

# 2016 Methodological note

**This document reports the methodology used by L'Oréal for the 2016's indicators reporting. It describes for every area, the scope of consolidation, the indicators and the method used for data collection. This note concerns the Chapter 3 of the 2016 L'Oréal's Group Registration Document, as well as the 2016 *Sharing Beauty With All* Progress report.**

## Social data

### **Scope of consolidation**

The workforce indicated, and the breakdowns in this respect, correspond to the total workforce for the Cosmetic Divisions and The Body Shop<sup>1</sup>. If an indicator relates to a scope different from that of Cosmetic Divisions and The Body Shop, the scope of consolidation is indicated in a note.

### **Indicators**

The indicators chosen are those used in the management of employees and of the social aspects of the Company. They reflect the results of the Human Resources policy.

### **Data**

Four methods are used to collect data for the defined scope:

- most of the data are collected using the dedicated Country Reporting intranet system, available in all countries in which there is a L'Oréal subsidiary. The system covers several topics: workforce, training, absenteeism, labour relations, the L'Oréal *Share & Care* program, remuneration, diversity, recruitment and profit sharing:
  - at the beginning of each year, the local Human Resources Directors provide the required data for the previous year,
  - when the data are compiled, each country must validate a charter committing to the accuracy of all the data provided.
- other data are collected by each department concerned (*i.e.* Training, Recruitment) using dedicated systems which follow the same operational and dissemination approach;

- if information is not consolidated for the entire Cosmetics Division scope, it can be extrapolated from the available results for the entities connected to the local Information Systems (IS), provided that the scope covered by such entities is representative;

- lastly, the specific data relating to "executives" and other specific populations (expatriates, key positions, etc.) are gathered from the "CAROL" online career monitoring system, deployed in all Cosmetic Divisions subsidiaries.

The number of employees trained is calculated on the basis of all types of training format and length. The number of employees trained who received less than 1 hour's training is not significant.

Concerning the *Share & Care* indicator relating to healthcare coverage, the best practices in the countries are regularly evaluated in each country in which the Group is present.

A process of continuous improvement of these systems is in place. The systems are reviewed each year, taking into account the Statutory Auditors' recommendations and monitoring objectives for subsequent years: updating the indicators to be monitored, improving their definition, and enhancing the communication, monitoring and control process.

1. The subsidiaries in Venezuela were deconsolidated as of December 31<sup>st</sup>, 2015. Certain recent acquisitions (Atelier Cologne, Thermes St Gervais, TBS Chile, Côte d'Ivoire, Bangladesh), whose information system is not yet connected to the Group's systems, are excluded from the scope of the reporting. They represent 0.2% of the Group's employees. The objective is to integrate them into the reporting for 2017.

# Environmental data

## **Scope of consolidation**

The environmental indicators set out relate to the Cosmetics and The Body Shop sites: plants, distribution centres, administrative sites and research centres.

The environmental indicators of the plants and distribution centres sold or closed during the financial year are reported in full up to the date of their exit from the scope. The plants or distribution centres that join the Group have a maximum period of 2 years to connect to the environmental reporting systems: for the 2016 financial year, 97% of the plants and distribution centres participated in the reporting system, while data pertaining to 3 sites, recently integrated into the Group, are not yet included in the published data: Niely (plant), DC Niely, and DC Torrance.

The indicators do not take into account the impacts of non-recurring work concerning water and energy consumption and waste generation. Similarly, in the special case where a subcontractor is located geographically on the sites, its impacts are not taken into account.

In order to cover all the Group's impacts, the environmental reporting has been extended to the Group's administrative and R&I sites. In 2016, 91 administrative and R&I sites, representing over 80% of the workforce of the Group's administrative and R&I sites, participated in the reporting. 98% of these sites provided information relating to energy consumption and CO<sub>2</sub> emissions. As they share their premises with other companies, a few sites could not obtain their water consumption and waste production data. Nevertheless, 94% of the sites with more than 50 employees reported their water consumption and 86% the quantity of their waste.

## **Indicators**

The indicators chosen are those used in the management of the Company's sites. They reflect the results of the Group's Environment, Health and Safety (EHS) policy.

**Greenhouse gases:** the methodology used for the CO<sub>2</sub> estimates follows the GHG Protocol's rules. The Group's emissions are now calculated using the new concepts defined by the GHG Protocol and monitored using the Market-Based CO<sub>2</sub> indicator, instead of the Net CO<sub>2</sub> indicator. Furthermore, this indicator for the monitoring of CO<sub>2</sub> emissions now includes emissions related to refrigerant leaks.

With the desire for comparability, the data on CO<sub>2</sub> emissions for the 2005 baseline provided have been updated in light of these rules (recalculated on the basis of a constant scope). The calculation of the 2005 baseline is based on the 2003 emission factors of local electricity suppliers – when they are available. When the emission factors are not available, IEA (International Energy Agency) and eGrid<sup>2</sup> emission factors, available in 2006, corresponding to IEA factors for 2003 and EPA<sup>3</sup> (eGRID) factors for 2000, are used. For the estimates for the following years, the emission factor used follows the GHG Protocol rules: in general, that provided by the supplier, which is the most precise; if it is not known, the regional emission factor is used or failing this, the IEA emission factor (the 2015 IEA edition for 2016 emissions).

Comment concerning Scope 3: unlike Scopes 1 and 2, the changes in Scope 3 emissions from one year to the next may relate more to the quality of the data collected and the methods of calculation used than to a real measurement of change in performance. This margin of uncertainty with regard to Scope 3 is a reality for all companies, and does not make it possible to consider this data as a reliable benchmark or method of performance assessment.

**Waste:** L'Oréal includes in transportable waste everything that comes out of a plant or a distribution centre and which is not a finished or semi-finished product (for example, the following are concerned for a plant: raw material packaging or packing items, wastewater treatment plant sludge, broken pallets, etc.).

In order to improve the system of waste performance monitoring and exhaustively record the waste generated by the use of returnable packaging, a system of recording returnable packaging at source was put in place in 2014. L'Oréal thus records the weight of its returnable packaging at source in transportable waste, with each of the sites being responsible for maximising the number of rotations. The recording of the weight of reusable packaging at source is a measure intended to encourage rotation of this returnable packaging and contributes, through its reuse, to increasing the useful life of the packaging.

Sites that no longer send any waste for destruction or to landfill except for regulatory constraints are considered to have attained a 100% recovery rate.

## **Data**

The following method is used to collect data for the defined scope:

- The data are collected using the dedicated intranet-based site reporting system, available in all countries in which there is a L'Oréal subsidiary. This system covers several topics: quality, process performance and EHS data.
- The required data are reported every month by the local managers.
- When the data are compiled, each site or zone must validate the accuracy of the data provided.
- A process of continuous improvement of these systems has been put in place. They are reviewed each year by the Statutory Auditors and modified taking into account their recommendations and monitoring objectives for subsequent years: updating of the indicators to be monitored, improving their definition, and enhancing the communication, monitoring and control process.

2. Emissions & Generation Resource Integrated Database.  
3. Environmental Protection Agency.



## Societal data

### **Scope of consolidation**

The scope covers, depending on the indicators, L'Oréal parent company, France or the Group. The specific scope is specified for each indicator.

### **Indicators**

The indicators chosen are those within the scope of the Grenelle II regulations, with the aim of data comparability.

### **Data**

The data are collected from the Corporate Departments concerned (Communications Department, Sustainable Development Department, Human Resources Department, Purchasing Department, Worldwide Safety Evaluation and the Risk Management and Compliance Department).

## “Innovating sustainably” data

### **Scope of consolidation**

The calculation is made on the basis of a scope limited to the data available in the WISE tool, which now covers 87% of the volumes produced by the Group;

The calculation of the indicators is based on all new or updated products (sales models only), *i.e.* products manufactured in 2016 (which did not exist in 2015) in the L'Oréal Group's plants;

The products considered in 2016 cover all categories of formulas (including make-up and perfumes);

The calculation of the indicators is made on the basis of the number of new or updated products, either in terms of formula or in terms of packaging;

The new or updated products do not include “extensions of range”.

### **Indicators**

Concerning the indicator on the “Percentage of products analysed with an improved social or environmental profile (as a %)” : a new or updated product is included in the indicator if its profile

has been improved by at least one of the criteria measured by the other indicators (sustainable sourcing or green chemistry, improvement of the environmental impact of the formula, improvement of the packaging, presence of raw materials obtained under the *Solidarity Sourcing* programme).

Concerning the indicator on the “Percentage of new or updated products with an improved environmental profile thanks to a new formula with a reduced environmental footprint”: the improvement is assessed on the basis of the biodegradability and eco-toxicity criteria of the new formula or the updated formula compared to the average rating of the product family concerned, for an equivalent use. It only concerns products with a new or updated formula.

Concerning the indicator on the “Percentage of new or updated products with an improved environmental profile thanks to new packaging with a reduced environmental footprint”: the improvement is assessed on the basis of the criteria of the quantity of resources used, quality/sustainability of the resources used (recycled) and management of the end of life of the new packaging or updated packaging compared to the average rating of the product family concerned, for an equivalent use. It only concerns products for which the packaging is new or updated.

Concerning the indicator on the “Percentage of new or updated products with an improved social profile thanks to a positive social impact”: the indicator corresponds to the percentage of new or updated products including raw materials obtained under the *Solidarity Sourcing* programme. The number of *Solidarity Sourcing* raw materials is not compared to any baseline.