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

Financial Statements
For the Year Ended 31 December 2021

L’Oréal (U.K.) Limited

Contents

Registered Address
L'Oréal (U.K.) Limited
255 Hammersmith Road
London
W6 8AZ

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 2021.

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 Kiehl’s.

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.

Following the impact of the global pandemic and the resulting economic turbulence the business recovered strongly in 2021. Turnover increased by 13.5% (2020: decrease 7.5%) to reach a level +5.0% versus the pre pandemic levels in 2019. The operating profit margin closed at 14.4% (2020 :13.2%) and the post-tax profit margin closed at 10.7% (2020: 10.8%)

The beauty market rebounded in value in 2021 with growth across all categories, in particular fragrances, but overall still remained below the pre pandemic levels of 2019, mainly due to a decline in the value of the make-up category since 2019. The fundamental shift to ecommerce witnessed in 2020 was maintained in 2021, with both ecommerce and traditional brick and mortar sectors showing moderate growth versus 2020. Despite the growth, the traditional bricks and mortar sector and salons continued to trade well below 2019 levels.

In terms of sell-out, L’Oréal UK had a good performance in 2021, gaining market share across all channels, and in all categories.

The Active Cosmetics business continued its strong growth with La Roche Posay and CeraVe increasing market share. Luxury division fragrances were dynamic in 2021 with notable performances from the brands Mugler, YSL, Valentino and Maison Margiela. In the Consumer division, despite the market difficulties, our make-up brands Maybelline and NYX Professional make-up grew strongly. For the Professional division following the lockdown at the start of the year there was a return to salons and significant increases in our colouration product sales.

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, although 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 product advertising and claims about 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 and 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 set up a single product quality and safety management programme that applies to all of its plants and subsidiaries around the world. Each single product goes through around 100 quality controls during the production cycle, from input of raw material through to customer delivery. The Group's plants are certified 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 and EU legislation.

Information and cybersecurity systems – There is a risk of malfunction or breakdown in our internal systems or systems at third-party providers. Constant development of technologies and the increasing use of virtual and digital tools increases the risk on our business activities. 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 is continually adjusting to new cyberthreats with investments in systems to detect and react to cyberattacks. Employees in the UK participate annually in online training which ensures everybody is made aware of best practice in cybersecurity. The Company has appointed a Data Protection Officer. Their task is to ensure that the data we hold complies with requirements of the UK General Data Protection Regulation and the Data Protection Act.

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.

Strategic Report (continued)

Section 172 Statement

How the Board has discharged its Section 172 duties

The Board of Directors are aware of their fiduciary duty to act in good faith to promote the success of the Company by considering Section 172 of the Companies Act 2006 factors to bring a broader perspective to strategy, opportunity and risk:

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

The Board are systematically reminded of their duties: through director duties’ training; a Section 172 and stakeholder dashboard being included in the board pack provided in advance of Board Meetings for directors’ review; the same dashboard being presented when each item is tabled. The Chair ensures that discussion and decision making is informed by Section 172 factors and the consideration of relevant stakeholders.

This statement includes examples of strategic decisions taken during 2021 to illustrate how the Board has promoted the success of the Company in line with Section 172.

Securing our long-term success

The Board oversees the strategy, values and culture, sets the Company's framework of governance, risk management and internal controls to promote and safeguard the Company's long-term success. The strategic goals and objectives it sets are focused around developing the Company's business model taking account of the long-term needs of its stakeholders. The identification, management and mitigation of risks to the Company's business are key to ensuring the delivery of the Company's strategy over the longer term, and the consideration of risk plays an important part in decision making.

One example of a decision that includes consideration of the long-term consequences is the Board’s approval of a new ecommerce strategy and new business unit in recognition of increased digitalisation during and post Covid-19. To ensure the long-term success of the Company, a new position of Managing Director for Ecommerce on the Executive Leadership Team was created. This senior manager was invited to present the UK and Ireland beauty ecommerce market landscape to improve the Board’s understanding of this shift as it was taking shape, all stakeholders affected and to propose an ecommerce strategy for the Board’s input and review. The Board considered the long-term value creation strategy to expand the Company’s ecommerce capabilities and to align growth with the shifts in (i) consumer retail habits, (ii) the new retail landscape, (iii) retail partner desire for support to develop their ecommerce business and (iv) employee skills requirements and, accordingly, the Board approved the creation of a multi-divisional ecommerce team and provided feedback into the ecommerce strategy, which was then approved to support the Company’s long term growth.

Valuing the interests of our Employees

The Company is the L’Oréal Group’s fifth largest subsidiary, employing approximately 3,300 people across the UK and Ireland. The Company 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. In 2021, a strategic decision was taken to focus on the key areas: mental health; leadership in times of change; sustainability (in line with the L’Oréal for the Future 2030 mission); and coaching and storytelling. The Company’s learning team offered curated content via podcasts, webinars, e-learning content and external speakers amongst other interventions, resulting in 100% employees interacting in some way with the learning opportunities on offer. As a result, the Company reports a 23% increase in 2021 in its total learning hours from the previous year, with the average learning hours per employee increasing to 35 (+22%).

Strategic Report (continued)

Based in part on employee expectations and feedback, in 2021 the Company took actions sanctioned by the Board: appointment of the Company’s first Diversity, Equity and Inclusion (DE&I) Director with responsibility for developing and overseeing implementation of our DE&I strategy with a focus on data, education, accountability, representation and inclusion; launch of a new DE&I strategy to ensure continued progress is made; creation of a framework across all Employee Resource Groups (ERG) to enable them to drive the DE&I strategy.

The work of the ERGs, including employee interests and concerns, is fed back to the Board for discussion and input from time to time by the Company’s Human Resources Director and DE&I Director. The Company Managing Director and Corporate Affairs Director, both board members, are also members of the Company’s Diversity, Equity and Inclusion Advisory Board that was launched in February 2021 and met twice that year to make recommendations that were considered by our Executive Leadership Team and by the Board for input, which brings together external specialists in DE&I to advise the Company on best practice to accelerate its DE&I strategy. The board members who attend ensure the recommendations from the DE&I Advisory Board are built into the relevant internal strategies. The DE&I Advisory Board recommendations are presented to the Board for discussion and input from time to time by the Company’s Human Resources Director and DE&I Director. In 2021 the Board debated and aligned on the Company’s DE&I strategies and focus areas.

All Covid-19 support of our workforce continued in the first quarter of 2021 (as detailed in our FY 2020 Statements). The Company adjusted 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 worked 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 staff. As an employer, the Company aims to be exemplary for human leadership and to support all aspects of employee wellbeing: mental, physical, financial and social. This direction and focus has been sanctioned by the Board.

See further examples of how engagement translated into relevant strategies in our Employee Engagement Statement.

<u>Fostering the Company’s business relationships – focus on our end consumers and suppliers</u>

Information on our engagement with all our key stakeholders in fostering the Company’s business relationships is provided in our Stakeholder Engagement Statement. Below is supplementary information pertinent to two key strategic decisions relating to consumers and suppliers respectively taken during 2021 in light of our engagement.

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. This information feeds into the Company’s marketing plans and operational activations.

The Board considered information presented from the Company’s Chief Marketing Officer and Luxe business unit – having consulted stakeholders such as media publisher suppliers, retail and e-retail customers, consumers through market insight research regarding a change in shopper habits – relating to: the switch in focus of beauty consumers; the knock-on effect of this on retail partners (bricks & mortar and ecommerce); and the changes in how and in which media consumers engage with brands and marketing content. In the light of this information, the Board reviewed and approved the adaptations made to marketing plans and media investment to reflect consumer and customer centricity and to preserve engagement with our brands and products over the long-term.

Fostering good relationships with the Company’s suppliers is also an important factor in ensuring we are able to continue to service our consumers and customers effectively and efficiently over the long term. The Company is building on its strategies, policies and procedures to further embed vendor management throughout the organisation, including systems to promote consistency and efficiency when overseeing relationships and performance.

The Board evaluated information presented by the Company’s Director of Internal Control, having previously approved the relevant policies and new systems, on how the Company has continued its significant improvement throughout 2021. This has been achieved by implementing its strategy to reduce late payment to suppliers down from 33% in 2018 to 9% in 2021, with the aim of reaching 5% in the coming years. This was achieved by understanding the root causes of our late payments (i.e. personnel training, simplifying processes and fixing system issues), then ensuring collaboration between all functions involved in the vendor payment process.

Our impact on the community and the environment

The Board is conscious of the impact of the Company's operations on the community and environment, and understands the importance of being a good corporate citizen as is the expectation of our workforce, suppliers, customers and consumers. The Company takes pride in having increased, and continually working towards further increasing, its positive contribution.

Based on this understanding, in 2021 the Company took actions sanctioned by the Board: approval of a sustainability agenda aligned with the commitments of the L’Oréal Group ‘L’Oréal for the Future’ (L4TF) programme; and appointment of the Company’s first Sustainability Director with responsibility for developing and overseeing the delivery of L4TF in the UK and Ireland. L4TF is driven by a highly engaged sustainability leadership committee, comprised of 28 different business leads across all functions and locations and is headed by our Sustainability Director, who reports on progress to the Managing Director and board member on a bi-weekly basis. The leadership committee meets every three months to ensure progress is being made and progress is presented to the Board for discussion and input from time to time by the Company’s Sustainability Director.

Maintaining a reputation for high business conduct standards

See further our Stakeholder Engagement Statement ‘Wider Community’ for the Company’s purpose.

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 considers developments in and processes required for the aforementioned topics (corporate governance, anti-bribery, ethics etc.) at regular intervals and is responsible for delivering long term, sustained shareholder value by protecting and making the most effective use of the Company’s assets and reputation.

The Company operates as a responsible corporate citizen, mindful of its impact, with its six core values at the heart of everything we do: Passion; Innovation; Entrepreneurial Spirit; Open-mindedness; Quest for Excellence; and Responsibility. 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, 15 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 globally. 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. Our Code of Ethics is reinforced by an annual ethics day devoted to transparent discussion and is an opportunity to encourage the workforce to consider ethics and build them into their day-to-day actions and thereby reduce risks to our business units. Ethics day provides all employees the opportunity to put questions to the Company’s Managing Director and board member together with our Ethics Officer and raise any concerns anonymously. See further our Corporate Governance Statement ‘Principle 1 Purpose & Leadership’.

Strategic Report (continued)

Acting fairly between members of the Company

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.

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

The long-term, sustainable success of our business relies on the support of our key stakeholders – see further the Section 172 Statement for reference to invitees presenting to the Board being required to complete the ‘Section 172 & Stakeholder Dashboard’ that assists the directors to have regard to the wide range of relevant stakeholders’ interests that are specifically brought to their attention for consideration during their decision making. 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 a Board level and a delegated operational level. The engagement at an operational level through the Company’s Executive Leadership Team is considered by the Board when making its decisions.

<u>Industry Bodies, Government and Regulators</u>

Why they matter and how we engage

The Company attends a range of industry forums as well as meetings and partakes in consultations with government bodies and regulators to promote and protect the interests of the Company, our consumers, our clients and the value of our industry. The Company is actively involved in a number of industry associations, including the Cosmetic, Toiletry and Perfumery Association (CTPA), the Confederation of British Industry (CBI) as well as the Health & Safety Executive and some sector specific associations.

Understanding and collaborating

The Directors have engaged with government representatives and regulators on subjects such as Brexit, plastics regulation, extended producer responsibility, regulatory matters related to ingredients and on the recovery of the sector post Covid-19. Our key focus is on compliance with laws and regulations relating to product safety, health and safety, competition, advertising and data privacy.

Our engagement in action

An example is the engagement in 2021 by the Chairman, along with other key managers and board members, to help the salon industry recover after Covid-19 lockdowns. By engaging both directly with Government and through close collaboration with industry bodies and trade associations, the Directors heightened awareness of the specificities and needs of the salon sector to recover after extended periods of closure. As a result, hairdressers and salons were able to re-open safely and promptly across the country as the lockdown eased in early 2021, preserving livelihoods and accelerating a return to normal business.

<u>Local Communities</u>

Why they matter and how we engage

The Company has a long-standing association with the relevant local authorities in Wales, Nottingham, Manchester and Hammersmith & Fulham in London. The Company has also built relationships with local charities over the years.

In 2021, the Company supported more than 55 charities in the form of financial or product donations, through our brand causes partnership programmes or employee volunteering, across our key geographies in the UK and Ireland including London, Manchester, Bury, Nottingham and Dublin – see further below in ‘Wider Community’ .

In addition to supporting employees with their own volunteering programmes and initiatives, employees also take part in a global annual solidarity initiative: Citizen Day. This is a dedicated opportunity for employees to offer a full workday to support local environmental and social charities in their communities. In 2021, over 550 employees in the UK and Ireland dedicated over 2,600 volunteering hours to provide their skills and energy to support more than 50 local charities and non-profit organisations across Dublin, Nottingham, Manchester and Hammersmith. This included helping vulnerable members of the local community, or those at risk of social exclusion, and working on local environmental initiatives to improve biodiversity and green spaces.

Understanding and collaborating

The Company engages with its local communities to build trust through these interactions. In 2021, through one of our longest-standing corporate level partnerships with In Kind Direct, a charity with a network of national recipients who are registered charities, community groups, foodbanks and schools to help those in need (with whom the Company has partnered for over 20 years we supported 1306 charitable organisations across the UK through our product donations), assisted our Company with its commitment of achieving zero destruction of finished goods in the UK and Ireland. Through focused partnerships with charities and local communities, social and economic benefits are generated for all, which has a positive impact on the Company's sustainability.

Our engagement in action

The Company’s Managing Director, Finance Director and Corporate Affairs Director, all of whom are board members, actively took part in Citizen Day, with the Corporate Affairs Director leading its organisation and the selection of local charitable partners with direct engagement. Our Company Managing Director, for example, worked on a project for a local environmental charity that manages community gardens in the Hammersmith area to help support vulnerable people or those at risk of social exclusion to plant and grow their own fruit and vegetables. Feedback from all beneficiaries supported locally across Dublin, Manchester and Hammersmith was positive and highlighted the powerful impact of engaging with the local communities.

<u>Wider Community</u>

Why it matters and how we engage

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, in 2021 the Company has multiple corporate and brand charity partnerships in the UK and Ireland covering a variety of causes from mental health to street harassment and safeguarding of our natural resources: the Company and Look Good Feel Better; L’Oréal Paris and The Prince’s Trust; Lancôme and National Literacy Trust; YSL and Women’s Aid; and Armani Beauty and Water Aid. In 2021, L’Oréal Paris brand rolled out a bystander intervention training programme into the UK called Stand Up in partnership with the Suzy Lamplugh Trust, which aims to train 10,000 people and empower them to intervene safely when they witness street harassment.

Understanding and collaborating

Our Company’s purpose is to create the beauty that moves the world. Our goal is to offer each and every individual 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. To achieve this, it is integral to connect with and gain an understanding of our consumers nationally and across communities, their individuality, their needs and concerns. Such concerns include companies and brands operating business with purpose that make a positive contribution to society and improve its social (as well as environmental – see further below ‘The Environment’) footprint.

Our engagement in action

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 15 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, over £1 million of fellowships have been awarded to more than 60 early career women scientists. The fellowships 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.

In September 2021, the Company Managing Director and Corporate Affairs Director, both board members, hosted the annual For Women in Science event in the UK House of Parliament, engaging directly with relevant stakeholders including politicians, government officials and distinguished scientists from across the UK and Ireland.

Strategic Report (continued)

The Environment

Why it matters and how we engage

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 towards 2030, 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 an even more sustainable business model.

The Company understands that it has a role to play in listening to the changing needs of its consumers, educating consumers into new behaviours and bringing relevant product innovations, all with a view to sustainable consumption. Through our four packaging take-back schemes (Maybelline, Garnier, Kiehl’s and L’Oréal Paris) in collaboration with Terracycle, a total number of 1000+ beauty packaging return points are available to consumers through our retail partners such as Superdrug, Tesco and Sainsbury’s stores.

Understanding and collaborating

L4TF focuses on continuing to transform the Company from within across a variety of themes (energy consumption and emissions, water, resources, biodiversity) as well as embarking on a sustainability focused dialogue with our entire business ecosystem from suppliers to partners, to customers and communities to ensure that business transformation is achieved at scale. By marketing more responsible products and encouraging its brands to identify a cause and campaign for it, the Company is also urging its consumers to practice sustainable consumption.

Our engagement in action

In 2021, the L’Oréal Fund for Nature Regeneration – the Group’s impact investment fund – invested in The Real Wild Estates Company (RWEC), the United Kingdom’s first rewilding business offering sustainable financial returns. RWEC aims to restore up to 50,000 hectares of degraded landscapes across the UK and create approximately 1,000 direct jobs, including roles in environmental management, eco-tourism, tour guiding, and organic agriculture.

The Company’s Chairman attended the launch event of RWEC and issued correspondence to government regarding the investment, while the Corporate Affairs Director and board member oversaw engagement with government officials on the announcement.

Employees

Why they matter and how we engage

Our 3,300 employees work in a wide variety of roles and functions including commercial, marketing and operations. The Board understands that talent acquisition and retention is key to the success of the Company that aims to be a desirable place to work across all its locations and an employer of choice for all. 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.

One way of engaging is through our employer campaigns across multiple social media channels, such as the Company’s ‘Freedom to Go Beyond, that’s the beauty of L’Oréal’. This was launched following the success of our Diverse Teams campaign, ‘You don’t need to wear make up to make it’, which won Attraction Campaign of the Year 2021 in the Tiara Talent Acquisition awards. Alongside employer campaigns, we were recognised in The Times Graduate Recruitment Awards 2021, where we won #1 Graduate Employer of Choice for Marketing. Other recognition highlights include achieving Top 3 status, for all FMCG (fast moving consumer goods) employers, by The Times Top 100 Graduate Awards and Target Jobs. In addition, In 2021, all three of our distribution centres achieved external recognition: RoSPA Gold Award for the second consecutive year for their occupational health & safety practices and performance due to keeping employees safe; and certification for the International Standard for Occupational Health and Safety. For more examples of how we engage, see further our Employee Engagement Statement.

Understanding and collaborating

Our people are our greatest strength and the Board believes our long-term success will be determined by having an engaged and diverse workforce bringing a range of talent, skills and experiences. The Company seeks to hear and understand all voices and foster a culture in which people of every social background, gender, age, sexual orientation, disability, religion and ethnicity are not just accepted, but welcomed and valued.

Our ERGs play an important role in driving our DE&I strategy from the grassroots of the organisation up through advocacy, community support, raising awareness around a broad range of topics and issues and acting as a focus group to provide feedback and generate ideas. ERGs also provide leadership development opportunities for members. There are five ERGs: Gender Equality Network, Ethnicity & Multiculturalism Network, OUT@ L’Oréal (LGBTQIA+ Network), Mental Health & Wellbeing Network and our newly created, Disability & Neurodiversity Network.

ERGs run events to facilitate employee engagement and awareness, which are sponsored and/or attended by board members. For example, the Company’s Corporate Affairs Director and board member acts as the sponsor of OUT@ L’Oréal. Historically, each ERG formed and developed its own mission, events and community of advocates and allies.

Our engagement in action

See further our Section 172 Statement ‘Valuing the interests of our Employees’.

Our new DE&I strategy was shared with all corporate employees in a Townhall led by the Company’s Managing Director and board member and DE&I Director with contributions from ERG colleagues across the business. This was an opportunity for employee Q&A on this important topic.

In the area of disability, the Company introduced a new ERG focused on Disability and Neurodiversity that will further our efforts to ensure that the Company is an inclusive workplace for disabled people. We currently have an equal opportunities policy which ensures that all colleagues and prospective colleagues, including those with disabilities, have access to equal opportunities in employment, training, development and promotions.

<u>Suppliers</u>

Why they matter and how we engage

As well as sourcing its core products from the L’Oréal Group companies, the Company works with approximately 900 suppliers for indirect products and services. This includes suppliers of local media and advertising creative assets across on and offline media, promotional marketing material, facilities management and event management.

Understanding and collaborating

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. For example, the Company includes sustainable development performance indicators in its supplier selection process

The Company aims to have a positive impact all along the supply chain through our Solidarity Sourcing programme that works to promote social inclusion. For over 8 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, in order to improve opportunities and job accessibility throughout our supply chain activities in the UK, Ireland and globally.

Our engagement in action

The Company's purchasing team hosted a virtual workshop with 60+ suppliers to highlight the Company's ambitions and targets in respect of LT4F as well as reinforcing the importance of our Solidarity Sourcing commitments. The approach taken by the Purchasing team to drive awareness of the Company's LT4F commitments and ensure supplier support for its initiatives meant that it was awarded third prize in the L'Oréal Group's annual European Sustainability awards.

<u>Customers</u>

Why they matter and how we engage

The collaborative relationships that the Company establishes and maintains with our customers are central to the growth of our business. 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. 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.

Understanding and collaborating

In 2021, the Company continued to support 4,593 vulnerable, smaller customers in its distribution network who were most exposed to the economic impact of Covid-19 by either extending and / or freezing the debt until they re-opened and were in a position to generate cash flow.

Our engagement in action

In 2021, as the Hairdressing Industry continued to face challenges from the Covid-19 pandemic, the Company put measures in place to support the recovery of salons and look to the future development of a dynamic, sustainable and inclusive industry. We built consumer confidence in the return to salon with a huge French Balayage media campaign, including thousands of subsidised coupons for end consumers to redeem in salon. We launched our 'Hairstylists for the Future' programme, helping salons to develop sustainable business models alongside progressive partners such as Green Salon Collective. We continued to offer dynamic education on L'Oréal Access, including the launch of Total Texture, a complimentary online training open to all hair professionals to help enhance skills to welcome and care for every client and hair texture. We celebrated inspirational creativity and talent with our first ever hybrid L'Oréal Colour Trophy Grand Final.

Employee Engagement Statement

See further our Stakeholder Engagement Statement and our Section 172 Statement. This Statement focuses on further examples of how the Company’s directors:

a. provide employees systematically with information on matters concerning them;
b. consult employees regularly to take into account their views on matters that affect their interests;
c. encourage employee involvement in the Company’s performance;
d. achieve employee awareness of the financial and economic factors affecting company performance; and
e. have engaged with employees during these actions and how the directors have had regard to employee interests brought to their attention during decision making.

<u>Example 1: Employee Surveys</u>
The Company’s annual Pulse Survey tracks employee satisfaction, provides a good understanding of employee views and concerns and identifies the areas where improvements can be made to make the Company an even better place to work. In 2021, the action plan resulting from the feedback received in Pulse centred around five pillars; more efficient meetings, reducing the amount of time spent preparing for meetings, process simplification, project prioritisation and having a company-wide monthly calendar cycle. The Company engaged an external consultancy to oversee and support the activation of the action plan, working with members of the Executive Leadership Team as sponsors of each workstream.

The Finance Director and board member has actively been involved in the development of a project prioritisation workstream in direct response to employee feedback, while the Company Managing Director and board member, has overseen the strategy and progress of all five workstreams. The Corporate Affairs Director and board member is actively consulted on the workstreams and involved in the communications to all employees about their progress. Company-wide and divisional business updates provide updates on the Pulse action plan, progress against the plan and opportunities for engagement and questions from employees.

One example of how the Board has regard to employee interests is by regularly reviewing the employee survey results. The Board also inputted into the action plan proposals.

<u>Example 2: Employee Updates</u>
The Company creates regular opportunities - through virtual Townhalls, Business Update meetings, divisional strategic in-person conferences and internal communications - for employees to be regularly updated on: vision and strategy, business performance, 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. Throughout the course of 2021, the Company Managing director and board member, issued over 40 internal communications to all employees on a wide range of topics from articulating the Company’s strategic focus areas, through to health and safety guidance as Covid regulations were modified throughout the year.

The virtual format of Townhalls and Business Updates initially necessitated by Covid-19 means regular uptake in attendance by more than 1,000 employees. They are hosted by the Company Managing Director and board member, and provide an opportunity to gather as a company and also engage in anonymous question and answer sessions with the Company’s Managing Director and board member, together with other members of the Company’s Executive Leadership Team on any topic employees wish to raise.

The Company launched its global ‘Sense of Purpose’ to all employees in a dedicated Townhall with bespoke UKI content to articulate its relevance to local teams. Over 1,000 employees joined the Townhall for our Managing Director and board member’s introduction speech and our Corporate Affairs Director and board member’s speech on how we act to strengthen the communities in which we operate.

<u>Example 3: MyHYBRID</u>
In 2021 the Company launched its new flexible working policy, myHYBRID, designed to offer our teams the best of the office and remote working, enabling more flexibility and choice for the working week. The principle of myHYBRID is to spend three days a week together, with up to two days remote.

MyHYBRID is an example of employee engagement over a number of months and across multiple touchpoints. MyHYBRID was first communicated in a Townhall hosted by the Company Managing Director and board member in June 2021, with transition time planned and phased implementation starting from October 2021 in the UK, with a slight delay in Ireland due to Covid-19 restrictions at the time. The Company arranged drop-in sessions with employees that were well attended by 500+ attendees over June and July to share more details on the policy, gather feedback and answer any questions. We also set up Executive Leadership Team (that includes several board members) Open Door sessions for employees to drop in and ask any questions on myHYBRID. To support the implementation, each senior team was set up with myHYBRID training with an external facilitator in November 2021 and the Company set up tools and resources for middle-junior managers to then deliver this workshop with their teams.

<u>Example 4: Employee Share Scheme and Profit Share Scheme</u>
The Company encourages employees' involvement in its performance, with the Board approving the Company's employee second share scheme in 2020 that will continue successively every two years. In addition, the Company continues to offer its annual profit share scheme to all employees that has run for over twenty years.

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

T Cheval
Director

29 September 2022

L’Oréal (U.K.) Limited

Directors’ Report

The directors present their report and the audited financial statements for the year ended 31 December 2021.

Future Developments

In 2021 we started the year with a period of lockdown due to the Covid-19 pandemic, and 2022 has also started with further uncertainty and turbulence but this time for different reasons with the war in Ukraine and rapid and unprecedented inflation across Europe and notably in the UK. Nevertheless, as a business we have put together a series of strategic measures to protect our profitability and mitigate the impact.

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

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

Dividend

A dividend of 21.28p (2020: 26.49p) per ordinary share amounting to £86,406,000 (2020: £107,572,000) was paid during the year. A dividend of 30.90p per share has been proposed for the year ended 31 December 2021, amounting to £125,478,000, which was approved and paid in 2022.

Political Donations

No political donations were made (2020: Nil).

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, Moody’s 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.

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
V Derville (resigned 17 September 2021)
M Giolla (appointed 14 May 2021)
D Gros (resigned 14 May 2021)
M Haden (appointed 14 May 2021)
O Hubin (appointed 17 September 2021)

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.

Post Balance Sheet Events

On 14 June 2022, Azzaro Mugler Beauté Limited was dissolved.

On 23 September 2022, the Chancellor of the Exchequer announced that the planned tax rate change to 25% would no longer be implemented and that the main rate would remain at 19%. Because the enacted rate at the balance sheet date was 25%, this announcement does not represent an adjusting event and the company's deferred tax balances as at 31 December 2021 are still calculated at that higher rate. When recalculated at the lower 19% rate the deferred tax liability would reduce by approximately £7,023,000. This reduction will be recognised in 2022.

Branches Outside the UK

The Company has one branch operating outside of the UK. This branch supplies the Irish market, with the head office located in Dublin.

Corporate Governance Statement

In its decision-making processes and considerations, both the Board and the Company's Executive Leadership Team that reports 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 regulatory requirements and public expectations of companies.

Four Board Meetings were held in March, June, September and December 2021 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. The Board formally adopted the Wates Principles as the Company's Corporate Governance Code in the previous financial year 2020 and examples of how the Board has applied the Wates Principles during 2021 are noted below:

Principle 1: Purpose & Leadership

With a view to application of the Wates Principles in 2021, the Board inputted into and approved (i) the Company's purpose to 'create the beauty that moves the world' and mission that defines how the Company will grow, engage and contribute by working as 'one UK & Ireland team', (ii) a Frame setting out the Company's roadmap of priorities and strategic focus areas for 2021, and (iii) the Company's application and localisation of its Group Global Sense of Purpose.

All of the above were communicated to the Company's employees in the first quarter of 2021 in a variety of formats including by email, video and in a Townhall presented by the Company's Managing Director and board member and the Corporate Affairs Director and board member. The purpose and strategic frame were embedded into the Company's culture and workforce through ongoing engagement, internal communications videos and business unit team building strategy days. See further page 2 in our Strategic Report for more information on the Company's business strategy on how to ultimately achieve our purpose, while sustaining the success of the Company in the long-term.

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 our 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 and such policies are presented to the Board for discussion and input from time to time by the Company's Ethics Officer.

Principle 2: Board Composition

As an example of application of the Wates Principles, the Chairman and 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 discussed by the Board at the end of 2020 and implemented in 2021, with two new board appointments resulting in improving diversity and representation both in terms of age, gender and nationality.

The Board from June 2021 is comprised of five members: Managing Director of the Company's UK and Ireland business, Finance Director of the L'Oréal Group 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, knowledge and constructive challenge to the Board and our Chairman both promotes and facilitates constructive discussion.

Principle 3: Director Responsibilities

A special purpose meeting was held in June 2021 at which Baker McKenzie LLP and the Board Advisor conducted a refresher training session for the new members of the Board on effective corporate governance, stakeholders, decision making and director duties. Similar training was conducted to onboard a new board member in December 2021. The Board in the previous financial year 2020 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 that all relevant issues are elevated to the Board level for their information, review, input and/or decision making; 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.

Principle 4: Opportunity and Risk
Examples of decisions taken by the Board during 2021 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 2021 Board meeting. See page 2 in our Strategic Report for more information on the market the Company operates in and assessment of opportunity and risk.

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 our Chairman 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 our Stakeholder Engagement Statement and our Section 172 Statement.

Directors' Report (continued)

Carbon and Energy 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 in line with the Greenhouse Gas Protocol.

We have reported on all sources of carbon emissions and energy usage required under The Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008 as amended.

TOTAL UK 2021 EMISSIONS (Scope 1 and 2)

Total emissions (tonnes of CO2e)	**2021**	**2020**
Scope 1	4.88	8.49
Scope 2	0	0
Total Scope 1 and 2	**4.88**	**8.49**
Units shipped (in millions)	359.7	328.3
Scope 1 and 2 Intensity ratio (based on CO2e per million units shipped)	0.01	0.03

The reduction in the business's scope 1 and 2 emissions are primarily attributed to the continuous improvements and upgrades of lighting and censoring equipment across the three distribution centres, as well as to a more accurate measurements of the fuel consumption linked to periodic testing of operational infrastructure.

Reporting boundary and methodology

The reporting boundary used for collation of the above data is aligned with the boundaries of the financial statements.

We have followed the 2019 UK Government Environmental Reporting Guidelines. We have used the GHG Protocol Corporate Accounting and Reporting Standard (revised edition) and emission factors from the UK Government's GHG Conversion Factors for Company Reporting 2021 to calculate the above disclosures.

The data reported in this statement covers only the four main operational sites of the United Kingdom being the headquarters in London and three distribution centres.

Annual UK Energy Use

Scope 1 - Direct GHG emissions

(Includes emissions from activities owned or controlled by the Company that release omissions into the atmosphere. Examples include emissions from combustion in owned or controlled boilers, vehicles).

Company Activity: Operation of 1 Headquarters and 3 Distribution Centre sites

SCOPE 1	**2021**	**2020**
Energy consumption (kWh HHV)		
Fossil gas	0	0
Fuel oil	13,356	28,424
Total Scope 1:	13,356	28,424

Source: Primary data L'Oréal's Operations database, Graal

Source of emission factors: DEFRA 2020, 2021

The table below shows the total tonnes of CO2eq emissions saved from using renewable energy under Scope 1.

2021	**2020**
1,208	1,045

Scope 2 – Energy indirect emissions

(Includes emissions from own consumption of purchased electricity, heat, steam and cooling. These are a consequence of the Company’s activities but are from sources not owned/controlled).

Company Activity: Operation of 1 Headquarters and 3 Distribution Centre sites

SCOPE 2	2021	2020
Electricity consumption (kWh)		
Total electricity consumption	4,058,843	3,912,596
Percentage of renewable electricity (%)	100	100
Total Scope 2:	4,058,843	3,912,596

Source: Primary data L’Oréal’s Operations database, Graal

Source of emission factors: DEFRA 2020, 2021

The table below shows the total tonnes of CO2eq emissions saved from using renewable electricity under Scope 2.

2021	2020
862	912

Energy efficiency actions

Energy saving initiatives have been implemented over the last decade by L’Oréal UK, in particular, changing to more energy efficient lighting at our 3 distribution centres and our HQ. 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 HQ minor changes to energy efficient LED lighting have been undertaken when upgrading certain areas, for example, the car park. These changes resulted in a 60% reduction of our electricity consumption compared to a 2005 baseline (Source: Primary data L’Oréal’s Operations database, Graal). In 2021 there has been no additional savings to the savings that have already been achieved. It should be noted that as of September 2023 the business will relocate its HQ to a different building, keeping any energy efficiency activity currently focused on behavioural change actions.

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:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements of the financial reporting framework are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity’s financial position and financial performance; and make an assessment of the company’s ability to continue as a going concern.

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.

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 of which the company’s auditors is 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.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

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

29 September 2022

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 2021 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 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 2022, and sales/profit forecasts for the calendar year 2023, 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.

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

29 September 2022

L’Oréal (U.K.) Limited

Income Statement
For the year ended 31 December 2021

	Note	2021 £’000	2020 £’000
Turnover	3	**1,169,355**	1,029,967
Cost of sales		**(430,496)**	(398,477)
Gross profit		**738,859**	631,490
Advertising and promotion expenses		**(371,607)**	(331,354)
Government grants	4	**1,765**	14,208
Selling, general and administrative expenses		**(200,476)**	(178,022)
Operating profit	5	**168,541**	136,322
Finance costs	6	**(208)**	(671)
Finance income	7	**1,796**	2,175
Finance income - net		**1,588**	1,504
Profit before taxation		**170,129**	137,826
Tax on profit	9	**(44,651)**	(26,159)
Profit for the financial year	20	**125,478**	111,667

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 2021

	Note	2021 £'000	2020 £'000
Profit for the financial year	20	**125,478**	111,667
Other comprehensive income/(expense):			
Items that may not be reclassified to profit or loss			
Actuarial gain on defined benefit obligations	22	**21,864**	11,131
Deferred taxation on defined benefit obligations	24	**(733)**	(3,692)
Items that may be reclassified to profit or loss			
(Loss)/gain on cash flow hedges	27	**(4,514)**	13,546
Deferred taxation on cash flow hedges	24	**858**	(2,256)
Total other comprehensive income for the year, net of tax		**17,475**	18,729
Total comprehensive income for the year		**142,953**	130,396

L’Oréal (U.K.) Limited

Balance Sheet
As at 31 December 2021

	Note	2021 £’000	2020 £’000
ASSETS			
Non-current assets		**200,284**	203,575
Goodwill	11	**2,765**	2,765
Other intangible assets	11	**10,448**	7,883
Tangible assets	12	**18,640**	23,246
Right of use assets	13	**25,528**	35,504
Investments	14	**518**	17,134
Employee retirement surplus and related benefits	22	**142,385**	117,043
Current assets		**523,914**	408,289
Inventories	15	**56,430**	67,613
Trade and other receivables	16	**215,630**	199,344
Other current assets	17	**14,329**	13,819
Derivative financial instruments	27	**6,475**	3,714
Current tax		**7,498**	1,015
Cash and cash equivalents		**223,552**	122,784
TOTAL		**724,198**	611,864
EQUITY AND LIABILITIES			
Capital and reserves		**231,182**	186,648
Issued share capital	18	**101,533**	101,533
Share premium account	18	**277**	277
Other reserves	19	**(85,486)**	(69,085)
Retained earnings	20	**214,858**	153,923
Non-current liabilities		**55,892**	41,948
Provisions for liabilities	23	**9,252**	9,305
Deferred tax	24	**29,801**	8,008
Lease liabilities	13	**16,839**	24,635
Current liabilities		**437,124**	383,268
Trade and other payables	25	**227,760**	198,696
Provisions for liabilities	23	**15,957**	17,925
Other current liabilities	26	**164,734**	147,507
Lease liabilities	13	**12,391**	12,916
Derivative financial instruments	27	**16,282**	6,224
TOTAL		**724,198**	611,864

The notes on pages 30 to 57 form an integral part of these financial statements.

The financial statements on pages 26 to 57 were approved by the board of directors and signed 29 September 2022 on its behalf by:

T Cheval
Director

L’Oréal (U.K.) Limited
00271555

L'Oréal (U.K.) Limited

Statement of Changes in Equity

For the year ended 31 December 2021

	Share capital £'000	Share premium account £'000	Other reserves £'000	Retained earnings £'000	Total Equity £'000
Balance at 1 January 2020	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
Profit for the financial year	-	-	-	125,478	125,478
Other comprehensive income for the year	-	-	(3,656)	21,131	17,475
Total comprehensive income for the year	-	-	(3,656)	146,609	142,953
Dividend paid	-	-	-	(86,406)	(86,406)
Equity settled share based payment expense	-	-	2,749	-	2,749
Arising on transfer in - Azzaro Mugler Beauté Limited (note 14)	-	-	(15,494)	732	(14,762)
Balance at 31 December 2021	101,533	277	(85,486)	214,858	231,182

Notes to the Financial Statements

1. General information

L'Oréal (U.K.) Limited is a private company limited by shares incorporated and domiciled in the United Kingdom under the Companies Act 2006. The address of the registered office is 255 Hammersmith Road, London, W6 8AZ.

The Company's principal activities are the sale and distribution, in the UK and Ireland, of 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.

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.

2. Significant accounting policies

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 at the end of the reporting period, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for the goods or services. Significant accounting policies have been included in the relevant notes to which the policies relate.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement purposes in these financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IFRS 16, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

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).

Notes to the Financial Statements

2. Significant accounting policies (continued)

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).
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.

We have considered the further risks of the Covid19 pandemic, the impacts of Brexit and the implications these events could have on the wider economy. More recently, the cost of living crisis in the UK, in 2022, driven by inflation and interest rates increase is having a significant effect on the population.

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.

In the remainder of 2022 and next year we continue our usual aggressive plan of new product launches and business drivers to stimulate, in partnership with our retail partners, the return of the consumption of beauty products. We remain determined to outperform the market, find again the path to growth, and deliver solid profitability. 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. L'Oréal UK has a strong cash generating business, and access to significant liquidity. Our net profit after tax broadly translates to a similar level of operational cashflow (especially now that contributions to the defined benefit pension scheme are reduced as the scheme has exceeded 100% funding and has been de-risked).

We retain a positive cash position in the UK. We forecast a continued strong positive operational cashflow in 2022 in line with our forecasted profitability and the group has shown the flexibility to reduce the dividend to take account of major investments made in the UK.

2. Significant accounting policies (continued)

We are also part of the L’Oréal group cash-pooling regime which means that our access to credit is not an issue and falls within the Group’s financial resources. We have no debt, we do not foresee the need for any long term facilities and any short term requirements are simply managed centrally at a group level.

In our opinion we are satisfied that the business is a going concern, we have a very strong position in our markets which we intend to strengthen further with our marketing programme and plans for the coming year.

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, we 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 prior year, the Company applied *Covid-19 Related Rent Concessions (Amendment to IFRS 16 Leases)* that provided practical relief to lessees in accounting for rent concessions occurring as a direct consequence of Covid-19, by introducing a practical expedient to IFRS 16. This practical expedient was available to rent concessions for which any reduction in lease payments affected payments originally due on or before 30 June 2021.

In March 2021, the Board issued *Covid-19 Related Rent Concessions beyond 30 June 2021 (Amendment to IFRS16)* that extends the practical expedient to apply to reduction in lease payments originally due on or before 30 June 2022.

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 2022 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 13.

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 overriding requirement for the financial statements to show a true and fair view. If this goodwill was amortised over a period of 20 years, it would have a zero net book value and the final amortisation charge to the Income Statement would have occurred in 2020.

2. Significant accounting policies (continued)

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.

3. 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 consumers in our stores, revenue is recognised when the customer obtains control 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, customer allowances 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.

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

Customer allowances

The Company grants a number of price concessions to its customers which are recognised within turnover. These concessions can take various forms such as quantitative rebates, promotional allowances and consumer coupons and are recorded simultaneously to the recognition of the sales if they can be estimated in a reasonably reliable manner. Amounts accrued for customer allowances require a degree of estimation which will be based on the terms as indicated in the contract, sales volume, anticipated redemption rate based on past experience and statistics. The actual amounts paid may be different from the estimate. Accruals are monitored regularly and adjusted by the end of the year where necessary, but an adjustment may be required to be recorded in the following year.

Accruals for expected payments are included in other current liabilities in the Balance Sheet.

Notes to the Financial Statements

4. Government grants

Accounting policy

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.

As part of the Government’s overall business support scheme, during the year the Company automatically received Business Rates Relief and Restart Grants of £1,765,000 (2020: £1,174,000). In 2021, the Company did not apply for and did not receive support in the form of the Job Retention Scheme for furloughed employees (2020: £13,034,000).

5. Operating profit

	2021	2020
	£’000	£’000
Operating profit is stated after charging:		
Impairment charges on tangible assets	**541**	248
Impairment charges on right of use assets	**3,664**	2,974
Cost of inventories recognised as an expense	**329,852**	302,982
Write downs of inventories recognised as an expense	**8,548**	4,915
Impairment loss recognised on trade receivables	**1,492**	1,017
Loss on foreign exchange	**12,781**	3,614
Costs of hedging transactions	**2,668**	4,707

Services provided by the Company’s auditor and its associates

During the year the Company obtained the following services from its auditor as detailed below:

	2021	2020
	£’000	£’000
Fees payable to the Company’s auditor for the audit of the annual financial statements	**320**	307
Fees payable to the Company’s auditor and its associates for other services:		
Other services	**-**	-
	320	307

6. Finance costs

	2021	2020
	£’000	£’000
Interest payable to group companies	**79**	60
Interest expense on lease liabilities	**127**	498
Other finance costs	**2**	113
	208	671

Notes to the Financial Statements

7. Finance income

	2021 £’000	2020 £’000
Bank interest	**-**	149
Net interest income on defined benefit pension plan	**1,796**	2,026
	1,796	2,175

8. Staff costs

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

	2021 Number	2020 Number
Selling and distribution	**2,859**	3,652
Administration	**451**	443
	3,310	4,095

- The 2020 comparative number has been adjusted to include a business unit that was omitted from the financial statements for the year ended 31 December 2020.

The aggregate costs of employment were as follows:

	2021 £’000	2020 £’000
Wages and salaries	**144,747**	147,087
Social security costs	**16,741**	17,314
Defined contribution pension contributions	**13,071**	12,234
Defined benefit pension costs	**3,730**	3,816
Equity settled share based payment cost	**2,366**	2,148
	180,655	182,599

Directors’ emoluments:	2021 £’000	2020 £’000
Aggregate emoluments	**984**	1,222
Aggregate gains on exercise of share incentives	**669**	422
Aggregate emoluments	**1,653**	1,644

Highest paid director:	2021 £’000	2020 £’000
Aggregate emoluments (excluding pension costs)	**429**	1,045
Aggregate gains on exercise of share incentives	**505**	422
Aggregate emoluments	**934**	1,467

Two directors exercised share options in the year (2020: one).

Contributions of £8,000 were paid by the Company into the defined contribution pension scheme for one director during the year (2020: none).

9. Tax on profit

	2021 £’000	2020 £’000
Current tax:		
United Kingdom corporation tax on profits for the year	**27,508**	26,178
Adjustment in respect of prior years	**(5,148)**	(190)
	22,360	25,998
Deferred tax:		
Origination and reversal of temporary differences in the current year	**4,151**	443
Adjustment in respect of prior years	**6,469**	677
Effect of change in tax rates	**11,671**	(949)
	22,291	171
Tax expense for the year in income statement	**44,651**	26,159

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

	2021 £’000	2020 £’000
Deferred tax on actuarial gain on defined benefit obligations	**733**	3,692
Deferred tax on cash flow hedges	**(858)**	2,256
Deferred tax on equity settled share based payment	**(383)**	(669)
Tax recognised directly in equity	**(508)**	5,279

The tax assessed for the year is higher (2020: lower) than the standard rate applied in the UK: 19% (2020: 19%). The differences are explained below:

	2021 £’000	2020 £’000
Profit before taxation	**170,129**	137,826
Tax at the UK corporation tax rate of 19% (2020: 19%)	**32,325**	26,187
Effects of expenses that are not deductible for tax purposes	**79**	1,021
Effect of income definitively not taxable	**(658)**	-
Effect of taxation at different rates	**209**	-
Origination and reversal of temporary differences	**(296)**	(587)
Adjustment in respect of prior years	**1,321**	487
Effect of change in tax rates	**11,671**	(949)
Tax expense for the year in income statement	**44,651**	26,159

The Company’s profits for the accounting period to 31 December 2021 were taxed at an effective rate of 26.25% (2020: 18.98%). The main rate of UK corporation tax is 19%, effective since 1 April 2018.

As announced at the Budget on 3 March 2021, the Finance Bill 2021 introduces a change in the main rate of corporation tax to 25% from 1 April 2023. The Finance Bill 2021 was substantively enacted on 24 May 2021. As a result of this increase in the tax rate from 19% to 25%, the deferred tax related to the defined benefit scheme asset has been revalued which has resulted in an additional tax charge in the year of £11,756,000 and an additional income of £4,733,000 recorded in other comprehensive income.

9. Tax on profit (continued)

However, on 23 September 2022, the Chancellor of the Exchequer announced that the planned tax rate change to 25% would no longer be implemented and that the main rate would remain at 19%. Because the enacted rate at the balance sheet date was 25%, this announcement does not represent an adjusting event and the company's deferred tax balances as at 31 December 2021 are still calculated at that higher rate. When recalculated at the lower 19% rate the deferred tax liability would reduce by approximately £7,023,000. This reduction will be recognised in 2022.

10. Dividends

	2021	2020
	£'000	£'000
Equity dividend paid: 21.28p (2020: 26.49p) per share	**86,406**	107,572

The directors proposed a final dividend for the year ended 31 December 2021 of £125,478,000 (2020: £86,406,000) which equates to 30.90p (2020: 21.28p) per share. The proposed final dividend was approved by the Board of Directors and paid in 2022. It has not been included as a liability in these financial statements.

11. 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 below 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 6.6% in 2021 (2020: 8.6%). 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 2021 or 2020. There is sufficient headroom such that a reasonably possible change in the key assumptions used would not result in an impairment of the goodwill.

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 eight years. Amortisation is charged to selling, general and administrative expenses.

11. Intangible assets (continued)

	Goodwill £'000	Trademarks £'000	Software £'000	Software under construction £'000	Total £'000
Cost					
At 1 January 2021	2,765	677	21,720	-	25,162
Additions	-	-	4,645	707	5,352
Disposals	-	-	(374)	-	(374)
At 31 December 2021	**2,765**	**677**	**25,991**	**707**	**30,140**
Accumulated amortisation					
At 1 January 2021	-	677	13,837	-	14,514
Disposals	-	-	(374)	-	(374)
Charge for the year	-	-	2,787	-	2,787
At 31 December 2021	**-**	**677**	**16,250**	**-**	**16,927**
Net book value					
At 31 December 2021	**2,765**	**-**	**9,741**	**707**	**13,213**
At 31 December 2020	2,765	-	7,883	-	10,648

Commitments

	2021 £'000	2020 £'000
Contracts for future capital expenditure not provided for in the financial statements	**512**	926

12. 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.

Notes to the Financial Statements

12. Tangible assets (continued)

	Point of sale advertising, stands and displays £'000	Other tangible assets £'000	Assets under construction £'000	Total £'000
Cost				
At 1 January 2021	44,239	37,764	4,917	86,920
Additions	5,915	327	1,813	8,055
Arising on transfer in - Azzaro Mugler Beauté Limited	-	-	228	228
Disposals	(28,827)	(3,825)	-	(32,652)
Transfers	1,955	1	(1,956)	-
At 31 December 2021	**23,282**	**34,267**	**5,002**	**62,551**
Accumulated depreciation				
At 1 January 2021	32,743	30,931	-	63,674
Charge for the year	10,072	2,276	-	12,348
Disposals	(28,827)	(3,825)	-	(32,652)
Impairment	7	534	-	541
At 31 December 2020	**13,995**	**29,916**	-	**43,911**
Net book value				
At 31 December 2021	**9,287**	**4,351**	**5,002**	**18,640**
At 31 December 2020	11,496	6,833	4,917	23,246

Following another difficult year of trading in the retail sector, an impairment loss on point of sale and other tangible assets of £427,000 (2020: £248,000) was charged to the Income Statement. This charge relates to both stores which were identified for closure, and stores that continue to trade but where the cash flows no longer support the carrying value of the assets. The discount rate used within the impairment calculation was 6.6%.

An additional impairment of £114,000 was charged to the Income Statement in the year relating to the strategic review of its distribution centre network, following an announcement in January 2021.

Commitments

	2021 £'000	2020 £'000
Contracts for future capital expenditure not provided for in the financial statements	**763**	1,172

13. Leases

Accounting policy

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.

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.

For the year ended 31 December 2020, the Company 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 resulted in a credit of £646,000 to the Income Statement for the year ended 31 December 2020.

In March 2021, the Board issued *Covid-19 Related Rent Concessions beyond 30 June 2021 (Amendment to IFRS16)* that extends the practical expedient to apply to reduction in lease payments originally due on or before 30 June 2022. For the year ended 31 December 2021, the total credit to the Income Statement as a result of these practical expedients was £1,038,000.

Notes to the Financial Statements

13. Leases (continued)

Right of use assets

The balance sheet shows the following amounts relating to leases:

	2021	2020
	£'000	£'000
Buildings	16,760	21,724
Retail buildings	4,600	7,925
Equipment and vehicles	4,168	5,855
	25,528	35,504

Lease liabilities

The maturity analysis of lease liabilities is as follows:

	2021	2020
	£'000	£'000
Due within one year	12,391	12,916
Due between one and five years	15,132	22,612
Due after five years	1,707	2,023
	29,230	37,551

Additions to right of use assets during the financial year were £1,311,000 (2020: £5,793,000).

The income statement shows the following amounts relating to leases:

	2021	2020
	£'000	£'000
Depreciation charge of right of use assets		
Buildings	8,090	7,945
Retail buildings	2,779	3,429
Equipment and vehicles	770	759
	11,639	12,133
Impairment expense	3,664	2,974
Interest expense (included in finance cost)		
Expense relating to short term leases (included in administrative expenses)	20	109
Expense relating to leases of low-value assets (included in administrative expenses)	795	799
Expenses relating to variable lease payments (included in administrative expenses)	266	92

13. Leases (continued)

During 2021 the Company has reported impairment losses within its portfolio of retail stores due to changes in customer shopping habits which has resulted in lower store performance. An impairment loss on retail right of use assets of £2,543,000 (2020: £2,974,000) was charged to the Income Statement in the year. The discount rate used within the impairment calculation was 6.6% (2020: 8.6%).

Due to its decision to review the long term suitability of its existing distributions centre network, the Company performed an impairment review of its right of use assets which include both buildings and equipment. An impairment charge of £1,121,000 was recognised in the year as a result of this strategic review.

The future commitments on short term and low value assets are £501,000 (2020: £760,000) due in less than 1 year and £298,000 (2020: £624,000) 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.

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 2021 £’000	As at December 2020 £’000
Due within one year	**131**	21
Due between one and five years	**7,745**	587
Due after five years	**83,048**	90,328
	90,924	90,936

14. Investments

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

	2021 £’000 Investment in subsidiaries	**£’000 Other**	2020 £’000 Investment in subsidiaries	£’000 Other
At 1 January	**16,941**	**193**	-	273
Written off to merger reserve	**(16,941)**	**-**	-	-
Addition	**-**	**458**	16,941	-
Amortisation	**-**	**(133)**	-	(80)
At 31 December	**-**	**518**	16,941	193

14. Investments (continued)

Investments in subsidiaries

At 31 December 2021, 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%	Not trading

On 1 January 2021, the trade, assets and liabilities of Azzaro Mugler Beauté Limited were transferred into L'Oréal (U.K.) Limited. The assets and liabilities are included in these financial statements at net book value. As a result of this group reorganisation, the cost of the acquisition of £16,941,000 less the value of the net assets acquired of £1,447,000 were transferred to the merger reserve.

Other investments

During the year ended 31 December 2018 and 31 December 2021, 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 five year vesting period of the Plan.

15. Inventories

Accounting policy

Stocks are valued at the lower of cost and estimated net realisable value. Cost is calculated using the weighted average cost method. 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.

	2021 £'000	2020 £'000
Finished products	**64,978**	75,542
Less: provision for obsolete inventories	**(8,548)**	(7,929)
Net inventories	**56,430**	67,613

Notes to the Financial Statements

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.

	2021	2020
	£'000	£'000
Trade receivables	**167,151**	157,715
Amounts owed by immediate parent company	**509**	601
Amounts owed by group undertakings	**50,327**	42,890
Less: expected credit losses on trade receivables	**(2,357)**	(1,862)
Net trade receivables	**215,630**	199,344

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 are no historic write offs of such amounts, and hence any expected credit loss calculation would result in a nil allowance.

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.

	2021	2020
	£'000	£'000
Tax and employee related receivables (excluding current tax)	**10,208**	7,698
Prepaid expenses	**3,684**	2,471
Other	**437**	3,650
	14,329	13,819

There are no amounts due after more than one year (2020: £142,000).

Other also includes an amount of £115,000 (2020: £182,000) which is impaired at the Balance Sheet date and is carried at a nominal value of £nil (2020: £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.

	2021	2020	**2021**	2020
	'000	'000	**£'000**	£'000
Authorised share capital				
Issued and fully paid ordinary shares (par value £0.25)	**406,133**	406,133	**101,533**	101,533
Share premium account				
Share premium			**277**	277

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 2020	**(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**
Credit to equity for equity settled share-based payments (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)**
Effective portion of gains and losses on cash flow hedges (net of tax)	-	(3,899)	243	-	**(3,656)**
Credit to equity for equity settled share-based payments (net of tax)	-	-	-	2,749	**2,749**
Arising on group reconstruction - Azzaro Mugler Beauté Limited (note 14)	(15,494)	-	-	-	**(15,494)**
Balance at 31 December 2021	**(98,967)**	**(5,059)**	**(60)**	**18,600**	**(85,486)**

The merger reserve was created on 1 July 2009 following the transfer in of the assets and liabilities of YSL Beauté Limited. It has later been adjusted by transfers of the assets and liabilities of De cléor (U.K.) Limited in 2015, IT Cosmetics Limited on 1 July 2018 and 8 January 2019, and Azzaro Mugler Beauté Limited on 1 January 2021.

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.

Notes to the Financial Statements

20. Retained earnings

	Total retained earnings £’000
Balance at 1 January 2020	142,641
Profit for the financial year	111,667
Dividend 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**
Profit for the financial year	125,478
Dividend paid	(86,406)
Actuarial gain on defined benefit obligations (net of tax)	21,131
Arising on transfer in - Azzaro Mugler Beauté Limited	732
Balance at 31 December 2021	**214,858**

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 five years and a holding period of 10 years and no performance conditions. The plan was terminated following the 2011 grant.

At 1 January 2020, there were 2,000 options that were not yet exercised relating to the grant of options made in April 2010. The weighted average price of these options was €80.03. The exercise period for this grant of options was 28 April 2015 to 27 April 2020. There were no options outstanding at 31 December 2020 or 31 December 2021.

Notes to the Financial Statements

21. Share-based payments (continued)

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 - 2021 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
07.10.2021	08.10.2025	8,575	€360.00	€339,34

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

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 four shares offered for every ten shares subscribed. The shares vest over a five 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 4 May 2018 and 31 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 1 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.

21. Share based payments (continued)

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 17 August 2020 and 11 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, they became involved in the L'Oréal Share Incentive Plan (SIP). The subscription price set was €276.62 representing the lower of the share price on 1 October 2020 or the purchase price in June 2021. The number of shares in which employees subscribed was 3,728 and that amounted to 1,599 free shares. Shares, including the matching shares, in the L'Oréal SIP are held in an employee share trust.

The total amount of expense recorded in 2020 for all share based payment was £2,366,000 (2020: £2,148,000).

The carrying amount at the year-end of liabilities arising from social security costs on share based payment transactions amounted to £1,375,000 (2020: £1,178,000).

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 GMPs 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.

22. Retirement benefit schemes (continued)

The Company determines the appropriate discount rate each year. This is the interest rate that is 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.

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.

L'Oréal (U.K.) Limited Retirement Benefits Plan

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 2021 the Company has made additional funding contributions of £1,500,000 (2020: £9,000,000) in addition to the salary-related contributions. The Company's best estimate of additional contributions to be paid during 2022 is £4,064,000.

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

22. Retirement benefit schemes (continued)

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 21 years. The following table provides information on the timing of the benefit payments (amount undiscounted):

	£'000
Year ending 31 December 2022	**13,455**
Year ending 31 December 2023	**13,909**
Year ending 31 December 2024	**15,584**
Year ending 31 December 2025	**15,556**
Year ending 31 December 2026	**16,014**
Five years ending 31 December 2031	**97,055**

The major assumptions used by the actuaries were as follows:

	2021	2020
Salary increases	**3.90%**	3.40%
Rate of increase of LPI pensions in payment – L'Oréal plan	**3.20%**	2.80%
Discount rate	**2.00%**	1.50%
Inflation (Retail Prices) assumption	**3.35%**	2.85%
Inflation (Consumer Prices) assumption	**2.90%**	2.40%

The base mortality assumptions are based on the SAPS S3 tables (2020: SAPS S3 tables), with adjustments to reflect the Schemes population. Future mortality improvements are CMI 2020 (2020: CMI 2019) projections with a long-term rate of improvement of 1.5% per annum for males and 1.25% per annum for females (2020: 1.5% per annum for males and 1.25% per annum for females).

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

	2021	2020
	£'000	£'000
Present value of defined benefit obligation	**651,870**	662,662
Fair value of plan assets	**(794,255)**	(779,705)
Asset in the Balance Sheet	**(142,385)**	(117,043)

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:

	2021	2020
	£'000	£'000
Opening defined benefit obligation	**662,662**	586,470
Current service cost	**3,730**	3,816
Employee contributions	**33**	39
Interest cost	**9,814**	11,561
Actuarial (gain)/ loss	**(7,522)**	77,696
Benefits and expenses paid	**(16,847)**	(16,920)
Closing defined benefit obligation	**651,870**	662,662

22. Retirement benefit schemes (continued)

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:

	2021
	£'000
Value of obligations at the end of the year if:	
Assumptions as set out above	
Discount rate reduced by 0.5% p.a.	**725,144**
Discount rate increased by 0.5% p.a.	**588,511**
Inflation reduced by 0.25%* p.a.	**675,569**
Inflation increased by 0.25%* p.a.	**627,207**

*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)).

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:

	2021	2020
	£'000	£'000
Opening fair value of scheme assets	**779,705**	681,419
Return on plan assets excluding interest income	**14,342**	88,827
Employer contributions	**5,412**	12,753
Employee contributions	**33**	39
Interest income	**11,610**	13,587
Benefits and expenses paid	**(16,847)**	(16,920)
Closing fair value of plan assets	**794,255**	779,705

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

	2021	2020
	£'000	£'000
Asset at the beginning of the year	**(117,043)**	(94,949)
Net expense recognised in the Income Statement	**1,934**	1,790
Employer contributions	**(5,412)**	(12,753)
Actuarial (gain) recognised in the Statement of Comprehensive Income	**(21,864)**	(11,131)
Asset at the end of the year	**(142,385)**	(117,043)

Amounts recognised in the Statement of Comprehensive Income are:

	2021	2020
	£'000	£'000
Return on plan assets excluding interest income	**14,342**	88,827
Experience gain/(loss) arising on the plan liabilities	**7,522**	(77,696)
Actuarial gain recognised in the Statement of Comprehensive Income	**21,864**	11,131

22. Retirement benefit schemes (continued)

The amounts recognised in the Income Statement are as follows:

	2021	2020
	£'000	£'000
Current service cost	**3,730**	3,816
Net interest income	**(1,796)**	(2,026)
Total included in the Income Statement	**1,934**	1,790

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.

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:

	2021	2020
	%	%
Equities	**13**	11
Bonds	**78**	80
Property	**9**	9
	100	100

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 represents 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)

	2021 **£'000**	2020 £'000
Product returns	**10,420**	13,923
Leasehold improvement/dilapidations	**9,209**	9,204
Restructuring	**2,969**	585
Other	**2,609**	3,518
	25,207	27,230
Current	**15,955**	17,925
Non-current	**9,252**	9,305
	25,207	27,230

	Product returns £'000	**Leasehold improvement/ dilapidations £'000**	**Restructuring £'000**	**Other £'000**	**Total £'000**
At 1 January 2021	13,923	9,204	585	3,518	27,230
New provisions during the year	7,547	159	2,900	1,209	11,815
Arising on transfer in - Azzaro Mugler Beauté Limited	312	-	-	-	312
Utilisation of provision	(6,710)	(124)	(210)	(971)	(8,015)
Reversal of provision without cost	(4,652)	(30)	(306)	(1,147)	(6,135)
At 31 December 2021	**10,420**	**9,209**	**2,969**	**2,609**	**25,207**

24. 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.

Notes to the Financial Statements

24. Deferred tax liability (continued)

	Accelerated tax depreciation £'000	Share based payments £'000	Retirement benefit obligations £'000	Foreign exchange derivatives £'000	Other £'000	Total £'000
At 1 January 2020	**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 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)**
Reclassifications	(233)	54	-	(404)	583	-
Arising on transfer in - Azzaro Mugler Beauté Limited	(10)	-	-	-	-	(10)
Credit/(charge) to income statement	(7,600)	57	(869)	-	(2,208)	(10,620)
Credit/(charge) to equity or other comprehensive income	-	383	(733)	858	-	508
Effect of change in tax rate in the income statement	-	85	(11,756)	-	-	(11,671)
At 31 December 2021	**1,014**	**2,166**	**(35,596)**	**1,294**	**1,321**	**(29,801)**

Deferred tax is measured at 19% except for known items that will unwind at 23.5% (blended rate) or 25% and these have been revalued in the year.

There is an unrecognised deferred tax asset in respect of trading losses carried forward of £140,285 (2020: £163,856) 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.

25. Trade and other payables

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

	2021 £'000	2020 £'000
Trade creditors	**106,027**	81,963
Accruals	**84,745**	81,204
Amounts owed to immediate parent company	**6,972**	6,935
Amounts owed to group undertakings	**30,016**	28,594
	227,760	198,696

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.

26. Other current liabilities

	2021	2020
	£'000	£'000
Personnel and social security	**28,254**	23,783
Other taxation (excluding current tax)	**19,311**	17,386
Year end and promotional rebates	**111,656**	103,286
Deferred income	**128**	66
Fixed asset payables	**5,367**	2,626
Accrued interest on lease liability	**18**	27
Other current liabilities	**-**	333
	164,734	147,507

27. 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.

Notes to the Financial Statements

27. 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:

	2021		2020	
	Assets	**Liabilities**	Assets	Liabilities
	£’000	**£’000**	£’000	£’000
Forward foreign exchange contracts – cash flow hedge	**6,475**	**16,282**	3,714	6,224
	6,475	**16,282**	3,714	6,224

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:

	2021	2020
	£’000	£’000
Change in fair value	**(6,807)**	(2,293)
Reclassified to profit and loss as hedged item effects profit and loss	**2,293**	15,839
	(4,514)	13,546

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

	2021	2020
	£’000	£’000
Buy:		
PLN	**8,384**	9,885
EURO	**526,416**	512,233
USD	**21,352**	32,658
	556,152	554,776
Sell:		
CAD	**-**	227
EURO	**197,609**	177,038
USD	**16,313**	11,615
	213,922	188,880

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

27. 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.

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.

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.