

L'ORÉAL

**2019**  
**Vigilance plan**

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## 3.4. VIGILANCE PLAN

### 3.4.1. Introduction

L'Oréal was built on strong Ethical Principles that guide its development. These Principles – Integrity, Respect, Courage and Transparency – form the foundation of its policies on sustainable development, corporate social and societal responsibility, and philanthropy. L'Oréal promotes respect for all internationally recognised Human Rights and Fundamental Freedoms.

Its particular point of reference is the Universal Declaration of Human Rights, the Global Pact on civil and political rights, the Global Pact on economic, social and cultural rights, and the Fundamental Conventions of the International Labour Organisation (although these Conventions have not all been ratified by all the countries in which the Group is present).

L'Oréal's Vigilance Plan meets the obligations of the French law of 27 March 2017 on the duty of vigilance for French parent companies and order-givers.

It contains reasonable vigilance measures intended to prevent the risk of serious adverse impacts on Human Rights and Fundamental Freedoms, health, as well as 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, after a comprehensive risk assessment, are identified in the risk mapping mentioned in Section 3.4.3.2.1 of this Vigilance Plan (hereafter the "Suppliers").

The Vigilance Plan contains the rules applied to prevent the risk of serious adverse impacts on Human Rights and Fundamental Freedoms, the health and safety of people and the environment resulting from the activities of Subsidiaries and Suppliers (3.4.2.). It also includes reasonable measures for the effective application of these rules by Subsidiaries and Suppliers as well as regular assessment procedures to ensure compliance (3.4.3.). It includes a whistleblowing mechanism and reporting system (3.4.4) and presents a report on the plan's implementation (3.4.5).

The actions to support, encourage and prevent serious adverse Human Rights, Fundamental Freedoms, health, safety and the environment contained in this Vigilance Plan constitute reasonable efforts to be implemented by Suppliers and Subsidiaries.

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 adverse impacts on human rights, fundamental freedoms, health, safety and the environment.

In addition to these common measures, L'Oréal and its Subsidiaries voluntarily conduct additional actions on these same issues. These actions are described in other chapters of this Document, particularly Chapter 4.

Suppliers voluntarily conduct additional actions on these issues and L'Oréal encourages them to do so.

### A continuous improvement process

As part of an ongoing improvement approach, this Plan is regularly reviewed by a committee composed 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. It meets three times a year. Each of these representatives leads a local network (Ethics Correspondents, Environmental, Hygiene and Safety, Purchasing, and Human Resource teams, managers from Internal control, SBWA coordinators) around the world, which also means that feedback from the field can be considered in improving the Vigilance Plan.

The Plan was presented to qualified outside stakeholders and its updated contents are presented every year to the Audit Committee of the L'Oréal Board of Directors.

### 3.4.2. 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 adverse impacts on human rights, fundamental freedoms, health, safety of people and the environment. When local laws and/or the internal rules of Subsidiaries and Suppliers stipulate more stringent standards than the applicable rules, such standards must take precedence. If, on the other hand, the Applicable Rules provide for stricter standards, the Applicable Rules take precedence unless they result in an illegal activity.

#### 3.4.2.1. Applicable rules for the prevention of serious adverse impacts on Human Rights and Fundamental Freedoms

Subsidiaries and Suppliers must comply with the minimum core rules, which consist of the following rules that result from an analysis of the risks related to the activities of the Group and its Suppliers in environments at risk according to the risk mapping discussed in greater detail in Section 3.4.3.2.1. of this Vigilance Plan:

#### Non-discrimination

Acts of discrimination are serious attacks on Human Rights that remain anchored in all regions of the world in which L'Oréal is present.

Discrimination related to gender, sexual orientation and gender identity, disabilities, family situation, age, political and philosophical opinions, religious beliefs, union activities, or related to ethnic, social, cultural or national origins are prohibited:

- discrimination related to pregnancy is also prohibited and L'Oréal bans pregnancy testing when employees are hired within the Group, and requires its Suppliers to comply with this standard;

- bullying and sexual harassment are also prohibited in the Group. L'Oréal requires that its Suppliers comply with this standard.

### **The abolition of child labour**

L'Oréal's presence in certain regions of the world that are particularly at risk for child labour, including Asia and Latin America, has led the Group to identify this issue as a priority.

To take into consideration the vulnerability of young workers, L'Oréal has set the minimum hiring age at 16 years old.

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

L'Oréal prohibits night work and work hazardous to health and safety for employees younger than 18 in its Subsidiaries. L'Oréal requires that its Suppliers comply with this standard.

### **Elimination of all forms of forced or compulsory labour**

In certain regions of the world where L'Oréal is present, certain practices, such as holding the identity papers of migrant workers, are a violation of internationally recognised human rights.

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 threat of a penalty and for which the person has not offered himself or herself voluntarily".

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

- 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;
- in addition, employees cannot be asked to pay for recruitment costs or to make cash deposits to obtain employment;
- recourse to prison labour is only 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 use this type of labour;
- security personnel must only ensure the safety of persons and property;
- any salary withholding must be strictly authorised by law. It may not under any circumstances be used for the purpose of confiscation, for the direct or indirect benefit of the employer.

Employees must be free to move around their place of work, with the exceptions of areas to which access is restricted for confidentiality or safety reasons, and must be able to take breaks and have access to drinking water and bathrooms.

### **Working hours**

Whichever the region of the world in which L'Oréal is present, particularly because of the increased risk of workplace accidents, the duration of work in Subsidiaries and Suppliers, including overtime, may not exceed 60 hours a week for employees whose work time is monitored.

All 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.

### **Freedom of association**

Violations of freedom of association and the right to collective bargaining, such as discrimination against employee representatives, may occur in all regions of the world in which L'Oréal operates.

Employees' freedom of association and right to collective bargaining must be respected:

- elections of employee representatives must take place without interference from the employer;
- employee representatives have access to the work premises subject to safety and/or confidentiality requirements, if any;
- discrimination against employees conducting union activities is prohibited.

In regions where freedom of association and the right to collective bargaining are limited or forbidden, L'Oréal allows the employees of its Subsidiaries to express any concerns through other forms of expression and dialogue with management, and wants its Suppliers to do the same.

### **3.4.2.2. Applicable rules to prevent serious adverse impacts on health, safety and the environment**

As is the case for any production, distribution, research and general administration operations, the Group and its Suppliers are exposed to 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").

Prevention for the subsidiaries is based on the GHAP (*General Hazardous Assessment Procedure*) and SHAP (*Safety Hazards Assessment Procedure*) programmes, which identify the dangers, generally and for each workstation, assess the risks and allow the implementation of the necessary means of control. In the same way, an environmental analysis characterises the effects of site activities on its environment, and brings under control those activities that lead to potentially serious adverse impacts.

The Suppliers included in the risk mapping rely at a minimum on the audit grid provided by L'Oréal at the signing of the letter of commitment in order to conduct their risk assessment and set up means of prevention.

## 1. Risks concerning serious adverse impacts to the environment

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

- gradual pollution in the context of the operation of a site, or accidental pollution during the occurrence of a specific event, which could impact, the air, soils, surface water and underground water;
- pollution during the transport of hazardous materials.

## 2. Risks concerning serious adverse impacts to health and safety

The Prevention System must include measures intended to prevent serious adverse impacts on health and safety of people 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 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 skin contact;
  - Exposure to high noise levels.
- (iii) Risks related to human 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;
  - Ergonomics of workstations related to load handling;
  - Construction work (risks for the employees of 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 roofs, use of lift tables and scaffolding, etc.).

## 3.4.3. 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 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.

### 3.4.3.1. Effective application of the Vigilance Plan

#### 1. Adoption of Applicable Rules

##### (i) Adoption of the Applicable Rules by the Subsidiaries

The effective implementation of 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 Applicable Rules to Group employees is described below.

##### (ii) Adoption of Applicable Rules by Suppliers

The Suppliers included in the risk mapping (see section 3.4.3.2.1.) 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 of people 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.

The Chief Ethics Officer has a budget and a dedicated team composed of experts in Human Rights. He has access to all information and documents concerning the Group's activities and relies on all the Group's teams and resources to carry out his work.

The Human Rights Steering Committee, chaired by the Chief Ethics Officer and composed of representatives of the various activities, functions and geographic areas (including Purchasing, HR, CSR, Safety, Security, etc.), allows coordination and exchange on the implementation of the Group's Human Rights policy.

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 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 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 supplier database until they have contractually committed to comply with the Applicable Rules. Purchasing teams discuss, during Management Committee meetings that include representatives from all Zones and purchasing areas, the results of audits, their consequences for commercial relations, and the related actions plans to achieve continuous improvement of results at the Group's suppliers.

#### **(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 adverse impacts on 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 managers are managers trained and dedicated to compliance with the EHS policy who ensure the deployment of the rules, procedures and associated performance objectives of the Group in all of its entities;
- Country Operations Directors who are responsible for, among other things, compliance with the EHS policy by the distribution centres, 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 risks via control audits carried out by third-party companies. As for Human Rights, the Purchasing teams discuss, during Management Committee meetings that include representatives from all Zones and purchasing areas, the results of audits, their consequences for commercial relations, and the related actions plans to achieve continuous improvement of results at the Group's Suppliers.

### **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 discuss matters such as 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 conversations with their Subsidiary's General Manager.

In 2019, the *Ethics Day* participation was close to 70%. Over 7,000 questions were asked.

On 10 December 2019, to celebrate the UN international Human Rights Day, the Group launched an internal campaign on Human Rights to increase employee awareness of the issue. This campaign illustrates how Human Rights and Fundamental Freedoms are taken into consideration by the Group's various functional units. In particular, the campaign highlights certain Employees who work on these issues every day and offers a participatory platform.

With respect to Suppliers, in addition to the communication of Applicable Rules via the Ethical Commitment Letter, an Internet site has been provided to strategic Suppliers (Class A Suppliers as defined in section 3.4.3.2.1.) 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

There is 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 how to ensure respect of 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, Métier (business activity) 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.

EHS "Métier" (business activity) training refers to training specific to a given Métier 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.

In terms of 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.

## 3.4.3.2. 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, and health and safety using a methodology that takes two parameters into account:

- The country in which the Supplier's sites are located: a country is considered vulnerable on Human Rights and Fundamental Freedoms, and in the environment, health and safety, if it meets at least one of the following criteria:
  1. The country is classified as "High risk" or "Extreme risk" according to the criteria of the consultancy firm Verisk Maplecroft: 12 evaluation indices are used in this methodology and aggregated in a single grade compared with the threshold values set by Verisk Maplecroft.
  2. The results of social audits conducted by L'Oréal in the country include cases of Zero Tolerance or *Need Immediate Action* (ratings that correspond to the most severe failures in compliance).
  3. L'Oréal's internal experts or partners (e.g. Ecovadis) recommend that the country be considered for auditing.
- Business sector: each Supplier is associated with a sector area according to a governance ranking of Purchases ("Global Purchasing Categories").
- The nature of operations: the activities most heavily exposed to labour risk are the activities with high manual added value, imply work on a production line.

This risk mapping provides a ranking of 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

## MATRIX THAT TRIGGERS SUPPLIER AUDITS ACCORDING TO RISK MAPPING

Business sector	Description of business sector	Type of country	Suppliers audited
<b>Raw materials</b>	Suppliers of ingredients used to produce cosmetics in L'Oréal plants	Countries classified as "high risk"	Class A and B Suppliers <sup>(1)</sup>
<b>Packaging</b>	Suppliers of packaging used for production in L'Oréal plants	Countries classified as "high risk"	100% of Suppliers
<b>Subcontractors</b>	Suppliers producing cosmetics for L'Oréal (Full-buy, Full-service, etc.)	Countries not classified as "high risk"	100% of new Suppliers (initial audit) When the "Satisfactory" or "NCI" (Needs Continuous Improvement) rating is reached, additional audits are no longer necessary
		Countries classified as "high risk"	100% of subcontractors
<b>Dermo-cosmetic devices</b>	Suppliers of equipment & electronics (Clarisonic, etc.)	Countries classified as "high risk"	100% of Supplier Production Sites
<b>Industrial equipment</b>	Suppliers of industrial equipment (manufacturing tanks, filling machines, etc.)	Countries classified as "high risk"	100% of Supplier Production Sites
<b>Promotional items</b>	Suppliers of promotional items (bags, etc.)	Countries classified as "high risk"	100% of Supplier Production Sites
<b>Items intended for points of sale</b>	Suppliers of items intended for the presentation of products at points-of-sale	Countries classified as "high risk"	100% of Supplier Production Sites
<b>Services intended for points-of-sale</b>	Architects, general contractors, maintenance	Not applicable	Not applicable
<b>Co-packing</b>	Co-packing Suppliers (sometimes called subcontractors or Co-Packers)	Countries not classified as "high risk"	100% of new Suppliers (initial audit) When the "Satisfactory" or "NCI" (Needs Continuous Improvement), additional audits are no longer necessary
		Countries classified as "high risk"	100% of Supplier Production Sites
<b>Logistics service providers (excluding transport)</b>	External distribution centres	Countries not classified as "high risk"	100% of new Suppliers (initial audit) When the "Satisfactory" or "NCI" (Needs Continuous Improvement) rating is reached, additional audits are no longer necessary
		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 Applicable Rules

Audits of Applicable Rules are used to check that the Vigilance Plan is 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 accordance with the risk mapping described in section 3.4.3.2.1. 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 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 on each L'Oréal site : 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. Every year, the teams responsible for EHS risks review the audit results and identify general improvement plans. The improvement plans specific to the audited Sites are established immediately after the end of the audit. In addition, any emergency measure intended to prevent an imminent risk for the health of persons at the Site is implemented by the Site EHS teams without waiting for the completion of an audit even if it is not part of the improvement plan that may exist.

There are various audit grids 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 2019, he visited 14 countries.

#### 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.



### 3.4.4. Whistleblowing mechanism and reporting system

L'Oréal's "Speak Up" policy namely enables employees to report serious adverse impacts of human rights and fundamental freedoms, non-compliance 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.

### 3.4.5. Update on the effective implementation of the Vigilance Plan

This section provides the 2019 results of the application of the Vigilance Plan for Subsidiaries and Suppliers.

#### 3.4.5.1. Results of whistleblowing mechanism and reporting

The Group's ethics whistleblowing channel ([www.lorealsspeakup.com](http://www.lorealsspeakup.com)) was opened in 2008 and to all Group stakeholders in 2018, when a new procedure to collect and handle reports was published. In addition, Employees can use several other channels to raise their concerns (hierarchical line, dedicated local lines, etc.).

In 2019, there were 647 reports on potential non-compliance with Applicable Rules, including:

- 30 about sexual harassment, 20 of which were proven, in whole or in part, and which resulted in 7 departures from the Group;
- 135 about bullying, 62 of which were proven, in whole or in part, and which resulted in 15 departures from the Group;
- 43 on discrimination, 20 of which were proven, in whole or in part, and which resulted in 5 departures from the Group;
- 7 about health and safety, 2 of which were proven, in whole or in part, and which resulted in 1 departure from the Group;
- none on environmental issues

#### 3.4.5.2. 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 Group's Subsidiaries' internal rules.

91% of employees individually acknowledged the receipt of the Code of Ethics and 74% of employees have been trained using 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, regardless of their work location.

##### 2. Monitoring and control system in respect of Human Rights

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

###### Results by topic

- (i) **Child labour:** none of the audits revealed any non-compliance of employment of a child under the age of 16.

As part of the annual ethics reporting in 2019, it was reported that:

- 31 employees were 16-18 years of age;
- 1 employee under 16 years of age worked in the Subsidiaries. This was a person aged 15 who had a contract limited to a maximum of 10 hours a week, outside school hours, at L'Oréal Canada, in compliance with local regulations.

- (ii) **Forced labour:** none of the audits revealed any forced labour (this includes freedom of movement and no salary withholding).

In the context of the annual ethics reporting, L'Oréal Italy reported, in collaboration with local NGOs, purchasing bags manufactured in a prison.

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

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

- (v) **Working hours:** the audits did not find undue salary withholding or charges.

- (vi) **Wages and charges:** one audit revealed a minor non-conformity. This was a case of excess overtime.

- (vii) **Sexual and psychological harassment:** the audits did not reveal any cases of non-compliance.

- (viii) **Health and safety:** one audit revealed non-conformities. This concerned a few Employees who had not participated in safety training as well as a non-conformity with regards to electrical system.

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

In 2019, 63 "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, 573 senior managers have been trained. The main objectives of these seminars are to raise awareness with top managers about safety issues, increase their leadership ability and see these behaviours adopted and maintained over the long term.

36 plants are certified OSHAS 18001, or equivalent, representing 95% of the Group's plants.

33 plants are certified ISO 14001, representing 87% of the Group's plants.

In 2019, 24 EHS risk audits of plants and distribution centres belonging to the Group were carried out, based on an audit every three years for plants and every four years for distribution centres.

The most frequently identified risks during EHS risk audits are 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 were 3 neighbour complaints in 2019: One academy was the subject of two complaints because of noise created by two public events; one distribution centre was the subject of a complaint because of the noise generated by an electric generator installed temporarily before the definitive connection to the network, which took place a few days after the complaint was filed.

There were 13 cases of non-compliance with environmental regulations notified by an administrative authority in 2019. Four of these notified cases concern effluent quality. The formal notices were subject to corrective actions.

In 2019, a fine of US\$ 18,000 was levied (in Brazil) following a demand from the local administration on changes to the effluent treatment system, although no non-compliance or pollution was found. As this demand was made just before the closing of the site in question, the work was not performed and the fine was paid.

### 3.4.5.3. Results of the application of the plan to suppliers

#### 1. Adoption of Applicable Rules by Suppliers

100% of strategic Suppliers are 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 2019, 88 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 Environment, Health and Safety and cover all activities of the audited Site without being limited to the parts of the Site that operate for L'Oréal.

1,562 on-site audits were conducted in 2019,  as part of regular audits and also *ad hoc* audits following whistle-blower reports (50 *ad hoc* audits in 2019) <sup>(1)</sup>. Thus, 93% of Supplier production sites requiring audits were 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 audits by topic

(i) **Child labour:** 5 audits revealed 9 cases of employment of a child under the age of 16 . The necessary measures to avoid starting or end all commercial relations with the businesses in question have been taken. Despite the end of the relationship, the suppliers were asked to ensure the children returned to school.

Moreover, cases of non-compliance on the "Child Labour" topic included the absence of procedures to verify the age at the time of recruitment by the Supplier and the absence of copies of identity documents, even though the presence of children was not noted during the audits. The concerned Suppliers have been asked to correct this situation, and follow-up audits are 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:** 7% non-compliance .

Most of 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. Follow-up audits will check the effective implementation of these corrective measures.

(iii) **Freedom of association:**<sup>(2)</sup> 3% non-compliance .

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:** 1.3% non-compliance .

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:** 24% non-compliance .

The audits did not find undue salary withholding or 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.

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

(1) Audits for which the auditor was unable to access the site or sufficient data are included. They represent 2.9% of the total number of audits. Note that these cases are excluded from the analysis of non-compliance.

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

**(vi) Sexual harassment and bullying:** 2.4% non-compliance. ☑

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

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. Health, Safety and the Environment.**

38% 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.