

L'ORÉAL

A PRACTICAL GUIDE TO ETHICS WHEN DEALING WITH SUPPLIERS

THE WAY WE BUY

2011

No changes can be made to the present document. In case of translation of the present document, it must be true to the original version in English. In case of differences in interpretation, the English version will apply.

CONTENTS

FOREWORD	03
HOW TO USE THIS DOCUMENT	04
BUYING IS TEAM WORK	06
BUYING WITH INTEGRITY	09
BUYING WITH RESPECT	20
WORKING WITH SUPPLIERS WHO RESPECT OUR ETHICAL STANDARDS	28

USEFUL LINKS:

Code of Business Ethics	http://ethics.loreal.wans/loreal/eth/en/rubrique-download-the-code.html
L'ORÉAL Ethics Open Talk site	http://www.lorealetics.com
Fundamentals of Internal Control	http://dgaf.loreal.wans/acces.asp?page=us/normes/controle_interne/index.html
Sourcing Intranet site	http://purchasing-dgo.loreal.wans/_layouts/dga/common/portal.aspx?setlang=EN
Supplier Portal	http://www.loreal.com/_en/_ww/html/suppliers/index.aspx
L'ORÉAL Buy & Care Programme	http://www.sustainabledevelopment.loreal.com/production/loreal-buy-and-care-programme.asp

FOREWORD

BY BARBARA LAVERNOS
AND EMMANUEL LULIN

Since the launch of the last edition of the Code of Business Ethics in 2007, there has been an ongoing dialogue with employees throughout the world on various areas where they have questions or concerns. Many employees have requested more detailed information on how to apply the Code of Business Ethics when interacting with suppliers.

At L'ORÉAL, our total purchasing spend represents on average 45% of our total turnover. There are approximately 550 professional buyers working within the Group and we can estimate that there are approximately another 10,000 employees involved in buying decisions from time to time. The range of things we buy from suppliers is also very diverse: a new raw material, packaging, manufacturing equipment but also services, office supplies or even a new building. What we buy is therefore a strategic matter.

The way we buy is also increasingly important.

As a global company and a leader in our industry, we are judged on the way we select and treat our suppliers. Integrity, respect, transparency and courage should guide us in this area.

But the issue at play is not just our reputation: we are also committed to building strong and lasting relationships with our suppliers built on trust and mutual respect. Our suppliers represent a source of innovation, quality and excellence, which we cannot afford to miss.

"THE WAY WE BUY", in direct line with the Code of Business Ethics, aims to guide all of us, who may be in contact, directly or indirectly, with suppliers.

We wish to thank all the L'ORÉAL employees throughout the world who have contributed to the drafting of "THE WAY WE BUY". This document may be updated from time to time to include new Q&As as employees share with us new questions which they may encounter.

We should always remember that:

- integrity, mutual respect and excellence are the ethical values of L'ORÉAL at the heart of our buying process
- we will be judged on the way we treat our suppliers
- respecting "THE WAY WE BUY" will help you buy better
- when in doubt, disclose the matter and discuss it openly

BARBARA LAVERNOS
Group Purchasing Director



EMMANUEL LULIN
Group Director of Ethics



HOW TO USE THIS DOCUMENT

Q. Does “THE WAY WE BUY” apply to me?

A. This document applies to all employees, Officers and Directors and subsidiaries worldwide of the L'ORÉAL Group, who are in contact or have dealings with a supplier, whether you are a professional buyer or not and regardless of the purchasing amount.

Q. What is a “supplier”?

A. A supplier is any business partner who provides goods or services, of any kind, including outsourcing partners, suppliers of raw materials, packaging components, promotional items, industrial equipment, advertising or design agencies and all indirect expenses such as temporary work agencies, travel agencies, market research agencies, energy and water consultants, IT, office supplies, etc...

Q. How does “THE WAY WE BUY” fit in with existing policies and procedures?

A. “THE WAY WE BUY” does not replace existing policies and procedures except for the 1999 Purchasing Code of Ethics. It aims instead to provide guidance in applying existing policies and procedures in line with our ethical values. If you identify any situation where “THE WAY WE BUY” could be considered to be in contradiction with existing rules and policies you should raise this with your manager. In case of such contradiction the highest standard should apply. For more information on existing policies and procedures on this subject, you should refer to the FUNDAMENTALS OF INTERNAL CONTROL (available on the DGAF Intranet site). For information on policies and procedures specific to your Country, you should contact your Purchasing Director, if there is one in your Country, or your Administration and Finance Director.

HOW TO USE THIS DOCUMENT

Q. I have a question. Who do I turn to?

A. When in doubt, the golden rule is to disclose the matter and discuss it openly.

The normal route for raising such issues is via your line management. There are also many other resources available to help you such as your Purchasing Manager, your Finance & Administration Manager, your HR Manager or the Legal Department. There may also be additional resources available in your country, such as an Ethics Correspondent, staff representative or a helpline.

In your country, it is the Country Manager who is ultimately responsible for ensuring the respect of "THE WAY WE BUY".

If you have raised the issue locally and you are not satisfied with the answer you were given by local management, or in the exceptional case that it is inappropriate to raise the issue locally, you may contact the Group Director of Ethics as follows:

website: www.loreaethics.com

letter: Group Director of Ethics, L'ORÉAL, 41, rue Martre, 92117 CLICHY, FRANCE

Q. Which is more important for me: meeting my targets or respecting "THE WAY WE BUY"?

A. The two are completely compatible – and directly connected. The Company's interests are never served by unlawful or unethical business practices. Strong supplier relationships are a competitive advantage. You will be appraised not only on your results but also on the way you achieve them. Remember that two of the L'ORÉAL competences on which we are evaluated are "Achieves Results with Integrity" and "Acts/Leads with Human Sensitivity".

Q. Does this guide exist in other languages?

A. No changes can be made to the present document. Local translations may exist of this document. In case of translation of the present document, it must be true to the original version in English. In case of differences in interpretation, the English version will apply. The French version of "THE WAY WE BUY" is the reference document in French-speaking countries.

BUYING IS TEAM WORK



BUYING IS TEAM WORK

Our efficiency and reputation when dealing with suppliers depend greatly on our capacity to work with our L'ORÉAL colleagues to ensure we know exactly what we want from our suppliers and how the relationship will be managed. This means working as a L'ORÉAL team in a respectful, transparent and trusting manner.

WHAT DOES THE CODE OF BUSINESS ETHICS SAY ON WORKING AS A TEAM?

- We expect all employees and entities to work together in a respectful and open manner. In this way, we will maintain a culture of loyalty, trust and solidarity throughout our business
- We should all aim to give credit to other people's ideas, and recognize the contributions of others. Teamwork is to be encouraged and successes, as well as failures, should be shared. We should listen with generosity and share information as needed, subject to the Group's rules on confidentiality. Finally, disparagement of colleagues is contrary to L'ORÉAL's values

DO

- ensure that the necessary persons, departments and entities are involved in the buying process and that everyone's roles and responsibilities are clearly understood
- ensure that you have an understanding of the buying process rules
- strictly respect the level of confidentiality of any information shared

DO NOT

- enter into discussions with a supplier until an internal consensus has been reached on the buying brief
- make suppliers party to internal discussions or disagreements
- interfere in the purchasing process organised by your L'ORÉAL colleagues, namely by giving additional information to suppliers

BUYING IS TEAM WORK

TEAM WORK Q & As

Q. I am working on a new product and I have discovered a supplier who has developed a new and exciting packaging concept. I am quite pushed for time and want to make a deal with this supplier before our competitors hear about him. Can I go ahead and negotiate directly with this supplier? As he is a new supplier it will take time to enter him into the L'ORÉAL Supplier Base and sign a contract. Can I skip the contract stage, pay directly and get reimbursed through my expenses?

A. Although you may be an expert in your area, a buying decision of this nature is rarely simple. You will make a better buying decision if you seek advice. There are issues such as the supplier's financial situation, legal constraints and respect of our ethical standards which need to be verified. New suppliers are regularly added in the L'ORÉAL Supplier Base after having gone through the "Welcome on Board" process (available on the Sourcing Intranet site). This is why preference should be given to suppliers in the L'ORÉAL Supplier Base as all these aspects will have already been checked. In certain cases, the Purchasing Department must be informed and involved. L'ORÉAL has put in place procedures and processes for a reason i.e. to protect you and the Company and you must not try to avoid them just to save time.

Q. We have just finished sourcing a new raw material. Many different people and Departments (R&D, Marketing and Purchasing) were involved in the selection process which meant that the prospective suppliers were sometimes given contradictory information. How can I avoid this in the future?

A. It is useful, at the beginning of a sourcing process, to decide who will be in charge of the supplier relationship. That person needs to make sure that all suppliers are being treated fairly, provided with the same information and to ensure that there is internal coordination to make sure the supplier is selected on objective and verified information. In practice, the Purchasing Department usually plays this role.

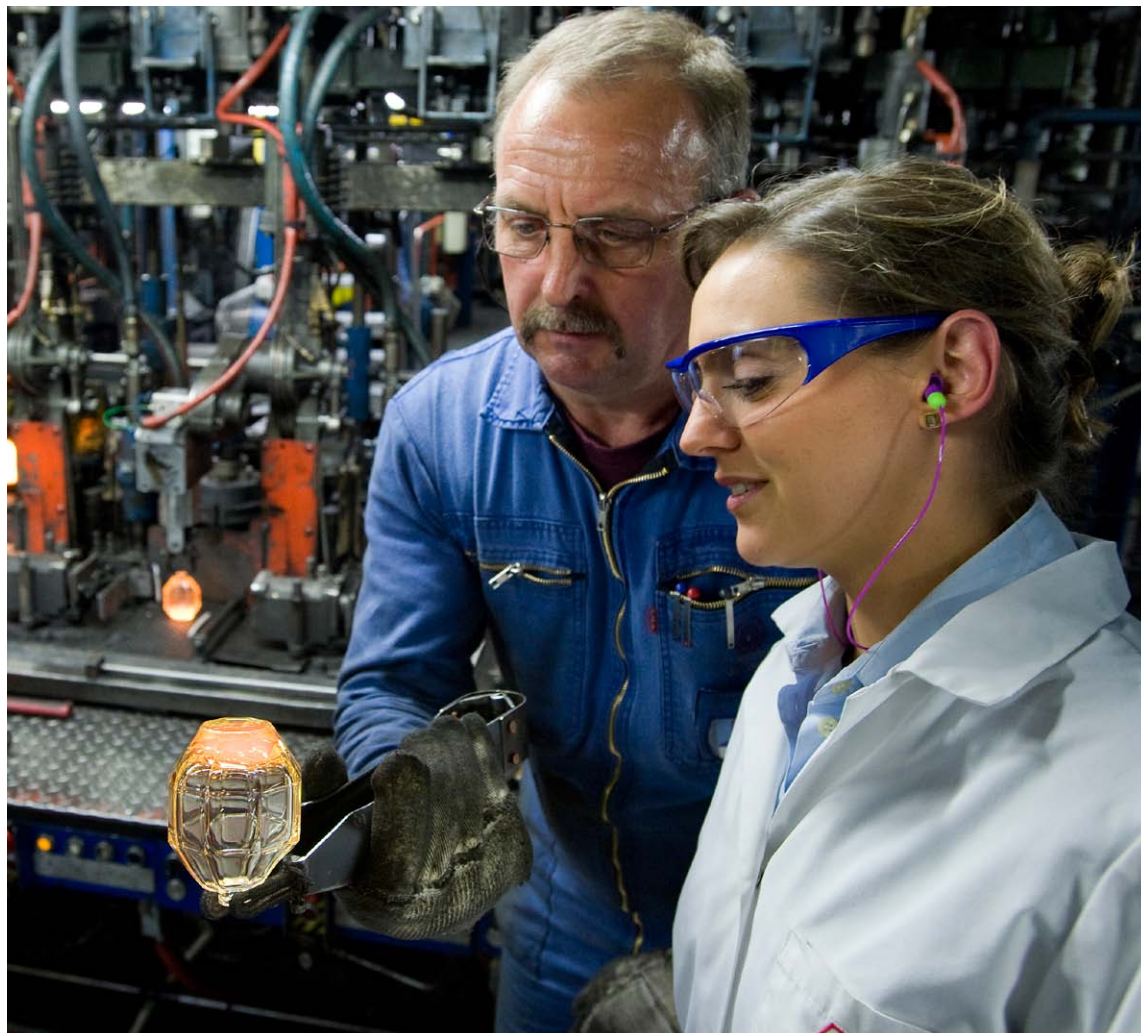
Q. I work in HR and I decided to ask the Purchasing Team to help me find a new printer for our HR policy booklets. My current supplier who is included in the new bidding process has invited me to attend a sports event. Given that I am not handling the bidding process, I think I can go but the Purchasing Team doesn't think it is appropriate. Who's right?

A. Although the Purchasing Team is running the bidding process, ultimately you will be consulted on the final choice of supplier. Therefore, the same rules apply to you regarding gifts. Even if you were not involved in the final choice but had been involved in any way in the bidding process, you should avoid any contact with suppliers until the final decision has been made.

REMEMBER:

If you're facing an issue around Team Work, don't keep it to yourself. You'll get help and support by discussing it with your management. There are also other sources available to help you such as your Purchasing Manager, your Finance & Administration Manager or your Human Resources Manager.

BUYING WITH INTEGRITY



BUYING WITH INTEGRITY

Integrity is one of L'ORÉAL's core values and is a fundamental element in any relationship. All suppliers must be considered fairly and without any real or perceived favouritism. In particular, all conflict of interests should be avoided and L'ORÉAL's gifts and entertainment policy should be strictly respected. We must also structure our bidding process.

SUPPLIER SELECTION

WHAT DOES THE CODE OF BUSINESS ETHICS SAY ON SUPPLIER SELECTION?

L'ORÉAL's relationship with its suppliers extends beyond the purchase and delivery of goods and services. It is integral to the long-term success of our business. We will be judged by the quality of the relationship we have with our suppliers. In particular, we will be scrutinised on how we select our suppliers and how they demonstrate their commitment to doing business responsibly.

All of us dealing with suppliers are expected to:

- select suppliers on the basis of open competitive bidding based on objective criteria for evaluating performance and quality of service; ensure that all supplier offers are compared and considered fairly and without favouritism
- be transparent about the bidding process and give honest sensitive feedback to failed bids

DO

- provide all suppliers with complete and accurate information on our requirements and selection criteria
- request at least two proposals from different suppliers for all purchases, unless a waiver has been granted by the Purchasing Manager or Finance & Administration Manager
- ensure that all suppliers have all the same information at the same time and that all suppliers respond on the same date

DO NOT

- ask suppliers to bid for business if it is clear that they do not meet L'ORÉAL standards as defined in the "Welcome on Board"

BUYING WITH INTEGRITY

SUPPLIER SELECTION Q & As

Q. There is a supplier that I am used to working with and I know they will do a really good job on the new work I need done. Do I really need to get a second quote? Isn't this just wasting another supplier's time because the choice is already made?

A. At L'ORÉAL, we encourage long-term relationships with suppliers. However, such relationships could also be perceived as favouritism by others. You must ensure that your "historic suppliers" are still competitive. This means regularly comparing with others. This gives you a better picture of the real value of your supplier on the market. However, you must carry out this comparison in good faith i.e. be objective and neutral. If you feel that your relationship with the supplier is too close, you should ask someone else to carry out this bidding process. The decision should not be made until an objective comparison has taken place.

Q. I heard that I should ask all suppliers involved in a bidding process to respond to the bid by the same date and time and that I should avoid any contact with them on this bid until the deadline has expired. Is this the proper process? Do I have to follow this process if I am just asking for two quotes?

A. This is the recommended process. Sending everyone the same information, setting everyone the same deadline and avoiding further contact until all the quotes have arrived protects you from accusations of favouritism in the bidding process.

REMEMBER:

If you're facing an issue around Supplier Selection, don't keep it to yourself. You'll get help and support by discussing it with your management. There are also other sources available to help you such as your Purchasing Manager, your Finance & Administration Manager or your Human Resources Manager.

BUYING WITH INTEGRITY

FAIR COMPETITION

WHAT DOES THE CODE OF BUSINESS ETHICS SAY ON FAIR COMPETITION AND OUR SUPPLIERS?

We respect all actors in our professional sphere, including competitors. We treat them the way we would like them to treat us. Our position as leader in the cosmetic industry reinforces our duty to set a good example in this area.

It is in our interest to work in an industry where business practices are reputable. It makes our work easier and reinforces the trust of our customers...

We are all expected to:

[...]

- avoid inducing customers or suppliers to breach contracts with competitors
- refrain from knowingly taking action to cut off a competitor's sources of supply
- ensure that we do not establish exclusive dealing arrangements (i.e. contracts that require a company to buy or sell only to L'ORÉAL) without prior legal advice if L'ORÉAL could be considered to hold a dominant position in the market

[...]

- refrain from all disparaging remarks concerning competitors (including any false statements concerning their products or services)
- promptly disclose to our line management if we have inadvertently received or used proprietary or confidential information which relates to competitors and legitimately belongs only to them or to third partners
- collect competitive information through legitimate means only and always identify ourselves as a L'ORÉAL employee when collecting such information

DO

- regularly check that L'ORÉAL does not exceed 30% of the supplier's turnover
- respect the exit process if you find that you represent more than 30% of a supplier's turnover (available on the Sourcing Intranet)
- ensure that we do not establish exclusive dealing arrangements (i.e. contracts that require a company to sell only to L'ORÉAL) without prior legal advice
- avoid inducing suppliers to breach contracts with other clients and particularly competitors

DO NOT

- represent more than 30% of a supplier's turnover
- collect competitive information through suppliers

BUYING WITH INTEGRITY

FAIR COMPETITION Q & As

Q. One of our suppliers is having difficulties supplying us with the quantities we require. I know he also works for one of our competitors. I think I need to tell him that he needs to make a choice: it's them or us!

A. You must never put pressure on a supplier to stop working with other clients. Either you can work with the supplier to find a solution which does not involve cutting off other companies' source of supply or you should let the supplier decide what he wants to do. Also, remember that we avoid representing more than 30% of the supplier's turnover.

Q. We are planning a new product launch and I have found the only supplier who can provide the special accessory which will make this launch a great success. Can I get him to sign an exclusivity contract so that he can only supply us?

A. This type of exclusivity clause should not be entered into until you have reviewed the matter with the Legal Department. Also, it is important not to represent more than 30% of a supplier's turnover in order to avoid a supplier being over dependent.

REMEMBER:

If you're facing an issue around Fair Competition, don't keep it to yourself. You'll get help and support by discussing it with your management. There are also other sources available to help you such as your Purchasing Manager, your Finance & Administration Manager or your Human Resources Manager.

BUYING WITH INTEGRITY

CONFLICTS OF INTERESTS

WHAT DOES THE CODE OF BUSINESS ETHICS SAY ON CONFLICTS OF INTEREST AND OUR SUPPLIERS?

We should all avoid situations where our personal interests might come into conflict with the interests of L'ORÉAL.

Even the appearance of a conflict can tarnish L'ORÉAL's reputation – as well as our own.

The key to dealing with any potential conflict is full disclosure. That allows everything to be properly investigated. As a result, it may well be that something which appeared at first sight to be a problem is, in fact, not the least bit harmful to the Company. But it is only through full disclosure of all the facts that everyone concerned can know this for sure – and be able to state it with confidence to others.

We are all expected to:

- disclose to management if there is a potential conflict of interest which might influence or appear to influence our judgment and actions (for example where a family member is employed by a supplier)
- refrain from holding any position, involvement or financial stake in any organisation that is a competitor, customer, supplier or any other business partner of L'ORÉAL, if our position at L'ORÉAL allows us to influence the business relationship

DO

- disclose in writing (without waiting to be asked) to line management if there is a potential conflict of interest which might influence or appear to influence your judgment and actions (for example, where a family member or friend is employed by a supplier)

DO NOT

- try to influence the relationship between L'ORÉAL and a supplier in which you hold any stake
- seek or obtain personal benefit from a supplier due to you being a L'ORÉAL employee

BUYING WITH INTEGRITY

CONFLICTS OF INTEREST Q & As

Q. I have a good childhood friend who I know would be a great supplier for L'ORÉAL and I am sure I would have no difficulty acting in a professional manner if I was to work with him. It would in fact be great because I would be able to convince him to give his best for L'ORÉAL.

A. Even if you feel that you will be able to act in L'ORÉAL's best interest, it may not be perceived as such by a third party. This does not mean that your friend cannot become a L'ORÉAL supplier. It just means that you have to be transparent about your relationship and let someone else handle the selection process.

Q. I am planning my wedding. Is it acceptable to ask a printer I work with to print my invitations? I will of course pay for it and I won't ask for any discount.

A. This should be avoided. Although you will not ask for any special treatment, the supplier may feel obliged to treat you more favourably than other clients.

Q. A friend of mine knows I regularly work with various design companies and asked me if I could recommend any to him. I gave him the name of one I use at work. A few weeks later, my friend called me to say that he's very happy with the discount they gave him. I hope they didn't grant him a discount just because I sent him!

A. When you recommend one of our suppliers to someone outside L'ORÉAL, this can give rise to misunderstandings. The supplier may think that he can win favours with you by treating your friend well. And what if the person you sent to this supplier is unhappy with the work done and decides not to pay the supplier? How will this affect your relationship with this supplier? Calling the supplier in advance to make it clear that you wish your friend to be treated like any other customer can help but the best thing is to avoid this type of recommendation.

Q. What should I do if a L'ORÉAL client is also a L'ORÉAL supplier?

A. It is essential to ensure that there is no cross-over and that they are treated like any other client and any other supplier. You should draw up contracts with your legal counsel to cover each relationship.

BUYING WITH INTEGRITY

CONFLICTS OF INTEREST Q & As

Q. My manager keeps asking me to use a particular supplier who I know he has a close relationship with. What should I say to my manager to stop him pushing on this subject? Who can I talk to?

A. You must treat this supplier like any other and apply the bidding process rules objectively and without favoritism. If you feel comfortable, you should share your concern openly with your manager and explain why you feel this could reflect badly on you, on your manager and on L'ORÉAL in general. If you find this too difficult, there are other persons you can talk to.

REMEMBER:

If you're facing an issue around Conflicts of Interests, don't keep it to yourself. You'll get help and support by discussing it with your management. There are also other sources available to help you such as your Purchasing Manager, your Finance & Administration Manager or your Human Resources Manager.

BUYING WITH INTEGRITY

GIFTS AND ENTERTAINMENT

WHAT DOES THE CODE OF BUSINESS ETHICS SAY ON GIFTS AND ENTERTAINMENT AND SUPPLIERS?

Exchanging gifts and entertainment can help build understanding and improve working relationships, but they can also cause a conflict of interest between personal interests and professional duty.

When receiving gifts or entertainment, the 'golden rule' is full disclosure.

When giving gifts or entertainment, the 'golden rule' is reasonableness and how this would be perceived by the wider public.

We are all expected to:

- never accept gifts or entertainment from any supplier unless they are clearly symbolic in value
- never give or accept cash gifts
- ensure that all gifts and entertainment offered are appropriate and in line with L'ORÉAL's values
- make sure that when establishing a new business relationship, all parties are aware from the outset of L'ORÉAL's guidelines on gifts and entertainment. In turn, find out what our business partner's policy is on these issues. That can go a long way to avoiding any misunderstandings
- immediately disclose to our management any gift or invitation we have received

DO

- make sure that suppliers are aware from the outset of L'ORÉAL's guidelines on gifts and entertainment. That can go a long way to avoiding any misunderstandings
- immediately disclose to your management any gift or invitation you have received from suppliers
- offer appropriate gifts and entertainment in line with L'ORÉAL's values

DO NOT

- accept gifts or entertainment from any supplier unless they are clearly symbolic in value and can in no way be perceived as an inducement
- accept cash gifts
- accept any gift or entertainment of any kind from a prospective or current supplier during a bidding process
- accept any personal discount or benefit from a supplier unless it is on offer to all L'ORÉAL employees
- accept that travel costs to supplier premises be paid by supplier

BUYING WITH INTEGRITY

GIFTS AND ENTERTAINMENT Q & As

Q. What exactly is a “symbolic” gift? I often receive gifts from suppliers at the end of year. Is a bottle of wine OK? Would it not be simpler if L'ORÉAL set a maximum monetary value?

A. A “symbolic” gift includes items such as gifts with the supplier’s logo which have no commercial value, a bottle of wine, a box of chocolates, calendars, etc... Whatever the rule applicable in your Country, all gifts you receive must be disclosed to your manager, whether they are symbolic or not. L'ORÉAL's Code of Business Ethics does not set a maximum monetary value because it is a worldwide Code and it is difficult to set an amount which will make sense worldwide. You should find out if specific rules on this exist in your Country.

Q. One of my suppliers has offered me an excessive/inappropriate gift but I really feel that I cannot return it to them without causing offence. What should I do?

A. Firstly, you should disclose this situation to your manager and discuss with him/her if it is really impossible to return the gift. If your manager decides that you should keep the gift, you should then write to the supplier, thanking them for the gift but reminding them of L'ORÉAL's Gift and Entertainment policy to avoid this situation happening again. You should then find a solution so that you do not personally benefit from this gift. This could include giving this gift to a charity or giving it to a company lottery or sharing it with your team.

Q. It is customary in my Country for suppliers to give gifts for personal events such as weddings, births etc. Is it appropriate to accept?

A. If it would really cause cultural offense to refuse, make sure that you disclose this gift to your manager. Make sure that you also make such gifts to the supplier on behalf of the Company on similar occasions. Otherwise, the existence of this custom could be questioned. Of course, you must be very careful with regards the value of such gifts and respect the rest of the Group's policy on gifts and entertainment.

BUYING WITH INTEGRITY

GIFTS AND ENTERTAINMENT Q & As

Q. A supplier has invited me to attend an event which takes place during my holidays. Can I attend?

A. You should avoid this type of invitation and obtain your manager's approval before attending. Attending events outside normal working hours can blur the line between what is professional and what is personal. The same goes for events at weekends.

Q. A supplier has invited me and my spouse to attend a dinner. Can we go?

A. It may be customary in your Country to attend professional events with your spouse. However, this should remain exceptional because involving your spouse in this type of events could blur the line between what is professional and what is personal.

Q. A supplier has invited me to a training session in a foreign country, all expenses paid. This training would really be useful for me in my work and with our budgets being so tight, I really won't get another such opportunity.

A. If this training is really important for your work, then L'ORÉAL should pay all costs associated with this training. You could also explain to this supplier that there are more and more companies with policies similar to that of L'ORÉAL.

Q. A supplier has offered me tickets to a sports event. The supplier will not be present, can I go?

A. You should only attend this sort of sporting event if the entertainment is reasonable, usual and customary for such business relationships and if the supplier is in attendance.

Q. We are very limited in the types of gifts and entertainment we are allowed to accept. I'm sure we are not as strict when it comes to giving gifts to our clients. Isn't this a bit hypocritical?

A. Our clients usually also have gift and entertainment policies similar to ours and it is important to know them. When giving gifts or entertainment, the test is reasonableness and how this would be perceived by the receiver and the wider public.

REMEMBER:

If you're facing an issue around Gifts and Entertainment, don't keep it to yourself. You'll get help and support by discussing it with your management. There are also other sources available to help you such as your Purchasing Manager, your Finance & Administration Manager or your Human Resources Manager.

BUYING WITH RESPECT



BUYING WITH RESPECT

L'ORÉAL's reputation depends on the behaviour of each and every one of us. The way we interact with our suppliers will not only determine the image our suppliers have of L'ORÉAL but will also allow us to be more efficient in our dealings with them. We should treat suppliers as we would wish to be treated.

FAIR SUPPLIER TREATMENT

WHAT DOES THE CODE OF BUSINESS ETHICS SAY ON FAIR SUPPLIER TREATMENT?

L'ORÉAL's relationship with its suppliers extends beyond the purchase and delivery of goods and services. It is integral to the long-term success of our business. We will be judged by the quality of the relationships we have with our suppliers. In particular, we will be scrutinized on how we select our suppliers, and how they demonstrate their commitment to doing business responsibly.

All of us dealing with suppliers are expected to:

[...]

- be transparent about the bidding process and give honest, sensitive feedback to failed bids

[...]

- support suppliers in meeting L'ORÉAL's expectations – but have the courage to end the relationship with those suppliers who persistently fail to meet them
- pay suppliers on time and according to the agreed terms (providing that the supplier performs according to the terms of the contract)
- make sure that the supplier is not overly dependent on L'ORÉAL business
- refrain from asking suppliers to make unreasonable concessions in order to win or retain business with L'ORÉAL. In particular, avoid reciprocal dealing. (This involves stating or implying that a decision, to buy goods or services is based on a reciprocal agreement for the supplier to purchase our own products or services)

DO

- prepare meetings in advance and respect meeting dates and times with suppliers
- ensure suppliers are welcomed in pleasant and comfortable surroundings, in line with L'ORÉAL's image
- adopt a polite and respectful manner at all times and make an extra effort if you have dealings with a supplier who does not speak your mother tongue
- respect your commitments made to suppliers, even if there is no formal legal contract
- pay your suppliers on time and according to the agreed terms
- be particularly sensitive to situations

where suppliers encounter financial difficulties

- give sensitive and respectful feedback to failed bids, subject to respect of the confidentiality of supplier and L'ORÉAL information

DO NOT

- represent more than 30% of the supplier's turnover
- interfere in the way the supplier runs their business and in particular refrain from intervening in the supplier's price fixing policy
- ask suppliers to incur unreasonable costs in order to win L'ORÉAL business
- forget to quickly inform suppliers of any issue or change in our expectations

BUYING WITH RESPECT

FAIR SUPPLIER TREATMENT Q & As

Q. Is it acceptable to discuss one supplier's shortcomings with another supplier?

A. No, even if you have issues with a supplier, you should keep this information within the Company and only discuss it with the supplier concerned. Disparaging a supplier not only gives a bad image of L'ORÉAL but could also lead to legal proceedings for defamation. In disparaging the supplier, you could also divulge confidential information belonging to the supplier.

Q. I have received great conditions from a supplier but recently I have had personal issues with the person in charge of the L'ORÉAL account and I just don't know if I can work with them again. Is this a reason not to place an order with them?

A. It would be a pity to lose a good supplier for this reason alone. You could ask someone else to manage this supplier or eventually ask the supplier to appoint a new L'ORÉAL representative.

Q. I have found a really good supplier but he is just starting up his business and L'ORÉAL is for the moment his only client. Can I use him?

A. Yes. There is no reason not to help this supplier start his business. However, it is true that we strive not to represent more than 30% of a supplier's turnover. You should therefore provide in the contract that he is expected to find other customers before a certain period of time. If he really is good, this should not be a problem. You must also of course check that he has respected his obligations in this respect.

Q. We want to work with our suppliers to help them progress and meet our expectations. However, how far can I get involved in how my supplier runs his business?

A. The idea is to build a partnership relationship while respecting the supplier's independence. In view of improving the work carried out for L'ORÉAL, you can make suggestions to your supplier. In particular, do not give any instructions to your supplier's staff and do not interfere with how your supplier works with his own suppliers.

BUYING WITH RESPECT

FAIR SUPPLIER TREATMENT Q & As

Q. My suppliers are always complaining that we do not pay them on time. Is it my problem or is it the Accounts Department's problem?

A. If you decided to award these suppliers L'ORÉAL business, you are responsible for making sure that they are being treated fairly and this in particular means ensuring that they are paid on time. You should contact the Accounts Department to find out what is going on. If you encounter difficulties regarding payment terms, you should raise it with your manager. Supplier receivables should not be used as a substitute for cash-flow.

Q. I have just taken up a new position. I feel that one of the suppliers my predecessor had been working with for years is not performing well. There does not appear to have been any contract signed with them. I feel it is L'ORÉAL's interest to stop working with them immediately. Can I do this?

A. You cannot reconsider a relationship on the basis of an impression only. The supplier's performance must be appraised objectively. If having done so, you still wish to terminate the relationship, you should first take advice from the Legal Department and check if there is a minimum notice period. Moreover, even if it turns out that legally you can stop working with them without notice, you must ensure that this termination does not result in disproportionate consequences for the supplier.

Q. When am I bound by my commitments made to suppliers? Can I change my mind during the negotiation process? Am I free until a formal contract has been signed? What if I made promises that are not reflected in the contract? Should the contract I sign with them contain ambiguous language so that I can change my mind when I want?

A. The best course of action is to make sure you are transparent in your expectations and make it clear to the supplier when and how things could change. The main rule to remember is to treat your suppliers the way you would like to be treated. Even if you manage to win from a strictly legal point of view, your relationship with the supplier and L'ORÉAL's reputation will be damaged.

BUYING WITH RESPECT

FAIR SUPPLIER TREATMENT Q & As

Q. A supplier visiting our premises sees a product he has not been invited to quote on. He offers a price lower than the one submitted. Can we place an order with him?

A. There may be a reason why this supplier was not asked to quote. You should first check with the person who organised the buying process. Depending on what stage of the buying process you have reached, the supplier may be able to be included as a bidder. If an offer has already been accepted, it is not possible to change your mind at this late stage.

Q. I need to ask suppliers to bid for a new project but I know that the project hasn't really been validated yet internally. However, I also know that I won't get the project validated unless I can make a concrete proposal which means finding out what these suppliers could deliver and getting them to prepare some samples. What can I do?

A. The best solution is to be transparent about this with your suppliers and only ask them for the information you really need to present your project. Suppliers put in a lot of hard work to respond to your requests and we shouldn't just assume that this is part of their business. If they are creating samples especially for you and if your project is not validated, you should pay for the samples. Remember also that all purchase commitments must be validated through a Purchase Order.

REMEMBER:

If you're facing an issue around Supplier Treatment, don't keep it to yourself. You'll get help and support by discussing it with your management. There are also other sources available to help you such as your Purchasing Manager, your Finance & Administration Manager or your Human Resources Manager.

BUYING WITH RESPECT

CONFIDENTIALITY

WHAT DOES THE CODE OF BUSINESS ETHICS SAY ON CONFIDENTIALITY AND OUR SUPPLIERS?

Unauthorised disclosure of confidential information may be detrimental to L'ORÉAL. We must ensure that all information not known to the general public is kept strictly confidential. Those of us who have access to confidential information belonging to business partners are under a similar obligation to protect it from disclosure.

We are all expected to:

- limit disclosure of confidential information to people with a legitimate “need to know” that serves L'ORÉAL's interests
 - secure all confidential customer and supplier records, both paper and electronic
 - prevent disclosure of confidential information to third parties outside L'ORÉAL (including family members of employees)
 - avoid discussing or working with confidential information in a public area where conversations can be overheard or data compromised
 - make sure we are not disclosing a previous employer's confidential information
 - return all confidential information (including all copies of original material) upon leaving L'ORÉAL
- [...]
- protect the supplier's confidential information as if it were our own, in particular making sure that we respect their copyright and intellectual property

DO

- promptly disclose to your line management if you have inadvertently received proprietary or confidential information which relates to suppliers
- always identify yourself as a L'ORÉAL employee when collecting supplier information

DO NOT

- collect supplier information through illegitimate means
- disclose confidential information belonging to a supplier to another supplier, including in case of feedback on a failed bid

BUYING WITH RESPECT

CONFIDENTIALITY Q & As

Q. What exactly qualifies as “confidential information” ?

A. There is probably a legal definition in your Country but the rule is to consider all information which is not known to the public as confidential. The safest solution is to agree with the supplier what will be considered confidential.

Q. Suppliers are sometimes asked to submit their own design. In case a supplier has submitted a winning design but did not offer the lowest price, should I try to renegotiate the price or should I give the design to the supplier who quoted the lowest price?

A. You must respect the supplier’s copyright and intellectual property and therefore you cannot give their design to someone else. You should try renegotiating the price or else buy the rights to the design if you want to give the manufacturing to another supplier.

Q. I am trying to find a new supplier for office materials. The first one I contacted offers a good service, but at a high price. The second isn’t quite as good but he’s cheaper (mainly because he’s made a significant discount in an effort to win L’ORÉAL business). Can I tell the first supplier what price the second supplier quoted, in order to try to get his price down?

A. You can tell the first supplier that you have a better price offer elsewhere but you cannot communicate the exact price or the identity of the second supplier. Otherwise, you would be giving the first supplier confidential information about his competitor, and that’s unethical. Also, beware of deals that are too good to be true because this could mean that the supplier does not comply with L’ORÉAL’s ethical standards (see Working with Suppliers who respect our Ethical Standards).

Q. A supplier has not won a tender. I have not had time to give feedback to every supplier and they call to ask how they fared.

A. One must always give a supplier honest and respectful feedback and preferably before they call you.

BUYING WITH RESPECT

CONFIDENTIALITY Q & As

Q. One of our customers has seen some designs they like and want to know which supplier we have used. Can we pass on their details?

A. You can pass on your supplier's contact details but you should not pass on any other details such as the price you paid for the designs, etc...

Q. I was recently travelling with a colleague who was in the middle of a negotiation with a supplier. His supplier called him on his mobile phone while we were on the train and my colleague finished negotiating the price during our trip. Is this really acceptable?

A. You should avoid discussing or working with confidential information in a public area where conversations can be overheard or data compromised. We owe it to our suppliers to protect their information as if it was our own.

Q. A supplier has just come to visit me and I realise that she has forgotten a folder which contains confidential information on her company's pricing strategy. This information could prove really useful in our negotiations. Should I give it back to her? Should I read it first and make photocopies?

A. You should immediately inform the supplier and send it back to them without keeping any copies. As none of the information can be taken into account in your negotiation, it may be necessary to ask someone else to carry out the negotiations.

Q. Our buying process at L'ORÉAL often involves carrying out a value analysis with our suppliers to help them offer us the best price. This usually involves them sharing a lot of their confidential information. On the other hand, I know that at L'ORÉAL, we have a strict confidentiality policy and therefore they often complain that I am not allowed to tell them anything which makes it difficult for them to answer my real needs. What can I do?

A. Sharing confidential information requires a trusting environment. This can be difficult if the supplier feels that it is a "one-way street" with L'ORÉAL. You should first make sure you know what is really confidential and what you can share with the supplier. Signing a confidentiality agreement can perhaps help. If you really cannot tell them anything, then you should try and limit as much as possible the confidential information you are asking from them.

REMEMBER:

If you're facing an issue around Confidentiality, don't keep it to yourself. You'll get help and support by discussing it with your management. There are also other sources available to help you such as your Purchasing Manager, your Finance & Administration Manager or your Human Resources Manager.

WORKING WITH SUPPLIERS WHO RESPECT OUR ETHICAL STANDARDS



WORKING WITH SUPPLIERS WHO RESPECT OUR ETHICAL STANDARDS

L'ORÉAL seeks out and favours suppliers who share its ethical standards. In particular, L'ORÉAL will not work with suppliers who use child or forced labour.

L'ORÉAL realises that not all suppliers may be able to meet all its ethical standards but is willing to work with those who genuinely seek to meet L'ORÉAL's standards in a spirit of continuous progress.

L'ORÉAL also seeks to minimise its environmental impact including via its purchasing decisions. Fair trade and supplier diversity are also becoming important issues.

WHAT DOES THE CODE OF BUSINESS ETHICS SAY ON THE ETHICAL STANDARDS WE SEEK OUT IN SUPPLIERS?

L'ORÉAL's relationship with its suppliers extends beyond the purchase and delivery of goods and services. It is integral to the long-term success of our business. We will be judged by the quality of the relationships we have with our suppliers. In particular, we will be scrutinized on how we select our suppliers, and how they demonstrate their commitment to doing business responsibly.

All of us dealing with suppliers are expected to:
[...]

- ensure that the Company's General Terms of Purchase and Payment, which includes L'ORÉAL ethical expectations, are understood and accepted by all suppliers wherever they operate
- support suppliers in meeting L'ORÉAL's expectations – but have the courage to end the relationship with those suppliers who persistently fail to meet them

[...]

- implement L'ORÉAL's commitment to environmentally-friendly processes
 - favour the use of renewable raw materials and the development of environmentally-friendly packaging
- [...]
- ensure that our suppliers, customers and business partners are aware of L'ORÉAL's diversity policy

DO

- ensure that you know and understand L'ORÉAL's "Buy & Care" Programme (available on the Sourcing intranet site)
- ensure that L'ORÉAL's requirements on ethical standards have been communicated to all your suppliers using the General Terms of Purchase and Payment and/or the standard Ethical Commitment Letter
- ensure that your suppliers are aware of L'ORÉAL's diversity policy
- ensure that all suppliers have agreed to be audited within L'ORÉAL's social and environmental audit program
- take into account the environmental record of suppliers and favour initiatives such as the use of renewable raw materials

and the development of environmentally-friendly packaging and other appropriate sustainable development factors

- seek out and favour fair trade alternatives and diversity suppliers
- support suppliers who want to improve their ethical standards
- have the courage to end the relationship with those suppliers who persistently fail to meet L'ORÉAL's ethical standards

DO NOT

- forget to inform all suppliers of L'ORÉAL's ethical standards via the General Terms of Purchase and Payment and/or Ethical Commitment Letter
- compromise on L'ORÉAL's ethical standards for the sake of costs or business expediency

WORKING WITH SUPPLIERS WHO RESPECT OUR ETHICAL STANDARDS

ETHICAL STANDARDS Q & As

Q. How do I communicate L'ORÉAL's ethical standards to suppliers?

A. L'ORÉAL's ethical standards regarding our suppliers are set out in our Ethical Commitment Letter which all suppliers must sign.

Q. Someone has told me confidentially that one of our suppliers is under an investigation following allegations of forced labour. The supplier hasn't told me any of this and on previous site visits there's been no reason for concern. Should I ignore these rumours?

A. You should not blindly follow rumours nor can you ignore them especially if the allegations are serious. You can start by asking the supplier for information on how he ensures that he respects L'ORÉAL's ethical standards. Depending on the supplier's response and cooperation, you may want to have this supplier undergo a social audit.

Q. I have received a great price and samples from a supplier. They operate in a "high-risk" country and therefore should undergo a social and environment audit before I confirm an order but I'm afraid that if I don't act fast, they will start working with a competitor. Can I place an order with them straight away?

A. No, these audits aim to protect you and L'ORÉAL's reputation so cutting corners is in nobody's interest. What will you do if you start working with them and the audit results are bad? The list of "high-risk" countries is available on the Sourcing Intranet site and is regularly updated.

Q. I have just received the social audit results for one of my suppliers which indicates he has employed a child. Moreover, I've been having quality issues with him recently and it's just more proof that he is not dependable. Can I use this audit finding to terminate our relationship?

A. Our policy at L'ORÉAL is to help our suppliers meet our expectations while having the courage to end relationships if a supplier persistently fails to meet our ethical standards. When a social audit identifies an issue, you must first try and find out why the supplier failed to meet our ethical standards. Usually, if the supplier is willing to take corrective action, it is better to continue working with them rather than pulling out. For example, in the present case, the supplier should give you proof that he has sent the child back to school, paid for their schooling and employed someone else from the family, if necessary. In any case, you should address the quality issues separately.

WORKING WITH SUPPLIERS WHO RESPECT OUR ETHICAL STANDARDS

ETHICAL STANDARDS Q & As

Q. A supplier who lost a bid has written to me and accuses the supplier who won the bid of not paying his social security contributions which is why he was able to quote a lower price. Obviously, this is just a disgruntled supplier. Shouldn't I just ignore him?

A. This is a serious accusation. You should inform your management and try and find out if there is any truth in this accusation.

Q. One of my suppliers has been badly rated following a social audit. According to L'ORÉAL rules, I cannot continue working with him unless he agrees to a corrective action plan and undergoes a follow-up audit. But he is refusing to do this because he knows that he is the only supplier capable of providing the products I require. What can I do?

A. You should seek help from your management to see if they can help you convince the supplier. If the supplier still refuses to cooperate, our policy at L'ORÉAL is to have the courage to end relationships if a supplier persistently fails to meet our ethical standards or shows no wish to improve.

Q. One of my suppliers has asked me to pay them on a different bank account. I think this is for reasons related to the owner's personal tax situation. What can I do?

A. You should ask the supplier to provide you with proof that this bank account is that of the company. If this bank account belongs to a third party, including the personal account of the owner, you must explain to the supplier that you cannot make payments through third parties. L'ORÉAL keeps accurate and comprehensive accounts and records which honestly reflect our activity. Any action which aims at evading our tax obligations or to have L'ORÉAL participate in any such action for the benefit of a third party is illegal and contrary to our ethical standards.

REMEMBER:

If you're facing an issue around the ethical standards of suppliers, don't keep it to yourself. You'll get help and support by discussing it with your management. There are also other sources available to help you such as your Purchasing Manager, your Finance & Administration Manager or your Human Resources Manager.

