

2019 UNIVERSAL REGISTRATION DOCUMENT

CSR EXTRACT NON-FINANCIAL PERFORMANCE STATEMENT (NFPS)



2

CORPORATE SOCIAL RESPONSIBILITY

NFPS

2.4	PLANET: RAW MATERIALS	112
2.4.1	Challenge: securing high-quality supplies	112
2.4.1.1	<i>Policy</i>	112
2.4.2	Challenge: managing raw materials sparingly	116
2.4.2.1	<i>Policy</i>	116
2.4.2.2	<i>Measures implemented and results</i>	116
2.4.3	Contribution to the UN's Sustainable Development Goals (SDGs)	120

2.4.1 CHALLENGE: SECURING HIGH-QUALITY SUPPLIES

The durability of Hermès' activities depends on the availability of the high-quality raw materials that are at the heart of the products and are key to the House's unique character.

2.4.1.1 POLICY

The Hermès Group's policy, which has remained constant for decades, involves getting to know its supply chains better, strengthening them to ensure the highest level of quality and ethical compliance and developing them to prepare for future growth.

The attention paid to raw materials begins with compliance with the regulations pertaining to them. This notably means legislative provisions: respecting the Washington Convention (CITES), an agreement between States for the worldwide protection of species of flora and fauna

threatened with extinction, and which can have an impact on the materials used in the Leather Goods division, in the Tanning and Precious Leathers division or some ingredients in perfumes. We must also comply with health regulations (hides from cattle and sheep that were raised for meat) and animal welfare regulations, in a situation where 92% of the hides must meet stringent French or EU legislation.

2.4.1.2 MEASURES IMPLEMENTED AND RESULTS

Leather

Leather is an animal product, specially tanned and made imputrescible, either in a tawery for lamb, sheep and goatskin or in traditional tanneries for hides from cattle or reptiles. Hides used in leather goods are by-products of livestock farming. People sometimes refer to hides as the "5th quarter", which suggests we can consider tanning to be the oldest recycling industry in the world. Hermès uses only full-grain leather, the top part of the skin, without altering it in order to improve its appearance. To maintain consistency in the finished product it also only uses entire hides. Leather reflects the animal's life. It may bear traces of injuries, health issues, like parasites, and other factors. Beautiful skins come from animals that have been well-treated and cared for. Hence, the Hermès Group's demand for high quality helps to improve the industry by encouraging livestock farming methods that respect the animals' welfare.

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

Hermès uses more than 35 different types of leather to make its goods, most of which come from calves raised in France, including our flagship "Box" leather, made using an English tanning technique, but also natural cowhide in our saddlery leather products line and "exotic" leathers such as crocodile, alligator, lizard and ostrich.



One
committee
dedicated to
animal welfare

Calfskin

The House is part of a working group, Interbev (the French interprofessional organisation for meat and livestock), that brings together several French luxury brands as well as abattoirs and integrators. The aim is to define and implement a responsible French calfskin industry by introducing, and ensuring compliance with, skins' full traceability and strict animal welfare standards. This joint study also covers the environmental impact of the farms that breed and feed the animals.

In the firm belief that the traceability of the skins is vital to improving breeding practices and the quality of the skins themselves, the House continued with the laser marking of the raw skins received by the Tanneries d'Annonay and Tanneries du Puy. This laser marking, developed in partnership with the *Centre Technique du Cuir* (CTC - Leather Technical Center), offers traceability of calfskins from the farm to the finished leather. In 2019, 35% of the calfskins tanned in the division's two tanneries were marked. Rolling this equipment out to our suppliers' raw skin sorting lines will be a key challenge over the coming years, as will be the performance of the automatic skin reading devices in the tanneries.

Alongside this working group and our skin marking efforts, in 2019 the House embarked on a study, in conjunction with its partner WWF France, to measure the environmental footprint of the calfskin sector and identify areas for improvement.

Exotic skins

Virtually all of the exotic skins we use come from farms in the United States, Africa and Australia. All Hermès partner farms must comply scrupulously with the rules drawn up under the aegis of the UN for the Washington Convention, which defines protection for endangered species. Hermès requires that its partners meet the highest standards for the ethical treatment of alligators and crocodiles following recommendations by expert veterinarians and local authorities in the United States, such as the Fish and Wildlife Service, the federal nature protection agency. In addition to strict compliance with the Washington Convention, in 2016 Hermès initiated a study with WWF France to assess respect for animal welfare and measure the environmental footprint of the supply chain for alligator skins in the United States. The progress plan drawn up at the end of this study continued to be actioned in 2019.

All the crocodile farming sites the House deals with, including of course those operated by the House, have signed a best practices charter. The charter was introduced in 2009 (an innovation for the profession at the time) and was updated in 2016. These best practices encompass in particular CITES regulations, animal welfare, the farms' environmental

management, employee labour conditions, safety at work and safety of infrastructures. All have undergone one or more internal audits in the last three years.

In 2018, the Tanning and Precious Leathers division took the decision to outsource the audits of the breeding farms and the meat processing and skin inspection sites to secure its relations through independent reviews. Following an initial study and call for tenders, an external consultancy (Bureau Veritas) was selected early 2019 to conduct these audits. The audit protocol linked to the best practices charter was fully reviewed with this partner, capitalising on the latter's expertise in the appraisal of breeding conditions in other animal sectors. The local auditors were also trained in the specifics of crocodile breeding. This audit process is part of a broader "Bureau Veritas Group recognition" of the sites. In 2019, 93% of the crocodile skins purchased by the Tanning and Precious Leathers division came from farms that had undergone an external audit. The farms not audited in 2019 will be audited in 2020. The progress plans drawn up with the farms will be monitored annually with local specialist consultants.

In addition to these efforts, which have been ongoing for over nearly 15 years, the Hermès Group contributes to the improvement of professional standards. Since 2016, Hermès has participated in the ICFA (International Crocodylian Farmers Association) alongside the main players in the industry (farmers, tanners, manufacturers and brands). This association aims to develop and improve crocodile breeding practices by pooling the experience of its members and a scientific community specialised in crocodiles, which has gathered together all practices and existing scientific studies. In 2018 the ICFA accordingly defined a standard aligned with international best practices in the field. A panel of scientists, veterinarians, farmers, brands and specialists in the area of regulations or in ISO compliance thus participated in the approval of this standard. This was then reviewed and amended by the CSG (Crocodile Specialist Group), an NGO member of the IUCN's Species Survival Commission.

The practices thus defined are backed by scientific studies. The founding principle is to evaluate animal welfare throughout the breeding process in a manner that is both objective and measurable. A certification process for the livestock of its founding members was introduced in 2019 with the help of the independent certifying body BSI. All farms that join the ICFA adopt the standard and are thus audited. This means that the division's farms will be audited in 2020. In addition to animal welfare, as defined by the FAWC (Farm Animal Welfare Council) and the Five Freedoms for animals, these audits cover environmental and societal aspects of livestock farming.

In 2019 we paid particular attention to farm biosafety rules which protect the livestock from the introduction of infectious agents. This essentially involved introducing strict requirements for animal transfers on the farms and between farms, writing disinfection instructions and putting in place pest control and animal vaccination programmes. Specialist vets for the species involved guided us in the definition and implementation of appropriate measures.

In the last two years the “lizard” (*Varanus Salvator* in Malaysia) and “python” (*Python Molurus* and *Python Reticulatus* in Vietnam and Malaysia respectively) divisions were also inspected by specialist vets, in collaboration with the Hermès Group’s local partner, the purchasing department and several scientists. These inspections are designed to ensure compliance with current regulations, traceability of the supply chain and that best practices are in place in the facilities.

Each of the aforementioned supply chains also has a system in place to trace individual skins. Thanks to RFID chips on the finished leathers, the areas in the country of collection (Malaysia) or the origin farms (Vietnam) can be traced back, as well as the different stages of animal transport or transit.

To supplement this, a study of the *Varanus Salvator* lizard supply chain in Malaysia was also launched. The goal of this work, which will continue in 2020, is to define best practices regarding: animal welfare (from capture *via* transport to slaughter...), environmental management, employee labour conditions, safety at work including facilities, compliance with CITES regulation and individual skins’ traceability.

Ostrich

In 2017, the House conducted a complete audit of the ostrich breeding sector (animals raised mainly for their meat and feathers), which are used in the production of its leather goods. Based on the conclusions of this audit, since 2018 Hermès has partnered with the South African Ostrich Business Chamber (SAOBC) to promote responsible ostrich breeding. This industry employs 15,000 people and contributes significantly to the social and economic well-being of rural communities. Hermès and the SAOBC were thus the forerunners of a working group which brings together a representative selection of ostrich breeders, processors, scientists, government regulatory bodies, ISO compliance specialists, veterinary specialists in animal protection, NGOs (RSPCA UK) and customers from the ostrich breeding sector. Hermès helped to finance this project which has led to the implementation of a standard, has also provided training for ostrich professionals and has piloted a certification system. The sites certification process will begin in 2020, led by an independent certifying body and steered by the SAOBC. The aim is for the whole sector to be certified by the end of 2022.

Other industries

Finally, the Tanning and Precious Leathers division regularly builds new partnerships and 100% of its subcontractors for leather processing have been audited or undergone HSE inspections over the last five years.

Animal welfare ethics

The Hermès Group policy is to do more than strictly adhering to the laws and regulations in this area. It works constantly with its tanner, tawer and skin supplier partners and, more broadly, with the professional industry bodies. It has put in place a very strict animal welfare policy covering its specific areas of direct responsibility at the reptile farms, extending also to its external partners. The policy is based on the following principles:

- ◆ a commitment to the fundamental principles of animal welfare (Five Freedoms) based on the most recent information supported by the best universities in the world. This essentially involves observing the animals and their behaviour, unlike more traditional practices which overlook the animal in the welfare assessment and focus solely on a physical analysis of resources;
- ◆ a multi-party collaboration to ensure that the animal welfare results obtained meet the requirements of a broad range of stakeholders, primarily the World Wildlife Fund (WWF), Royal Society for the Prevention of Cruelty to Animals (RSPCA UK), South African Ostrich Business Chamber (SAOBC), International Crocodylian Farmers Association (ICFA), Crocodile Specialist Group (IUCN-CSG), South East Asian Reptile Conservation Alliance (SARCA) and other professional organisations in France such as Interveau and Interbev;
- ◆ a formal governance framework: the House has set up an Animal Welfare Committee. An independent welfare expert is a member of this committee which meets at least every six months to update the policy and standards, measure progresses and ensure that resources are in place;
- ◆ implementation of strict best practices, specific to each animal supply, representing local community expectations and covering a broad range of areas such as farming and slaughtering practices, transportation, traceability, employee working conditions, the environmental performance of farms and their safety, the promotion of biodiversity, conservation of species and assistance to communities and populations. These standards aim to eliminate controversial animal welfare practices in these animal supply chains, limit the excessive use of antibiotics (only on prescription from a vet) and prohibit the use of growth hormones;
- ◆ an adapted monitoring system allowing progression of good practices by conducting regular internal, or external, controls and audits in the supply chains. Several audits were conducted in all our supplies in 2019 and are thus representative of all our animal material supplies;

- ◆ Hermès also continued to support the International Crocodilian Farmers Association (ICFA) initiative to draw up and introduce an international certification framework for crocodile welfare and sustainable farming practices at farms (see above). The Group will continue to work with the ICFA to support scientific research and the ongoing improvement of crocodile farming systems.

In addition to animal welfare, these audits cover environmental and societal aspects of livestock farming.

In 2019, 96% (by weight) of the skins used for the manufacture of our products came from by-products of meat production.

It is also important to mention that Hermès does not test its products on animals.

Textile division

The Textile division's activity essentially uses two materials: silk and cashmere. For these two precious fabrics, partnerships have been established for a long time with preferred suppliers.

Silk

The supply chain for high-quality silk relies on a collaboration of more than 20 years with a partner established for over 40 years in the state of Paraná in Brazil, because of the local climate particularly suited to silk farming. This partnership controls the whole production cycle, from silk worm farming, to cocoons production and their raw silk spinning, as well as the mulberry bushes growing from which the leaves are used to feed the silk worms. Silk is special in that it is a renewable product that has a positive impact on the ecosystems, primarily because planting mulberry bushes helps to regenerate the soil and consumes very little water. As the Bombyx Mori silk worm is particularly sensitive to all forms of agrochemicals (they only eat untreated, unpolluted mulberry leaves), they are very good indicators of the quality of the environment: so naturally the mulberry fields have a very rich biodiversity. There is adequate rainwater for growing mulberry bushes so no irrigation is required. The ecosystem sustained by silk production generates revenues for small local farms and over 2,500 families.

There is a dedicated annual budget to develop knowledge, qualitative techniques, sustainable activities and supply chains of these partners. There are many discussions and exchanges, not only between the division and these farms regarding programmes to improve production quality, but also between the division and universities to develop polyculture and permaculture.

Cashmere

Cashmere comes from the Capra Hircus Laniger goat, known as the cashmere goat, which lives in semi-arid regions of Upper Asia where winters are hard and temperatures can fall to -35 °C. The cashmere goat is particularly suited to this climate as it develops an extremely fine thick down under its permanent fleece at the start of winter, which provides effective insulation from the cold. When temperatures rise again, this down is shed naturally during the spring moulting season. When the time

comes – between April and May – the farmers comb the animals by hand to collect this down before it is blown away in the wind. It is this extremely soft fine down that is commonly known as cashmere. For weaving, Hermès selects the most beautiful fine, long and extremely white fibres from the best farms to achieve incomparable softness. The House's historic yarn manufacturer has built strong, long-standing relationships of trust with raw material suppliers, thereby ensuring supplies of an exceptional quality.

The HTH division has direct control over all the processing operations such as weaving, printing, finishing and manufacturing. This integrated process makes it possible to use exactly the right amount of raw materials, to streamline containers and packaging, facilitating the transport of products, and to optimise transport. Fundamental work on sustainable development in the supply chain has been initiated with the support of NGOs present in the breeding areas from which we source our materials. In 2019, an audit of practices was conducted with notably the support of the WWF France. Its conclusions reflected positively on the local practices in place, and led to an improvement action plan that we have already begun to monitor and which will continue in 2020. The objective is ultimately to monitor and support breeders' agro-pastoral practices aimed at preserving the resource and the biotope.

Precious materials

The precious materials used by the Watches division, Jewellery division and Leather Goods division are mainly gold, palladium and diamonds.

Hermès travels France and the world to identify best practices for its precious materials and make them more sustainable. The Hermès Group has had Responsible Jewellery Council (RJC) certification since 2013. The RJC is an international benchmark body for the profession. The audit to renew this certification (Code of Practices), which took place in 2019, was based on increasingly stringent criteria. Initially covering only gold, platinum and diamonds, the new certification rules now include silver and certain precious stones (rubies, emeralds and sapphires). In addition, supply chain management must take account of the OECD recommendations. To this end, the House promises its partners that it will promote the responsibility principles. This does not mean simply taking action with our first tier suppliers but also going further along the chain, as far as mining, for stones, and recycling or refining for metals. Significant transparency and audit work is already bearing fruit, especially for gold and diamonds.

Most of the jewellery is made from gold and silver, using pellets or primed materials such as plates or wires. This gold and silver is 100% recycled (from the European metal recycling chain of the jewellery industry itself or other industries such as electronics). In 2019, the Jewellery division teams visited the sites of half of the smelters in question, covering the vast majority of our volumes. These have CoC ("Chain of Custody") or RJC certification, which set strict requirements in terms of transparency and provenance of the gold, specifically drawing a distinction between industrial recycling and the recycling of bank ingots.

Precious watches are made primarily from gold and platinum using bulk material or primed materials from plates. This gold and platinum are recycled, and provided by a Swiss network that recycles metals from the watchmaking/jewellery sector. The smelter that covers the vast majority of our volumes provides 100% recycled materials. It is certified by the RJC against the CoC standard. In 2019, the watches division teams and two external auditors visited our supplier's site. As of the end of 2019, 100% of the gold and platinum used for the production in the workshops of the Wathches division in Noirmont was recycled. The next stage, already underway, is to complete the mapping of the supply chain for some other components such as clasps and metal bracelets.

The promotion of the CoC standard across the supply chain is a priority for all the *métiers*.

From extraction in the mines to the sale of jewellery, watches or other leather objects in Hermès stores, the House's diamond sector abides by the Kimberley Process and its corollary, the World Diamond Council System of Warranties. All diamonds used by the House are natural and selected in accordance with the Hermès Group criteria. At the time of purchase, the client receives a certificate attesting to this compliance. This certificate traces the diamond from extraction of the raw diamond, to the cutting of its 57 facets, and its trading. Moreover, it also covers the setting in watches, their quality control, their delivery and their in-store sale.

The Kimberley Process, which came into force in 2003 and has been adopted by 81 countries including France, has prevented the arrival on the legal market of "conflict diamond", the sale of which funded guerrillas in unstable countries. The World Diamond Council (WDC) System of Warranties incorporates broader problems, such as working conditions.

Lastly, the gems or "coloured stones" market is more complex with a huge diversity of materials, provenances and players. These supply chains continue to be monitored in 2020, and since 2019 the RJC certification, which has been extended to ruby, emerald and sapphire, can also be promoted. For this category, the Jewellery division has created its own risk analysis grid to guarantee that social and environmental responsibility is a purchasing criterion as equally important as quality. Even if this could lead sometimes to reject certain stones by lack of traceability information.

Home division

At Hermès CATE, orders of plain porcelain and colour prints have been grouped and forecasted to meet the needs of a growing activity. This is key to provide visibility to Beyrand and different partners. A new initiative is in place to obtain commitments to sustainable supplies, over a minimum period of two years, with a requirement to provide advance warning if the situation changes. Regular audits of raw materials suppliers, especially dye suppliers, have continued focusing mainly on HSE (Health, Safety, Environment) and production capacity criteria. In parallel, a plan to secure supply in necessary quality and quantity has been emplaced in collaboration with partners.

In 2019, Puiforcat committed to improve its quality specifications toward its suppliers and subcontractors. As a result, a quality control grid has been created and roll out for semi-finished or finished solid silver cutlery products, including more than 300 products references.

Perfumes division

In 2019, the CNP drew up a code of ethics which translates its CSR commitments in terms of product development. This charter offers guidelines on formula and products development for all players. This charter aims to be a stringent innovation and challenging path for suppliers, a source of inspiration for creation and a trust agreement with customers.

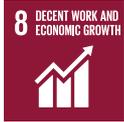
The charter sets out commitments for the full product value chain, from creation *via* production to distribution. CNP objectives are to increase the percentage of natural ingredients in new products, to guarantee the responsibility and sustainability of its sectors and to reduce excessive packaging.



100 %
recycled gold
and silver in
Jewellery

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.

Comprehensive annual report:
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ISBN 978-2-35102-0722

A Hermès publication

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Layout: **Labrador**

