

Corporate governance report

Year Ended 31 December 2019

For the year ended 31 December 2019, under The Companies (Miscellaneous Reporting) Regulations 2018 (the “Regulations”), the Group applied the Wates Corporate Governance Principles for Large Private Companies, published by the Financial Reporting Council (“FRC”) in December 2018. In accordance with the Regulation, this new corporate governance reporting is effective for financial years beginning 1 January 2019.

Section 172(1) Companies Act 2006

The Board considers what is most likely to promote the success of the Group in the long term. The Board considers the interests of the Group’s employees and other stakeholders, including the communities in which we operate and society as a whole. The Group’s corporate governance principles set out below provide a framework for the Board in managing long-term strategic business decisions that promote the success of the Group, having regard to the factors set out in Section 172(1) of the Companies Act 2006.

Principle 1 – Purpose and Leadership

The Group is privately owned and was established in Paris in the 1920s, operating worldwide and serving an international clientele. With creation at the heart of the company, CHANEL designs and manufactures products of the highest quality and finest craftsmanship in haute couture, fashion, fragrance & beauty and watches & fine jewellery.

CHANEL’s purpose is to conserve the heritage of the brand whilst shaping it for the future with integrity and responsibility, fostering conditions that allow creation to thrive and bring long-term value to clients and society as a whole. At every level of the Group and throughout its value chain, CHANEL is committed to engaging the human, creative, and financial resources needed to effect positive long-term change. The values of the Group strive at empowering people and enabling working conditions that encourage individuals to perform at their best.

Principle 2 – Board Composition

The Board has ten members comprised of Presidents of the Chanel Brand Owners and Licensee, the Global Chief Financial Officer and four independent non-executive directors. The Board meets four times a year and ensures that it is properly prepared through various updates received in between meetings as well as receipt of detailed pre-reading materials in advance of each Board meeting. The Board considers that there is an appropriate balance between executive and non-executive directors and that there is sufficient independence in the overall composition. The Board strives to include appointments that promote an appropriate level of expertise, objectivity and diversity, which aligns with the Group’s purpose. Overall, the directors work together to promote effective decision making and ensure the Group’s business strategy is met.

The independent non-executive directors bring experience from both within the industry in which the Group operates as well as outside sectors. They play an important role in challenging a broad range of areas across the business. The independent non-executive directors have the opportunity to meet with the Group’s senior executives throughout the year to gain a better understanding of the business and operational matters. As part of their on-boarding, they visit operational facilities that support the business activities as well as some of the markets.

Principle 3 – Director Responsibilities

Accountability

The Board recognises the importance of having a strong corporate governance framework as part of the Group’s overall success. The Board determines strategic direction for the Group; establishes policies for corporate management; reviews financial performance and approves budgets; makes decisions on major initiatives and investments; and ensures that leadership is in place to implement policies and decisions. Key information is provided to board members in a timely manner prior to each meeting and all members have a clear understanding of their roles and responsibilities. In accordance with the Group’s conflicts of interest policy, the four independent non-executive directors have no business or relationship with the Group that would compromise their influence or objectivity.

Areas of focus in 2019

Governance	<ul style="list-style-type: none">- Formalising new committees in the Group (e.g. Audit, Nominations and CSR)- Updating roles and responsibilities of committee members
Strategy	<ul style="list-style-type: none">- Fashion boutique of the future concept- Digital partnership with business activities
Finance	<ul style="list-style-type: none">- Capital expenditure considerations- Review of luxury market and strategy in establishing an overall financial plan- Investments in innovative companies (links with Strategy)
Risk and Opportunity	<ul style="list-style-type: none">- Hong Kong protests and related impact to business- Assessing impact of Brexit- Changes to Fragrance and Beauty wholesale market
Corporate Social Responsibility	<ul style="list-style-type: none">- Climate related commitments- Social and environmental outreach programmes

The Board delegates certain responsibilities to specific committees that have the appropriate knowledge and experience to make recommendations to the Board. Each committee includes independent non-executive directors as shown in the table below. The committees and their roles are as follows:

Audit Committee – monitors the effectiveness of internal controls; risk management; integrity of financial statements; and the performance of the internal audit department and independent auditor.

Nominations Committee - reviews and monitors succession planning for the Board, the Executive Committee and other key leadership roles.

Corporate Social Responsibility (“CSR”) Committee - assesses the Group’s social programs and impact on sustainability; recommends CSR policies, initiatives and expenditures; and reviews and monitors performance in these areas.

Below is a summary of the committee structures and members.

Name	Board Member	Audit Committee	Nominations Committee	CSR Committee
P. Abecassis ^	x	x~	x	
P.B. Blondiaux	x			
R. Collasse	x			x
J. Galantic	x			x
B. Gros ^	x		x~	
S. Heywood ^	x	x	x	
M. Lane Fox ^	x		x	x~
O. Nicolay	x	x		
B. Pavlovsky	x			x
V. Shaw	x	x		

^ *Non-Executive*

~ *Chair*

Other Committees

The Board also delegates certain powers and responsibilities to its Chief Executive Officer (“CEO”) and a number of operational committees, including the following:

Executive Committee: recommends strategies to the Board; makes operational decisions for the Group; assesses developments in the business, operational issues and new initiatives; and decides on how best to carry out the strategy of the brand and drive the implementation of business decisions. The Executive Committee is comprised of the CEO, the Global Chief Financial Officer (“CFO”), the Global Chief Administrative Officer (“CAO”), Presidents of the Chanel Brand Owners and Licensee, Presidents of the business activities and Global corporate function heads. The Executive Committee meets six times a year.

Brand, Communication and Image Committee: assesses brand image, culture awareness, advertising and promotion campaigns, and communication and media strategies and makes recommendations to the Board accordingly. This Committee is comprised of the Global CEO, Presidents of the business activities, Global Markets Coordinator, Head of the Artistic Direction department, Global Head of Innovation and Brand Insights, and the Global Head of Brand Culture and Communication. This Committee meets four times a year.

Regional Presidents’ Committee: assesses the priorities of the local markets on product and marketing issues in preparation for meetings of the Executive Committee, Brand, Communication and Image Committee and for meetings with the Presidents of the business activities. This Committee is comprised of the Global Markets Coordinator and Presidents of the Chanel Brand Owners and Licensee. This Committee meets four times a year.

Compliance Committee: oversees the development and implementation of the Group’s Compliance and Ethics programme with regard to policies and training to ensure compliance with laws, internal procedures, and industry standards that may cause significant business, regulatory or reputational damage to the Group. This Committee is comprised of the Global General Counsel, the Global Chief Compliance Officer, the Global CFO,

the Global Chief People & Organisation Officer, the Head of Internal Audit and other corporate representatives, as needed. Part of each Compliance Committee meeting is also dedicated to diversity and inclusion, with the Head of Diversity and Inclusion, the Global Chief Sustainability Officer, the Global Heads of Corporate and Internal Communication joining for that part. This Committee meets six times a year or more if needed.

Real Estate Committee: assesses proposals and makes recommendations to the Board about opening new boutiques, relocating existing boutiques or offices, undertaking major renovations, and acquiring new premises. This Committee is comprised of the Global CEO, Global CAO, Global CFO, Global Head of Store Design, Presidents of the business activities and representatives of the Chanel Brand Owners and Licensee. This Committee meets four times a year.

Corporate Committee: assesses corporate functions and projects in order to align priorities and make recommendations to the Board. This Committee is comprised of the Global CEO, Global CAO, Global CFO, Global Markets Coordinator and Global Corporate function heads. This Committee meets three times a year.

Compensation Committee: makes recommendations to the Board on compensation for senior management and guidelines for salary increases and bonuses. This Committee is comprised of the Global CEO, Global CAO and the Global Chief People & Organisation Officer. This Committee meets twice a year.

Integrity of information

Appropriate financial reporting systems and processes are in place to enable the Board to assess the financial performance and position of the Group. Internal control systems help ensure the financial information generated by the reporting system is reliable, consistent, timely and complete. The Group accounts are audited by Deloitte on an annual basis.

Principle 4 – Opportunity and Risk

Opportunity

The Group's business strategy is based on a long-term vision and allows us to explore opportunities that align with the Group's purpose. The Board relies on key members of the organisation to seek out synergies that allow us to create and innovate in new ways. Any major new business opportunities within the Group in excess of certain monetary thresholds are considered and approved by the Board in accordance with the Company's articles of association, but interesting and significant initiatives are presented to the Board even if they do not exceed such thresholds.

Risk and responsibilities

Risk management is tied to the overall strategy of the Group. The strategic report on pages 3 to 11 includes an assessment of the Group's principal risks and how those risks are mitigated.

The Audit Committee reviews the Group's internal controls and risk management systems, and receives reports from management on the effectiveness of the established systems and conclusions of any testing carried out by internal and external auditors. The Audit Committee has a good understanding of how the Group (i) identifies, assesses, manages and monitors risk and sets risk appetite and (ii) develops, operates and monitors the system of internal control. In carrying out their role, the Audit Committee reviews the mechanisms management is using to monitor emerging risks and confirms the Group's assessment of principal risks is periodically re-assessed. The Audit Committee meets with members of Finance, Internal Audit, Information Security, Legal and Compliance, Supplier Excellence, Tax and Independent Auditor to ensure their remit is aligned to the key risks of the business and to encourage continuous improvement of, and foster adherence to, the Group's policies, procedures and practices at all levels. In addition, the Audit Committee's Chairperson is responsible for keeping in touch on a continuing basis with key people involved in the Group's governance, including the Board of Directors, Global CFO, Global Head of Internal Audit and the external audit lead partner.

The Audit Committee reviews and approves internal audit's role and mandate and approves the annual internal audit plan ("Plan"). The Audit Committee ensures the Plan is aligned to the key risks of the business, and the internal audit function evaluates the effectiveness of the risk, compliance and finance functions as part of its Plan. The Plan is sufficiently flexible and dynamic to help identify, react to and address new, emerging risks and meets the needs of the Audit Committee and the Group promptly. The Audit Committee monitors and reviews the effectiveness of internal audit activities in the overall context of the Group's risk management system and receives summaries on the results of the internal auditor's work. The summaries provide a clear understanding of the work performed, the results from this work, recommendations and any mitigating action plans.

The Audit Committee is also responsible for reviewing the Group's supplier excellence programme mandate and approves the annual supplier excellence plan ("SEP"). The Audit Committee ensures the SEP is aligned to the compliance and corporate social responsibility risks of the business and must be sufficiently flexible and dynamic to meet the emerging needs of the Group and the Audit Committee promptly. The Audit Committee receives summaries of the results of the supplier excellence programme, recommendations and any mitigating actions taken by the Group to ensure they properly support the effective operation of the programme.

The risk management and internal control system can only provide reasonable, and not absolute, assurance that the Group's overall risks and objectives are properly managed.

Principle 5 – Remuneration

Group-wide compensation is governed by the Compensation Committee. The Compensation Committee has an established annual compensation planning and review process in which it reviews market conditions globally, company performance and competitive benchmark data (best practices and market compensation data) comparing to well-defined peer groups in order to set fair and equitable performance-based compensation parameters.

The Group's Compensation policy and philosophy are articulated annually as part of the compensation planning process. The Board establishes guidelines setting the remuneration each year based on the recommendations of the Compensation Committee. Compensation practices comply with all statutory regulations. Transparency of this work and communication of this process is regular and ongoing to the top management and broader employee population.

The Gender Pay Gap Reporting requirements provides an opportunity to help us achieve our goal of creating an inclusive environment and embracing diversity in all its dimensions. The Group is committed to ensuring all employees are paid fairly for the role they undertake. We continually monitor and enhance our policies to ensure a safe environment, free of discrimination and harassment.

Principle 6 – Stakeholder Relationships and Engagement

As part of promoting the success of the business, the Board is committed to engaging its stakeholders in a way that is aligned with the Group's standards and principles. As a Group, we aim to honour our commitments by being a reliable business partner and conducting business in compliance with applicable laws, rules and regulations in all the markets where we operate.

Stakeholders

Customers: The Group is dedicated to building deep and meaningful client experiences, whether through direct contact in the boutique, through special events or through virtual experiences online and through our services. The quality of this engagement is critical to carrying out our business strategy and this is measured through satisfaction surveys as well as our ability to recruit new clients and retain existing ones.

Employees: The Group is focused on ensuring that our employees are well-informed of the key imperatives of our brand including our employer philosophy, values and ethics, critical mission of sustainability, and the common guidelines and policies that support them. At a global level, there is a holistic view point to ensure consistency across messaging to our employees while regionally, teams coordinate the sharing of information in relevant ways for our varied employee audiences, leveraging platforms that connect employees to each

other to strengthen engagement and animate communities across our company. Within our regions, employees have opportunities to provide input and feedback through engagement surveys and focus groups, which are then looked at thematically from a global viewpoint to guide future people policies and projects.

Suppliers: The Group is strongly committed to conducting its business in compliance with all applicable labour and employment-related laws, rules and regulations of every location in which we do business and across our supply chain. This includes, but is not limited to, laws, rules and regulations relating to wages and hours worked, equal employment opportunity, non-discrimination, harassment, immigration and work authorisation, privacy, collective bargaining, and child, prison and forced labour. Our internal code of conduct Ethics@Chanel, provides the global ethical principles for all CHANEL employees which reflect our core values and expectations.

Our approach to partnering with suppliers is governed by our Responsible Sourcing Policy. Reflecting our internal code of conduct, this policy sets out our expectations and requirements regarding issues such as respect of labour laws, forced and slave labour, human rights, the environment, and anti-corruption. We carefully select our suppliers and business partners and maintain business relationships with those that share our commitment to high ethical standards. CHANEL expects its suppliers and business partners to comply with applicable laws, rules and regulations as well as our Responsible Sourcing Policy.