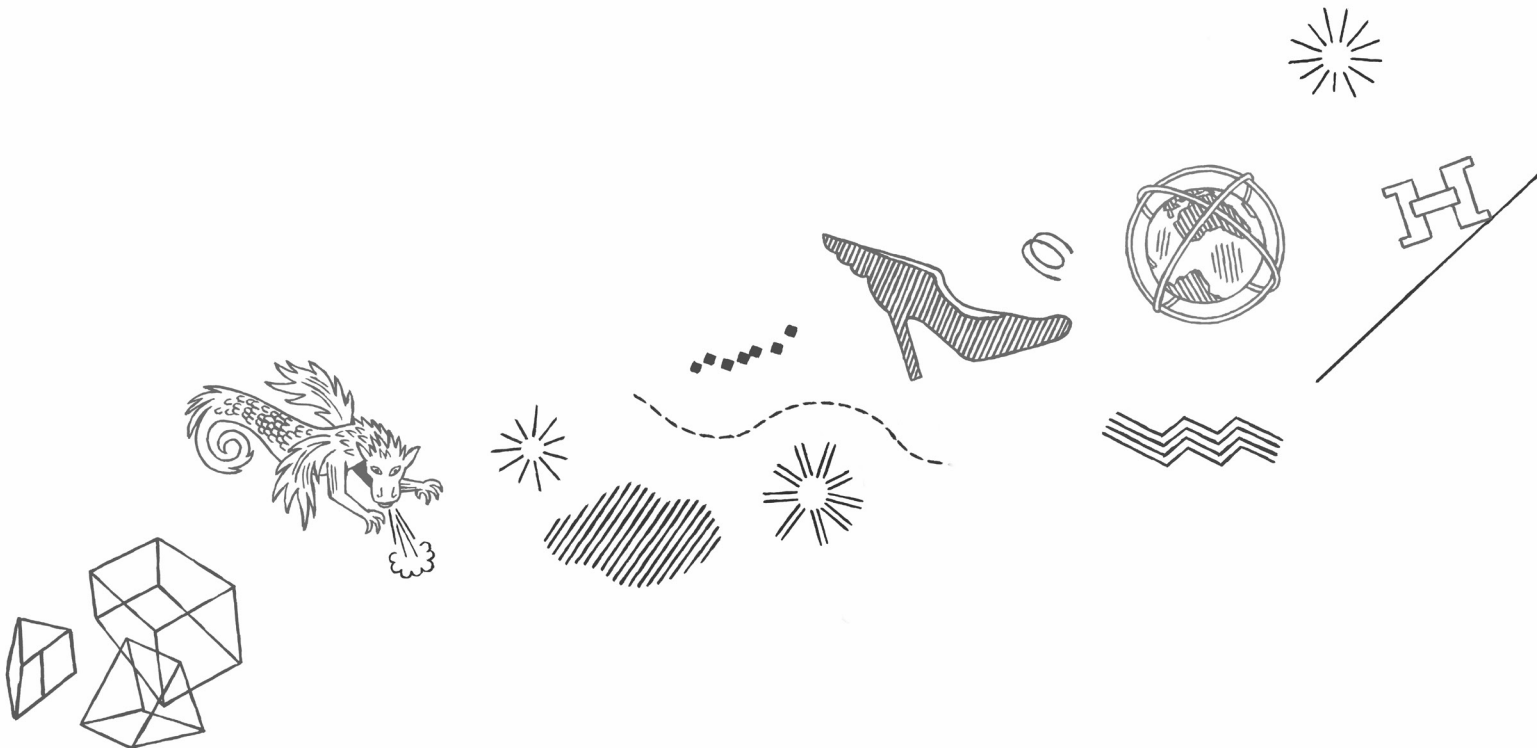


# 2019 UNIVERSAL REGISTRATION DOCUMENT

## CSR EXTRACT NON-FINANCIAL PERFORMANCE STATEMENT (NFPS)



# 2

## CORPORATE SOCIAL RESPONSIBILITY

NFPS

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## 2.4.2 CHALLENGE: MANAGING RAW MATERIALS SPARINGLY

In addition to the House's initiatives aiming at limiting the consumption of materials, its artisanal model has always included usage optimisation and measures against materials waste in its activities. Each *métier* and production unit commits to use materials wisely throughout their lifecycle, to reduce waste and to promote recycling.

### 2.4.2.1 POLICY

The Hermès Group's policy evolves around using raw materials wisely. Inspired by circular economy principles, the Hermès Group has launched initiatives promoting materials reuse, internally or externally, in order to limit overall materials consumption. Besides, Hermès regularly examines different ways to reduce the waste generated by its activities.

### 2.4.2.2 MEASURES IMPLEMENTED AND RESULTS

The raw materials used in the manufacture of Hermès products undergo a rigorous selection process to identify those which meet the House's stringent quality and the sustainable use of product requirements. . This policy helps to best align purchases with needs and thereby reduce waste. Each *métier* works to constantly improve the use of these rare and precious materials, consuming only what is necessary.

As detailed below, the Group has also launched a number of initiatives to reuse its material, following a circular economy logic, for the most representative métiers in terms of materials consumption.

### Leather

The leathers used by Hermès are rare and of exceptional quality. Our rigorous selection process is guided by our desire to create sustainable products. As Robert Dumas said: “a luxury product is one that can be repaired”. Hermès leather goods are made to last and to be passed on. As such, our cleaning and repairing service is being developed with the opening of a second dedicated workshop at our Pierre-Bénite production site to meet the growing demand for solutions to prolong the life of leather goods.

The very sparing use of leather is one of the main concerns for production units. As soon as cutter's artisan join the House, they are trained to cut exactly the right amount of leather. After taking their first steps, they are supported every day by their foremen to nurture this culture of optimisation, in particular by matching different models cut out of the same skin. Coordination among production units is managed on a daily basis to optimise the use of offcuts and skins. A Best Practices Guide is reviewed annually at each leather goods manufacturing site and optimisation is monitored monthly with all sites. This guide is gradually supplemented with new best practices tried out by cutter's artisans with positive results. In 2019, in support of these common standards, 69% of the sites were assessed by the central team (Leather Goods & Saddlery division's production management) on the enforcement of best practices in leather goods. In addition, the sites hides' consumption target, managed on a monthly basis, makes it possible to achieve 98.8% optimisation. This helps to ensure that the quantity of hides used, measured in surface area, continues to improve from one year to the next. In addition, the diversity and wealth of our collections represent an unrivalled opportunity for optimal use of our exceptional leathers.

### Textile division

Once the raw materials have been provided (essentially silk and cashmere), the Textile division takes over all processing tasks: weaving, printing, finishing, fabrication. This unique integrated process makes it possible for us to control the use of materials down to the last thread. All manufacturing units in the division are involved in very active waste and offcut minimisation programmes, part of the quality initiative that drives the whole sector. To further reduce waste, in 2018 the division introduced a new production logic that involves working with “exactly enough” as opposed to “surplus” supplies.

Optimum use of materials is an ongoing objective of the division production model. For example, certain silk accessories are produced from wide swathes of silk to reduce the amount of silk waste and limit the energy and water required throughout the process. In the same way, the lengthening of printing tables at Ateliers AS enabled substantial savings in dye and textiles, by reducing offcuts. Finally, a working group of

representatives from each HTH division unit was launched at the beginning of the year to optimise cashmere use. This led to a reduction in samples taken for quality control. In 2019, we also began to define optimal cashmere use to ensure the surface used in printing is as close as possible to the woven surface without comprising on quality. This work will continue in 2020.

Through the close monitoring of products initially discarded, and a strong development dynamic with the métiers, up-cycling has led to the design of new products, including one-of-a-kind items, overdyed products or uniforms for sales associates. Rejects were thus reduced by 30% this year.

The division is also working with a number of different service providers to find ways to re-use and recycle textile waste and production offcuts. A multidisciplinary working group has begun to work with partners in France and abroad to research methodologies for recycling silk and cashmere. Several tonnes of materials were used in tests for the recreation of new materials or clothes. This has led to a project for jumpers with 20% recycled silk, bobbins of recycled silk and cashmere thread are being trialled by the manufacturers, silk/cashmere covers have been piloted and we are currently testing sound insulation panels also made from silk and cashmere offcuts in HTH's temporary premises. This proliferation of initiatives is aimed at putting in place industrial processes to up-cycle most of our production waste.

Since June 2018, a multidisciplinary team from the Ateliers AS and SIEGL production sites and process departments has been seeking ways to reduce adhesive consumption at the printing sites. Adhesive is vital for this process because it holds the textile in place during printing but it contains solvents which are harmful to health or dangerous when emitted into the atmosphere. The Group's work is twofold: finding substitutes for the adhesives currently used and improving the placing procedure to reduce consumption.

In addition to these major areas coordinated by the division, each site also suggests initiatives for the responsible use of its materials and reduction of its consumables. For example, the AEI site is analysing the quantity of materials not used for packaging items, alongside modifications to its packing machines and has also reviewed delivery conditions with some of its clients. At Gandit, despite more stringent material quality requirements, the number of printing frames recycled is constantly growing (17% in 2019 compared to 10% in 2018). Recycling is also a priority for ATBC Challes (horsehair weaving) where warping cones are systematically re-used. In a similar vein, the fixing and rinsing workshops at Ateliers AS and SIEGL have equipped their washing machines with an automatic dosage system. In addition to reducing the teams' exposure, this system helps to optimise the consumption of soap and related products. For its packaging, the HTH logistics centre uses only boxes derived from recycling facilities that are then reused or recycled by the service provider Paprec.

### Home Division

A process has gradually been implemented whereby the “blanks” (porcelain pieces before application and firing of the decor) are positioned based on their own characteristics, all different, so that they receive the decoration that is best adapted to them. Using this method has enabled us to prevent a significant number of pieces from being rejected each year.

At Beyrand, the introduction of CTS (Computer-to-Screen) digital engraving of the printing frames has reduced the use of traditional film and the consumption of water and development products (fixer and developer).

To optimise the use of its material resources, in 2019 Puiforcat began to re-organise the storage of the different raw materials to make the best possible sizes and quantities available and, thereby, avoid superfluous waste.

### Cristallerie

Thanks to the technology adopted for the new gas melting furnace, in operation since 2016, more cullet can be recycled compared with the previous facility, thereby reducing the consumption of raw materials and the waste transportation flows as well as the energy required for operation of this furnace.

Waste reduction, a major economic and ecological challenge for Cristallerie Saint-Louis, is closely tracked operationally. Cullet recycling increased by 65% in 2019 despite the difficulties encountered in the operation of the new gas melting furnace. This recycling rate, which is high compared with the sector average, remains an area to be worked on and stabilised over the coming months.

### Wood

For Hermès, wood is a noble material that must be managed in the best possible way. The House gathers information about the wood used, primarily for the Home *métier* and shop's furniture. For the purposes of supply chain traceability all the countries of origin, species used, forest types (plantation or natural forest) and supplier certificates are monitored and recorded. The risk assessment checks for corruption in the country and the species appearing on the IUCN and CITES red lists. Recently, the Hermès Group commissioned the WWF to conduct a full analysis of the wood and paper supply chain, including the risk criteria applied to suppliers. There is ongoing commitment towards our suppliers and we are also seeking FSC certification for 100% of our paper bags. To demonstrate our commitment, Hermès completed the CDP Forest questionnaire for the first time in 2019 and obtained a B rating, demonstrating the success of its efforts.

### Petit h (see section 1.5.7.7) and internal reuse of materials

In addition, the efforts of Petit h and the artistic department have made it possible to create exceptional products and temporary collections from unused materials from the House's various *métiers* (leather, silk, porcelain, textiles, etc.).

Petit h offers a unique creation process by providing creators and craftspeople, working together in the same workshop, with materials and objects discarded by the production workshops of the Hermès Group and its brands. These materials are offered a new life.

Drawing inspiration from Petit h, the *métiers* departments (Leather Goods division, fashion accessories) have also designed products that can be made with the aim of improving the utilisation rate of available leathers, reducing waste and reusing offcuts of materials from production. Collections of accessories have been on offer for several seasons to stores around the world, made from stocks of discarded materials or offcuts. In 2018, several thousand products were made in this way. Petit h is also a lab used by the *métiers* to identify novel up-cycling solutions which are then sold on a wider scale.

### After-sales

The use of skilled craftsmanship to create Hermès objects means that they boast the advantage – a rare feature in today's world – that they can be repaired. This prolongs their life and delights our customers. This expert service is provided by a dedicated team of 45 people and 33 expatriate craftspeople. The After-Sales service covers all the House's *métiers*. These experienced craftspeople are seconded through an in-house mobility scheme.

The training for an expatriate craftspeople lasts seven months during which they learn to work on all types of products (bags, small leather goods, leather jewellery accessories or belts). They also take language lessons and are trained on the IT systems.

The presence of these craftspeople in five European cities, including France, six cities in Asia and three in the United States, places us closer to our customers to handle their requests, most of which are due to product wear and tear.

In 2019 After-Sales department received almost 100,000 requests, mainly for bags and luggage, jewellery accessories, belts, jewellery, footwear and silk. After-Sales also offered new services in 2019, such as over-dyeing of silk scarves and cleaning sneakers, which extend the life of the products. All repair requests are examined, without exception, as are all small repairs to extend product life: in this way the House accompanies the daily wear and tear of its products over time.

This service to customers marks the House's uniqueness and promotes product durability to customers, with 700 different services offered, no time limit on repairs, personalised, tailored solutions and the regular launch of new services.

### Management of unsold stock

The Hermès business model, based on the stores' freedom to purchase and the desirability of the products, means unsold stock volumes are naturally very low. Local subsidiaries arrange inter-store transfers to optimise sales at regional level. The retail subsidiaries hold special sales to the public to offer products which have not been sold in the stores to a wider audience. This happens twice a year in France, at the Paris Palais des Congrès, but also in all parts of the world. There is a year-round staff sale system for employees, another channel to limit wastage. In addition, for several years now, donations of de-branded products have been made to different partner associations. In France, for example, these donations are considerable. The House will comply with the French regulations on recycling of unsold stocks by 2022.

***In Japan, a love passed on from mother to daughter***

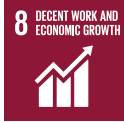
*Eriko will never part with the Kelly she was given by her mother. Contemplating it, with the patina of the years and habits of the person who carried it and loved it before her, she feels this emotion so accurately described by the Japanese writer Jun'ichir Tanizaki, who wrote: "To a superficial brilliant shine we have always preferred deep, slightly muted glints, this gently altered brilliance which irresistibly evokes the passage*



*of time." To this young woman, a secretary at Tokyo university, there is no object more precious in the world than this bag that has been refurbished and repaired several times. She knows where her long-time companion came from and what it has lived through. Every scratch, every replaced stud, holds so many images and memories. Its dark contours hold much more than her simple everyday objects. Like a diary, it contains a story passed on from mother to daughter.*

### 2.4.3 CONTRIBUTION TO THE UN'S SUSTAINABLE DEVELOPMENT GOALS (SDGs)

“Raw Materials” constitute one of the main challenges of the sustainable development strategy, and measures taken by the Hermès Group are consistent with the following SDGs (the numbers refer to the UN's official typology):



#### No. 8: Decent Work and Economic Growth

- ◆ 8.4: “Improve progressively global resource efficiency in consumption and production and endeavour to decouple economic growth from environmental degradation”.  
The focus on the use of materials is reflected in particular in efforts to optimise leather-cutting processes (reduced material requirements for equivalent production) but also in active management of the by-products generated.



#### No. 13: Climate Action

- ◆ 13.1: “Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries”.  
The various Group entities work to reduce energy consumption and carbon emissions. The craftsmanship mode of production consumes little energy and the location of industrial sites in France enables upstream reduction of logistical flows. Hermès has been contributing to the Livelihoods Fund since 2012 which offsets part of its carbon emissions.



#### No. 12: Responsible Consumption and Production

- ◆ 12.2: “Achieve the sustainable management and efficient use of natural resources”.  
Optimising the use of exceptional materials is one of the daily concerns of the Hermès Group's *métiers*. In a context of scarcity of resources, ethics, security of supply and a healthy economic vision contribute to parsimonious management of materials. A dedicated innovation unit is constantly exploring new avenues to maximise the use of materials.
- ◆ 12.5: “Substantially reduce waste generation”.  
Waste generation is reduced by implementing concrete actions not only to economise at production level but also to prevent waste generation by promoting eco-actions notably. The Hermès Group carefully monitors all waste and ensures, for example, the implementation of selective waste sorting and recycling systems at all of its facilities.



#### No. 15: Life on Land

- ◆ 15.1: “Ensure the conservation, restoration and sustainable use of terrestrial and inland freshwater ecosystems”.  
The Hermès Group utilises its raw materials in strict compliance with regulations governing the protection of species, such as CITES. Moreover, by supporting certain agricultural sectors, it contributes to their sustainability.
- ◆ 15.2: “Promote the implementation of sustainable management of all types of forests”.  
Hermès monitors its consumption of paper (for services and packaging) and mainly uses certified suppliers. The Livelihoods project supports massive reforestation programmes (over 130 million trees have been replanted).
- ◆ 15.4: “Ensure the conservation of ecosystems”.  
In view of its procurement of exceptional natural materials, the preservation of ecosystems is an important issue for the Hermès Group. Several leather goods sites have planted fruit trees, favouring traditional and local varieties, and have planted green spaces as beautiful flower meadows. A beekeeping club looks after the hives at the French production sites. The preservation of wetlands in Louisiana, where certain exotic skins originate from, is another example of this.

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