

# *ECONOMIC* PERFORMANCE

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○ unanswered   ① partial   ● complete

# *Approche managériale*

After the meeting of L'Oréal's Board of Directors on 11 February 2013, the consolidated financial statements and those of the company for financial year 2012 were approved.

2012 was a good year for L'Oréal on many fronts. The Group achieved strong sales growth, and once again demonstrated its ability to outperform the beauty market, and to gain market share, even in the more difficult markets of Western Europe and the United States. 2012 was also a very good vintage in terms of innovations - amongst the most remarkable in the industry - in each of our Divisions and major business segments.

2012 also marked a milestone in the acceleration of the Group's internationalisation, as the "New Markets" became the number one geographic zone.

Lastly, the profits and cash flow have grown very strongly confirming the power of L'Oréal's business model.

In view of these successes and improvements, 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 one billion new consumers. 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 2013, and to achieve another year of sales and profit growth.

The Board of Directors decided to propose to the Annual General Meeting to be held on 26 April 2013 that the Company should pay a dividend of €2.30 per share, a 15% increase over that of 2011.

L'Oréal's economic performance and its presence in the market are consolidated in its 2012 Activity Report and its 2012 Registration Document, which are available at [www.loreal-finance.com](http://www.loreal-finance.com).

# *Economic Performance*

**EC1**

**DIRECT ECONOMIC VALUE GENERATED AND DISTRIBUTED,  
INCLUDING REVENUES, OPERATING COSTS, EMPLOYEE COMPENSATION,  
DONATIONS AND OTHER COMMUNITY INVESTMENTS, RETAINED EARNINGS,  
AND PAYMENTS TO CAPITAL PROVIDERS AND GOVERNMENTS**

## **2012 sales trend**

Like-for-like, i.e., based on a comparable structure and identical exchange rates, the sales trend of the L'Oréal Group was **+5.5%**. The net impact of changes in consolidation amounted to **0.7%**.

Currency fluctuations had a positive impact of **+ 4.2%**.

Growth at constant exchange rates was **+ 6.2%**.

Based on reported figures, the Group's sales, at 31st December 2012, amounted to 22,463 billion euros, an increase of **+10.4%**.

## Sales by Operational Division and by geographic zone

	Q4 2012			As at 31 December 2012		
	MILLIONS OF €	EVOLUTION		MILLIONS OF €	GROWTH	
		LIKE-FOR-LIKE	REPORTED FIGURES		LIKE-FOR-LIKE	REPORTED FIGURES
<b>BY OPERATIONAL DIVISION</b>						
Professional Products	741.7	2.4 %	5.3 %	3,002.6	2.1 %	6.7 %
Consumer Products	2,613.4	5.8 %	8.7 %	10,713.2	5.0 %	8.9 %
L'Oréal Luxe	1,516.7	6.2 %	12.3 %	5,568.1	8.3 %	16.0 %
Active Cosmetics	331.9	7.1 %	8.6 %	1,528.0	5.8 %	7.5 %
<b>Cosmetics Total</b>	<b>5,203.6</b>	<b>5.5 %</b>	<b>9.2 %</b>	<b>20,811.9</b>	<b>5.5 %</b>	<b>10.3 %</b>
<b>BY GEOGRAPHICAL ZONE</b>						
Western Europe	1,805.0	1.4 %	3.2 %	7,399.6	0.6 %	2.1 %
North America	1,289.0	7.3 %	14.8 %	5,210.7	7.2 %	18.3 %
New Markets, of which:	2,109.6	8.2 %	11.3 %	8,201.6	9.2 %	13.6 %
• Asia Pacific	1,089.0	6.5 %	11.7 %	4,287.0	9.6 %	18.4 %
• Eastern Europe	381.1	4.0 %	7.4 %	1,405.0	3.9 %	5.1 %
• Latin America	474.7	13.5 %	12.0 %	1,826.6	10.4 %	8.7 %
• Africa, Middle-East:	164.7	14.6 %	16.9 %	683.0	14.7 %	17.6 %
<b>Cosmetics Total</b>	<b>5,203.6</b>	<b>5.5 %</b>	<b>9.2 %</b>	<b>20,811.9</b>	<b>5.5 %</b>	<b>10.3 %</b>
The Body Shop	290.3	4.1 %	9.8 %	855.3	4.9 %	11.4 %
Dermatology <sup>(1)</sup>	236.4	0.9 %	4.8 %	795.5	5.9 %	12.9 %
<b>GROUP TOTAL</b>	<b>5,730.2</b>	<b>5.3 %</b>	<b>9.0 %</b>	<b>22,462.7</b>	<b>5.5 %</b>	<b>10.4 %</b>

<sup>(1)</sup> Group share, i.e. 50%

## Operating profitability at 16.5% of net sales.

Consolidated income statement: from net sales to the operating profit.

	2011		2012	
	MILLIONS OF €	% 2011 SALES	MILLIONS OF €	% 2012 SALES
<b>Sales</b>	<b>20,343.1</b>	<b>100.0 %</b>	<b>22,462.7</b>	<b>100.0 %</b>
Cost of sales	- 5,851.5	28.8 %	- 6,587.7	29.3 %
<b>Gross profit</b>	<b>14,491.6</b>	<b>71.2 %</b>	<b>15,875.0</b>	<b>70.7 %</b>
Research and development expenses	- 720.5	3.5 %	- 790.5	3.5 %
Advertising and promotion expenses	- 6,291.6	30.9 %	- 6,776.3	30.2 %
Selling, general and administrative expenses	- 4,186.9	20.6 %	- 4,610.9	20.5 %
<b>OPERATING PROFIT</b>	<b>3,292.6</b>	<b>16.2 %</b>	<b>3,697.3</b>	<b>16.5 %</b>

Gross profit increased by 9.5%; it came out at 70.7% of sales, compared with 71.2% in 2011. As in the first semester, the gross profit underwent the combined effects of the exchange rate effect due to the weakening of the euro against the main currencies, of the impact of the consolidation of the American company Clarisonic, and a slight increase in customer allowances, in the context of arbitrage with advertising and promotion expenses. Research expenses increased strongly at 9.7%, and remained stable at a percentage of sales at 3.5%.

Advertising and promotion expenses increased by 7.7%; they came out at 30.2% of sales, slightly below the figure for 2011.

Selling, general and administrative expenses, at 20.5% of sales, once again declined by 10 basis points compared with 2011.

Overall, operating profit at 3,697 million euros has increased by 12.3%, reflecting a significant improvement in profitability compared with 2011, at 30 basis points.

## Operating profit by branch and by Division

	2011		2012	
	MILLIONS OF €	% 2011 SALES	MILLIONS OF €	% 2012 SALES
<u>By Operational Division</u>				
Professional Products	578.6	20.6 %	615.2	20.5 %
Consumer Products	1,859.0	18.9 %	2,050.8	19.1 %
L'Oréal Luxe	926.3	19.3 %	1,077.0	19.3 %
Active Cosmetics	286.7	20.2 %	311.2	20.4 %
<b>COSMETICS DIVISIONS TOTAL</b>	<b>3,650.6</b>	<b>19.3 %</b>	<b>4,054.3</b>	<b>19.5 %</b>
Non-allocated*	- 546.2	- 2.9 %	- 577.2	- 2.8 %
<b>COSMETICS BRANCH TOTAL</b>	<b>3,104.4</b>	<b>16.5 %</b>	<b>3,477.1</b>	<b>16.7 %</b>
The Body Shop	68.1	8.9 %	77.5	9.1 %
Dermatology Branch**	120.1	17.0 %	142.6	17.9 %
<b>GROUP</b>	<b>3,292.6</b>	<b>16.2 %</b>	<b>3,697.3</b>	<b>16.5 %</b>

\* 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 2011. The profitability of the Consumer Products Division and of the Active Cosmetics Division once again improved in 2012. The profitability of L'Oréal Luxe remained stable in 2012, at 19.3%.

The Body Shop continued to improve its profitability by 20 basis points in 2012, at 9.1%.

Finally, the profitability of Galderma, at 17.9% of sales, grew by 90 basis points in 2012.

## Profitability by geographical zone

OPERATING PROFIT	2011		2012	
	MILLIONS OF €	% 2011 SALES	MILLIONS OF €	% 2012 SALES
Western Europe	1,512.3	20.9 %	1,576.2	21.3 %
North America	810.1	18.4 %	959.7	18.4 %
New Markets	1,328.1	18.4 %	1,518.4	18.5 %
<b>COSMETICS ZONES TOTAL*</b>	<b>3,650.6</b>	<b>19.3 %</b>	<b>4,054.3</b>	<b>19.5 %</b>

\* Before non-allocated.

Profitability in Western Europe improved by 40 basis points at 21.3%. Profitability in North America remained stable and its operating profit increased by 18.5%.

Profitability in the New Markets increased by 10 basis points to 18.5%, and their operating earnings grew by more than 14%.

## Net earnings per share<sup>\*\*</sup>: €4.91

### Consolidated income statement: from the operating earnings to the net earnings, not including non-recurring items.

€ MILLIONS	2011	2012	CHANGE
<b>OPERATING PROFIT</b>	<b>3,292.6</b>	<b>3,697.3</b>	<b>+ 12.3%</b>
Finance Costs excluding dividends received	- 25.2	- 11.0	
Sanofi dividends	295.6	313.4	
<b>PRE-TAX PROFIT EXCLUDING NON-RECURRING ITEMS</b>	<b>3,563.1</b>	<b>3,999.7</b>	<b>+ 12.3%</b>
Income tax excluding non-recurring items	- 977.6	- 1,025.3	
Non-controlling interests	- 2.5	- 2.7	
<b>NET PROFITS EXCLUDING NON-RECURRING ITEMS AFTER NON-CONTROLLING INTERESTS*</b>	<b>2,582.9</b>	<b>2,971.7</b>	<b>+ 15.1%</b>

EPS <sup>**</sup> (€)	4.32	4.91	+ 13.6%
Net profit after non-controlling interests	2,438.4	2,867.7	+ 17.6%
Diluted earnings per share (€)	4.08	4.74	
Diluted average number of shares	597,633,103	605,305,458	

\*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 incomes and expenses, non-recurring and significant regarding the consolidated performance

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

Net financial expense amounted to 11 million euros.

Dividends from Sanofi amounted to 313 million euros.

Income tax excluding non-recurring items amounted to 1,025 million euros, representing a rate of 25.6%, below the 2011 rate of 27.4%, with the benefit of a non-recurring fiscal change effect in China.

Net profit excluding non-recurring items after non-controlling interests amounted to 2,972 million euros, up by 15.1%.

Net earnings per share, at 4.91 euros, increased by +13.6%.

After allowing for non-recurring items, representing in 2012 a charge, net of tax, of 104 million euros, net profit after non-controlling interests amounted to 2,868 million euros, an increase of 17.6%.

### Cash flow Statement, Balance sheet and Net Cash flow

Gross cash flow amounted to 3,661 million euros, an increase of +13.5%.

The working capital requirement increased modestly, in 2012, by 129 million euros.

Inventories declined significantly as a percentage of sales, at 9.1% at end-2012; trade accounts receivable also declined, at 14.3% of sales; investments, at 955 million euros, amounted to 4.3% of sales, an identical level to 2011. As a result, operating cash flow increased by 26.4%.

After dividend payment and acquisitions (mainly Cadum and Urban Decay), the Group recorded, at December 31st, 2012, a net cash surplus of 1,575 million euros, compared with 504 million euros at end-2011.

The balance sheet structure is very solid. The reinforcement of shareholders' equity compared with end-2011 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 26th, 2013

The Board of Directors has decided to propose to the Annual General Meeting of April 26th, 2013 the payment of a dividend of €2.30 per share, an increase of +15% compared with 2012. This dividend will be paid on May 10th, 2013.

## Share Capital

The Board of Directors reported that the total share capital as at 31 December 2012 was 608,810,827 shares with a par value of €0.20 each, making a total of €121,762,165.40.

- ↳ For more information concerning the Group's net sales and earnings, please see Chapter 4, "Consolidated Financial Statements," of the 2012 Registration Document.



## 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 its priority challenges.

The Group has made a significant pledge to this by setting ambitious targets, in particular an absolute reduction of 50% in its CO<sub>2</sub> emissions between 2005 and 2015, but also by a certain number of actions and commitments.

In practice, the action plans are steered on both a worldwide and local scale.

Among other initiatives, L'Oréal has invested in:

- a set of actions to reduce the impacts concerning its energy use, by reducing its energy consumption (cf. EN7), using alternative energies (cf. EN6).
- a set of actions taken to limit the atmospheric emissions of its enlarged scope of activities. As an example, L'Oréal has been a member of the Carbon Disclosure Project (CDP) since 2003 and of the CDP Supply Chain since 2007, and L'Oréal continues to encourage its suppliers to measure and manage their CO<sub>2</sub> emissions. In 2012, L'Oréal stepped up its strategy with regard to the CDP: It is no longer just the environment experts that dialogue with the suppliers, but now the buyers trained in CDP have become ambassadors for the measure. By working this way, L'Oréal has been able to address the CDP Supply Chain with suppliers at strategy meetings ("Business Reviews"), to launch 156 invitations in 2012 as compared with 55 in 2011 and to 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. 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. Consequently, in 2012, 133 suppliers (out of the 156 suppliers who were invited) agreed to join the CDP after receiving L'Oréal's invitation. This number is greater than the average (2,415 participants for more than 6,000 suppliers invited) for members of the CDP. The high response rate, achieved as a result of the joint commitment by the purchasing and environment teams, has led to the CDP recognising L'Oréal as one of the most committed companies in this area.
- a series of actions taken to promote biodiversity. L'Oréal, conscious that deforestation is partially responsible for global warming, ensures it practices responsible sourcing for commodities such as palm oil, soya, paper and cardboard, amongst others. L'Oréal was once again recognised by the Forest Footprint Disclosure Project as a leader in its sector in 2012.
- by reducing its products' environmental impact. When developing its products, L'Oréal takes care to limit the use of resources, both for products and for their packaging. Actions to achieve reductions at source undertaken by staff made it possible to save nearly 500 tonnes in packaging materials in 2012. Finally, L'Oréal does everything it can to limit the impact of its products and its activities on natural environments, like water, by working on the biodegradability of the formulae.

↳ For more information concerning the CDP, please see:

- the article on page 24 of the 2012 Sustainable Development Report.
- <https://www.cdproject.net/en-US/Respond/Pages/companies.aspx>



## COVERAGE OF THE ORGANIZATION'S DEFINED BENEFIT PLAN OBLIGATIONS

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, a company's commitment mainly consists of paying a percentage of the employee's annual salary into a pension plan each year.

The defined benefit schemes are financed by payments into specialised 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.

### EXAMPLE OF FRANCE

#### Pension schemes in France

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.

	12/31/2010	12/31/2011	12/31/2012
Number of members	11,967	12,594	13,549
TOTAL NET CONTRIBUTIONS (in € million)	8.02	8.74	9.20

### 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.

	12/31/2010			12/31/2011			12/31/2012		
	MEN	WOMEN	TOTAL	MEN	WOMEN	TOTAL	MEN	WOMEN	TOTAL
Early retirement leave	49	102	151	51	127	178	65	128	193
Compulsory retirement on the Company's initiative			25			5	3	0	3
Voluntary retirement			234			162	66	135	201

(Source: HR France statistics- 2010, 2011 and 2012).

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.

€ MILLION	12/31/2010	12/31/2011	12/31/2012
Provision for pension commitments in consolidated balance sheet liabilities	687.8	662.6	706.7

(Source: Administration and Finance Department)

## 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 eight times the Social Security ceiling, except for the education annuity which is limited to up to four 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 eight 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 eight 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	12/31/2010	12/31/2011	12/31/2012
Net Employee Benefit Contributions for the financial year	9,877.1	10,687.7	10,950.0 <sup>(1)</sup>

<sup>(1)</sup> 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 can generally continue to benefit from the healthcare scheme, with a contribution by L'Oréal, subject to a membership duration clause.

The scheme for L'Oréal parent company retirees has been specified in the regulations for the additional defined benefit pension scheme applicable as from January 1st, 2008. The financial management of this scheme was outsourced to insurance companies in July 2011.

↳ For more information concerning pension benefits, please see the chapter "Employee benefit schemes, pension schemes and other benefits" on page 193 et seq. of the 2012 Registration Document.



## SIGNIFICANT FINANCIAL ASSISTANCE RECEIVED FROM GOVERNMENT

The L'Oréal Group does not receive any significant subsidy or assistance, except, in France, for the research tax credit ("CIR"), the amount of which is not disclosed.

The French Government does not own any equity stake in the Company.

# Market Presence



## RANGE OF RATIOS OF STANDARD ENTRY LEVEL WAGE BY GENDER COMPARED TO LOCAL MINIMUM WAGE AT SIGNIFICANT LOCATIONS OF OPERATION

In most countries, the minimum salaries paid are much higher than the statutory minimum wage (at a national or regional level or according to the collective bargaining agreement).

For instance, in South Africa, the minimum salary paid at L'Oréal is 63% higher than the than the negotiated minimum for the industry. In Hong Kong, this percentage, this time compared with the legal minimum, is 64% above. In Israel and Italy, the minima paid at L'Oréal are respectively 20% and 19% above the industry's negotiated minimum.

What is more, all the Group's subsidiaries practice profit-sharing (cf. question LA 3), which is added to the minimum.

### Remunerations and their evolution Personnel costs (including payroll costs) <sup>(1)</sup>

€ MILLIONS	2010	2011	2012
<b>Total</b>	<b>3,624</b>	<b>3,832.1</b>	<b>4,227.9</b>

<sup>(1)</sup> The comparison between the three years takes into account the foreign exchange impacts and is not representative of the real evolution in personnel costs

In each country, the remuneration policy is dependent on a performance assessment system that is applied globally. Career development is managed individually and according to the country, and the salaries and their evolution include an individual part and a collective part. L'Oréal intends to offer incentive rewards so that the best talents will be attracted to the Group and remain with it. Therefore, nearly all the subsidiaries take part each year in a remuneration survey. The remuneration varies according to each person's job, abilities, performance and potential. L'Oréal complies with the legal and contractual requirements governing remuneration in all its subsidiaries.

#### ► Remuneration at L'Oréal SA

##### Average gross monthly remuneration of women and men continually present

This relates to employees (excluding managers) on permanent employment contracts and present for two consecutive years. Employees whose category changed are compared in the category in which they were in the second year.

212 BIS	Employees continually present in 2011 and 2012 (except for managers)	2011			2012			CHANGE AS % OF THE AVERAGE SALARY		
		MEN	WOMEN	ALL	MEN	WOMEN	ALL	MEN	WOMEN	ALL
	Executives	6,301	5,250	5,697	6,585	5,540	5,984	4.5 %	5.5 %	5.0 %
	Supervisors	3,100	3,049	3,061	3,239	3,184	3,197	4.5 %	4.4 %	4.4 %
	Administrative staff	2,308	2,200	2,241	2,416	2,303	2,346	4.7 %	4.7 %	4.7 %
	Manual workers	2,616	2,511	2,577	2,727	2,612	2,685	4.2 %	4.0 %	4.2 %
	Sales Representatives	4,228	3,800	4,050	4,332	3,885	4,146	2.5 %	2.2 %	2.4 %

#### ► Employer Contributions

At L'Oréal SA, the annual sum of employer contributions in 2012 came to €184,965,923.



## **POLICY, PRACTICES, AND PROPORTION OF SPENDING ON LOCALLY-BASED SUPPLIERS AT SIGNIFICANT LOCATIONS OF OPERATION**

One of the components of L'Oréal's sourcing strategy is to promote the development of suppliers in the place where the Group is expanding its production and sales. Consequently, the location in which the Group sources its purchases is an indicator. On average, 80% of the expenditure on production-relevant purchases (packaging, raw materials and sub-contracting) is carried out with suppliers who are located in the geographical region of production (Europe, USA, Asia, LATAM, ZAMO). For instance, US factories purchase 69% of their supplies in North American, and European factories carry out 84% of their provisioning within Europe.

L'Oréal's goal is to increase the proximity of its procurement, chiefly in emerging regions to address local needs. In doing that, Purchasing teams work with Research and Innovation to list local suppliers of raw materials (diversification or double sourcing of raw materials programmes) and with Packaging teams to list local suppliers of packaging items and sub-contracting.

With regard to packaging components, a **large "in-house" production programme** is under way in many factories. This involves installing the machinery and the staff of a supplier within the actual L'Oréal production factory. This concept, which requires huge manufacturing volumes to amortise the investment expenses, is perfectly suited to mass market cosmetics products and the technological specialization of the L'Oréal factories. The approach is devoted to simple packaging with a short production line, which is easy to set up in an existing site. At L'Oréal, the "in-house" version was implemented for the first time in 2010 to produce plastic bottles for Elsève and Fructis skin care products intended for the European market, respectively in Rambouillet and Settimo factories. At present, this practice involves six production sites: in France at Rambouillet, in Belgium at Libramont, in Italy at Settimo, in the United States in Florence, in Brazil at São Paulo and in Mexico at San Luis Potosi. In 2012, more than a billion finished products were manufactured on this principle, and nearly 1.2 billion will be by the end of 2013. L'Oréal is conducting studies at other sites, wherever the model could be applied. The benefits of such "ultra" location are manifold: flexibility, environment and savings.

Local suppliers are assessed on the same bases as the other suppliers, i.e., on 5 KPI: quality, logistics, competitiveness, innovation, and sustainable development.

### **The global Solidarity Sourcing programme**

Because the first economic and labour-related contribution of a company is its purchasing power, L'Oréal has also decided to carry out its sourcing in a special way to counter exclusion. The Group thus created a global solidarity purchasing programme in mid-2010: "Solidarity Sourcing." Its aim is to help to give permanent access to employment and income to people from economically vulnerable communities. This initiative provides them with an opportunity for social integration.

Several initiatives had already been developed in the Group and in particular The Body Shop's Community Fair Trade programme. With Solidarity Sourcing, L'Oréal has fundamentally transformed its purchasing process by opening it up to new categories of suppliers to build commercial partnerships that are fair, long-lasting and create economic value and value for society. At present, the following entities are involved in this programme: companies working for the inclusion of people with disabilities, job-finding companies, very small companies that have difficulties in accessing to large producers, companies owned by minority groups and fair trade producers.

The programme is intended to expand into all the countries in which the Group has a presence. Tools for working together have been introduced so that projects that are born out of local initiatives (South Africa, Brazil, China, France, Morocco, etc.) then inspire all of the Group's employees who are able to carry out solidarity purchases.

2012 was a pivotal year, with buyers being trained throughout the world; practical guides on each person's role were compiled, measuring and management tools were deployed, and projects were funded.

The feedback led to L'Oréal keeping indicators on the purchasing totals and the number of beneficiaries which are the reason to be of the Solidarity Sourcing. That is why the Group stopped coordinating by using the number of initiatives. In addition, for further clarity, the scope of the Solidarity Sourcing programme is differentiated from The Body Shop's Community Fair Trade programme .

Thus, in 2012, the Solidarity Sourcing programme, excluding purchases by The Body Shop, represented a total value in terms of purchases of €30 million, and access to employment for 15,000 people.

Many projects were identified in 2012, but since they need time to come to fruition, particularly to ensure that the initiatives selected will be ongoing, their results are not yet visible in the year's achievements.

↳ For more information concerning the Solidarity Sourcing programme, please see:

- the Society GRI data sheet (SO1 indicator).
- the article dedicated to Solidarity Sourcing on page 36 of the 2012 Sustainable Development Report.



## **PROCEDURES FOR LOCAL HIRING AND PROPORTION OF SENIOR MANAGEMENT HIRED FROM THE LOCAL COMMUNITY AT LOCATIONS OF SIGNIFICANT OPERATION**

L'Oréal has around 250 strategic positions, 30% of which are located in the Group's subsidiaries outside France

The strategic positions located outside France involve 57 countries and are occupied by 73 employees of 29 different nationalities. Twenty-one of them work in their home country.

The Group plans to grow significantly in those countries in which it already operates. To achieve this goal and recruit the appropriate talents, the Group selects candidates that show potential for achieving career advancement within two to five years. L'Oréal also aims to ensure that experienced managers, who are guiding lights for L'Oréal's culture, are recruited and exposed to various aspects of the company through transfers. This strategic mission falls to the Talent Management Directors, who work closely with the local HR departments. Since the local HR managers are based in the countries, they are familiar with the local context and requirements; they launch recruitment actions, and meet the candidates, with a view to selecting the candidates with the most appropriate skill sets. The Group currently has five Talent Management Directors: one for the USA, one for the Latin America Region, one for the Africa/Middle East Region, one for the ASEAN region (Association of Southeast Asian Nations), and one for China. The first Talent Management Director was appointed in 2010.

↳ For more information concerning local hiring, please see the Talents section on page 40 of the 2012 Sustainable Development Report.

# *Indirect economic impacts*



## **DEVELOPMENT AND IMPACT OF INFRASTRUCTURE INVESTMENTS AND SERVICES PROVIDED PRIMARILY FOR PUBLIC BENEFIT THROUGH COMMERCIAL, IN-KIND, OR PRO BONO ENGAGEMENT**

### **Regional development and local populations**

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 useful 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.

For example, the industrial site in Ormes in France has linked up with the Ecole de la 2e Chance which is aimed at promoting the integration into employment of young people between 18 and 25 years of age who have left the educational system without any job or training. They are offered a 9- to 12-month training period during which they are confronted with the corporate world. The factory received 10 young people for work placements of from 2 to 8 weeks between 2011 and 2012. In September 2012, it started up a contract offering professional experience with a young woman from the school which will enable her to obtain professional qualifications. The factory has also asked a protected workshop for disabled workers, la Couronnerie, to edit its internal newspaper and has organically-produced fruit and vegetables delivered to its site every Thursday by the association Solembio.

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.

Outside France, the Group inaugurated a new factory in Jababeka in Indonesia on November 7th, 2012. This 66,000m<sup>2</sup> plant is the Group's largest manufacturing facility. It is intended to take over from a factory opened in 1986 in Ciracas near Jakarta, the capacity of which was becoming insufficient for this region. The new factory has an installed capacity of 300 million units, which may be increased to up to 500 million units by 2015. The construction of this new factory, 60km away from the old one, has meant that the employees of the Ciracas factory have had to move. 96% of them followed the move to Jababeka. This was made possible in particular thanks to assistance measures enabling employees to become first home owners. 75% of the employees did not own their own homes and 40% of them were still living with their parents. Thanks to zero-interest loans granted by the Group, 262 families were thus able to become home owners.

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.

Several initiatives had already been developed in the Group and in particular The Body Shop Community Trade programme. With Solidarity Sourcing, the L'Oréal group wants 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 work for their community and promote their integration by offering them, for example, training courses 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 devises programmes in two main areas which reflect the Group's values and its businesses: science and beauty.

- ▶ **In the field of science**, L'Oréal promotes scientific education and the participation of women in scientific careers, by recognising the excellence of achieving women researchers and encouraging young girls to follow scientific vocations.
- ▶ **In the field of beauty**, L'Oréal supports programmes that provide cosmetic services to vulnerable people to restore their confidence and help them to recover their self-esteem and have a social life again. The Foundation also works on a large-scale back-to-work programme offering training in the beauty professions for underprivileged people or those cut off from employment.

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 carry out local activities in relation with the situations in their particular countries. In 2012, L'Oréal supported several hundreds of projects throughout the world, involving actions in the fields of solidarity, education and the environment.

Another example is **Russia**, where L'Oréal has supported an orphanage in the region of Kaluga for the last three years, supplying the equipment required for the children's life, equipping speech therapists' and psychologists' offices, and running hairdressing classes to provide a basis in this profession to older children so that they can find jobs.



**China** is also engaged in a vast programme to raise public environmental awareness with its "Mother River tree" programme, which consists in rewarding a project in the field of the environmental protection, planting trees by the riverside and training young people in sustainable development.

**In France**, a hairdressing channel was created in 2012 in the Poullart-des-Places professional school in Thiais. Beauty for a Better Life, a new programme founded by the L'Oréal Foundation, intends to provide a path to apprenticeships in the beauty field wherever L'Oréal subsidiary settles. This project has already been established in 13 countries and 1,400 beneficiaries have already been trained. The project was inaugurated in September 2012 at the Thiais training school. A preparatory course for the professional aptitude certificate ("CAP") in hairdressing was founded, inaugurated jointly by the L'Oréal Foundation and Les Apprentis d'Auteuil. The goal is to train a class of fourteen young people who left school early over a two-year period. Trainers from the L'Oréal Academy and teachers from the Fondation des Apprentis d'Auteuil will provide the students with targeted practical and theoretical training.

### **Product gifts and support to associations**

In 2012, the Foundation and the brands of the L'Oréal Group distributed 15.6 million products worldwide, including 13.8 million sachets. The brands of L'Oréal in France distributed 630,000 products to beneficiaries living on the edge. Alongside associations such as the branch of Don en nature (gift in kind), the Restos du Cœur (soup kitchen), the Paris "Samu Social" (emergency aid to the needy), Matelots de la Vie, the French Red Cross, Doctors of the World, Secours Populaire français, Restos Bébés du Cœur (soup kitchen aimed at infants), SOS Préma (assistance to premature babies), gifts in kind is one of historical modes of action of the L'Oréal Foundation: giving dignity and confidence back to the most needy in society. Financial donations are also made by the brands of L'Oréal France to support the following associations: Association des brûlés de France, Association française du Vitiligo (Laboratoires Vichy), Association Etoile for the fight with breast cancer (Luxe France), Enfance et Partage (Kiehl's), Maison de Solenn, Association Petits Princes (Roger&Gallet), Cekedu-Bonheur (L'Oréal Paris), Green Cross (Giorgio Armani), Golden Hat Foundation (Lancôme), Rose Marie Claire supporting girls at school (L'Oréal Paris, an historic partner), Mécénat Chirurgie Cardiaque, for children, with the support of Cadum.

**Financial highlights: in 2012, L'Oréal spent €31.3 million worldwide (not including sponsorships), distributed as follows:**

**Foundation: €7.1 million**

**Corporate: €12.9 million**

**Brands: €11.3 million**



## **UNDERSTANDING AND DESCRIBING SIGNIFICANT INDIRECT ECONOMIC IMPACTS, INCLUDING THE EXTENT OF IMPACTS**

### **Towards a better accessibility to products**

The Western world is no longer the dominant market for the cosmetics industry. Attracting new consumers, while ensuring that they have access to the products, means constantly working on matching the economics of the offer to the diversity of the local populations. The teams' product design work is affected by the local requirements of the various markets. To better suit the product range to consumers' expectations, the subsidiary managers and the local marketing team now work closely with the Product and Packaging Development teams. To accelerate innovation for the New Markets such as India, the Philippines, and the ASEAN countries means that teams need to know the specific expectations of these markets: for instance, the appropriate format of the product, the right price and ad hoc distribution.

To make its products relevant in South Asian markets such as Thailand for example, L'Oréal first focused on a mainly urban distribution, in hypermarkets. The Group achieved high penetration in rural areas by making 10g sachets available in mini-supermarkets, to the extent that now L'Oréal is the leader in skin care. Small-size packaging fits with the purchasing power of consumers; in the Philippines, for example, people tend to purchase only a week ahead, so everything is in small packets, from face care to cigarettes. In India and Indonesia, the most popular format for shampoo is the 80 ml bottle.

In parallel to these modest populations, the middle class is expanding rapidly in the large cities, and these people with a regular income are seeking better quality or more regular beauty treatments. To address those needs, the range is being developed on a second rail, both in bottle size and in brand sophistication. Only China baulks the trend of these New Markets, with weaker demand for sachets and distribution provided by a more developed infrastructure. However, the growth dynamic in China is the same as in the other countries. It can be summarised as more consumption, more appetite for and more interest paid to products' design.



The Group is being successful at adapting what it offers by ensuring that the local marketing team, Product Development and Packaging teams work closely together.

In 2012, Maybelline launched the first PET bottle of mascara on the Asian market, containing a single layer of plastic as opposed to the typical five layers. This design reduced the cost of the packaging and lowered the price of the final product. This innovation now applies to five Maybelline Volume Express mascaras, and the initiative could be extended in future to other geographical regions and other markets.

Also in Asia, Garnier renovated its face mask to adapt it better to Asian skin types by changing the kind of materials (artificial silk, paper pulp and polyethylene) to improve its cosmetic qualities and the comfort when being applied on the face. The possibility of cutting it has also been reviewed to make it better fit the morphology of Asian faces.

By pursuing this same objective of accessibility, L'Oréal favours increasingly local production, which makes it possible to ensure that consumers have access to a product at the best possible price. At present, the Group has 42 factories, 37 of which are ISO-14001 certified, and 36 are OHSAS 18001 certified. With this industrial policy, L'Oréal products meet the same quality standards throughout the logistics chain, wherever they are produced in the world.

### **The global Solidarity Sourcing programme**

The Group created a global solidarity purchasing programme in mid-2010: "Solidarity Sourcing." Its aim is to help to give people from economically vulnerable communities permanent access to employment and income. This initiative provides them with an opportunity for employment. With Solidarity Sourcing, L'Oréal has fundamentally transformed its purchasing process by opening it up to new categories of suppliers to build commercial partnerships with that are fair, long-lasting and that create economic value and value for society. The programme is intended to expand into all the countries in which the Group operates.

↳ For more information concerning Solidarity Sourcing, please see the article dedicated to the programme on page 36 of the 2012 Sustainable Development Report.

### **The Body Shop's Community Fair Trade programme**

Several initiatives had already been developed in the Group and in particular The Body Shop's Community Fair Trade programme. Thanks to its fair trade programme, The Body Shop is able to purchase inputs from its 25 suppliers spread over 21 countries to obtain quality ingredients the traceability of which is guaranteed. This programme is of direct benefit to more than 300,000 people who belong to marginalised communities in the world. Since The Body Shop was acquired by the L'Oréal Group in 2006, the fair trade suppliers have been available to L'Oréal buyers. Now, the Group uses four ingredients that belong to the Body Shop product range: aloe, olive, sesame and sugar.

↳ For more information concerning Community Fair Trade, please see the Society GRI data sheet (indicator SO1).