L'Oréal (U.K.) Limited
(Registered Number: 00271555)

Financial Statements
For the Year Ended 31 December 2020

L'Oréal (U.K.) Limited

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Registered Address
L'Oréal (U.K.) Limited
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L'Oréal (U.K.) Limited

Strategic Report

The directors present their Strategic Report of L'Oréal (U.K.) Limited ("The Company") for the year ended 31 December 2020.

Principal Activities

The Company sells and distributes, in the UK and Ireland, beauty products, hair care, make up, fragrances and skincare under a variety of brands owned by the parent company.

The Company operates through four main divisions and our products are distributed through various channels including retailers, department store chains, beauty and hair salons, wholesalers, online retailers, pharmacies and dermatology practitioners. The Company also has an estate of retail outlets mostly operating under the brand name of Kiehls.

The Company is a private company limited by shares and is incorporated in the United Kingdom and registered in England and Wales.

Business Review

The board of directors monitor the effectiveness of the Company operations by considering various key performance indicators. The main indicators are the evolution in turnover and both operating profit and post- tax profit margins. The Company also closely monitors its market shares in the categories within which it operates as well as various health, safety and environmental indicators.

With the impact of the global pandemic and the economic turbulence as a result of the lockdowns turnover in 2020 decreased by -7.5% (2019: increase 2.0%). The operating profit margin closed at 13.2% (2019 :14.5% excluding a one-off charge in the 2019 profits, 12.3% as reported), The post-tax profit margin closed at 10.8% (2019: 11.9% excluding the same one-off charge, 9.7% as reported).

The beauty market declined in 2020, with drastically different performance across channels and categories. 2020 brought a shift to eCommerce and fundamentally changed shopping behaviour. Online beauty is estimated to have grown by +70.2%, becoming 40.3% weight of total beauty sales (vs. 21.8% in 2019).

While traditional retail bricks and mortar stores have been challenged over the last few years, the lockdowns resulting from the virus have only exacerbated this decline. Retail overall saw massive footfall collapses, and newly imposed restrictions have interrupted the shopping experience as we know it. The professional and luxe outlets were hit hardest, as salons and department stores (non-essential retail) shuttered for roughly 44% and 29% of the year respectively.

Makeup has suffered the most as a result of the pandemic, largely impacted by the shift to working from home, limited socialisation opportunities, and necessity to wear face coverings. Skincare and hygiene categories did not suffer as much whilst haircare had very different results depending on the type of product and channel of distribution with home hair colouration really expanding and salon services in decline.

Nevertheless, despite the challenges faced, L'Oréal has managed to increase its overall share in the beauty market.

- The Consumer Division won shares in a market which was down overall with a strong performance helped by successful launches such as Revitalift Filler Serum HA from L'Oréal Paris and Ultimate Blends Hairfood from Garnier as well as a strong growth in home hair colour.
- The Luxury and Professional Divisions were the most impacted by the events of 2020 with the closure of high street stores and salons. Despite a tough year, the Professional Division gained market share, and our Luxury Division saw great success in the female fragrance market where we now have 4 of the top ten womens' luxury fragrance brands.
- The Active Cosmetics Division, on the other hand, had a year of growth driven by the continued success of both La Roche Posay and Skinceuticals and the rapid rise of CeraVe.

Strategic Report (continued)

Throughout the pandemic the Company's primary focus has been to protect its staff and ensure business continuity. With, on average, over 2500 employees directly working in the non-essential retail sector which includes department stores, hairdressing salons and our own stores, the directors strove to ensure that all staff were fully supported financially, and all employment maintained wherever possible. These were the channels most impacted by government lockdowns and they suffered a substantial reduction in sales resulting in significant losses even after receipt of the government support. We have nevertheless topped up the furlough support to ensure that all our beauty advisors received 100% of their salary.
In 2020 the Company received Government support which included the Coronavirus Job Retention Scheme (furlough) and Business Rates Relief. This is further disclosed in note 3 of the financial statements.

Principal Risks and Uncertainties

Market and economic uncertainties - The markets in which L'Oréal (U.K.) Limited trade can be impacted by periods of economic uncertainty. These uncertainties could impact the Company over an extended period of time and their impact may be unknown. Factors beyond the Company's control, including epidemic outbreaks and geopolitical issues would impact the Company and, though the Health and Beauty market has always been resilient, a significant deterioration in the general economic climate may adversely affect the Company's performance.

Image and reputation –The Company's reputation and brand image may be compromised at any time particularly where the report of an incident is conveyed from consumer to consumer at the speed of the internet. The company takes steps to ensure that all advertising, claims for the effectiveness of its products, are authenticated by our Scientific Advisory team. Relationships with our customers are maintained through our Customer Services and Consumer Advisory teams. The parent company has an Ethics policy to which all employees in any of its subsidiaries are bound. The Ethics policy is re-enforced annually by an Ethics week where all employees have the opportunity to put questions to the group CEO. At a local level, in the UK we have an appointed Ethics Officer and an Ethics day where questions can be put to both the Ethics officer and country CEO. There is also a dedicated intranet site, training for employees and an e-learning course.

Product Quality and Safety – Consumer safety is a priority. The Group has 18 research centres, 5 regional hubs and 3 global research centres, throughout the world. Their task is to develop and test all its products and formulations. The Group's factories also operate to the highest standards based on both local and international requirements.

Competition – The Company is subject to intense competition within the markets in which it operates. This is healthy and leads to constant innovation in order to maintain and grow our market share. The company expects the highest standards of ethics when dealing in such a competitive market. Each year the Company's employees undergo training on what constitutes anti-competitive behaviour under current UK, EU, and worldwide legislation.

Information Systems – There is a risk of malfunction or breakdown in our internal systems. The company has strict rules with regard to the backups, data protection, access and security of its hardware and software systems. Every year a full disaster recovery testing process is undertaken.
The Company has appointed a Data Protection Director. Their task is to ensure that the data we hold complies with requirements of the Data Protection Act and the new General Data Protection Regulations (GDPR).

Intellectual property – The group has a portfolio of registered trademarks. Trademarks and the products themselves may be infringed or counterfeited by others seeking to benefit illegally from their reputation and goodwill. Where the trademarks are held by L'Oréal (U.K.) Limited they are treated as a strategic asset. The Company's legal department is entrusted with the protection of these assets.

Changes in regulations – The Company will comply with all local and international regulations with regard to the way in which it operates.

Insurance – The Company insures against all the risks that it perceives could damage its balance sheet or its reputational risk. This includes public, and employee liability, business interruption as well as damage to its buildings and stocks of products.

Key employee risk – The Company acknowledges that the loss of key employees can damage the effectiveness of its operations. It seeks to minimise this, by offering competitive rewards to its staff and having strong succession planning processes.

Financial Risk Management and Objectives

The Company's activities expose it to a number of financial risks including liquidity risks and credit risks. The use of financial derivatives is governed by the board of directors. The company does not use financial derivative instruments for speculative purposes.

Liquidity risk – The L'Oréal S.A. Group's Financial Services Department manage the liquidity risk worldwide through its short-term marketable instruments programme and confirmed credit lines. The L'Oréal Group is rated highly by credit rating agencies such as Standard & Poors, Moodys and Fitch.

Currency risk – The Company has significant currency risks mainly due to its purchasing contracts with L'Oréal factories in Europe and throughout the world. It also has a sales exposure where the bulk of sales to Irish customers are collected in Euros. The Company seeks to minimise its risk to fluctuations in foreign currencies through the use of hedging instruments (forward exchange contracts and options). The Company hedges its entire budget risk. No instruments are purchased for speculative purposes. The effectiveness of our hedging contracts is monitored continuously.

Credit Risks – There is always a risk of non- collection of cash receivables due to cash problems encountered by our customers. The company seeks to alleviate this risk by taking out insurance policies to cover the majority of the potential loss, whilst also closely monitoring debt levels with customers that are uninsured.

Strategic Report (continued)

Section 172 Statement

The Board of Directors are aware of their duty to act in good faith to promote the success of the Company for the benefit of enlightened shareholder value, in line with the requirements of Section 172 of the Companies Act 2006, and in so doing have regard to, amongst other matters:

- the likely long-term consequences of any decision;
- Company employees' interests;
- fostering the Company's business relationships with suppliers, customers and others;
- community and environmental impact of the Company's operations;
- the Company maintaining a reputation for high business conduct standards; and
- the need to act fairly as between the Company's shareholders.

Examples of strategic decisions taken during 2020 are referenced in the sections below that demonstrate how the Board promoted the success of the Company for the benefit of the full range of relevant stakeholder interests.

Securing our long-term success

The Board previously sanctioned the creation of a stakeholder and Section 172 dashboard - to be completed and provided in advance for its review as part of the board pack for each item tabled at Board Meetings - to ensure that it takes into account relevant stakeholder interests when making a decision, in addition to other Section 172 factors such as potential long term consequences and upholding a reputation for high business conduct standards.

The Board has applied the stakeholder and Section 172 dashboard in all Board Meetings in this financial year to ensure consistency in the Board being made aware of and considering relevant stakeholder interests and Section 172 factors contained on the dashboard such as potential long-term consequences when making its decisions.

One example of a decision that includes consideration of the long-term consequences is the Board's approval of a new Greater Manchester distribution centre:

In late 2020, the Board approved the project for a new multi-division fulfilment distribution centre to be built in Heywood, Manchester to be operational in 2023. The new distribution centre will replace the three existing distribution centres in Trafford Park, Nottingham and Bury to form a distribution hub for the Company in the North of England. In deciding to approve the new distribution centre, the Board took in to account the interests of our shareholders, employees, customers and consumers. The Board considered the current additional cost of extra external storage required year on year, that the new site was critical for the future growth of the Company to support the multi-channel opportunity due to the rapid acceleration of ecommerce and to meet the future demands of our retailers. The new site will be built in the model of a fulfilment factory, a fresh approach for the Company, which will ensure we can react to future consumer trends and modernise our offering with exciting new services, such as the personalisation of products. The Board considered the positive effect of the new site on the environment as it will be more sustainable and environmentally friendly than the existing sites, particularly in energy and water consumption. The choice of the new site took into account the location of the existing sites at Trafford Park and Bury and access of existing staff to the new site in Heywood, Manchester. Additionally, the project took into account how the Company could meet its commitments to be a carbon neutral site and aim for international and independent third party BREEAM certification. The Board considered that the new distribution centre would benefit its employees by creating a modern, high-tech working environment. The Company ensured that its employees were informed of this decision and the reasons for it prior to it being in the public domain.

Strategic Report (continued)

Valuing the interests of our Employees

The Company is the L'Oréal Group's fifth largest subsidiary, employing almost 4,000 people across the UK and Ireland. Our employees work in a wide variety of roles and functions including commercial, marketing and operations. The Company is headquartered in Hammersmith (London, England) with corporate offices in Dublin (Republic of Ireland) and Llantrisant (Wales). The Company has three distribution centres in Bury, Nottingham and Trafford; and hairdressing academies in Dublin, Manchester and London. Our employees also comprise sales teams in the field and beauty advisors in department stores and stand-alone boutiques across the UK and Ireland.

Our people are our greatest strength and the Board believes our long-term success will be determined by having a diverse workforce bringing a range of talent, skills and experiences. The Company seeks to hear and understand all voices and foster a climate in which people of every social background, gender, age, sexual orientation, disability, religion and ethnicity are not just accepted, but welcomed and valued. This is embodied in a range of employee resource groups, such as: new Ethnicity & Multiculturalism network set up in 2020 as well as established 'Out@L'Oréal' LGBTQ+ and allies network, 'Gender Equality' network (that includes 'Grow' our parent support network) and 'Mental Health & Wellbeing' network. Each of these employee resource groups has two members of the Company's Executive Leadership Team as sponsors, runs regular Town Halls to facilitate employee engagement, gathers questions, ideas, concerns or other feedback as well as generate awareness, organise events, external speaker learning opportunities and campaigns. For example, the Ethnicity & Multiculturalism network organisation of a series of events, education opportunities and guest speakers during Black History Month throughout October 2020. These are open to all employees, attended regularly by the Company's Managing Director and Board member or our Chairman, and the work of the employee resource groups, including employee interests and concerns is fed back to the Board.

In the area of disability we have focussed specifically on mental health wellbeing and throughout 2020 have had a lot of focus on supporting colleagues through the pandemic, we have an active community of Mental Health First Aiders, Employee Assistance Programme & numerous training interventions that focussed on building resilience & positive mental health strategies. Our mental health awareness week is a companywide initiative which brings external & internal voices in to amplify our focus on mental health. In addition, we are committed to furthering opportunities for people with disabilities; we have an equal opportunities policy in place which assists us in fostering an open & inclusive workplace. The policy specifically calls out that we do not tolerate any discrimination in recruitment & selection, learning & development, career management & promotion (non- exhaustive list).

The Company demonstrates its year on year improvement in equality and diversity as shown by the results of the Gender Equality European International Standard audit in October 2020, an internationally recognised standard on gender equality and diversity in the workplace. Since the Company's last audit two years earlier, the GEEIS awarding the Company a level 4 (out of a possible 5) demonstrates an improvement in results that highlights the progress on the diversity and inclusion journey. Contributing factors to the improved score include the continued focus on diversity and inclusion as a business, including training strategy and open dialogue with employees. The Company also became a signatory to the Race at Work Charter in late 2020 and will be looking at embedding the commitments going forward.

As an employer, the Company aims to be a desirable employer, which is recognised from time to time by winning relevant awards. In 2020, we were shortlisted and recognised for being an Employer of Choice within the Emerging Talent arena. Recognition highlights include achieving Top 3 status, for all FMCG employers, by The Times Top 100 Graduate Awards and Target Jobs. In addition, our Diverse Teams campaign, 'You don't need to wear make up to make it', was shortlisted for Best Recruitment Marketing Campaign; a first for the Company. In 2020, all three of our distribution centres achieved external recognition: RoSPA Gold Award for their occupational health & safety practices and performance due to keeping employees safe; and a new certification for the International Standard for Occupational Health and Safety.

Fostering the Company's business relationships with suppliers, customers and others

- Suppliers

The Company considers the activities of its suppliers as part of its wider social and environmental footprint. In addition to sourcing its core products from the L'Oréal Group companies, the Company works with approximately 1000 suppliers for indirect products and services. For example, this includes suppliers of local media and advertising creative assets across on and offline media, promotional marketing material, facilities management and event management. Working in partnership with our suppliers, the Company ensures alignment with our values and principles as set out in our Modern Slavery Statement and conducts regular social audits across our supplier base to ensure compliance. An integral part of the process of setting up a new supplier is ensuring visibility of and compliance with the Company's high standards relating to laws, ethics, environment and employees.

The Company aims to have a positive impact all along the supply chain through our Solidarity Sourcing Programme that works towards social inclusion. For over 7 years, the Company has been working closely with our suppliers, sub-contractors and organisations, such as WEConnect International, to support women owned enterprises and MSDUK to support ethnically disadvantaged groups to improve opportunities and job accessibility throughout our supply chain activities in the UK, Ireland and globally. In 2020, the Company continued its program of supplier engagement through a series of virtual workshops with 100+ suppliers to highlight best practice examples in existence in our supply chain to reinforce the importance of our Solidarity Sourcing commitments.

The Company wishes to support smaller businesses and, to that end, it reduced its payment times for small suppliers who have been most exposed to the economic impact of Covid-19.

- Customers

The Company operates through four main divisions. Our products are supplied to and distributed through various customers including grocers, department stores, discount chains, medi-spas, beauty and hair salons, spas, wholesalers, online retailers, perfumeries, pharmacies and dermatologists. The size and complexity of our customers ranges from multi-national retailers to sole traders. The collaborative relationships that the Company establishes and maintains with our customers are central to the growth of our business. Many of the UK and Ireland's hairdressers use our products and the Company makes available physical and virtual education and continual professional development training.

The Company wishes to support its smaller customers who have been most exposed to the economic impact of Covid-19 and, to that end, it froze the payments of our most vulnerable smaller customers (5,346 in total) in our distribution network until their businesses resumed. Further detail is set out in the Stakeholder Engagement Statement.

As part of the Company's Brexit mitigation strategy, board members engaged actively with key customers to ensure consistent policies to anticipate any potential Brexit related issues.

- Consumers

Millions of British and Irish consumers enjoy our products every day. The Company is committed to ensuring the quality, efficacy and safety of our cosmetic products for our consumers as without them there would be no business. The Company is equally committed to understanding our consumers and putting them at the heart of our decision making, in particular, their desire to live and purchase in a more sustainable manner.

Strategic Report (continued)

One example of a decision that includes particular consideration of both Customers and Consumers is the Board's approval of the integration of two new brands, Mugler and Azzaro:

At the March 2020 Board Meeting, the Board approved the plans for the integration of the Mugler and Azzaro brands and employees into the L'Oréal Designer Fragrances business unit in the Luxe division of the Company following the scheduled completion of the Group's acquisition of the brands from the Clarins Fragrance Group effective from 1 April 2020. In reaching its decision the Board considered the positive effect that both fragrance brands would have on the Luxe division's growth in terms of increased sell out, turnover and profit for the benefit of the Company's shareholders, customers, employees and consumers. The integration plans for 2020 and 2021 were discussed by the directors, including the key areas of Luxe brands learning from the Mugler and Azzaro brands around sustainability due to the refill model and consumer engagement due to the customer relationship management model.

- Shareholders

The Company is a wholly owned subsidiary of L'Oréal S.A. and there are regular communications and engagements with members of the L'Oréal S.A. senior management. Any items requiring escalation by the Board to its shareholder and parent company would be brought to L'Oréal S.A.'s attention via the Chairman or the Directors.

One example of a decision that includes consideration of acting fairly between members of the Company, considering the interests of shareholders together with all other relevant stakeholders is the Board's approval of the decision to move the brand Decléor from the Professional Products Division to the Active Cosmetics Division:

At the March 2020 Board meeting the directors made the decision to transfer the Decléor brand from the Professional Products Division of the Company to the Active Cosmetics Division of the Company with effect from 1 July 2020. In reaching this decision, the Board considered an overview of the Decléor brand in the UK and Ireland since its acquisition in 2014, key professional skincare market insights and the three year plan for the growth of the Decléor brand within the skincare portfolio of the Active Cosmetics Division. This information showed the positive impact on the growth of the business for shareholders, customers, employees and consumers if the brand was moved to the Active Cosmetics Division.

- Government and Regulators

The Company attends a range of industry forums as well as meetings and consultations with government bodies and regulators to explain our business views to the policy makers. The directors have engaged with the Government and regulators on subjects such as Brexit, plastics regulation and regulatory matters related to ingredients. This Company is actively involved with our Industry Trade Association, the Cosmetic, Toiletry and Perfumery Association (CTPA), the Confederation of British Industry (CBI) as well as the Health & Safety Executive as well as some sector specific associations with a view to protecting consumer interests. Our key focus is on compliance with laws and regulations relating to product safety, health and safety, competition, advertising and data privacy.

One example of a decision that includes particular consideration of Government and changing regulation is the Board's approval of actions taken in preparation for Brexit:

At the September 2020 Board meeting, the Board considered the impact of Brexit on all relevant stakeholders and reviewed and approved the most up to date action plan of the Company's Brexit steering committee to mitigate the risks of a "no deal" Brexit at the end of the transition period on 31 December 2020, which included steps approved by the Board in previous meetings. These included adapting our IT systems, adapting packaging labelling for new and evolving regulatory compliance, safety stock building, improving our product inflows from Europe and outflows to Ireland and adapting our human resources practices for employees from other EU countries. The Board focused on the interests of our employees, customers, consumers, suppliers and shareholders in making these decisions and engaged in widespread consultation with many actors including Government departments, CTPA and the CBI for defining its policies to navigate Brexit.

- Pension Scheme Beneficiaries

The UK and Ireland business has a Defined Benefit Pension Scheme with over 3,700 members, including 1380 pensioners. It also has a Direct Contribution Scheme with over 4000 active members. The Company has made all relevant contributions to both schemes, as well as significant supplementary deficit reduction payments to the Defined Benefit Scheme. The Company aims to improve the knowledge and understanding of pension scheme members' options as they approach pensionable age as to their pension strategy. Accordingly, the pension board trustees and the Company validated the appointment of an independent financial advisor (IFA) with preferential tariffs, for the purpose of assisting all would be pensioners to assess their financial options.

Our impact on the community and the environment

- Local Community

The Company engages with its local communities to understand the issues that are important to them and to build trust through these interactions. The Company has a long-standing association with the relevant local authorities in Wales, in Manchester and Hammersmith & Fulham in London.

The Company is committed to making tangible improvements in communities wherever it is present. Actions with local suppliers give concrete form to our principles, allowing us to take an active role in shaping a better environment for everyone, especially where communities are most vulnerable.

'Citizen Day' is an annual global social engagement volunteering day that the L'Oréal Group offers to all of its employees and has done for over 11 years. Our Company' employees have been dedicating an entire day of their work time to bringing their skills and energy to social and environmental organisations and the Covid-19 year was no exception with all volunteering opportunities undertaken virtually. Employees completed over 2,800 volunteering hours through 55 team projects in support of local charities and organisations across the UK. Alongside this all employee volunteering day, our employees are entitled to an additional day to use as they wish throughout the year to support a charity of their choice.

- Wider Community/Environment

The Company fundamentally believes that it has a responsibility to limit its impact on the environment and to make a positive contribution to both the countries in which it is present and the world at large. This belief is reflected in L'Oréal for the Future (L4TF), our global sustainability programme, which the Company launched in 2020 to build on the previous Sharing Beauty With All programme. This programme includes a series of tangible commitments aimed at transforming the L'Oréal Group and its subsidiaries, including the Company, towards a sustainable business model. L4TF encompasses the entire product journey and embodies our commitment to improve the way business is conducted, from the sourcing of raw materials to the production process, product design and distribution to marketing and communications with the consumer. This new programme outlines commitments to transform every aspect of our activity, and will also address our indirect, extended impact, related to the activity of our suppliers and the use of our products by consumers.

To maintain constant progress, the Company has opened a dialogue with all its stakeholders to share its sustainable development strategy and co-develop projects on the ground. The Company has incorporated sustainable development performance indicators into its supplier selection process. To support this, the Company's purchasing team provide additional training materials and host supplier webinars and workshops. By marketing more responsible products and encouraging its brands to identify a cause and campaign for it, the Company is also urging its customers to practice sustainable consumption.

The Company has a sustainability agenda aligned with the commitments of the L'Oréal Group's L'Oréal for the Future programme. The delivery of this programme is overseen by a highly engaged sustainability steering committee headed by our Managing Director. The steering committee meets every two months to ensure progress is being made.

Strategic Report (continued)

The Board understands that the Company has a responsibility to play its part in being a force for good and to use its brands to make a positive impact in the communities where it operates, always respecting local cultures and sensitivities. Across our portfolio of brands, the Company has built multiple successful corporate and brand level charity partnerships in the UK and Ireland: the Company and Look Good Feel Better; L'Oréal Paris and The Prince's Trust; Lancome and National Literacy Trust; YSL and Women's Aid; Armani Beauty and Water Aid; and Garnier and Ocean Conservancy. Through its Maybelline brand, the Company launched the UK's first make up recycling scheme, which is present in over 1,000 stores throughout the UK.

One of our longest-standing partnerships is with the UK National Commission for UNESCO and the Irish National Commission for UNESCO, with whom the Company has partnered for the past 14 years in our L'Oréal For Women In Science programme. This initiative is designed to champion and support early career researchers in STEM subjects through the allocation of five annual Fellowships. In the UK and Ireland, since 2007, 62 female post-doctoral researchers have been awarded a Fellowship worth £15,000 (equivalent € in Ireland). The fellowships – which are announced in an awards ceremony hosted by the Company's Chairman – have been designed to provide flexible and practical financial support to ensure these women can further their research and careers. The programme includes an Ambassador's Fund, which alumnae of the Fellowship can access to develop and deliver STEM public engagement activities throughout the UK and Ireland.

Another one of our longest-standing corporate level partnerships is with In Kind Direct, a product giving charity with a network of recipient charities to help those in need, with whom the Company has partnered for the past 20 years. In the year 2020, the Company reached over 1,600 organisations through its product donations to In Kind Direct, which also assists the Company with its commitment of achieving zero waste of finished goods by 2023 in the UK and Ireland.

Our Culture, Ethics and Values

Our Company's purpose is to create the beauty that moves the world. Our goal is to offer each and every person around the world the best of beauty in terms of quality, efficacy, safety, sincerity and responsibility. It is also to support the diverse beauty needs and desires of individuals worldwide.

Our strategy is anchored in continuous investment in rigorous scientific research and development. This enables our brands to deliver products that are innovative, highly effective, practical and pleasant to use, and which are manufactured to demanding standards of quality and safety. The Company strives for excellence, to constantly challenge its methods. Great value is placed on honesty and clarity: our consumer advertising is based on proven performance and scientific data. The Company is committed to building strong and lasting relationships with our customers and our suppliers, founded on trust and mutual benefit. The Company conducts its business with integrity: by respecting the laws of the countries in which it operates and adhering to good corporate governance practices. The Company maintains high standards in accounting and reporting and supports the fight against corruption. The Board is responsible for delivering long term, sustained shareholder value by protecting and making the most effective use of the Company's assets.

The Company operates as a responsible corporate citizen, mindful of its impact. The Company is committed to the respect of human rights, to help end modern slavery, the exploitation of children in the workplace and the use of forced labour. The L'Oréal Group is committed to a world without animal testing. In 1989, the Group completely ceased testing its products on animals, 14 years before required by European regulation and invented reconstructed human skin to help eliminate animal testing. The Group proactively works to end animal testing in our industry and contribute to the development and acceptance of alternative methods. The Company actively supports the aforementioned by engaging with and encouraging good practices from business partners who share our values and our ethical commitments.

In a changing world, our Ethical Principles of Integrity, Respect, Courage and Transparency serve as our compass for acting ethically day-to-day. These Ethical Principles shape our culture, underpin our reputation, and allow all our employees to build trust through our actions every day.

The need to act fairly as between members of the Company

After taking into account all relevant factors, the Board considers which course of action best enables delivery of the Company's success and strategy through the long term, with consideration of the impact on stakeholders, including its shareholders. In doing so, the Board acts fairly as between the Company's shareholders. In its decision making, the Board also assesses the requirements of our parent company and shareholder to balance this with the needs of the Company and the specificities of the UK and Irish market.

Stakeholder Engagement Statement: 2020 Covid-19 focus

The long-term, sustainable success of our business relies on the support of our key stakeholders – see further the Section 172 Statement for a description of each of our key stakeholders. Through ongoing dialogue with our key stakeholders, the Board is able to form a clear understanding of their respective requirements and consider the likely impact on them in its decision-making process. Engagement with our stakeholders can take place at both an operational and a Board level. The engagement at an operational level through the Company's Executive Leadership Team is considered by the Board when making its decisions.

Five Examples of Engagement in Action related to Covid-19

The Board understands that the way the Company conducts its business is just as important as financial performance and the quality of its products and services - this includes how its teams operate and how the Company works with its customers and community, particularly during unprecedented periods such as Covid-19. The Company is committed to fairness and ethics in all aspects of customer and human relations and places special emphasis on diversity and inclusion.

- Customers

Example 1: Covid-19 Support of Smaller Customers
The Company froze the credit and payments of our most vulnerable smaller customers in our distribution network until business resumes. Our Professional Products Division is supporting its hair salon customers affected by successive lockdowns in a variety of ways: creating a support and back to business guide to aid salons to navigate bouncing back after lockdowns and opening safely for its staff and customers; donating hygiene & care products to hair salon clients; creating a hygiene and safety e-learning module to drive safe reopening in line with Government guidelines; and continuation of virtual training and development for all professional hairdressers with dynamic weekly schedules and hundreds of live sessions. To show support to the hair industry and give consumers confidence, the Company donated £1 for every training completion to hair and beauty charity and created a social media certificate that salons and hairdressers could share with their clients to instil confidence in their return to salon.

Example 2: Covid-19 Support of our Customers to accelerate their e-commerce strategies
Since the onset of the pandemic, there has been a huge shift in consumer shopping habits towards ecommerce and away from brick & mortar stores. This shift had already started before the pandemic but recent unprecedented conditions, including the lockdowns, have accelerated the trend. The Company recognises the importance of supporting traditional retailers through these challenging times and so, in addition to the measures already mentioned above, sought to support these retailers and give them the skills required to accelerate their ecommerce business.

For example, the Company has significant insight into the ecommerce beauty market: how beauty customers shop online, the type of products they're looking for and how to provide a smooth online customer experience. The Company shared this expertise with its traditional retail partners.

The Company has also developed new tech services that overcome some of the barriers to purchasing beauty products online. For example, Virtual Try On, developed with Modiface, is an augmented reality service that allows consumers to see themselves with different makeup products applied.

In addition to these Company-wide initiatives, each Division has taken steps appropriate for their distribution circuit. For example, the Professional Product Division has collaborated with national hairdressers to conduct full ecommerce website audits, to assist in developing strong product display pages and to provide specific offers. And the Division has supported independent salons with social commerce programmes, using social media to drive commerce to these businesses' ecommerce websites.

- Customers and Community

Example 3: Covid-19 Support to Essential Retail Distribution via Hand Sanitiser Donations
The Company is also supporting its pharmacy and retailer customers by protecting their staff working to distribute medicine and food. To that end, donating over 300,000 bottles of the hand sanitiser gel in 2020 across several brands to essential retail staff working at key UK and Irish retailers, helping to protect them.

- Wider Community

Example 4: Covid-19 Support via Hygiene and Care Product Donations

The Company takes its role as a good corporate citizen extremely seriously and Covid-19 provides opportunities to demonstrate this. The Company donated in 2020: almost 600,000 hygiene & care products to frontline healthcare workers in partnership with In Kind Direct and Blue Light Card, from brands across all four divisions; almost 100,000 hand sanitisers to support NHS and HSE; and 10,000 Examination Gloves to the London Ambulance Service to mitigate the PPE shortage faced by healthcare workers.

- Employees

Example 5: Covid-19 Support of our Workforce

As an employer, the Company aims to uphold being a desirable place to work across all its locations. The Company adjusts its guidance regarding working from its sites and/or from home in line with Government guidelines throughout the pandemic and its Operations, Health & Safety and Facilities teams work to support a Covid-19 hygienic and safe working environment for all sites, including distribution centre staff who are essential workers, our beauty advisors working in the retail environment and office based staff outside of lockdown periods working to safe, low percentage capacity in alternating teams. Our staff are provided with appropriate PPE equipment (i.e. masks, gloves, hand sanitisers and kits for beauty advisors) as required for their site and role. Being an attractive place to work includes maintenance of a good working culture during extended periods of remote working for many employees due to Covid-19, where efforts were strengthened to foster collaboration and wellbeing, as further detailed below.

As an employer, the Company also aims to be exemplary for human leadership and this has been accelerated by Covid-19. Alongside mental health, all aspects of wellbeing are supported including physical wellbeing, financial wellbeing and social wellbeing. The Company takes all relevant measures to support and protect the interests of its employees in the face of changing circumstances, such as Brexit and Covid-19. Relating to Covid-19, not only are employees kept regularly informed of any developments such as investments made by the Company, for example, in safety and hygiene equipment across its sites in all locations but also offered a range of supportive measures: adapting our working model to the evolving situation, HR flexible working policies support to enable employees to adapt working hours around their home commitments, access to parental/carer leave if required to support home learning and childcare; IT support to enable employees to work remotely including equipment such as screens, keyboards etc. during lockdown periods; and morale and hygiene support such as free products, masks and hand sanitisers being given to all employees.

The Company in any year seeks to ensure its employees can develop to their fullest potential, through education, training, mentorship and other initiatives designed to help them thrive at every level. However, in 2020 with the onset of Covid-19, the Company's Learning & Development team worked with relevant teams, internal presenters and external providers to create a number of new offerings as well as adapt talks, training and workshops for virtual take up to reflect the Covid-19 pandemic and remote attendance. As a result, the Company reports a 29% increase in 2020 in its total learning hours from the previous year. Employees are offered learning on the go such as articles, podcasts, e-learning courses as well as both live and recorded options for a range of webinars, events and training sessions: how to be a truly human leader, maintaining healthy relationships, dealing with change, the nature of viruses and Covid-19, impact and influence in a virtual world, managing stakeholders remotely, managing remote workloads effectively, collaborating effectively as remote teams, leading through ambiguity, navigating uncertainty, maintaining positive mental health and a bespoke mental wellbeing series, how to digitally detox and unplug, how to sleep better and so on.

The Company recognises the pressures of employees navigating work-life balance during Covid-19 and, in particular, the disproportionate impact of Covid-19 on parents shouldering more duties such as managing home schooling during lockdown periods. Hence the evolution of our support offering from the outset of the pandemic. For example, we offer full support to working parents and caregivers to flex their hours, structure days differently and re-prioritise their work to spend more time with their families.

Further examples are the introduction of 'Time For You' sessions that involve blocking diaries to protect personal time and allow for screen breaks during an extended lunch and 3pm Friday no meeting afternoons; blocking diaries to enable meeting free quieter working times at the start and end of each working day; hosting virtual fitness sessions; hosting wind down Friday sessions from meditation, cooking to house planting; and breakfast & learn monthly speaker events on a range of topics.

The Company also recognises the personal difficulties presented by national and regional lockdown periods across the UK and Ireland with their potential impact on mental health, hence increasing access to a range of professional support services: a free new mental health & wellbeing app open to all employees for the self-management of mental health; increased support services relating to mental health for employees taking up the optional benefit of private medical insurance; a 24/7 employee assistance programme counselling service open to all employees to provide assistance on family and work relationships, finances, bereavement and issues related to Covid-19; access to mental health ambassadors who are a group of employees trained in mental health first aid.

Employee Engagement Statement

Example 1: Employee Survey
The Company's annual Pulse Survey (October 2020) tracks employee satisfaction and provides a good understanding of employee views and concerns. In 2020, the Company engaged an external consultancy to conduct focus groups across the workforce divided into field employees, non-managers and managers to deep dive into key areas such as work processes and working conditions to help develop an action plan following the Pulse Survey. Following the survey and the focus groups, an action plan was created to improve processes highlighted by our employees. The Board regularly reviews the Pulse survey results and related action plans.

Example 2: Employee Updates
The Company creates regular opportunities - through Town Halls, Business Update meetings and internal communications – for employees to be regularly updated on: business performance, objectives and vision; any financial, economic or political factors potentially affecting company performance including Brexit developments as they become known and Covid-19 related government, national and regional announcements; relevant industry or market context, or other challenges potentially affecting company performance; and other matters of interest, such as employee initiatives.

The Company recognises the need to increase employee updates due prevailing circumstances, such as Brexit and Covid-19, including more frequent and regular internal communications to employees to explain the impact of any changes on the workforce and provide helpful information. Relating to Brexit, employees are kept informed of the timelines, business continuity planning and EU, Swiss or EEA citizens offered support as to how to apply for settled status for themselves or family members through a range of internal communications such as Brexit update videos featuring the Company's Managing Director and Board member.

Example 3: Feedback Culture
Town Halls and Business Updates open to all employees, as a result of lockdown periods, are now virtual and provide an opportunity for even wider access, to gather as a company and for question and answer engagement with the Company's Managing Director, together with other members of the Company's Executive Leadership Team. On reopening the Company's Covid-19 secure office following the first lockdown, regular drop-in feedback sessions were hosted for all employees with the Company's Managing Director and other members of the Company's Executive Leadership Team, to understand how they were settling back into the workplace and to answer any questions that they may have.

Direct and transparent interaction and dialogue with senior leaders is encouraged - including the top down drive to develop a strong feedback culture - as a means of enabling our senior leadership to build employee opinions and feedback into strategic decision-making. A new, accessible 360 feedback tool is open to all employees to request feedback at any time from anyone they choose, which is private for the individual's personal progression unless they choose to share. More comprehensive 360 reports are also included in all senior leader training from Head of Function level and above. A one hour feedback training module continues to be mandatory for all newcomers (all current employees were captured in previous years). Other training sessions incorporate 360 feedback as part of development.

Example 4: Employee Share Scheme and Profit Share Scheme
The Company encourages employees' involvement in its performance, with the Board approving the Company's employee second share scheme in 2020. In addition, the Company continues to offer its annual profit share scheme that has run for many years.

Strategic Report (continued)

Future Developments

The exit from the European Union has become a reality since 1 January 2021. Detailed business continuity preparation combined with increased safety stocks have enabled L'Oréal to go through the transition with minimal business impact.

2021 also started the year with another period of lockdown due to the Covid-19 pandemic, and a market which was in negative growth. Nevertheless, each division has once again continued to demonstrate exceptional resilience and as a business we have out-performed the market with a huge acceleration in eCommerce and phenomenal performance in skincare plus the continued dynamic rise of CeraVe.

We continue to perform well in our markets and are confident in the prospects of good growth as the economy opens up in 2021.

We expect our profit margins to be maintained at healthy levels and there are no significant risks to the cash position.

Approved by the Board of Directors and signed on its behalf by

T Cheval
Director

24 September 2021

Directors' Report

The directors present their report and the audited financial statements for the year ended 31 December 2020.

Results and dividend

The profit for the financial year amounted to £111,667,000 (2019: £107,572,000).

A dividend of 26.49p (2019: 31.12p) per ordinary share amounting to £107,572,000 (2019: £126,394,000) was paid during the year. A dividend of 21.28p per share has been proposed for the year ended 31 December 2020, amounting to £86,406,000, which was approved and paid in 2021.

Political donations

No political donations were made (2019: Nil).

Post balance sheet events

Events since the balance sheet date are disclosed in note 27 to the financial statements.

Strategic report

The Company has decided to present in its Strategic Report information that is required to be contained in the Director's Report. It has done so in respect of future prospects and financial risk management.

Directors

The directors during the financial year and up to the date of this report were:

G Skingsley (Chairman)
Y Chalme (resigned 14 May 2021)
T Cheval (appointed 16 November 2020)
V Derville (resigned 17 September 2021)
O Hubin (appointed 17 September 2021)
M Giolla (appointed 14 May 2021)
D Gros (resigned 14 May 2021)
M Haden (appointed 14 May 2021)
V Sharma (resigned 16 November 2020)

Directors' indemnities

The Company has not made any qualifying third party indemnity provision for the benefit of its directors during the year. No qualifying third party indemnity provision exists at the date of this report.

Directors' Report (continued)

Corporate Governance Statement

The Board, in its decision-making processes and considerations, and the executive team reporting to the Board, are mindful of the need to uphold a positive corporate culture and to take into account the interests of all stakeholders. Board deliberations are conducted in a spirit that encourages independent thought and challenge, with the aim of balancing risks and opportunities. Our governance policies and processes are kept under review, to ensure that there is a clear understanding of accountability and responsibilities and that these structures develop together with public expectations of companies.

The Board as at June 2021 is comprised of the Managing Director of the Company's UK and Ireland business, the Managing Director of the L'Oréal Group's Western Europe Zone, the Company's Chief Financial Officer, the Company's Corporate Affairs Director and the Chairman who has significant operational, marketing and human resources experience gained from over 30 years in the L'Oréal Group, including in the Company. As a result, the directors bring a balance of skills, experience and knowledge to the Board.

For the first time in 2020, four (rather than three) Board Meetings were held in January, March, June and September 2020 following an agenda agreed in advance by the Chairman, the Company's Managing Director, Company Secretary and Board Advisor. In addition, a number of decisions were made during the year by written resolutions of the Directors. At the January 2020 Board Meeting, the Board discussed the nature of and opportunities for enhancing future engagement with stakeholders and consideration of all Section 172 factors. As a result, the Board resolved to formally adopt the Wates Principles as the Company's Corporate Governance Code and examples of how the Board has applied the Wates Principles during 2020 are noted below:

Principle 1: Purpose & Leadership

In November and December 2020, the Managing Director worked with independent external consultants and members of the Company's Executive Leadership team to create (i) a new mission statement for the Company called "One L'Oréal" which defines the purpose of the Company and replaces the Company's existing 2019 mission statement and (ii) a Frame setting out the Company's priorities for 2021. Both the new mission statement and the 2021 Frame were communicated to the Company's employees at the beginning of 2021.

Our Code of Ethics in place for over a decade provides practical advice on everyday situations and ethical questions and is distributed to all employees worldwide upon joining the company. Our Speak Up policy in place for over 5 years enables our stakeholders, including our employees, to (anonymously if preferred) raise any serious violations of our Ethical Principles directly to SVP & Chief Ethics Officer, via a secure website. Our workforce can also raise an Ethics issue with their line manager, their line manager's manager, divisional manager, HR or our Ethics Officer at any time. Our aforementioned Company policies for raising misconduct or unethical practices are reviewed and updated from time to time. The Code of Ethics policies are regularly presented to the Board from time to time by the Company's Ethics Officer.

Principle 2: Board Composition

Towards the end of 2020, the Chairman and the Company Secretary initiated a review of the composition of the Board to consider whether the Board as then constituted was appropriate in terms of size, backgrounds, diversity and experience and what, if any, changes should be made to ensure that the Board is consistent with the Wates Principles. These changes were widely discussed at the end of 2020 and implemented in 2021.

Principle 3: Director Responsibilities

A special purpose Board Meeting was held in January 2020 at which Baker McKenzie LLP conducted a refresher training session for the Board on effective corporate governance, stakeholders, decision making and director duties. Baker McKenzie LLP also gave this training to the new directors who joined the Board during 2020 and 2021. In January 2020. the Board appointed a Board Advisor relating to corporate governance matters to support the Chairman and Company Secretary and with a mission to: create and obtain Board input and ratification of a Section 172 and stakeholder dashboard; to establish and oversee a robust internal process to ensure the quality and integrity of the information provided to the Board to enable the Board to effectively monitor, challenge and make decisions; ensure comprehensive Board papers are provided for review one week in advance of meetings that both signpost all applicable Section 172 and stakeholder engagement issues to the Board and provide a summary of the item and inform Directors what action is expected of them.

Specific other matters have been delegated by the Board to committees:

- a sustainability steering committee that drives our local sustainability targets. Our Managing Director for UK & Ireland sits on that committee with others including our Operations Director and Corporate Affairs Director (see also page 2, Strategic Report). The Board received a detailed update on the work of that committee at the September 2020 Board Meeting; and
- a committee focussed on anti-corruption which provided an update to the Board on the progress made by the committee at the June 2020 Board meeting; and
- at the September 2020 Board meeting, the Board approved the establishment of a new Ethnicity & Multiculturalism committee to seek guidance and approval from the Board on actions taken and to be taken to further drive and to ensure that the Company is and remains an inclusive employer that champions the self-expression and celebration of its employees of all ethnic and multicultural backgrounds and religious beliefs and, through reflection and learning, the Company continues to commit to fostering a workplace that reflects the communities in which we operate.

Principle 4: Opportunity and Risk

Examples of decisions taken by the Board during 2020 to promote the long-term sustainable success of the Company are set out above in the Strategic Report and the Section 172 Statement. The Company's Head of Internal Control has established a risk register for the Board which identifies financial, non-financial and reputational risks faced by the Company. The risk register was presented to and discussed by the Board at the June 2020 Board meeting.

Principle 5: Remuneration

L'Oréal S.A. sets the remuneration level of the Board within structures aligned to the long-term sustainable success of the Company and the Group.

Principle 6: Stakeholder Relationships and Engagement

The Board is responsible for nurturing and upholding the culture, values, standards, ethics and reputation of the Company to ensure that our obligations to our shareholders and our stakeholders are met. The Board considers each matter before it in the context of the stakeholders who may be affected and oversees both that there has been meaningful engagement and that their interests are carefully considered as part of the Board's decision-making process. The Board takes account of the broader socio-environmental context within which our business operates, including the impact of the Company's activities on communities and the wider world, particularly in relation to climate change, human rights and sustainability. The Company's stakeholders and examples of how this Principle has been applied are included in the Stakeholder Engagement Statement and the Section 172 Statement.

Carbon Emissions Statement

The Company is committed to minimising the environmental impacts of our business activities by complying with accepted environmental practices, including the commitment to meet, or where possible, exceed the requirements of relevant environmental legislation. In the current year, the Company has continued its efforts to increase monitoring and evaluation of energy usage, enabling Streamlined Energy and Carbon Reporting disclosures to be made
Our four main operational sites in UK are carbon neutral (our three distribution centres and headquarters) by purchasing green electricity and green gas, as specified in the energy procurement contract, the energy supplier provides green energy certificates. The total renewable energy consumed across our 4 main operational sites, measured by meter reads is:

- Gas = 5,684,590 Kwh
- Electricity = 3,912,600 Kwh

This equates to 6,124 Kwh/FTE for our 4 main sites.

Approximately 1946 Tonnes of CO_2 emissions has been avoided by the purchase of renewable gas and electricity (calculated using the DEFRA 2020 emission factors).

Energy saving initiatives have been implemented over the last decade, in particular, changing to more energy efficient lighting at our 3 distribution centres and our headquarters. All distribution centre lighting systems were upgraded in 2010 to fluorescent motion detection and daylight compensation lighting systems. More recently, from 2019 the Company has undertaken minor upgrades to LED lighting when replacing failed lighting units and in our Headquarters minor changes to energy efficient LED lighting have been undertaken when upgrading certain areas, for example, the car park.

Our water consumption is closely monitored with water retention in place in some of our distribution centres, for instance we gather rainwater to use for our internal use such as toilets.

We are also promoting green deliveries (using electric vehicles to deliver our goods) for our direct to consumer orders and reached 13% in 2020 of our deliveries through our green fleet. We are working with our transporter to further increase this number in the years to come.

The Company instigated a change in June 2020 to its company car policy to encourage a move to Hybrid/Electric vehicles for particular job functions. The ambition is to have a green fleet by 2025.
At the end of our Sharing Beauty With All programme (see further 'Wider Community/Environment' section of the Section 172 Statement) the following reductions were achieved versus a 2005 baseline:

- Waste = - 71.7%
- Water = - 47.5%
- CO_2 = -100%

Directors' Report (continued)

Statement of Directors' responsibilities

The directors are responsible for preparing the Directors' Report, the Strategic Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have elected to prepare the financial statements in accordance with Financial reporting standard 101 *Reduced Disclosure Framework*. Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for maintaining adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Statement of disclosure of information to the auditor

Each director who held office at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information needed by the company auditor in connection with preparing its report of which the company's auditors are unaware; and
- the director has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Independent Auditor

A resolution to reappoint Deloitte LLP as auditor will be put to the members at the Annual General Meeting.

Approved by the Board of Directors and signed on its behalf by

T Cheval
Director

24 September 2021

Independent auditor's report to the members of L'Oréal (U.K.) Limited

Report on the audit of the financial statements

Opinion
In our opinion the financial statements of L'Oréal (U.K.) Limited (the 'company'):
- give a true and fair view of the state of the company's affairs as at 31 December 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:
- the income statement;
- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity;
- the accounting policies; and
- the related notes 1 to 29.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern
In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:
- Understanding of management's processes and controls around the development of budgets, forecasts and the going concern conclusion;
- Inspection of management's budget and forecasts for the period to 31 December 2021, and sales/profit forecasts for the calendar year 2022, understanding the basis and challenging the appropriateness of key assumptions made in preparing these forecasts, making use of industry and macroeconomic data to do so;
- Comparison of current and prior period budgets and forecasts to actual results, to evaluate management's historical forecasting accuracy;
- Evaluation of prior period profit to cash conversion and understanding of potential significant or one-off cash outflows over the going concern period;
- Understanding of financing facilities within the L'Oréal Group, including the ability of L'Oréal UK to access and utilise such facilities;
- Inspection of the current cash position on the date of signing the financial statements; and
- Evaluation of the appropriateness of management's going concern disclosure in the financial statements.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Independent auditor's report to the members of L'Oréal (U.K.) Limited (continued)

Other information
The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of directors
As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Extent to which the audit was considered capable of detecting irregularities, including fraud
Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the company's industry and its control environment, and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory framework that the company operates in, and identified the key laws and regulations that:
- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included the UK Companies Act, pension legislation and tax legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty.

We discussed among the audit engagement team including relevant internal specialists regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

Independent auditor's report to the members of L'Oréal (U.K.) Limited (continued)

As a result of performing the above, we identified the greatest potential for fraud or non-compliance with laws and regulations in the calculations and timing of recognition of the sales deduction (promotional rebate) accruals, where based on estimation of the customer's future sales, and our specific procedures performed to address them are described below:

- substantive procedures to test a sample of the accruals made in the year and the closing accrual, tracing inputs in management's calculations to evidence and recalculating the accrual, and ensuring that the accrual was recognised in the correct financial year;
- substantive procedures to test the utilisation of a sample of the opening accrual, to evaluate historic accuracy of the accrual;
- evaluation of aged accruals, including whether future utilisation is probable; and
- inspection of rebate trackers to ensure that all key customers are included, and discussing gross and net sales performance by division and by customer, understanding changes in the sales deduction percentages.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management and external legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance and reviewing correspondence with HMRC.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

Independent auditor’s report to the members of L’Oréal (U.K.) Limited (continued)

Use of our report

This report is made solely to the company’s members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company’s members those matters we are required to state to them in an auditor’s report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company’s members as a body, for our audit work, for this report, or for the opinions we have formed.

Darren Longley FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom

28 September 2021

Income Statement
For the year ended 31 December 2020

	Note	2020 £'000	2019 £'000
Turnover	2	**1,029,967**	1,113,500
Cost of sales		**(398,477)**	(426,191)
Gross profit		**631,490**	687,309
Advertising and promotion expenses		**(331,354)**	(337,625)
Government grants	3	**14,208**	-
Selling, general and administrative expenses		**(178,022)**	(212,299)
Operating profit	4	**136,322**	137,385
Finance costs	5	**(671)**	(961)
Finance income	6	**2,175**	3,673
Finance income - net		**1,504**	2,712
Profit before taxation		**137,826**	140,097
Tax on profit	8	**(26,159)**	(32,525)
Profit for the financial year	20	**111,667**	107,572

All amounts relate to continuing operations and are attributable to the equity shareholders of the Company.

Statement of Comprehensive Income
For the year ended 31 December 2020

	Note	2020 £'000	2019 £'000
Profit for the financial year	20	**111,667**	107,572
Other comprehensive income/(expense):			
Items that may not be reclassified to profit or loss			
Actuarial gain/(loss) on defined benefit obligations	22	**11,131**	(28,737)
Deferred taxation on defined benefit obligations	14	**(3,692)**	2,702
Current tax credit arising from pension deduction		**-**	2,183
Items that may be reclassified to profit or loss			
Gain/(loss) on cash flow hedges	26	**13,546**	(17,199)
Deferred taxation on cash flow hedges	14	**(2,256)**	3,321
Total other comprehensive income/(expense) for the year, net of tax		**18,729**	(37,730)
Total comprehensive income for the year		**130,396**	69,842

Balance Sheet
As at 31 December 2020

	Note	2020 31 December £'000	2019 31 December £'000
ASSETS			
Non current assets		**203,575**	190,679
Goodwill	10	**2,765**	2,765
Other intangible assets	10	**7,883**	9,586
Tangible assets	11	**23,246**	33,810
Right of use assets	12	**35,504**	49,296
Investments	13	**17,134**	273
Employee retirement surplus and related benefits	22	**117,043**	94,949
Current assets		**408,289**	411,106
Inventories	15	**67,613**	63,035
Trade and other receivables	16	**199,344**	211,156
Other current assets	17	**13,819**	11,743
Derivative financial instruments	26	**3,714**	9,407
Current tax		**1,015**	-
Cash and cash equivalents		**122,784**	115,765
TOTAL		**611,864**	601,785
EQUITY AND LIABILITIES			
Capital and reserves		**186,648**	161,007
Called up share capital	18	**101,533**	101,533
Share premium account	18	**277**	277
Other reserves	19	**(69,085)**	(83,444)
Retained earnings	20	**153,923**	142,641
Non current liabilities		**41,948**	46,992
Provisions for liabilities	23	**9,305**	8,987
Deferred tax	14	**8,008**	2,558
Lease liabilities	12	**24,635**	35,447
Current liabilities		**383,268**	393,786
Trade and other payables	24	**198,696**	187,428
Provisions for liabilities	23	**17,925**	17,631
Other current liabilities	25	**147,507**	135,612
Lease liabilities	12	**12,916**	15,553
Derivative financial instruments	26	**6,224**	24,320
Current tax liabilities		**-**	13,242
TOTAL		**611,864**	601,785

The notes on pages 29 to 58 form an integral part of these financial statements.

The financial statements on pages 25 to 58 were approved by the board of directors and signed 24 September 2021 on its behalf by:

M Giolla
Director

L'Oréal (U.K.) Limited
00271555

Statement of Changes in Equity

For the year ended 31 December 2020

	Called up share capital £'000	Share premium account £'000	Other reserves £'000	Retained earnings £'000	Total Equity £'000
Balance at 1 January 2019	101,533	277	(71,529)	185,315	215,596
Profit for the financial year	-	-	-	107,572	107,572
Other comprehensive expense for the year	-	-	(13,878)	(23,852)	(37,730)
Total comprehensive income for the year	-	-	(13,878)	83,720	69,842
Dividend paid	-	-	-	(126,394)	(126,394)
Equity settled share based payment reserve	-	-	2,186	-	2,186
On dissolution of subsidiary IT Cosmetics Limited	-	-	(223)	-	(223)
Balance at 31 December 2019	101,533	277	(83,444)	142,641	161,007
Profit for the financial year	-	-	-	111,667	111,667
Other comprehensive income for the year	-	-	11,290	7,439	18,729
Total comprehensive income for the year	-	-	11,290	119,106	130,396
Dividend paid	-	-	-	(107,572)	(107,572)
Equity settled share based payment expense	-	-	2,817	-	2,817
Adjustment for discontinued business	-	-	252	(252)	-
Balance at 31 December 2020	101,533	277	(69,085)	153,923	186,648

Notes to the Financial Statements

1. Accounting policies

General information

L'Oréal (U.K.) Limited is a private company limited by share capital and registered in England and Wales and domiciled in the United Kingdom. The address of the registered office is given on page 1 of these financial statements.

These financial statements are presented in pounds Sterling which is the functional currency of the Company. Foreign operations are included in accordance with the policies set out below.

Foreign currency transactions are translated at the rate effective at the transaction date. Monetary assets and liabilities denominated in foreign currencies have been translated using exchange rates effective at Balance Sheet date. Gains and losses from foreign currency transactions are included in the Income Statement.

Basis of accounting

These financial statements have been prepared in accordance with the Companies Act 2006 as applicable to companies using Financial Reporting Standard 101, *FRS 101 Reduced Disclosure Framework*. These financial statements have been prepared under the historical cost convention with the exception of financial instruments which are recognised at fair value. Significant accounting policies have been included in the relevant notes to which the policies relate. These policies have been consistently applied to all years presented, unless otherwise stated.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

1) Paragraphs 45b and 46 to 52 of *IFRS 2 Share-based payment* (details of the number and weighted average exercise prices of share options, and how the fair value of goods and services received was determined).
2) *IFRS 7 Financial Instruments: Disclosures.*
3) Paragraphs 91 to 99 of *IFRS 13 Fair value measurement* (disclosure of the valuation techniques and inputs used for fair value measurement of assets and liabilities).
4) The requirements of the second sentence of paragraph 110 and paragraph 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of *IFRS 15 Revenue from contracts with customers.*
5) Paragraph 38 of *IAS 1 Presentation of financial statements,* comparative information requirements in respect of:
    - paragraph 79 (a) (iv) of *IAS 1 Presentation of financial statements*
    - paragraph 73 (e) of *IAS 16 Property, plant and equipment*
    - paragraph 118 (e) of *IAS 38 Intangible assets* (reconciliation between the carrying amount at the beginning and end of the period).
6) The following paragraphs of *IAS 1 Presentation of financial statements:*
    - 10 (d) (statement of cash flows)
    - 10 (f) (a statement of financial position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or make a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements)
    - 16 (statement of compliance with all IFRS)
    - 38A (requirement for a minimum of two primary statements, including cash flow statement)
    - 38B-D (additional comparative information)
    - 40A-D (change in accounting policy, retrospective of reclassification)
    - 111 (cash flow statement information)
    - 134 to 136 (capital management disclosures).
7) *IAS 7 Statement of cash flows.*
8) Paragraph 30 and 31 of *IAS 8 Accounting policies, changes in accounting estimates and errors* (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective).
9) Paragraph 17 and 18A *IAS 24 Related party disclosures* (key management compensation).

Notes to the Financial Statements

1. **Accounting policies** (continued)

10) The requirements in *IAS 24 Related party disclosures* to disclose related party transactions entered into between two or more members of the group.
11) Paragraphs 134 (d) to 134 (f) and 135 (c) to 135 (e) of *IAS 36 Impairment of assets* (assumptions involved in estimating recoverable amounts of cash generating units containing goodwill or intangible assets with indefinite useful lives and management's approach to determining these amounts).

The Company is exempt from the requirements of *IFRS 8 Operating Segments* on the grounds that its shares are not traded on the stock exchange. Segmental data is included in the consolidated financial statements of the parent company, L'Oréal S.A., and these can be obtained as set out in note 29.

Going concern

The directors have assessed the relevant business risks and believe that the Company is well placed to manage these risks successfully. The Company is operationally and financially strong with past performance showing that it consistently generates profits and cash.

L'Oréal (U.K.) Limited has made projections up until 31 December 2022. We have considered the impact and potential further risks of the Covid-19 pandemic, the reality of Brexit, and the implications these events could have on the wider economy. Based on these factors we have looked at our business and its forecasted evolution, our beauty market by category, developments in our brands and our program for new launches. We have considered cash flows, revenues and profits. We are satisfied that our profit levels will be maintained at healthy levels, our credit levels are well controlled and there are no significant risks to the cash position.

The directors have, at the time of approving the financial statements, an expectation that the Company, being part of the L'Oréal worldwide banking arrangement, has adequate resources to continue in operational existence for at least 12 months from the signing of these financial statements. For this reason they continue to adopt the going concern basis of accounting in preparing the financial statements.

Consolidated financial statements

The Company is a wholly-owned subsidiary of L'Oréal S.A. and is included in the consolidated financial statements of L'Oréal S.A. which are publicly available. Consequently, the Company has taken advantage of the exemption from preparing consolidated financial statements under the terms of section 400 of the Companies Act 2006.

Application of new and revised standards

New and amended standards and interpretations applied
The following new and amended standards and interpretations have been issued and are effective for the current financial period of the company:

Amendment to *IFRS 16 Leases – Covid-19 Related rent concessions.* In the current year the Company applied *Covid-19 Related rent Concessions (Amendment to IFRS 16 Leases).* The amendment is effective for annual periods that begin on or after 1 June 2020, however as the company has qualifying rent concessions during the year ended 31 December 2020 the company has applied this amendment from 1 January 2020.

The company has applied the practical expedient in the amendment, which permits reductions in rent payments granted as a direct consequence of the Covid-19 pandemic and originally due on or before 30 June 2021 to be credited to the income statement, rather than requiring remeasurement of the lease. The impact of the adoption of this amendment is described in note 12.

Notes to the Financial Statements

1. Accounting policies (continued)

Other amendments
In the current year, the company has applied a number of amendments to standards and interpretations issued by the IASB that are effective for an annual period that begins on or after 1 January 2020. These have not had any material impact on the amounts reported for the current year:

- Amendments to References to the Conceptual Framework in IFRS Standards
- Amendments to IAS 1 and IAS 8 : Definition of Material

Consolidated financial statements

The Company is a wholly-owned subsidiary of L'Oréal S.A. and is included in the consolidated financial statements of L'Oréal S.A. which are publicly available. Consequently, the Company has taken advantage of the exemption from preparing consolidated financial statements under the terms of section 400 of the Companies Act 2006.

True and fair override not to amortise goodwill

The Company Balance Sheet shows acquired goodwill at a value of £2,765,000 relating to the professional haircare brand Matrix. The Matrix brand continues to grow thanks to the success of innovative hair products especially made for hairdressers and salons therefore the directors consider it appropriate to assign an indefinite life to the goodwill. Goodwill is tested for impairment annually and again whenever indicators of impairment are detected and is carried at cost less any provision for impairment.

Paragraph 28 of schedule 9 to the Companies Act 2006 requires that goodwill carried on the Balance Sheet should be amortised. The directors consider that it is appropriate to depart from this requirement in order to comply with the over-riding requirement for the financial statements to show a true and fair view. If this goodwill was amortised over a period of 20 years, profit before taxation for the year ended 31 December 2020 would be £74,000 lower. 2020 is the final year in which amortisation would be charged to the Income Statement as the net book value of the goodwill would be nil.

Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

There are no critical accounting judgements to be disclosed. The below constitute key sources of estimation uncertainty.

Defined benefit scheme

The Company has an obligation to pay pension benefits to certain employees. The cost of these benefits and the present value of the obligation depend on a number of factors, including: life expectancy, salary increases, asset valuations and the discount rate on corporate bonds. Actuaries estimate these factors in determining the net pension obligation in the Balance Sheet. The assumptions reflect historical experience and current trends. See note 22 for further details.

Notes to the Financial Statements

2. Turnover

Accounting policy

IFRS 15 Revenue from contracts with customers defines a five step model which should be applied to contracts with customers in order to determine when revenue should be recognised and at what amount. Revenue from the sale of goods to wholesalers is recognised once control of the goods is transferred to the customer and the customer has control, which is the date of dispatch from the distribution centre. Products are not sold on a 'sale and return' basis however a refund liability is recognised where the Company may accept a return of unsold or outdated products. This refund liability is presented within provisions for liabilities.

For the sale of goods online, revenue is recognised at the point of dispatch.

For sales of goods to customers in our stores, revenue is recognised when the customer obtains controls of the goods, which is when the transaction is completed in store.

Turnover comprises the amounts receivable for goods provided outside the L'Oréal S.A. group in the normal course of business, net of value added tax, sales incentives, cash discounts and returns. Incentives granted to distributors or consumers resulting in a cash outflow, such as commercial cooperation, coupons, discounts and loyalty programmes are also deducted from sales. Sales incentives, cash discounts, provisions for returns and incentives granted to customers are recorded simultaneously to the recognition of the sales if they can be estimated in a reasonably reliable manner, based mainly on statistics compiled from past experience and contractual conditions. Accruals for expected payments are included in other current liabilities in the Balance Sheet.

Turnover originates from the United Kingdom. The geographical destination of turnover is the United Kingdom and Ireland.

3. Government grants

Accounting policy

The Company has received Government support in the year. A Government grant is recognised in the Balance Sheet within other receivables when there is reasonable assurance that it will be received and that the Company will comply with the conditions attached to it. Grants are recognised gross as other operating income within operating profit in the Income Statement at a point in time to match the timing of the recognition of the related expenses that are intended to compensate.

During the year the Company received Business Rates Relief of £1,174,000 and Government support in the form of Job Retention Scheme for furloughed employees of £13,034,000.

4. Operating profit

	2020	2019
	£'000	£'000
Operating profit is stated after charging/(crediting):		
Amortisation of intangible assets	**2,593**	4,212
Impairment charges on tangible assets	**248**	3,246
Depreciation of property, plant and equipment	**18,410**	21,944
Impairment charges on right of use assets	**2,974**	4,906
Depreciation of right of use assets	**12,133**	15,205
Cost of inventories recognised as an expense	**302,982**	328,880
Write downs of inventories recognised as an expense	**4,915**	1,874
Impairment loss recognised on loans receivable carried at amortised cost	**-**	27
Impairment loss recognised on trade receivables	**1,017**	292
Loss/(gain) on foreign exchange	**3,614**	(1,132)
Costs of hedging transactions	**4,707**	3,876

Notes to the Financial Statements

4. **Operating profit** (continued)

Services provided by the Company's auditors and its associates
During the year the Company obtained the following services from its auditors as detailed below:

	2020	2019
	£'000	£'000
Fees payable to the Company's auditors for the audit	**307**	276
Fees payable to the Company's auditors and its associates for other services:		
Other services	**-**	9
	307	285

5. Finance costs

	2020	2019
	£'000	£'000
Interest payable	**60**	50
Interest expense on lease liabilities	**497**	911
Other finance costs	**113**	-
	671	961

6. Finance income

	2020	2019
	£'000	£'000
Bank interest	**149**	291
Other finance income (defined benefit pension scheme)	**2,026**	3,382
	2,175	3,673

7. Staff costs

The average monthly number of persons employed by the Company during the year, including directors, was:

	2020	2019
	Number	Number
Selling and distribution	**3,583**	3,950
Administration	**393**	393
	3,976	4,343

The aggregate costs of employment were as follows:

	2020	2019
	£'000	£'000
Wages and salaries	**147,087**	156,443
Social security costs	**17,314**	17,184
Defined contribution pension contributions	**12,234**	11,439
Defined benefit pension costs	**3,816**	3,578
Equity settled share based payment cost	**2,148**	2,186
	182,599	190,830

Notes to the Financial Statements

7. Staff costs (continued)

Directors' emoluments:	**2020 £'000**	2019 £'000
Aggregate emoluments	**1,222**	1,110
Aggregate gains on exercise of share incentives	**422**	844
Aggregate emoluments	**1,644**	1,954

Highest paid director:	**2020 £'000**	2019 £'000
Aggregate emoluments (excluding pension costs)	**1,045**	790
Aggregate gains on exercise of share incentives	**422**	218
Aggregate emoluments	**1,467**	1,008

No retirement benefits are accruing to directors (2019: none) under the Company defined contribution pension scheme or defined benefit scheme and no contributions were paid by the Company into the schemes during the year (2019: none).

During the year no amounts (2019: £31,451) were recharged to L'Oréal UK from another group company in respect of retirement benefits accruing to 1 director (2019: 1 director) under a defined contribution scheme .

8. Tax on profit

	2020 £'000	2019 £'000
Current tax:		
United Kingdom corporation tax on profits for the year	**26,178**	34,443
Adjustment in respect of prior years	**(190)**	(434)
	25,988	34,009
Deferred tax:		
Origination and reversal of temporary differences in the current year	**443**	(2,412)
Adjustment in respect of prior years	**677**	588
Effect of change in tax rates	**(949)**	340
	171	(1,484)
Tax expense for the year in income statement	**26,159**	32,525

In addition to the amount charged to the Income Statement, the following amounts relating to tax have been recognised directly in equity:

	2020 £'000	2019 £'000
Current tax credit relating to pension deduction	**-**	(2,183)
Deferred tax on actuarial gain/loss on defined benefit obligations	**3,692**	(2,702)
Deferred tax on cash flow hedges	**2,256**	(3,322)
Deferred tax on equity settled share based payment	**(669)**	-
Tax recognised directly in equity	**5,279**	(8,207)

The tax assessed for the year is lower (2019: higher) than the standard rate applied in the UK: 19% (2019: 19%). The differences are explained below:

Notes to the Financial Statements

8. Tax on profit (continued)

	2020 £'000	2019 £'000
Profit before taxation	**137,826**	140,097
Tax at the UK corporation tax rate of 19% (2019: 19%)	**26,187**	26,618
Effects of expenses that are not deductible for tax purposes	**1,021**	6,438
Origination and reversal of temporary differences	**(587)**	(1,025)
Adjustment in respect of prior years	**487**	154
Effect of change in tax rates	**(949)**	340
Tax expense for the year in income statement	**26,159**	32,525

The Company's profits for the accounting period to 31 December 2020 were taxed at an effective rate of 18.98% (2019: 23.22%). The main rate of UK corporation tax is 19%, effective since 1 April 2018.

9. Dividends

	2020 £'000	2019 £'000
Equity dividend paid: 26.49p (2019: 31.12p) per share	**107,572**	126,394

The directors proposed a final dividend for the year ended 31 December 2020 of £86,406,000 (2019: £107,572,000) which equates to 21.28p (2019: 26.49p) per share. The proposed final dividend was approved by the Board of Directors and paid in 2021. It has not been included as a liability in these financial statements.

10. Intangible assets

Accounting policy

Goodwill

Goodwill represents the excess of the fair value of the acquired assets and liabilities over the fair value of the identified assets and liabilities. Goodwill is allocated to the Cash Generating Units (CGU) expected to benefit from the acquisition. Goodwill is considered to have an indefinite useful life. Goodwill is tested for impairment annually and again whenever indicators of impairment are detected and is carried at cost less any provision for impairment.

The goodwill balance above is allocated to one cash-generating unit. The value of goodwill was tested for impairment during the current year by means of comparing the recoverable amount of the CGU with the carrying value of its goodwill.

The recoverable amount is its value in use. Recoverable values are determined on the basis of discounted operating cash flow forecasts covering a period of 5 years and a terminal value. The discount rate used for these calculations is based on the weighted average cost of capital and has been determined by L'Oréal S.A. to be 8.6% in 2020 (2019: 6.9%). The assumptions adopted in terms of sales growth and terminal values are reasonable and consistent with the available market data. No impairment loss was identified in 2020 or 2019. There is sufficient headroom such that a reasonably possible change in the key assumptions used would not result in an impairment of the goodwill.

Notes to the Financial Statements

10. Intangible assets (continued)

Other intangible assets

Trademarks are measured at purchase cost and are amortised on a straight line basis over their estimated useful lives. Software acquired for internal use is recorded at purchase cost less any subsequent accumulated amortisation.
Costs are classed as under construction and are not amortised until such a time that the main functions of the software application become operational. Completed software is amortised on a straight line basis over its probable service life, with a maximum of 8 years.
Amortisation is charged to selling, general and administrative expenses.

	Goodwill £'000	Trademarks £'000	Software £'000	Software under construction £'000	Total £'000
Cost					
At 1 January 2020	2,765	677	18,888	2,519	24,849
Additions	-	-	1,241	-	1,241
Disposals	-	-	(583)	(147)	(730)
Transfers	-	-	2,174	(2,372)	(198)
At 31 December 2020	**2,765**	**677**	**21,720**	**-**	**25,162**
Accumulated amortisation					
At 1 January 2020	-	672	11,826	-	12,498
Disposals	-	-	(584)	-	(584)
Charge for the year	-	5	2,588	-	2,593
Transfers	-	-	7	-	7
At 31 December 2020	**-**	**677**	**13.837**	**-**	**14,514**
Net book value					
At 31 December 2020	**2,765**	**-**	**7,883**	**-**	**10,648**
At 31 December 2019	2,765	5	7,062	2,519	12,351

Notes to the Financial Statements

11. Tangible assets

Accounting policy

Tangible assets are recorded on the Balance Sheet at purchase cost less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Assets in the course of construction are carried at purchase cost and are not depreciated until ready for their intended use. Depreciation is provided on all fixed assets using the straight line method, except assets in the course of construction, at the following rates:

Point of sale advertising, stands and displays	- 3 or 5 years
Other tangible assets	- 2 to 15 years

The Company reviews the carrying amounts of its property, plant and equipment to determine whether there has been an indication of impairment loss. If an indication exists then the recoverable amount of the asset, being the higher of its fair value less disposal costs and its value in use, is estimated to determine the extent of the impairment loss.
Where the asset does not generate cash flows independently from other assets, the asset is allocated to a Cash Generating Unit (CGU) to which the asset belongs.

	Point of sale advertising, stands and displays £'000	Other tangible assets £'000	Assets under construction £'000	Total £'000
Cost				
At 1 January 2020	91,773	37,091	3,053	131,917
Additions	3,867	1,497	2,532	7,896
Disposals	(52,274)	(817)	-	(53,091)
Transfers	873	(7)	(668)	198
At 31 December 2020	**44,239**	**37,764**	**4,917**	**86,920**
Accumulated depreciation				
At 1 January 2020	69,577	28,530	-	98,107
Charge for the year	15,425	2,985	-	18,410
Disposals	(52,274)	(817)	-	(53,091)
Impairment	8	240	-	248
Transfers	7	(7)	-	-
At 31 December 2020	**32,743**	**30,931**	**-**	**63,674**
Net book value				
At 31 December 2020	**11,496**	**6,833**	**4,917**	**23,246**
At 31 December 2019	22,196	8,561	3,053	33,810

11. Tangible assets (continued)

During 2020 the Company has reported impairment losses within its portfolio of retail stores due to changes in UK market conditions which resulted in lower store performance. An impairment loss on tangible assets of £248,000 (2019: £3,246,000) was charged to the Income Statement in the year. The discount rate used within the impairment calculation was 8.6%.

Capital commitments

	2020	2019
	£'000	£'000
Contracted, placed for future capital expenditure not provided for in the financial statements	**2,098**	3,433

12. Leases

Accounting policy

The Company has applied *IFRS16 Leases* from 1 January 2019.

At inception of a contract the Company assesses whether a contract is, or contains, a lease. A contract is, or contains a lease, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Company leases buildings for offices, distribution centres, hair academies and retail stores. Lease terms are negotiated on an individual basis and contain a wide range of terms and conditions. Leases are typically made for a fixed period of 10 – 15 years and may include extension options which provide operational flexibility. The Company also leases vehicles and equipment for use in the business. Lease terms on these are generally 3 – 7 years.

Right of use (ROU) assets are initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of the costs to restore the underlying asset or site on which it is located, less any lease incentives received.

The right of use asset is subsequently depreciated using the straight line method from the commencement date to the earlier of; the end of the useful life of the right of use asset or the end of the lease term.

Under IFRS 16, right of use assets are tested for impairment in accordance with *IAS 36 Impairment of Assets*. This replaces the previous requirement to recognise a provision for onerous lease contracts.

The lease liability at commencement date is measured as the present value of future lease payments, discounted by the interest rate implicit in the lease, or where this is not readily determined, the Company's incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise of:

(a) fixed lease payments (including in substance fixed payments), less any lease incentives
(b) variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date
(c) the exercise price of purchase options, if the lessee is reasonably certain to exercise the options, and
(d) payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

Notes to the Financial Statements

12. Leases (continued)

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right of use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included as operating expenses in the Income Statement.

The lease liability is subsequently measured at amortised cost, increasing the carrying amount to reflect interest on the lease liability and by reducing the carrying amount to reflect the lease payments made. The liability is re-measured when there is a change in future lease payments due to a change in assessment of exercising a purchase, extension or termination option.

The Company has elected to apply the practical expedient provided by the *Covid-19 Related rent Concessions (Amendment to IFRS16 Leases)* to all reductions in its lease payments during the year ended 31 December 2020 which occurred as a direct consequence of the Covid-19 pandemic. The practical expedient permits these reductions in rent payments to be credited to the Income Statement, rather than requiring a remeasurement of the lease. The application of this amendment has resulted in a credit of £646,000 to the Income Statement for the year ended 31 December 2020.

Leased right of use assets

	Buildings £'000	Buildings Retail £'000	Other tangible assets £'000	Total £'000
Net carrying value				
At 1 January 2020	30,444	13,318	5,534	49,296
Additions at cost	2,150	3,268	375	5,793
Disposals at net carrying value	-	(65)	(12)	(77)
Lease modifications	(2,925)	(2,193)	717	(4,401)
Depreciation for the year	(7,945)	(3,429)	(759)	(12,133)
Impairment	-	(2,974)	-	(2,974)
At 31 December 2020	**21,724**	**7,925**	**5,855**	**35,504**

During 2020 the Company has reported impairment losses within its portfolio of retail stores due to changes in UK market conditions which resulted in lower store performance. An impairment loss on right of use assets of £2,974,000 (2019: £4,906,000) was charged to the Income Statement in the year. The discount rate used within the impairment calculation was 8.6%. A 1% increase in the discount rate would have increased the impairment loss on right of use assets by £45,000.

Notes to the Financial Statements

12. Leases (continued)

Lease liabilities

	2020 £'000	2019 £'000
At 1 January	**51,000**	-
Adjustment on transition to IFRS16	**-**	70,024
New leases	**5,551**	5,572
Disposals	**(77)**	(1,075)
Cash payments	**(14,646)**	(15,310)
Exchange and other movements	**124**	(129)
Lease modifications	**(4,401)**	(8,082)
As at 31 December	**37,551**	51,000

The maturity analysis of lease liabilities is as follows:

	2020 £'000	**2019 £'000**
Due within one year	**12,916**	**15,553**
Due between one and five years	**22,612**	**33,032**
Due after five years	**2,023**	**2,415**
	37,551	**51,000**

The company has elected not to recognise a right of use asset for short term leases or for leases of low value assets. Rental payments on these leases are charged directly to the Income Statement as follows:

	2020 £'000	2019 £'000
Short term leases	**109**	536
Low value asset leases	**799**	718
Variable lease payments not included in the lease liability	**92**	69
	1,000	1,323

The future commitments on short term and low value assets are £760,000 (2019: £688,000) due in less than 1 year and £624,000 (2019: £584,000) due between 2 and 5 years.

The effects of excluding future cash outflows arising from variable lease payments, termination options and residual value guarantees from lease liabilities was not material.

Notes to the Financial Statements

12. Leases (continued)

Leases not yet commenced

The company has committed to leases with a future commencement date. In particular the Company has signed an agreement for a 15 year lease commencing in 2022. The future aggregate minimum lease payments on such leases is as follows:

	As at December 2020 £'000	As at December 2019 £'000
Due within one year	**21**	139
Due between one and five years	**587**	1,185
Due after five years	**90,328**	91,262
	90,936	92,586

13. Investments

Investments are recognised at amortised cost less any provision considered necessary for impairment.

	2020 £'000 Investment in subsidiaries	**£'000 Other**	2019 £'000 Investment in subsidiaries	£'000 Other
At 1 January	-	**273**	-	352
Addition	**16,941**	-	-	-
Amortisation	-	**(80)**	-	(79)
At 31 December	**16,941**	**193**	-	273

Investments in subsidiaries

On 11 December 2020, L'Oréal (U.K.) Limited acquired Azzaro Mugler Beauté Limited for a value of €18,443,000.

At 31 December 2020, the Company held ordinary shares in the following subsidiary undertakings:

Subsidiary undertaking	**Country of incorporation**	**Registered office**	**Percentage holding of ordinary share capital**	**Nature of business**
Two Five Five Limited	England and Wales	255 Hammersmith Road, London, W6 8AZ	100%	Not trading
Azzaro Mugler Beauté Limited	England and Wales	255 Hammersmith Road, London, W6 8AZ	100%	Retail perfumes

Other investments

During the year ended 31 December 2018, employees of the Company were invited to join a Share Incentive Plan and purchase shares in L'Oréal S.A. Participants were awarded 'Matching (bonus) shares'. The Company funded the purchase of these bonus shares and is amortising the value of the loan over the 5 year vesting period of the Plan.

Notes to the Financial Statements

14. Deferred tax liability

Accounting policy

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profits, and is accounted for using the balance sheet liability method.

Deferred tax is measured using the tax rate enacted at the closing date.

Deferred tax assets are only recognised to the extent it is probable that sufficient future taxable profits will be available against which they can be utilised.

Deferred tax assets and liabilities are offset as the Company has a legally enforceable right to set off current tax assets against current tax liabilities, and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority.

The following are the major deferred tax assets and (liabilities) recognised and movements during the current and prior years.

	Accelerated tax depreciation £'000	Share based payments £'000	Retirement benefit obligations £'000	FX derivatives £'000	Other £'000	Total £'000
At 1 January 2019	**6,025**	**1,059**	**(18,843)**	**(226)**	**1,661**	**(10,324)**
Effect of a change in accounting policy (see note 1)	-	-	-	-	258	258
Credit/(charge) to income statement	1,533	307	(257)	-	241	1,824
Credit to equity or other comprehensive income	-	-	2,702	3,322	-	6,024
Effect of change in tax rate in the income statement	(234)	(105)	257	-	(258)	(340)
At 31 December 2019	**7,324**	**1,261**	**(16,141)**	**3,096**	**1,902**	**(2,558)**
Credit/(charge) to income statement	699	(498)	(2,083)	-	762	(1,120)
Credit/(charge) to equity or other comprehensive income	-	669	(3,692)	(2,256)	-	(5,279)
Effect of change in tax rate in the income statement	834	155	(322)	-	282	949
At 31 December 2020	**8,857**	**1,587**	**(22,238)**	**840**	**2,946**	**(8,008)**

Deferred tax is measured at 19% (2019: 17%).

There is an unrecognised deferred tax asset in respect of trading losses carried forward of £163,856 (2019: £166,754) relating to three ancillary trades carried on by the Company. These losses may only be offset against future profits arising from those particular trades. In the view of the directors of the Company it is not considered that, in the foreseeable future, sufficient suitable profits will arise against which the losses may be offset and therefore no deferred tax asset is recognised in respect of these losses.

Notes to the Financial Statements

15. Inventories

Accounting policy

Stocks are valued at the lower of cost and estimated net realisable value. Cost is calculated at purchase price on the basis of weighted average prices, less costs to bring the inventories to their present location and condition. Net realisable value is based on estimated selling price in the ordinary course of business, less applicable variable selling expenses. The difference between the balance sheet value of inventories and the replacement value is not material.

	2020 £'000	2019 £'000
Finished products	**75,542**	69,089
Less: provision for obsolete inventories	**(7,929)**	(6,054)
Net inventories	**67,613**	63,035

16. Trade and other receivables

Accounting policy

In line with the requirement of *IFRS 9 Financial instruments,* trade receivables are recorded net of an allowance for expected credit loss. The amount of expected credit loss is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective trade receivable.

The Company always recognises lifetime expected credit losses for trade receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Company's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

Movement in the expected credit loss is shown within selling, general and administrative expenses in the Income Statement.

Trade receivables are due within one year.

	2020 £'000	2019 £'000
Trade receivables	**157,715**	165,350
Amounts owed by parent company	**601**	250
Amounts owed by group undertakings	**42,890**	46,617
Less: expected credit losses on trade receivables	**(1,862)**	(1,061)
Net trade receivables	**199,344**	211,156

Amounts owed by parent company and group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand. The allowance for credit loss does not include any amount related to intercompany receivables because there is no historic write offs of such amounts, and hence any expected credit loss calculation would result in a nil allowance.

Notes to the Financial Statements

17. Other current assets

Accounting policy

Loans and other receivables are recorded at amortised cost. Loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as other current assets.

	2020 **£'000**	2019 £'000
Tax and employee related receivables (excluding current tax)	**7,698**	5,558
Prepaid expenses	**2,471**	5,822
Other	**3,650**	363
	13,819	11,743

Other includes an amount of £142,000 (2019: £148,000) which is due after more than one year.

Other also includes an amount of £182,000 (2019: £160,000) which is impaired at the Balance Sheet date and is carried at a nominal value of £nil (2019: £nil). Movements in the provision for impaired other current assets is shown within selling, general and administrative costs in the Income Statement.

18. Called up share capital and share premium account

Ordinary shares issued are classified as equity.

	2020 **'000**	2019 '000	**2020** **£'000**	2019 £'000
Called up share capital				
Allotted and fully paid ordinary shares (par value £0.25)	**406,133**	406,133	**101,533**	101,533
Share premium account				
Share premium			**277**	277

Notes to the Financial Statements

19. Other reserves

	Merger reserve £'000	Hedging reserve £'000	Cost of hedging reserve £'000	Share based payment reserve £'000	Total other reserves £'000
Balance at 1 January 2019	**(83,502)**	**2,492**	**(1,367)**	**10,848**	**(71,529)**
Effective portion of gains and losses on cash flow hedges (net of tax)	-	(13,464)	(414)	-	**(13,878)**
Change in fair value of equity-settled share based payment transactions (net of tax)	-	-	-	2,186	**2,186**
On dissolution of subsidiary company IT Cosmetics Limited	(223)				**(223)**
Balance at 31 December 2019	**(83,725)**	**(10,972)**	**(1,781)**	**13,034**	**(83,444)**
Effective portion of gains and losses on cash flow hedges (net of tax)	-	9,812	1,478	-	**11,290**
Change in fair value of equity-settled share based payment transactions (net of tax)	-	-	-	2,817	**2,817**
Merger adjustment for discontinued business	252	-	-	-	**252**
Balance at 31 December 2020	**(83,473)**	**(1,160)**	**(303)**	**15,851**	**(69,085)**

The merger reserve was created in 2009 and was later adjusted following the transfer of Decleor (U.K.) Limited in 2015 of its assets and liabilities. The merger reserve was further adjusted following the transfer of IT Cosmetics Limited assets and liabilities on 1 July 2018 and again on dissolution on 8 January 2019.

The hedging reserve represents the cumulative effective fair value gains and losses on cash flow hedges. These gains and losses are reclassified to the Income Statement in the period when the hedged item affects the profit or loss.

The share based payment reserve represents the fair value gains and losses on equity-settled share based payment transactions.

20. Retained earnings

	Total retained earnings £'000
Balance at 1 January 2019	185,315
Profit for the financial year	107,572
Dividends paid	(126,394)
Actuarial loss on defined benefit obligations (net of tax)	(23,852)
Balance at 31 December 2019	**142,641**
Profit for the financial year	111,667
Dividends paid	(107,572)
Actuarial gain on defined benefit obligations (net of tax)	7,439
Merger adjustment for discontinued business	(252)
Balance at 31 December 2020	**153,923**

21. Share-based payments

Accounting policy

The financial statements are prepared in accordance with the requirements of standard IFRS 2 Share-based Payment in respect of options granted to employees to purchase or subscribe for shares in its parent Company. The fair value of equity-settled share-based payments is determined at the date of grant and is expensed to the income statement on a straight-line basis over the vesting period, which is five years for purchase options and four years for free shares.

As the share options are equity-settled the corresponding entry is recognised in equity.

The fair value of stock options is determined using the Black Scholes model. This model allows for the characteristics of the plan such as exercise price and exercise period, market data at the grant date such as the risk-free rate, share price, volatility, expected dividends and behavioural factors of the beneficiaries. The fair value of free shares corresponds to the value of the share at the grant date, less dividends expected to be paid during the vesting period.

Share purchase and subscription options

There was a Company stock option plan for senior managers which granted a number of options with a vesting period of 5 years and a holding period of 10 years and no performance conditions. The plan was terminated following the 2011 grant.

At 31 December 2019, there were 2,000 options that were not yet exercised relating to the grant of options made in April 2010. The exercise period for this grant of options was 28 April 2015 to 27 April 2020. There are no options outstanding at 31 December 2020.

Notes to the Financial Statements

21. Share-based payments (continued)

Data concerning share option plans during 2020 and 2019 are set out below:

	2020 Number of options	**2020** Weighted Average price (Euros)	2019 Number of options	2019 Weighted Average price (Euros)
Number of options outstanding at the beginning of the year	2,000	€80.03	7,000	€75.76
Options exercised	(2,000)	€80.03	(5,000)	€74.05
Number of options outstanding at the end of the year	-	-	2,000	€80.03
Of which: number of exercisable options at end of the year	-	-	2,000	€80.03

ACAS shares

These are 'free shares' given to senior employees of the global Company on an annual basis. The scheme has been in place since 2009. For the UK, approximately 50 participate each year. The grant date is usually April of each year, and the plans have a 4 year vesting period. The plans are subject to performance criteria as follow for the 2015 - 2020 plans:

- For one half, L'Oréal growth when compared to cosmetic sales of a panel of competitors
- For one half, the growth in consolidated operating profit of the L'Oréal Group
  In addition, the participants must remain employed by the Company throughout the vesting period.

The table below summarises data related to the free share plan vesting after 1 January 2018:

Share Subscription plans	**Vesting date**	**Number of shares granted**	**Share price (Euros)**	**Fair Value (Euros)**
17.04.2014	18.04.2018	13,850	€121.35	€109.99
22.04.2015	23.04.2019	12,875	€177.10	€164.50
20.04.2016	21.04.2020	15,325	€168.10	€154.32
20.04.2017	21.04.2021	14,275	€181.75	€166.90
17.04.2018	18.04.2022	16,300	€191.85	€176.17
18.04.2019	19.04.2023	13,900	€243.80	€226.25
14.10.2020	15.10.2024	12,250	€288.00	€269.37

The fair value corresponds to the value of the share at the grant date, less dividends expected to be paid during the vesting period.

Notes to the Financial Statements

21. Share based payments (continued)

L'Oréal Employee Share Plan and Share Incentive Plan (SIP)

As part of the Group's global all-employee share plan, employees were given the opportunity to subscribe to a L'Oréal Employee Share Plan in which free shares were offered. The number of free shares offered was dependent on the contribution made to the plan with a maximum of 4 shares offered for every 10 shares subscribed. The shares vest over a 5 year period. Should the employee leave before the end of the vesting period, the free shares would be lost.

Plan 2018
For employees in the Republic of Ireland, the subscription price set was €162.52 representing 80% of the average opening share price in the stock market between 4th May 2018 and 31st May 2018. The number of shares in which employees subscribed was 562 and that amounted to 140 free shares.

For employees in the United Kingdom, they became involved in the L'Oréal Share Incentive Plan (SIP). The subscription price set was €205.66 representing the lower of the share price on 1st July 2018 or the purchase price in November 2018. The number of shares in which employees subscribed was 4,514 and that amounted to 2,010 free shares. Shares, including the matching shares, in the L'Oréal SIP are held in an employee share trust.

Plan 2020
For employees in the Republic of Ireland, the subscription price set was €223.25 representing 80% of the average opening share price in the stock market between 17th August 2020 and 11th September 2020. The number of shares in which employees subscribed was 502 and that amounted to 109 free shares.

For employees in the United Kingdom, the subscription price will be the lower of the share price on 1st October 2020 or the purchase price on 28th June 2021. The number of shares subscribed will be known once the accumulation period finalises on 28th June 2021.

The total amount of expense recorded in 2020 for all share based payment was £2,148,000 (2019: £2,186,000).

The carrying amount at the year-end of liabilities arising from social security costs on share based payment transactions amounted to £1,178,000 (2019 : £1,178,000).

Notes to the Financial Statements

22. Retirement benefit schemes

Accounting policy

The Company operates a defined benefit scheme, The L'Oréal (U.K.) Limited Retirement Benefit Plan. Pension benefits are provided through a trustee administered scheme which is entirely separate from the Company's finances.

The defined benefit pension cost and the present value of the defined benefit obligations are calculated at the reporting date by the schemes' actuaries using the Project Unit Credit Method. The net charge to the Income Statement comprises the current service cost, plus the interest cost (the unwinding of the discount rate on plan liabilities), less the expected return on plan assets. Past service costs are charged immediately to the Income Statement to the extent that the benefits have vested, and are otherwise recognised on a straight-line basis over the average period until the benefits vest.

Guaranteed Minimum Pensions (GMP) – GMP is the minimum pension which a UK occupational pension scheme must provide for those employees who were contracted-out of the State Earnings-Related Pension Scheme between 6 April 1978 and 5 April 1997.
On 26 October 2018, the High Court ruled that pensions provided to members who had contracted-out of the state pension scheme must be recalculated. Pension schemes which provided GMP's must equalise their benefits to ensure no inequality between men and women. GMP equalisation will increase benefits for some members. Where GMP's are already in payment, GMP equalisation is likely to mean an arrears payment will need to be made to members as well as correcting benefits going forward.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actual occurred), as well as the effects of changes in actuarial assumptions. Actuarial gains and losses are recognised in other comprehensive income in the period in which they arise.

The defined benefit asset recognised in the Balance Sheet represents the present value of defined benefit obligations adjusted for unrecognised past service costs and reduced by the fair value of plan assets. A net pension asset is only recognised to the extent that it is expected to be recoverable in the future through a cash refund or a reduction in future payments.

The present value of the pension obligations depend on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations.

The Company determines the appropriate discount rate each year. This is the interest rate that used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. The discount rate has been determined by considering yields available on high quality corporate bonds of an appropriate duration.

The Company also operates a defined contribution pension scheme. Contributions to this scheme are charged to the Income Statement as they fall due. Any contributions unpaid at the balance sheet date are included as an accrual at that date.

Defined benefit scheme principal risks
Through its defined benefit pension plan, the Company is exposed to a number of risks, the most significant of which are detailed below:

Asset volatility
The Plan liabilities are calculated using a discount rate set with reference to corporate bond yields. If Plan assets underperform this yield, this will create a deterioration in the balance sheet position (all else being equal). This volatility has been partly mitigated by the recent pensioner buy-in and asset de-risking.

Inflation risk
The majority of benefits are linked to inflation and so increases in inflation will lead to higher liabilities (although in most cases there are caps in place which protect against extreme inflation). This risk has been partly mitigated by the recent pensioner buy-in and asset de-risking.

22. Retirement benefit schemes (continued)

Longevity
Increases in life expectancy in excess of the increases allowed for in the assumptions will increase non-insured Plan liabilities. Longevity risk has been partly mitigated by the recent pensioner buy-in which reduced the non-insured Plan liabilities.

Changes in bond yields
A decrease in corporate bond yields will increase the value placed on the Plan liabilities, although this will be partially offset by an increase of the Plan's insured annuities, bonds and LDI holdings.

<u>L'Oréal (U.K.) Limited Retirement Benefits Plan</u>
The Plan operates in respect of some of its employees (and former employees) in the UK. The plan is a funded defined benefit arrangement and is a Registered Pension Scheme under the Finance Act 2004. Funding valuations for the plan are carried out under the requirements of the Pensions Act 2004. The plan provides benefits based on length of service and final salary at retirement or earlier date of leaving. The Plan is open to future accrual but closed to new entrants.

Trustees have the primary responsibility for governance of the Plan. Benefit payments are from Trustee-administered funds and Plan assets are held in trust which is governed by UK regulation. Part of the responsibility for governance of the Plan, including setting contribution rates, lies jointly with the Company and the Trustees as required by the Plan's Trust Deeds and Rules and overriding legislation. However, investment decisions are the responsibility of the Trustees only, although they must consult the Company. The Trustees are comprised of nominations from the Company and members in accordance with the Trust Deed and Rules.

The most recent formal funding review valuation had an effective date of 5 April 2020 and was completed by the scheme actuary, Buck Consultants Limited, in March 2021. Under an agreed contingency funding plan, the funding of the plan is assessed on a quarterly basis and the deficit contributions made by the Company will depend on those assessments, varying between nil and £1,250,000 per month. During 2020 the Company has made additional funding contributions of £9,000,000 (2019: £9,000,000) in addition to the salary-related contributions. The company's best estimate of additional contributions to be paid during 2021 is £1,500,000.

The Company makes contributions in respect of active members, the rate of such contributions in 2020 is 32.1% (2019: 32.1%) of relevant salaries (plus an additional amount in respect of members participating in a salary sacrifice arrangement). This will rise to 38.6% from 1 April 2021.

The Company also contributes towards the expenses of operating the Plan (including the Pension protection levy and life assurance premiums). Additional contributions may be made in respect of the expenses associated with special projects related to the Plan.

The next formal funding review valuation will be as of 5 April 2023.

The duration of the plan liabilities is around 22 years. The following table provides information on the timing of the benefit payments (amount undiscounted):

	£'000
Year ending 31 December 2021	**12,709**
Year ending 31 December 2022	**12,077**
Year ending 31 December 2023	**13,595**
Year ending 31 December 2024	**13,979**
Year ending 31 December 2025	**15,640**
Five years ending 31 December 2030	**85,496**

22. Retirement benefit schemes (continued)

The major assumptions used by the actuaries were as follows:

	2020	2019
Salary increases	**3.40%**	3.00%
Rate of increase of LPI pensions in payment – L'Oréal plan	**2.80%**	2.95%
Discount rate	**1.50%**	2.00%
Inflation (Retail Prices) assumption	**2.85%**	3.00%
Inflation (Consumer Prices) assumption	**2.40%**	2.00%

The base mortality assumptions are based on the SAPS S3 tables (2019: SAPS S2 tables), with adjustments to reflect the Schemes population. Future mortality improvements are CMI 2019 (2019: CMI 2018) projections with a long-term rate of improvement of 1.5% per annum for males and 1.25% per annum for females (2019: 1.5% per annum for males and 1.25% per annum for females).

The amounts recognised in the Balance Sheet are determined as follows:

	2020 £'000	2019 £'000
Present value of defined benefit obligation	**662,662**	586,470
Fair value of plan assets	**(779,705)**	(681,419)
Asset in the Balance Sheet	**(117,043)**	(94,949)

A net asset has been recognised as the Company believe it has an unconditional right to a refund of surplus in the Plan, assuming the gradual settlement of the Plans liabilities over time until all members have left the Plan.

The movement in the defined benefit obligation over the year is as follows:

	2020 £'000	2019 £'000
Opening defined benefit obligation	**586,470**	524,966
Current service cost	**3,816**	3,578
Employee contributions	**39**	39
Interest cost	**11,561**	14,163
Actuarial loss	**77,696**	63,765
Benefits and expenses paid	**(16,920)**	(20,041)
Closing defined benefit obligation	**662,662**	586,470

Based on the assumptions set out above, the impact on the present value of the defined benefit obligations of changing the following individual assumptions (with all other assumptions remaining unchanged) is set out below:

	2020 £'000
Value of obligations at the end of the year if:	
Assumptions as set out above	
Discount rate reduced by 0.5% p.a.	**739,411**
Discount rate increased by 0.5% p.a.	**596,585**
Inflation reduced by 0.25%* p.a.	**636,354**
Inflation increased by 0.25%* p.a.	**690,981**

*This sensitivity allows for the impact on all inflation related assumptions (salary increases, deferred revaluation and pension increases) (subject to the relevant caps and floors.

22. Retirement benefit schemes (continued)

The net retirement benefit obligation is the difference between the retirement benefit obligation and the fair value of plan assets. Changes in the assumptions may occur at the same time as changes in the fair value of plan assets. The same method (projected unit method) and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

The movement in the fair value of plan assets of the year is as follows:

	2020 £'000	2019 £'000
Opening fair value of scheme assets	**681,419**	635,812
Return on plan assets excluding interest income	**88,827**	35,029
Employer contributions	**12,753**	13,188
Employee contributions	**39**	39
Interest income	**13,587**	17,392
Benefits and expenses paid	**(16,920)**	(20,041)
Closing fair value of plan assets	**779,705**	681,419

An analysis of the movement in the Balance Sheet liability is as follows:

	2020 £'000	2019 £'000
Asset at the beginning of the year	**(94,949)**	(110,846)
Net expense recognised in the Income Statement	**1,790**	349
Employer contributions	**(12,753)**	(13,188)
Actuarial (gain)/loss recognised in the Statement of Comprehensive Income	**(11,131)**	28,736
Asset at the end of the year	**(117,043)**	(94,949)

Amounts recognised in the Statement of Comprehensive Income are:

	2020 £'000	2019 £'000
Return on plan assets excluding interest income	**88,827**	35,029
Experience (loss) arising on the plan liabilities	**(77,696)**	(63,765)
Actuarial gain/(loss) recognised in the Statement of Comprehensive Income	**11,131**	(28,736)

The amounts recognised in the Income Statement are as follows:

	2020 £'000	2019 £'000
Current service cost	**3,816**	3,578
Net interest income	**(2,026)**	(3,229)
Total included in the Income Statement	**1,790**	349

The current service cost has been included in the income statement as 'Selling, general and administrative expenses'. The net interest income has been included within 'Finance cost and Finance income'.

The Trustees of the Plan undertake asset-liability matching studies on a regular basis and consult with the Company regarding any changes to the Plan's investment strategy. The matching assets to the pension obligations are considered to be long-term fixed interest/inflation-linked securities.

Notes to the Financial Statements

22. Retirement benefit schemes (continued)

The majority of the Plan's assets are held in matching assets and it would be expected that this proportion would increase over time, as the Plan matures. The balance of the Plans' assets is invested in a diversified portfolio of growth-oriented assets with the aim of achieving higher levels of return at an acceptable level of risk.

The breakdown of plan assets, by asset class, is as follows:

	2020	2019
	%	%
Equities	**11**	11
Bonds	**80**	79
Property	**9**	10
	100	100

Defined Contribution Scheme

The L'Oréal (U.K.) Limited Defined Contribution scheme is a defined contribution plan. The contributions made to the plan in 2020 were £12,234,000 (2019: £11,439,000). At the end of the year, contributions of £962,000 (2019: £933,000), representing the unpaid contributions for December 2020 were outstanding.

23. Provisions for liabilities

Accounting policy

Provisions are recognised when there is a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The provision for product returns represent the refund liability for the expected refunds to customers. It is estimated using historical return rates which have demonstrated to have been reliable in the past.

Leasehold improvement provisions have been created because the Company leases premises which contain lease rectification clauses that impose certain requirements on the Company to return the properties to their original state. Dilapidation provisions are recognised where the Company expect to have to repair a leased property before returning it to the landlord.

A restructuring provision is recognised when the Company has developed a detailed plan for the restructuring and has a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of the restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity.

Other includes a provision for social security contributions payable on exercise of share based payments, litigation and provision for loans guaranteed.

Notes to the Financial Statements

23. Provisions for liabilities (continued)

	2020 £'000	2019 £'000
Product returns	**13,923**	10,627
Leasehold improvement/dilapidations	**9,204**	9,187
Restructuring	**585**	506
Other	**3,518**	6,298
	27,230	26,618
Current	**17,925**	17,631
Non-current	**9,305**	8,987
	27,230	26,618

	Product returns £'000	Leasehold improvement/ dilapidations £'000	Restructuring £'000	Other £'000	Total £'000
At 1 January 2020	10,627	9,187	506	6,298	26,618
New provisions during the year	12,567	480	231	2,075	15,353
Utilisation of provision	(4,539)	(397)	(118)	(3,768)	(8.822)
Reversal of provision without cost	(4,732)	(66)	(34)	(1,087)	(5,919)
At 31 December 2020	**13,923**	**9,204**	**585**	**3,518**	**27,230**

24. Trade and other payables

Trade and other payables and other current liabilities are recognised at amortised cost.

	2020 £'000	2019 £'000
Trade creditors	**81,963**	78,961
Accruals	**81,204**	72,435
Amounts owed to parent company	**6,935**	11,662
Amounts owed to group undertakings	**28,594**	24,370
	198,696	187,428

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs.

Amounts owed to parent and group undertakings are unsecured, have no fixed repayment period but are repayable on demand, and are non-interest bearing in both years.

Notes to the Financial Statements

25. Other current liabilities

	2020 £'000	2019 £'000
Personnel and social security	**23,783**	18,978
Other taxation (excluding current tax)	**17,386**	17,941
Year end and promotional rebates	**103,286**	96,060
Deferred income	**66**	123
Fixed asset payables	**2,626**	2,459
Accrued interest on lease liability	**27**	47
Other current liabilities	**333**	4
	147,507	135,612

26. Financial risk management and derivative financial instruments

Accounting policy

Financial instruments

Forward foreign exchange contracts and options are put in place in order to hedge cash flows. They are recorded on the Balance Sheet as fair value hedges of cash flows on future commercial transactions whose completion is considered to be highly probable.

All hedging instruments are recorded on the Balance Sheet at their market value, including those which relate to purchases and sales in the next accounting year. If the future cash flow hedging relationship is duly documented and the effectiveness of the hedges demonstrated, the variation in the fair value of these hedging instruments is recorded directly in equity, and impacts the Income Statement on the date on which the transactions hedged are completed. Any ineffective part is charged directly to the Income Statement within selling, general and administrative expenses.

In application of hedge accounting, unrealised exchange gains and losses relating to unsold inventories are deferred in the inventories item in the Balance Sheet.

The management of the business and the execution of the Company's strategy are subject to a number of risks: market risk, credit risk and liquidity risk.

Market risk
Market risk is the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market price.

The Company's operations expose it to foreign currency exchange risk due to exchange rate movements, which will affect the Company's transaction costs and the translation of net assets of its branch in the Republic of Ireland.

The Company manages its exposure to currency rate risks arising through its normal course of business using derivatives.

It is the policy of the Company to enter into forward foreign exchange contracts and options to cover foreign currency payments and receipts. Using detailed forecasts, the Company will use forward foreign exchange contracts to reduce its exposure so that at the end of the year, 80% to 100% of any currency risk identified has been hedged.

All foreign exchange hedging is carried out by the L'Oréal S.A. Group Treasury Department who do not enter into or trade financial instruments for speculative purposes.

26. Financial risk management and derivative financial instruments (continued)

The fair value of the Company's foreign currency denominated monetary assets and liabilities are as follows:

	2020		2019	
	Assets	**Liabilities**	Assets	Liabilities
	£'000	**£'000**	£'000	£'000
Forward foreign exchange contracts – cash flow hedge	**3,714**	**6,224**	9,221	24,320
Option premium	**-**	**-**	186	-
	3,714	**6,224**	9,407	24,320

The fair value of the hedging derivatives is classified as a current asset or liability in the Balance Sheet as the maturity of the hedged items are less than 12 months. Gains and losses recognised in the hedging reserve in equity on foreign exchange contracts are recognised in the Income Statement in the years during which the hedged forecast transaction affects the Income Statement.

Set out below is the analysis of the impact on other comprehensive income:

	2020	2019
	£'000	£'000
Change in fair value	**(2,293)**	(15,839)
Reclassified to profit and loss as hedged item effects profit and loss	**15,839**	(1,360)
	13,546	(17,199)

The total nominal amount of outstanding foreign exchange contracts and options as at year end:

	2020	2019
	£'000	£'000
Buy:		
EURO	**512,233**	453,738
PLN	**9,885**	9,882
USD	**32,658**	32,434
	554,776	496,054
Sell:		
CAD	**227**	-
EURO	**177,038**	181,331
USD	**11,615**	10,979
	188,880	192,310
Buy:		
EURO Options	**-**	25,105
	-	25,105

The Company has no short or long term borrowings and therefore considers its exposure to interest rate risk to be not significant.

Notes to the Financial Statements

26. Financial risk management and derivative financial instruments (continued)

Credit risk
Credit risk is the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company is particularly exposed to credit risk through its transactions with wholesale and hairdressing salon customers.

The Company has policies in place that require appropriate credit checks on customers, both new and existing, which are reviewed on a regular basis. Credit limits are set for each customer based on the independent rating of that customer, or if no independent rating is available, based on an assessment of the financial position of the customer.

Trade receivables are recorded net of an allowance for doubtful debts. The allowance is calculated using the expected credit loss model, the calculation is based using historic actual loss statistics. If further evidence exists of a customer in significant financial difficulty or continuous default in payment then a specific provision is made against that customer.

Credit insurance cover has been purchased by the Company to protect the trade and other receivables from financial loss.

Other activities to mitigate credit risk include guarantees received, and not releasing goods until payment received.

Liquidity risk
Liquidity risk is the risk that the Company cannot meet its obligations associated with financial liabilities that are settled in cash. The Company manages liquidity in conjunction with the L'Oréal S.A. Group's Financial Services Department. The Company has substantial short term credit facilities through its Group cash pooling arrangements and has no long term external debt.

27. Events after the Balance Sheet Date

On 1 January 2021, the Directors transferred the trade, assets and liabilities of Azzaro Mugler Beauté Limited to L'Oréal (U.K.) Limited. All assets and liabilities were transferred at net book value amounts.

On 20 January 2021, the Directors announced plans to consolidate the three existing distribution centres into one new hub in 2023. This is a strategic and long-term investment which would allow the Company to meet the future demands of the retailer network and increasing Ecommerce operations.

All teams based at the existing distribution centres will be brought into the new hub. The three existing sites will operate as normal until 2023.

As announced at the Budget on 3 March 2021, legislation will be introduced in the Finance Bill 2021 to change the main rate of corporation tax to 25% from 1 April 2023. This increase in the tax rate from 19% to 25% would have a significant impact on the deferred tax related to the defined benefit scheme asset. An increase in the deferred tax liability on the defined benefit scheme would be £7,023,000. Profit for the financial year would decrease by £11,756,000 and an additional income of £4,733,000 would be recorded in other comprehensive income.

28. Related Party Transactions

The Company has no related party transactions which need to be disclosed in these financial statements.

The Company has taken advantage under *FRS 101 Reduced Disclosure Framework* not to disclose information about transactions between its parent and fellow subsidiaries.

Notes to the Financial Statements

29. Ultimate Parent Undertaking

The immediate parent undertaking is L'Oréal S.A.

The ultimate parent undertaking and controlling party is L'Oréal S.A., a Company incorporated in France.

L'Oréal S.A. is the parent undertaking of the largest and smallest group of undertakings to consolidate these financial statements at 31 December 2020. The consolidated financial statements of L'Oréal S.A. can be obtained from its registered office: 31 Rue Martre, 92117 Clichy, France.