

L'ORÉAL

2018
Vigilance plan

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2.8.4. VIGILANCE PLAN

2.8.4.1. Introduction

L'Oréal was built on strong Ethical Principles that guide its development. These principles are the foundation of its policies in terms of compliance, responsible innovation, social and societal responsibility, human rights and fundamental freedoms, the environment, the health and the safety of people (EHS) and philanthropic actions. L'Oréal has been a member of the UN Global Compact since 2003 and joined its LEAD group in 2015 which brings together the companies which are the most committed to sustainability.

With respect to L'Oréal's Vigilance Plan, it meets the obligations of the French law of 27 March 2017 on the duty of vigilance for French parent companies and subcontracting companies.

It contains reasonable vigilance measures intended to prevent the risk of serious impacts on human rights, fundamental freedoms, health, safety and the environment within the framework of a best efforts obligation.

It applies to subsidiaries controlled directly or indirectly by L'Oréal (the "Subsidiaries"), as defined by Article L. 233-16 of the French Commercial Code, and to suppliers and subcontractors with which the companies of the Group have an "ongoing commercial relationship": that is, a direct, ongoing and stable commercial relationship (based on the definition in French case law) and which fall under the risk mapping mentioned in section 2.8.4.3.2. of this Vigilance Plan (hereafter the "Suppliers").

Given the diversity of the business activities of the Subsidiaries and Suppliers, the Vigilance Plan contains reasonable vigilance measures for them which are intended to prevent serious impacts on human rights, fundamental freedoms, health, safety and the environment.

These common measures are not exclusive of additional actions implemented by L'Oréal and its Subsidiaries in these same areas, which are described in other chapters of this Document, and namely chapter 3, or additional actions voluntarily implemented by the Suppliers.

The actions to support, encourage and prevent serious impacts on human rights, fundamental freedoms, health, safety and the environment contained in this Vigilance Plan constitute reasonable efforts to be implemented by Suppliers and Subsidiaries. These measures cannot guarantee that the risks described in the plan will not occur given that the Group cannot substitute itself for its Suppliers, in particular.

The Vigilance Plan contains the rules aiming to prevent the risk of serious impacts on human rights, fundamental freedoms, health, safety of people and the environment resulting from the activities of Subsidiaries and Suppliers (2.8.4.2.). It also includes measures for the effective application of these rules by Subsidiaries and Suppliers as well as regular evaluation procedures to ensure compliance (2.8.4.3.). It includes a whistleblowing mechanism and reporting system (2.8.4.4.), and lastly, a report on the plan's implementation (2.8.4.5).

As part of a continuous improvement approach, the plan will be reviewed on a regular basis by a committee consisting of representatives of the Office of the Chief Ethics Officer, the Operations Department (EHS, Purchasing), the Human Resources Department, the Risk Management and Compliance Department, the Societal and Environmental Responsibility Department and the Legal Department.

2.8.4.2. Applicable rules

The Subsidiaries and Suppliers must comply with the applicable local legislation and the minimum common core of rules listed below (the "Applicable Rules") in order to prevent the risk of serious impacts on human rights, fundamental freedoms, health, safety and the environment. When local legislation is stricter than the Applicable Rules, the local legislation must take precedence. If, on the other hand, the Applicable Rules provide for stricter standards, the Applicable Rules must take precedence unless they result in an illegal activity.

2.8.4.2.1. Applicable rules for the prevention of serious abuses of Human Rights and Fundamental Freedoms

L'Oréal promotes respect for all internationally recognised human rights and fundamental freedoms. Its point of reference is the Universal Declaration of Human Rights, the Guiding Principles of the United Nations on Business and Human Rights and the Fundamental Conventions of the International Labour Organisation (although these Conventions have not been ratified by all of the countries in which the Group is present).

In line with the recommendations of the United Nations Guiding Principles on Business and Human Rights, L'Oréal undertook an analysis to identify its possible human rights and fundamental freedoms risks *i.e.* human rights and fundamental freedoms most exposed to the most serious negative impacts that might result from the Company's business activities and commercial relationships. The risks were identified *via* a broad consultation with the Group's most directly concerned entities (over 300 employees consulted around the world).

More precisely, Subsidiaries and Suppliers must comply with the following minimum common core rules:

The abolition of child labour

L'Oréal has chosen to set a compulsory minimum hiring age of 16, a minimum age which is higher than that required by Conventions 138 and 182 of the International Labour Organisation.

The Subsidiaries and the Suppliers are required to check the age of all new employees upon hire.

L'Oréal prohibits night-time work and hazardous work to employees under 18 and asks its Suppliers to do the same.

Elimination of all forms of forced or compulsory labour

L'Oréal refers to the definition of forced and compulsory labour in Convention 29 of the International Labour Organisation. Forced and compulsory labour is defined as "all work or service which is exacted from any person under the menace of any penalty and for which the said person has not offered himself voluntarily".

All forms of forced labour carried out under physical constraint or threat is prohibited. Consequently:

- Security personnel must only ensure the safety of persons and property;
- Unless there is a legal obligation, employees' identity papers, passports or any other personal documents cannot be held from them. In the event of a legal obligation, the documents must be returned to the employee at their first request;
- Recourse to prison labour is possible when it is voluntary within the scope of a professional reinsertion programme, and paid at the market rate. Suppliers must request authorisation from L'Oréal before they have recourse to this form of labour.

Freedom of movement

The employees of Subsidiaries and Suppliers must be free to move around their place of work, except in areas which are restricted for confidentiality or safety reasons, and must be able to take breaks and have access to water.

Freedom of association

The employees' right to freedom of association and collective bargaining must be respected. Employee representatives must be elected without employer interference and be provided access to the work premises subject to safety and/or confidentiality requirements. Employees involved in union activities may not be discriminated against.

In countries where freedom of association and the right to collective bargaining are limited or forbidden, L'Oréal encourages the development of other forms of expression and dialogue with employees to enable them to express their concerns.

Non-discrimination

Discrimination based on gender, disability, family situation, sexual preference, age, political and philosophical opinions, religious convictions, union activities or ethnic, social, cultural or national origin is prohibited. Discrimination related to pregnancy is also forbidden and L'Oréal does not therefore allow pregnancy testing at the time of hiring in the Group and asks its Suppliers to do the same.

Working hours

Due to the increased risk of workplace accidents, working hours (including overtime) cannot exceed 60 hours a week at Subsidiaries and Suppliers (for employees whose work hours are monitored). Employees must also be granted at least one day of rest for every seven day period, or two consecutive days of rest for every fourteen day period.

Salary deductions and undue charges

All deduction salary must be authorised by law. They cannot under any circumstances be used for the purpose of confiscation, for the direct or indirect benefit of the employer.

In addition, employees cannot be asked to pay for recruitment costs or to make cash deposits to obtain employment.

Sexual and moral harassment

L'Oréal forbids sexual and moral harassment and asks that its Suppliers to do the same.

2.8.4.2.2. Applicable rules to prevent serious abuses to health, safety and the environment

As is the case for any production, distribution, research and general administration operations, the Group and its Suppliers confront safety and environmental issues (for example, related to the use of certain raw materials, the use of machines or electrical equipment in production or storage areas, handling operations liable to cause accidents involving bodily injury, waste water treatment, etc.).

Based on the health, safety and environmental risk prevention work carried out by L'Oréal for many years, the major risks listed below have been identified. On this basis, the Subsidiaries and Suppliers must commit to taking all measures necessary to prevent the occurrence of these major risks (the "Prevention System").

1. Risks concerning serious damage to the environment

The Prevention System must include measures intended to prevent serious damage to the environment resulting from the following events and risks:

- accidental pollution of the air, soil, surface and underground water in the production and storage processes;
- pollution during the transport of hazardous materials.

2. Risks concerning serious damage to health and safety

The Prevention System must include measures intended to prevent serious harm to health and safety resulting from the following events and risks:

(i) Risks associated with buildings and the use of equipment

- The soundness of buildings (construction and interior fittings, including the compliance of equipment with operating authorisations and building permits issued by local authorities in compliance with the applicable legislation and, in any event, adaptation to the activity for which the buildings are intended),
- Use of motorised forklift trucks and Automatic Guided Vehicles (AGV): risks caused by interactions and interference between forklift trucks, AGVs and pedestrians,
- Injuries caused by interactions between humans and machines: risks related to access to the moving parts of work equipment;

(ii) Risks related to energy sources and materials

- Exposure to energy sources, fluids and hazardous emissions including electricity, high pressure, vapour, hot water and high temperatures,
- fires resulting, notably, from flammable products and materials and electrical installations,
- exposure to hazardous dusts and chemical products: by inhalation, ingestion or contact with the skin,

- exposure to high noise levels;

(iii) Risks related to work activities

- entry in confined spaces and/or the risk of anoxia,
- isolated work: risks associated with working alone for long periods of time,
- slipping and falls,
- the ergonomics of workstations related to load handling,
- construction work (risks for the employees of the Subsidiaries and Suppliers during construction work),
- work at heights (risk of falls associated with the use of ladders and step stools, access to, and work on, platforms and on roofs, use of lift tables and scaffolding, etc.).

2.8.4.3. Measuring the effective application and compliance with the Vigilance Plan

The Vigilance Plan includes effective application measures intended to ensure the correct implementation of the Applicable Rules by the Subsidiaries and the Suppliers.

Monitoring of compliance with the Plan is carried out through audits and analyses performed by external service providers or by Group teams. In addition, the Subsidiaries and Suppliers are asked to carry out self-assessments.

2.8.4.3.1. Measurement of the effective application of the Vigilance Plan

1. Adoption of the Applicable Rules

(i) Adoption of the Applicable Rules by Subsidiaries

The effective implementation of the Applicable Rules by Subsidiaries is achieved through their incorporation in the Group's Internal Rules. For this purpose, compliance with the effective application of the Plan is based on internal control activities in accordance with the applicable legislation.

The communication of the Applicable Rules to Group employees is described below.

(ii) Adoption of the Applicable Rules by suppliers

The Suppliers included in the risk mapping (see section 2.8.4.3.2 "Hierarchy of risks of non-compliance with the Applicable Rules") must undertake to comply with the Applicable Rules. In particular, they must sign the Ethical Commitment Letter which covers the Applicable Rules and informs them that they can be audited in these areas.

The other Suppliers are informed of the need to comply with the Applicable Rules, an essential condition included in orders given by L'Oréal to its Suppliers.

2. Governance

L'Oréal's commitment to human rights and fundamental freedoms, health, safety and the environment is supported at the highest level of the Company by its Chairman and Chief Executive Officer who renews L'Oréal's commitment to the United Nations Global Compact each year. These commitments are also indicated in the Group's Code of Ethics and the Human Rights Policy.

(i) Human Rights and Fundamental Freedoms

The Senior Vice-President and Chief Ethics Officer, reporting to the Chief Executive Officer, is in charge of overseeing the respect of human rights and fundamental freedoms in the Group. This mission has been entrusted to him by L'Oréal's Chairman and Chief Executive Officer, to whom he reports regularly.

The Chairman and Chief Executive Officer has a dedicated budget and team, access to all information and documents concerning the Group's business activities and can call upon all the Group's teams and resources to carry out his work.

Country Managers (or for Corporate or Zone staff, the members of the Group's Executive Committee to whom they report) are responsible for ensuring compliance with human rights and fundamental freedoms. The Group's Senior Vice-President and Chief Ethics Officer meets systematically with each new Country Manager/Entity Manager and with the Human Resources Directors of the Subsidiaries to raise their awareness about human rights and fundamental freedoms issues.

The Human Resources teams are responsible for ensuring that the activities of the Subsidiaries respect employees' human rights and fundamental freedoms.

Employees may contact their line manager, their Human Resources Director, their Legal Director, their Purchasing Director, their Ethics Correspondent and, ultimately, the Senior Vice-President and Chief Ethics Officer if they have any questions about compliance with the Applicable Rules.

The Purchasing teams ensure that Supplier activities respect human rights and fundamental freedoms. Suppliers included in the risk mapping are not listed in L'Oréal's information systems until they have contractually committed to comply with the Applicable Rules.

(ii) Environment, health and safety

The Executive Vice-President of Operations, reporting to the Chairman and Chief Executive Officer of the Group, is responsible for the general policy to prevent serious harm to the environment, health and safety. The implementation of such policy is the responsibility of the Group's Subsidiaries and Sites. When the word "Site" is used in this document, it refers to the work locations, *i.e.* buildings in which the employees of the Subsidiaries and Suppliers work, and the land on which the buildings are built.

The Executive Vice-President of Operations works with and delegates the deployment and monitoring of the policy to:

- plant and distribution centre managers who, as a result of their position, are responsible for the deployment and effective implementation of the policies defined by the Group. Their remuneration is partly linked to their performance in the areas of the environment, health and safety;
- EHS leaders are managers trained and dedicated to compliance with the EHS policy who ensure the deployment of the rules, procedures and the associated performance objectives of the Group in all of its entities;
- the Country Operations Directors who are responsible for, among other things, compliance with the EHS policy by the administrative Sites and stores in their country.

In addition, the Purchasing teams are responsible for collecting confirmation of acceptance of Applicable Rules, from the Suppliers who are included in the risk mapping, *via* their Ethical Commitment Letter.

The Purchasing and Quality teams are responsible for ensuring that Suppliers included in the risk mapping implement the prevention measures for EHS risk *via* control audits carried out by third-party companies.

3. Communication and training

Communication of the Applicable Rules and training of the teams involved complete and support the effective application of the measures set out in the Vigilance Plan by L'Oréal's Subsidiaries and Suppliers.

(i) Human Rights and Fundamental Freedoms

Communication

Human Resources teams must be informed of the Applicable Rules by their line manager.

In addition, all new Group employees must receive a hard or electronic copy of the Group's Code of Ethics and must confirm that they have read it. Employees must be reminded of the Code of Ethics and its contents on a regular basis.

In addition, any employee in contact with Suppliers must receive "The Way We Buy" guide when they are hired. It explains ethical standards which apply to Supplier relations.

An Ethics intranet site is available to employees.

An annual Ethics Day has been organised since 2009. This day enables employees to dialogue, including on respect for human rights and fundamental freedoms, *via* a webchat with L'Oréal's Chairman and Chief Executive Officer, and the other members of the Executive Committee. Discussions on ethics are also organised in the Subsidiaries to let employees exchange with the Chief Executive Officer of their Subsidiary.

In 2018, the participation rate at the Ethics Day was 60%. Over 6,800 questions were asked, of which 10% on Human Rights.

With respect to Suppliers, in addition to the communication of the Applicable Rules *via* the Ethical Commitment Letter, an Internet site has been provided to strategic Suppliers (Class A Suppliers as defined in section 2.8.4.3.2) of raw materials and packaging and subcontractors for finished products. The site contains the following documents:

- Code of Ethics; and
- L'Oréal's policy on Suppliers/subcontractors and child labour.

Training

A specific, compulsory e-learning course on ethics covering human rights and fundamental freedoms issues.

In addition, new buyers receive compulsory training on Responsible Purchasing to learn about compliance with the Group's Ethical Principles.

An e-learning course on Supplier audits, detailing the applicable audit procedure, is also available for all buyers. A Suppliers version is available on the same website as the above information. There is also an e-learning course available: "*Ethics e-learning for business partners*".

(ii) Health, Safety and the Environment (EHS)

Communication

EHS managers are informed of the Applicable Rules by their line manager.

Every Group Site must hold a day dedicated to EHS, once a year, to raise the awareness among all employees about the risks to which they are exposed and suitable prevention methods, in addition to specific local actions.

In addition, a Group awareness-raising campaign about major safety risks, deployed over three years, and the implementation of a specific topic every four months, serve to develop employee awareness of risks over time.

A monthly newsletter for the Group's EHS managers and their team leaders enables performance tracking and the sharing of best EHS practices.

Training

EHS training includes the various training actions for health, safety and the environment and covers general EHS training, business line EHS training and specific EHS training. Training involves all L'Oréal employees, as well as temporary workers and subcontractors working in Group entities.

General EHS training includes:

- core general training when a new employee arrives at a Site (L'Oréal employee or temporary staff) regardless of their position;

- fire safety training, first aid, pollution prevention, recycling, general EHS awareness raising, etc.

Function EHS training refers to training specific to a given business area or activity (for example, all of the packaging staff of a plant).

Specific EHS training refers to EHS training for a particular workstation and the activities carried out by the employee.

With respect to ergonomics, a “manual handling” e-learning course is provided to all employees.

Lastly, a high level of expertise for global EHS Teams and the development of a “Top managers” EHS culture for managers and supervisors is assured *via* the deployment of training specific to each person.

2.8.4.3.2. Monitoring compliance with the Plan

1. Hierarchy of risks of non-compliance with the applicable rules (risk mapping)

With respect to the Subsidiaries, the risk mapping of non-compliance with the Applicable Rules was created taking into account the type of activity (administrative, manufacturing, warehousing, etc.) and, thereafter, the type of Site (administrative offices, plants, distribution centres, research centres, etc.).

With respect to the Suppliers, the risk mapping of non-compliance with the Applicable Rules was created for human rights, fundamental freedoms, the environment, health and safety, based on a methodology which takes two parameters into account:

- the vulnerability of the country (country classified at risk according to the Verisk Maplecroft consulting firm) in terms of human rights and fundamental freedoms as well as the environment, health and safety and;
- the suppliers’ industry.

Country classification is based on indicators established by Verisk Maplecroft and is updated on a regular basis.

The risk mapping provides a ranking of the controls implemented to ensure the correct implementation of the Applicable Rules and, in particular, enables the initiation of audits carried out by specialist third-party companies. The result of this risk mapping is presented in matrices used to decide when to initiate an audit.

SUBSIDIARY AUDIT MATRIX

Type of country	Sites audited
All countries	Plants and distribution centres

SUPPLIER AUDIT MATRIX

Business sector	Description of the business sector	Type of country	Suppliers audited
Raw materials	Suppliers of ingredients used to produce cosmetics in L'Oréal plants	Countries classified as “high risk”	Class A and B Suppliers ⁽¹⁾
Packaging	Suppliers of packaging used for production in L'Oréal plants	Countries classified as “high risk”	100% of Suppliers
Subcontractors	Suppliers producing cosmetics for L'Oréal (Full-buy, Full-service, etc.)	Countries not classified as “high risk”	100% of new Suppliers (initial audit)
		Countries classified as “high risk”	100% of subcontractors
Derma-cosmetic devices	Suppliers of equipment & electronics (Clarisonic, etc.)	Countries classified as “high risk”	Countries classified as “high risk” 100% of Supplier production Sites
Industrial equipment	Suppliers of industrial equipment (manufacturing tanks, filling machines, etc.) Countries classified as “high risk”	Countries classified as “high risk”	Countries classified as “high risk” 100% of Supplier production Sites
Promotional items	Suppliers of promotional items (bags, etc.)	Countries classified as “high risk”	Countries classified as “high risk” 100% of Supplier production Sites
Items intended for points of sale	Suppliers of items intended for the presentation of products at points-of-sale	Countries classified as “high risk”	Countries classified as “high risk” 100% of Supplier production Sites
Services intended for points-of-sale	Architects, general contractors, maintenance	Not applicable	Not applicable
Co-packing	Co-packing Suppliers (sometimes called subcontractors or Co-Packers)	Countries not classified as “high risk”	100% of new Suppliers (initial audit)
		Countries classified as “high risk”	100% of subcontractors
Logistics service providers (excluding transport)	External distribution centres	Countries not classified as “high risk”	100% of new Suppliers (initial audit)
		Countries classified as “high risk”	100% of Supplier production Sites

⁽¹⁾ The term Class A Supplier means that these Suppliers account for 80% of the total amount of purchases in the business sector. The term Class B Supplier means that these Suppliers account for 95% of the total amount of purchases in the business sector.

2. Audit and self-assessment system

(i) Audits

Audits of the Applicable Rules

Audits of the Applicable Rules are used to check that the Vigilance Plan is being correctly implemented by the Subsidiaries and Suppliers included in the risk mapping.

Audits are done by specialist external companies.

When a Subsidiary or Supplier is audited, the process is carried out in compliance with the risk mapping mentioned in section 2.8.4.3.2. (1). A written audit report is prepared.

With respect to the Subsidiaries, the reports are stored in a secure database available to Group Human Resources Directors and to the Country Operations Directors, in some cases. The reports on Suppliers are intended for Group buyers.

There are three types of audits:

- initial audits (first audits done);
- follow-up audits (audits done 12 to 24 months maximum after the immediate improvement request (Needs Immediate Action or NIA), depending on the severity of the non-conformities found);
- confirmation audits three years after the initial audit.

The possible outcomes of the audits are as follows:

- Satisfactory: all criteria conform to the Applicable Rules and the best practices are highlighted;
- Needs Continuous Improvement: minor non-conformities were found, but they do not have an impact on employee safety or health;
- Needs Immediate Action: non-conformities are reported either because they are serious, because they are recurring or because they have a potential impact on the health and safety of employees;
- Zero Tolerance: reported, for example, in the event of a critical non-conformity because of child labour, forced labour, physical abuse, restricted freedom of movement, an immediate risk of accident for employees or attempted bribery of the auditors;
- Access Denied: reported when the audit is refused (for example in the event of refusal to provide partial or full site access to the auditors).

In the event of a non-compliance (Needs Continuous Improvement, Needs Immediate Action, Zero Tolerance), corrective action plans must be implemented which are then audited at the level of the Subsidiary or Supplier.

Failure to implement a corrective action plan can, in the case of a Subsidiary, result in an alert being sent to the Country Manager in question. In addition, Subsidiaries can decide to link part or all of the remuneration of their managers and/or of their performance evaluation to the implementation of the Applicable Rules.

In the case of Suppliers, serious non-conformities (Needs Immediate Action, Zero Tolerance and Access Denied) or the failure to implement corrective action can result in the non-listing of a new Supplier or the suspension or termination of commercial relations with a listed Supplier.

In the event that the existence of a serious non-conformity with the Applicable Rules is reported, a specific audit can be initiated. In particular, visit reports are issued as part of the process of routine visits made to Suppliers. They can result, if necessary, in additional audits.

EHS audits specific to Subsidiaries

In order to ensure compliance with the Group's EHS policy, a system of worldwide audits has been set up since 1996, and was reinforced in 2001 with the presence of external auditors, who are experts in the local context and regulations. These audits take place regularly at all L'Oréal sites: every three years for production sites and every four years for the distribution centres, administrative sites and research centres. If the result of the audit does not meet the standard required by the L'Oréal benchmarks, a specific interim audit is scheduled for the following year.

There are various grids for the audits called "risk", "culture", or "combined risk and culture", used depending on the maturity and type of activity at the sites. They assess in particular:

- compliance of practices and facilities with the Group's rules and procedures;
- progress in terms of EHS;
- any risks that the sites may present from an EHS standpoint;
- the level of management and deployment of EHS culture on the sites.

Additional procedures

L'Oréal also uses analyses and ratings provided by Ecovadis, an analytical company, to evaluate the policies implemented by the Suppliers, among others, in terms of the issues covered by the Vigilance Plan. The evaluations provide an indicative guide which can be completed by the audits described above.

(ii) Self-assessment system

Human rights and fundamental freedoms

An annual ethics reporting system enables monitoring of the implementation of the Applicable Rules in the Subsidiaries, namely with regard to Human Rights and Fundamental Freedoms. The Countries are informed of their potential areas for improvement by the Office of the Chief Ethics Officer.

The Senior Vice-President and Chief Ethics Officer regularly visits the Group's entities all over the world to meet employees at all levels of the Company.

In addition, a tool enables the Subsidiaries to identify and prioritise potential risks in terms of human rights and fundamental freedoms.

The environment, health and safety

The Management Committees of L'Oréal Sites have self-assessment tools for their practices based on the audit standards provided to them, which enables them to implement an improvement plan, if required.

2.8.4.4. Whistleblowing mechanism and reporting system

L'Oréal's "Speak Up" policy enables employees to report serious abuses of human rights and fundamental freedoms and breaches of rules relating to the health and safety of people and respect for the environment, notably via a secure Internet site (ethics whistleblowing channel) directly to the Senior Vice-President and Chief Ethics Officer.

The Group's ethics whistleblowing channel (www.lorealpeakup.com) was opened to all of the Group's stakeholders in 2018, and a new procedure to collect and handle reports was published.

2.8.4.5. Update on the effective implementation of the Vigilance Plan

This section provides the 2018 results of the application of the Vigilance Plan for Subsidiaries and Suppliers.

2.8.4.5.1. Results of the application of the plan to subsidiaries

1. Adoption of the Applicable Rules by the Subsidiaries

The Applicable Rules are incorporated into the internal rules of the Group's Subsidiaries.

90% of employees individually acknowledged the receipt of the Code of Ethics and 83% of employees were trained thanks to an e-learning training tool on ethics.

Each EHS manager and each person working in a plant or distribution centre is trained in the Applicable Rules on Health, Safety and the Environment (EHS). All new employees are trained in Health and Safety Rules, whatever their work location.

2. Monitoring and control system in respect of Human Rights

20 audits were conducted within Group owned plants and distribution centres, covering all the Rules on Human Rights.

100% of countries completed their annual ethics reporting practices.

Results by topic:

(i) Child labour: none of the audits revealed non-compliance in terms of employment of a child who was less than 16 years of age.

As part of the annual ethics reporting, in 2018, it was reported that:

- 24 employees were aged between 16 and 18 years exercising an activity in accordance with the Group's rules,
- 2 collaborators under 16 years of age worked in the Subsidiaries. These were temporary contracts during end-of-year vacation periods within L'Oréal Canada, in compliance with local regulations;

(ii) Forced labour: none of the audits revealed any forced labour,

Note that the 0.5% of non-compliance with the Applicable Rules concerned unsigned work contracts.

As part of the annual ethics reporting, no recourse to prison labour was revealed.

(iii) Freedom of movement: the audits did not reveal any cases of non-compliance.

(iv) Freedom of association: the audits did not reveal any cases of non-compliance.

(v) Non-discrimination: the audits did not reveal any cases of non-compliance.

(vi) Working hours: one audit revealed a case of non-compliance with respect to rest days. An action plan was launched to correct the situation.

(vii) Salary deductions and undue charges: the audits did not reveal any cases of non-compliance.

(viii) Sexual and moral harassment: the audits did not reveal any cases of non-compliance.

3. Monitoring and control system in respect of Health, Safety and the Environment

In 2018, 60 "top managers" (managers of plants or distribution centres, Management Committee members etc.) attended the Leadership & Safety Culture seminar, held at the CEDEP, the European Centre for Executive Development at the INSEAD campus in France. Since the start of this programme, 510 senior managers have been trained. The main objectives of these seminars are raising awareness of top managers about safety issues, to increase their leadership ability and to see these behaviours adopted and maintained over the long term.

73 plants and distribution centres were certified OSHAS 18001 or equivalent, representing 75% of the industrial sites.

34 plants are certified ISO 14001, representing 85% of the Group's plants.

In 2018, 27 EHS risk audits of plants and distribution centres belonging to the Group were carried out, based on an audit every 3 years for plants and every 4 years for distribution centres.

The most frequently identified risks during EHS risk audits related to fire protection, procedure safety, hazardous energies, containment of fire water runoff and effluent management. The cases of non-compliance and formal notice were systematically subject to corrective actions.

There was 1 neighbour complaint in 2018 due to an unusual release of vapour after a boiler dysfunction, which has since been repaired.

There were 11 cases of non-compliance with environmental regulations notified by an administrative authority in 2018. 4 of these notified cases concern effluent quality. The formal notices were subject to corrective actions.

A fine of US\$2,000 was imposed in 2018 (USA).

2.8.4.5.2. Results of the application of the plan to suppliers

1. Adoption of the Applicable Rules by Suppliers

93% of the strategic Suppliers contractually committed to comply with the Applicable Rules.

All purchasers know the Applicable Rules and know which people to contact in the event of doubts.

In 2018, 67 newly recruited purchasers in the Group received in-depth training in responsible purchases.

2. Monitoring and control system

The Applicable Rules are controlled through external audits. These audits cover questions on Human Rights as well as the Environment, Health and Safety.

1,369 on-site audits were conducted in 2018 ¹, as part of regular audits and also “ad hoc” audits following reports (50 ad hoc audits in 2018) ². Thus, 85% of Supplier production sites requiring audits have been audited at least once.

The cases of non-compliance noted during these social audits that come under the Vigilance Plan are described below.

2.1. In terms of Human Rights

Results of the audits by topic

(i) Child labour: 5 audits revealed 7 cases of employment of a child who was less than 16 years of age. The necessary measures to avoid starting or to end all commercial relations with the businesses in question have been taken. Despite the end of the relationship, the suppliers were asked to put the children into school.

Cases of non-compliance on the “Child Labour” topic and specifically, the absence of procedures to verify the age at the time of recruitment by the Supplier and the absence of copies of identity documents, were noted, even though the presence of children was not noted during the audit. The Suppliers have been asked to correct this situation, and a follow-up audit is planned.

Lastly, the Purchasing Department Committee was specifically informed of these cases, with insistence on raising awareness of the teams on this issue.

(ii) Forced labour: 6.7% of non-conformities ³.

Most of the cases of non-compliance concern the withholding of identity documents without a legal requirement, as well as the freedom for employees to end their contracts without penalty (financial or other) except for those stipulated by social legislation.

The main corrective measures requested were the return of the identity documents and the updating of employee contracts. A follow-up audit will check the effective implementation of these corrective measures.

(iii) Freedom of association ³: 3% of non-conformities ³.

Most of the cases of non-compliance concern the failure to freely elect employee representatives without management interference. Elections must be carried out, or in countries where such elections are not legal, employee meetings must be organised to report items to be improved.

(iv) Non-discrimination: 1.7% of non-conformities ³.

These cases of non-compliance mainly concern the absence of a clear and uniform policy to ensure the absence of discrimination at recruitment or discrimination in the payment of wages and other costs.

Suppliers were requested to implement such policies, which will be checked in future audits.

(v) Working hours: 22% of non-conformities ³. The cases of non-compliance concern non-compliance with the Applicable Rules, and also the absence of sufficient documents to ensure a correct monitoring of the Applicable Rules on working hours. In all of these cases, action plans have been implemented and follow-up audits are planned.

(vi) Salary deductions and undue charges: the audits did not note any salary deductions and undue charges.

When an audit notes a case of non-compliance with regard to the correct settlement of wages, social benefits or the correct payment of overtime, even though these are not undue salary deductions, the Suppliers are requested to correct the situation and a follow-up audit is planned.

(vii) Sexual and moral harassment: 2.5% of non-conformities ⁴.

Most of these cases of non-compliance concerned the absence of a written policy prohibiting moral and sexual harassment or the absence of an internal system allowing the situation to be reported without negative consequences for the concerned employee.

¹ The Statutory Auditors have expressed a reasonable assurance with regard to this indicator.

² Audits for which the auditor was unable to access the site or sufficient data are included. They represent 3.7% of the total number of audits. Note that these cases are excluded from the analysis of non-compliance.

³ Figures exclude audits where verification could not be performed because of the specific nature of local regulations.

⁴ The Statutory Auditors have expressed a reasonable assurance with regard to this indicator.

Suppliers were requested to draft these policies, which will be checked in future audits.

The other cases of non-compliance did not concern serious breaches of the Applicable Rules.

2.2. On Health, Safety and the Environment.

37% of the cases of non-compliance concerned the Applicable Rules on Health, Safety and the Environment □.

Most of these cases concerned (i) the lack of training in emergency evacuation, extinguisher handling or the use of protection equipment, (ii) the lack or closure of over 50% of emergency exits or (iii) the absence of stair hand-rails.

The main corrective measures were the implementation of training in emergency evacuation and extinguisher handling. Similarly, compliance of emergency exits, the addition of hand-rails and training in protection equipment were organised.