

# SECTION 172 STATEMENT AND CORPORATE GOVERNANCE REPORT

YEAR ENDED 31 DECEMBER 2021

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## SECTION 172(1) COMPANIES ACT 2006

The directors are required to act in the way they consider will be most likely to promote the success of the Company and the Group in the long-term and in doing so, they have to consider the factors set out in Section 172(1) of the Companies Act 2006. The Board, working with the Global Leadership Team, is responsible for setting the high-level strategic agenda, long-term vision, company values and the culture of the Company and the Group. It also has the mission to ensure that the interests of key stakeholders are taken into consideration. The Board does not get involved in the day-to-day operations of Chanel, but it ensures that the right leadership is in place to run the business. It has delegated powers to manage the business to the Global Executive Chairman, the Global Chief Executive Officer and the Executive Committee, which meets at least six times a year.

The Group's corporate governance principles, set out in the Corporate Governance section on pages 30 through 36, 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.

### ENGAGEMENT WITH STAKEHOLDERS

**Employees:** The Board is committed to ensuring the engagement; learning and development; as well as safety and well-being of the Group's employees. At Chanel, we aim to cultivate potential and foster individual and mutual accomplishment. The Group's objective is to create an inclusive culture that nurtures personal growth, which ultimately contributes to collective progress. In doing this, we nourish growth through the long-term by giving our people the time to create meaningful relationships and understand our culture that will enable them to build capabilities through our learning programmes and on the job. At a global level, Chanel promotes common philosophies around these values and related initiatives and a holistic viewpoint; whilst regionally, local leaders and their teams orchestrate the initiatives around the Group's priorities, the sharing of information, enhancing learning and, importantly, listening to employee feedback to understand the experiences of our varied employee populations so that we may continually improve on the employee experience.

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

**Suppliers:** The Board 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 Group's core values and expectations.

Chanel's approach to partnering with suppliers is governed by the Responsible Procurement 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 Procurement Policy.

Chanel's Responsible Procurement 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 Organisation's core conventions governing forced and slave labour. Ongoing support is

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provided to suppliers by trained professionals in the procurement teams. Chanel's Responsible Procurement Policy's principles are 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 and safety, bribery and corruption and environmental regulations. This also requires that all relevant staff receive appropriate training.

**Environment:** Climate change is one of the greatest challenges of our time, and it is affecting both the natural world and societies. Our business activities have an impact on climate change, such as through the raw materials we source, transport and logistics, waste, packaging and business travel. CHANEL Mission 1.5° initiative represents the Group's commitment to mobilise and transform our business in line with the Paris Climate Agreement by decarbonising our business and value chain to help limit average global mean temperature increases to 1.5 degrees Celsius above pre-industrial levels. Our commitment to these environmental initiatives is detailed on pages 6 through 14 in the strategic report.

**Regulatory:** Compliance with regulatory requirements is of utmost importance to the Board. The Global Compliance committee is charged with overseeing the development and implementation of the Group's Compliance and Ethics programme with regard to policies, training and investigations to ensure compliance with laws, internal procedures, and industry standards that are significant to the business from a regulatory or reputational standpoint.

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For the year ended 31 December 2021, under The Companies (Miscellaneous Reporting) Regulations 2018, the Group applied the Wates Corporate Governance Principles for Large Private Companies, published by the Financial Reporting Council (“FRC”) in December 2018.

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

Chanel is an independent company that believes in the freedom of creation, cultivates human potential and acts to have a positive impact in the world.

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.

As a company, we believe in the power of creativity to generate beauty, emotion and change whilst cultivating potential and fostering individual and mutual accomplishment. We are committed to making a positive impact on people, society, arts and culture and the planet with a dedication to setting bold and new standards with a long-term perspective.

The leadership at Chanel leverages five pillars in making critical decisions for the brand. These key performance indicators that are detailed in the strategic report are a fundamental element of our development philosophy and are equally important in guiding our long-term strategy. The five pillars are:

- **Brand performance** – Spans all activities in which we engage to ensure that our products and image are modern, relevant, and luxurious. Each year, the Global Leadership Team uses our brand equity study, client experience data, and e-reputation to improve our brand vitality, relevance and modernity.
- **Financial health** – Emphasises sound long-term financial decision-making to ensure the continued growth, health, and independence of the brand, combining sales, operating profit and cash components with a long-term outlook.
- **Leadership & people strength** – Represents the commitment from our leaders and the Group to ensure that we are building the right skills and capabilities in the organisation, developing our people at all levels and promoting an inclusive environment.
- **Sustainability** – Ensures that in all our activities, we are striving to act to have a positive impact on the planet and society and conducting our business ethically and with uncompromising integrity.
- **Client engagement** – Reflects our dedication to building deep and meaningful client experiences and keeping the client at the core of our business strategy.

As a privately-owned group, we have the freedom to shape our own future. Without short-term financial constraints, we can implement long-term decisions that not only benefit our brand but are also designed to have a positive impact on people, the planet, society, and arts and culture. This empowers our people to act with agility and drive transformational change, looking beyond the present to consider new possibilities. Chanel aims to empower and enable its people to be visionary, strategic thinkers who are resilient to complexity and ambiguity, because transformation often means dealing with the unknown.

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## PRINCIPLE 2 – BOARD COMPOSITION

In 2021, the Board comprised ten members, including the Global Chief Financial Officer (“CFO”), Presidents of the entities within the Group that together own the Chanel brand and one major licensee, and four non-executive directors. In early 2022, the Board added two additional members: the Global Executive Chairman and the Global Chief Executive Officer (“CEO”). The Board meets at least four times a year and ensures that it is properly prepared through various updates received in between meetings as well as review 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 non-executive directors bring experience from both within the industry in which the Group operates as well as other sectors. They play an important role in challenging a broad range of areas across the business. The 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 onboarding, they visit operational facilities that support the business activities as well as some of the markets and meet with the global corporate functions to learn about the Group’s business and governance.

## 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, upon recommendation from management, determines the strategic direction for the Group; establishes policies for corporate management; reviews financial performance and approves budgets; makes decisions on major initiatives and investments; ensures that leadership is in place to implement policies and decisions; and oversees the executive leadership. 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 non-executive directors have no business or relationship with the Group that would compromise their influence or objectivity.

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### Areas of focus in 2021

Governance	<ul style="list-style-type: none"><li>- Appointment of new external auditors, Ernst &amp; Young</li><li>- Continued focus on establishing an Integrated Risk Management programme</li><li>- Establishing a formal Remuneration Committee</li></ul>
Strategy	<ul style="list-style-type: none"><li>- Evolution of client journeys within the digital ecosystem</li><li>- Preserving and developing exceptional know-how with an artisanal context in the luxury industry</li></ul>
Finance	<ul style="list-style-type: none"><li>- Focus on liquidity and net debt</li><li>- Continued effort to control costs across the organisation given the uncertainty of the economic environment</li><li>- Optimising inventory management globally</li><li>- Continued adverse impact of Covid-19 on tourist locations and duty-free business</li></ul>
Risk and Opportunity	<ul style="list-style-type: none"><li>- Safeguarding data security systems to thwart cyber attacks and hacking</li><li>- Opportunity to better integrate, synchronise and consolidate the different risks of the Group</li></ul>
Corporate Social Responsibility	<ul style="list-style-type: none"><li>- Work of Fondation Chanel</li><li>- Focus on sustainability commitments across the organisation</li></ul>

The Board delegates certain responsibilities to specific committees that have the appropriate knowledge and experience to make recommendations to the Board. Each committee includes non-executive directors as shown in the table below. In 2021, the committees and their roles were 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.

**Remuneration Committee** – determines the remuneration of senior management and validates the global salary and bonus budgets upon recommendation of Chanel’s internal Compensation Committee.

**Corporate Social Responsibility (“CSR”) Committee** – reviews, assesses and makes recommendations on the Group’s environmental, sustainability and social activities.

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Below is a summary of the committee structures, members and meeting attendance effective in 2021.

Name	Board Member	Meetings Attended	Audit Committee	Meetings Attended	Nominations Committee	Meetings Attended	Remuneration Committee	Meetings Attended	CSR Committee	Meetings Attended
P. Abecassis <sup>^</sup>	x	100%	x <sup>~</sup>	100%	x	100%	x	100%		
P.B. Blondiaux	x	100%								
R. Collasse	x	100%							x	100%
J. Galantic	x	100%							x	100%
B. Gros <sup>^</sup>	x	100%			x <sup>~</sup>	100%	x	100%		
Lady S. Heywood <sup>^</sup>	note 1	x	100%	x	100%	x	100%			
Baroness M. Lane Fox <sup>^</sup>	x	100%			x	100%			x <sup>~</sup>	100%
A.R. Mahon <sup>^</sup>	note 2	x	100%							
O. Nicolay	x	100%	x	100%						
B. Pavlovsky	x	100%							x	100%
V. Shaw	x	100%	x	100%						

<sup>^</sup> Non-Executive

<sup>~</sup> Chair

note 1: resigned 26 May 2021

note 2: appointed 26 May 2021

### Other Committees

The day-to-day operations of the Group are managed by the Executive Committee, under the responsibility of the CEO, as well as a number of other operational committees which prepare recommendations to the Executive Committee and/or the Board.

**Executive Committee:** recommends strategies to the Board; makes operational decisions for the Group; assesses developments in the business, operational issues, risks 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 Global Executive Chairman, the CEO, the 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 at least six times a year.

**Brand, Communication and Image Committee:** assesses brand image, cultural awareness, advertising and promotion campaigns, and communication and media strategies and makes recommendations to the Board accordingly. This committee is comprised of the Global Executive Chairman, the CEO, Presidents of the business activities, Global Markets Coordinator, Head of Artistic Direction, Global Head of Innovation and Brand Insights, and the Global Head of Arts and Culture. 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.

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**Global Compliance Committee:** oversees the development and implementation of the Group's Compliance and Ethics programme with regard to policies, training and investigations to ensure compliance with laws, internal procedures, and industry standards that are significant to the business from a regulatory or reputational standpoint. This committee is comprised of the Global General Counsel, the Global Chief Compliance Officer, the CFO, the Global Chief People & Organisation Officer, the Global Head of Internal Audit and Supplier Sustainability Assessments and other corporate representatives, as needed. 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 Executive Chairman, the CEO, the CAO, the 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.

**Compensation Committee:** makes recommendations to the Remuneration Committee on compensation for senior management and guidelines for salary increases and bonuses. This committee is comprised of the Global Executive Chairman, the CEO, the 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.

## **PRINCIPLE 4 – OPPORTUNITY AND RISK**

### **Opportunity**

The Group's business strategy is based on a long-term vision and allows it 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 the Group 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, although 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 through 29 includes an assessment of the Group's principal risks and how those risks are mitigated.

The Audit Committee is responsible for reviewing 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 controls. This includes the governance of risk assessments and risk mapping to understand material financial risks, fraud risks, strategic risks, legal and compliance risks as well as the impacts of upcoming regulations, cyber security risks and people risks and how such risks are managed and mitigated through operational and compliance controls. With regard to cyber security risks in particular, the Audit Committee recognises that its remit in supervising risk management activities and monitoring management's policies and procedures plays a significant strategic role in assessing the efficacy of cyber risk and data privacy risk initiatives and policies. The Audit Committee receives regular briefings regarding the Group's technology strategy and plans in order to gain an understanding of key systems, data privacy activities, risk and controls, including those associated with cyber security and data management and uses these briefings to assess the effectiveness of risk management and internal controls in this area. In addition, with regard to legal and compliance risks, the Audit Committee receives regular reports on the compliance programme and whistleblowing and internal compliance investigations and is satisfied that compliance matters are handled appropriately. The Audit Committee also receives

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sufficient robust management information and metrics to be confident that the information the Group publishes relating to transparency in its supply chains and the risk of modern slavery or other human rights, environment, health and safety or governance and business ethics concerns are subject to an appropriate level of due diligence.

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 principal 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 as part of the Group's risk management practices 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 considers the actions management has taken to implement the recommendations of internal audit and whether these properly support the effective working of the internal audit function.

As part of Chanel's continued commitment for further strengthening and delivering on its risk management objectives, the Responsible Sourcing Expert Team (ReSET) moved under the direction of the internal audit function in December 2021. The Audit Committee is responsible for reviewing and approving the Group's supplier excellence programme (SEP) mandate and ensuring the SEP is aligned to the compliance and environment, social and governance 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 SEP, recommendations and any mitigating actions taken by the Group to ensure they properly support the effective operation of the programme.

As a priority for 2022 and beyond, a key focus will be placed on integrated risk management. As the external and internal risk landscape continues to evolve very quickly, it is essential that the Company defines, implements and embeds an even more robust, independent and better synchronised integrated risk management framework under the mandate of the Audit Committee and Global Leadership Team. This will allow the Company to identify risks at the strategic level which could have a major effect on the Group, minimise the impact of these risks, create opportunities for competitive advantage, improve operational efficiencies and build a risk-aware culture across the business to manage future risks smartly. The results of these activities for identifying, assessing, managing and monitoring key risks will be communicated and aligned with the Global Leadership Team to ensure a deep understanding of the Company's risk appetite, risk profile and risk tolerance, with the Audit Committee continuing responsibility for ensuring the appropriate mechanisms are implemented for executing a prioritisation of key risks in developing, operating and monitoring the system of internal controls.

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**

In 2021, the Board formally constituted a Remuneration Committee, comprising non-executive directors as voting members, with the CEO and the Company's Global Chief People & Organisation Officer as attendees. The Remuneration Committee has the overall responsibility for the Group's global salary and bonus budget, designing remuneration policies and practices to support the Group's strategy and promoting long-term sustainable success and overseeing reviews of market position and gender pay equity analysis.



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The Group's Compensation Committee, a management-level 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. Based on this process, the Compensation Committee makes recommendations to the Remuneration Committee with respect to the global salary and bonus pool and remuneration and incentives of the Global Leadership Team, their direct reports and any executive directors and the Remuneration Committee, in turn, decides such matters.

The Group's Compensation policy and philosophy are articulated annually as part of the compensation planning process. The Remuneration Committee 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 the broader employee population.

### **PRINCIPLE 6 - STAKEHOLDER RELATIONSHIPS AND ENGAGEMENT**

Effective governance is a critical role of the Board and is essential in achieving the Group's business strategy and aligning with its purpose. As part of promoting the success of the Group, the Board is committed to engaging its stakeholders in a way that is aligned with Chanel's standards and principles. This engagement allows us to learn from our stakeholders so the Group can achieve its objectives in a positive and forward-looking way.

As a Group, we set ambitious goals and aim to honour our commitments by being a reliable business partner and conducting business in compliance with applicable laws, regulations and ethics in all the markets where we operate.

Details of the Group's engagement with key stakeholders are set out in the Section 172(1) statement on pages 28 and 29 in the strategic report.