

# CHANEL

## MODERN SLAVERY STATEMENT 2018

### OUR BUSINESS

CHANEL was established in Paris 1909 by Mademoiselle Chanel as a luxury brand selling luxury fashion. 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.

CHANEL is dedicated to creating innovative and desirable products of the highest quality and finest craftsmanship. We invest in the excellence of our products and favour a long-term vision to ensure the longevity of the brand. A large proportion of our products are manufactured at in-house facilities in France as well as with select third party partners. Our supply base consists of more than 3000 suppliers around the world, split between what we term "direct procurement" (e.g. finished goods, componentry and raw materials) and "indirect procurement" (e.g. sales, promotional and marketing materials such as shopping bags and displays etc). Of these suppliers, over 1400 supply chain partners are for our Fashion activity, 69% of which supply finished goods. The majority is based in Europe (France and Italy). Our Fragrances & Beauty activity has over 900 suppliers, 69% of which provide raw materials. 27% of these partners supply natural raw materials of strategic importance for the brand, giving us direct access to the source of origin. Our Watches & Fine Jewellery activity has 34 suppliers, supplying gold, diamonds, and other precious stones. For indirect procurement of non-product items related to the customer experience, we have over 670 suppliers.

### OUR POLICIES ON SLAVERY AND HUMAN TRAFFICKING

CHANEL 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, including, but not limited to, laws, rules and regulations relating to wages and hours worked, equal employment opportunity, discrimination, 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 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.

CHANEL's Responsible Sourcing Policy has been updated in 2018 to reflect regulatory changes as well as evolving practices. In addition to focusing on continuous improvement of our suppliers' processes in connection with the audits that are performed, the policy specifically requires our partners to comply with all internal obligations and principles relating to Human Rights, whilst also referencing International Labour Organization core conventions governing forced and slave labour. Guidance on applying the policy is provided through annual supplier fora and ongoing support to suppliers from trained professionals in our procurement teams. CHANEL's Responsible Sourcing Policy's principles have been rolled out across all activities and regions in 2018 including Fragrances & Beauty, Watches & Fine Jewellery and Fashion.

## **RISK ASSESSMENTS**

Our approach to risk assessment is underpinned by a three-step process:

- First, all suppliers are assessed according to criteria relating to the state of the business relationship (purchasing volumes, dependency), social and environmental issues associated with the value-adding activity undertaken by the supplier, and potential reputational risks for the brand, in particular with regard to their dependencies on the brand as a major buyer. This exercise is conducted on an ongoing basis with the procurement teams and requires, at a minimum, tracing the value-adding activity back to the last transformation stage. Based on our risk assessment approach we have identified where there are areas of actual and potential risk with a small number of our suppliers from a business dependency, CSR and/or reputational perspective. As outlined below we work to mitigate and manage risk wherever it occurs.
- Second, to better understand supplier management of social and environmental risks at a more granular level, suppliers are requested to self-assess against CHANEL's in-house standards using an online tool called the SEP (Sustainability Excellence Program). The SEP was first developed in 2011 in line with international norms, guidelines and principles, including the OECD Due Diligence Guidance for Responsible Supply Chains, and is submitted to

external experts for critical review on an ongoing basis, to ensure it covers all relevant issues, and continues to set a high level of what CHANEL expects from its suppliers. This CHANEL meta-tool has been designed to be both holistic (covering social, environmental, governance and ethics topics) and exemplary – establishing a high bar for the rest of the industry in relation to supplier performance on these issues.

- Finally, based on the results from the first two steps, CHANEL's internal auditors plan and implement in-person audits on an annual basis. During 2017, we conducted over 200 such audits. Over the next two years, we plan to conduct over 500 audits of this nature across our diverse supply base.

In addition to our risk analysis at the corporate level, CHANEL has commissioned independent third parties to conduct in-depth human rights impact assessments at the source of our raw material supply chains, when actual and potential risks have been identified.

For example, in India and Madagascar, impact assessments consisted of on-site visits and qualitative interviews with farmers, suppliers, local stakeholders and other rights holders, to better understand the scale of the risk, its potential severity, remediability, and the leverage for CHANEL to influence it. Human rights impacts are also systematically assessed on site by our responsible sourcing teams before and during the implementation of supply chain reinforcement projects, at the source of our key raw materials supply chains located around the world.

We seek ongoing dialogue with stakeholders and experts to help guide us and support us in our human rights approach. Earlier this year, with the help of the leading centre of expertise on the UN Guiding Principles on Business and Human Rights, Shift, we convened functional leads from across the business to discuss and prioritise our salient human rights issues, along with an action plan to address them. Certain raw material supply chains, including mica, gold, and precious stones, were considered as being of a potential risk from a human rights perspective. They will continue to be a focus for our supply chain responsibility efforts going forward through direct interventions and through our ongoing participation in multi-industry collaborative initiatives, including the Responsible Mica Initiative and the Responsible Jewellery Council (“RJC”) (CHANEL is certified by the RJC and complies with the ethical principles of the RJC, including the Kimberley process for diamonds).

## **DUE DILIGENCE PROCESSES FOR SLAVERY AND HUMAN TRAFFICKING**

In addition to our approach to risk assessment outlined above, our due diligence process consists of the following steps to mitigate and manage any risk that our supply chain may use forced labour, slavery and human trafficking:

- Continuing to roll out of the Responsible Sourcing Policy across all activities and regions with education and training of the procurement teams on an ongoing basis.
- The creation of a dedicated Responsible Sourcing Expert Team at corporate level in January 2018, the mission of which is to define and update the responsible sourcing guidelines for the company and to ensure coherence in the implementation of our responsible sourcing strategy. Globally we have 5 internal and 10 external, fully dedicated, trained and certified auditors for the implementation of our Responsible Sourcing Policy.
- Sharing knowledge and best practice across the three business activities and regions through our Responsible Sourcing Standards Committee to ensure consistency and coherence in our approach to supplier due diligence, risk assessment, monitoring and remediation.
- Sharing ongoing audit plans and results through the SEP Committees at individual activity levels in order to ensure compliance with all applicable laws, rules and regulations and our own internal policies relating to the prevention of human rights violations. The SEP audit results are then integrated in follow up actions and endorsed by senior management. Such results are monitored on an ongoing basis.

## SUMMARY

CHANEL's commitment to compliance with applicable laws and in particular labour laws and 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 our supply chain, including the issue of forced labour. We recognise that the complexity of our global supply chain will require our ongoing commitment to continually monitor and find ways to improve our responsible sourcing practices in order to achieve this long-term goal.

In addition, as part of our responsible and sustainable sourcing approach we are and will be working on:

- Improved traceability for all of our strategic raw materials
- greater collaboration with all of our suppliers and other stakeholders to address issues along the supply chain
- ongoing roll out of global risk assessments for all purchasing categories
- ongoing remediation efforts to address risks where found
- implementation of an enterprise-wide non-financial reporting system to facilitate reporting of aggregate results which touch on these issues
- ongoing training of our employees to raise awareness of such issues through Ethics@Chanel training sessions globally.

Approved by the Board of Directors of Chanel Limited on 8 June 2018 and signed on its behalf by:

Olivier Nicolay  
Managing Director

