

L'Oréal UK and Ireland
UK Modern Slavery
Act Statement

L'ORÉAL
UK AND IRELAND

Introduction

Our human rights policy is based on our four Ethical Principles:

Integrity
Respect
Courage
Transparency

It is part of our Code of Ethics. At L'Oréal UK, our efforts with regards to modern slavery are part of our general human rights programme because from experience we know that abuse of different human rights are often interrelated. As with all human rights violations, we have a zero-tolerance policy with regards any type of forced labour including modern slavery.

As a signatory of the United Nations Global Compact since 2003, the L'Oréal Group is committed to respecting internationally recognized human rights, and to take steps to identify and address any actual or potential adverse impacts in which any of its subsidiaries may be involved through their own operations or its business relationships. We support the Fundamental Conventions of the International Labour Organisation even though these conventions have not all been ratified by the countries where we are present. In particular, L'Oréal wants to help end the exploitation of children in the workplace and the use of forced labour. We also believe that we can contribute to positive human rights impacts by playing our role as a responsible corporate citizen, addressing the root causes of human rights abuse.

The L'Oréal Group is recognised for its responsible business practices including with regards human rights. In 2016, it was recognized for the 7th time as one of the "World's most ethical companies" by the Ethisphere Institute and, in 2015, joined the UN Global Compact LEAD Group that brings together the most committed companies to sustainability.

Nevertheless, we are not complacent. We are keen to be part of the movement that eradicates this exploitative activity once and for all. We already have policies and procedures which help address this issue and in the future we will work to further strengthen them and regularly ensure their efficiency. We recognize that modern slavery is a complex issue, which requires us to invest time and resources, and engage and collaborate with a range of partners.

This statement describes the steps L'Oréal UK has taken during the year ending December 2016 to prevent modern slavery and human trafficking from taking place in our business and supply chains. It responds to the Modern Slavery Act 2015 and has been approved by L'Oréal UK and Ireland's Managing Board.

It should be read in conjunction with the L'Oréal Group's public reporting with regards the way we do business and namely L'Oréal's Reference Document, United Nations Global Compact Communication on Progress report, and our "Sharing Beauty with All" Sustainability Progress Report.

ONE OF THE

"World's most ethical companies"

Our organisation, structure and supply chain

L'Oréal is the world's largest cosmetics company, headquartered in Clichy, Hauts-de-Seine. The company is present in 140 countries, has subsidiaries in 69 countries and employs 89,300 staff. We produce skin care, colour cosmetics, hair care, hair colour, fragrances, men's grooming and sun care products.

L'Oréal UK and Ireland is the Group's fourth largest subsidiary, employing 4,500 people in the UK and Ireland in roles and functions including sales, marketing and operations, including three distribution centres.

Across the globe L'Oréal produces products in its own factories across 42 production facilities located in Belgium, Brazil, Canada, China, Colombia, Egypt, France, Germany, India, Indonesia, Israel, Italy, Japan, Kenya, Mexico, Poland, Russia, South Africa, Spain, Turkey and US, 153 distribution centres, 20 research centres located in Brazil, China, France, India, Japan, South Africa and US and 16 evaluation centres.

In the UK we deal with 22 of these facilities, (based in Belgium, China, France, Germany, India, Israel, Italy, Japan, Poland, Spain, Turkey and the UK). We also have 3 distribution centres based in the UK. We rely on both direct and indirect suppliers worldwide for our raw ingredients, which are purchased by the L'Oréal group in Paris.

L'Oréal UK and Ireland moreover works with 1,989 suppliers for other products and services. This includes for example, suppliers of temporary staff, event management and local marketing materials.

UK & IRELAND

4,500
EMPLOYEES

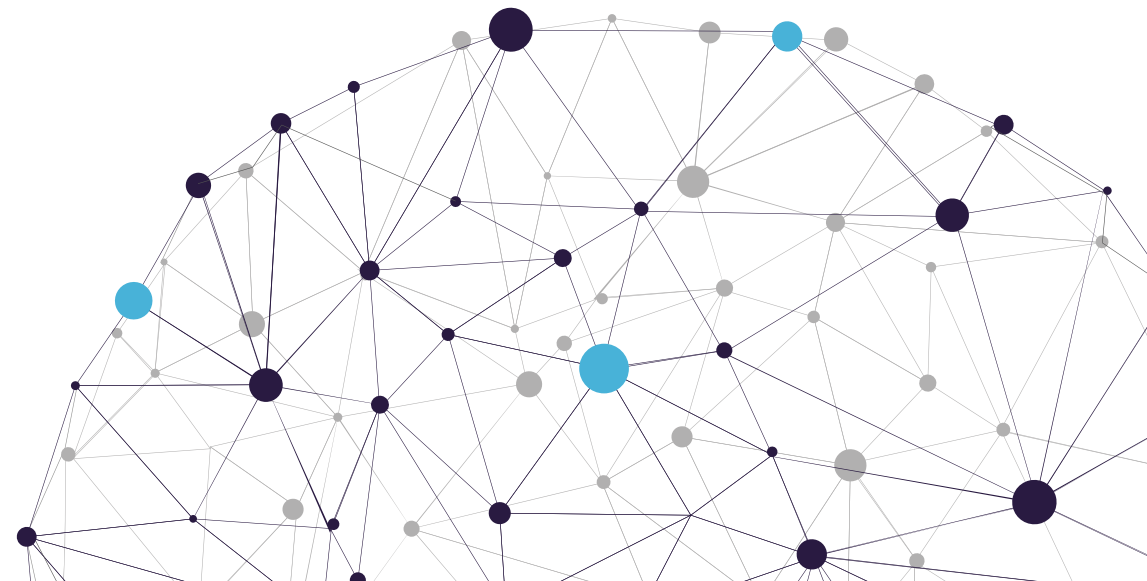
3
DISTRIBUTION CENTRES

1,989
SUPPLIERS

GLOBALLY

140
COUNTRIES

89,300
EMPLOYEES



Our policies

We have several ethics and sustainability policies and processes. Our policy architecture supports our work to identify, mitigate and remediate situations of modern slavery. A foundational process is our social audit programme, which provides a way of assessing and tracking risk. We know however, that whilst social audits give us a helpful insight and snapshot of the risks, they are only part of the solution.

We also recognize that we need to hear the perspectives of potentially affected people, who are our stakeholders. At this time, we are able to hear from our stakeholders primarily through trade union platforms (for our own employees), and for people in our supply chains through worker interviews during supplier audits and via the stakeholder forums we regularly organise.

POLICY	COMMITMENT
<u>The L'Oréal Spirit</u>	The L'Oréal Spirit sets out the commitment made by L'Oréal, its senior management and all of its employees to act ethically and responsibly. As a responsible employer, we commit to securing employee health, safety security and privacy; supporting diversity; and preventing sexual and moral harassment. As a responsible corporate citizen, we have made a group-wide commitment towards the abolition of child labour and forced labour and to actively seek out and favour business partners who share our ethical standards.
<u>Code of Ethics: The Way We Work</u>	Our Code of Ethics is the reference document for ethics within L'Oréal and helps employees, managers and directors live up to the L'Oréal Spirit in their day-to-day professional activity. The Code includes a specific section on human rights and covers the prohibition of child labour and the protection of young workers, the prohibition of forced labour, prohibition of sexual harassment or bullying, the respect for freedom of association and collective bargaining and respect for privacy and commitments, to ensure all suppliers understand and respect L'Oréal's ethical expectations.
<u>"The Way We Buy"</u>	A practical internal guide outlining the Group's ethical purchasing standards and helping employees deal with suppliers. The Purchasing Department has worked hand-in-hand with the Office of the Chief Ethics Officer to create this guide for all staff when dealing with suppliers; a document translated into 12 languages.
<u>Ethical Commitment Letter (ECL)</u>	Suppliers and subcontractors are asked to comply with the Ethical Commitment Letter (ECL) that refers to compliance with the Fundamental Conventions of the International Labour Organisation and labour laws. Suppliers cannot work with the company if they have not signed an ECL. This includes a requirement for no forced or bonded labour . It also includes the provision which requires that no one is hired under 16 years old without prior permission. Recourse to prison labour is only possible with L'Oréal's prior agreement and if it is voluntary within the scope of a professional reinsertion programme and paid at market price. The ECL also covers working hours and prohibition of harsh treatment and discrimination. Suppliers are asked to ensure transparency, remedy any non-compliance and drive continuous improvement, and ensure remedy for people who experienced harm. Suppliers are required to sign the ECL Acceptance Form prior to business being contracted. Purchasers must ensure that suppliers fully understand the contents of the ECL.

The diagram opposite shows our key policies relating to human rights and modern slavery and the commitments we have made. They help guide our own behaviour and also our expectations of suppliers.

Our policies (contd.)

Our ethical policies are embedded through our company's structure, systems and processes via a range of measures, including:

Training

Governance

Contractual terms

Incentive structures

POLICY	COMMITMENT
Suppliers/ Subcontractors and Child Labour policy	L'Oréal's requirements of suppliers and sub-contractors for preventing and managing child labour.
The L'Oréal Buy and Care Programme	Since launching in 2002, the Group's purchasers must adhere to guidance in order to embed social, ethical and environmental concerns within L'Oréal's supply chain. L'Oréal asks its suppliers and subcontractors to comply with the Fundamental Conventions of the ILO as well as local legislation.
Purchase Commitments and Order Management	L'Oréal's "Purchase Commitments and Order Management" standards aim to facilitate and strengthen control of the spending and investments of the Group.
General Terms of Purchase	L'Oréal UK and Ireland's Terms and Conditions for the Supply of Goods and Services include a requirement that goods and services supplied are not manufactured or sourced using forced labour.

Our Code of Ethics is currently available in 45 languages including in English and French in Braille. All employees must confirm that they have read the Code of Ethics.

Internally, we have held annual ethics days since 2009 which allow employees to ask questions of the company's Chairman and CEO about the application of the company's ethical principles, including on human rights. Ethics 'chats' are also organised locally with each country manager. In 2016, 60% of the Group's employees took part in this process and over 4,800 questions were asked worldwide. The Senior Vice President and Chief Ethics Officer also regularly visits the Group's entities worldwide to engage employees on the company's programme for ethics. In 2016, within this framework he visited 16 countries including the UK and Ireland, making a total of 63 countries visited since the end of 2013. Employees also have access to a dedicated intranet site which provides additional information on ethics including human rights.

Externally, we have invested considerable resources in sharing our Ethics programme and how it is implemented via our corporate website including on human rights, our commitment to the United Nations Global Compact, our "Buy and Care" programme and our "Sharing Beauty with All" sustainability programme.

Training

L'Oréal provides a range of internal training courses for staff and managers on ethical behavior and ethical purchasing.

A specific, compulsory ethics e-learning course covering human rights issues is mandatory for all staff since 2014. This is part of the induction process. There is also a compulsory training on responsible purchasing practices for all new purchasing staff and 94% of the Group's countries included subjects related to human rights in their local training programme.

Externally, we provide guidance and support through an audit proforma for the organisations who conduct our social audits. We also have supplier trainings as part of our "Buy and Care" programme that includes human rights.



“94% of local training programmes include subjects related to human rights”

Governance

Ethics and human rights are embedded in our company's governance structure.

Our Senior Vice-President and Chief Ethics Officer¹, who reports directly to the Chairman and Chief Executive Officer, is in charge of ensuring the promotion and integration of best practices within the Group, providing guidance in ethical decision-making. He ensures employees are trained and oversees the handling of concerns, if any. He meets regularly with the Chairman and Chief Executive Officer and informs the members of the Management Committee. He has access to all information and documents relating to the Group's activities and can call upon all the Group's resources to carry out his mission.

In addition, our Senior Vice President and Chief Ethics Officer is in charge of overseeing the respect for human rights within the Group. Each country has an Ethics Correspondent that employees can use as a local point of contact. Employees can also use the L'Oréal Open Talk website as a secure mechanism for raising concerns directly with the Chief Ethics Officer.

Country Managers are in charge of implementing our human rights policy in their country and the Chief Ethics Officer meets systematically with new Country Directors and Human Resource Directors to raise their awareness of human rights issues. Human Resources teams are responsible for ensuring that the human rights of employees are respected. Purchasing teams are responsible for ensuring that the human rights of workers at the sites of suppliers and sub-contractors are respected and are accountable for ensuring that the L'Oréal Social Audit Programme has been explained to and implemented by suppliers². Purchasing teams are responsible for individual supplier performance and strategic supplier performance against our policies. We have a robust process for ensuring that new suppliers meet L'Oréal's ethical requirements.

The CSR and Sustainability Department serves as an interface between all the different corporate functions on sustainability and manages non-financial reporting.



¹ Emmanuel Lulin, Senior Vice-President and Chief Ethics Officer of L'Oréal

² L'Oréal Communication On Progress Implementing UN Global Compact (2015)

Contractual terms

L'Oréal UK and Ireland's suppliers are expected to work to the company's Terms and Conditions of Supply of Goods and Services which include requirements that goods shall "not be manufactured or sourced using forced, prison (except under reintegration programmes during sentence and with the prior written consent of the customer), dangerous or concealed labour, or child labour involving children under the age of 16 years old and comply with the Fundamental ILO Conventions on freedom of association, the abolition of forced labour, equality and the elimination of child labour".

Our country Purchasing teams have the task of identifying new suppliers and recruiting them via the Welcome on Board (WOB) process which gives suppliers all the information required to understand L'Oréal's expectations and processes. The first objective is to obtain the supplier's commitment to L'Oréal's values. This is done through their signing and returning of the company's Ethical Commitment Letter (ECL), a requirement that covers all Raw Material, Packaging Components, Contract Manufacturing and POS/ PROMO suppliers. Suppliers are required to inform L'Oréal about any sub-contracting work. For indirect suppliers, and marketing services, the ECL must be sent and signed according to a specific set of rules based on known risks and business exposure. In the past 2 years, only one firm has sought derogation from signing the ECL.

Evaluation & incentives

Respect of these Ethical Principles is integrated in the annual appraisal system for all employees (which is directly linked to remuneration and progression) through two ethical competencies:

"Acts and leads with human sensitivity"

and

"Obtains results with integrity"



Due diligence processes

Assessing risks

Our systems for managing risks apply at a Group level and to all subsidiaries. We recognise the need to consider non-financial risks including respecting human rights, promoting sustainable use of resources, minimising negative impacts, minimising brand damage and the need for good human resource management.

Risk assessment with regards to human rights is based in particular on the indicators of the Verisk Maplecroft index. The index enables Country Managers to assess any local ethical risks (including with regard to human rights). This data is shared with appropriate corporate departments for them to include in their own risk assessment so that they can adopt relevant policies and procedures. Since 2013, 89% of the countries have carried out an ethics self-assessment.

An annual ethics reporting system enables monitoring of the implementation of the ethics programme, particularly with regard to human rights. On completion, countries are informed of their potential areas for improvement by the Office of the Chief Ethics Officer. In 2016, no areas of improvement were identified for L'Oréal UK and Ireland.

In addition, our assessment of actual and potential human rights risks **in our own operations** are currently driven by regular social audits, conducted in the UK at all three distribution centres. To date, social audits at the distribution centres have found no incidences of forced and compulsory labour or child labour. L'Oréal's regular Pulse survey

of staff in the UK asks several key questions in relation to ethics, for example, perception by staff of their ability to report instances of unethical behaviour.

Risks in our global operations and supply chains are currently managed via social audits, the implementation of which is led by each country's Purchasing Departments. We require the following suppliers receive social audits:

- **Key raw material suppliers**, in **high risk** countries
- **All component suppliers** in **high risk** countries
- **All sub-contractors** and **contract manufacturers** in **all** countries
- All **Capex equipment** suppliers in **high risk** countries
- **All POS/ Promo suppliers** in **high risk** countries
- All **POS Services** suppliers (Co-packers) in **all** countries
- For **Traders**, a social audit must take place at the factory/ plant level and not at the trader level. The Trader must have signed the ECL and is accountable for the compliance of its own suppliers/ facilities

Due diligence processes

Semi-announced social audits are carried out by a specialised, independent auditing firm, and conducted in the local language. Audits are conducted against L'Oréal's General Terms of Purchase and Payment and the SA8000 Social Accountability Standard following our social audit proforma. This includes 10 labour rights issues including forced and compulsory labour. In 2016, 1,187 social audits took place and since 2006 more than 8,200 audits have been conducted³.

Since 2002, our buyers have been implementing the responsible sourcing policy known as the L'Oréal Buy & Care programme, which regularly assesses strategic⁴ suppliers on their CSR performance, alongside quality, supply chain & service, innovation and competitiveness. The CSR pillar represents 20% of our total assessment and covers both environmental and social considerations through a set of criteria including the results of social audits.

Human rights due diligence is also taken into account during key stages of our business activities such as acquisitions and new partnerships. The answers to the Ethics and human rights questionnaire submitted to target companies are intended to identify whether the risks related, inter alia, to failure to respect human rights (namely child labour and forced labour) have been taken into account by such companies.

Our global team is in the process of revising the risk assessment process for human rights in the company's own operations and supply chains, which will be implemented in 2017.

We are aware of the following areas associated with increased risks of slavery which will be validated through the review of our risk assessment process:

- Third party labour agencies used to employ labour
- Third party labour agencies used to recruit labour for supplier sites (particularly in Asia)
- Agricultural production
- Sub-contractors
- Logistics operators, particularly in shipping (areas which historically have had limited attention in relation to labour practices)

The human rights chapter of the Ethics Self-Assessment tool is also being made more detailed and the auditing protocol for our own operations and our suppliers will be strengthened with regards the risk of Modern Slavery.

1,187
SOCIAL AUDITS IN 2016

8,200
SOCIAL AUDITS SINCE 2006

³ <http://www.loreal.com/suppliers/our-sustainable-procurement-policy/socially-responsible-purchasing.aspx>

⁴ These are suppliers who provide the Group with significant added value by contributing their influence, innovation, strategic alignment and geographic positioning in long-term support of L'Oréal's strategy.

Acting on risks

Potential issues revealed during the audit process give rise to a Corrective Action Plan (CAP) which is reviewed by our suppliers before the auditors leave.

Audits are given a rating by the external auditors of "Satisfactory," "Need Continuous Improvement," "Need Immediate Action" and "Zero Tolerance."

Our Purchasing teams must follow up on the implementation of all Corrective Action Plans by suppliers.

Sites rated as Zero Tolerance must immediately halt production, subject to a follow-up audit that ensures relevant issues have been closed off. The follow-up audit, conducted at supplier cost, must be rated Satisfactory or Need Continuous Improvement in order for trade relations and production to resume. Purchasers must inform the Corporate Sourcing Director, setting out reasons justifying why the business relationship should resume.

RATING MATRIX – CHILD LABOUR AND FORCED LABOUR			
	ZERO TOLERANCE	NEED IMMEDIATE ACTIONS	NEED CONTINUOUS IMPROVEMENT
<u>Child labour</u>	<ul style="list-style-type: none"> Workers under 16 years old, with no waiver Waiver conditions not respected 	<ul style="list-style-type: none"> No efficient system (ID with photo) to check age Child labour found within the last 12 months and no efficient system implemented since then Non-compliance of local law on minimum working age (if higher than 16) For young workers (16-18 years old): Non-compliances to local laws that are directly prejudicial to young workers (heavy work, night shifts...) 	<ul style="list-style-type: none"> System exist but files are incomplete (max 25% sample) regarding recent hires (<3 years) For young workers (16-18 years old): non-compliances of local laws that are not directly prejudicial to workers (registration to local authorities...)
<u>Forced & compusory labour</u>	<ul style="list-style-type: none"> Non-volunteer prisoners, bonded or indentured labor No respect of basic rights e.g. restroom and water breaks prohibited, work under guard surveillance 	<ul style="list-style-type: none"> Volunteer prisoners are not paid at market rate or not paid overtime Employees are not free to leave the workplace at the end of the shift e.g. compulsory overtime when not authorised by laws Requirements set by the employer affecting workers' freedoms e.g. monetary deposits, wage retention, ID card retention (when not mandatory by law) 	

The most severe modern slavery non-compliances are rated as Zero Tolerance non-compliances as shown by the rating matrix opposite.

Acting on risks – a case study

L'Oréal's 2016 Reference Document highlighted that 5.0% of social audit non-compliances in 2016 related to issues of forced or compulsory labour, across the Group worldwide. Most of these cases concerned the retention of identity papers or abusive contracts. Two severe cases of non-compliance concerned the lack of freedom for employees to leave their work station to go to the toilets, the other being a case of work subcontracted to prisons.

One social audit in 2016 (outside of the UK) revealed the employment of a child who was less than 16. The individual was aged 15 years and 5 months when hired.

After putting into place a system to verify the age of its employees, the supplier agreed that unplanned audits could be carried out. It is now in compliance. The most serious cases of non-compliance or absence of effective implementation of a Corrective Action Plan by suppliers may lead to breaking off commercial relations or, where applicable, not setting up a relationship with a new supplier.



Tracking

We measure the success of our work on human rights, including modern slavery, as part of our Ethics strategy and Sustainability “Sharing Beauty With All” strategy.

We are also working towards developing specific tracking processes focused on the Modern Slavery Act.

Relevant targets from our Living Sustainably and Developing Sustainably goals are:

- All **strategic suppliers** will be **evaluated** and **selected based** on their **environmental and social** (CSR) performance
- All strategic suppliers will have completed a **self-assessment of their sustainability policy** with L’Oréal’s support
- All suppliers will have access to **L’Oréal training tools** to improve their sustainability policies
- Solidarity Sourcing – part of L’Oréal’s target to enable more than 100,000 people from underprivileged communities to access work. To date 67,533 people have accessed work through the programme (2016)
- All brands will assess their **environmental and social impact** and make commitments to improve their footprint (66.6% of brands had evaluated impact by 2015)
- Every brand will **report on its progress and raise consumer awareness** of its commitments (34.4% conducted a consumer awareness initiative in 2015)

In addition, an **annual ethics reporting system** covers all subjects addressed in the Code of Ethics. This information helps to assess the Group’s performance in terms of the application of human rights.

SOLIDARITY SOURCING

67,533

PEOPLE ACCESSED WORK THROUGH THE PROGRAMME BY 2016

ENVIRONMENTAL AND SOCIAL IMPACT

66.6%

OF BRANDS HAD EVALUATED THEIR IMPACT BY 2015

RAISING CONSUMER AWARENESS

34.4%

OF BRANDS RAN A CONSUMER AWARENESS INITIATIVE IN 2015

Looking ahead

We know that eradicating modern slavery will require ongoing and persistent effort from all stakeholders. We have mapped out how we intend to continue and extend our work and hold ourselves accountable to continuous improvement.

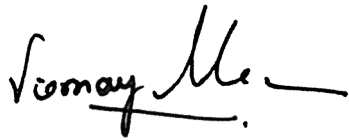
The first steps on this journey have been to:

- Assess supplier programmes and standards (in policies and contractual terms) in relation to their coverage of human rights, specifically modern slavery
- Revisit the scope and nature of the training we have on offer to employees and suppliers relating to modern slavery and broader human rights issues
- Continue to measure through social auditing while generating metrics and KPIs that can appropriately capture our progress in tackling modern slavery

By 2018, we will:

- Ensure the recruitment agencies/labour brokers we work with agree to comply with our human rights standards and namely with regards Modern Slavery
- Carry out audits of our own manufacturing and distribution sites with regards labour standards and Modern Slavery
- Ensure all staff have confirmed they have read the Code of Ethics
- Ensure all staff have completed the ethics e-learning
- Ensure all purchasing staff have completed the responsible purchasing e-learning
- Carry out our Ethics Self-Assessment with regards the human rights Chapter

We already have targets for the social sustainability of our supply base; these can be found in our 2016 Progress Report – Sharing Beauty with All.



Approved on behalf of L'Oréal (UK) Limited
by Vismay Sharma, Managing Director on
30th June 2017

