

REPORT
TO SOCIETY

CHANEL
2018

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CHANEL'S ROLE IN SOCIETY

CHANEL, a privately owned company for more than 100 years, has traditionally been very discreet about its business. We have principally devoted our communications to showcasing our products and their creators, a discretion which has contributed to a sense of mystique around the brand.

Today, however, all stakeholders expect greater transparency and accountability from companies. We want to share in more detail how CHANEL operates, the commitments we have made as a company, and how we collaborate with civil society, with external stakeholders, and with other brands on sustainability issues.

This report is a first insight into who we are and how we operate. It is a platform for a different kind of engagement, both internally — with our employees — and externally, with our stakeholders.

STRIVING TO BE EXEMPLARY

**CHANEL IS FIRST AND FOREMOST
ABOUT CREATION. IT'S ALSO
ABOUT BEING A PROFOUNDLY
HUMAN-DRIVEN COMPANY
COMMITTED TO CREATING
LONG-TERM VALUE FOR THE
BRAND AND FOR SOCIETY.**

CHANEL has always been a pioneer of modernity, defining trends in luxury and beauty for more than 100 years. It is a company seeking to constantly reinvent itself, embrace innovation, and challenge existing boundaries through its creativity. CHANEL, following the legacy of our founder, assumes an influential role in society and strives to be exemplary in everything we do.

CHANEL's internal mission is to maintain the conditions in which creation thrives, believing that creativity and beauty are essential drivers of progress. CHANEL also believes that by providing the enabling environment for creation, we can be a positive force for change in the world and contribute to transforming lives and societies.

Since the beginning, CHANEL has always tried to develop the long-term value of the brand. As a company, we recognized early on that we can only secure this outcome if, at the same time, we contribute long-term value and sustainability to the environmental and social ecosystems in which we operate. At a time of unprecedented social, economic, and environmental transformation, we think we have to continue to step up our ambitions and commitments. In this way, we can contribute to a future that creates value for both business and society in a mutually beneficial way.

THE WAY CHANEL CREATES LONG-TERM VALUE IS BASED ON THREE PILLARS, ON WHICH THIS REPORT IS STRUCTURED:

A CREATION-DRIVEN BRAND

How CHANEL is building greater resilience
to ensure creation is always possible.

PAGE 15

A COMMITTED LUXURY LEADER

How CHANEL is working toward building a more
sustainable business model for luxury.

PAGE 37

A HUMAN-DRIVEN COMPANY

How CHANEL is empowering people, promoting self-accomplishment, and enabling
working conditions that respect and enhance the potential of each individual.

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Using our influence and our ability to think,
act, and invest for the long term, CHANEL
believes that we can secure the brand's future
and contribute to shaping a better world
for everyone. Our ambition is to engage on
a journey toward exemplarity. While we are
proud of what we have achieved to date,

we recognize we still need to progress toward
fully managing all our social and environmental
impacts. At every level of the company, there
is a clear commitment to engaging the human,
creative, and financial resources needed
to effect long-term positive change. This
commitment is made possible by CHANEL's
independent, private ownership structure.

A HISTORY OF SETTING THE TREND FOR LUXURY

The House of CHANEL was founded by a unique, powerful, atypical woman.

By shaping her own world, Mademoiselle Chanel influenced the entire world around her, fundamentally changing perceptions of style for everyone.

1909

CHANEL BEGINS

Gabrielle Chanel opens a shop at 160 boulevard Malesherbes in Paris.

1910

Gabrielle Chanel opens her first independent millinery shop at 21 rue Cambon in Paris.



"IF YOU WERE BORN WITHOUT WINGS, DO NOTHING TO PREVENT THEM FROM GROWING."

— GABRIELLE CHANEL

1921

UNVEILING OF CHANEL N°5, CREATED BY ERNEST BEAUX

1924

Gabrielle Chanel launches her first makeup collection and, in the same year, founds the Société des Parfums CHANEL, dedicated to creating unique high-end fragrance and beauty products.

1926

Gabrielle Chanel creates the daringly simple "little black dress," a true revolution in the fashion of the time.

1927

CHANEL develops its first line of skincare products.



1932

Gabrielle Chanel presents the Bijoux de Diamants exhibition of fine jewelry, the first time a couturier presented a high-end jewelry collection.

1955

Launch of the 2.55 quilted handbag, which introduced a new style of shoulder strap that allows a woman's hands to remain free.

1957

Gabrielle Chanel creates the slingback shoe.



Since 1909, our entire business model has been designed to create and safeguard the conditions for creativity to thrive. Everything we do as a company is intended to support, enable, and feed creativity: the way we run the business, how we measure performance, our care for our people, and the way we protect and preserve our savoir faire.

The history of CHANEL has always been one of disruption, of daring to think and act differently, of creating new trends. Here are some key examples of how CHANEL has set the trend for luxury over the past 100 years:

1978

THE HOUSE OF CHANEL EXPANDS

CHANEL introduces its first Ready-to-Wear collection and the worldwide distribution of its line of accessories.

2011

FONDATION CHANEL

CHANEL launches Fondation CHANEL to support women as agents of social change throughout the world.

1981

Jacques Polge is named director of the Laboratoire Parfum de CHANEL, following in the footsteps of Ernest Beaux and Henri Robert.



1983

Karl Lagerfeld is appointed artistic director for CHANEL FASHION, designer of all Haute Couture, Ready-to-Wear, and accessory collections.



1987

The first line of CHANEL Watches launches the PREMIÈRE WATCH, designed by Jacques Helleu.

1993

The first CHANEL fine jewelry collection launches in Place Vendôme, Paris.

2000

CHANEL launches the J12, the first watch with a case made out of black ceramic, a high-tech material inspired from the field of aeronautical engineering.

2002

Through its subsidiary Paraffection, CHANEL acquires eight traditional Parisian fashion ateliers, creating the Métiers d'Art show.

2013

CHANEL opens an extension in Pantin, one of the most modern research centers in cosmetics.

Following the retirement of his father, Jacques, Olivier Polge becomes the director of Fragrance Creation and Development for CHANEL.

2016

Through the launch of La MONTRE MONSIEUR, CHANEL unveils its first watch with a movement designed and manufactured completely in-house.

2017

CHANEL launches the new GABRIELLE CHANEL FRAGRANCE and GABRIELLE HANDBAG.



CHANEL FINE-JEWELRY BOUTIQUE
18 PLACE VENDÔME

OUR BRAND PURPOSE

The House of CHANEL was founded by a unique, powerful, atypically feminine soul who was propelled by her very core.

By determining her world, she influenced the world, fundamentally changing perceptions of Style for everyone.

We embrace the epic modernity of our rich heritage and fulfill its vision by serving today's self-powered woman who creates her destiny.

Our DNA is in everything we make, and elevating women, treasuring their complexities and facets, is in our DNA.

Our repertoire spans the extremes that allow a woman to find and express her essence, and thus offer her the invaluable experience of a liberating transformation, whether with a dash of lipstick, a spritz of perfume or a total look.

From its inception, our House has been a seminal force in shaping the codes of fashion. By drawing on the potency of paradox, and reconceiving it in surprising, harmonious, resonant design elements, we have forged for ourselves the enduring aura of singular magnetism.



FASHION



FRAGRANCES
& BEAUTY



WATCHES &
FINE JEWELRY

CHANEL TODAY

CHANEL is a French brand and an international business for luxury-goods consumers, organized as a global matrix structure on three activities, across three regions.

The three activities are (i) FASHION, (ii) FRAGRANCES & BEAUTY, and (iii) WATCHES & FINE JEWELRY. They define our brand strategy, the products we develop, and the communication tools around them.

We operate across multiple geographies in the Americas, Europe, and Asia, where local markets are responsible for implementing the brand strategy, coordination, and product distribution.

As a part of modernizing and simplifying our organizations, we have established a common holding company in London that will consolidate all CHANEL companies. The majority of our global corporate functions are based in London. CHANEL's sales in 2017 continued to be strong and stand at \$9.6 billion, up 11 percent compared to 2016 on a constant currency basis, with growth in all regions.

The operating profit amounts to \$2,692 million with free cash flow of \$1,628 million this year allowing the company to invest \$1,457 million in brand support activities to deliver our creation and innovation strategies, up 15 percent compared to 2016. CHANEL's long-term strategy is underpinned by a strong balance sheet, with net debt of only \$18 million.

110

Countries

20,197

Employees



A LONG-TERM PERSPECTIVE

CHANEL's performance is always measured not by shareholder equity, but by brand equity. Everything we do is aimed at protecting and enhancing the long-term value of the brand, independently of short-term financial results and/or market constraints. Looking at long-term brand equity is how we measure our success and how we make decisions.

"PERFORMANCE IS NOT JUST ABOUT SHORT-TERM FINANCIAL RESULTS, BUT ABOUT LONG-TERM CREATION OF VALUE."

**— PHILIPPE BLONDIAUX
GLOBAL CHIEF FINANCIAL OFFICER, CHANEL**

This long-term vision for our performance is the most important element of our business model, and is based on our complete financial independence. Being a wholly privately owned company with a strong cash flow, an extremely sound balance sheet structure, and very little debt affords us total independence in financing all of our strategic investments.

Operating without short-term financial constraints gives us the freedom and the luxury to make the right decisions for our brand.

Being a creation-driven brand, committed luxury leader, and a human-driven company is made possible through our long-term perspective.

This long-term perspective gives us the ability to help drive positive change. It gives us the possibility, and the responsibility, to use the power of our creativity, our people, and our influence, to think, plan, and act with society's and the planet's long-term interests in mind, as well as our own.

Operating in this way means we can work with suppliers over generations to ensure the resources they provide are well managed and benefit the community in its entirety. It means we can protect rare skills that may otherwise die out. It means we can invest in future energy sources that not only serve us, but also, others who need them. These and many more examples in this report show what our specific approach can enable us to achieve.

HOW WE MEASURE BRAND EQUITY

In order to measure brand equity, we carry out annual studies of consumer perceptions of our brand. Each study takes into account a large number of consumers across all of our key markets.

The studies analyze brand perception according to detailed criteria such as saliency (brand awareness), value (what qualities the brand represents for consumers), strength (to what extent the brand is loved by consumers), and desirability (to what extent the brand is "for me").

The company has conducted brand equity studies for over 25 years. The results are analyzed in detail each year and discussed among the brand's top management, laying the foundation for our key strategic decisions.

We have been able to make some significant investments for the long term over the last few years across all our activities.

Upstream in the FASHION activity value chain, for example, we have invested in a number of manufacturing and production sites. These are essential for CHANEL, but also for the luxury sector as a whole, to thrive — from the footwear manufacturer Roveda in Italy to the Bodin-Joyeux tannery in France and the cashmere producer Barrie Knitwear in Scotland.

All these production companies are part of an ecosystem, one we have created for the European luxury-fashion industry to deliver outstanding creations, but also one that enables us to ensure the long-term sustainability of specialist industries that might otherwise disappear.

Within our FRAGRANCES & BEAUTY activity, we have built in-house creative teams and designers in Paris; integrated research and development activities in Paris, New York, and Tokyo; and fully owned production facilities north of Paris. Our focus on the long term means we can take a slower, more deliberate approach to new product development. The fragrance market is highly competitive, driven by hundreds of new product launches every year. However, we do not believe this rhythm of new product launches is sustainable for the CHANEL brand over the long term. For this reason, we introduce new fragrance products, on average, every 10 to 12 years. This ensures we have sufficient financial and human resources to build our brands over the long term. For example, we launched the new GABRIELLE CHANEL FRAGRANCE 12 years after COCO MADEMOISELLE. The result of this long-term brand vision is that we have three brands in the top five worldwide. Focusing on the long term has also meant we can deliver products that are both desirable and sustainable for our customers.

One aspect central to the development and growth of our WATCHES & FINE JEWELRY activity has been the consolidation of all aspects of watch and jewelry making.

Investing in our own horological manufacturing capabilities in Switzerland and an integrated fine-jewelry workshop on Place Vendôme was a strategic decision that strengthened our authenticity.

A LONG-TERM PERSPECTIVE

In 2016, we launched La MONTRE MONSIEUR, the first CHANEL watch with a movement designed and manufactured completely in-house. Structured around a single circular bridge that connects all the elements of the movement, we created it through an artistic and investment haute horlogerie partnership with independent watchmaker Romain Gauthier.

Downstream, we are investing significantly for the long term in the client experience, working out how best to embrace digital innovation in a way that maintains both the exclusivity and quality of the overall CHANEL experience. Our strategy is to increasingly personalize client service and experiences while maintaining our long-term commitment to physical retail boutiques, which are an integral part of how our clients interact with CHANEL.

Our value chain is part of a much broader luxury system, which must continually be nourished, protected, and supported. For example, earlier this year, we announced sponsorship for two projects that will support Paris' position as the home of fashion. First, we will invest €25 million in the restoration and renovation of the Grand Palais, a symbol of architectural innovation in Paris since its creation. CHANEL and the Grand Palais have developed a close bond, initiated by Karl Lagerfeld in 2005. The exceptional nave of the Grand Palais is the location of many elaborate Haute Couture runway shows, and an iconic building that truly represents Paris.

We are also building a long-term partnership with Palais Galliera as the exclusive sponsor, responsible for financing the construction of new exhibition rooms. The Palais Galliera will become the first permanent fashion museum in France and contribute to promoting both fashion and Paris by making its exceptional fashion archives accessible to all.

THINKING LONG TERM THROUGH OUR PRICING STRATEGY

In 2015, we were the first in our industry sector to introduce worldwide price harmonization for handbags. This decision was made in order to reduce price differentials that may have existed across markets and in order to offer our products to all of our clients at a harmonized price, regardless of location.

Our strategy was a bold one initially, but it was a move in favor of our customers. For them, and purely out of fairness, it was no longer acceptable for us to allow significant price differentials to develop.

We were courageous first-movers in this matter and are satisfied with how our strategy has played out: The resale market has decreased, the traffic in our boutiques is clearly more balanced, and we have the opportunity to better serve our clients and create an experience in line with our standards of excellence.



A CREATION-DRIVEN BRAND



Creation is at the heart of our brand. It makes our products desirable, and the experiences we provide to our clients, unique.

In an era of ubiquitous global communications, the power of creation is a source of aspiration and inspiration for many.

Creation builds and spreads beauty far and wide, and inspires many people all over the world beyond our immediate clientele.

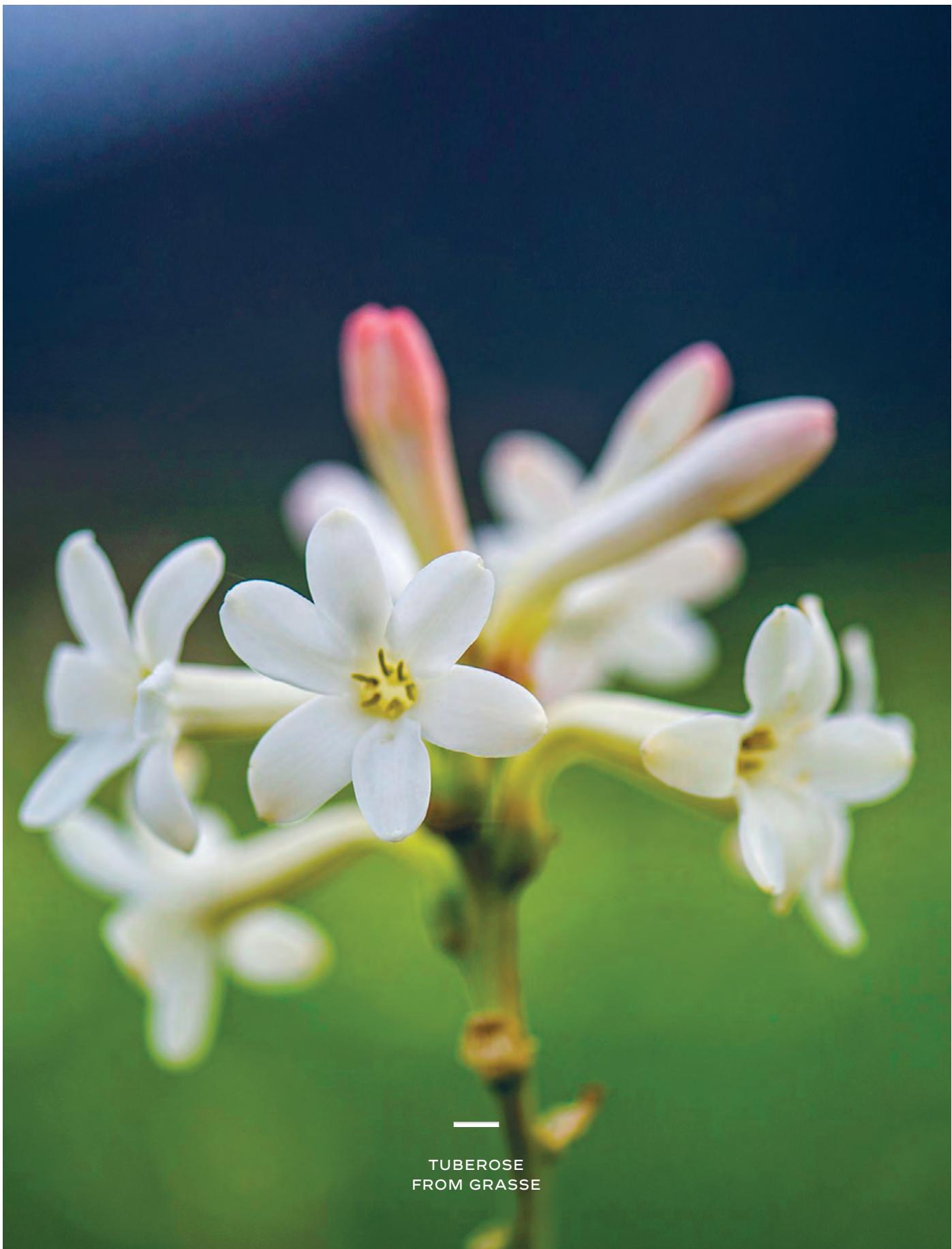
We believe we have a responsibility to maintain the conditions that allow creation to thrive, so we give it the potential to be a positive force for change in the world, and to contribute to transforming lives and societies.

To make this a reality, CHANEL invests heavily in preserving the sources of creation in the following ways:

Valuing and securing the extraordinary and rare raw materials that we use in our products, and protecting complex and fragile ecosystems.

Protecting and developing the incredible skills and traditions of our artisans, whose métiers belong to the cultural heritage of humanity but would probably disappear without our support.

Supporting relevant new technologies that add value to our products and to the way we produce them.



TUBEROSE
FROM GRASSE

NATURAL RAW MATERIALS OF EXTRAORDINARY QUALITY



CHANEL's creation relies on our ability to continue to source natural ingredients and materials of exceptional and unique quality.

The extreme care we take in choosing and preserving such extraordinary quality is part of our heritage.

Many of our materials come from regions with environmental and social challenges. We need to secure these materials for the long term, and we also have a responsibility to set an example. For these reasons, we invest in addressing these challenges as part of our supply-chain resiliency strategy.

As part of this strategy, we distinguish between strategic raw materials — “matières nobles” — and other raw materials, which are more generic commodities.

MATIÈRES NOBLES

Each of our business activities uses materials of critical importance to our creations. These matières nobles are the materials that make CHANEL products the iconic creations they are today. In many cases, CHANEL benefits from exceptionally close, long-standing relationships with the suppliers who provide us with the essential strategic raw materials and ingredients for our products.

A
CREATION-DRIVEN
BRAND

For decades we have focused on supporting the complex environmental and social ecosystems from which we source the matières nobles for our perfumes and cosmetics. Over 15 years ago, to build on our experience in Grasse, we started extending our supply-chain resiliency approach to other strategic raw materials, with projects such as one in Madagascar for vanilla. Given the number of raw materials we source, and the number of suppliers we source them from — more than 300 for our FRAGRANCES & BEAUTY activities — the challenges we face are incredibly diverse. They vary according to the country and raw material in question. At the source of our proprietary natural ingredients supply chains, we commit to promoting and deploying the principles of regenerative agriculture: a system of farming practices and patterns that actively enrich soils, biodiversity, and ecosystems, while increasing the livelihoods of individual farmers. While we have achieved a number of positive social, economic, and environmental outcomes, we still have work to do to be certain all our raw-material sourcing achieves positive impacts in line with the Sustainable Development Goals (SDGs) of the United Nations. We are convinced of the potential that regenerative agriculture holds for transformative change toward reaching our objectives. Promoting regenerative agriculture is a key part of our strategy going forward.

Following are some examples of our projects aiming to achieve positive social, economic, and environmental impacts:

**ENHANCING SCIENTIFIC
SKILLS IN BHUTAN**

In 2014, the CHANEL FRAGRANCES & BEAUTY R&D team identified a native plant in Bhutan with high cosmetic potential. As envisaged by the Nagoya Protocol on Access to Genetic Resources and the Fair and Equitable Sharing of Benefits Arising from their Utilization to the Convention on Biological Diversity,¹ we worked with local stakeholders on an access scheme, and established a partnership with the Bhutanese Ministry of Agriculture and Forests and its National Biodiversity Centre.

One of their key needs was to enhance the level of local scientific skills. We agreed on a training plan, welcoming Bhutanese scientists to our laboratories in Pantin, France, to conduct, with our support, their own research on the value of Bhutanese biodiversity. We also supported their application for a United Nations Development Programme (UNDP) grant so the National Biodiversity Centre of Bhutan could set up a lab with high-performance liquid-chromatography instruments. Two CHANEL scientists went to Bhutan to set up the instruments and train the local research team on them, while we trained Bhutanese students in our laboratory for analytical chemistry.

1. The Nagoya Protocol on Access to Genetic Resources and the Fair and Equitable Sharing of Benefits Arising from their Utilisation to the Convention on Biological Diversity (the Nagoya Protocol) is an international agreement that aims to share the benefits arising from the utilization of genetic resources in a fair and equitable way.

With the adoption of the UN SDGs in 2015, we recognize that best practice means linking project-level impacts to material sustainable-development goals and local indicators. For Bhutan and other markets in Africa, Asia, and South America where we source our natural raw-materials, we have defined a method for devising relevant and appropriate projects at raw-material origin. Our ambition is to set the trend in terms of corporate accountability for sustainable development in these areas and to share our approach with others.

PRESERVING GROWING TRADITIONS IN COSTA RICA

In Cerro Azul, Costa Rica, our suppliers cultivate approximately three tons of green coffee a year, using traditional methods, for our skincare products. In 2015, we carried out a study that highlighted a number of issues — one being that due to cheaper production methods in other countries, coffee in the region became far less profitable. Local producers were abandoning coffee and even moving away. The population of Cerro Azul fell from 2,500 to around 1,000 in just over 25 years. To address this, and help preserve coffee-growing traditions in Cerro Azul, we set up a supply-chain resiliency plan. We financed a new coffee-roasting unit to encourage the production and sale of locally roasted coffee. This increased the coffee's purchase price and helped restore profitability.

Working with a local social-business company, we also developed an innovative social-entrepreneurship model for the sustainable development of vulnerable rural communities, using local resources and know-how in ingredient production.



Due to this close alignment with our sustainable sourcing strategy, we signed a three-year renewable framework agreement for sustainably grown plant-based raw materials. This provides visibility and financial security for the business, while allowing CHANEL to benefit from their extensive agroecology and social expertise.

INVESTING IN SUSTAINABILITY IN NEW CALEDONIA

Sandalwood extract is used as an ingredient in many perfumes, including several CHANEL fragrances. Although India has been our source of this ingredient for many decades, its overexploitation in the country, due to its excessive use outside the perfume industry, had led to severe deforestation. In 2010, CHANEL decided instead to buy all sandalwood from New Caledonia, an island territory in the South Pacific. While New Caledonia has extensive resources of sandalwood, the supply chain faced a combination of environmental, social, and economic risks. There was no regulation or control of sandalwood harvesting there, raising the threat of deforestation. Sourcing activities risked disrupting local Kanak communities, whose economies and cultural heritage depended on sandalwood exploitation. Since 2015, increased global competition, caused by weakened global markets, had led to an intensification of illegal woodcutting in the area.

To ensure the long-term sustainability of sandalwood in New Caledonia, we developed a supply-chain strategy involving three key components: a breeding, conservation, and reforestation program, the control of wood exploitation, and a strong engagement with local communities. The sandalwood program aims to conserve 75,000 sandalwood trees in their natural habitat. For every tree cut in the conservation area, five new trees are now transplanted to and cultivated in the sandalwood nursery of our Kanak partner.

Working with local authorities, our support also contributed to reducing illegal exploitation by establishing controlled woodcutting zones. At the same time, we engaged with local Kanak communities to resolve potential tensions and address economic concerns. We also set up a number of associated conservation projects to protect indigenous plants and animals, including rare butterfly and lizard species.

OTHER RAW MATERIALS

Where we don't fully control other raw materials we use in our products, we follow another strategy, which includes the following elements:

- Traceability: We try to trace the structure and composition of the supply chain to as close to the material's origin as is possible.
- Audits: We assess and monitor the actual and potential risks and impacts on the welfare of humans, animals, and natural ecosystems.
- Remediation: We set up programs to remediate local environmental and social impacts wherever possible through long-term cooperation with suppliers and local communities.

In many cases, gaining greater visibility of all stages of our raw-material supply chains can be difficult. This is especially true for the commodities we use in some of our products. In these instances, we can take the initiative to design and set up our own supply chain in order to ensure full traceability and control, as in the case of our beeswax supply chain in France. Where appropriate, we also use materials which are certified to a recognized sustainability standard.

For example, we have achieved COC Responsible Jewellery Council (RJC) certification, and we use certified palm oil derivatives. Where supply chains are highly complex and lacking in traceability, and where recognized sustainability standards do not exist, we try to work in association across sectors, with private, public, and nonprofit parties that are trying to achieve responsible supply chains. This is the case with mica, for example, through the Responsible Mica Initiative (RMI).

The objectives of such initiatives focus on increasing traceability, and ensuring fair and sustainable conditions for production or mining. This helps communities and governments build a legal framework and achieve acceptable standards.

PALM OIL: USING A RECOGNIZED SUSTAINABILITY STANDARD

CHANEL is a relatively small user of palm oil, yet, like most beauty-product producers, we do use derivatives of it in our cosmetics. We use around 130 derivatives of palm oil and palm kernel oil as raw materials, from 50 suppliers — the total amount being about 300 tons a year. All the derivatives we use are certified to the Roundtable on Sustainable Palm Oil (RSPO) standard. There are many environmental issues linked to palm oil production, including deforestation, loss of wildlife habitat, and even climate change. So, despite the relatively low volume we use, we know we need to work on tracing the supply, and ensuring none of our buying contributes to these issues.

To understand this better, CHANEL commissioned a third party to conduct a traceability study of our supply chain for palm oil derivatives. This helped us trace 81 percent of our products to the refineries, 75 percent to the mills, and 16 percent to as far as the plantations. We have identified 58 refineries, 23 crushers, and 1,180 mills potentially connected to our supply chain that have risks related to deforestation and wildlife issues.

We will now move on to the second step of our traceability program by connecting these results with our sustainable-sourcing approach. We will talk to a selection of our palm oil derivative suppliers about planning and running resiliency projects along our value chain. In addition, since 2015 we have been trying to develop, with a local NGO, our own source of palm oil in Ghana to supplement our needs. Here we will have full traceability and better control over the social and environmental impacts.



“WE ARE LUCKY TO HAVE WORKSHOPS AND SUPPLIERS WHO KNOW HOW TO DO EVERYTHING. WE NEED PEOPLE WHO POSSESS A KNOWLEDGE OF TRADITIONAL SAVOIR FAIRE. IF CHANEL HADN'T BOUGHT ALL OF THESE ‘MAISONS,’ I DON’T KNOW HOW WE WOULD MANAGE. WHAT I LIKE IS THAT I HAVE THE POSSIBILITY TO CREATE IN THE BEST CONDITIONS WITH THE BEST PEOPLE. IT’S AN ENORMOUS LUXURY.”

— KARL LAGERFELD

A
CREATION-DRIVEN
BRAND

SAVOIR FAIRE



Creation at CHANEL relies on savoir faire. Throughout our history, we have set the trend for collaborating closely with artisans whose exceptional craft skills have been honed and inherited over many decades. By acquiring and investing in houses of traditional expertise, and forming partnerships, we are helping safeguard this cultural heritage in our supply chains wherever we can, preserving and developing savoir faire for future generations.

Savoir faire is one of the most vital conditions for creation at CHANEL, and an inseparable part of our cultural heritage. Our creativity is a direct result of a continuous dialogue between our in-house creators and highly skilled craft practitioners working in a range of traditional professions. Savoir faire plays a role throughout our business, and across all our activities.

Our WATCHES & FINE JEWELRY activity depends on the expertise of our traditional French jewelry workshop, the High Jewelry Vendôme Atelier. The perfumes our FRAGRANCES & BEAUTY activity creates are developed through our close association with flower growers from the historic perfume-making region of Grasse, in the South of France.



CAUSSE GANTIER
GLOVE MAKER

Within our FASHION activity, we have built a team of dedicated couturiers who are working to bring the creations of our designers to life. In addition, our FASHION activity maintains close creative partnerships with the Maisons d'Art: workshops practicing traditional crafts such as embroidery, millinery, and shoemaking. Some of CHANEL's most iconic FASHION pieces, such as the two-tone shoe and the tweed jacket, were created through Gabrielle Chanel's personal collaborations with historic Parisian maisons, such as the shoemaker Massaro and the embroiderer Lesage. By entering CHANEL's circle of creativity, the artisans bring the intelligence and spirit of craftsmanship, magnifying CHANEL's creations by Karl Lagerfeld.

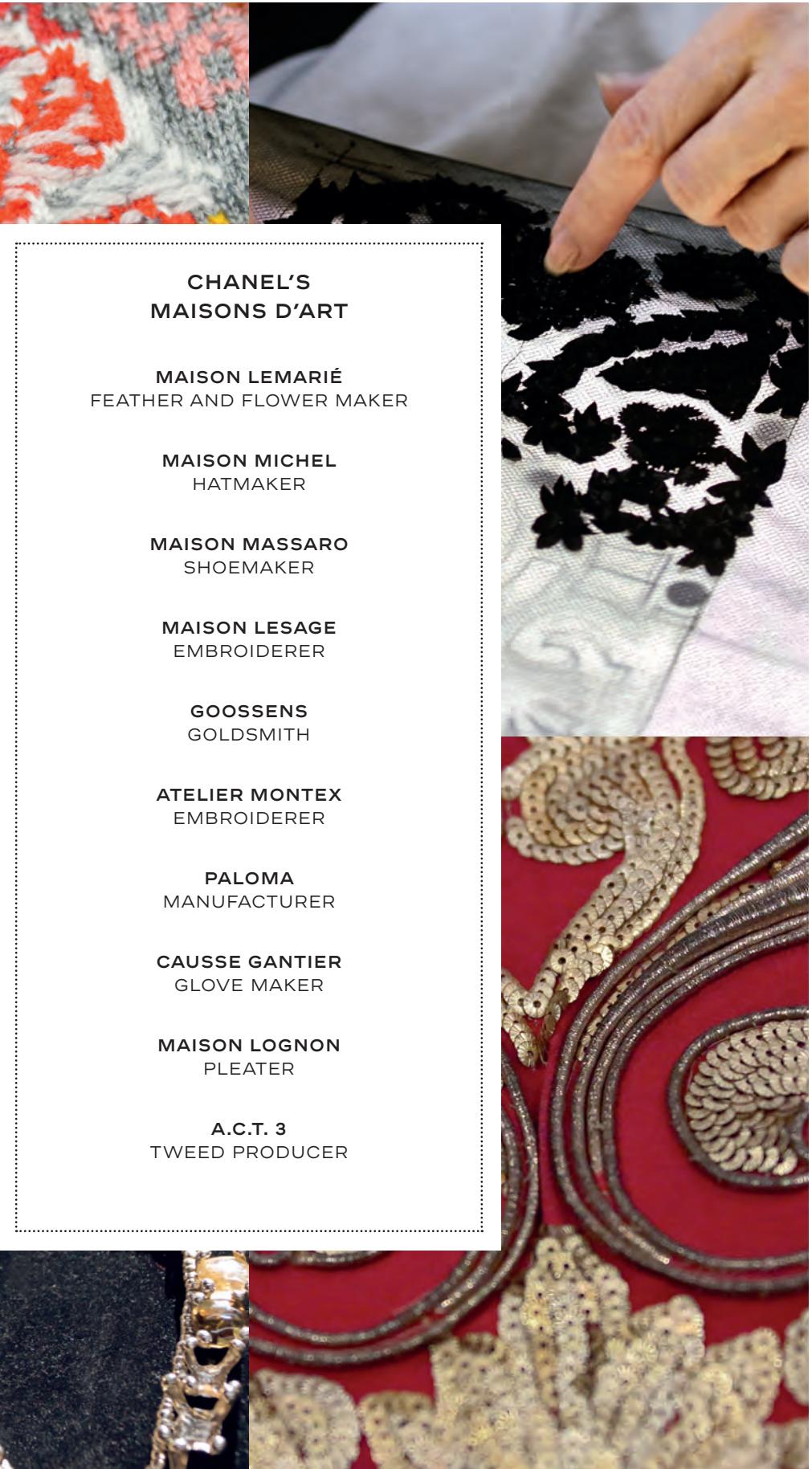
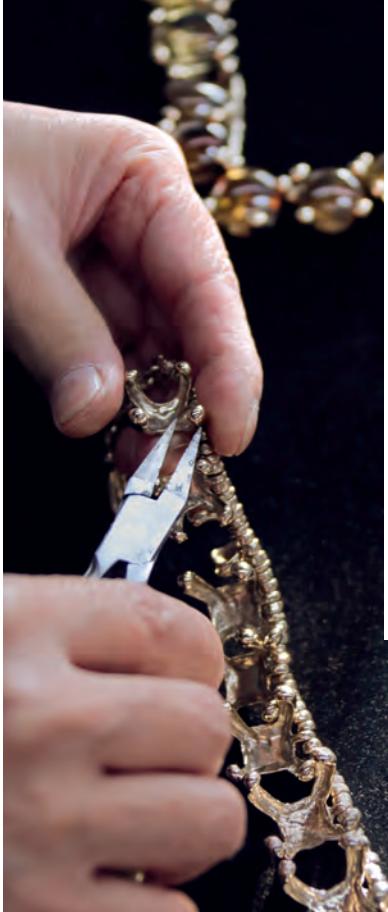
SAFEGUARDING SKILLS, PRESERVING INDEPENDENCE

Changing market forces — such as the relocation of manufacturing to emerging markets, and a dwindling pool of talent — pose a major threat to the Maisons d'Art and to the irreplaceable skills and knowledge they possess.

CHANEL was the first company to recognize the importance of acquiring and investing in businesses that possess these rare capabilities, while maintaining their independence and ability to work with other brands. Through the Maisons d'Art, CHANEL ensures that our entire industry has access to the fine craft skills on which our business depends.

For the past 15 years, we have invested steadily in the Maisons d'Art, building a portfolio of companies, under Paraffection, which means "for the love of." By acquiring and investing in businesses in this way, both sides benefit. The investment provides the cash flow and professional managerial support for the workshops and houses to innovate new techniques, as Causse Gantier, Tanneries Bodin-Joyeux, Mégisserie Richard, and Tanneries Haas have done in tanning. It also enables them to recruit and train skilled artisans. The workshops and houses retain full creative independence and the ability to supply other luxury houses and/or create their own product line (as is the case with Maison Michel and Goossens). At the same time, CHANEL is directly connected to the source of inspiration and craftsmanship that fuels creativity.





**CHANEL'S
MAISONS D'ART**

MAISON LEMARIÉ
FEATHER AND FLOWER MAKER

MAISON MICHEL
HATMAKER

MAISON MASSARO
SHOEMAKER

MAISON LESAGE
EMBROIDERER

GOOSSENS
GOLDSMITH

ATELIER MONTEX
EMBROIDERER

PALOMA
MANUFACTURER

CAUSSE GANTIER
GLOVE MAKER

MAISON LOGNON
PLEATER

A.C.T. 3
TWEED PRODUCER

Maison Lesage, which became part of the House of CHANEL in 2002, is known and recognized worldwide as the guardian of embroidery art: a savoir faire both exacting and precious, requiring patience, attention to detail, and creativity, which has now become rare.

Since 1992, the Maison Lesage has been imparting its knowledge and techniques in its prestigious Parisian school. Thousands of students from around the world have chosen to study the many Lunéville hook and needle techniques taught at the Lesage school. Instruction is provided by Maison Lesage embroiderers, and is accessible to all, from beginning to advanced students, as well as those wishing to receive professional training.

On average, the school of Maison Lesage offers 400 students per year a chance to discover a unique craft, which involves learning embroidery techniques and transforming skills into a passion to be used in Haute Couture or interior decoration.

We don't intend to fund our acquisition forever. Our aim is to help the Maisons d'Art build economic resilience over time, so they eventually develop into sustainable, fully independent businesses with strong long-term potential. This is all part of the unique perspective we bring and our desire to create a virtuous circle: one that benefits the artisans, their communities, CHANEL, and the luxury industry as a whole. It is a way for CHANEL to contribute to the role of luxury as one of the main contributors to the cultural and creative industry.



3D-PRINTED JACKET

STODMAN

INNOVATION – CREATING VALUE FOR SOCIETY



In a rapidly changing world, CHANEL needs to constantly anticipate society's expectations so we can develop new ideas that will help sustain our business over the long term.

Experimentation and innovation have been driving forces throughout our history. We are able to reinvent ourselves continually to adapt to change in society. Innovation for CHANEL is about harnessing that dynamic legacy so we can protect our business from the challenges tomorrow presents. We do not innovate for the sake of it. Innovation needs to be at the service of creation, whether that's in relation to improving cosmetic formulas, using new materials in our FASHION creations, working

on more sustainable production processes, or creating our own watch mechanism. The aim is that our innovations bring real value to the consumer or society.

More than other luxury brands, CHANEL plays with the tension between heritage and novelty, savoir faire and innovation. This perspective is inimitable, and the paradox is typical of our brand identity.

OUR APPROACH

How does CHANEL innovate? By bringing together both complementary and contrasting areas of expertise, by developing a quick-thinking management approach, and by creating synergies that allow us to push the boundaries of creativity in bold, unexpected ways.

We've been able to marry traditional savoir faire craft skills with cutting-edge technologies, resulting in highly innovative pieces, for example, a 3D-printed CHANEL jacket created by Maison Lesage.

At the corporate level, we have created a dedicated innovation practice to accelerate our ability to rapidly test, learn, and drive long-term innovation designed to future-proof CHANEL. An experimentation engine, the practice focuses on future-forward solutions that are transversal within CHANEL and take a 5+ year perspective. Its strategic areas of focus are designed to help ensure all our clients and employees continue to truly feel and experience the CHANEL difference.

Today, the innovation process is also firmly established in each activity. In this way, we unearth new ideas and potential avenues for the business to follow so our model can evolve along a more sustainable path. Following are some examples of this in practice through our Pantin lab.

PANTIN LABORATORY: LEADING INNOVATION IN COSMETICS

CHANEL opened its first cosmetic lab in 1976 in Pantin, on the outskirts of Paris. The Pantin site employs more than 80 scientists, from biologists to ethnobotanists, from chemical analysts to toxicologists, from chemists to process engineers, and from evaluations experts to molecular biologists.

As a result, it designs new technologies, both in-house and with external partners, for the production of plant-based active ingredients, all the while assessing formulas for safety and ecological responsibility in order to be at the leading edge of new thinking and practice. CHANEL has a specific team whose role is to integrate CSR within the R&D function in order to foster sustainable innovation at the core of the development process for our beauty products.

NEW TECHNOLOGIES FOR PLANT-BASED ACTIVE INGREDIENTS:

For more than 10 years, the Pantin laboratory has developed some 60 active natural ingredients from state-of-the-art extraction and cultivation processes and continues to explore new techniques to create the active ingredients of tomorrow. The laboratory is at the forefront of new green technologies, designed to be more respectful of the environment.

Among the processes developed by the Pantin teams, the polyfractionation (PFA) process uses molecular-distillation technology, making it possible to obtain the active agents specific to our skincare lines. This flash distillation process, carried out within a vacuum at low temperature, allows us, in a few seconds, to extract active molecules while preserving their essential qualities. Originally used for the development of the vanilla active PFA for our Sublimage product line, this technology has been used subsequently for the ginger PFA in the Hydra Beauty product line, and recently to extract the active ingredient from the green coffee oil used in our BLUE SERUM.

The Innovation and Materials Development Laboratory is also working to develop innovative techniques for producing active ingredients in partnership with start-ups.

For example, the laboratory collaborated with Oléos to develop a less intense extraction method using the physical processes of microwaves combined with ultrasound. Thus, for the camellia, polyphenols are extracted from white camellia flower petals in camellia oil. After filtration, this oil, enriched in polyphenols, is used in the Hydra Beauty product range. More recently, one of the three active ingredients of our BLUE SERUM was developed using this process.

In addition, our collaboration with Plant Advanced Technologies, a plant biotechnology start-up from the Lorraine region of France, made the cultivation of plants in aeroponics possible. This new approach to above-ground plant cultivation makes it possible to control the ecosystem of the plant by providing it with all the nutrients it needs to develop fully. By stimulating a plant's natural defenses, we are able to trigger the production of active molecules that will be harvested through the roots as they are immersed in a natural solvent. The process, called "PAT plant milking®," now makes it possible to produce natural active substances without damaging the plant. This technique was used for the first time in the world by CHANEL for the production of the star active ingredient of the Le Lift product line, Edulis Morning Glory.

CHANEL also uses specific partnerships in the development of raw materials. In its makeup line, for example, CHANEL FRAGRANCES & BEAUTY co-developed a red plant pigment with the Regional Centre for Innovation and Transfer of Horticultural Technology in Rochefort-sur-Mer: the sappan wood, used in the product range of ROUGE ALLURE lipstick.

LONG-TERM EXPERTISE IN HEALTHY SKIN

CHANEL FRAGRANCES & BEAUTY is dedicated to creating the best cosmetic solutions for women in the world. To do so, for over 25 years, CHANEL has been running a long-term research program to understand healthy skin and beauty for women. This program aims at better understanding the crossed impact of environmental factors, lifestyle, and genetics on the skin's appearance and comfort. We can capitalize on these long-term studies in order to develop the most appropriate cosmetic solutions for women.

To reflect the huge diversity of women around the world, studies were carried out in different countries in collaboration with local research centers including in China (700 women from Beijing, Shanghai, Guangzhou, and Hangzhou), in India (800 women from Mumbai), in South Africa (300 women from Pretoria), the U.S.A. (450 Latin-Americans and, 250 African-Americans), and over 6,000 women from different ethnical backgrounds in France. The results were shared and co-published, enabling us to create a database of 37,000 high-quality images of women's facial- and skin-health data while always complying with the highest regulatory and ethical rules around data privacy.

CHANEL is also a partner in major health and aging national research programs both in France (SU.VI.MAX study on over 13,000 men and women) and Japan (Nagahama study on over 10,000 men and women).

These long-term studies aim to better understand women's health and how their bodies age with time. They are our contribution to a better understanding of aging in skin and appearance as a part of human health.



GABRIELLE CHANEL – THE BOTTLE

PARTNERING FOR INNOVATION

No business will find all its new ideas internally. It requires collaboration. We search for excellence and inspiration in product development and customer service outside of our business via the following methods:

- Financing academic research partnerships: We work with leading academic institutions worldwide in the field of cosmetic formulas.
- Encouraging suppliers to innovate: We work with our suppliers to produce new, more environmentally friendly creations at scale.
- Partnerships with start-ups: We work with the pioneers of the future to ideate new, more energy-efficient processes.
- Collaborating with others: We work with business-model disruptors to create long-term value.

Some examples of our innovative partnerships are as follows:

FINANCING RESEARCH: THE CD LAB FOR BIOTECHNOLOGY OF SKIN AGING
Skin aging is one of the major topics our research team needs to focus on in order to create the most efficient and relevant skincare products. To do so, CHANEL set up a seven-year collaboration with experts in the field of aging and biological skin cell deterioration: Professor Dr. Johannes Grillari and his team from the Christian Doppler Laboratory (CDL) for Biotechnology of Skin Aging, in Austria.

This partnership is co-funded (50-50) by CHANEL and the Austrian government (Federal Ministry for Digital and Economic Affairs). Through this partnership, CHANEL is committed to financing academic research to increase public knowledge on skin health and skin aging, and provide innovative and efficient skincare solutions for women.

This work resulted in the following:

- 42 scientific papers published in renowned international scientific journals.
- One patent on Solidago Virgaurea extract as a new anti-aging active ingredient, which was launched in 2018 in the SUBLIMAGE L'Essence Strengthening formula.
- 15 bachelor's and master's theses and two doctoral dissertations have been completed, and two doctoral dissertations are in progress.

SUPPORTING SUPPLIER INNOVATION: THE GABRIELLE FRAGRANCE BOTTLE

Launched in 2017, the GABRIELLE CHANEL FRAGRANCE was created with the eco-design of its packaging in mind. While the concept of luxury is often associated with the weight and thickness of the glass bottle, this rebellious fragrance required the opposite approach. Working with our long-standing glass manufacturer over the course of several years, we developed a thin-walled glass to produce an exceptional bottle. The lightness and beveled lines of the fine glass allow the intense light contained within this fragrance to radiate. The result is a bottle with a carbon footprint approximately 40 percent lower than a typical 50-milliliter perfume bottle made by the same glass producer.



EXQUISITE CRAFTSMANSHIP IS
USED TO MAKE CHANEL'S CREATIONS

**PARTNERING WITH START-UPS:
MORE SUSTAINABLE TECHNOLOGIES**

Capsum is an innovative company, located in the South of France, that creates products for the cosmetics industry. Founded by a French entrepreneur and two Harvard professors, Capsum specializes in a manufacturing process based on microfluids. This enables the company to produce cosmetics in the form of microcapsules, pearls, and bubbles. CHANEL has supported the company from its inception, recognizing that the innovative technology it uses has interesting aesthetic qualities and is more environmentally friendly than similar technologies. Not only do Capsum technologies achieve a high percentage of naturalness — between 95 percent and 98 percent natural ingredients, depending on the technology — but they also use a less energy-intensive cold process.

Capsum has been involved with some of CHANEL's most successful cosmetics products, including HYDRA BEAUTY MICRO CRÈME, the first cream to be based on camellia microdroplets. They were also fundamental to being able to create CHANCE EAU TENDRE in a pillow-compact form by recreating the very same bottled fragrance in invisible microbubbles of perfume. Today they also work with a number of our competitors in Europe and the U.S.A.

**COLLABORATING WITH
DISRUPTORS: CREATING
THE BOUTIQUES OF THE FUTURE**

CHANEL boutiques and retail experience reflect our brand and its status. For our FASHION collections, our philosophy is to offer our products exclusively in our boutiques, as this is key to the way we present our collections. Our boutiques are central to offering our customers a unique experience and relationship with the brand.

In February 2018, we announced an exclusive partnership and minority stake in the luxury digital platform Farfetch. Through this partnership we are working on augmented retail projects with Farfetch, and looking to establish a consistent path for our customers through the different online media to which they connect. Leveraging Farfetch's innovative technology will help us develop an even more outstanding customer journey by combining a great e-service offering with a genuine CHANEL experience in our FASHION boutiques.



**“A LUXURY BRAND
HAS TO REPRESENT
THE BEST IN SOCIETY
IN ORDER TO BE
RELEVANT TOMORROW.”**

— ANDREA D'AVACK
PRESIDENT OF FONDATION CHANEL & GLOBAL
HEAD OF CORPORATE RESPONSIBILITY

A COMMITTED LUXURY LEADER



The influence of our brand far exceeds the size of our operations.

Working within the industry and beyond, we want to use this influence to define and promote a more ambitious way to address and manage sustainability challenges.

We believe we have to set an example in the way we address climate change: by reducing our environmental impact and stimulating fair, green growth. It is our duty to live up to the legacy of the brand, now and for tomorrow. Through our long-term business perspective, we have a clear opportunity to approach sustainability in a way many other companies cannot.

As a committed luxury leader, CHANEL focuses on the following efforts:

Reducing and compensating for our carbon emissions, while also investing in socially inclusive renewable-energy projects.

Building a more sustainable retail model, including through the environmental certification of our boutiques.

Exploring circular design and recycling of our sales and promotional materials.

CHANEL'S CLIMATE STRATEGY



Addressing the impact of man-made climate change is one of the most urgent challenges facing the world, and a significant threat to all businesses. To counter this threat, our global economy must decarbonize rapidly and radically.

We believe that we have a key role to play in showing how a luxury brand can strive to address the negative impacts of a changing climate. Indeed, we have high ambitions for the transition from a carbon-based economic model to one that is resilient and regenerative. We are convinced our long-term mind-set allows us to make decisions and put in place processes that will achieve positive outcomes.

Similar to many companies, our approach to climate change has been to measure our carbon footprint and to set targets for reducing direct and indirect carbon emissions, in line with the Paris Agreement (United Nations Climate Change Conference, COP 21) of 2015. We aim to help limit mean global temperature increases to 2° and even strive for 1.5° against a preindustrial baseline by the middle of the century, and for emissions to be "net zero" by the end of the century.

We also believe the influence of our brand can increase climate action, both within our company and beyond. We work with a number of the key partners of the We Mean Business coalition, including The B Team, BSR, the World Business Council for Sustainable Development, and the Business Renewables Center at the Rocky Mountain Institute to help make the changes needed to accelerate the transition to a low-carbon economy.



(Scope 1, 2, and 3 Emissions)

Estimate includes: ~ 1.9M tCO₂e

SCOPE 1	SCOPE 3*
● Direct Emissions 9,000 tCO ₂ e	● Transport of People 19,000 tCO ₂ e
● SCOPE 2	● Transport of Goods 145,000 tCO ₂ e
● Electricity 35,000 tCO ₂ e	● Other Scope 3 – Purchased Goods and Services 1.7M tCO ₂ e

*Does not include categories for which we do not have estimates, such as use of sold products.

OUR CLIMATE STRATEGY

Our climate strategy is based on the following commitments:

1

SIGNIFICANTLY REDUCING THE CARBON EMISSIONS WITHIN OUR DIRECT OPERATIONS TO BE IN LINE WITH THE PARIS AGREEMENT TARGETS.

2

TRANSITIONING TO GREEN POWER IN OUR DIRECT OPERATIONS AND WORKING WITH OUR SUPPLY BASE TO ACCOMPANY THEM IN THIS TRANSITION.

3

COMPENSATING FOR ALL THE CARBON EMISSIONS LINKED TO OUR BUSINESS ACTIVITIES THAT WE CAN'T OTHERWISE REASONABLY REDUCE AT THIS TIME.

1

REDUCING CARBON EMISSIONS IN OUR DIRECT OPERATIONS

Emissions associated with our corporate buildings, main industrial sites, logistics facilities, and boutiques are approximately 40,000 tons CO₂eq/year (2015 baseline). In line with the Paris Agreement ambitions, we aim to halve these emissions in absolute terms by 2030.

An extrapolation of committed operational action plans indicates that a 50 percent reduction in emissions by 2030, from a 2015 baseline, is possible at certain key sites through energy-efficiency measures and the environmental certification of all our buildings, factories, and boutiques.

Emissions associated with transporting goods and people are approximately 162,000 tons CO₂eq/year. In line with COP21 ambitions, we aim to reduce these by between 40 percent and 46 percent, depending on the business activities.

The operational action plans we have identified to date, including packing optimization to reduce the volume of transport, a shift from air to sea transport where feasible, and further optimizing transport flows, are not enough for us to reach our targets by 2030. Consequently, we will need to further rationalize elements of our supply chain and increase the volume of products shipped by sea. We will also need to work with our freight providers to identify more sustainable solutions for transport, including, for example, switching to electric vehicles.

2

TRANSITIONING TO GREEN POWER IN OUR DIRECT OPERATIONS

As one of the central pillars of our climate strategy, we have committed to making a gradual transition to using only green power in our direct operations, including manufacturing sites, distribution centers, offices, and stand-alone boutiques by 2030.

Coupled with energy-efficiency measures, our approach to achieving this objective has three pillars:

- Maximizing on-site renewable-energy production.
- Purchasing green tariffs as an interim measure.
- Investing in community renewable-energy projects.

This transition will be challenging for several reasons, the main one being our presence in many markets where green power is not readily available and renewable-thermal-energy solutions are lacking. Nevertheless, we are committed to the transition to renewable energy wherever we can have an impact.

MAXIMIZING ON-SITE RENEWABLE ENERGY

This pillar involves factoring renewable-energy production, such as on-site solar power, into the construction of all of our new sites, and retrofitting renewable-energy production into existing ones. As an example, we have already installed solar panels at manufacturing and distribution sites in France and the U.K., and are currently planning more in the U.S.A. and Asia.

100 PERCENT SOLAR POWER AT PISCATAWAY

In the United States, New Jersey has some of the country's most ambitious rooftop-solar-power deployment goals. To meet these goals, businesses and residents across the state must commit their rooftops and parking lots to solar energy. CHANEL is proud to join this growing movement, and we have recently signed a 20-year power purchase agreement in support of a new 3,200 MWh/year solar deployment at our distribution facility in Piscataway. The generation capacity is equivalent to the site's total annual electricity use. Working closely with a local solar developer, we were able to maximize capacity for on-site solar by installing solar-panel canopies over the parking lot, as well as a rooftop solar array.

PURCHASING GREEN TARIFFS

The purchase of green tariffs is an interim measure while we look for opportunities for direct investment in new renewable-energy projects. In each region, procurement and facilities managers will purchase green tariffs wherever available on the local market. Our Green Power Policy & Implementation Guidelines set our standards and criteria for buying green-tariffs, and specify our preference for solar, geothermal, wind, hydroelectric (small scale, low impact), and wave/tidal as the underlying energy source.

Currently, all the electricity we use in our direct operations in France and the United Kingdom is covered by a green-tariff contract. These two countries represent approximately 35 percent of CHANEL's overall global electricity use.

INVESTING IN COMMUNITY RENEWABLE-ENERGY PROJECTS

Over time, we will try to gradually phase out green tariffs in favor of providing direct financial support for new renewable-energy projects at a community level in key regions.



—
"DROP-BY-DROP" RELEASE OF
HYDRA BEAUTY MICRO LIQUID ESSENCE

3

BUILDING A MORE INCLUSIVE ENERGY TRANSITION

Extreme climate events will disproportionately affect the most socially and economically vulnerable communities. Often, it is these same communities that are excluded from the economic benefits of the transition to renewable energy. Just as we look outside our immediate operations in building resilience and investing in our approach to sourcing, we also aim to include communities in how we envision a resilient renewable-energy market. For the new energy system and economy to be truly sustainable, it must include and benefit all communities. Based on this vision, we will look for renewable-energy investments that meet at least one of the following principles:

COMMUNITY

Rather than contribute to financing a large-scale wind or solar farm, we will aim to invest primarily in community-level projects. Not only is this type of investment closer to our actual energy use and spending, but it also resonates with our brand value of empowering people.

INCLUSIVENESS

In each market we sign a deal, we will look to ensure our investment benefits communities that have historically experienced economic or social exclusion. Our priority will be to work with community businesses and organizations to provide training and professional opportunities in energy infrastructure for local residents, and ensure equal access to these opportunities.

RESILIENCE

As extreme weather becomes more common, empowering people will also mean building their capacity for resilience. Providing economic opportunity through training and job creation is one way we can contribute to this. Where relevant, we may also look to invest in physical grid resilience through microgrid and storage capacity.

COMPENSATING FOR SUPPLY-CHAIN EMISSIONS

We currently estimate our Scope 3 emissions to be approximately 1.72 million tCO₂e per year, with the majority being generated in our supply base from the steps associated with the sourcing and transformation of the raw materials used in our products, and the upstream impacts associated with the production of sales and promotional materials. Work is underway to better understand our full Scope 3 emissions in order for us to be able to set ambitious targets for reducing these emissions over a reasonable time frame. In parallel, we are committing to offset at least 1.5 million tCO₂e per year to compensate for our overall emissions, while also continuing to invest in various insetting projects in our supply base.

INSETTING

Insetting refers to what an organization does within its own value chain to balance out its negative impacts on climate. For CHANEL, insetting is a key component of our strategy to compensate for our Scope 3 carbon emissions. It translates into projects within our supply base, including agroforestry projects, which are designed to sequester as much carbon as possible. We are a founding member of the International Platform for Insetting (IPI), a multi-stakeholder group that facilitates collaboration on insetting projects and promotes best practices.

SUSTAINABLE RETAIL



CHANEL boutiques are a physical representation of the CHANEL brand, and an integral part of the client experience. They are also a significant source of our own environmental impact. Through LEED (Leadership in Energy and Environmental Design) certification and eco-design guidelines, we are aiming to minimize the impact of our boutiques and other points of sale on the environment and human health. Furthermore, we are moving toward a circular model for retail, and have begun to invest in the technology and partnerships necessary to support that transition.

Retail represents a significant and growing proportion of CHANEL's business activity and, based on extrapolated data, accounts for approximately 17,000 tons CO₂eq/year. Managing the environmental impacts of our retail spaces is therefore an important priority.

LEED: CREATING A MORE SUSTAINABLE RETAIL EXPERIENCE

We achieved our first boutique LEED certification in 2012 for the TaiKoo Hui boutique in China. Since then, we have expanded the approach globally across all activities and regions. To date, we have achieved LEED certification for 31 boutiques, with 36 more in progress. Going forward, all new construction and major renovation of boutiques will pursue LEED certification.

To support this new way of working, we are investing in LEED training for our boutique architecture teams.

For FRAGRANCES & BEAUTY boutiques, we have decided to pursue LEED Volume certification at a global level, according to the new Version 4 standard. To date, as far as we know, we are the only luxury brand to be participating in LEED v4 volume. LEED Volume means that a set of environmental guidelines known as a "prototype" is pre-certified, and then applied consistently across all future projects. This has not been an easy process, since the existing LEED standard is not always specific to projects of the size and aesthetic nature of luxury boutiques. As a consequence, we have been working closely with the U.S. Green Building Council (USGBC) and Green Business Certification Inc. (GBCI) to identify

WHAT IS LEED CERTIFICATION?

LEED is a is an internationally recognized rating system and certification standard devised by the USGBC for evaluating the environmental, health, and safety performance of building design and construction projects, and encouraging market transformation toward sustainable design. Projects pursuing LEED certification earn points across several categories, including, but not limited to, energy use and air quality. Based on the number of points achieved, a project then earns one of four LEED rating levels: Certified, Silver, Gold, or Platinum.

approaches and guidelines most relevant to our small-scope luxury boutiques. We hope these standards will be able to support other luxury brands seeking LEED certification.

MOVING TOWARD CIRCULAR SALES PROMOTION MATERIALS

While we work to improve our retail spaces, we are also finding ways to reduce the impacts of our product displays and other sales and promotional materials (SPM) that appear within them. We are investing in the circular economy, the end goal being to phase out waste by regenerating materials and products at the end of their life cycle. To this end, we are progressively improving the eco-design of our SPM, increasing use of recycled raw materials and ensuring they can be recycled easily at the end of their lives.

The whole idea of the circular economy is restorative and regenerative by design. Relying on system-wide innovation, it aims to redefine products and services to phase out waste, while minimizing negative impacts. Underpinned by a transition to renewable-energy sources, the circular model builds economic, natural, and social capital.

REDUCING PMMA IMPACTS

Since 2014, our FRAGRANCES & BEAUTY activity has taken a number of significant steps to reducing the environmental impact of PMMA plastic in its SPM displays.

In 2014, we began using a recycled PMMA known as Green Cast in our cosmetic display cases — an innovation by our supplier Madreperla. This increased the amount of recycled raw materials in our SPM by almost one-third, and according to life cycle analysis conducted by EVEA, decreased its carbon footprint by 66 percent.

In 2017, the activity launched the Pearl Project, working with our suppliers Madreperla and Arkema to produce recycled PMMA granules for manufacturing injection-molded SPM components. This project will at least double the amount of recycled plastic in our SPM.



CHANEL BOUTIQUE
31 RUE CAMBON

WORKING TOWARD COMPLETE RECYCLABILITY

In the U.S.A., we use a certain type of display we call “playstations” to promote fragrance and beauty products. These displays are bulky and have proven difficult to recycle in the past.

To overcome this recycling challenge, our FRAGRANCES & BEAUTY activity has been working with TerraCycle, a company that specializes in recycling materials that are hard to recycle. This initiative aims to develop a way to ensure complete recyclability of SPM playstation displays at the end of their life. Launched in 2017, the initiative has reduced SPM waste being sent to landfill by 38 tons, and will also serve as a pilot for how smaller point-of-sale displays could be recycled more systematically and regularly.

CYCLEAPP: COLLABORATING FOR CIRCULAR POINT-OF-SALE MATERIALS

In France, our FRAGRANCES & BEAUTY activity has developed Cycleapp, a pilot project with a digital application to improve point-of-sale SPM recycling. The principle of the app is to make it easier for beauty and cosmetics retailers to arrange for the removal of old SPM displays at the end of campaigns at the point of sale. When a campaign ends, the salesperson simply posts his or her SPM on the application as ready for removal and recycling, whereupon it is then collected and sent to a designated recycling center. This ensures that more SPM material enters the correct recycling channel and remains fully monitored by the company. The test project has been running in Lyon since March 2016 at 13 points of sale.

With collaboration between CHANEL, Marionnaud, Le Printemps, Les Galeries Lafayette, La Poste, New Attitude, and Paprec, we believe this app could be a model for the whole beauty and cosmetics retail industry in France by 2020. This project shows our commitment to the circular economy, ensuring we can reuse old SPM materials to create new displays.



**“PEOPLE WANT TO
BELONG TO AN
ORGANIZATION
THAT VALUES THEIR
UNIQUENESS AND
CONNECTS THEM TO
A LARGER MISSION
AND PURPOSE.”**

— CLAIRE ISNARD
GLOBAL CHIEF PEOPLE
& ORGANIZATION OFFICER

A HUMAN-DRIVEN COMPANY



For Gabrielle Chanel, creativity and creation were enacted on a daily basis through dedication, passion, and work, allowing her to both achieve financial security and fulfill her personal ambition. We believe work is a source of excellence and also a fundamental means of enhancing the dignity and respect of every individual. Following the legacy of our founder, we believe in human empowerment, promoting self-accomplishment and self-determination wherever our business touches people's lives.

The right of every individual — in particular, every woman — to participate in our economy and society on respectful and fair terms is the most basic form of empowerment, and a necessary condition for our creative capacity to flourish. Therefore, we aim for working conditions that respect and enhance the potential of each person, both within the company and throughout our extended supply base, where the risks are particularly acute in some areas.

To achieve our ambition to be a human-driven company, we focus on the following efforts:

Improving respect for human rights throughout our supply base.

Creating the conditions necessary for long-term engagement, performance, and well-being of our employees at work.

Advancing the role of women in society in general.

HUMAN RIGHTS IN OUR SUPPLY CHAIN



We are aware of the actual and potential human-rights impacts generated throughout our value chain. We are engaged in an ongoing process of human-rights due diligence, progressively taking steps to identify, prioritize, and address salient issues. In our supply base, we recognize our responsibility to make investment and purchasing decisions that support the highest standards in conformity with our corporate policies, and choose to work only with those suppliers who engage with us in this.

Our supply base consists of more than 3,000 suppliers around the world, split between what we term “direct procurement” (i.e., finished goods, components, and raw materials) and “indirect procurement” (i.e., sales, promotional and marketing materials, such as shopping bags and displays).

Our FASHION activity has over 1,400 supply-chain partners, 69 percent of which supply finished goods, and the majority of which are based in Europe (France and Italy).

Our FRAGRANCES & BEAUTY activity has over 900 suppliers, 69 percent of which provide raw materials. 27 percent supply natural raw materials of strategic importance for the brand, and we have direct access to the origin of such materials.

Our WATCHES & FINE JEWELRY activity has 34 suppliers, supplying gold, diamonds, and other precious stones. For indirect procurement of customer-related items, we have over 670 suppliers.

From the beginning, CHANEL has been a manufacturing company. Most of our finished products are assembled in factories we own or we control, mostly in France, Italy, and Switzerland. These factories have a large network of suppliers of raw materials, product components, and nonsalable promotional materials.

Our due diligence approach consists of three key components:

1

CLEAR POLICIES AND GUIDANCE GOVERNING THE SUPPLIER RELATIONSHIP.

2

RIGOROUS PROCESSES TO ASSESS AND REMEDIATE HUMAN-RIGHTS RISKS AND IMPACTS.

3

PERFORMANCE MONITORING AND COMPLIANCE AUDITING, AS WELL AS ONGOING DIALOGUE, ENGAGEMENT, AND IMPROVEMENT.

1

POLICY GOVERNING THE SUPPLIER RELATIONSHIP

Our approach to working with suppliers is governed by our responsible-sourcing policy. Based on relevant international obligations and principles from the United Nations and the International Labour Organization (ILO), this policy sets out our expectations and requirements regarding issues related to labor and human rights, the environment, and anticorruption. Since 2011, we have asked all our FRAGRANCES & BEAUTY suppliers to commit to applying our policy's principles. The policy is updated to take into account regulatory changes and will be introduced across all activities and regions over the course of 2018. We provide guidance on applying the policy through annual supplier meetings, and through support from trained professionals on our procurement teams.

2

PROCESSES TO ASSESS AND REMEDIATE IMPACTS

In recent years, we have developed a thorough risk-assessment methodology, which determines and helps remediate social, environmental, and governance risks across our supply base.

First, we assess all suppliers according to criteria covering 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.

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.

Second, to better understand supplier management of social and environmental risks at a more detailed level, we ask suppliers to assess themselves online using our standard. We first developed this in 2011, in line with international norms, guidelines, and principles, including the OECD Due Diligence Guidance for Responsible Supply Chains.

A GOVERNANCE AND OPERATING MODEL FOR RESPONSIBLE SOURCING

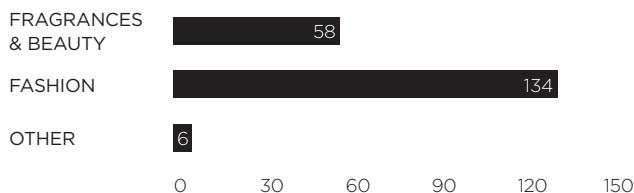
In order to continue to monitor the performance of our suppliers, we have created a Responsible-Sourcing Expert Team at the corporate level. It's their mission to define and update our responsible-sourcing guidelines and to ensure coherence in implementing our responsible-sourcing strategy. Our Sustainability Excellence Program (SEP) audit committees at divisional and corporate levels ensure the audit results are integrated in follow-up actions endorsed by top management, and that we monitor results.

In total, we have five internal and 10 external trained and certified auditors devoted to implementing our sourcing policy.

We also submit this in-house standard to external experts regularly to ensure it covers all relevant issues and continues to set the high standards we expect from our suppliers. We have designed this standard to be both all-inclusive (covering social, environmental, governance, and ethics topics) and exemplary — establishing high standards for the rest of the industry for supplier performance on these issues.

Finally, based on the results from the first two process steps, our internal auditors plan and undertake annual audits. We conducted over 200 of these during 2017. Over the next two years, we plan to conduct over 500 audits across our diverse supply base, using an intelligent audit tool that provides guidance and the most up-to-date information possible. Where these audits reveal critical noncompliance issues with our SEP standard, we put remediation plans in place, and, if they are not implemented, we may even end our partnership with the supplier altogether.

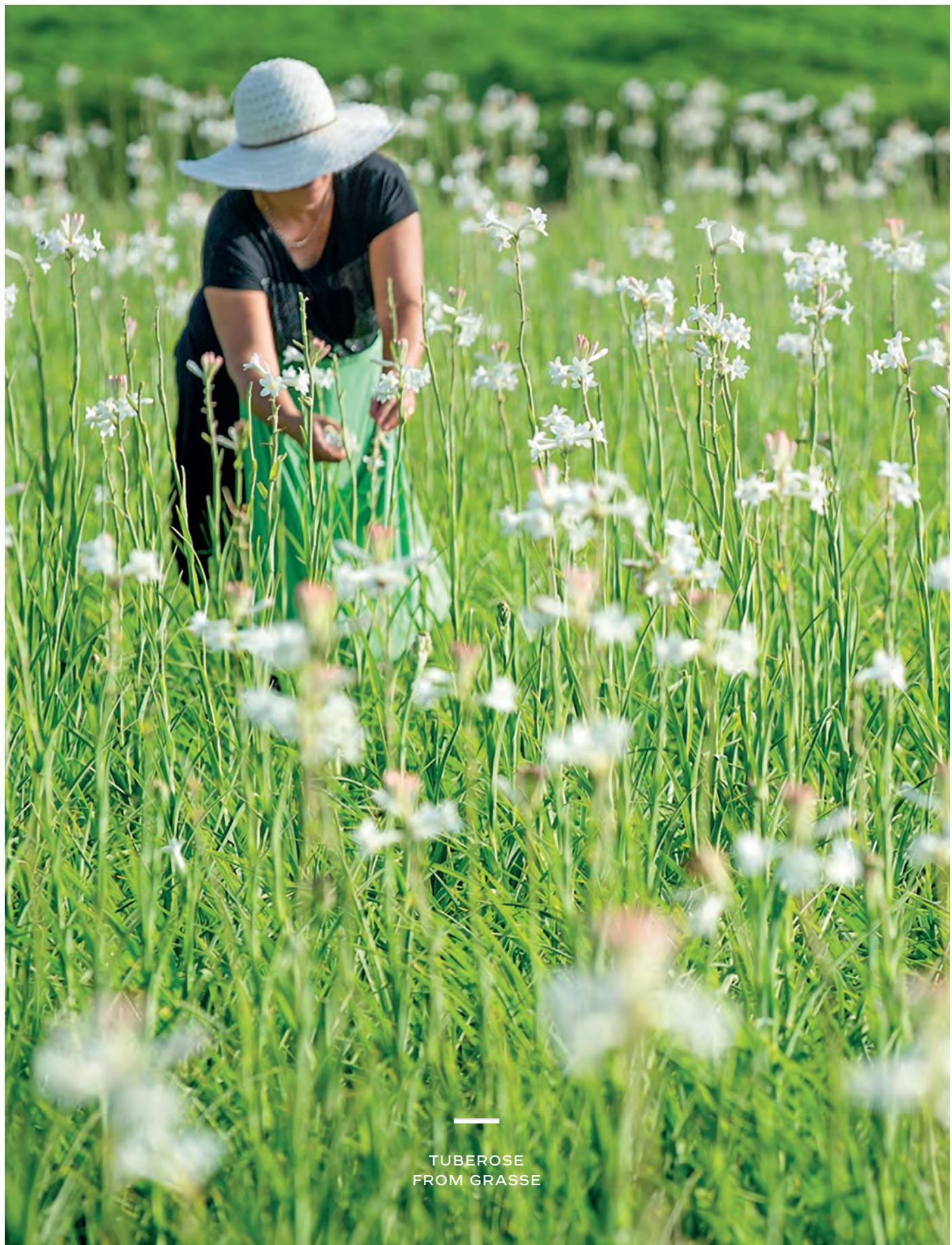
**NUMBER OF AUDITS CARRIED OUT
AMONG HIGH-RISK SUPPLIERS (2017)**



HUMAN-RIGHTS IMPACT ASSESSMENTS

In addition to our risk analysis at the corporate level, we have commissioned independent organizations to conduct in-depth human-rights impact assessments at the source of our raw materials when we have identified actual and potential risks. For example, in India and Madagascar, they visited and interviewed farmers, suppliers, local stakeholders, and other rights holders to better understand the scale of the risk, its severity, remediability, and the possibility for us to influence it. Our responsible sourcing teams also assess human-rights impacts on-site before and during the implementation of our reinforcement projects at the source of our key raw-materials supplies around the world.

We recognize we need to talk to stakeholders and experts for guidance and support in our human-rights approach. So in early 2018, with the help of a leading business and human-rights organization, we brought together function heads from across our business to discuss and prioritize our salient human-rights issues and to formulate a plan to address them. At the same time, using a proprietary maturity model, we conducted a gap analysis of our existing human-rights due-diligence approach, using the United Nations Guiding Principles on Business and Human Rights (UNGPs). These principles set the international standard for human-rights due diligence and help guide us in the progressive implementation of our approach.



TUBEROSE
FROM GRASSE

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ONGOING DIALOGUE, ENGAGEMENT, AND IMPROVEMENT

Our relations with our suppliers has always been driven by the wish to build long-term partnerships. From this perspective, our commitment is not only to ensure they meet our standards, but also to help them improve their way of working and adopt sustainable practices. We consider them to be an integral part of our value chain, and we want them to have the same long-term vision of value creation. Beyond audits, we require our most strategic suppliers to report on a selection of CSR key performance indicators, covering social and environmental issues, and the traceability and CSR performance of their own supply chain. We use these KPIs in annual business reviews to benchmark and improve ongoing supplier performance.

The responsibility for our suppliers' compliance with our responsible-sourcing policy is at the heart of our purchasing teams' mission. Our focus on creating value over the long term, enabled by our independence, means we can engage suppliers on more than cost and short-term financial-performance considerations. This is critical for effectively remediating social, environmental, and governance issues.

For example, in 2008, during the financial crisis, a large number of our suppliers faced major financial stress due to the rapid and unexpected drop in demand for their goods and the increasing pressure on prices from the industry.

What was important for us was not to obtain short-term financial advantage, but to support and sustain our strategic supplier base. Without this base, we wouldn't have been able to operate over the long term. For this reason, we confirmed long-term orders to secure the production planning of our suppliers, and, in certain instances, afforded them shorter payment terms to help their liquidity.

To increase traceability and sustainability of certain commodities, or particularly complex supply chains where it is hard to make progress, we participate in multi-stakeholder initiatives (MSIs), to take advantage of our collective leverage for effecting positive change. For example, to address systemic issues such as child labor, we engage with partners such as the ILO to find long-term solutions.

BEING A PURPOSEFUL EMPLOYER



CHANEL is a family-owned company whose values are grounded in creating the conditions for people to perform at their best and feel fulfilled and confident in their work. We care deeply about our employees and strive to create a safe environment that values people's humanity and uniqueness so that they are free to bring their full selves to their work and to their life's calling.

At CHANEL, being a purposeful and human-driven employer means being intentional, meaningful, and caring in inspiring our people; fostering environments that reflect our strong values; encouraging and enabling inclusion; and investing in work and workplaces that foster collaboration and well-being. This is critical for the long-term success of our business.

A SELF-REFLECTIVE AND INCLUSIVE LEADERSHIP CULTURE

Over the last few years, we have invested in enhancing and infusing a strong, positive leadership culture. In 2012, starting with the top leaders in our organization, we launched an "Active and Conscious Leadership Journey," through which we encouraged individual self-reflection and opening up to others and to the world in order to be better equipped to face the challenges of a fast-changing business context. The Active and Conscious Leadership Journey course started with the 20 most senior leaders. This was followed by the next 200, and another 400, until now, when a steady stream of 150 employees per year are taken through various iterations of the platform and training, ensuring depth and long-lasting cultural embedding. Through this Leadership Journey, hundreds of employees are optimizing their leadership and enhancing our rich culture.

INTENTIONAL ONBOARDING FOR NEW MANAGERS

Being intentional, meaningful, and caring is also central to our onboarding philosophy. For new managers joining CHANEL, we offer a 100-day onboarding plan in which we emphasize building relationships and taking time to learn our brand, business, and culture over driving immediate impact. By doing so, we take the pressure off, valuing long-term engagement and people connections through a thoughtful immersion into the company before they are expected to engage in any operational duties or business decisions.

THE IMAGINE CHANEL PROGRAMS: BRINGING PEOPLE TOGETHER

At CHANEL, we know that inspired, motivated employees are a condition for business performance and success in the long term. In 2012, to ensure that everyone at CHANEL understands and feels connected with the culture, each other, and our purpose, we launched Imagine CHANEL, a company-wide culture-immersion and brand-education platform.

The Imagine CHANEL programs engage people at all levels, from new recruits to senior leaders, and uniquely brings together people from different backgrounds, métiers, and parts of the world in forums that value inclusion. To date, more than 11,000 CHANEL employees have participated in the platform of programs. Within Imagine CHANEL are four programs, conducted throughout the world, that are designed to support employees at different stages of their career. Each program has a specific function and is focused on continually inspiring and connecting people to one another, to the brand, and to our business.

Imagine Discovery and Imagine Perspectives, deployed at market, regional, and global levels, are geared to inspire new and long-serving employees by teaching them about our brand, history, organization, and business at different points in their tenure. Through Imagine Business, we help emerging talent across businesses and functions to accelerate their understanding about the business dynamics and the decision-making necessary to balance our short- and long-term objectives. Then, through Imagine Leadership, we continue to infuse the Active and Conscious Leadership mind-set and behaviors to our management-level employees.

DEVELOPMENT FOR ALL

Our development philosophy is grounded in the belief that all employees should be supported in developing their personal talents and careers. We strive to empower our people to realize their full professional and personal potential and achieve their ambitions through a culture of development focused on increasing their capacity to learn, grow, and innovate. We also believe development is fueled by a person's sense of purpose and self-motivation, and can take many forms, including skills training and learning-development programs, short-term and/or global-mobility assignments, and challenging, fulfilling work that supports the business.

We encourage a multi-experience journey so that our people can learn from different types of work, different leaders, and different environments and teams.

INVESTING IN OUR LEADERSHIP PIPELINE

Through systematic talent reviews at market, regional, and global levels, we engage our leaders in discussions about key talent, with greater depth and focus. Building on our development and performance philosophies, we have implemented executive assessments to better understand and cultivate the strengths of our key talent and enhance professional development and career progression. Together, these processes enable us to identify, plan, and prepare our key talent for larger roles in the organization, and ensure we build a stronger, more engaged leadership pipeline.

PERFORMANCE AT CHANEL: PEOPLE AT THEIR BEST

Reflecting our brand purpose, which emphasizes empowerment, our Design Your Impact philosophy intends for our people to be on a continual path of self-development, and supports them in taking responsibility for their growth while contributing to the business.

Our process for managing performance is based on conversations with managers and provides tools, resources, and support to people on how to achieve as well as what to achieve. We thereby strive to keep our people motivated and growing in a transparent, fair, and developmental process that supports people in being their best, individually and collectively, and ensures everyone is moving in the same direction.

EMBEDDING PERSONAL LEADERSHIP IN PERFORMANCE DRIVERS

At CHANEL, we focus equally on four performance drivers: Brand Performance, Client Engagement, Leadership & People Strength, and Financial Health. How we lead and treat our people is equal in consideration to brand and business as a driver of performance. Placing this equal value on Leadership & People Strength is a defining factor in who we are as a company and brand. People matter at CHANEL, and we demonstrate our commitment to their long-term engagement, development, and well-being in our codified behaviors, measurements, and supportive tools to help people optimize their strengths.

GLOBALIZING THE CHANEL FASHION RETAIL EXPERIENCE

The Retail Excellence Program brings together employees engaged in our retail métiers from around the world to Paris — our heart of creation — to participate in a rich learning experience on all aspects of our FASHION business. The experience combines the following elements:

- Visits to our ateliers to learn from CHANEL artisans about their exceptional know-how.
- Exposure to FASHION leaders to hear about our business strategies and priorities.
- Expert-led sessions on how to deliver exceptional service to our clients, with a strong emphasis on the human touch, which we strive to preserve in everything we do.

In the program, our employees also connect with each other, share experiences, and engage in reciprocal learning, all of which helps to build stronger relationships and enhance their development. Altogether, the Retail Excellence Program deepens passion for the brand and company, and provides opportunity for development and global community building.

OUR WORKPLACES: SOCIAL WORKING ENVIRONMENTS SUPPORT NEW WAYS OF WORKING

Our physical workspaces are increasingly a driver of transformation, inspiration, and collaboration. Understanding that the physical design of our workplaces plays a critical role in the performance and well-being of our employees and in our overall organizational culture, we are investing in workspace transformation programs across CHANEL. New styles and/or expanded workspaces designed in close consultation with CHANEL employees encourage people in different areas of the business to connect, socialize, collaborate, and share ideas.

GENDER EQUALITY – A FIRST STEP WITH EDGE

To further enhance our inclusion and diversity measures, in 2016–2017 we took an important step in focusing on gender equality. As a company employing a majority of women and as a brand primarily for women, we believe it is essential that we ensure that the principles of gender equality and women's empowerment are embedded in our organization.

We therefore engaged EDGE, the leading global assessment methodology and certification standard for gender equality, to provide an initial assessment and guidance on the gender balance across our organization and to advise on the steps, which we are now taking, that will help to ensure gender equality in our pipeline development, pay practices, and fair-employment policies. Enhancing inclusion and diversity is also an ongoing opportunity for CHANEL. We will continue to focus on new programs to demonstrate our appreciation for all aspects of diversity, including diversity of thought, and to further promote a more inclusive and diverse culture.

LA PLACE

In 2016, after a year of consultation and design, our team in New York opened a new workplace model designed to encourage collaboration, and explore ways in which people in different areas of the business could connect, collaborate, and share ideas while increasing visibility and interaction with senior leadership. The new open space for gathering and interaction has enabled multiple forms of assembly as well as events that inspire our employees. The “La Place” model is being replicated in other offices, including the new London management offices.

ENSURING INCLUSION AND EQUALITY

Fostering a culture of inclusion and diversity where individuals have the freedom to be themselves and equal opportunity to contribute and achieve is of essential value. We are committed to equal treatment in our organization and to continually enhancing our policies and practices that ensure safe environments free of discrimination and harassment, as well as equality of treatment and access to opportunities and promotions. We are improving in this area by incorporating inclusion and diversity in our HR talent processes, establishing management priorities, and conducting regular compliance committee reviews — all at global, regional, and market levels.

PARENTAL LEAVE: COMMITTING TO EQUAL TREATMENT AND VALUING PEOPLE'S WHOLE LIVES

On January 1, 2018, CHANEL implemented a new global parental-leave benefit, providing 14 weeks of leave at full pay for all new parents — both women and men — who expand their families by birth, adoption, or surrogacy. This enhanced benefit reflects our shared values on gender equality, empowerment, and freedom of choice by giving women and men equal flexibility to focus on career and family, moving away from stereotypes that women, more than men, should manage family demands, which often force them to trade off on their career. Our global parental-leave policy is an employer's essential investment in supporting employees', particularly women's, long-term personal and career ambitions, including cherishing important moments in their lives and reaching top executive positions, not just at CHANEL, but also in society in general.

EMPLOYEE SOCIAL COMMITMENT

Since it was first created, Fondation CHANEL has provided employees with opportunities to actively participate in the projects it supports. Many employees wish to engage actively in social and philanthropic projects to fulfil their personal and professional desires. CHANEL actively encourages employees to support the associations and social enterprises by matching an employee's competencies and skills to the needs of these organizations on social and environmental projects. Our employees are thereby helping these organizations not only with their time, but also by helping them build internal competencies in key disciplines for mutually rewarding benefit.

THE ASHOKA PROJECT

Ashoka is an NGO that brings together the largest network of social entrepreneurs worldwide. Its mission is to identify and support the most innovative ones by fostering links with businesses to maximize social impact.

In 2018, our FRAGRANCES & BEAUTY activity entered into a partnership with Ashoka, based on three pillars:

1. To select and financially support social innovators on themes related to our business (renewable energy, circular economy, biodiversity, integration and diversity).
2. Engage our own employees and develop talents alongside social entrepreneurs through discovery sessions and skills sponsorship.
3. Share what we learn with leading companies in other sectors, within a multi-company program supported by Ashoka.

Through this program and through social innovation, we want to develop a strong culture of sustainability and commitment among our employees, and create a "laboratory" for the creation of new business models and innovation processes.

ADVANCING THE ROLE OF WOMEN IN SOCIETY



The story of CHANEL is the story of a woman. Through her entrepreneurial spirit and creativity, Gabrielle Chanel rose from humble origins to liberate herself, reinvent the codes of fashion, and influence the world. Today, women are our main customers and comprise 80 percent of our workforce.

Fondation CHANEL, and other women's empowerment initiatives within the company and our supply chain are based on the profound conviction that women are agents of positive change in the world. Advancing the role of women in society is a key lens through which we look at everything we do: from our brand purpose to our employee-engagement policies and through our approach to supply-chain issues. As signatories of the United Nations Women Empowerment Principles, we are committed to driving these initiatives not only within the company, but also, more broadly in society through Fondation CHANEL. It was to build on Mademoiselle Chanel's legacy that CHANEL created its first philanthropic foundation based in France, the Fondation d'Entreprise CHANEL, in 2011, with the initial mission to improve social and economic conditions for women and adolescent girls. In 2016, our philanthropic entity was renamed Fondation CHANEL. It expanded its operations globally to the U.S.A. and Europe, while also strengthening its support to numerous social purpose organizations (SPOs) in developing countries and in East Asia.

CHANEL AND THE WOMEN'S EMPOWERMENT PRINCIPLES

CHANEL signed the Women Empowerment Principles (WEPS), a partnership initiative of the United Nations Entity for Gender Equality and the Empowerment of Women (UN Women) and the United Nations Global Compact, for the first time in 2015. The WEPS provide a set of considerations to help the private sector focus on key elements integral to promoting gender equality in the workplace, marketplace, and communities. To date, CHANEL has primarily focused on applying the WEPS to the workplace and its own workforce. Over the next year, we plan to integrate a gender lens more systematically into our sourcing policies, programs, metrics, and overall reporting. To help us advance both the thinking and practice of how companies can achieve progress for women globally and successfully apply the WEPS, CHANEL joined BSR's Business Action for Women (BAW) collaborative initiative. Together with other major corporations, CHANEL is involved in two of the BAW working-group clusters, mainly to advance women in the supply chain and to empower women to lead on climate resilience.

WHAT WE BELIEVE: A HOLISTIC APPROACH

At CHANEL, we believe that women's empowerment and gender equality are not only a question of equal rights, but are also a key condition to global progress and represent a huge opportunity for growth and prosperity. Many studies have shown that societies, companies, and communities promoting gender equality are more free, peaceful, stable, and fair, and lead to more prosperous and dynamic economic models.²

OUR APPROACH

For over seven years, Fondation CHANEL has been committed to supporting social purpose organizations working to improve the social and economic conditions of women throughout the world. This mission resonates with CHANEL and leads to a systematic integration of this issue into our work and long-term vision. By giving grants to nonprofit organizations, Fondation CHANEL provides long-term support to women and girls in vulnerable situations and helps them reach the first step on the development ladder.

Fondation CHANEL promotes the following:

- Access to economic resources and entrepreneurship (including microfinance).
- Access to education and vocational training.
- Access to leadership and decision-making.
- Access to health and social protection services.
- The use of culture, information, and technology as a means for social integration.
- The strengthening of women's organizations, funds, and networks.

Since 2011, Fondation CHANEL has expanded significantly. Since its inception, it has supported more than 60 projects in 35 countries, with a global commitment of \$20.5 million. Over the next five years, we plan on investing over \$120 million in advancing the role of women in society. Thanks to its concrete and measurable impact, Fondation CHANEL has gained international recognition in its field through strategic partnerships with UN Women and the OECD.

2. For example, the McKinsey Global Institute Report, September 2015, "The power of parity: How advancing women's equality can add \$12 trillion to the global economy."



GABRIELLE CHANEL

In addition to its grant-making activities, Fondation CHANEL acts as a change-maker for the organizations it has carefully selected:

- Grants are given over longer periods of time (three to five years) to ensure that concrete and measurable impact is achieved for each project.
- Fondation CHANEL provides flexible funding to its partners in order to build capacity and improve their financial stability. In particular, it helps them assess and measure the impact of their activities and supports them in their outreach activities (external communication, digital and social media strategy, and advocacy).
- It promotes systematic exchanges of best practices between the organizations it works with and participates in advocacy activities in the field of women's empowerment.

The activity of Fondation CHANEL is concentrated in a number of regional hubs. Prior to any intervention, it analyzes the local context in detail to ensure that the activities it supports are the most relevant and impactful, with systematic field visits to ensure a sound understanding of the project's challenges and results.

Fondation CHANEL also provides opportunities for CHANEL employees to use their knowledge and talent to strengthen the work of its partners, either in person or from a distance. Over the past two years, nearly 200 employees have contributed to technical-assistance missions, including in the fields of sales, communications, and human resources, among others.

For more information about present and past projects supported by the foundation, visit Fondation CHANEL's website: www.fondationchanel.org

FONDATION CHANEL HIGHLIGHTS

2016–2017

45

projects supported
in over 35 countries

\$330,000

Average amount of financial
support per project

3–5 YEARS

Average duration
of partnerships

1,600

women gained employment or
created their own enterprise

2,000

women accessed and completed
vocational training programs

60,000

women benefitted from improved
access to health services

The purpose of this report is to show how social and environmental priorities are taken into account for the long-term value creation of our brand.

Our ambitious road map depends on:

A SOLID COMPLIANCE PROGRAM THAT ENSURES THE RESPECT OF ETHICAL AND LEGAL STANDARDS APPLIED TO HOW WE CONDUCT BUSINESS.

A COHESIVE CSR GOVERNANCE THAT ENSURES NOT ONLY THE FULL IMPLICATION AND ENDORSEMENT OF OUR TOP MANAGEMENT, BUT ALSO, THE IMPLICATION ALL OUR EMPLOYEES THROUGH THE DIFFERENT ACTIVITIES AND REGIONS.

GOVERNANCE FOR RESPONSIBILITY AND SUSTAINABILITY

Our standards and principles, including those that apply to the personal conduct of our employees, are exceptionally high. All employees are expected to reflect our fundamental values of uncompromising integrity, respect, and responsibility in performing their professional duties. These global ethical values apply to how we conduct our business and comply with applicable laws, rules, and regulations.

**“WE ARE DEEPLY COMMITTED
TO DOING THE RIGHT THING. WE
ALSO WANT OUR EMPLOYEES TO
COME TO WORK EVERY DAY BEING
PROUD TO BE WORKING FOR A
COMPANY WITH FUNDAMENTAL
VALUES OF UNCOMPROMISING
INTEGRITY, RESPECT, AND
RESPONSIBILITY FOR THEIR
COLLEAGUES, THEIR BUSINESS
PARTNERS, AND THE COMMUNITIES
IN WHICH WE OPERATE.”**

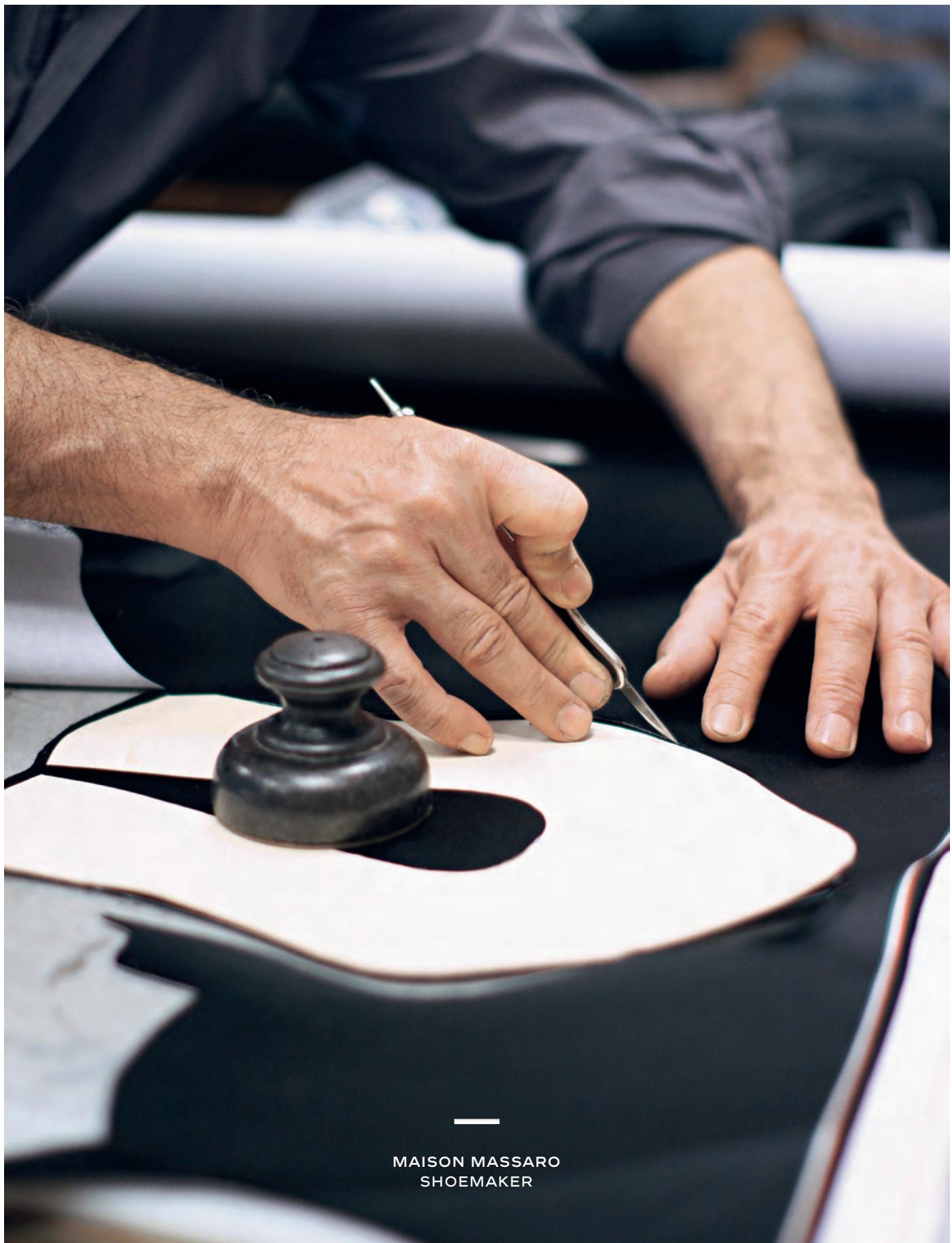
— SARAH FRANCOIS-PONCET
GLOBAL GENERAL COUNSEL

LEGAL COMPLIANCE AND ETHICS

Protecting our reputation is the responsibility of every employee. Each of them is expected to act with uncompromised integrity so that others will know they can trust us and have confidence in our authenticity and fairness.

CHANEL wants to be recognized as a company that honors its commitments, respects other business players, is a reliable business partner, and is an icon of unsurpassed excellence.

We are also strongly committed to conducting business in compliance with applicable laws, rules, and regulations in all markets in which we operate.



We take a coherent approach to compliance issues, led by our legal and regulatory departments and implemented worldwide. It encompasses the following:

- Clear governance and guidance from management on company ethics.
- Helplines to raise concerns and whistleblowing protection.
- Policies ensuring a supportive work environment and a zero-tolerance approach to any form of discrimination or harassment.
- High employee protection in terms of labor practices and health and security.
- Protection of our assets, including intellectual property and data privacy.
- Anticorruption, money-laundering, and fair-competition issues.
- Ensuring consumer health and safety through enforcement of strict regulatory compliance for all our products.

As well as specific policies, compliance at CHANEL means constantly reevaluating and integrating new regulations, through awareness and specific-issues training, regular compliance reviews, audits, and remedial actions.

We also expect third parties we conduct business with — including suppliers, contractors, agents, representatives, distributors, and consultants — to adhere to the spirit of these standards, comply with our ethical principles, and meet all of their contractual obligations. We strive to only do business with people who share our commitment to the highest standards of integrity and responsible business conduct.

REGULATORY COMPLIANCE IN PRACTICE: PRODUCT SAFETY

Whatever the material, from fragrance and cosmetic ingredients to leather, textile, or jewelry components, CHANEL has dedicated teams of experts around the world to monitor all existing and incoming regulations in order to secure the safety of our products. While our finished products are fully compliant with the various toxicology regulations, we constantly urge our R&D and regulatory departments in all activities to try to further lower the required tolerance levels.

Wherever possible, CHANEL FRAGRANCES & BEAUTY forbids the use of certain substances, based on a stricter interpretation of current regulations in this area. The FRAGRANCES & BEAUTY activity has internal criteria in place that define how these substances are identified. The criteria covers both environmental and ethical considerations, such as being on the IUCN Red List of Threatened Species, which identifies plants that are near-threatened, vulnerable, endangered, or critically endangered, as well as substances that involve potential consumer health concerns.

Over the course of 2018, we will gather and consult a panel of experts and non-governmental organizations (NGOs) to conduct a critical review of our criteria for identifying restricted substances.

The new version of the Responsible Sourcing Policy referred to earlier in this report, which is being rolled out by all activities in 2018, is the materialization of this expectation, and CHANEL has committed to work with all suppliers to achieve these commitments.

CSR GOVERNANCE

CHANEL's CSR governance and operating model ensures that engagement on CSR issues become part of the daily activities of every employee, and that CSR is ingrained in decision-making at the senior-leadership level and fully integrated in the company's overall business process.

The key challenge in ensuring a transition toward a sustainable business model is to engage a profound change of culture, not only at top management, but also, and more importantly, across the whole employee base. The successful implementation of CHANEL's overall CSR road map must not be only in the hands of experts; it is possible only through the empowerment of each and every individual in the company.

Inspired by these principles, we have organized our governance on three aspects:

- A strategic approach and corporate framework endorsed by top management.
- A coherent operating model that empowers teams in each activity and market.
- An Innovation and Sustainable Development Fund, which acts as an acceleration mechanism toward a sustainable business model.

STRATEGIC APPROACH AND CORPORATE FRAMEWORK

CSR strategy is led by the Corporate CSR Team, which is in charge of defining the vision of the brand for societal and environmental impact, proposing commitments to engage different operational teams, and defining a global plan of action as well as a set of operational guidelines.

The Corporate CSR team reports directly to the CEO. All key decisions concerning the brand commitments and their implementation are decided at top-management level.

The team is composed of experts in the fields of sourcing, climate, and circular economy. They aim for consistency and coherence in the approach we take across the business. Specific teams of CSR experts exist in each activity, and in the other corporate functions, to implement operational CSR plans.

COHERENT OPERATING MODEL

ROAD MAPS

We translate our vision and CSR framework into operational strategies through “road maps” for each activity and each major market. These road maps are designed to be local, and define the timing, level of deployment, and resources needed to implement what is outlined in the global framework.

DEDICATED CSR TEAMS

In each activity there are expert teams in charge of defining and implementing the CSR road maps. In the same way, CSR teams are in place in each major market.

AMBASSADORS NETWORK

We have a network of over 140 CSR Ambassadors representing different functions and skills at both activity and market levels. These ambassadors act as champions of CSR within their respective functions, and help establish and implement operational road maps for CSR activities.

AN INNOVATION AND SUSTAINABLE DEVELOPMENT FUND

We believe that one of the key conditions for a successful implementation of our CSR road map is to ensure that initiatives can be identified and driven by the operational teams with a high level of autonomy.

What is important in this context is to remove the administrative obstacles that would make the adoption of new business practices too slow and cumbersome.

In order to accelerate the adoption of our CSR road map, we have created an Innovation and Sustainable Development Fund dedicated to financing initiatives, proposed by operational teams.

Established in 2016, the Fund finances activities across the business that have a positive social or environmental impact, while enabling us to reimagine how we innovate for sustainability. It allows us to support projects without bureaucracy or existing budget constraints, and accelerates our sustainability plans.

The fund is financed through an internal carbon tax based on our global carbon footprint.

During 2017, the fund invested in 19 projects to increase sustainable innovation, drive sustainable sourcing, and facilitate business reengineering.

A high-level committee, composed of the CEO, the CFO, the three activity presidents, and the global heads of HR, Innovation, and CSR, validates our key CSR policies and commitments, monitors if our improvements are in line with our commitments, and oversees the Innovation and Sustainable Development Fund.

CLOSING STATEMENT

Luxury is seen as a privilege for few, but it creates desire and beauty for many. Because of this, we believe that, as a luxury brand, the way we operate can and should represent the best in society. We are convinced that only an exemplary luxury brand that contributes in an exemplary way to a better world will remain desirable and relevant for all tomorrow.

In certain areas, thanks to our long-term approach, we have made some concrete progress. We are aware that in other areas, we still have significant work to do, and we are constantly trying to step up our ambitions and commitments to strive toward exemplarity.

We know, as well, that we cannot achieve this alone. We look forward to engaging more with our stakeholders, to listening and learning about how we can achieve our objectives and ambitions faster, and with ever more positive impacts.

This report is CHANEL's first step in a commitment to sharing more with stakeholders in the coming years. We see this engagement as the very best way for us to fulfill our obligations to society, and to be exemplary in the luxury industry.

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CHANEL

REPORT TO SOCIETY