L'Oréal (U.K.) Limited
(Registered Number: 00271555)

Financial Statements
For the Year Ended 31 December 2022

L'Oréal (U.K.) Limited

Contents	Page
Strategic Report	2
Directors' Report	11
Independent Auditor's Report to the Members of L'Oréal (U.K.) Limited	17
Income Statement	20
Statement of Comprehensive Income	21
Balance Sheet	22
Statement of Changes in Equity	23
Notes to the Financial Statements	24

Registered Address
L'Oréal (U.K.) Limited
255 Hammersmith Road
London
W6 8AZ

L'Oréal (U.K.) Limited

Strategic Report

The directors present their Strategic Report of L'Oréal (U.K.) Limited (the "Company") for the year ended 31 December 2022.

Principal Activities

The Company sells and distributes, in the UK and Ireland, beauty products, hair care, make up, fragrances and skincare under a variety of brands owned by the parent company.

The Company operates through four main divisions and our products are distributed through various channels including retailers, department store chains, beauty and hair salons, wholesalers, online retailers, pharmacies and dermatology practitioners. The Company also has an estate of retail outlets operating under the brand name of Kiehl's.

The Company is a private company limited by shares and is incorporated in the United Kingdom and registered in England and Wales.

Business Review

The board of directors monitor the effectiveness of the Company operations by considering various key performance indicators. The main indicators are the evolution in turnover and both operating profit and post-tax profit margins. The Company also closely monitors its market shares in the categories within which it operates as well as various health, safety and environmental indicators.

Turnover has increased from £1,169.4m in 2021 to £1,267.5m in 2022 up by 8.4%. The operating profit margin has increased by 14.6% (2021 restated: 14.5%) from an operating profit of £169.1m in 2021 to £184.5m. The post-tax profit has increased from £125.9m to £148.7m in 2022 up 11.7% (2021 restated: 10.8%).

Despite uncertainty due to rising inflation and interest rates, the beauty market in which we operate grew high single digits in 2022 with growth across all categories, in particularly fragrances. The fundamental shift to ecommerce witnessed during the pandemic continues; however, given the lockdown of quarter 1 2021, ecommerce declined slightly in 2022 but is still up substantially versus 2019. Traditional brick and mortar continued its growth from 2021. L'Oréal (U.K.) Limited outperformed the market in 2022.

In terms of sell-out, L'Oréal UK outperformed the market again in 2022, gaining market share overall and across all channels. Our performance was driven by strong gains in Skincare and Fragrances. All Top 15 brands were in growth with notable brand performances, across all divisions, from Maybelline, Garnier, Nyx Professional Makeup, Prada, Valentino, Mugler, CeraVe, La Roche Posay, L'Oréal Professional and Redken.

Future Developments

Despite no further lockdowns from Covid-19, 2022 remained a year of uncertainty and turbulence with the conflict in Ukraine and rapid and unprecedented inflation across Europe and notably in the UK – all of which is continuing into the start of 2023. Nevertheless, as a business we have put together a series of strategic measures to protect our profitability and mitigate the impact.

We continue to perform well in our markets and are confident in the prospects of good growth despite the macro-economic circumstances.

We expect our profit margins to be maintained at healthy levels and there are no significant risks to the cash position.

L'Oréal (U.K.) Limited

Strategic Report (continued)

Principal Risks and Uncertainties

Market and economic uncertainties - The markets in which L'Oréal (U.K.) Limited trade can be impacted by periods of economic uncertainty. These uncertainties could impact the Company over an extended period of time and their impact may be unknown. Factors beyond the Company's control, including epidemic outbreaks and geopolitical issues would impact the Company and, although the Health and Beauty market has always been resilient, a significant deterioration in the general economic climate may adversely affect the Company's performance.

Image and reputation – The Company takes steps to ensure that all product advertising and claims about the effectiveness of its products, are authenticated by our Scientific Advisory team. Relationships with our customers are maintained through our Customer Services and Consumer Advisory teams. The parent company has an Ethics policy to which all employees in any of its subsidiaries are bound and there is also a dedicated intranet site, training for employees and an e-learning course.

Product quality and safety – Consumer safety is a priority. The Group has set up a single product quality and safety management programme that applies to all of its plants and subsidiaries around the world. Each single product goes through around 100 quality controls during the production cycle, from input of raw material through to customer delivery. The Group's plants are certified to the highest standards based on both local and international requirements.

Competition – The Company is subject to intense competition within the markets in which it operates. This is healthy and leads to constant innovation in order to maintain and grow our market share. The Company expects the highest standards of ethics when dealing in such a competitive market. Each year, the Company's employees undergo training on what constitutes anti-competitive behaviour under current UK and EU legislation.

Information and cybersecurity systems – There is a risk of malfunction or breakdown in our internal systems or systems at third-party providers. Constant development of technologies and the increasing use of virtual and digital tools increases the risk on our business activities. The Company has strict rules with regard to the backups, data protection, access and security of its hardware and software systems. Every year a full disaster recovery testing process is undertaken. The Company is continually adjusting to new cyberthreats with investments in systems to detect and react to cyberattacks. Employees in the UK participate annually in online training which ensures everybody is made aware of best practice in cybersecurity. The Company has appointed a Data Protection Officer. Their task is to ensure that the data we hold complies with requirements of the UK General Data Protection Regulation and the UK Data Protection Act.

Intellectual property – The group has a portfolio of registered trademarks. Trademarks and the products themselves may be infringed or counterfeited by others seeking to benefit illegally from their reputation and goodwill. Where the trademarks are held by L'Oréal (U.K.) Limited they are treated as a strategic asset. The Company's legal department is entrusted with the protection of these assets.

Changes in regulations – The regulatory environment in which L'Oréal operates is forever changing and becoming more extensive and complicated. Non-compliance with local and international regulations could lead to risk of penalty, including financial penalty and reputational damage. The Company monitors changes to existing regulation and aims to anticipate emerging regulation so that it can identify and plan for any potential impact on the business.

Insurance – The Company insures against all the risks that it perceives could damage its balance sheet or its reputational risk. This includes public, and employee liability, business interruption as well as damage to its buildings and stocks of products.

Human resources risk – L'Oréal recognises that to be a successful Company it must attract, recruit, develop and retain skilled and motivated employees. The Company works tirelessly to promote inclusion and diversity ensuring that everyone at L'Oréal has the opportunity to succeed whatever their race, ethnicity, gender, sexual orientation, socio-economic status, age, disability, religious beliefs, political beliefs or other ideologies.

The Company acknowledges that the loss of key employees can damage the effectiveness of its operations. It seeks to minimise this by offering competitive rewards and benefits packages to its employees and having strong succession planning processes.

L'Oréal (U.K.) Limited

Strategic Report (continued)

Corporate Social Responsibility (CSR) – This broad area of risk encompasses environment and social risks, risks related to Human Rights and corruption.

Environment risks include the impact of the use of L'Oréal products, for example the impact of product formulations on water; and the disposal of these products after use, for example the plastics waste generated. Environment risk will also include risks associated with climate change around the world, for example, indirect impact to the Company through the supply chain (availability of raw material and rise in prices) due to long-term climate damage and extreme weather events. The expectation of consumers for the Company to be more socially and environmentally responsibility also creates a risk which could have both a financial and reputational consequence.

The Group have identified key Human Rights risks that it is exposed to, the main risks being:

- the Human Rights of L'Oréal employees (discrimination);
- the Human rights of L'Oréal's suppliers' employees (discrimination, forced labour, child labour);
- the Human Rights of consumers (failure in product safety and quality, loss of personal data); and
- the Human Rights of communities (stereotypes in advertising).

The Group is exposed to the risk of corruption due to its activities in many countries throughout the world. L'Oréal takes all necessary steps to ensure that it does not become involved in practices contrary to the Group's ethical principles, whether directly or indirectly, intentionally or unintentionally. Assessment or corruption risk takes place at a Group level as well as by UKI Management. L'Oréal applies a zero tolerance policy on corruption and its anti-corruption policy applies to all employees and directors worldwide.

Stakeholder Engagement Statement

The sustainable success of the Company relies on our stakeholders and taking them into consideration when making decisions and developing strategy. Engagement with our stakeholders is at a Board and delegated operational level. Operational engagement is considered by the Board during decision making because all presenters complete a 'Section 172 & Stakeholder dashboard' to inform the Board's understanding of relevant stakeholders, the likely impact on them and bring their voices into the board room.

We refer to FY2021 Financial Statements' comprehensive summary of all the Company's stakeholders, why they matter and how we engage as well as how we seek to understand their interests and collaborate. This year, the Board identified four key stakeholders with relevant 2022 examples of engagement (see Employee Engagement Statement for fourth key stakeholder example of why employees matter, how we engage and our engagement in action):

Consumers

Why they matter and how we engage

Our Company's purpose is to create the beauty that moves the world. Our goal is to offer every individual consumer the best of beauty in terms of quality, efficacy, safety and responsibility as well as to support the diverse beauty needs and desires of our consumers, without whom there would be no business. To achieve this, it is integral to connect with and gain an understanding of our consumers nationally and across communities, their needs and concerns. Such understandings help the company to provide consumers with the most appropriate products, highlighting consumer unmet beauty needs and communicating with them in the most informative, engaging and transparent way.

Understanding and collaborating

To understand our consumers, the Company carries out several studies, for example, attitudinal segmentations to understand how different clusters of consumer think, behave and buy differently. We interview consumers on their beauty behaviours and routines, their needs and satisfaction with products; we explore the consumers shopping behaviours online and offline, their sustainability habits and their perception of advertising communications.

L’Oréal (U.K.) Limited

Strategic Report (continued)

Our engagement in action

We use our knowledge of our consumers to increase their satisfaction, giving them the opportunity to use the right brand/product for their specific needs. Our objective is to create a more inclusive beauty for all consumers. An example of this is how the Company supports its hairstylist community together with our diverse consumer base, our insights team working collaboratively to uncover the types of knowledge hairstylists wish to develop. Our B2B education research project led to the development of a unique, multi-faceted education program for African & Caribbean hair, developed with and by African & Caribbean stylists.

Another example is the insight discovery that 65% of women experiencing menopause feel less confident in themselves or their appearance. Vichy developed skincare products for women undergoing menopause and worked with healthcare professionals, pharmacists and beauty advisors to train them to enable the right support and advice to women.

Industry Bodies, Government and Regulators

Why they matter and how we engage

The Company engages with Government and relevant authorities predominantly through membership of trade associations to promote and protect the interests of the Company, the industry at large, our consumers and clients.

Understanding and collaborating

The Chair, board members and key senior executives have engaged associations and government representatives and regulators on subjects such as the environmental sustainability, the personal care sector, cosmetic and chemical regulation as well as STEM talent and women empowerment.

Our Company Managing Director and board member attended quarterly Cosmetic, Toiletry and Perfumery Association (CTPA) board meetings in the capacity as Vice-Chair. Through this role as Vice-Chair, our Company Managing Director and board member engaged with this trade association to support their carrying out of important work on behalf of the industry and supported action on a range of topics ranging from sustainability through to ingredient management.

Our engagement in action

Over the course of the year, we have engaged with our trade associations on policies related to the circular economy.

Our Company Managing Director and board member spoke at an event hosted by Chancellor at No.11 focused on the importance of science in beauty and our commitment to supporting STEM talent and diverse representation in STEM through our work at the L'Oréal Young Scientist Centre and the For Women in Science programme. Ahead of International Women’s Day, our Chair represented the Company at an event at No.10, to highlight the role of women and girls in STEM.

Local Communities

Why they matter and how we engage

The Board supports the Company's commitment to strengthening the communities with which we engage through interactions with local councils, charity partners and engagement with local communities. Many of our brands have long term corporate social responsibility programmes, as outlined in our 2021 report, and regular engagement continued with these partners in 2022. One example of charitable engagement impacting local communities is the Company's long-standing partnership with Look Good Feel Better, which assists cancer patients and their families through dedicated support workshops nationally, for which the Company provides financial and product donations.

Another example is Citizen Day, our annual solidarity initiative to support local environmental and social causes and charities, whereby 760 employees undertook over 5,200 volunteering hours of activities to support approximately 7,500 people in our local communities, via 37 non-profit organisations and charity partners across London, Manchester, Dublin and Nottingham. Employees ran workshops with local schools to help young students develop enterprise skills, provided companionship to elderly and isolated people and restored communal green spaces.

Our solidarity support for vulnerable beneficiaries including refugees was extended by donating kits with over 34,000 essential care and hygiene products.

Understanding and collaborating

Ahead of our 2023 headquarter move to White City, the Company worked to understand the needs of the local White City community by partnering with Business in the Community to conduct a needs analysis of the local area and determine where the company could align its employee volunteering programme.

Our engagement in action

The Company required its fit-out partner for the new headquarters in White City, ISG, to ensure that as part of the development of the site, the economic development of the local community was accelerated by approximately 50% procurement spend awarded to local micro, small and medium enterprises and access to employment for those from the local community.

Board members took part in Citizen Day activities, with the Corporate Affairs Director leading its organisation. Feedback from all beneficiaries supported locally across all sites was positive and highlighted the powerful impact of engaging with the local communities.

L'Oréal (U.K.) Limited

Strategic Report (continued)

Section 172 Statement

How the Board discharges its Section 172 duties

The Directors are aware of their fiduciary duty to act in good faith to promote the Company's success by considering Section 172(1)(a) - (f) of the Companies Act 2006 factors to bring a broader perspective to strategy, opportunity and risk. The Board is systematically reminded of their duties: through director duties' training; a Section 172 & Stakeholder dashboard being included in the Board pack provided for directors' review; this dashboard being presented when each item is tabled. The Chair ensures that discussion and decision making is informed by Section 172 factors and the consideration of relevant stakeholders.

This statement includes examples of strategic decisions taken during 2022 to illustrate how the Board has promoted the success of the Company in line with relevant Section 172(1) factors that we understand to be of interest to the stakeholders reading this. (See also Employee Engagement Statement for fourth example of how valuing the interests of our employees translated into relevant strategies):

Securing our long-term success

The Board oversees the strategy, values and culture, and sets the Company's framework of governance, risk management and internal controls to promote and safeguard the Company's long-term success. The strategic goals and objectives set are to develop the Company's business model taking account of the long-term needs of its stakeholders. The identification, management and mitigation of risks to the Company's business are key to ensuring the delivery of the strategy over the longer term, and the consideration of risk as well as key stakeholder interests plays an important part in decision making.

One example of a decision that includes particular consideration of long-term consequences is the Board's approval of the Operations Director's proposed plan for the future of the Company's network of distribution centres ("DC") up to 2031 following a new study undertaken to project 10-year growth to define the future UK and Ireland distribution needs. The Board considered stakeholders and factors including: mid to long-term view of the anticipated total growth rate; capacity of the existing DCs network to meet projected demand; impact on employees at the DC sites; impact on the communities local to each DC; and the purchasing channel shift of consumers with its impact on the requirements of our retail partners. The decision was taken to re-invest in the existing DC sites in line with supporting the Company's projected long-term growth, which was welcomed by employees.

Fostering the Company's relationships – focus on end consumers

See our Stakeholder Engagement Statement for a focus on why our consumers are one of our key stakeholders and how we engage with them. Below is an example of a key strategic decision during 2022 in the light of fostering our relationship with end consumers.

The Board commitment to understanding our consumers and putting them at the heart of our decision making is reinforced by relevant information being provided to it. An example is the Board's review by the Company's Chief Marketing Officer ("CMO") for a new proposed data transformation strategy as part of being a data driven business: to collect, harness, share and activate data for growth and better decision making whilst ensuring compliance with data privacy, such as regarding the media placement mix. CMO shared with the Board its consultation with key stakeholders such as media publisher suppliers and retail partners, and consumers through market research relating to changes in media and content consumption and engagement habits. The Board approved the data strategy and additional resources to drive this transformation to reflect consumer centricity and to enhance engagement with our brands and products over the long-term.

Our impact on the community and the environment

The Board understands the Company has a role to strive towards positive impact on the community and reducing its impact on the environment. Mindful of the potential (positive and negative) impact of the Company’s operations on the community and the environment, and the expectations of our workforce, suppliers, customers, consumers and beyond, the Board reviewed and approved the Sustainability Director’s proposal for the UK and Ireland Sustainability frame. This aligns with the L’Oréal Group sustainability program ‘L’Oréal for the Future’ (L4TF), consisting of the following goals: to achieve our yearly L4TF targets in carbon, water and resources; to align with key partners on our sustainability ambitions and pilot initiatives together; to enable consumers to re-imagine beauty routines and increase market share of products with stronger sustainability credentials; to establish a clear, inclusive and efficient L4TF country governance and delivery structure; to make sustainability everyone’s business; to leverage data to inform our sustainability performance; and to ensure compliance with all existing and upcoming sustainability legislation. The Board interrogated the sustainability progress and gaps for the goals and the major upcoming sustainability projects for FY2023.

L'Oréal (U.K.) Limited

Strategic Report (continued)

Employee Engagement Statement

As the L'Oréal Group's fifth largest subsidiary, the Company employs 3,000+ staff across: our London headquarters; offices in Dublin and Cardiff; our distribution centres in Bury, Nottingham and Trafford; hairdressing academies in Dublin and London; sales teams in the field; and beauty advisors in UK and Ireland retail stores.

The Board understands that our people are our greatest strength and that appropriate decisions must be taken for the Company to remain a desirable place to work across all its locations and an employer of choice for all. The Board further understands that the long-term success of the Company relies on (i) an engaged, collaborative and diverse workforce bringing a range of talent, skills and experiences and (ii) an effective talent acquisition and retention strategy. The Company seeks to hear and understand all voices and foster a culture in which people of every social background, gender, age, sexual orientation, disability, religion and ethnicity are not just accepted, but welcomed and valued. Refer to our FY2021 Financial Statements for further detail on the role of our five Employee Resource Groups that work from the grassroots to support the delivery of our diversity, equity and inclusion ("DEI") strategy, generate ideas to drive inclusion, raise awareness of issues and concerns; all of which are brought to the Board for input by the Company's DEI Director.

Informed by employee feedback brought to its attention, in 2022 the Board took the following decisions relating to its workforce: review and approval of the DEI strategic frame and focus areas (including DEI training rollout plan for all employees and fostering a culture of inclusion); review and approval of the talent acquisition and retention strategy checking that it aligned with the DEI strategy and with key objectives (i.e. building future leaders, 360 digital roles, team diversity to reflect our communities and enhancing early careers); adoption of the Real Living Wage; two additional stand-alone payments in August and December to assist all employees with the cost-of-living crisis; and a specific strategy to drive gender balance across the organisation, targeting female representation at Board and Executive Committee level and male representation at entry and mid-level positions.

Examples of how the Board ensures the Company:

Consults employees regularly to take into account their views on matters that affect their interests and engages with them regarding the results - Employee Surveys

The Company's annual Pulse Survey tracks employee satisfaction, provides a good understanding of employee views and concerns and identifies the areas where improvements can be made to make the Company an even better place to work. In 2022, the action plan resulting from Pulse feedback received centred around five pillars; more efficient meetings, reducing the amount of time spent preparing for meetings, process simplification, project prioritisation and having a company-wide monthly calendar cycle. These workstreams are to be reinforced in FY2023. The Company engaged an external consultancy to oversee and support the activation of the action plan, working with members of the Executive Leadership Team as sponsors of each workstream.

The Finance Director and board member has actively been involved in the development of a project prioritisation workstream in direct response to employee feedback, while the Company Managing Director and board member, has overseen the strategy and progress of all five workstreams. The Corporate Affairs Director and board member is actively consulted on the workstreams and involved in the communications to all employees about their progress. Company-wide and divisional business updates provide updates on the Pulse action plan, progress against the plan and opportunities for engagement and questions from employees.

The Board has regard to employee interests and concerns by reviewing the employee survey results and by inputting into and approving the action plan proposals. Following Board approval, our new Pulse action plan was shared with all employees in a Townhall led by the Company's Managing Director and board member.

L'Oréal (U.K.) Limited

Strategic Report (continued)

Provides employees with information on matters concerning them, engages with employees and raises their awareness of financial and economic factors affecting company performance - Employee Updates

The Company creates regular opportunities - Townhalls, Business Update meetings, divisional conferences and internal communications - for employees to be regularly updated on: vision and strategy, business performance, national and regional announcements; relevant industry or market context, or other challenges potentially affecting company performance; and other matters of interest such as employee initiatives. Virtual Townhalls and Business Updates are hosted by the Company Managing Director and board member and the Corporate Affairs & Engagement Director and board member, attended by more than 1,000 employees, provide an opportunity to gather as one company and to engage in Q&A sessions with the Company's Managing Director and board member, together with other members of the Company's Executive Leadership Team on any topic employees wish to raise.

Throughout the course of 2022, the Company Managing director and board member, issued twenty internal communications to all employees on a wide range of topics from articulating the Company's strategic focus areas, through to topics that may impact employees such as the rise in cost of living and results from our annual employee survey.

Following Board approval, our new DEI strategic frame was shared with all employees in a Townhall led by the Company's Managing Director and board member and DEI Director with contributions from colleagues across the business, including Q&A on this important topic for our employees. There have been regular events and learning interventions promoting DEI initiatives, including sponsorship of external events, internal panel talks, learning and information sharing.

Provides employees with information on matters concerning them - New Employee HR Systems

In October 2022, we launched One Profile, a new HR information system which for the first time put many of our HR processes in one single system, from performance management to reward and absence management. This responded to employee feedback about the complexity of our tools and processes and difficulty in finding data, and first feedback has been very positive. Following Board approval, One Profile was shared with all employees in a Townhall led by the Company's HR Director, together with the Company's Managing Director and board member.

Encourages employee involvement in the Company's performance and raises their awareness of financial and economic factors affecting company performance - Employee Share Scheme and Profit Share Scheme

The Company encourages employees' involvement in its performance, with the Board approving the Company's employee third share scheme in 2022. In addition, the Company continues to offer its annual profit share scheme to all employees that has run for over twenty years.

Approved by the Board of Directors and signed on its behalf by

DocuSigned by:
Erin Schaffner
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E Schaffner
Director

29 August 2023

L'Oréal (U.K.) Limited

Directors' Report

The directors present their report and the audited financial statements for the year ended 31 December 2022.

Directors

The directors during the financial year and up to the date of this report were:

G Skingsley (Chair) (resigned 13 March 2023)
T Cheval (appointed Chair 13 March 2023)
E Chiverton (appointed 13 March 2023)
M Giolla (resigned 4 October 2022)
M Haden
O Hubin
E Schaffner (appointed 4 October 2022)

Directors' Indemnities

The Company has not made any qualifying third party indemnity provision for the benefit of its directors during the year. No qualifying third party indemnity provision exists at the date of this report.

Dividend

A dividend of 30.90p (2021: 21.28p) per ordinary share amounting to £125,478,000 (2021: £86,406,000) was paid during the year. A dividend of 36.61p per share has been proposed for the year ended 31 December 2022, amounting to £148,691,000, which was approved and paid in 2023.

Political Donations

No political donations were made (2021: Nil).

Financial Risk Management Objectives and Policies

The Company's activities expose it to a number of financial risks including liquidity risks and credit risks. The use of financial derivatives is governed by the board of directors. The Company does not use financial derivative instruments for speculative purposes. See note 27 for more information on financial risk management and financial instruments.

Liquidity/Cashflow risk – Liquidity risk is the risk that the Company may not be able to meet its financial obligations as they fall due. The L'Oréal S.A. Group's Treasury & Financing Department manage the liquidity risk worldwide through its short-term marketable instruments programme and confirmed credit lines. The Group's Treasury & Financing Department ensure that the Company is efficiently funded to meet its short, medium and long-term liquidity requirements. As the Company does not have any external loans or long term debt, it considers its exposure to cashflow risk to be limited.

Currency risk – The Company has significant currency risks mainly due to its purchasing contracts with L'Oréal factories in Europe and throughout the world. It also has a sales exposure where the bulk of sales to Irish customers are collected in Euros. The Company seeks to minimise its risk to fluctuations in foreign currencies through the use of hedging instruments (forward exchange contracts and options). The Company hedges its entire budget risk. No instruments are purchased for speculative purposes. The effectiveness of our hedging contracts is monitored continuously.

Credit Risks – There is always a risk of non-collection of cash receivables due to cash problems encountered by our customers. The Company seeks to alleviate this risk by taking out insurance policies to cover the majority of the potential loss, whilst also closely monitoring debt levels with customers that are uninsured.

Future Developments

An indication of likely future developments have been included in the Strategic Report.

Post Balance Sheet Events

There were no notable post balance sheet date events.

Branches Outside the UK

The Company has one branch operating outside of the UK. This branch supplies the Irish market, with the head office located in Dublin.

Employee Engagement and Disabled Employees

Information concerning how the Company and directors provide information to, consults and encourages involvement from its employees is available in the Employee Engagement Statement in the Strategic Report.

The Company is committed to creating an inclusive environment which starts with recruiting diverse talent. Through the 'Disability & Neurodiversity' Employee Resource Group (ERG), the Company drives the L'Oréal mission of fair treatment, access, advancement and opportunity for all. For more information see our Employee Engagement Statement in the Strategic Report

Statement of Corporate Governance Arrangements

The Board takes their responsibility seriously to uphold a positive corporate culture and to consider the range of stakeholder interests in strategy and decision-making. Board deliberations are conducted in a spirit that encourages independent thought and challenge, with the aim of balancing risks and opportunities. Governance policies and processes are kept under review by our Board Advisor together with our Chair to ensure evolution in line with regulatory requirements and the wider expectations of private limited companies.

Four Board Meetings were held in March, May, October and December 2022. The agenda was planned for the year and agreed for each meeting in advance by the Chair, Company's Managing Director and board member, Company Secretary and Board Advisor. In addition, decisions were made during the year by written resolutions as necessary. Examples of how the Board applied the Wates Principles during 2022:

<u>Principle 1: Purpose & Leadership</u>
At the beginning of 2022, the Board inputted into then approved the proposal presented by the Company's Managing Director for the Company's UK & Ireland 2022-24 Frame: this outlined shared priorities and strategic focus areas for commercial growth based on four key pillars and extra-financial commitments based on a further two pillars, namely, to be a people first culture and a responsible leader. The Frame also captured the Company's purpose to 'create the beauty that moves the world' and mission to continue to work as 'one UK & Ireland team' to grow market share, reinforce our number one beauty player position and pursue our sustainability commitments.

At the end of 2022, the Board reflected on employee feedback and the impact to date of executive sponsored initiatives deployed during the year to address issues raised relating to enablement and engagement. The Board raised queries and inputted on draft future initiatives for the next financial year focusing in further on these issues and culture more broadly, noting also the strengths to be maintained as perceived by the workforce.

All of the above were communicated to the Company's employees in the first quarter of 2022 in a variety of formats including by email, video and in a Townhall presented by the Company's Managing Director and board member and the Corporate Affairs Director and board member. The purpose and strategic frame were embedded into the Company's culture and workforce through ongoing engagement, internal communications videos and business unit team building strategy days.

L'Oréal (U.K.) Limited

Directors' Report (continued)

Principle 2: Board Composition
Further to a review of board composition to evaluate whether the Board, as constituted at that time, was appropriate in terms of size, backgrounds, diversity and experience being presented to the Board in the light of the Wates Principles, a new board appointment resulted in further improving age, gender and nationality diversity.

The Board from September 2022 is comprised of five members: a Chair who facilitates constructive discussion and challenge, with significant operational, marketing and human resources experience from over 30 years in the L'Oréal Group, plus external experience of board appointments in other sectors; the Company's Chief Executive Officer who is Managing Director of the UK and Ireland business; Finance Director of the L'Oréal Group Europe Zone; the Company's Corporate Affairs & Engagement Director; and the Company's newly appointed Chief Financial Officer. As a result of this latest appointment, the Board composition became 40% female:60% male. The directors collectively possess a balance of skills, experience and knowledge, and the directors individually have the aptitude to make a valuable contribution.

Principle 3: Director Responsibilities
Our adopted corporate governance code, the Wates Principles, and associated policies and processes are brought to the Board from time to time to ensure a clear understanding of duties, accountability and how to apply these principles.

A special purpose meeting was held in September 2022 at which external legal counsel together with the Board Advisor conducted a refresher training session for the new members of the Board on effective corporate governance, consideration of stakeholders and Section 172 factors, director duties, how to inject independent challenge as executives and how the Board's governance policies and procedures support good decision-making.

The role of a Board Advisor for governance matters to support the Chair and Company Secretary was maintained to: review and update with Board ratification a Section 172 & Stakeholder dashboard; establish and oversee a robust internal process to ensure the quality and integrity of the information provided and presented enabled the Board to effectively oversee, challenge and make decisions; ensure relevant issues are elevated to the Board for their information, review, input and/or decision making; ensure comprehensive Board papers are provided for review one week in advance of meetings that signpost all applicable Section 172 factors and stakeholder engagement issues to the Board, provide a summary of the item and inform Directors what action is expected of them.

Principle 4: Opportunity and Risk
Examples of decisions taken by the Board during 2022 to promote the long-term sustainable success of the Company are set out above in the Strategic Report and Section 172 Statement. The Company's Head of Internal Control has established a risk register for the Board which identifies financial, non-financial and reputational risks faced by the Company. In the May 2022 Board meeting, the risk register was presented to and discussed by the Board for oversight, with a particular focus on new risks, with necessary adjustments made as agreed to risk classification, prioritisation and mitigation. See page 2 in our Strategic Report for more information on the market the Company operates in and assessment of opportunity and risk.

Principle 5: Remuneration
L'Oréal S.A. sets the remuneration level of Board members within structures aligned to the long-term sustainable success of the Company and the Group.

Principle 6: Stakeholder Relationships and Engagement
The Board is responsible for nurturing and upholding the culture, values, standards, ethics and reputation of the Company to ensure that obligations to our shareholders and our stakeholders are met. The Board considers each matter before it in the context of potentially affected stakeholders and our Chair manages meaningful Board engagement and that stakeholder interests are carefully considered as part of the decision-making process. The Board takes account of the broader socio-economic and environmental context within which our business operates and, during interactions with stakeholders, Board members take care to foster those relationships and gain insights that may assist in the exercise of their duties. The Company's stakeholders and examples of how this Principle has been applied are included in our Stakeholder Engagement Statement and Section 172 Statement.

L'Oréal (U.K.) Limited

Directors' Report (continued)

Carbon and Energy Emissions Statement

The Company is committed to minimising the environmental impacts of our business activities by complying with accepted environmental practices, including the commitment to meet, or where possible, exceed the requirements of relevant environmental legislation. In the current year, the Company has continued its efforts to increase monitoring and evaluation of energy usage, enabling Streamlined Energy and Carbon Reporting disclosures to be made in line with the Greenhouse Gas Protocol.

We have reported on all sources of carbon emissions and energy usage required under The Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008 as amended.

TOTAL UK 2022 EMISSIONS (Scope 1 and 2)

Total emissions (tonnes of CO_2e)	**2022**	**2021**
Scope 1	6.06	4.88
Scope 2	0	0
Total Scope 1 and 2	**6.06**	**4.88**
Units shipped (in millions)	385.2	359.7
Scope 1 and 2 Intensity ratio (based on CO_2e per million units shipped)	0.02	0.01

The slight increase in the business's scope 1 emissions are primarily attributed to the accounting norms that the subsidiary needs to follow for the purchase of diesel fuel for the annual maintenance and testing of the sprinkler pumps and on-site generators, as required by law.

Reporting boundary and methodology

The reporting boundary used for collation of the above data is aligned with the boundaries of the financial statements.

We have followed the 2019 UK Government Environmental Reporting Guidelines. We have used the GHG Protocol Corporate Accounting and Reporting Standard (revised edition) and emission factors from the UK Government's GHG Conversion Factors for Company Reporting 2021 to calculate the above disclosures.

The data reported in this statement covers only the four main operational sites of the United Kingdom being the headquarters in London and three distribution centres.

Annual UK Energy Use

Scope 1 - Direct GHG emissions

(Includes emissions from activities owned or controlled by the Company that release omissions into the atmosphere. Examples include emissions from combustion in owned or controlled boilers, vehicles).

Company Activity: Operation of 1 Headquarters and 3 Distribution Centre sites

SCOPE 1	**2022**	**2021**
Energy consumption (kWh HHV)		
Fossil gas	0	0
Fuel oil	19,645	13,356
Total Scope 1:	19,645	13,356

Source: Primary data L'Oréal's Operations database, Graal

Source of emission factors: DEFRA 2022, 2021

The table below shows the total tonnes of CO_2eq emissions saved from using renewable energy under Scope 1.

2022	**2021**
838	1,208

Scope 2 – Energy indirect emissions

(Includes emissions from own consumption of purchased electricity, heat, steam and cooling. These are a consequence of the Company's activities but are from sources not owned/controlled).

Company Activity: Operation of 1 Headquarters and 3 Distribution Centre sites

SCOPE 2	2022	2021
Electricity consumption (kWh)		
Total electricity consumption	3,259,289	4,058,843
Percentage of renewable electricity (%)	100	100
Total Scope 2:	3,259,289	4,058,843

Source: Primary data L'Oréal's Operations database, Graal
Source of emission factors: DEFRA 2022, 2021

The table below shows the total tonnes of CO_2eq emissions saved from using renewable electricity under Scope 2.

2022	2021
630	862

Energy efficiency actions

The reductions in electrical energy consumption across our 3 Distribution Centre is due to improvements in the Building Management System giving better control over the operation of heating, lighting and cooling equipment. In addition, throughout 2022, we have continued the phased the installation of LED lighting throughout each warehouse.

Statement of Directors’ responsibilities

The directors are responsible for preparing the Directors’ Report, the Strategic Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including Financial Reporting Standard 101 ‘*Reduced Disclosure Framework*’. Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standard have been followed, subject to any material departures disclosed and explained in the financial statements; and;
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for maintaining adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information on the company’s website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Disclosure of information to the auditor

Each director who held office at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the company’s auditors is unaware; and
- the director has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company’s auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Independent Auditor

A resolution to reappoint Deloitte LLP as auditor will be put to the members at the Annual General Meeting.

Approved by the Board of Directors and signed on its behalf by

DocuSigned by:
Erin Schaffner
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Director

29 August 2023

Independent auditor’s report to the members of L’Oréal (U.K.) Limited

Report on the audit of the financial statements

Opinion
In our opinion the financial statements of L’Oréal (U.K.) Limited (the ‘Company’):
- give a true and fair view of the state of the company’s affairs as at 31 December 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 “Reduced Disclosure Framework”; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:
- the income statement;
- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity;
- the related notes 1 to 29.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 “Reduced Disclosure Framework” (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council’s (the ‘FRC’s’) Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern
In auditing the financial statements, we have concluded that the directors’ use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company’s ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Other information
The other information comprises the information included in the annual report, other than the financial statements and our auditor’s report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Independent auditor's report to the members of L'Oréal (U.K.) Limited (continued)

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the company's industry and its control environment, and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management, internal audit and the directors about their own identification and assessment of the risks of irregularities, including those that are specific to the company's business sector.

We obtained an understanding of the legal and regulatory framework that the company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included UK Companies Act, pensions legislation, tax legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty.

We discussed among the audit engagement team including relevant internal specialists such as tax, pensions, and IT regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

As a result of performing the above, we identified the greatest potential for fraud in the following areas, and our procedures performed to address them are described below:

- assessed appropriateness of the valuation method of customers' allowances and commercial agreements and the consistency of the accounting methods compared to the prior year;
- tested appropriateness and accuracy of the deductions recorded in the year and the rebate provision calculations at year-end by tracing to terms of agreements and other supporting documents. Ensured conditions are met to recognise the rebates by obtaining sufficient external documentation, paying specific attention to the cut-off;
- performed control testing of the management's internal controls over sales deductions;
- for a sample selected in accordance with firm methodology, performed substantive testing on the accuracy and appropriateness of customers' deductions recorded over the period and rebate provision calculations at year-end by agreeing to terms of agreements and other supporting documents;
- ensured that for the main commercial agreements, all material sales deductions have been provided for at year end;
- performed a review of year-end customer rebate provisions and rebate cost in the year, by comparison to prior year and our expectations;

Independent auditor's report to the members of L'Oréal (U.K.) Limited (continued)

- performed a retrospective review of rebates, discount payment schedules at the previous year-end and challenge any amendments; and
- performed a review of the ageing of rebates/discount provisions by challenging the validity of amounts aged above one year in the balance sheet.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management, internal audit and external legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

DocuSigned by:

Darren Longley

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Darren Longley FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
29 August 2023

L'Oréal (U.K.) Limited

Income Statement
For the year ended 31 December 2022

	Note	2022 £million	2021 (restated) £million
Turnover	3	**1,267.5**	1,169.4
Cost of sales		**(470.9)**	(430.5)
Gross profit		**796.6**	738.9
Advertising and promotion expenses		**(392.7)**	(371.6)
Government grants	4	**0.3**	1.8
Selling, general and administrative expenses		**(219.7)**	(200.0)
Operating profit	5	**184.5**	169.1
Finance costs	6	**(0.8)**	(0.2)
Finance income	7	**4.9**	1.8
Finance income - net		**4.1**	1.6
Profit before taxation		**188.6**	170.7
Tax on profit	9	**(39.9)**	(44.8)
Profit for the financial year	20	**148.7**	125.9

All amounts relate to continuing operations and are attributable to the equity shareholders of the Company.

Statement of Comprehensive Income
For the year ended 31 December 2022

	Note	2022 £million	2021 (restated) £million
Profit for the financial year	20	**148.7**	125.9
Other comprehensive (expense)/income:			
Items that may not be reclassified to profit or loss			
Actuarial (loss)/gain on defined benefit obligations	22	**(68.5)**	21.9
Taxation on defined benefit obligations	9	**17.2**	(0.7)
Items that may be reclassified to profit or loss			
Gain/(loss) on cash flow hedges	27	**10.6**	(4.5)
Deferred taxation on cash flow hedges	24	**(2.2)**	0.8
Total other comprehensive (expense)/income for the year, net of tax		**(42.9)**	17.5
Total comprehensive income for the year		**105.8**	143.4

L'Oréal (U.K.) Limited

Balance Sheet
As at 31 December 2022

	Note	2022 £million	2021 (restated) £million
ASSETS			
Non-current assets		**204.8**	197.4
Goodwill	11	**2.8**	2.8
Other intangible assets	11	**6.4**	7.6
Tangible assets	12	**22.9**	18.6
Right of use assets	13	**95.5**	25.5
Investments	14	**0.3**	0.5
Employee retirement surplus and related benefits	22	**76.9**	142.4
Current assets		**579.1**	523.9
Inventories	15	**64.9**	56.4
Trade and other receivables	16	**270.7**	215.6
Other current assets	17	**14.6**	14.3
Derivative financial instruments	27	**10.0**	6.5
Current tax		**1.7**	7.5
Cash and cash equivalents		**217.2**	223.6
TOTAL		**783.9**	721.3
EQUITY AND LIABILITIES			
Capital and reserves		**211.0**	229.0
Issued share capital	18	**101.5**	101.5
Share premium account	18	**0.3**	0.3
Other reserves	19	**(75.4)**	(85.5)
Retained earnings	20	**184.6**	212.7
Non-current liabilities		**108.5**	55.2
Provisions for liabilities	23	**9.7**	9.3
Deferred tax	24	**17.9**	29.1
Lease liabilities	13	**80.9**	16.8
Current liabilities		**464.4**	437.1
Trade and other payables	25	**260.0**	227.8
Provisions for liabilities	23	**15.3**	15.9
Other current liabilities	26	**173.2**	164.7
Lease liabilities	13	**9.5**	12.4
Derivative financial instruments	27	**6.4**	16.3
TOTAL		**783.9**	721.3

The notes on pages 24 to 54 form an integral part of these financial statements.

The financial statements on pages 20 to 54 were approved by the board of directors and signed 29 August 2023 on its behalf by:

DocuSigned by:
Erin Schaffner
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E Schaffner
Director

L'Oréal (U.K.) Limited
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L'Oréal (U.K.) Limited

Statement of Changes in Equity
For the year ended 31 December 2022

	Share capital £million	Share premium account £ million	Other reserves £million	Retained earnings £million	Total Equity £million
Balance at 1 January 2021 (restated)	101.5	0.3	(69.1)	151.3	184.0
Profit for the financial year	-	-	-	125.9	125.9
Other comprehensive income/(expense) for the year	-	-	(3.7)	21.2	17.5
Total comprehensive income/(expense) for the year	-	-	(3.7)	147.1	143.4
Dividend paid	-	-	-	(86.4)	(86.4)
Equity settled share based payment expense	-	-	2.8	-	2.8
Arising on transfer in - Azzaro Mugler Beauté Limited (note 14)	-	-	(15.5)	0.7	(14.8)
Balance at 31 December 2021 (restated)	101.5	0.3	(85.5)	212.7	229.0
Profit for the financial year	-	-	-	148.7	148.7
Other comprehensive income/(expense) for the year	-	-	8.4	(51.3)	(42.9)
Total comprehensive income/(expense) for the year	-	-	8.4	97.4	105.8
Dividend paid	-	-	-	(125.5)	(125.5)
Equity settled share based payment expense	-	-	1.7	-	1.7
Balance at 31 December 2022	**101.5**	**0.3**	**(75.4)**	**184.6**	**211.0**

Notes to the Financial Statements

1. General information

L'Oréal (U.K.) Limited is a private company limited by shares incorporated and domiciled in the United Kingdom under the Companies Act 2006. The address of the registered office is 255 Hammersmith Road, London, W6 8AZ.

The Company's principal activities are the sale and distribution, in the UK and Ireland, of beauty products, hair care, make up, fragrances and skincare under a variety of brands owned by the parent company.

The Company operates through four main divisions and our products are distributed through various channels including retailers, department store chains, beauty and hair salons, wholesalers, online retailers, pharmacies and dermatology practitioners.

These financial statements are presented in pounds Sterling which is the functional currency of the Company. Foreign operations are included in accordance with the policies set out below.

Foreign currency transactions are translated at the rate effective at the transaction date. Monetary assets and liabilities denominated in foreign currencies have been translated using exchange rates effective at Balance Sheet date. Gains and losses from foreign currency transactions are included in the Income Statement.

2. Significant accounting policies

Basis of accounting

These financial statements have been prepared in accordance with the Companies Act 2006 as applicable to companies using Financial Reporting Standard 101, *FRS 101 Reduced Disclosure Framework*. These financial statements have been prepared under the historical cost convention with the exception of financial instruments which are recognised at fair value at the end of the reporting period, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for the goods or services. Significant accounting policies have been included in the relevant notes to which the policies relate.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement purposes in these financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IFRS 16, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

1) Paragraphs 45b and 46 to 52 of *IFRS 2 Share-based payment* (details of the number and weighted average exercise prices of share options, and how the fair value of goods and services received was determined).
2) *IFRS 7 Financial Instruments: Disclosures.*
3) Paragraphs 91 to 99 of *IFRS 13 Fair value measurement* (disclosure of the valuation techniques and inputs used for fair value measurement of assets and liabilities).
4) The requirements of the second sentence of paragraph 110 and paragraph 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of *IFRS 15 Revenue from contracts with customers*.
5) Paragraph 38 of *IAS 1 Presentation of financial statements,* comparative information requirements in respect of:
    - paragraph 79 (a) (iv) of *IAS 1 Presentation of financial statements*
    - paragraph 73 (e) of *IAS 16 Property, plant and equipment*
    - paragraph 118 (e) of *IAS 38 Intangible assets* (reconciliation between the carrying amount at the beginning and end of the period).

L’Oréal (U.K.) Limited

Notes to the Financial Statements

2. Significant accounting policies (continued)

6) The following paragraphs of *IAS 1 Presentation of financial statements:*
    - 10 (d) (statement of cash flows)
    - 10 (f) (a statement of financial position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or make a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements)
    - 16 (statement of compliance with all IFRS)
    - 38A (requirement for a minimum of two primary statements, including cash flow statement)
    - 38B-D (additional comparative information)
    - 40A-D (change in accounting policy, retrospective of reclassification)
    - 111 (cash flow statement information)
    - 134 to 136 (capital management disclosures).
7) *IAS 7 Statement of cash flows.*
8) Paragraph 30 and 31 of *IAS 8 Accounting policies, changes in accounting estimates and errors* (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective).
9) Paragraph 17 and 18A *IAS 24 Related party disclosures* (key management compensation).
10) The requirements in *IAS 24 Related party disclosures* to disclose related party transactions entered into between two or more members of the group.
11) Paragraphs 134 (d) to 134 (f) and 135 (c) to 135 (e) of *IAS 36 Impairment of assets* (assumptions involved in estimating recoverable amounts of cash generating units containing goodwill or intangible assets with indefinite useful lives and management’s approach to determining these amounts).

The Company is exempt from the requirements of *IFRS 8 Operating Segments* on the grounds that its shares are not traded on the stock exchange. Segmental data is included in the consolidated financial statements of the parent company, L’Oréal S.A., and these can be obtained as set out in note 29.

Going concern

The directors have assessed the relevant business risks and believe that the Company is well placed to manage these risks successfully. The Company is operationally and financially strong with past performance showing that it consistently generates profits and cash.

We have considered the impact of the conflict in Ukraine, as well as the cost of living crisis driven by inflation and interest rate increases in the UK and their impacts on the economy and consumers.

Based on these factors we have looked at our business and its forecasted evolution, our beauty market by category, developments in our brands and our program for new launches.

We have considered cash flows, revenues and profits.

In the remainder of 2023 and next year we continue our usual aggressive plan of new product launches and business drivers to stimulate, in partnership with our retail partners, the continued consumption of beauty products. We remain determined to outperform the market, find again the path to growth and deliver solid profitability. We are satisfied that our profit levels will be maintained at healthy levels, our credit levels are well controlled and there are no significant risks to the cash position. L’Oréal UK has a strong cash generating business and access to significant liquidity. Our net profit after tax broadly translates to a similar level of operational cashflow (especially now that contributions to the defined benefit pension scheme are reduced as the scheme has exceeded 100% funding and has been de-risked).

We retain a positive cash position in the UK. We forecast a continued strong positive operational cashflow in 2023 in line with our forecasted profitability.

We are also part of the L’Oréal group cash-pooling regime which means that our access to credit is not an issue and falls within the Group’s financial resources. We have no debt, we do not foresee the need for any long term facilities and any short term requirements are simply managed centrally at a group level.

2. Significant accounting policies (continued)

In our opinion we are satisfied that the business is a going concern and we have a very strong position in our markets which we intend to strengthen further with our marketing programme and plans for the coming year.

The directors have, at the time of approving the financial statements, an expectation that the Company, being part of the L'Oréal worldwide banking arrangement, has adequate resources to continue in operational existence for at least 12 months from the signing of these financial statements. For this reason, we continue to adopt the going concern basis of accounting in preparing the financial statements.

Consolidated financial statements

The Company is a wholly-owned subsidiary of L'Oréal S.A. and is included in the consolidated financial statements of L'Oréal S.A. which are publicly available. Consequently, the Company has taken advantage of the exemption from preparing consolidated financial statements under the terms of section 400 of the Companies Act 2006.

Application of new and revised standards

New and amended standards and interpretations applied
The following new and amended standards and interpretations have been issued and are effective for the current financial period of the company:

Amendment to *IFRS 16 Leases – Covid-19 Related rent concessions.* In the prior year, the Company applied *Covid-19 Related Rent Concessions (Amendment to IFRS 16 Leases)* that provided practical relief to lessees in accounting for rent concessions occurring as a direct consequence of Covid-19, by introducing a practical expedient to IFRS 16. This practical expedient was available to rent concessions for which any reduction in lease payments affected payments originally due on or before 30 June 2021.

In March 2021, the Board issued *Covid-19 Related Rent Concessions beyond 30 June 2021 (Amendment to IFRS 16)* that extends the practical expedient to apply to reduction in lease payments originally due on or before 30 June 2022.

The Company has applied the practical expedient in the amendment, which permits reductions in rent payments granted as a direct consequence of the Covid-19 pandemic and originally due on or before 30 June 2022 to be credited to the income statement, rather than requiring remeasurement of the lease. The impact of the adoption of this amendment is described in note 13.

In addition, the Company has also adopted the amendments to *IFRS 3 'Business Combinations'* (reference to the Conceptual Framework) which is effective from 1 January 2022. These amendments have been assessed as having no financial impact or disclosure at this time.

International Financial Reporting Interpretations Committee (IFRIC) agenda decision on Software as a Service (SaaS) arrangements. The Interpretations Committee of the IASB received a request to comment on how a customer should account for costs of configuration or customisation of a suppliers software in a SaaS arrangement. Under a SaaS arrangement, a customer is granted a right of access to software. But there is no right to transfer the software to another platform or control its operation beyond what has been contractually agreed. The Committee concluded that a customer cannot recognise an intangible asset under *IAS 38 Intangible Assets* for costs related to configuration or customisation of the software.

As a result of this agenda decision, the Company reviewed its policy on the accounting of SaaS costs and decided to make a retrospective adjustment to expense the cost of SaaS projects which had been recognised as intangible assets.

2. Significant accounting policies (continued)

The effect of this adjustment in the Income Statement has been:

	2021 (as previously reported) £million	Impact of restatement £million	2021 (restated) £million
Selling, general and administration	(200.5)	0.5	(200.0)
Tax on profit	(44.7)	(0.1)	(44.8)
Profit for the financial year	125.5	0.4	125.9

The effect of the adjustment on periods not presented in these financial statements was to decrease profit by £2,600,000.

The effect of this adjustment in the Balance Sheet has been:

	2021 (as previously reported) £million	Impact of restatement £million	2021 (restated) £million
Other intangible assets	10.5	(2.9)	7.6
Retained earnings	214.9	(2.2)	212.7
Deferred tax liability	29.8	(0.7)	29.1

True and fair override not to amortise goodwill

The Company Balance Sheet shows acquired goodwill at a value of £2,765,000 relating to the professional haircare brand, Matrix. The Matrix brand continues to grow thanks to the success of innovative hair products especially made for hairdressers and salons; therefore, the directors consider it appropriate to assign an indefinite life to the goodwill. Goodwill is tested for impairment annually and again whenever indicators of impairment are detected and is carried at cost less any provision for impairment.

Paragraph 28 of schedule 9 to the Companies Act 2006 requires that goodwill carried on the Balance Sheet should be amortised. The directors consider that it is appropriate to depart from this requirement in order to comply with the overriding requirement for the financial statements to show a true and fair view. If this goodwill was amortised over a period of 20 years, it would have a zero net book value at the balance sheet date.

Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

There are no critical accounting judgements to be disclosed. The below constitute key sources of estimation uncertainty.

Year end and promotional rebates

The Company accrues for year-end rebates payable to customers. The rebate is usually agreed annually and will be conditional based on the customer meeting some targeted objectives. Promotional allowances are used by the Company to drive sales by incentivising a customer to sell promotional units during a limited time period. The Company can have multiple promotional arrangements in place with its customers. The value of the promotional allowance payable is subject to the number of units sold. An accrual is created based on management's best estimate of the level of success of the promotional activity and the accrual is reviewed and revised regularly.

L'Oréal (U.K.) Limited

Notes to the Financial Statements

2. Significant accounting policies (continued)

Defined benefit scheme

The Company has an obligation to pay pension benefits to certain employees. The cost of these benefits and the present value of the obligation depend on a number of factors, including: life expectancy, salary increases, asset valuations and the discount rate on corporate bonds. Actuaries estimate these factors in determining the net pension obligation in the Balance Sheet. The assumptions reflect historical experience and current trends. See note 22 for further details.

3. Turnover

Accounting policy

IFRS 15 Revenue from contracts with customers defines a five step model which should be applied to contracts with customers in order to determine when revenue should be recognised and at what amount. Revenue from the sale of goods to wholesalers is recognised once control of the goods is transferred to the customer and the customer has control, which is the date of dispatch from the distribution centre. Products are not sold on a 'sale and return' basis; however, a refund liability is recognised where the Company may accept a return of unsold or outdated products. This refund liability is presented within provisions for liabilities.

For the sale of goods online, revenue is recognised at the point of dispatch.

For sales of goods to consumers in our stores, revenue is recognised when the customer obtains control of the goods, which is when the transaction is completed in store.

Turnover comprises the amounts receivable for goods provided outside the L'Oréal S.A. group in the normal course of business, net of value added tax, customer allowances and returns. Incentives granted to distributors or consumers resulting in a cash outflow, such as commercial cooperation, coupons, discounts and loyalty programmes are also deducted from sales.

Turnover originates from the United Kingdom. The geographical destination of turnover is the United Kingdom and Ireland.

Customer allowances

The Company grants a number of price concessions to its customers which are recognised within turnover. These concessions can take various forms such as quantitative rebates, promotional allowances and consumer coupons and are recorded simultaneously to the recognition of the sales if they can be estimated in a reasonably reliable manner. Amounts accrued for customer allowances require a degree of estimation which will be based on the terms as indicated in the contract, sales volume, anticipated redemption rate based on past experience and statistics. The actual amounts paid may be different from the estimate. Accruals are monitored regularly and adjusted by the end of the year where necessary, but an adjustment may be required to be recorded in the following year.

Accruals for expected payments are included in other current liabilities in the Balance Sheet.

4. Government grants

Accounting policy

A Government grant is recognised in the Balance Sheet within other receivables when there is reasonable assurance that it will be received and that the Company will comply with the conditions attached to it. Grants are recognised gross as other operating income within operating profit in the Income Statement at a point in time to match the timing of the recognition of the related expenses that are intended to compensate.

As part of the Government's overall business support scheme, during the year the Company automatically received Business Rates Relief of £306,000 (2021 £1,765,000 including Restart Grants).

L'Oréal (U.K.) Limited

Notes to the Financial Statements

5. Operating profit

	2022 £million	2021 £million
Operating profit is stated after charging:		
Impairment charges on tangible assets	**0.2**	0.5
Impairment charges on right of use assets	**0.8**	3.7
Cost of inventories recognised as an expense	**365.1**	329.9
Write downs of inventories recognised as an expense	**9.0**	8.5
Impairment (credit)/loss recognised on trade receivables	**(0.1)**	1.5
Loss on foreign exchange	**5.5**	12.8
Costs of hedging transactions	**2.9**	2.7

Services provided by the Company's auditor and its associates
During the year the Company obtained the following services from its auditor as detailed below:

	2022 £million	2021 £million
Fees payable to the Company's auditor for the audit of the annual financial statements	**0.4**	0.3
Fees payable to the Company's auditor and its associates for other services:		
Other services	**-**	-
	0.4	0.3

6. Finance costs

	2022 £million	2021 £million
Interest payable to group companies	**-**	0.1
Interest expense on lease liabilities	**0.8**	0.1
	0.8	0.2

7. Finance income

	2022 £million	2021 £million
Bank interest	**2.0**	-
Net interest income on defined benefit pension plan	**2.9**	1.8
	4.9	1.8

L'Oréal (U.K.) Limited

Notes to the Financial Statements

8. Staff costs

The average monthly number of persons employed by the Company during the year, including directors, was:

	2022 Number	2021 Number
Selling and distribution	**2,631**	2,859
Administration	**467**	451
	3,098	3,310

The aggregate costs of employment were as follows:

	2022 £million	2021 £million
Wages and salaries	**143.8**	144.7
Social security costs	**18.5**	16.7
Defined contribution pension contributions	**13.4**	13.1
Defined benefit pension costs	**3.5**	3.7
Equity settled share based payment cost	**2.4**	2.4
	181.6	180.6

Directors' emoluments:	**2022 £million**	2021 £million
Aggregate emoluments	**1.6**	1.0
Aggregate gains on exercise of share incentives	**0.8**	0.7
Aggregate emoluments	**2.4**	1.7

Highest paid director:	**2022 £million**	2021 £million
Aggregate emoluments (excluding pension costs)	**0.7**	0.4
Aggregate gains on exercise of share incentives	**0.7**	0.5
Aggregate emoluments	**1.4**	0.9

Three directors exercised share options in the year (2021: two).

Contributions of £8,000 were paid by the Company into the defined contribution pension scheme for one director during the year (2021: £8,000).

L'Oréal (U.K.) Limited

Notes to the Financial Statements

9. Tax on profit

	2022 £million	2021 (restated) £million
Current tax:		
United Kingdom corporation tax on profits for the year	**36.2**	27.5
Adjustment in respect of prior years	**1.4**	(5.1)
	37.6	22.4
Deferred tax:		
Origination and reversal of temporary differences in the current year	**2.4**	4.3
Adjustment in respect of prior years	**0.4**	6.4
Effect of change in tax rates	**(0.5)**	11.7
	2.3	22.4
Tax expense for the year in income statement	**39.9**	44.8

In addition to the amount charged to the Income Statement, the following amounts relating to tax have been recognised directly in equity:

	2022 £million	2021 £million
Deferred tax on actuarial loss/gain on defined benefit obligations	**(16.4)**	0.7
Current tax credit relating to pension deduction	**(0.8)**	-
Deferred tax on cash flow hedges	**2.2**	(0.8)
Deferred tax on equity settled share based payment	**0.7**	(0.4)
Tax recognised directly in equity	**(14.3)**	(0.5)

The tax assessed for the year is higher (2021: higher) than the standard rate applied in the UK: 19% (2021: 19%). The differences are explained below:

	2022 £million	2021 (restated) £million
Profit before taxation	**188.6**	170.7
Tax at the UK corporation tax rate of 19% (2021: 19%)	**35.8**	32.4
Effects of expenses that are not deductible for tax purposes	**3.3**	0.1
Effect of income definitively not taxable	**(0.6)**	(0.6)
Effect of taxation at different rates	**0.8**	0.2
Origination and reversal of temporary differences	**(0.7)**	(0.3)
Adjustment in respect of prior years	**1.8**	1.3
Effect of change in tax rates	**(0.5)**	11.7
Tax expense for the year in income statement	**39.9**	44.8

The Company's profits for the accounting period to 31 December 2022 were taxed at an effective rate of 21.16% (2021: 26.30%). The main rate of UK corporation tax is 19%, effective since 1 April 2018.

As announced at the Budget on 3 March 2021, the Finance Bill 2021 introduces a change in the main rate of corporation tax to 25% from 1 April 2023. The Finance Bill 2021 was substantively enacted on 24 May 2021. As a result of this increase in the tax rate from 19% to 25%, in 2021 the deferred tax relating to the defined benefit scheme asset was revalued and, in 2022, all other existing temporary differences on which deferred tax was provided were revalued.

Notes to the Financial Statements

9. Tax on profit (continued)

During 2021, the Organisation for Economic Co-operation and Development (OECD) published a framework for the introduction of a global minimum effective tax rate of 15%, applicable to large multinational groups. On 23 March 2023, HM Treasury released draft legislation as part of the Spring Finance Bill 2023 to implement these 'Pillar 2' rules with effect for years beginning on or after 31 December 2023. The Group is reviewing these draft rules to understand potential impacts.

10. Dividends

	2022 £million	2021 £million
Equity dividend paid: 30.90p (2021: 21.28p) per share	**125.5**	86.4

The directors proposed a final dividend for the year ended 31 December 2022 of £148.7 million (2021: £125.5 million) which equates to 36.61p (2021: 30.90p) per share. The proposed final dividend was approved by the Board of Directors and paid in 2023. It has not been included as a liability in these financial statements.

11. Intangible assets

Accounting policy

Goodwill

Goodwill represents the excess of the fair value of the acquired assets and liabilities over the fair value of the identified assets and liabilities. Goodwill is allocated to the Cash Generating Units (CGU) expected to benefit from the acquisition. Goodwill is considered to have an indefinite useful life. Goodwill is tested for impairment annually and again whenever indicators of impairment are detected and is carried at cost less any provision for impairment.

The goodwill balance below is allocated to one cash-generating unit. The value of goodwill was tested for impairment during the current year by means of comparing the recoverable amount of the CGU with the carrying value of its goodwill.

The recoverable amount is its value in use. Recoverable values are determined on the basis of discounted operating cash flow forecasts covering a period of 5 years and a terminal value. The discount rate used for these calculations is based on the weighted average cost of capital and has been determined by L'Oréal S.A. to be 7.7% in 2022 (2021: 6.6%). The assumptions adopted in terms of sales growth and terminal values are reasonable and consistent with the available market data. No impairment loss was identified in 2022 or 2021. There is sufficient headroom such that a reasonably possible change in the key assumptions used would not result in an impairment of the goodwill.

Other intangible assets

Trademarks are measured at purchase cost and are amortised on a straight line basis over five or eight years.
Software acquired for internal use is recorded at purchase cost less any subsequent accumulated amortisation.
Costs are classed as under construction and are not amortised until such a time that the main functions of the software application become operational. Completed software is amortised on a straight line basis over its probable service life, with a maximum of eight years. Amortisation is charged to selling, general and administrative expenses.

L'Oréal (U.K.) Limited

Notes to the Financial Statements

11. Intangible assets (continued)

	Goodwill £million	Trademarks £million	Software £million	Software under construction £million	Total £million
Cost					
At 1 January 2022 (restated)	2.8	0.7	20.7	0.6	24.8
Additions	-	-	0.6	0.9	1.5
Disposals	-	-	(0.1)	(1.0)	(1.1)
Transfers within assets	-	-	(0.8)	0.8	-
At 31 December 2022	**2.8**	**0.7**	**20.4**	**1.3**	**25.2**
Accumulated amortisation					
At 1 January 2022 (restated)	-	0.7	13.7	-	14.4
Disposals	-	-	(0.1)	-	(0.1)
Charge for the year	-	-	1.7	-	1.7
At 31 December 2022	**-**	**0.7**	**15.3**	**-**	**16.0**
Net book value					
At 31 December 2022	**2.8**	**-**	**5.1**	**1.3**	**9.2**
At 31 December 2021 (restated)	2.8	-	7.0	0.6	10.4

Commitments

	2022 £million	2021 £million
Contracts for future capital expenditure not provided for in the financial statements	**0.5**	0.5

L'Oréal (U.K.) Limited

Notes to the Financial Statements

12. Tangible assets

Accounting policy

Tangible assets are recorded on the Balance Sheet at purchase cost less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Assets in the course of construction are carried at purchase cost and are not depreciated until ready for their intended use. Depreciation is provided on all fixed assets using the straight line method, except assets in the course of construction, at the following rates:

Point of sale advertising, stands and displays	- 3 or 5 years
Other tangible assets	- 2 to 15 years

The Company reviews the carrying amounts of its property, plant and equipment to determine whether there has been an indication of impairment loss. If an indication exists then the recoverable amount of the asset, being its value in use, is estimated to determine the extent of the impairment loss. Where the asset does not generate cash flows independently from other assets, the asset is allocated to a Cash Generating Unit (CGU) to which the asset belongs.

	Point of sale advertising, stands and displays £million	Other tangible assets £million	Assets under construction £million	Total £million
Cost				
At 1 January 2022	23.3	34.2	5.0	62.5
Additions	5.9	0.7	7.7	14.3
Disposals	(8.1)	(1.8)	(1.4)	(11.3)
Transfers	1.0	-	(1.0)	-
At 31 December 2022	**22.1**	**33.1**	**10.3**	**65.5**
Accumulated depreciation				
At 1 January 2022	14.0	29.9	-	43.9
Charge for the year	6.4	2.0	-	8.4
Disposals	(8.1)	(1.8)	-	(9.9)
Impairment charge	0.0	0.2	-	0.2
At 31 December 2022	**12.3**	**30.3**	-	**42.6**
Net book value				
At 31 December 2022	**9.8**	**2.8**	**10.3**	**22.9**
At 31 December 2021	9.3	4.3	5.0	18.6

Even though 2022 was marked by a progressive recovery of the retail sector, an impairment loss on point of sale and other tangible assets of £341,000 (2021: £427,000) was charged to the Income Statement. This charge relates to both stores which were identified for closure, and stores that continue to trade but where the cash flows no longer support the carrying value of the assets. The discount rate used within the impairment calculation was 7.7% (2021: 6.6%).

Also, during the year, the Company announced that it was cancelling its planned restructure to its distribution centre network which had been announced in January 2021. As a consequence, impairment losses of £114,000 (which were recognised as at 31 December 2021) were reversed to the Income Statement and is shown within other tangible assets.

L'Oréal (U.K.) Limited

Notes to the Financial Statements

12. Tangible assets (continued)

Commitments

	2022	2021
	£million	£million
Contracts for future capital expenditure not provided for in the financial statements	**1.8**	0.8

13. Leases

Accounting policy

At inception of a contract the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Company leases buildings for offices, distribution centres, hair academies and retail stores. Lease terms are negotiated on an individual basis and contain a wide range of terms and conditions. Leases are typically made for a fixed period of 10 – 15 years and may include extension options which provide operational flexibility. The Company also leases vehicles and equipment for use in the business. Lease terms on these are generally 3 – 7 years.

Right of use (ROU) assets are initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of the costs to restore the underlying asset or site on which it is located, less any lease incentives received.

The right of use asset is subsequently depreciated using the straight line method from the commencement date to the earlier of; the end of the useful life of the right of use asset or the end of the lease term.

Under IFRS 16, right of use assets are tested for impairment in accordance with *IAS 36 Impairment of Assets*. This replaces the previous requirement to recognise a provision for onerous lease contracts.

The lease liability at commencement date is measured as the present value of future lease payments, discounted by the interest rate implicit in the lease, or where this is not readily determined, the Company's incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise of:

(a) fixed lease payments (including in substance fixed payments), less any lease incentives
(b) variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date
(c) the exercise price of purchase options, if the lessee is reasonably certain to exercise the options, and
(d) payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right of use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included as operating expenses in the Income Statement.

The lease liability is subsequently measured at amortised cost, increasing the carrying amount to reflect interest on the lease liability and by reducing the carrying amount to reflect the lease payments made. The liability is re-measured when there is a change in future lease payments due to a change in assessment of exercising a purchase, extension or termination option.

L'Oréal (U.K.) Limited

Notes to the Financial Statements

13. Leases (continued)

In March 2021, the Board issued *Covid-19 Related Rent Concessions beyond 30 June 2021 (Amendment to IFRS 16)* that extends the practical expedient to apply to reduction in lease payments originally due on or before 30 June 2022. The practical expedient permits these reductions in rent payments to be credited to the Income Statement, rather than requiring a remeasurement of the lease. For the year ended 31 December 2022, the total credit to the Income Statement as a result of these practical expedients was £88,000 (2021: £1,038,000).

Right of use assets

The balance sheet shows the following amounts relating to leases:

	2022 £million	2021 £million
Buildings	**88.8**	16.7
Retail buildings	**2.7**	4.6
Equipment and vehicles	**4.0**	4.2
	95.5	25.5

Additions to right of use assets during the financial year were £79,039,000 (2021: £1,311,000), mainly due to the commencement of the new London headquarters lease.

Lease liabilities

The maturity analysis of lease liabilities is as follows:

	2022 £million	2021 £million
Due within one year	**9.5**	**12.4**
Due between one and five years	**14.0**	**15.1**
Due after five years	**66.9**	**1.7**
	90.4	**29.2**

Changes in lease liabilities in the year include a total cash outflow of £11,898,000 (2021: £12,636,000). New borrowings raised in the year amounted to £73,596,000 (2021: £5,470,000) mainly as a result of the new London headquarters.

The income statement shows the following amounts relating to leases:

	2022 £million	2021 £million
Depreciation charge of right of use assets		
Buildings	**8.5**	8.1
Retail buildings	**0.9**	2.8
Equipment and vehicles	**0.6**	0.7
	10.0	11.6
Impairment expense	**1.9**	3.7
Reversal of impairment loss	**(1.1)**	-
Expense relating to short term leases (included in administrative expenses)	**0.0**	0.0
Expense relating to leases of low-value assets (included in administrative expenses)	**0.6**	0.8
Expenses relating to variable lease payments (included in administrative expenses)	**0.3**	0.3

L'Oréal (U.K.) Limited

Notes to the Financial Statements

13. Leases (continued)

During 2022 the Company has reported impairment losses within its portfolio of retail stores. Despite an improvement of retail stores footfall and performance which was possible due to eased sanitary measures, overall store performance is still impacted by changes in customer shopping habits. An impairment loss on retail right of use assets of £1,890,000 (2021: £2,543,000) was charged to the Income Statement in the year. The discount rate used within the impairment calculation was 7.7% (2021: 6.6%).

During 2022 the Company has reported a reversal of impairment losses amounting to £1,121,000 within the Income Statement. This impairment loss had been recognised in the Income Statement for the year ended 31 December 2021. The reversal was a result of a decision to abandon its planned restructure of its distribution network which would have replaced its existing three distribution centres into one new hub. Past impairment losses related to both right of use buildings and equipment.

The future commitments on short term and low value assets are £549,000 (2021: £501,000) due in less than 1 year and £499,000 (2021: £298,000) due between 2 and 5 years.

The effects of excluding future cash outflows arising from variable lease payments, termination options and residual value guarantees from lease liabilities was not material.

Leases not yet commenced

The Company has committed to leases with a future commencement date. At the 31 December 2021 we had committed to a lease for our new headquarters in London but the lease commenced in September 2022.
The future aggregate minimum lease payments on such leases is as follows:

	As at December 2022 £million	As at December 2021 £million
Due within one year	**0.1**	0.1
Due between one and five years	**0.4**	7.8
Due after five years	**0.0**	83.0
	0.5	90.9

14. Investments

Investments are recognised at amortised cost less any provision considered necessary for impairment.

	2022 £million Investment in subsidiaries	**£million Other**	2021 £million Investment in subsidiaries	£million Other
At 1 January	**-**	**0.5**	16.9	0.2
Written off to merger reserve	**-**	**-**	(16.9)	-
Addition	**-**	**-**	-	0.4
Amortisation	**-**	**(0.2)**	-	(0.1)
At 31 December	**-**	**0.3**	-	0.5

L'Oréal (U.K.) Limited

Notes to the Financial Statements

14. Investments (continued)

Investments in subsidiaries

At 31 December 2022, the Company held ordinary shares in the following subsidiary undertakings:

Subsidiary undertaking	Country of incorporation	Registered office	Percentage holding of ordinary share capital	Nature of business
Two Five Five Limited	England and Wales	255 Hammersmith Road, London, W6 8AZ	100%	Not trading

On 1 January 2021, the trade, assets and liabilities of Azzaro Mugler Beauté Limited were transferred into L'Oréal (U.K.) Limited. The assets and liabilities are included in these financial statements at net book value. As a result of this group reorganisation, the cost of the acquisition of £16,941,000 less the value of the net assets acquired of £1,447,000 were transferred to the merger reserve. Azzaro Mugler Beauté Limited was liquidated on 14 June 2022.

Other investments

During the year ended 31 December 2018 and 31 December 2021, employees of the Company were invited to join a Share Incentive Plan and purchase shares in L'Oréal S.A. Participants were awarded 'Matching (bonus) shares'. The Company funded the purchase of these bonus shares and is amortising the value of the loan over the five year vesting period of the Plan.

15. Inventories

Accounting policy

Stocks are valued at the lower of cost and estimated net realisable value. Cost is calculated using the weighted average cost method. Net realisable value is based on estimated selling price in the ordinary course of business, less applicable variable selling expenses. The difference between the balance sheet value of inventories and the replacement value is not material.

	2022 £million	2021 £million
Finished products	**73.9**	65.0
Less: provision for obsolete inventories	**(9.0)**	(8.6)
Net inventories	**64.9**	56.4

16. Trade and other receivables

Accounting policy

In line with the requirement of *IFRS 9 Financial instruments,* trade receivables are recorded net of an allowance for expected credit loss. The amount of expected credit loss is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective trade receivable.

The Company always recognises lifetime expected credit losses for trade receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Company's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

Movement in the expected credit loss is shown within selling, general and administrative expenses in the Income Statement.

Trade receivables are due within one year.

	2022 £million	2021 £million
Trade receivables	**208.5**	167.2
Amounts owed by immediate parent company	**0.1**	0.5
Amounts owed by group undertakings	**64.1**	50.3
Less: expected credit losses on trade receivables	**(2.0)**	(2.4)
Net trade receivables	**270.7**	215.6

Amounts owed by parent company and group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand. The allowance for credit loss does not include any amount related to intercompany receivables because there are no historic write offs of such amounts, and hence any expected credit loss calculation would result in a nil allowance.

17. Other current assets

Accounting policy

Loans and other receivables are recorded at amortised cost. Loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as other current assets.

	2022 £million	2021 £million
Tax and employee related receivables (excluding current tax)	**8.5**	10.2
Prepaid expenses	**4.3**	3.7
Other	**1.8**	0.4
	14.6	14.3

There are no amounts due after more than one year (2021: nil).

Other also includes an amount of £394,000 (2021: £115,000) which is impaired at the Balance Sheet date and is carried at a nominal value of £289,000 (2021: £nil). Movements in the provision for impaired other current assets is shown within selling, general and administrative costs in the Income Statement.

Notes to the Financial Statements

18. Called up share capital and share premium account

Ordinary shares issued are classified as equity.

	2022	2021	2022 £million	2021 £million
Authorised share capital				
Issued and fully paid ordinary shares (par value £0.25)	**406,132,842**	406,132,842	**101.5**	101.5
Share premium account				
Share premium			**0.3**	0.3

19. Other reserves

	Merger reserve £million	Hedging reserve £million	Cost of hedging reserve £million	Share based payment reserve £million	Total other reserves £million
Balance at 1 January 2021	**(83.5)**	**(1.2)**	**(0.3)**	**15.9**	**(69.1)**
Effective portion of gains and losses on cash flow hedges (net of tax)	-	(3.8)	0.1	-	**(3.7)**
Credit to equity for equity settled share-based payments (net of tax)	-	-	-	2.8	**2.8**
Arising on group reconstruction - Azzaro Mugler Beauté Limited (note 14)	(15.5)	-	-	-	**(15.5)**
Balance at 31 December 2021	**(99.0)**	**(5.0)**	**(0.2)**	**18.7**	**(85.5)**
Effective portion of gains and losses on cash flow hedges (net of tax)	-	11.4	(3.0)	-	**8.4**
Credit to equity for equity settled share-based payments (net of tax)	-	-	-	1.7	**1.7**
Balance at 31 December 2022	**(99.0)**	**6.4**	**(3.2)**	**20.4**	**(75.4)**

The merger reserve was created on 1 July 2009 following the transfer in of the assets and liabilities of YSL Beauté Limited. It has later been adjusted by transfers of the assets and liabilities of De cléor (U.K.) Limited in 2015, IT Cosmetics Limited on 1 July 2018 and 8 January 2019, and Azzaro Mugler Beauté Limited on 1 January 2021.

The hedging reserve represents the cumulative effective fair value gains and losses on cash flow hedges. These gains and losses are reclassified to the Income Statement in the period when the hedged item affects the profit or loss.

The share based payment reserve represents the fair value gains and losses on equity-settled share based payment transactions.

20. Retained earnings

	Total retained earnings £million
Balance at 1 January 2021 (restated)	151.3
Profit for the financial year	125.9
Dividend paid	(86.4)
Actuarial gain on defined benefit obligations (net of tax)	21.2
Arising on transfer in - Azzaro Mugler Beauté Limited	0.7
Balance at 31 December 2021 (restated)	**212.7**
Profit for the financial year	148.7
Dividend paid	(125.5)
Actuarial loss on defined benefit obligations (net of tax)	(51.3)
Balance at 31 December 2022	**184.6**

21. Share-based payments

Accounting policy

The financial statements are prepared in accordance with the requirements of standard IFRS 2 Share-based Payment in respect of options granted to employees to purchase or subscribe for shares in its parent Company. The fair value of equity-settled share-based payments is determined at the date of grant and is expensed to the income statement on a straight-line basis over the vesting period, which is five years for purchase options and four years for free shares.

As the share options are equity-settled the corresponding entry is recognised in equity.

The fair value of stock options is determined using the Black Scholes model. This model allows for the characteristics of the plan such as exercise price and exercise period, market data at the grant date such as the risk-free rate, share price, volatility, expected dividends and behavioural factors of the beneficiaries. The fair value of free shares corresponds to the value of the share at the grant date, less dividends expected to be paid during the vesting period.

L'Oréal (U.K.) Limited

Notes to the Financial Statements

21. Share-based payments (continued)

ACAS shares

These are 'free shares' given to senior employees of the global Company on an annual basis. The scheme has been in place since 2009. For the UK, approximately 50 employees participate each year. The grant date is usually April of each year, and the plans have a four year vesting period. The plans are subject to performance criteria as follow for the 2015 - 2022 plans:

- For one half, L'Oréal growth when compared to cosmetic sales of a panel of competitors
- For one half, the growth in consolidated operating profit of the L'Oréal Group. In addition, the participants must remain employed by the Company throughout the vesting period.

The table below summarises data related to the free share plan vesting after 1 January 2018:

Share Subscription plans	Vesting date	Number of shares granted	Share price (Euros)	Fair Value (Euros)
17.04.2014	18.04.2018	13,850	€121.35	€109.99
22.04.2015	23.04.2019	12,875	€177.10	€164.50
20.04.2016	21.04.2020	15,325	€168.10	€154.32
20.04.2017	21.04.2021	14,275	€181.75	€166.90
17.04.2018	18.04.2022	16.300	€191.85	€176.17
18.04.2019	19.04.2023	13,900	€243.80	€226.25
14.10.2020	15.10.2024	12,250	€288.00	€269.37
07.10.2021	08.10.2025	8,575	€360.00	€339,34
13.10.2022	14.10.2026	10,470	€327.80	€303.33

The fair value corresponds to the value of the share at the grant date, less dividends expected to be paid during the vesting period.

L'Oréal Employee Share Plan and Share Incentive Plan (SIP)

As part of the Group's global all-employee share plan, employees were given the opportunity to subscribe to a L'Oréal Employee Share Plan in which free shares were offered. The number of free shares offered was dependent on the contribution made to the plan with a maximum of four shares offered for every ten shares subscribed. The shares vest over a five year period. Should the employee leave before the end of the vesting period, the free shares would be lost.

Plan 2018

For employees in the Republic of Ireland, the subscription price set was €162.52 representing 80% of the average opening share price in the stock market between 4 May 2018 and 31 May 2018. The number of shares in which employees subscribed was 562 and that amounted to 140 free shares.

For employees in the United Kingdom, they became involved in the L'Oréal Share Incentive Plan (SIP). The subscription price set was €205.66 representing the lower of the share price on 1 July 2018 or the purchase price in November 2018. The number of shares in which employees subscribed was 4,514 and that amounted to 2,010 free shares. Shares, including the matching shares, in the L'Oréal SIP are held in an employee share trust.

L'Oréal (U.K.) Limited

Notes to the Financial Statements

21. Share based payments (continued)

Plan 2020
For employees in the Republic of Ireland, the subscription price set was €223.25 representing 80% of the average opening share price in the stock market between 17 August 2020 and 11 September 2020. The number of shares in which employees subscribed was 502 and that amounted to 109 free shares.

For employees in the United Kingdom, they became involved in the L'Oréal Share Incentive Plan (SIP). The subscription price set was €276.62 representing the lower of the share price on 1 October 2020 or the purchase price in June 2021. The number of shares in which employees subscribed was 3,728 and that amounted to 1,599 free shares. Shares, including the matching shares, in the L'Oréal SIP are held in an employee share trust.

Plan 2022
For employees in the Republic of Ireland, the subscription price set was €254.90 representing 80% of the average opening share price in the stock market between 6 May 2022 and 2 June 2022. The number of shares in which employees subscribed was 240 and that amounted to 165 free shares.

For employees in the United Kingdom, they became involved in the L'Oréal Share Incentive Plan (SIP). The subscription price has yet to be set as it will represent the lower of the share price on 1 October 2022 or the purchase price in October 2023. The number of shares in which employees subscribed was 3,974 and that amounted to 1,446 free shares. Shares, including the matching shares, in the L'Oréal SIP are held in an employee share trust.

The total amount of expense recorded in 2022 for all share based payment was £2,392,000 (2021: £2,366,000).

The carrying amount at the year-end of liabilities arising from social security costs on share based payment transactions amounted to £1,324,000 (2021: £1,375,000).

Notes to the Financial Statements

22. Retirement benefit schemes

Accounting policy

The Company operates a defined benefit scheme, The L'Oréal (U.K.) Limited Retirement Benefit Plan. Pension benefits are provided through a trustee administered scheme which is entirely separate from the Company's finances.

The defined benefit pension cost and the present value of the defined benefit obligations are calculated at the reporting date by the schemes' actuaries using the Project Unit Credit Method. The net charge to the Income Statement comprises the current service cost, plus the interest cost (the unwinding of the discount rate on plan liabilities), less the expected return on plan assets. Past service costs are charged immediately to the Income Statement to the extent that the benefits have vested, and are otherwise recognised on a straight-line basis over the average period until the benefits vest.

Guaranteed Minimum Pensions (GMP) – GMP is the minimum pension which a UK occupational pension scheme must provide for those employees who were contracted-out of the State Earnings-Related Pension Scheme between 6 April 1978 and 5 April 1997.

On 26 October 2018, the High Court ruled that pensions provided to members who had contracted-out of the state pension scheme must be recalculated. Pension schemes which provided GMPs must equalise their benefits to ensure no inequality between men and women. GMP equalisation will increase benefits for some members. Where GMPs are already in payment, GMP equalisation is likely to mean an arrears payment will need to be made to members as well as correcting benefits going forward. At 31 December 2018 the Balance Sheet liability was increased to make allowance for this ruling.

On 20 November 2020, the High Court ruled that UK pension schemes with GMPs built up from 17 May 1990 to 5 April 1997 should revisit, and where necessary, top up historic cash equivalent transfer values that were calculated on an unequalised basis if an affected member makes a successful claim. In respect of this further ruling, and following review, the Company decided that no further adjustment to liabilities was required.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actual occurred), as well as the effects of changes in actuarial assumptions. Actuarial gains and losses are recognised in other comprehensive income in the period in which they arise.

The defined benefit asset recognised in the Balance Sheet represents the present value of defined benefit obligations adjusted for unrecognised past service costs and reduced by the fair value of plan assets. A net pension asset is only recognised to the extent that it is expected to be recoverable in the future through a cash refund or a reduction in future payments.

The present value of the pension obligations depend on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations.

The Company determines the appropriate discount rate each year. This is the interest rate that is used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. The discount rate has been determined by considering yields available on high quality corporate bonds of an appropriate duration.

The Company also operates a defined contribution pension scheme. Contributions to this scheme are charged to the Income Statement as they fall due. Any contributions unpaid at the balance sheet date are included as an accrual at that date.

22. Retirement benefit schemes (continued)

Defined benefit scheme principal risks

Through its defined benefit pension plan, the Company is exposed to a number of risks, the most significant of which are detailed below:

Asset volatility

The Plan liabilities are calculated using a discount rate set with reference to corporate bond yields. If Plan assets underperform this yield, this will create a deterioration in the balance sheet position (all else being equal). This volatility has been partly mitigated by the recent pensioner buy-in and asset de-risking.

Inflation risk

The majority of benefits are linked to inflation and so increases in inflation will lead to higher liabilities (although in most cases there are caps in place which protect against extreme inflation). This risk has been partly mitigated by the recent pensioner buy-in and asset de-risking.

Longevity

Increases in life expectancy in excess of the increases allowed for in the assumptions will increase non-insured Plan liabilities. Longevity risk has been partly mitigated by the recent pensioner buy-in which reduced the non-insured Plan liabilities.

Changes in bond yields

A decrease in corporate bond yields will increase the value placed on the Plan liabilities, although this will be partially offset by an increase of the Plan's insured annuities, bonds and LDI holdings.

L'Oréal (U.K.) Limited Retirement Benefits Plan

The Plan operates in respect of some of its employees (and former employees) in the UK. The plan is a funded defined benefit arrangement and is a Registered Pension Scheme under the Finance Act 2004. Funding valuations for the plan are carried out under the requirements of the Pensions Act 2004. The plan provides benefits based on length of service and final salary at retirement or earlier date of leaving. The Plan is open to future accrual but closed to new entrants.

Trustees have the primary responsibility for governance of the Plan. Benefit payments are from Trustee-administered funds and Plan assets are held in trust which is governed by UK regulation. Part of the responsibility for governance of the Plan, including setting contribution rates, lies jointly with the Company and the Trustees as required by the Plan's Trust Deeds and Rules and overriding legislation. However, investment decisions are the responsibility of the Trustees only, although they must consult the Company. The Trustees are comprised of nominations from the Company and members in accordance with the Trust Deed and Rules.

The most recent formal funding review valuation had an effective date of 5 April 2020 and was completed by the scheme actuary, Buck Consultants Limited, in March 2021. Under an agreed contingency funding plan, the funding of the plan is assessed on a quarterly basis and the deficit contributions made by the Company will depend on those assessments, varying between nil and £1,250,000 per month. The Company has not made additional funding contributions during 2022 and does not expect to make additional funding contributions during 2023 (2021: £1,500,000).

The Company makes contributions in respect of active members; the rate of such contributions in 2022 is 38.6% (2021: 38.6%) of relevant salaries (plus an additional amount in respect of members participating in a salary sacrifice arrangement).

The Company also contributes towards the expenses of operating the Plan (including the Pension protection levy and life assurance premiums). Additional contributions may be made in respect of the expenses associated with special projects related to the Plan.

The next formal funding review valuation will be as of 5 April 2023.

L'Oréal (U.K.) Limited

Notes to the Financial Statements

22. Retirement benefit schemes (continued)

The duration of the plan liabilities is around 17 years. The following table provides information on the timing of the benefit payments (amount undiscounted):

	£million
Year ending 31 December 2023	**16.3**
Year ending 31 December 2024	**14.0**
Year ending 31 December 2025	**15.6**
Year ending 31 December 2026	**15.6**
Year ending 31 December 2027	**16.0**
Five years ending 31 December 2032	**96.5**

The major assumptions used by the actuaries were as follows:

	2022	2021
Salary increases	**3.75%**	3.90%
Rate of increase of LPI pensions in payment – L'Oréal plan	**3.05%**	3.20%
Discount rate	**4.75%**	2.00%
Inflation (Retail Prices) assumption	**3.15%**	3.35%
Inflation (Consumer Prices) assumption	**2.75%**	2.90%

The base mortality assumptions are based on the SAPS S3 tables (2021: SAPS S3 tables), with adjustments to reflect the Scheme's population. Future mortality improvements are CMI 2021 (2021: CMI 2020) projections with a long-term rate of improvement of 1.5% per annum for males and 1.25% per annum for females (2021: 1.5% per annum for males and 1.25% per annum for females).

The amounts recognised in the Balance Sheet are determined as follows:

	2022 £million	2021 £million
Present value of defined benefit obligation	**390.0**	651.9
Fair value of plan assets	**(466.9)**	(794.3)
Asset in the Balance Sheet	**(76.9)**	(142.4)

A net asset has been recognised as the Company believe it has an unconditional right to a refund of surplus in the Plan, assuming the gradual settlement of the Plans liabilities over time until all members have left the Plan.

The movement in the defined benefit obligation over the year is as follows:

	2022 £million	2021 £million
Opening defined benefit obligation	**651.9**	662.7
Current service cost	**3.5**	3.7
Employee contributions	**0.0**	0.0
Interest cost	**12.8**	9.8
Actuarial gain	**(254.5)**	(7.5)
Benefits and expenses paid	**(23.7)**	(16.8)
Closing defined benefit obligation	**390.0**	651.9

22. Retirement benefit schemes (continued)

Based on the assumptions set out above, the impact on the present value of the defined benefit obligations of changing the following individual assumptions (with all other assumptions remaining unchanged) is set out below:

	2022 £million
Value of obligations at the end of the year if:	
Assumptions as set out above	**390.0**
Discount rate reduced by 0.5% p.a.	**424.7**
Discount rate increased by 0.5% p.a.	**359.1**
Inflation reduced by 0.25%* p.a.	**377.9**
Inflation increased by 0.25%* p.a.	**402.7**

*This sensitivity allows for the impact on all inflation related assumptions (salary increases, deferred revaluation and pension increases (subject to the relevant caps and floors)).

The net retirement benefit obligation is the difference between the retirement benefit obligation and the fair value of plan assets. Changes in the assumptions may occur at the same time as changes in the fair value of plan assets. The same method (projected unit method) and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

The movement in the fair value of plan assets of the year is as follows:

	2022 £million	2021 £million
Opening fair value of scheme assets	**794.3**	779.7
Return on plan assets excluding interest income	**(323.0)**	14.4
Employer contributions	**3.6**	5.4
Employee contributions	**0.0**	0.0
Interest income	**15.7**	11.6
Benefits and expenses paid	**(23.7)**	(16.8)
Closing fair value of plan assets	**466.9**	794.3

An analysis of the movement in the Balance Sheet liability is as follows:

	2022 £million	2021 £million
Asset at the beginning of the year	**(142.4)**	(117.0)
Net expense recognised in the Income Statement	**0.6**	1.9
Employer contributions	**(3.6)**	(5.4)
Actuarial loss/(gain) recognised in the Statement of Comprehensive Income	**68.5**	(21.9)
Asset at the end of the year	**(76.9)**	(142.4)

Amounts recognised in the Statement of Comprehensive Income are:

	2022 £million	2021 £million
Return on plan assets excluding interest income	**(323.0)**	14.4
Experience gain arising on the plan liabilities	**254.5**	7.5
Actuarial (loss)/gain recognised in the Statement of Comprehensive Income	**(68.5)**	21.9

Notes to the Financial Statements

22. Retirement benefit schemes (continued)

The amounts recognised in the Income Statement are as follows:

	2022 £million	2021 £million
Current service cost	**3.5**	3.7
Net interest income	**(2.9)**	(1.8)
Total included in the Income Statement	**0.6**	1.9

The current service cost has been included in the income statement as 'Selling, general and administrative expenses'. The net interest income has been included within 'Finance cost' and 'Finance income'.

The Trustees of the Plan undertake asset-liability matching studies on a regular basis and consult with the Company regarding any changes to the Plan's investment strategy. The matching assets to the pension obligations are considered to be long-term fixed interest/inflation-linked securities.

The majority of the Plan's assets are held in matching assets and it would be expected that this proportion would increase over time, as the Plan matures. The balance of the Plans' assets is invested in a diversified portfolio of growth-oriented assets with the aim of achieving higher levels of return at an acceptable level of risk.

The breakdown of plan assets, by asset class, is as follows:

	2022 %	2021 %
Equities	**6**	13
Bonds	**68**	78
Property	**15**	9
Other	**11**	0
	100	100

23. Provisions for liabilities

Accounting policy

Provisions are recognised when there is a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The provision for product returns represents the refund liability for the expected refunds to customers. It is estimated using historical return rates which have demonstrated to have been reliable in the past and is expected to be utilised or reversed within one year.

Leasehold improvement provisions have been created because the Company leases premises which contain lease rectification clauses that impose certain requirements on the Company to return the properties to their original state. Dilapidation provisions are recognised where the Company expect to have to repair a leased property before returning it to the landlord. The provision will be utilised on exit of the properties which will happen at varying times over the next 15 years. £5,600,000 is expected to be utilised in the next year.

A restructuring provision is recognised when the Company has developed a detailed plan for the restructuring and has a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of the restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity.

L'Oréal (U.K.) Limited

Notes to the Financial Statements

23. Provisions for liabilities (continued)

Other includes a provision for social security contributions payable on exercise of share based payments, and litigation. This provision is expected to be utilised within one year.

	2022 £million	2021 £million
Product returns	**7.0**	10.4
Leasehold improvement/dilapidations	**15.3**	9.2
Restructuring	**0.0**	3.0
Other	**2.7**	2.6
	25.0	25.2
Current	**15.3**	15.9
Non-current	**9.7**	9.3
	25.0	25.2

	Product returns £million	**Leasehold improvement/ dilapidations £million**	**Restructuring £million**	**Other £million**	**Total £million**
At 1 January 2022	10.4	9.2	3.0	2.6	25.2
New provisions during the year	4.9	6.3	0.0	1.5	12.7
Utilisation of provision	(6.2)	(0.1)	(0.5)	(0.5)	(7.3)
Reversal of provision without cost	(2.1)	(0.1)	(2.5)	(0.9)	(5.6)
At 31 December 2022	**7.0**	**15.3**	**0.0**	**2.7**	**25.0**

24. Deferred tax liability

Accounting policy

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profits, and is accounted for using the balance sheet liability method.

Deferred tax is measured using the tax rate enacted at the closing date.

Deferred tax assets are only recognised to the extent it is probable that sufficient future taxable profits will be available against which they can be utilised.

Deferred tax assets and liabilities are offset as the Company has a legally enforceable right to set off current tax assets against current tax liabilities, and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority.

The following are the major deferred tax assets and liabilities recognised and movements during the current and prior years.

L’Oréal (U.K.) Limited

Notes to the Financial Statements

24. Deferred tax liability (continued)

	Accelerated tax depreciation £million	Share based payments £million	Retirement benefit obligations £million	Foreign exchange derivatives £million	Other £million	Total £million
At 1 January 2021 (restated)	**9.7**	**1.6**	**(22.2)**	**0.8**	**2.9**	**(7.2)**
Reclassifications	(0.2)	0.0	-	(0.4)	0.6	-
Arising on transfer in - Azzaro Mugler Beauté Limited	0.0	-	-	-	-	0.0
Credit/(charge) to income statement	(7.7)	0.1	(0.9)	-	(2.2)	(10.7)
Credit/(charge) to equity or other comprehensive income	-	0.4	(0.7)	0.8	-	0.5
Effect of change in tax rate in the income statement	-	0.1	(11.8)	-	-	(11.7)
At 31 December 2021 (restated)	**1.8**	**2.2**	**(35.6)**	**1.2**	**1.3**	**(29.1)**
Credit/(charge) to income statement	(1.7)	0.1	-	-	(1.2)	(2.8)
Credit/(charge) to equity or other comprehensive income	-	(0.7)	16.4	(2.2)	-	13.5
Effect of change in tax rate in the income statement	0.3	-	-	-	0.2	0.5
At 31 December 2022	**0.4**	**1.6**	**(19.2)**	**(1.0)**	**0.3**	**(17.9)**

Deferred tax is measured at 23.5% (blended rate) except for retirement benefit obligation which was measured at 25% (2021: 19% except for known items that will unwind at 23.5% or 25%).

There is an unrecognised deferred tax asset in respect of trading losses carried forward of £39,500 (2021: £140,285) relating to two ancillary trades carried on by the Company. These losses may only be offset against future profits arising from those particular trades. In the view of the directors of the Company it is not considered that, in the foreseeable future, sufficient suitable profits will arise against which the losses may be offset and, therefore, no deferred tax asset is recognised in respect of these losses.

L'Oréal (U.K.) Limited

Notes to the Financial Statements

25. Trade and other payables

Trade and other payables and other current liabilities are recognised at amortised cost.

	2022 £million	2021 £million
Trade creditors	**115.2**	106.0
Accruals	**101.4**	84.8
Amounts owed to immediate parent company	**9.2**	7.0
Amounts owed to group undertakings	**34.2**	30.0
	260.0	227.8

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs.

Amounts owed to parent and group undertakings are unsecured, have no fixed repayment period but are repayable on demand, and are non-interest bearing in both years.

26. Other current liabilities

	2022 £million	2021 £million
Personnel and social security	**26.5**	28.2
Other taxation (excluding current tax)	**21.7**	19.3
Year end and promotional rebates	**114.5**	111.7
Deferred income	**0.1**	0.1
Fixed asset payables	**9.6**	5.4
Accrued interest on lease liability	**0.5**	0.0
Other current liabilities	**0.3**	-
	173.2	164.7

27. Financial risk management and derivative financial instruments

Accounting policy

Financial instruments

Forward foreign exchange contracts and options are put in place in order to hedge cash flows. They are recorded on the Balance Sheet as fair value hedges of cash flows on future commercial transactions whose completion is considered to be highly probable.

All hedging instruments are recorded on the Balance Sheet at their market value, including those which relate to purchases and sales in the next accounting year. If the future cash flow hedging relationship is duly documented and the effectiveness of the hedges demonstrated, the variation in the fair value of these hedging instruments is recorded directly in equity, and impacts the Income Statement on the date on which the transactions hedged are completed. Any ineffective part is charged directly to the Income Statement within selling, general and administrative expenses.

In application of hedge accounting, unrealised exchange gains and losses relating to unsold inventories are deferred in the inventories item in the Balance Sheet.

The management of the business and the execution of the Company's strategy are subject to a number of risks: market risk, credit risk and liquidity risk.

27. Financial risk management and derivative financial instruments (continued)

Market risk
Market risk is the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market price.

The Company's operations expose it to foreign currency exchange risk due to exchange rate movements, which will affect the Company's transaction costs and the translation of net assets of its branch in the Republic of Ireland.

The Company manages its exposure to currency rate risks arising through its normal course of business using derivatives.

It is the policy of the Company to enter into forward foreign exchange contracts and options to cover foreign currency payments and receipts. Using detailed forecasts, the Company will use forward foreign exchange contracts to reduce its exposure so that, at the end of the year, 80% to 100% of any currency risk identified has been hedged.

All foreign exchange hedging is carried out by the L'Oréal S.A. Group Treasury Department who do not enter into or trade financial instruments for speculative purposes.

The fair value of the Company's foreign currency denominated monetary assets and liabilities are as follows:

	2022		2021	
	Assets £million	**Liabilities £million**	Assets £million	Liabilities £million
Forward foreign exchange contracts – cash flow hedge	**10.0**	**6.4**	6.5	16.3
	10.0	**6.4**	6.5	16.3

The fair value of the hedging derivatives is classified as a current asset or liability in the Balance Sheet as the maturity of the hedged items are less than 12 months. Gains and losses recognised in the hedging reserve in equity on foreign exchange contracts are recognised in the Income Statement in the years during which the hedged forecast transaction affects the Income Statement.

Set out below is the analysis of the impact on other comprehensive income:

	2022 £million	2021 £million
Change in fair value	**3.8**	(6.8)
Reclassified to profit and loss as hedged item effects profit and loss	**6.8**	2.3
	10.6	(4.5)

L'Oréal (U.K.) Limited

Notes to the Financial Statements

27. Financial risk management and derivative financial instruments (continued)

The total nominal amount of outstanding foreign exchange contracts as at year end:

	2022 £million	2021 £million
Buy:		
PLN	**17.9**	8.4
EURO	**588.3**	526.4
USD	**34.8**	21.4
	641.0	556.2
Sell:		
CAD	**1.4**	-
EURO	**228.7**	197.6
USD	**26.6**	16.3
	256.7	213.9

The Company has no short or long term borrowings and, therefore, considers its exposure to interest rate risk to be not significant.

Credit risk
Credit risk is the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company is particularly exposed to credit risk through its transactions with wholesale and hairdressing salon customers.

The Company has policies in place that require appropriate credit checks on customers, both new and existing, which are reviewed on a regular basis. Credit limits are set for each customer based on the independent rating of that customer or, if no independent rating is available, based on an assessment of the financial position of the customer.

Trade receivables are recorded net of an allowance for doubtful debts. The allowance is calculated using the expected credit loss model. The calculation is based using historic actual loss statistics. If further evidence exists of a customer in significant financial difficulty or continuous default in payment then a specific provision is made against that customer.

Credit insurance cover has been purchased by the Company to protect the trade and other receivables from financial loss.

Other activities to mitigate credit risk include guarantees received and not releasing goods until payment received.

Liquidity risk
Liquidity risk is the risk that the Company cannot meet its obligations associated with financial liabilities that are settled in cash. The Company manages liquidity in conjunction with the L'Oréal S.A. Group's Financial Services Department. The Company has substantial short term credit facilities through its Group cash pooling arrangements and has no long term external debt.

28. Related Party Transactions

The Company has no related party transactions which need to be disclosed in these financial statements.

The Company has taken advantage under *FRS 101 Reduced Disclosure Framework* not to disclose information about transactions between its parent and fellow subsidiaries.

29. Ultimate Parent Undertaking

The immediate parent undertaking is L'Oréal S.A.

The ultimate parent undertaking and controlling party is L'Oréal S.A., a Company incorporated in France.

L'Oréal S.A. is the parent undertaking of the largest and smallest group of undertakings to consolidate these financial statements at 31 December 2020. The consolidated financial statements of L'Oréal S.A. can be obtained from its registered office: 31 Rue Martre, 92117 Clichy, France.