

CHANEL

MODERN SLAVERY STATEMENT 2020 (2019 Financial year)

BUSINESS AND SUPPLY CHAIN

CHANEL was established in Paris in 1909 by Mademoiselle Chanel as a company selling luxury fashion goods. Today, CHANEL is an independent company that creates, markets, distributes and sells luxury Fragrances & Beauty, Fashion (including Haute Couture, Accessories and Eyewear) and Watches & Fine Jewellery products. Today, the house of CHANEL operates across 70 countries worldwide with over 28,000 employees.

CHANEL is dedicated to creating innovative and desirable products of the highest quality and finest craftsmanship. It invests in the excellence of its products and favours a long-term vision to ensure the longevity of the brand. A large proportion of the products are manufactured in-house in France as well as with select third party partners.

Its supply chain revolves around 2 pillars: “direct procurement” which includes the supply of raw materials, components and finished goods for the manufacture of its products by the three divisions (Fashion, Fragrance & Beauty and Watches & Fine Jewellery); and “indirect procurement”, which includes all other products and services used for the promotional, marketing, distribution and operational activities necessary to operate the company.

- The Fashion division consists of 6 activities: Haute Couture, ready-to-wear, leather goods, shoes, accessories and eyewear, and partners with approximately ~1,400 suppliers, of which 223 are direct suppliers and 95% are located in Europe (mostly in France and Italy).
- The Fragrance & Beauty division has over 635 suppliers, 368 being direct suppliers that support its manufacturing activities as well as the sourcing of the 23 families of ingredients. Approximately ~30% of these partners supply natural raw materials of strategic importance to the brand, giving the company direct access to the source of origin.
- The Watches & Fine Jewellery division has more than 300 suppliers, providing gold and other precious metals, diamonds, pearls and other gemstones across the world.
- Indirect Procurement is a central team set up in 2018 and dedicated to managing all indirect purchasing across the company. Activities include a broad range of areas from promotional, marketing, distribution, printing, and events organisation to maintenance, consulting, auditing, information technology contracts and equipments etc. across the company. It partners with over 24,000 suppliers globally, 550 of which were considered “priority 1” in 2019 as a result of the risk assessment methodology put in place. “Priority 1” suppliers are defined as those with a direct established commercial relationship with CHANEL.

POLICIES, TRAINING & GOVERNANCE

Policies

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

CHANEL's approach to partnering with suppliers is governed by the Responsible Sourcing Policy. Reflecting its internal code of conduct, this policy sets out the expectations and requirements on issues such as forced and slave labour, human rights, the environment and anti-corruption. The company carefully selects its suppliers and business partners, maintaining business relationships with those that share its commitment to high ethical standards. CHANEL expects its suppliers and business partners to comply with all applicable laws, rules and regulations as well as its Responsible Sourcing Policy.

CHANEL's Responsible Sourcing Policy focuses on continuous improvement of its suppliers' processes in connection with the audits performed on sustainability topics. Among them, it specifically requires its partners to comply with all obligations and principles it applies internally relating to Human Rights, whilst also referencing the International Labour Organization's core conventions governing forced and slave labour. Ongoing support is provided to suppliers by trained professionals in the procurement teams. CHANEL's Responsible Sourcing Policy's principles replaced its former policies across all divisions and regions in 2018, including the suppliers of Fragrance & Beauty, Watches & Fine Jewellery and Fashion. These continue to be embedded in its supply chain on an ongoing basis.

CHANEL's commitment to ensuring the third parties it works with adhere to all applicable labour and employment-related laws has been further strengthened by the roll out of contractual compliance clauses as part of the procurement process, requiring third parties with whom it engages to comply with all relevant laws relating to forced and child labour, discrimination, health & safety, bribery and corruption and environmental regulations. This also requires that all relevant staff receive appropriate training.

Training

Ethics@Chanel was deployed globally in 2015 with continuous reminders for employees on its various chapters since then. It is also part of any new employee's onboarding plan.

In addition, the company has identified specific teams, including the Purchasing teams, who visit, as part of their job, the production sites of CHANEL and those of its suppliers. Several training and awareness tools and trainings are being developed in-house to enable buyers to better understand human rights and environmental issues, and thus leverage this knowledge in their exchanges with suppliers.

Furthermore, the buyers of the Fragrance & Beauty division have received dedicated training on the commitments of the Responsible Sourcing Policy by qualified professionals, in order to be able to present the document to suppliers and optimize their engagement. In 2019, 100% of the buyers of the Fragrance & Beauty division were trained during a half-day session. The same training will be rolled out in the other divisions in 2020.

Buyers are also specifically trained in the use of a short evaluation methodology. This evaluation method, developed in 2019 by the audit teams, allows buyers to acquire knowledge on the health, human rights or environmental impact that can be used during site visits. In addition, this checklist evaluation also helps to assist buyers in implementing the corrective action plans requested at the end of any audit. A pilot training session was conducted in October 2019 and repeated during four sessions in February 2020, raising awareness of this evaluation method with 154 buyers. The plan to deploy this training will continue in 2020 and 2021, notably for the Watch & Fine Jewellery division as well as for the Indirect Procurement team.

In addition to their general auditor training, CHANEL's Sustainability Excellence Programme (SEP) audit teams (see § "Risk Management") are also trained by highly skilled experts in targeted questioning and information finding. This comprehensive training enables auditors deployed on site to detect complex situations and achieve a detailed understanding of human rights issues such as forced labour, child labour and discrimination.

Governance

The Corporate Sustainability and Compliance programmes overseeing the above policies are managed by central teams in coordination with the divisions and regions of CHANEL. At the highest level, these are led by the Sustainability Committee of the Board of Chanel Limited, which approves the strategy.

The Board's Audit Committee also regularly reviews the sustainability audit results as well as any relevant compliance topics.

At the more operational level, a Sustainability Committee brings together, on a quarterly basis, key players from the divisions and regions, as well as Sustainability Audit Committees at each divisional and regional level, to review and take the necessary actions following the audits of the company's suppliers and partners.

Once a year, a Compliance Risk Review is organized with each division with Legal and other members of management. This review covers all ethical issues in the business as well as sustainability issues and actions, and is informed in particular by the results of each of the division's Sustainability Audit Committees.

DUE DILIGENCE PROCESS

The due diligence process consists of the following steps:

1. Continuing to roll out the Responsible Sourcing Policy across all divisions and regions with education and training of the procurement teams in particular on an ongoing basis.
2. Rolling out Compliance screening globally. The finance and compliance teams screen suppliers for sanctions, criminal activities and reputational/media issues. This ensures that CHANEL only works with partners with no links to trade sanctions or sanctioned countries, criminal convictions or human rights violations, or other ongoing proceedings or issues that could damage the reputation of CHANEL. This screening is carried out on a risk basis for new suppliers of the three divisions, and is in the process of being rolled out within the Indirect Procurement department for all indirect sourcing within the regions. In the event of an alert, the Compliance teams conduct a thorough analysis to validate the alert and when confirmed make a recommendation restricting or blocking contact with the supplier. In 2019, approximately ~15,000 suppliers were screened. Only 3% raised alerts but none were confirmed by the Compliance team and did not require a cessation of the business relationship.
3. The specific Indirect Procurement team created centrally in 2018 also has the mission to define and update the screening and onboarding guidelines for the company and ensure coherence in the implementation of the responsible sourcing strategy.
4. Sharing knowledge and best practices across the three divisions and regions through the Sustainability Audit Committees guarantees consistency and coherence in the company's approach to supplier due diligence, risk assessment, monitoring and remediation.
5. A simplified audit methodology has also been developed and shared with the purchasing teams of each division. This evaluation method allows buyers to develop safety, human rights or environmental impact reflexes that can be mobilised during site visits, and acts as a good preventive measure.

The watchmaking and jewellery activities of the company are a member of the Responsible Jewellery Council (RJC) and have been certified according to the Standard Code of practice since 2011. This certification is voluntary and is renewable every three years. The Responsible Jewellery Council is a non-profit organisation bringing together over 1,000 players in the jewellery industry. It aims to promote responsible ethical, social and environmental practices that respect human rights across the jewellery supply chain. This applies to diamonds, gold, metals from platinum mines, silver and coloured stones.

As part of this process, the Company is committed to respecting and implementing the United Nations Guiding Principles on Business and Human Rights.

As far as diamonds are concerned, it also guarantees compliance with the requirements of the Kimberley Process and the World Diamond Council's « Système de Garanties » ("Guarantee System") to eradicate "conflict diamonds".

RISK ASSESSMENT & MANAGEMENT

Risk Assessment

Given the various activities of CHANEL and the plurality of risks these can be associated with, the company has adapted the risk assessments to the specificities of its three divisions and Indirect Procurement: the Fashion, Fragrance & Beauty and Watches & Fine Jewellery divisions and Indirect Procurement.

The different risk maps are based on a common policy, yet tailored to the specific issues of each of these divisions. This flexible risk mapping methodology allows the incorporation of feedback from audits and site visits, regulatory and sectoral developments specific to each division and to Indirect Procurement. The risk mapping covers all suppliers with an established business relationship (level 1) with CHANEL who are required to provide extensive and in depth information regarding the traceability of their upstream chain (level 2 and up).

Each methodology incorporates the following core criteria:

- External risk using international databases, indexes as well as internal expert knowledge, presenting risks by country and sector of activity to evaluate criteria such as health and safety, foreign labour, environmental pollution or respect of human rights and fundamental freedoms or bribery risk
- Risk linked to the manufacturing activities, including business criteria such as dependency, spend with the supplier or percentage of purchase within a specific category to assess the importance of this supplier for CHANEL
- Reputational risk for CHANEL

Risk Management

The company's Risk Management revolves around its *Sustainability Excellence Programme (SEP)*, an internal audit programme with a team specialised in supply chain and third party audits and assessments.

The SEP audits were first developed in 2011. These are performed using a common methodology, which assesses the compliance of suppliers against four main pillars and over 40 themes, using social health and safety and environmental standards such as SA8000, ISO 45001 or ISO 14001, as well as industry standards such as the RJC, SAC Higg Index, or the Leather Working Group and is reviewed annually to incorporate new themes identified during the audit carried out during the year:

- Ethics: regulatory aspects, anti-corruption policies and intellectual property
- Health & Safety: employee well-being and safe working conditions
- Social: regulatory aspects such as wages and insurance, equality policies
- Environmental: risk of pollution in the water, air or soil, waste management, biodiversity impacts

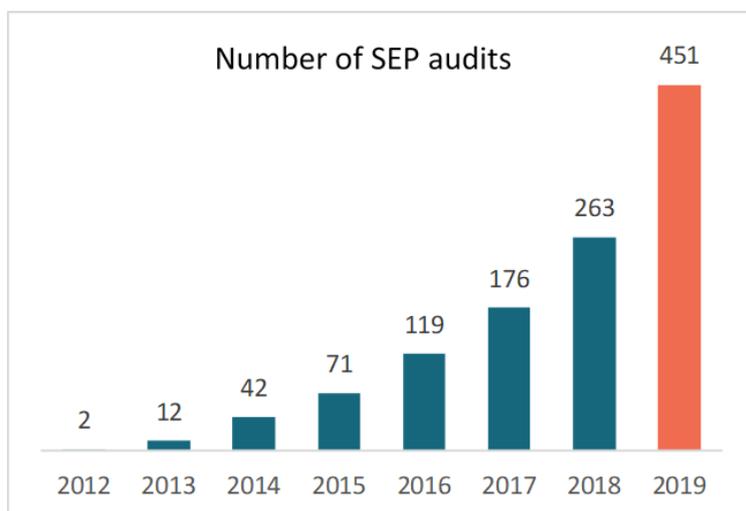
On the basis of these benchmarks and standards, the CHANEL Minimum Requirements have been developed to ensure compliance with common standards regardless of local ones. These Requirements are shared with all auditors, purchasing teams and suppliers during audits.

Issues of non-compliance for each topic are raised during the audit process, to evaluate the suppliers performance and to obtain an overall score corresponding to the SEP performance.

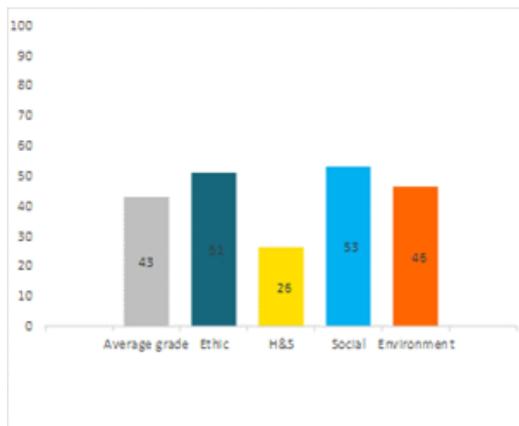
Every quarter, all audits are reviewed during audit committees by divisions, in order to decide on the follow-up to be given to this evaluation. An audited supplier can be either considered as “qualified” and he will be re-audited in the next cycle to keep this qualification, or “in progress” and a corrective action plan will be requested as well as a follow-up audit within 6 months to 2 years. If the SEP performance of this supplier remains insufficient after this time, business can be stopped with the supplier. Those audit committees are also the occasion to review pending and on-going corrective action plan or take decisions about specific actions (see § targeted corrective actions).

The SEP team is formed of seven CHANEL internal auditors and ten external auditors, trained and certified for the SEP methodology. These auditors communicate and exchange regularly to ensure consistency in the audit approach and ranking, as well as to share lessons learned and observations. This audit team also relies on independent third-party organisations with local audit teams to provide support for local regulation and cultural approaches tailored to each country.

Since 2012, CHANEL has built its internal capacity and audit programme as shown below:



2019 SEP audit results



In 2019, the SEP auditors conducted 451 audits (covering 470 sites) globally.

These results highlighted the main area of progress to be health and safety - through topics such as chemical management, fire protection or the wearing of protective equipment. This trend is due in part to the lack and/or regulatory weakness of some countries in terms of health and safety, as well as the large proportion of small sites (less than 15 employees), which do not always have the resources to implement health and safety procedures. These would be part of the collaboration put in place by the company through an improvement plan.

Overall grade on social practices is globally satisfactory, which is explained by audits in countries with strong regulatory requirements that supervise companies of all sizes. Nevertheless, this performance should be nuanced by the fact that some audits raised significant social deficiencies such as forced labour, excessive overtime or non-compliant remuneration. For some of those topics such as working time, CHANEL initiated a collaboration with HR Without Frontier (detailed further below) to support suppliers in a process of continuous improvement.

CHANEL takes a zero tolerance approach to findings of forced labour by suppliers. Where audits have raised concerns that a third party supplier does not fully comply with applicable laws relating to forced labour or health & safety and is not willing to change, it immediately stopped working with these suppliers. This represented 4% of audited suppliers in 2019 resulting in 17 suppliers terminated. 95% of the audited suppliers were given improvement recommendations and another 1% a necessary plan of action which included a follow-up audit within 6 months to 2 years.

Targeted corrective actions

In addition to the above audits, CHANEL has been working to develop targeted actions to prevent serious human rights abuses. These targeted actions are the result of the findings identified onsite among CHANEL suppliers, but also of the knowledge shared by the experts who accompany CHANEL on these projects. These actions may involve several countries through a specific theme or sector, or be linked to a situation shared by the globality of suppliers in a given country.

Forced labour: development of a forced labour categorisation grid

In order to allow a more detailed analysis of situations deemed to be at risk by the auditor, a system of categorisation of forced labour (defined as unfree labour in which persons are coerced to work through the use of violence, intimidation or by more subtle means such as accumulated debt, retention of identity papers or threats of denunciation to immigration authorities) has been developed in order to determine the nature of a situation: excessive work, forced labour, child labour, modern slavery.

This grid allows the auditor to make a preliminary diagnosis and answer concrete questions such as: Is the recruitment of this employee the result of a financial debt? Is this employee free to come and go outside the accommodation provided by the employer? Does the employee have travel documents?

Based on this preliminary diagnosis, the audit results are shared with CHANEL's legal teams in order to implement the appropriate actions.

On the basis of this grid, training was provided to all auditors in the SEP audit team, allowing to categorise these situations of forced labour during the 2019 financial year.

Excessive working hours: partnering with HR Without Frontiers

As part of its human rights assessment, prevention and risk management efforts, CHANEL wanted to work specifically on the risks of excessive overtime in certain countries. Human Resources Without Frontiers (HRWF) has the uniqueness of investigating with highly operational methods and a broad experience in the subject. The company has therefore been leveraging their expertise since 2018. Specialising in preventing the risks of abusive work, HRWB is a field NGO proving that unfit working conditions, including forced and child labour, can be prevented without sacrificing product quality and productivity. HRWB builds on the ILO (International Labour Organization) conventions and implements its guiding principles on Equitable Recruitment, a major risk prevention process.

The launch of a comprehensive project involving two key CHANEL suppliers aimed at:

- Equipping both suppliers with solutions to reduce (or maintain the reduction of) excessive overtime
- Validating a replication model of the methodology allowing it to be extended to other suppliers with similar risk profiles.

This project included:

- The analysis and formalisation of practices that work in terms of reducing overtime
- Adapting training modules for local companies to ensure learning and ownership of HR fundamentals
- The trial, within a pilot production department, of the HR management model built with suppliers based on the fundamentals transmitted and the practices observed and validated in the field.

CHANEL seeks ongoing dialogue with stakeholders and experts to help guide and support its human rights approach. The company is, for instance, a member of Shift's Business Learning Programme (BLP). Shift, a leading centre of expertise on the UN Guiding Principles on Business and Human Rights, advises and supports individual companies through the BLP, across different industries and regions, on implementation of the UN Guiding Principles. It develops shared learning to support improved business practices with regard to human rights globally. Based on CHANEL's work with Shift to date, certain raw material supply chains, including mica, gold, and precious stones, have been prioritised as representing a potential risk for rights holders. These raw materials will continue to be a focus for its supply chain responsibility efforts going forward through direct interventions and through its ongoing participation in multi-industry collaborative initiatives.

COVID-19

During the Covid-19 crisis, CHANEL implemented robust health & safety procedures and risk assessments across all of its own sites and has continued working with its suppliers across the three divisions to ensure the same levels of diligence described above were applied during this

unprecedented time. The company will continually monitor any specific health and safety requirements for businesses in light of COVID-19 and work with its suppliers to ensure that these are being followed.

SUMMARY

CHANEL's commitment to comply with applicable laws, in particular labour laws and ensure the prohibition of the use of forced labour is an ongoing process. The steps described above form part of a long-term programme to tackle all of the risks encountered in its supply chain, including the issue of forced labour. The company recognises that the complexity of its global supply chain will require an ongoing commitment to continually monitor this and other issues and find ways to improve its responsible sourcing practices in order to achieve this long-term goal.

In addition, as part of its responsible and sustainable sourcing approach, CHANEL published its Report to Society in 2018 (http://services.chanel.com/i18n/en_US/pdf/Chanel_CSR_0305_Proof_180620_for_web.pdf) and is and will be working on:

- Improved traceability for all strategic raw materials;
- Even greater collaboration with all its suppliers and other stakeholders to address all issues along the supply chain
- The roll out of global risk assessments for all purchasing categories including developing tools for the Indirect Procurement team to assess the risk for new suppliers;
- Implementation of an enterprise-wide non-financial reporting system to facilitate reporting of aggregate results which touch on these issues
- Ongoing remediation efforts to address risks where found;
- Ongoing training of employees to raise awareness of these issues through Ethics@Chanel and procurement training sessions globally; and
- Continued roll out of contractual compliance clauses and trainings as part of the updated procurement process.

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Approved by the Board of Chanel Limited on 25 June 2020.