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2.5.6.3.2 Livelihoods Carbon Fund

In June 2012, Hermès joined the Livelihoods carbon funds (LCF), a coalition of companies financing carbon offset projects with high social and environmental value. Livelihoods initiatives are described below as well as in the section covering relations with stakeholders (see § 2.7.2.1.4), notably explaining that more than 142 million trees have already been planted, benefiting more than 2.15 million people.

The operation of this system is based on seven structuring principles, the foundations of the Livelihoods charter, which contribute to its interest:

- ◆ **reduction first:** the carbon credits generated by Livelihoods projects serve to complement internal reduction efforts, and are one of the parameters for achieving carbon neutrality by 2050;
- ◆ **the additionality principle:** the projects supported by Livelihoods would not have seen the light of day without its investment alongside project developers, the vast majority of which are NGOs, which requires detailed study in complex social and ecological contexts. These are not off-the-shelf or standardised projects, but projects that require a systemic and tailor-made approach. Starting from the aspirations of disadvantaged and sometimes marginalised communities, this involves helping them out of poverty by increasing their income and improving their food security;
- ◆ **carbon credits certified to the highest standards.** Gold Standard and Verra (formerly VCS), which validate the carbon effectively removed (and not carbon reduction estimates or future projections). In addition, each project gives rise to monitoring and impact calculations in accordance with the United Nations SDG framework, given its contributions, which extend beyond just carbon sequestration (no poverty, gender equality, life on land, etc.);
- ◆ **taking an entrepreneurial risk to finance projects from the beginning:** Livelihoods does not buy credits “on the market” from projects that have already been started, accepting to pay a margin to an intermediary. It helps communities by investing for them right from the beginning, and by taking a risk of between €2 million and €6 million on each project, with no absolute guarantee of any return. The communities concerned do not have the means to carry out their projects without this risk-taking. Project financing occurs during the first years, with the results seen, for example, when the trees grow. This can sometimes be five years after the main investments have been made;

- ◆ **a long-term approach:** companies and project sponsors, as well as communities, are committed to projects lasting between 10 years (energy projects) and 20 years (farming projects). During this period, the fund will help communities, monitor projects and receive credits after a few years. Commitments of this length are rare for company coalitions;
- ◆ **local communities that benefit directly from projects:** thanks to the NGOs that coordinate projects at local level, communities benefit directly from the advances provided by the projects: increases in soil fertility, regenerative farming, efficient agro-ecological practices, restoration of ecosystems, generation of farming, forestry and fishing income and the improvement of living conditions. This is actually one of the key success factors of the projects: the communities mobilise themselves because they find that there is a direct advantage to the project;
- ◆ **a coalition of companies** driven by the same spirit: all investors in Livelihoods pool their commitment and therefore receive credits from a portfolio of projects that have been developed and discussed together.

The Livelihoods fund is organised by a system of successive compartments. The first LCF1 compartment (Livelihoods carbon fund 1, €45 million), was opened in 2011, and until 2020 was the only one to issue carbon credits. Hermès has also been a shareholder

since 2017 in a second sub-fund, LCF2 (€65 million), whose first deliveries took place in 2021. Numerous projects have already been launched by this fund, in India, Indonesia, Kenya, Rwanda and Malawi, on agroforestry, mangrove and energy projects.

Capitalising on 10 years of experience with private investors, at the end of 2019 Livelihoods announced the launch of a third carbon fund (LCF3), which was closed in June 2021 and which aims for an investment objective of €150 million to improve the lives of 2.5 million beneficiaries in developing countries. In 2022, the LCF3 Board approved several projects in Peru, Nepal and Indonesia, which will be rolled out in 2023.

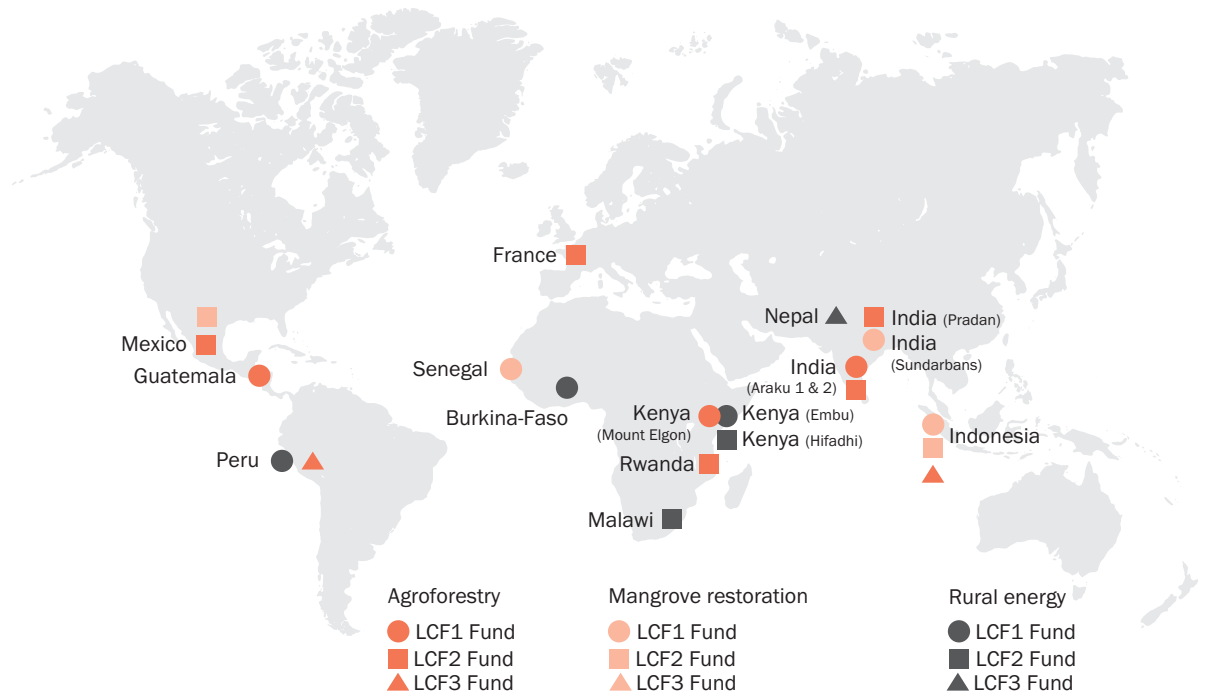
More than €250 million have been collected to fight against climate change through the three Livelihoods funds.

Hermès has thus confirmed its commitment to the climate, communities and biodiversity through an investment in this third LCF3 compartment. With each of these funds having a lifespan of 20 years, the Group is demonstrating its long-term philosophy, and its ability to assume long maturities (2030) and continue its commitment to reducing the impact of climate change.

Livelihoods projects produce positive impacts that go beyond the sequestration or reduction of carbon emissions, as illustrated by the following diagram:

LIVELIHOODS CARBON FUND #1 AND #2

21 extensive projects with concrete social and environmental results



More than 2.1 million project beneficiaries	More than 148 million trees being planted	More than 315,000 households being equipped with efficient cookstoves	More than 94,600 hectares planted or preserved	40 million tonnes of CO ₂ sequestered over 20 years	21 current projects (Asia, Africa, Latin America, Europe)
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2.7.2.1.4 Livelihoods Carbon Fund

Since 2012, Hermès has been a partner of the Livelihoods Carbon Fund (LCF), which aims to improve the living conditions of disadvantaged communities in a sustainable manner by developing large-scale projects with real impact against climate change and simultaneously contributing to local populations and the restoration of biodiversity. Ecosystem restoration, agroforestry and conservation agriculture have the ability not only to sequester carbon sustainably, but also to enable nature and communities around the world to thrive.

LCF aims to be a start-up investor (with an entrepreneurial approach and investment risk) in three types of projects (ecosystems, agroforestry and energy) in Africa, Asia and Latin America as well as in France. The fund has 10 partners in its LCF1 & LCF2 compartments: Danone, Crédit Agricole, CDC, Schneider Electric, La Poste, Hermès International, Voyageurs du Monde, SAP, Firmenich and Michelin. Some of these companies, such as Hermès, have also joined the LCF3 fund with the Bel group, Chanel, DEG, Eurofins, the Global Environment Fund, the L'Occitane group, Mars, Mauritius Commercial Bank, McCain Foods and Orange.

The initial duration of the funds is 24 years, and the duration of a project varies between 10 and 20 years. By participating in these three funds for 10 years now, Hermès is committed to local economic development, the protection of biodiversity and the fight against climate change.

KEY INDICATORS OF THE LCF1 FUND

Results for the first Livelihoods Carbon Fund (9 projects):



Macro objectives	Social results	Environmental results	Economic results
	Number of beneficiaries ⁽¹⁾ : 948,000 people positively impacted to date	Number of trees planted ⁽²⁾ : 127 million to date	Investment capacity of the fund €45 million
Categories of impact	Number of households supported 189,563	Amount of carbon sequestered or avoided • 8 MtCO₂ eq. forecast • 2.4 MtCO₂ eq. verified to date	Duration of commitment 20 years
	Farmers trained 24,050	Hectares planted or preserved 21,800 hectares	
	Women given access to cooking equipment 120,000	Hectares converted to sustainable agricultural practices: 16,750	

2

Definitions

- (1) Number of people involved who are positively affected by the project's activities.
(2) Trees, seeds, propagules (mangroves and agro-forestry trees) planted as part of the project's activities.

KEY INDICATORS OF THE LCF2 FUND

Results for the 2nd Livelihoods Carbon Fund (9 projects to date):



Macro objectives	Social results	Environmental results	Economic results
	Number of beneficiaries ⁽¹⁾ : 753,800 people positively impacted to date	Number of trees planted ⁽²⁾ : 21.4 million to date	Investment capacity of the fund: €65 million
Categories of impact	Number of households equipped 150,675	Amount of carbon sequestered or avoided (target) 10.3 MtCO₂ eq. 320 KTCO₂ delivered	Duration of commitment 20 years
	Farmers trained 22,512	Hectares planted or preserved 9,172	Farmers' cooperatives • Strengthened 196 • Created 170
	Number of women supported ⁽³⁾ 101,447	Hectares converted to sustainable agricultural practices: 28,358	
	Number of households provided with access to drinking water 557		

Definitions

- (1) Number of people involved who are positively affected by the project's activities.
(2) Trees, seeds, propagules (mangroves and agro-forestry trees) planted as part of the project's activities.
(3) Number of women participating in training on how to create improved stoves and/or agroforestry and natural ecosystem restoration activities.

The third Livelihoods Carbon Fund (LCF3) aims to invest €150 million to improve the lives of 2.5 million beneficiaries in developing countries. Following on from LCF1 (2011, €45 million) and LCF2 (2017, €65 million), this new impact fund will invest in community projects for the restoration of natural ecosystems, agroforestry and regenerative agriculture. With the LCF3 fund, 212 million trees will be planted and 2 million additional people will be positively impacted by the projects put in place. A target of more than 50 million tonnes of CO₂ sequestered or avoided over the period has been set.

More than €250 million have thus been collected to help disadvantaged communities, the fight against climate change and the protection of biodiversity. Fully operational, the fund is now seeking field partners in various regions of the world to accelerate nature-based solutions. It has started to select projects to be launched in 2023.

The projects selected by Livelihoods generate profits for local communities and ecosystems, as well as for the partners in the fund, which, over the project development period, earn carbon credits with a significant environmental and social impact, in proportion to their investment. These projects, one of the characteristics of which is to extend their scope to a very large scale, are in particular the following:

- ◆ restoration and preservation of natural ecosystems, for example mangrove forests. Nearly 10,500 hectares were replanted in this way in Casamance (“Océanium” project); 4,500 hectares in the Ganges delta (“News” project); 10,000 hectares in Indonesia (“Yagasu” project). These projects bring security to local populations (protection against cyclones or the invasion of salt water) and provide food sources through ecosystem regeneration;
- ◆ agroforestry and soil remediation through sustainable agricultural practices. With the support of the Naandi Foundation, Adivasi tribal communities in the Araku valley in India have, for example, planted six million trees (fruit trees, as well as for firewood, construction, etc.), including three million coffee bushes, in accordance with agroforestry models, with the aim of tripling these plantings in the coming years through the LCF2 project (the total project is expected to cover 14,500 replanted hectares). In Guatemala, 1,750 hectares of trees and food crops have been planted in the Cerro San Gil mountain area (“Fundaeo” project), allowing rural families to increase their food security and incomes, while protecting biodiversity. In Kenya (project VI “Agroforestry”), on the slopes of Mount Elgon near Lake Victoria, the livelihoods of 15,000 small farmers will improve through the intensification of agriculture respectful of natural resources (Sustainable Agricultural Landscape Management – SALM) and the development of dairy production. The project also contributes to the protection of water resources and generates positive social impacts for women’s jobs. In Peru, the LCF3 fund is leading a project to restore degraded landscapes through ecologically and economically viable planting methods that will help poor smallholder families to generate income. In Rwanda, with Arcos, an ambitious project to replant more than 3.7 million trees under a conservation agriculture scheme is being deployed on 15,200 hectares. In India, the “Pradan” project makes it possible to replant more than 3.6 million

trees that will host Tasar silkworms on more than 3,000 hectares, with the aim of restoring biodiversity on an additional 3,600 hectares, and thus contribute the development of this silk-related activity locally with more than 5,000 job creations planned;

- ◆ access to rural energy to reduce deforestation. In Kenya, the “Hifadhi” projects will eventually equip 120,000 households with improved wood stoves which, by significantly reducing wood consumption, will reduce the pressure on forests, the time it takes to collect wood for families, as well as exposure to toxic fumes. In Burkina Faso, with the support of the Tiipaalga NGO, 75,000 improved stoves were installed by inhabitants in their villages, in an effort to secure their use over time in part of the Sahel region. With the financial support of the French Development Agency (AFD), an agroforestry component has been added to this project. In the Peruvian Andes, the “ITYF” project (named after the NGO Instituto Trabaja y Familia) is installing 30,000 improved wood-burning stoves with a significant impact against deforestation. At the same time, the project equips families in extreme poverty with hygiene kits and provides training and awareness-raising on health (reduction of toxic fumes, the importance of boiling water, basic hygiene practices, etc.). In Malawi, the “Chitetezo” project, which is halfway through, will enable the installation of almost 100,000 improved stoves through an innovative commercial scheme. The LCF3 fund is conducting similar initiatives in Nepal with a benefit on the emancipation of women by reducing their chores supplying charcoal;
- ◆ in Mexico, in the mountainous region of Oaxaca, Livelihoods and its partners launched a shaded agroforestry coffee project to restore the fragile local mountainous ecosystem, while helping more than 3,000 smallholders to improve their incomes. This 20-year project will be implemented by the local cooperative CEPCO, which has more than 30 years of experience with coffee producers in the region. The Livelihoods-CEPCO initiative will restore and preserve a total of 6,500 hectares, as well as generate more than one million tonnes of CO₂ over its lifetime.

Focus on a project in France

For the first time in Europe, in 2022 LCF2 launched a project called “Sols de Bretagne”⁽¹⁾ in the Brittany region of France. By interacting with local stakeholders (the Brittany region, the Regional Chamber of Agriculture and the local association Sols d’Armorique), this project will support around 100 farmers in the transition to regenerative agriculture covering more than 11,000 hectares, as well as sequestering 140,000 tonnes of CO₂ in 10 years. The objective is for farmers to avail of technical levers such as less plowing, continuous cover, a reduction in inputs and crop rotation so that the soil is enriched and the biomass improved. Agricultural practices must evolve for environmental but also social benefits, by attracting young farmers motivated by these changes. Numerous indicators have been put in place to demonstrate the impact of these changes in practices.

1. Find out more about the Sols de Bretagne project: <https://livelihoods.eu/fr/portfolio/bretagne-agriculture-regeneratrice/>

In 2022, since their creation, the above projects have helped replant more than 148 million trees, i.e. an area equivalent to five times the size of Paris and impacted the lives of more than 1.7 million people, having equipped more than 240,000 families with improved cooking stoves, which reduce deforestation and preserve women's health, with a target of 20 million tonnes of CO₂ captured or avoided over the period (projects last between 10 to 20 years). They therefore help to offset Hermès' carbon emissions on a voluntary basis (§ 2.5.6.3.2).