

SECOND PARTY OPINION¹

ON CHANEL'S SUSTAINABILITY-LINKED BOND FRAMEWORK

September 2020

BACKGROUND

CHANEL (hereafter the "Issuer") contemplates including three environmental factors to the Sustainability-Linked Bonds (the "SLBs") to be issued in compliance with the Sustainability-Linked Bond Framework (the "Framework") created to govern their issuances and following the Sustainability-Linked Bond Principles (the "SLBP"). The Framework will include the Issuer's commitment to achieve specific targets ("Sustainability Performance Targets" or "SPTs") regarding three environmental Key Performance Indicators (hereafter the "KPIs") proposed by the Issuer as part of its sustainability strategy. The Issuer reports that the bonds' proceeds will support *CHANEL Mission 1.5*², including investing in sustainability projects³. The main feature of this type of financing is the variation of the bond's financial and/or structural characteristics, depending on whether the Issuer achieves predefined sustainability performance objectives.

The Issuer has disclosed that the SLBs will have two maturity dates: 2026 and 2031 year.

CHANEL is a private company and a world leader in creating, developing, manufacturing and distributing luxury products.

For these so-called Sustainability-Linked Bonds, the selected KPIs to be linked to the variation of the bonds' financial and/or structural characteristics are the following:

- **KPI 1:** Scope 1 and 2 GHG emissions (measured in tCO₂e and tCO₂e per unit sold) with the following target:
 - o Associated trigger event: Decrease CHANEL's absolute scope 1 and 2 emissions by 50% by 2030 - equivalent to 66% per unit sold;
- **KPI 2:** Scope 3 GHG emissions (measured in tCO₂e and tCO₂e per unit sold) with the following target:
 - o Associated trigger event: Decrease CHANEL's absolute scope 3 emissions by 10% by 2030 - equivalent to 40% per unit sold;
- **KPI 3:** Percentage of renewable electricity in operations, with the following target:
 - o Associated trigger event: Shift to 100% renewable electricity in its operations by 2025.

Table 1 – CHANEL's SLBs' objectives

(GHG emissions - tCO₂e - Scope 1,2 and 3 and % renewable electricity)

	2018 (Baseline)	2021	2025	2030
KPI 1	41,800	N/A	N/A	20,900
KPI 2	829,000	N/A	N/A	746,100
KPI 3	2019 (Baseline)			
	41%	97%	100%	N/A

Table 2 – VE's assessment of CHANEL's SPTs

	Level of ambition ⁴
KPI 1	ROBUST
KPI 2	ROBUST
KPI 3	ROBUST

¹ This opinion is to be considered as the "Second Party Opinion" described in the GBP voluntary guidelines (June 2018 Edition) edited by the International Capital Market Association (www.icmagroup.org).

² *CHANEL Mission 1.5* is CHANEL's climate strategy announced in March 2020.

³ According to the Issuer, sustainability projects include investing in start-ups focused on the development of sustainable materials, incentivizing suppliers to convert to renewable energy, and providing direct financial support for new renewable-energy projects at a community level in key regions.

⁴ VE scale of assessment: Weak / Limited / Robust / Advanced

SCOPE

Vigeo Eiris was commissioned to provide an independent opinion (thereafter “Second Party Opinion” or “SPO”) on the integration of three environmental factors to the Sustainability-Linked Bonds (the “SLBs”) to be issued by CHANEL (the “Issuer”) in compliance with the Sustainability-Linked Bond Framework (the “Framework”) created to govern their issuances.

Our opinion is established according to our Environmental, Social and Governance (“ESG”) exclusive assessment methodology and to the International Capital Market Association’s (ICMA) Sustainability-Linked Bond Principles (“SLBP”) voluntary guidelines, edited on June 2020. This opinion is strictly limited to the integration of three environmental factors in the SLBs. This opinion does not cover the integration of broader sustainability factors (i.e. social and governance), nor the labelling of the SLBs which the final decision is left to CHANEL. This opinion does not constitute a verification or certification.

Our opinion is built on the review of the following components:

- 1) **Issuer:** we assessed the Issuer’s management of potential stakeholder-related ESG controversies and its involvement in controversial activities.⁵
- 2) **Bond:** we assessed the Framework’s alignment with the five core components of the SLBP 2020.

Our sources of information are multichannel, combining data from (i) public information gathered from public sources, press content providers and stakeholders, (ii) information from Vigeo Eiris’ exclusive ESG rating database, and (iii) information provided by the Issuer through documents.

We carried out our due diligence assessment from August 20th to September 18th, 2020. We consider that we were provided with access to all the appropriate documents we solicited. For this purpose, we used our reasonable efforts to verify such data accuracy.

VIGEO EIRIS’ OPINION

Vigeo Eiris is of the opinion that CHANEL’s Sustainability-Linked Bond Framework is aligned with the ICMA’s Sustainability-Linked Bond Principles 2020.

1) Issuer (see Part I):

- ▶ As of today, CHANEL faces 4 stakeholder-related ESG controversies linked to the two following domains: Human Resources and Business Behaviour. The frequency of the controversies is considered “occasional”⁶. The severity of their impact on both the company and its stakeholders is considered “significant”⁷. CHANEL is considered overall “non-communicative”⁸.
- ▶ As of today, the Issuer appears to be involved in one of the 17 controversial activities screened under our methodology, namely: Animal Welfare. CHANEL appears to not be involved in any of the 16 other controversial activities screened under our methodology (detailed in p.4).

2) Bond (see Part II):

- ▶ **Selection of Key Performance Indicators (KPIs)** – The selected KPIs are relevant and material from an environmental standpoint and appropriately reflect two of the Issuer’s material environmental issues as well as material challenges for its sector, namely: atmospheric emissions and energy consumption. The KPIs are measurable, externally verifiable and are able to be benchmarked. In addition, the KPIs’ definition, the rationale behind their selection and the calculation methodologies and perimeter of reporting are defined in the Framework and in internal documentation.
- ▶ **Calibration of Sustainability Performance Targets (SPTs)** – The SPTs demonstrate a robust level of ambition, in comparison with (i) the Issuer’s ESG strategy and performance, (ii) existing international standards and (iii) sector peers. The timeline, baseline and trigger events are clearly disclosed for all KPIs. However, an intermediary target is disclosed for KPI 3 only.
- ▶ **Bond Characteristics** – The nature of the bond’s characteristics’ variation and the trigger events are clearly disclosed in the Framework. The actual financial impact is clearly disclosed in the bonds’ legal documentation.
- ▶ **Reporting** – The selected KPIs’ internal control and reporting processes are relevant, transparent and enable to provide reliable data. All relevant information related to the KPIs, including results, underlying methodologies and assumptions will be publicly disclosed by the Issuer in its reporting. The reporting will be published annually for KPI 1 and KPI 3 and full reporting on KPI 2 will be made available before 2025.

⁵ The 17 controversial activities screened by Vigeo Eiris are: Alcohol, Animal welfare, Cannabis, Chemicals of concern, Civilian firearms, Fossil Fuels industry, Coal, Gambling, Genetic engineering, High interest rate lending, Human Embryonic Stem Cells, Military, Nuclear power, Pornography, Reproductive medicine, Tar sands and oil shale, and Tobacco.

⁶ VE scale of assessment: Isolated / Occasional / Frequent / Persistent

⁷ VE scale of assessment: Minor / Significant / High / Critical

⁸ VE scale of assessment: Non-communicative / Reactive / Remediative / Proactive

- ▶ **Verification** – The KPI will be audited and made publicly available. The achievement of the targets will be reviewed by an external auditor.

This opinion is based on the review of the information provided by the Issuer, according to our exclusive assessment methodology and to the SLBP voluntary guidelines (June 2020). CHANEL acknowledges that in case of changes of such standards and market practices and expectations, VIGEO EIRIS shall exclude any liability regarding the use of the concerned opinion and its compliance with then-current standards and market practices and expectations.

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This opinion aims to explain for syndicated banks how the SLBs integrate environmental factors, based on the information which has been made available to and has been analysed by Vigeo Eiris. The opinion only reflects the integration of environmental factors in the designated financial instrument. Vigeo Eiris endeavours to collect and to use the most reliable information accessible, but cannot guarantee its accuracy, completeness and up-to-datedness. Vigeo Eiris provides its services with the utmost professional care and quality assurance of its production processes. The user and its stakeholders may not – under any circumstances – require changes or alterations or distortions in the methodology or opinions of Vigeo Eiris. Neither Vigeo Eiris shall be liable for the message if altered, changed or falsified. The opinion delivered by Vigeo Eiris does not cover the financial criteria of the facilities. CHANEL is fully responsible for attesting its compliance with the commitments defined in its documentation, for implementing appropriate measures to reach them and for monitoring its performance. CHANEL remains solely responsible for the calculation of the selected indicators and the associated reporting on its past and future performances.

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DETAILED RESULTS

Part I. ISSUER

CHANEL is a private company and a world leader in creating, developing, manufacturing and distributing luxury products. Founded by Gabrielle Chanel at the beginning of the last century, CHANEL offers a broad range of high-end creations, including Ready-to-Wear, Leather Goods, Fashion Accessories, Eyewear, Fragrances, Makeup, Skincare, Jewelry and Watches. At the end of 2019, CHANEL employed close to 28,000 people worldwide.

Management of stakeholder-related ESG controversies

As of today, CHANEL is facing four stakeholder-related ESG controversies, linked to two of the six domains we analyse:

- Human Resources, in the criteria of “Social Dialogue”, “Quality of remuneration systems” and “Respect and management of working hours”;
- Business Behaviour, in the criterion “Anti-competitive practices”.

Frequency: The controversies faced are considered “occasional”⁹, in line with the sector average.

Severity: The severity of the case, based on the analysis of its impact on both the company and its stakeholders, is considered “significant”¹⁰, above the sector average which is considered “high”.

Responsiveness: CHANEL is considered overall “non-communicative”¹¹, below the sector average which is considered “reactive”.

Involvement in controversial activities

The Issuer appears to be involved in one of the 17 controversial activities screened under our methodology, namely:

Major involvement in Animal Welfare: CHANEL has an estimated turnover from the production of own-branded cosmetic products tested on animals which is below 5% of total turnover. In its Fragrance and Beauty division, the company is engaged in the provision of perfumes and makeup products. CHANEL reports to be selling its products in China where animal testing may be performed. The company does not appear to have adopted a formalized public animal testing policy excluding tests on animals, therefore we have reasonably assumed that CHANEL could have performed animal testing for its cosmetic products.¹²

The Issuer appears to be not involved in any of the 16 controversial activities screened under our methodology, namely: Alcohol, Cannabis, Chemicals of concern, Civilian firearms, Fossil Fuels industry, Coal, Gambling, Genetic engineering, High interest rate lending, Human Embryonic Stem Cells, Military, Nuclear power, Pornography, Reproductive medicine, Tar sands and oil shale, and Tobacco.

The controversial activities research provides screening of companies to identify involvement in business activities that are subject to philosophical or moral beliefs. The information does not suggest any approval or disapproval on their content from Vigeo Eiris.

⁹ VE scale of assessment: Isolated / Occasional / Frequent / Persistent

¹⁰ VE scale of assessment: Minor / Significant / High / Critical

¹¹ VE scale of assessment: Non-communicative / Reactive / Remediative / Proactive

¹²The Issuer reports to Vigeo Eiris that as a member of several industry associations, CHANEL regularly takes part in providing information to the Chinese authorities and is in discussion with them to bring about a change in their position on this issue, and adopt a similar approach to that of the European Union. In addition, Chanel reports complying with the European Union’s regulation which appears to only authorize alternative methods to test cosmetic products and their ingredients.

Part II. BOND

Principle 1. Selection of Key Performance Indicators (KPIs)

The selected KPIs are relevant and material from an environmental standpoint and appropriately reflect two of the Issuer's material environmental issues as well as material challenges for its sector, namely: atmospheric emissions and energy consumption. The KPIs are measurable, externally verifiable and are able to be benchmarked. In addition, the KPIs' definition, the rationale behind their selection, the calculation methodologies and perimeter of reporting are defined in the Framework and in internal documentation.

The Framework is aligned with the "Selection of Key Performance Indicators" principle of the ICMA's Sustainability-Linked Bond Principles.

Coherence

Vigeo Eiris considers that the KPIs selected are coherent with CHANEL's sustainability strategy, commitments and priorities.

As part of its sustainability strategy, CHANEL has defined and disclosed a climate change strategy, "*CHANEL Mission 1.5°*" which formalises the Group's commitment to mobilise and transform its business line in line with the UN Climate Change Paris Agreement. *CHANEL Mission 1.5°* sets out the Issuer's objectives to be achieved by 2030 and includes four main commitments.

1. Reducing CHANEL's carbon footprint across its own operations and its entire supply chain to meet its Science Based Targets;
2. Shifting to 100% renewable electricity on a worldwide basis by 2025;
3. Balancing its residual carbon emissions;
4. Financing climate change adaptation.

Through the formalisation of *CHANEL Mission 1.5°*, the Issuer demonstrates that a specific focus within its sustainability strategy is made on the decarbonisation of its operations and value chain. The Issuer has reported to be carbon neutral since 2019, by investing in nature-based solutions (projects to protect and restore forests, mangroves and peatlands). In addition, CHANEL reports that in 2019, 41% of the Group's global electricity was sourced from renewable sources.

CHANEL reports that it only supports projects which follow the International Carbon Reduction and Offset Alliance¹³ (ICROA) principles, and which are certified to the highest carbon, biodiversity and community standards (such as the Verified Carbon Standard¹⁴ (VCS) and the Climate Community and Biodiversity Alliance¹⁵ (CCBA)).

Additionally, CHANEL's targets have been approved by the Science Based Targets Initiative¹⁶ (SBTi) and the company is a member of RE100¹⁷, Fashion for Good¹⁸, the International In setting Platform¹⁹ and SPICE²⁰ (Sustainable Packaging Initiative for Cosmetics). Moreover, in 2019 CHANEL signed the Fashion Pact which is a global coalition of companies in the fashion and textile industry committing to tackle climate change and protecting biodiversity and the oceans.

CHANEL's public targets regarding the selected KPIs are the following:

- CHANEL commits to reduce its Scope 1 and 2 absolute emissions across its operations by 50% (equivalent to 66% per unit sold) and to reduce its Scope 3 absolute emissions by 10% (equivalent to 40% per unit sold) by 2030, compared with its emissions in 2018;
- CHANEL pledges to transition to 100% renewable electricity in its own operations by 2025.

¹³ ICROA website <https://www.icroa.org/>

¹⁴ Verified Carbon Standards website <https://www.carbontrust.com/>

¹⁵ CCBA website <https://www.climate-standards.org/>


¹⁶ SBTi website <https://sciencebasedtargets.org/>

¹⁷ RE 100 website <https://www.there100.org/>

¹⁸ Fashion for Good website <https://fashionforgood.com/>

¹⁹ International Insetting Platform website <https://www.insettingplatform.com/>

²⁰ SPICE website <https://open-spice.com/>

KPI 1. Scope 1 and 2 GHG emissions (measured in tCO ₂ e and tCO ₂ e per unit sold)	KPI 2. Scope 3 GHG emissions (measured in tCO ₂ e and tCO ₂ e per unit sold)	KPI 3. Percentage of renewable electricity in operations
<p><u>Materiality</u></p>		
<p>The selected KPIs are likely to contribute to two of the United Nations' Sustainable Development Goals ("SDGs"), namely: Goal 7. Affordable and Clean energy and Goal 13. Climate Action.</p> <div style="display: flex; align-items: flex-start;"> <div style="margin-right: 20px;">  </div> <div> <ul style="list-style-type: none"> - 7.2 Increase substantially the share of renewable energy in the global energy mix - 7.3 Double the global rate of improvement in energy efficiency </div> </div> <div style="margin-top: 10px;">  <p>Assets are likely to contribute to SDG 13 which consists in adopting urgent measures to combat climate change and its effects.</p> </div>		
<p>Vigeo Eiris considers that the selected KPIs are relevant and material from a sustainability standpoint and appropriately reflect two of the Issuer's material sustainability issues as well as material challenges for its sector, namely: atmospheric emissions and energy consumption.</p> <p>The Paris Agreement sets out a global framework to avoid dangerous climate change by limiting global warming to well below 2°C and pursuing efforts to limit it to 1.5°C. It also aims to strengthen companies' ability to deal with the impacts of climate change and support them in their efforts. The Paris Agreement is the first-ever universal, legally binding global climate change agreement, adopted at the Paris climate conference (COP21) in December 2015.</p> <p>In this context, the Fashion Industry sector has a major role to play regarding climate change and energy efficiency through the promotion of energy consumption reduction (and energy-related emissions) used in manufacturing, transportation, packaging and sales. According to the World Bank, the fashion industry is responsible for 10% of the annual global total carbon emissions, more than all international flights and maritime shipping combined (Scope 3). If the increase continues, the fashion industry's greenhouse gas emissions will surge more than 50 % by 2030.</p> <p>A central environmental issue of the luxury and cosmetic sector is CO₂ emissions linked to transportation of products. A considerable number of goods produced in the industry are made in specific geographical areas, while the brands are global, and their products are sold around the world. This issue has also been placed under the spotlight because traffic jams associated with high levels of exhaust fumes are getting more and more problematic for the city-centres, where the majority of stores are located.</p> <p>Furthermore, sub-sectors such as the Luxury Goods and Cosmetic sector are concerned with the issue of energy consumption as energy resources are required for heating and air-conditioning, ventilation and the functioning of equipment in both offices and production plants. For the cosmetic sub-sector, the manufacture of many chemical products involves high-temperature reactions, making chemical production particularly energy-intensive. This impact is mainly located in the supply chain, however cosmetic companies use a significant quantity of chemical products in their production processes, increasing energy consumption. The two main sources of energy consumed are steam and electricity. Luxury Goods and Cosmetic sector companies are expected to set ambitious climate change strategies, backed by relevant targets and widespread environmental management systems.</p> <p>In 2019 the European Commission communicated the European Union (EU) Green Deal policy framework to accelerate decarbonisation across member states. In addition, for the EU market, the 2020 EU Circular Economy Action Plan disclosed a policy framework to support sustainable products, services and business models.</p> <p>CHANEL's <i>Mission 1.5°</i> reports to be in line with the UN Climate Change Paris Agreement (the 'Paris Agreement') and the Science Based Targets Initiative (SBTi) reviewed CHANEL's GHG emissions reduction targets, which is the 1st pillar of CHANEL's <i>Mission 1.5°</i>, to ensure that the methodology set for its carbon SPTs is ambitious and externally approved to be in line with the Paris Agreement.</p> <p>In addition, in 2015 CHANEL has conducted its first corporate-wide carbon footprint exercise, and in 2018, conducted the exercise over all relevant GHG protocol categories; including all activities contributing to the CHANEL brand and subsidiaries in the Group where financial control is greater than 50%. This exercise highlighted that Scope 3 emissions represent over 95% of its total footprint and that half of its carbon footprint is generated by two GHG protocol categories: the production of raw materials and transporting finished goods.</p> <p>Moreover, regarding KPI 1 and KPI 2, CHANEL aims to meet both absolute and intensity thresholds. The Issuer reports that if absolute thresholds can be easy to meet because of external impacts affecting sales, intensity thresholds are important to ensure the company's proactivity.</p> <p>The Issuer reports on having a formalised materiality analysis for each of Divisions (Fragrance & Beauty, Fashion, W&FJ) from 2014 to 2016, which are confidential. Vigeo Eiris did not have access to the materiality assessment.</p>		

<p><u>Measurability and Verification</u></p> <p>The KPIs are measurable on a consistent methodological basis. The Issuer reports that no external verification covering these data has been conducted to date, however Vigeo Eiris values that, in 2020, the Issuer appointed an external auditor to this end, therefore we consider all KPIs are externally verifiable.</p>
<p><u>Clarity</u></p> <p>The definition, perimeter and underlying methodologies for all the selected KPIs are defined and disclosed in the Framework and in internal documentation. For KPI 1 and 2, the Issuer's methodology is based on the GHG Protocol Corporate Accounting and Reporting Standard²¹. In addition, the Issuer has provided to Vigeo Eiris its 2018 carbon footprint methodology reports on which it also relies on for its CO₂ emissions calculations. Regarding KPI 3, the Issuer relies on the RE100 Reporting Guidance 2020²² and associated calculation formula.</p> <p>In line with best practices taken into account in Vigeo Eiris methodology, the KPIs definitions rely on external references to allow their benchmark and the rationale and process for the KPIs selected are clearly disclosed within the Issuer's Framework. The selection of KPI 1 and KPI 2 is relevant within the context of CHANEL's first corporate-wide carbon footprint exercise in 2015 and then in 2018 when it conducted the exercise over all relevant GHG protocol categories; including all activities contributing to the CHANEL brand and subsidiaries in the Group where financial control is greater than 50%. The selection of KPI 3 is relevant to CHANEL joining the RE 100 coalition.</p>
<p><u>Exhaustiveness</u></p> <p>CHANEL reports that the perimeter of reporting includes 100% of the Issuer's activities contributing to the CHANEL brand, where financial control is greater than 50%.</p>
<p><u>Areas for improvement</u></p> <p>An area for improvement consists in publicly disclosing CHANEL's materiality matrix within its sustainability reports to provide transparency to relevant stakeholders on the most material sustainability issues identified internally.</p>

²¹GHG Protocol website <https://ghgprotocol.org/sites/default/files/standards/ghg-protocol-revised.pdf>

²²RE 100 website <https://www.there100.org/>

Principle 2. Calibration of Sustainability Performance Targets (SPTs)

The SPTs demonstrate a robust level of ambition, in comparison with (i) the Issuer's ESG strategy and performance, (ii) existing international standards and (iii) sector peers. The timeline, baseline and trigger events are clearly disclosed for all KPIs. However, an intermediary target is disclosed for KPI 3 only.

The contemplated Framework is aligned with the "Calibration of Sustainability Performance Targets" principle of the ICMA's Sustainability-Linked Bond Principles.

The Guidance Report - Apparel and Footwear Sector²³, published in 2019, developed by World Resources Institute (WRI) on behalf of the Science Based Targets initiative (SBTi). The guidance improves existing corporate guidance by clarifying which target setting methods are applicable for this sector, including emissions reductions.

According to SBTi, companies' targets to reduce GHG emissions are considered science-based if they are aligned with the latest climate science deemed necessary to meet the goals of the Paris Agreement: to limit global warming to well below 2°C above pre-industrial levels and pursue efforts to limit warming to 1.5°C.

- ▶ GHG emissions inventory and science-based target boundary (Scope 1 and 2)
 1. The targets must cover company-wide scope 1 and scope 2 emissions, as defined by the GHG Protocol Corporate Standard.
 2. Significance thresholds: Companies may exclude up to 5% of scope 1 and scope 2 emissions combined in the boundary of the inventory and target.
 3. Greenhouse gases: The targets must cover all relevant GHGs as required per the GHG Protocol Corporate Standard.
 4. Bio energy accounting: Direct CO₂ emissions from the combustion of biomass and biofuels, as well as CO₂ removals associated with bioenergy feedstock, must be included alongside the company's inventory and must be included in the target boundary when setting a science-based target and when reporting progress against that target. If biogenic emissions from biomass and biofuels are considered CO₂ neutral, the company must provide justification of the underlying assumptions.
 5. Base and target years: Targets must cover a minimum of 5 years and a maximum of 15 years from the date the target is submitted to the SBTi for an official validation.

- ▶ SBTi criteria and recommendations (Scope 3)
 1. Requirement to have a scope 3 target: If a company's relevant scope 3 emissions are 40% or more of total scope 1, 2, and 3 emissions, a scope 3 target is required. All companies involved in the sale or distribution of natural gas or other fossil fuel products shall set scope 3 targets for the use of sold products irrespective of the share of these emissions compared with the total scope 1, 2, and 3 emissions of the company.
 2. Time frame: Emission reduction targets must cover a minimum of 5 years and a maximum of 15 years from the date the company's target is submitted to the SBTi for an official validation. Companies are encouraged to develop such long-term targets up to 2050 in addition to the required mid-term targets. Long-term scope 3 targets must comply with the "ambitious" criteria described below.
 3. The targets regarding Scope 3 are considered "ambitious" if absolute emission reduction targets that are consistent with the level of decarbonization required to keep global temperature increase below 2°C compared with preindustrial temperatures and economic intensity targets that result in at least 7% year-on-year reduction of emissions per unit value added.

- ▶ Renewable electricity targets
 1. Targets to actively source renewable electricity are an acceptable alternative to scope 2 emission reduction targets. The SBTi has identified 80% renewable electricity procurement by 2025 and 100% by 2030 as thresholds (portion of renewable energy over total energy use) for this approach in line with the recommendations of RE100. Companies that already source electricity at or above these thresholds shall maintain or increase their share of renewable electricity to qualify.

²³Guidance Report "Apparel and Footwear 2019" - https://sciencebasedtargets.org/wp-content/uploads/2019/06/SBT_App_Guide_final_0718.pdf

KPI 1: Scope 1 and 2 GHG emissions (measured in tCO₂e and tCO₂e per unit sold)

By using the variation of Scope 1 and 2 GHG emissions over the years, the data set should fairly reflect positive or negative KPI's trends of the Issuer's fight against climate change commitment, thus enabling the investors to make an appropriate assessment of the overall environmental performance. The variation of the bond's financial and/or structural characteristics is conditioned by the achievement of a 50% reduction of the GHG emissions by 2030 (equivalent to 66% per unit sold), compared to 2018.

Table 2 – CHANEL's GHG emissions (tCO₂e - Scope 1 and 2)

	Reported data			SLBs' objectives
	2017	2018 (<u>Baseline</u>)	2019	2030
Scope 1 and 2 GHG emissions (tCO ₂ e)	N/A	41,800	43,169	20,900
Scope 1 and 2 GHG emissions per unit sold (tCO ₂ e)	N/A	0.000456	0.000447	0.000155
Annual variation Scope 1 and 2 GHG emissions (tCO ₂ e) (%)		N/A	+3,28%	
Annual variation Scope 1 and 2 GHG emissions per unit sold (tCO ₂ e) (%)		N/A	-1.97%	
Expected variation 2018-2030 (%) Scope 1 and 2 GHG emissions (tCO ₂ e)				-50%
Expected variation 2018-2030 (%) Scope 1 and 2 GHG emissions per unit sold (tCO ₂ e)				-66%

Vigeo Eiris considers that CHANEL's GHG emissions reduction targets trend show a robust²⁴ level of ambition. According to the expected variations, Scope 1 and 2 of GHG emissions (tCO₂e) will decrease by 50% between 2018 and 2030. Additionally, Scope 1 and 2 GHG emissions per unit sold (tCO₂e) will decrease by 66% between 2018 and 2030. From 2018 to 2019, Scope 1 and 2 per unit sold (tCO₂e) emissions decreased by 1.97%. Yet, according to the data disclosed, scope 1 and 2 GHG emissions increased by 3.28% from 2018 to 2019. As the Issuer only presents 2 years of historical data (including the baseline), Vigeo Eiris is not able to appropriately assess whether these targets go beyond BAU or not, in compliance with the SLBP.

First, the SLBs' SPTs are in line with the Issuer's public targets:

- By 2030, CHANEL aims to halve carbon emissions from its own operations (such as manufacturing sites, boutiques and offices) compared with the base year 2018, which is equivalent to a 66% reduction per unit sold.

The SBTi is a collaboration between CDP, the United Nations Global Compact, World Resources Institute and the Worldwide Fund for Nature (WWF). The SBTi defines and promotes best practices in science-based target setting and independently assesses companies' targets. CHANEL signed up to the Science Based Targets initiative (SBTi) to ensure that the methodology set for its carbon SPTs is ambitious and externally approved to be in line with the Paris Agreement. As explained by the SBTi, "targets adopted by companies to reduce greenhouse gas (GHG) emissions are considered "science-based" if they are in line with what the latest climate science says is necessary to meet the goals of the Paris Agreement – to limit global warming to well-below 2°C above pre-industrial levels and pursue efforts to limit warming to 1.5°C."

²⁴ VE scale of assessment: Weak / Limited / Robust / Advanced

The validation of these targets by the SBTi contributes to the level of assurance regarding its ambition. Additionally, the SPT has been assessed against the Absolute Contraction Approach endorsed by the SBTi and was set 11 years from the date of target submission and therefore complies with the minimum 5 years and maximum 15 years thresholds.

As of today, CHANEL's targets appear to be consistent with the 4 *Top performances* of the "Luxury and Cosmetic" sector in Europe according to the Vigeo Eiris' rating methodology. CHANEL reports on long-term targets as opposed to some of its sector peers, such as Compagnie Financière Richemont and Christian Dior²⁵. CHANEL's selected targets appear to be in line with companies such as with Kering and L'Oréal²⁶.

Means for achievement:

In order to reach the defined SPT, the Issuer disclosed investing in solar voltaic panels in all its new manufacturing and distribution sites and retrofitting renewable technologies when it is possible. CHANEL discloses Green Power Policy & Implementation Guidelines which sets the standards and criteria for buying green-tariffs, and specify the Issuer's preference for solar, geothermal, wind, hydroelectric (small scale, low impact), and wave/tidal as the underlying energy source. As of today, all the electricity use in sites such as France and the United Kingdom is covered by a green-tariff contract. They represent approximately 35% of CHANEL's overall global electricity use.

In addition, the Issuer reports in its Framework that in order to meet these reduction targets, it will further strengthen its long-standing approach to responsible sourcing and production of natural raw materials and will focus on reducing its impacts in terms of design, manufacture, transportation and distribution of products.

The means for achievement of the SPTs are credible and disclosed in the Framework.

A best practice consists in publicly disclosing at least one intermediary SPT in order to appropriately assess the target's performance trend throughout the years.

²⁵ According to the Sustainability Report 2020 of Compagnie Financière Richemont, the company does not disclose any quantitative target regarding Scope 1 and 2. According to LVMH Environmental Report 2019, Christian Dior disclosed targets regarding its LIFE 2020 climate change targets such as: Cut energy-related CO₂ emissions by 25% (Scope 1 and 2 at constant scope) by 2020 baseline 2013. Christian Dior was acquired by LVMH in 2017.

²⁶ According to L'Oréal's website (Sustainability Commitments 2030) the target aims to reduce CO₂ emissions (Scope 1 and 2) by 50% in absolute terms, baseline 2016. According to Kering's website the target aims at a 50% reduction in greenhouse gas emissions from their operations by 2025 (baseline 2015).

KPI 2. Scope 3 GHG emissions (measured in tCO_{2e} and tCO_{2e} per unit sold)

The expected variation of Scope 3 GHG emissions will determine the Issuer's fight against climate change commitment, thus enabling the investors to make an appropriate assessment of the overall environmental performance. The established variation of the bond's financial and/or structural characteristics is conditioned by the achievement of a 10% reduction of the GHG emissions by 2030 (equivalent to 40% per unit sold), compared to 2018. Due to the lack of reported data on Scope 3 GHG emissions over the years, Vigeo Eiris could not determine a positive or negative historical trend.

Table 3 – CHANEL's GHG emissions (tCO_{2e} - Scope 3)

	Reported data			SLBs' objectives
	2017	2018 (Baseline)	2019	2030
Scope 3 GHG emissions (tCO _{2e})	N/A	829,000	N/A	746,100
Scope 3 GHG emissions per unit sold (tCO _{2e})	N/A	0.009040	N/A	0.005424
Annual variation (%)		N/A	N/A	
Expected variation 2018-2030 (%) Scope 3 GHG emissions (tCO _{2e})				-10%
Expected variation 2018-2030 (%) Scope 3 GHG emissions per unit sold (tCO _{2e})				-40%

Vigeo Eiris considers that CHANEL's Scope 3 GHG emissions reduction targets trend show a robust²⁷ level of ambition. According to the expected variation, the Scope 3 GHG emissions (tCO_{2e}) will decrease by 10% between 2018 and 2030 and Scope 3 GHG emissions per unit sold (tCO_{2e}) will decrease by 40%. It is to be noted that, in 2018, Scope 3 GHG emissions (829,000tCO_{2e}) represented more than 95% of CHANEL's total carbon footprint.

Please refer to the KPI 1 sector standard analysis on p.9.

As of today, CHANEL's targets appear to be consistent with the 4 *Top performances* of the "Luxury and Cosmetic" sector in Europe according the Vigeo Eiris' rating methodology. CHANEL reports on long-term targets as opposed to some of its sector peers, such as Christian Dior²⁸ and Financière Richemont²⁹. However, CHANEL's selected targets appear to be less ambitious than some of its sector peers such as Kering and L'Oréal³⁰.

Means for achievement:

Measures disclosed for KPI 1 apply for KPI 2. Please refer to the KPI 1 analysis on p.10.

A best practice consists in publicly disclosing at least one intermediary SPT in order to appropriately assess the target's performance trend throughout the years.

²⁷ VE scale of assessment: Weak / Limited / Robust / Advanced

²⁸ According to the LVMH Environmental Report 2019 (Christian Dior was acquired by LVMH in 2017) Christian Dior reports no quantitative target for Scope 3.

²⁹ According to the Sustainability Report 2020, Compagnie Financière Richemont does not report quantitative targets regarding Scope 3.

³⁰ According to Kering's website the target aims to reduce by 50% by 2025 the intensity of its Greenhouse Gas Protocol Scope 3 emissions from upstream transportation and distribution of goods, business air travel and fuel and energy consumption (baseline 2015). According to L'Oréal's website (Sustainability Commitments 2030) the target aims to reduce the CO₂ emissions linked to transport of its product by 50% by 2030, baseline 2016.

KPI 3. Percentage of renewable electricity in operations

By using the percentage of renewable electricity in operations over the years, the data set should fairly reflect positive or negative KPI's trends of the Issuer's fight against climate change commitment, thus enabling the investors to make an appropriate assessment of the overall environmental performance. The variation of the bond's financial and/or structural characteristics is conditioned by the achievement of 100% of renewable electricity in operations by 2025, with an intermediary SPT of 97% renewable electricity by 2021.

Table 4 – CHANEL's % Renewable Electricity

	Reported data			SLBs' objectives	
	2017	2018	2019 (Baseline)	2021*	2025
% Renewable electricity	N/A	N/A	41%	97%	100%
Annual variation (% point)		N/A	N/A	+56 bps	+3 bps
Average annual variation (%)					

*The 2021 intermediary target is not considered to be a trigger event (i.e. there will be no impact on the bonds' characteristics if this intermediary target is not reached).

Vigeo Eiris considers that CHANEL's percentage of renewable electricity in operations show a robust³¹ level of ambition. According to the expected percentage, CHANEL's renewable electricity in operations will reach 97% (+56 percentage points) in 2021 and 100% in 2025.

First, the SLBs' SPTs are in line with the Issuer's public targets:

- CHANEL joined the RE100 coalition and publicly pledges to transition to 100% renewable electricity in its own operations by 2025.

Regarding renewable electricity, as a member of the RE100 initiative, CHANEL makes a public global commitment to setting the RE100 target: 100% renewable electricity by 2050, in which the Issuer aims to achieve by 2025. The definition and criteria of the target are also identified in certificates such as: Renewable Energy Certificate System (RECS - US and Canada), Guarantee of Origin (GOs) or Renewable Energy Guarantee of Origin - REGO (Europe), T-REC (Taiwan), Green Power Certificate/J-Credit (renewable) (Japan), International Reliable Electricity Certificate (I-REC - International) and the Tradable Instrument for Global Renewables (TIGR International).

As of today, CHANEL's target appears to be consistent with the 4 *Top performances* of the "Luxury and Cosmetic" sector in Europe according the Vigeo Eiris' rating methodology. CHANEL reports on long-term targets as opposed some of its sector peers such as Christian Dior³². CHANEL's selected target is in line with companies such as L'Oréal, Kering (RE100 member) and Compagnie Financière Richemont (RE100 member).

Means for achievement:

In order to reach the defined SPTs, CHANEL reports investing in renewable energy such as solar (PV) for its sites and will support its suppliers to increase their use of renewable energy too. Additionally, CHANEL reports to stimulate the creation of additional generating capacity and provide access to clean and affordable energy for the communities that need it most.

³¹ VE scale of assessment: Weak / Limited / Robust / Advanced

³² According to the LVMH Environmental Report 2019 (Christian Dior was acquired by LVMH in 2017) Christian Dior reports no quantitative target for Renewable Electricity.

The Issuer reports that, in the US, CHANEL has a tax equity investment and partnership with Sunrun, a residential solar energy provider, to invest USD35 million to bring solar energy to nearly 30,000 residents in low-income, multi-family accommodation in California. According to the company, under the Multifamily Affordable Housing (SOMAH) incentive programme, 100% of the solar electricity will be available to low-income residents for free.

At last, the Issuer reports on creating additional renewable electricity equivalent to a minimum of 65% of its Global electricity consumption by 2025 by strategic investments in power purchase agreements (PPAs) or equivalent. CHANEL will include low-carbon and renewable electricity resources and supporting infrastructure to the energy grid. For instance, in 2018 CHANEL reports on signing a 20-year power purchase agreement in support of a new 3,200 MWh/year solar deployment at the distribution facility in Piscataway, United States. The generation capacity is equivalent to the site's total annual electricity use.

Additionally, the Issuer reports that in 2020, it started looking to integrate its Tier 1 suppliers within CHANEL's renewable electricity strategy with the collection of the supplier's sustainability KPIs and the assessment of their performance.

The means for achievement of the SPTs are credible and disclosed in the Framework and in internal documentation.

Principle 3. Bond characteristics

The nature of the bond's characteristics' variation and the trigger events are clearly disclosed in the Framework. The actual financial impact is clearly disclosed in the bonds' legal documentation.

The contemplated Framework is aligned with the "Bond Characteristics" principle of the ICMA's Sustainability-Linked Bond Principles.

The communicated trigger events are the following:

1. Decrease CHANEL's absolute scope 1 and 2 emissions by 50% by 2030 (equivalent to 66% per unit sold), from a 2018 base year;
2. Decrease CHANEL's absolute scope 3 GHG emissions by 10% by 2030 (equivalent to 40% per unit sold), from a 2018 base year;
3. Shift to 100% renewable electricity in its operations by 2025;

If trigger events 1 and 2 are not met, the issuer will pay a pre-determined cash payment to investors on July 31st, 2031.

If trigger event 3 is not met, the issuer will pay a pre-determined cash payment to investors on July 31st, 2026.

The amount of the pre-determined cash payment is included in the bonds' legal documentation, which has been provided to Vigeo Eiris. The Issuer states that, as of today, this type of payment has never been included in any of their financial instruments. Thus, as this mechanism would not exist in a standard financing, VE considers that the financial impact on the bond's characteristics is meaningful.

Principle 4. Reporting

The selected KPIs' internal control and reporting processes are relevant, transparent and enable to provide reliable data. All relevant information related to the KPIs, including results, underlying methodologies and assumptions will be publicly disclosed by the Issuer in its reporting. The reporting will be published annually for KPI 1 and KPI 3 and full reporting on KPI 2 will be made available before 2025.

The contemplated Framework is aligned with the "Reporting" principle of the ICMA's Sustainability Linked Bond Principles.

KPI 1. Scope 1 and 2 GHG emissions (measured in tCO ₂ e and tCO ₂ e per unit sold)	KPI 2. Scope 3 GHG emissions (measured in tCO ₂ e and tCO ₂ e per unit sold)	KPI 3. percentage of renewable electricity in operations
<u>Reporting</u>		
<p>The Issuer will provide, on an annual basis and over the duration of the bonds, Scope 1 and 2 GHG emissions (measured in tCO₂e and in tCO₂e per unit sold) through the GHG Protocol Corporate Standard and through its 2018 carbon footprint methodology.</p> <p>CHANEL has been collecting and reporting its carbon footprint since 2018.</p>	<p>The Issuer will provide, over the duration of the bonds, Scope 3 GHG emissions (measured in tCO₂e and in tCO₂e per unit sold) through the GHG Protocol Corporate Value Chain Accounting and Reporting Standard and through its 2018 carbon footprint methodology.</p> <p>CHANEL reports that Scope 3 will be integrated by categories into the internal reporting tool starting with three of its most material categories (in 2020 to be reported on in 2021):</p> <ul style="list-style-type: none"> - Raw materials - Transportation - Business travel <p>Full reporting on scope 3 will be publicly available before 2025.</p> <p>CHANEL has been collecting and reporting its carbon footprint since 2018.</p>	<p>The Issuer will provide, on an annual basis and over the duration of the bonds, the percentage of renewable electricity that is used in its electricity mix globally through the RE100 reporting guidelines for Renewable Electricity.</p> <p>CHANEL has been collecting and reporting its percentage of renewable electricity since 2019.</p>
<u>Control</u>		
The Issuer reports that the KPI has been approved by the SBTi.	The Issuer reports that the KPI has been approved by the SBTi.	KPI 3 follows the RE100 technical criteria ³³ .
CHANEL reports on a tool called the Total Value Tool (TVT) which is an Enablon (software) solution that helps the company to collect all carbon related data. CHANEL's reporting protocol supports this data collection with all metric definitions.		
<u>Accessibility of the results</u>		
The reporting will include, at least, the results, the underlying assumptions and calculation methodologies for all KPIs. CHANEL commits to publicly report on the progress of the KPIs on its website as part of CHANEL's reporting under "Mission 1.5".		

Principle 5. Verification

The KPI will be audited and made publicly available. The achievement of the targets will be reviewed by an external auditor.

The contemplated Framework is aligned with the "Verification" principle of the ICMA's Sustainability-Linked Bond Principles.

The achievement of the SPTs set by the Issuer for each KPI will be externally verified and the assurance reports will be made publicly available each relevant year (i.e. 2025 and 2030).

In addition, the Issuer commits that the Framework will be reviewed externally in case of material changes in the perimeter, methodology, and/or the SPTs calibration.

³³ RE100 technical criteria <https://www.there100.org/media.virbcdn.com/files/73/4c55f6034585b02f-RE100TechnicalCriteria.pdf>

METHODOLOGY

In Vigeo Eiris' view, Environmental, Social and Governance (ESG) factors are intertwined and complementary. As such they cannot be separated in the assessment of ESG management in any organization, activity or transaction. In this sense, Vigeo Eiris writes an opinion on the Issuer's Corporate Social Responsibility as an organization, and on the process and commitments applying to the intended issuance.

Vigeo Eiris' methodology for the definition and assessment of the corporation's ESG performance is based on criteria aligned with public international standards, in compliance with the ISO 26000 guidelines, and is organized in 6 domains: Environment, Human Resources, Human Rights, Community Involvement, Business Behaviour and Corporate Governance. Our evaluation framework of the material ESG issues have been adapted, based on the specificities of the Issuer's business activity.

Our research and rating procedures are subject to internal quality control at three levels (analysts, heads of cluster sectors, and internal review by the audit department for second party opinions) complemented by a final review and validation by the Director of Methods. Our SPO are also subject to internal quality control at three levels (consultants in charge of the mission, Production Manager, and final review and validation by the Director of Sustainable Finance and/or the Director of Methods. A right of complaint and recourse is guaranteed to all companies under our review, following three levels: first, the team in contact with the company, then the Director of Methods, and finally Vigeo Eiris' Scientific Council.

All employees are signatories of Vigeo Eiris' Code of Conduct, and all consultants have also signed its add-on covering financial rules of confidentiality.

Part I. ISSUER

NB: The Issuer has not been assessed following a complete process of rating and benchmarking developed by Vigeo Eiris, as the Issuer is not part of Vigeo Eiris' rating universe.

Management of stakeholder-related ESG controversies

A controversy is an information, a flow of information, or a contradictory opinion that is public, documented and traceable, allegation against an Issuer on corporate responsibility issues. Such allegations can relate to tangible facts, be an interpretation of these facts, or constitute an allegation based on unproven facts.

Vigeo Eiris reviewed information provided by the Issuer, press content providers and stakeholders (partnership with Factiva Dow Jones: access to the content of 28,500 publications worldwide from reference financial newspapers to sector-focused magazines, local publications or Non-Government Organizations). Information gathered from these sources is considered as long as it is public, documented and traceable.

Vigeo Eiris provides an opinion on companies' controversies risks mitigation based on the analysis of 3 factors:

- **Frequency:** reflects for each ESG challenge the number of controversies faced. At corporate level, this factor reflects on the overall number of controversies faced and scope of ESG issues impacted (scale: Isolated, Occasional, Frequent, Persistent).
- **Severity:** the more a controversy will relate to stakeholders' fundamental interests, will prove actual corporate responsibility in its occurrence, and will have adverse impacts for stakeholders and the company, the highest its severity. Severity assigned at corporate level will reflect the highest severity of all cases faced by the company (scale: Minor, Significant, High, Critical).
- **Responsiveness:** ability demonstrated by an Issuer to dialogue with its stakeholders in a risk management perspective and based on explanatory, preventative, remediating or corrective measures. At corporate level, this factor will reflect the overall responsiveness of the company for all cases faced (scale: Proactive, Remediate, Reactive, Non- Communicative).

The impact of a controversy on a company's reputation reduces with time, depending on the severity of the event and the company's responsiveness to this event. Conventionally, Vigeo Eiris' controversy database covers any controversy with Minor or Significant severity during 24 months after the last event registered and during 48 months for High and Critical controversies.

Involvement in controversial activities

17 controversial activities have been analysed following 30 parameters to verify if the company is involved in any of them. The company's level of involvement (Major, Minor, No) in a controversial activity is based on:

- An estimation of the revenues derived from controversial products or services.
- The specific nature of the controversial products or services provided by the company.

Part II. BOND

The KPIs and associated SPTs have been evaluated by Vigeo Eiris according to the SLBP and on our methodology based on international standards and sector guidelines applying in terms of ESG management and assessment.

Review

We question the extent to which the alignment of the achieved results of the Issuer with the contemplated targets are annual.

Selection of Key Performance Indicators (KPIs):

KPI's materiality and coherence with the Issuer overall sustainability strategy, KPI's measurability and clarity, internal and external control over the KPI's data, exhaustiveness of the perimeter.

Calibration of Sustainability Performance Targets (SPTs):

Coherence of the SPTs with the overall sustainability strategy, ambition of the SPTs (compared the Issuer's own performance, sector peers and relevant international standards), trigger events' disclosure, means credibility (including scope and geographical coverage of the means).

Bond characteristics:

Disclosure of the bond characteristics' variation, meaningfulness of these variation.

Reporting:

Reporting process formalisation and verification, data's accessibility.

Verification:

Verification of the performance against the SPTs.



Vigeo Eiris is an independent international provider of environmental, social and governance (ESG) research and services for investors and public & private organizations. We undertake risk assessments and evaluate the level of integration of sustainability factors within the strategy and operations of organizations.

Vigeo Eiris offers a wide range of services:

- **For investors:** decision making support covering all sustainable and ethical investment approaches (including ratings, databases, sector analyses, portfolio analyses, structured products, indices and more).
- **For companies & organizations:** supporting the integration of ESG criteria into business functions and strategic operations (including sustainable bonds, corporate ratings, CSR evaluations and more).

Vigeo Eiris is committed to delivering client products and services with high added value: a result of research and analysis that adheres to the strictest quality standards. Our methodology is reviewed by an independent scientific council and all our production processes, from information collection to service delivery, are documented and audited. Vigeo Eiris has chosen to certify all its processes to the latest ISO 9001 standard. Vigeo Eiris is an approved verifier for CBI (Climate Bond Initiative). Vigeo Eiris' research is referenced in several international scientific publications.

With a team of more than 240 experts of 28 different nationalities, Vigeo Eiris is present in Paris, London, Brussels, Casablanca, Hong Kong, Milan, New York, Rabat and Santiago de Chile.

The Vigeo Eiris Global Network, comprising 4 exclusive research partners, is present in Brazil, Germany, Israel and Japan.

For more information: www.vigeo-eiris.com

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