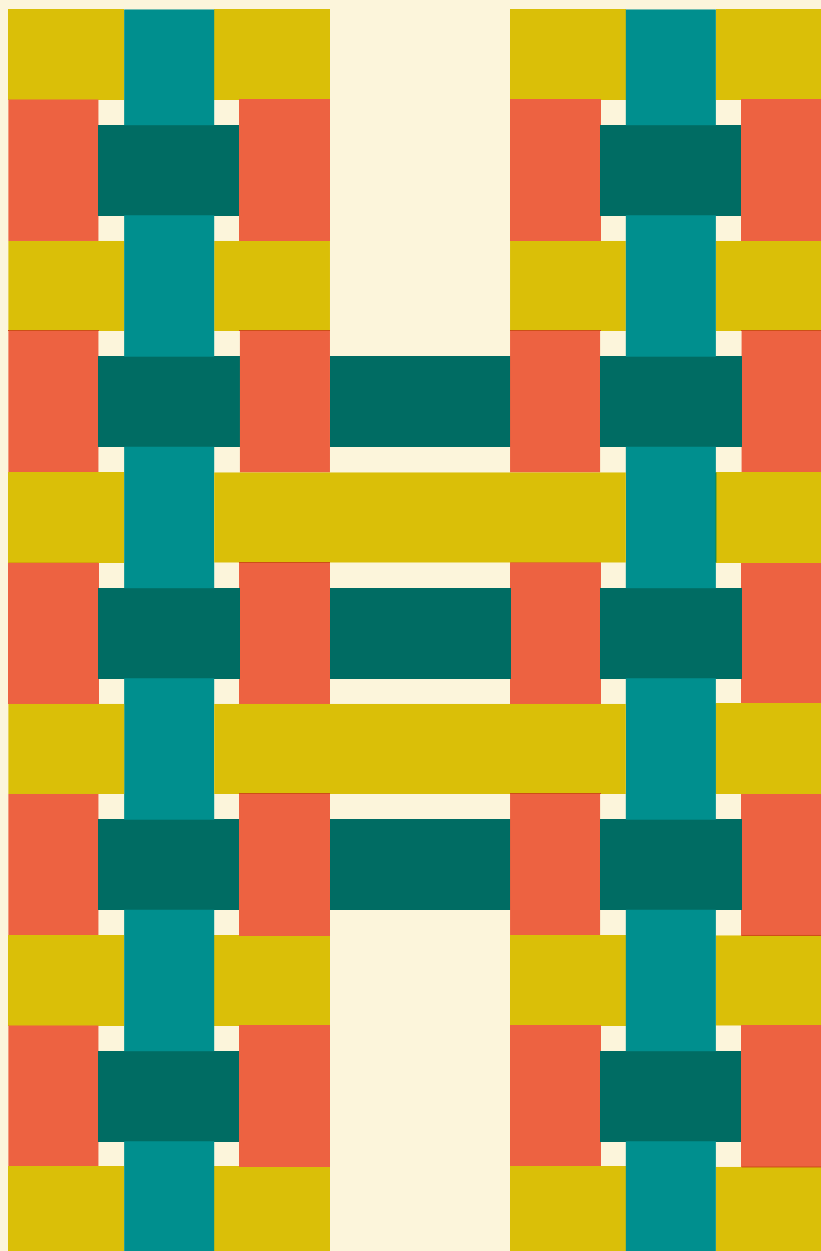


# 2020 Universal registration document

CSR EXTRACT  
Non-Financial Performance Statement (NFPS)



#### 2.7.2.2.1 SASB correspondence analysis

The Sustainability Accounting Standards Board (SASB) is an independent, not-for-profit standard-setting body that develops and maintains reporting standards for financially material sustainable development information. The SASB has established standards specific to 77 activity sectors, including clothing, accessories and footwear (consumer goods).

In the interests of transparency, Hermès is presenting for the first time in 2020, in addition to the information presented in this report, a summary of its actions according to this framework. This publication is also an opportunity to highlight the House's progress.

Hermès' business model is quite unusual compared to the sector taken into account by the SASB.

SASB identifies nine key topics for the sector, five of which concern supply chain (CG-AA-430); very few concern human resources and societal aspects. Hermès operates according to a highly integrated business model (61% of products are produced in-house), with supplier partnerships (the average age of relationships with the top 50 direct suppliers is 20 years), and production in France (for example, for 100% of Leather Goods, which represents half of the Group's sales) and more generally in Europe (80% in total). Although important, topics related to supply chain are not the only ones. Human and societal challenges are also key to the House's sustainability. In terms of risk, the categories identified by SASB are not always the most significant for Hermès. As explained in 2.1.3.1, the Group has identified and prioritised six key topics that structure its reporting and provide material non-financial economic information that is useful, comparable (even if sometimes specific) and evidence-based. In addition, the Group uses the CDP reporting for its carbon, water and forest challenges, and complies with the recommendations of the TCFD (see § 2.5.2.1 of chapter 2 "*Corporate social responsibility*").

As a reminder, the information published by Hermès is independently audited, with a conclusion of "reasonable" assurance, *i.e.* a higher level than that required by French regulations (see § 2.9 of chapter 2 "*Corporate social responsibility*").

The nine key topics of the SASB are organised around four headings, as detailed below:

- A. Chemicals management (CG-AA-250);
- B. Environmental footprint of the supply chain (CG-AA-430a);
- C. Working conditions in the supply chain (CG-AA-430b);
- D. Supply of raw materials (CG-AA-440).

#### A. Chemicals management (CG-AA-250)

§ 2.2.1, 2.4.2, 2.5.1 and 2.6 of this document provide more details on the topics listed below.

##### 1. Compliance of regulated substances (GC-AA-250a.1)

###### General principles

Hermès assumes all its responsibilities as a company that places goods on markets, to ensure the regulatory compliance of all products sold, in all countries where it operates. Two main activities make it possible to respect this commitment, monitoring and validation of products:

- ♦ regulatory monitoring is carried out through a large number of actions with stakeholders and is coordinated by the industrial affairs department:
  - coordination of the Colbert Committee's "Regulations" working group,
  - participation in the "Regulations" working group of Francéclat (Porcelain and Silversmith), the BJOP (Jewellery, Silversmith),
  - regulatory update at least once a year with the CTC (Leather), IFTH (Textiles), FPPP (Porcelain), BJOP (Jewellery, Silversmith), the Fédération du Verre et du Cristal, the Fédération Horlogère,
  - taking into account the monitoring prepared by a specialised service provider (Bureau Veritas) on certain products,
  - update twice a year (during the podiums), with all the House's subsidiaries, on the regulatory changes relating to products in each country. All possible incidents are dealt with in these meetings;
- ♦ product validation from a regulatory point of view, which is carried out at two levels:
  - the annual update of product specifications (CDC), which takes into account all the results of regulatory monitoring. These CDCs include compliance with the most stringent product regulations in the world (all countries to which Hermès exports products). It is generally the European regulations that are the strictest, even if this is not always the case,
  - all products are tested (internally and/or externally), in approved laboratories, against the technical criteria and according to the standards described in the product specifications.

###### Use of controlled substances

The list of controlled substances monitored by the Group (RSL) is the list of controlled substances worldwide. The Group has set a target of compliance with the most stringent regulations, which are generally European regulations. This list is shared within the Colbert Committee. For each substance, the name of the substance, its CAS number, the

most stringent limit in the world and the laboratory control standard for the substance appear.

The Group's list of substances, the permitted limits as well as the control standards, are common to the production units and apply to the suppliers. More specifically, product specifications (including this substance regulation) are shared with suppliers. The approval of products manufactured by suppliers follows exactly the same pattern as products manufactured by the Group. A good example is that of the tanneries: the Leather *métier* purchases hides from the Group's tanneries, but also some of its needs from external tanneries. The "leather" specifications are exactly the same in both cases, and new hides from in-house tanneries or those of colleagues follow the same approval path.

Hermès has put in place preventive processes to restrict or prohibit certain substances, in particular by discussing and signing product specifications with suppliers, which contains all the regulations and technical requirements, as well as the corresponding control methods.

###### Control of materials and products

For its raw materials, Hermès adapts the frequency and type of controls according to the volumes concerned. For very limited volumes, control may be at the unit level, but it is carried out on a statistical basis for larger volumes. Depending on the nature of the materials, which can be technically very different (leathers, textiles, perfume essences, etc.), the volumes and the history of the quality results, a sampling and testing frequency is chosen by the quality department to ensure a maximum confidence level in the quality of incoming materials. In the event of a negative result, the goods are blocked and sampling and controls increased.

With regard to products (whether manufactured in-house or by suppliers), the Group procedure is exactly the same: the aim is to verify, with a maximum level of confidence, that the entity placing the goods on the market has fulfilled its responsibilities. Some of the House's products are subject to checks on every unit for certain characteristics that are considered critical. Others are checked on a regular basis and yet others on a random basis. The great diversity of products (Leather Goods, textiles, porcelain, crystal, silverware, jewellery, watches, ready-to-wear, perfumes, etc.) means that an appropriate control scheme and the proper frequency must be defined for each product.

Hermès uses the services of both in-house and external laboratories for these checks. This decision is made according to the workload of the in-house laboratories as well as the nature of the measurements to be carried out.

In summary, the Group's generic procedure (SOP) is that no raw material or product is supplied without a specification being defined and accepted by the supplier, and without the raw material or the finished product having been tested according to these specifications.

###### List of controlled substances

As explained above, there is a single list of controlled substance (RSL), which includes all substances that are or could be used in products. For each substance, the most stringent regulations in the world are systematically adopted. The aim is to produce products that comply with regulations, regardless of the country in which they are sold.

The RSL is shared within the Colbert Committee working group. This list of substances is not distributed as such. Such distribution would not be of great interest, since this list contains only public information, being a collation of national or federal regulations.

#### Supply chain compliance

All raw materials purchased and all products purchased are subject to specifications. The specifications are discussed and formally approved by the supplier. They include all regulations corresponding to the material and/or product. Any raw materials purchased, just as any products purchased, are subject to technical approval including laboratory tests. All deliveries (raw materials or products) are subject to appropriate quality control. Certain supplies (materials or products) are accompanied by an inspection certificate, the tests having been carried out by the supplier, when this provision is stipulated in the specifications. Tier 1 suppliers undertake to develop the same approach (formal specifications, control procedures, etc.) with their own suppliers (tier 2).

In the event of non-compliance with the specifications for raw materials or products, the goods are blocked and, generally, a second verification check is launched. Hermès does not use non-compliant goods in its production. They are therefore returned for new manufacture or repair when technically possible.

## 2. Management of risks related to the use of chemicals (CG-AA-250a.2)

#### General principles

The Hermès craftsmanship model means that 61% of the House's objects are produced in in-house and exclusive workshops, 80% of which are located in France. The remaining 39% come from suppliers, the vast majority of which are located in France and Europe. Thus, of the top 50 suppliers of materials or products, 52% are in France, 42% are in Europe and only 7% are in countries further afield.

For all sites located in France and Europe, labour legislation requires a chemical risk analysis and the implementation of measures to protect workers. In owned units, as well as those of suppliers, regular audits are carried out to verify that the analyses are properly carried out, and the means of protection are in place and used.

For all sites in France and Europe, the national regulator imposes a limit on the chemical substances released into the air, effluents and soil. In the House's own units, as well as those of suppliers, regular audits verify that each entity is fully aware of the regulations to which it is subject, that the necessary means to comply with them are in place, and that regular checks make it possible to ensure that these methods are working.

For the small number of suppliers further afield, for the majority of materials suppliers, regular audits are used to verify regulatory

compliance, in terms of health and safety, as well as the environment. In the event that local legislation does not exist or is insufficient, Hermès helps its suppliers to adopt and comply with European standards.

#### Implementation

The chemical risk management approach is based on legislation which, in France and in Europe, is generally hazard-based.

The use of a chemical substance banned by a Reach-type regulation, for example in a French or European tannery, is a case that would undoubtedly be discovered either by the entity's audit or by product control. This demonstrates the importance of regular and in-depth audits, as well as appropriate product control frequency.

The main chemical risk management tool is the product specification. An accurate and exhaustive reflection of the most demanding regulations worldwide, it lists all the requirements in terms of substances, the limits set, and the corresponding laboratory control methods. The procedure begins with the sharing of this document with the supplier (in-house or external), then follows a formal agreement from the supplier, and it is completed by an approval check of the first products delivered. During the "series life", checks are carried out at an appropriate frequency.

The choice of chemical reduction and/or elimination projects is mainly based on an analysis of future regulatory changes. It is in this spirit that the Group conducts a very strict regulatory watch, both in France and abroad.

When there is a threat of changes in the regulations for a substance or a family of substances, an estimated decision schedule is drawn up, which sets out the work to be carried out and the timetable.

Hermès has set up a third-party certification target for each of its purchasing sectors (around 60). For example:

- ◆ 100% of farmed exotic leathers certified by ICFA (crocodile) and SAOBC (ostrich);
- ◆ RJC certification on metals and precious stones;
- ◆ SA 8000 certification of the leading OuterWear manufacturer of Women's Ready-to-wear;
- ◆ ISO 14001 certification of the largest manufacturer of cashmere coats;
- ◆ LWG for leathers;
- ◆ GOTS for packaging cotton;
- ◆ FSC for cellulose fibres (viscose).

As detailed in § 2.4.2, the Group's 2024 objective is to have 100% of the textile and leather sectors certified.

## B. Environmental footprint of the supply chain (CG-AA-430a)

§ 2.2.1, 2.5.1 and 2.6 of this document provide further details on the subjects listed below.

### 1. Effluent management (GC-AA-430a.1)

The Group verifies through regular audits (see § 2.6) that its suppliers (tier 1) comply with local regulations regarding the regulatory compliance of their effluents. Audits conducted during the last three years, which were extended to tier-2 suppliers as far as possible, did not reveal any non-compliance on these subjects. If any non-compliance were to be revealed, this point would be classified as a priority and an action plan would be requested from the supplier, its execution monitored and confirmed by a control visit at the end of the plan. The Group estimates, on the basis of the follow-up of the audits of the last three years, that the compliance of tier 1 and 2 suppliers on this subject is high, certainly no less than 80%.

The supply risk associated with a non-compliant effluent discharge from a supplier involves the shutdown – albeit probably temporary – of its activities by the local authorities. The value of regular audits is that they enable a detailed picture of these issues and verification that the facilities are operating correctly at a point in time. In addition to the risk of interruption of supplies, and its economic consequences, reputational risk cannot be ruled out.

If we add the sites owned by our company (units equipped with effluent treatment plants) to those of tier 1 and tier 2 suppliers with similar facilities, we arrive at a total of more than 100 entities. The vast majority of these units discharge their effluents at a municipal or local plant, following pre-treatment carried out at the entity itself. The discharge agreements for municipal or local facilities vary considerably from one municipality to another, and from one country to another in Europe. As mentioned above, most of the operations are in Europe. In general, in-house processing by entities includes primary processing and secondary processing. A small number of entities discharge their effluents into the environment. In this case, the specifications for their discharges are more stringent, and these units are more closely monitored and controlled by the local authorities. Their treatment systems generally include primary, secondary and tertiary phases. These entities are increasingly encouraged to develop their recycling capacity, which leads them to study improvements to their treatment systems.

### 2. Environmental assessments (GC-AA-430a.2)

The Group's entities and those of its suppliers are regularly subject to audits carried out by Hermès' teams and external consultants, in addition to those carried out by the authorities (in particular for sites subject to authorisations), see § 2.6.1.

These audits identify non-compliance. For example, in 2020, 609 instances of non-compliance were identified, of which 0.5% were critical, 25% major, 43% significant and 31.5% simple suggestions for improvement. In terms of the environment, no risk of pollution has been identified at any supplier. The most frequent findings concerned non-compliance with the ICPE regulations (administrative), administrative

waste management or incomplete asbestos files (DTA). All critical and major points have been the subject of an action plan, which is monitored monthly by the buyers concerned, until the end of the actions and inspection visit.

In addition, as described in § 2.5.1.2, in 2019 the Group conducted an analysis with WWF of its water use on more than 45 sites around the world, an opportunity to assess the environmental risks and impacts in its supply chain.

Lastly, the Group's indirect suppliers are assessed using the EcoVadis approach, which includes an environmental component (see § 2.6.1.2.2).

## C. Working conditions in the supply chain (CG-AA-430b)

§ 2.6.1, 2.6.2, 2.8.1 and 2.8.4 of this document provide further details on the subjects listed below.

The Group's supplier relations policy is based on four pillars (security, quality, and innovation, cost control and CSR). The CSR pillar is particularly developed, and deals in particular with issues related to human rights, fundamental freedoms, employment conditions and respect for ethics. As described above in the report, the Group is an active promoter of the main international principles in this area, and publishes in particular its ethics charter and its code of business conduct, which is also for use by its suppliers.

Hermès systematically requests a formal commitment from its suppliers to comply with their social, regulatory and environmental obligations through two undertaking handbooks signed by both parties. Handbook 1 summarises the confidentiality and fair-trading commitments. Handbook 2 defines the supplier's commitments to social, environmental and ethics policies. 85% of suppliers of materials or products have signed these two documents.

These commitments are verified. For example, 100% of subcontractors carrying out operations on leather have been audited. In 2020, 96% of exotic skins came from farms that had undergone a comprehensive social and environmental audit. The Top 50 suppliers of materials or products are systematically audited and then an action plan is put in place. A re-audit may be requested if necessary after three to four years. The audits are carried out by an external firm and immediately sent to any supplier for which a social or environmental non-compliance issue is suspected. Out of the 609 findings identified during the audits in 2020, only 24 were non-compliance concerning social aspects, i.e. less than 4%. These findings relate mainly to the number of overtime hours worked, the non-performance of annual reviews and the absence of formalised objective criteria for bonuses.

As mentioned above (environmental assessments), supplier audits, which cover both social and environmental issues, ensure that the main risks are examined in terms of working conditions. The close proximity to suppliers (geographical and due to the length of the relationship) supports this analysis. Furthermore, the fact that 80% of production operations are carried out in Europe, and therefore subject to strict regulations and controls, reduces the risk of an unacceptable situation.

**D. Supply of raw materials (CG-AA-440)**

§ 2.4 of this document provides a detailed explanation of the challenges and management of material supplies. The Group exercises close control over these materials, particularly in terms of quality and the conditions for obtaining these materials and their environmental and social impact. As soon as a risk of social or environmental non-compliance is detected, the Group carries out investigations that may lead to supplies being halted.

The main materials used, i.e. contributing more than 10% of revenue, are (§ 2.4.2):

- ◆ leather from bovines: the leather used in Leather Goods workshops comes exclusively from European farms, as by-products from food. This sector is subject to numerous controls and regulations. As detailed above, in 2019-2020 the Group conducted a review of its European calf supplies with WWF France, the conclusions of which feed into action plans with partners. Hermès committed to the LWG (Leather Working Group) approach in 2020;
- ◆ exotic leathers (mostly from Louisiana, Australia and Africa). These crocodile, alligator and ostrich sectors are subject to very precise standards and audits on environmental, social and animal welfare issues. As both operator and buyer, the House has a very detailed knowledge of these sectors, which enables it to exercise a scrupulous duty of care. In addition, most of these purchases are certified according to demanding international standards (100% of farmed exotic leathers are ICFA and SAOBC certified);
- ◆ silk: mainly from Brazil. The Group conducted a specific review of this sector in 2020 with the University of Cambridge, with very positive conclusions;
- ◆ cashmere: mainly from Inner Mongolia, also recently audited with the help of WWF France and with positive conclusions, and a target of RWS certification in 2024.

The other materials, which are less significant in terms of volume, are also closely monitored and the search for *ad hoc* certifications (RJC on metals and precious stones, GOTS for cotton, FSC for cellulose fibres, etc.). In addition, in ready-to-wear, the leading OuterWear manufacturer of the Women's Ready-to-Wear sector holds SA 8000 certification and the largest manufacturer of cashmere coats holds ISO 14001 certification.

The Group uses very few synthetic raw materials, and has launched an internal working group on the disposal of single-use plastics, mainly as part of its internal logistics.

The risks related to these sectors are included in the text of the report, with special attention this year also given to those caused by climate change (§ 2.5.2.1). Six direct impact scenarios were studied, notably for the supply of raw materials from the exotic leather, cowhide, cashmere and silk sectors.

As described in § 2.4.2, all these supply chains are subject to regular detailed reviews, risk analyses, briefings for operational staff and partners, and audits. They are part of a certification approach by 2024 using the best current standards, thus making it possible to calculate their weighting in the Group's total purchases.