



Hermès Climate Transition Plan

Introduction

The Hermès artisanal model is structurally low in CO2 emissions.

Hermès recognises the urgent need to address the global challenge of climate change. With responsibility and long-term approach, Hermès understands the impact its operations can have on the environment and society. To act proactively, Hermès develops a comprehensive climate change transition plan. This climate transition plan sets clear responsibilities, is integrated into strategy and financial planning, reflects considerations of the short- and long-term with an emphasis on rapidly implementable actions, is bound to quantifiable targets, covers all the scopes of the Group and its value chain, and will be updated regularly.

Governance

Hermès' Executive Committee possesses a global perspective of the Group on climate issues. This was emphasized when climate change matters related to 2022 were addressed at the General Meeting of Shareholders. The topics discussed included reducing emissions, adopting renewable electricity, promoting responsible (low-carbon) real estate, developing energy-positive production sites, engaging with the Science-Based Targets initiative (SBTi), and making voluntary contributions to carbon offsetting with nature-based solutions.

At the end of 2022, the Corporate Social Responsibility (CSR) governance was reorganised to further strengthen the role of the Executive Committee. Starting from 2023, the Executive Committee has dedicated sessions focused entirely on sustainable development which are conducted every two months, with a strong focus on climate. These sessions make it possible to validate the strategic orientations, monitor the associated objectives and results, and ensure a periodic review of the adequacy of the resources allocated to the objectives. Through a more intimate knowledge of the subjects, the Executive Committee have a stronger ability to include CSR issues in the Group's strategy and enable more effective implementation of the various internal projects.

As regards the Supervisory Board, its duties in terms of CSR are as follows:

- the Board is informed, in particular through the CAG-CSR Committee, of the main issues faced by the Company in the area of corporate social responsibility and non-financial performance;
- the Board regularly reviews, via the Audit and Risk Committee, the social and environmental opportunities and risks, as well as the measures taken as a result.

A presentation of CSR challenges has been made to the Board regularly since 2015. As part of its management control role, the multi-year strategic guidelines in terms of CSR and their implementation methods were presented to the Supervisory Board.

The results obtained are presented each year to the CAG-CSR Committee, which reports to the Supervisory Board. Several Board members attended "The Board and CSR" training from the French Institute of Administrators (IFA), at their request. The Supervisory Board is now having regular training sessions, which include Climate-related topics.

To oversee the implementation of the CSR approaches validated by the Executive Committee, the Sustainable Development Board is made of 14 members directors of the Group's main central functions and divisions. The Sustainable Development Board also steers major cross functional projects including projects related to climate transition plan, oversees the roadmaps of the House's main entities, launches, and monitors ad hoc working groups, and identifies key decisions to be submitted to the Executive Committee.

Since 2019 (variable compensation owing for 2019, which was measured and paid in 2020), the variable compensation of the two Executive Chairmen is partially conditioned (10%) on a "CSR" criterion reflecting the Group's stated and constant commitments in respect of sustainable development. The criterion is linked to the energy intensity of industrial sites (kWh / M€ Turnover) which is linked to scopes 1 and 2 GHG emissions reduction targets (detailed below). This criterion was met again in 2022, as the Group met its ambition to decouple industrial energy consumption by a factor of 1.16, compared with a 3.1 increase in activity and scopes 1 and 2 GHG emissions decreased.

Detailed governance on CSR and climate issues are available in the 2022 universal registration document page 64.

Strategy

Hermès business model relies on numerous activities in several countries, hence spreading risks and opportunities about climate impacts. The Group strategy is to reduce its carbon emission based on Paris Agreement to monitor its transition risks and to adapt as early as possible to climate adverse conditions.

Hermès made a public and concrete commitment to the definition of targets for the reduction of its greenhouse gas emissions based on science, which has been validated and published by the Science-Based Targets initiative (SBTi). This commitment will enable the Group to follow a path of reducing its direct and indirect emissions, with a target ambition aligned to a 1,5°C scenario. Hermès commits to reduce absolute scope 1 and 2 GHG emissions by 50.4%, and to reduce scope 3 GHG emissions by 58.1% per million euros of gross margin by 2030 from a 2018 base year (financial year). To complete the climate transition plan, the Group's ambition is to achieve a "net zero" target by 2050 with two complementary approaches: a focus on reducing emissions in its own value chain, and secondly voluntary offsetting mechanisms. Adaptation strategies are also increasingly considered by the Executive Committee, business by business and country by country.

Scenario analysis

Hermès runs scenario analysis to identify the potential adaptations of its value chain (internal, external) to reduce its exposure to the effects of climate change. Depending on the regions and activities, the effects of change will have a variable impact on Hermès' activity, through the impacts of the measures taken to transition to a low-carbon world, including for instance carbon tax, regulatory developments, customer behaviour. The magnitude and severity of these changes will influence these impacts, as well as a range of factors, such as location, sensitivity of upstream supply chain, quality, and capacity of local infrastructure, and more generally the behaviour of other actors in the Group's ecosystem. Hermès bases its approach to climate change adaptation on the identification of risks, the evaluation of their relevance, to define action plans within each business, with the help of an expert advisor and the use of science-based tools.

Financial planning

The Executive Committee approves the capital and operating expenditure required to implement the transition plan, whether exceptional or budgeted. For instance, in 2022, the Cristallerie Saint-Louis commissioned installed a new gas melting furnace incorporating oxy-combustion technology, reducing its consumption of natural gas by more than 30% and, accordingly, its greenhouse gas emissions. Moreover, the commitment to build leather goods facilities, as Louviers and La Sormonne, following the E4C2 ambitious target resulted in a significant construction cost increase. The cost of those climate change related investments was validated by the Executive Committee.

Hermès has established action plans as part of its industrial decarbonization plan, which includes specific objectives for scopes 1 and 2. Hermès aims to achieve 100% renewable electricity within its own operations by 2025 and 100% renewable energy by 2030. The company also intends to phase out the use of fossil fuels at its industrial sites. Additionally, Hermès aims to reduce the carbon footprint by 50% per square meter of real estate space built or renovated by 2030 from a 2018 baseline. These action plans are reflected in the consolidated financial statements through operating investments and operating expenses.

Value chain engagement & low-carbon initiatives

Beyond this decarbonization plan, Hermès is committed to taking responsibility for both its direct and extended spheres of influence, including scope 3 emissions. Specifically, Hermès focuses on key emission sources such as procurement, transportation, real estate (including materials), and employee travel.

Regarding decarbonizing procurement, Hermès aims to support suppliers and partners in conducting their own carbon assessments and allocate each Hermès business unit their respective carbon footprint. A questionnaire is sent to more mature suppliers to gather information on their corporate social responsibility (CSR) strategy, carbon footprint, and reduction trajectory, starting with scopes 1 and 2. In 2023, an evaluation of suppliers will be conducted, specifically targeting their carbon footprint, and an action plan will be developed to monitor and support them in reducing their greenhouse gas emissions.

To improve the carbon footprint of transportation, Hermès focuses on two main levers: implementing alternative transportation methods, particularly for air travel, and transitioning to different fuels. Local transportation, such as deliveries from local warehouses to city centres, is carried out using electric or hybrid vehicles whenever possible. For longer-distance transportation (Asia, America, Oceania), maritime shipping is preferred when the nature, volume, and quantity of items allow for it. Tender processes for freight transportation now systematically include criteria related to carbon footprint improvement, such as the use of natural gas (GNV) and bioGNV for road transport, sustainable aviation fuel (SAF) for air transport, and sustainable maritime fuel (SMF) for maritime transport.

Regarding material usage, the Group Real Estate department follows a sustainable real estate reference framework called "Harmonie". This framework has been approved by a third party and relies on unique and demanding sustainability standards. Among other criteria, "Harmonie" aims to reduce the carbon footprint per square meter of constructed or renovated space by 50% by 2030. This approach involves conducting life cycle assessments (LCAs) of construction materials and Carbon Footprint® analyses for new stores and buildings to favour low-carbon construction materials. Factors considered include material nature, weight reduction, local sourcing, and transportation methods. For example, in 2022, the carbon footprint trajectory for leather goods facilities in Louviers resulted in a carbon footprint of 776 kg CO₂e/m², while the Sormonne leather goods production had a carbon footprint of 810 kg CO₂e/m². In comparison, a similar facility in 2018 emitted 1,100 kg CO₂e/m².

In terms of employee mobility, a pilot mobility plan was launched in 2022 for 3,000 employees in the Île-de-France region. 2023 will be dedicated to analysing the results and developing action plans, particularly in terms of modal shift options. Hermès also actively promotes the replacement of combustion engine vehicles with electric or hybrid vehicles, which currently make up 34% of the fleet in France, both for company vehicles and service vehicles. The company's vehicle policy has consistently anticipated regulations in France and internationally. Regarding long-distance travel, disruptions caused by the health crisis have strengthened alternative work solutions (video conferences) and accelerated employees' awareness of the most efficient modes of international work.

Policy engagement

Hermès engages with trade associations and other independent bodies on climate-related topics. These engagement activities are managed at group level, ensuring a common approach across business divisions and geographies and the consistency with its climate strategy. This enables to progress towards the successful transition to a low-carbon economy, by promoting awareness of these issues and sharing best practices and operational solutions. In addition, Hermès is attentive to the transparency and consistency of its policy with that of the sector by presenting its actions according to the framework recommended by the TCFD (Taskforce on Climate related Financial Disclosures), by responding the CDP climate questionnaire and by participating in market initiatives as UNFCCC (United Nations Fashion Industry Charter for Climate Action). In 2022, Hermès continued to roll out the assessment of its business exposure to climate risks with WWF and joined the Net Zero Initiative. Hermès will participate in the working group on avoided emissions from the textile sector. The Group also plans a Security Content Automation Protocol (SCAP) evaluation of its product portfolio in 2023.

Risks and opportunities

The risk assessment conducted under the control of the Group Risk Committee is covering direct operations, supply chain (upstream) as well as downstream potential issues (image, distribution network...). A transition climate risks sensitivity study related to climate change was launched in 2020 to update the resilience plans of the activities affected by these risks. Climate-related risks and opportunities are identified by Hermès in the short, medium, and long term. Hermès' approach to climate change adaptation focuses on identifying and assessing risks (strategic, operational, and financial) to develop action plans within each subsidiary.

In 2022, Hermès has embarked on a collaborative strategic foresight process named "IRIS" involving more than 15 major companies and organisations from various sectors as well as research institutes. The work aims to build shared, opposable, and rigorous tools and a common "methodological grammar". The Group has launched a major study of the physical and transitional risks incurred by its raw materials value chains, with the support of experts. The results of these studies will be integrated in strategic planning at middle term.

Targets

The Group's policy is to make a resolute commitment to a low-carbon world with quantified targets set out in a timetable.

The plan includes verified science-based targets in line with 1.5°C world and aiming to reduce absolute value of GHG emissions by 50.4% for scopes 1 and 2 emissions and relative value by 58.1% (GHG emissions per million euros of gross margin) for scope 3 emissions over the period from 2018 to 2030. This objective comprises involving the supply chain, suppliers, and partners in the process.

The Group has also set other ambitious climate goals. By 2025, it aims to implement a policy of sourcing 100% of its electricity from renewable sources and looking further ahead to 2030, Hermès plans to achieve a transition to 100% renewable energies across all its operations, showcasing its commitment to clean energy. This includes a determined effort to phase out the use of fossil fuels at its industrial sites. Moreover, the Group is dedicated to cut by 50% per square meter of real estate space built or renovated by 2030 from a 2018 baseline.

The Group ambitions to achieve a "net zero" target by 2050, based on two complementary approaches. First, focus on reducing emissions in its own value chain, which requires organisational and technological changes internally and with suppliers. Then use voluntary offsetting, which is based on "Nature based" solutions thanks to natural capture mechanisms (for example, planting) with the implementation of large-scale projects that take time to set up over the long term.

Scope 1, 2 & 3 accounting, with verification

Hermès bases its carbon emission calculations on GHG protocol rules. It has implemented a specific reporting tool and uses expert advisors on a regular basis to refine emission factor calculations to review part of the computations made by "métiers" or subsidiaries.

Hermès ensures the audit of the calculations of its carbon emissions is duly conducted by an independent third party. As part of their audit on the URD, the third party reviews the calculations on a yearly basis.

In 2022, the Group's greenhouse gas (GHG) emissions amounted to approximately 641 k tonnes CO₂eq, representing an 18.9% increase compared to the previous year on a like-for-like basis. However, the Group has made noteworthy progress in reducing absolute emissions in scopes 1 and 2, achieving a decrease of 28.4% compared to 2018. In addition, scope 3 emissions intensity has decreased by 46.5%, aligning with the Group's 2030 targets validated by the Science Based Targets initiative (SBTi). The Group consistently surpasses the targets it had set for itself in its emissions reduction trajectory. In 2022, the Group accomplished 80% of its SBTi scope 3 reduction targets.

The combined emissions from scopes 1 and 2 represents 31.3 k tonnes of CO₂eq, which encompass direct and indirect emissions related to energy consumption at Hermès' production sites, offices, logistics centres, and exclusive stores. It is important to note that this figure is significant due to Hermès' unique business model, where a substantial portion of production is done in-house. This emission figure aligns with Hermès' targets validated by the Science Based Targets initiative (SBTi). Over the course of four years, the Group has achieved a reduction of 28.4%, indicating progress towards its 2030 target. The ongoing transformation efforts for its industrial facilities, which will take several years to complete, contribute to this achievement.

For scope 3 emissions, which mainly accounts for the carbon footprint of raw materials (64% of scope 3) as well as all purchases, fixed assets, waste, subcontracting, packaging, product transportation, and employee travel, the emissions amounted to 609.6 k tonnes of CO₂eq. Upstream and downstream transport (categories 4 and 9) make up 15% of the total scope 3 emissions. With a reduction in intensity of 46.5% over four years, the Group is on track with its reduction targets for 2030.

These figures highlight the benefits of Hermès' low environmental footprint French craftsmanship model. The decoupling between the Group's activity growth and its environmental footprint is at -47.7% over the span of four years (2018-2022).

Cross-reference table

Climate transition plan theme	Element	Reference in 2022 URD Hermès International
Governance	Board level oversight	§ 2.1.6, § 2.5.6 and § 3.5.6.1
	Board expertise on climate related issues	§ 3.4.5.2
	Executive management accountability & feedback mechanism	§ 2.1.6, § 2.5.1 and § 2.5.6
	Executive management incentives linked to climate performance indicators	§ 3.8.2.1.2
Strategy	Existence of “1.5°C world” aligned transition plan within business strategy & shareholder feedback	§ 2.5.7
	Link between identified (and potential) climate related risks, opportunities & company strategy	§ 2.4.1, § 2.4.2 and § 2.5.6.2.2
Scenario analysis	Details of scenario analysis	§ 2.5.6
Financial planning	Financial planning details associated with a credible climate transition	§ 1.10 and § 2.7.4
	Low-carbon products or services	§ 2.4.1
Value chain engagement & low-carbon initiatives	Low-carbon initiatives – direct operations	§ 2.4.1 and § 2.5.6.2.2
	Value chain engagement	§ 2.4.2.1
Policy engagement	Alignment of public policy engagement with climate ambition & strategy	§ 2.5.6 and § 2.5.6.2.2
Risks & opportunities	Process for identifying climate related risks & opportunities	§ 2.5.6 and § 4.3
	Climate related risks	§ 2.5.6.1 and § 4.3
	Climate related opportunities	§ 2.5.6.1
Targets	Emissions reduction targets – absolute & intensity	§ 2.5.6
	Other climate related targets	§ 2.5.6
	Net-zero target	§ 2.5.6 and § 2.5.6.3.1
Scope 1, 2 & 3 accounting, with verification	Comprehensive and third-party verified emissions accounting	§ 2.5.6.2.1 and § 2.9