

STELLA McCARTNEY

Transparency in the Supply Chain  
& Modern Slavery Statement (FY 2016)

## Introduction



Stella McCartney (SMC) is committed to promoting good labour standards and protecting human rights in all parts of its business. Though this is our first public disclosure under the UK Modern Slavery Act, protecting the rights and well-being of people in our supply chain and expanding our work in this area has been a focus for over five years.

We are aware that due to globalization, increasing levels of migration and the complexity of supply chains, forced labour and human trafficking pose a risk for any business. We take the issue of modern slavery extremely seriously and are determined to do our part in making sure that modern slavery is eradicated.

This statement is released in compliance with the Section 54 of the UK Modern Slavery Act 2015 and the California Transparency in Supply Chains Act of 2010 (SB 657). It constitutes our statement for financial year January–December 2016, but includes action taken before 2016 and up to June 2017.

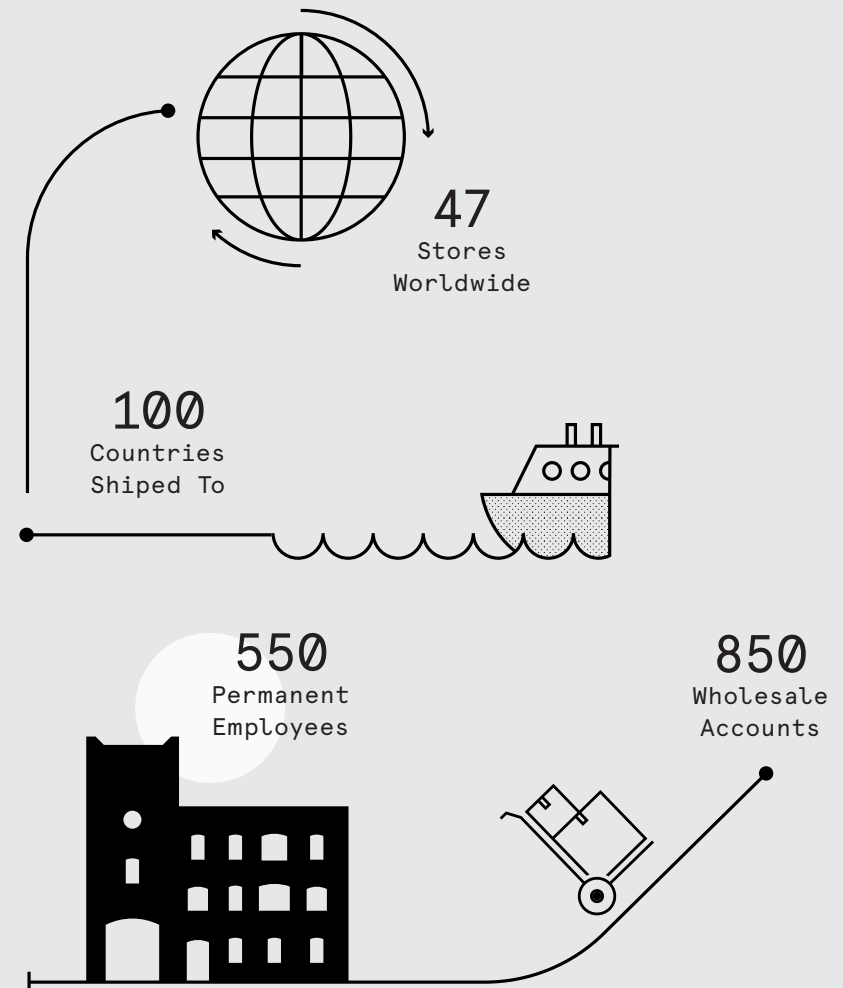
## Our Company And Our Products

Stella McCartney is a luxury lifestyle brand that was launched under the designer's name in a 50/50 partnership with Kering in 2001. A lifelong vegetarian, Stella McCartney does not use any leather, skins, feathers or fur in her designs, collaborations, or licensed products. The brand is committed to ethical values, and believes the company is responsible for the resources it uses and the impact it has on the environment.

SMC offers women's ready-to-wear, menswear, accessories as well as kidswear.

### At the end of 2016, SMC had:

- More than 550 permanent employees worldwide
- 47 directly operated stores and shop in shops across UK, US, France, Italy, Spain, China and Japan
- Online platform shipping to 100 countries
- Over 850 wholesale accounts



## Our Supply Chain

Country	Suppliers In Tiers 1 & 2
Italy	76%
China	11%
India	04%
Hungary	03%
Spain	02%
Portugal	01%

Table 1: Distribution of suppliers  
(as of December 2016) -

The other 3% of production is split between UK, Slovenia, Bulgaria (Tier 1) and France, Germany, Switzerland, Japan and Turkey (Tier 2).

### Our supply chain can be divided into two areas:

1. Production of items we sell such as clothing, shoes or bags – **“Product Supply Chain” / “Product Suppliers”**
2. Not-for-resale items such as furniture or packaging and contractors such as transport, cleaning or security – **“Procurement Supply Chain” / “Procurement Suppliers”**

### Product Supply Chain

Our materials are sourced and our products manufactured through a carefully selected network of suppliers located around the world, many of whom have worked with us since the brand was founded.

Italy is by far our biggest sourcing country where we have 76% of all our Tier 1 and 2 suppliers (see Table 2 on page 8 for more information on our Tiers definition and visibility or [click here](#) to see our supply chain map). Although significantly smaller, our other key sourcing countries include Hungary, Spain, Portugal, China and India.

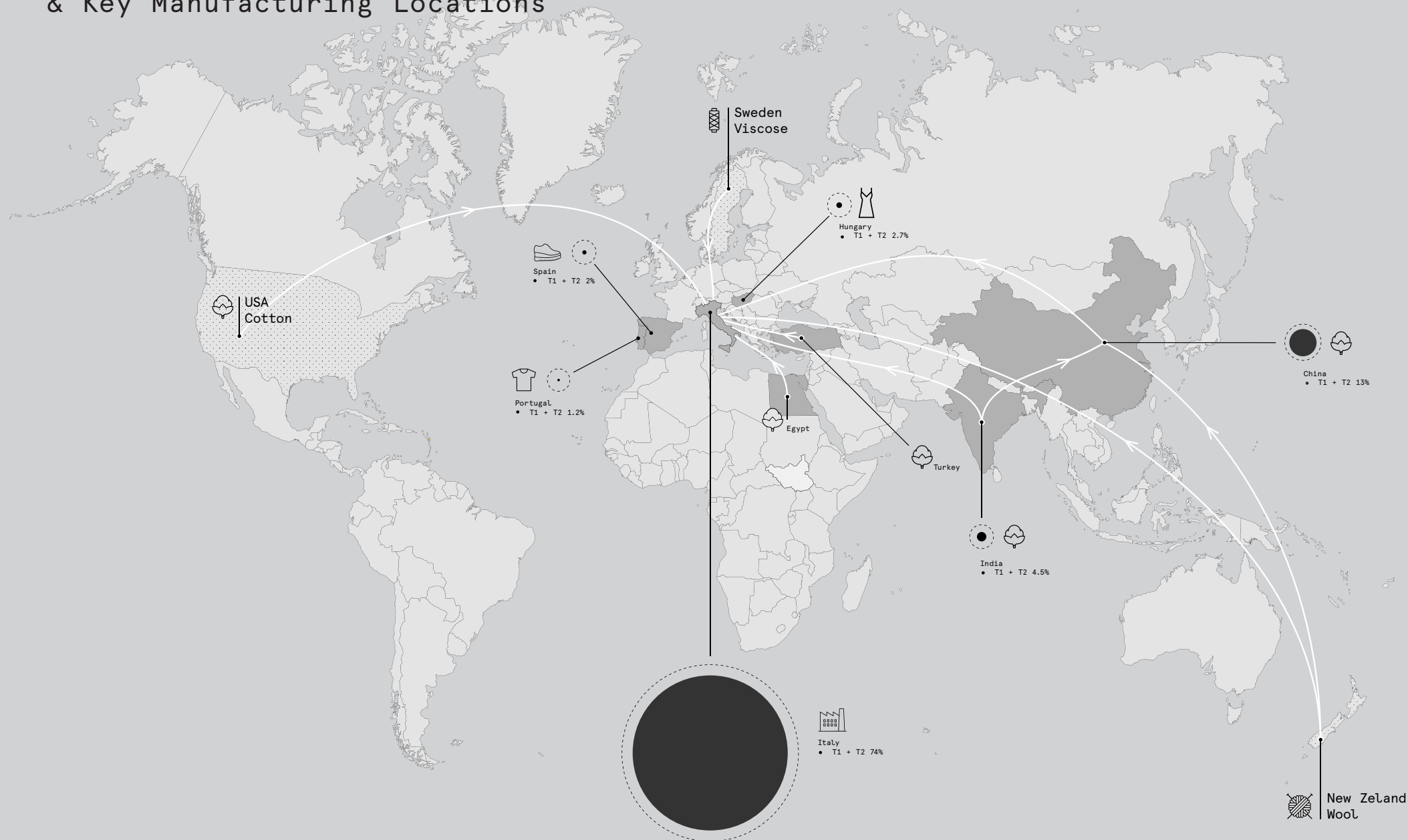
In 2016, we worked with 92 Tier 1 and 300 Tier 2 Product Suppliers globally. Many of these are small manufacturers and artisans who specialise in particular techniques and processes. For instance, our bag manufacturers are experts at working with our non-leather bag materials.

We use the Environmental Profit & Loss (EP&L) report developed by Kering to trace natural materials (such as cotton, wool and viscose) back to their country of origin. Our key sourcing countries for natural materials are India, China, Turkey, Egypt and USA for cotton, New Zealand for wool and Sweden for viscose.

### Procurement Supply Chain

In addition to the Product Supply Chain, SMC-owned operations are supported by a network of Procurement Suppliers and contractors who help us with the day-to-day running of our stores and offices. These include a range of services such as transport, packaging, construction, furniture, cleaning, catering, security and others.

## The Flow of Key Raw Material & Key Manufacturing Locations



## Relevant Policies & Contractual Controls

### Licence & Franchise Partners

The sourcing and manufacturing of ready-to-wear clothing, accessories, shoes and kid's collections are managed by SMC. The adidas by Stella McCartney range, together with the lingerie, swimwear, eyewear and fragrance product categories are licensed. As of December 2016, we also had 17 franchised stores.

**Kering's Code of Ethics** sets out policies and expectations for all stakeholders including: the Kering employees, the Kering brands' employees and the suppliers. Employees of Kering and Kering brands receive a copy of the Code with their contract of employment and are requested to undertake an annual online refresher training course on the Code.

The Code includes the **Supplier's Charter**, which explicitly prohibits all forms of slavery including but not limited to: the use of child labour, forced or compulsory labour or debt bondage and can be found on Kering's website. Product Suppliers are expected to comply with the Suppliers' Charter, the importance of the Supplier's Charter being reinforced during supplier training, visits and assessments.

Kering policies provide a group-wide framework and minimum requirements which SMC has developed further. We are a member of the **Ethical Trade Initiative (ETI)** and we have adopted the **ETI Base Code**. The ETI Base Code is an internationally recognised code of labour practice founded

on the conventions of the International Labour Organisation (ILO) and it prohibits the use of forced, bonded, or involuntary prison labour. It specifies, for instance, that the workers shall not be required to "lodge" deposits or their identity papers with their employer, a practice that constitutes modern slavery.

In addition, SMC has developed two policies and a procedure specifically in regards to modern slavery. The **SMC Modern Slavery Policy for Partners** and the **SMC Modern Slavery Policy for Internal Staff** were developed in consultation with four external partners and include guidance on modern slavery indicators, the most common risk areas and suggested due diligence.

The **SMC Modern Slavery Remediation Procedure** sets out the steps to be taken if a case of modern slavery is identified. For example, it states that we will act with the wellbeing of the individuals at risk in mind and that we will support our partners in developing and implementing a remediation plan.

## Modern Slavery Due Diligence

### Governance

At SMC, the responsibility to meet SMC's ethical trade requirements sits with our Chief Operating Officer (COO) and the board of directors. The Head of Sustainability and Ethical Trade is supported by an Ethical Trade Manager and reports directly to our COO. Ethical trade and human rights issues and their remediation plans are regularly discussed with our COO. At the Kering level, the Supply Chain Security Director is responsible for communicating any serious breaches of the Suppliers' Charter to the SMC production directors and the sustainability and ethical trade team.

### Stakeholder Engagement

Our experience has taught us that a collective approach to addressing the complex issues around human rights is the most effective. We work closely with our business partners, industry peers, external human rights experts and various global and local stakeholders in order to strengthen our ability to ensure that human rights are respected through our operations and supply chain.

In regards to modern slavery specifically, we work with two partners with expertise in this area. We engaged with the human rights consultancy Ergon Associates, who supported us with a modern slavery risk assessment of our supply chains and business operations and we have sought advice from the human rights organisation Anti-Slavery International on strengthening our modern slavery due diligence.

### Supply Chain Mapping

Mapping and understanding our supply chains beyond the direct relationships is one of our key priorities. We recognise that our most salient risks regarding modern slavery and human trafficking in our supply chain occur in the lower tiers. Because of this we have placed significant focus on improving supply chain transparency and product traceability. Along with Kering, we have a target to achieve farm/mine level traceability of all materials by 2025.

We have mapped and continue to monitor all Tier 1 and many Tier 2 Product Suppliers. In 2016, we mapped and started monitoring key Procurement Suppliers and contractors. We know that the more aware we are of supply chain risks, the more we can do to prepare for and/or prevent issues that may arise. As a company with a strong focus on sustainability and ethical trade, we carry out regular risk assessments in order to improve our understanding of the challenges that may affect us. We regularly assess environmental and human rights risks within our Product Supply Chain to the best of our ability, taking into account outside factors such as local politics and climate change.

## Supply Chain Mapping: Table 2

	Definition	Example	Visibility	Monitoring
Tier 1	Final product manufacturing and assembly	Direct suppliers and their subcontractors carrying out sewing, cutting, printing, embroidery, packing or any other type of final assembly or finishing operations.	We have a complete map of all manufacturing sites.	Our policy requires all sites to be assessed and approved before production can begin and to be monitored on a regular basis.
Tier 2	Material manufacturing	Suppliers of fabrics, trims, components and other materials that go into final manufacturing and assembly of our products.	We have a complete map of fabric, trim and component suppliers for all our men's and women's lines.  All key fabric and trim suppliers for kidswear are mapped.	Key sites are assessed and approved before production.
Tier 3	Raw material processing	Cotton ginnerers and spinners, pulp mills, metal smelting etc.	We have a map of the sites used by our nominated raw material suppliers.	Some sites, such as those working with our nominated raw material suppliers have been visited and assessed. As we achieve more traceability we will include more of these suppliers in our monitoring program.
Tier 4	Raw material production	Farms (cotton, wool), mines (metals), forests (viscose, wood and paper).	We have a country-level map of our natural raw materials. For some key raw materials we have farm level traceability (such as wool, viscose, and some cotton farms).	All our nominated suppliers have been visited and assessed. As we achieve more traceability we will include more of these suppliers in our monitoring program.

Table 2: Product supply chain tiers, visibility and monitoring



# Modern Slavery Due Diligence

## Human Rights And Modern Slavery Risk Assessment

Our key Procurement Suppliers have completed a self-assessment of their hiring practices, as the first step towards understanding the risk of modern slavery in this part of our business.

In partnership with Ergon Associates, we conducted a modern slavery risk assessment across all of our business activities. The assessment focused on five areas: forced labour, child labour, low pay, excessive working hours and modern slavery and included our own operations, as well as our Product Supply Chain, Procurement Supply Chain and Franchise Partners.

Based on the results, one of our priorities is to investigate and achieve greater visibility of Tiers 3 and 4 of our Product Supply Chain, particularly for cotton (see Table 3 for more details on the identified risks and steps taken).

## Supplier Audits

Although we do not rely on ethical audits alone, we find them to be a useful tool in gaining insight and understanding the first layer of information about our suppliers. SMC conducts different types of audits (including unannounced audits) depending on the need, which help us to understand how our suppliers work, identify potential risk areas and support our suppliers in meeting required standards. SMC audits are conducted either by the Kering audit team or carefully selected specialist third-party auditors on behalf of SMC.

## Improvement Projects

In cases where our Product Suppliers find it difficult to complete the remediation work identified through audits, we may enroll them in supplier improvement projects. These types of projects help suppliers to understand and address the root causes of particular issues and to develop systems that prevent such issues from occurring again.

## Supplier Training

Kering conducts an annual supplier sustainability summit for all Tier 1 and Tier 2 Product Suppliers working with Kering. This provides training on Kering policies and current projects, as well as labour standards and social compliance.

In addition, we conduct training on the SMC ethical trade programme, SMC policies and common ethical trade challenges to Product Suppliers. So far, we have conducted this type of training in Hungary, Italy and China. In 2016, we started training our Product Suppliers specifically on the Modern Slavery Act and modern slavery risks in their region. The training was delivered in person by our ethical trade team and local ethical trade partners.

## Modern Slavery Due Diligence



### Staff Training

In 2015, SMC's ethical trade staff participated in human rights due diligence training on the United Nations Guiding Principles on Business and Human Rights, carried out by the human rights specialist organisation SHIFT.

Key members of SMC's sourcing staff have participated in modern slavery training carried out by ethical trade organisations. Additionally, in 2016 and 2017, SMC production and procurement teams in charge of purchasing have received guidance on the Modern Slavery Act and training on the risks of modern slavery in their Product Supply Chains.

Senior management, including the CEO and the COO, continue to receive regular updates about the company's due diligence on modern slavery.

### Grievance Mechanisms

SMC employees have a responsibility to raise issues that may constitute a break of the Kering Code of Ethics, including any instance or suspicion of forced labour or modern slavery. SMC employees are informed about this responsibility at the start of their employment and can report any concerns or issues through Kering Ethics Committees. Kering also operates an anonymous grievance hotline for employees available in eleven languages worldwide.

SMC staff may raise concerns directly with our sustainability and ethical trade team in person, or through an internal employee portal.

## Identified Risks And Steps Taken

Through our ethical trade programme and as a result of the Modern Slavery risk assessment, we have identified four key risk areas:



### MIGRANT AND REFUGEE WORKERS

Workers who are refugees, internal migrants or economic migrants can often have fewer rights in the workplace and less legal protection.

All countries represent a risk in this regard.

#### STEPS TAKEN

Our auditors are trained to focus on vulnerable groups during SMC audits, such as migrant and refugee workers.

Additionally, we conducted a number of off-site audits in 2016 to understand the vulnerability of migrant workers and the hiring practices in communities where our product Suppliers operate. This helps us verify the accuracy of information obtained through announced assessments and enables us to better advise our Product Suppliers on corrective actions.



### CHILD LABOUR AND YOUNG WORKERS

Some suppliers may lack effective age-verification systems or may subcontract HR functions to a third party.

While we have not found any cases of child labour in our supply chains, the risk of it was identified through the risk assessment conducted by Ergon Associates. Tier 1 and 2 in China and India pose the highest risk of child labour. The most significant risk to our business for Tiers 3 and 4 was identified in India, China, Turkey and Egypt.

#### STEPS TAKEN

We work with specialist ethical trade partners in China and India who help us to assess, monitor and train Product Suppliers on age verification systems and adequate working conditions for apprentices or young workers. This helps us continue to ensure that no child labour is used.



### COTTON SUPPLY CHAINS

We are aware that there is a risk of modern slavery in global cotton supply chains, especially in the lower supplier tiers. Cotton is a seasonal crop, which means temporary workers are often used for picking and other processing stages.

We are aware of the risk of Uzbekistan, Syrian and Turkmenistan cotton being sold into China and Turkey where it is mixed with cotton from other countries.

In India, the Sumangali scheme has received a lot of attention in recent years because of the risk of young girls being recruited for bonded labour in the cotton mills. Apart from India, other relevant risk countries for us include Turkey, China, Egypt and Africa. Turkey in particular poses a risk due to the Syrian refugee crisis.

#### STEPS TAKEN

We require our Product Suppliers to disclose the country of origin for all cotton (where the farming of the cotton happens) and we have a policy which forbids any cotton from Uzbekistan, Syrian or Turkmenistan to be used for SMC products or materials.

We support the Cottonforlife Initiative in Egypt which promotes the growth of sustainable cotton and supports local farmers, especially women and children.



### TEMPORARY WORKERS AND THE USE OF RECRUITMENT AGENCIES

Temporary workers may be hired in an informal way, without contracts or paid through an intermediary. This leaves them more exposed to exploitation than directly employed and permanent workers.

Using recruitment agencies or other intermediaries may leave workers vulnerable to unethical recruitment practices.

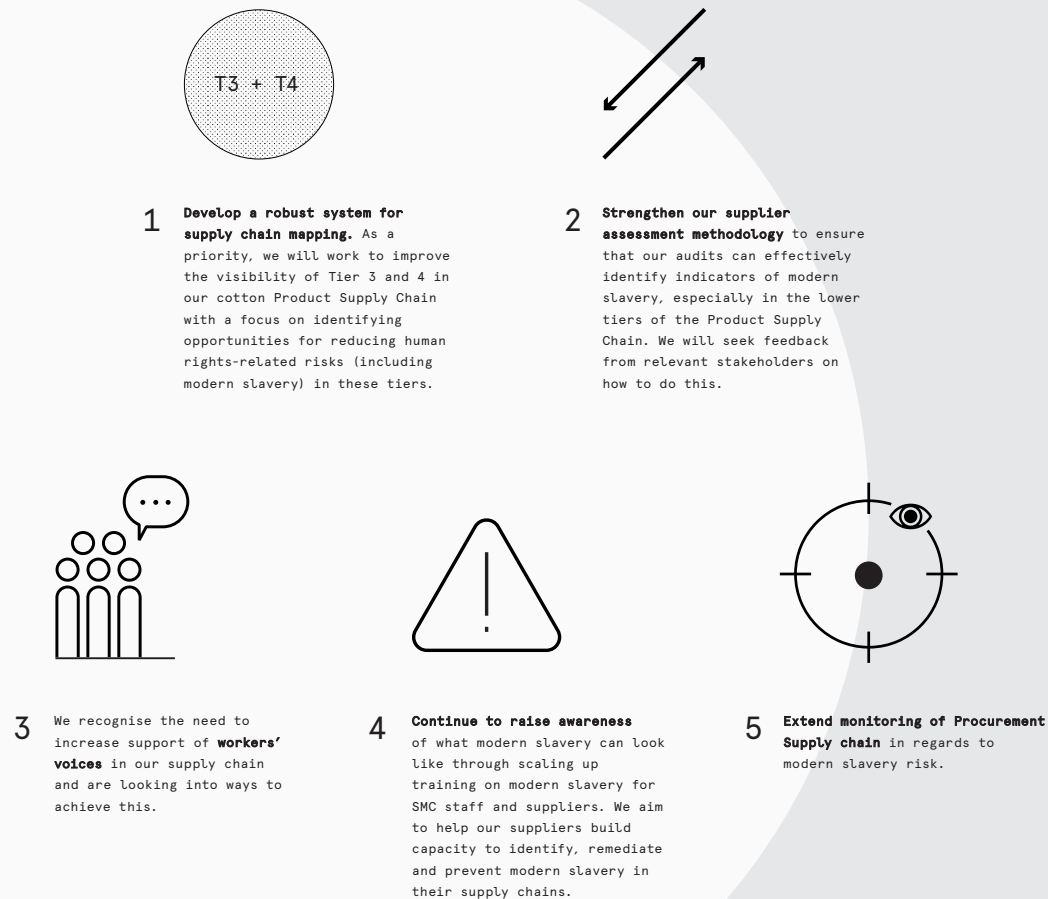
Within our supply chain, China, India and Italy have been identified as high risk.

#### STEPS TAKEN

Monitoring through off-site audits (as above).

Provide training to our Product Suppliers on the risks linked to using temporary labour. For example, in 2016 we piloted a supplier improvement project with a key Product Supplier in China to improve the factory's hiring practices. This included improvement of general human resource practices, temporary worker recruitment and subcontractor management.

## Looking Ahead



### The effectiveness of our approach

With our existing ethical trade programme, we intend to track and report on:

- Number of internal staff who have received training on modern slavery
- Number of suppliers who have received training on modern slavery
- Number of suppliers participating in improvement projects
- Extent to which our Product Supply Chain is mapped / fully traceable
- Investigation and remediation of modern slavery cases

As we expand our work on modern slavery due diligence, we plan to develop a more robust evaluation framework including qualitative indicators.

### Approval of this statement

This statement was approved by the Stella McCartney Board of Directors on July xxx and signed on its behalf by: xxx