

Economic

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L'ORÉAL

Disclosures on management approach

➤ *Economic performance*

2013 was another good year for L'Oréal. The Group outperformed the market across all divisions and geographic zones, posting significant growth in both results and profitability. 2013 was also another year of progress in adapting the company to a changing world, and driving its efficiency, modernity and performance, so as to continue to build dynamic, sustainable and profitable growth.

The Group is facing the future with optimism and confidence. Confidence in the positive dynamics of its market. Confidence in the strength of its "Beauty for all" mission, in its "universalisation" strategy, and in its ambition to conquer 1 billion new customers. And finally, confidence in the fundamentals of L'Oréal: its research, its ability to innovate and create high quality products, its outstanding portfolio of brands, its business model, which creates both value and cash flow, and lastly the unique strength of its teams.

The Group is thus well prepared to outperform the market in 2014, and to achieve another year of sales and profit growth.

L'Oréal's economic performance along with its market presence are discussed in its 2013 Activity Report and its 2013 Registration Document, which are available online at www.loreal-finance.com.

➤ *Market presence*

As L'Oréal wants to become one of the most attractive companies wherever it has subsidiaries, its remuneration policy and ability to hire local talent are of the utmost importance.

The Group is targeting extremely bullish growth in the countries in which it is already present. To meet this aim and hire the most talented employees, the Group selects those candidates who show that they have the potential to move up the career ladder within two to five years. L'Oréal also aims to ensure that it hires and offers internal mobility opportunities to seasoned managers, who embody L'Oréal's culture. This strategically important role is assigned to Talent Management Directors, who work closely with local Human Resources teams. Based locally, these Talent Management Directors are familiar with the local culture and with local needs. They launch recruitment campaigns and meet with candidates to select the most suitable profiles. The Group currently has five Talent Management Directors: one for the USA, one for Latin America, one for Africa/Middle East, one for ASEAN (Association of Southeast Asian Nations) and one for China. The position was first created in 2010.

➤ *Indirect economic impacts*

L'Oréal's value chain includes a certain number of external stakeholders such as suppliers, consumers and the communities of the areas in which its businesses are present.

The Group therefore has to consider the impacts of its activity on all of its stakeholders.

Through its supply chain, L'Oréal works with a certain number of suppliers and has developed specific programmes that allow it to reach out to people from deprived economic communities or to develop communities based on raw materials such as argan oil and shea butter.

In 2013 as part of its "Sharing Beauty with All" programme, the Group committed to helping 100,000 people from socially or financially underprivileged backgrounds gain access to work.

This aim will be met thanks to programmes such as Solidarity Sourcing, inclusive distribution, beauty professionalisation, mentoring and community education, and the employment of disabled people and people from under-represented socio-ethnic groups.

► *Procurement Practices*

L'Oréal does not simply purchase products and services from its suppliers. Deeply respectful of suppliers' businesses, culture, growth, and the individuals concerned, the Group's action in their regard is driven by a concern for economic, ethical and environmental responsibility. This approach is an integral part of the L'Oréal Buy&Care Programme for Responsible Purchasing.

Thus, the Purchasing policy is aimed at building a balanced, long-lasting relationship with subcontractors and suppliers with respect for social and environmental issues.

L'Oréal actively seeks to work with suppliers who share its values and commitments, particularly in the field of Human Rights, which therefore makes the supplier referencing process a vital part of its policy.

For industrial purchases, dedicated purchasing teams have the task of identifying new suppliers and integrating them in light of the Group's expectations and its strategy via the "welcome on board" (WOB) supplier referencing process. This makes it possible to make sure that the supplier is of real interest, provide it with all the information, documents and contacts required for it to understand the expectations and processes at L'Oréal, and finally to obtain the supplier's commitment to L'Oréal's values that are shared in this manner.

Following on from this commitment, L'Oréal's "Buy & Care" programme, conveyed by all the Group's, purchasers, contains, since 2002, a section aimed at an audit of this social compliance enabling it to ensure that its suppliers comply with the applicable laws, Human Rights and labour law, and ensure safety and health for their teams in the workplace.

Within the framework of this program, suppliers and subcontractors are asked to comply with the Group's general terms of purchase, which require them to comply with the Fundamental Conventions of the International Labour Organisation as well as local legislation, in particular with regard to minimum wages, working time and health and safety.

Each new supplier / subcontractor referenced by purchasing teams must commit to these societal terms and accept that a social audit can be carried out on its production sites. This commitment by the supplier / subcontractor is materialized by the signing of a letter of ethical commitment.

Thus, subcontractors, wherever they are based in the world, and suppliers of raw materials, packaging, production equipment and POS advertising/Promotional items and materials located in countries where there is considered to be a risk are mandatorily subject to a social audit. To prepare the risk map for the countries presenting risks, L'Oréal uses the Maplecroft™ indexes.

The social audits are carried out on behalf of L'Oréal by independent external service providers.

The initial audits are financed by L'Oréal and the follow-up audits

The audits cover the following 10 chapters:

- child labour;
- forced labour;
- the environment, health and hygiene and safety;
- compliance with the laws relating to trade unions;
- non-discrimination;
- disciplinary practices;
- sexual harassment or a hostile working environment;
- due payment of wages/compensation and benefits;
- working time;
- relations with subcontractors.

Since January 2013, the social audits include questions concerning the environment and in particular compliance with regulations.

L'Oréal's social audit is based to a great extent on the internationally recognised SA 8000 standard, but does comprise a few exceptions, particularly with regard to the minimum age for child labour. In this respect, the Group has chosen to set the compulsory minimum age at 16 for all employees working for its suppliers, a higher age limit than that required by the Fundamental Conventions of the International Labour Organisation (ILO).

With regard to the employment of young workers, suppliers and subcontractors may request waivers from the Group Purchasing Director for the use of employees under the age of 16 upon presentation of a complete file (schooling, type of contract, working conditions, type of work). Pursuant to the "Suppliers/Subcontractors and Child Labour" policy, formally laid down in 2011, waivers of this kind are only possible for apprenticeship programmes or for children carrying out light work if this work does not affect their health and safety or their regular attendance at school, where the local law allows it and when the supplier/subcontractor has appointed an internal "tutor" for the children.

Since 2006 when L'Oréal set up a reporting tool, it has conducted social audits at over 3,900 supplier sites.

800 audits were carried out in 2013, making 5,295 audits of this kind since 2006.

The social audits conducted have enabled L'Oréal to cover 85% of the portfolio of suppliers subject to audit across the world.

In 2013, 50% of these audits were carried out in Asia.

In 2013, there were major instances of non-compliance at 60% of supplier sites that were audited for the first time (initial audits). During follow-up audits, there is no longer any major non-compliance at 56% of the suppliers who were initially non-compliant.

Added to this are the social audits conducted by The Body Shop (TBS). Indeed, since its integration into the L'Oréal Group in 2006, TBS has pursued its longstanding programme of social audits. TBS is one of the founding members of the Ethical Trading Initiative (ETI) and has adopted their "Supplier Code of Conduct". The Body Shop has developed a programme enabling them to support their commitment to responsible sourcing. One of the activities under this programme is control of working conditions, defined in the "Supplier Code of Conduct", on the production sites of their suppliers (67 audits were conducted in 2013).

Economic performance

L'ORÉAL

EC₁ Direct economic value generated and distributed

2013 SALES TRENDS

Like-for-like, i.e. based on a comparable structure and identical exchange rates, the sales trend of the L'Oréal Group was +5.0%.

The net impact of changes in consolidation amounted to +1.0%.

Currency fluctuations had a negative impact of -3.7%.

Growth at constant exchange rates was +6.0%.

Based on reported figures, the Group's sales, at December 31st, 2013, amounted to 22.977 billion euros, an increase of +2.3%.

SALES BY OPERATIONAL DIVISION AND BY GEOGRAPHIC ZONE

	Q4 2013			As at 31 December 2013		
	Millions of €	EVOLUTION		Millions of €	CROISSANCE À DONNÉES	
		LIKE-FOR-LIKE	REPORTED FIGURES		LIKE-FOR-LIKE	REPORTED FIGURES
BY OPERATIONAL DIVISION						
Professional products	726.1	3.3%	- 2.1%	2,973.8	2.1%	- 1.0%
Consumer products	2,550.0	3.7%	- 2.4%	10,873.2	4.9%	1.5%
L'Oréal Luxe	1,600.2	8.4%	5.5%	5,865.2	6.8%	5.3%
Active Cosmetics	339.2	7.2%	2.2%	1,602.4	7.8%	4.9%
Cosmetics Total	5,215.5	5.2%	0.2%	21,314.5	5.2%	2.4%
BY GEOGRAPHICAL ZONE						
Western Europe	1,803.3	1.6%	- 0.1%	7,483.4	1.9%	1.1%
North America	1,299.3	3.7%	0.8%	5,356.1	3.8%	2.8%
New markets, of which:	2,112.9	9.4%	0.2%	8,475.0	9.4%	3.3%
• Asia, Pacific	1,088.1	9.7%	- 0.1%	4,382.2	8.4%	2.2%
• Latin America	472.5	10.8%	- 0.5%	1,894.5	11.5%	3.7%
• Eastern Europe ⁽¹⁾	432.5	5.2%	- 1.4%	1,693.3	8.2%	4.2%
• Africa, Middle-East ⁽¹⁾	119.8	18.0%	11.7%	505.1	14.3%	9.0%
Cosmetics Total	5,215.5	5.2%	0.2%	21,314.5	5.2%	2.4%
The Body Shop	287.0	2.9%	- 1.1%	835.8	1.2%	- 2.3%
Dermatology ⁽²⁾	260.9	12.9%	10.4%	826.3	3.9%	3.9%
Group Total	5,763.4	5.4%	0.6%	22,976.6	5.0%	2.3%

(1) As of July 1st, 2013, Turkey and Israel, which were previously included in the Africa, Middle East zone, were transferred to the Eastern Europe zone. All figures for earlier periods have been restated to allow for this change.

(2) Group share, i.e. 50%

SIGNIFICANT EVENTS OF 2013

- On January 10th, 2013 L'Oréal inaugurated its new R&I Centre in India, in Mumbai and Bangalore.
- On January 31st, 2013 L'Oréal finalised the acquisition of the Vogue group in Colombia.
- On February 11th, 2013 the Board of Directors decided on the implementation of a share buyback programme for 500 million euros during the 1st half of 2013.
- On February 27th, 2013 Galderma finalised the acquisition of Spirig Pharma A.G. in Switzerland.
- On April 15th, 2013, L'Oréal announced the acquisition of the Health & Beauty business of Interconsumer Products Limited (ICP) in Kenya.
- On April 26th, 2013, the Annual General Meeting of L'Oréal shareholders approved the appointment as Director of Ms. Virginie Morgon and renewed the tenures as Director of Ms. Françoise Bettencourt Meyers, Mr. Peter Brabeck-Letmathe and Mr. Louis Schweitzer.
- On May 17th, 2013, L'Oréal announced several appointments within its Executive Committee: Marc Menesguen was appointed as President of the Consumer Products Division, Nicolas Hieronimus was appointed as President of the Selective Divisions (Luxe, Professional Products, Active Cosmetics, The Body Shop). Frédéric Rozé was appointed Executive Vice-President for the Americas Zone, which includes North and Latin America. Alexandre Popoff was appointed as Executive Vice-President for the Eastern Europe Zone. Jochen Zaumseil was appointed as Executive Vice-President for the Western Europe Zone. Finally, Alexis Perakis-Valat was appointed as Executive Vice-President for the Asia, Pacific Zone. These appointments were effective as of June 1st, 2013.
- On August 15th, 2013, L'Oréal announced its intention to acquire all the shares of Magic Holdings International Limited, a Chinese company, listed on the Hong Kong Stock Exchange, specialised in cosmetic facial masks.
- On September 20th, 2013, L'Oréal India announced the acquisition of Cheryl's Cosmeceuticals, a company based in Mumbai, specialising in professional skin care products and treatments in beauty salons.
- On October 15th, 2013 L'Oréal announced the acquisition by The Body Shop of a majority stake in Emporio Body Store in Brazil, with the option of increasing its shareholding to 80% by 2019. Following approval by the Brazilian anti-trust authority CADE, the acquisition was completed on December 12th.
- On October 17th, 2013, L'Oréal announced that it had been granted exclusive negotiation rights by Shiseido for the acquisition of the Decléor and Carita brands.
- On November 19th, 2013, Beauté Créateurs, a subsidiary that distributes brands specific to the mail order business, announced its intention to cease its mail order activity during the first half of 2014.
- On November 21st, 2013, L'Oréal announced that it was creating a Group Travel Retail Division encompassing all the brands sold in the Travel Retail channel, which posts particularly dynamic growth.
- On November 29th, 2013, the Board of Directors meeting chaired by Mr Jean-Paul Agon decided to buy back L'Oréal shares for a maximum amount of 500 million euros between November 30th and the end of the first quarter of 2014.

2013 RESULTS

Overall, operating profit at 3,875 million euros, increased by 4.8% at 16.9% of sales

CONSOLIDATED INCOME STATEMENT: FROM NET SALES TO THE OPERATING PROFIT.

	2012		2013	
	€ millions	% 2012 SALES	€ millions	% 2013 SALES
Sales	22,462.7	100.0%	22,976.6	100.0%
Cost of sales	-6,587.7	29.3%	-6,601.8	28.7%
Gross profit	15,875.0	70.7%	16,374.8	71.3%
Research and development expenses	-790.5	3.5%	-857.0	3.7%
Advertising and promotion expenses	-6,776.3	30.2%	6,886.2	30.0%
Selling, general and administrative expenses	-4,610.9	20.5%	4,756.8	20.7%
OPERATING PROFIT	3,697.3	16.5%	3,874.8	16.9%

Gross profit, at 16,374 million euros, came out at 71.3% of sales, compared with 70.7% in 2012, that is an improvement of 60 basis points.

This improved figure reflects on the one hand the positive effects of improvements in the production costs of products and in the product mix effect, as well as currency fluctuations, and on the other hand, the negative impact of the consolidation of the American companies Urban Decay and Emiliani.

Research expenses increased strongly at +8.4% and thus increased as a percentage of sales from 3.5% to 3.7%.

Advertising and promotion expenses came out at 30% of sales, almost identical to the 2012 level. Excluding acquisitions, expenses remained stable as a percentage of sales.

Selling, general and administrative expenses, at 20.7% of sales, came out slightly higher, by 20 basis points, than in 2012.

Overall, **operating profit** at 3,875 million euros, increased by 4.8% at 16.9% of sales. On a constant exchange rate basis, operating growth would have been +7.8%.

OPERATING PROFIT BY BRANCH AND BY DIVISION

BY OPERATIONAL DIVISION	2012		2013	
	€ millions	% 2012 SALES	€ millions	% 2013 SALES
Professional Products	615.2	20.5%	609.5	20.5%
Consumer Products	2,050.8	19.1%	2,166.7	19.9%
L'Oréal Luxe	1,077.0	19.3%	1,174.2	20.0%
Active Cosmetics	311.2	20.4%	340.2	21.2%
Cosmetics Divisions total	4,054.3	19.5%	4,290.6	20.1%
Non-allocated *	-577.2	-2.8%	-604.5	-2.8%
Cosmetics branch total	3,477.1	16.7%	3,686.1	17.3%
The Body Shop	77.5	9.1%	71.9	8.6%
Dermatology branch **	142.6	17.9%	116.8	14.1%
GROUP	3,697.3	16.5%	3,874.8	16.9%

* Non-allocated = Central group expenses, fundamental research expenses, stock options and free grant of shares expenses and miscellaneous items. As a % of cosmetics sales.

** Group share, i.e. 50%.

The profitability of the Professional Products Division at 20.5% is in line with previous years.

The profitability of the Consumer Products Division, at 19.9%, improved by 80 basis points.

The profitability of L'Oréal Luxe grew by 70 basis points.

Active Cosmetics once again improved its profitability, which amounted to 21.2%.

The profitability of The Body Shop declined by 50 basis points in 2013 to 8.6%.

Finally, the profitability of Galderma, at 14.1%, reflects the impact of a difficult year in the United States.

PROFITABILITY BY GEOGRAPHIC ZONE

OPERATING PROFIT	2012		2013	
	€ millions	% 2012 SALES	€ millions	% 2013 SALES
Western Europe	1,576.2	21.3%	1,658.6	22.2%
North America	959.7	18.4%	1,003.1	18.7%
New Markets	1,518.4	18.5%	1,628.9	19.2%
COSMETICS ZONES TOTAL *	4,054.3	19.5%	4,290.6	20.1%

* Before non-allocated.

Profitability in Western Europe improved by 90 basis points at 22.2%.

Profitability in North America increased by 30 basis points at 18.7%.

Profitability in the New Markets increased by 70 basis points at 19.2%.

NET EARNINGS PER SHARE **: €5.13

CONSOLIDATED INCOME STATEMENT: FROM THE OPERATING EARNINGS TO THE NET EARNINGS, NOT INCLUDING NON-RECURRING ITEMS.

€ MILLIONS	2012	2013	GROWTH
Operating profit	3,697.3	3,874.8	+4.8%
Finance Costs excluding dividends received	- 11.0	- 42.7	
Sanofi dividends	313.4	327.5	
Pre-tax profit excluding non-recurring items	3,999.7	4,159.6	+4.0%
Income tax excluding non-recurring items	- 1 025.3	- 1 038.9	
Non-controlling interests	-2.7	- 3.2	
Net profit excluding non-recurring items after non-controlling interests *	2,971.7	3,117.5	
EPS**	4.91	5.13	+4.4%
Net profit after non-controlling interests	2,867.7	2,958.2	+3.2%
Diluted earnings per share attributable to owners of the Company (euros)	4.74	4.87	
Diluted average number of shares	605,305,458	608,001,407	

* Non-recurring items include mainly capital gains and losses on long-term asset disposals, impairment of long-term assets, restructuring costs and elements relating to identified operational income and expenses, non-recurring and significant regarding the consolidated performance. See note 10 of the Consolidated Financial Statements on pages 127 to 129.

** Diluted net earnings per share excluding non-recurring items after non-controlling interests.

Total finance costs amounted to 42 million euros.

Dividends from Sanofi amounted to 327 million euros.

Income tax excluding non-recurring items amounted to 1,038 million euros, representing a rate of 25%, slightly below the 2012 rate of 25.6%.

Net profit excluding non-recurring items after non-controlling interests amounted to 3,117 million euros.

Net earnings per share, at 5.13 euros, increased by 4.4%.

After allowing for non-recurring items, representing in 2013 a charge, net of tax, of 159 million euros, **net profit after non-controlling interests** amounted to 2,958 million euros, an increase of 3.2%.

Cash flow Statement, Balance sheet and Net Financial Situation

Gross cash flow amounted to 3,906 million euros, an increase of 6.7%.

The working capital requirement increased, in 2013, by 155 million euros.

Inventories increased slightly as a percentage of sales, rising from 9.1% at end-2012 to 9.4% at end-2013. **Trade accounts receivable** declined slightly, from 14.3% of sales at end-2012 to 14.2% at end-2013.

Investments, at 1,060 million euros, amounted to 4.6% of sales, slightly up on 2012, when they amounted to 4.3% of sales.

As a result, **operating cash flow**, at 2,689 million euros, increased by 4.4%.

After dividend payment and acquisitions (primarily Vogue, InterConsumer Products, Emporio Body Store and Spirig), the Group recorded, at December 31st, 2013, a net cash surplus of 2,215 million euros, compared with 1,575 million euros at end-2012.

The balance sheet is very solid. The reinforcement of shareholders' equity compared with end-2012 is mainly the result of profit allocated to reserves and the net increase in value of the Sanofi shares, valued at market price.

➤ **PROPOSED DIVIDEND AT THE ANNUAL GENERAL MEETING OF APRIL 17TH, 2014**

The Board of Directors has decided to propose to the Annual General Meeting of April 17th, 2014 the payment of a dividend of €2.50 per share, an increase of +8.7% compared with 2013. This dividend will be paid on May 5th, 2014 (ex-dividend date: April 29th, 2014 at 0:00 a.m., Paris time).

➤ **SHARE CAPITAL**

Share capital consists of 605,901,887 shares with a par value of €0.20 at December 31st, 2013.

EC₂ Financial implications and other risks and opportunities for the organization's activities due to climate change

L'Oréal has always considered climate change as one of the priority challenges. The Group has made a significant pledge to this by setting ambitious targets, in particular an absolute reduction of 60% in its CO₂ emissions between 2005 and 2020.

The Group invests:

- In a series of actions to reduce the impacts associated with its use of energy, reducing energy consumption (cf. EN7) and using alternative energy (see EN 6). In practice, the action plans are controlled locally and globally animated.
- A set of actions taken to reduce emissions of greenhouse gas emissions as part of its broader responsibility. Indeed, L'Oréal encourages its suppliers to measure and manage their emissions.

For example, L'Oréal is a member of the Carbon Disclosure Project (CDP) since 2003 and the CDP Supply Chain since 2007, L'Oréal continues to encourage its suppliers to measure and reduce their CO₂ emissions. In 2012, L'Oréal stepped up its strategy with regard to the CDP: it is no longer only the environmental experts who discuss these issues with suppliers, buyers trained in the CDP have now become ambassadors of this approach. This method of functioning made it possible to address the CDP Supply Chain with suppliers at strategic meetings ("Business Reviews"), to launch 156 invitations in 2012 as compared with 55 in 2011 and mobilise teams to convince suppliers that measures aimed at reducing greenhouse gas emissions from now on play an inevitable part of a company's global performance. In order to assess suppliers' environmental performance, a Scorecard has been developed jointly with the CDP, summarising suppliers' answers to the CDP to make them accessible for purchasing teams.

Going further in this process, 173 suppliers received invitations in 2013. These suppliers were selected in 6 fields of purchases (raw materials, packaging items, production equipment, subcontracting, POS advertising/Promotional items and materials, indirect supplies), everywhere in the world. They consist of strategic suppliers, suppliers in CO₂-generating industries, major industrial groups but also small and medium-sized enterprises. In this way, in 2013, 152 suppliers (as against 133 in 2012), out of the 173 suppliers who were invited, responded positively to L'Oréal's invitation to also join the CDP. This number is higher than the average (2,868 participants for more than 5,650 suppliers invited) for members of the CDP. The high response rate obtained due to the joint commitment of the purchasing and environmental teams has led to the CDP recognising L'Oréal as one of the companies that is the most committed to this area.

Through a series of actions taken to fight against deforestation, L'Oréal more particularly ensures responsible sourcing for commodities such as palm oil, soya and paper and cardboard, known to be major causes of deforestation. L'Oréal leverages on internationally recognised certifications to guarantee sustainable sourcing. In 2013, 98% of supplies of palm oil and palm oil and palm kernel derivatives are certified as sustainable according to RSPO criteria. In 2013, WWF ranked L'Oréal among the best in its sector for the third time. In 2013, aware of the limits of the current certification model in the fight against deforestation, L'Oréal challenged all its suppliers and carried out an exploratory mission in Indonesia in order to identify areas for improvement to be implemented with its partners.

In 2013, over 98% of paper and cardboard packaging supplies were certified as sustainable according to the FSC or PEFC benchmark.

In 2013, 60% of soya oil purchases are certified as sustainable. The Group's actions will aim at solving the problems of availability of sources observed in 2013 in order to return to a level of 100% in 2014.

In 2013, L'Oréal was recognised as one of the best companies in its category for its sustainable sourcing by the Carbon Disclosure Project Forest.



FOR FURTHER INFORMATION CONCERNING THE CDP, SEE:

- the article on page 38 of the 2013 Sustainable Development Report
- <https://www.cdp.net/EN-US/WHATWEDO/Pages/France.aspx>

EC3 *Coverage of organization's defined benefit plan obligations*

▶ EMPLOYEE BENEFIT AND PENSION SCHEMES AND OTHER BENEFITS

Depending on the legislation and practices in each country, L'Oréal adheres to pension schemes, pre-retirement arrangements and Employee Benefit schemes offering a variety of additional coverage for its employees.

In 2002, L'Oréal set up a Supervisory Committee for pension and Employee Benefit schemes offered by its subsidiaries. This committee ensures the implementation and the monitoring of L'Oréal's pension and Employee Benefits policy as defined by the L'Oréal Executive Committee.

This policy provides for general principles in the following areas: definition and implementation of schemes, relations with employees, financing and cost of the schemes, and management of the schemes. Approval must first be obtained from the Supervisory Committee prior to the introduction of any new scheme or the modification of any existing scheme. The Supervisory Committee works together closely with the operational management of the Divisions and Zones.

The characteristics of the pension schemes and other pre-retirement benefits offered by the subsidiaries outside France vary depending on the applicable laws and regulations as well as the practices of the companies in each country.

In many countries, L'Oréal participates in establishing additional retirement benefits for its employees through a whole series of defined benefit schemes and/or defined contribution schemes (e.g. United States, the Netherlands, Belgium, Canada, and South American countries). In some cases, the defined benefit schemes have been closed to new recruits who are offered defined contribution schemes (Germany, Belgium and the United Kingdom). This series of defined benefit and defined contribution schemes makes it possible to share the financial risks and ensure improved cost stability. In defined contribution schemes, the Company's commitment mainly consists in paying a percentage of the employee's annual salary into a pension plan each year.

The defined benefit schemes are financed by payments into specialist funds or by setting up provisions, in accordance with the accounting standards adopted by L'Oréal. The performance of the managers of the main funds established, as well as the financial stability rating of the custodians, are regularly reviewed by the Supervisory Committee.

Pensions exceeding the legal minima required by national social security systems are now paid in 80% of L'Oréal's subsidiaries throughout the world. In countries which already offer sufficient social coverage, L'Oréal does not propose company pension schemes. This is also the case in countries which do not have an appropriate legal framework or a long-term investment instrument. The Supervisory Committee continues to be attentive to changes in local situations and, when required, additional employee benefit schemes are put in place.

▶ FRANCE

PENSION SCHEMES

In France, L'Oréal has supplemented its retirement plan by creating on January 1st, 2001 a defined benefit scheme with conditional entitlements based on the employee's presence in the Company at the end of his/her career. Then, on September 1st, 2003, a defined contribution scheme with accrued entitlements was introduced.

DEFINED BENEFIT SCHEME

In order to provide additional cover, if applicable, to compulsory pensions provided by the French Social Security compulsory pension scheme, the ARRCO or AGIRC (mandatory French supplementary pension schemes), L'Oréal introduced on January 1st, 2001, a defined benefit scheme with conditional entitlements, the "Retirement Income Guarantee for former Senior Managers" (Garantie de Ressources des Retraités Anciens Cadres Dirigeants). Prior to this, on December 31st, 2000, L'Oréal closed another defined benefit scheme, also with conditional entitlements, the "Pension Cover of the Members of the Comité de Conjoncture" (Garantie de Retraite des Membres du Comité de Conjoncture).

Access to the "Retirement Income Guarantee for former Senior Managers", created on January 1st, 2001, is open to former L'Oréal Senior Managers who fulfil, in addition to the requirement of having ended their career with the Company, the condition of having had the status of Senior Manager within the meaning of Article L. 3111-2 of the French Labour Code for at least ten years at the end of their career.

This scheme provides entitlement to payment to the beneficiary retiree of a Life Annuity, as well as, after his/her death, the payment to the beneficiary's spouse and/or ex-spouse(s) of a surviving Spouse Pension and, to the children, of an Orphan Pension, subject to the children fulfilling certain conditions. The calculation basis for the Guaranteed Income is the average of the salaries for the best three years out of the seven calendar years prior to the end of the Senior Manager's career at L'Oréal. The Guaranteed Income is calculated based on the beneficiary's number of years of professional activity in the Company at the date of the end of his/her career at L'Oréal, and limited to a maximum of 25 years, each year leading to a steady, gradual increase of 1.8% in the level of the Guarantee. At this date, the gross Guaranteed Income may not exceed 50% of the calculation basis for the Guaranteed Income, nor exceed the average of the fixed part of the salaries for the three years used for the calculation basis. A gross annuity and gross Lump Sum Equivalent are then calculated taking into account the sum of the annual pensions accrued on the date when the retiree applies for his/her pension as a result of his/her professional activity and on the basis of a beneficiary who is 65 years of age. The Life Annuity is the result of the conversion into an annuity at the beneficiary's age on the date he/she applies for his/her pension of the gross Lump Sum Equivalent, less the amount of all payments due as a result of termination of the employment contract, excluding any paid notice period and paid holiday and less all salaries paid under an early retirement leave plan, if such lump sum equivalent is the result of these operations. Around 450 Senior Managers are eligible for this scheme, subject to their fulfilling all the conditions after having ended their career with the Company.

Access to the "Pension Cover for Members of the Comité de Conjoncture" has been closed since December 31st, 2000.

This former scheme granted entitlement to payment to the beneficiary retiree, after having ended his/her career with the Company, of a Life Annuity as well as, after his/her death, the payment to the spouse and/or ex-spouse(s) of a surviving Spouse Pension and, to the children, of an Orphan Pension, subject to the children fulfilling certain conditions. The calculation basis for the Pension Cover is the average of the salaries for the best three years out of the seven calendar years prior to the end of the beneficiary's career at L'Oréal. The Pension Cover is calculated on the basis of the beneficiary's number of years' service and limited to a maximum of 40 years, it being specified that at the date of closure of the scheme, on December 31st, 2000, the minimum length of service required was 10 years. The Pension Cover may not exceed 40% of the calculation basis for the Pension Cover, plus 0.5% per year for the first twenty years, then 1% per year for the following twenty years, nor exceed the average of the fixed part of the salaries for the three years used for the calculation basis. Around 120 Senior Managers (active or retired) are eligible for this scheme subject to the proviso, for those in active employment, that they fulfil all the conditions after having ended their career with the Company.

DEFINED CONTRIBUTION SCHEME

In September 2003, L'Oréal set up a "defined contribution pension scheme".

A new agreement was signed in December 2007, with effect from January 1st, 2008, as well as a supplemental agreement applicable as from January 1st, 2009.

All executives and sales representatives affiliated with the CIPC-R are beneficiaries of this scheme.

The basis for contributions, which remains unchanged, amounts to between once and 6 times the French social security ceiling, with a contribution of 4% since January 1st, 2008, shared by the Company and the employees.

This scheme grants entitlement to the payment to the beneficiary retiree, after he/she has applied for his/her pension entitlement from the French Social Security compulsory pension scheme, of a Life Annuity as well as, after his/her death, the payment to the spouse and/or ex-spouse(s) of a surviving Spouse Pension. The Life Annuity is calculated on the basis of the capital formed by the contributions made and the financial income on such contributions at the end of the employee's career. The employer's commitment is limited to the payment of the contributions stipulated.

	12.31.2011	12.31.2012	12.31.2013
Number of members	12,594	13,549	13,823
Total net contributions (in € million)	8.74	9.20	9.51

PRE-RETIREMENT ARRANGEMENTS

L'Oréal pays close attention to the retirement conditions of its employees and pre-retirement arrangements that have been in force for a number of years, which have been confirmed and improved within the scope of the agreement on the employment of older workers, signed on December 3rd, 2009, which provides in particular for the introduction of a time savings account for older employees:

- **the early retirement leave (CFC):** this pre-retirement arrangement consists of exempting employees from the requirement to perform their activities; but during this period, they remain employees of L'Oréal and continue to receive their remuneration (within the limit of €9,280 gross/month) as well as mandatory profit sharing, incentive payments and paid leave;

- **early retirement leave under the time savings account:** this arrangement, linked to the 35-hour working week agreement and the Time Savings Account (Compte Epargne Temps – CET), enables an employee who has saved 3 days'leave per year under the CET since 2001, to benefit from the possibility to terminate his/her activities at least 3 months earlier than scheduled (6 months for sales representatives), and this possibility can be combined with the early retirement leave;
- **retirement indemnities:** a new scale of indemnities at L'Oréal was implemented by a collective agreement as from 2011, which is more favourable than the French National Collective Bargaining Agreement for the Chemical Industries.

Thus, when he/she retires, an employee may benefit from retirement indemnities ranging from two months'salary for five years'service, to eight months'salary for 40 years'service.

In order to increase the special leave prior to retirement, the employee may opt to convert his/her retirement indemnities into time, or he/she may choose to receive payment of the retirement indemnities which will be made at the time when he/she leaves the Company.

	12.31.2011			12.31.2012			12.31.2013		
	Men	Women	Total	Men	Women	Total	Men	Women	Total
Early retirement leave	51	127	178	65	128	193	81	183	264
Compulsory retirement on the Company's initiative			5	3	0	3	2	0	2
Voluntary retirement			162	66	135	201	80	150	230

Source: HR France statistics - 2011, 2012 and 2013.

These commitments are guaranteed partly by external financial cover aimed at gradually building up funds resulting from premiums paid to external organisations.

The commitments net of funds invested and the actuarial differences are booked as a provision in consolidated balance sheet liabilities.

The evaluation method adopted to calculate the retirement and pre-retirement benefit commitments is the retrospective method based on estimated calculations of the final salary.

These commitments take into account the employer's contribution to the healthcare schemes for retirees.

€ MILLIONS	12.31.2011	12.31.2012	12.31.2013
Provision for pension commitments in consolidated balance sheet liabilities	662.6	706.7	621.3

Source: Administration and Finance Division.

EMPLOYEES BENEFIT SCHEMES IN FRANCE

In addition to the compulsory Lump Sum Death Benefit for executives under Articles 4 and 4 bis of the French National Collective Bargaining Agreement of 1947 (1.5% of Bracket A of income as defined by the French Social Security) and the guarantees accorded under the French National Collective Bargaining Agreement for the Chemical Industries, L'Oréal has set up, in France, under an agreement, an Employee Benefit scheme providing additional collective guarantees to its employees.

All these guarantees are based on the gross income up to 8 times the Social Security ceiling, except for the education annuity which is limited to up to 4 times the ceiling. They are generally financed on Brackets A, B and C of income as defined by the French Social Security, except for the Education Annuity which is based on Brackets A and B, and the surviving Spouse Pension which is based on Brackets B and C.

This Employee Benefit scheme provides guarantees in the event of:

- **temporary disability:** for all employees, 90% of their gross income limited to 8 times the French Social Security ceiling, net of all deductions, after the first 90 days off work;
- **permanent disability:** for all employees, a fraction, depending on the extent of the disability, ranging up to 90% of their gross income, limited to 8 times the French Social Security ceiling, net of all deductions;
- **death:**
 - a) for all employees, the payment of a Lump Sum Death Benefit, increased depending on the employee's family status. The amount of this Benefit is doubled in the event of accidental death,
 - b) for executives and comparable categories of employees, the payment of a Spouse Pension to the surviving spouse. This ensures the spouse has an income similar to the Spouse Pension that would have been paid by AGIRC if death had occurred at the age of 65,

c) for all employees, the payment of an Education Annuity to each dependent child, according to an age-based schedule.

The total amount of the Lump Sum Equivalent for these guarantees may not exceed €2.3 million per event.

The capital for the Spouse Pension is the first to be applied, followed by the Education Annuity; the balance of the basic scheme is then used to calculate the Lump Sum Death Benefit, possibly increased by the minimum guaranteed Lump Sum Death Benefit.

€ THOUSAND	12.31.2011	12.31.2012	12.31.2013
Net Employee Benefit Contributions for the financial year	10,688	11,445	11,900 ⁽¹⁾

(1) Estimated.

MINIMUM GUARANTEED LUMP SUM DEATH BENEFITS

Since December 1st, 2004, and January 1st, 2005 for sales representatives, L'Oréal has put in place an additional guaranteed Lump Sum Death Benefit that supplements, where applicable, for all employees, the Lump Sum Death Benefits to the extent of three years' average income. A maximum limit is set for this guarantee.

The total amount of the capital needed to fund the surviving Spouse Pension and Education Annuity, the Lump Sum Death Benefits and the minimum guaranteed Lump Sum Death Benefit is also subject to a ceiling.

HEALTHCARE EXPENSES

The employees of L'Oréal parent company and its French subsidiaries benefit from additional schemes covering healthcare costs.

The healthcare scheme is compulsory for all the employees of L'Oréal and its French subsidiaries.

Employees have the option of including their family members in these schemes.

Contributions are generally individual. The contribution by the employee is partly financed by the Company.

Retirees of L'Oréal S.A. and certain companies can continue to benefit from the healthcare scheme, with a contribution by L'Oréal, subject to a membership duration clause, specified in the regulations for additional defined benefit pensions.



FOR FURTHER INFORMATION CONCERNING THE COVERAGE OF PENSION OBLIGATIONS, SEE SECTION 6.2.2.1. "EMPLOYEE BENEFIT AND PENSION SCHEMES AND OTHER BENEFITS" ON PAGES 203 ET SEQ. OF THE 2013 REGISTRATION DOCUMENT.

EC4

Financial assistance received from government

The L'Oréal Group does not receive any government subsidy or significant financial assistance, except the research tax credit in France, the amount of which is not disclosed.

The French State does not own any stake in the Company.

Market presence

EC5 *Ratios of standard entry level wage by gender compared to local minimum wage at significant locations of operation*

Equal pay is the rule. The Group's policy is to guarantee equal pay and grades for men and women with the same qualifications.

In all, 67 L'Oréal subsidiaries are located in countries where the minimum wage is set by law or by the relevant collective bargaining agreement. In 51 of these subsidiaries, the minimum wage paid by L'Oréal is higher than the statutory minimum wage (regardless of whether this is set by law and/or by a collective agreement). In the other 16 subsidiaries certain employees receive the minimum wage set by law or by the sector's collective bargaining agreement. The total number of employees whose minimum wage is equal to that set by law or by a collective bargaining agreement is less than 0.4% of the Group's total headcount. This does not take into account the Worldwide Profit Sharing, as described in the LA2 indicator in the Labor practices fact sheet, which is paid in addition to this wage.

As L'Oréal wants to be one of the most attractive companies wherever it has subsidiaries, surveys aimed at positioning remuneration as compared to the market are conducted by specialist firms every year. Furthermore, internal opinion polls, that are carried out periodically, make it possible to evaluate the perceptions and expectations of employees with regard to remuneration and adapt the Group's action plans accordingly.

Finally, L'Oréal wishes to associate its employees collectively with the Group's results through global incentive profit sharing systems and thus strike a balance between social performance and economic performance.

In each country, the remuneration policy is based on a performance assessment system applied worldwide. Career development is managed on an individual basis and depending on each country, remuneration and pay increases reflect both individual and collective performance. L'Oréal endeavours to offer attractive remuneration packages in order to capture and retain the most talented employees. Consequently, almost all subsidiaries take part in an annual survey on remuneration. Pay varies according to job position, skills, performance and individual potential. L'Oréal complies with legal and contractual obligations relating to remuneration in all of its subsidiaries.

FRANCE

COMPENSATION AT L'ORÉAL SA

The minimum input salary at L'Oréal in France established at the company, is upper than that provided by the sectoral agreement.

These are the employees (excluding directors) CDI present two consecutive years. Employees who have changed category are included in the category they belong to the second year.

AVERAGE MONTHLY GROSS EARNINGS OF WOMEN AND MEN OPERATED CONTINUOUSLY

	2012			2013			% change in average wages		
	MEN	WOMEN	ALL	MEN	WOMEN	ALL	MEN	WOMEN	ALL
Managerial staff	6,453	5,418	5,861	6,760	5,720	6,165	4.8%	5.6%	5.2%
Technicians	3,197	3,149	3,160	3,321	3,283	3,292	3.9%	4.3%	4.2%
Employees	2,386	2,287	2,325	2,484	2,382	2,422	4.1%	4.2%	4.2%
Workers	2,712	2,601	2,673	2,820	2,726	2,787	4.0%	4.8%	4.3%
Sales representative	4,291	3,804	4,083	4,416	3,944	4,214	2.9%	3.7%	3.2%

EMPLOYER CONTRIBUTIONS

At L'Oréal SA, the annual employer contributions in 2013 amounted to 219,761,006 euros.

EC6 *Proportion of senior management hired from the local community at significant locations of operation*

L'Oréal has around 250 "strategic" positions, 30% of which are located in Group subsidiaries outside France. 60% of these positions are filled by local managers.

Outside France, there are 547 "key" positions in 64 countries out of a total 1,026 key positions overall. 53% of these positions are filled by local managers.

Definitions

- **Strategic position:** Executive Committee members, Executive Committee member level -1, Country Managers,
- **Key position:** Country-level Management Committee,
- **Local managers:** managers who have the nationality of the country in which they work.

The Group is targeting extremely bullish growth in the countries in which it is already present. To meet this aim and hire the most talented employees, the Group selects those candidates who show that they have the potential to move up the career ladder within two to five years. L'Oréal also aims to ensure that it hires and offers internal mobility opportunities to seasoned managers, who embody L'Oréal's culture. This strategically important role is assigned to Talent Management Directors, who work closely with local Human Resources teams. Based locally, these Talent Management Directors are familiar with the local culture and with local needs. They launch recruitment campaigns and meet with candidates to select the most suitable profiles. The Group currently has five Talent Management Directors: one for the USA, one for Latin America, one for Africa/Middle East, one for ASEAN (Association of Southeast Asian Nations) and one for China. The position was first created in 2010.



FOR FURTHER INFORMATION CONCERNING LOCAL HIRES, SEE THE INCLUSIVE BUSINESS SECTION ON PAGE 40 OF THE 2013 SUSTAINABLE DEVELOPMENT REPORT.

Indirect economic impacts

EC7 *Development and impact of infrastructure investments and services supported*

REGIONAL DEVELOPMENT AND LOCAL POPULATION

Due to its many industrial and administrative sites all over the world, the L'Oréal Group is strongly involved, in the vicinity of its sites, in the life of the surrounding local communities. A company committed to demonstrating good corporate citizenship, L'Oréal makes a contribution to many local projects.

As a general rule, L'Oréal's establishments and its subsidiaries build good relations with the communities in the areas in which they operate, and make every effort to limit the impact of their activities on the environment and to provide exemplary working conditions for their employees.

The internal competitions – Environment, Health & Safety – Civic Initiative Prizes recognise, by awarding a prize, the commitment, mobilisation and involvement of a site (factory, distribution centre or administrative site) with regard to the community in which it operates. Awards are presented for the best local initiatives conducted each year in partnership with local authorities, local residents and schools in the fields of solidarity, education or the environment. By these initiatives, L'Oréal is eager to demonstrate its good citizenship, and to show that it firmly respects the ethical values of the surrounding community.

Each L'Oréal site has implemented initiatives in order to anchor itself on a lasting basis in its socio-economic environment. A few examples of these initiatives are described below.

The Soproc industrial site in Saint-Quentin in the Aisne department in France has linked up with Envol, a local ESAT (offering assisted employment for disabled workers). The first initiatives started in 2012 and required developments to be made to satisfy safety standards at the site, which is SEVESO-classified. The joint work of the teams from Soproc and those from Envol have made it possible to set up a lasting partnership and integrate workers from Envol into the teams at the site. Thus, between April 2012 and July 2013, around twenty people joined the Company to work on a variety of tasks (product sorting, packing, order preparation), with more than 2,000 days worked. Twelve employees identified for their skills went to Envol to propose solutions for improvement (e.g.: ground markings, monitoring procedures, hygiene rules, ergonomics).

The Mourenx site in France plays an active role in several professional associations and competitiveness centres (Lacq Plus, UIC Aquitaine, Aquitaine Chimie Durable, the Association Chemstartup, ...) and is a partner of local schools – with the organisation of educational actions with the Cité Scolaire de Mourenx, of ESAT (places offering assisted employment for disabled workers), and the association Vivre Ensemble, where employees were able to take part in the Day for the Disabled. In partnership with their pallet suppliers, they also conducted the Protège ma Forêt project in order to plant new trees in a part of the Landes forest which was devastated by a storm.

The US plant at North Little Rock in Arkansas has initiated a project which makes it possible both to reduce waste and to arrange for the distribution of food to the most underprivileged people. The plant has developed a partnership with the Arkansas Hunger Alliance and the Food Bank of Arkansas which has made it possible to create a distribution and delivery circuit for boxes in order to transport food. These cardboard boxes, derived from plant waste, made it possible to distribute 24,000 meals in 2013.

In November 2012, the Group inaugurated a new 66,000 sq.m. factory in Jababeka, Indonesia, its biggest factory in the world to date. The Jababeka facility will take over from a factory opened in 1986 in Ciracas near Jakarta which no longer had the capacity to meet demand in the region. The new facility has an installed capacity of 300 million units, possibly increasing to 500 million units by 2015. The construction of this factory, located 60km from Ciracas, involved the relocation of employees of the former factory. 96% of employees agreed to move from Ciracas to Jababeka, thanks to a variety of assistance measures allowing employees to buy homes for the first time (75% of employees were not previously homeowners and 40% still lived with their parents). Thanks to the zero-interest loans granted by the Group, 262 families became first-time homeowners.

SOLIDARITY SOURCING

Because a company's purchasing power is an economic development and societal impact factor, L'Oréal has decided to make its purchases a novel way of promoting social inclusion. The Group thus created a global solidarity purchasing programme in mid-2010: "Solidarity Sourcing". Its aim is to help to give people from economically vulnerable communities durable access to employment and income.



FOR FURTHER INFORMATION CONCERNING THE SOLIDARITY SOURCING PROGRAMME, SEE THE RELEVANT SECTION ON PAGE 41 OF THE 2013 SUSTAINABLE DEVELOPMENT REPORT.

Several initiatives have already been developed in the Group, in particular The Body Shop Community Fair Trade programme. With Solidarity Sourcing, L'Oréal hopes to spread this philosophy by opening up its procurement process to new categories of suppliers who create employment in fragile communities. The aim is to build sustainable, fair trade partnerships with these suppliers, creating economic value and value for society.

Five communities of suppliers are concerned by the programme: enterprises endeavouring to employ disabled persons, social insertion companies, very small companies that find it difficult to forge business relationships with large companies, companies owned by minorities and fair trade producers.

PHILANTHROPY: THE GROUP'S SUBSIDIARIES ARE COMMITTED TO HELPING THEIR LOCAL COMMUNITIES AND INCREASING THEIR EMPLOYABILITY, FOR EXAMPLE BY OFFERING PROFESSIONAL TRAINING IN BEAUTY PROFESSIONS

Created in 2007, the L'Oréal Foundation develops the Group's major global programmes, which are rolled out in all the countries in which L'Oréal is present. It develops programmes in two main areas which reflect the Group's values and its businesses: science and beauty with its dimension of solidarity.

- in the field of science, L'Oréal promotes scientific education and the participation of women in scientific careers, by recognising the excellence of well-known women researchers and encouraging young girls to follow scientific vocations;
- in the field of beauty, L'Oréal supports programmes which care for appearances to restore confidence to vulnerable people and help them to recover their self-esteem and re-enter a social life. The Foundation also develops a major professional insertion programme aimed at offering training in beauty professions for socially fragile people, Beauty for a Better Life.

LOCAL INITIATIVES ON ALL CONTINENTS

In addition to the major global programmes initiated by the Foundation and rolled out across the world, each and every L'Oréal entity is encouraged to take local actions in relation with the situations in their particular countries. In 2013, L'Oréal thus supported several hundreds of projects throughout the world, involving actions in the fields of solidarity, education, culture or the environment.

A few examples:

- in the United States, at the North Little Rock plant alone, nearly 20,000 products were distributed to various local associations supporting children or people with cancer or working in the field of AIDS prevention;
- Greece provided financial support to the NGO "Houses of heart" which helps girls between 6 months and 18 years of age where their family unit has failed and they are unable to live at home;
- Austria which assists children of disadvantaged immigrants by giving them grants, in partnership with the Crespo Foundation.

Key figures: In 2013, L'Oréal spent 32.8 million on philanthropy initiatives worldwide (excluding sponsoring), broken down as follows:

- Foundation: €8.3m
- Corporate: €13.8m
- Brands: €10.7m

EC8 *Significant indirect economic impacts, including the extent of impacts*

▶ **WORKING TO ENSURE WIDER ACCESS TO PRODUCTS**

The Western world today is no longer the dominant market for the cosmetics industry. Attracting new consumers while ensuring at the same time that its products are affordable for those consumers means working constantly to adapt the pricing structure of the Group's products to the diversity of local populations. Consideration of specific local characteristics of different markets alters the product design process within the Group's teams. To offer products that best meet consumers' expectations, subsidiary managers and local marketing departments now work in close relation with Product Development and Packaging teams. Stepping up innovation for New Markets such as India, the Philippines and ASEAN (Association of Southeast Asian Nations) requires knowledge of the specific expectations of these markets, for example, the right product format, price and distribution channel.

To adapt to South Asian markets such as Thailand for example, L'Oréal had initially chosen a mostly urban distribution model (hypermarkets). The launch of 10g sachets distributed in large quantities in many small rural supermarkets fuelled a sharp acceleration in growth and the Group is now leader in skincare. This small-size packaging format is perfectly adapted to consumers' purchasing power, with some consumers paid on a weekly basis such as in the Philippines, where everything from face creams to cigarettes are available in sachet form. In India or Indonesia, shampoos in 80ml bottles sell best. Alongside these more modest consumers, a burgeoning middle class in large towns and cities have more regular, quality-focused beauty aspirations, and the Group is adapting in order to meet these needs, both in terms of the size of the packaging as well as brand sophistication. In these New Markets, only China is different, with lower demand for sachets and distribution through a more developed infrastructure. And yet the growth dynamics in China are the same as in other countries, with higher consumption, increased appeal and an interest in product appearance. Close co-operation between local Marketing departments and Product Development and Packaging teams allows the Group to better adapt its offer to consumers' expectations.

In 2012, Maybelline launched on the Asian market the first mascara to come in a PET tube, made up of only one layer of plastic instead of the five layers normally used. This design has helped reduce the cost of packaging and has made the end product more affordable. This innovative packaging is currently used for five Maybelline Volume Express mascaras and the initiative could be rolled out to other eligible geographical zones and markets in the future.

Also in Asia, Garnier revisited its skin mask in order to better adapt it to Asian skin types by changing the nature of the materials used (artificial silk, paper pulp and polyethylene) and thereby improving its cosmetic properties, comfort on application and stay-on quality. The cut-out was also modified to better suit the morphology of Asian faces.

Prompted by this same determination to widen access to its products, L'Oréal increasingly favours local production which enables it to offer consumers products at the lowest possible cost. The Group currently has 45 factories, 38 of which are ISO 14001-certified and 37 of which are certified OHSAS 18001/VPP. Thanks to this industrial policy, L'Oréal's products meet the same high standards of quality throughout the supply chain, regardless of where they are produced.

▶ **WORLDWIDE SOLIDARITY SOURCING PROGRAMME**

Because a company's purchasing power is an economic development and societal impact factor, L'Oréal has decided to make its purchases a novel way of promoting social inclusion. The Group thus created a global solidarity purchasing programme in mid-2010: "Solidarity Sourcing". Its aim is to help to give people from economically vulnerable communities durable access to employment and income.

This programme is in line with the Group's Commitments for 2020, and fits in more particularly with the "Sharing our Growth" section of the plan which is aimed at local communities.

In 2013, the global Solidarity Sourcing programme continued to be rolled out within the Group's different teams. Monitoring and reporting systems have been put in place via an intranet platform accessible to all employees. The various purchasing teams have now been given objectives with regard to this programme, particularly with respect to the number of beneficiaries. The progress made on the different projects is monitored in real-time, making a distinction between the projects that come under the Solidarity Sourcing programme and those that are part of The Body Shop Community Fair Trade programme. This latter programme now includes Solidarity Sourcing projects and makes it possible for the brand to extend its positive impact on communities.

In 2013, the Programme offered access to work to 22,000 people all over the world (excluding The Body Shop purchases).

Since 2012, the internal auditors have included the Solidarity Sourcing programme in their audit scope with the aim of continuous improvement. Audits have thus been conducted in China, Switzerland and South Africa.

In 2013, over 110 suppliers were involved in the programme. The purchases concerned were made from the Group's traditional suppliers or suppliers within its Solidarity Sourcing programme who have deployed solidarity actions in their respective fields.

Certain traditional suppliers have moreover applied this approach in their own supply chain.



FOR FURTHER INFORMATION CONCERNING SOLIDARITY SOURCING, SEE THE ARTICLE ON THIS PROGRAMME ON PAGE 41 OF THE 2013 SUSTAINABLE DEVELOPMENT REPORT.

FAIR TRADE

Recognized by the L'Oréal Group as a powerful social inclusion factor, Fair Trade via responsible sourcing of renewable raw materials is a major pillar of the "Solidarity Sourcing" programme launched in 2010.

In 2013, more than 20 fair trade sourced raw materials were included in 10% of the products manufactured (excluding The Body Shop).

For The Body Shop, over 90% of the products sold contain ingredients from the "Community Fair Trade" programme.

In 2013, a total of 20,200 people therefore benefited from fair trade sourced raw material purchases (excluding the CFT).

In 2013, for example:

- 100% of the Group's shea butter purchases were made through the "Solidarity Sourcing" programme, thanks to which the women gathering shea nuts in Burkina Faso receive in April-May, at the end of the dry season when stocks of food have been almost used up, pre-financing for their crops and a purchase price that is higher than the market price;
- as from the second half of the year, 100% of soya oil supplies come from fair trade sources in Brazil;
- 80% of sesame oil purchases are from fair trade sources;
- more than 500 products containing sesame oil from fair trade sources were manufactured.

In addition, purchases of raw materials produced under the BIOSOLIDAIRE label also increased in 2013, other than in the SANOFLORE business, with in particular the use of juniper berry essential oil in the L'Oréal Paris Shampoing Ever Strong range, or lavender essential oil in the Kiehl's Clearly Corrective range and the L'Oréal Paris Age Perfect Hydra Nutrition range.

THE BODY SHOP'S COMMUNITY FAIR TRADE PROGRAMME

In 2013, The Body Shop collected the prestigious BITC International Responsible Business Award in recognition of its pioneering Community Fair Trade programme. Under this programme, The Body Shop buys ingredients, gifts and accessories supporting the lives of over 25,000 small-scale farmers and workers and benefiting over 320,000 people. These projects are rolled out in the wider supplier community and offer simple but life-changing benefits such as clean drinking water, educational materials, medical infrastructure and fair income.

The Community Fair Trade programme is certified by the Institute for Market Ecology (IMO) and is governed by the principles set out in the Community Fair Trade Charter (available at <http://thebodyshop.com/content/pdf/cft-charter.pdf>). These principles define how suppliers are selected, their commitments with respect to The Body Shop and the benefits they receive in return. The impact on the suppliers and their wider communities is assessed once a year using supplier self-assessments, every two years through on-site visits and every three years by audits carried out by the IMO, backed where appropriate by more in-depth impact assessments.

The Body Shop's commitment to Community Fair Trade has not stopped growing: over 93% of its products contain fairly-sourced ingredients, up from 85% on 2011. Since its acquisition by L'Oréal in 2006, The Body Shop has worked in close cooperation with some of the Group's other brands, which in 2013 used eight fair trade ingredients in their products including soya, babassu, aloe vera, and olive and sesame oil.



FOR FURTHER INFORMATION CONCERNING COMMUNITY FAIR TRADE, SEE THE SOCIETY FACT SHEET (INDICATOR SO1).

P

Procurement practices

L'ORÉAL

EC9

Proportion of spending on local suppliers at significant locations of operation

One of the components of L'Oréal's sourcing strategy is to ensure the development of suppliers where the Group develops its production and sales. The percentage of supplies sourced in the area in which they are also produced is therefore monitored. On average, 80% of the amount spent on production-related purchases (packaging, raw materials and subcontracting) is paid to suppliers based in the geographic zone of production (Europe, USA, Asia, Latin America, Africa/Middle East). For example, US factories make 69% of their purchases on the North American continent, while European factories make 84% of their purchases in Europe.

L'Oréal aims to increase local sourcing, chiefly in emerging regions in order to meet local needs. To do this, the Purchasing Department works with Research & Innovation teams to reference local suppliers of raw materials (raw material diversification or double sourcing programmes) and with Packaging teams to reference local suppliers of packaging articles and subcontractors.

A large-scale in-house production programme for packaging items is in place at several factories, for example. This programme consists in installing machines and a supplier's teams in the same factory used by L'Oréal for production. The concept, which needs large production volumes to amortize the investments made, is perfectly suited to mass-market cosmetics and the technological specialisation of L'Oréal's facilities. The system involves concentrating on simple packaging with a short production line, which is easy to set up at an existing facility. At L'Oréal, this in-house programme was first set up in 2010 in connection with the production of plastic bottles used for *Elsève* and *Fructis* haircare products for the European market, in Rambouillet and Settimo, respectively. At the end of 2013, the in-house programme had been set up at six production sites: in Rambouillet (France), Libramont (Belgium), Settimo (Italy), Florence (USA), Sao Paulo (Brazil) and San Luis Potosi (Mexico). In 2013, over 1 billion finished products were made in this way, set to increase to around 1.2 billion by the end of 2014. L'Oréal is conducting several studies at other sites and anywhere where it believes the model could be applied. The many benefits of this "ultra local" production relate to flexibility, the environment and lower costs among others.

Local suppliers are assessed on the same basis as other suppliers, i.e. using five KPIs: quality, supply chain and logistics, competitiveness, innovation and sustainable development.

WORLDWIDE SOLIDARITY SOURCING PROGRAMME

Because a company's purchasing power is an economic development and societal impact factor, L'Oréal has decided to make its purchases a novel way of promoting social inclusion. The Group thus created a global solidarity purchasing programme in mid-2010: "Solidarity Sourcing". Its aim is to help to give people from economically vulnerable communities durable access to employment and income.

This programme is in line with the Group's Commitments for 2020, and fits in more particularly with the "Sharing our Growth" section of the plan which is aimed at local communities.

In 2013, the global Solidarity Sourcing programme continued to be rolled out within the Group's different teams. Monitoring and reporting systems have been put in place via an intranet platform accessible to all employees. The various purchasing teams have now been given objectives with regard to this programme, particularly with respect to the number of beneficiaries. The progress made on the different projects is monitored in real-time, making a distinction between the projects that come under the Solidarity Sourcing programme and those that are part of The Body Shop Community Fair Trade programme. This latter programme now includes Solidarity Sourcing projects and makes it possible for the brand to extend its positive impact on communities.

In 2013, the Programme offered access to work to 22,000 people all over the world (excluding The Body Shop purchases).

Since 2012, the internal auditors have included the Solidarity Sourcing programme in their audit scope with the aim of continuous improvement. Audits have thus been conducted in China, Switzerland and South Africa.

In 2013, over 110 suppliers were involved in the programme. The purchases concerned were made from the Group's traditional suppliers or suppliers within its Solidarity Sourcing programme who have deployed solidarity actions in their respective fields.

Certain traditional suppliers have moreover applied this approach in their own supply chain.



FOR FURTHER INFORMATION CONCERNING THE SOLIDARITY SOURCING PROGRAMME, SEE:

- THE SOCIETY FACT SHEET (INDICATOR SO1)
- THE ARTICLE ON SOLIDARITY SOURCING ON PAGE 41 OF THE 2013 SUSTAINABLE DEVELOPMENT REPORT