

**2016
PROGRESS
REPORT**

**SHARING
BEAUTY
WITH ALL**

THE L'ORÉAL SUSTAINABILITY COMMITMENT

L'ORÉAL

SHARING BEAUTY WITH ALL



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Editorial



“
*Four years from
 our 2020 deadline,
 we are doing everything
 we can to fulfil
 our targets.*”

Jean-Paul Agon
 Chairman and Chief Executive Officer

When we launched our *Sharing Beauty With All* programme in 2013, our priority was to act across the entire value chain. At the halfway mark in our 2020 ambitions, L'Oréal has already undertaken an in-depth transformation in order to be able to reach the extremely ambitious targets we have set ourselves.

In 2016, a pivotal year, we could demonstrate major progress, in particular in terms of innovating and producing sustainably. These are two areas in which we have been committed to systematic efforts to improve the environmental and social profile of our products and drastically reduce the impact of our production.

A key milestone has now been crossed: we have achieved and even exceeded our target of a -60% reduction in CO₂ emissions, four years ahead of schedule. This is the result of an immense amount of work by all the teams concerned. It also sends out a strong signal: we are continuing to decouple our growth from our environmental impact. While climate change is a major challenge, and we are already seeing its effects on the most vulnerable populations, our commitment is stronger than ever.

Moreover, the efforts made by our Research & Innovation teams for many years to reduce the environmental footprint of formulas or to respect biodiversity have led to much progress. This involves, in particular, products offering better biodegradability or containing more natural ingredients. Sustainable innovation is inciting us to be more and more creative, for example when we want to replace synthetic active ingredients with natural active ingredients (...)

(...) while ensuring the same level of performance. These are all arguments to which consumers are increasingly sensitive.

As well as our Research and Operations teams, the Marketing teams have fully integrated this new paradigm: environmental and social impact is just as crucial as all the other criteria when designing and creating a product.

The *Sharing Beauty With All* programme has therefore brought about substantial lasting changes in the way we design, produce, communicate and distribute our products. This is a real cultural shift for our company. Our employees are moreover completely involved to tackle these challenges, which they want to overcome and which correspond to their desire to make their everyday life more meaningful.

We crossed another milestone in 2016 by integrating criteria related to performance of the programme into the calculation of the bonuses for our country managers and brand managers. This is a way of recognising the contribution they have each made to the success of the programme, and of making this success a new performance indicator.

But we are well aware that, to go even further, we cannot move forward on our own. Since developing the programme, we have continually sought to discuss matters with experts, associations and not-for-profit organisations to listen to them, exchange views and make progress. This may involve working on the programme as a whole with our *Panel of Critical Friends*, or on more specific topics, like our sustainable sourcing methods.

I am deeply convinced that none of the challenges facing our planet can be resolved without a collective approach.



The Sharing Beauty With All programme has brought about substantial lasting changes in the way we design, produce, communicate and distribute our products. ”

For over ten years, we have supported and implemented the principles of the United Nations Global Compact, a commitment we renewed in 2016. We also carry out our actions within the framework of the seventeen new United Nations Sustainable Development Goals. We are determined to provide our contribution.

Four years from our 2020 deadline, we are doing everything we can to fulfil our targets.

Firstly, because our achievements prove that we are capable of meeting extremely ambitious targets, or even exceeding them. We are one of only two companies in the world out of nearly 3,000 to have received a triple "A", the highest score, from the CDP (an independent international organisation that evaluates the environmental performance of companies) in three areas: climate protection, sustainable water management and the fight against deforestation. This type of external recognition for our efforts encourages us to go even further.

And, secondly, because we still have a long way to go. We are conscious of the challenges that we still need to overcome, particularly with regard to living sustainably, where our products have a high impact. This is why we set up a consumer sustainability panel in 2016, the purpose of which is to identify consumer expectations and concerns with regard to

sustainable development. Making sustainable development desirable is a challenge that we took on three years ago, and our brands are fully committed to meeting it.

However much remains to be done, we are absolutely determined. *Sharing Beauty With All* is quite simply one of our strategic priorities for L'Oréal.

**SHARING
BEAUTY
WITH ALL**

**L'ORÉAL'S SUSTAINABILITY
COMMITMENT**

Within the scope of its *Sharing Beauty With All* programme, launched in 2013, L'Oréal set itself a series of commitments to be met by 2020, covering all its impacts and engaging all teams: from the sourcing of ingredients through production processes to distribution of products. These are concrete commitments, organised into four pillars: innovating sustainably, producing sustainably, living sustainably and developing sustainably to share growth with all L'Oréal's stakeholders (employees, suppliers and surrounding communities).

2016 in 5 key figures

-67% 

By reducing the CO₂ emissions of its plants and distribution centres by 67%, in absolute terms, as compared to 2005, L'Oréal has exceeded its target four years ahead of schedule. With a production volume that has increased by 29% over the same period, the Group has confirmed its ability to combine economic growth with ambitious commitments to climate protection. See page 15.

82% 

Over 80% of the products launched in 2016 have an improved environmental or social profile (as compared to 74% in 2015). Whenever a product is created or renovated, its contribution to sustainable development is now taken into consideration, in addition to its performance and its profitability. See page 10.

67,533 

This is the number of people from communities in difficulty who have had access to work through one of L'Oréal's programmes in 2016 (as compared to 60,600 in 2015). The target for 2020: 100,000 people. See page 22.

90% 

2016 saw a very large increase in the number of Group brands that have conducted an assessment of their environmental or social impact (66.6% in 2015). See page 20.

3

In 2016, L'Oréal was awarded a triple "A", representing the top score, for each of the three ratings made by the CDP on key topics: climate protection, sustainable water management and the fight against deforestation. Only two companies out of over 3,000 assessed all over the world obtained this triple "A" score in 2016. See page 27.

BECOMING A CARBON BALANCED* COMPANY






In 2016, three initial energy and forestry products, launched to fulfil L'Oréal's *Carbon Balanced* ambition, made it possible to save 8,300 tonnes of CO₂ ☺. One example: in South West Burkina Faso, where L'Oréal procures shea butter from 35,000 women and where wood is the only available source of energy. In 2016, thanks to a partnership with its supplier Olvéa and the Burkinabe social enterprise Nafa Naana, L'Oréal facilitated the acquisition of 1,500 improved metal stoves to replace the traditional "three-stone" stoves used to boil water to scald shea nuts. This system makes it possible to avoid the emission of over 2,300 tonnes of CO₂ a year and the cutting of nearly 800 tonnes of timber.

* At the end of 2015, L'Oréal announced its ambition to become a *Carbon Balanced* company by 2020, i.e. to balance the residual greenhouse gas emissions related to its industrial activities by generating carbon savings in its sustainable sourcing supply chains for raw materials.






2020 commitments, 2016 results

Every year, L'Oréal publishes the progress made in its sustainable development performances as compared to the targets set for 2020. The chart below gives an overall summary of the Group's progress with regard to each of the four pillars of the *Sharing Beauty With All* programme, via "strategic" indicators*. The figures and actions with regard to each commitment are set out in detail in the following pages of this report**.

Innovating sustainably

2020 TARGETS	2016 RESULTS	2015 RESULTS
 <p>100% of L'Oréal products will have a positive environmental or social impact.</p> <p>Every time a product is created or renovated, the Group will improve its environmental or social profile with regard to at least one of the following four criteria:</p>	<p>82% ☑ of new or renovated products have an improved environmental or social profile.</p>	74%
 <ul style="list-style-type: none"> the new formula reduces the environmental footprint, particularly with regard to water use; 	<p>27% ☑ of new or renovated products have an improved environmental profile thanks to a new formula that has a reduced environmental footprint.</p>	
 <ul style="list-style-type: none"> the new formula uses renewable raw materials that are sustainably sourced or derived from green chemistry; 	<p>18% ☑ of new or renovated products have an improved environmental profile thanks to a new formula that uses renewable raw materials that are sustainably sourced or derived from green chemistry.</p>	
 <ul style="list-style-type: none"> the new product has a positive social impact; 	<p>10% ☑ of new or renovated products have an improved social profile because they incorporate raw materials from <i>Solidarity Sourcing</i> programmes.</p>	
 <ul style="list-style-type: none"> the new packaging has an improved environmental profile. 	<p>57% ☑ of new or renovated products have an improved environmental profile, thanks to a reduction in the environmental footprint of packaging.</p>	

Producing sustainably





2020 TARGETS	2016 RESULTS	2015 RESULTS
 <p>L'Oréal will have reduced CO₂ emissions from plants and distribution centres by 60% in absolute terms, from a 2005 baseline.</p>	<p>-67% reduction in CO₂ emissions from plants and distribution centres since 2005.</p>	-56%
 <p>L'Oréal will have reduced CO₂ emissions from the transportation of products by 20% (in grams of CO₂ per sales unit per km), from a 2011 baseline.</p>	<p>-20% reduction in CO₂ emissions from the transportation of products. 310,441 tonnes of CO₂ resulting from the transportation of products in 2016 ☑ representing 0.021 grams of CO₂ (per sales unit per km).</p>	
 <p>L'Oréal will have reduced water consumption by 60% per finished product unit, from a 2005 baseline.</p>	<p>-48% reduction in water consumption in plants and distribution centres since 2005 (calculated in litre/finished product).</p>	-45%
 <p>L'Oréal will have reduced waste generation by 60% per finished product unit, from a 2005 baseline.</p>	<p>-35% reduction in waste from plants and distribution centres since 2005 (in grams/finished product).</p>	-31%
 <p>L'Oréal will send zero waste to landfill.</p>	<p>Only 0.2% ☑ of industrial waste sent to landfill in 2016 (from plants and distribution centres).</p>	2.2%

* Excluding acquisitions and subcontracting activities

** Corporate, social, environmental, health & safety data verified by Deloitte & Associés and PricewaterhouseCoopers Audit are indicated throughout this report by symbols indicating the level of audit assurance: ☑ (moderate) and ☒ (reasonable). Please refer to the methodological note and 2016 assurance report published in the Publications available at:

www.sharingbeauty.com/resources.

Living sustainably

2020 TARGETS	2016 RESULTS	2015 RESULTS
 <p>L'Oréal will use a product assessment tool to evaluate the environmental and social profile of all products. All brands will make this information available to allow consumers to make sustainable choices.</p>	<p>Tool deployment is nearing completion. These indicators will be available by the end of 2017.</p>	
 <p>All brands will assess their environmental and social impact and make commitments to improve their footprint.</p>	<p>90% ✓ of brands have evaluated their environmental or social impact.</p>	66.6%
 <p>Every brand will report on its progress and raise consumer awareness of its commitments.</p>	<p>46% ✓ of brands conducted a consumer awareness initiative.</p>	34.4%
 <p>Consumers will be able to influence L'Oréal's sustainability actions through a consumer advisory committee.</p>	<p>A consumer advisory committee was set up in 2016, through 3 consultative panels ✓.</p>	





Developing sustainably...

2020 TARGETS	2016 RESULTS	2015 RESULTS
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... with communities

 <p>By 2020, L'Oréal will enable more than 100,000 people from underprivileged communities to access work through the following programmes:</p>	<p>67,533 ✓ people from underprivileged communities were provided access to work.</p>	More than 60,600
 <ul style="list-style-type: none"> • <i>Solidarity Sourcing</i>; 	<p>63,228 ✓ people accessed work through the <i>Solidarity Sourcing</i> programme, including 20,728 through The Body Shop's <i>Community Trade</i> initiative.</p>	57,200 people including 22,400 via <i>Community Trade</i>
 <ul style="list-style-type: none"> • vocational training in the beauty sector; 	<p>3,295 ✓ people in very difficult social or economic situations received free vocational training in the beauty sector as part of the <i>Beauty for a Better Life</i> programme, supported by the L'Oréal Foundation.</p>	2,700 people
 <ul style="list-style-type: none"> • employment of disabled people. 	<p>1,010 ✓ people with disabilities work for L'Oréal.</p>	773 people

... with suppliers

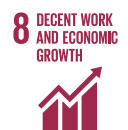
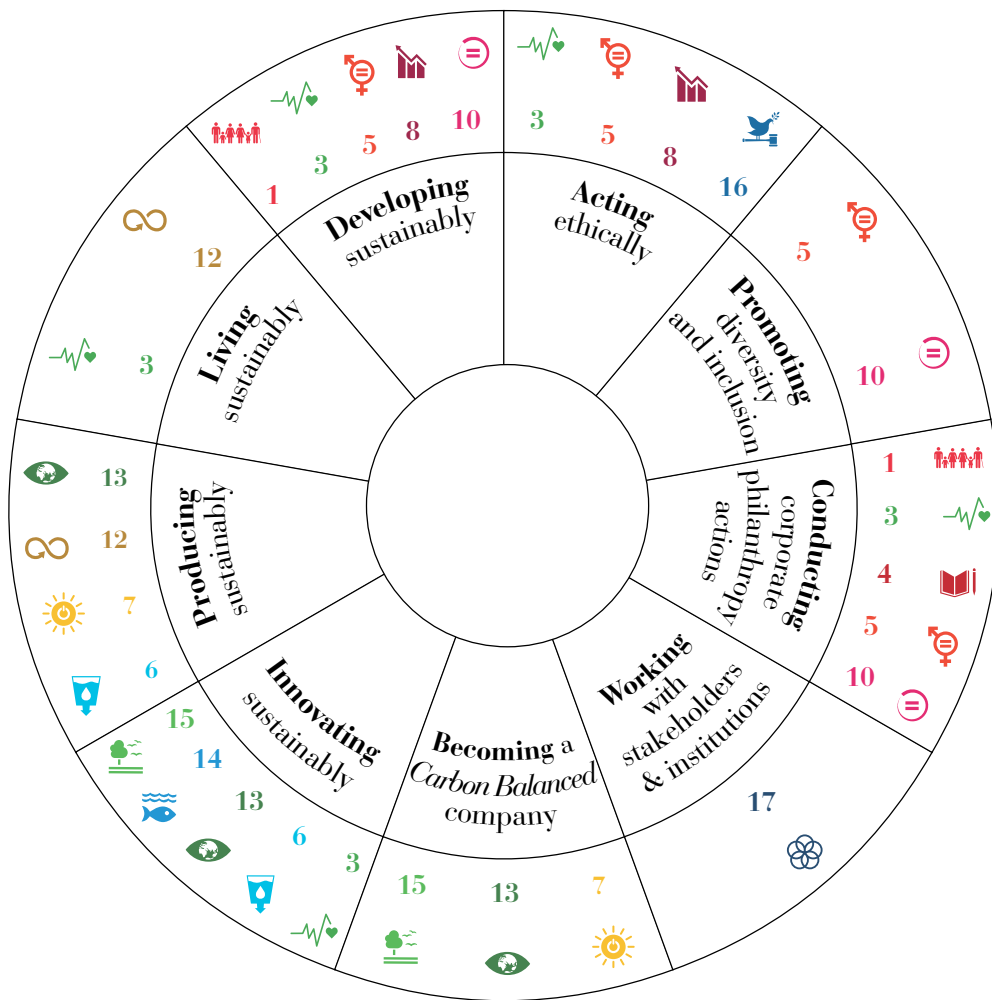
 <p>All strategic suppliers will be evaluated and selected based on their environmental and social performance.</p>	<p>83% ✓ of the Group's strategic suppliers have been evaluated and selected based on their environmental and social performance.</p>	51%
 <p>All strategic suppliers will have completed a self-assessment of their sustainability policy with L'Oréal's support.</p>	<p>83% ✓ of strategic suppliers have completed a self-assessment of their sustainability policy with L'Oréal's support.</p>	74%
 <p>All suppliers will have access to L'Oréal training tools to improve their sustainability policies.</p>	<p>The platform was launched online at the end of October 2016. It will first of all be made available to strategic suppliers, and then its availability will be gradually extended.</p>	
 <p>20% of strategic suppliers will be associated with the <i>Solidarity Sourcing</i> programme.</p>	<p>4% ✓ of strategic suppliers are involved in the <i>Solidarity Sourcing</i> programme.</p>	4%

... with employees

 <p>L'Oréal will provide healthcare coverage for employees reflecting best practices in their country of residence.</p>	<p>88% ✓ of the Group's permanent employees have healthcare coverage that reflects best practices in their country of residence.</p>	86.6%
 <p>L'Oréal will provide financial protection for all employees in the event of non-work-related accidents.</p>	<p>85% ✓ of the Group's permanent employees benefit from financial protection in the event of a non-work-related accident leading to personal injury (including death or permanent disability).</p>	78.4%
 <p>Every L'Oréal employee worldwide will have access to at least one training session per year.</p>	<p>77% ✓ of the Group's employees attended at least one training session in 2016.</p>	72.6%

L'Oréal's contribution to the United Nations Sustainable Development Goals

In September 2015, the 193 United Nations member states unanimously adopted 17 new major global "Sustainable Development Goals", aimed at putting an end to extreme poverty, at fighting inequality and injustice and at protecting the planet between now and 2030. L'Oréal has undertaken a profound transformation towards an increasingly sustainable model, to respond to its environmental and social impacts, as well as to the main challenges which the world is facing today. Its strong ethical commitment, its *Sharing Beauty With All* sustainability programme, its policy of promoting diversity and the corporate philanthropy actions conducted with the support of the L'Oréal Foundation enable the Group to contribute to 14 of the 17 Goals set by the United Nations.





INNOVATING SUSTAINABLY

By 2020, 100% of L'Oréal's products will have an improved environmental or social profile. Reduction of the environmental footprint of formulas, respect for biodiversity via a sustainable and responsible sourcing policy for raw materials, eco-design of packaging and commitment to zero deforestation are all levers used by L'Oréal to drive sustainable innovation.



Reducing the environmental footprint of formulas / **10**

Respecting biodiversity / **11**

Optimising packaging / **12**

Achieving zero deforestation / **13**

Reducing the environmental footprint of formulas

MONITORING INDICATORS UP TO 2020

PRODUCT IMPROVEMENT



82% ✓

of new or renovated products have an improved environmental or social profile in 2016*.

ENVIRONMENTAL FOOTPRINT OF FORMULAS



27% ✓

of new or renovated products have an improved environmental profile thanks to a new formula that has a reduced environmental footprint.

By 2020, 100% of L'Oréal's products will have an improved environmental or social profile. To succeed in this initiative, the Group's researchers use several drivers, in particular the improvement of the environmental profile of formulas.

Measurement and improvement of the environmental impact of formulas

The product life cycle assessments conducted by L'Oréal show that one of the main impacts of products on the environment is linked to the quantity of water used and the quality of the water discharged when the consumer uses the product. L'Oréal's teams therefore work on improving the environmental profile of the formula in two areas:

- improvement of their biodegradability, namely their ability to be degraded by micro-organisms present in nature;
- reduction of their water footprint, which represents the impact of the products on the aquatic environment.

Deployment of a new eco-design tool

All the products manufactured by the Group (shampoos, hair care products, styling products, hair colours, shower gels, skin care products, deodorants, sun care products, make-up, perfumes, etc.) were analysed to classify the products according to the benefits offered to consumers. After having defined 143 product categories and screened more than 40,000 formulas between 2014 and 2015, an eco-design tool was created with the aim of improving the environmental profile of the formulas, with an equivalent benefit for the consumer. Rolled out at the start of 2016, this tool is now used by all the teams of formulators. In 2015, L'Oréal increased the average rate of biodegradability of shampoos to 91% (as against 90% in 2014).

Among the new products launched in 2016, some products have levels of biodegradability exceeding 98% in the Group's different brands, such as, for example, Kérastase Aura Botanica Soin Fondamental or Concentré Essentiel, the shampoos and conditioners of the new Biolage R.A.W. range, the Garnier Ultra Doux 5 Plants shampoo, the Roger & Gallet Aura Mirabilis Ultra-Thin Clean Mask or the Lancôme Absolué Precious Oil.



These improvements in terms of the footprint of formulas, combined with the reduction in water consumption achieved at production level (see page 16), enabled L'Oréal to obtain for the first time a score of "A", representing the highest level of performance, in the rating of companies with regard to sustainable water management made in 2016 by the CDP (an independent international organisation that evaluates the environmental performance of companies).

MATRIX



BIOLAGE R.A.W.: A PRODUCT RANGE WITH AN EXCEPTIONAL ENVIRONMENTAL PROFILE

At the end of 2016, the Matrix professional products brand launched a new range called Biolage R.A.W. All the formulas were developed from a short list of ingredients and exclude sulfate, silicones and parabens. Some R.A.W. products have 100% natural ingredients, such as Replenish Oil-mist. The formulas of all the shampoos and conditioners are 98-99% biodegradable, and Recover shampoo also has a water footprint that is at least 75% lower than average in the category of "shampoos for sensitive or very sensitive hair". ●

* These are either products, namely those for which new formulas have been developed and are being produced for the first time in the Group's plants, or products for which packaging was renovated in 2016.

Respecting biodiversity

MONITORING INDICATORS UP TO 2020

PRODUCT IMPROVEMENTS



82% ✓

of new or renovated products have an improved environmental or social profile in 2016.

RAW MATERIALS AND BIODIVERSITY



18% ✓

of new or renovated products have an improved environmental profile thanks to a new formula using renewable raw materials that are sustainably sourced or derived from green chemistry.

SOCIAL IMPACT OF PRODUCTS



10% ✓

of new or renovated products have an improved social profile because they incorporate raw materials from *Solidarity Sourcing* programmes.

By 2020, 100% of L'Oréal's products will have an improved environmental or social profile. To achieve this goal, the Group promotes the use of renewable raw materials that are sustainably sourced or derived from green chemistry.

Giving preference to the use of renewable raw materials

54% ☉ of the volumes of raw materials used by L'Oréal are now renewable, *i.e.*, they are mostly of plant origin. This represents approximately 1,540 raw materials from over 350 species of plant from over a hundred countries.

Certain products sold in 2016 have a percentage of renewable raw materials of over 93%, such as Kiehl's Midnight Recovery Botanical Cleansing Oil or the Garnier Ultra Doux Honey Treasures hand cream.

The use of these ingredients is encouraged by L'Oréal's formulators, and may be:

- either sustainably sourced;
- or prepared using green chemistry principles, which reduce to a minimum the number of synthesis stages and solvent and energy consumption. 17% (in terms of volume) of the raw materials used by L'Oréal are obtained according to the principles of green chemistry.

Deploying a sustainable sourcing methodology

To address the issues of responsible and fair use of biodiversity, L'Oréal has developed a sustainable sourcing methodology based on four principles:

1. guaranteeing the traceability of the raw materials, which involves knowing the origin of the plant and the country in which it was produced;

2. ensuring that all stakeholders involved comply with the social and environmental regulations;
3. checking that the sourcing of these raw materials respects biodiversity and meets the sustainable development challenges in these areas by generating a positive social impact on the lives of the local populations;
4. having this entire process certified by an independent external party.

In 2016, within the scope of a continuous improvement process, an independent critical review of this methodology was carried out in partnership with the NGO *Rainforest Alliance*. Objective: confirming the relevance of the criteria adopted for the methodology and accelerating its deployment with suppliers. The areas for improvement identified will apply from 2017 onwards to the Group's various responsible sourcing programmes.

MEXICO



BIODIVERSITY AND LOCAL DEVELOPMENT

Candelilla wax comes from a wild shrub that grows in the Chihuahan Desert, in Mexico, a very rich biodiversity zone. This wax is used in cosmetics for its softening and protective properties, particularly in hair care and skin care products and in make-up. In order to

improve the conditions of production under which candelilla wax is produced while respecting biodiversity, L'Oréal and its partners provide support to 225 rural producers, known as "candelilleros", by structuring the production and sourcing of the wax and improving access to the Mexican social security system. ●

Optimising packaging

MONITORING INDICATORS UP TO 2020

PRODUCT IMPROVEMENTS



82% ✓

of new or renovated products have an improved environmental or social profile in 2016.

PACKAGING



57% ✓

of new or renovated products have an improved environmental or social profile thanks to packaging with a lower environmental footprint.

MATERIALS



7,050

tonnes of recycled material used in 2016.

CERTIFIED PAPER AND CARDBOARD



97%

of paper used for the instructions included with products is certified.

99%

of cardboard for product boxes is certified.

By 2020, 100% of L'Oréal's products will have an improved environmental or social profile. To achieve this target, optimisation of the packaging is an essential driver, for a benefit perceived by the consumer as equivalent or even higher.

Since 2007, L'Oréal has implemented a responsible packaging policy based on three pillars called the "3Rs" for Respect, Reduce and Replace. A global, systematic eco-design process is implemented, ahead of product design, for the packaging of finished products and also for transport packaging.

This process has been extended to advertising displays on point-of-sale (POS) since 2015. An analysis of the environmental profile of packaging is systematically carried out in order to identify how it can be improved.

Respecting the environment

For its paper, cardboard and wooden packaging, the Group has set itself the target of using only materials from responsibly managed forests that are respectful of biodiversity. In 2016, 97% of the paper used for product leaflets and instructions, 99% of the cardboard used for boxes and 89% of the paper/cardboard used in POS advertising is certified (FSC or PEFC).

L'Oréal also self-imposed the obligation of removing all PVC from its packaging by 2016. To date, the use of PVC represents only 0.03% of the plastic used by the Group. It will be completely eliminated in 2017.

Reducing and optimising resources

Developing packaging of an optimal size and weight that requires less resources is another major driver for improvement. In 2016, the 58% reduction in the weight of L'Oréal Paris Casting Crème Gloss bottles made it

possible to reduce packaging consumption by 136.3 tonnes, and the 15% reduction in the weight and volume of L'Oréal Paris Elsève shampoo bottle transport crates by 15% represents a saving of 103.4 tonnes of corrugated cardboard.

L'Oréal is also working on large-format or rechargeable packaging. For example, the Japanese Shu Uemura brand innovated in 2016 with Eye Shadow and Blush refill palettes. These refill palettes, which are, moreover, designed without any adhesive or magnets, offer consumers the possibility of creating their own colour ranges while also limiting the amount of packaging used.

Replacing materials with better alternatives

Finally, L'Oréal endeavours to replace traditional materials with alternatives from recycled or renewable sources (recycled or biosourced materials). In 2016, 7,050 tonnes of recycled (PCR) materials replaced virgin materials.

MORE SUSTAINABLE MATERIALS

MORE RECYCLED MATERIALS



A large number of products, launched in 2016 by various Group brands, incorporate more and more recycled plastic in their packaging. Biolage R.A.W., Aura Botanica by Kérastase and L'Oréal Paris shampoo bottles, are 100% composed of recycled plastic (except for the caps and pumps) and can in turn

be sorted and recycled after use. The same dynamic is at play concerning the incorporation of recycled glass in packaging, up to 25% for Lancôme, L'Oréal Paris, L'Oréal Professionnel, Roger & Gallet, The Body Shop and Vichy. ●

Achieving zero deforestation

MONITORING INDICATORS UP TO 2020

PALM OIL



100%

of supplies of palm oil, palm oil derivatives and palm kernel oil derivatives have been certified sustainable as per RSPO criteria since 2012.

SOYA OIL



100%

of soya oil from Brazil is RTRS (*Round Table Responsible Soy*) certified, organic and from fair trade sources.

CERTIFIED PAPER AND CARDBOARD



97%

of paper used for the instructions included with products is certified.

99%

of cardboard for product boxes is certified.

Within the scope of its zero deforestation policy, published in 2014, L'Oréal pledged that, by 2020 at the latest, none of the ingredients and components used in its products would result from deforestation.

Since 2007, L'Oréal has been deploying action plans in order to guarantee sustainable sourcing for agricultural raw materials that could lead to deforestation.

Palm oil, palm oil and palm kernel oil derivatives

L'Oréal directly purchases less than 700 tonnes of palm oil every year, but consumes, via the ingredients purchased from its suppliers, approximately 60,000 tonnes of palm oil or palm kernel oil derivatives. Since 2010, 100% of the palm oil purchased by L'Oréal meets the *Roundtable on Sustainable Palm Oil* (RSPO) standards, via the *Segregated* (SG) model, which is one of the most demanding.

Concerning the derivatives, which are also 100% certified, L'Oréal has increased the proportion of its *Mass Balance* purchases, which amount to 34% at the end of 2016 (versus 26% in 2015); the remainder continues to be covered by the *RSPO Book & Claim* model. Furthermore, in 2014, the Group undertook to trace derivatives to their source. The first two phases of the investigations conducted in 2014 and 2015 made it possible to trace 80% of the volumes of derivatives up to the refineries, 50% up to the mills and 12% up to the plantations. A third phase of investigations was launched in September 2016 in order to complete this data by March 2017.

Soya oil and its derivatives

Since 2015, 100% of the soya oil used by L'Oréal (230 tonnes/year, less than 0.01% of global production) which comes from Brazil is certified by the *Round Table Responsible Soy* (RTRS), organic and fair trade-sourced. As far as derivatives are

concerned (25 tonnes/year), they come from zones classified as areas with no risk of deforestation.

Wood-fibre based products

Concerning the materials used by L'Oréal for its packaging, 97% of paper and 99% of cardboard come from sustainably managed forests (FSC or PEFC certification). 89% of the paper/cardboard used in POS advertising is also certified. In its products, L'Oréal also uses certain wood-based ingredients, such as cellulose derivatives and certain perfumery ingredients, all classified as leading to no risk of deforestation.

 This ambition and these results have been recognised: for the first time, in 2016, L'Oréal was awarded a score of "A", representing the highest level of performance, in the ranking of companies with regard to forest protection made by the CDP, an independent international organisation that evaluates the environmental performance of companies (see page 27).

PALM OIL



INCLUDING THE FIGHT AGAINST DEFORESTATION IN THE SUPPLIERS SELECTION PROCESS

In 2016, L'Oréal changed its evaluation and selection matrix for its suppliers of palm oil and palm kernel oil derivatives. The Group created a *Sustainable Palm Index*, which takes into account their commitments and their achievements in terms of knowledge of their own supply chain, sustainable procurement practices and compliance with a zero deforestation policy. All L'Oréal's direct suppliers were evaluated using this new matrix. This new *Sustainable Palm Index* will be made public and made available to all companies and business partners in the sector at the beginning of 2017, in order to support efforts made to ensure sustainable palm oil sourcing. ●



PRODUCING SUSTAINABLY

L'Oréal has set the target for 2020 of reducing the environmental footprint of its plants and distribution centres by 60% from a 2005 baseline. The reduction of greenhouse gas emissions in absolute terms, of water consumption and of waste generation per finished product unit, and the reduction of impacts related to transportation, have become fundamental criteria for L'Oréal's industrial performance.

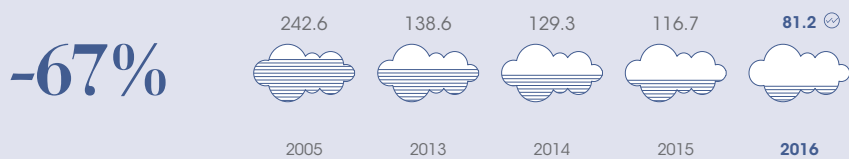


- Reducing CO₂ emissions / 15
- Reducing water consumption / 16
- Reducing waste / 17

Reducing CO₂ emissions

MONITORING INDICATORS UP TO 2020

CO₂ EMISSIONS FROM PLANTS AND DISTRIBUTION CENTRES SINCE 2005*
(kilotons in absolute terms, based on GHG Protocol methodology, scopes 1 and 2)




CO₂ EMISSIONS FROM THE TRANSPORTATION OF SALES UNITS**
(in grams of CO₂ per sales unit per km)



In 2016, four years ahead of schedule, L'Oréal met its two targets with regard to reducing greenhouse gas emissions, by reducing the emissions of its plants and distribution centres by 67%, in absolute terms, from a 2005 baseline and by reducing the emissions related to the transportation of its products (per sales unit per km) by 20% from a 2011 baseline.

Promoting low-carbon growth

Between 2005 and 2016, L'Oréal reduced its greenhouse gas emissions by 67%, in absolute terms, and increased its production volume by 29% at the same time, thereby confirming that ambitious commitment in favour of the climate can go hand-in-hand with economic success.

 This exceptional performance was praised for the fourth year running by the CDP. This independent international organisation, which evaluates the environmental performance of companies, awarded L'Oréal a score of "A", representing the highest level of performance, in its *Climate Leadership Index*.

Improving energy efficiency

Improved building design, and insulation, optimisation of industrial processes and the use of less energy-consuming technologies have made it possible to reduce energy consumption at our industrial sites by 33%, in kWh per finished product, between 2005 and 2016. L'Oréal is continuing the ISO 50001 (energy management) certification process, and expects all of its plants to have obtained this certification by 2020. In total, in 2016, 24% of plants (representing 10 sites) were certified.

Increasing the use of renewable energy

Thanks to major projects using various technologies that are adapted to the locations of the sites concerned (biomethanation, biomass, solar panels, etc.) and the purchase of green

electricity and gas, renewable energy supplies satisfied 45% of the needs of L'Oréal's plants and distribution centres in 2016. Fifteen of the Group's sites achieved carbon neutrality by the end of the year: five plants (Libramont in Belgium, Settimo in Italy, Burgos in Spain, Rambouillet in France and Yichang in China) and 10 distribution centres.

Reducing emissions related to product transportation

L'Oréal also wants to reduce the emissions generated by the transportation of its products from the plants to the distributors who are its customers. A host of actions are being undertaken, including the use of rail transport to replace road freight in China, the optimisation of container loading in the Africa and Middle East zone, and the reduction in air transport. As a result of these efforts, L'Oréal has achieved its target four years early. In 2016, emissions related to the transportation of products have decreased by 20% per sales unit per km, from a 2011 baseline.

UNITED STATES



STEPPING UP THE DEPLOYMENT OF RENEWABLE ENERGY

By 2020 in the United States, L'Oréal will be able to reduce its CO₂ emissions by 80%, from a 2005 baseline, thanks to several projects launched in 2016, combined with the purchase of local renewable energy certificates:

- launch of two large-scale projects: 4,000 solar panels (1.2 MW) planned at the plant in North Little Rock (Arkansas) and 5,000 (1.5 MW) at the plant in Florence (Kentucky);
- extension of the solar installation in Piscataway (New Jersey) to satisfy 26% of the plant's power needs;
- installation of 12 wind turbines on the roof of the distribution centre in Dallas (Texas). ●

*Indicator calculated according to the new concepts defined by the GHG Protocol: "market-based CO₂" emissions replace the "net CO₂" indicator. In addition, it now takes into account the emissions related to refrigerant leaks.

**Calculation made for the scope of the Group excluding The Body Shop, Nyx Professional Make-Up and Niely brands.

Reducing water consumption

MONITORING INDICATORS UP TO 2020

WATER CONSUMPTION IN PLANTS AND DISTRIBUTION CENTRES SINCE 2005 (in litres per finished product)




L'Oréal pledged to reduce its water consumption by 60% per finished product unit by 2020, from a 2005 baseline. To succeed in reaching this target, priority is being given to two key actions: optimising consumption and developing projects for the recycling and reuse of water at the production sites.

A recognised sustainable water-management policy

L'Oréal deploys its industrial projects with a concern for respectful water use, by reducing requirements to a minimum and taking into account the local availability of this vital resource.

Since 2005, L'Oréal has reduced the water consumption of its plants and distribution centres by 33%, in absolute terms, while production has increased by 29%. This corresponds to a 48% reduction in water consumption in litres per finished product by the end of 2016. All the projects currently being carried out enabled L'Oréal to reduce the water consumption of its plants and distribution centres by nearly 45,000 m³ in 2016. In total, a saving equivalent to one and a half years' water consumption related to industrial activity was thus made between 2005 and 2016.

 This performance, combined with the efforts made to improve the water footprint of formulas (see page 10), enabled L'Oréal to obtain for the first time a score of "A", representing the highest level of performance, in the ranking of companies with regard to sustainable water management made in 2016 by the CDP, an independent international organisation that evaluates the environmental performance of companies.

Optimising consumption

Thanks to *Waterscan*, the tool developed by the Group, which standardises water consumption and identifies

potential for reductions, the teams seek in priority to reduce the quantities of water used to clean production equipment and packaging lines. An operation required by virtue of very strict hygiene standards, which represents 35% of the total consumption of the Group's production sites. The quantity of washing water required is therefore adjusted on the basis of the formula of each product manufactured and the equipment used.

Treating and recycling water on-site

The principle consists in re-treating wastewater on-site, as it leaves the plants' wastewater treatment system, in order to extract very high-quality water. This water is then reused to wash the production equipment or in the cooling processes. As of the end of 2016, L'Oréal has 10 recycling facilities in Karlsruhe (Germany), Rambouillet (France), Aulnay (France), Libramont (Belgium), Burgos (Spain), Settimo (Italy), Istanbul (Turkey), Pune (India), Suzhou (China) and Montreal (Canada).

SPAIN



WATER CONSUMPTION REDUCED BY 15% IN ONE YEAR

In addition to its renewable energy production installations, the Burgos plant in Spain installed a wastewater recycling system in 2015. Once it has been treated, the high-quality water is reused for the plant's main requirements (cooling, washing of equipment, etc.).

This facility achieved optimal use in 2016: the plant reduced its total consumption by 15% as compared to 2015, and by nearly half compared to 2005. To achieve the 2020 target, the plant proposes to develop the recycling facility in order to further increase its ability to reuse water. ●

Reducing waste

MONITORING INDICATORS UP TO 2020

WASTE GENERATION IN PLANTS AND DISTRIBUTION CENTRES SINCE 2005

(in grams per finished product)

-35%



WASTE RECOVERED



98%

of waste recovered.

WASTE SENT TO LANDFILL*



0.2%

of waste sent to landfill in 2016.

By 2020, L'Oréal will have reduced the waste generated by its plants and distribution centres by 60%, from a 2005 baseline. The Group is undertaking ambitious actions to reduce waste at source, while ensuring the recovery of residual waste.

A very ambitious policy

L'Oréal has an ambitious waste-management policy which goes well beyond regulatory compliance. The Group has thus set a very exacting definition of "waste", which includes, for example, raw-material packaging or packing items, sludge from the wastewater treatment plants and obsolete products.

In 2016, the Group reduced the quantity of waste generated per finished product by 35% compared to 2005. An important stage was moreover reached in 2016: since December, no distribution centre sends waste to landfill. The plants had already reached this milestone at the end of 2015. At the end of 2016, four years ahead of schedule, 100% of L'Oréal's industrial sites therefore reached the "zero waste to landfill" target.

Reducing waste generation at source

L'Oréal's commitment requires optimisation of the use of materials in all of its industrial activities. Its approach is based on a large number of cross-segment projects aimed in particular at:

- reducing waste related to transport packaging (eco-design, reduction in weight and volume, optimisation, reuse, standardisation, "wall-to-wall" production**), both in the plants and the distribution centres;
- continuous improvement of the manufacturing and packaging processes to reduce production losses;

- installation of on-site sludge and wastewater treatment systems at the plants to reduce the volumes generated and thus diminish the impact of their transportation and their downstream treatment;
- improved recovery of obsolete product inventories in order to limit their destruction.

Recovering residual waste

L'Oréal wants to go one step further by ensuring the best possible recovery of waste which cannot be avoided at the source. In 2016, 98% of industrial waste is recovered – namely reused, recycled or recovered for energy. 69% of this waste was recovered in material form (i.e. reused or recycled).

L'Oréal endeavours to promote local recovery solutions wherever possible, both to reduce the environmental impact of waste management and to promote a circular economy by creating industrial synergies with other local stakeholders.

EGYPT



DRYING SLUDGE TO REDUCE ITS VOLUME

The plant in Cairo installed in 2016 a drying slab to be used for landspreading of its wastewater treatment plant sludge. External heat alone is sufficient to evaporate the water contained in this sludge, making it possible both to reduce its volume by nearly 60% and to improve

the recovery rate. A high performing system to reduce the plant's largest waste item (40% of the total) and environmental impact of the transportation and treatment of the waste. ●

* Excluding local regulatory constraints.

** L'Oréal develops "wall-to-wall" production, which consists in setting up supplier-operated packaging-production units within its plants to reduce, which makes it possible to reduce the transport of packaging and the generation of waste from the transport packaging.



LIVING SUSTAINABLY

L'Oréal aims to empower its consumer to make sustainable choices. To achieve this target, the Group adopts several approaches: aggregating information on the environmental and social impact of products, evaluating the footprint of each brand, raising awareness among consumers and making sustainable development desirable.



Assessing the footprint of products / 19

Raising consumer awareness about sustainable consumption / 20

Assessing the footprint of products

MONITORING INDICATORS UP TO 2020

CONSUMER INFORMATION



% of brands that share information with consumers from the product assessment tool to help them make informed, sustainable consumption choices.

Tool deployment is nearing completion. These indicators will be available by the end of 2017.

EVALUATED PRODUCTS



% of new products evaluated through the product assessment tool.

By 2020, L'Oréal will make information relating to the environmental and social profile of each of its products available to consumers, to help them to make sustainable choices.

Finalisation of SPOT, the new evaluation tool

Since 2014, the L'Oréal Group has been working on the development of a tool which will make it possible to evaluate the environmental and social performance of its products and which will incorporate social criteria for the first time, in addition to environmental indicators.

In 2015, a first simplified version of this system was initially deployed by four pilot brands: Biotherm, Garnier, La Roche-Posay and Redken US. The tool was then made available to other Group brands.

In 2016, a more elaborate version, with optimised ergonomics and broader functionalities, was made available to the pilot brands, enabling them:

- to stimulate different design options in order to be able to evaluate their impact on the environment and on society, and thus identify the possible drivers for improvement;
- to measure impact reduction at product level, in accordance with a methodology aligned with European standards.

Called SPOT, for *Sustainable Product Optimisation Tool*, this tool is gradually being rolled out to the Group's brands – Garnier, La Roche-Posay, L'Oréal Professionnel, L'Oréal Paris, Matrix and Biotherm in 2016 – and the teams in charge of product design are being trained to use it. More than 120 products were evaluated using SPOT in 2016.

A robust system, co-built with experts

For the overall design of this tool, L'Oréal called upon a panel of 12 international experts, who met up for four days of workshops in 2016, to contribute to the development of the methodology and to guarantee the relevance of the final system.

L'Oréal also worked with a panel of 7 recognised experts in social life cycle analysis to develop the first methodology for calculating the social impact of cosmetics. The SPOT tool was developed by integrating this methodology. It therefore makes it possible to measure, in addition to their environmental impact, the potential social impact that the Group's products may have on its stakeholders (its suppliers, employees and the communities with which L'Oréal interacts).

LA ROCHE-POSAY



IMPROVEMENT OF A FORMULA SCREENED USING SPOT

In 2016, La Roche-Posay began to use SPOT to evaluate the impact of its products and identify possible means of improvement. The brand has, for example, renovated the formula of its ultra-fine exfoliating scrub, which now has 10% improved biodegradability, in

particular thanks to the replacement of the plastic microbeads by perlite, a mineral particle with an excellent environmental profile. In line with its commitment, by the end of 2016 the L'Oréal Group had reformulated 100% of its rinse-off exfoliating products: none of these still contain plastic microbeads. ●

Raising consumer awareness about sustainable consumption

MONITORING INDICATORS UP TO 2020

ASSESSMENT AND REPORTING



90% ✓

of brands have evaluated their environmental and social impact and have pledged to reduce it and to report on their progress*

RAISING CONSUMER AWARENESS



46% ✓

of brands conducted a consumer awareness initiative*

By 2020, L'Oréal will have improved the environmental and social profile of 100% of its new products and will communicate to consumers about their performance with the aim of encouraging them to make sustainable consumption choices.

Launch of the consumer advisory committee

Since 2013, L'Oréal has been conducting quantitative and qualitative studies to gain a better understanding of the expectations of consumers and identify the most engaging way of getting them involved in sustainable development issues.

At the end of 2016, in accordance with one of the commitments under the *Sharing Beauty With All* programme, a consumer advisory committee was set up, consisting of three consumer sustainability panels and bringing together around ten people with a variety of social and cultural profiles, who met in France, in Paris, Lyon and Bordeaux. In addition, a quantitative survey of 1,000 people was carried out. Their perspectives and suggestions within this framework have made it possible to adapt the action plan for 2017 (see also page 25).

Plans for continuous improvement at the brands

Each Group brand evaluates its environmental footprint by analysing its formula and packaging portfolio. Objective: to define a sustainable innovation plan, which identifies the means for improvement of each range and product, and provides for the actions to be taken. In 2016, this work was carried out by 90% of the Group's brands.

Using the brands' influence

Conscious of the ability of its brands to mobilise their business partners, customers and consumers around today's major environmental and social causes, L'Oréal has pledged that each brand will identify a cause that it personally want to defend and run campaigns to raise awareness. In 2016, nearly half the brands conducted this type of action.

For example, in Australia, Brazil, Canada, the USA and Japan, Clarisonic, Garnier, Kiehl's, Maybelline and L'Oréal Paris have entered into a partnership with TerraCycle, a company that specialises in the collection of waste that cannot be recycled in the existing recycling systems. Consumers are invited to send off the packaging for their products free of charge, and this packaging is then reused to manufacture various everyday objects.

RAISING AWARENESS



BRANDS THAT ARE MORE AND MORE COMMITTED

In 2016, with *Acqua for Life*, Armani continued its initiative to improve access to drinking water conducted with *Green Cross International*. Biotherm reaffirmed its commitment to ocean protection alongside *Mission Blue*. La Roche-Posay launched yet another Skin Checker campaign to raise awareness about the need to check moles and screen for melanoma. This campaign won third place in the *Grand Prix de la communication solidaire*, in the "Cinema and TV" category. Ushuaïa continued its partnership with Pur Projet via an engaging digital campaign and by planting more than 2,300 trees. And, by the end of 2016, L'Oréal Professionnel had trained more than 430,000 hairdressers and launched a free mobile app, 15' Coach, to help them to prevent musculoskeletal disorders (MSDs). ●

*Percentage calculated as compared to consolidated sales for 2015.



DEVELOPING SUSTAINABLY

Sharing its growth with its internal and external stakeholders is a priority for L'Oréal. The Group promotes access to work for people from underprivileged communities by deploying various programmes, associates its suppliers with its sustainable development policy and guarantees its employees the best social practices all over the world.



Promoting access to employment and social inclusion / 22

Joining forces with suppliers to meet the Group's commitments / 23

Putting employees at the centre of commitments / 24

Promoting access to employment and social inclusion

MONITORING INDICATORS UP TO 2020



By 2020, L'Oréal will have given more than 100,000 people in difficulty access to work. To achieve this goal, the Group has developed various programmes: solidarity sourcing projects, vocational training and the inclusion of persons with disabilities.

Sourcing initiatives, a social inclusion driver

In 2010, L'Oréal created *Solidarity Sourcing*, a responsible purchasing programme aimed at dedicating part of the Group's purchases to suppliers who give people who are generally excluded from the labour market permanent access to work and income. These include companies that employ people from underprivileged communities, others that may find it difficult to have access to large international calls for tenders, or very small companies.

The *Solidarity Sourcing* programme is deployed in all geographic zones and concerns all fields of purchases (raw materials, contract manufacturing, promotional items, etc.). In 2016, the programme helped 63,228 beneficiaries throughout the world. Of this total number of people who have been given permanent access to work and income, 20,728 are part of The Body Shop's *Community Trade* programme.

The Beauty For a Better Life programme

The L'Oréal Foundation develops *Beauty For a Better Life*, a free vocational training programme in the beauty professions that relies on the Group's know-how in fields such as hairdressing and make-up. It is intended for people in very difficult living situations, in particular vulnerable women experiencing social or economic problems, victims of conflicts or violence or young people who have left home or who have dropped out of school.

The *Beauty For a Better Life* programme, which is deployed in 25 countries, promoted access to work for 3,295 beneficiaries in 2016.

Inclusion of disabled persons

Since 2008, and in close collaboration with local and international experts (associations, not-for-profit organisations, NGOs), L'Oréal has developed a global policy in favour of the insertion of persons with disabilities in the company. In 2016, L'Oréal had 1,010 disabled employees*.

To step up the engagement of its subsidiaries, L'Oréal has been organising the *Disability Initiatives Trophies* since 2008. This biennial award ceremony showcases and shares the best practices conducted by the various L'Oréal entities. In 2016, 65 L'Oréal subsidiaries competed for these trophies.

CHINA



PLANTS UNLIKE ANY OTHERS

In 2016, in close collaboration with committed suppliers, L'Oréal launched a new *Solidarity Sourcing* project. The Group entrusted the production of a substantial portion of its promotional items to plants located in China, in remote, underprivileged areas of the provinces of Anhui and Hunan, which are the most affected by economic migration. In 2016, L'Oréal's purchases enabled 160 people to work full-time, in their region of origin, with a decent salary. Two-thirds of employees are women; they are almost all mothers with families who thus have the possibility to provide for their needs while staying near their homes and children. ●

* This indicator takes into account employees who wanted to declare their disability and/or who are officially recognised as disabled by the local authorities or by a doctor, according to the definition of the local legislation or local practice.

Joining forces with suppliers to meet the Group's commitments

MONITORING INDICATORS UP TO 2020

SELECTION



83% ✓

of the Group's strategic suppliers have been evaluated and selected based on their environmental and social performance. They represent 74% of direct purchases (raw materials, packaging and contract manufacturing)

SELF-ASSESSMENT



83% ✓

of strategic suppliers have completed a self-assessment on their sustainability policy with L'Oréal's support.

By 2020, 100% of L'Oréal's strategic suppliers will participate in its sustainable development programme. The Group has developed a twofold approach, selecting its suppliers on the basis of their environmental and social performance, and providing them with training tools.

L'Oréal considers that the activities of its suppliers are part of its wider social and environmental footprint. They are therefore associated with L'Oréal's CSR policy, in particular for "strategic" suppliers*.

Evaluating suppliers' environmental and social performances

L'Oréal has adopted five pillars that make it possible to evaluate and choose suppliers: quality, supply chain and service, CSR, innovation and competitiveness.

This assessment process is carried out by means of a harmonised global evaluation for all fields of purchases. The CSR pillar represents 20% of the total evaluation and covers both the environmental and social dimensions, thanks to a series of criteria including, in particular:

- the results of social audits: in 2016, 1,187 social audits ☺ were carried out, bringing the total number of audits to over 8,200 since 2006;
- assessment of their CSR policy by Ecovadis: at the end of 2016, over 500 suppliers, including 144 strategic suppliers (as compared to 400 suppliers, including 137 strategic suppliers in 2015), were assessed in this manner. This represents 83% of the Group's strategic suppliers;
- the ability to propose responsible products and services (green chemistry, POS advertising, eco-designed packaging, etc.);

- ratings in the programmes of the CDP, an independent international organisation that evaluates the environmental performance of companies.

Helping them to build their environmental strategy

L'Oréal also provides its suppliers with in-service training tools (see box). Furthermore, the Group asks all its strategic suppliers to work with the CDP, within the scope of the *CDP Supply Chain* programme. In 2016, 291 suppliers undertook to do so (against 237 in 2015).

The Group also defined the ambition for 2020 that suppliers representing 80% of direct purchases would participate in the *CDP Supply Chain*, set themselves targets for reducing the carbon footprint and communicate on their action plans. In 2016, the suppliers having met this commitment accounted for 57% of the Group's direct purchases.

TRAINING



THE NEW PLATFORM L'ORÉAL CAMPUS FOR SUPPLIERS

In October 2016, L'Oréal opened an online platform dedicated to its strategic suppliers. It gives them access to a whole series of tools for sharing good practices and training - videos, e-learning modules, toolboxes - in order to help them to enhance their environmental and social policy. By the end of 2016, over 150 suppliers had already connected to the platform and more than a hundred hours of online training had been completed. ●

* "Strategic suppliers" are suppliers whose added value is significant for the Group by contributing to L'Oréal's strategy on a long-term basis through their weight, their innovations, their strategic alignment and their geographical deployment. 80% of the amount of direct purchases will ultimately be covered by this approach.

Putting employees at the centre of commitments

MONITORING INDICATORS UP TO 2020

HEALTHCARE*



88% ✓

of the Group's permanent employees have healthcare coverage reflecting best practices in their country of residence. **

FINANCIAL SECURITY*



85% ✓

of the Group's permanent employees received financial protection in the event of non-work-related personal injury, including death or permanent disability. **

TRAINING



77% ✓

of the Group's permanent employees attended at least one training session in 2015. **

L'Oréal's ambition is to provide all of its employees with access to healthcare coverage, financial protection and training, wherever they are in the world. Thanks to a new plan launched in 2016, they will also benefit from a working environment and offices with an improved environmental and social impact.

L'Oréal Share & Care programme: an accelerator of social progress

Launched at the end of 2013, L'Oréal Share & Care programme consists in providing L'Oréal employees, in the 67 countries in which the Group has subsidiaries with minimum, universal social protection aligned with the best practices for each local market. The programme concerns four areas:

- *Care: healthcare, with healthcare coverage and access to high-quality care for employees and their families;*
- *Protect: a social protection scheme to provide them with financial support in the event of unexpected life events;*
- *Balance: parenthood, to enable them to live maternity and paternity to the full, while pursuing their careers;*
- *Enjoy: quality of life at work.*

The essential components of L'Oréal Share & Care programme have now been deployed in all the countries in which the Group has subsidiaries.

2016 saw the start of the second stage of this programme. Covering the period from 2017 until 2020, this stage will make it possible to go even further in the four areas by making new commitments and continuing to promote the development of innovative local initiatives.

Priority given to employee training

For L'Oréal, the development of each and every one of its employees is both a major performance driver and

a question of responsibility and universal sharing of knowledge. The Group made the commitment that 100% of employees would benefit from at least one training session a year by 2020. In 2016, this was the case for 77% of them.

The online training portal, *My Learning* makes it possible to accelerate this ambition. Available in 11 languages, it offers over 7,000 pedagogical resources. In 2016, more than 350,000 training modules were completed via this portal, which has 41,633 active users. In 2016, L'Oréal received the Brandon Hall HCM excellence award for the *Klaxoon box*, a box which makes it possible to create digital interaction during classroom training sessions.

WORKING SUSTAINABLY



TOWARDS MORE SUSTAINABLE WORKPLACES

In 2016, a new action plan was developed within the scope of the *Sharing Beauty With All* programme. Called *Working Sustainably*, this plan concerns service buildings (offices, administrative buildings and research centres), which are now fully integrated into the process of sustainable transformation and improvement of L'Oréal's social and environmental impacts. A series of targets for 2020 have been set, including a 60% reduction in CO₂ emissions in absolute terms, a 20% decrease in water consumption and waste production (per 100 hours worked), zero waste to landfill and, finally, a 15% reduction in CO₂ emissions from L'Oréal's car fleet. All the Group's sites will provide an annual reporting on each of the targets and implement a local action plan closely involving employees. ●

*Calculated for the Group's overall scope (Cosmetics and The Body Shop), representing 100% of employees for the scope of the L'Oréal Share & Care programme.
**Excluding the subsidiaries in Venezuela and certain recent acquisitions (Atelier Cologne, les Thermes de Saint-Gervais and The Body Shop Chile, Côte d'Ivoire and Bangladesh).

Stakeholders dialogue, a co-construction

Every year, L'Oréal continues its policy of discussing matters with its stakeholders through *ad hoc* consultation bodies to share its sustainable development strategy and co-build its projects.

In order to share and reinforce its sustainable development strategy, targets and achievements, L'Oréal maintains an ongoing dialogue with all of its stakeholders, meaning all the people with whom the Group interacts, internally or externally: associations, not-for-profit organisations and non-governmental organisations (NGOs), the academic world and the scientific community, consumers, customers, suppliers, employees, shareholders, extra-financial rating agencies and investors.

Ongoing multiform dialogue

To co-build the commitments for 2020 under the *Sharing Beauty With All* programme, L'Oréal began a dialogue, between 2011 and 2013, with 754 organisations through forums organised in eight countries. These discussions were in some cases continued online.

The dialogue has since continued in the form of panels and consultations organised on an *ad hoc* basis, with regard to various projects.

In 2016, 89 NGOs, associations, not-for-profit organisations and experts from the academic world were consulted. For example, in June, L'Oréal organised a day of discussions in Brazil, dedicated to respect for biodiversity. This was attended by researchers, suppliers, representatives of NGOs and the Brazilian public authorities.



Day of discussions on the theme of biodiversity, organised in Rio de Janeiro, Brazil, on 9th June, 2016.

Finally, the consumer advisory committee was set up in the autumn of 2016.

In total, over 850 organisations have been consulted since 2011.

An external governance body

In 2014, L'Oréal set up an external governance body, called the *Panel of Critical Friends*, which meets once a year, together with Jean-Paul Agon, the Group's Chairman and Chief Executive Officer. Its role is to examine the progress made on the *Sharing Beauty With All* programme, cast a critical eye over the actions conducted and suggest improvements. Composed of major international personalities and experts on environmental and social issues, this panel met for the third time in October 2016 in New York, USA.

A WORD FROM ALEXANDRA PALT, CHIEF SUSTAINABILITY OFFICER

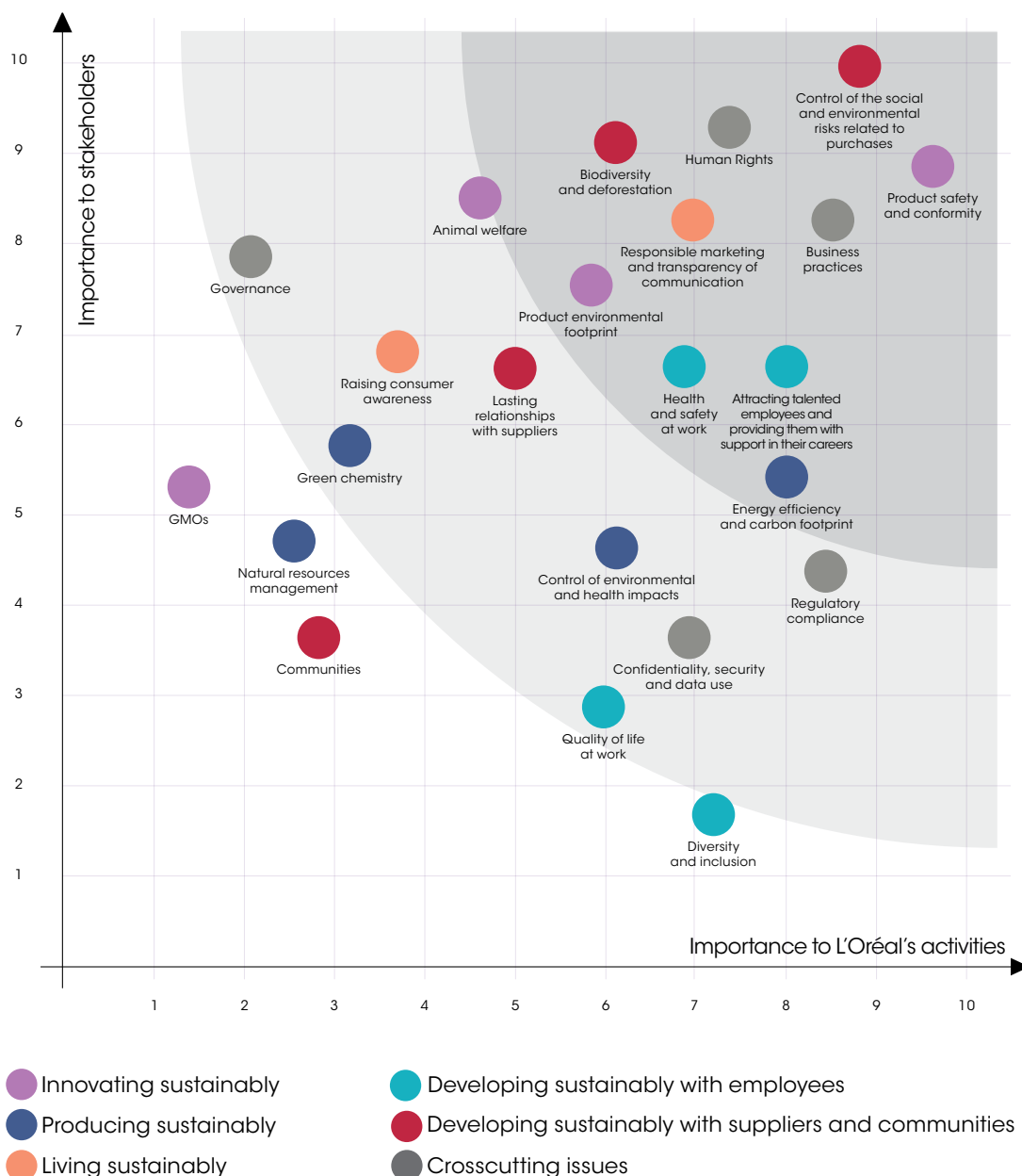


"This year, we set up our consumer sustainability panels, starting with France. We want to listen to both the current and future expectations and concerns of our consumers

with regard to sustainable development. This first panel confirmed what had been shown by a number of studies: there is a gap between the importance given to sustainable development issues by citizens and what is uppermost in the consumer's mind when he or she makes a purchase. Therefore, the efforts we make are not always rewarded by consumers, who currently need us to make the sustainable development qualities of our products more desirable and more explicit. This is particularly true in the universe of cosmetics. Reconciling the convictions of citizens with the decisions made by consumers is one of our main challenges!" ●

L'Oréal's sustainability challenges

In 2012, within the scope of the consultations organised during the development of the *Sharing Beauty with All* programme, L'Oréal developed a materiality analysis. This process enabled the Group to fine-tune its understanding of the sustainable development issues that were important in the eyes of its internal and external stakeholders, in order to compare them with its own strategy. In 2016, L'Oréal updated its materiality matrix, using a methodology aligned with the criteria for the ISO 26000* standard. Among the 25 topics identified, this new grid highlights 10 strategic issues for both the Group and its stakeholders.



* ISO 26000 is an international standard that provides companies with environmental and social responsibility guidance.

Reporting: a recognised performance

Every year, L'Oréal communicates transparently, giving figures, with regard to its strategy, the challenges it faces and its results in the field of corporate social responsibility and the environment in three reports: the Registration Document, L'Oréal's progress report to the United Nations Global Compact, and the progress report on the *Sharing Beauty With All* sustainable development programme. L'Oréal's CSR performance and its reporting via robust, reliable indicators audited by the Statutory Auditors lead to the Group being rewarded by the most demanding organisations in this area and this was the case more than ever in 2016.



The CDP, an independent international organisation which evaluates the environmental performance of companies, awarded L'Oréal a triple "A", representing the top score, in each of the ratings made on three key topics: climate protection, sustainable water management and the fight against deforestation. Only two companies in the world obtained this triple "A" score.



L'Oréal supports the Global Compact and publishes a progress report to the United Nations Global Compact every year. In 2015, L'Oréal joined the UN Global Compact LEAD programme, which brings together the companies who are the most committed to sustainability.



The Ethisphere Institute, one of the world leaders in the definition and promotion of ethical standards, ranked L'Oréal for the seventh time as one of the "World's Most Ethical Companies".



In December 2016, the extra-financial rating agency Vigeo Eiris once again included L'Oréal in several Euronext-Vigeo indices. The Group is ranked No. 1 in its business sector.



For the fifth year running, the extra-financial rating agency Oekom Research AG gave L'Oréal *Prime* status, which is awarded to the top-performing companies.



In October 2016, L'Oréal was re-included in the two *Ethibel Sustainability Indices* (ESIs): Excellence Europe and Excellence Global.

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