

# C O T Y



California Transparency in Supply  
Chains Act of 2010 disclosure  
-and-  
UK Modern Slavery Act Statement

DECEMBER 2019

THIS DOCUMENT IS INTENDED TO SERVE AS:

- (1) Annual statement required to be published for the purposes of the United Kingdom's Modern Slavery Act 2015.
- (2) The required disclosure for the purposes of the California Transparency in Supply Chains Act of 2010.

Consistent with Coty Inc.'s ("Coty" or "We" or "Our") longstanding commitment to excellence and corporate responsibility, including its commitment to employees and consumers throughout the world and to the communities and the environment in which Coty and its products are present, Coty confirms its dedication to ensuring that the supply chains it employs in the sourcing and manufacturing of its products do not include, utilize or tolerate human trafficking, slavery and forced or child labour.

Consistent with its assessment of the potential risks, and in accordance with the California Transparency in Supply Chains Act of 2010 and the UK Modern Slavery Act 2015 (the "Acts"), Coty describes below the efforts that it makes and has made over the past financial year (1 July 2018 - 30 June 2019). to ensure human trafficking, slavery and forced or child labour are not present in its operations or the operations of its contractors, subcontractors and suppliers (together "Business Partners").

## STRUCTURE AND SUPPLY CHAIN

Coty is one of the world's largest beauty companies with an iconic portfolio of brands across fragrance, color cosmetics, hair color and styling, and skin and body care. Coty is the global leader in fragrance, a strong number two in hair color and styling, and number three in color cosmetics. Coty has approximately 19,000 employees in over 46 countries and its products are sold in over 150 countries around the world.

Coty operates through three divisions:

- Consumer Beauty is primarily focused on color cosmetics, retail hair coloring and styling products, body care and mass fragrances.
- Luxury is primarily focused on prestige fragrances, premium skincare and premium cosmetics.
- Professional Beauty is primarily focused on hair and nail care products for salon professionals.

Our supply chain enables the production of our beauty products and daily business operations.

- **Beauty products:** We manufacture, package, market, sell and distribute a range of beauty products for consumers to enjoy. We manufacture and package approximately 77% of our products, primarily in facilities located in the United States, Europe, Brazil, China, Russia, Mexico and Thailand. We also use third-party manufacturers (TPMs) on a global basis who produce approximately 23% of our finished products.
- **Raw materials:** The principal raw materials used in the manufacture of our products are essential oils, alcohols and speciality chemicals. They are purchased from third party suppliers. We also purchase packaging components that are manufactured to our design specifications. We have identified raw materials where there is an

increased risk of human and labour rights abuses and are working to mitigate this risk.

- **Licensors:** We have a diverse portfolio of brands. We maintain 30 brand licenses predominantly within our luxury division. We engage the licensors to ensure specific conditions are met.
- **Business operations:** As a large global organisation we have other supply chain activities which include offices, marketing, retail stores and websites.

## INTRODUCTION

We have made progress over the last year further developing our [sustainability framework](#) that will address the social, environmental and ethical intentions of our business under three strategic pillars focusing on the Beauty of our People, the Beauty of our Products and the Beauty of our Planet. The framework includes intentional social and environmental commitments over a five year timeframe to build a better business and a achieve a more sustainable and equitable world. Our sustainability framework also contributes towards the Sustainable Development Goals (SDG) - specifically SDG 5, 10, 12 and 17.

Our "People" ambitions encompass our ethical business activity throughout our value chain and building a more inclusive business. This includes inclusive leadership **training** and expanding our We Stand for You program. The program, delivered in partnership with the advocacy group, Global Citizen, engages our employees and citizens worldwide in tackling prejudice and discrimination based on gender, sexual orientation, disability and ethnicity. Our "Product" pillar priorities include responsibly sourced ingredients, supply chain transparency, sustainable innovation and packaging based on circular design. Finally our "Planet" pillar sets out how we minimize the environmental impact of our own operations.

### Our approach

We are committed to respecting and promoting fundamental human rights throughout our own operations and extended supply chain. This includes a dedication to ensuring our sourcing and manufacturing supply chains do not include, utilize or tolerate human trafficking, slavery and forced or child labour and comply with all applicable laws.

Our policies in this area are guided by international standards including the UN Declaration of Human Rights, the fundamental rights set out in the International Labour Organization's (ILO) Declaration on the Fundamental Principles and Rights at Work and the OECD Guidelines for Multinational Enterprises.

We have been a signatory to the UN Global Compact (UNGC) since 2015 and support the ten principles on human rights, labour, environment and anti-corruption. We are members of UNGC UK Network Modern Slavery Working Group which meets quarterly to develop our understanding of identifying and managing modern slavery risks and to share best practice with our peers.

We are also involved in a number of industry efforts related to respecting and advancing human rights in a pre-competitive manner:

- The Responsible Mica Initiative (RMI) aims to eradicate child labour and poor working conditions from the Indian mica supply chain by the end of 2022. For further information, see page 6.

- AIM-Progress promotes responsible sourcing practices, including human rights, in supply chains.
- The Responsible Beauty Initiative promotes collaboration and best practices between beauty companies to improve sustainable practices, including on human and labour rights. The first pilot focused on sharing mutual supplier information related to raw materials. In the last year, Coty was able to share over 42 suppliers and access an additional 36 suppliers from other members.
- The Roundtable on Sustainable Palm Oil (RSPO) aims to reduce the impact of the palm oil supply chain on human rights as well as biodiversity and the environment.
- SEDEX, or Suppliers' Ethical Data Exchange, is an online portal for storing suppliers' self-assessment and **audit** documentation focused on the pillars of Human and Labor Rights; Health & Safety; Environment and Business Integrity. Following our risk mapping exercise to identify suppliers at higher risk of non-compliance to our Code of Conduct for Business Partners, we use the SEDEX platform to manage the data from these suppliers' third party ethical **audits**.

## INTERNAL POLICIES AND TRAINING

Our employees are key to ensuring our business continues to operate to a high ethical standard and internal accountability is fostered. All employees receive the Code of Conduct and are required to follow it. They also undergo a range of mandatory on-line **trainings** to ensure they uphold these standards.

In 2019, we continued to implement our global compliance program, *Behave Beautifully*, designed to detect and prevent violations of the law and promote a culture of ethical business practices. We enhanced awareness of key compliance principles and rules through on-line and live **trainings**, townhalls, company-wide communications, and guidance documents accessible on our intranet. On **training** alone, over the last year, a total of 12,625 employees completed e-learning modules, which are available in multiple languages according to the needs of our workforce.

We continue to actively encourage employees and third parties to use the Ethics and Compliance Hotline to raise questions or concerns. The Hotline, run by an independent company, is accessible via phone or online in over 300 languages, 24 hours a day, 7 days a week and enables individuals to report anonymously where permitted by local law. Coty conducts prompt and unbiased investigations into all allegations of misconduct, and regularly reports investigation data to the Executive Committee and **Audit** & Finance Committee of the Board of Directors. We actively uphold our non-retaliation policy so that individuals are free to report their concerns safely.

## SUPPLY CHAIN POLICIES AND TRAINING

Our commitment to respecting human rights extends throughout our supply chain to our business partners. We request that our key, suppliers, sign our [Code of Conduct for Business Partners](#) as a first step of the compliance process. This includes our current suppliers and any new suppliers we recruit. The Code is based on international human and labor rights standards, and slavery and human trafficking in their own businesses and materials supply chains.

To date, 225 of these suppliers have signed our Code of Conduct for Business Partners and approximately 60 suppliers have provided an equivalent code to which they are complying. This represents around 65% of our existing in-scope suppliers.

We foster **accountability** and therefore take any incidents of non-compliance seriously. These would be escalated to appropriate senior leadership and are recorded to ensure we monitor and address as required.

In addition, our third-party manufacturing agreements include a specific clause requiring suppliers to not use any child or forced labour.

To support these efforts, there is ongoing internal **training** covering our Code's impact on suppliers, what they need to do to demonstrate compliance and how we will deploy it effectively with them. Within the past year we have integrated new supplier sustainability pre-selection criteria into our global Category Sourcing Strategy **training**, which has been deployed in key markets and will continue to be rolled out in the coming year.

## RISK MAPPING

We have made progress in supplier risk mapping and compliance **verification**. Based on the results of a supplier risk mapping exercise carried out in 2017 - around 800 direct spend supplier sites were identified and ranked according to risk of non-compliance to our Code of Conduct for Business Partners. It considered the material or service being purchased, the geographical region it is provided from, and the level of spend.

In the past year we have prioritised our engagement with those suppliers who are considered a higher risk of non-compliance. We have begun the compliance **verification** process, using the SEDEX online platform, to ensure that those identified suppliers are able to demonstrate compliance via a third-party ethical **audit** which is uploaded onto the SEDEX platform. These **audits** are either announced or semi announced (undertaken within a two to three-week timeframe) and performed on-site by independent auditors. They cover the areas of labour and human rights (including modern slavery), health and safety, environmental standards and business integrity.

The engagement has focused on verifying individual supplier *sites*. The following supplier sites are part of our "Wave 1" compliance **verification** process:

58	Raw materials (incl Fine Fragrance)
2	Packaging
12	Third Party Manufacturer
10	Goods with Purchase & Merchandising
<b>82</b>	<b>Total "Wave 1" supplier sites</b>

We continue to work with them to resolve any major or critical non-compliances (NCs) through a Corrective Action Plan. So far 40 of these sites are verified as compliant with our Code of Conduct for Business Partners.

To embed this **verification** in the day-to-day supplier risk management process within our Procurement function, **training** is being rolled out on **audit** process management and the use of SEDEX to key Procurement users in the coming year.

### **This year we have increased our focus on Mica**

#### **Spotlight: Mica**

Mica is a mineral found in many products across cosmetics, automotive, and electronic industries and provides a sparkle or sheen. We are aware of the risks associated with Indian mica sourced from the regions of Bihar and Jharkhand where there are reported instances of child labour and unsafe working conditions.

We continue to participate in the Responsible Mica Initiative (RMI), a multi-stakeholder effort which aims to achieve a 100% sustainable Indian mica supply chain by eradicating child labour and unacceptable working conditions by the end of 2022. Coty was one of the co-founding members and has a role on the Board of Directors and is active in two of the work-streams – Traceability & Specifications and Community. RMI members represent around 57% of the total mica exports from India and around 70% of this is fully traceable to the source mines and processing units.

To date the RMI has reached 80 villages and 5,300 household through community empowerment programs, piloted workplace standards with three processors and made progress with local government to create the right regulatory environment for legal mining. We have engaged the seven suppliers from whom we source Indian mica to share with us the visibility of their supply chains through the supply chain traceability tool developed by the RMI.

By working with other stakeholders across all sectors, we are able to tackle the systemic issues and create a long term, sustainable solution.

#### **Ongoing supplier assessment**

As we increase our use of the SEDEX **audit** platform, over the last year we have reduced our use of EcoVadis for direct spend suppliers at a higher risk of non-compliance to our Code of Conduct for Business Partners. We still evaluate through EcoVadis, and will continue to do so, but with more of a focus on indirect spend categories.

EcoVadis is used to assess the environmental and social performance of our suppliers, based on supplier documentation related to the four key areas:

- Environmental Management
- Labor and Human Rights
- Sustainable Supply Chains
- Fair Business Practices

They analyze their performance through a 360° process which includes over 800 data points and external references from governments, NGO's, trade associations and stakeholder feedback. The assessment is then scored, described in a written report and made available to Coty and the supplier. We share these with our buyers and they are also

taken into consideration for request for proposals. If the score warrants it, a Corrective Action Plan will be put in place by the supplier and a reassessment timeframe agreed by both parties.

This year, Coty has 165<sup>7</sup> suppliers assessed in EcoVadis with an average score of 59 out of 100, more than 17 points above the average EcoVadis score and higher than our 2018 average of 54. We have had 144 of the suppliers re-evaluated in the last year and the average performance increase has been +2.9 points, including a 3.2% improvement in the Labour Standards pillar. 65% of our suppliers re-evaluated have shown an overall improvement in their performance score.

## LOOKING AHEAD

Building on the work conducted this year, over the next 12 months Coty plans to:

- Launch its Third-Party Due Diligence tool and process to ensure that Coty is selecting business partners that are committed to conducting business ethically and lawfully. We will pilot the program in selected markets by the end of the calendar year, followed by a global roll-out in the first half of 2020.
- Complete the launch of our updated Code of Conduct for Business Partners which includes enhanced standards to help ensure human trafficking, slavery and forced or child labour are not utilized in their operations.
- Launch a new Global Code of Conduct e-learning, and continue to conduct live **trainings** on key risk areas to targeted employees. Conduct an internal review, facilitated by Ethisphere and benchmarked against leading companies, of our compliance and ethics program.
- Complete the second phase of the compliance **verification** program reaching the remaining direct spend supplier sites at a higher risk of non-compliance to our Code of Conduct for Business Partners.
- Extend our Code of Conduct for Business Partners risk mapping exercise to our key indirect spend categories, which will include verifying compliance for those suppliers at a higher risk of non-compliance.
- Continue to identify and mitigate any risk associated with sourcing of key raw materials where human and labour rights may be affected.
- Develop and pilot an e-learning **training** for the UK professional salesforce to help ensure they understand how to detect early warning signs of modern slavery in their business interactions with prospective and existing salon partners, and how to report any suspected instances.

Approved by the Board

Signed by Pierre Laubies

Chief Executive Officer, Coty