| **Change in net cash position** | **(57.7)** | **(46,5)** |

*Calculation of operating cash flow

| (in millions of euros) | 2007 | 2006 |
|---|---|---|
| **Net income - Group's share** | **288.0** | **268.4** |
| Depreciation and amortisation | 64.6 | 54.3 |
| Negative goodwill | - | (2.4) |
| Impairment losses | 1.3 | 4.5 |
| Derivatives marked to market | (6.3) | 2.6 |
| Currency gains/(losses) on fair value adjustments | 6.1 | 7.0 |
| Change in reserves | 1.2 | 0.9 |
| Share in net income/(losses) of associates | (1.6) | 5.9 |
| Minority interests | 5.8 | 4.4 |
| Capital gains/(losses) on disposals | (1.2) | (19.7) |
| Deferred tax | (2.0) | (3.0) |
| Other | 0.7 | (1.2) |
| **Operating cash flow** | **356.6** | **321.7** |
| Cost of net debt | (11.8) | (0.2) |
| Current tax charge | 157.5 | 148.2 |
| **Operating cash flow before cost of net debt and current tax charge** | **502.3** | **469.7** |

**Reconciliation of net cash position at 31 December

| (in millions of euros) | 31/12/2007 | 31/12/2006 |
|---|---|---|
| Cash and cash equivalents | 529.9 | 570.4 |
| Bank overdrafts and current accounts in debit | (49.4) | (32.2) |
| **Net cash and cash equivalents** | **480.5** | **538.2** |

# Shareholder's Guide

## FINANCIAL INFORMATION

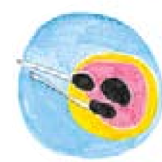
Since 2005, Hermès International's Annual Report has been registered with the Autorité des Marchés Financiers (AMF) as the Company's shelf-registration document. The Annual Report is prepared jointly by Hermès' Legal Department, Finance Department and Publishing Department and is published in French and in English.

Hermès was one of eight SBF 120 companies to receive the Best Annual Report prize (*Grand Prix du Rapport Annuel*) for 2006 awarded by *La Vie Financière* and *Les Echos*.

The Annual Report may be consulted and downloaded online on the Company's financial reporting website, 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 on outstanding shares and voting rights;
• disclosures on the share buyback programme;
• minutes of the General Meeting and result of votes on resolutions submitted to shareholders;
• press releases;
• most recent Articles of Association;
• annual registration document.

Hard copies of the Annual Report are available upon request, at no charge.



## SHAREHOLDER INFORMATION

Once a year, shareholders receive the *Lettre aux Actionnaires* (Letter to Shareholders), which contains information on the Company's business operations and financial results.

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) 1 40 17 49 54
Email:
lionel.martin.guinard@hermes.com
Financial information website:
www.hermes-international.com

During the lifetime of this Annual Report, the shareholders may consult the following documents relating to Hermès International, or copies of such documents at the Company's main administrative office (preferably by appointment) at 13/15 rue de la Ville-l'Évêque, 75008 Paris:
• the Company's Articles of Association;
• the Annual Reports for the two previous years.

### 2008 calendar (for information only)

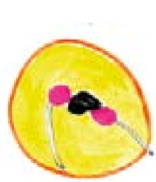
| | |
|---|---|
| 2007 consolidated sales: | 7 February 2008 |
| 2007 consolidated net income: | 20 March 2008 |
| Q1 2008 consolidated sales: | 7 May 2008 |
| Combined General Meeting of shareholders: | 3 June 2008 in the morning |
| Q2 2008 consolidated sales: | 22 July 2008 |
| H1 2008 consolidated net income: | 29 August 2008 |
| Q3 2008 consolidated sales: | 6 November 2008 |

## 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 Tolbiac
75450 Paris Cedex 09
Tel.: +33 (0) 8 26 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 by 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. 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

If you wish to attend the meeting in person, appoint a proxy or vote by mail, you must show proof of identity at the time of registration and be a shareholder of record at least three business days before the Meeting, as evidenced either:
– by the registration of your shares in your name with BNP Paribas Securities Services (for registered shares);
– or by delivering to BNP Paribas Securities Services, GCT – Services des Assemblées, Immeuble Tolbiac, 75450 Paris Cedex 09, a certificate issued by the authorised financial intermediary that holds your account (bank, La Poste, securities firm, etc.).

**Attending the meeting in person**

To be admitted to and to vote in the meeting, you must obtain an admission card, by requesting it in writing

**Participating in the meeting by proxy**

If you wish to vote by proxy, please return the mail ballot/proxy form indicating that you wish to vote by proxy to BNP Paribas Securities Services, GCT – Services des Assemblées, Immeuble Tolbiac, 75450 Paris Cedex 09 by the date indicated in the notice of meeting, either directly (for registered shares) or through your financial intermediary (for bearer shares).
You may appoint the Chairman, your spouse or another shareholder as your proxy.

Shareholders may be represented at the meeting only by another shareholder, by their spouse or by their legal representative.

**Voting by mail**

If you wish to vote by mail, please return the mail ballot/proxy form indicating how you wish to vote on each resolution to BNP Paribas Securities Services, GCT – Services des Assemblées, Immeuble Tolbiac, 75450 Paris Cedex 09 by the date indicated in the notice of meeting, either directly (for registered shares), or through your financial intermediary (for bearer shares).

## OWNERSHIP THRESHOLD DISCLOSURES

**Ownership thresholds as provided by law (Articles L 233-7 *et seq.* of the Code de Commerce)**

Any natural or legal person, acting alone or jointly, coming into possession of a number of Hermès International shares representing more than 5% of the share capital or voting rights (see table below) is required to disclose to Hermès International the total number of shares or voting rights it holds.

Such disclosure must also be made whenever the percentage of share capital or voting rights held falls below one of the thresholds indicated below.

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 thresholds must be monitored.

The thresholds may be attained after shares are acquired or sold, whether by means of purchase, transfer, merger, split-up, scrip dividends or by any other means, or following a change in the apportionment of voting rights (gain or loss of double voting rights).

| Threshold | Equivalent (%) | Reporting requirements |
|---|---|---|
| 1/20th | 5.00% | |
| 1/10th | 10.00% | Statement of intent |
| 3/20ths | 15.00% | |
| 1/5th | 20.00% | Statement of intent |
| 1/4 | 25.00% | |
| 1/3rd | 33.33% | File takeover bid for cash or for shares |
| 1/2 | 50.00% | |
| 2/3 | 66.66% | |
| 18/20ths | 90.00% | |
| 19/20ths | 95.00% | |

**Ownership thresholds as provided by the Articles of Association**

Any natural or legal person, acting alone or jointly, and 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 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.

Photo credits
Front cover: Studio des Fleurs (Belles du Mexique *carré*, designed by Virginie Jamin)
Back cover: Hideo Hata, opening of the Hermès Midosuji store in Osaka on 5 April 2007

P. 6: Studio des Fleurs
P. 7: Michel Labelle
P. 10, 11: Quentin Bertoux
P. 12: Roberto Frankenberg
P. 14: Vincent Leroux
P. 16: Draeger
P. 18-19: Studio des Fleurs (enamel bracelets, Quick women's shoe), Jacques Boulay (*Hermessence* collection), Nick Welsh (Cape Cod watch), Quentin Bertoux (*Silkypop* bag)
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P. 34: Top: Quentin Bertoux (Tortue and Hérisson coin purse), Studio des Fleurs (Cochon coin purse); bottom: Koto Bolofo
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P. 57: Tracey Sherwood
P. 58: © Eurocopter/photo Éric Raz
P. 59: Left: Vincent Leroux; right: Frédéric de Gasquet
P. 60: Michel Denancé
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P. 77: Quentin Bertoux
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Illustrations
PP. 3, 4-5, 6, 8-9, 11, 17, 22, 25, 26-27, 34-35, 39, 40, 43, 46-47, 48-49, 59, 63, 68, 70, 73, 77, 81, 82-83, 86, 88, 94-95, 96 , 99, 100: Cassandre Montoriol

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AUTORITÉ DES MARCHÉS FINANCIERS

AMF

In accordance with Article 621-8-1-I of the Code Monétaire et Financier and of the General Regulations, and more specifically Article 212-13 thereof, the Autorité des Marchés Financiers (AMF) has registered this shelf-registration document, comprising Volume 1 and Volume 2 of the Annual Report, on 14 April 2008 under number R08-023. This document may be not used in support of a financial transaction unless accompanied by an offering circular approved by the AMF. It has been drafted by the issuer and is the responsibility of its signatories. However, this registration does not imply that the accounting and financial items shown have been verified by the AMF.

# HERMÈS

2007 ANNUAL REPORT

# VOLUME 2

Hermès International
Partnership limited by shares with share capital of €54,105,499.14 - 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 2008 - ISBN 978-2-35102-043-2

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* Information required by New Economic Regulations (NRE) Act.

# Corporate governance

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

The composition of the corporate bodies and an overview of their operation are provided in Volume I, pages 10 to 13 of the Annual Report.

*Changes during the year 2007*

During its meeting of 24 January 2007, the Supervisory Board decided to co-opt Mr Robert Peugeot as Supervisory Board member to replace Mr Jean-Claude Rouzaud, who resigned on 27 November 2006. This appointment was ratified by the General Meeting of 5 June 2007.
Mr Jean-Louis Dumas, who served as Executive Chairman of Émile Hermès SARL (the Active Partner in Hermès International) since the company was created, did not wish to stand for re-election when his term of office expired.
At the General Meeting of Émile Hermès SARL on 5 June 2007, Mr Bertrand Puech was appointed for a term of three years to replace him.

## 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 61 in 2008, 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 rejoined the Hermès Group on 15 July 2003 as Managing Director of Hermès International and was appointed Executive Chairman on 15 September 2004.
He holds full legal title to 3,503 Hermès International shares.

***Émile Hermès SARL*** (see paragraph below on the Active Partner).

The term of office of the Executive Chairmen is unlimited.

*Active Partner*

***Émile Hermès SARL*** is a *société à responsabilité limitée à capital variable* (limited company with variable capital). Its partners are the direct descendants of Mr Émile Hermès and his wife. Émile Hermès SARL's Executive Chairman is Mr Bertrand Puech, a grandson of Émile Hermès. The Company is governed by a Management Board. Émile Hermès SARL's primary corporate purpose is to serve as an Active Partner of Hermès International.
The Company's modus operandi is described on pages 217-218.
Émile Hermès SARL has been an Active Partner of Hermès International since 27 December 1990. Émile Hermès SARL was appointed Co-Executive Chairman on that date and held that office until 31 December 1994. Émile Hermès SARL was again appointed Co-Executive Chairman of Hermès International on 1 April 2006.
Émile Hermès SARL holds full legal title to 108,000 Hermès International shares.
It does not now hold, nor has it, in the past held, any offices in any other company.

*Supervisory Board*

***Mr Jérôme Guerrand***, a French national, age 64 in 2008, is a direct descendant of Mr Émile Hermès. He has served as Chairman of the Supervisory Board since 27 December 1990.
Mr Guerrand trained as an attorney and was a senior executive in the banking industry for over 25 years.
He is the beneficial owner of 1,565,730 Hermès International shares and has full legal title to 3,895,572 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 2007.

***Mr Maurice de Kervénoaël***, a French national, age 72 in 2008, is not related to the Hermès family. 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 in January 2005.
He is a graduate of École des Hautes Études Commerciales (HEC).
He is currently the Executive Manager of MDK Consulting.
He holds full legal title to 303 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 2007.

***Mr Ernest-Antoine Seillière***, a French national, age 71 in 2008, is not related to the Hermès family. 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 Remuneration Committee since its inception in 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.
He holds full legal title to 30 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 2007.

***Mr Frédéric Dumas***, a French national, age 62 in 2008, is a direct descendant of Mr Émile Hermès. He has been a member of the Supervisory Board since 2 June 2005.
He is a graduate of Institut Supérieur du Commerce and holds a Bachelor of Arts degree from the Art Center College of Design in Pasadena, California.
He is a commercial photographer.
He holds full legal title to 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 2007.

***Miss Julie Guerrand***, a French national, age 33 in 2008, is a direct descendant of Mr Émile Hermès. She has been a member of the Supervisory Board since 2 June 2005. She has also been a member of the Audit Committee since its inception in January 2005.
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, lastly, Deputy Director of the Financial Affairs Department (mergers and acquisitions counsel) at the Rothschild & Cie investment bank. Since March 2007, she has been Director of Equity Investments at Paris Orléans, a holding company listed on Euronext and controlled by the Rothschild family.
She holds full legal title to 14,100 Hermès International shares and is the reversionary owner of 536,010 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 2007.

***Mrs Agnès Harth***, a French national, age 64 in 2008, is a direct descendant of Mr Émile Hermès. She has been a member of the Supervisory Board since 2 June 2005.
After graduating from École des Cadres for executives, she attended various programmes, including Institut d'Études Supérieures des Arts (IESA), with a specialisation in silversmithing, and École du Louvre. She retired at the end of 2007 after serving as Director of Design and Heritage at Puiforcat within La Compagnie des Arts de la Table since 1996.
She holds full legal title to 3,841,620 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 2007.

***Mr Renaud Momméja***, a French national, age 46 in 2008, is a direct descendant of Mr Émile Hermès. He has been a member of the Supervisory Board since 2 June 2005.
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.
He holds full legal title to 120,324 Hermès International shares and is the reversionary owner of 365,610 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 2007.

***Mr Robert Peugeot***, a French national, age 58 in 2008, is not related to the Hermès family. He has been a member of the Supervisory Board of Hermès International since 24 January 2007.
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 was Executive Vice President, Innovation and Quality at the PSA Peugeot Citroën Group and member of that group's Executive Committee.
He has served as Chairman and Chief Executive Officer of FPP (Société Foncière, Financière et de Participations) since December 2002 and as Supervisory Board member of Peugeot SA since February 2007.
He holds full legal title to 10 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 2007.

***Mr Éric de Seynes***, a French national, age 48 in 2008, is a direct descendant of Mr Émile Hermès. He has been a member of the Supervisory Board since 2 June 2005. He has also been a member of the Audit Committee since its inception in January 2005.

He is a graduate of École Supérieure Libre des Sciences Commerciales Appliquées (ESLSCA) with a specialisation in marketing.

Until 2001, he served as Sales and Marketing Director at Yamaha Motor France and as a member of Yamaha Motor Europe's Marketing, Distribution and Product Development Coordination Committees.

He is currently Chairman of the Option Group, of Option Organisation and of Option Sport Événements, which is active in advertising sales, trade show organisation and sports events planning

He holds full legal title to 3 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 2007.

## OFFICES AND POSITIONS HELD BY THE CORPORATE EXECUTIVE OFFICERS AND SUPERVISORY BOARD MEMBERS AT ANY TIME DURING THE PAST FIVE YEARS

A list of all offices and positions held by each Corporate Executive Officer and Supervisory Board member over the past five years is provided in the annexes to the Management Report (pages 34 to 42).

## REMUNERATION OF CORPORATE EXECUTIVE OFFICERS AND SUPERVISORY BOARD MEMBERS

The Executive Chairmen and the members of the Supervisory Board are shareholders and as such, they received a dividend of €0.95 per share in 2007.

*Executive Chairmen*

• Remuneration – benefits in kind

Each Executive Chairman has the right to receive certain remuneration under Article 17 of the Articles of Association, and may also receive additional remuneration, 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 under the Articles of Association is capped at 0.20% of the Company's consolidated income before tax for the previous financial year.

Within the ceilings set forth herein, the Management Board of the Active Partner Émile Hermès SARL determines the effective amount of the annual remuneration authorised by 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 remuneration, in addition to the remuneration authorised by the Articles of Association, up to a maximum 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 sales for the previous financial year at constant exchange rates and on the same scope of consolidation, by comparison with sales for the next to last financial year. Within the limits of the ceiling defined above, the Management Board of Émile Hermès SARL, Active Partner, sets the effective amount of the annual additional remuneration payable to the Executive Chairman, which amounted to €729,172 in 2007.

| Gross annual remuneration paid to the Executive Chairmen, as determined by the Management Board of Émile Hermès SARL, Active Partner | Remuneration authorised by Articles of Association[1] | | Additional remuneration[2] | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| Mr Patrick Thomas[2] | €817,880 | €775,068 | €729,172 | €676,412 |
| *Fixed component* | *€0* | *€0* | *€676,412* | *€630,393* |
| *Variable component paid in respect of the previous year* | *€817,880* | *€775,068* | *€52,760* | *€46,019* |
| *Exceptional component* | *€0* | *€0* | *€0* | *€0* |
| Émile Hermès SARL[3] | €817,880 | €581,301 | €729,172 | €507,309 |
| *Fixed component* | *€0* | *€0* | *€676,412* | *€472,794* |
| *Variable component paid in respect of the previous year* | *€817,880* | *€581,301* | *€52,760* | *€34,515* |
| *Exceptional component* | *€0* | *€0* | *€0* | *€0* |

1. Management Board decision of 21-22 March 2006.
2. Management Board decision of 20-21 March 2007.
3. As Émile Hermès SARL has held the office of Executive Chairman since 1 April 2006, 2006 remuneration was determined on a pro rata basis.

The above table shows the effective amount of the additional remuneration paid to the Executive Chairmen of Émile Hermès SARL for 2006 and 2007.

Each year, the Remuneration 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.

Mr Patrick Thomas has the use of a company car, a benefit valued at €3,763 per year. This is the only benefit in kind that he receives.

Mr Bertrand Puech does not receive any remuneration from Hermès International.

• Pension plan

Mr Patrick Thomas is eligible for the top-up pension scheme for management that was instituted in 1991. Under this scheme, he will receive annual calculated payments based on years of service and annual remuneration. The payments amount to a percentage of remuneration 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 supplemental pension plans, may not in any event exceed 70% of annual remuneration (fixed and variable) for the last year of service. The beneficiary is also eligible for a reversion scheme, under which the surviving spouse receives 60% of annual remuneration. The total amount booked to reserves for this purpose is shown in Note 27 of the Consolidated Financial Statements on page 137.

• Deferred remuneration obligations

The Company has undertaken to pay Mr Patrick Thomas compensation amounting to 24 months' remuneration upon completion of his term of office as Executive Chairman.

At its meeting of 19 March 2008, the Supervisory Board authorised this obligation as a related party agreement, subject to fulfilment of the following performance-based conditions, such that the terms and conditions of his departure will be in keeping

with the Company's situation: he must meet projected targets (sales and operating profit growth targets measured at constant exchange rates) in four of the previous five years, with no deterioration in the Hermès brand image.
The shareholders will be asked to approve this agreement in the fifth resolution submitted at the Combined General Meeting of 3 June 2008.

• Stock options – Bonus shares
Mr Patrick Thomas did not receive any options to subscribe for or to purchase shares in 2007.
At 31 December 2007, he held no options to subscribe for new shares and held 30,000 options to purchase existing shares of Hermès International.
Mr Patrick Thomas did not exercise any options to subscribe for new shares or to purchase existing shares of Hermès International in 2007.
At its meeting of 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.
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 on page 21.

*Active Partner*

Under the terms of Article 26 of the Articles of Association, the Company pays 0.67% of the distributable profits to the Active Partner. The amounts paid in respect of 2006 and 2007 are shown in the table below:

| **Active Partner** | Allocation of profits in respect of the previous year | |
|---|---|---|
| | 2007 | 2006 |
| Émile Hermès SARL | €1,511,738.72 | €1,359,345.88 |

*Supervisory Board - Audit Committee and Remuneration Committee*

The total amount of directors' fees and remuneration paid to the Supervisory Board members was set at €130,000 by the Ordinary General Meeting of 2 June 2005 and has not changed since then.
The Supervisory Board allocated total annual directors' fees and remuneration approved by the General Meeting for 2006 and 2007 as follows:

| Allocation by the Board | 2007 | 2006 |
|---|---|---|
| Mr Jérôme Guerrand | €34 000 | €34 000 |
| Mr Maurice de Kervénoaël | €12 000 | €12 000 |
| Mr Ernest-Antoine Seillière | €12 000 | €12 000 |
| Mr Frédéric Dumas | €12 000 | €12 000 |
| Miss Julie Guerrand | €12 000 | €12 000 |
| Mrs Agnès Harth | €12 000 | €12 000 |
| Mr Renaud Momméja | €12 000 | €12 000 |
| Mr Robert Peugeot | €12 000 | n/a |
| Mr Jean-Claude Rouzaud | n/a | €12 000 |
| Mr Éric de Seynes | €12 000 | €12 000 |
| **Total amount allocated** | **€130 000** | **€130 000** |

The members of the Audit Committee and Remuneration Committee received the following amounts in consideration for their service on these committees:

| **Audit Committee** | | |
|---|---|---|
| | 2007 | 2006 |
| Mr Maurice de Kervénoaël | €10 000 | €10 000 |
| Miss Julie Guerrand | €5 000 | €5 000 |
| Mr Charles-Éric Bauer | €5 000 | €5 000 |
| Mr Éric de Seynes | €5 000 | €5 000 |
| **Remuneration Committee** | | |
| | 2007 | 2006 |
| Mr Ernest-Antoine Seillière | €10 000 | €10 000 |
| Mr Bertrand Puech | €5 000 | €5 000 |

• Stock options – Bonus shares

No stock options were allotted to Supervisory Board members during 2007, nor were any such options exercised by those persons.

Mrs Agnès Harth received 25 bonus shares of Hermès International in 2007 pursuant to the Executive Management's decision of 30 November 2007 as detailed on page 21.

## REMUNERATION PAID TO CORPORATE EXECUTIVE OFFICERS BY CONTROLLED COMPANIES

Certain Corporate Executive Officers who are bound by employment agreements to certain subsidiaries of the Company receive salaries in consideration for the performance of their duties within these subsidiaries and are eligible for compensation under those subsidiaries' incentive schemes and profit-sharing plans.

The amounts paid by controlled companies to the only Corporate Executive Officer concerned are shown in the table below.

| | Mrs Agnès Harth | |
|---|---|---|
| | 2007 | 2006 |
| Gross salary | €39,522 | €35,797 |
| Variable remuneration | €0 | €0 |
| Exceptional remuneration | €0 | €0 |
| Benefits in kind | €0 | €0 |
| Lump-sum retirement benefits | €6,943 | €0 |
| **Total** | **€46,465** | **€35,797** |

Other Corporate Executive Officers and Supervisory Board members hold offices in certain subsidiaries of the Company and received directors' fees for their services in 2006 and 2007:

| **Recipients of directors' fees paid by controlled companies** | 2007 | 2006 |
|---|---|---|
| Mr Jérôme Guerrand | €20,000 | €20,000 |
| Mr Maurice de Kervénoaël | €10,000 | €30,000 |
| Mr Frédéric Dumas | €10,000 | €10,000 |
| Mr Renaud Momméja | €10,000 | €10,000 |
| Mr Bertrand Puech | €17,296 | n/a |
| Mr Éric de Seynes | €10,000 | €10,000 |

## STATEMENTS BY CORPORATE EXECUTIVE OFFICERS AND SUPERVISORY BOARD MEMBERS

According to the statements made 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 Director has been the subject of any official public accusation or penalty, issued by the statutory or regulatory authorities (including designated professional bodies).

## Trading in Hermès International shares held by Corporate Executive Officers and Directors 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 Regulations, we hereby report to you on trading in the Company's shares by the Company's Corporate Executive Officers and Directors and their immediate family members during the past year.

| Transaction date | Name and office held | Description of transaction | Type of securities | Unit price | Total transaction amount |
|---|---|---|---|---|---|
| 9 February 2007 | Christian Blanckaert, Managing Director International Affairs, Executive Committee member | Sale | Other financial instruments | €101.5350 | €1,279,260.00 |
| 9 February 2007 | Christian Blanckaert, Managing Director, International Affairs, Executive Committee member | Purchase | Other financial instruments | €85.284 | €1,279,260.00 |
| 9 February 2007 | Christian Blanckaert, Managing Director, International Affairs, Executive Committee member | Purchase | Other financial instruments | €96.087 | €900,220.00 |
| 9 February 2007 | Christian Blanckaert, Managing Director, International Affairs, Executive Committee member | Sale | Other financial instruments | €96.087 | €900,220.00 |
| 13 February 2007 | Christian Blanckaert, Managing Director, International Affairs, Executive Committee member | Purchase | Other financial instruments | €94.61 | €373,200.00 |
| 13 February 2007 | Christian Blanckaert, Managing Director, International Affairs, Executive Committee member | Sale | Other financial instruments | €94.61 | €373,200.00 |
| 22 March 2007 | Patrick Thomas, Executive Chairman | Sale | Shares | €104.82 | €104,820.00 |
| 15 May 2007 | Julie Guerrand, Supervisory Board member | Sale | Shares | €102.50 | €23,062.50 |
| 25 May 2007 | Renaud Momméja, Supervisory Board member and Isaline Momméja, member of the Management Board of Émile Hermès SARL, Executive Chairman, Active Partner | Exchange | Shares | €70.00 | €72,422,000.00 |
| 25 May 2007 | Isaline Momméja, member of the Management Board of Émile Hermès SARL, Executive Chairman, Active Partner | Exchange | Shares | €70.00 | €72,422,000.00 |
| 25 May 2007 | Renaud Momméja, Supervisory Board member | Exchange | Shares | €70.00 | €72,422,000.00 |
| 8 June 2007 | Guillaume de Seynes, Deputy Managing Director, Executive Committee member | Sale | Shares | €89.0275 | €521,166.00 |
| 12 June 2007 | Émile Hermès SARL, Executive Chairman, Active Partner | Purchase | Shares | €87.9260 | €1,406,816.00 |
| 14 June 2007 | Guillaume de Seynes, Deputy Managing Director, Executive Committee member | Purchase | Shares | €88.73 | €806,733.00 |
| 14 June 2007 | Pierre-Alexis Dumas, Artistic Director, Executive Committee member | Sale | Shares | €88.73 | €193,430.00 |
| 14 June 2007 | Pierre-Alexis Dumas, Artistic Director, Executive Committee member | Sale | Shares | €88.73 | €210,200.00 |
| 14 June 2007 | Guillaume de Seynes Deputy Managing Director, Executive Committee member | Sale | Shares | €88.7947 | €287,517.00 |
| 20 June 2007 | Émile Hermès SARL, Executive Chairman, Active Partner | Purchase | Shares | €85.8670 | €1,459,739.00 |
| 21 June 2007 | Pierre-Alexis Dumas, Artistic Director, Executive Committee member | Sale | Other financial instruments | €86.26 | €9,833,640.00 |
| 27 July 2007 | Guillaume de Seynes, Deputy Managing Director, Executive Committee member | Sale | Shares | €76.8164 | €1,766,779.00 |
| 27 July 2007 | Guillaume de Seynes, Deputy Managing Director, Executive Committee member | Purchase | Shares | €73.965 | €1,786,698.00 |
| 27 July 2007 | Pierre-Alexis Dumas, Artistic Director, Executive Committee member | Sale | Shares | €73.95 | €893,168.00 |
| 27 July 2007 | Pierre-Alexis Dumas, Artistic Director, Executive Committee member | Sale | Shares | €73.98 | €893,530.00 |
| 11 September 2007 | Sandrine Brekke Dumas, member of the Management Board of Émile Hermès SARL, Executive Chairman, Active Partner | Sale | Other financial instruments | €77.7161 | €2,144,964.00 |
| 12 September 2007 | Sandrine Brekke Dumas, member of the Management Board of Émile Hermès SARL, Executive Chairman, Active Partner | Sale | Other financial instruments | €77.5575 | €1,938,937.00 |
| 17 September 2007 | Sandrine Brekke Dumas, member of the Management Board of Émile Hermès SARL, Executive Chairman, Active Partner | Sale | Other financial instruments | €77.3456 | €1,252,225.00 |
| 18 September 2007 | Sandrine Brekke Dumas, member of the Management Board of Émile Hermès SARL, Executive Chairman, Active Partner | Sale | Other financial instruments | €77.7423 | €388,711.00 |
| 19 September 2007 | Sandrine Brekke Dumas, member of the Management Board of Émile Hermès SARL, Executive Chairman, Active Partner | Sale | Other financial instruments | €80.3032 | €1,686,367.00 |

| Transaction date | Name and office held | Description of transaction | Type of securities | Unit price | Total transaction amount |
|---|---|---|---|---|---|
| 26 September 2007 | Frédéric Dumas, Supervisory Board member | Sale | Shares | €79.345 | €317,380.00 |
| 27 September 2007 | Marie-France Bauer, member of the Management Board of Émile Hermès SARL, Executive Chairman, Active Partner | Purchase | Shares | €79.50 | €477,000.00 |
| 27 September 2007 | Marie-France Bauer, member of the Management Board of Émile Hermès SARL, Executive Chairman, Active Partner | Sale | Shares | €79.50 | €477,000.00 |
| 2 October 2007 | Frédéric Dumas, Supervisory Board member | Sale | Shares | €80.25 | €321,000.00 |
| 5 October 2007 | Frédéric Dumas, Supervisory Board member | Sale | Shares | €87.80 | €38,193.00 |
| 9 October 2007 | Frédéric Dumas, Supervisory Board member | Sale | Shares | €88.5733 | €315,763.71 |
| 10 October 2007 | Frédéric Dumas, Supervisory Board member | Sale | Shares | €89.275 | €133,912.50 |

No other Corporate Executive Officer or Supervisory Board member of Hermès International reported trading in any Hermès International shares in 2007.

No other member of senior management (Executive Committee members) of Hermès International reported any trading in any Hermès International shares in 2007.

Neither did the Company receive any reports of such trading from any of their immediate family members.

## Ownership interests of Corporate Executive Officers, Executive Managers and Supervisory Board members

As of 31 December 2007, the interests of Corporate Executive Officers, Executive Managers and Supervisory Board members in the Company's share capital, as reported to the Company, were as follows:

| | Shares held by legal owners and beneficial owners[1] (Ordinary General Meeting called to vote on appropriation of earnings) | | | | Shares held by legal owners and beneficial owners[1] (Extraordinary General Meeting) | | | |
|---|---|---|---|---|---|---|---|---|
| | Number of shares | % | Number of votes | % | Number of shares | % | Number of votes | % |
| **Share capital at 31/12/2007** | **106,089,214** | **100.00%** | **171,555,376** | **100.00%** | **106,089,214** | **100.00%** | **171,555,376** | **100.00%** |
| **Executive Chairmen** | | | | | | | | |
| Émile Hermès SARL | 108,000 | 0.10% | 165,000 | 0.10% | 108,000 | 0.10% | 165,000 | 0.10% |
| Mr Patrick Thomas | 3,503 | 0.00% | 3,503 | 0.00% | 3,503 | 0.00% | 3,503 | 0.00% |
| **Supervisory Board members** | | | | | | | | |
| Mr Frédéric Dumas | 230 | 0.00% | 260 | 0.00% | 230 | 0.00% | 260 | 0.00% |
| Mr Jérôme Guerrand | 5,461,302 | 5.15% | 10,922,604 | 6.37% | 3,895,872 | 3.57% | 7,791,144 | 4.54% |
| Miss Julie Guerrand | 14,100 | 0.01% | 28,200 | 0.02% | 536,010 | 0.49% | 1,072,020 | 0.62% |
| Mrs Agnès Harth | 3,841,620 | 3.62% | 7,682,760 | 4.48% | 3,841,620 | 3.40% | 7,682,760 | 4.48% |
| Mr Maurice de Kervénoaël | 303 | 0.00% | 306 | 0.00% | 303 | 0.00% | 306 | 0.00% |
| Mr Renaud Momméja | 120,324 | 0.11% | 157,264 | 0.09% | 485,934 | 0.00% | 888,484 | 0.52% |
| Mr Robert Peugeot | 10 | 0.00% | 10 | 0.00% | 10 | 0.00% | 10 | 0.00% |
| Mr Ernest-Antoine Seillière | 30 | 0.00% | 60 | 0.00% | 30 | 0.00% | 60 | 0.00% |
| Mr Éric de Seynes | 3 | 0.00% | 3 | 0.00% | 3 | 0.00% | 3 | 0.00% |
| **Executive Committee members (excluding the Executive Chairmen)** | | | | | | | | |
| Mr Patrick Albaladejo | – | – | – | – | – | – | – | – |
| Mr Christian Blanckaert | – | – | – | – | – | – | – | – |
| Mrs Mireille Maury | – | – | – | – | – | – | – | – |
| Mr Guillaume de Seynes | 30 | 0.00% | 60 | 0.00% | 30 | 0.00% | 60 | 0.00% |
| Mr Pierre-Alexis Dumas | 114,000 | 0.11% | 114,000 | 0.07% | 2,636,700 | 0.00% | 5,159,400 | 3.01% |

1. The method of allocating voting rights is described on page 46.

## CONFLICTS OF INTEREST

The Company did not enter into any transactions with its Corporate Executive Officers or Supervisory Board members, other than ordinary transactions conducted on an arm's length basis. Neither did the Company grant any loans or guarantees to the Corporate Executive Officers or Supervisory Board members.

No Corporate Executive Officer or Supervisory Board member has reported any conflict of interest between the Company's interests and his or her own personal interests.

No Corporate Executive Officer or Supervisory Board member is bound to the Company or to any of its subsidiaries by any service contract providing that they would receive benefits.

## Options to subscribe for and/or to purchase shares

The shareholders authorised Executive Management:
– to grant options to subscribe for new shares and/or options to purchase existing shares, at the Extraordinary General Meeting of 25 May 1998;
– to grant options to subscribe for new shares and/or options to purchase existing shares to certain employees, Corporate Executive Officers and Executive Managers of Hermès International and of affiliated companies, at the Extraordinary General Meetings of 3 June 2003 and 6 June 2006.

In 2007, the Executive Management using of these authorisations did not grant any options to subscribe for new shares or options to purchase existing shares to employees or Executive Managers.

During the year ended 31 December 2007, options were exercised entitling the holders to subscribe for 44,100 shares with a par value of €0.51 each, resulting in a capital increase of €22,491. The Executive Management formally noted this increase in its decisions of 9 July 2007 and 7 January 2008.

Following the three-for-one stock split on 10 June 2006, by a decision dated 12 June 2006, the Executive Management carried out the following adjustments for stock option plans remaining in effect as of that date:
– the number of shares to which all outstanding stock options entitle the holder 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 2007 and reflecting these adjustments is shown in the table below.

| Date of Executive Management decision | Total number of options allotted | Options allotted to Company managers[1] | Number of Company managers concerned | Options exercisable as of | Expiration date | Exercise price in euros | Number of options exercised at 31/12/2007 | Number of options outstanding at 31/12/2007 | Number of forfeited options at 31/12/2007 |
|---|---|---|---|---|---|---|---|---|---|
| General Meeting of 25/05/1998 – Options to subscribe for and/or to purchase shares | | | | | | | | | |
| 20/04/2001[2] | 72,000 | 42,000 | 2 | 20/04/2003 | 19/04/2008 | €44.78 | 51,000 | 21,000 | 0 |
| 04/03/2002[2] | 160,500 | 27,000 | 2 | 04/03/2004 | 03/03/2009 | €52.09 | 56,100 | 99,900 | 4,500 |
| 15/10/2002[2] | 60,000 | 60,000 | 1 | 15/10/2002 | 14/10/2009 | €41.59 | 60,000 | 0 | 0 |
| 15/10/2002[2] | 30,000 | 30,000 | 0 | 15/10/2003[4]<br>15/10/2004[4] | 14/10/2009 | €41.59 | 30,000 | 0 | 0 |
| General Meeting of 03/06/2003 – Options to purchase shares | | | | | | | | | |
| 04/07/2003[3] | 42,000 | 42,000 | 1 | 04/07/2005 | 03/07/2010 | €40.40 | 27,000 | 15,000 | 0 |
| 15/12/2004[3] | 84,000 | 84,000 | 3 | 16/12/2004 | 15/12/2011 | €44.43 | 0 | 84,000 | 0 |
| General Meeting of 06/06/2006 – Options to purchase shares | | | | | | | | | |
| Nil | | | | | | | | | |

1. For purposes of this table, Company Managers include the Executive Chairmen, members of the Supervisory Board and members of the Executive Committee of the issuing company as of the option grant date. 2. Options to subscribe for shares. 3. Options to purchase shares. 4. For half of the options.

At 31 December 2007, there were 120,900 outstanding options to subscribe for shares, potentially resulting in the creation of 120,900 new shares, equivalent to a total par value of €61,659. At that date, the maximum potential dilution arising from the aforesaid options amounted to 0.11% of the share capital of Hermès International at 31 December 2007.

The table below shows the number of options to subscribe for or to purchase shares allotted to the ten employees other than Corporate Executive Officers and Directors who received the largest number of options and options exercised by such employees

| | Total number of options allotted/number of shares purchased or subscribed for | Weighted average price | Expiry date | Date of plan |
|---|---|---|---|---|
| Options allotted 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) | 0 | – | – | – |
| Options exercised during the year by 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) | 14,100<br>30,000 | €52.09<br>€41.59 | 03/03/2009<br>14/10/2009 | 04/03/2002<br>15/10/2002 |

## Bonus shares

In accordance with Article L 225-197-4 of the Code de Commerce, we hereby report to you on bonus shares granted during 2007.

The Executive Management has been authorised to allot bonus shares, on one or more occasions, to some or all employees and/or Corporate Executive Officers and Executive Managers of the Company or companies affiliated therewith, by granting existing shares in the Company for no consideration, within the following limitations:

– up to 2% of the number of shares outstanding as of the grant date, by the Extraordinary General Meeting of 6 June 2006 (tenth resolution);

– up to 2% of the number of shares outstanding as of the grant date, by the Extraordinary General Meeting of 5 June 2007 (fifteenth resolution).

The total number of shares allotted for no consideration and the total number of options to purchase existing shares that were allotted and not yet exercised (see information on preceding page) is capped at 2% of the number of shares in the Company as of the allotment date.

When it granted the above authorisation, 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 Meeting of 5 June 2007 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.

In 2007, Executive Management used these authorisations to allot 170,025 bonus shares to 6,801 employees, Corporate Executive Officers and Executive Managers with at least nine months of service and who meet the other allotment criteria.

The terms and conditions of bonus share issues are summarised in the table below.

| Date of Executive Management decision | Total number of shares allotted | Shares allotted to Company managers [1] | Number of Company managers concerned | Ownership transfer date of shares allotted | Date from which shares may be sold | Value of shares allotted | Number of forfeited shares at 31/12/2007 |
|---|---|---|---|---|---|---|---|
| General Meeting of 06/06/2006 – Issues of bonus shares | | | | | | | |
| Nil | | | | | | | |
| General Meeting of 05/06/2007 - Issues of bonus shares | | | | | | | |
| 30/11/2007 | 170,025 | 150 | 6 | 02/12/2011 | 03/12/2013[2]<br>02/12/2011[3] | €0 | 0 |

1. For purposes of this table, Company managers include the Executive Chairmen, members of the Supervisory Board and members of the Executive Committee of the issuing company as of the date on which the bonus shares were allotted. 2. Beneficiaries who were employees of the Company and its French subsidiaries. 3. Beneficiaries who were employees of the Company's foreign subsidiaries.

Bonus share issues do not dilute the share capital because they consist exclusively of existing shares in the Company. Their value as of the allotment date and in accordance with the method used to recognise them in the consolidated financial statements is shown in Note 33 to the Consolidated Financial Statements on page 146.

The table below shows the number of bonus shares allotted to the ten employees other than Corporate Executive Officers and Supervisory Board members who received the largest number of shares.

| | Total number of options allotted/ number of shares purchased or subscribed for | Effective date of plan |
|---|---|---|
| Shares allotted 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) | 250 | 01/12/2007 |

The Executive Management

## Report from the Chairman of the Supervisory Board on the conditions for preparation and organisation of the Supervisory Board's work

In accordance with the applicable regulations and with the recommendations issued by the Autorité des Marchés Financiers, we hereby submit our report on the conditions for preparation and organisation of the Board's work and on the principles of corporate governance established and followed by the Company.

The Company follows those AFEP/MEDEF recommendations on corporate governance that are applicable to a *société en commandite par actions* (partnership limited by shares).

In 2007, the Supervisory Board initiated a survey of corporate governance in the light of the new corporate governance guidelines, namely those issued by the AFEP, AMF and AFG.

### Composition of the Supervisory Board

The Supervisory Board comprises nine members: Mr Jérôme Guerrand, *Chairman*; Mr Maurice de Kervénoaël and Mr Ernest-Antoine Seillière, *Vice-Chairmen*; and Mrs Agnès Harth, Miss Julie Guerrand, Mr Frédéric Dumas, Mr Renaud Momméja, Mr Robert Peugeot and Mr Éric de Seynes.

Mrs Nathalie Besombes, who is in charge of corporate legal matters, serves as Secretary of the Board under the Chairman's supervision.

In keeping with the ownership structure of the Company, which is majority-owned by the Hermès family, several years ago, the Supervisory Board was opened up to include members who are not related to the Hermès family. Three incumbent Supervisory Board members are not related to the Hermès family: Messrs Maurice de Kervénoaël, Robert Peugeot and Ernest-Antoine Seillière.

The Shareholders are asked to re-elect Mr Jérôme Guerrand, Mr Maurice de Kervénoaël, Mr Ernest-Antoine Seillière, Miss Julie Guerrand, Mr Renaud Momméja and Mr Robert Peugeot, whose term of office is expiring (Mrs Agnès Harth, Mr Frédéric Dumas and Mr Éric de Seynes have declined to stand for re-election), and to appoint three new Supervisory Board members who are direct descendants of Mr Émile-Maurice Hermès: Mr Charles-Éric Bauer, Mr Matthieu Dumas and Mr Guillaume de Seynes.

### Operation of the Supervisory Board

The Supervisory Board has not established any rules of procedure, as its modus operandi are clearly delineated in the Company's Articles of Association, which appear on page 208.

The Statutory Auditors and the Works Council representatives are systematically invited to attend all Supervisory Board meetings.

The Supervisory Board meets at least twice a year, as stipulated by the Articles of Association.

During 2007, the Supervisory Board met four times. All Supervisory Board members diligently came to meetings. As shown in the table on page 23, the average attendance rate was 91%.

In addition, 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 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

| | Attendance | Number of meetings | Individual attendance rate |
|---|---|---|---|
| Mr Jérôme Guerrand | 4 | 4 | 100% |
| Mr Maurice de Kervénoaël | 4 | 4 | 100% |
| Mr Ernest-Antoine Seillière | 3 | 4 | 75% |
| Mr Frédéric Dumas | 4 | 4 | 100% |
| Mrs Agnès Harth | 4 | 4 | 100% |
| Miss Julie Guerrand | 4 | 4 | 100% |
| Mr Renaud Momméja | 3 | 4 | 75% |
| Mr Robert Peugeot | 2 | 3 | 67% |
| Mr Éric de Seynes | 4 | 4 | 100% |
| Average | | | 91% |

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 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 2007 in a report presented to the Annual General Meeting called to approve the financial statements (pages 183 to 184).

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

### 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.

There is a ceiling on such reimbursements.

### Directors' fees and remuneration

The Supervisory Board apportioned directors' fees in the amount of €130,000 for 2007, as approved by a resolution adopted by the shareholders at the Ordinary General Meeting of 5 June 2007. The fees apportioned to each Director are shown on page 15 of the Management Report.

At its meeting of 19 March 2008, the Supervisory Board, on the recommendation of the Remuneration Committee, decided to change the method by which it sets the amount of directors' fees and remuneration to be paid to each Supervisory Board member by instituting a variable component based on attendance as from 2008. The Supervisory Board also decided to include in the total directors' fees and remuneration approved by the Shareholders the amounts paid (see page 15) to Audit Committee and Remuneration Committee members, which totalled €40,000 in 2007.

The Supervisory Board proposes to allot directors' fees and remuneration as follows:

– €60,000 for the fixed component of the Supervisory Board Chairman's remuneration, 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;

– €12,000 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;

– €10,000 for the fixed component and no variable component for the Audit Committee and Remuneration Committee Chairmen;

– €5,000 for the fixed component and no variable component for the other Audit Committee and Remuneration Committee members;

– 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.

Hence, at the General Meeting of 3 June 2008, the Shareholders will be asked to approve an appropriation of €242,000 for directors' fees and remuneration payable to the Supervisory Board members.

### Special committees

In January 2005, the Supervisory Board created two special committees: a Remuneration Committee and an Audit Committee.

**• Remuneration Committee**

The Remuneration Committee consists of the following members:

– Mr Ernest-Antoine Seillière, Chairman;

– Mr Bertrand Puech, member.

The missions of the Remuneration Committee are:

– to receive information and make recommendations on the terms and conditions of remuneration paid to Executive Committee members;

– to receive information and make recommendations on the terms and conditions of any share purchase options and bonus shares granted to Executive Committee members;

– 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 Remuneration Committee met twice during 2007. All members attended both meetings (the average attendance rate was 100%).

In 2007, the Remuneration Committee reviewed the following matters and issued recommendations thereon:

– 2007 compensation, 2006 bonuses and target bonuses for 2007 for Executive Committee members;

– 2007 compensation for the Executive Chairmen;

– defined-contribution retirement plan (Art. 83);

– bonus share allotment plan;

– stock option plan.

**• 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;
– Mr Éric de Seynes, member.

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.

The Audit Committee met twice during 2007. All members attended both meetings (the average attendance rate was 100%).

In 2007, the Audit Committee reviewed the following matters and issued recommendations thereon:

– review of the consolidated financial statements for the year ended 31 December 2006;
– Statutory Auditors' report on the consolidated financial statements;
– review of investment procedure;
– review of consolidated financial statements for the six months to 30 June 2007;
– Statutory Auditors' report on the consolidated financial statements;
– review of foreign currency investment and risk management procedures;
– review of findings on certain auditing engagements carried out at subsidiaries.

The Committee also carried out a trial audit to test one subsidiary's internal control and cash security system.

• **Compensation of Committee members**

Members of the Remuneration Committee and Audit Committee receive €5,000 per year and the Chairmen of those committees receive €10,000 per year.

### Operation of the Committees

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 members in attendance.

### Principles and rules applied by the Board to determine remuneration and benefits in kind granted to Corporate Executive Officers

As described in the Management Report (page 13), the Executive Chairmen's remuneration is capped by a ceiling defined in the Articles of Association (remuneration authorised by the Articles of Association) and by a ceiling approved by the General Meeting (additional remuneration). The Management Board of Émile Hermès SARL, Active Partner, determines the remuneration effectively paid to the Executive Chairmen within these limits. The Remuneration Committee ascertains that remuneration paid to the Executive Chairmen complies with the rules set forth above.

The Chairman of the Supervisory Board

## Executive Management's report on internal control procedures instituted by the Company

This report has been prepared on a voluntary basis by reference to Article 117 of the Loi de Sécurité Financière (Financial Security Act) of 1 August 2003 (Article L 225/37 of the Code de Commerce) and in accordance with Article L 621-18-3 of the Code Monétaire et Financier. This report describes the internal control procedures that the Company has instituted.

In preparing this report, and in accordance with the AMF's recommendation of January 2007, Hermès International used the "reference framework" (and the associated "application guide") developed by the Marketplace Group and published by the AMF.

### Hermès International's internal control system

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.

More broadly, 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.

By helping to prevent and control the risk that the Company will not meet its stated targets, internal control plays an important role in the conduct and oversight of Hermès International's different businesses.

However, no internal control system can guarantee that the Company will meet its targets or that it will eliminate all risks.

Hermès International strives to apply an effective internal control system within all of its subsidiaries.

### A strong internal control environment

While Hermès has attained the stature of an international group, it retains its human dimension. The Company is dedicated to a culture and spirit of craftsmanship and seeks to cultivate a well-rounded set of values among its employees in a family-style environment.

Among these values, quality is paramount. The Group's commitment to quality – the very essence of Hermès' business – applies not only to products but also to 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 Hermès 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.

#### • An effective organisation

The Company's management, which is organised into an Executive Committee, a Management Committee and several special committees, ensures that strategic directions are consistently followed and that information is effectively disseminated. Detailed organisational charts and memoranda outlining strategic directions give staff members a thorough understanding of their role in the organisation and enable them periodically to evaluate their performance by comparing it with stated targets.

In 2007, the reorganisation of the business sectors initiated in 2006 continued to bear fruit. Responsibilities within each business sector are now clearly delineated and formally documented, addressing both legal and operational aspects.

The sales organisation is based on a multi-local approach designed to foster a high level of accountability among local managers, whose duties and responsibilities are described in detail.

The retail sales outlets are supervised by local entities, whose managers report to the Group's International Affairs Department, thereby ensuring consistency in operations and providing a means of control.

Through its network of over 50 human resources managers, Hermès has established hiring, training and skills development programmes designed to enable each individual effectively to perform his or her duties.

Within Hermès International, the Finance Department has primary responsibility for preparation and control of financial information. It oversees the Management Control and Consolidation Department, the Accounting and Tax Department, the Treasury Management Department and the Corporate Financial Communication Department.

The Financial Control Department monitors and verifies financial information, both actual and projected, reported by the subsidiaries. Its main role is to ensure that the subsidiaries' financial management is consistent with Executive Management's goals. Throughout the year, it works closely with the Managing Directors and Finance Directors of the subsidiaries to anticipate their needs and provide support.

The Management Control and Consolidation Department is responsible for preparing financial information in compliance with applicable standards and for tracking the Group's profitability in the short and medium term.

Lastly, the Audit Committee created in 2005 ascertains that the Group's internal control system is operating properly. Its responsibilities are described in the report from the Chairman of the Supervisory Board on the conditions for preparation and organisation of the Supervisory Board's work on page 22.

**• High-quality 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 by 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 (or setting parameters) of accounting and management systems (management systems, for items used to prepare and process published accounting and financial information), and all systems that directly or indirectly send data to the accounting and management systems.

As indicated in the 2006 report, in 2007, the Group implemented a new reporting and consolidation application designed to optimise accounting and financial reporting controls. It was deployed within all subsidiaries consolidated by Hermès International and a post-implementation audit of this tool was carried out by one of the Statutory Auditors, whose main recommendations were duly taken into account.

### • Formally documented operating procedures

Hermès International and its subsidiaries have several manuals of procedure applying to the major categories of business sectors, activities and regions. Most of these procedures can be consulted on the Group's intranet. The Group Manual of Procedures, which is posted on the intranet, describes the following main procedures: purchasing, sales, cash management, inventories, fixed assets, human resources and IT systems. The Store Internal Control Manual contains more operational internal control procedures for managing and controlling the stores. These apply mainly to sales, account collections, inventory management and store security. Highly formalised procedures are also applied to the logistics function, and one of the major logistics centres has obtained ISO 9001 certification. Lastly, most Group subsidiaries, with the approval of Hermès International, have drafted procedures pertinent to their specific activities or local situations. The Financial Manual contains all rules to be followed for financial reporting to Hermès International. It was updated in 2007 at the time of migration to the new reporting and consolidation application. This Manual describes all accounting, financial and internal control procedures. It also contains detailed instructions on bookkeeping and record-keeping requirements. The Group Chart of Accounts, drawn up in accordance with International Financial Reporting Standards (IFRS), also sets outs the rules for financial record-keeping. Lastly, the Group Finance Department periodically issues instructions that are sent to the subsidiaries when the year-end accounts are closed and at other times on any topic related to financial information.

Stringent procedures have been defined for investments. The Business Development and Investment Department is responsible for monitoring and financial control of all investment projects. It verifies compliance with procedures and carries out a financial analysis of planned investments and development projects. An investment authorisation procedure sets out the different stages in approving investment decisions, which must be supported by profitability forecasts.

In addition, extremely stringent cash management procedures have been put in place. The Treasury Security Rules Manual details the following procedures: (a) rules for opening and operating bank accounts, called Prudential Rules, for each of the Group's companies, which are constantly updated and, among other things, include monitoring of the authorised signatories; (b) 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); (c) a currency agreement with each relevant subsidiary, which provides a framework for the relationships between Hermès International 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 (d) a Group cash investment policy that sets out the criteria for investing the Group's cash and limits on its use by members of the Hermès International Treasury Management Department.

## Stringent internal control management procedures

**• Targeted risk analysis**

Hermès is committed to safeguarding its assets through an active risk management policy. Volume 1 of the Annual Report describes the main risk factors to which the Group is exposed.

Hermès has instituted a variety of systematic or specific processes to identify and analyse its main risks. This work, which falls under the responsibility of operations staff, is coordinated by the Audit and Risk Management Department.

Hermès has instituted two types of systematic processes: mapping of major risks and self-assessment of internal control items.

The purpose of risk mapping is to identify and prioritise the main risks to which the Group's entities and business sectors are exposed and to institute formal procedures for taking any measures needed to take such risks into account in operations management. The operating managers, with the support of the Audit and Risks Department, are in charge of risk mapping, which is based on interviews with the managers of the Group's main subsidiaries. This process was initiated in 2004 and continued in the following years. Six risk maps were drawn up in 2007 for various business sectors and distribution subsidiaries. Some 100 senior managers from the Group participated in this approach, thereby enhancing Hermès' awareness of risk management issues. Following this work, operational action plans were launched whenever this was deemed appropriate. These encompass the main business sectors and activities, and are periodically applied to the Group as a whole.

Self-assessment of internal control items is based on an operational process-based approach.

An internal control self-assessment system was developed for this purpose, with questionnaires covering the key controls of the processes under review to be completed on the intranet by the subsidiaries. This system will provide a way to assess the level of internal control within the subsidiaries and 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. Since 2004, all the subsidiaries have completed about a dozen self-assessments, and a number of these have been audited by the Group's internal auditors.

Hermès has also instructed specific processes to address certain categories of risk. The system operates through special committees or task forces. These committees meet periodically, depending on the type of risk (generally, monthly).

As an example, special committees assigned to property risk and treasury risk meet to analyse the main risks identified internally or through third-party audits and to ascertain that existing control systems comply with Hermès standards. In addition, "Bird Flu" and "Crisis Management" task forces were set up to examine the Group's response to these specific risks, to draft the required procedures and to circulate those procedures to all relevant employees.

These surveys of the main identifiable risks serve as a basis for internal control procedures and activities.

**• Internal control activities carried out by operations managers**

One of the responsibilities of the operations managers is to institute stringent control systems. Hermès has traditionally taken an extremely prudent approach in this area. It requires its staff to carry out detailed controls and to apply stringent procedures. To perpetuate and expand upon a process initiated last year, the executives in charge of the Group's sixteen largest subsidiaries were asked to report to the Executive Management on the main features of the internal control system within their area of responsibility. Reporting was carried out via a detailed questionnaire, which is based on the AMF's "reference framework" and comprises over one hundred questions. Responses were analysed by the Audit and Risk Management Department and action plans were drawn up as needed.

Lastly, the Group's Executive Management periodically analyses the accounts of the subsidiaries and meets with the managers of the main subsidiaries to obtain status reports, to assess risks and to define any corrective measures required to achieve the stated goals.

• **Continuous monitoring**

While the operations managers have primary responsibility for the risk analysis processes described above, staff who are involved in operations also participate in the process. These independent observers contribute to formulating an objective assessment not only of risks but also of internal control systems. The special committees mentioned above also play a role in oversight and control.

The Audit and Risk Management Department, which is responsible for ascertaining that operations managers comply with the internal control rules defined by Hermès International, also coordinates the work of a team comprising over ten auditors (in France, New York, Hong Kong and Tokyo). This staffing is consistent with good practices observed in France. Hermès International auditors apply the four principles laid down by the IFACI (Institut Français de l'Audit et du Contrôle Interne – French Internal Control and Audit Institute) Code of Conduct: integrity, objectivity, confidentiality and expertise. The Department reports to the Group's Executive Committee, which guarantees its independence, namely from operations, and has unlimited authority to review any matter at its discretion. The Head of Audit and Risk Management attends Audit Committee meetings and meets with its Chairman on a regular basis.

Auditors work on the basis of an audit plan, which is drawn up every year and may be altered every six months as needed. The Audit and Risk Management Department conducts different types of audits: general internal control audits, security audits (designed primarily to assess internal controls applied to cash and inventory management), organisational audits and special assignments carried out at the Executive Management's request. Upon completion of the audits, reports are prepared that contain the audit findings, identify risks and recommend 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 Executive Management.

Specialised audits (mainly IT system, labour and environmental audits) are also conducted from time to time by the Company's different functional departments, with the help of outside consultants when necessary.

In 2007, the Group's internal auditors divided their time between internal audits of risk analysis actions (risk mapping) and projects designed to enhance the internal control system. These audits and projects were carried out in all regions where the Group is active.

Lastly, as part of the account certification process, the external auditors perform an independent audit of accounting and financial processes and of financial statement preparation procedures. Their findings are a source of valuable information that the organisation can draw on to adjust its internal control systems if necessary. The external auditors also periodically review one or more aspects of the internal control system within the Group's main entities in order to adjust their audit work on the accounts. They also validate certain aspects of the system and submit recommendations on internal control to Hermès International.

### Information on the 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 internal control system. Its goal is to ensure stringent financial oversight of the Company's business activities. It encompasses all processes involved in producing and reporting accounting and financial information. Like the general internal control system, it is based on an overall system that comprises an appropriate and effective information system organisation and a set of oversight, monitoring and control policies and procedures. In addition to the internal control goals defined above, the internal control system for accounting and financial information is designed to ensure:

– 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 for oversight or control purposes when such information is used to prepare published accounting and financial information;

– the reliability of the published accounts and of other information reported to investors.

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

Procedures for oversight of the accounting and financial organisation have been instituted to ensure that the Company's accounting and financial policy is properly applied, to manage resources and to handle certain requirements, so as to meet the Executive Management's goals. The Hermès Group 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 the holding company's tight control on information produced by the subsidiaries.

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

– Hermès International's executive management, comprising the Executive Chairmen and the Executive Committee, which consists of five Managing Directors, each of whom has well-defined areas of responsibility. The Executive Management oversees the Group's strategic management. As part of the year-end financial statement review and approval process, for which it is responsible, 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, and details on the composition of earnings and on the presentation of the balance sheet, financial condition and notes. 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 general management, the Board can verify that oversight and control systems are adequate to ensure that the financial information published by the Company is reliable and gives a true and fair view of its results and financial condition;

– the Audit Committee, whose responsibilities include reviewing and issuing comments on the parent company and consolidated financial statements before these are approved by the Executive Management, ascertaining that the accounting methods applied are relevant and consistent, and verifying that internal data collection and control procedures guarantee the quality of information provided;

– 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 they are properly applied;

– the Managing Director for Finance and Administration, who is a member of the Executive Committee, is in charge of internal control of accounting and financial information at the Group level. He is responsible for ensuring that the oversight system in place is adequate to implement accounting policy, to manage resources (organisation, human resources, tools) and to comply with requirements pertaining to the preparation of budget, accounting and financial information. He also ascertains that the year-end account closing process is carried out properly;

– the Group Finance Director and, within the Finance Department, the Management Control and Consolidation Department and Financial Control Department, which also carry out many controls designed 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.

Lastly, the overall reporting and consolidation process is reviewed on an annual basis for all the subsidiaries. This quality review of the year-end close and of the reporting of information to upper management looks at any problems that have been encountered and identifies areas that could be improved.

### • 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 at the reporting dates and from time to time on any matter related to financial information;

– 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;

– 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 numerous controls at different levels, which are designed to ensure the reliability of financial information. Reliability in preparation of the consolidated accounts is ensured by the use of an integrated software system across the entire Group for both financial management and financial reporting. Moreover, at each year-end balance sheet 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.

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 analysed their control of financial and accounting information based on the "application guide" associated with the "reference framework" published by the AMF, using a questionnaire containing over 200 questions.

The Audit and Risk Management Department also plays a key role in internal control of accounting and financial information. From time to time, it conducts audits of different subsidiaries to assess the quality of their internal control system and to issue recommendations to help operations managers improve the effectiveness and reliability of their internal controls.

### Due diligence carried out by the Executive Management in preparing this report

The Executive Management has drawn the information contained in this report primarily from the following sources:

– periodic meetings with the Managing Director for Finance and Administration, during which the various matters referred to above were discussed;
– meetings with the Director of the Audit and Risk Management Department to obtain status reports on internal control activities;
– a status report from the Statutory Auditors;
– internal documents, issued by the main operating and financial officers, detailing their responsibilities in the area of internal control, in particular with respect to the accounts, on which these officers report at the appropriate level; and
– more generally, on its knowledge of the Group's people, its organisation and its key processes.

### A process of continuous improvement

Hermès has initiated a process designed to achieve continuous improvement in its control process, as it has in most other areas of its operations.

In 2008, the Group will continue to focus on enhancing its risk mapping system and the questionnaire-based internal control self-assessment process, as well as on strengthening specific controls for certain processes.

The Executive Management

# Corporate appointments and offices held by the Executive Chairmen and Supervisory Board members at any time during the past five years

## Patrick Thomas

Date of birth: 16 June 1947

**Other offices and positions held during 2007**

| Company name | | Country | Office |
|---|---|---|---|
| Hermès International | H ◆ | France | Executive Manager |
| Ateliers AS | H | France | Permanent Representative of Sport Soie, Director |
| Banque Neuflize OBC | | France | Supervisory Board member |
| Créations, Éditions d'Étoffes d'Ameublement, CEDA, renamed Créations Métaphores | H | France | Permanent Representative of Hermès International, Director |
| 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 |
| Gaulme | | France | Vice-Chairman and Supervisory Board member |
| Héraklion | H | France | Permanent Representative of Hermès International, member of the Management Board |
| Hercia | H | France | Permanent Representative of Hermès International, Chairman |
| Hermès Sellier | H | France | Permanent Representative of Hermès International, Chairman |
| Holding Textile Hermès | H | France | Chairman |
| Immauger | H | France | Permanent Representative of Hermès International, Executive Manager |
| SAS Ateliers Nontron | H | France | Permanent Representative of Hermès International, Chairman |
| Isamyol 10 | H | France | Permanent Representative of Hermès International, Chairman |
| Isamyol 11 | H | France | Permanent Representative of Hermès International, Chairman |
| Isamyol 12 | H | France | Permanent Representative of Hermès International, Chairman |
| Isamyol 15, renamed Hermès Voyageur | 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 |
| Massilly Holding | | France | Vice-Chairman and Supervisory Board member |
| Motsch George V | 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 Edouard VII | H | France | Permanent Representative of Hermès International, Executive Manager |
| SCI Les Capucines | H | France | Permanent Representative of Hermès International, Executive Manager |
| Sport Soie | H | France | Permanent Representative of Holding Textile Hermès, Chairman |
| Leica Camera AG | ◆ | Germany | Supervisory Board member |
| Hermès Australia | H | Australia | Director |
| Hermès Benelux Scandinavie | H | Belgium | Director |
| Hermès do Brasil | H | Brazil | Member of the Consultative Committee |
| Hermès Canada | H | Canada | Director |
| Saint-Honoré Chile | H | Chile | Acting Director |

H Companies of the Hermès Group ◆ Listed company

| Company name | | Country | Office |
|---|---|---|---|
| Saint-Honoré Shanghai Commercial & Trading Co., renamed Hermès (Shanghai) Commercial & Trading Co. | H | China | Director |
| Hermès Korea | H | South Korea | Chairman and Legal Representative |
| Hermès Korea Travel Retail | H | South Korea | Chairman and Legal Representative |
| Hermès Iberica | H | Spain | Director |
| Hermès of Hawaï | H | USA | Chairman of the Board of Directors |
| Hermès of Paris | H | USA | Chairman of the Board of Directors |
| Hermtex | H | USA | Chairman of the Board of Directors |
| Hermès Grèce | H | Greece | Director |
| Hermès Greater China, renamed Hermès Asia Pacific | H | Hong Kong | Director |
| Herlee | H | Hong Kong | Chairman and Director |
| John Lobb (Hong Kong) Limited | H | Hong Kong | Director |
| Hermès Retail India Private Ltd | H | India | Director |
| Hermès Italie | H | Italy | Director |
| Hermès Japon | H | Japan | Director |
| John Lobb Japan | H | Japan | Director |
| Boissy Mexico | H | Mexico | Acting Director |
| Hermès de Paris (Mexico) | H | Mexico | Acting Director |
| Hermès Monte-Carlo | H | Principality of Monaco | Permanent Representative of Sport Soie, Director |
| Hermès Prague | H | Czech Republic | Supervisory Board member |
| Hermès GB Limited | H | United Kingdom | Director |
| Hermès South East Asia | H | Singapore | Director |
| Hermès Singapore Retail | H | Singapore | Director |
| Boissy Retail | H | Singapore | Chairman |
| Saint-Honoré (Bangkok) | H | Thailand | Director |

**Other offices and positions held during the previous four years and ending before 1 January 2007**

| Company name | | Country | Office |
|---|---|---|---|
| Hermès Gainier, renamed Hermès Intérieur & Design | H | France | Permanent Representative of Hermès International, Chairman |
| Hermès Interactif | H | France | Corporate Officer |
| Hermès International | H | France | Managing Director |
| Sport Soie | H | France | Permanent Representative of Holding Textile Hermès, Director |
| Hermès Holding US | H | USA | Chairman |
| William Grant and Sons | | United Kingdom | Chairman and CEO |

H Companies of the Hermès Group ◆ Listed company

# Corporate appointments and offices held by the Executive Chairmen and Supervisory Board members at any time during the past five years

## Bertrand Puech

Date of birth: 18 February 1936

**Other offices and positions held during 2007**

| Company name | | Country | Office |
|---|---|---|---|
| Hermès International | H ◆ | France | Permanent Representative of Émile Hermès SARL, Executive Chairman |
| John Lobb | H | France | Director |
| Émile Hermès SARL | H | France | Executive Chairman and Management Board member |
| Hermès of Paris | H | États-Unis | Director |
| Hermès Sellier | H | France | Management Board member |
| HPF | H | France | Executive Manager |
| Isamyol 10 | H | France | Corporate Officer |
| Isamyol 11 | H | France | Corporate Officer |
| Isamyol 12 | H | France | Corporate Officer |
| Sifah | H | France | Executive Manager |
| Théodule | H | France | Executive Manager |
| 28-30-32 Faubourg Saint-Honoré | H | France | Chairman |

**Other offices and positions held during the previous four years and ending before 1 January 2007**

| Company name | | Country | Office |
|---|---|---|---|
| Ateliers AS | H | France | Permanent Representative of Sport Soie, Director |
| Auger Hoche | H | France | Executive Manager |
| Boissy Mexico | H | Mexique | Acting Director |
| Briand Villiers I | | France | Executive Manager |
| Briand Villiers II | | France | Executive Manager |
| Bucol | H | France | Permanent Representative of Sport Soie, Director |
| Herciv | H | France | Executive Manager |
| Hermès de Paris (Mexico) | H | Mexico | Alternate Director |
| Holding Textile Hermes | H | France | Management Board member |
| Isamyol 8 | H | France | Corporate Officer |
| Motsch George V | H | France | Executive Manager |
| Siegl | H | France | Permanent Representative of Sport Soie, Director |
| Société Nontronnaise de Confection | H | France | Chairman of the Board of Directors and Managing Director |

H Companies of the Hermès Group ◆ Listed company

## Jérôme Guerrand

Date of birth: 15 October 1944

**Other offices and positions held during 2007**

| Company name | | Country | Office |
|---|---|---|---|
| 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 |
| Hermès Sellier | H | France | Management Board member |
| Société civile immobilière du 74 Faubourg Saint-Antoine | | France | Co-Executive Manager |
| J.L. & Co | H | United Kingdom | Director |
| Morethanhotels Limited | | United Kingdom | Director |

**Other offices and positions held during the previous four years and ending before 1 January 2007**

| Company name | | Country | Office |
|---|---|---|---|
| Hermès Sellier | H | France | Director |

## Maurice de Kervénoaël

Date of birth: 28 September 1936

**Other offices and positions held during 2007**

| Company name | | Country | Office |
|---|---|---|---|
| Hermès International | H ◆ | France | Vice-Chairman and Supervisory Board member, Audit Committee Chairman |
| Comptoir Nouveau de la Parfumerie | H | France | Vice-Chairman and Supervisory Board member |
| Laurent-Perrier | ◆ | France | Vice-Chairman and Supervisory Board member |
| MDK Consulting | | France | Executive Manager |
| Onet | | France | Supervisory Board member |
| Petit Bateau | | France | Chairman |
| SIA Groupe SA | | France | Vice-Chairman and Supervisory Board member |

**Other offices and positions held during the previous four years and ending before 1 January 2007**

| Company name | Country | Office |
|---|---|---|
| Alsatia | France | Supervisory Board member |
| Charles Riley Consultants International | France | Director |
| Irus | France | Chairman of the Supervisory Board |
| Panzani | France | Director |

H Companies of the Hermès Group ◆ Listed company

## Corporate appointments and offices held by the Executive Chairmen and Supervisory Board members at any time during the past five years

### Ernest-Antoine Seillière
Date of birth: 20 December 1937

**Other offices and positions held during 2007**

| Company name | | Country | Office |
|---|---|---|---|
| Hermès International | H ◆ | France | Vice-Chairman and Supervisory Board member, Chairman of the Remuneration Committee |
| Aseas Participations | | France | Executive Manager |
| Bureau Veritas | ◆ | France | Supervisory Board member |
| Editis Holding | | France | Supervisory Board member |
| Legrand | ◆ | France | Director |
| Gras Savoye & Cie | | France | Supervisory Board member |
| Odyssas | | France | Executive Manager |
| PSA Peugeot Citroën (Peugeot SA) | ◆ | France | Supervisory Board member |
| Société Lorraine de Participations Sidérurgiques merged with and into Wendel-Participations | | France | Chairman of the Board of Directors and Managing Director |
| Wendel Investissement, renamed Wendel | ◆ | France | Chairman of the Supervisory Board |
| Wendel-Participations, renamed Société Lorraine de Participations Sidérurgiques (SLPS) | | France | Chairman of the Board of Directors |
| Oranje Nassau Groep BV | | Netherlands | Chairman of the Supervisory Board |
| Sofisamc | | Switzerland | Director |

**Other offices and positions held during the previous four years and ending before 1 January 2007**

| Company name | | Country | Office |
|---|---|---|---|
| Bureau Veritas | ◆ | France | Permanent Representative of Oranje Nassau Groep BV, Supervisory Board member |
| Capgemini | ◆ | France | Director, Vice-Chairman of the Board of Directors |
| Legrand Holding, renamed Legrand | ◆ | France | Chairman of the Board of Directors |
| Wendel Investissement, renamed Wendel | ◆ | France | Chairman of the Board of Directors and Managing Director |
| Lumina Parent | | Luxembourg | Chairman of the Board of Directors |
| Trader Classified Media | | Netherlands | Chairman of the Supervisory Board |

### Frédéric Dumas
Date of birth: 13 May 1946

**Other offices and positions held during 2007**

| Company name | | Country | Office |
|---|---|---|---|
| Hermès international | H ◆ | France | Supervisory Board member |
| Carquois | | France | Executive Manager |
| Comptoir Nouveau de la Parfumerie | H | France | Supervisory Board member |
| Dobropol | | France | Executive Manager |
| Flèches | | France | Executive Committee member |
| Sagaie | | France | General Partner |
| Société civile immobilière du 74 Faubourg Saint-Antoine | | France | Co-Executive Manager |

H Companies of the Hermès Group ◆ Listed company

**Other offices and positions held during the previous four years and ending before 1 January 2007**

| Company name | | Country | Office |
|---|---|---|---|
| Flèches | | France | Executive Manager |

## Julie Guerrand

Date of birth: 26 February 1975

**Other offices and positions held during 2007**

| Company name | | Country | Office |
|---|---|---|---|
| Hermès International | H ◆ | France | Supervisory Board member, Audit Committee member |
| Antonino | | France | Executive Manager |
| Jerocaro | | 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 2007**

| Company name | | Country | Office |
|---|---|---|---|
| Rothschild & Cie | | France | Assistant Director |
| Rothschild & Cie | | France | Deputy Director |

## Agnès Harth

Née le 4 octobre 1944

**Other offices and positions held during 2007**

| Company name | | Country | Office |
|---|---|---|---|
| Hermès International | H ◆ | France | Supervisory Board member |
| BJOP - Bijouterie Joaillerie Orfèvrerie Perle | | France | Supervisory Board member |
| Cintaphée | | France | Executive Manager |
| Compagnie des Arts de la Table | H | France | Director of Design and Heritage at Puiforcat |
| Émile Hermès SARL | | France | Executive Management Board member |
| Hermès Sellier | H | France | Management Board member |
| Sirano | | France | Executive Manager |

H Companies of the Hermès Group ◆ Listed company

**Other offices and positions held during the previous four years and ending before 1 January 2007**

| Company name | | Country | Office |
|---|---|---|---|
| Hermès Sellier | H | France | Director |

## Renaud Momméja

Date of birth: 20 March 1962

**Other offices and positions held during 2007**

| Company name | | Country | Office |
|---|---|---|---|
| Hermès International | H ◆ | France | Supervisory Board member |
| Altizo | | France | Executive Manager and majority shareholder |
| Comptoir Nouveau de la Parfumerie | H | France | Supervisory Board member |
| GFA Château Fourcas Hosten | | France | Co-Executive Manager |
| Newsweb | | France | Permanent Representative of Altizo, Supervisory Board member |
| Lor | | France | Co-Executive Manager |
| Pollux et Consorts | | France | Executive Committee member |
| SARL Tolazi | | France | Executive Manager |
| SCI Briand Villiers I | | France | Executive Manager |
| SCI Briand Villiers II | | France | Executive Manager |
| Société Immobilière du Faubourg Saint-Honoré “SIFAH” | | France | Executive Manager |
| Société civile immobilière du 74 Faubourg Saint Antoine | | France | Co-Executive Manager |
| Société civile du Château Fourcas Hosten | | France | Permanent Representative of Lor, Executive Manager |
| J.L. & Co | H | United Kingdom | Director |
| Catapult Asset Management | | United Kingdom | Director |

**Other offices and positions held during the previous four years and ending before 1 January 2007**

| Company name | Country | Office |
|---|---|---|
| Abrilot (absorbée par Pollux et Consorts) | France | Co-Executive Manager |
| Cabinet de conseil Marketing Marand Momméja Associés | France | Associate Director |
| Carat Local Agence Conseil Media | France | Marketing Director |
| Carat Sud-Ouest | France | Director |
| Sport 4 Fun | France | Member of the Board of Directors |
| Société civile du Château Fourcas Hosten | France | Executive Manager and Partner |

H Companies of the Hermès Group ◆ Listed company

## Robert Peugeot

Date of birth: 25 April 1950

**Other offices and positions held during 2007**

| Company name | | Country | Office |
|---|---|---|---|
| Hermès International | H ◆ | France | Vice-Chairman and Supervisory Board member |
| Aviva France | | France | Supervisory Board member |
| Aviva Participations | | France | Director |
| CHP Gestion | | France | Executive Manager |
| Établissements Peugeot Frères | | France | Director |
| Faurecia | | France | Director |
| Financière Guiraud et de Participations | | France | Legal Representative of Société Foncière, Financière et de Participations FFP, Chairman |
| GIE PSA Renault | | France | Director |
| Holding Reinier | | France | Director |
| Imerys | ◆ | France | Director |
| Immeubles et Participations de l'Est | | France | Director |
| LFPF – La Française de Participations Financières | | France | Director |
| PSA Peugeot Citroën (Peugeot SA) | ◆ | France | Executive Committee member and Director of Innovation and Quality |
| PSA Peugeot Citroën (Peugeot SA) | ◆ | France | Supervisory Board member |
| Rodom | | France | Executive Manager |
| Sanef | | France | Director |
| Société Foncière, Financière et de Participations – FFP | ◆ | France | Chairman and CEO |
| Zodiac | | France | Permanent Representative of Société Foncière, Financière et de Participations – FFP, Supervisory Board member |
| Citroën Deutschland Aktiengesellschaft | | Germany | Supervisory Board member |
| Alpine Holding | | Austria | Director |
| Citroën Danemark A/S | | Denmark | Director |
| B-1998, SL | | Spain | Director |
| Fomentos de Construcciones y Contratas, SA | | Spain | Director |
| FCC Construccion, SA | | Spain | Director |
| Simante S.L. | | Spain | Chairman and CEO |
| Citroën UK Ltd | | United Kingdom | Director |
| WRG – Waste Recycling Group Ltd | | United Kingdom | Director |

H Companies of the Hermès Group ◆ Listed company

# Corporate appointments and offices held by the Executive Chairmen 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 2007**

| Company name | | Country | Office |
|---|---|---|---|
| Groupe Taittinger | | France | Supervisory Board member |
| Imerys | ◆ | France | Supervisory Board member |
| Institut français du pétrole | | France | Director |
| Lisi | ◆ | France | Director |
| Société du Louvre | | France | Director |
| Peugeot Automobile UK Ltd | | United Kingdom | Director |

## Éric de Seynes

Date of birth: 9 June 1960

**Other offices and positions held during 2007**

| Company name | | Country | Office |
|---|---|---|---|
| Hermès international | H ◆ | France | Supervisory Board member, Audit Committee member |
| Brame et Lorenceau | | France | Director |
| CLMC | | France | Executive Manager |
| Éditions Signes de Caractères | | France | Executive Manager |
| Groupe Option | | France | Chairman |
| Hermès Sellier | H | France | Management Board member |
| Les Producteurs | | France | Director |
| Option Organisation | | France | Chairman |
| Option Presse | | France | Chairman |
| Option Sports Événements | | France | Chairman |
| SCP Place des Vosges | | France | Member of the Management Board |
| SFERIC | | France | Executive Manager |
| Société Immobilière Groupe Option | | France | Chairman |
| Suntseu | | France | Director |
| WEEA Organisation | | France | Co-Executive Manager |
| Alcopa | | Belgium | Advisory Board Member |

**Other offices and positions held during the previous four years and ending before 1 January 2007**

| Company name | | Country | Office |
|---|---|---|---|
| Hermès Sellier | H | France | Director |

H Companies of the Hermès Group ◆ Listed company

# Information on the share capital and on the shareholders

## SHARE CAPITAL

| | Amount | Number | Par value |
|---|---|---|---|
| At 01/01/2007 | €54,506,155.14 | 106,874,814 | €0.51 |
| At 31/12/2007 | €54,105,499.14 | 106,089,214 | €0.51 |
| At AGM date | €54,105,499.14 | 106,089,214 | €0.51 |

All shares are fully paid.

## VOTING RIGHTS

At 29 February 2008, there were 170,771,889 voting rights outstanding.

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. These reports are published on its website (www.hermes-international.com).

Each share gives the holder the right to cast at least one vote at General Meetings of shareholders, with the exception of shares held in treasury 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 (please refer to Article 11 of the Articles of Association on page 209).

## 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 Partners;

– Émile Hermès SARL, the Active Partner, must retain in its Articles of Association certain provisions concerning its legal form, corporate purpose and the conditions to be met to qualify as a partner (see Article 14.3 of the Articles of Association of Hermès International on page 211);

– the company may be converted into a SARL (limited liability company) or SA (corporation) only with the consent of a majority of the Active Partners; decisions taken by the General Meetings of partners (shareholders) are valid only if approved by the Active Partners 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 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 owners 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, powers have been delegated to the Executive Management to issue share purchase warrants during times of public offerings, and, more generally, to carry out capital increases.

# Information on the share capital

## Changes in the share capital over the past three years

| Date | Transaction | Share capital after transaction | Number of shares after transaction | Par value | Share premium | Number of shares issued [I]/ cancelled [C] |
|---|---|---|---|---|---|---|
| 12/01/2005 | Capital increase of €16,516.35 for options exercised by employees between 1 July 2004 and 31 December 2004 | €56,575,073.16 | 36,977,172 | €1.53 | € 49.54 | 10,795 [I] |
| 15/05/2005 | Capital reduction of €478,556.46 from cancellation of treasury shares | €56,096,516.70 | 36,664,390 | €1.53 | | 312,782 [C] |
| 18/07/2005 | Capital increase of €20,650.41 for options exercised by employees between 1 January 2005 and 30 June 2005 | €56,117,167.11 | 36,677,887 | €1.53 | €49.54<br>€63,55 | 13,097 [I]<br>400 [I] |
| 07/09/2005 | Capital reduction of €584,553.33 from cancellation of treasury shares | €55,532,613.78 | 36,295,826 | €1.53 | | 382,061 [C] |
| 09/01/2006 | Capital increase of €58,182.84 for options exercised by employees between 1 July 2005 and 31 December 2005 | €55,590,796.62 | 36,333,854 | €1.53 | €49.54<br>€63,55<br>€132,81 | 23,968 [I]<br>60 [I]<br>14,000 [I] |
| | Capital reduction of €130,865.49 from cancellation of treasury shares | €55,459,931.13 | 36,248,321 | €1.53 | | 85,533 [C] |
| 03/04/2006 | Capital increase of €28,213.20 for options exercised by employees between 1 January 2006 and 30 March 2006 | €55,488,144.33 | 36,266,761 | €1.53 | €63.55<br>€70.80<br>€132.81<br>€154.75 | 1,940 [I]<br>1,000 [I]<br>3,000 [I]<br>12,500 [I] |
| 10/06/2006 | Three-for-one stock split. Par value reduced from €1.53 to €0.51 | €55,488,144.33 | 108,800,283 | €0.51 | | N/A |
| 10/07/2006 | Capital reduction of €1,014,884.19 from cancellation of treasury shares | €54,473,260.14 | 106,810,314 | €0.51 | | 1,989,969 [C] |
| 08/01/2007 | Capital increase of €32,895 for options exercised by employees between 1 July 2006 and 31 December 2006 | €54,506,155.14 | 106,874,814 | €0.51 | €52.04<br>€41.59 | 4,500 [I]<br>60,000 [I] |
| 09/07/2007 | Capital increase of €14,586 for options exercised by employees between 1 January 2007 and 30 June 2007 | €54,520,741.14 | 106,903,414 | €0.51 | €52.09<br>€41.59 | 13,600 [I]<br>15,000 [I] |
| 13/07/2007 | Capital reduction of €423,147 from cancellation of treasury shares | €54,097,594.14 | 106,073,714 | €0.51 | | 829,700 [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 | €52.09<br>€41.59 | 500 [I]<br>15,000 [I] |

There has been no other change in share capital since 7 January 2008.

## 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 to increase the share capital. It shows: all authorisations currently in effect; any authorisations used during 2007; proposed new authorisations to be submitted to the shareholders at the General Meeting of 3 June 2008.

| Existing authorisations and authorisations proposed to the Combined General Meeting of 3 June 2008 | Date of AGM *Resolution* | Term of authorisation *Expires*[4] | Characteristics | Used during 2007 |
|---|---|---|---|---|
| **Issues made by capitalisation of reserves** | | | | |
| Capital increase effected by capitalisation of reserves, earnings or share premiums | 2 June 2005 *Twenty-third* | 26 months *5 June 2007* | Nominal ceiling € 5,600,000[1] | None |
| Capital increase effected by capitalisation of reserves, earnings or share premiums | 5 June 2007 *Eleventh* | 26 months *5 August 2009* | Nominal ceiling € 5,450,000[2] | None |
| **Issues with preferential subscription rights** | | | | |
| All securities giving access to share capital | 2 June 2005 *Twenty-fourth* | 26 months *5 June 2007* | Nominal ceiling € 5,600,000[1] | None |
| All securities giving access to share capital | 5 June 2007 *Twelfth* | 26 months *5 August 2009* | Nominal ceiling € 5,450,000 €[2] | None |
| Issues of share warrants during times of public offerings | 6 June 2006 *Eleventh* | 26 months *6 August 2008* | Maximum of €120m Max. of 2 warrants per share | None |
| Issues of share warrants during times of public offerings | 3 June 2008 *Twentieth* | 18 months *3 December 2009* | Maximum of €110m Max. of 2 warrants per share | – |
| **Issues without preferential subscription rights** | | | | |
| All securities giving access to share capital | 2 June 2005 *Twenty-fifth* | 26 months *5 June 2007* | Nominal ceiling € 5,600,000[1] | None |
| All securities giving access to share capital | 5 June 2007 *Thirteenth* | 26 months *5 August 2009* | Nominal ceiling € 5,450,000[2] | None |
| Employee rights issue | 2 June 2005 *Twenty-sixth* | 26 months *5 June 2007* | Ceiling: 1% of total number of shares | None |
| Employee rights issue | 6 June 2006 *Twelfth* | 26 months *5 June 2007* | Ceiling: 1% of total number of shares | None |
| Employee rights issue | 5 June 2007 *Fourteenth* | 26 months *5 August 2009* | Ceiling: 1% of total number of shares | None |
| Employee rights issue | 3 June 2008 *Twenty-first* | 26 months *3 August 2010* | Ceiling: 1% of total number of shares | – |
| **Share buyback programme** | | | | |
| Share buyback | 6 June 2006 *Sixth* | 18 months *5 June 2007* | Ceiling: 10% of share capital Maximum purchase price: €360 Maximum amount of funds committed: €700m | See page 53 of report |
| Share buyback | 5 June 2007 *Sixth* | 18 months *5 December 2008* | Ceiling: 10% of share capital Maximum purchase price: €200 Maximum amount of funds committed: €650m | See page 53 of report |
| Share buyback | 3 June 2008 *Seventeenth* | 18 months *5 December 2009* | Ceiling: 10% of share capital Maximum purchase price: €200 Maximum amount of funds committed: €650m | – |
| Cancellation of shares bought | 6 June 2006 *Eighth* | 24 months *5 June 2007* | Ceiling: 10% of share capital | See page 53 of report |
| Cancellation of shares bought | 5 June 2007 *Tenth* | 24 months *5 August 2009* | Ceiling: 10% of share capital | See page 53 of report |
| Cancellation of shares bought | 3 June 2008 *Nineteenth* | 24 months *3 June 2010* | Ceiling: 10% of share capital | – |
| **Bonus issues and stock options** | | | | |
| Bonus share issue reserved for employees and Corporate Executive Officers and Executive Managers | 6 June 2006 *Tenth* | 38 months *5 June 2007* | Ceiling: 2% of share capital[3] | None |
| Bonus share issue reserved for employees and Corporate Executive Officers and Executive Managers | 5 June 2007 *Fifteenth* | 38 months *5 August 2010* | Ceiling: 2% of share capital[3] | See page 53 of report |
| Share purchase options | 6 June 2006 *Ninth* | 38 months[4] *6 August 2009* | Ceiling: 2% of total number of shares but no less than 725,335 shares[3] | See page 53 of report |
| **Share subscription options** | | | | |
| Recognition of capital increases resulting from the exercise of stock options | 25 May 1998 Sixth | Until plan expiration date | | See page 53 of report |

1. Combined ceiling: €5,600,000. 2. Combined ceiling: €5,450,000. 3. Combined ceiling: 2% of share capital. 4. 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.
In 2007, the Executive Management did not make use of its authorisations to increase the share capital.

## APPROXIMATE NUMBER OF SHAREHOLDERS

Based on the number of registered shares on the books and on information received from Euroclear, there were approximately 22,000 shareholders at 31 December 2007.

## EMPLOYEE OWNERSHIP OF SHARE CAPITAL

Registered shares held by employees of the Group (excluding corporate Executive Officers and Supervisory Board members) represented 0.86% of the share capital at 31 December 2007.
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.

## SHARE OWNERSHIP THRESHOLD DISCLOSURES

On 5 June 2007, Mr Jérôme Guerrand moved above the 5% ownership and voting rights threshold. He reported that he held full legal title to 3,895,572 shares, beneficial ownership of 1,565,730 shares and 10,922,604 voting rights (applicable to the resolution on appropriation of earnings), i.e. 5.11% of the share capital and 6.34% of the voting rights as of that date.

## PLEDGING OF SHARES

Duly registered shares are not encumbered by any material pledges.

## SHARES HELD IN TREASURY

At 31 December 2007, Hermès International's long-term investments included 473,000 of the Company's own shares acquired under the share buyback programme presented on page 53.

## 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 178.
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.

## Shareholders' agreements

To the Company's knowledge, there are no shareholders' agreements other than those covered by the Dutreil law.

| | 'Dutreil Transmission' agreement I | 'Dutreil ISF' wealth tax agreement I | 'Dutreil ISF' wealth tax agreement II | 'Dutreil ISF' wealth tax agreement III | 'Dutreil Transmission' agreement II |
|---|---|---|---|---|---|
| Governed by | CGI – Article 787 B | CGI – Article 885 I *bis* | CGI – Article 885 I *bis* | CGI – Article 885 I *bis* | CGI – Article 787 B |
| Date of signature | 29 December 2003 | 2 February 2004 | 26 March 2004 | 29 March 2004 | 1 February 2006 |
| Term of parties' commitment | Two years from the registration date (i.e. from 31 December 2003) | Six years from the registration date (i.e. from 5 February 2004) | Six years from the registration date (i.e. from 31 March 2004) | Six years from the registration date (i.e. from 31 March 2004) | Two years from the registration date (i.e. from 4 February 2006) |
| Contractual term of agreement | One year from the registration date | Six years from the registration date | Six years from the registration date | Six years from the registration date | Two years from the registration date |
| Terms and conditions | Extended by individual agreements with the beneficiaries | Tacitly renewable for additional one-year periods | Tacitly renewable for additional one-year periods | Tacitly renewable for additional one-year periods | Extended by individual agreements with the beneficiaries |
| Percentage of share capital covered by agreement as of signature date | 25.30% | 39.02% | 50.03% | 33.09% | 23.60% |
| Signatory parties with "Corporate Executive Officer" status (within the meaning of Article L 621-18-2-a) | *As of agreement signature date:*<br>– Jean-Louis Dumas, General Partner<br>– Émile Hermès SARL, Active Partner<br>– Jérôme Guerrand, Chairman of the Supervisory Board<br>*As of this date:*<br>– Émile Hermès SARL, Active Partner<br>– Jérôme Guerrand, Chairman of the Supervisory Board | *As of agreement signature date:*<br>– Jean-Louis Dumas, General Partner<br>– Émile Hermès SARL, Active Partner<br>– Jérôme Guerrand, Chairman of the Supervisory Board<br>*As of this date:*<br>– Émile Hermès SARL, Active Partner<br>– Jérôme Guerrand, Chairman of the Supervisory Board | *As of agreement signature date:*<br>– Jean-Louis Dumas, General Partner<br>– Émile Hermès SARL, Active Partner<br>– Jérôme Guerrand, Chairman of the Supervisory Board<br>*As of this date:*<br>– Émile Hermès SARL, Active Partner<br>– Jérôme Guerrand, Chairman of the Supervisory Board | *As of agreement signature date:*<br>– Jean-Louis Dumas, General Partner<br>– Émile Hermès SARL, Active Partner<br>– Jérôme Guerrand, Chairman of the Supervisory Board<br>*As of this date:*<br>– Émile Hermès SARL, Active Partner<br>– Jérôme Guerrand, Chairman of the Supervisory Board | *As of agreement signature date:*<br>– Jean-Louis Dumas, General Partner<br>– Émile Hermès SARL, Active Partner<br>– Patrick Thomas, Executive Manager<br>*As of this date:*<br>– Émile Hermès SARL, Active Partner<br>– Patrick Thomas, Executive Manager |
| Name of signatory parties who are immediate family members of Corporate Executive Officers (within the meaning of Article 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 |
| Signatory parties holding at least 5% of the share capital and/or the voting rights in the Company at 31 December 2007 | Mr and Mrs Jean-Louis Dumas<br>Mr Jérôme Guerrand<br>SC AXAM<br>SC FALAISES<br>SAS POLLUX & CONSORTS<br>SAS SDH<br>SC FLÈCHES | Mr and Mrs Jean-Louis Dumas<br>Mr Jérôme Guerrand<br>SC AXAM<br>SC FALAISES<br>SAS POLLUX & CONSORTS<br>SAS SDH<br>SC FLÈCHES | Mr and Mrs Jean-Louis Dumas<br>Mr Jérôme Guerrand<br>SC AXAM<br>SC FALAISES<br>SAS POLLUX & CONSORTS<br>SAS SDH<br>SC FLÈCHES | Mr and Mrs Jean-Louis Dumas<br>Mr Jérôme Guerrand<br>SC AXAM<br>SC FALAISES<br>SAS POLLUX & CONSORTS<br>SAS SDH<br>SC FLÈCHES | SAS POLLUX & CONSORTS<br>SAS SDH<br>SC FALAISES<br>SC AXAM |

## Main shareholders at 31 December 2007

To the Company's knowledge, no shareholders other than those listed below directly or indirectly hold 5% or more of the share capital or voting rights. SAS SDH, SAS POLLUX & CONSORTS, SC FLÈCHES, SC FALAISES and SC AXAM are owned exclusively by descendants of Mr Émile-Maurice Hermès, from different branches of the family. To simplify management of these companies, they have decided to pool their interests in Hermès International. To the Company's knowledge, none of the partners in those companies directly or indirectly holds 5% or more of the share capital or voting rights of Hermès International.
The ownership interests of corporate Executive Officers, Executive Managers and Supervisory Board members are listed on page 18.
No material change in ownership of the share capital has taken place over the past three years.

| | Shares held by legal owners and by reversionary owners[1] (votes at Ordinary General Meetings convened to approve appropriation of net income) | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | At 31 December 2007[2] | | | | At 31 December 2006[2] | | | | At 31 December 2005 | | | |
| | Number of shares | % | Number of votes | % | Number of shares | % | Number of votes | % | Number of shares | % | Number of votes | % |
| SAS SDH | 9,605,836 | 9.05 | 19,130,676 | 11.18 | 9,604,680 | 8.99 | 19,152,520 | 11.05 | 3,201,560 | 8.81 | 4,868,560 | 8.67 |
| SAS POLLUX ET CONSORTS | 6,596,525 | 6.22 | 12,158,450 | 7.11 | 5,561,925 | 5.20 | 11,123,850 | 6.42 | 1,853,975 | 5.10 | 2,921,735 | 5.20 |
| SC FLÈCHES | 5,852,220 | 5.52 | 10,686,782 | 6.25 | 5,882,220 | 5.50 | 10,718,583 | 6.18 | 1,851,090 | 5.09 | 3,463,211 | 6.17 |
| SC FALAISES | 5,567,610 | 5.25 | 11,135,220 | 6.51 | 5,567,610 | 5.21 | 10,939,260 | 6.31 | 1,855,870 | 5.11 | 3,646,420 | 6.49 |
| SC AXAM | 5,559,480 | 5.24 | 10,817,460 | 6.32 | 5,559,480 | 5.20 | 10,817,460 | 6.24 | 1,853,160 | 5.10 | 3,605,820 | 6.42 |
| Mr Jérôme GUERRAND | 5,461,302 | 5.15 | 10,922,604 | 6.39 | | | | | | | | |
| Mr and Mrs Jean-Louis DUMAS | 5,077,342 | 4.79 | 10,154,684 | 5.94 | 5,110,590 | 4.78 | 10,221,180 | 5.90 | 1,703,530 | 4.69 | 3,405,060 | 6.06 |
| **Total held by shareholders each holding more than 5% of the share capital or voting rights** | **43,720,315** | **41.21** | **85,005,876** | **49.69** | **37,286,505** | **34.88** | **72,972,853** | **42.10** | **13,319,185** | **36.65** | **23,910,806** | **42.57** |
| Shares held in treasury by Hermès International | 473,000 | 0.44 | 0 | – | 141,000 | 0.13 | 0 | – | 132,533 | 0.36 | 0 | – |
| Other shareholders | 61,895,899 | 58.35 | 86,049,500 | 50.31 | 69,447,309 | 64.99 | 100,366,807 | 57.90 | 22,882,136 | 62.99 | 32,254,633 | 57.43 |
| **Total number of shares and voting rights** | **106,089,214** | **100.00** | **171,055,376** | **100.00** | **106,874,814** | **100.00** | **173,339,660** | **100.00** | **36,333,854** | **100.00** | **56,165,439** | **100.00** |

| | Shares held by legal owners and by reversionary owners[1] (votes at other General Meetings) | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | At 31 December 2007[2] | | | | At 31 December 2006[2] | | | | At 31 December 2005 | | | |
| | Number of shares | % | Number of votes | % | Number of shares | % | Number of votes | % | Number of shares | % | Number of votes | % |
| SAS SDH | 9,605,836 | 9.05 | 19,130,676 | 11.18 | 9,604,680 | 8.99 | 19,152,520 | 11.05 | 3,201,560 | 8.81 | 4,868,560 | 8.67 |
| SAS POLLUX ET CONSORTS | 6,596,525 | 6.22 | 12,158,450 | 7.11 | 5,561,925 | 5.20 | 11,123,850 | 6.42 | 1,853,975 | 5.10 | 2,921,735 | 5.20 |
| SC FLÈCHES | 5,852,220 | 5.52 | 10,686,782 | 6.25 | 5,882,220 | 5.50 | 10,718,583 | 6.18 | 1,851,090 | 5.09 | 3,463,211 | 6.17 |
| SC FALAISES | 5,567,610 | 5.25 | 11,135,220 | 6.51 | 5,567,610 | 5.21 | 10,939,260 | 6.31 | 1,855,870 | 5.11 | 3,646,420 | 6.49 |
| SC AXAM | 5,559,480 | 5.24 | 10,817,460 | 6.32 | 5,559,480 | 5.20 | 10,817,460 | 6.24 | 1,853,160 | 5.10 | 3,605,820 | 6.42 |
| **Total held by shareholders each holding more than 5% of the share capital or voting rights** | **33,181,671** | **31.28** | **63,928,588** | **37.37** | **32,175,915** | **30.10** | **62,751,673** | **36.20** | **10,615,655** | **29.21** | **18,505,746** | **32.95** |
| Shares held in treasury by Hermès International | 473,000 | 0.44 | 0 | – | 141,000 | 0.13 | 0 | – | 132,533 | 0.36 | 0 | – |
| Other shareholders | 72,434,543 | 68.28 | 107,126,788 | 62.63 | 74,557,899 | 69.77 | 110,587,987 | 63.80 | 25,585,666 | 70.43 | 37,659,693 | 67.05 |
| **Total number of shares and voting rights** | **106,089,214** | **100.00** | **171,055,376** | **100.00** | **106,874,814** | **100.00** | **173,339,660** | **100.00** | **36,333,854** | **100.00** | **56,165,439** | **100.00** |

1. The method of allocating voting rights is described on page 46. 2. After three-for-one stock split on 10 June 2006.

## Executive Management's special report on the 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 2007, pursuant to the authorisations granted by the shareholders at the General Meetings indicated below:

| Programme authorised by AGM of | 6 June 2006 (effective until 5 June 2007) | 5 June 2007 (effective since 6 June 2007) |
|---|---|---|
| Date of Executive Management decision | 23 March 2006 | 21 March 2007 |
| Maximum total number of shares | 10% of the share capital | 10% of the share capital |
| Maximum authorised | €700 million | €650 million |
| Maximum purchase price | €360 | €200 |

During the year ended 31 December 2007, 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 01/01/2007 to 05/06/2007 | From 06/06/2007 to 31/12/2007 | Total |
|---|---|---|---|
| **Not covered by liquidity contract** | | | |
| Number of shares registered in the Company's name at 31 December 2006 | 126,000 | | 126,000 |
| Number of shares bought | 0 | 1,141,700 | 1,141,700 |
| Reason for purchase | n/a | Cancellation/ Distribution/ Stock options | |
| Average purchase price | n/a | €85.66 | €85.66 |
| Number of shares sold | 0 | 27,000 | 27,000 |
| Average selling price | n/a | €40.31 | €40.31 |
| Net transaction costs, excluding VAT | €0 | €125,503 | €125,503 |
| Number of shares cancelled | 0 | 829,700 | 829,700 |
| Average price of cancelled shares | n/a | €88.42 | €88.42 |
| Number of shares registered in the Company's name at 31 December 2007 | 126,000 | 285,000 | 411,000 |
| Number of shares: | | | |
| – Allotted to share purchase plans | 126,000 | 173,000 | 299,000 |
| – Bonus issue | 0 | 112,000 | 112,000 |
| – Cancelled | 0 | 0 | 0 |
| Net value at purchase cost | €5,313,067 | €23,296,899 | €28,609,966 |
| Net value at closing price | €10,891,440 | €24,635,400 | €35,526,840 |
| Par value | €66,780 | €151,050 | €217,830 |
| Percentage of share capital involved | 0.12% | 0.27% | 0.39% |
| **Covered by liquidity contract** | | | |
| Number of shares registered in the Company's name at 31 December 2006 | 15,000 | – | 15,000 |
| Funds allocated (liquidity account) | €10,000,000 | €10,000,000 | €10,000,000 |
| Number of shares bought | 250,636 | 396,840 | 647,476 |
| Average selling price | €100.75 | €82.08 | €89.31 |
| Number of shares sold | 214,886 | 385,590 | 600,476 |
| Average selling price | €101.32 | €82.09 | €88.97 |
| Number of shares registered in the Company's name at 31 December 2007 | 50,750 | 11,250 | 62,000 |
| Net value at purchase cost | €3,480,389 | €920,690 | €4,401,080 |
| Net value at closing price | €4,386,830 | €972,450 | €5,359,280 |
| Par value | €26,898 | €5,963 | €32,860 |
| Percentage of share capital involved | 0.05% | 0.01% | 0.06% |

A report on any such trading since 1 January 2008 will be submitted to you at the Annual General Meeting called in 2009 to approve the financial statements for the year ending 31 December 2008.

The Executive Management

## Share price trend over the past five years*

2003

| Month | Closing price (€) High | Low | Average | Average daily trading volume over the month |
|---|---|---|---|---|
| January | 49.00 | 41.67 | 44.38 | 69,027 |
| February | 44.67 | 36.73 | 41.63 | 159,216 |
| March | 44.00 | 34.20 | 39.43 | 102,297 |
| April | 42.23 | 37.50 | 40.02 | 98,997 |
| May | 44.67 | 40.33 | 42.32 | 175,359 |
| June | 44.73 | 40.37 | 42.67 | 137,361 |
| July | 43.67 | 40.47 | 42.10 | 98,640 |
| August | 48.30 | 39.90 | 43.24 | 167,322 |
| September | 49.00 | 43.47 | 46.31 | 145,002 |
| October | 49.80 | 43.83 | 47.57 | 110,307 |
| November | 53.17 | 49.10 | 51.70 | 122,868 |
| December | 52.50 | 48.50 | 50.93 | 70,107 |

2004

| Month | Closing price (€) High | Low | Average | Average daily trading volume over the month |
|---|---|---|---|---|
| January | 54.17 | 49.70 | 51.99 | 69,381 |
| February | 55.33 | 49.00 | 52.94 | 85,995 |
| March | 55.90 | 50.67 | 53.36 | 113,541 |
| April | 58.30 | 55.00 | 56.89 | 119,340 |
| May | 57.00 | 52.53 | 54.98 | 114,114 |
| June | 55.67 | 52.43 | 53.85 | 89,949 |
| July | 55.00 | 51.83 | 53.53 | 51,282 |
| August | 54.50 | 49.33 | 51.85 | 53,349 |
| September | 54.33 | 50.93 | 52.68 | 61,926 |
| October | 52.00 | 48.50 | 50.56 | 84,372 |
| November | 52.30 | 46.00 | 49.45 | 98,256 |
| December | 49.30 | 44.00 | 47.71 | 111,843 |

2005

| Month | Closing price (€) High | Low | Average | Average daily trading volume over the month |
|---|---|---|---|---|
| January | 51.43 | 47.03 | 48.55 | 81,159 |
| February | 54.93 | 49.33 | 52.70 | 108,264 |
| March | 54.97 | 50.53 | 53.38 | 108,234 |
| April | 52.43 | 48.57 | 50.72 | 98,094 |
| May | 53.17 | 48.67 | 51.42 | 96,750 |
| June | 56.33 | 52.10 | 54.91 | 202,503 |
| July | 57.73 | 52.37 | 56.13 | 82,503 |
| August | 57.50 | 52.10 | 54.46 | 139,662 |
| September | 66.13 | 57.73 | 61.86 | 225,249 |
| October | 65.93 | 59.47 | 62.31 | 147,309 |
| November | 66.63 | 61.70 | 63.97 | 207,168 |
| December | 71.63 | 64.73 | 68.55 | 125,403 |

2006

| Month | Closing price (€) High | Low | Average | Average daily trading volume over the month |
|---|---|---|---|---|
| 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 (€) High | Low | Average | Average daily trading volume over the month |
|---|---|---|---|---|
| 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 |

* Figures adjusted to reflect three-for-one stock split on 10 June 2006.

# Information on subsidiaries and investments in associates

A list of companies whose head offices are located in French territory and in whose share capital the Company has a significant direct or indirect interest is provided in the notes to the consolidated financial statements (Note 34, page 147).

During 2007, Hermès International carried out a number of capital transactions with respect to the following directly- or indirectly-held subsidiaries:

– Hermès International subscribed to 100% of a share issue carried out by Hermès Ibérica;

– Herlee subscribed to 100% of a share issue carried out by Hermès (Shanghai) Commercial & Trading & Co Ltd;

– La Montre Hermès subscribed to a share issue carried out by Vaucher Manufacture Fleurier SA, thereby increasing its interest in that company to 21.05%;

– Hermès International funded 100% of capital transactions carried out by John Lobb and SIEGL to recapitalise those companies;

– Holding Textile Hermès funded 100% of a capital reduction carried out by Gandit to recapitalise that company.

Other officially recorded transactions in 2007:

– changes in company name:

• Avril-Morio et Patte was renamed Maroquinerie de Saint-Antoine;

• Créations, Éditions d'Étoffes d'Ameublement was renamed Créations Métaphores;

• Isamyol 15 was renamed Hermès Voyageur;

• Hermès Gainier was renamed Hermès Intérieur & Design;

• Saint Honoré Shanghai Commercial & Trading Co Ltd was renamed Hermès (Shanghai) Commercial & Trading Co Ltd;

• Hermès Greater China Ltd was renamed Hermès Asia Pacific Ltd.;

– SIEGL's corporate form was changed to that of a *société par actions simplifiée*;

– to rationalise and streamline the Group's organisation, the following companies were dissolved without being liquidated and merged via universal transfer of assets:

• Nehel, merged into Maroquinerie de Saint-Antoine;

• SCI Florian Montgolfier, merged into SCI Auger Hoche;

• Tajan Conseil, merged into SCI Auger Hoche;

• Isamyol 9, merged into Hermès International;

– Hermès International acquired the remaining interest in Soficuir International, that it did not already own. Hermès International previously held 49.6% of that company's shares. The following subsidiaries are controlled by Soficuir International:

• Tanneries des Cuirs d'Indochine et de Madagascar,

• Exocuirs SA,

• Louisiane Spa,

• Michel Rettili Srl,

• Roggwiller Tannery of Louisiana, Inc.;

– after the Soficuir International group was acquired by Hermès International, Soficuir International acquired the remaining shares in Louisiane Spa that it did not already own, thereby increasing its interest in that company to 100%. Soficuir previously owned 88% of the company;

– after the Soficuir International group was acquired by Hermès International, Tanneries des Cuirs d'Indochine et de Madagascar acquired the remaining shares in Roggwiller Tannery of Louisiana, Inc. that it did not already own. Tanneries des Cuirs d'Indochine et de Madagascar previously owned 87.5% of the company;

– Hermès International sold all Leica Camera convertible bonds to ACM projekten-twicklung GmbH;

– in a joint venture with Indian partners, Hermès International created Hermès Retail India Private Ltd, a company incorporated under the laws of India, in which Hermès International will own a 51% interest;

– the closing date for the financial year of Hermès Japon was changed to 31 December of each year, to bring it into line with the closing date of all Group companies.

# Property and insurance

## Property

The Group owns its original head office at its flagship location, at 24, rue du Faubourg Saint-Honoré and 19/21, rue Boissy d'Anglas in Paris (75008), which houses the flagship Faubourg store (partially renovated and expanded in 2007), and administrative offices.

Since 2007, the Group has also occupied office space near its head office, on rue de la Ville-l'Évêque, Paris (75008), which it rents from third parties under commercial lease agreements. Hermès International employees have been relocated to two central locations: Faubourg and rue de la Ville-l'Évêque.

The Group occupies some 22,000 square metres of office space in Paris.

The Group also owns two logistics centres, one in Bobigny, in the Paris area (approximately 21,000 square metres), the other in Nontron (approximately 3,500 square metres).

Hermès products are available worldwide through a network of 267 exclusive stores. A detailed list of these is provided in Volume 1, on page 65, of the Annual Report.

Of the 267 Hermès exclusive retail outlets throughout the world, 156 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 some of its stores, including those in Paris, Ginza in Tokyo, Dosan Park in Seoul and The Galleria in Hong Kong.

The branches are located in the following regions: 66 in Europe (including 15 in France), 27 in the Americas (including 19 in the US), 57 in Asia (including 22 in Japan), and 6 in Oceania. In 2007, the distribution network was expanded by the addition of 15 Hermès exclusive retail outlets throughout the world, including 11 branches.

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 facilities are located in 26 regions, including 22 in France, 1 in the United Kingdom, 1 in Italy, 1 in Switzerland and 1 in the US (please refer to page 72 for a detailed list).

## Insurance

As in previous years, the Hermès Group's policy in this area is to transfer any exposure that is liable to produce a material impact on profits to the insurance market. These insurance programmes are placed with leading insurance companies with ratings of AA to AA+, via several of the top ten brokers in France.

The main 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. A new two-year policy was renegotiated with FM Global: the upper cover limit was increased to €500 million per occurrence; insurance deductibles range from €5,000 to €250,000 for direct damage cover and from €76,000 to three days' gross profit for operating losses.

This insurance coverage is supplemented by a prevention/engineering programme: prevention inspections were carried out at 55 distribution sites and 20 production sites in 2007. Implementation of the main recommendations issued is monitored through a formal system. In 2007, a risk model for natural disasters was carried out with an external consulting firm for sites in Japan and in the United States. Local policies were adjusted accordingly.

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. The amount of coverage under these policies 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.

No major claims were filed under these policies. The aggregate cost of our insurance policies is approximately 0.25% of total sales.

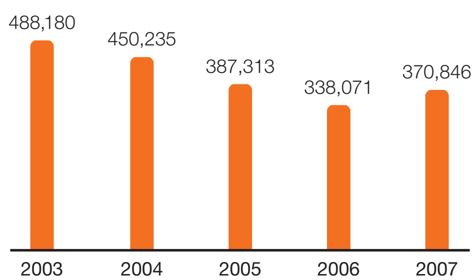
# NRE Annexes*: Environmental information



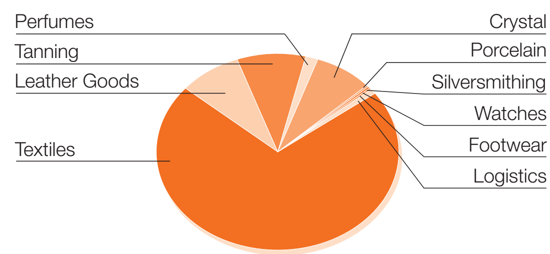
* Information required by New Economic Regulations Act.

## Natural resources consumption

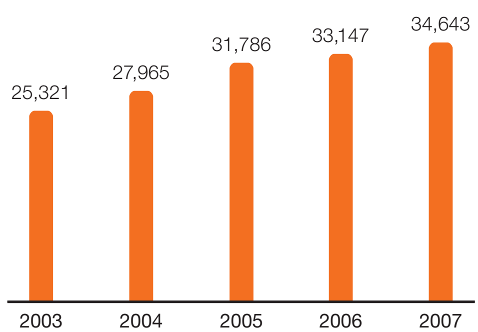
• **Water consumption**
(m³)



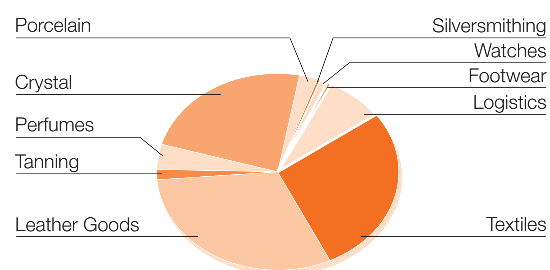

• **Analysis of water consumption by sector – 2007** (m³)



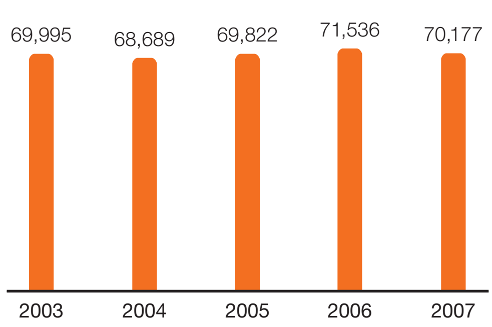

• **Electricity consumption**
(MWh)



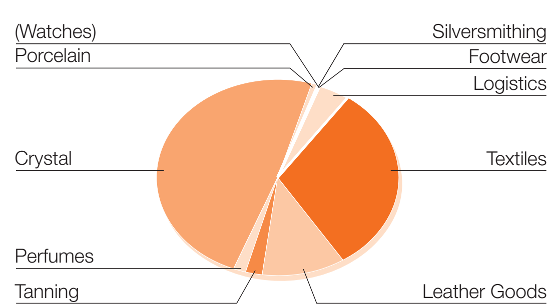

• **Analysis of electricity consumption by sector – 2007** (MWh)




• **Gas consumption**
(MWh)




• **Analysis of gas consumption by sector – 2007** (MWh)




(These figures do not include consumption by the three tanneries the Group acquired in 2007.)

## CONTROLLING OUR USE OF NATURAL RESOURCES

### • Water

Water conservation, especially in manufacturing, is necessarily an ongoing, long-term effort, and it pays off: Hermès has cut its total water consumption by 36% since 2002. Textile production accounts for 71% of the Group's total water consumption. From 2006 to 2007, production runs measured in kilometres of colourway processed by our printing facilities in Pierre-Bénite and Le Grand Lemps rose by 19%, pushing the Group's total water consumption up 8%.

### • Energy

In 2007, Group production sites used a total of 104,820 MWh of energy (excluding fuel oil), compared with 104,683 MWh in 2006. Essentially, energy consumption remained stable year-on-year, given that the Group's overall production levels rose appreciably in 2007.

We have been conserving energy in a number of ways:

– In the Textiles division, which accounts for 31% of total energy use, the following energy-saving devices were installed:

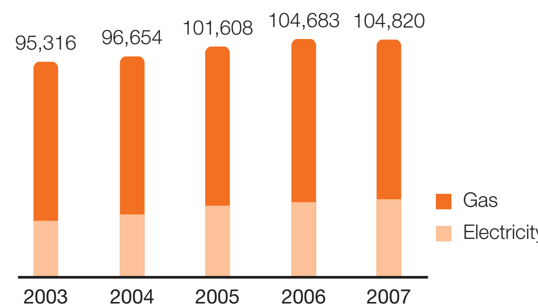
  – a new temperature regulation system for the air conditioning system at the Bucol production facility in Bussières, which cut its gas consumption by 27% in 2007,

  – a heat-recovery system for the heater used in the setting and washing process at the SIEGL site;

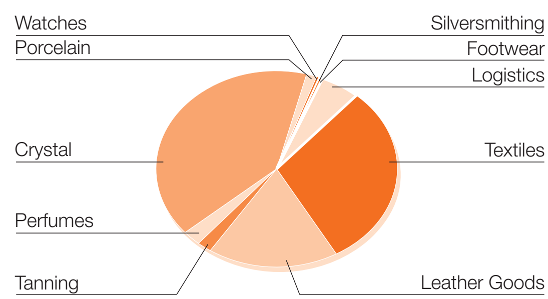
– The Vaudreuil perfume packaging unit cut gas consumption by 51% by installing a reversible heat pump.

**Total energy consumption excluding fuel oil**

(MWh)




**Total energy consumption by sector in 2007**




(These figures do not include energy use by the three tanneries the Group acquired in 2007.)

## PROTECTING ECOSYSTEMS

### • Controlling and monitoring pollutant releases

The Textiles sector has improved the system used to remove and recover colouring agents from printing frames before they are cleaned and expanded it to more production units, thereby reducing chemical oxygen demand (COD) in wastewater by eliminating organic compounds that cause eutrophication. The colouring agents recovered are treated as industrial waste.

SIEGL further lowered the COD in its wastewater by installing a second immersed aerator in the wastewater treatment facility. The first aerator was installed in 2006.

A homogenisation tank was installed at Ateliers AS in 2005 to lower wastewater temperature and neutralise its pH. The tank has two hydro-ejectors, which keep COD levels below the regulatory threshold. Over 2007, we confirmed the system's effectiveness.

To complete the water conduit separation programme initiated in 2001 with support from the water quality agency, Cristalleries de Saint-Louis installed an 80m$^2$ settling tank in 2006 that allows for wastewater circulation at a distance of over 40 metres. It reduced the suspended particulate matter in wastewater by 72%, bringing it far below the levels required by applicable environmental standards.

**• Risk prevention**

To exclude any risk of water pollution by spillage, chemical products are now consistently stocked in retention tanks in all Group production facilities. The entire Le Vaudreuil production facility, which manufactures and packages perfumes, is now on a retention tank system to avoid damage in the event of flooding from the Eure and Seine rivers, as well as to prevent accidental pollution of the local water supply or of groundwater beneath the facility. Cofferdams or inflatable rubber barriers have been installed on all outlets and on logistics docks to contain effluent. These protective measures work to prevent risk alongside the retention tank systems used in all units where perfume maceration tanks and perfume base containers are stored. The primary alcohol transfer area is also on retention tanks.

A new cullet-storage platform was erected at the rear portion of the Great Hall at Cristalleries de Saint-Louis in 2006. It is built on a retention tank and is designed to channel runoff and prevent any possibility of leaching.

**• Preservation of species**

Hermès mainly uses farm-raised animals for its leathers and scrupulously adheres to the Washington Convention for the protection of endangered animal and plant species (CITES). For several years, the Group has supported research on Nile monitor lizards by the French Museum of Natural History seeking to better understand the species and to optimise population management.

## MEASURING ATMOSPHERIC EMISSIONS

**• Bilan Carbone® carbon audit**

Hermès has selected the Bilan Carbone® method to measure $CO_2$ emissions, identify their origin and define action plans to reduce them.

The Gordon-Choisy tannery was the first to use the method in 2006, and the resulting study's most significant finding was that a large source of $CO_2$, and thus a determining factor in the tannery's carbon footprint, is the transport of raw leather by air.

In light of the study's findings, two solutions were identified and set up: refrigerated shipping by boat was organised for raw leathers, and a study was launched to find a preservation process for raw leathers that would significantly lower shipping weight.

In 2007, Leather Goods/Saddlery carried out a Bilan Carbone® audit for most of its production facilities. Preliminary conclusions from these studies have pointed toward three main areas for improvement: transport and logistics for incoming materials; employee transportation; and facility heating and air conditioning systems. Detailed plans will be drawn up in 2008.

**• VOCs**

Measurements of volatile organic compounds (VOCs) released into the air at the Le Vaudreuil facility confirmed that VOC levels were far below the standard upper threshold for the perfume industry. Most VOCs consist of ethanol, which is not bio-cumulative, disperses rapidly, is highly biodegradable and poses no measurable threat to fauna and flora.

The Leather Goods/Saddlery division continued to substitute solvent-based glues for water-based adhesives; each time it makes the switch, another source of VOCs is eliminated.

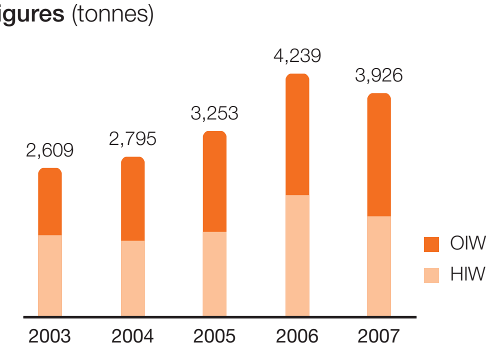
**• Pollutant releases**

New tempering equipment installed in 2007 in the acid etching and polishing workshop at Cristalleries de Saint-Louis site has brought acid levels in water vapour emissions below the regulatory concentration threshold of about 80%.

## WASTE SORTING AND RECYCLING

**• Waste**

**Figures** (tonnes)




Hazardous industrial waste (HIW) and ordinary industrial waste (OIW) must be sorted and handled separately.

At all Textiles facilities, up to 99% of waste is reused or recycled. Waste is usually sorted in-house, and detailed signs in facilities remind staff of rules for recycling different kinds of waste.

The significant rise in hazardous industrial waste volumes generated by textile production units is for the most part the direct result of water conservation measures that more thoroughly remove these substances from their sources (such as colour residues, stripping and sizing baths etc.) before equipment is cleaned. The removal of metal waste from scrap machinery at Ateliers AS led to a non-recurring increase in waste levels in 2007.

The Vaudreuil facility also pursued efforts to recycle greater quantities of waste. Along with the plan to recycle and reuse thermoformed plastic trays and inserts initiated in 2006, the plastic film and sheeting covering pallets from our suppliers joined the list of materials recycled in 2007. This brings the amount of recycled or reclaimed OIW up to 56%. HIW in the form of soiled manufacturing waste (filter plates, soiled containers) was also evacuated to a certified treatment facility.

The Saint-Louis crystal factory recycles 48% of its total production of cullet (crystal waste that runs off during the firing process) by reintroducing it into the manufacturing cycle. 49% is sent for recycling and reuse. In the end, only 3% of cullet ends up as waste; it is classified as special/industrial waste.

**• Packaging reduction**

For several years, Hermès has been making efforts to use the same packaging from the time products are transported from production units to their arrival in stores around the world. The goal of these efforts is to reduce waste from packaging throughout our products' life cycle. Leather bags leaving our Leather Goods workshops, for example, are wrapped in a protective cotton slipcover that customers can keep.

Cases developed in 2003 for Saint-Louis crystal items were designed for shipping worldwide and for storage in the customer's home, as were the orange cases used for Hermès porcelain. Crystal and porcelain are packaged in these cases directly at the manufacturing facility.

## EMPLOYEE HEALTH AND SAFETY

In 2007, an external firm carried out eight complete audits to evaluate compliance with workplace health, safety and environmental regulations, which followed eleven such audits carried out the previous year. Based on these assessments, action and improvement plans have been drawn up which are in turn subject to follow-up audits to monitor the progress of the plans.

Moreover, two sites received official RHP (*risques hautement protégés*) certification for our fire risk assessment programme in 2007.

## Production sites

The Hermès group operates 33 production units on 26 sites (22 of them in France, 1 in Great Britain, 1 in Italy, 1 in Switzerland and 1 in the United States) and 1 logistics centre in Bobigny.

| Sector | Company *(production site)* |
|---|---|
| Saddlery/Leather Goods | Hermès Sellier *(Faubourg Saint-Honoré, Pantin-Pyramide, Pantin-CIA, Pierre-Bénite)*<br>Maroquinerie de Saint-Antoine *(Paris Faubourg Saint-Antoine)*<br>Maroquinerie de Belley *(Belley)*<br>Maroquinerie des Ardennes *(Bogny-sur-Meuse)*<br>Maroquinerie de Sayat *(Sayat)*<br>La Manufacture de Seloncourt *(Seloncourt)*<br>Manufacture de Haute Maroquinerie *(Aix-les-Bains)*<br>La Maroquinerie Nontronnaise *(Nontron)*<br>Ganterie de Saint-Junien *(Saint-Junien)*<br>Comptoir Nouveau de la Parfumerie *(Le Vaudreuil)* |
| Textiles | Créations Métaphores *(Saint-André-le-Gaz)*<br>SIEGL *(Le Grand-Lemps)*<br>Ateliers AS *(Pierre-Bénite)*<br>Bucol *(Bussières, Pierre-Bénite)*<br>Établissements Marcel Gandit *(Bourgoin-Jallieu)*<br>Le Crin *(Challes)*<br>Société Nontronnaise de Confection *(Nontron)*<br>Sport Soie *(Pierre-Bénite)* |
| Tableware | Compagnie des Cristalleries de Saint-Louis *(Saint-Louis-lès-Bitche)*<br>Compagnie des Arts de la Table *(Nontron, Pantin-CIA)* |
| Tanning | Gordon-Choisy *(Montereau)*<br>TCIM *(Vivoin)*<br>Michel Rettili *(Cuneo/Italy)*<br>RTL *(Lafayette/USA)* |
| Silversmithing and jewellery | Hermès Sellier *(Pantin)*<br>Compagnie des Arts de la Table *(Pantin-CIA)* |
| Perfumes | Comptoir Nouveau de la Parfumerie *(Le Vaudreuil)* |
| Footwear | John Lobb *(Paris Faubourg Saint-Antoine, Northampton/United Kingdom)* |
| Watches | La Montre Hermès *(Biel/Switzerland)* |
| Administration and Logistics | Hermès Sellier *(Bobigny)* |

## LEATHER GOODS

All 13 Leather Goods production sites continue to implement their environmental policies under the guidance of two EHS Sector Officers.

### • Figures

| | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|
| Water ($m^3$) | 31,000 | 33,000 | 35,000 | 29,100 | 30,905 |
| Electricity (MWh) | 4,750 | 5,684 | 8,459 | 9,239 | 10,607 |
| Gas (MWh) | 3,127 | 4,403 | 6,675 | 7,758 | 7,755 |
| Fuel oil (MWh) | n/a | n/a | 1360 | 1,752 | 1,382 |
| OIW (t) | n/a | 519 | 544 | 685 | 692 |
| HIW (t) | n/a | 18 | 15 | 18 | 16 |
| Activity level* (2002 = base 100) | 109 | 114 | 123 | 144 | 168 |

* Number of employees.
n/a: not available.

Leather Goods production jumped by 16% in 2007.

### • Water

Water consumption, which is almost entirely related to washroom use, remained low. A modest 6% rise in consumption was due to an increase in the number of personnel and to a leak at the Belley site, which was identified and repaired.

### • Energy

Energy use (electricity, gas and fuel oil) increased by 6% (measured in MWh) in 2007, due to a 17% rise in electricity consumption.

Most of the increase can be traced to the Pierre-Bénite site, where EDF (the electric utility) upgraded the plant's electrical installations to bring them up to standards. There was little change in electricity consumption at the other sites.

Gas consumption remained stable.

Fuel oil consumption was cut 22% by work carried out at the Belley site, where one-half of the site was shut down, use of air heaters was discontinued and logistics docks were insulated.

### • Waste

The volume of HIW decreased in 2007, owing to our production units' continued effort to use water-based adhesives, thereby eliminating solvent waste, which is a significant source of HIW.

Some of the leather scrap produced by cutting – our primary source of OIW – is now recycled. Water-based cleaning tables for cleaning brushes and glue containers have been installed in a number of our production facilities. Wastewater from the cleaning tables is then treated by the supplier in compliance with regulations. As a result, paintbrushes and containers are now reusable.

### • Air

Following a series of studies, we were able to substitute an increasing proportion of solvent-based glues with water-based adhesives. After testing at the beginning of 2006, a second water-based glue supplier was selected in 2007 to widen the scope of applications possible.

### • Bilan Carbone®

The Bilan Carbone® carbon audit is a way of identifying activities that produce greenhouse gases, measuring their emissions and finding their Carbon Dioxide Equivalent in tonnes.

The Bilan Carbone® method was first used at the Pierre-Bénite manufacturing unit at the end of 2006.

In 2007, Leather Goods/Saddlery carried out a Bilan Carbone® audit for five other production facilities. Preliminary findings from these studies point to three main areas for improvement: transport and logistics for incoming materials; employee transportation; and facility heating and air conditioning systems. Detailed action plans will be drawn up in 2008.

**• Audits**

Audits were carried out at Maroquinerie Nontronnaise, Ganterie de Saint-Junien, the Pantin-CIA and Pantin-Pyramide sites and Maroquinerie de Saint-Antoine to assess workplace health and safety at each facility and its impact on the environment. In 2007, two additional leather sites, Manufacture de Seloncourt and Manufacture de Haute Maroquinerie in Aix-les-Bains, underwent such audits.

**• Landscape**

The architecture of the Manufacture de Sayat production facility was designed to blend in with its surroundings based on criteria set by the Parc Naturel Régional des Volcans d'Auvergne, the nature reserve in which it is located.

## TEXTILES

Each site in the Textiles sector continued to apply its own environmental policy based on a programme drawn up with its EHS Sector Officer at the beginning of the year. The amount invested on ecological improvement measures came to €337,000 in 2007.

**• Figures**

| | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|
| Water ($m^3$) | 330,000 | 312,000 | 263,000 | 235,000 | 260,000 |
| Electricity (MWh) | 8,296 | 8,974 | 9,282 | 9,887 | 9,678 |
| Gas (MWh) | 21,730 | 23,168 | 22,448 | 22,111 | 21,897 |
| OIW (t) | 239 | 243 | 308 | 346 | 469 |
| HIW (t) | 181 | 280 | 279 | 260 | 334 |

Between 2006 and 2007, colourway processed by our two printing workshops rose by 19%, from 13.8 to 16.5 million kilometres.

**• Water**

Water consumption advanced by 11% between 2006 and 2007.

At Ateliers AS, water consumption remained unchanged from 2006 to 2007 despite a sharp 16% increase in production, measured in kilometres of colourway processed. This was achieved by installing a new washing machine for frames and scrapers, more methodical maintenance of existing equipment, the re-use of rinse water in the first wash cycle for frames and pots and systematic identification of leaks.

The installation of a homogenisation tank in 2005 lowered wastewater temperature and neutralised its pH. The tank has two hydro-ejectors, which keep COD levels below the regulatory threshold. Over 2006 and 2007, we were able to confirm the effectiveness of this system.

The system used for scraping print frames has been optimised and is now used in other units, lowering COD by 23%.

At SIEGL, water consumption rose by 27% year-on-year in 2007. This reflects the upturn in production, with increases of 23% in linear metres and of 30% in metres of colourway processed.

As a result, the volume of wastewater to be treated also increased. A second immersed aerator was installed in the lagoon in 2007 (the first was installed in 2006). In addition, waste products are systematically recovered from stripping and sizing baths, and colours are vacuumed from the frames before they are washed in water to cut down on water pollution as measured in COD.

At the end of 2007, to optimise wastewater treatment, SIEGL invested in a filtration system that uses a membrane bioreactor partially to recycle processing water. The full impact of this system will be measurable in 2008.

Wastewater quality is accurately monitored by the automatic system in the lagoon.

The installation of a more powerful drill pump and a 150 cubic metre reservoir in 2005 enabled the company to stop pumping river water, thereby avoiding production downtime in the event of a pump breakdown as maintenance can be performed more rapidly. River water is now a backup resource used only in case of emergencies. The drill pump has a full range of safety features (retention tanks, warning levels, monthly water table measurements).

An effort is also being made to find substitutes for certain chemical products at textile facilities to minimise pollution risks even more.

### • Energy

Textile facilities used a total of 31,575 MWh of energy in 2007, compared with 31,998 MWh the year before. As total production was 19% higher, relative energy consumption remained virtually unchanged.

A number of measures have been initiated to conserve energy in the textile sector, which is one of the Group's biggest energy users and accounts for 31% of the Group's total consumption.

An electronic control device was installed for the central air conditioner at the Bucol site in Bussières, lowering gas consumption by 27%.

At the SIEGL site, a heat recovery system was installed on the heater used in the setting and washing process, thereby significantly reducing the amount of gas needed to run the equipment.

In addition, an energy assessment was carried out at the Pierre-Bénite textile facilities (Ateliers AS and Sport Soie) in 2007 to identify other ways to conserve energy. These will be reviewed in 2008.

### • Waste

The significant increase in HIW generated by the Textile sector was due mainly to water conservation measures involving more effective extraction of waste before equipment is washed (colour residues, stripping products, sizing baths, etc.). Figures for 2007 were also inflated by a non-recurring event – the removal of scrap metal from old machinery at Ateliers AS.

At most sites, waste is sorted in-house and 60% to 99% is recycled. Rules are posted in all production units to remind staff of proper waste sorting procedures.

Accidental pollution is prevented through routine removal of hazardous industrial waste. A storage area for flammable products and a covered outdoor waste storage area built on retention tanks were set up at the end of 2006 at Ateliers AS. The waste storage area was placed in service in January 2007, and all flammable or corrosive products are now stored using retention tank systems. Only the quantity of product needed for a day's use is kept in the workshops.

In compliance with ATEX zoning rules, a special storage space for flammable chemicals was placed in service at Gandit at the beginning of 2007.

### • Audits

In 2007, workplace health and safety and environmental impact assessments were carried out at three textile facilities – Ateliers AS, Sport Soie and SIEGL.

### • Landscape

All sites include landscaping considerations into their environmental policy. For example, in 2006, special attention was paid to selecting ecologically compatible herbicides.

### • Communications

Personnel training in environmental issues continued at all units, through site visits, meetings to raise staff awareness (mainly with Works Council members), an ongoing poster campaign and appropriate signage.
Ateliers AS and SIEGL hold regular meetings with different members of their community – local government, the regional department of the environment, the water quality agency, the fishing federation – in a climate of mutual trust.

## PERFUMES

During 2007, the Vaudreuil site focused its environmental investments on energy and waste management systems.

### • Figures

| | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|
| Water ($m^3$) | 8,489 | 6,858 | 9,964 | 6,251 | 5,426 |
| Electricity (MWh) | 895 | 951 | 1,051 | 1,206 | 1,422 |
| Gas (MWh) | 2,530 | 2,340 | 2,258 | 2,372 | 1,167 |
| Fuel oil (MWh) | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 |
| OIW (t) | 428 | 336 | 363 | 426 | 375 |
| HIW (t) | 66 | 105 | 31 | 46 | 46 |
| Activity level* (2004 = base 100) | n/a | 100 | 128 | 160 | 162 |

* Volume of perfumes produced.
n/a: not available.

### • Water

Water consumption has declined by 21% since 2004, while production has increased by 62% over the same period.
In 2007, water consumption reached its lowest level since 2002. Water consumption fell significantly at the end of 2005, when lost-water vacuum pumps were replaced with individual electric vacuum pumps installed on each machine. Water use was then further reduced following the installation of motion sensors on water taps and improved washroom maintenance.

### • Energy

Gas consumption declined by 51% between 2006 and 2007, thanks to a new temperature regulation system installed in production units at the end of 2005. A reversible heat pump installed in 2007 further reduced gas use.
The trade-off of this investment was that electricity consumption increased 18% year-on-year. Even so, the overall results of these conservation efforts are positive, as total gas and electricity consumption declined 28% between 2006 and 2007, while production remained high.

• **Waste**

At Vaudreuil, efforts continued to increase the percentage of waste reclaimed. After instituting a programme to recycle and re-use thermoformed plastic trays and inserts in 2006, plastic film and sheeting covering pallets from our suppliers joined the list of materials recycled in 2007. This has raised the percentage of OIW recycled or reused to 56%.

In addition, HIW in the form of soiled manufacturing waste (filter plates, soiled containers) was removed to a facility certified to treat this type of waste.

• **Air**

In 2007, the level of VOCs (volatile organic compounds) released into the atmosphere was measured at 1.77%. This reading is far below the recommended maximum for the perfume industry (5%). Most VOCs consist of ethanol, which is not bio-cumulative, disperses rapidly, is highly biodegradable and poses no measurable threat to fauna and flora.

• **Communications**

Regular educational seminars on waste sorting on the packaging lines, along with detailed signage, help raise awareness of environmental matters among employees.

• **Audit**

A complete audit was carried out in May 2006 to assess workplace health and safety and environmental impact. An action plan was developed based on the results and reviewed in May 2007 to measure progress made under the plan.

## TANNING

• **Figures**

| | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|
| Water ($m^3$) | 66,170 | 49,158 | 41,463 | 40,217 | 33,431 |
| Electricity (MWh) | 434 | 473 | 551 | 592 | 602 |
| Gas (MWh) | 1,542 | 1,573 | 1,558 | 1,624 | 1,627 |
| Fuel oil (MWh) | 270 | 288 | 270 | 0 | 0 |
| Propane (MWh) | – | 211 | 215 | 161 | 131 |
| OIW (t) | 115 | 120 | 92 | 120 | 94 |
| HIW (t) | 60 | 174 | 83 | 91 | 102 |
| Activity level* (2002 = base 100) | 80 | 99 | 108 | 112 | 112 |

* Units tanned.
n/a: not available.

• **Water**

At the Gordon-Choisy tannery, total water consumption was reduced by 17% between 2006 and 2007 despite robust production levels over the period. This was due to the following actions:

– the water treatment plant, which has been functioning since mid-2003, requires disciplined water use to ensure that daily treatment capacity is not exceeded;

– two new-generation drums (added to the three others installed 2005 and 2006) help conserve water used for tanning baths;

– rinsing is now carried out using a running water bath instead of an overflow tank.

• **Energy**

The fuel oil heating system was eliminated in 2006 when the oil-fired air heater used to dry hides was replaced by a gas heat exchanger with a temperature regulation system.

Total energy consumption (electricity, natural gas and propane) edged down to 2,360 MWh in 2007 from 2,376 MWh in 2006, in keeping with the production level, which was virtually stable.

• **Waste**

The amount of HIW was unusually high in 2004 because of two one-time operations: sludge removal from the water treatment plant and cleaning of the old settling tank. The 2005, 2006 and 2007 figures represent the standard amount of sludge produced by the water treatment plant. Since 2007, this sludge has been processed to extract metals and lime for recycling.

A complete overhaul of the waste management system, initiated in 2005, was completed in 2006. Personnel received additional training in waste sorting practices in 2007.

• **Bilan Carbone® carbon audit**

The Gordon-Choisy tannery was the first to use the Bilan Carbone® method in 2006. The most significant finding of the audit was that the transport of raw leather by air is a major source of $CO_2$. In light of the study's findings, two solutions were identified and put into place: refrigerated shipping by boat was organised for raw leathers, and a study was launched to find a preservation process for raw leathers that would significantly lower shipping weight.

• **Audit**

A complete workplace health and safety and environmental impact assessment was carried out in 2006. An action plan was drawn up based on the results and reviewed in 2007 to measure progress made under the plan.

Our challenge for 2008 will be to bring the three tanneries acquired in July 2007 (TCIM in Vivoin, Michel Rettili in Cuneo, Italy and RTL in Lafayette, USA) up to Group environmental standards.

## CRYSTAL

In 2007, crystal focused its EHS efforts on bringing its chemical etching and polishing workshop into compliance with applicable regulations. The total cost of these improvements came to €335,000.

• **Figures**

| | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|
| Water ($m^3$) | 49,000 | 40,358 | 18,548 | 21,553 | 35,425 |
| Electricity (MWh) | 6,982 | 6,818 | 7,510 | 7,928 | 8,107 |
| Gas (MWh) | 36,387 | 32,992 | 33,337 | 33,300 | 33,962 |
| Fuel oil (MWh) | – | – | – | – | 82 |
| OIW (t) | 166 | 162 | 148 | 136 | 113 |
| HIW (t) | 1,126 | 761 | 1,084 | 1,714 | 1,279 |
| Of which recycled/ reclaimed (t) | 944 | 508 | 767 | 1,434 | 971 |
| Activity level* (2002 = base 100) | 105 | 97 | 118 | 124 | 118 |

* Tonnes of melted crystal.

• **Water**

The success of the recycling system on the crystal melt cooling circuit installed in the latter part of 2004 proved its effectiveness in 2005 when it slashed the unit's water consumption by half (some 20,000 $m^3$).

In 2006, consumption increased by 16% relative to 2005, due mainly to the addition of a new production line that makes items requiring technical cleaning.

The increase in water consumption between 2006 and 2007 was due to the inclusion of mains water consumption in our figures, which previously counted only well water and source water.

**• Effluent**

To complete the water conduit separation programme initiated in 2001 with support from the water quality agency, a permanent 80 square metre settling tank allowing for wastewater circulation at a distance of over 40 metres was installed in 2006. It further reduced the suspended particulate matter in wastewater, which remains far below the levels required by the applicable environmental standards.

The etching and polishing workshop was brought into compliance in 2007 with the replacement of tempering processes, scrubbing towers, electrical distribution systems, vacuums and safety devices, at a total cost of €335,000. As a result, acid levels in water vapour emitted from the facility were brought below the regulatory concentration threshold of around 80%. Investments also allowed the facilities to consume fewer chemical reagents than previously for the same production output.

Water from the chemical polishing and etching process is neutralised with lime and filtered before it is released into the environment. Sludge is removed to an approved discharge site.

Processing of ammonia-rich water from the rinsing stage of the chemical etching process, which has the greatest environmental impact, is outsourced to a specialist.

A new cullet-storage platform was erected in the rear portion of the main hall in 2006. It is built on a retention tank and is designed to channel runoff and prevent any possibility of leaching.

A ground spectrophotometer with Crack Set (a small kiln for firing at 170°C to speed up chemical reactions) was installed at the end of 2007 for weekly testing of effluent for factors such as dissolved lead rates or COD (chemical oxygen demand, a variable used to measure wastewater pollution load of waste water, that is, the level of organic compounds that cause eutrophication).

**• Energy**

The 2% rise in total energy consumption (gas and electricity) was attributable primarily to the opening of the Saint-Louis Museum in June 2007.

**• Gas releases**

Gases released by the tank furnace are filtered. Gas emissions from raw materials in silos, as well as from composition, polishing and chemical etching are similarly treated. All filtering operations are inspected once a year by an external organisation. Atmospheric emissions comply with applicable regulations.

The vacuum system installed in the cutting shop in 2005 improved health and safety conditions in the workplace in 2006. The effectiveness of this system was confirmed in 2007.

**• Waste**

Improved sorting of cullet at source (waste fragments of crystal) increased the percentage of cullet reused in production.

The Saint-Louis crystal factory is thus able to reuse 48% of cullet produced by re-introducing it into the manufacturing cycle, and 49% is sent out for reclamation and recycling. In the end, only 3% of cullet ends up as waste classified as special industrial waste.

OIW production fell by 17% thanks to a more stringent waste sorting process, and used crucibles have been reclassified as hazardous industrial waste.

## SILVERSMITHING AND JEWELLERY

### • Figures

| | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|
| Water ($m^3$) | 547 | 632 | 706 | 792 | 719 |
| Electricity (MWh) | 131 | 180 | 179 | 187 | 164 |
| Gas (MWh) | 16 | 19 | 17 | 18 | 18 |

### • Energy

Puiforcat's energy consumption in 2007 was commensurate with its production level.

Unusually high water consumption in 2002 was due to a leak in the system, which was repaired at the end of that year.

### • Pollutant releases

In 2005, two major changes were made in the treatment of water used for electroplating baths in order to improve liquid quality. A closed-circuit resin-based recycling system for electroplating baths was installed in the prototype department. An outside specialist regenerated the filtration resins of the electroplating bath and recycled the used bath liquids at the Puiforcat facility.

Since 2003, chemicals have been stored in special cabinets and the baths are now installed on retention tanks.

### • Audit

An audit was carried out in the Puiforcat workshops and the prototype department in 2006 to assess workplace health and safety and environmental impact. This audit was reviewed in 2007 to measure the progress made under the plan.

## PORCELAIN

The main activities at the Nontron site are the decoration of plain porcelain and the production of enamelled bracelets.

### • Figures

| | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|
| Water ($m^3$) | 1,400 | 2,570 | 1,280 | 1,010 | 875 |
| Electricity (MWh) | 790 | 706 | 732 | 801 | 833 |
| Gas (MWh) | 157 | 380 | 487 | 447 | 538 |
| Fuel oil (MWh) | n/a | n/a | 56 | 73 | 62 |
| OIW (t) | n/a | 73 | 74 | 88 | 90 |
| HIW (t) | n/a | 0.4 | n/a | 0.6 | 0.3 |
| Activity level* (2004 = base 100) | n/a | 100 | 112 | 123 | 147 |

* Number of finished products produced.
n/a: not available.

### • Water

High water consumption in 2004 was due to a leak under the concrete slab in the workshop. Repairs were made in early 2005 and water consumption has plunged by 32% since then, in spite of the fact that enamelling work is now carried out, and this requires water in the production process (jar mill cleaning and water washes in the enamel kilns).

### • Energy

Total energy consumption (electricity, gas and fuel oil) rose by 8%. This is due to an increase in production and to leaving the porcelain furnace on standby during the night to prevent deterioration. Gas is used for heating purposes exclusively.

### • Audit

An audit was carried out in 2006 to assess environmental impact and workplace health and safety at the facility, which now includes a new enamel bracelet production unit. This audit was reviewed in 2007 to measure the progress made under the plan.

## WATCHES

The factory at Biel, built in 1999, is dedicated to watch assembly. It complies with Switzerland's demanding environmental standards at the local, *canton* and federal levels.

In October 2006, a leather watchband production unit was added to the Biel facility.

### • Figures

| | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|
| Water ($m^3$) | 900 | 1,700 | 602 | 742 | 746 |
| Electricity (MWh) | 253 | 271 | 301 | 323 | 350 |
| Unreclaimed OIW (t) | 6 | 6 | 6 | 12 | 13 |
| Reclaimed OIW ($m^3$) | 50 | 50 | 55 | 60 | 65 |
| HIW (kg) | n/a | n/a | 15 | 20 | 20 |
| Activity level* (2003 = base 100) | 100 | 98 | 102 | 129 | n/a |

* Number of finished products produced.
n/a: not available.

### • Water

A water leak caused by a flaw in the heating system was repaired in September 2004.

The 24% increase in water consumption between 2005 and 2007 is attributable in part to an increase in staff following the integration of the leather watchband production unit.

### • Energy

Electricity consumption rose 8% year-on-year in 2007, due to the installation of new cutting machinery in the leather workshop.

### • Waste

Reclamation of ordinary industrial waste (OIW) primarily involves recycling paper and cardboard items. The volume of this waste increases in proportion to activity.

Non-reclaimed waste is categorised as household waste.

The 20kg of hazardous industrial waste (HIW) refers to used batteries, which are collected and dispatched to a specialised treatment facility.

## FOOTWEAR

### • Figures

| | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|
| Water ($m^3$) | n/a | 500 | 742 | 520 | 459 |
| Electricity (MWh) | 258 | 231 | 234 | 233 | 227 |
| Gas (MWh) | n/a | 175 | 255 | 257 | 226 |

n/a: not available.

### • Waste

The site signed a contract for waste collection, removal and treatment with the Northampton Borough Council.

## LOGISTICS

The new logistics centre began operations in 2003. In early 2007, the facility successfully completed the ISO 9001 quality certification process, begun in 2006.

### • Figures

| | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|
| Water ($m^3$) | 163 | 3,700 | 16,000 | 2,800 | 2,860 |
| Electricity (MWh) | 2,532 | 3,677 | 3,487 | 2,751 | 2,653 |
| Gas (MWh) | 4,281 | 3,639 | 2,834 | 3,648 | 2,987 |
| OIW (t) | n/a | n/a | 231 | 306 | 316 |
| Of which: recycled/ reclaimed (t) | n/a | n/a | 150 | 242 | 155 |

n/a: not available.

### • Water

Water consumption returned to normal following the repair of a leak in the underground water mains in May 2005.

### • Energy

Night-time security lighting at the warehouses was fitted with motion sensors. Since lights are now activated only when movement is detected, energy consumption has decreased.

# NRE annexes*: Human resources



* Information required by New Economic Regulations Act.

## HEADCOUNT

Hermès had 7,445 employees at the end of 2007, following the addition of 630 new staff members since 31 December 2006, including nearly 230 from the assimilation of the Soficuir group.

More than 45% of staff members have been with the company for less than five years.

Production and distribution represent 45% and 38% of the workforce, respectively.

67% of our workforce consists of women, who are present at all hierarchical levels: 57% of the Group's managers are women.

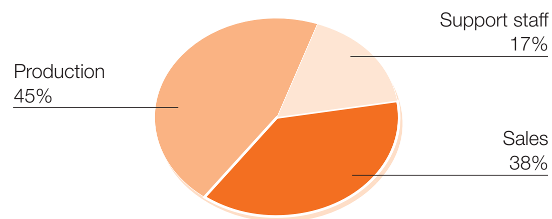
The analysis of the Group's workforce by age group did not change. Average age is 38.5 years, with an even distribution across all regions.

## ANALYSIS OF WORKFORCE BY REGION

| | Number of permanent, active, paid employees* | Mix |
|---|---|---|
| France | 4,741 | 64% |
| Japan | 754 | 10% |
| Rest of Europe | 753 | 10% |
| Asia-Pacific | 712 | 9% |
| Americas | 495 | 7% |
| **Total – Group** | **7,455** | **100%** |

* Employees covered by fixed-term contracts with a term of more than nine months.

## ANALYSIS OF WORKFORCE BY JOB CATEGORY




'Sales' staff includes:

– all employees in direct contact with customers in stores, such as sales personnel, cashiers, hostesses, store security staff etc.;

– specialised networks (perfumes, watches etc.), concessionnaires, airlines, and all individuals who work in contact with intermediaries, sales representatives, export managers etc.;

– all employees in direct contact with finished goods and thus in indirect contact with customers, that is, employees who work in distribution but do not directly engage in selling.

'Production' staff includes:

– all people who take part in the production of the finished product;

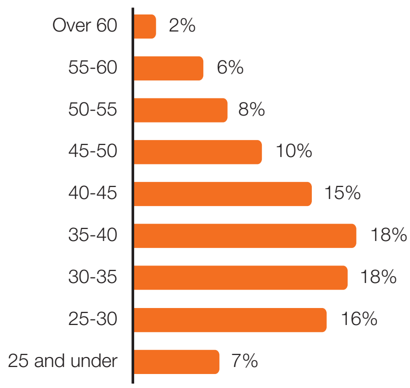
– all persons in indirect contact with the product, that is, those employees working in the production sector without participating in the actual physical production of goods.

'Support staff' includes:

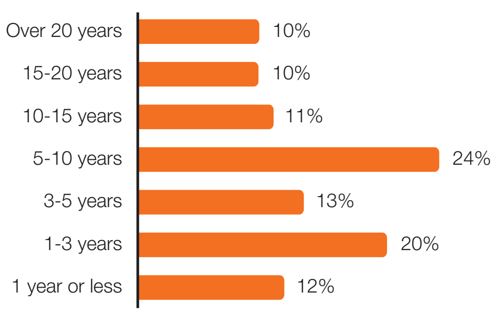
– all people who employ a specific expertise in a creative field;

– all members of departments such as Executive Management, finance, human resources, administration, legal, IT, press, public relations, etc.

## ANALYSIS OF WORKFORCE BY AGE GROUP




## ANALYSIS OF WORKFORCE LENGTH OF SERVICE




Of new arrivals to the Group workforce, 73% were in production, 15.5% in sales and 11.5% in support staff.

The workforce has grown most significantly in the Asia-Pacific region, and particularly in China, where the workforce expanded by 47% (more than 85% of those hired joined our sales teams).

In production, in addition to the acquisition of the Soficuir companies, the leather goods sector added the largest number of employees to its workforce.

By region and by job category, Group hiring for 2007 breaks down as follows:

| | |
|---|---|
| France | +9% |
| Rest of Europe | +13% |
| Americas | +12% |
| Asia-Pacific | +13% |
| Japan | +3% |
| **Total – Group** | **+9%** |

| | |
|---|---|
| Sales | +7% |
| Production | +12% |
| Support | +8% |
| **Total – Group** | **+9%** |

## NEW EMPLOYEES

Of the 630 new staff members who joined the group in 2007, 227 come from the assimilation of the Soficuir Group, which became part of the Group on 12 July 2007. Soficuir includes five companies:

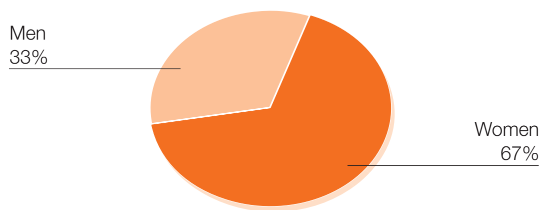
– RTL in the United States (30 people);

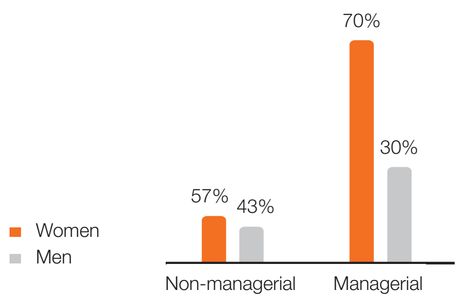
– Exocuirs SA, Louisiane Spa and Michel Rettili Srl in Switzerland and Italy (51 people);

– TCIM in France (146 people).

## GENDER EQUALITY

Women make up 67% of the total workforce and are represented at all levels throughout the Group, in all sectors (production and distribution) and in all employee representative organisations.




## EMPLOYMENT OF DISABLED WORKERS

The Group employed 85 disabled workers in France in 2007, compared with 58 in 2006, which represents nearly 2% of our workforce.

## REMUNERATION AND TRAINING

The Group's aggregate payroll amounted to €266 million in 2007 compared with €235 million in 2006, plus €85 million for payroll taxes and employer contributions, €22.6 million for incentive schemes and profit sharing and €1.1 million for employee support activities.

The rise in payroll costs (adjusted for the currency impact) reflects increases in both headcount and salaries in all geographical areas.

Over the past several years, Hermès'commitment to reward employee performance at the collective and individual levels is reflected by the increase in variable compensation at both levels.

Salaries are determined primarily by employee qualifications and local job market factors. The Group's remuneration policy is based on rewarding employee incentive and skills development while ensuring that everyone receives equal pay for equal work.

A number of years ago, Hermès implemented an active training policy for its personnel. In 2007, training hours rose by 23% to nearly 316,000.

## EMPLOYEE SUPPORT ACTIVITIES

Total amounts paid to various works councils for employee support activities rose by 17% in 2007:

| (in millions of euros) | 2005 | 2006 | 2007 |
|---|---|---|---|
| Employee support activities | 0.8 | 0.9 | 1.1 |

## INCENTIVE SCHEMES AND PROFIT SHARING

| (in millions of euros) | Incentive schemes | Incentive schemes and profit sharing |
|---|---|---|
| 2002 | 5.6 | 10.2 |
| 2003 | 5.7 | 10.3 |
| 2004 | 5.5 | 10.5 |
| 2005 | 6.1 | 11.0 |
| 2006 | 7.5 | 12.3 |
| 2007 | 7.9 | 14.7 |

# Consolidated financial statements

# Consolidated income statement

in millions of euros

| | 2007 | 2006 |
|---|---|---|
| **Sales** (notes 3 and 4) | **1,625.1** | **1,514.9** |
| Cost of sales | (570.6) | (524.9) |
| **Gross profit** (note 5) | **1,054.5** | **990.0** |
| Selling, marketing and administrative expenses (note 6) | (570.4) | (537.3) |
| Other income and expense (note 8) | (69.6) | (51.6) |
| **Recurring operating income** | **414.5** | **401.1** |
| Other non-current income and expense (note 9) | 9.2 | 14.1 |
| **Operating income** | **423.7** | **415.2** |
| Net financial income (note 10) | 12.3 | (0.3) |
| **Pre-tax income** | **436.0** | **414.9** |
| Corporate income tax (note 11) | (143.8) | (136.2) |
| Share of net income of associates (note 12) | 1.6 | (5.9) |
| **CONSOLIDATED NET INCOME** | **293.8** | **272.8** |
| Minority interests (note 13) | (5.8) | (4.4) |
| **NET INCOME - GROUP'S SHARE** | **288.0** | **268.4** |
| Earnings per share (in euros) (note 14) | 2.71 | 2.51 |
| Diluted earnings per share (in euros) (note 14) | **2.71** | **2.51** |

# Consolidated balance sheet

## ASSETS

in millions of euros

| | 31/12/2007 | | | 31/12/2006 |
|---|---|---|---|---|
| | Gross | Depreciation, amortisation and impairment | Net | Net |
| **Non-current assets** | **1,355.5** | **511.0** | **844.5** | **804.0** |
| Goodwill (note 15) | 63.4 | 31.0 | 32.4 | 18.9 |
| Intangibles (note 16) | 100.5 | 60.2 | 40.3 | 36.5 |
| Property, plant and equipment (note 17) | 984.5 | 415.0 | 569.5 | 537.8 |
| Investment property (note 18) | 13.1 | 1.2 | 11.9 | 11.7 |
| Available-for-sale securities (note 21) | 12.2 | 2.3 | 9.9 | 17.2 |
| Held-to-maturity securities (note 21) | 35.0 | – | 35.0 | 23.7 |
| Investments in associates (note 12) | 21.8 | – | 21.8 | 33.9 |
| Loans and deposits (note 22) | 16.4 | 1.2 | 15.2 | 14.2 |
| Deferred tax assets (note 11) | 108.4 | – | 108.4 | 110.1 |
| Other non-current assets (note 23) | 0.2 | 0.1 | 0.1 | – |
| **Current assets** | **1,379.8** | **159.2** | **1,220.6** | **1,142.0** |
| Inventories and work in progress (note 20) | 585.1 | 153.0 | 432.1 | 349.7 |
| Trade receivables (note 23) | 140.4 | 5.0 | 135.4 | 118.1 |
| Current tax receivables (notes 11-23) | 2.5 | – | 2.5 | 0.9 |
| Other receivables (note 23) | 63.0 | 1.2 | 61.8 | 55.0 |
| Financial instruments at fair value (note 25) | 58.9 | – | 58.9 | 47.9 |
| Cash and cash equivalents (notes 24-25) | 529.9 | – | 529.9 | 570.4 |
| **TOTAL ASSETS** | **2,735.3** | **670.2** | **2,065.1** | **1,946.0** |

# EQUITY AND LIABILITIES

**Before appropriation**

in millions of euros

| | 31/12/2007 | 31/12/2006 |
|---|---|---|
| **Shareholders' equity** | **1,475.1** | **1,424.2** |
| Share capital | 54.1 | 54.5 |
| Share premium | 43.5 | 41.6 |
| Treasury shares | (33.8) | (6.6) |
| Reserves | 1,138.8 | 1,049.9 |
| Exchange rate adjustments | (45.2) | (14.7) |
| Derivatives included in equity | 17.0 | 15.9 |
| Net income for the year | 288.0 | 268.4 |
| Minority interests (note 13) | 12.7 | 15.2 |
| **Non-current liabilities** | **99.6** | **109.2** |
| Borrowings and debt (note 25) | 25.3 | 24.0 |
| Reserves (note 26) | 1.5 | – |
| Post employment and other employee benefits (note 27) | 39.8 | 36.0 |
| Deferred tax liabilities (note 11) | 8.1 | 21.2 |
| Other non-current liabilities (note 28) | 24.9 | 28.0 |
| **Current liabilities** | **490.4** | **412.6** |
| Borrowings and debt (note 25) | 60.7 | 43.0 |
| Reserves (note 26) | 15.1 | 11.0 |
| Post employment and other employee benefits (note 27) | 4.0 | 4.7 |
| Trade payables (note 28) | 204.7 | 163.4 |
| Financial instruments at fair value (note 25) | 32.6 | 28.0 |
| Current tax liabilities (notes 11-28) | 34.6 | 33.2 |
| Other current liabilities (note 28) | 138.7 | 129.3 |
| **TOTAL EQUITY AND LIABILITIES** | **2,065.1** | **1,946.0** |

The €45.2 million exchange rate adjustments includes €22.9 million for Japan, €7.7 million for the rest of Asia and €14.7 million for the Americas.

## Statement of changes in consolidated shareholders' equity

### Before appropriation

| | Share capital | Share premium | Treasury shares | Consolidated reserves |
|---|---|---|---|---|
| **At 31 December 2005** | **55.6** | **36.3** | **(20.0)** | **1,053.5** |
| *Movements* | | | | |
| Change in share capital and share premium | 0.1 | 5.3 | – | – |
| Purchase or sale of treasury shares | – | – | (136.2) | – |
| Appropriation of net income for previous year | – | – | – | 247.0 |
| Consolidated net income for the year | – | – | – | – |
| Dividends paid | – | – | – | (90.3) |
| Change in exchange rate adjustments | – | – | – | – |
| Derivatives included in equity | – | – | – | – |
| Actuarial gains or losses on employee benefit obligations | – | – | – | – |
| Change in minority interests | – | – | – | – |
| Cancellation of treasury shares | (1.2) | – | 149.6 | (148.4) |
| Other | – | – | – | (1.0) |
| **At 31 December 2006** | **54.5** | **41.6** | **(6.6)** | **1,060.8** |
| *Movements* | | | | |
| Change in share capital and share premium | – | 1.9 | – | – |
| Purchase or sale of treasury shares | – | – | (100.6) | – |
| Appropriation of net income for previous year | – | – | – | 268.4 |
| Consolidated net income for the year | – | – | – | – |
| Dividends paid | – | – | – | (102.8) |
| Change in exchange rate adjustments | – | – | – | – |
| Derivatives included in equity | – | – | – | – |
| Actuarial gains or losses on employee benefit obligations | – | – | – | |
| Cancellation of treasury shares | (0.4) | – | 73.4 | (73.0) |
| Other | – | – | – | (4.9) |
| **At 31 December 2007** | **54.1** | **43.5** | **(33.8)** | **1,148.5** |

* After 3-for-1 stock split applied to comparative figures.

in millions of euros

| Net income for the year - Group's share | Derivative financial instruments | Exchange rate differences | Actuarial gains and losses | Equity - Group's share | Minority interests | Shareholders' equity | Number of shares outstanding* |
|---|---|---|---|---|---|---|---|
| **247.0** | **0.3** | **16.3** | **(8.8)** | **1,380.2** | **21.5** | **1,401.7** | **109,001,562** |
| | | | | | | | |
| – | – | – | – | 5.4 | – | 5.4 | 119,820 |
| – | – | – | – | (136.2) | – | (136.2) | – |
| (247.0) | – | – | – | – | – | – | – |
| 268.4 | – | – | – | 268.4 | 4.4 | 272.8 | – |
| – | – | – | – | (90.3) | (4.9) | (95.2) | – |
| – | – | (31.0) | – | (31.0) | (1.0) | (32.0) | – |
| – | 15.6 | – | – | 15.6 | – | 15.6 | – |
| – | – | – | (2.1) | (2.1) | – | (2.1) | – |
| – | – | – | – | – | | – | – |
| – | – | – | – | – | – | – | (2,246,568) |
| – | – | – | – | (1.0) | (4.8) | (5.8) | – |
| **268.4** | **15.9** | **(14.7)** | **(10.9)** | **1,409.0** | **15.2** | **1,424.2** | **106,874,814** |
| | | | | | | | |
| – | – | – | – | 1.9 | – | 1.9 | 44,100 |
| – | – | – | – | (100.6) | – | (100.6) | – |
| (268.4) | – | – | – | – | – | – | – |
| 288.0 | – | – | – | 288.0 | 5.8 | 293.8 | – |
| – | – | – | – | (102.8) | (3.8) | (106.6) | – |
| – | – | (30.5) | | (30.5) | (0.9) | (31.4) | – |
| – | 1.1 | – | – | 1.1 | – | 1.1 | – |
| – | – | – | 1.2 | 1.2 | – | 1.2 | – |
| – | – | – | – | – | – | – | (829,700) |
| – | – | – | – | (4.9) | (3.6) | (8.5) | – |
| **288.0** | **17.0** | **(45.2)** | **(9.7)** | **1,462.4** | **12.7** | **1,475.1** | **106,089,214** |

# Statement of changes in consolidated shareholders' equity

At 31 December 2007, the share capital of Hermès International was made up of 106,089,214 shares with a par value of €0.51 each. 473,000 of these shares are treasury shares.
In 2007, the share capital changed as follows:
– it was increased by 44,100 shares with a par value of €0.51 each due to the exercise of stock options by Hermès Group employees;
– it was reduced by €0.4 million following the cancellation of 829,700 treasury shares with a par value of €0.51 each.

It is specified that no shares are reserved for issuance under stock option or sale contracts.

For management purposes, the Hermès Group uses the notion of "shareholders' equity, Group's share" as shown in the table on pages 96-97. More specifically, shareholders' equity includes the part of financial instruments that has been transferred to equity as well as actuarial gains and losses.

The Group's goals, 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 2007, the Group's capital management policy and goals were the same as in the previous year.
The parent company Hermès International is governed by French laws on capital requirements. Shareholders' equity must be greater than or equal to half of the share capital. If it drops below this level, an extraordinary general meeting must be called to approve the measures required to remedy this situation. Hermès International has never been in this position and has always met this requirement.

Changes in exchange rate adjustments in 2007 relate mainly to the following:

in millions of euros

| **Change in exchange rate adjustments** | |
|---|---|
| US dollar | (10.7) |
| Hong Kong dollar | (5.1) |
| Korean won | (5.0) |
| Japanese yen | (4.3) |
| Singapore dollar | (2.2) |
| Pound sterling | (1.6) |
| Swiss franc | (0.6) |
| Other currencies | (1.0) |
| **Total** | **(30.5)** |

In 2007, changes in derivatives (before tax) are broken down as follows:

in millions of euros

| **Balance at 31 December 2006** | **15.9** |
|---|---|
| Amount transferred to equity during the year | (15.9) |
| Adjustments in the value of derivatives at 31 December | 15.9 |
| Fair value adjustments of financial investments | 1.1 |
| **Balance at 31 December 2007** | **17.0** |

## Statement of Cash Flows

**Before appropriation**

in millions of euros

| | 31/12/2007 | 31/12/2006 |
|---|---|---|
| **OPERATING CASH FLOW *** | **356.6** | **321.7** |
| **OPERATING CASH FLOW BEFORE COST OF DEBT AND CURRENT TAX CHARGE** | **502.3** | **469.7** |
| Inventories and work in progress | (60.8) | (37.4) |
| Trade receivables | (4.9) | (13.8) |
| Other receivables and miscellaneous items (excluding current tax charge) | (3.7) | (4.8) |
| Trade payables | 24.7 | 14.7 |
| Other liabilities and miscellaneous items (excluding current tax charge) | 14.9 | 5.9 |
| Change in fair value of derivatives | 0.1 | 0.6 |
| **Change in operating working capital requirement** | **(29.7)** | **(34.8)** |
| **CASH FLOW FROM OPERATING ACTIVITIES** | **472.6** | **434.9** |
| Cost of net debt | 11.8 | 0.2 |
| Income tax paid | (159.6) | (141.8) |
| **NET CASH FLOW FROM OPERATING ACTIVITIES** | **324.8** | **293.3** |
| Acquisitions of intangibles | (13.3) | (10.0) |
| Acquisitions of property, plant and equipment | (106.6) | (113.2) |
| Acquisitions of investments in associates | (36.0) | (11.1) |
| Acquisitions of other long-term investments | (20.4) | – |
| Amounts payable relating to non-current assets | 13.9 | 5.7 |
| Proceeds from sales of non-current operating assets | 4.4 | 1.5 |
| Proceeds from disposals of interests in consolidated companies | – | 12.8 |
| Proceeds from disposals of other long-term investments | 15.0 | 15.6 |
| **CASH USED IN INVESTING ACTIVITIES** | **(143.0)** | **(98.7)** |
| Dividends paid | (106.6) | (95.0) |
| Purchases of treasury shares | (100.6) | (136.2) |
| Borrowings | 5.7 | 6.9 |
| Loan reimbursements | (9.1) | (12.4) |
| Other increases/(decreases) in equity | 2.0 | 5.7 |
| **CASH USED IN FINANCING ACTIVITIES** | **(208.6)** | **(231.0)** |
| Effect of changes in scope of consolidation | (20.9) | (2.9) |
| Effect of foreign exchange differences | (10.0) | (7.2) |
| **CHANGE IN NET CASH POSITION** | **(57.7)** | **(46.5)** |

| | | |
|---|---|---|
| Net cash position at 1 January** | 538.2 | 584.7 |
| Net cash position at 31 December** | 480.5 | 538.2 |
| **CHANGE IN NET CASH POSITION** | **(57.7)** | **(46.5)** |

## Statement of Cash Flows

* Calculation of operating cash flow

in millions of euros

| | 31/12/2007 | 31/12/2006 |
|---|---|---|
| **Net income - Group's share** | **288.0** | **268.4** |
| Depreciation and amortisation | 64.6 | 54.3 |
| Negative goodwill | – | (2.4) |
| Impairment losses | 1.3 | 4.5 |
| Derivatives marked-to-market | (6.3) | 2.6 |
| Currency gains/(losses) on fair value adjustments | 6.1 | 7.0 |
| Change in reserves | 1.2 | 0.9 |
| Share of net income/(losses) of associates | (1.6) | 5.9 |
| Minority interests | 5.8 | 4.4 |
| Capital gains/(losses) on disposals | (1.2) | (19.7) |
| Deferred tax | (2.0) | (3.0) |
| Other | 0.7 | (1.2) |
| **OPERATING CASH FLOW** | **356.6** | **321.7** |
| Cost of net debt | (11.8) | (0.2) |
| Current tax charge | 157.5 | 148.2 |
| **OPERATING CASH FLOW before net cost of debt and current tax charge** | **502.3** | **469.7** |

** Reconciliation of net cash position at 31 December

in millions of euros

| | 31/12/2007 | 31/12/2006 |
|---|---|---|
| Cash and cash equivalents | 529.9 | 570.4 |
| Bank overdrafts and current accounts in debit | (49.4) | (32.2) |
| **NET CASH AND CASH EQUIVALENTS** | **480.5** | **538.2** |

# Notes to the consolidated financial statements

## NOTE 1 - ACCOUNTING POLICIES

The Hermès Group's consolidated financial statements for the year ended 31 December 2007 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union as of 31 December 2007. Under European Regulation 1606/2002 of 19 July 2002, companies listed on a regulated stock exchange in one of the European Union member states are required to present their consolidated financial statements for financial years commencing on or after 1 January 2005 in accordance with IFRS.

The Group applied the following standards for the first time:

- IFRS 7 on disclosures about financial assets and liabilities;
- the amendment to IAS 1 introducing disclosures about capital management and quantitative data as to what the entity regards as capital.

These two standards are applicable for the first time to financial years commencing on 1 January 2007 and relate to the presentation of financial statements.

Adoption of the following amendments and standards endorsed by the European Union since 31 December 2006, and which are applicable effective on 1 January 2007, produced no material impact on publication of the consolidated financial statements for the year ended 31 December 2007:

- IFRIC 7 - Applying the restatement approach under IAS 29, Financial Reporting in Hyperinflationary Economies;
- IFRIC 8 - Scope of IFRS 2, Share Based Payments;
- IFRIC 9 - Reassessment of Embedded Derivatives;
- IFRIC 10 - Interim Financial Reporting and Impairment.

The Group did not opt for early application of the standards and interpretations that were not mandatory as of 31 December 2007, and more specifically:

- IFRS 8 on segment reporting, which will replace IAS 14;
- IAS 23 on recognition of borrowing costs;
- IAS 1 revised standard on presentation of financial statements;
- IFRIC 11 on stock option plans within a group;
- IFRIC 12 - Public Service Concession Arrangements;
- IFRIC 13 - Customer Loyalty Programmes;
- IFRIC 14 on how to assess the limits applied under IAS 19.

With the exception of IFRS 8, for which the Group is assessing potential changes in financial statement presentation, the other standards and interpretations are not likely to produce a material impact on the measurement of financial data.

### NOTE 1.1 - SCOPE AND METHOD 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.

#### 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 so as 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. Minority interests in equity and in net profit are identified separately under "Minority interests" in the consolidated balance sheet and the consolidated income statement.

#### 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.

#### 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.

#### Newly consolidated and deconsolidated companies

Subsidiaries are included in the consolidation as from the date on which control is effectively transferred to the Group. Divested subsidiaries are excluded from the consolidation from the date on which the Group ceases to have control.

**NOTE 1.2 - EXCHANGE RATE OF FOREIGN-CURRENCY ITEMS**

The Group's financial statements are drawn up in euros.

**Foreign-currency transactions**

Foreign-currency transactions are recorded on initial recognition in euros, by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of the transaction (historical rate). Monetary assets and liabilities denominated in foreign currencies are translated using the closing exchange rate. Foreign exchange rate differences are recognised in income or expenses. Non-monetary assets and liabilities denominated in foreign currencies are translated using the exchange rate at the transaction date.

**Exchange rate of the financial statements of foreign companies**

Financial statements expressed in foreign currencies are translated in accordance with the following principles:

◆ balance sheets are translated at the official year-end exchange rate;

◆ income statements are translated at the average annual exchange rate for each currency;

◆ cash flow statements are translated at the average annual exchange rate for each currency;

◆ the exchange rate adjustment attributable to the Group arising from the impact on shareholders' equity of the difference between historical exchange rates and year-end exchange rates, and from the use of different exchange rates for the income statement and balance sheet, is shown separately in consolidated shareholders' equity. The same principle is applied to minority 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.

**Specific rules for first-time adoption of IFRS**

In accordance with the option allowed by IFRS 1, cumulative exchange rate differences as of the transition date were deemed to be zero. They were reversed out and transferred to consolidated reserves, and equity was unchanged. Consequently, exchange rate differences arising prior to the date of transition to IFRS, that is, prior to 1 January 2004, will not be taken into account in future gains or losses on the disposal of consolidated entities or associates.

**NOTE 1.3 - FINANCIAL YEAR-END**

The consolidated financial statements are prepared on the basis of annual financial statements or of interim accounts at 31 December.

**NOTE 1.4 - ELIMINATIONS OF INTRA-GROUP TRANSACTIONS**

The income statement effect 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, intra-Group accounts are eliminated in full.

**NOTE 1.5 - STRUCTURE OF THE CONSOLIDATED BALANCE SHEET**

In accordance with IAS 1, the Group classifies its assets and liabilities on its balance sheet 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;

◆ the relevant asset or liability is held for the purpose of being traded.

IAS 12 specifies that deferred tax balances shall not be classified as non-current assets or liabilities.

**NOTE 1.6 - FIRST-TIME CONSOLIDATION AND GOODWILL**

In accordance with IFRS 3, business combinations are accounted for by use of 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 assets and liabilities to which they relate, including the share attributable to minority shareholders, 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 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 monitored subsequently.

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 subsidiary in question (determined on the basis of future anticipated and discounted cash flows).

Goodwill of associates is recognised under "Investments in associates".

When impairment criteria as defined by IAS 36 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.

**Specific rules for first-time adoption of IFRS**

Business combinations existing prior to the transition date (1 January 2004) have not been restated, in accordance with the option allowed by IFRS 1.

### NOTE 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 intangible assets or property, plant and equipment.

**Intangibles**

Intangible assets, valued at amortised historical cost, consist primarily of:

- leasehold rights;
- patents, models and brands other than internally generated brands;
- computer software.

Leasehold rights are generally deemed to be fixed assets with an indefinite life if their residual value at the end of the lease term is positive.

In this case, they are subject to impairment testing to ensure that their net value on the books is higher than their probable realisable value.

Other intangible assets are amortised on a straight-line basis over periods ranging from three years to no more than five years and are considered to be 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. Costs incurred in this respect are recognised fully as expenses.

**Property, plant and equipment**

Property, plant and equipment are stated at historical acquisition cost, less accumulated depreciation and recognised impairment losses, and 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 asset in question, and not exceeding 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 at most.

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 and equipment".

Gains or losses on disposals of property, plant and equipment represent the difference between the sale proceeds and the net carrying amount of the divested asset, and are included in "Other operating income and expenses".

**Specific rules for first-time adoption of IFRS**

In adopting the standards for the first time, the Group did not apply the option to measure property, plant and equipment at fair value, as allowed by IFRS 1.

**Finance lease agreements**

Property acquired under finance lease agreements is capitalised when the lease effectively transfers to the Group virtually all risks and rewards incident to ownership of such property. The criteria for evaluating these agreements are based primarily on:

- the lease term as a proportion of the life of the leased assets;
- total future minimum payments in proportion to the fair value of the asset financed;
- whether ownership is transferred at the end of the lease;
- whether the purchase option is attractive;
- the features specific to the leased asset.

Finance leases identified in this way, if they are material, are restated so as to show:

- on the asset side of the balance sheet, the original value of the property in question 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 balance sheet, the corresponding debt;
- under financial expense and depreciation, the minimum lease payments under the agreement, such that the finance charges are allocated to periods during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Leases that do not have the characteristics of a finance lease are treated as operating leases, in which case the rents are recorded under income on a straight-line basis over the lease term.

**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 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 applying to other property, plant and equipment.

**NOTE 1.8 - IMPAIRMENT OF 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 so as 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 estimated future cash flows expected to arise from the use of 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 each year during the budget period so as 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.

**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 the assets 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 entity in question;
- the discount rate is determined based on WACC for the Group (7.67% in 2007) 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;
- goodwill;
- investment property.

**NOTE 1.9 - FINANCIAL ASSETS AND LIABILITIES**

Financial assets include long-term investments (non-consolidated investments and other investment securities), loans and financial receivables, and the positive fair value of derivatives.

Financial liabilities include borrowings and debt, bank lines of credit and the negative fair value of derivatives.

Financial assets and liabilities are shown in the balance sheet under current or non-current assets or liabilities, depending on whether they come due within one year or in more than one year, 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 and are presented separately on the balance sheet.

**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 income statement

Financial assets and liabilities stated at fair value with changes in fair value recorded in the income statement 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. At each balance sheet date, they are measured at fair value.

Changes in fair value are recorded in the income statement under "Other financial income and expense".

Dividends and interest received on assets measured at fair value are recognised in the income statement 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 income statement under the heading "Other financial income and expense".

C. Loans and financial receivables

Loans and financial receivables are valued and recognised at amortised cost less any reserve for impairment.

Interest is calculated at the effective interest rate and recorded in the income statement under the heading "Other financial income and expense".

D. Available-for-sale financial assets

Available-for-sale financial assets include non-consolidated investments and investment securities. They are stated at fair value as of the balance sheet date. Unrealised gains or losses on available-for-sale financial assets are recorded under shareholders' equity. For instruments quoted on 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 income statement under the heading "Other financial income and expense".

E. Borrowings

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 under the heading "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.

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 recent comparable transactions or on internal models that include data directly derived from this observable data and are recognised by market participants.
Changes in the fair value of these derivatives are recorded in the income statement, unless they are classified as cash flow hedges. Changes in the fair value of such hedging instruments are recorded directly in equity, excluding the ineffective portion of the hedge.

DERIVATIVES CLASSIFIED AS HEDGES
The Group uses derivatives to hedge its foreign exchange risks.
The Group applies the criteria defined by IAS 39 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 balance sheet, 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 income statement 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: the variability in cash flows generated by the hedged transaction is offset by changes in the value of the hedging instrument.
The effective portion of accumulated changes in the hedge's fair value is recorded in equity, and the ineffective portion (i.e. changes in the fair value of the hedging instrument in excess of changes in the fair value of the hedged item) is recorded in the income statement.
When the hedged cash flows materialise, the amounts previously recognised in equity are transferred to the income statement 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.

G. Cash and cash equivalents
Cash and cash equivalents comprise very liquid assets and very 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 also are not included in cash.
Shares in funds held for the short term and classified as "Cash equivalents" are recorded at fair value, with changes in fair value included under shareholders' equity.

**1.9.2. Impairment of financial assets**
At the year-end, the Group assesses whether there is any objective evidence that an asset could have been signifi-

cantly impaired. 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 present value of projected future cash flows discounted at the original effective interest rate of the financial instrument. Any impairment loss is included in the income statement under the heading "Other financial expense". If the impairment loss decreases in a subsequent period, it is reversed and taken to 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 income statement.

**NOTE 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. 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 reserves are booked to reduce inventories to net realisable value if this is lower than the carrying amount. These impairment reserves are charged to cost of sales.

**NOTE 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.

**NOTE 1.12 - SALES AND TRADE RECEIVABLES**

Revenues consist of sales of purchased goods, sales of goods and services produced by the Group's main business operations, and income from royalty, licences and operating subsidies.

Revenues are 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;
- after deducting any volume or trade discounts and other benefits on sales from revenues (separability principle);
- if, at the transaction date, it is probable that the amount of the sale will be recovered.

In general, sales of goods are accounted for on delivery; sales of services are accounted for on completion.

**Credit risk**

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 the end of the period. An impairment charge is recognised in the income statement when the carrying amount of the asset is higher than its recoverable amount.

**NOTE 1.13 - OTHER NON-CURRENT INCOME AND EXPENSE**

"Non-current operating income and expense" includes income and expense in connection with major events during the year that produced a material financial impact during the year and that are presented separately because they could give a misleading view of the Group's performance.

This line item therefore includes significant amounts of revenue and expense items generated by unusual or infrequent events. It does not include impairment losses on assets or gains or losses on disposals, whenever these items occur on a recurring basis.

**NOTE 1.14 - SEGMENT INFORMATION**

**Information by business segment - primary reporting format**

The Hermès Group's business comprises two main segments: distribution through the Hermès exclusive network and distribution via specialist outlets. These two main business segments have separate strategies and structures and are exposed to different risks and rates of return. Total revenues from these two segments account for more than 90% of total operating revenues, 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 riding gear, diaries and small leather goods;

◆ Clothing and 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 specialist outlets comprises the following business lines:

◆ Perfumes;

◆ Watches;

◆ Tableware.

"Miscellaneous" products not included in these two sectors include John Lobb shoes and products manufactured for brands outside the Group (textile printing, perfumes, etc.).

**Information by geographical segment – secondary reporting format**

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.

**Definition of headings**

Segment revenue is directly attributable to the relevant segment.

Segment result is segment revenue less segment expense. It is determined before any adjustments for minority interests and before tax. It does not include the result of financing activities, nor interest or dividend income.

Segment assets are those operating assets that are employed by a segment in its operating activities and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis. They are determined after deducting impairment in value. Segment assets do not include income tax assets, interest and dividends receivable, loans, equity investments or any other income-producing asset, such as investments in associates. Segment liabilities include:

◆ property, plant and equipment and intangible assets, investment property and assets that are the subject of finance leases;

◆ goodwill;

◆ net inventories;

◆ trade receivables and other operating receivables.

Segment assets do not include financial assets and deferred tax assets.

Segment liabilities are those operating liabilities that result from the operating activities of a segment and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis. Segment liabilities do not include interest, borrowings and other liabilities that are incurred for financing rather than operating purposes, and income tax liabilities. Segment liabilities include:

◆ trade and other payables, accrued liabilities and customer advances;

◆ reserves.

The accounting principles applied in determining segment information are the same as those applied to the financial statements as a whole, as described in these notes to the consolidated financial statements.

**NOTE 1.15 - COMMITMENTS TO BUY OUT MINORITY INTERESTS**

The Group has given the minority shareholders of certain subsidiaries a commitment to buy out their shares.

Pending the release of a specific standard or interpretation by the IASB on the treatment of sales of puts on minority interests, the Group has recognised these commitments as follows:

◆ the amount of the commitment as of the closing date is recorded under "Other non-current liabilities";

◆ the corresponding minority interests are reclassified in the above-mentioned line item.

Any difference between the amount of the commitment and the reclassified minority 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 minority interests in the income statement. However, it elicits the following comment: under certain interpretations, goodwill is deducted from equity; under other interpretations, goodwill is retained as an asset, but in an amount that is fixed at the time the interest is acquired, and subsequent changes are recorded in the income statement.

**NOTE 1.16 - RESERVES**

A reserve is a liability of uncertain timing or amount. It is recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources will be required to settle the obligation. In addition, a reliable estimate of the amount of the obligation is made based on the information available to the Group when the consolidated financial statements are prepared.

**NOTE 1.17 - POST-EMPLOYMENT AND OTHER EMPLOYEE BENEFITS**

In keeping with the laws and practices in each country where it has established operations, the Group participates in pension and retirement benefit schemes for employees and in top-up schemes for executives and senior managers.

For basic pension and other defined-contribution plans, the Group recognises contributions to be paid as expenses when they are due and does not book any charges to reserves in this respect, as the Group has no obligations other than the contributions paid.

For defined-benefit plans, the Group's obligations are calculated each year by an independent actuary using the projected credit unit method. This calculation 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 for each country where the obligations are located. It is recognised on a basis prorated to employee years of service.

When benefits are partly funded in advance by external funds (insurance companies, foundations or others), the assets held in this way are measured at fair value.

The expense recognised in the income statement 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 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 reserves, which are determined using an actuarial calculation that is comparable to that used to calculate reserves for pension obligations.

**NOTE 1.18 - CORPORATE INCOME TAX**

The tax charge includes:

◆ the current tax for the year of the companies included in the consolidation;

◆ deferred tax resulting from timing differences:

– between the taxable earnings and accounting income of each company included in the consolidation;

– arising from adjustments made to the financial statements of consolidated companies to bring them into line with Group accounting principles;

– arising from consolidation adjustments.

**Deferred tax**

Deferred tax is calculated on all timing differences existing at year-end (full reserve) at the tax rate in force on this 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 taxes apply to restatements of internal profits on inventories, reserves for inventories and timing differences.

If a recovery risk arises on some or all of a deferred tax asset, a reserve for impairment is recorded.

Deferred tax is also recognised on unrealised gains on investments in associates. In accordance with IAS 12, these gains represent the difference between the consolidated value of these associates 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 exchange differences arising from the translation of deferred taxes are recognised in the income statement in deferred tax credits or charges.

**Group tax election**

The Company has opted for a group tax election, which took effect from 1 January 1988. 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 income statement in the year in which they arise.

### NOTE 1.19 - ADJUSTMENT OF DEPRECIATION, AMORTISATION AND RESERVES

The impact of accounting entries booked solely to comply with tax legislation is eliminated from the consolidated financial statements, net of deferred tax.

These adjustments mainly relate to restricted reserves and accelerated tax depreciation in French companies, and to impairment reserves for inventories and doubtful accounts in foreign companies.

### NOTE 1.20 - EARNINGS PER SHARE

In accordance with IAS 33, basic earnings per share is calculated by dividing the attributable net profit or loss for the period 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 dilutive potential ordinary shares which 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.

### NOTE 1.21 - OPTIONS TO SUBSCRIBE FOR NEW SHARES OR TO PURCHASE EXISTING SHARES

Stock 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 those plans granted after 7 November 2002 under which the stock options were not vested as of 1 January 2005 are recognised in accordance with IFRS 2 "Share Based Payments".

### NOTE 1.22 - MANAGEMENT ESTIMATES

The preparation of the consolidated financial statements under IFRS requires the Group in some cases 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 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 to the Financial Statements 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;
- 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:

**Depreciation and amortisation periods for property, plant and equipment and intangibles**

Estimates and assumptions are used to calculate the 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.

**Impairment of non-current assets**

The value of non-current 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 that are based on management's judgment, on past events and, whenever available, on information from external sources. These have been applied in determining the discount rates, terminal values, sales projections, and operating margins.

**Reserves**

A reserve is a liability of uncertain timing or amount. Estimates and assumptions are used in calculating reserves and may be a source of uncertainty. When there is significant uncertainty, which may in particular be the case in analysing reserves for risks and litigation, the reserve 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.

**Post-employment and other employee benefits**

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.

**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, its return to profits is deemed to be improbable, except in certain unusual and exceptional circumstances.

## NOTE 1.23 - EVENTS OCCURRING AFTER 31 DECEMBER

No significant event has occurred since 31 December 2007.

The consolidated financial statements for the year as presented were approved by the Executive Management on 19 March 2008 and will be submitted to the shareholders for approval at the Annual General Meeting of 3 June 2008. The consolidated financial statements for the year were also reviewed by the Audit Committee at its meeting of 17 March 2008.

The dividend that was proposed after the closing date but before the publication date of the financial statement is €1.00 per share.

## NOTE 2 - CHANGES IN THE SCOPE OF CONSOLIDATION

| | Interest | | Method | |
|---|---|---|---|---|
| | **2007** | **2006** | **2007** | **2006** |
| **Additions** | | | | |
| SAS Ateliers Nontron | 100.00% | – | Full | – |
| Hermès Voyageur | 100.00% | – | Full | – |
| SARL Tajan Conseil | 100.00% | – | Full | – |
| **Removals** | | | | |
| Alpasoie | – | 38.39% | – | EA |
| Les Tissages Verel | – | 39.64% | – | EA |
| SARL Tajan Conseil | – | – | – | – |
| SCI Florian Mongolfier | – | 100.00% | – | Full |
| Nehel | – | 100.00% | – | Full |
| SCI Espace Tronchet | – | 100.00% | – | Full |
| **Acquisition of the remaining shares in the Soficuir group** | | | | |
| Soficuir International | 100.00% | 49.60% | Full | EA |
| Exocuirs | 100.00% | 49.62% | Full | EA |
| Louisiane Spa | 100.00% | 38.09% | Full | EA |
| Maison et Cie | – | 49.40% | – | EA |
| Michel Rettili Srl | 100.00% | 38.67% | Full | EA |
| RTL Inc. | 100.00% | 43.23% | Full | EA |
| Tanneries des Cuirs d'Indochine et de Madagascar (TCIM) | 100.00% | 49.40% | Full | EA |
| **Other changes in ownership interest** | | | | |
| Les Tissages Perrin | 39.74% | 39.53% | EA | EA |
| Créations Métaphores | 80.00% | 74.54% | Full | Full |
| Créations Métaphores Inc. | 80.00% | 74.54% | Full | Full |
| Vaucher Manufacture Fleurier | 21.05% | 13.04% | EA | EA |

Consolidation method Full: Fully consolidated – EA: Equity-accounted.

The main changes in the scope of consolidation during 2007 were the following:

### Consolidation of SAS Ateliers Nontron for the first time

To facilitate the acquisition and management of property, a dedicated property entity was created during the first half of 2007 by changing the corporate purpose of Isamyol 14, a *société par actions simplifiée*, and renaming the company. The company's share capital is made up of 3,700 shares and is wholly-owned by Hermès International.

### Consolidation of Hermès Voyageur for the first time

During the first half of 2007, a company was created for the purpose of organising luxury travel in France and abroad by changing the name and corporate purpose of Isamyol 15, a *société par actions simplifiées*. The company's share capital is made up of 3,700 shares and is wholly-owned by Hermès International.

Acquisition of Tajan Conseil SARL (which owns a property in Pantin) followed by a universal transfer of assets

*Acquisition date:* 30 January 2007.

*Combined entity:* Tajan Conseil's corporate purpose is to buy and manage property assets.

*Percentage of equity instruments acquired:* At the acquisition date, Tajan Conseil's share capital consisted of 1,505 ordinary shares, all of which were acquired by SCI Auger-Hoche, thereby giving it 100% of the share capital and voting rights.

*Acquisition cost:* The shares were sold to the Hermès Group for €1.2 million, plus €0.1 million in incidental acquisition costs, for a total of €1.3 million.

*Assets and liabilities acquired:* At the acquisition date, the following assets and liabilities were consolidated into the Hermès Group's accounts (€m):

| | |
|---|---|
| Property, plant and equipment | 0.1 |
| **Assets** | **0.1** |
| **Net assets** | **0.1** |
| **Liabilities** | **0.1** |

The assets and liabilities acquired were restated to comply with the Hermès Group's recognition and measurement rules, in accordance with IFRS.

*Surplus:* Based on the difference between the cost of the merger and the value of the assets and liabilities acquired, the acquisition of the property complex generated a surplus of €1.3 million.

On 10 August 2007, Tajan Conseil transferred all of its assets and liabilities to its sole shareholder, SCI Auger-Hoche. This transaction produced no impact on the Group's consolidated financial statements.

Universal transfer of assets from SCI Florian Mongolfier to SCI Auger-Hoche

To simplify the existing structure, SCI Florian Mongolfier transferred all of its assets and liabilities to its sole shareholder, SCI Auger-Hoche, on 30 August 2007.

This transaction produced no impact on the Group's consolidated financial statements.

Merger of Alpasoie and Les Tissages Verel into Les Tissages Perrin

To rationalise existing structures, Alpasoie and Les Tissages Verel transferred all of their assets and liabilities to Les Tissages Perrin effective as from 1 January 2007.

This transaction produced no impact on the Group's consolidated financial statements, as Les Tissages Perrin is consolidated on the equity method.

Universal transfer of assets from Nehel to Avril-Morio et Patte

To simplify the existing structure, Nehel transferred all of its assets and liabilities to Avril-Morio et Patte effective as from 1 January 2007. Following the transaction, Avril-Morio et Patte was renamed Maroquinerie de Saint-Antoine.

This transaction produced no impact on the Group's consolidated financial statements.

Universal transfer of assets from SCI Espace Tronchet to Holding Textiles Hermès

To simplify the existing structure, SCI Espace Tronchet transferred all of its assets and liabilities to Holding Textiles Hermès on 31 May 2007.

This transaction produced no impact on the Group's consolidated financial statements.

Acquisition of the remaining shares in the Soficuir group

*Acquisition date:* 12 July 2007

*Combined entities:* In keeping with its strategy of controlling its know-how, Hermès International acquired the balance of the shares that it did not own in 49.6%-owned Soficuir International, thereby becoming the sole shareholder. The Soficuir group, which includes TCIM (Tanneries des Cuirs d'Indochine et de Madagascar), Exocuirs, Louisiane Spa, Michel Rettili Srl, RTL Inc. and Maison et Cie, specialises in supplying and tanning exotic skins and primarily crocodile skins. The Soficuir group has operations in four countries: France (mainly through a production facility in the Sarthe region), Italy, the United States and Switzerland.

*Percentage of equity instruments acquired:* At the acquisition date, Soficuir International's share capital consisted of 232,143 ordinary shares. The Hermès Group, which already owned 49.6% of the shares, acquired the remaining balance, thereby becoming the sole owner of the share capital and voting rights.

*Acquisition cost:* The shares were sold to the Hermès Group for €27.5 million, plus €0.1 million in incidental acquisition costs, for a total of €27.6 million. In addition, during the second half of 2007, the Hermès Group acquired all remaining minority interests in Louisiane Spa and Michel Rettili Srl for a total of €2.7 million (including a €0.7 million price supplement payable in the future).

*Assets and liabilities acquired:* At the acquisition date, the following assets and liabilities were consolidated into the Hermès Group's accounts (€m):

| | |
|---|---|
| Non-current assets | 6.2 |
| Inventories | 31.1 |
| Trade receivables | 23.5 |
| Cash and cash equivalents | 3.4 |
| Other assets | 4.6 |
| **Assets** | **68.8** |
| **Net assets** | **28.3** |
| Borrowings and debt | 26.1 |
| Trade payables | 5.4 |
| Other liabilities | 9.0 |
| **Liabilities** | **68.8** |

In accordance with IFRS 3, this business combination was accounted for by use of the purchase method. As a result, the assets, liabilities and contingent liabilities of the acquired company were measured at fair value, in accordance with IFRS rules and the valuation principles applicable within the Hermès Group. This fair value (particularly for the land) may be adjusted within a maximum of one year as from the acquisition date.
Based on the difference between the cost of the business combination and the value of the assets and liabilities acquired, residual goodwill of €15.2 million was recognised following the measurement at fair value of the inventories of the acquired company. The €3.8 million value adjustment for the share of net equity previously owned was transferred directly to the Group's shareholders' equity.
Over the period from 12 July to 31 December 2007, the Soficuir group generated net income of €1 million. In addition, following this acquisition, Maison et Cie transferred all of its assets and liabilities to its sole shareholder, TCIM. This transaction produced no impact on the Group's consolidated financial statements.

Increase in ownership percentage in Créations Métaphores and Créations Métaphores Inc.

On 4 July 2007, Holding Textiles Hermès acquired 23,841 shares in Créations, Éditions d'Étoffes d'Ameublement, which was renamed Créations Métaphores, for €0.15 million, thereby increasing the Group's ownership interest to 80%. As Créations Métaphores Inc. is wholly-owned by Créations Métaphores, the ownership interest in that company was also increased to 80%.
This transaction produced no material impact on the Group's consolidated financial statements.

Subscription by La Montre Hermès to the capital increase carried out by watch-movement maker Vaucher Manufacture Fleurier

On 30 May 2007, Vaucher Manufacture Fleurier carried out a capital increase by issuing 1,750 new shares, thereby increasing the share capital to 19,000 shares with a value of CHF1,000 each.
La Montre Hermès subscribed for this capital increase in its entirety, thereby increasing its interest in Vaucher Manufacture Fleurier to 4,000 shares as of 30 May 2007, that is, 21.05% of the share capital (and of the voting rights).
The 1,750 newly issued shares were subscribed for by La Montre Hermès for €4.3 million. The Hermès Group did not incur any material costs in connection with this transaction. Based on the difference between the acquisition cost and the net assets acquired, goodwill of €2.2 million was recognised on the transaction.

## NOTE 3 - SEGMENT INFORMATION

The information below is shown after consolidation adjustments and eliminations.

**a - Consolidated sales by business sector**

in millions of euros

| | 2007 | 2006 | Change: Reported basis | At constant exchange rates | Comparable basis* |
|---|---|---|---|---|---|
| Silk and Textiles | 192.7 | 173.5 | 11.1% | 16.1% | 16.1% |
| Leather Goods & Saddlery (1) | 675.0 | 663.7 | 1.7% | 7.7% | 7.7% |
| Clothing & Accessories (2) | 315.2 | 293.7 | 7.3% | 13.1% | 13.1% |
| Other Hermès Sectors (3) | 85.6 | 77.1 | 10.9% | 16.2% | 16.2% |
| **Distribution via the Hermès exclusive network** | **1,268.5** | **1,208.0** | **5.0%** | **10.8%** | **10.8%** |
| Perfumes | 118.9 | 100.7 | 18.1% | 19.8% | 19.8% |
| Watches | 104.7 | 110.1 | (4.9%) | 0.7% | 0.7% |
| Tableware | 50.7 | 44.5 | 13.9% | 17.0% | 17.0% |
| **Distribution via specialised outlets** | **274.3** | **255.3** | **7.5%** | **11.1%** | **11.1%** |
| Miscellaneous (4) | 82.3 | 51.6 | 59.5% | 61.5% | 9.7% |
| **TOTAL** | **1,625.1** | **1,514.9** | **7.3%** | **12.5%** | **10.8%** |

* Change at constant exchange rates and on a like-for-like basis, i.e. excluding Soficuir group sales, which were consolidated as from July 2007.

(1) "Leather Goods & Saddlery" includes bags, saddlery and riding gear, diaries and small leather goods.
(2) "Clothing & Accessories" includes men's and women's clothing, belts, jewellery accessories, gloves, hats and Hermès shoes.
(3) "Other Hermès Sectors" includes Jewellery and Art of Living products.
(4) "Miscellaneous" includes John Lobb shoes and products manufactured for brands from outside the Group (textile printing, perfumes, etc.).

The bulk of sales is derived from sales of goods. Sales of services do not make up a material percentage of total sales.

### b - Segment data

in millions of euros

| | 2007 | | | | 2006 | | | |
|---|---|---|---|---|---|---|---|---|
| | Hermès network | Specialised networks | Other* | Total | Hermès network | Specialised networks | Other* | Total |
| **Sales** | **1,268.5** | **274.3** | **82.3** | **1,625.1** | **1,208.0** | **255.3** | **51.6** | **1,514.9** |
| Selling, marketing and administrative expenses | (426.6) | (77.3) | (66.5) | (570.4) | (409.7) | (75.0) | (52.6) | (537.3) |
| Depreciation and amortisation | (35.9) | (11.7) | (8.7) | (56.3) | (31.1) | (10.2) | (6.7) | (48.0) |
| Reserves | (11.2) | (1.0) | (1.7) | (13.9) | (3.7) | 0.3 | 1.2 | (2.2) |
| Impairment losses | 0.7 | (1.6) | (0.4) | (1.3) | (0.5) | (1.7) | (2.3) | (4.5) |
| **Segment result** | **399.9** | **70.8** | **(56.2)** | **414.5** | **377.2** | **63.9** | **(40.0)** | **401.1** |
| *Operating margin by segment* | *31.5%* | *25.8%* | | *25.5%* | *31.2%* | *25.0%* | | *26.5%* |
| Other non-current income and expense | | | 9.2 | 9.2 | | | 14.1 | 14.1 |
| Net financial income | | | 12.3 | 12.3 | | | (0.3) | (0.3) |
| Share of net income of associates | | | 1.6 | 1.6 | | | (5.9) | (5.9) |
| Corporate income tax | | | (143.8) | (143.8) | | | (136.2) | (136.2) |
| Minority interests | | | (5.8) | (5.8) | | | (4.4) | (4.4) |
| **Net income** | **399.9** | **70.8** | **(182.7)** | **288.0** | **377.2** | **63.9** | **(172.7)** | **268.4** |
| Segment assets | 1,048.6 | 144.2 | 90.7 | 1,283.5 | 961.7 | 117.7 | 48.3 | 1,127.7 |
| Segment investments | 93.3 | 11.9 | 71.1 | 176.3 | 103.9 | 11.5 | 18.9 | 134.3 |
| Segment liabilities | 307.0 | 55.1 | 66.6 | 428.7 | 268.0 | 48.5 | 55.9 | 372.4 |

* Including items that cannot be allocated to a specific business segment but meet the definitions set out in Note 1.15.

Reconciliation of segment assets and liabilities with the balance sheet:

in millions of euros

| | 31/12/2007 | 31/12/2006 |
|---|---|---|
| Assets allocated to a segment | 1,192.8 | 1,079.4 |
| Other assets that cannot be allocated to a segment but meet the definition of “segment” assets | 90.7 | 48.3 |
| **“Segment” assets** | **1,283.5** | **1,127.7** |
| Available-for-sale securities | 9.9 | 17.2 |
| Held-to-maturity securities | 35.0 | 23.7 |
| Investments in associates | 21.8 | 33.9 |
| Other non-current financial assets | 15.2 | 14.2 |
| Tax receivables and deferred tax assets | 110.9 | 111.0 |
| Financial instruments at fair value | 58.9 | 47.9 |
| Cash and cash equivalents | 529.9 | 570.4 |
| **TOTAL ASSETS** | **2,065.1** | **1,946.0** |
| Liabilities allocated to a segment | 362.1 | 316.5 |
| Other liabilities that cannot be allocated to a segment but meet the definition of “segment” liabilities | 66.6 | 55.9 |
| **“Segment” liabilities** | **428.7** | **372.4** |
| Taxes payable and deferred tax liabilities | 42.7 | 54.4 |
| Cash liabilities and financial instruments | 118.6 | 95.0 |
| Shareholders’ equity | 1,475.1 | 1,424.2 |
| **TOTAL EQUITY AND LIABILITIES** | **2,065.1** | **1,946.0** |

## NOTE 4 - INFORMATION BY GEOGRAPHICAL AREA

The information below is shown after consolidation adjustments and eliminations.

**a - Analysis of sales by region**

in millions of euros

| | 2007 | 2006 | Published evolution | At constant exchange rates | Comparable basis* |
|---|---|---|---|---|---|
| France | 326.9 | 290.3 | 12.6% | 12.6% | 10.7% |
| Rest of Europe | 345.8 | 279.6 | 23.7% | 24.5% | 17.3% |
| **Total - Europe** | **672.7** | **569.9** | **18.0%** | **18.4%** | **13.9%** |
| Japan | 382.2 | 409.7 | (6.7%) | 2.8% | 2.8% |
| Rest of Asia-Pacific region | 281.8 | 260.9 | 8.0% | 14.8% | 14.6% |
| **Total - Asia** | **664.0** | **670.6** | **(1.0%)** | **7.4%** | **7.4%** |
| Americas | 245.6 | 232.0 | 5.8% | 14.6% | 14.4% |
| Other (1) | 42.8 | 42.4 | 0.9% | 3.1% | 2.8% |
| **TOTAL** | **1,625.1** | **1,514.9** | **7.3%** | **12.5%** | **10.8%** |

(1) Including sales to airlines.

*Change at constant exchange rates and on a like-for-like basis, i.e. excluding Soficuir group sales, which were consolidated as from July 2007.

**b - Segment data**

in millions of euros

| | 2007 | | 2006 | |
|---|---|---|---|---|
| | Segment assets | Segment investments | Segment assets | Segment investments |
| France | 636.3 | 119.4 | 528.7 | 42.6 |
| Rest of Europe | 176.9 | 25.8 | 125.9 | 26.2 |
| **Total - Europe** | **813.2** | **145.2** | **654.6** | **68.8** |
| Japan | 227.1 | 9.3 | 231.3 | 17.4 |
| Rest of Asia-Pacific region | 156.1 | 12.9 | 156.6 | 34.7 |
| **Total - Asia** | **383.2** | **22.2** | **387.9** | **52.1** |
| Americas | 87.1 | 8.9 | 85.2 | 13.4 |
| **TOTAL** | **1,283.5** | **176.3** | **1,127.7** | **134.3** |

## NOTE 5 - GROSS PROFIT

All commissions are included in cost of sales. Reserves for 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.

## NOTE 6 - SELLING, MARKETING AND ADMINISTRATIVE EXPENSES

in millions of euros

| | 2007 | 2006 |
|---|---|---|
| Advertising | 93.2 | 90.1 |
| Other selling, marketing and administrative expenses | 477.2 | 447.2 |
| **TOTAL** | **570.4** | **537.3** |

## NOTE 7 - EMPLOYEES

The geographical breakdown of the total number of employees is as follows:

| | 31/12/2007 | 31/12/2006 |
|---|---|---|
| France | 4,741 | 4,349 |
| Rest of Europe | 753 | 668 |
| Rest of world | 1,961 | 1,808 |
| **TOTAL** | **7,455** | **6,825** |

Breakdown by category:

| | 31/12/2007 | 31/12/2006 |
|---|---|---|
| Production | 3,367 | 3,009 |
| Sales | 2,804 | 2,632 |
| Other (design, marketing, administration) | 1,284 | 1,184 |
| **TOTAL** | **7,455** | **6,825** |

Total personnel costs were €411.7 million in 2007, compared with €378.9 million in 2006.

## NOTE 8 - OTHER INCOME AND EXPENSE

in millions of euros

| | 2007 | 2006 |
|---|---|---|
| Depreciation and amortisation | (56.3) | (48.0) |
| Net change in reserves | (7.0) | (0.6) |
| Net change in post-employment and similar benefit obligations | (6.9) | (1.6) |
| Impairment losses on non-current assets | (1.3) | (4.5) |
| Other income and expense | 1.9 | 3.1 |
| **TOTAL** | **(69.6)** | **(51.6)** |

## NOTE 9 - OTHER NON-CURRENT INCOME AND EXPENSE

During 2006, the Hermès Group sold its entire 36.2% equity interest in the Leica Camera group, and 50% of the convertible bonds it held in that company. All assets that were not disposed of had been fully impaired as of the previous year-end close. Following this transaction, Hermès International recognised a net gain on disposal of €14.1 million in 2006. In 2007, the Group sold its remaining convertible bonds to the Leica group's core shareholder, ACM Projektentwicklung GmbH. The transaction was entered into at the nominal issue price of the bonds, that is €7.1 million, payable in 2008 and covered by a bank guarantee for the payment. In 2007, the Leica group also reimbursed a €2.1 million loan, which was written off at the end of 2006.

## NOTE 10 - NET FINANCIAL INCOME

in millions of euros

| | 2007 | 2006 |
|---|---|---|
| Income from cash and cash equivalents | 16.7 | 13.7 |
| Gross cost of debt | 2.4 | (0.8) |
| *– of which: income from hedging instruments* | *3.8* | *1.6* |
| **Cost of net debt** | **19.1** | **12.9** |
| Other financial income and expense | (6.8) | (13.2) |
| *– of which: gains/(losses) on trading derivatives* | *–* | *1.1* |
| *– of which: changes in the value of trading assets and liabilities* | *(6.9)* | *(14.3)* |
| **TOTAL** | **12.3** | **(0.3)** |

## NOTE 11 - CORPORATE INCOME TAX

### a - Breakdown of corporate income tax charge

in millions of euros

| | 2007 | 2006 |
|---|---|---|
| Current tax | (157.6) | (148.3) |
| Deferred tax | 13.8 | 12.1 |
| **TOTAL** | **(143.8)** | **(136.2)** |

### b - Rationalisation of corporate income tax charge

The effective tax rate for the year ended 31 December 2007 was 33% compared with 32.8% in the year ended 31 December 2006. The difference between the theoretical tax charge and the actual tax charge for 2007 is explained as follows:

in millions of euros

| | 2007 | 2006 |
|---|---|---|
| Consolidated net income - Group's share | 288.0 | 268.4 |
| Share of net income of associates | 1.6 | (5.9) |
| Minority interests in consolidated net income | (5.8) | (4.4) |
| **Corporate income tax** | **(143.8)** | **(136.2)** |
| Income before tax | 436.0 | 414.9 |
| Effective tax rate | 33.0% | 32.8% |
| Current tax rate in France | 34.4% | 34.4% |
| Theoretical tax charge | (150.0) | (142.7) |
| *Reconciliation items* | | |
| – differences relating to foreign tax (primarily the tax rate) | 5.5 | 1.6 |
| – differences relating to taxation of unrealised gains on investments in associates | 0.2 | 0.3 |
| – permanent timing differences and transactions taxed at a reduced rate | 0.5 | 4.6 |
| **TOTAL** | **(143.8)** | **(136.2)** |

### c - 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 are broken down as follows:

in millions of euros

| | |
|---|---|
| Deferred tax assets at 1 January 2007 | 110.1 |
| Deferred tax liabilities at 1 January 2007 | 21.2 |
| **Net deferred tax assets at 1 January 2007** | **88.9** |
| Impact on the income statement | 13.8 |
| Impact on the scope of consolidation | 4.1 |
| Other* | (1.2) |
| Impact of foreign exchange movements | (5.3) |
| Deferred tax assets at 31 December 2007 | 108.4 |
| Deferred tax liabilities at 31 December 2007 | 8.1 |
| **Net deferred tax assets at 31 December 2007** | **100.3** |

*Other items relate to deferred taxes resulting from the reversal of the portion of revaluation of financial instruments recorded under equity (transferable portion) and on actuarial gains and losses on employee benefit obligations recognised during the year. These changes produced no impact on net income for the year.

At 31 December 2007, deferred tax assets related mainly to restatements of internal profits as inventories and on charges to reserves for inventories (€66.9 million), restricted reserves (€11.1 million) and other timing differences (€44.5 million).

**d - Tax impact of dividends proposed and declared to shareholders**

The amount of dividends proposed and declared to shareholders has no tax impact.

## NOTE 12 - INVESTMENTS IN ASSOCIATES

### a - Value of shares in associates

in millions of euros

| | 31/12/2007 | 31/12/2006 |
|---|---|---|
| Gaulme | 5.2 | 6.6 |
| Groupe Perrin | 6.2 | 5.2 |
| Leica Camera Japan Co. | 1.1 | 0.5 |
| Soficuir International (until 12 July 2007) | – | 15.4 |
| Vaucher Manufacture Fleurier | 9.3 | 6.2 |
| **TOTAL** | **21.8** | **33.9** |

All these entities have a financial year-end of 31 December.

### b - Change in investments in associates

Analysis of change in investments in associates:

in millions of euros

| | 2007 | 2006 |
|---|---|---|
| **Investments in associates at 1 January** | **33.9** | **37.7** |
| Impairment reserve | (2.0) | (5.0) |
| Dividends paid | (0.7) | (0.1) |
| Impact of changes in scope of consolidation | (12.7) | 0.8 |
| Share of 2007 net income | 3.6 | (0.9) |
| Other | (0.3) | 1.4 |
| **Investments in associates at 31 December** | **21.8** | **33.9** |

### c - Information on associates

in millions of euros

| 2007 | % interest | Market capitalisation | Sales | Net income | Non-current assets | Equity | Total assets |
|---|---|---|---|---|---|---|---|
| Gaulme | 35.00% | n/a | 30.3 | 1.7 | 28.2 | 17.5 | 45.2 |
| Groupe Perrin | 39.52% | n/a | 26.9 | 2.9 | 4.7 | 18.5 | 26.6 |
| Leica Camera Japan Co. | 49.00% | n/a | 8.8 | 1.3 | 1.3 | 2.3 | 6.4 |
| Maroquinerie Thierry* | 43.82% | n/a | 1.4 | – | 0.3 | 0.2 | 0.8 |
| Vaucher Manufacture Fleurier | 21.05% | n/a | N/A | N/A | N/A | N/A | N/A |

n/a: not applicable; N/A: not available. * Figures as of 30 June 2007.

in millions of euros

| 2006 | % interest | Market capitalisation | Sales | Net income | Non-current assets | Equity | Total assets |
|---|---|---|---|---|---|---|---|
| Gaulme | 35.00% | n/a | 30.0 | 0.1 | 29.3 | 15.8 | 43.2 |
| Groupe Perrin | 39.52% | n/a | 25.2 | 1.8 | 2.8 | 15.8 | 22.7 |
| Leica Camera Japan Co. | 49.00% | n/a | 7.3 | (0.7) | 1.4 | 1.1 | 5.7 |
| Maroquinerie Thierry | 43.82% | n/a | 2.8 | – | 0.4 | 0.3 | 0.8 |
| Soficuir International | 49.60% | n/a | 56.1 | 5.1 | 5.5 | 32.1 | 66.9 |
| Vaucher Manufacture Fleurier | 13.04% | n/a | N/A | N/A | N/A | N/A | N/A |

n/a: non applicable; N/A: not available.

## NOTE 13 - MINORITY INTERESTS

in millions of euros

| | 2007 | 2006 |
|---|---|---|
| **Minority interests at 1 January** | **15.2** | **21.5** |
| Exchange rate adjustment on foreign companies | (0.9) | (1.0) |
| Minority interests in dividends distributed | (3.8) | (4.9) |
| Minority interests in net income | 5.8 | 4.4 |
| Other changes | (3.6) | (4.8) |
| **Minority interests at 31 December** | **12.7** | **15.2** |

## NOTE 14 - 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 previous years is adjusted to take account of any bonus 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.

The calculation and reconciliation of basic earnings per share and diluted earnings per share is shown below:

| | 2007 | 2006 |
|---|---|---|
| **Numerator (in millions of euros)** | | |
| Basic net income | 288.0 | 268.4 |
| Adjustments | – | – |
| Diluted net income | 288.0 | 268.4 |
| **Denominator (number of shares)** | | |
| **Weighted average number of ordinary shares** | **106,143,973** | **107,031,756** |
| **Basic earnings per share** | **2.71** | **2.51** |
| Weighted average number of ordinary shares under option | 271,635 | 347,485 |
| Weighted average number of shares that would have been issued at fair value | (145,268) | (224,418) |
| **Weighted average number of diluted ordinary shares** | **106,270,340** | **107,154,823** |
| **Diluted earnings per share** | **2.71** | **2.51** |
| Average price per share | €90.12 | €71.21 |
| Average exercise price for shares under option | €48.18 | €45.99 |

## NOTE 15 - GOODWILL

in millions of euros

| | 31/12/2006 | Increases | Decreases | Currency impact | Other | 31/12/2007 |
|---|---|---|---|---|---|---|
| Goodwill | 51.5 | 15.2 | – | (2.5) | (0.8) | 63.4 |
| **Total gross value** | **51.5** | **15.2** | **–** | **(2.5)** | **(0.8)** | **63.4** |
| Amortisation booked before 1 January 2004 | 31.4 | – | – | (1.6) | – | 29.8 |
| Impairment losses | 1.2 | – | – | – | – | 1.2 |
| **Total amortisation and impairment losses** | **32.6** | **–** | **–** | **(1.6)** | **–** | **31.0** |
| **Total net value** | **18.9** | **15.2** | **–** | **(0.9)** | **(0.8)** | **32.4** |

The increase during the year relates to the Soficuir group, for which goodwill of €15.2 million was recognised upon acquisition of the remaining shares that the Group did not already own (see Note 2).

The other major component of goodwill is €12 million booked for Hermès Japon.

The impact of exchange rates reduced the gross value of goodwill by €2.5 million. It is noted that amortisation booked before 1 January 2004 has not been restated, in accordance with the exception allowed by IFRS 1. 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. Furthermore, no goodwill with an indefinite life is allocated to several CGUs.

## NOTE 16 - INTANGIBLE ASSETS

in millions of euros

| | 31/12/2006 | Increases | Decreases | Currency impact | Other | 31/12/2007 |
|---|---|---|---|---|---|---|
| Leasehold rights | 39.1 | 6.4 | (0.9) | 0.1 | (0.1) | 44.6 |
| Concessions, patents, licences and software | 17.8 | 2.0 | – | (0.3) | 0.1 | 19.6 |
| Other intangible assets | 33.2 | 4.9 | – | (0.2) | (1.6) | 36.3 |
| **Total gross value** | **90.1** | **13.3** | **(0.9)** | **(0.4)** | **(1.6)** | **100.5** |
| Amortisation of leasehold rights | 16.5 | 1.1 | (0.1) | – | 0.1 | 17.6 |
| Amortisation of concessions, patents, licences and software | 14.1 | 2.1 | – | (0.2) | 0.1 | 16.1 |
| Amortisation of other intangible assets | 22.0 | 4.0 | – | (0.2) | (0.2) | 25.6 |
| Impairment losses | 1.0 | – | – | – | (0.1) | 0.9 |
| **Total amortisation and impairment losses** | **53.6** | **7.2** | **(0.1)** | **(0.4)** | **(0.1)** | **60.2** |
| **Total net value** | **36.5** | **6.1** | **(0.8)** | **–** | **(1.5)** | **40.3** |

## NOTE 17 - PROPERTY, PLANT AND EQUIPMENT

in millions of euros

| | 31/12/2006 | Increases | Decreases | Currency impact | Other | 31/12/2007 |
|---|---|---|---|---|---|---|
| Land | 120.9 | 0.3 | – | (5.7) | (1.0) | 114.5 |
| Buildings | 302.5 | 4.8 | (1.4) | (10.0) | 18.8 | 314.7 |
| Machinery, plant and equipment | 111.4 | 11.9 | (1.7) | (1.9) | 6.4 | 126.1 |
| Other property, plant and equipment | 365.4 | 51.9 | (10.3) | (15.0) | 16.2 | 408.2 |
| Construction in progress | 15.3 | 37.0 | – | (0.2) | (31.1) | 21.0 |
| **Total gross value** | **915.5** | **105.9** | **(13.4)** | **(32.8)** | **9.3** | **984.5** |
| Depreciation of buildings | 86.3 | 14.5 | (0.9) | (1.7) | (1.2) | 97.0 |
| Depreciation of machinery, plant and equipment | 73.7 | 9.2 | (1.6) | (0.8) | 2.0 | 82.5 |
| Depreciation of other property, plant and equipment | 200.2 | 35.4 | (8.6) | (7.8) | (0.2) | 219.0 |
| Impairment losses | 17.5 | 2.5 | (3.1) | (0.4) | – | 16.5 |
| **Total depreciation and impairment losses** | **377.7** | **61.6** | **(14.2)** | **(10.7)** | **0.6** | **415.0** |
| **Total net value** | **537.8** | **44.3** | **0.8** | **(22.1)** | **8.7** | **569.5** |

Other movements include €6 million in gross property, plant and equipment consolidated following the acquisition of the Soficuir group.
Investments during the year relate mainly to the opening and renovation of stores and capital expenditure to expand production capacity.
No item of property, plant or equipment has been pledged as debt collateral. Furthermore, the amount of these assets in temporary use is not material when compared with the total value of property, plant and equipment.

Impairment losses on intangible assets and property, plant and equipment relate to production operations and stores considered to be insufficiently profitable based on the criteria set forth in IAS 36.
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 revenues.

## NOTE 18 - INVESTMENT PROPERTY

in millions of euros

| | 31/12/2006 | Increases | Decreases | Currency impact | Other | 31/12/2007 |
|---|---|---|---|---|---|---|
| Land | 3.1 | – | – | – | – | 3.1 |
| Buildings | 9.6 | 0.6 | – | (0.2) | – | 10.0 |
| **Total gross value** | **12.7** | **0.6** | **–** | **(0.2)** | **–** | **13.1** |
| Depreciation and amortisation | 1.0 | 0.2 | – | – | – | 1.2 |
| **Total net value** | **11.7** | **0.4** | **–** | **(0.2)** | **–** | **11.9** |

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, likely to change materially over the next several years.

Rental income from investment property amounted to €0.7 million in 2007.

At 31 December 2007, the estimated fair value of investment property was €20 million. This estimate is based on valuation work carried out by independent experts at appropriate intervals.
The valuations are based mainly on real estate transactions for comparable properties and on indicators established by recognised organisations or professionals.

## NOTE 19 - FINANCE LEASES

in millions of euros

| | 31/12/2006 | Increases | Decreases | Currency impact | Other | 31/12/2007 |
|---|---|---|---|---|---|---|
| Leased buildings | – | 1.1 | – | – | – | 1.1 |
| **Total gross value** | **–** | **1.1** | **–** | **–** | **–** | **1.1** |
| Depreciation | – | – | – | – | – | – |
| **Total net value** | **–** | **1.1** | **–** | **–** | **–** | **1.1** |

Leased buildings include a property in Milan held under a finance lease, the main details of which are as follows:
– gross value of the asset: €1.1 million;
– depreciation period: 15 years as from 18 July 2007;
– liability at 31 December 2007: €1.1 million due in more than one year;
– during 2007, the annual rate of interest (variable) was 5.3%.

## NOTE 20 - INVENTORIES AND WORK IN PROGRESS

in millions of euros

| | | 31/12/2007 | | 31/12/2006 |
|---|---|---|---|---|
| | Gross | Impairment | Net | Net |
| Purchased goods, semi-finished and finished goods | 375.4 | 112.1 | 263.3 | 226.0 |
| Raw materials and work in progress | 209.7 | 40.9 | 168.8 | 123.7 |
| **Total inventories and work in progress** | **585.1** | **153.0** | **432.1** | **349.7** |

The net charge to reserves for inventories was €10.2 million for 2007 compared with €9 million in 2006.

No inventories were pledged as debt collateral.

## NOTE 21 - AVAILABLE-FOR-SALE SECURITIES AND HELD-TO-MATURITY SECURITIES

in millions of euros

| | 31/12/2006 | Increases | Decreases | Currency impact | Other | 31/12/2007 |
|---|---|---|---|---|---|---|
| Other investments in non-consolidated companies | 1.4 | – | (0.1) | – | (0.1) | 1.2 |
| Liquidity contract | 9.5 | – | (4.4) | – | – | 5.1 |
| Other long-term investments | 11.8 | 1.1 | (6.2) | (0.4) | (0.4) | 5.9 |
| **Total gross amount** | **22.7** | **1.1** | **(10.7)** | **(0.4)** | **(0.5)** | **12.2** |
| Impairment | 5.5 | – | (2.1) | – | (1.1) | 2.3 |
| **Total available-for-sale securities** | **17.2** | **1.1** | **(8.6)** | **(0.4)** | **0.6** | **9.9** |

At 31 December 2007, other long-term investments mainly included €3.8 million in life insurance in Japan and €5.1 million in a liquidity contract (mutual fund portion).
Other investments in non-consolidated companies available for sale and investments in available-for-sale securities are in unlisted companies.

The main changes during the year relate to reimbursement of part of the insurance contract in Japan and to a loan to Leica Camera, for which a reserve was set aside to cover the full amount at the end of 2006.

in millions of euros

| | 31/12/2006 | Increases | Decreases | Currency impact | Other | 31/12/2007 |
|---|---|---|---|---|---|---|
| Leica Camera AG convertible bonds and accrued interest | 6.3 | 1.3 | (7.6) | – | – | – |
| Gaulme convertible bonds and accrued interest | 8.3 | 0.3 | (0.3) | – | – | 8.3 |
| Vaucher participating loan | – | 0.6 | – | – | – | 0.6 |
| Other term investments | 15.0 | 25.0 | (15.0) | – | 1.1 | 26.1 |
| **Total gross value** | **29.6** | **27.2** | **(22.9)** | **–** | **1.1** | **35.0** |
| Impairment | 5.9 | 1.3 | (7.2) | – | – | – |
| **Total held-to-maturity securities** | **23.7** | **25.9** | **(15.7)** | **–** | **1.1** | **35.0** |

Term investments, which are not liquid, include term deposits with banks held for more than 3 months.
At 31 December 2007, term investments were treated as senior obligations.

Of the other changes in this item during the year, €1.1 million was due to a fair value adjustment for term investments, which was taken to equity.

## NOTE 22 - LOANS AND DEPOSITS

in millions of euros

| | 31/12/2006 | Increases | Decreases | Currency impact | Other | 31/12/2007 |
|---|---|---|---|---|---|---|
| Loans and deposits | 14.4 | 2.7 | (0.4) | (0.6) | 0.3 | 16.4 |
| Impairment | 0.2 | – | – | – | 1.0 | 1.2 |
| **Total loans and deposits** | **14.2** | **2.7** | **(0.4)** | **(0.6)** | **(0.7)** | **15.2** |

Security deposits amounted to €10.7 million at 31 December 2007 compared with €9.2 million at 31 December 2006.

## NOTE 23 - TRADE RECEIVABLES

in millions of euros

| | 31/12/2007 Gross | 31/12/2007 Impairment | 31/12/2007 Net | 31/12/2006 Net |
|---|---|---|---|---|
| Trade receivables | 140.4 | 5.0 | 135.4 | 118.1 |
| Current tax receivables | 2.5 | – | 2.5 | 0.9 |
| Other receivables | 63.0 | 1.2 | 61.8 | 55.0 |
| Other non-current assets | 0.2 | 0.1 | 0.1 | – |
| **Total other receivables** | **206.1** | **6.3** | **199.8** | **174.0** |

All account receivables are due within one year, with the exception of those included under other non-current assets. There were no receivables for which payment had been materially deferred and to which a discount was applied.

Charges set aside for trade receivables amount to a small percentage of the Group's overall sales. It amounted to approximately 4% of the gross amount at the end of 2007, about the same as in 2006. There is no significant concentration of credit risk.

in millions of euros

| | Gross amount on the balance sheet | Amount not yet due not impaired | Amount impaired | Overdue amounts | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | < 3 months | 3 months to 6 months | 6 months to 1 year | > 1 year | Total overdue amounts |
| **2007** - Trade receivables | 140.4 | 87.5 | 5.0 | 45.2 | 1.4 | 0.9 | 0.4 | 47.9 |
| **2006** - Trade receivables | 122.7 | 77.3 | 4.6 | 39.6 | 0.9 | 0.2 | 0.1 | 40.8 |

## NOTE 24 - CASH AND CASH EQUIVALENTS

in millions of euros

| | 31/12/2007 | 31/12/2006 |
|---|---|---|
| Cash and cash equivalents | 155.7 | 121.3 |
| Marketable securities | 374.2 | 449.1 |
| **Cash and cash equivalents** | **529.9** | **570.4** |

The majority of marketable securities consists of investments in the euro money market.
All cash and equivalents mature in less than three months and have a sensitivity of less than 0.5%.

Gains and losses over the year and recognised in the income statement amounted to €11.5 million in 2007 compared with €9.2 million in 2006. There were no unrealised gains or losses at 31 December 2007.

## NOTE 25 - EXPOSURE TO MARKET RISKS

**a - Counterparty risk**

In keeping with the applicable internal control procedures, the Group deals only with leading banks and financial institutions that have signed an FBF agreement on trading in future financial instruments, and as such, it is not exposed to any counterparty risk. Counterparty risks on financial transactions are monitored on an ongoing basis by the back office that reports to the Treasury Department. Lastly, the Group has no exposure to any material risk of dependence on a single counterparty.

**b - Currency risk**

Most of the Group's currency exposure comes from sales denominated in foreign currencies.

It hedges this exposure so as to minimise the impact of currency fluctuations on Group profits.

The Group's currency exposure management policy is based on the following principles:

– the manufacturing subsidiaries bill the distribution subsidiaries in their local currency, which automatically concentrates the currency risk on the manufacturing subsidiaries;

– the Group's net exposure is systematically hedged by Hermès International according to annual budgets, based on highly probable operating cash flows, through firm foreign exchange transactions and/or options eligible for hedge accounting;

– no speculative transactions are authorised;

– all other non-operating transactions are hedged against currency risks as soon as the commitment is firm and definitive.

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, the internal audit function ascertains compliance with these rules.

Within this set of rules, management decisions are validated by the Executive Committee, via a Treasury Security Committee that meets on a regular basis.

The Group's currency exposure is systematically hedged by Hermès International according to annual budgets, based on highly probable operating cash flows derived from budget projections. In practice, at 31 December, nearly 100% of the Group annual requirements for the previous year had been hedged. As a result, its net income has almost no exposure to currency fluctuations.

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.

Currency position at 31/12/2007 — in millions of euros

| Currency | Liabilities and receivables at 31/12/2007 | Future cash flows | Net position before cover | Off-balance sheet position | Net position after cover | Cover ratio |
|---|---|---|---|---|---|---|
| AUD | 1.4 | 2.2 | 3.6 | (3.2) | 0.4 | 89% |
| CAD | 1.3 | 7.4 | 8.7 | (8.4) | 0.3 | 97% |
| CHF | 22.1 | 15.9 | 37.9 | (37.4) | 0.5 | 99% |
| CZK | 0.1 | 1.0 | 1.1 | (1.0) | 0.1 | 92% |
| EUR* | 3.8 | 15.2 | 19.0 | (16.5) | 2.5 | 87% |
| GBP | 5.2 | 24.5 | 29.7 | (29.0) | 0.7 | 98% |
| HKD | 13.5 | 56.8 | 70.3 | (67.2) | 3.1 | 96% |
| INR | – | 0.9 | 0.9 | (0.9) | – | 100% |
| JPY | 121.0 | 164.9 | 285.9 | (286.3) | (0.4) | 100% |
| KRW | – | (4.7) | (4.7) | 4.7 | – | 99% |
| MXN | (0.1) | – | (0.1) | – | (0.1) | – |
| SGD | 13.7 | 85.1 | 98.8 | (99.9) | (1.1) | 101% |
| THB | 1.3 | 5.5 | 6.8 | (6.5) | 0.3 | 96% |
| USD | 41.5 | 136.3 | 177.8 | (170.7) | 7.1 | 96% |
| **Total** | **224.8** | **511.0** | **735.7** | **(722.3)** | **13.4** | **98%** |

* EUR currency risk for subsidiaries that use a different reporting currency.

### Sensitivity to currency fluctuations

The sensitivity of shareholders' equity to currency risk is analysed for the cash flow hedge reserve. The impact on equity, *ceteris paribus*, equals the change in market value of cash flow hedging derivatives relative to the current variance in exchange rates.

A 1% rise in the main currencies to which the Group is exposed (JPY, HKD, USD and SGD) as of the closing date would result in a €2.7 million increase in equity (before tax) in the fair value reserve. A 1% fall would result in a €2.6 million decrease (before tax).

A 1% rise in the currencies to which the Group is exposed as of the closing date would result in a €0.1 million decrease in net income. A 1% fall would result in a €0.1 million increase.

Currency position at 31/12/2006 — in millions of euros

| Currency | Liabilities and receivables at 31/12/2006 | Future cash flows | Net position before cover | Off-balance sheet position | Net position after cover | Cover ratio |
|---|---|---|---|---|---|---|
| AUD | 0.9 | 4.4 | 5.3 | (5.2) | 0.1 | 98% |
| CAD | 1.5 | 4.4 | 5.9 | (5.7) | 0.2 | 96% |
| CHF | 23.7 | 6.8 | 30.5 | (27.2) | 3.3 | 89% |
| CZK | 0.1 | 0.9 | 1.0 | (1.0) | – | 99% |
| EUR* | 4.0 | 19.9 | 23.9 | (25.9) | (1.9) | 108% |
| GBP | 5.9 | 18.1 | 23.9 | (20.3) | 3.6 | 85% |
| HKD | 11.3 | 42.8 | 54.1 | (53.5) | 0.6 | 99% |
| JPY | 107.5 | 173.9 | 281.4 | (278.4) | 3.0 | 99% |
| KRW | 0.1 | (6.4) | (6.3) | 6.4 | 0.1 | 101% |
| SGD | 14.9 | 96.1 | 111.0 | (114.1) | (3.1) | 103% |
| THB | 1.3 | 6.6 | 7.9 | (8.2) | (0.2) | 103% |
| USD | 36.6 | 145.2 | 181.8 | (180.2) | 1.6 | 99% |
| **Total** | **207.8** | **512.7** | **720.5** | **(713.1)** | **7.4** | **99%** |

*EUR currency risk for subsidiaries that use a different reporting currency.

Analysis of currency contracts at 31/12/2007 in millions of euros

| | Nominal amount of off-balance sheet position (gross) (1) | Nominal amount of off-balance sheet position (net) (2) | Market value of contracts at 31/12/2007 (3) | | | |
|---|---|---|---|---|---|---|
| | | | Market value of contracts at 31/12/2007(3) | Fair value hedges | Unallocated | Total |
| **Options purchased** | | | | | | |
| HKD put | 39.0 | 39.0 | 1.9 | – | – | 1.9 |
| JPY put | 130.5 | 106.3 | 5.2 | – | 0.6 | 5.8 |
| SGD put | 72.5 | 58.3 | 1.9 | – | 0.2 | 2.1 |
| USD put | 86.5 | 86.5 | 6.1 | – | – | 6.1 |
| | **328.5** | **290.1** | **15.1** | **–** | **0.8** | **15.9** |
| **Forward currency contracts (4)** | | | | | | |
| HKD | 17.8 | 17.8 | 0.9 | – | – | 0.9 |
| JPY | 58.8 | 58.8 | 2.9 | – | – | 2.9 |
| SGD | 26.8 | 26.8 | 0.7 | – | – | 0.7 |
| USD | 49.8 | 49.8 | 3.8 | – | – | 3.8 |
| Other | 66.4 | 66.4 | 0.5 | – | – | 0.5 |
| | **219.6** | **219.6** | **8.8** | **–** | **–** | **8.8** |
| **Treasury swaps (4)** | | | | | | |
| HKD | 10.4 | 10.4 | – | 0.3 | – | 0.3 |
| JPY | 121.3 | 121.3 | – | 0.1 | 1.0 | 1.1 |
| SGD | 14.8 | 14.8 | – | 0.1 | – | 0.1 |
| USD | 34.3 | 34.3 | – | 0.8 | – | 0.8 |
| Other | 31.8 | 31.8 | – | 0.1 | (0.1) | – |
| | **212.6** | **212.6** | **–** | **1.4** | **0.9** | **2.3** |
| **Options sold** | | | | | | |
| JPY put | (24.2) | – | – | – | (0.6) | (0.6) |
| SGD put | (14.2) | – | – | – | (0.2) | (0.2) |
| | **(38.4)** | **–** | – | **–** | **(0.8)** | **(0.8)** |
| **Total** | **722.3** | **722.3** | **23.9** | **1.4** | **0.9** | **26.2** |

(1) Nominal amount of all off-balance sheet instruments.

(2) Nominal amount of derivatives allocated to hedge foreign exchange risks.

(3) Gain/(loss).

(4) Sold/(purchased).

Analysis of currency contracts at 31/12/2006 in millions of euros

| | Nominal amount of off-balance sheet position (gross) (1) | Nominal amount of off-balance sheet position (net) (2) | Market value of contracts at 31/12/2006 (3) Cash flow hedges | Fair value hedges | Unallocated | Total |
|---|---|---|---|---|---|---|
| **Options purchased** | | | | | | |
| HKD put | 19.0 | 19.0 | 0.9 | – | – | 0.9 |
| JPY put | 148.2 | 148.2 | 8.0 | – | – | 8.0 |
| JPY call | – | – | – | – | – | – |
| SGD put | 39.2 | 39.2 | 0.8 | – | – | 0.8 |
| USD put | 77.4 | 68.4 | 3.5 | – | 0.3 | 3.7 |
| USD call | – | – | – | – | – | – |
| | **283.8** | **274.8** | **13.1** | **–** | **0.3** | **13.4** |
| **Forward currency contracts (4)** | | | | | | |
| HKD | 23.6 | 23.6 | 0.8 | – | – | 0.8 |
| JPY | 25.8 | 25.8 | 2.1 | – | – | 2.1 |
| SGD | 56.9 | 56.9 | 0.7 | – | – | 0.7 |
| USD | 74.4 | 74.4 | 3.0 | (0.2) | – | 2.7 |
| Other | 55.4 | 55.4 | (0.2) | – | (0.1) | (0.3) |
| | **236.0** | **236.0** | **6.2** | **(0.2)** | **(0.1)** | **6.0** |
| **Treasury swaps (4)** | | | | | | |
| HKD | 10.9 | 10.9 | – | – | – | |
| JPY | 104.5 | 104.5 | – | 0.1 | 0.6 | 0.7 |
| SGD | 18.0 | 18.0 | – | (0.1) | – | (0.1) |
| USD | 37.4 | 37.4 | – | – | – | – |
| Other | 31.6 | 31.6 | – | – | 0.2 | 0.2 |
| | **202.4** | **202.4** | **–** | **–** | **0.8** | **0.8** |
| **Options sold** | | | | | | |
| USD call | (9.0) | – | – | – | (0.3) | (0.3) |
| | **(9.0)** | **–** | **–** | **–** | **(0.3)** | **(0.3)** |
| **Total** | **713.1** | **713.2** | **19.4** | **(0.2)** | **0.7** | **19.9** |

(1) Nominal amount of all off-balance sheet instruments. (2) Nominal amount of derivatives allocated to hedge foreign exchange risks. (3) Gain/(loss). (4) Sold/(purchased).

### Ineffective portion of cash flow hedges

The ineffective portion of cash flow hedges recorded in net income was €6.8 million compared with €11.4 million in 2006.

### c - Interest-rate and liquidity risk

The Hermès Group's policy is to maintain a positive treasury position and to have cash available so as to be able to finance its growth strategy independently.
The Group's treasury surpluses and requirements are managed directly or overseen by Hermès International's Treasury Management Department, in accordance with a conservative policy designed to avoid any risk of losing capital 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 revalued amount (fair value).
Gross debt consists mainly of long-term amortisable fixed-rate loans in Japanese yen 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 security interests or by any specific covenants.
From time to time, the Group uses financial instruments such as swaps and derivatives to hedge part of its liabilities 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.

At 31/12/2007

in millions of euros

| | < 1 year | 1 to 5 years | > 5 years | Total | Variable rate | Fixed rate |
|---|---|---|---|---|---|---|
| **Financial assets** | **529.9** | **–** | **–** | **529.9** | **529.9** | **–** |
| Euros | 389.0 | – | – | 389.0 | 389.0 | – |
| Swiss francs | 17.5 | – | – | 17.5 | 17.5 | – |
| Other | 123.4 | – | – | 123.4 | 123.4 | – |
| **Financial liabilities*** | **60.7** | **15.8** | **2.8** | **79.3** | **60.0** | **19.3** |
| Euros | 17.6 | 0.5 | 1.0 | 19.1 | 19.1 | – |
| Japanese yen | 13.5 | 14.2 | 1.8 | 29.5 | 10.2 | 19.3 |
| Other | 29.6 | 1.1 | – | 30.7 | 30.7 | – |
| **Net cash before cover** | **469.2** | **(15.8)** | **(2.8)** | **450.6** | **469.9** | **(19.3)** |
| **Net cash after cover** | **469.2** | **(15.8)** | **(2.8)** | **450.6** | **469.9** | **(19.3)** |

*Not including commitments to buy out minority shareholders.

in millions of euros

| | < 1 year | 1 to 5 years | > 5 years | Total | Variable rate | Fixed rate |
|---|---|---|---|---|---|---|
| **Financial assets** | **529.9** | **–** | **–** | **529.9** | **529.9** | **–** |
| Cash and cash equivalents | 529.9 | – | – | 529.9 | 529.9 | – |
| **Financial liabilities*** | **60.7** | **15.8** | **2.8** | **79.3** | **60.0** | **19.3** |
| Medium & long term debt | – | 15.8 | 2.8 | 18.6 | 2.8 | 15.8 |
| Bank overdrafts and short-term debt | 60.4 | – | – | 60.4 | 56.9 | 3.5 |
| Current accounts in debit | 0.3 | – | – | 0.3 | 0.3 | – |
| **Net cash before cover** | **469.2** | **(15.8)** | **(2.8)** | **450.6** | **469.9** | **(19.3)** |
| **Net cash after cover** | **469.2** | **(15.8)** | **(2.8)** | **450.6** | **469.9** | **(19.3)** |

*Not including commitments to buy out minority shareholders.

At 31/12/2006

in millions of euros

| | < 1 year | 1 to 5 years | > 5 years | Total | Variable rate | Fixed rate |
|---|---|---|---|---|---|---|
| **Financial assets** | **570.4** | **–** | **–** | **570.4** | **570.4** | **–** |
| Euros | 444.9 | – | – | 444.9 | 444.9 | – |
| Swiss francs | 16.6 | – | – | 16.6 | 16.6 | – |
| Other | 108.9 | – | – | 108.9 | 108.9 | – |
| **Financial liabilities*** | **43.0** | **15.2** | **5.6** | **63.8** | **37.5** | **26.3** |
| Euros | 8.5 | 0.1 | 0.1 | 8.7 | 8.7 | – |
| Japanese yen | 25.4 | 15.1 | 5.5 | 46.0 | 19.7 | 26.3 |
| Other | 9.1 | – | – | 9.1 | 9.1 | – |
| **Net cash before cover** | **527.4** | **(15.2)** | **(5.6)** | **506.6** | **532.9** | **(26.3)** |
| **Net cash after cover** | **527.4** | **(15.2)** | **(5.6)** | **506.6** | **532.9** | **(26.3)** |

*Not including commitments to buy out minority shareholders.

in millions of euros

| | < 1 year | 1 to 5 years | > 5 years | Total | Variable rate | Fixed rate |
|---|---|---|---|---|---|---|
| **Financial assets** | **570.4** | **–** | **–** | **570.4** | **570.4** | **–** |
| Cash and cash equivalents | 570.4 | – | – | 570.4 | 570.4 | – |
| **Financial liabilities*** | **43.0** | **15.2** | **5.6** | **63.8** | **37.5** | **26.3** |
| Medium & long term debt | – | 15.2 | 5.6 | 20.8 | 0.2 | 20.6 |
| Bank overdrafts and short-term debt | 41.0 | – | – | 41.0 | 35.3 | 5.7 |
| Current accounts in debit | 2.0 | – | – | 2.0 | 2.0 | – |
| **Net cash before cover** | **527.4** | **(15.2)** | **(5.6)** | **506.6** | **532.9** | **(26.3)** |
| **Net cash after cover** | **527.4** | **(15.2)** | **(5.6)** | **506.6** | **532.9** | **(26.3)** |

*Not including commitments to buy out minority shareholders.

### Equity risk

The Group does not invest its cash in equities. Hence, it has no exposure to equity risk.

### Sensitivity to changes in interest rates

A 1 percentage point change in interest rates during 2007 would have had an impact of €4.7 million on consolidated net income before tax (€5.3 million in 2006).

The market value of marketable securities is equivalent to their booked value.

Financial liabilities do not include the debt associated with employee profit sharing, which is included under “Other liabilities”.

in millions of euros

| | 2007 | 2006 |
|---|---|---|
| Financial assets | 529.9 | 570.4 |
| Financial liabilities | 49.4 | 32.2 |
| **Cash and cash equivalents** | **480.5** | **538.2** |
| **Change in net cash position** | **(57.7)** | **(46.5)** |
| Change in assets | (32.8) | (25.3) |
| Change in liabilities | 6.0 | (11.1) |
| Changes in scope of consolidation | (20.9) | (2.9) |
| Foreign exchange differences | (10.0) | (7.2) |

### d - Fair value of financial assets and financial liabilities

in millions of euros

| 2007 | Carrying amount | Fair value | Interest rate | Effective interest rate |
|---|---|---|---|---|
| Other non-consolidated investments | 0.3 | 0.3 | | – |
| Liquidity contract | 5.1 | 5.1 | – | – |
| Other long-term investments | 4.5 | 4.5 | – | – |
| **Available-for-sale securities** | **9.9** | **9.9** | **–** | **–** |
| Vaucher participating loan | 0.6 | 0.6 | – | – |
| Gaulme convertible bonds and accrued interest | 8.3 | 8.3 | 2.8% | 2.8% |
| Financial investment | 26.1 | 26.1 | * | 5.6% |
| **Held-to-maturity securities** | **35.0** | **35.0** | **–** | **–** |
| **Loans and deposits** | **15.3** | **15.3** | **–** | **–** |
| **Cash and cash equivalents** | **529.9** | **529.9** | **–** | **–** |
| Bank overdrafts | 49.1 | 49.1 | – | – |
| Commitments to buy out minority shareholders | 6.7 | 6.7 | – | – |
| Loan - Japan | 19.3 | 19.3 | 1.8% | 1.8% |
| Loan - China | 5.5 | 5.5 | 4.9% | 4.9% |
| Other loans | 5.1 | 5.1 | ** | – |
| Current accounts in debit | 0.3 | 0.3 | ** | – |
| **Financial liabilities** | **86.0** | **86.0** | **–** | **–** |

*Interest rates are variable rates indexed to 3-month Euribor.
**Interest rates are variable rates.

in millions of euros

| 2006 | Carrying amount | Fair value | Interest rate | Effective interest rate |
|---|---|---|---|---|
| Other non-consolidated investments | 0.5 | 0.5 | | – |
| Liquidity contract | 9.5 | 9.5 | – | – |
| Other long-term investments | 7.2 | 7.2 | – | – |
| **Available-for-sale securities** | **17.2** | **17.2** | **–** | **–** |
| Leica Camera AG convertible bonds and accrued interest | 0.4 | 0.4 | 5.5% | 9.0% |
| Gaulme convertible bonds and accrued interest | 8.3 | 8.3 | 2.8% | 2.8% |
| Term bank deposit | 15.0 | 15.0 | * | 1.5% |
| **Held-to-maturity securities** | **23.7** | **23.7** | **–** | **–** |
| **Loans and deposits** | **14.2** | **14.2** | **–** | **–** |
| **Cash and cash equivalents** | **570.4** | **570.4** | **–** | **–** |
| Bank overdrafts | 30.2 | 30.2 | – | – |
| Commitments to buy out minority shareholders | 3.2 | 3.2 | – | – |
| Loan - Japan | 25.8 | 25.8 | 2.0% | 2.0% |
| Loan - China | 3.2 | 3.2 | 4.7% | 4.7% |
| Other loans | 2.6 | 2.6 | ** | – |
| Current accounts in debit | 2.0 | 2.0 | ** | – |
| **Financial liabilities** | **67.0** | **67.0** | **–** | **–** |

*Interest rates are variable rates indexed to 3-month Euribor.
**Interest rates are variable rates.

## NOTE 26 - RESERVES

in millions of euros

| | 31/12/2006 | Charges | Amounts released* | Currency impact | Other | 31/12/2007 |
|---|---|---|---|---|---|---|
| Current reserves | 11.0 | 12.3 | (8.8) | (0.5) | 1.1 | 15.1 |
| Non-current reserves | – | 1.5 | – | – | – | 1.5 |
| **TOTAL** | **11.0** | **13.8** | **(8.8)** | **(0.5)** | **1.1** | **16.6** |

| * Of which: | |
|---|---|
| Amounts released - used | 5.2 |
| Amounts released - unused | 3.6 |
| **Total** | **8.8** |

## NOTE 27 - POST-EMPLOYMENT AND OTHER EMPLOYEE BENEFITS

**a - Plan description**

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 lump-sum retirement benefits, and supplemental pension schemes).

Post-employment benefits are awarded either through defined-contribution plans or defined-benefit plans.

• 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).

• 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, an allowance is booked to a reserve.

Post-employment and similar obligations (Defined Benefit Obligations or DBOs) are measured 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 recognised during the period are recognised in equity.

For the Group, the main defined-benefit plans apply mainly to:

– Lump-sum retirement benefits in France, Italy, Switzerland and Japan. These are calculated based on employee length of service and 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 top-up pension scheme for executives in France or in other countries.

in millions of euros

| | < 1 year | > 1 year | Total 2007 | 2006 |
|---|---|---|---|---|
| Employee pension and similar benefit obligations | 4.0 | 39.8 | 43.8 | 40.6 |
| **TOTAL** | **4.0** | **39.8** | **43.8** | **40.6** |

### b - Actuarial assumptions at 31 December 2007

Actuarial assumptions are reviewed each year. For 2007, the following actuarial assumptions were used:

| | France | Italy | Switzerland | Japan | Rest of Asia |
|---|---|---|---|---|---|
| Retirement age | 61/65 | 60/62 | 64/65 | 60 | 55 |
| Increase in salaries | 2.0 to 4.0% | 2.0 to 2.5% | 2.2% | 2.5% | 3 to 5% |
| Change in Social Security ceiling | 2.5% | n/a | n/a | n/a | n/a |
| Anticipated rate of return on plan assets | 4.5% | n/a | 3.0% | n/a | 2.3 to 4.9% |
| Discount rate | 4.0 to 5.3% | 5.3% | 3.5% | 2.0% | 2.0 to 5.7% |

2006 assumptions

| | France | Italy | Switzerland | Japan | Rest of Asia |
|---|---|---|---|---|---|
| Retirement age | 65 | 60/62 | 64/65 | 60 | 55 |
| Increase in salaries | 2.0 to 4.0% | 2.5% | 2.0% | 2.5% | 3 to 5% |
| Change in Social Security ceiling | 2.5% | n/a | n/a | n/a | n/a |
| Anticipated rate of return on plan assets | 4.5% | n/a | 2.5% | n/a | 2.3 to 4.9% |
| Discount rate | 4.0 to 4.5% | 4.0% | 2.3% | 2.0% | 2.0 to 5.7% |

n/a: not applicable.

### c - Change in reserves on the balance sheet

in millions of euros

| | Defined benefit pension plans | Other defined-benefit plans | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|
| **Reserves at 1 January** | **39.5** | **1.1** | **40.6** | **41.1** | **30.2** |
| Exchange rate differences | (0.6) | – | (0.6) | (1.3) | – |
| Pension expense | 7.2 | (0.2) | 7.0 | 1.6 | 5.3 |
| Benefits paid | (2.7) | – | (2.7) | (4.3) | (4.7) |
| Actuarial gains and losses | (1.8) | – | (1.8) | 3.2 | 9.7 |
| Changes in scope of consolidation | 0.6 | 0.1 | 0.7 | – | – |
| Adjustment to opening equity | 0.4 | 0.1 | 0.5 | 0.2 | 0.4 |
| Other | 0.1 | – | 0.1 | 0.1 | 0.2 |
| **Reserves at 31 December** | **42.7** | **1.1** | **43.8** | **40.6** | **41.1** |

c.1 - Reconciliation of the value of post-employment and other employee benefits

in millions of euros

| | Defined benefit pension plans | Other defined-benefit plans | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|
| **Present value of obligations at 1 January** | **51.9** | **1.1** | **53.0** | **55.7** | **49.3** |
| Exchange rate differences | (0.8) | – | (0.8) | (1.4) | – |
| Service cost | 5.1 | 0.1 | 5.2 | 4.9 | 3.7 |
| Interest cost | 2.0 | – | 2.0 | 1.5 | 1.7 |
| Benefits paid | (3.2) | – | (3.2) | (10.2) | (9.1) |
| Employee contributions | 0.3 | | 0.3 | – | – |
| Actuarial gains/(losses) | (2.0) | (0.3) | (2.3) | 2.8 | 9.8 |
| Change of plan | – | – | – | (4.4) | – |
| Unrecognised past service costs | – | – | – | 1.7 | – |
| Changes in scope of consolidation | 1.5 | 0.1 | 1.6 | – | – |
| Other | 0.4 | 0.1 | 0.5 | 2.4 | 0.3 |
| **Present value of obligations at 31 December** | **55.2** | **1.1** | **56.3** | **53.0** | **55.7** |

c.2 - Fair value of plan assets

in millions of euros

| | 2007 | 2006 | 2005 |
|---|---|---|---|
| **Fair value of assets at 1 January** | **10.7** | **14.6** | **19.0** |
| Employer contributions | 1.8 | 2.9 | 4.2 |
| Employee contributions | 0.3 | – | – |
| Benefits paid | (2.3) | (8.7) | (8.6) |
| Expected return on plan assets | 0.4 | 0.5 | 0.4 |
| Financial expense | – | (0.1) | (0.2) |
| Translation differences | (0.2) | (0.1) | – |
| Actuarial gains/(losses) | (0.1) | (0.1) | – |
| Changes in scope of consolidation | 0.8 | – | – |
| Other | (0.3) | 1.7 | (0.2) |
| **Fair value of assets at 31 December** | **11.1** | **10.7** | **14.6** |

c.3 - Analysis of reserves for defined benefit and similar obligations

in millions of euros

| | Defined benefit pension plans | Other defined-benefit plans | 31/12/2007 | 31/12/2006 |
|---|---|---|---|---|
| Present value of funded obligations | 37.8 | – | 37.8 | 36.4 |
| Fair value of plan assets | (11.1) | – | (11.1) | (10.7) |
| **Excess of obligations/(assets) in funded plans** | **26.7** | **–** | **26.7** | **25.7** |
| Present value of unfunded obligations | 17.4 | 1.1 | 18.5 | 16.6 |
| Unrecognised past service costs | (1.5) | – | (1.5) | (1.7) |
| Unrecognised net assets | – | – | – | – |
| **Net defined benefit obligations** | **42.7** | **1.1** | **43.8** | **40.6** |
| Breakdown of obligations - assets | – | – | – | – |
| Breakdown of obligations - liabilities | 42.7 | 1.1 | 43.8 | 40.6 |
| **Net obligations** | **42.7** | **1.1** | **43.8** | **40.6** |

c.4 - Change in actuarial gains and losses

in millions of euros

| | |
|---|---|
| **Actuarial gains/(losses) recognised in equity at 1 January 2005** | **3.8** |
| Actuarial gains/(losses) experienced | 6.5 |
| Actuarial gains/(losses) due to changes in assumptions | 3.2 |
| **Actuarial gains/(losses) recognised in equity at 31 December 2005** | **13.5** |
| Actuarial gains/(losses) experienced | 2.7 |
| Actuarial gains/(losses) due to changes in assumptions | 0.2 |
| Other actuarial gains/(losses) | 0.3 |
| **Actuarial gains/(losses) recognised in equity at 31 December 2006** | **16.7** |
| Actuarial gains/(losses) experienced | 3.0 |
| Actuarial gains/(losses) due to changes in assumptions | (5.0) |
| Other actuarial gains/(losses) | 0.2 |
| **Actuarial gains/(losses) recognised in equity at 31 December 2007** | **14.9** |

### d - Analysis of charges recognised in the income statement

in millions of euros

| | Defined benefit pension plans | Other defined-benefit plans | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|
| Service costs | 5.1 | 0.1 | 5.2 | 4.9 | 3.7 |
| Interest costs | 2.0 | 0.1 | 2.1 | 1.4 | 1.7 |
| Expected return on plan assets | (0.5) | – | (0.5) | (0.5) | (0.2) |
| (Gain)/loss resulting from change in plan | – | – | – | (4.4) | – |
| Unrecognised past service cost | 0.2 | – | 0.2 | – | – |
| Net actuarial gains/(losses) recognised during the year | – | (0.4) | (0.4) | (0.1) | 0.4 |
| Other | 0.4 | – | 0.4 | 0.3 | (0.4) |
| **Cost of defined-benefit plans** | **7.2** | **(0.2)** | **7.0** | **1.6** | **5.3** |

### e - Plan assets

Analysis of weighted average assets used to fund the plans by asset type:

in millions of euros

| | 31/12/2007 | | 31/12/2006 | |
|---|---|---|---|---|
| | Value | Breakdown | Value | Breakdown |
| Equities | 1.1 | 10% | 0.9 | 8% |
| Bonds | 8.5 | 77% | 8.5 | 79% |
| Other | 1.5 | 13 % | 1.3 | 13% |
| **Total** | **11.1** | **100%** | **10.7** | **100%** |

**f - Analysis by geographical area**

in millions of euros

| | 31/12/2007 | | 31/12/2006 | |
|---|---|---|---|---|
| | Value | Breakdown | Value | Breakdown |
| France | 37.5 | 67% | 36.5 | 69% |
| Rest of Europe | 5.2 | 9% | 4.4 | 8% |
| Japan | 12.0 | 21% | 10.6 | 20% |
| Rest of Asia-Pacific region | 1.6 | 3% | 1.5 | 3% |
| **Present value of obligations** | **56.3** | **100%** | **53.0** | **100%** |
| France | 6.5 | 59% | 6.2 | 58% |
| Rest of Europe | 3.4 | 31% | 3.4 | 32% |
| Rest of Asia-Pacific region | 1.2 | 10% | 1.1 | 10% |
| **Fair value of plan assets** | **11.1** | **100%** | **10.7** | **100%** |
| France | (1.5) | 100% | (1.7) | 100% |
| **Unrecognised past service cost** | **(1.5)** | **100%** | **(1.7)** | **100%** |
| France | 29.6 | 68% | 28.6 | 70% |
| Rest of Europe | 1.8 | 4% | 1.0 | 2% |
| Japan | 12.0 | 27% | 10.6 | 26% |
| Rest of Asia-Pacific region | 0.4 | 1% | 0.4 | 2% |
| **Reserves for post-employment and other employee benefit obligations** | **43.8** | **100%** | **40.6** | **100%** |

## NOTE 28 - TRADE PAYABLES AND OTHER PAYABLES

in millions of euros

| | 31/12/2007 | 31/12/2006 |
|---|---|---|
| Suppliers | 174.2 | 146.4 |
| Amounts payable relating to non-current assets | 30.5 | 17.0 |
| **Trade payables** | **204.7** | **163.4** |
| Current tax liabilities | 34.6 | 33.2 |
| Other current liabilities | 138.7 | 129.3 |
| Other non-current liabilities | 24.9 | 28.0 |
| **TRADE PAYABLES AND OTHER PAYABLES** | **402.9** | **353.9** |

## NOTE 29 - OTHER COMMITMENTS GIVEN

in millions of euros

| | < 1 year | 1 to 5 years | > 5 years | 2007 | 2006 |
|---|---|---|---|---|---|
| Bank guarantees given* | 1.5 | 0.5 | – | 2.0 | 67.0 |
| Bank guarantees received | 10.6 | 19.8 | – | 30.3 | 15.9 |
| Repurchases of securities (guarantees given) | – | – | 13.3 | 13.3 | 14.3 |
| Repurchases of securities (guarantees received) | – | 6.0 | 26.0 | 32.0 | 27.2 |
| Other commitments | 3.8 | – | – | 3.8 | – |
| Finance leases | nm | 0.2 | 0.9 | 1.1 | – |

nm: not material. *In 2006, guarantees given to guarantee borrowings (primarily in Japan) were erroneously reported in off-balance sheet commitments, under "Bank guarantees given". As the loan liability is already recorded in the Group's consolidated balance sheet and as the guarantees were given by Hermès International, they should not have been included under this item.

At 31 December 2007, future non-cancellable commitments on lease agreements for all stores operated by the Group worldwide were broken down as follows:

in millions of euros

| | < 1 year | 1 to 5 years | > 5 years | 2007 |
|---|---|---|---|---|
| Minimum payments to be made on rental agreements* | 41.0 | 99.7 | 62.0 | 202.7 |

*Amounts shown have been discounted at an annual rate of 7.67%.

## NOTE 30 - OTHER OFF-BALANCE SHEET COMMITMENTS; CONTINGENT ASSETS AND LIABILITIES

The Group has no knowledge of any commitments other than those mentioned elsewhere and that would not be reflected in the financial statements for the year ended 31 December 2007. There currently exists no exceptional event or dispute that would be liable to have a probable 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 reserve is booked when a risk is identified and when its cost can be estimated.

## NOTE 31 - RELATED-PARTY TRANSACTIONS

Transactions with companies accounted for by the equity method in 2007 were not material relative to the Group's overall business activities.

Relationships with other related parties, within the meaning of IAS 24, 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 €5.6 million before tax in 2007 and €6.6 million before tax in 2006;

– 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 Hermès and his wife. 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 bills back certain expenses incurred to Émile Hermès SARL. These billings amounted to €0.2 million in 2007 and in 2006.

### Lease agreements

| Address | Lessor | Lessee | Lease type | Duration | Start date | End date | Security deposit | Specific clause |
|---|---|---|---|---|---|---|---|---|
| Building 28/30/32, rue du Faubourg-Saint-Honoré | SAS 28/30/32 rue du Faubourg-Saint-Honoré | Hermès International | Commercial lease | 9 years | 01/11/2000 | 31/10/2009 | 3 months | Lessee responsible for major repairs (under Art. 606 of the Civil Code) |
| Building 28/30/32, rue du Faubourg-Saint-Honoré | SAS 28/30/32 rue du Faubourg-Saint-Honoré | Hermès Sellier | Commercial lease | 9 years | 01/03/2002 | 28/02/2011 | 3 months | Lessee responsible for major repairs (under Art. 606 of the Civil Code) |
| Building 26, rue du Faubourg-Saint-Honoré | SIFAH (SCI) | Hermès Sellier | Commercial lease | 9 years | 01/12/2005 | 31/12/2013 | 3 months | Lessee responsible for major repairs (under Art. 606 of the Civil Code) |
| Building 26, rue du Faubourg-Saint-Honoré | SIFAH (SCI) | Hermès International | Commercial lease | 9 years | 01/01/1999 | 31/12/2007 | 3 months | Lessee responsible for major repairs (under Art. 606 of the Civil Code) |
| Building 23, rue Boissy-d'Anglas | Briand Villiers II | Hermès Sellier | Commercial lease | 9 years | 01/01/2000 | 31/12/2008 | 3 months | Lessee responsible for major repairs (under Art. 606 of the Civil Code) |
| Building 74, rue du Faubourg-Saint-Antoine | SCI 74 rue du Faubourg-Saint-Antoine | Hermès International | Commercial lease | 9 years | 01/07/1999 | 30/06 2008 | 3 months | |
| 27, rue Boissy-d'Anglas | Honossy | Émile Hermès SARL | Lease agreement - Civil Code | Indefinite | 01/09/2007 | – | – | |
| 4, rue du Pont-Vert 27400 Le Vaudreuil | Briand Villiers I | CNP | Commercial lease | 9 years - firm | 01/07/2005 | 30/06/2014 | 3 months | Lessee responsible for major repairs (under Art. 606 of the Civil Code) |

Total costs in connection with the above lease agreements amounted to €6.3 million in 2007, compared with €4.7 million in 2006.

## NOTE 32 - REMUNERATION OF CORPORATE EXECUTIVE OFFICERS, EXECUTIVE MANAGERS AND SUPERVISORY BOARD MEMBERS

Remuneration paid to Corporate Executive Officers, Executive Managers and Supervisory Board members of the Group in 2007 amounted to €10.3 million, compared with €8.6 million in 2006. It was broken down as follows for each category of remuneration:

in millions of euros

| | Short-term benefits | Post-employment benefits | Other long-term benefits | Lump-sum severance benefits | Share-based payments | Total |
|---|---|---|---|---|---|---|
| 2007 | 8.4 | 1.7 | 0.2 | – | nm | 10.3 |
| 2006 | 6.9 | 1.7 | – | – | – | 8.6 |

nm: not material.

## NOTE 33 - SHARE-BASED PAYMENTS

Insofar as no plans issued after 7 November 2002 grant rights to exercise options that remained to be vested at 1 January 2005, the application of IFRS 2 has no impact on the Group's accounts. It is therefore not necessary to provide information about the fair value of options as of the 2007 closing date.

Options to subscribe for new shares

| | 2007 | | 2006 | |
|---|---|---|---|---|
| | **Number of options** | **Value of options (€m)*** | **Number of options** | **Value of options (€m)*** |
| **Outstanding at 1 January** | **165,000** | **8.1** | **284,820** | **13.4** |
| *– exercisable* | *165,000* | *8.1* | *284,820* | *13.4* |
| Options issued | – | – | – | – |
| Options exercised | (44,100) | 2.0 | (119,820) | 5.3 |
| Options cancelled | – | – | – | – |
| *– expired* | – | – | – | – |
| *– forfeited* | – | – | – | – |
| **Outstanding at 31 December** | **120,900** | **6.1** | **165,000** | **8.1** |
| *– exercisable* | *120,900* | *6.1* | *165,000* | *8.1* |
| *Weighted average exercise price* | *50.82 €* | – | *49.25 €* | – |

* Weighted average price.

Options to purchase existing shares

| | 2007 | | 2006 | |
|---|---|---|---|---|
| | **Number of options** | **Value of options (€m)*** | **Number of options** | **Value of options (€m)*** |
| **Outstanding at 1 January** | **126,000** | **5.4** | **126,000** | **5.4** |
| *– exercisable* | *126,000* | *5.4* | *126,000* | *5.4* |
| Options issued | – | – | – | – |
| Options exercised | (27,000) | 1.1 | – | – |
| Options cancelled | – | – | – | – |
| *– expired* | – | – | – | – |
| *– forfeited* | – | – | – | – |
| **Outstanding at 31 December** | **99,000** | **4.3** | **126,000** | **5.4** |
| *– exercisable* | *99,000* | *4.3* | *126,000* | *5.4* |
| *Weighted average exercise price* | *43.82 €* | – | *43.09 €* | – |

* Weighted average price.

Bonus share issues

| | 2007 | | 2006 | |
|---|---|---|---|---|
| | **Number of options** | **Value of options (€m)*** | **Number of options** | **Value of options (€m)*** |
| **Outstanding at 1 January** | **–** | **–** | **–** | **–** |
| *– exercisable* | – | – | – | – |
| Options issued | 170,025 | 14.3 | – | – |
| Options exercised | – | – | – | – |
| Options cancelled | – | – | – | – |
| *– expired* | – | – | – | – |
| *– forfeited* | – | – | – | – |
| **Outstanding at 31 December** | **170,025** | **14.3** | **–** | **–** |
| *– exercisable* | – | – | – | – |
| *Weighted average exercise price* | *84.06 €* | – | – | – |

* Weighted average price before application of turnover rate.

*New plan during the year:* Effective on 1 December 2007, the Executive Management allotted 170,025 bonus shares to 6,801 employees, in accordance with the authorisations granted by the General Meetings of 6 June 2006 and 5 June 2007. The vesting period under this plan is four years and the shares will be allotted only to those beneficiaries who are still employed by the Group at the end of this period.
In 2007, the cost measured in accordance with IFRS amounted to €0.2 million.

The main attributes of the plan are as follows:
– share price on allotment date: €88.19;
– fair value per share (based on Black & Scholes model): €84.06 (assuming a dividend rate of 1.2% per year);
– employee turnover rate discounted over the vesting period: 28.36%.

## NOTE 34 - SCOPE OF CONSOLIDATION

**List of companies included in the consolidation at 31 December 2007**

| Company name | Registered office | 2007 percentage Control | Interest | Method | Registered no. (France) |
|---|---|---|---|---|---|
| Hermès International | 24, rue du Faubourg-Saint-Honoré, 75008 Paris | Parent | Parent | Parent | 572,076,396 |
| Ateliers AS | 131, avenue Henri-Barbusse, 69310 Pierre-Bénite (France) | 74.90 | 74.18 | Full | 954 503 843 |
| 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 Singapour | 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 |
| 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) | 99.93 | 99.93 | 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 | 80.00 | 80.00 | Full | 602 013 583 |
| Créations Métaphores Inc. | 55 East 59th Street, 10022 New York (USA) | 100.00 | 80.00 | Full | – |
| Établissements Marcel Gandit | 51, rue Jean-Jaurès, 38300 Bourgoin-Jallieu (France) | 100.00 | 100.00 | Full | 583 620 778 |
| Exocuirs | 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-Éloi | 2, rue des Girondins, Luxembourg L1626 (Luxembourg) | 20.00 | 20.00 | EA | – |
| Financière Saint-Honoré | 9, avenue Eugène-Pittard, 1211 Geneva 12 (Switzerland) | 100.00 | 100.00 | 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 | 35.00 | 35.00 | EA | 380 681 833 |
| Gordon-Choisy | 17, boulevard Jules-Ferry, 75011 Paris | 100.00 | 100.00 | Full | 662 044 833 |
| Héraklion | 23, rue Boissy-d’Anglas, 75008 Paris | 100.00 | 100.00 | Full | 383 935 897 |
| Herlee | 25/F Chinachem Leighton Plaza 29 Leighton Road, Causeway Bay (Hong Kong) | 90.00 | 90.00 | 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 Scandinavie | 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.

| | | 2007 percentage | | | Registered |
|---|---|---|---|---|---|
| **Company name** | **Registered office** | **Control** | **Interest** | **Method** | **no. (France)** |
| 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 | Marstallstrasse 8, 80539 Munich (Germany) | 100.00 | 100.00 | Full | – |
| Hermès Grèce | Stadiou Street 4 & Voukourestiou Street 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 Intérieur & Design | 23, rue Boissy d'Anglas, 75008 Paris | 100.00 | 100.00 | Full | 480 011 527 |
| Hermès International Portugal | Largo do Chiado 9, 1200-108 Lisbon (Portugal) | 100.00 | 100.00 | Full | – |
| Hermès Italie | Via Serbelloni 1, 20122 Milan (Italy) | 100.00 | 100.00 | Full | – |
| Hermès Japon | 4-3, 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 Korea Travel Retail | 630-26 Shinsa-Dong Gangnam-gu, Seoul 135-895 (South Korea) | 100.00 | 100.00 | Full | – |
| Hermès Monte-Carlo | 11-15, 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 TM Asia Life, 189 Jalan Tun Razak, 50400 Kuala Lumpur (Malaysia) | 51.00 | 51.00 | 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 | 16, chemin des Mûriers, 69310 Pierre-Bénite (France) | 100.00 | 100.00 | Full | 428 128 318 |
| Immauger | 23, rue Boissy-d'Anglas, 75008 Paris | 100.00 | 100.00 | Full | 377 672 159 |
| J. L. & Co | Westminster Works, Oliver Street, Northampton NN27JL (United Kingdom) | 100.00 | 100.00 | Full | – |
| John Lobb | 23, rue Boissy-d'Anglas, 75008 Paris | 100.00 | 100.00 | Full | 582 094 371 |
| John Lobb Japan | 3-1-1 Marunouchi, Chiyoda-Ku, Tokyo (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 | – |
| La Manufacture de Seloncourt | 18, rue de la Côte, 25230 Seloncourt (France) | 100.00 | 100.00 | Full | 407 836 329 |
| La Maroquinerie Nontronnaise | Avenue Yvon-Delbos, 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 | – |
| Leica Camera Japan Co | 1-7-1 Yurakucho Chiyoda-ku, Tokyo 100-0006 (Japan) | 49.00 | 49.00 | EA | – |

Consolidation method Full: Fully consolidated – EA: Equity-accounted.

| Company name | Registered office | 2007 percentage Control | Interest | Method | Registered no. (France) |
|---|---|---|---|---|---|
| Les Tissages Perrin* | 9, rue Claude-Terrasse, 38690 Le Grand-Lemps (France) | 2.14 | 39.47 | EA | 400 135 034 |
| La Montre Hermès Pacific Limited | 22/F Chinachem Leighton Plaza, 29 Leighton Road, Causeway Bay (Hong Kong) | 100.00 | 100.00 | Full | – |
| Louisiane Spa | Via Soave Franscesco 3, 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 | 12-16, 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 | Rue des Fougères, ZI Les Bracots, 74890 Bons-en-Chablais (France) | 43.82 | 43.82 | EA | 312 108 368 |
| Michel Rettili Srl | Via Soave Franscesco 3, 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 | 451, chemin du Baraillon, 38690 Le Grand-Lemps (France) | 39.52 | 39.52 | EA | 573 620 143 |
| RTL Inc. | 105, Dorset Street La Fayette, Louisiana 70501 (USA) | 100.00 | 100.00 | Full | – |
| Saint-Honoré (Bangkok) | Room G03/2, The Emporium Shopping Mall, 622 Sukhumvit Road, Klongtoey, Bangkok 10100 (Thailand) | 49.00 | 49.00 | Full | – |
| Saint-Honoré Chile | Avenida Alonso de Córdova 2526, Comuna de Vitacura, Santiago de Chile (Chile) | 100.00 | 100.00 | Full | – |
| Hermès (Shanghai) Commercial & Trading Co. | Room 3010, 3011, Westgate Mall Tower, 1038 Nanjing Xi Road, Shanghai 2000141 (China) | 100.00 | 90.00 | 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 Édouard VII | 23, rue Boissy-d'Anglas, 75008 Paris | 100.00 | 100.00 | Full | 393 882 170 |
| SCI Les Capucines | ZI les Bracots, 74890 Bons-en-Chablais (France) | 60.00 | 77.53 | Full | 408 602 050 |
| Société d'Impression sur Étoffes du Grand-Lemps | 202, chemin du Violet, 38690 Le Grand-Lemps (France) | 100.00 | 100.00 | Full | 573 621 224 |
| Société Nontronnaise de Confection | Les Belles Places, 10, rue Jean-Moulin, 24300 Nontron (France) | 100.00 | 100.00 | Full | 380 041 939 |
| Soficuir International | 22-24, avenue Hoche, 75008 Paris | 100.00 | 100.00 | Full | 398 142 695 |
| Sport Soie | 27, rue Jules-Guesde, 69310 Pierre-Bénite (France) | 95.50 | 95.50 | Full | 592 028 542 |
| Tanneries des Cuirs d'Indochine et de Madagascar | 22-24, avenue Hoche, 75008 Paris | 100.00 | 100.00 | Full | 582 025 755 |
| Vaucher Manufacture Fleurier | Rue de l'Hôpital 33, CH-2114 Fleurier (Switzerland) | 21.05 | 21.05 | EA | – |
| Velours Blafo* | 7, rue de Catalogne, 69150 Décines-Charpieu (France) | 0.00 | 26.09 | EA | 352 497 549 |

* Companies majority owned by Perrin & Fils, in which the Hermès Group holds a 39.52% controlling interest.
Consolidation method Full: Fully consolidated – EA: Equity-accounted.

# Parent company financial statements

# Income statement

in millions of euros

| | 2007 | 2006 |
|---|---|---|
| **Operating revenues** | **66.5** | **58.6** |
| Sales of services | 29.4 | 25.4 |
| Royalties | 35.5 | 25.4 |
| Other income | 0.5 | 0.6 |
| Write-backs of reserves | 1.1 | 7.2 |
| **Operating expenses** | **103.6** | **79.7** |
| Supplies | 1.6 | 2.1 |
| External services | 17.1 | 10.2 |
| Other external services | 34.3 | 29.8 |
| Taxes and duties (other than corporate income tax) | 2.9 | 2.5 |
| Salaries | 21.5 | 18.9 |
| Social security and similar charges | 8.1 | 9.9 |
| Depreciation, amortisation, reserves and impairment | 15.4 | 4.5 |
| Other expenses | 2.7 | 1.8 |
| **OPERATING PROFIT/(LOSS)** | **(37.1)** | **(21.1)** |
| **Financial income** | **269.0** | **289.2** |
| Income from investments | 214.6 | 243.0 |
| Other interest and similar income | 8.8 | 5.2 |
| Write-backs of reserves and impairment | 34.1 | 31.8 |
| Net income from disposals of marketable securities | 11.5 | 9.2 |
| **Financial expense** | **37.1** | **50.0** |
| Reserves and impairment | 28.8 | 45.9 |
| Foreign exchange losses | 7.6 | 3.3 |
| Interest and related expense | 0.7 | 0.8 |
| **NET FINANCIAL INCOME** | **231.9** | **239.2** |
| **INCOME BEFORE EXCEPTIONAL ITEMS** | **194.8** | **218.1** |
| Exceptional income | 7.8 | 35.8 |
| Exceptional charges | 8.1 | 35.6 |
| **NET EXCEPTIONAL INCOME** | **(0.3)** | **0.2** |
| **INCOME BEFORE TAX AND EMPLOYEE PROFIT-SHARING** | **194.5** | **218.3** |
| Employee profit-sharing | (2.1) | (1.9) |
| Corporate income tax | 4.4 | 9.2 |
| **NET INCOME** | **196.8** | **225.6** |

# Balance sheet

## ASSETS

in millions of euros

| | 2007 | | | 2006 |
|---|---|---|---|---|
| | Gross | Depreciation, amortisation and impairment | Net | Net |
| **NON-CURRENT ASSETS** | **463.0** | **123.5** | **339.5** | **272.3** |
| **Intangibles** | **6.2** | **4.7** | **1.5** | **1.0** |
| Licenses, patents and trademarks | – | – | – | – |
| Purchased goodwill | – | – | – | – |
| Other | 6.2 | 4.7 | 1.5 | 1.0 |
| **Property, plant and equipment** | **19.4** | **3.3** | **16.1** | **7.3** |
| Land | 0.3 | – | 0.3 | 0.3 |
| Buildings | 0.5 | 0.5 | – | – |
| Other | 18.6 | 2.8 | 15.8 | 7.0 |
| **Long-term investments** | **437.4** | **115.5** | **321.9** | **264.0** |
| Investments in associates | 388.7 | 113.9 | 274.8 | 241.2 |
| Other securities held for the long term | 3.1 | 0.2 | 2.9 | 2.9 |
| Other long-term investments | 45.6 | 1.4 | 44.2 | 19.9 |
| **CURRENT ASSETS** | **778.5** | **22.2** | **756.3** | **770.3** |
| **Operating receivables** | **34.0** | **0.9** | **33.1** | **31.7** |
| Trade receivables | 24.8 | 0.9 | 23.9 | 21.7 |
| Other | 9.2 | – | 9.2 | 10.0 |
| **Other receivables** | **350.9** | **21.2** | **329.7** | **305.6** |
| **Marketable securities** | **362.3** | **0.1** | **362.2** | **432.9** |
| **Cash and cash equivalents** | **31.3** | **–** | **31.3** | **0.1** |
| **ACCRUALS AND DEFERRED INCOME** | **3.4** | **–** | **3.4** | **2.0** |
| **TOTAL ASSETS** | **1,244.9** | **145.7** | **1,099.2** | **1,044.6** |

# EQUITY AND LIABILITIES

**Before appropriation**

in millions of euros

| | 2007 | 2006 |
|---|---|---|
| **SHAREHOLDERS' EQUITY** | **933.9** | **912.4** |
| Share capital | 54.1 | 54.5 |
| Share premium | 43.5 | 41.6 |
| Legal reserve | 5.7 | 5.7 |
| Retained earnings | 631.6 | 581.8 |
| Net income for the year | 196.8 | 225.6 |
| Restricted reserves | 2.2 | 3.2 |
| **RESERVES FOR CONTINGENCIES AND LOSSES** | **35.7** | **38.3** |
| **LIABILITIES** | **129.6** | **93.9** |
| **Financial liabilities** | **46.9** | **20.8** |
| Bank borrowings | 32.6 | 2.0 |
| Other borrowings and financial liabilities | 14.3 | 18.8 |
| **Operating liabilities** | **37.0** | **31.5** |
| Trade payables | 16.3 | 10.0 |
| Tax and employee-related liabilities | 20.7 | 21.5 |
| **Other liabilities** | **45.7** | **41.5** |
| Amounts payable relating to non-current assets | 4.7 | 2.1 |
| Other | 41.0 | 39.4 |
| **TOTAL EQUITY AND LIABILITIES** | **1,099.2** | **1,044.6** |

## Statement of cash flows

in millions of euros

| | 2007 | 2006 |
|---|---|---|
| **OPERATING CASH FLOW*** | **206.2** | **237.2** |
| Trade receivables | (10.0) | (4.6) |
| Trade payables | 6.3 | 2.3 |
| **Change in operating working capital requirement** | **(3.7)** | **(2.3)** |
| **CASH FLOW FROM OPERATING ACTIVITIES** | **202.5** | **234.9** |
| Acquisitions of intangibles | (1.2) | (1.2) |
| Acquisitions of property, plant and equipment | (10.4) | (3.2) |
| Acquisitions of investments in associates | (193.4) | (143.1) |
| Disposals | 60.7 | 34.7 |
| Change in receivables and liabilities relating to non-current assets | 7.2 | (16.8) |
| **CASH USED IN INVESTING ACTIVITIES** | **(137.1)** | **(129.6)** |
| Dividends paid | (102.9) | (90.3) |
| Increase /(Decrease) in equity | 2.0 | 5.3 |
| **FUNDS USED IN FINANCING ACTIVITIES** | **(100.9)** | **(85.0)** |
| **CHANGE IN NET CASH POSITION** | **(35.5)** | **20.3** |
| | | |
| Net cash position at 1 January | 695.5 | 675.2 |
| Net cash position at 31 December | 660.0 | 695.5 |
| **CHANGE IN NET CASH POSITION** | **(35.5)** | **20.3** |

In this table, liabilities in connection with the employee profit-sharing plan have been reclassified into other liabilities and the subsidiaries' current accounts have been reclassified into cash assets or liabilities.

* Calculation of operating cash flow

in millions of euros

| | 2007 | 2006 |
|---|---|---|
| Net income | 196.8 | 225.6 |
| Depreciation and amortisation | 1.5 | 1.2 |
| Change in reserves and impairment | 6.6 | 10.1 |
| Capital gains/(losses) on disposals | 1.3 | 0.3 |
| **OPERATING CASH FLOW** | **206.2** | **237.2** |

## Notes to the financial statements

The financial year covers the 12 months from 1 January through 31 December 2007.

Notes 1 through 16 below form an integral part of the financial statements.

### NOTE 1 - ACCOUNTING POLICIES

Generally accepted accounting conventions have been applied, in line with the principle of prudence and with the following fundamental assumptions:

- the Company's continuing status as a going concern;
- consistency of accounting policies from one financial period to the next;
- the accruals and matching principle;
- the historical cost convention;

and in accordance with the general rules for the preparation and presentation of financial statements.
The main accounting policies used are as follows:

**INTANGIBLES**
Intangibles mainly include computer software, which is amortised on a straight-line basis over one to three years.

**PROPERTY, PLANT AND EQUIPMENT**
Property, plant and equipment is 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 balance sheet 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.

**LONG-TERM INVESTMENTS**
Investments in subsidiaries and affiliates are shown in the balance sheet at cost, excluding incidental acquisition expenses. Where the market value or share of equity held at the end of the year is lower than the acquisition cost of the investment, a reserve for impairment of value is booked for the difference.

The value on the books is determined based on criteria such as the value of the share in the 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 in subsidiaries and affiliates.

**RECEIVABLES**
Receivables are recorded at face value. A reserve for impairment of value is recorded where there is a risk of non-recovery.

**MARKETABLE SECURITIES**
The gross value of these assets includes the acquisition cost excluding incidental acquisition 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 (FIFO) method.
Shares held in treasury that are specifically allocated to covering employee share purchase options are recorded under "Marketable securities".
A reserve is set aside in an amount representing the difference between the purchase price of the shares and the price at which the beneficiaries exercise their option, if the purchase price is lower than the exercise price. An impairment expense is booked to cover any decline in the market price of the shares; it is the difference between the net value of the shares on the books and the average stock market price for the month immediately preceding the closing date.

**RESERVES FOR FOREIGN INVESTMENTS**
These relate to investments made in new foreign operations within the past 10 years, and are limited to the amount invested or the percentage interest in the subsidiary's operating losses. They are reversed when the subsidiary reports profits. Reserves for foreign investments are included in shareholders' equity.

**TREASURY MANAGEMENT**

Income and expense items expressed in foreign currencies are converted into euros at the hedged exchange rate. Payables, receivables, and cash and equivalents expressed in currencies outside the euro zone are shown on the balance sheet at hedged exchange rate or at the year-end rate if they are not hedged. In this case, differences arising from the reconversion of liabilities and receivables at the year-end exchange rate are recorded in the balance sheet under unrealised foreign exchange gains or losses. A reserve for contingencies is established for unrealised foreign exchange losses. Premiums on foreign currency options are recorded as an expense on the maturity date.

Interest rate instruments are used in connection with the management of the Company's treasury investments. Gains and losses on interest rate differentials and premiums are recognised on an accrual basis.

**CORPORATE INCOME TAX**

The Company has opted for a group tax election, which took effect from 1 January 1988. Under the terms of an agreement between the parent company and the subsidiaries included in the group tax election, projected and actual tax savings and losses generated by the group are recognised in the income statement in the year in which they arise. The tax charge borne by the subsidiaries is the charge they would have incurred if there had been no group tax election.

The main companies included in the group tax election are Hermès International, 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, Héraklion, Hermès Intérieur & Design, Hermès Sellier, Holding Textile Hermès, Immauger, 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 Sport-Soie.

**POST-EMPLOYMENT AND OTHER EMPLOYEE BENEFITS**

For the basic pension and other defined-contribution plans, Hermès International recognises contributions to be paid as expenses when they are due and does not book any charges to reserves in this respect, as the Company has no obligations other than the contributions paid.

For defined-benefit plans, Hermès International's obligations are calculated each year by an independent actuary using the projected credit unit method. This calculation 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 pro-rata basis to employee years of service.

Benefits are partly funded in advance by external funds (insurance companies).

The assets held in this way are measured at fair value.

The expense recognised in the income statement 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.

Accrued actuarial gains and losses exceeding 10% of the obligation amount, gross of dedicated investments, or 10% of the market value of these investments at year-end, will be depreciated over the average residual duration of employment of the relevant employee ("corridor" method) as from the year following the year in which they are recognised.

## NOTE 2 - NON-CURRENT ASSETS

in millions of euros

| | Gross value at 31/12/2006 | Increases | Decreases | Gross value at 31/12/2007 |
|---|---|---|---|---|
| Intangibles | 5.0 | 1.2 | – | 6.2 |
| Property, plant and equipment | 10.8 | 10.4 | 1.8 | 19.4 |
| Long-term investments | 390.5 | 237.9 | 191.0 | 437.4 |
| **TOTAL** | **406.3** | **249.5** | **192.8** | **463.0** |

**1 – Intangibles**

Most of the increases in this item are due to website development and the installation of a new consolidation application.

**2 – Property, plant and equipment**

Most of the increases during the year were due to work or improvements carried out at the new premises at 28 Faubourg Saint-Honoré and 13-15 rue de La Ville-l'Évêque.

**3 – Long-term investments**

The main changes over the year were as follows.

**3-1** Increase of €237.9 million following:

– subscription to capital increases of subsidiaries (€4.3 million);

– acquisition of shares in the Soficuir group (€27.6 million);

– Hermès International treasury shares purchased directly (€73.3 million) and through the liquidity contract (€57.8 million);

– purchases of mutual funds under the liquidity contract (€49.4 million);

– subscription to a structured placement (€25 million);

– other deposits (€0.5 million).

**3-2** Decrease of €191 million following:

– cancellation of €73.3 million in treasury shares;

– the sale of Hermès International treasury shares through the liquidity contract (€53.9 million);

– the sale of mutual funds through the liquidity contract (€54.1 million);

– the sale of the remaining Leica Camera AG convertible bonds (€7.2 million);

– the reimbursement of the loan to Leica Camera AG (€2.1 million);

– other reimbursements (€0.5 million).

The main investments made during the year were as follows:

| | Investment (in millions of euros) | % held after investment |
|---|---|---|
| Hermès Iberica | 2.0 | 100.00% |
| John Lobb | 2.3 | 100.00% |
| Soficuir International | 27.6 | 100.00% |

**4 – Treasury shares**

In 2007, Hermès International purchased 829,700 of its own shares with a par value of €0.51. All of these shares were cancelled, for an amount of €73.4 million. At 31 December 2007, Hermès International's long-term investments included 62,000 of the Company's own shares held under a liquidity contract, which were valued at €5.2 million. At 31 December 2007, these shares had a potential value of €5.4 million based on the average stock market price during the last month of the year (€86.44). These shares are in addition to the shares allotted to stock option plans (see note 6).

## NOTE 3 - DEPRECIATION AND AMORTISATION

in millions of euros

| | 31/12/2006 | Increases | Decreases | 31/12/2007 |
|---|---|---|---|---|
| Intangibles | 4.0 | 0.7 | – | 4.7 |
| Property, plant and equipment | 3.5 | 0.8 | 1.0 | 3.3 |

## NOTE 4 - RESERVES

in millions of euros

| | 31/12/2006 | Increases | Decreases Reserves used | Decreases Reserves unused | 31/12/2007 |
|---|---|---|---|---|---|
| **Restricted reserves** | **3.1** | **0.1** | **1.0** | **–** | **2.2** |
| Foreign investments | 3.0 | – | 0.9 | – | 2.1 |
| Accelerated depreciation | 0.1 | 0.1 | 0.1 | – | 0.1 |
| **Reserves for contingencies and losses** | **38.4** | **15.0** | **1.0** | **16.7** | **35.7** |
| Reserves for contingencies | 28.8 | 1.4 | 0.6 | 16.7 | 12.9 |
| Reserves for losses | 9.6 | 13.6 | 0.4 | – | 22.8 |
| **Reserves for impairment** | **127.5** | **27.7** | **17.5** | **–** | **137.7** |
| Long-term investments | 126.5 | 6.5 | 17.5 | – | 115.5 |
| Reserves for impairment of trade receivables | 1.0 | 21.2 | – | – | 22.2 |
| **TOTAL** | **169.0** | **42.8** | **19.5** | **16.7** | **175.6** |

**Reserves for contingencies**

Amounts charged to and released from these reserves relate to reserves for currency losses and to reserves for risks arising on the Company's subsidiaries, in particular reserves booked in prior years, in accordance with accounting methods and rules, to cover the Company's share of negative net equity. The amount released from reserves relates to a reclassification of amounts previously recognised under reserves for trade and other receivables.

**Reserves for losses**

These reserves mainly include:

– the cost of the plan to allot 170,025 bonus shares granted to employees in November 2007 (€9.9 million). This reserve includes 112,000 shares purchased at an average price of €79.29 per share and 58,025 shares remaining to be purchased and valued at the market price of €86.44 per share 31 December 2007. The reserve takes into account an employee turnover rate of 8% per year between the date of the decision to grant the options is taken and the date on which the options are vested;

– Lump-sum retirement benefits and charges associated with the top-up pension scheme for executives and senior managers. These sums are periodically paid over to pension funds.

**Impairment of long-term investments**

These charges relate mainly to Castille Investissements, Compagnie Hermès de Participations, Hermès Argentina, Héraklion, John Lobb, Maroquinerie de Saint-Antoine, Maroquinerie de Belley and La Manufacture de Seloncourt.

**Impairment of trade and other receivables**

These charges relate mainly to impairment of the shareholder's advance to the subsidiary Castille Investissements.

## NOTE 5 - MATURITIES OF RECEIVABLES AND LIABILITIES

in millions of euros

| | < 1 year | 1 to 5 years | Gross value | Impairment | Net value |
|---|---|---|---|---|---|
| **NON-CURRENT ASSETS** | **8.8** | **36.8** | **45.6** | **1.4** | **44.2** |
| Receivables from associates | 8.8 | – | 8.8 | 1.4 | 7.4 |
| Other long-term investments | – | 36.8 | 36.8 | – | 36.8 |
| **CURRENT ASSETS** | **388.3** | **–** | **388.3** | **22.1** | **366.2** |
| Operating receivables | 34.0 | – | 34.0 | 0.9 | 33.1 |
| Other receivables | 350.9 | – | 350.9 | 21.2 | 329.7 |
| Prepaid expenses | 3.4 | – | 3.4 | – | 3.4 |
| **TOTAL** | **397.1** | **36.8** | **433.9** | **23.5** | **410.4** |
| **LIABILITIES** | | | | | |
| Financial liabilities | 37.5 | 9.4 | 46.9 | – | 46.9 |
| Operating liabilities | 37.0 | – | 37.0 | – | 37.0 |
| Other liabilities | 45.7 | – | 45.7 | – | 45.7 |
| **TOTAL** | **120.2** | **9.4** | **129.6** | **–** | **129.6** |

Other long-term investments include the value of Hermès International treasury shares for €5.2 million at 31 December 2007.

Other receivables and liabilities mainly comprise financial current accounts with subsidiaries. Financial liabilities include bank current accounts in debit (€32.6 million) and funds held in trust for employees under the profit-sharing scheme (€14.3 million).

in millions of euros

| | 31/12/2007 | 31/12/2006 |
|---|---|---|
| **Non-current assets** | | |
| Within 1 year | 8.8 | 12.6 |
| Between 1 and 5 years | 36.8 | 10.9 |
| **Current assets** | | |
| Within 1 year | 388.3 | 340.2 |
| Between 1 and 5 years | – | – |
| **Liabilities** | | |
| Within 1 year | 120.2 | 80.0 |
| Between 1 and 5 years | 9.4 | 13.9 |

## NOTE 6 - MARKETABLE SECURITIES

This line includes:

– Hermès International treasury shares acquired under employee stock option or bonus share plans, in the amount of €28.6 million for 411,000 shares, in addition to the 62,000 other shares held in treasury shares (see Note 2);

– derivatives in the amount of €7.1 million;

– mutual funds, recorded at their market value of €206.6 million at 31 December 2007;

– negotiable debt securities in the amount of €120 million.

## NOTE 7 - ITEMS RELATED TO AFFILIATED COMPANIES

in millions of euros

| | Net value at 31/12/2007 | Of which: affiliated companies | Net value at 31/12/2006 | Of which: affiliated companies |
|---|---|---|---|---|
| **Balance sheet** | | | | |
| Long-term investments | 321.9 | 284.9 | 264.0 | 246.6 |
| Operating receivables | 33.1 | 29.1 | 31.7 | 8.6 |
| Other receivables | 329.7 | 322.2 | 305.5 | 288.5 |
| Trade payables | 16.3 | 2.2 | 10.0 | 1.5 |
| Tax and employee-related liabilities | 20.7 | 0.0 | 21.5 | 0.2 |
| Amounts payable relating to non-current assets | 4.7 | 0.2 | 2.1 | 0.1 |
| Other liabilities | 41.0 | 40.6 | 39.4 | 39.0 |
| **Income statement** | | | | |
| Income from investments | 214.6 | 213.6 | 243.0 | 242.1 |
| Other interest and similar income | 8.8 | 7.3 | 5.2 | 4.0 |

## NOTE 8 - PREPAYMENTS

in millions of euros

| | 31/12/2007 | 31/12/2006 |
|---|---|---|
| Advertising fees | 1.4 | 1.7 |
| Rents | 1.9 | 0.1 |
| Other | 0.1 | 0.2 |
| **TOTAL** | **3.4** | **2.0** |

## NOTE 9 - SHARE CAPITAL

At 31 December 2007, the share capital amounted to €54,105,499.14, made up of 106,089,214 shares with a par value of €0.51 each. In 2007, the share capital changed as follows:

– employees subscribed for 44,100 shares with a par value of €0.51 by exercising stock options;

– it was reduced by €0.4 million following the cancellation of 829,700 treasury shares with a par value of €0.51 each.

The changes in share capital were as follows:

in millions of euros

| | Share capital | Share premium | Reserves and retained earnings | Net income for the year | Restricted reserves | Total |
|---|---|---|---|---|---|---|
| **Balance at 31 December 2006 before appropriation of net income** | **54.5** | **41.6** | **587.5** | **225.6** | **3.2** | **912.4** |
| Appropriation of 2006 net income | – | – | 122.7 | (122.7) | – | – |
| Dividend paid for 2006 | – | – | – | (102.9) | – | (102.9) |
| Change in share capital and share premium | – | 1.9 | – | – | – | 1.9 |
| Net income for 2007 | – | – | – | 196.8 | – | 196.8 |
| Cancellation of treasury shares | (0.4) | – | (72.9) | – | – | (73.3) |
| Other changes over the period | – | – | – | – | (1.0) | (1.0) |
| **Balance at 31 December 2007 before appropriation of net income** | **54.1** | **43.5** | **637.3** | **196.8** | **2.2** | **933.9** |

## NOTE 10 - OPERATING REVENUES

in millions of euros

| | 2007 | 2006 |
|---|---|---|
| Sales of services | 29.4 | 25.4 |
| Royalties | 35.5 | 25.4 |
| **TOTAL** | **64.9** | **50.8** |

Sales of services are amounts re-invoiced to subsidiaries for advertising and public relations services, rent, staff provided on secondment, insurance and professional fees.

Royalties are calculated based on the revenue of the production subsidiaries.

## NOTE 11 - EXCEPTIONAL ITEMS

in millions of euros

| | 2007 | | 2006 | |
|---|---|---|---|---|
| | **Charges** | **Income** | **Charges** | **Income** |
| Reserves for foreign investments | – | 0.9 | – | 0.1 |
| Disposals of property, plant and equipment and long-term investments | 8.0 | 6.8 | 35.6 | 35.8 |
| Reserves for accelerated depreciation | 0.1 | 0.1 | – | – |
| **TOTAL** | **8.1** | **7.8** | **35.6** | **35.9** |

## NOTE 12 - CORPORATE INCOME TAX

in millions of euros

| | **Pre-tax income** | **Tax charge*** | | | **Net income** |
|---|---|---|---|---|---|
| | | Tax (parent company only) | Tax arising from group tax election | Net tax | |
| Before exceptional items | 194.8 | 0.6 | 3.5 | 4.1 | 198.9 |
| Exceptional items | (0.3) | 0.1 | (0.5) | (0.4) | (0.7) |
| Employee profit-sharing | (2.1) | 0.7 | – | 0.7 | (1.4) |
| **TOTAL** | **192.4** | **1.4** | **3.0** | **4.4** | **196.8** |

* The corporate income tax charge takes into account the additional tax contribution of 3.30% payable in France.

The corporate income tax for Hermès International includes applicable exemptions under the terms of the parent-daughter regime for income from profit-sharing. The 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 profit-sharing.

## NOTE 13 - EXPOSURE TO MARKET RISKS AND FINANCIAL COMMITMENTS

### a - Currency risk

The Group is exposed to currency risk because of its foreign-currency denominated sales. These risks are generally hedged in full, based on highly probable future cash flows, using forward currency sales or options that are eligible for hedge accounting. The Company's currency positions at 31 December 2007 are shown below:

in millions of euros

| Currency | Payables and receivables at 31/12/2007 | Future cash flows | Net position before cover | Off-balance sheet position | Net position after cover | Cover ratio | 1% sensitivity |
|---|---|---|---|---|---|---|---|
| AUD | – | – | – | – | – | – 265% | – |
| CAD | – | – | – | 0.1 | – | 138% | – |
| CHF | 21.9 | 2.7 | 24.6 | (24.1) | 0.5 | 98% | – |
| CZK | – | – | – | – | – | 449% | – |
| GBP | 0.1 | 0.1 | 0.1 | (0.1) | 0.1 | 46% | – |
| HKD | 0.1 | (0.1) | 0.0 | 0.1 | 0.1 | – 562% | – |
| JPY | 107.9 | 0.5 | 108.4 | (108.1) | 0.3 | 100% | – |
| SGD | – | 0.1 | 0.1 | (0.1) | – | 81% | – |
| THB | – | – | – | – | – | – 84% | – |
| USD | 1.9 | (0.7) | 1.3 | (1.1) | 0.2 | 86% | – |
| **Total** | **131.9** | **2.6** | **134.5** | **(133.3)** | **1.2** | **99%** | **–** |

A breakdown of currency contracts is provided below.

in millions of euros

| Contract type | Nominal amount of off-balance sheet position (gross) (1) | Nominal amount of off-balance sheet position (net) (2) | Market value of contracts (3) | | | |
|---|---|---|---|---|---|---|
| | | | Cash flow hedges | Fair value hedges | Unallocated | Total |
| **Options purchased** | | | | | | |
| HKD put | 39.0 | 39.0 | 1.9 | – | – | 1.9 |
| JPY put | 130.5 | 106.3 | 5.2 | – | 0.6 | 5.8 |
| SGD put | 72.5 | 58.3 | 1.9 | – | 0.2 | 2.1 |
| USD put | 86.5 | 86.5 | 6.1 | – | – | 6.1 |
| | **328.5** | **290.1** | **15.1** | **–** | **0.8** | **15.9** |
| **Forward currency contracts (4)** | | | | | | |
| HKD | (39.1) | (39.1) | (1.6) | – | – | (1.6) |
| JPY | (105.6) | (105.6) | (6.7) | – | – | (6.7) |
| SGD | (58.1) | (58.1) | (1.9) | – | – | (1.9) |
| USD | (87.2) | (87.2) | (4.9) | – | – | (4.9) |
| Other | 2.7 | 2.7 | – | – | – | – |
| | **(287.3)** | **(287.3)** | **(15.1)** | **–** | **–** | **(15.1)** |
| **Treasury swaps (4)** | | | | | | |
| JPY | 107.4 | 107.4 | – | – | 1.0 | 1.0 |
| USD | 1.7 | 1.7 | – | – | – | – |
| Other | 21.4 | 21.4 | – | – | (0.1) | (0.1) |
| | **130.5** | **130.5** | **–** | **–** | **0.9** | **0.9** |
| **Options sold** | | | | | | |
| JPY put | (24.2) | – | – | – | (0.6) | (0.6) |
| SGD put | (14.2) | – | – | – | (0.2) | (0.2) |
| | **(38.4)** | **–** | **–** | **–** | **(0.8)** | **(0.8)** |
| **Total** | **133.3** | **133.3** | **–** | **–** | **0.9** | **0.9** |

(1) Nominal amount of all off-balance sheet instruments. (2) Nominal amount of derivatives allocated to hedge foreign exchange risks. (3) Gain/(loss). (4) Sold/(purchased).

As these hedging contracts are negotiated over the counter exclusively with leading banks, the Group is not exposed to any counterparty risk.

The Company's currency positions at 31 December 2006 are shown below:

in millions of euros

| Currency | Payables and receivables at 31/12/2006 | Future cash flows | Net position before cover | Off-balance sheet position | Net position after cover | Cover ratio | 1% sensitivity |
|---|---|---|---|---|---|---|---|
| AUD | – | – | – | – | – | – 8% | – |
| CAD | – | – | – | – | – | 119% | – |
| CHF | 23.2 | 2.4 | 25.6 | (25.4) | 0.2 | 99% | – |
| CZK | – | – | – | – | – | 116% | – |
| GBP | 0.2 | (0.1) | 0.1 | – | 0.1 | – 33% | – |
| HKD | – | 0.2 | 0.2 | (0.2) | – | 104% | – |
| JPY | 93.9 | 0.6 | 94.5 | (94.5) | – | 100% | – |
| SGD | 0.1 | 0.2 | 0.3 | (0.1) | 0.2 | 51% | – |
| THB | – | – | – | – | – | 86% | – |
| USD | 0.8 | (0.3) | 0.5 | – | 0.5 | 4% | – |
| **Total** | **118.2** | **3.0** | **121.2** | **(120.2)** | **1.0** | **99%** | **–** |

A breakdown of currency contracts is provided below.

in millions of euros

| Contract type | Nominal amount of off-balance sheet position (gross) (1) | Nominal amount of off-balance sheet position (net) (2) | Market value of contracts (3) Cash flow hedges | Fair value hedges | Unallocated | Total |
|---|---|---|---|---|---|---|
| **Options purchased** | | | | | | |
| HKD put | 19.0 | 19.0 | 0.9 | – | – | 0.9 |
| JPY put | 148.2 | 148.2 | 7.9 | – | – | 7.9 |
| SGD put | 39.2 | 39.2 | 0.8 | – | – | 0.8 |
| USD put | 77.4 | 68.4 | 3.5 | – | 0.3 | 3.8 |
| USD call | – | – | – | – | – | – |
| | **283.8** | **274.8** | **13.1** | **–** | **0.3** | **13.4** |
| **Forward currency contracts (4)** | | | | | | |
| HKD | (18.8) | (18.8) | (0.8) | – | – | (0.8) |
| JPY | (147.6) | (147.6) | (11.4) | – | – | (11.4) |
| SGD | (39.0) | (39.0) | (0.2) | – | – | (0.2) |
| USD | (68.7) | (68.7) | (3.0) | – | – | (3.0) |
| Other | 2.3 | 2.3 | 0.1 | – | – | 0.1 |
| | **(271.8)** | **(271.8)** | **(15.3)** | | | **(15.3)** |
| **Treasury swaps (4)** | | | | | | |
| JPY | 93.9 | 93.9 | – | – | 0.6 | 0.6 |
| SGD | (0.1) | (0.1) | – | – | – | – |
| USD | 0.3 | 0.3 | – | – | – | – |
| Other | 23.1 | 23.1 | – | – | 0.3 | 0.3 |
| | **117.2** | **117.2** | **–** | **–** | **0.9** | **0.9** |
| **Options vendues** | | | | | | |
| Put USD | (9.0) | – | – | – | (0.3) | (0.3) |
| | **(9.0)** | **–** | **–** | **–** | **(0.3)** | **(0.3)** |
| **Total** | **120.2** | **120.2** | **(2.2)** | **–** | **0.9** | **(1.3)** |

(1) Nominal amount of all off-balance sheet instruments. (2) Nominal amount of derivatives allocated to hedge foreign exchange risks. (3) Gain/(loss). (4) Sold/(purchased).

As these hedging contracts are negotiated over the counter exclusively with leading banks, the Group is not exposed to any counterparty risk.

**b - Other commitments given**

in millions of euros

| | Gross commitments given | Residual commitments given | Commitments received |
|---|---|---|---|
| Bank guarantees* | 125.2 | 99.0 | 16.4 |
| Repurchase of securities | 0.6 | – | 14.5 |
| Actuarial gains and losses on pension benefits | 8.5 | – | – |

* Material guarantees given by the Group attract fees at a rate in line with charges ordinarily applied by banks.

The residual commitment on guarantees corresponds to the gross amount less repayments made to date against the underlying loans.

An "umbrella" guarantee for a maximum principal amount of €75 million has been granted in favour of HSBC bank to give subsidiaries designated by Hermès International access to an aggregate group bank facility.

The amount of the subsidiaries' tax losses that Hermès International is liable for refunding to its subsidiaries under the group tax election agreement stood at €37.9 million at December 2007 compared with €35.7 million at 31 December 2006.

## NOTE 14 - INCREASES OR DECREASES IN FUTURE TAX LIABILITY

in millions of euros

| | 31/12/2006 | | Change | | 31/12/2007 | |
|---|---|---|---|---|---|---|
| | Assets | Equity and liabilities | Assets | Equity and liabilities | Assets | Equity and liabilities |
| **Actual or potential differences** | | | | | | |
| Restricted reserves | – | 1.0 | 0.2 | – | – | 0.8 |
| Other temporarily non-deductible charges | 4.9 | – | 2.3 | 1.0 | 6.2 | – |
| Long-term capital loss | – | – | – | | – | – |
| **Total** | **4.9** | **1.0** | **2.5** | **1.0** | **6.2** | **0.8** |

Increases or decreases in future tax liability take into account the social contribution of 3.3%.

## NOTE 15 - EMPLOYEES

The total workforce of record, including employees covered by fixed-term employment contracts for a term of more than nine months, is broken down as follows:

| | 31/12/2007 | 31/12/2006 |
|---|---|---|
| Executive/managerial staff | 186 | 182 |
| Support staff | 28 | 34 |
| **TOTAL** | **214** | **216** |

## NOTE 16 - POST-EMPLOYMENT BENEFIT OBLIGATIONS

Amounts due in respect of statutory retirement benefit commitments have been paid over to an insurance company. A reserve has been set aside to cover the remainder of these obligations.

For 2007, the following actuarial assumptions were used:

– retirement age: 61 to 65
– increase in salaries: 3%-4%
– discount rate: 5.25%
– expected rate of return on plan assets: 4.5%

At 31 December 2007, the value of post-employment benefit obligations amounted to €24.1 million. Part of the amount due is paid over to an insurance company. The value of the funds is €1.2 million. A reserve in the amount of €12.9 million has been set aside to cover the remainder of these obligations. After applying the "corridor" method, actuarial losses unrecognised by Hermès International at 31 December 2007 amounted to €8.5 million. The cost of unrecognised past services in connection with a change in the plan that occurred in 2006 amounted to €1.5 million at year end.

## List of equity investments at 31 December 2007

### INVESTMENTS IN ASSOCIATES AND OTHER LONG-TERM INVESTMENTS

in thousands of euros

| | Number of shares | Net value |
|---|---|---|
| **Carrying value of more than €100,000** | | |
| Compagnie Hermès de Participations | 4,200,000 | 27,072 |
| Comptoir Nouveau de la Parfumerie | 753,498 | 27,146 |
| ERM Warenhandels GmbH | 1 | 1,263 |
| ERM-WHG Warenhandels | 1 | 1,235 |
| Financière Saint-Honoré | 3,000 | 1,694 |
| Ganterie de Saint-Junien | 14,000 | 457 |
| Gordon-Choisy | 95,675 | 1,663 |
| Héraklion | 280,500 | 115 |
| Herlee | 43,500,000 | 3,999 |
| Hermès Argentina | 37,747 | 1,174 |
| Hermès Asia Pacific | 314,999,999 | 43,483 |
| Hermès Australia | 6,500,000 | 4,409 |
| Hermès Benelux Scandinavie | 57,974 | 3,164 |
| Hermès Canada | 1,000 | 1,501 |
| 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 International Portugal | 799,200 | 108 |
| Hermès Italie | 412,200 | 13,196 |
| Hermès Japon | 4,400 | 13,727 |
| Hermès Monte-Carlo | 13,198 | 201 |
| Hermès of Paris | 114,180 | 10,903 |
| Hermès Prague | 38,000 | 1,090 |
| Hermès Sellier | 310,278 | 4,788 |
| Hermès South East Asia | 1,000,000 | 2,201 |
| Holding Textile Hermès | 767,756 | 12,652 |
| Immauger | 1,375 | 2,096 |
| John Lobb | 3,962,273 | 1,813 |
| La Manufacture de Seloncourt | 2,398,536 | 4,632 |
| La Maroquinerie Nontronnaise | 5,000 | 167 |
| Manufacture de Haute Maroquinerie | 430,000 | 3,111 |
| Maroquinerie de Belley | 147,172 | 2,095 |
| Maroquinerie de Saint-Antoine | 96,929 | 267 |
| Maroquinerie de Sayat | 45,649 | 5,118 |
| Maroquinerie des Ardennes | 284,063 | 10,527 |
| Saint-Honoré Chile | 499 | 1,462 |
| SC Honossy | 210,099 | 3,203 |
| SCI Auger Hoche | 4,569,400 | 6,966 |
| SCI Boissy Les Mûriers | 8,699 | 1,326 |
| SCI Boissy Nontron | 99,999 | 929 |
| SCI Les Capucines | 24,000 | 366 |
| Soficuir International | 232,140 | 30,333 |
| **Carrying value of less than €100,000** | | **529** |
| **TOTAL** | | **277,720** |

### MARKETABLE SECURITIES

in millions of euros

| | At 31/12/2007 | At 31/12/2006 |
|---|---|---|
| Negotiable debt securities | 120.0 | 15.0 |
| Money-market mutual funds | 206.6 | 405.1 |
| Hermès International treasury shares acquired to cover employee stock option plans | 28.6 | 5.4 |
| Derivatives | 7.1 | 7.5 |
| **Total gross amount** | **362.3** | **433.0** |
| Impairment of Hermès International treasury shares | (0.1) | (0.1) |
| **Total net value** | **362.2** | **432.9** |

# List of subsidiaries and affiliates

## COMPANIES OR GROUPS OF COMPANIES

A - Detailed information on investments in subsidiaries and affiliates with a gross carrying value exceeding 1% of the share capital of Hermès International)

| **1. SUBSIDIARIES (AT LEAST 50% OF THE SHARE CAPITAL HELD BY THE COMPANY)** | |
|---|---|
| Castille Investissements | 24, rue du Faubourg-Saint-Honoré, 75008 Paris |
| Compagnie Hermès de Participations | 23, rue Boissy-d'Anglas, 75008 Paris |
| Comptoir Nouveau de la Parfumerie | 23, rue Boissy-d'Anglas, 75008 Paris |
| ERM Warenhandels GmbH | Seilergasse 16, 1010 Vienna (Austria) |
| ERM-WHG Warenhandels GmbH | Graben 21, 1010 Vienna (Austria) |
| Financière Saint-Honoré | 9, avenue Eugène-Pittard, 1211 Geneva 12 (Switzerland) |
| Gordon-Choisy | 17, boulevard Jules-Ferry, 75011 Paris |
| Héraklion | 23, rue Boissy-d'Anglas, 75008 Paris |
| Herlee | 25/F Chinachem Leighton Plaza, 29 Leighton Rd, Causeway Bay, Hong Kong |
| Hermès Argentina | Avenida Alvear 1981, 1129 Buenos Aires (Argentina) |
| Hermès Asia Pacific | 25/F Chinachem Leighton Plaza, 29 Leighton Road Causeway Bay (Hong Kong) |
| Hermès Australia | Level 11, Skygarden, 70 Castlereagh Street, Sydney NSW 2000 (Australia) |
| Hermès Benelux Scandinavie | 50 boulevard de Waterloo, 1000 Brussels (Belgium) |
| Hermès Canada | 131, Bloor Street West, Toronto, Ontario M5S1R1 (Canada) |
| Hermès de Paris (Mexico) | Avenida Presidente Mazaryk 422, local "A", Col Polanco, 11560 Mexico D.F. (Mexico) |
| Hermès GmbH | Marstallstrasse 8, 80539 Munich (Germany) |
| Hermès Grèce | Stadiou Street 4 & Voukourestiou Street 1, City Link, 10564 Syntagma Athens (Greece) |
| Hermès Holding GB | 1 Bruton Street, London W1J 6TL (United Kingdom) |
| Hermès Iberica | C/ Jose Ortega y Gasset 12, 28006 Madrid (Spain) |
| Hermès International Portugal | Largo do Chiado 9, 1200-108 Lisbon (Portugal) |
| Hermès Italie | Via Serbelloni 1, 20122 Milan (Italy) |
| Hermès Japon | 4-3, Ginza 5-Chome Chuo-Ku, Tokyo 104-0061 (Japan) |
| Hermès of Paris | 55 East, 59th Street, 10022 New York (USA) |
| Hermès Prague | Parizska, 12/120, 11000 Prague (Czech Republic) |
| Hermès Sellier | 24, rue du Faubourg-Saint-Honoré, 75008 Paris |
| Hermès South East Asia | One Marina Boulevard, #28-00, Singapore 018989 (Singapore) |
| Holding Textile Hermès | 16, chemin des Mûriers, 69310 Pierre-Bénite (France) |
| Immauger | 23, rue Boissy-d'Anglas, 75008 Paris |
| John Lobb | 23, rue Boissy-d'Anglas, 75008 Paris |
| La Manufacture de Seloncourt | 18, rue de la Côte, 25230 Seloncourt (France) |
| Manufacture de Haute Maroquinerie | ZAE Les Combaruches, 825, boulevard Jean-Jules-Herbert, 73100 Aix-les-Bains (France) |
| Maroquinerie de Belley | 23, rue Boissy-d'Anglas, 75008 Paris |
| Maroquinerie des Ardennes | 23, rue Boissy-d'Anglas, 75008 Paris |
| Maroquinerie de Sayat | 12-16, rue Auger, 93500 Pantin (France) |
| Maroquinerie de Saint-Antoine | 12-14, rue Auger, 93500 Pantin (France) |
| Saint-Honoré Chile | Avenida Alonso de Córdova 2526, Comuna de Vitacura, Santiago de Chile (Chile) |
| SC Honossy | 23, rue Boissy-d'Anglas, 75008 Paris |
| SCI Auger-Hoche | 12-22, rue Auger, 93500 Pantin (France) |
| SCI Boissy Les Mûriers | 23, rue Boissy-d'Anglas, 75008 Paris |
| SCI Boissy Nontron | 23, rue Boissy-d'Anglas, 75008 Paris |
| Soficuir International | 22-24, avenue Hoche, 75008 Paris |
| **2. ASSOCIATES (10% TO 50% OF THE SHARE CAPITAL HELD BY THE COMPANY)** | |

B - Aggregate information on other subsidiaries and affiliates

| | |
|---|---|
| **1. SUBSIDIARIES (not included in A)** | |
| – France (aggregate) | |
| – Other countries (aggregate) | |
| **2. ASSOCIATES (not included in A)** | |
| – France (aggregate) | |
| – Other countries (aggregate) | |
| **TOTAL** | |

| Share capital ['000] | Shareholders' equity ['000] | Percentage of capital held [%] | Gross carrying value of shares held [€ '000] | Net carrying value of shares held [€ '000] | Outstanding loans/advances granted by parent company [€ '000] | Guarantees given by parent company [€ '000] | Sales for the year [€ '000] | Net income/ (loss) for the year [€ '000] | Dividends received during year [€ '000] |
|---|---|---|---|---|---|---|---|---|---|
| EUR 9,131 | EUR (32,219) | 100.00% | 69,303 | 0 | – | – | 0 | (4,916) | – |
| EUR 42,000 | EUR 27,072 | 100.00% | 42,013 | 27,072 | – | – | 0 | (5,206) | – |
| EUR 9,072 | EUR 32,503 | 99.67% | 27,146 | 27,146 | – | – | 107,425 | 13,122 | 7,972 |
| EUR 35 | EUR 35 | 100.00% | 1,263 | 1,264 | – | – | 225 | 31 | – |
| EUR 35 | EUR 35 | 100.00% | 1,235 | 1,235 | – | – | 53 | 10 | – |
| CHF 3,000 | CHF 19,125 | 100.00% | 1,694 | 1,694 | – | – | 0 | 2,791 | – |
| EUR 1,531 | EUR 10,266 | 100.00% | 1,663 | 1,663 | – | – | 24,132 | 3,565 | – |
| EUR 1,262 | EUR 115 | 100.00% | 4,276 | 115 | – | – | 0 | (756) | – |
| HKD 65,000 | HKD 68,594 | 66.92% | 4,511 | 3,999 | – | – | 16,274 | 2,090 | – |
| ARS 3,974 | ARS 5,614 | 94.99% | 3,760 | 1,174 | – | 4 | 2,568 | 226 | – |
| HKD 315,000 | HKD 556,627 | 99.99% | 43,483 | 43,483 | – | – | 48,351 | 23,463 | 15,516 |
| AUD 6,500 | AUD 13,914 | 100.00% | 4,409 | 4,409 | – | – | 10,196 | 703 | – |
| EUR 2,665 | EUR 5,609 | 100.00% | 3,164 | 3,164 | – | – | 19,631 | 1,121 | – |
| CAD 2,000 | CAD 8,334 | 100.00% | 1,501 | 1,501 | – | – | 10,774 | 858 | – |
| MXN 11,472 | MXN 46,569 | 51.00% | 1,134 | 1,134 | – | – | 4,466 | 352 | – |
| EUR 7,200 | EUR 18,480 | 100.00% | 7,218 | 7,218 | 7,000 | – | 49,981 | 2,665 | – |
| EUR 1,700 | EUR 2,215 | 100.00% | 1,700 | 1,700 | – | – | 4,033 | 493 | – |
| GBP 7,360 | GBP 8,718 | 100.00% | 10,535 | 10,535 | – | 1,926 | 0 | 1,503 | – |
| EUR 4,228 | EUR 10,202 | 99.99% | 4,952 | 4,952 | – | – | 20,075 | 1,857 | – |
| EUR 800 | EUR 509 | 99.90% | 999 | 108 | 400 | – | 2,120 | (3) | – |
| EUR 7,786 | EUR 21,304 | 90.00% | 13,196 | 13,196 | – | – | 61,577 | 3,740 | 4,122 |
| JPY 220,000 | JPY 16,162,924 | 100.00% | 13,727 | 13,727 | – | 45,474 | 364,708 | 45,188 | 45,179 |
| USD 11,418 | USD 136,216 | 100.00% | 10,903 | 10,903 | – | 2,839 | 195,276 | 18,936 | – |
| CZK 8,018 | CZK 34,451 | 100.00% | 1,090 | 1,090 | – | – | 1,697 | 202 | – |
| EUR 4,976 | EUR 169,643 | 99.77% | 4,788 | 4,788 | – | – | 797,351 | 129,392 | 119,457 |
| SGD 1,000 | SGD 69,537 | 100.00% | 2,201 | 2,201 | – | – | 100,451 | 18,366 | 21,793 |
| EUR 5,758 | EUR 13,942 | 100.00% | 12,652 | 12,652 | – | – | 9,845 | 5,299 | – |
| EUR 2,269 | EUR 2,725 | 92.34% | 2,096 | 2,096 | – | – | 0 | 77 | – |
| EUR 2,100 | EUR 1,815 | 100.00% | 8,496 | 1,813 | – | – | 4,797 | (321) | – |
| EUR 2,399 | EUR 4,632 | 100.00% | 11,143 | 4,632 | – | – | 7,765 | 595 | – |
| EUR 6,450 | EUR 4,297 | 100.00% | 3,111 | 3,111 | – | – | 6,566 | (897) | – |
| EUR 1,766 | EUR 1,856 | 100.00% | 4,165 | 2,095 | – | – | 5,059 | (233) | – |
| EUR 4,545 | EUR 12,261 | 100.00% | 10,527 | 10,527 | – | – | 6,905 | (66) | – |
| EUR 730 | EUR 5,939 | 100.00% | 5,118 | 5,118 | – | – | 5,360 | (442) | – |
| EUR 679 | EUR 267 | 100.00% | 2,597 | 267 | – | – | 4,232 | 90 | – |
| CLP 2,660,581 | CLP 681,887 | 99.80% | 4,234 | 1,462 | – | – | 738 | 630 | – |
| EUR 3,151 | EUR 4,117 | 100.00% | 3,203 | 3,203 | – | – | 0 | (91) | – |
| EUR 6,946 | EUR 10,560 | 99.99% | 6,966 | 6,966 | – | – | 0 | 93 | – |
| EUR 1,322 | EUR 2,642 | 99.99% | 1,326 | 1,326 | – | – | 0 | 159 | – |
| EUR 1,000 | EUR 929 | 100.00% | 1,000 | 929 | – | – | 0 | (12) | – |
| EUR 4,500 | EUR 13,367 | 100.00% | 30,333 | 30,333 | – | – | 0 | 2,277 | 576 |
| | | | 1,654 | 1,542 | – | – | – | – | – |
| | | | 127 | 2 | – | – | – | – | – |
| | | | 197 | 175 | 40 | – | – | – | 8 |
| | | | 967 | 0 | 1,435 | – | – | – | – |
| | | | **391,776** | **277,720** | **8,875** | **50,243** | **–** | **–** | **214,623** |

# Five-year summary of financial data

| | 2007 | 2006 | 2005 | 2004 | 2003 |
|---|---|---|---|---|---|
| **Share capital at year-end** | | | | | |
| Share capital (in millions of euros) | 54.1 | 54.5 | 55.6 | 56.6 | 56.5 |
| Number of shares in issue | 106,089,214 | 106,874 814[1] | 36,333,854 | 36,977,172 | 36,935,004 |
| **Income statement data** | | | | | (in millions of euros) |
| Sales excluding VAT | 64.9 | 50.8 | 47.2 | 43.1 | 40.4 |
| Income before tax, employee profit-sharing, depreciation, amortisation, reserves, and impairment | 202.6 | 229.7 | 200.4 | 233.7 | 184.0 |
| Corporate income tax | (4.4) | (9.2) | (9.2) | (11.1) | (1.8) |
| Employee profit-sharing | 2.1 | 1.9 | 1.7 | 1.5 | 1.4 |
| Income after tax, employee profit-sharing, depreciation, amortisation, reserves, and impairment | 196.8 | 225.6 | 223.2 | 213.6 | 167.8 |
| Profits distributed as dividends (including treasury shares) | 106.0[2] | 103.0 | 92.3 | 75.4 | 63.9 |
| **Per-share data** | | | | | (in euros) |
| Income after tax and employee profit-sharing but before depreciation, amortisation, reserves and impairment | 1.93 | 2,22[1] | 5.72 | 6.56 | 4.99 |
| Income after tax, employee profit-sharing, depreciation, amortisation, reserves, and impairment | 1.86 | 2,11[1] | 6.14 | 5.78 | 4.54 |
| Net dividend paid per share | 1,00[2] | 0,95[1] | 2.50 | 2.00 | 1.70 |
| **Personnel** | | | | | |
| Number of employees (permanent staff on the payroll at end of period) | 214 | 216 | 197 | 175 | 169 |
| Total payroll (in millions of euros) | 21.5 | 18.9 | 17.0 | 15.6 | 16.7 |
| Employee benefits paid during the year (in millions of euros) | 8.1 | 9.9 | 10.1 | 9.1 | 5.9 |

1. After three-for-one stock split on 10 June 2006
2. Subject to approval by the Combined General Meeting of 3 June 2008.

# Combined General Meeting of 3 June 2008

# Agenda of the Combined General Meeting of 3 June 2008

## 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 2007 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 2007;
– on the internal control procedures instituted by the Company;
– on resolutions relating to ordinary business.

**Report from the Chairman of the Supervisory Board:**

– on the conditions for preparation and organisation of the Supervisory Board's work.

**Supervisory Board's report.**

**Statutory Auditors' reports:**

– on the company financial statements;
– on the consolidated financial statements;
– on related-party agreements and commitments;
– on the Executive Management's report on internal control procedures relating to the preparation and processing of financial and accounting information.

### [2] Vote on resolutions relating to ordinary business

**First resolution**
Approval of the company financial statements.

**Second resolution**
Approval of the consolidated financial statements.

**Third resolution**
Discharge.

**Fourth resolution**
Appropriation of net income.

**Fifth resolution**
Approval of compensation due to Mr Patrick Thomas upon completion of his term of office as Executive Chairman.

**Sixth resolution**
Approval of related-party agreements.

**Seventh resolution**
Directors' fees and remuneration.

**Eighth resolution**
Re-election of Mr Jérôme Guerrand as Supervisory Board member.

**Ninth resolution**
Re-election of Mr Maurice de Kervénoaël as Supervisory Board member.

**Tenth resolution**
Re-election of Mr Ernest-Antoine Seillière as Supervisory Board member.

**Eleventh resolution**
Re-election of Miss Julie Guerrand as Supervisory Board member.

**Twelfth resolution**
Re-election of Mr Renaud Momméja as Supervisory Board member.

**Thirteenth resolution**
Re-election of Mr Robert Peugeot as Supervisory Board member.

**Fourteenth resolution**
Appointment of Mr Charles-Éric Bauer as a new Supervisory Board member.

**Fifteenth resolution**
Appointment of Mr Matthieu Dumas as a new Supervisory Board member.

**Sixteenth resolution**
Appointment of Mr Guillaume de Seynes as a new Supervisory Board member.

**Seventeenth resolution**
Purchase by the Company of its own shares.

**Eighteenth resolution**
Powers.

## II – EXTRAORDINARY BUSINESS

### [1] Presentation of reports to be submitted to the Extraordinary General Meeting

**Executive Management's reports:**
– on resolutions relating to extraordinary business.

**Supervisory Board's report.**

**Statutory Auditors' reports:**
– on the capital decrease by cancellation of shares purchased;
– on the issuance of share purchase warrants for no consideration in the event of a takeover bid against the company;
– on the issuance of shares and/or other negotiable securities reserved for employees, with waiver of preferential subscription rights.

### [2] Vote on resolutions relating to extraordinary business

**Nineteenth resolution**
Authorisation to cancel some or all of the shares purchased by the Company (Article L 225-209).

**Twentieth resolution**
Grant of authority to the Executive Management to issue share purchase warrants during times of public offerings.

**Twenty-first resolution**
Grant of authority to the Executive Management to carry out capital increases reserved for employees.

**Twenty-second resolution**
Powers.

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

## 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 amount to €60,843; that you approve the parent company financial statements and consolidated financial statements for the year ended 31 December 2007 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 period.

### 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 €196,793,045.98. Under the terms of the Company's Articles of Association, of this amount, €1,318,513.41 must be distributed to the Active Partner.

The Supervisory Board recommends that you fix the dividend at €1.00 per share. This represents an increase of 5.3% 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.

The ex-dividend date would be 6 June 2008.

This dividend will be payable from 10 June 2008. Since Hermès International is not entitled to receive dividends in respect of shares held in treasury, on the date the dividend becomes payable, the corresponding sums will be transferred to 'Retained earnings".

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

**In euros**

| Year | 2004* | 2005* | 2006 |
|---|---|---|---|
| Dividend | 2.00 | 2.50 | 0.95 |
| Amount eligible for tax allowance pursuant to Article 158-3 of the Code Général des Impôts | 50% | 40% | 40% |

* Before three-for-one stock split on 10 June 2006.

We note that the five-year summary of financial data on the Company required under Article R 225-102 of the Code de Commerce appears on page 173.

### Related-party agreements

In the fifth resolution, in accordance with the provisions of the TEPA act (on labour, employment and purchasing power) of 21 August 2007, we ask that you approve the performance criteria determined by the Supervisory Board and relating to the agreements on compensation due to Mr Patrick Thomas upon completion of his term of office as Executive Chairman.

These conditions are described on page 14 of the Executive Management's report, in the section on corporate governance.

In the sixth resolution, we ask that you approve the related-party agreements 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 reports appearing on pages 187 to 189.

A report of the related-party agreements submitted to approval by the Supervisory Board after the end of the financial year will be submitted to you at the Annual General Meeting called in 2009 to approve the financial statements for the year ending 31 December 2008.

### Directors' fees and remuneration

The Supervisory Board has decided to change the method of determining the amount of directors' fees and remuneration payable to each member of the Board by instituting a variable component based on attendance as from 2008. Furthermore, the Supervisory Board has decided to include in the total distributable amount of directors' fees and remuneration allotted by the Shareholders the amounts paid to Audit Committee and Remuneration Committee members (see page 15).

In the seventh resolution, we ask that you fix the amount of directors' fees and remuneration for the Supervisory Board at €242,000 to take these changes into account. This amount would apply to the current year's directors' fees and remuneration allotted to the Supervisory Board for each financial year as from 1 January 2008, until such time as a decision to the contrary is adopted.

### Re-election of Supervisory Board members

The terms of appointment of all Supervisory Board members, that is, Mrs Agnès Harth, Miss Julie Guerrand, Messrs Frédéric Dumas, Jérôme Guerrand, Maurice de Kervénoaël, Renaud Momméja, Robert Peugeot, Ernest-Antoine Seillière and Éric de Seynes will expire at the end of this meeting.

In the eighth to thirteenth resolutions, the Active Partners ask that you re-elect Mr Jérôme Guerrand, Mr Maurice de Kervénoaël, Mr Ernest-Antoine Seillière, Miss Julie Guerrand, Mr Renaud Momméja and Mr Robert Peugeot as Supervisory Board members for a term of office of three years, as stipulated by the Articles of Association. If you decide to re-elect them, their term of office will expire at the end of the General Meeting called in 2011 to approve the financial statements for the year ended 31 December 2010.

Mrs Agnès Harth, Mr Frédéric Dumas and Mr Éric de Seynes have decided not to stand for re-election to the Supervisory Board.

Information concerning the persons whose re-election you have been asked to approve appears on pages 11 to 13.

### Appointment of new Supervisory Board members

In the fourteenth to sixteenth resolutions, the Active Partner asks that you appoint the following persons to fill the seats left vacant on the Supervisory Board:

- Mr Charles-Éric Bauer;
- Mr Matthieu Dumas;
- Mr Guillaume de Seynes.

In accordance with Article 18.2 of the Articles of Association, their term of office will expire at the end of the General Meeting called in 2011 to vote on the financial statements for the year ended 31 December 2010.

Information concerning the persons whose appointment you have been asked to approve appears on pages 181 and 182.

### Share buyback programme

In the seventeenth resolution, you are asked to authorise the Executive Management to trade in the Company's own shares, for a further period of eighteen months, under the conditions stipulated therein, namely:

– purchases and sales of shares representing up to 10% of the share capital would be authorised;

– the maximum purchase price (excluding costs) would be €200 per share. The maximum amount of funds to be committed would be €650 million, in accordance with Article L 225-210 of the Code de Commerce.

## II – EXTRAORDINARY BUSINESS

### Delegations of powers to the Executive Management

In the nineteenth resolution, you are asked to authorise 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 per twenty-four month period.

In the twentieth resolution, you are asked to authorise the Executive Management, during times of public offerings, under the conditions set forth in Article L 233-32 of the Code de Commerce, and in accordance with the provisions of Article L 228-91 of the said Code, to issue, in France and in other countries, share purchase warrants with preferential subscription rights retained, giving immediate or future entitlement to shares in the Company to be issued by way of a capital increase.

The share purchase warrants issued pursuant to this authorisation may be allotted for no consideration by the Executive Management to all shareholders of the Company who retain that status before the close of the public offering period. The maximum number of share purchase warrants that may be issued would be two warrants per existing share outstanding as of the date of issue of the warrants. This authorisation would be valid for eighteen months from the date of the General Meeting.

In the twenty-first resolution, you are asked to delegate 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, all powers to carry out a capital increase by issuing new shares reserved for employees under the conditions set forth in Article L 225-180 of the Code de Commerce, providing that such employees belong to a corporate or group stock ownership plan.

The maximum number of ordinary shares that may be issued under the terms of this delegation of powers shall not exceed 1% of the number of ordinary shares in the Company outstanding at the time the decision is made to carry out the capital increase.

## Information on the persons whose appointment or re-election is submitted to the shareholders for approval

Information on the persons whom you are asked to re-elect, that is, Miss Julie Guerrand and Messrs Jérôme Guerrand, Maurice de Kervénoaël, Ernest-Antoine Seillière, Renaud Momméja and Robert Peugeot, appears on pages 11 to 13.

### Charles-Éric Bauer

Date of birth: 9 January 1964

**Education**

Degree in technical analysis from Institut des Techniques de Marchés
Graduate of École d'Administration et Direction des Affaires (EAD) business school, option: finance

**Number of Hermès International shares held**

Reversionary owner of 300,000 shares
Legal owner of 96,258 shares

**Offices or positions held within the Hermès Group**

Member of the Audit Committee of Hermès International
Member of the Executive Committee of Hermès Sellier

**Positions held during the past five years**

| | |
|---|---|
| Since March 2007 | Associate Director of Hem-Fi Conseil, a consulting firm active in allocation and selection of financial assets |
| 2005-2007 | Director, Corporate and Institutional Clients, CaixaBank France |
| 2000-2005 | Co-Managing Director of CaixaGestion, Head of Mutual Fund Management |

**Offices held in other companies**

| | |
|---|---|
| SC Almareen | Executive Manager |
| SC Sabarots | Co-Executive Manager |
| SAS Pollux et Consorts | Executive Committee member |

### Matthieu Dumas

Date of birth: 6 December 1972

**Education**

Master of Law degree from Université Paris II – Assas
Master of Management degree with a specialisation in strategic marketing, development and corporate communication, Institut Supérieur de Gestion, 3e cycle, Paris

**Number of Hermès International shares held**

Legal owner of 213 shares

**Offices or positions held within the Hermès Group**

Nil

**Positions held during the past five years**

Director of Marketing and Development (Cuisine.TV, Canal+ Group)
Head of Marketing and Sales (Cuisine.TV, Canal+ Group)
Head of Promotion and Partnerships (Cuisine.TV, Canal+ Group)

**Offices held in other companies**

Nil

# Information on the persons whose appointment or re-election is submitted to the shareholders for approval

## Guillaume de Seynes

Date of birth: 14 October 1957

**Education**

Master of Law degree
Graduate of ESSEC

**Number of Hermès International shares held**

Legal owner of 30 shares

**Offices or positions held within the Hermès Group**

Deputy Managing Director, Hermès International

**Positions held during the past five years**

Managing Director, La Montre Hermès (1999-2004)
Managing Director, Hermès Sellier Business Sectors (2004-2006)

**Offices held in other companies**

| | |
|---|---|
| John Lobb | Chairman of the Board of Directors and Director |
| Hermès Sellier | Managing Director, Hermès Women's Fashion Division and Hermès Men's Fashion Division |
| La Montre Hermès | Chairman of the Board of Directors and Director |
| La Montre Hermès Pacific Ltd | Chairman of the Board of Directors and Director |
| Boissy Mexico | Acting Director |
| Hermès de Paris (Mexico) | Alternate director |
| JL & Co | Chairman of the Board of Directors and Director |
| SC Guise | Executive Manager |
| SCI Guise Immobilier | Executive Manager |
| Gaulme | Supervisory Board member |
| Vaucher Manufacture Fleurier | Vice-Chairman of the Board of Directors and Director |
| Mi-Colline | Executive Manager |
| Exocuirs | Director and Chairman of the Board of Directors |
| Gordon-Choisy | Chairman |
| Louisiane Spa | Director and Chairman of the Board of Directors |
| Michel Rettili Srl | Director and Chairman of the Board of Directors |
| Soficuir International | Director and Chairman of the Board of Directors |
| Tanneries des Cuirs d'Indochine et de Madagascar | Chairman |

## Supervisory Board's report to the Combined General Meeting of 3 June 2008

In accordance with legal and regulatory requirements, we hereby present our report for the year ended 31 December 2007.

We inform you that:

- the Executive Management has kept us regularly informed of the Company's business operations and results;
- the income statement, balance sheet and notes thereto have been provided to us as required by law;
- transactions subject to prior approval by the Supervisory Board under the terms of special provisions contained in the Company's Articles of Association have been duly approved by us, as described below;
- 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 the 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 2007. We recommend that you approve the financial statements.

**2. Appropriation of net income**

We recommend that you approve the proposed appropriation of net income as set out in the resolutions submitted to you for approval, setting the ex-dividend date at 6 June 2008 and the dividend payment date at 10 June 2008 and calling for a net dividend of €1.00 per share.

**3. Recommendations and authorisations issued by the Supervisory Board**

*Related-party agreements*

During the year ended 31 December 2007, the Executive Management informed us of and submitted to us for approval proposed agreements 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 187 to 189 gives a brief description of agreements approved during 2007 and previously authorised agreements which remained in effect during the financial year.

We draw your attention to the fact that we have authorised and determined the performance-based compensation under our undertakings with respect to Mr Patrick Thomas upon completion of his term of office as Executive Chairman (see page 14).

*Other recommendations and authorisations*

In 2007, the Supervisory Board:

– duly noted the resignation of Mr Jean-Claude Rouzaud from his office of Supervisory Board member and replaced him by co-opting Mr Robert Peugeot as Supervisory Board member;

– duly noted the information submitted by the Legal Department on regulations governing the use or disclosure of confidential information (insider trading);

– duly noted the information submitted by the Legal Department on regulations on share ownership threshold disclosures;

– duly noted the information submitted by the Legal Department on regulations governing disclosure requirements applicable to Corporate Executive Officers;

– authorised the Executive Management to grant a joint or first demand guarantee to cover the performance by JL & Co of its obligations under a commercial lease;

– decided on the proposed appropriation of earnings submitted to the Combined General Meeting of 5 June 2007;

– issued a favourable opinion on the proposed resolutions submitted to the Combined General Meeting of 5 June 2007 and familiarised itself with the reports drawn up by the Executive Management;

– duly noted the work accomplished by the Audit Committee and Remuneration Committee and their findings;

– reviewed documents on forecasting and planning;

– familiarised itself with the Supervisory Board Chairman's report on the conditions for prepara-

tion and organisation of the Supervisory Board's work and on the Executive Management's report on internal control procedures instituted by the Company;
– duly noted changes to and/or cancellation of guarantee authorisations by the Executive Management in compliance with prudential rules;
– issued a favourable opinion on the institution of a plan to award bonus shares to all employees and a selective stock option plan tied to performance criteria;
– duly noted the reorganisation of the management bodies of Comptoir Nouveau de la Parfumerie;
– duly noted the disposals and acquisitions planned by the Group;
– duly noted the plan to form a partnership with Eurocopter;
– duly noted the latest recommendations on corporate governance for listed companies submitted by the Legal Department;
– duly noted the progress of a property project;
– authorised the Executive Management to grant a joint guarantee guaranteeing the performance by Hermès Argentina of its obligations under a commercial lease;
– appropriated Directors' fees to be paid to Supervisory Board members;
– approved the "Fondation d'Entreprise Hermès" corporate foundation project.

**4. Supervision exercised by the Supervisory Board**

*Stock option plans – Options exercised during 2007*

At our meetings of 30 August 2007 and 23 January 2008, we duly noted the increases in the Company's capital effected as a result of the decision by a number of individuals to exercise their options to subscribe for new shares under the stock option plans approved by the Executive Management in accordance with the authorisation granted by the Extraordinary General Meeting of 25 May 1998. Information on the number of shares issued during 2007 is provided on page 20 of the Executive Management's report.

*Cancellation of shares during 2007*

At our meeting of 30 August 2007, we duly noted the reductions in share capital following the cancellation of shares held in treasury resulting from a decision of the Executive Management, pursuant to the authorisations granted by the Extraordinary General Meetings of 6 June 2006 and 5 June 2007. Information on the number of shares cancelled during 2007 is provided in the Executive Management's report on the share buyback programme, on page 53.

**5. Re-election and appointment of new Supervisory Board members**

We are fully in favour of the proposal submitted to you to re-elect the following Supervisory Board members:
– Mr Jérôme Guerrand;
– Miss Julie Guerrand;
– Mr Maurice de Kervénoaël;
– Mr Ernest-Antoine Seillière;
– Mr Renaud Momméja;
– Mr Robert Peugeot;
and to appoint three new members:
– Mr Charles-Éric Bauer;
– Mr Matthieu Dumas;
– Mr Guillaume de Seynes;
and we lend them our full support.
We sincerely thank Mrs Agnès Harth, Mr Frédéric Dumas and Mr Eric de Seynes, who did not wish to stand for re-election, for their valuable contributions to the Board's work.

**6. Opinion on the proposed resolutions submitted to the Combined General Meeting of 3 June 2008**

We are in favour of all of the proposed resolutions.

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 of the resolutions submitted to you.

The Supervisory Board

## Statutory Auditors' report on the parent company 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 users. The Statutory Auditors' Report includes information specifically required by French law in such reports, whether modified or not. The information presented below is 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 should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.*

In accordance with the terms of our appointment as Statutory Auditors by the General Meeting of the shareholders, we hereby present our report for the year ended 31 December 2007 on:
– the audit of the accompanying financial statements of Hermès International;
– the justification of our assessments;
– the specific procedures and disclosures required by law.

These financial statements have been prepared under the responsibility of the Company's Executive Management. Our role is to express an opinion on these financial statements based on our audit.

**1. Opinion on the parent company financial statements**

We conducted our audit in accordance with professional standards applicable in France. These 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
In our opinion, the financial statements give a true and fair view of the financial position and the assets and liabilities of the Company as of 31 December 2007 and the results of its operations for the year then ended, in accordance with accounting rules and principles generally applicable in France.

**2. Justification of our assessments**

In accordance with the provisions of Article L 823-9 of the Code de Commerce pertaining to the justification of our assessments, we draw your attention to the following matter:
– 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 part of the procedures we performed as part of our audit of the overall financial statements, and therefore contributed to the formulation of the unqualified opinion that we expressed in the first part of this report.

**3. Specific procedures and disclosures**

We have also performed the specific procedures required by law, in accordance with professional standards applicable in France.
We have no comment to make 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 provided to the shareholders relating to the Company's financial position and financial statements;
– the fair presentation of the information given in the Management Report in respect of remuneration and benefits granted to certain executive officers and any other commitments made in their favour in connection with, or subsequent to, their appointment, termination or change in function.

As required by law, we obtained assurance that information on acquisitions of participating and controlling interests and on the identity of holders of share capital and voting rights has been disclosed to you in the Management Report.

Executed in Paris and Neuilly, 20 March 2008
The Statutory Auditors

Didier Kling & Associés
Didier Kling Christophe Bonte

Deloitte & Associés
David Dupont-Noel

# 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 users. The Statutory Auditors' Report includes information specifically required by French law in such reports, whether modified or not. The information presented below is the opinion on the consolidated financial statements and includes an explanatory paragraph discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the consolidated financial statements taken as a whole and not to provide separate assurance on individual account captions or on information taken outside of the consolidated financial statements. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.*

In accordance with the terms of our appointment by the General Meeting of shareholders, we have audited the accompanying consolidated financial statements of Hermès International for the year ended 31 December 2007.

The consolidated financial statements have been approved by the Executive Management. Our role is to express an opinion on these financial statements based on our audit.

**1. Opinion on the consolidated financial statements**

We conducted our audit in accordance with professional standards applicable in France. These standards require that we carry out procedures to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable 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 31 December 2007, and of the results of its operations for the year then ended in accordance with IFRS as adopted by the European Union.

**2. Justification of our assessments**

In accordance with the provisions of Article L 823-9 of the Code de Commerce pertaining to the justification of our assessments, we draw your attention to 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 27 to the consolidated financial statements is appropriate.

These assessments were part of the procedures we performed as part of our audit of the overall consolidated financial statements and therefore contributed to the formulation of the unqualified opinion that we expressed in the first part of this report.

**3. Specific procedures**

In accordance with professional standards applicable in France, we have also verified the information given in the Group Management Report. We have no matters to report as to its fair presentation and consistency with the consolidated financial statements.

Executed in Paris and Neuilly, 20 March 2008

The Statutory Auditors

Didier Kling & Associés
Didier Kling Christophe Bonte

Deloitte & Associés
David Dupont-Noel

## Statutory Auditors' report on related-party agreements and commitments

*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 users. 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, we hereby present our report on related-party agreements.

**I. Agreements and commitments authorised during the year and until the date of this report**

In accordance with Article L 225-40 of the Code de Commerce, we have been informed of related-party agreements and commitments authorised in advance by the Supervisory Board until the date of this report.

The terms of our engagement do not require us to identify such other agreements and commitments but to communicate to you, based on information provided to us, the principal terms and conditions of those agreements and commitments brought to our attention, without expressing an opinion on their usefulness and appropriateness. It is your responsibility, under the terms of Article R 225-31 of the Code de Commerce, to assess the benefit arising from these agreements and commitments in order to decide whether they should be approved.

We conducted our audit in accordance with professional standards applicable in France. These standards require that we perform procedures designed to check that the information given to us is consistent with the source documents.

*a) Commercial lease – 26, rue du Faubourg Saint-Honoré*

*Parties concerned:* Renaud Mommeja, Agnès Harth, Julie Guerrand, Jérôme Guerrand, Frédéric Dumas and Bertrand Puech.

At its meeting of 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 excluding 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.

Rent paid in 2007 in respect of 2005, 2006 and 2007 amounted to €2,147,328 excluding VAT.

*b) First demand guarantee – South Coast Plaza*

At its meeting of 24 January 2007, your Supervisory Board authorised the grant of a joint or first demand guarantee in favour of South Coast Plaza to guarantee 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.

No calls were made on this guarantee during the year ended 31 December 2007.

*c) First demand guarantee – Buenos Aires*

At its meeting of 30 August 2007, your Supervisory Board authorised the grant of a joint guarantee in favour of Mrs Maria del Carmen Ordonez de Briozzo to cover the obligations incurred by Hermès Argentina following the transfer to that party of the lease agreement for the premises of the Hermès store in Buenos Aires for a term of ten years.

No calls were made on this guarantee during the year ended 31 December 2007.

*d) First demand guarantee – Atlanta*

At its meeting of 19 March 2008, your Supervisory Board authorised the grant of a joint and indefinite guarantee in favour of The Streets of Buckhead Development Co to cover the obligations incurred by JL & Co for a proposed lease of retail premises in Atlanta for a term of ten years.

*e) Undertaking to pay compensation to Mr Patrick Thomas upon completion of his term of office as Executive Chairman*

At its meeting of 19 March 2008, your Supervisory Board authorised the signature of an agreement between your Company and Mr Patrick Thomas calling for payment to Mr Patrick Thomas upon completion of his term of office as Executive Chairman of compensation equal to 24 months' compensation, subject to meeting the following performance criteria: he must meet projected targets (sales and operating profit growth targets measured at constant exchange rates) in four of the previous five years, with no deterioration in the Hermès brand image.

**II. Agreements entered into and authorised in prior years and remaining in effect during the year ended 31 December 2007**

In addition, in accordance with the provisions of the Code de Commerce, it has been drawn to our attention that the following agreements entered into and authorised in prior years remained in effect during the year ended 31 December 2007.

*a) Remuneration of Committee members*

At its meetings of 26 January 2005 and 2 June 2005, your Supervisory Board decided to fix the remuneration of Audit Committee and Remuneration Committee members at €5,000 per year for each member and at €10,000 per year for each Committee Chairman.

Hermès International paid a combined total of €40,000 to all Committee members in consideration for the performance of their duties for the year ended 31 December 2007.

*b) Service agreement*

At its meetings of 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.

At its meeting of 11 December 2007, your Supervisory Board authorised the signature of an amendment to this agreement, which added secretarial services and amended the financial terms of the agreement as follows:

– the cost of legal services was increased to €53,550 for 2007;

– the cost of financial services remained at €15,000 for 2007;

– the cost of secretarial services will be billed on a pro rata basis, that is, at €13,333 for 2007;

– these base prices will be increased by 3% on 1 January of each year as from 1 January 2008. Hermès International billed €81,883 for services provided under the terms of this agreement during 2007.

*c) Design mission agreement*

Agreement between Hermès International and the firm RDAI to undertake a design mission for application of the architectural concept to Hermès stores (Supervisory Board meetings of 20 March 2003 and 15 September 2004).

Hermès International paid €415,418 (excluding VAT) in fees in connection with this mission for the year.

*d) Commercial lease*

Signature of a lease agreement between Hermès International and the company SIFAH, relating to premises at 28-30-32, rue du Faubourg Saint-Honoré, which are the subject of an undertaking to assign a commercial lease by the company SOGEC, and subject to the exercise of its purchase option by SIFAH or any subsidiary SIFAH may substitute for itself, and granting to Hermès International:

– a nine-year commercial lease, with compulsory renewal every three years, at a rent that takes into account the rental value of the premises and the assumption by Hermès International of the cost of the refurbishment works and of part of the compensation for eviction to be paid to the current occupants;

– accompanied by a junior preferred purchase option in respect of the real estate assets located at 26-28-30-32, rue du Faubourg Saint-Honoré belonging to SIFAH or to one of its subsidiaries, or in respect of the shares of SIFAH or of whichever of its subsidiaries is the owner of such real estate assets.

SIFAH has substituted for itself, both for the purchase option and for the implementation of the commercial lease, its majority-controlled subsidiary, the *société par actions simplifiée* (simplified limited company) "28-30-32 Faubourg Saint-Honoré" (Supervisory Board meeting of 21 March 2000).

On 16 February 2005, an amendment to this agreement was signed to change the stipulations of the agreement pertaining to work to be performed at the 28-30-32 Faubourg Saint-Honoré property complex and to assign to Hermès International responsibility for overseeing the design and performance of the work under the terms of a representation agreement, and authorised by your Supervisory Board at its meetings of 26 January 2005 and 23 March 2005. In the amendment to this agreement, Hermès International's share of the projected budget for the work in future years is estimated at €6,000,000. At 31 December 2007, Hermès International had booked €7,041,761 under property, plant and equipment in its accounts for this work. The compensation for eviction paid in 2007 by Hermès International to the company "28-30-32 Faubourg Saint-Honoré" amounted to €548,651.

*e) Guarantees given*

– "Umbrella" guarantee for a maximum principal amount of €75,000,000 in favour of HSBC bank to give subsidiaries designated by Hermès International access to an aggregate group bank facility. (Supervisory Board meeting of 26 January 2005).

– Guarantee given 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 of 16 February 1988).

– Guarantee given 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 (Supervisory Board meeting of 23 September 1998).
– Guarantee given to Carlton House Inc on behalf of the subsidiary 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 of 23 March 1999).
– Guarantee given on behalf of the Japanese subsidiary Hermès Japon in connection with a loan of an initial amount of JPY3,000,000,000 from Daiichi Kangyo Bank repayable at any time up to and including 23 October 2007 (Supervisory Board meeting of 10 September 1997). A commission of JPY611,815 (€4,308) was billed for the year.
– Guarantee given on behalf of the Japanese subsidiary Hermès Japon in connection with a loan of an initial amount of JPY5,000,000,000 from Japan Development Bank repayable at any time up to and including 20 May 2013 (Supervisory Board meeting of 25 May 1998). A commission of JPY5,891,150 (€41,487) was billed for the year.
– Guarantee given on behalf of the Japanese subsidiary Hermès Japon in connection with a loan of an initial amount of JPY2,500,000,000 from Japan Development Bank repayable at any time up to and including 20 April 2013 (Supervisory Board meeting of 23 March 1999). A commission of JPY2,956,667 (€20,821) was billed for the year.
– Guarantee given on behalf of your subsidiary Hermès of Paris Inc. to 23 Wall Commercial Owners LLC 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 of 25 January 2006).
No calls were made on these guarantees during the year ended 31 December 2007.

*f) Trademark licence agreements*

The licence agreements for use of the Hermès name with Hermès Sellier, Comptoir Nouveau de La Parfumerie, Compagnie des Arts de la Table and La Montre Hermès were renewed and their terms and conditions were amended, as authorised by your Supervisory Board at its meeting of 13 September 2006. Royalties received by the Company under these agreements during the year ended 31 December 2007 amounted to:
– €27,145,768 excluding taxes for Hermès Sellier;
– €4,283,209 excluding taxes for Comptoir Nouveau de la Parfumerie;
– €718,170 excluding taxes for Compagnie des Arts de la Table;
– €3,374,523 excluding taxes for La Montre Hermès.

*g) Top-up pension scheme granted to a Corporate Executive Officer*

At its meeting of 13 September 2006, your Supervisory Board authorised an amendment to the rules governing the top-up pension scheme established in 1991 for the Company's senior executives, including the Executive Chairman, who is a corporate 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 remuneration. Like all employees of the Group's French subsidiaries, the Executive Chairman, who is a natural person, is also eligible for the supplemental defined-contribution pension plan that was established during 2006. The maximum annual payment including payments under the mandatory plans and any supplemental plans established 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.

Executed in Paris and Neuilly, 20 March 2008
The Statutory Auditors

Didier Kling & Associés
Didier Kling      Christophe Bonte

Deloitte & Associés
David Dupont-Noel

## Statutory Auditors' report on the Executive Management's report on internal control procedures relating to the preparation and processing of financial and accounting information

*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 users. 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 at the Company's request, we present below our report on the report prepared by your Company's Executive Management in accordance with the provisions of Article L 621-18-3 of the Code Monétaire et Financier for the year ended 31 December 2007.

In its report, the Executive Management discusses the internal control procedures applied within the Company.

It is our responsibility to report to you our observations on the information set out in the Executive Management's report on internal control procedures relating to the preparation and processing of financial and accounting information.

We performed our procedures in accordance with professional guidelines applicable in France. These require that we perform certain procedures in order to ascertain the accuracy of information provided in the Executive Management's report on internal control procedures relating to the preparation and processing of financial and accounting information. These procedures notably consisted of:
– obtaining an understanding of internal control procedures relating to the preparation and processing of financial and accounting information as set out in the Executive Management's report as well as of existing documentation;
– obtaining an understanding of the underlying work performed to support the information provided in the report and in the existing documentation;
– determining whether any major deficiencies in internal control procedures relating to the preparation and processing of accounting and financial information in carrying out our engagement has been appropriately disclosed in the Executive Management's report.

On the basis of our procedures, we have no comment to make on the information given in respect of the Company's internal control procedures relating to the preparation and processing of accounting and financial information contained in the Executive Management's report prepared in accordance with the provisions of the last paragraph of Article L 621-18-3 of the Code Monétaire et Financier.

Executed in Paris and Neuilly, 20 March 2008
The Statutory Auditors

Didier Kling & Associés
Didier Kling Christophe Bonte

Deloitte & Associés
David Dupont-Noel

## Statutory Auditors' report on the capital decrease by cancellation of shares purchased (nineteenth resolution)

*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 users. 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 Article L 225-209 of the Code de Commerce governing the reduction of share capital by the cancellation of shares purchased by the Company, we have drawn up this report to inform you of our assessment of the causes and conditions of the contemplated capital decrease.

We performed such procedures as we deemed necessary in accordance with the professional guidelines of the French National Institute of Statutory Auditors (Compagnie Nationale des Commissaires aux Comptes) applicable to our assignment. These procedures entailed verifying whether the reasons for and terms and conditions of the contemplated capital decrease are in order.

This transaction is part of the proposed purchase by your Company of its own shares, up to a maximum of 10% of its share capital, under the terms and conditions provided in Article L 225-209 of the Code de Commerce. This buyback authorisation is submitted to the General Meeting for approval (seventeenth resolution) and would be granted for a period ending on the date of the Annual General Meeting called to vote on the financial statements for the year ended 31 December 2008, and no later than eighteen months from the date of this meeting.

Your Executive Management proposes that you delegate to it, for a period of twenty-four months, all necessary powers to cancel the shares purchased under this authorisation, up to a maximum of 10% of your Company's share capital per twenty-four month period.

We have no comment to make on the reasons for and terms and conditions of the contemplated capital decrease, it being noted that the capital decrease is subject to prior authorisation by the General Meeting of the proposed share buyback programme, as set forth in the seventeenth resolution.

Executed in Paris and Neuilly, 20 March 2008
The Statutory Auditors

Didier Kling & Associés
Didier Kling Christophe Bonte

Deloitte & Associés
David Dupont-Noel

## Statutory Auditors' special report on the issuance of share purchase warrants for no consideration in the event of a takeover bid against the Company (twentieth resolution)

*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 users. 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 Article L 228-92 of the Code de Commerce, we have drawn up this report on the proposed issuance of share purchase warrants for no consideration in the event of a takeover bid against the Company, on which you are asked to vote.

On the basis of its report, your Executive Management proposes that you delegate to it, for a period of eighteen months, in accordance with Article L 233-32 of the Code de Commerce, the authority:

– to decide to issue share purchase warrants governed by Article L 233-32 of the Code de Commerce, giving rights to subscribe to one or more shares of the Company on preferential terms and to allot them for no consideration to all shareholders in the Company who retain that status before the close of the public offering period;

– to determine the terms and conditions for exercising the warrants and the characteristics of such warrants.

The nominal amount of the capital increase resulting from the exercise of the share purchase warrants shall not exceed a ceiling of €110 million euros and the maximum number of warrants that may be issued shall be two warrants per existing share outstanding as of the date of issue of the warrants.

It is your Executive Management's responsibility to draw up a report, in accordance with Articles R 225-113, R 225-114, R 225-115 and R 225-117 of the Code de Commerce. Our responsibility is to express an opinion on the fairness of the figures drawn from the financial statements and on certain other information relating to the share issue, which we provide in this report.

We performed our procedures in accordance with professional guidelines applicable in France, which require that we perform procedures to verify the information contained in the Executive Management's report on this proposed transaction.

We have no comment to make on the information provided in the Executive Management's report on the proposed transaction to issue share purchase warrants in the event of a takeover bid against the Company.

In accordance with Article R 225-116 of the Code de Commerce, we will prepare a supplemental report on any issue of such warrants that your Executive Management may decide to carry out under the terms of the proposed authorisation.

Executed in Paris and Neuilly, 20 March 2008

The Statutory Auditors

Didier Kling & Associés
Didier Kling Christophe Bonte

Deloitte & Associés
David Dupont-Noel

## Statutory Auditors' special report on the issuance of shares and/or other negotiable securities reserved for employees, with waiver of preferential subscription rights (twenty-first resolution)

*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 users. 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 and L 225-138 of the 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 powers as provided by law, to carry out one or more issues of shares or other negotiable securities giving entitlement to the share capital, reserved for employees who belong to a company or Group stock ownership plan, with waiver of preferential subscription rights, and on which you are asked to vote.

This proposed resolution is submitted to you for approval pursuant to the provisions of Article L 225-129-6 of the Code de Commerce and Article L 443-5 of the Code du Travail.

The total number of shares or negotiable securities 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.

On the basis of its report, your Executive Management proposes that you delegate to it the authority to carry out one or more share issues for a period of twenty-six months and that you waive your preferential subscription rights to subscribe to any such share issues. Your Executive Management would be responsible for determining the 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 Code de Commerce. Our responsibility is to express an opinion on the fairness of the figures drawn from the financial statements, on the proposal to waive your preferential subscription rights and on certain other information relating to the share issue, which we provide in this report.

We performed such procedures as we deemed necessary in accordance with the professional guidelines of the French National Institute of Statutory Auditors (Compagnie Nationale des Commissaires aux Comptes) applicable to our assignment. These procedures entailed verifying the information presented in the Executive Management's report and the methods used to determine the price of the equity securities to be issued.

Subject to subsequent review of the terms and conditions of any share issue(s) that the Executive Management may decide to carry out pursuant to this authority, we have no comment to make on the methods used to determine 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 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 preferential subscription rights submitted to you.

In accordance with Article R 225-116 of the Code de Commerce, we will prepare a supplemental report on any share issue that your Executive Management may decide to carry out under the terms of this proposed authorisation.

Executed in Paris and Neuilly, 20 March 2008
The Statutory Auditors

Didier Kling & Associés
Didier Kling Christophe Bonte

Deloitte & Associés
David Dupont-Noel

## Proposed resolutions submitted to the Combined General Meeting of 3 June 2008

# I - ORDINARY BUSINESS

### First resolution

**Approval of the 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 2007, 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 €60,843 for the year ended 31 December 2007.

### Second resolution

**Approval of the consolidated financial statements**
The Ordinary General Meeting, having heard the Executive Management's Report on the Group's operations and situation, the Supervisory Board's Report and the Statutory Auditors' Report for the year ended 31 December 2007, approves the consolidated financial statements as presented, and showing consolidated net income of €287,975,237.

### 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 2007 and ending on 31 December 2007.

### Fourth resolution

**Appropriation of net income**
The Ordinary General Meeting notes that net income for the year amounts to €196,793,045.98 and retained earnings, to €631,669,550.71, and approves the appropriation of these sums totalling €828,462,596.69, 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 Active Partner under Article 26 of the Company's Articles of Association, €1,318,513.41;
- to shareholders holding shares existing at 31 December 2007, a dividend of €1.00 per share, totalling €106,089,214.00;

- to retained earnings, the balance of €721,054,869.28;
- total amount appropriated: €828,462,596.69.

The General Meeting resolves that:
- The ex-dividend date shall be 6 June 2008;
- the dividend shall be payable on 10 June 2008.

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:

**In euros**

| Year | 2006 | 2005* | 2004* |
|---|---|---|---|
| Dividend | 0.95 | 2.50 | 2.00 |
| Amount eligible for tax allowance pursuant to Article 158-3 of the Code Général des Impôts | 40% | 40% | 50% |

* Before three-for-one stock split on 10 June 2006.

## Fifth resolution

**Approval of compensation due to Mr Patrick Thomas upon completion of his term of office as Executive Chairman**

The Ordinary General Meeting, having heard the Executive Management's Report and the Statutory Auditors' Report on related-party agreements covered by the combined provisions of Articles L 226-10, L 225-38 to L 225-43 of the Code de Commerce, and acting in accordance with the provisions of Article L 225-42-1 of the Code de Commerce, approves the agreement indicated and described in the said report and pertaining to the remuneration, allowances and benefits for which the Company is liable to pay to Mr Patrick Thomas upon completion of his term of office as Executive Chairman, under the conditions determined by the Supervisory Board during its meeting of 19 March 2008.

## Sixth resolution

**Approval of related-party agreements**

The Ordinary General Meeting, having heard the Statutory Auditors' Special Report on related-party agreements covered by the combined provisions of Articles L 226-10 and Articles L 225-38 through L 225-43 of the Code de Commerce, approves the agreements entered into or carried out during the year ended 31 December 2007.

## Seventh resolution

**Directors' fees and remuneration**

The General Meeting of Shareholders fixes the total amount of directors' fees and remuneration to be allotted to the members of the Supervisory Board and of the Board Committees at €242,000, for each financial year as from 1 January 2008, until such time as a decision to the contrary is adopted.

## Eighth resolution

**Re-election of a Supervisory Board member**
On the recommendation of the Active Partner, the General Meeting re-elects

Mr Jérôme Guerrand

as Supervisory Board member.

In accordance with Article 18.2 of the Articles of Association, 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 2010. Mr Guerrand has indicated that he is prepared to serve for another term of office and that he is not legally prohibited from doing so in any manner whatsoever.

## Ninth resolution

**Re-election of a Supervisory Board member**
On the recommendation of the Active Partner, the General Meeting re-elects

Mr Maurice de Kervénoaël

as Supervisory Board member.

In accordance with Article 18.2 of the Articles of Association, 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 2010. Mr de Kervénoaël has indicated that he is prepared to serve for another term of office and that he is not legally prohibited from doing so in any manner whatsoever.

## Tenth resolution

**Re-election of a Supervisory Board member**
On the recommendation of the Active Partner, the General Meeting re-elects

Mr Ernest-Antoine Seillière

as Supervisory Board member.

In accordance with Article 18.2 of the Articles of Association, 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 2010. Mr Seillière has indicated that he is prepared to serve for another term of office and that he is not legally prohibited from doing so in any manner whatsoever.

## Eleventh resolution

**Re-election of a Supervisory Board member**
On the recommendation of the Active Partner, the General Meeting re-elects

Miss Julie Guerrand

as Supervisory Board member.

In accordance with Article 18.2 of the Articles of Association, 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 2010. Miss Guerrand has indicated that she is prepared to serve for another term of office and that she is not legally prohibited from doing so in any manner whatsoever.

## Twelfth resolution

**Re-election of a Supervisory Board member**
On the recommendation of the Active Partner, the General Meeting re-elects

Mr Renaud Momméja

as Supervisory Board member.

In accordance with Article 18.2 of the Articles of Association, 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 2010. Mr Momméja has indicated that he is prepared to serve for another term of office and that he is not legally prohibited from doing so in any manner whatsoever.

## Thirteenth resolution

**Re-election of a Supervisory Board member**
On the recommendation of the Active Partner, the General Meeting re-elects

Mr Robert Peugeot

as Supervisory Board member.

In accordance with Article 18.2 of the Articles of Association, 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 2010. Mr Peugeot has indicated that he is prepared to serve for another term of office and that he is not legally prohibited from doing so in any manner whatsoever.

## Fourteenth resolution

**Appointment of a new Supervisory Board member**

On the recommendation of the Active Partner, the General Meeting elects

Mr Charles-Éric Bauer

as Supervisory Board member.

In accordance with Article 18.2 of the Articles of Association, 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 2010.

Mr Bauer has indicated that he is prepared to accept this term of office and that he is not legally prohibited from doing so in any manner whatsoever.

## Fifteenth resolution

**Appointment of a new Supervisory Board member**

On the recommendation of the Active Partner, the General Meeting elects

Mr Matthieu Dumas

as Supervisory Board member.

In accordance with Article 18.2 of the Articles of Association, 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 2010.

Mr Dumas has indicated that he is prepared to accept this term of office and that he is not legally prohibited from doing so in any manner whatsoever.

## Sixteenth resolution

**Appointment of a new Supervisory Board member**

On the recommendation of the Active Partner, the General Meeting elects

Mr Guillaume de Seynes

as Supervisory Board member.

In accordance with Article 18.2 of the Articles of Association, 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 2010.

Mr de Seynes has indicated that he is prepared to accept this term of office and that he is not legally prohibited from doing so in any manner whatsoever.

## Seventeenth resolution

**Purchase by the Company of its own shares**

The General Meeting, acting under the quorum and majority requirements applicable to Ordinary General Meetings, having reviewed the Executive Management's Report, the special report on the Company's share buyback programme and the circular describing the programme filed with the Autorité des Marchés Financiers, resolves:

1) to terminate the share buyback programme approved by the Ordinary and Extraordinary General Meeting of 5 June 2007 under the sixth resolution;

2) to adopt the programme described below, and for this purpose:

◆ authorises the Executive Management, with the option further to delegate this authority, in accordance with the provisions of Articles L 225-209 *et seq.* of the Code de Commerce, to buy shares in the Company, within the legal limit, while ensuring that the Company shall not at any time own more than 10% of its own share capital as of the date of this meeting, it being specified that the number of shares purchased by the Company in view of holding them and subsequently to deliver them in payment or exchange under the terms of a merger, de-merger or asset transfer shall not exceed 5% of the share capital;

◆ 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 under a contract that complies with the AFEI (French Association for Investment Firms) 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 for shareholders resulting from capital increases, this purpose being contingent upon adoption of a special resolution to this effect by the Extraordinary General Meeting;

– retaining the shares, in order subsequently to transfer the shares in payment or in exchange for a takeover bid initiated by the Company;

– allotting the shares to employees and authorised Corporate Executive Officers of the Company or an affiliated company, by granting options to purchase the Company's shares in accordance with Articles L 225-179 *et seq.* of the Code de Commerce, or by granting bonus shares 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 a Company share ownership or savings plan;

– delivering the Company's shares for the exercise of rights attached to negotiable securities entitling the holders to the allotment of shares in the Company, either by conversion, exercise, redemption or exchange, in accordance with stock market regulations;

◆ resolves that the purchase price per share shall be no higher than two hundred (200) 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 and allotment of bonus shares; 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 allocated to this share buyback programme shall be six hundred fifty (650) million euros;

– 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 (excluding the sale of puts), at such times as the Executive Management shall deem appropriate, including times of public offerings, within the limits defined by 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;

◆ grants full powers to the Executive Management, with the option further to delegate such powers:

– 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 expiring at the end of the Annual General Meeting convened to approve the financial statements for the year ended 31 December 2008 or eighteen months at most from the date of this Meeting.

## Eighteenth 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

## Nineteenth resolution

**Authorisation to cancel some or all of the shares purchased by the Company (Article L 225-209)**
The General Meeting, acting under the quorum and majority requirements applicable to Extraordinary General Meetings, having reviewed the Executive Management's Report, the Supervisory Board's Report and the Statutory Auditors' Report, and in accordance with Article L 225-209 of the Code de Commerce, hereby authorises the Executive Management to cancel some or all of the shares acquired by the Company in connection with the share buyback programme covered by the seventeenth 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:
– 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 capital decreases resulting from the cancellation(s) 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 5 June 2007 and cancels the unused portion of that authorisation.

## Twentieth resolution

**Grant of authority to the Executive Management to issue share purchase warrants during times of public offerings**

The Extraordinary General Meeting, voting in accordance with the quorum and majority requirements for Ordinary General Meetings, having reviewed the Executive Management's Report and the Statutory Auditors' Special Report, resolves to delegate to the Executive Management of the Company its authority to undertake, during times of public offerings for shares of the Company ("the Offering"), under the conditions provided by Article L 233-32 of the Code de Commerce, and pursuant to the provisions of Articles L 225-129-2, L 228-91 and L 228-92 of the said Code, to issue share purchase warrants, in France and in other countries, giving the holders the right to subscribe for shares in the Company, immediately or in the future, to be issued through a capital increase, while retaining the shareholders' preferential subscription rights.

The General Meeting resolves that the Executive Management may allot the warrants issued pursuant to this authorisation to all shareholders of the Company who retain that status before the close of the public offering period; it fixes the maximum number of warrants that may be issued at two warrants per existing share as of the date of issue of such warrants.

The General Meeting resolves that the nominal amount of the capital increase resulting from the exercise of the warrants, and that the Executive Management may effect pursuant to this authorisation, shall not exceed a ceiling of one hundred ten million euros (110,000,000), not taking into account the par value of the equity securities to be issued, if any, as a result of any adjustments made, in accordance with the law, to safeguard the rights of holders of securities giving immediate or future rights to subscribe to equity securities in the Company.

The General Meeting duly notes:

– that this authorisation entails giving the Executive Management the option to determine the subscription price of the shares that are liable to be issued in compliance with the aforesaid provisions of the law, and, if applicable, to grant rights to subscribe on preferential terms to the warrant holders;

– that this authorisation automatically entails the waiver by the shareholders of their preferential subscription rights to subscribe to the shares to which said warrants may give entitlement in favour of the holders of warrants giving immediate or future access to equity securities in the Company;

– that if this authorisation is implemented, the warrants issued shall automatically be cancelled in the event of and immediately upon the failure, expiration, cancellation or withdrawal of the Offering and any potential competing Offering.

The General Meeting grants all necessary powers to the Executive Management:

– to carry out this authorisation as provided by law;

– to determine the terms and conditions for exercising the warrants, which shall be a function of the terms of the Offering and any potential competing Offering, and all other characteristics of such warrants;

– to inform the Autorité des Marchés Financiers of its decisions under the terms of this authorisation;

– 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 amend the Articles of Association accordingly, and, more generally, to take all measures necessary successfully to complete any issue.

This authorisation is granted for a period of eighteen (18) months. It supersedes the authorisation granted under the eleventh resolution adopted by the Combined General Meeting of 6 June 2006, for the remainder of the term of that authorisation.

## Twenty-first resolution

**Grant of authority to the Executive Management to carry out capital increases reserved for employees**
The General Meeting, acting under the quorum and majority requirements applicable to Extraordinary General Meetings, having reviewed the Executive Management's Report and the Statutory Auditors' Special Report, 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 443-1 *et seq.* of the Code du Travail:
– authorises the Executive Management, with the option further to delegate this 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, by issuing shares or negotiable securities giving entitlement to the Company's share capital and reserved for members of a company or group employee stock ownership plan;
– resolves that the ceiling of this delegation of authority is independent and separate, and that the amount of any capital increases resulting therefrom shall not count against the combined ceiling for all share issues carried out pursuant to the authorisations granted under the eleventh, twelfth and thirteenth resolutions adopted by the Combined General Meeting of 5 June 2007;
– resolves that this delegation of authority entails the waiver by the shareholders of their preferential subscription rights to the equity securities and negotiable securities to be issued pursuant to this resolution in favour of those persons belonging to a company or group employee stock ownership plan, and the waiver of their preferential subscription right to subscribe to any shares to which the negotiable securities issued pursuant to this authority may give entitlement;
– resolves, pursuant to Article L 443-5 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 negotiable securities giving rights to the Company's capital 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 fifteenth resolution approved by the General Meeting of 5 June 2007, and within the limitations stipulated by Article L 443-5 of the Code du Travail, the Executive Management may award bonus shares or negotiable securities giving rights to the Company's capital as part of the employer top-up scheme;
– resolves that this authorisation shall be valid for a period of 26 months as from the date of this meeting;
– grants all powers to the Executive Management, with the option further to delegate such powers, for the following purposes:
• to determine all terms and conditions of the transaction(s) to be carried out, and more particularly:
- to determine the terms and conditions of any issues carried out pursuant to this authorisation, and in particular to determine the amounts to be offered for subscription, the issue price, dates, period, terms and conditions pertaining to subscription, payment, delivery and dividend ranking of the shares or negotiable securities giving entitlement to the Company's capital;
- 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 authorisation cancels and supersedes the authorisation granted under the fourteenth resolution adopted by the Combined General Meeting of 5 June 2007, for the remainder of the term of that authorisation.

## Twenty-second 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

# Overview of the Hermès Group and characteristics of Hermès International

## OVERVIEW OF THE HERMÈS GROUP

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 the consistency of style and image of each brand name 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, Comptoir Nouveau de la Parfumerie, Compagnie des Arts de la Table, La Montre Hermès and Hermès Intérieur & Design (amounts received in 2007 are shown on page 189).

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 segments.

The scope of consolidation encompasses 87 subsidiaries and sub-subsidiaries.

## CHARACTERISTICS OF HERMÈS INTERNATIONAL

**MAIN ADMINISTRATIVE OFFICE**
13-15, rue de la Ville-l'Évêque, 75008 Paris.
Legal department
20, rue de la Ville-l'Évêque, 75008 Paris.

**COMMERCIAL AND COMPANY REGISTER**
The Company is registered with the Paris Commercial and Company Register under number 572 076 396 APE code 7010 Z.

**DATE CREATED**
1 June 1938.

**DATE OF INITIAL PUBLIC OFFERING**
3 June 1993.

## Articles of Association of Hermès International (commented)

(updated following Executive Management's decisions of 7 January 2008)

*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* 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 (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 to 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 authorised share capital is ***€54,105,499.14***. It is made up of ***106,089,214*** 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 amount of share capital was changed following the Executive Management's decision of 7 January 2008, formally recording the exercise of stock options during the second half of 2007. The par value of the shares is €0.51, after two three-for-one stock splits carried out since the initial public offering, on 6 June 1997 and 10 June 2006.

**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 de-merger.

**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 each 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;
- 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 shall automatically lose his status as Active Partner *ipso jure*; the Company shall not be dissolved.

Neither shall it 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, financial, 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, née 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.

> 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, receivership, or bankruptcy; 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 General Meeting, with the approval of the Active Partner or, if there are several Active Partners, with their unanimous approval. Under the terms of the Articles of Association, 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 appear in the Executive Management's report on corporate governance (pages 13 and 14).

**18 - SUPERVISORY BOARD**

> The composition of the Supervisory Board is described in the report from the Chairman of the Supervisory Board (page 22).

**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 their decision of 23 March 2005, the Active Partners increased the number of Supervisory Board members from six to nine.

Supervisory Board members may be natural persons or legal entities.
At the time of their appointment, Supervisory Board members that are 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.
All Supervisory Board appointments are renewed every three years during the Annual General Meeting. All appointments, whether to replace a Supervisory Board member or otherwise, are made for a term ending on the date on which all Supervisory Board appointments are to be renewed.
**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 22).

**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-Chairman 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 or 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 Auditors, at the same time as the 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 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 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”.

**20.5 -** The Active Partners must consult the Supervisory Board prior to taking any decisions concerning:
- strategic options;
- consolidated operating and investment budgets; and
- proposals to the General Meeting to distribute share premiums, reserves and 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.

The Supervisory Board’s Report for the year ended 31 December 2007 appears on page 183.

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, a fixed sum per year, the amount of which is determined by the Ordinary General Meeting of shareholders, 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 laid down 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 reg-

istration of their shares, which is attached to the postal vote or proxy form.
Shareholders may vote by mail or by proxy; postal vote and proxy forms must be received by the Company no later than three days before the date of the meeting.

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.
**24.3 -** 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 such approval.

**25 - FINANCIAL YEAR**

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 sum 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 laid down 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 winding-up dividend is distributed amongst the shareholders.

## Operation of Émile Hermès SARL, Active Partner

Émile Hermès SARL is a *société à responsabilité limitée à capital variable* (limited company with variable capital). Its partners are the direct descendants of Mr Émile-Maurice Hermès and his wife. Émile Hermès SARL's Executive Chairman is Mr Bertrand Puech, a grandson of Émile Hermès. The company is governed by a Management Board.

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

The authorised share capital is €343,840 and the statutory share capital at 31 December 2007 was €105,104.

It is divided into 6,569 shares with a par value of €16 each. As at 31 December 2007, Émile Hermès SARL had total assets of €9,145,597.04 including net income of €1,803,188.62 for the year then ended.

### ◆ Corporate purpose

The Company's sole purpose 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, née Julie Hollande; and
– their spouses, but only as beneficial owners of the 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 unencumbered by any liens or commitments to third parties equal to 9,000 (nine thousand);
– or the beneficial or legal ownership of a number of Hermès International shares unencumbered by any liens or commitments to parties equal to 18,000 (eighteen thousand).

### ◆ Powers

In accordance with Article 14-5 of the Articles of Association, it is company policy that the Executive Chairman of Émile Hermès shall act in accordance with the Management Board's recommendations in exercising the following powers:
– nomination and revocation of the Executive Management of Hermès International, on the considered recommendation of that company's Supervisory Board;
– on the Supervisory Board's recommendation:
• defining Hermès International's strategic options,
• determining the consolidated operating and investment budgets of Hermès International,
• deciding on any proposal to the General Meeting of Hermès International pertaining to the appropriation of share premiums, reserves or retained earnings;
– formulating recommendations to the Executive Management of Hermès International on all issues of general interest for the Group;
– authorising 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");
– authorising any sureties, endorsements or guarantees and any pledges of collateral and encumbrances on the property of Hermès International, whenever the claims guaranteed amount to more than 10% of the net worth;
– authorising the creation of any company or the acquisition of an interest in any commercial, industrial, financial, movable or immovable property, or any other operation, in any form whatsoever, whenever the amount of the investment in question is more than 10% of the net worth; and
– approving the resolutions adopted by the General Meeting of Hermès International except those relating to the nomination and revocation of members of the Supervisory Board of Hermès International, the nomination and revocation of the Statutory Auditors, the appropriation of net profits for the year and the approval of related-party agreements that are subject to approval by the shareholders.

The Management Board shall adopt resolutions by a simple majority of members present or represented. In the event of a tie, the Executive Chairman shall cast the deciding vote.

◆ **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 Company's Management Board and of Hermès International's Supervisory Board whenever they deem it appropriate.

The joint council is an institution designed to enable broad collaborative efforts between the Active Partners' 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 the Company and 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 of Hermès International may make all decisions or issue all recommendations within their jurisdiction in a joint council meeting.

# Persons responsible

## 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 Chairman

## DECLARATION BY PERSONS RESPONSIBLE FOR THE SHELF-REGISTRATION DOCUMENT

To the best of our knowledge, having taken all reasonable care 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 materially 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 and financial position of the company and the group of companies included in the consolidation as of 31 December 2007, and of the results for the year then ended, and the Executive Management's Report accurately depicts the trend in the Company's business operations, financial results and financial condition of the Company and the group of companies included in the consolidation, as well as a description of the main risks and uncertainties to which they are exposed.

We have obtained a letter from the Statutory Auditors certifying that they have verified the financial and accounting information provided in this shelf-registration document and that they have read the document as a whole.

Paris, 11 April 2008
The Executive Management

Patrick Thomas

Bertrand Puech
Émile Hermès SARL

## Auditors

### STATUTORY AUDITORS

**Deloitte & Associés**
185, avenue Charles-de-Gaulle
92200 Neuilly-sur-Seine
Represented by Mr David Dupont-Noel
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.
Member, Compagnie Régionale des Commissaires aux Comptes de Versailles.

**Didier Kling & Associés**
41, avenue de Friedland
75008 Paris
Represented by Messrs Didier Kling and Christophe Bonte
First appointed at the Annual General Meeting of 31 May 1999.
Term of appointment expires at the Annual General Meeting convened to approve the 2010 accounts.
Member, Compagnie Régionale des Commissaires aux Comptes de Paris.

### 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 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, he is appointed for the remainder of his predecessor's term.

## INFORMATION ON FEES PAID TO AUDITORS AND ADVISORS

Fees paid to the Statutory Auditors and to members of their networks in 2007 are broken down as follows:

in millions of euros

| | Deloitte network | | | | Didier Kling & Associés | | | |
|---|---|---|---|---|---|---|---|---|
| | 2007 | Alloc. | 2006 | Alloc. | 2007 | Alloc. | 2006 | Alloc. |
| **Auditing** | | | | | | | | |
| Auditing of accounts | 1.3 | 93% | 1.1 | 88% | 0.1 | 100% | 0.1 | 100% |
| *– Hermès International (parent company)* | *0.2* | *18%* | *0.2* | *19%* | *0.1* | *42%* | *0.1* | *72%* |
| *– fully-consolidated subsidiaries* | *1.0* | *75%* | *0.9* | *69%* | *nm* | *58%* | nm | 28% |
| Other legal and related engagements | 0.1 | 6% | 0.1 | 8% | – | – | – | – |
| *– Hermès International (parent company)* | *0.1* | *6%* | *nm* | *2%* | – | – | – | – |
| *– fully-consolidated subsidiaries* | – | – | *0.1* | *6%* | – | – | – | – |
| *Sub-total* | *1.3* | *99%* | *1.2* | *96%* | *0.1* | *100%* | *0.1* | *100%* |
| **Other services** | | | | | | | | |
| Legal, tax and labour matters | nm | 1% | nm | 4% | – | – | – | – |
| *Sub-total* | – | *1%* | *nm* | *4%* | – | – | – | – |
| **TOTAL** | **1.3** | **100%** | **1.2** | **100%** | **0.1** | **100%** | **0.1** | **100%** |

nm: not material.

The imbalance between the two audit firms is due to the fact that Deloitte is in charge of auditing for nearly all of the Hermès Group's foreign subsidiaries.

## Cross-reference table

The following table cross-references this document with the main headings required under EC regulation 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".

## Reconciliation with Management Report

(Articles L 225-100 *et seq.*, L 232-I, II and R 225-102)

## Reconciliation with annual financial report

(Article 222-3 of the AMF General Regulation)

## 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:

– for the year ended 31 December 2005: consolidated financial statements, parent company financial statements and Statutory Auditors' reports thereon, appearing in the shelf-registration document filed with the Autorité des Marchés Financiers on 27 April 2006 under number R06-041, on pages 71-130, 185-203 and 207-208, respectively;

– for the year ended 31 December 2006: consolidated financial statements, parent company financial statements and Statutory Auditors' reports thereon, appearing in the shelf-registration document filed with the Autorité des Marchés Financiers on 25 April 2007 under reference number R07-043, on pages 77-130, 133-153 and 158-159, respectively.

All other information incorporated into this shelf-registration document by reference, other than the information described above, is superseded or updated by the information contained herein. Copies of this shelf-registration document are available upon request, as described in Volume 1, page 94, under the section entitled "Shareholder's Guide".

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