

# L'ORÉAL

2017 Registration Document  
Annual Financial Report - Integrated Report



# Content



<p><b>1</b> PRESENTATION OF THE GROUP INTEGRATED REPORT <b>5</b></p> <p><b>1.1.</b> The L'Oréal Group: fundamentals 6</p> <p><b>1.2.</b> A clear strategy : Beauty for all 11</p> <p><b>1.3.</b> Good growth momentum for shared, lasting development* 25</p> <p><b>1.4.</b> An organisation that serves the Group's development 40</p> <p><b>1.5.</b> Internal Control and risk management system 44</p>	<p><b>5</b> 2017 PARENT COMPANY FINANCIAL STATEMENTS* <b>285</b></p> <p><b>5.1.</b> Compared income statements 286</p> <p><b>5.2.</b> Compared balance sheets 287</p> <p><b>5.3.</b> Changes in shareholders' equity 288</p> <p><b>5.4.</b> Statements of cash flows 289</p> <p><b>5.5.</b> Notes to the parent company financial statements 290</p> <p><b>5.6.</b> Other information relating to the financial statements of L'Oréal parent company 309</p> <p><b>5.7.</b> Five-year financial summary 310</p> <p><b>5.8.</b> Investments (main changes including shareholding threshold changes) 311</p> <p><b>5.9.</b> Statutory Auditors' Report on the financial statements 312</p>
<p><b>2</b> CORPORATE GOVERNANCE* <b>45</b></p> <p><b>2.1.</b> Framework for the implementation of corporate governance principles 46</p> <p><b>2.2.</b> Composition of the Board of Directors 49</p> <p><b>2.3.</b> Organisation and modus operandi of the Board of Directors 66</p> <p><b>2.4.</b> Remuneration of the members of the Board of Directors 84</p> <p><b>2.5.</b> Remuneration of the executive officers 86</p> <p><b>2.6.</b> Summary statement of trading by executive officers in L'Oréal shares in 2017 103</p> <p><b>2.7.</b> Summary table of the recommendations of the AFEP-MEDEF Code which have not been applied 104</p> <p><b>2.8.</b> Risk factors and control environment 105</p> <p><b>2.9.</b> Statutory Auditors' Reports 133</p>	<p><b>6</b> STOCK MARKET INFORMATION SHARE CAPITAL <b>317</b></p> <p><b>6.1.</b> Information relating to the Company 318</p> <p><b>6.2.</b> Information concerning the share capital* 320</p> <p><b>6.3.</b> Shareholder structure* 323</p> <p><b>6.4.</b> Long-Term Incentive plans * 328</p> <p><b>6.5.</b> The L'Oréal share/L'Oréal share market 334</p> <p><b>6.6.</b> Information policy 339</p>
<p><b>3</b> L'ORÉAL'S CORPORATE SOCIAL, ENVIRONMENTAL AND SOCIETAL RESPONSIBILITY* <b>135</b></p> <p><b>3.1.</b> L'Oréal's corporate social, environmental and societal policies 137</p> <p><b>3.2.</b> The Sharing Beauty With All programme 181</p> <p><b>3.3.</b> Methodological notes 205</p> <p><b>3.4.</b> Tables of concordance 208</p> <p><b>3.5.</b> Statutory Auditors' Reports 214</p>	<p><b>7</b> ANNUAL GENERAL MEETING <b>341</b></p> <p><b>7.1.</b> Draft resolutions and report of the Board of Directors (statement of reasons) to the Ordinary and Extraordinary General Meeting to be held on 17 April 2018 (adopted on 8 February 2018) 342</p> <p><b>7.2.</b> Statutory Auditors' Reports 363</p>
<p><b>4</b> 2017 CONSOLIDATED FINANCIAL STATEMENTS* <b>221</b></p> <p><b>4.1.</b> Compared consolidated income statements 223</p> <p><b>4.2.</b> Consolidated statement of comprehensive income 224</p> <p><b>4.3.</b> Compared consolidated balance sheets 225</p> <p><b>4.4.</b> Consolidated statements of changes in equity 226</p> <p><b>4.5.</b> Compared consolidated statements of cash flows 228</p> <p><b>4.6.</b> Notes to the consolidated financial statements 229</p> <p><b>4.7.</b> Consolidated companies at 31 December 2017 276</p> <p><b>4.8.</b> Statutory auditors' report on the consolidated financial statements 281</p>	<p><b>8</b> APPENDIX <b>367</b></p> <p><b>8.1.</b> Statutory Auditors 368</p> <p><b>8.2.</b> Historical financial information included by reference 368</p> <p><b>8.3.</b> Person responsible for the Registration Document and the Annual Financial Report 369</p> <p><b>8.4.</b> Declaration by the person responsible for the Registration Document and the Annual Financial Report 369</p> <p><b>8.5.</b> Registration Document table of concordance 370</p> <p><b>8.6.</b> Annual Financial Report table of concordance 372</p> <p><b>8.7.</b> Table of concordance with the AMF tables on the remuneration of executive officers and Directors 372</p> <p><b>8.8.</b> Table of concordance of the Management Report 373</p>

Detailed chapter contents can be found at the beginning of each chapter.

\* This information forms an integral part of the Annual Financial report as provided in the Article L. 451-1-2 of the French Monetary and Financial Code.

# L'ORÉAL



## REGISTRATION DOCUMENT

# 2017

Annual Financial Report – Integrated Report  
Corporate and Social Responsibility



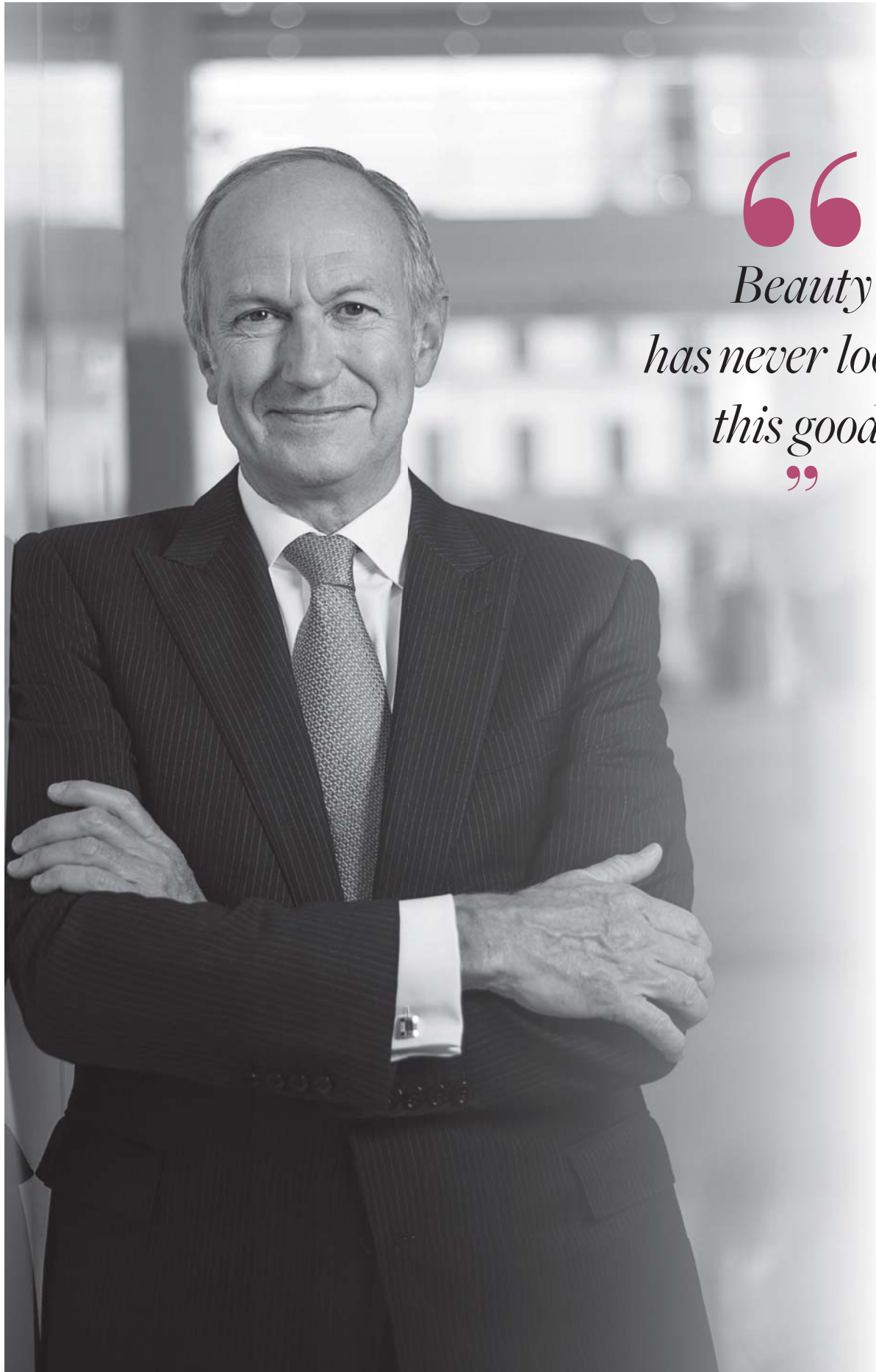
In application of Article 212-13 of the General Regulation of the *Autorité des Marchés Financiers* (AMF), this Registration Document was filed with the AMF on March 13th, 2018.

This Registration Document may be used in connection with a financial transaction if it is accompanied by an information memorandum approved by the AMF. The document has been prepared by the issuer and its signatories incur liability in this regard.

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This label recognises the most transparent Registration Documents according to the criteria of the Annual Transparency Ranking.



“

*Beauty  
has never looked  
this good.*

”

As people's desires for beauty grow in multiple ways worldwide, beauty has never looked this good. Market growth accelerated in 2017, stimulated by extremely favourable demographic and sociological developments. In this dynamic market, **L'Oréal achieved a great new year** in terms of sales and results.

**We strengthened our positions** in categories, distribution channels and regions of the world, which are strategic for the future. First, in the two most important categories of the market, **makeup** and **skincare**. Secondly, in two key sectors: **selective**, where L'Oréal Luxe has experienced its strongest growth since 2000, and **dermocosmetics**, where our Active Cosmetics Division has passed the two billion euro mark. In **the New Markets** also where, for the first time, we surpassed ten billion euros in sales, particularly thanks to the dynamism of the Asia, Pacific Zone. Lastly, two growth boosters are running full steam ahead: on the one hand, 2017 was **another great year of digital acceleration**. Our e-commerce sales grew by +34%<sup>(1)</sup> and online sales now exceed two billion euros, representing nearly 25% of sales in a digitally advanced country like China. On the other hand, **Travel Retail**, a high potential channel where L'Oréal celebrated its 40 years by strengthening its leadership position.

L'Oréal also delivered good results, **achieving a record operating margin of 18%**. The year was marked by a sharp increase in net income, up +15.3%, as well as by a dividend increase that will be proposed at the Annual General Meeting<sup>(2)</sup>. The Group has once again shown the strength of its powerful, balanced and value-creating business model.

But our mission goes beyond economic success. This year, through **our sustainability programme, "Sharing Beauty With All"**, we have once again demonstrated that economic performance and environmental and social performance go hand in hand and are even mutually reinforcing. For example, in 2017, the reduction in our CO<sub>2</sub> emissions reached -73% since 2005, whilst at the same time, our production increased by +33%.

Our performances have been widely recognised. L'Oréal was the top performing global company on Newsweek's 2017 Global 500 Green Rankings and CDP<sup>(3)</sup>, the most respected authority in sustainability, awarded us, for the second year running, three "A" ratings for our actions in fighting climate change, water management and combatting deforestation. Another great source of pride - because it is a long struggle - is the fact that **L'Oréal has come first in the worldwide rankings on gender equality** among over 3,000 companies rated by Equileap.

**Being a leader both economically and socially** is our goal. Our ambition allows us to have a positive impact on the environment and society, as well as sustaining our success in the long-term.

Overall, 2017 was a year of significant progress for L'Oréal, a pivotal year at a pivotal time. **We are entering 2018 and the coming years with great confidence** in our unique and original business model, ideally suited to this new world of beauty, full of new promises and opportunities.

**Let me share with you what I call our seven reasons for success.**

Firstly, **a beauty market that will continue to grow in the coming years**. This is in part thanks to the emergence of the new middle and upper classes who are powerful consumers of beauty, especially of premium products. But also the result of major shifts which reveal new needs, such as urbanisation or ageing populations.

Secondly, **L'Oréal is the archetype of the "Beauty Pure Player"** - nothing but beauty, for all types of beauty - and our unique expertise acquired over 109 years, allows us to understand, in extreme detail, the desires and aspirations of consumers all around the world.

Thirdly, **our fundamentals**, the reasons for our success today which will be the reasons for our success tomorrow: the obsession of innovation and superior quality, more important than ever in a world of ratings and reviews: our continuous strategic focus on Research & Innovation is absolutely necessary; the power of our brands, more essential than ever in a world of consumer hyper-choice: the richness of our complementary brands, eight of which are already billionaires, makes and will continue to make the difference; the star products, strong and powerful, in a world of algorithms.

The fourth reason is our **superior digital prowess** in a world where technological developments is crucial.

Fifth, **our unique multipolar footprint in all categories, distribution channels and regions of the world** helps us to spot new consumer trends more quickly and to adapt in real time to market developments.

Sixth: the recognised **excellence of our environmental and social commitments**.

Finally: in a world where agility has become decisive, **our decentralised organisation, our entrepreneurial culture and the high quality of our teams** in the countries and on the ground.

For all these reasons, we are more than ever **optimistic, confident and determined**. Ready to seize every opportunity in a beauty market full of promise.

(1) Sales achieved on our brands' own websites + estimated sales achieved by our brands corresponding to sales through our retailers' websites (non-audited data); like-for-like growth.

(2) Dividend proposed at the Annual General Meeting of 17 April 2018.

(3) CDP is an independent international organisation that evaluates companies' environmental performance.



# 1

## Presentation of the Group Integrated report



For the second consecutive year, L'Oréal publishes an Integrated Report. This report is part of an integrated communication approach and aims at presenting the well-balanced model of L'Oréal, its strategic orientations, its 2017 results and its relationships with its stakeholders, particularly in the context of the *Sharing Beauty With All* <sup>(1)</sup> programme.

<b>1.1. The L'Oréal Group: fundamentals</b>	<b>6</b>	<b>1.3. Good growth momentum for shared, lasting development*</b>	<b>25</b>
1.1.1. A clear mission and strategy, supported by stable governance	6	1.3.1. 2017 Results*	25
1.1.2. Key figures	9	1.3.2. Constant, Shared Growth	36
<b>1.2. A clear strategy: Beauty for all</b>	<b>11</b>	<b>1.4. An organisation that serves the Group's development</b>	<b>40</b>
1.2.1. Universalisation, to meet global demand for beauty	11	1.4.1. L'Oréal S.A.	40
1.2.2. An international presence	11	1.4.2. Operational Divisions	40
1.2.3. The beauty market, huge development potential	13	1.4.3. Support departments	42
1.2.4. A portfolio of diverse and complementary brands	15	1.4.4. Members of L'Oréal's Executive Committee	43
1.2.5. Reinventing research & innovation	15	<b>1.5. Internal Control and risk management system</b>	<b>44</b>
1.2.6. Operations, expertise and services close to consumers	18		

(1) See 1.3.2.

\* This information forms an integral part of the Annual Financial Report as provided in the Article L. 451-1-2 of the French Monetary and Financial Code.

## 1.1. THE L'ORÉAL GROUP: FUNDAMENTALS

### 1.1.1. A CLEAR MISSION AND STRATEGY, SUPPORTED BY STABLE GOVERNANCE

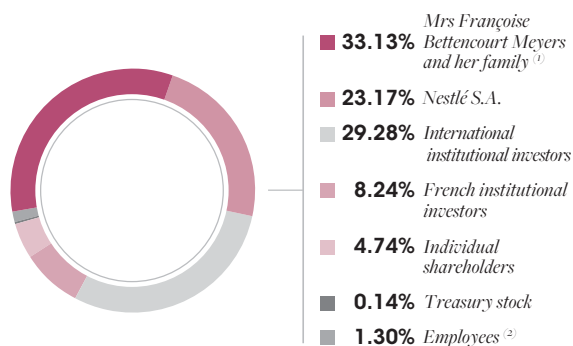
For over 100 years, L'Oréal has devoted itself to one business : beauty, in which it is the world's leading company. It is the Group's *raison d'être*, because, far from being futile and superficial, cosmetics are full of meaning. They give everyone self-confidence, enable them to blossom and open up to others and contribute to individual and collective well-being.

Boasting an international portfolio of 34 diverse and complementary brands, the Group responds to all beauty aspirations worldwide. Present in all distribution channels, L'Oréal generated sales of €26.02 billion in 2017 thanks to its 82,606 employees across the globe.

The Group's governance, the guarantee of stability in a changing world, makes it possible to work towards long-term objectives and to ensure regular growth.

#### Loyal shareholders, stable capital structure

##### THE SHAREHOLDERS AT 31 DECEMBER 2017



(1) Consisting of Mrs Françoise Bettencourt Meyers, Mr Jean-Pierre Meyers, Mr Jean-Victor Meyers and Mr Nicolas Meyers, succeeding Mrs Liliane Bettencourt, and Téthys SAS.

(2) Concerns the employees and former employees of L'Oréal. Pursuant to law No. 2015-990 of 6 August 2015 the percentage also includes, in 2017, bonus shares granted in accordance with Article L. 225-197-1 of the French Commercial Code. Of which 0.77% in the L'Oréal employee savings plan (PEE) as defined by Article L. 225-102 of the French Commercial Code.

### A balanced and committed Board of Directors, which plays its role of reflection and strategic impetus to the full

The Board of Directors determines L'Oréal's strategic orientations and ensures their implementation. It oversees the management of both the financial and extra-financial aspects, and ensures the quality of the information provided to the shareholders and to the market.

The structure of L'Oréal's Board makes it possible to take into account the specificities of its shareholding structure while guaranteeing the interests of all its stakeholders. At 31 December 2017, there were 15 Board members : the Chairman and Chief Executive Officer, Mr Jean-Paul Agon, 5 Directors from the Group's principal shareholders (the Bettencourt Meyers family with Mrs Françoise Bettencourt Meyers, Mr Jean-Pierre Meyers and Mr Jean-Victor Meyers, and Nestlé with Mr Paul Bulcke and Mrs Béatrice Guillaume-Grabisch), 7 independent Directors (Mrs Sophie Bellon, Mrs Belén Garijo, Mrs Virginie Morgon, Mrs Eileen Naughton, Mr Charles-Henri Filippi, Mr Xavier Fontanet and Mr Bernard Kasriel), and 2 Directors representing the employees (Mrs Ana Sofia Amaral and Mr Georges Liarakapis). All of them make sure that the Board's work is carried out on a collective basis with the common objective of ensuring the Group's long-term development.

The Board takes steps to ensure that the Directors are from different backgrounds, and most of them have international experience acquired in groups with a global dimension, and complementary skills : industrial, financial, digital and above all entrepreneurial competencies. The diversity of skills and expertise on the Board enables it to understand rapidly and in detail the development issues facing L'Oréal, the leader on a highly competitive globalised cosmetics market, in a fast-changing world.

L'Oréal is attentive to compliance with the principle of balanced gender representation on the Board : 46% of its members are women (excluding Directors representing employees), and 2 committees out of 4 are chaired by women, the Audit Committee and the Appointments and Governance Committee.

#### Ethics, at the heart of Group governance and commitments

L'Oréal has built up its business on the basis of strong Ethical Principles that guide its development and contribute to establishing its reputation : Integrity, Respect, Courage and Transparency. L'Oréal's commitment to acting ethically and responsibly is summarised in a document called "The L'Oréal Spirit" accessible to everyone.

These principles underpin the Group's culture and business model. They inform our compliance, responsible innovation, environment, corporate social responsibility and philanthropy policies. The L'Oréal code of Ethics is available in 45 languages and in Braille (in English and French). It is given to all employees around the world. Country Managers (or for Corporate or Zone staff, the members of the Group's Executive Committee to whom they report) are responsible for ensuring compliance with the code.



COMPOSITION OF THE BOARD AT 31 DECEMBER 2017

	Independence	Expiry date of current term of office	Board Committees			
			Strategy & sustainable development	Audit	HR & Remuneration	Appointments & Governance
Mr Jean-Paul AGON		2018	●			
Mrs Françoise BETTENCOURT MEYERS		2021	●			
Mr Paul BULCKE		2021	●		●	●
Mr Jean-Pierre MEYERS		2020	●		●	●
Mrs Ana Sofia AMARAL	Director representing the employees	2018			●	
Mrs Sophie BELLON	◆	2019		●		●
Mr Charles-Henri FILIPPI	◆	2019		●	●	●
Mr Xavier FONTANET	◆	2018	●			
Mrs Belén GARIJO	◆	2018			●	
Mrs Béatrice GUILLAUME-GRABISCH		2020		●		
Mr Bernard KASRIEL	◆	2020	●			
Mr Georges LIAROKAPIS	Director representing the employees	2018		●		
Mr Jean-Victor MEYERS		2020		●		
Mrs Virginie MORGON	◆	2021		●		
Mrs Eileen NAUGHTON	◆	2020			●	

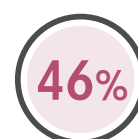
◆ Independence within the meaning of the criteria of the AFEP-MEDEF Code as assessed by the Board of Directors.  
● Committee Chairman/Chairwoman ● Committee Member.



Average age of the Directors at 31/12/2017



Independent Directors



Female Directors (excluding Directors representing the employees)

## Activities of the Board and its committees in 2017

The Board of Directors fully assumes its role in defining the Group's strategic orientations.

Thanks to an open and constructive dialogue with the General Management and regular meetings with management, the Directors are completely up-to-date with L'Oréal's economic reality and fully informed of all the Company's activities, its performances and the challenges it faces. They examine the main areas and opportunities for long-term development and acquisitions in particular.

The Directors make sure that the decisions taken contribute to implementation of the strategy.

Wishing to continually enhance its role of reflecting on issues and providing support with regard to strategic decision-making, the Board carried out an evaluation of its *modus operandi* and organisation in 2017, as it has done every year since 1996.

### BOARD OF DIRECTORS

7 meetings in 2017  
96.4% attendance rate

#### Main work in 2017 :

- ◆ Monitoring of business activities
- ◆ Financial issues
- ◆ Market and competitor analysis
- ◆ Development challenges (by zone and by business segment)
- ◆ Acquisitions and follow-up of business plans
- ◆ Disposal of The Body Shop.
- ◆ Divisional strategy (Professional Products, Consumer Products)
- ◆ Human Resources policy
- ◆ Operating strategy
- ◆ Research and Innovation strategic seminar

STRATEGY AND SUSTAINABLE DEVELOPMENT COMMITTEE	AUDIT COMMITTEE	APPOINTMENTS AND GOVERNANCE COMMITTEE	HR AND REMUNERATION COMMITTEE
5 meetings 100% attendance rate	4 meetings 100% attendance rate	4 meetings 100% attendance rate	5 meetings 97% attendance rate
Main activities in 2017	Main activities in 2017	Main activities in 2017	Main activities in 2017
<ul style="list-style-type: none"> <li>◆ Analysis of sales, update on business activities, markets and competition</li> <li>◆ Analysis of the performance of the latest product launches</li> <li>◆ Examination of the Group's strategic development prospects</li> <li>◆ Review of the main acquisition projects, and review of recent acquisitions</li> <li>◆ Monitoring of The Body Shop sale</li> <li>◆ Presentation of challenges facing the Professional Products Division</li> <li>◆ Review of the <i>Sharing Beauty With All</i> programme</li> </ul>	<ul style="list-style-type: none"> <li>◆ Review of the accounts and financial situation</li> <li>◆ Risk review and monitoring</li> <li>◆ Review of Internal Control and Internal Audit</li> <li>◆ Follow-up of <i>business plans</i> for acquisitions</li> <li>◆ Approval of non-audit services.</li> <li>◆ Review of the Statutory Auditors' Report on CSR reporting</li> <li>◆ Review of the Vigilance plan</li> <li>◆ Review of the measures introduced to comply with the Sapin 2 law concerning transparency and the fight against corruption</li> <li>◆ Review of the procedure for managing insider information (European Market Abuse regulation)</li> <li>◆ European GDPR regulation (<i>General Data Protection Regulation</i>) : monitoring the compliance project</li> </ul>	<ul style="list-style-type: none"> <li>◆ Reflection on the composition of the Board and its committees</li> <li>◆ Review of the succession plans</li> <li>◆ Review of the independence of Directors</li> <li>◆ Organisation and annual evaluation of the <i>modus operandi</i> of the Board</li> <li>◆ Topical issues with regard to Governance (reports of the <i>Haut Comité de Gouvernement d'Entreprise</i> and of the AMF, etc.)</li> <li>◆ Review of the voting policies of the main investors and proxy advisors</li> </ul>	<ul style="list-style-type: none"> <li>◆ Assessment of the voting policies of the main investors and proxy advisors on compensation, with a view to the Annual General Meeting on 20 April 2017</li> <li>◆ Assessment of the performance of the Chairman and Chief Executive Officer in 2016</li> <li>◆ Recommendations concerning the 2017 remuneration policy</li> <li>◆ Recommendations concerning the bonus structure and objectives for the Chairman &amp; CEO for 2017</li> <li>◆ Preparation of the <i>Say On Pay</i> resolutions (ex ante and ex post)</li> <li>◆ Review of the resolution on retirement benefits (Article L. 225-22-1 of the French Commercial Code)</li> <li>◆ <i>Long Term Incentive</i> policy (2017 plan, proposed award of performance shares to the Chairman and Chief Executive Officer)</li> <li>◆ Ethics policy</li> <li>◆ Distribution of attendance fees</li> </ul>

## 1.1.2. KEY FIGURES

### 2017 key figures



Present in  
150 countries



L'Oréal no. 1  
in beauty



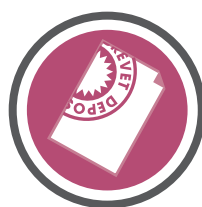
Created  
in 1909



Stock market  
capitalization: €103.7Bn\*



82,606  
employees

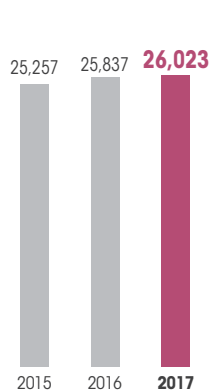


498  
patents

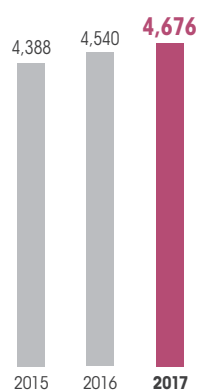


Research &  
innovation  
budget: €877 million

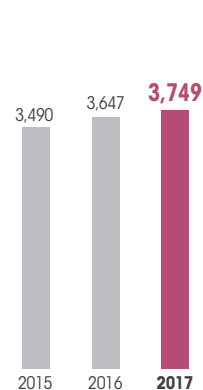
Consolidated sales  
(€ million)



Operating profit  
(€ million)



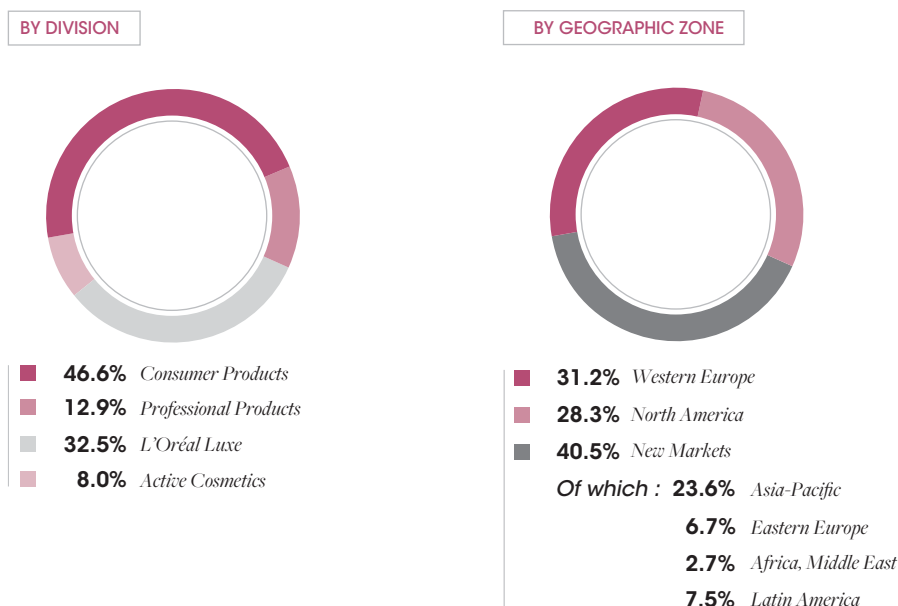
Net profit excluding  
non-recurring items <sup>(1)</sup>  
(€ million)



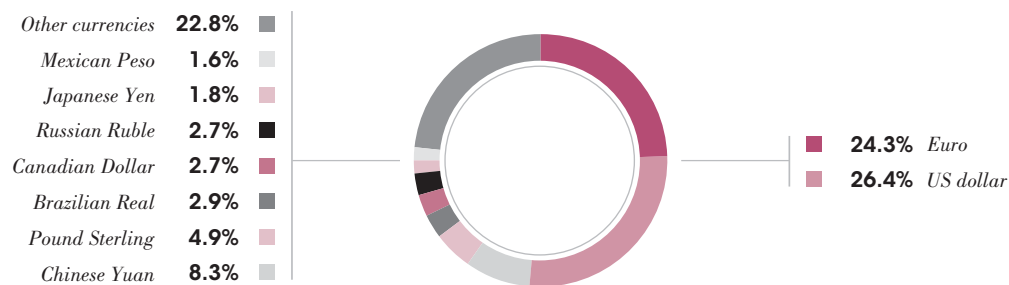
\* As of 29 December 2017

(1) Non-recurring include mainly capital gains and losses and long-term asset disposals, impairment of long-term assets, restructuring costs and elements relating to identified operational incomes and expenses, no recurring and significant regarding the consolidated performance. See note 10.4. of the Consolidated Financial Statements.

**OPERATIONAL DIVISIONS SALES - 2017**



**CONSOLIDATED SALES BY CURRENCY**



**NET DEBT**

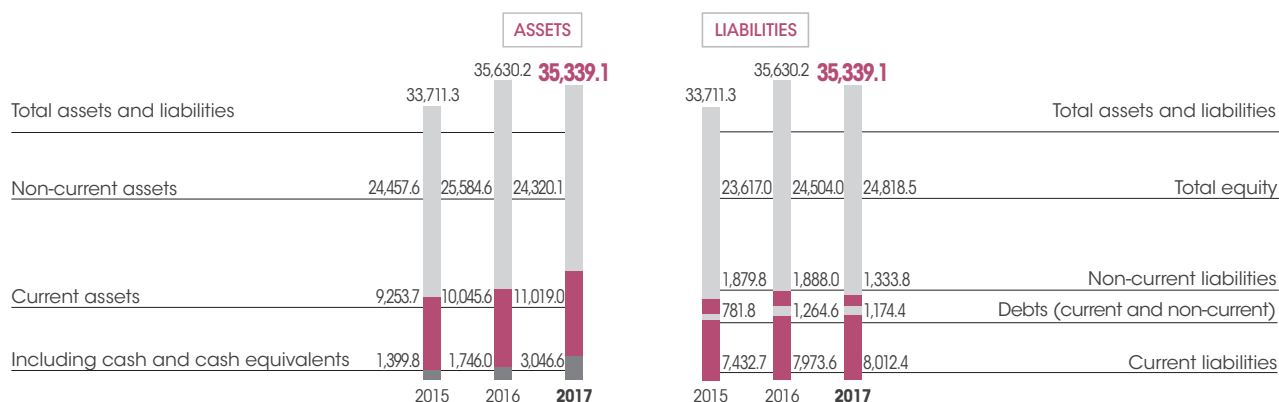
	31.12.2015	31.12.2016	31.12.2017
Net cash position = Net cash or net debt (€ million) <sup>(1)</sup>	+618.0	+481.4	+1,872.2
Net gearing (Net financial position/ Equity)	n/a	n/a	n/a

(1) Net cash (+) or net debt (-) = cash and cash equivalents - current and non-current debt.

**SHORT-TERM RATINGS**

A1+	Standard & Poor's	SEPTEMBER 2017
PRIME 1	Moody's	MAY 2017
F1+	Fitch Ratings	SEPTEMBER 2017

**A SOLID BALANCE SHEET (€ MILLION)**



## 1.2. A CLEAR STRATEGY : BEAUTY FOR ALL

*Demand for beauty is universal. L'Oréal deploys a global strategy to satisfy this demand.*

### 1.2.1. UNIVERSALISATION, TO MEET GLOBAL DEMAND FOR BEAUTY

L'Oréal relies on a single strategy – Universalisation – meaning globalisation that respects differences. This strategy aims at offering beauty attuned to the specific expectations of consumers in every region of the world. It is based on a keen ability to listen to consumers and a profound respect for their differences in each and every country.

This is why the Group's Research and Marketing teams in all its markets are alive to the specific needs of its customers and laboratories around the world. The innovation policy is based on affordability and on the adaptation of products to the beauty rituals and lifestyles of all men and women in their infinite diversity.

### 1.2.2. AN INTERNATIONAL PRESENCE

L'Oréal was founded in France in 1909 and quickly expanded in Western Europe and developed a significant and strategic presence in these markets. In 2017, it generated 31.2% of its cosmetics sales on this historical territory. To make Universalisation a really powerful strategy, the global market has been organised into 5 large homogeneous regions, even more attentive to consumers and closer to their desires.

In addition to the country and marketing strategy which underlies Universalisation, the Group is a resolutely multi-centric organisation with its "nerve centre" in France. Each major region has its own centre of expertise or excellence for Research and Marketing activities. Research therefore has 6 hubs across the globe, led by central teams and fuelled by the Group's core expertise and fundamental knowledge.

## HISTORY: THE IMPORTANT DATES IN THE GROUP'S DEVELOPMENT

	2017	▶ Acquisition of CeraVe. ▶ Disposal of The Body Shop.
Acquisition of IT Cosmetics. ◀	2016	
	2015	▶ Acquisition of Niely Cosmetics.
Strategic Transaction agreed between L'Oréal and Nestlé Acquisition of Magic Holdings in China and NYX Professional Makeup in the United States. ◀	2014	
	2013	▶ The Sharing Beauty With All programme is unveiled.
Acquisition of Urban Decay in the United States. ◀	2012	
	2011	▶ Acquisition of Clarisonic in the United States.
Acquisition of Essie Cosmetics in the United States. ◀	2010	
	2009	▶ L'Oréal celebrates its centenary and sets itself the goal of winning one billion new customers.
Acquisition of YSL Beauté. ◀	2008	
	2007	▶ Creation of L'Oréal Corporate Foundation.
Acquisition of The Body Shop. ◀	2006	
	2004	▶ Takeover of the Gesparal holding company.
L'Oréal becomes the majority shareholder of Shu Uemura in Japan. ◀	2003	
	2000	▶ Acquisition of Matrix and Kiehl's since 1851 in the United States.
Acquisition of Softsheen and Carson in the United States and in South Africa. ◀	1998 2000	
	1996	▶ Acquisition of Maybelline in the United States.
Acquisition of American agents Cosmair. ◀	1994	
	1993	▶ Acquisition of Redken 5 <sup>th</sup> Avenue in the United States.
Acquisition of La Roche-Posay. ◀	1989	
	1981	▶ Creation of Laboratoires dermatologiques Galderma.
The first model of a reconstructed epidermis from L'Oréal Research. ◀	1979	
	1973	▶ Acquisition of Gemey, an open door to the consumer make-up market.
Acquisition of Biotherm. ◀	1970	
	1965	▶ Acquisition of Laboratoires Garnier.
Acquisition of Lancôme. ◀	1964	
	1963	▶ L'Oréal enters the Paris stock market.
Launch of Elnett hair lacquer. ◀	1957	
	1954	▶ Cosmair is named as L'Oréal's agent in the United States.
Ambre solaire, the first sun protection oil with filtering. ◀	1935	
	1929	▶ Imédia, the first quick oxidation hair colour.
La Société Française de Teintures Inoffensives pour Cheveux is created by Eugène Schueller. ◀	1909	

After establishing its presence in Western Europe, L'Oréal gained a foothold in North America in the first half of the 20<sup>th</sup> century. Initially, the Group entrusted distribution companies with commercialising its products, these companies being united in 1953 around an exclusive agent, Cosmair. Following Cosmair's takeover in 1994, the Group developed in North America with the status of a subsidiary. The acquisition of brands such as Maybelline (1996), Matrix and Kiehl's (2000), Urban Decay (2012), or more recently NYX Professional Makeup (2014), IT Cosmetics (2016) and CeraVe (2017) have considerably reinforced its presence in North America.

Beginning in the 1970s, the Latin America Zone developed with a multi-divisional organisation that the Group has since adopted in the other major regions of the world.

Present in Japan for nearly 50 years, L'Oréal has expanded its presence in the country by choosing the brands to be given priority for this extremely specific market: Kérastase in hair salons, Lancôme in Luxury products and Maybelline and L'Oréal Paris in mass-market products.

The 1990s witnessed the opening up of New Markets with very strong development in Eastern Europe. At the same time, the Group extended its activities to more distant markets like India or China.

L'Oréal was among the first foreign groups to obtain an authorisation from the Indian government in 1994 to create a wholly-owned subsidiary with its registered office in Mumbai.

In 1997, the Group created a large multi-divisional zone in Asia and opened new subsidiaries, particularly in China where L'Oréal holds all of the capital of its entity.

The mid 2000s were another turning point: a sharp acceleration in growth of the New Markets led to a shift in the economic world's centre of gravity.

Africa and the Middle East, where the Group lacked a strong presence, became a new frontier for development.

In total, the percentage of cosmetics sales generated by the Group in the New Markets was 15.5% in 1995, 27.1% in 2006 and 40.5% in 2017. Sales in New Markets increased greatly as a

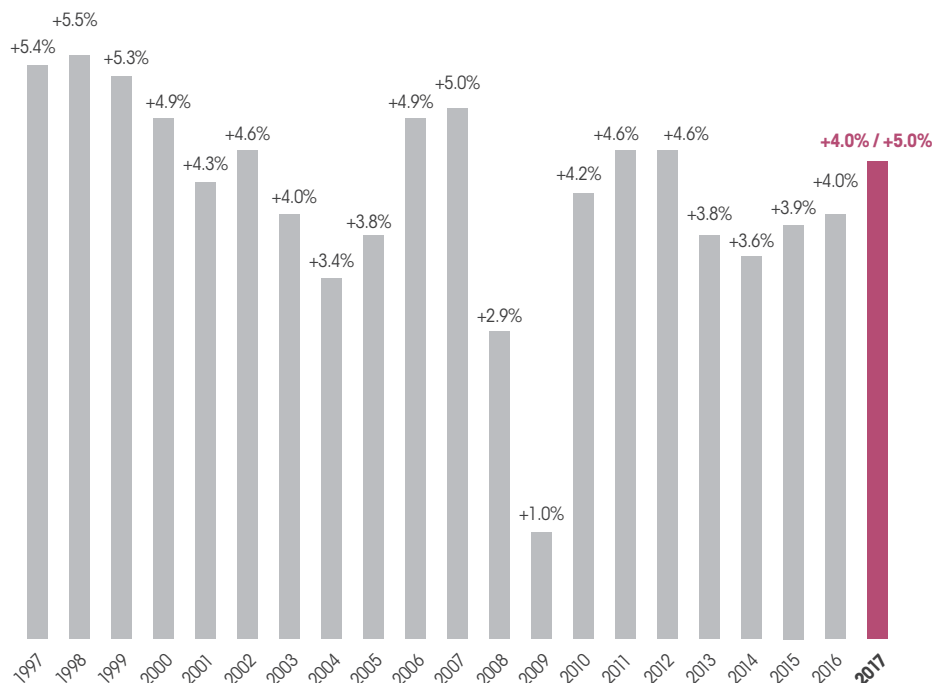
proportion of the Group's total sales between 2006 and 2017. This trend is expected to continue.

The Group has a well-balanced geographical footprint across most of the world's main markets.

The New Markets show considerable growth potential: in many countries, the consumption of cosmetics products per inhabitant is 10 to 20 times lower than in mature countries. Every year across the globe, several tens of millions of people gain access to income levels that make them part of the "middle classes", enabling them to afford modern cosmetics products.

### 1.2.3. THE BEAUTY MARKET, HUGE DEVELOPMENT POTENTIAL

#### WORLDWIDE COSMETICS MARKET FROM 1997 TO 2017 <sup>(1)</sup>



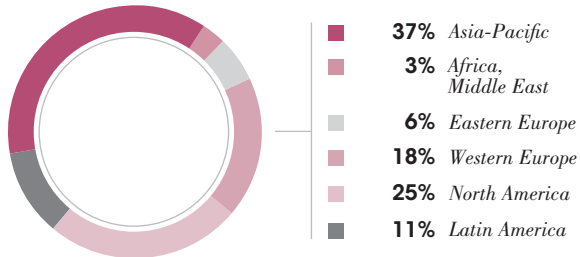
The cosmetics market remains a supply-led market driven by innovation, where consumers are always on the look-out for quality, performance and perceived results. The worldwide cosmetics market is worth over €200 billion<sup>(1)</sup>. It is a particularly

robust market which is steadily expanding while proving very resilient during difficult economic times. The cosmetics consumer always looks for quality and novelty value, and puts a premium on leading-edge technology, trends and new ideas.

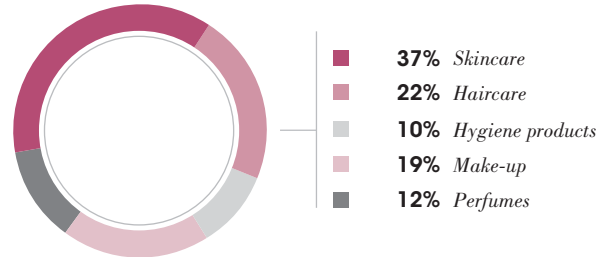
(1) Source : L'Oréal estimates of the worldwide cosmetics market based on net manufacturer prices excluding soap, toothpaste, razors and blades. Excluding currency fluctuations.

**BREAKDOWN OF THE WORLD COSMETICS MARKET IN 2017 <sup>(1)</sup>**

BY GEOGRAPHIC ZONE



BY PRODUCT CATEGORY



Growth in the beauty market in 2017 was between 4 and 5%. However, overlapping distribution channels, and the extremely rapid growth of *e-commerce* make it more difficult to estimate the pace of growth in each channel. All in all, we saw contrasting growth patterns by region and by distribution segment.

Growth was robust for make-up in 2017, particularly in the selective market. Skincare sales accelerated throughout the year to become the leading contributor to growth in the beauty market.

The selective market surged ahead, powered by China and *Travel Retail*, to make the largest contribution to growth in the beauty market in 2017.

We estimate that the pace of growth in the mass market was slower than in 2016, especially in the United States, Brazil, Japan and Russia. China recovered during the year, but conditions remained very tough in the Gulf states and in France.

Dermocosmetics continued to grow at a steady pace. The Professional market was flat. Across all segments, the sharp acceleration in *e-commerce* continued.

After a difficult start, North America ended the year with growth down on 2016.

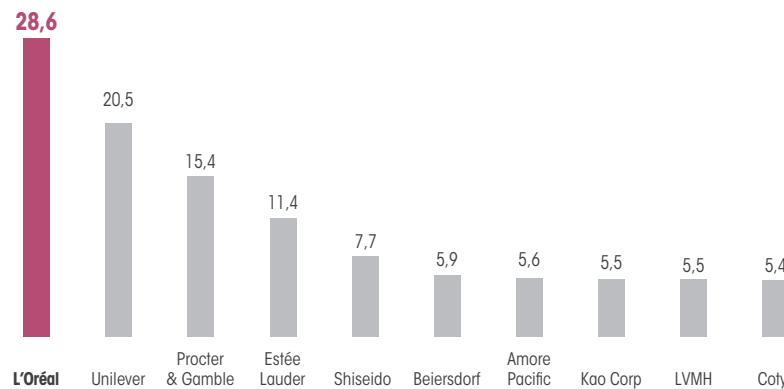
Growth was solid in Western Europe, outside France, especially in Southern Europe.

The pace of growth picked up in New Markets to account for two-thirds of the beauty market's global growth in 2017:

- ◆ Asia had an exceptional year, powered by the market in China, with double-digit growth, and outside China. The beauty market in the Asia, Pacific region is now worth double the market in Western Europe.
- ◆ The picture in South America is more nuanced: economic conditions were challenging in Brazil, while other countries, such as Mexico, performed well.
- ◆ Growth slowed in Eastern Europe, with Russia setting the trend.

**MAIN WORLDWIDE PLAYERS**

2016 revenue in billions of US \$ <sup>(2)</sup>



(1) Source : L'Oréal estimates of the worldwide cosmetics market based on net manufacturer prices excluding soap, toothpaste, razors and blades. Excluding currency fluctuations.

(2) Source : Beauty's top 100, WWD, April 2017. Competitive positions and market share held by the Group's Divisions and brands mentioned in this Document are based on studies, panels and polls obtained from specialised organisations and companies, or, in the absence of comprehensive studies, are the result of estimates made by L'Oréal on the basis of available statistical data.



### Beauty market outlook

Beauty is a universal aspiration that will continue to feed sustainable growth in the cosmetics market. The main drivers in the market will be accelerated growth in the middle classes in emerging economies, who will aspire to consume more high-quality cosmetic products, as well as the expansion of categories with further untapped potential in mature economies. Estimates project that the market will double in the next 15 years.

As digital and social networks explode around the world, evolving lifestyles will see the emergence of a new era to buoy growth: the era of "social beauty", social, connected, shared beauty. Beauty will become even more essential, as appearance increasingly reflects people's personality and is

seen as vital both for their self-confidence and relations with others.

Consumer expectations have shifted dramatically in this new era: they want more individualised relations and ongoing dialogue with the brands they use in each country; they expect personalised advice on choosing and using products; and they want an immersive and unique purchasing experience, with direct access to brands, especially through online sales channels or in specialist shops.

L'Oréal is an agile and flexible organisation that is quick to react. The ability to select and continuously fine-tune advertising and communication materials to more demanding customers is part of its essential value proposition.

## 1.2.4. A PORTFOLIO OF DIVERSE AND COMPLEMENTARY BRANDS

To meet the beauty expectations of consumers all over the world, the Group has the richest, most varied and most powerful brand portfolio in the cosmetics industry. Moreover, its brands are constantly being reinvented so that they are always a perfect match with local consumer demand.

New acquisitions also regularly provide valuable additions to this unique portfolio to respond to consumer trends.

Some of these acquisitions are global brands, such as the CeraVe skincare brand in the Active Cosmetics Division portfolio; or US make-up brands like Urban Decay and IT Cosmetics, which make a tremendous contribution to L'Oréal Luxe; or NYX Professional Makeup, an affordable, make-up

artist-inspired brand; or Decléor, which extends the growth potential of Professional Products to the professional skincare field.

Other acquisitions aim to extend the Group's geographical footprint: in Colombia with the make-up brand Vogue, in Kenya with Interbeauty, and also in Brazil with Niely Cosmetics, and in China with Magic Holdings.

These newly acquired companies, through their integration and deployment, are helping to accelerate the Group's penetration of their markets, and help to drive organic growth going forward.

## 1.2.5. REINVENTING RESEARCH & INNOVATION

### Adapting to world markets

#### *Listening to consumers to improve innovation*

More than a century has passed since chemist Eugène Schueller invented the first harmless hair colourants and founded L'Oréal. Science and innovation were written into the Group's genetic code and quickly became one of the keys to its success.

Determined to offer everyone, everywhere in the world, the best of cosmetics in terms of quality, efficacy and safety, L'Oréal continues to push the boundaries of science and to leverage its CSR (Corporate Social Responsibility) policy as a source of new innovation opportunities.

Inventing beauty by meeting the aspirations of millions of women and men remains a steadfast commitment. By remaining ahead of the game in product performance, research at L'Oréal is anchored in a Sustainable Development approach. All ingredients are respectful of customers and the environment.

#### *A nexus of regional scientific ecosystems*

L'Oréal has a powerful Research & Innovation (R&I) model with unique expertise and a formidable bank of scientific and

technical data, which represent a veritable asset. Advanced Research creates, develops and sources active ingredients and raw materials drawing on its knowledge of skin and hair around the world. Applied Research invents formula architectures that increase asset performance tenfold and the Development laboratories create innovative formulas with a proven superiority for each brand.

This innovation model is nurtured by a constant dialogue between the laboratories and marketing to respond to the aspirations of consumers and to offer technological breakthroughs to change behaviour patterns.

In the course of the past five years, R&I has become global, more open, and more customer-focused. This trend supports the Group's strategy of strengthening its global presence and extending outwards from France through six regional hubs (Japan, China, India, USA, Brazil and South Africa). These regional hubs identify the needs of consumers and their cosmetic practices. R&I has strengthened its capacity for innovation and to respond to the infinite diversity of beauty needs all over the world.

RESEARCH FACILITIES AROUND THE WORLD



Research and Innovation budget	
2015	794
2016	850
<b>2017</b>	<b>877</b>

Research and Innovation Headcount	
2015	3,871
2016	3,862
<b>2017</b>	<b>3,885</b>

Number of patents	
2015	497
2016	473
<b>2017</b>	<b>498</b>

*New research centre in Brazil*

L'Oréal inaugurated its newest research centre in Rio de Janeiro in October 2017, based on a collaborative, digital approach open to the scientific ecosystem and fully committed to sustainable innovation. It aims to accelerate the development of products intended to meet the diversity of beauty expectations of Brazilian consumers. This state-of-the-art centre has a twofold mission: to make the best global innovations of L'Oréal relevant for local consumers and to act as a catalyst for global innovations in hair care, sun protection and hygiene, three categories where we can take inspiration from very demanding Brazilian consumers.

*Openness and agility: a breath of fresh air*

The scientific and technical ecosystems in emerging non-beauty fields offer a rich seam of possibility for L'Oréal, whose research teams have entered into collaboration agreements with universities and scientific institutes (*Open Research*), formed partnerships with suppliers and start-ups (*Open Innovation*) and set up ties with the best subcontractors (*Open Development*).

At the same time, Research is gradually rolling out a project-based model for faster and more agile working. This approach combines multidisciplinary teams, fast prototyping and interaction with consumers to develop the right products at the right time.

By focusing on its major areas of expertise, R&I is steadily pursuing its policy of improving the performance of completely safe and exemplary products, refocusing on consumers, agility and speed, drawing on digital technologies, and ensuring that innovation remains its foremost concern.

## Safe ingredients for impeccable products

### *New advances in replacing animal testing*

In the drive to guarantee consumer safety, the cosmetics industry must make sure that the ingredients in a finished product do not cause adverse reactions, such as skin allergies or eye irritation. The European Union banned animal testing in 2013, making alternative *in vitro* methods more important than ever in predicting potential side effects.

In October, the OECD (Organisation for Economic Cooperation and Development) announced the adoption of two new methods developed by L'Oréal's research teams as alternatives to animal testing to evaluate skin allergies and eye irritation. These two scientific methods add to the testing options available with a broader and more efficient range of alternative assessment methods that avoid the need for animal testing. The inclusion of these two methods in the OECD Test Guidelines (TG442E and TG492) amounts to international recognition and regulatory acceptance for all industries that may use these tests.

### *ISO 16128 : an international standard for natural and organic ingredients and products*

ISO 16128 is the first independent global standard to provide a definition of natural and organic cosmetic ingredients and products, or their by-products. The standard provides a comprehensive and rigorous definition of a natural or organic ingredient or product based on origin (natural or organic) and extraction process. It provides consistent global criteria for natural and organic products. The ISO 16128 reference on the packaging will provide customers with a clear marker of the percentage of natural ingredients in the product. It is a guarantee of transparency for brands that meet the criteria to use it. A harmonised global definition of natural and organic ingredients and their by-products is a major advance for cosmetics.

## Innovation policy

### *Renewing product formulations*

Emulsions have long been the formulation of choice for most cosmetics. To take things to the next level, work was conducted to discover how to combine seemingly incompatible compounds - without surfactants - to deliver new and exciting functionality. Innovation in this field means exploring new areas not covered by emulsions. The result was the development of the exclusive *Alliagel* technology based on the inter-penetration of incompatible gels. It has many advantages, including: a new sensory signature, optimised availability of active ingredients and remarkable optical effects under certain conditions. Suitable for nearly all product categories, the technology demonstrates the crucial importance of perceived performance for product formulation (for example: *Infaillible Total Cover* by L'Oréal Paris and *Dermablend's 3D Correction*).

### *The explosion of colours in hair colourants*

Hot on the heels of the rash of make-up products came the trend for hair make-up. Hair colour used to be almost exclusively about covering white and grey hair. Enter a younger, more creative and fully digitised target market. Hair colour has become a vehicle for self-expression for *millennials*<sup>(1)</sup> for whom the colour in their locks is as interesting as their make-up.

Being ahead of the curve to quickly seize the opportunity and respond to emerging needs means combining the best technologies to create the desired effects. L'Oréal's long track record in hair colour meant a rapid response to meet the challenge in less than six months. In record time, L'Oréal launched a number of different haircare lines, ranging from make-up to permanent hair colourants - a feat that was only possible by drawing on the technologies developed over several years (such as *Colorista* by L'Oréal Paris and *City Beats* by Redken).

### *Massage device for rejuvenation based on mechanobiology*

After nine years of research in collaboration with the Medical Biology Institute of Singapore, Institut Langevin and Denis Diderot University in Paris, L'Oréal's Research launched the first ever massage device based on mechanobiology, the science of cell and tissue mechanics and how they react to mechanical stimuli (pressure, twisting or stretching). This disruptive innovation opens up the possibility of combating the signs of ageing without resorting to invasive procedures. The teams demonstrated that the vibrations of the three-point massage head have a biological effect on the skin, depending on the stimulation frequency. A clinical trial confirmed significant improvement in several clinical signs of ageing, especially skin elasticity and the firmness of skin around the edges of the face (for example: Clarisonic's *Smart Profile Uplift*).

### *Matching the product to my skin profile*

Skin is continually changing and renewing. The proteins on the surface of the epidermis are not only markers of the skin's state of health (dry, hydrated, inflamed, etc.), but also give information to predict how the skin will age (wrinkles, stains, dryness, etc.). Current, traditional clinical trials involving hundreds of participants are both lengthy and costly. Now, the skin diagnostic system - known as miniaturised proteomic diagnostics - developed by Korean start-up NanoEntek (a L'Oréal R&I partner) can analyse these proteins in a matter of minutes and determine the skin profile: and combine it with optical skin diagnosis techniques and a questionnaire for skincare personalisation. This all-new service points the way of the future.

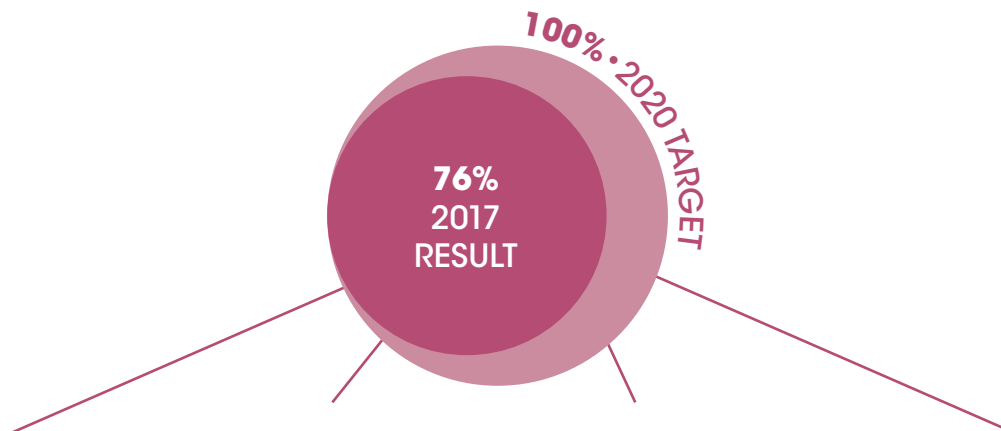
(1) Generation born between 1980 and 2000.

## Towards ever more sustainable innovation

Within the framework of its *Sharing Beauty With All* programme launched in 2013 (see section 3.2.1), one of the main commitments made by L'Oréal with regard to Sustainable Development consists in improving the environmental or social

profile of 100% of its products by 2020. This is a major paradigm shift: from now on, whenever the Group's teams invent or update a product, they take account not only of the product's performance and profitability, but also its contribution to sustainability. To do this, they act on at least one of the criteria illustrated below:

## INNOVATING SUSTAINABLY: 2017 RESULTS



**76% OF NEW OR UPDATED PRODUCTS ANALYSED HAVE AN IMPROVED ENVIRONMENTAL OR SOCIAL PROFILE <sup>(1)</sup> COMPARED WITH 82% IN 2016.**

**48%** of new or updated products have an improved social/environmental profile thanks to a new formula including sustainably sourced renewable raw materials or raw materials respecting the principles of green chemistry.

**52%** of new or updated products have an improved environmental profile thanks to a new formula with a reduced environmental footprint.

**55%** of new or updated products have an improved environmental profile thanks to improved packaging.

**31%** of new or updated products have an improved environmental profile thanks to a positive societal impact.

(1) These are new products, i.e. products for which new formulas have been developed and which are produced for the first time in the Group's plants or products for which packaging was changed/updated in 2017.

### 1.2.6. OPERATIONS, EXPERTISE AND SERVICES CLOSE TO CONSUMERS

The Operations Division harnesses the most specialised, agile, effective and connected technological expertise, from packaging design and product development, sourcing and production through to distribution of all the Group's products, in order to enable the brands to offer consumers worldwide the most advanced cosmetic solutions.

Assuming its fundamental responsibilities, the Operations Division guarantees consumers compliance with strict standards of quality, safety, security and societal and environmental responsibility all over the world.

### At the forefront of new technologies to better serve consumers with increasing demands

The Operations 4.0 programme aims to accelerate the digital transformation of Operations. We are embracing new technologies from end to end of the value chain to respond to new consumer demands.

For product development, 3D printing of prototypes for products and/or functional components reduces development times and therefore brings products to the market faster. This fast prototyping allows to respond with agility to consumers' new beauty expectations and to keep pace with evolving cosmetic trends. Two new 3D printing labs were opened in 2017 at L'Oréal sites near Paris and New York.

In production, the combination of technologies like 3D printing, artificial intelligence, connected objects (*Internet of Things*, IoT), cobots (collaborative robots) and virtual reality are new tools to assist operators in production and to develop new, agile and more flexible production lines.

The *Internet of Things* (IoT) and Big Data usher in exciting prospects for traceability and productivity by improving supply chains, creating smoother flows in stores, managing the omni-channel experience and providing increased interaction with consumers.

## At the centre of design and development, innovation of packaging

The packaging of a product is the first identifying link between a brand and its consumers. Beyond its technical performance and its function, packaging is a key differentiating factor for the product and therefore for the value perceived by the consumer. Every year, L'Oréal's teams of design and development specialists provide cutting-edge innovations with 3 centres of expertise: Europe, Asia and the Americas. L'Oréal filed 91 patents for packaging and processes in 2017.

L'Oréal increasingly uses digital technologies more and more in the design and development of its packaging, to offer consumers connected, smart beauty products and services that meet their specific needs.

Since 2007, eco-design has been part of L'Oréal's innovation approach: Respect consumers and the environment; Reduce packaging volume and weight; Replace high-impact materials with recycled materials or materials from renewable resources. By the end of 2017, the social or environmental profile of 76% of new or redesigned products had been improved. The Group currently includes up to 100%-recycled plastic in some of its packaging.

## A purchasing programme combining economic and social value

To accompany the Group's growth - both from a geographical and technological standpoint - the Purchasing teams select the most efficient and cost-effective suppliers in accordance with the *L'Oréal Buy and Care* responsible purchasing programme. They manage their performance, with suppliers, by monitoring precise indicators relating to social, environmental and ethical criteria and through their ability to innovate and to meet the Group's requirements in terms of quality, service and competitiveness.

L'Oréal builds solid relationships with its suppliers and this makes it possible to work with them on their supply chains and thus ensure the agility, reliability and traceability of sourcing (for raw materials and packaging). In 2017, the Group conducted 1,231 social audits, making a total of more than 9,400 since 2006.

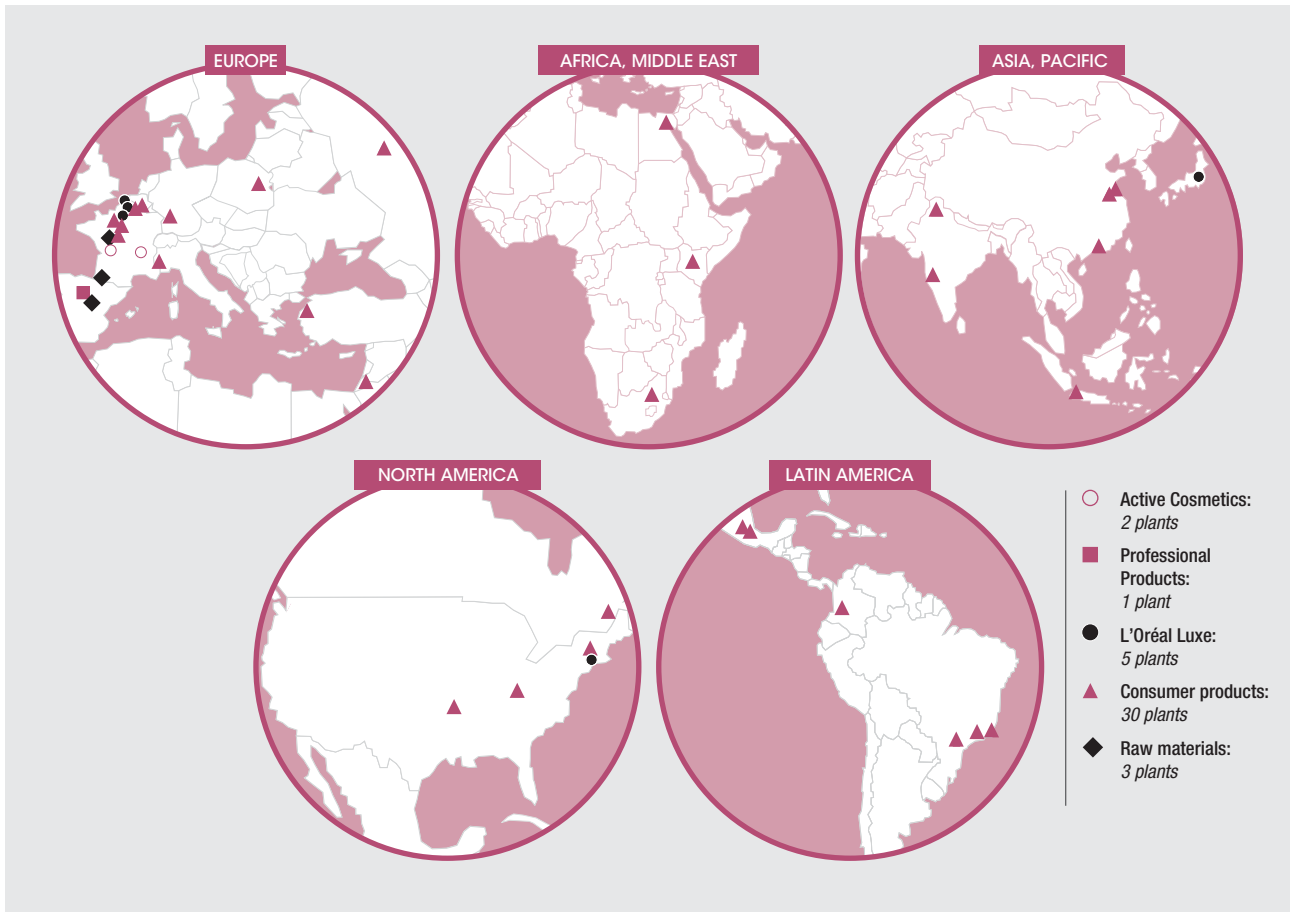
Furthermore, by creating the responsible purchasing programme called Solidarity Sourcing, L'Oréal chose as from 2010 to enable sourcing from suppliers with a solidarity model. In other words, companies that offer employment to vulnerable workers and people in deprived communities, such as disabled workers, people from underprivileged backgrounds or fair trade suppliers (see 3.2.4.3. *Solidarity Sourcing*).

An industrial performance which relies on a global system of operational excellence

L'Oréal has 41 plants spread all over the world, equipped with the very latest technologies and advances in automation, in close proximity to consumers in the major growth markets. This

network of plants adapts constantly to incorporate acquisitions and embrace external innovations.

The Group's industrial organisation is also based on specialisation by technology to maximise best practices, increase agility, improve productivity and adapt more easily to the specific needs of local clients and consumers.



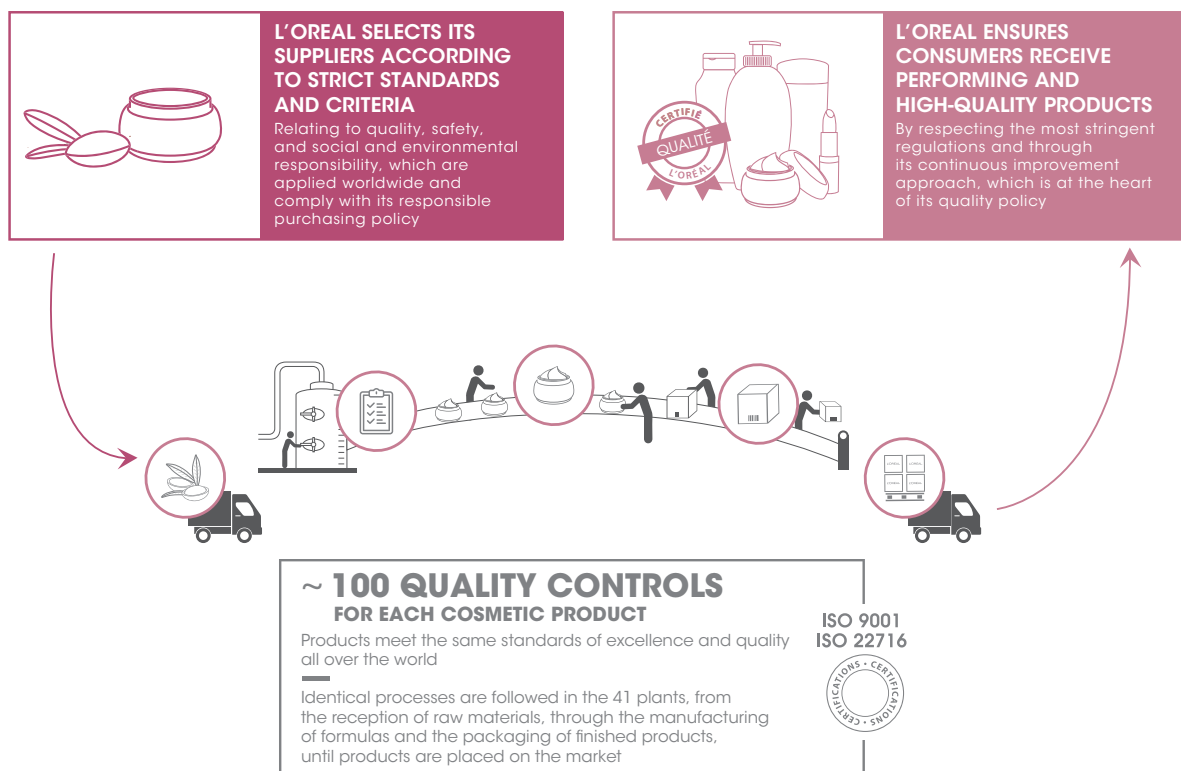
**Product quality and safety: a priority**

Offering consumers the highest quality product is an absolute priority. The Group has set up a single product quality and safety management programme that applies to all its plants and subsidiaries around the world. In 2017, 90% of L'Oréal plants were ISO 9001 certified (Quality management) and 100% were ISO 22716 certified (Best cosmetics manufacturing practices).

This quality management system guarantees industrial excellence and the quality of products with the same high

standards applicable everywhere in the world. It includes efficient production methods and stringent control standards: around 100 quality controls are carried out on a single product during the production cycle, from the input of raw materials and packaging to when products leave the plant en route to customers.

Attesting to the effectiveness of the continuous quality improvement processes, the rate of consumer complaints improves continuously and stood at 52 complaints per million products sold in 2017.



**Operational excellence**

L'Oréal's industrial facilities are equipped with high-tech innovations, including robotic technologies, automation and cobotics (collaborative robots), for the flexibility required to meet the demands of the market and consumer needs: from high-productivity plants for large-scale production to agile plants producing limited editions.

The Group is continuing to roll out its Operational Excellence System in all its plants to meet the challenges of a constantly changing world and go even further in adapting its industrial facilities to the needs of consumers. This process is based on the close involvement of all employees in technical and technological areas relating to safety, quality, ergonomics, environmental impact and production capacity, while at the same time controlling costs.

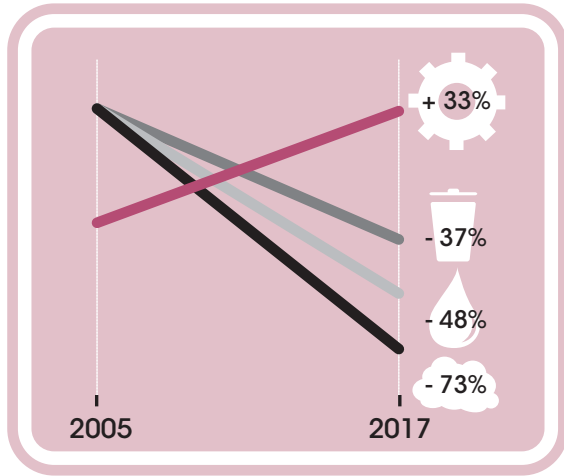
L'Oréal received the Operational excellence award, launched by MEDEF (French entrepreneurs' network) in partnership with

France Qualité. The award recognises operational excellence and continuous improvement to guarantee product quality and safety.

**At the heart of production: environmental protection**

The Group's environmental policy aims to roll out best practices in sustainable production to preserve resources. It spans energy efficiency, the use of renewable energy, optimisation of water consumption and recycling, and reduction of waste generation, amongst others. Results in 2017 once again demonstrated L'Oréal's capacity to decouple increased production (+33% since 2005) from environmental impact, with CO<sub>2</sub> emissions cut -73% in absolute terms since 2005, water consumption per finished product down -48% and waste generation per finished product reduced by -37%. It should be noted that 96% of residual waste was recovered in 2017, meaning that it was reused, recycled or used for energy recovery.

**RESPONSIBLE PRODUCTION**



■ Growth in production      ■ Water consumption  
■ Waste generation      ■ CO<sub>2</sub> emissions

24 of L'Oréal industrial sites were "carbon neutral" at year-end 2017, an increase of 60% vs. 2016, including 9 plants (Libramont in Belgium, Settimo in Italy, Burgos and Alcalá de Henares in Spain, Rambouillet, Ormes and Gauchy in France, Karlsruhe in Germany and Montreal in Canada).

Burgos in Spain became the first L'Oréal "Dry Factory" at the end of 2017: the water used for the plant's industrial processes is purified and recycled in a loop and re-used. (see 3.2.2.2.).

L'Oréal's 25-year commitment to environmental leadership was recognised in 2016 and 2017 by the CDP<sup>(1)</sup>. L'Oréal is one of only two companies in the world, out of nearly 3,000 assessed, to receive this distinction. For the second year in a row, L'Oréal received the highest possible score with an A ranking, in each of the three CDP environmental protection categories: the fight against climate change, sustainable water management and the fight against deforestation.

**THE SHARING BEAUTY WITH ALL COMMITMENTS**

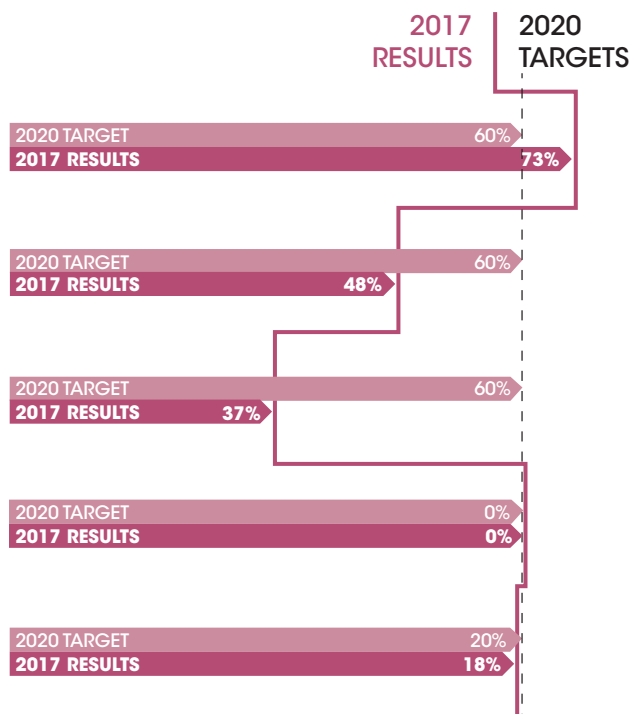
**73% reduction in CO<sub>2</sub> emissions at Group plants and distribution centres** from a 2005 baseline (out of the targeted 60%).

**48% reduction in water consumption** from a 2005 baseline (out of the targeted 60%).

**37% reduction in waste generated** from a 2005 baseline (out of the targeted 60%).

**Sending zero waste to landfill**  
In December 2017, with the exception of one site, all the Group's plants and distribution centres achieved 0.1% landfill waste (excluding regulatory requirements).

**18% reduction in CO<sub>2</sub> emissions from the transportation of products** per sales unit per km from a 2011 baseline (357,770 tonnes of CO<sub>2</sub> emissions in 2017 from the transportation of products, which represents 0.0228 g CO<sub>2</sub>/sales unit/km).



(1) The CDP is an independent NGO which offers a global system for the measurement and publication of environmental information and which assesses the strategy, close involvement and results obtained by companies in the fight against climate change, sustainable water management and forest protection.





### Fast-changing omni-channel logistics strategy

The Group's supply chain organises and optimises all product delivery flows to all our customers and directly to e-commerce consumers. It is responsible for making sure that the products are delivered under optimum conditions, at the right time and at the best cost.

L'Oréal is unique in the cosmetics market in that it serves a global market through a diverse range of distribution channels (see diagram below: hair salons, mass-market retail channels, perfumeries, supermarkets, pharmacies, drugstores, medispas, branded retail, travel retail and e-commerce), with a broad portfolio of many different beauty and cosmetic product categories. L'Oréal continuously optimises all information flows and physical flows from suppliers to customers.



Data management is a critical challenge, and represents a veritable opportunity, especially in the retail sector and in stores managed directly by L'Oréal. Data can provide a comprehensive overall view of business in a store, as well as improve the understanding of the consumer purchase journey. The goal is to increase agility to handle market variations on all distribution channels and to adapt to local consumer requirements. In 2017, L'Oréal inaugurated its first pilot RFID store (*Radio Frequency Identification*) with the NYX Professional Makeup brand, near Paris in France. This is the first RFID cosmetics store in the world. The products have an RFID chip to improve the flows and organisation of the work of employees (simplified inventories, optimised stocks, etc.) and increase consumer satisfaction by offering a smoother purchase journey.

Sustainable Development is also central to the supply chain strategy. To shrink the environmental footprint of transport

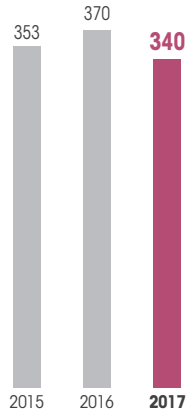
activities, L'Oréal launched a new global initiative to promote cooperation between carriers and to co-develop tailored solutions to address the specific needs of each geographical zone (Europe, Africa, Middle East, North America, Latin America, Brazil and Asia, Pacific).

### Global economic performance at the service of the brands and the commercial entities

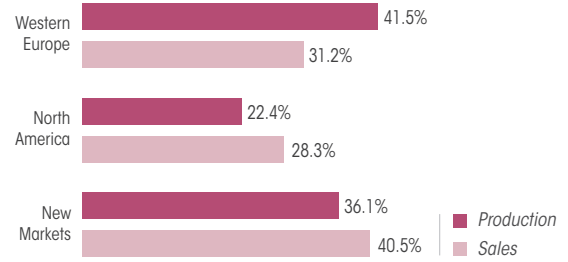
Operations have major economic responsibility for all the brands and markets and that impact total product costs.

Economic optimisation efforts led by Operations involve tracking the *Total Landed Cost*, i.e., the final full cost of a product, which includes the cost of packaging and raw materials, the value added by the plants and all supply chain costs.

**COSMETICS INVESTMENT COMMITMENTS (PRODUCTION AND SUPPLY CHAIN COMMITMENTS IN € MILLION)**



**COSMETICS DIVISION PRODUCTION AND SALES BY GEOGRAPHIC ZONE IN 2017: PRODUCTION CLOSE TO ITS MARKETS**



**PLANTS CERTIFIED TO THE HIGHEST LEVEL**

<p><b>100%</b> of our plants production complies with ISO 22716*</p>	<p><b>90%</b> of our plants production complies with ISO 9001**</p>	
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\* Best practices in cosmetics manufacturing  
\*\* Management of quality

## 1.3. GOOD GROWTH MOMENTUM FOR SHARED, LASTING DEVELOPMENT\*

### 1.3.1. 2017 RESULTS\*

In a beauty market that pursued its steady growth in 2017, L'Oréal had a good year with sustained sales growth momentum, and robust profits. As announced, the second half accelerated compared with the first, particularly in the fourth quarter with +5.5% like-for-like growth.

All the Divisions recorded sales growth, especially L'Oréal Luxe which is delivering spectacular growth, particularly in Asia. The Active Cosmetics Division achieved more than 2 billion euros of sales for the first time. Growth in the Consumer Products Division is being slowed by the continuing difficulties of the American and French markets, while sales in the Professional Products Division improved at the end of the year.

Today more than ever, L'Oréal can rely on its unique portfolio of powerful and complementary brands, eight of which now have sales above one billion euros.

As for the geographic zones, the New Markets exceeded more than 10 billion euros of sales for the first time ever, thanks especially to the dynamism of the Asia, Pacific Zone. Performance in Western Europe remained solid.

2017 was especially notable for the accentuation of L'Oréal's digital edge and the strengthening of the positions of the Group in two strategic channels. Firstly in e-commerce<sup>(2)</sup>, where the Group sales accelerated to reach 2 billion euros, an increase of +33.6%. Secondly in Travel Retail, a channel with strong potential, in which L'Oréal celebrated 40 years of presence by strengthening its number one position.

In terms of results, as announced, operating margin has reached the record level of 18% of sales, while increasing research expenses and business drivers. There were improvements in all the operating parameters; the quality of the results is also reflected in the record cash flow.

And finally, in 2017, L'Oréal was recognised for its leadership in corporate social responsibility with, for the second year running, the best score awarded by the CDP<sup>(3)</sup>, three "A"s, and L'Oréal has been ranked number 1 in all sectors by Vigeo Eiris. L'Oréal has also obtained first place in the world ranking by Equileap for gender equality.

#### 1.3.1.1. Overview of the results for 2017

- ◆ **2017 sales:** €26.02 billion (up +0.7% on reported figures <sup>(4)</sup>, +4.8% like-for-like) <sup>(5)</sup>
- ◆ **Operating profit:** €4.68 billion, representing 18.0% of sales (+3%)
- ◆ **Net profit after non-controlling interests:** €3.58 billion, up +15.3%
- ◆ **Earnings per share** <sup>(6)</sup>: €6.65
- ◆ **Dividend:** €3.55 <sup>(7)</sup> per share (+7.6%), increased by 10% to €3.90 for shares held in registered form for more than 2 years

(1) This information forms an integral part of the Annual Financial Report as provided in the Article L. 451-1-2 of the French Monetary and Financial Code.

(2) Sales achieved on our brands' own websites + estimated sales achieved by our brands corresponding to sales through our retailers' websites (non-audited data); like-for-like growth.

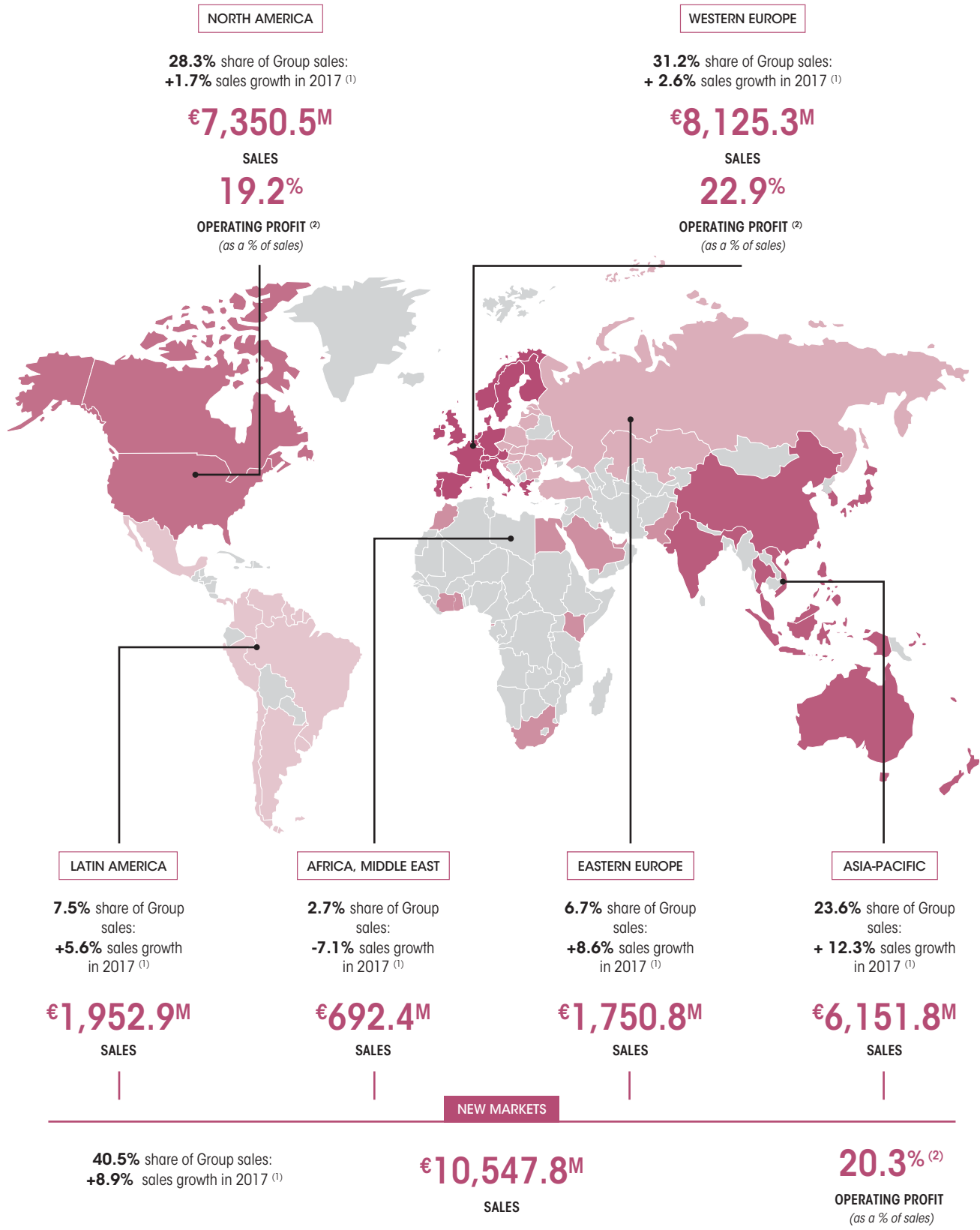
(3) CDP is an independent international organisation which assesses companies' environmental performance.

(4) In the full-year 2016, reported Group sales included The Body Shop sales of €920.8 million.

(5) Like-for-like: based on a comparable structure and identical exchange rates.

(6) Diluted earnings per share, based on net profit, excluding non-recurring items, after non-controlling interests.

(7) Proposed at the Annual General Meeting of 17 April 2018.



(1) Like-for-like sales growth: based on a comparable structure and identical exchange rates.

(2) Operating profit before non-allocated items: Non-allocated items consist of the expenses of Functional Divisions and fundamental research, stock option and free grant of shares costs, which are not allocated to the Cosmetics Divisions. This item also includes non-core activities, such as insurance, reinsurance and banking.

### 1.3.1.2. Consolidated sales

Like-for-like, i.e. based on a comparable scope of consolidation and constant exchange rates, the sales trend of the L'Oréal Group was +4.8%. The net impact of changes in the scope of consolidation amounted to -2.8%: +0.9% from acquisitions and -3.7% from the sale of The Body Shop.

Currency fluctuations had a negative impact of -1.3%. Growth at constant exchange rates was +2.0%. Based on reported figures, the Group's sales, at 31 December 2017, amounted to 26.02 billion euros, an increase of +0.7%.

#### SALES BY OPERATIONAL DIVISION AND BY GEOGRAPHIC ZONE

The finalisation, on 7 September 2017, of the disposal of The Body Shop leads to account for the businesses sold, for 2017, in accordance with the IFRS 5 accounting rule on discontinued operations.

€ millions	2015	2016	2017	% 2017 sales	2016/2017 progression	
					Like-for-like	Reported figures
<b>By Operational Division</b>						
Professional Products	3,399.7	3,399.7	3,350.4	12.9%	+0.2%	-1.4%
Consumer Products	11,844.2	11,993.4	12,118.7	46.6%	+2.2%	+1.0%
L'Oréal Luxe	7,230.0	7,662.4	8,471.7	32.5%	+10.5%	+10.6%
Active Cosmetics	1,816.3	1,860.7	2,082.9	8.0%	+5.8%	+11.9%
<b>Cosmetics Total</b>	<b>24,290.2</b>	<b>24,916.3</b>	<b>26,023.7</b>	<b>100.0%</b>	<b>+4.8%</b>	<b>+4.4%</b>
<b>By geographic zone</b>						
Western Europe <sup>(1)</sup>	7,968.4	8,008.0	8,125.3	31.2%	+2.6%	+1.5%
North America	6,654.4	7,098.8	7,350.5	28.3%	+1.7%	+3.5%
New Markets, of which:	9,667.4	9,809.5	10,547.8	40.5%	+8.9%	+7.5%
♦ Asia, Pacific <sup>(1)</sup>	5,537.9	5,635.4	6,151.8	23.6%	+12.3%	+9.2%
♦ Latin America	1,871.3	1,838.0	1,952.9	7.5%	+5.6%	+6.2%
♦ Eastern Europe	1,530.4	1,571.5	1,750.8	6.7%	+8.6%	+11.4%
♦ Africa, Middle-East	727.9	764.5	692.4	2.7%	-7.1%	-9.4%
<b>Total Cosmetics</b>	<b>24,290.2</b>	<b>24,916.3</b>	<b>26,023.7</b>	<b>100.0%</b>	<b>+4.8%</b>	<b>+4.4%</b>
♦ The Body Shop	967.2	920.8	-	-	-	-
<b>TOTAL GROUP<sup>(2)</sup></b>	<b>25,257.4</b>	<b>25,837.1</b>	<b>26,023.7</b>	<b>100.0%</b>	<b>+4.8%</b>	<b>+0.7%</b>

(1) As of July 1st, 2016, the Asian Travel Retail business of the Consumer Products Division, previously recorded under the Western Europe Zone, was transferred to the Asia, Pacific Zone. All figures for earlier periods have been restated to allow for this change.  
(2) In the full-year 2016, reported Group sales included the sales of The Body Shop in amounts of 920.8 million euros.

#### Professional products

The Professional Products Division ended the year at +0.2% like-for-like and -1.4% reported.

- ♦ After declining in the first half, the Division's sales increased in the second half, reflecting a significant recovery in the United States and the Asia, Pacific Zone. Eastern Europe and Latin America are maintaining their momentum.
- ♦ *Shades EQ*, the core hair colour franchise at Redken, is growing strongly. In haircare, the revamping of the *Série Expert* ranges by L'Oréal Professionnel is energising the category, while on the trend of naturalness, *Aura Botanica* by Kérastase and *Biologie R.A.W.* are continuing to prove highly successful.

#### Consumer products

The Consumer Products Division recorded fourth quarter growth of +3.0% like-for-like, and ended the year at +2.2% like-for-like and +1.0% reported.

- ♦ Make-up growth is continuing: NYX Professional Makeup is growing fast and extending its global expansion; L'Oréal

Paris is holding up well, with *Lash Paradise* mascara proving particularly successful, and ended the year at number two in the United States, just behind the market leader Maybelline New York. The good momentum in skincare continued, both at L'Oréal Paris with the global roll-out of clay masks, and at Garnier with the ongoing *Micellar Cleansing Waters* saga. Hair colour is growing, driven by the impetus of *Magic Retouch* and *Colorista* by L'Oréal Paris.

- ♦ The Division is growing in Western Europe, where it is winning market share, and in Eastern Europe and Spanish-speaking America. Its acceleration in Asia continued in the fourth quarter, thanks to China. Growth in North America slowed in a difficult market.
- ♦ Lastly, e-commerce is continuing to act as a growth catalyst, driven by China where it already accounts for more than one-third of sales.

#### L'Oréal Luxe

L'Oréal Luxe posted growth of +10.5% like-for-like and +10.6% reported. The Division is outperforming its market and confirming its success in make-up and facial skincare.

- ◆ Lancôme had a very good year with double-digit growth, fuelled by make-up successes with *Monsieur Big* mascara, *l'Absolu Rouge* and *Teint Idole Ultra*, and by the acceleration of the *Génifique* skincare range. *La Vie est Belle* has confirmed its European number one position, despite stiffer competition. Yves Saint Laurent is breaking more records thanks to its successes in fragrances, with the good start of new men's fragrance Y, and in make-up with the achievements of its *Tatouage Couture* lip products. Giorgio Armani and Kiehl's both exceeded the one billion euro mark in sales. The rapid growth of IT Cosmetics is continuing.
- ◆ L'Oréal Luxe is posting double-digit growth in Asia, Pacific, with particularly good figures in China and in Travel Retail. Western Europe is performing well. E-commerce growth is also very strong.

## Active Cosmetics

With growth of +5.8% like-for-like and +11.9% reported, 2017 was a historic year for the Active Cosmetics Division, which saw its sales break the 2 billion euro barrier, while further increasing its leadership of the dermocosmetics market worldwide.

- ◆ La Roche-Posay, the world number one dermocosmetics brand, is maintaining its strong growth momentum, thanks in particular to its franchises *Effaclar*, *Lipikar* and *Cicaplast*.
- ◆ Vichy performed well in the fourth quarter, especially in Western Europe and Asia, thanks to *Minéral 89*, and its anti ageing launch *Neovadiol Rose Platinum*.
- ◆ For the eighth year running, SkinCeuticals posted double-digit growth and confirmed the success of *H.A. Intensifier*.
- ◆ The strong acceleration in e-commerce is continuing.
- ◆ The Division's global expansion continues: thanks to the successful integration of CeraVe, which is growing strongly in the American market, and the good momentum of SkinCeuticals and La Roche-Posay, the United States is the largest contributor to growth and has become the Division's number one country.

## Multi-division summary by geographic zone

### Western Europe

In 2017, Western Europe posted growth of +2.6% like-for-like and +1.5% reported.

Growth was particularly robust in Great Britain, Spain and Germany, fuelled by the make-up and skincare categories. Sales in France continued to be held back by a slightly contracting market.

The two main Divisions, Consumer Products and L'Oréal Luxe, outperformed their respective markets, and the Active Cosmetics Division's growth accelerated in the second part of the year.

### North America

The Zone posted growth of +1.7% like-for-like and +3.5% reported.

The American market is continuing to grow, but is facing a slowdown in some historical distribution channels. Performance in make-up is being further increased by the brands NYX Professional Makeup and L'Oréal Paris, but haircare is proving less dynamic. The L'Oréal Luxe Division has slowed, against a background of inventory reductions. Yves Saint Laurent and IT Cosmetics however have continued to record double-digit growth. In the fourth quarter, the Professional Products Division saw sales increase, thanks particularly to its partner brands. The Active Cosmetics Division performed well last year, bolstered by the recent acquisition of CeraVe and by the emblematic SkinCeuticals and La Roche-Posay brands.

### New Markets

- ◆ **Asia, Pacific:** this Zone recorded growth of +12.3% like-for-like and +9.2% reported. In Northern Asia, Chinese consumers are driving growth, particularly for the L'Oréal Luxe Division in China and Hong Kong. China's strong growth is continuing, fuelled by very good e-commerce results across all Divisions. In Southern Asia, India is very dynamic. Thailand and Malaysia are also growing very strongly.
- ◆ **Latin America:** the Zone posted growth of +5.6% like-for-like and +6.2% reported. Mexico and Argentina recorded double-digit growth, while the economic environment remains difficult in Brazil. The L'Oréal Luxe and Active Cosmetics Divisions have achieved double-digit growth, thanks respectively to the Lancôme and La Roche-Posay brands. The Consumer Products Division is growing in the make-up category, reflecting the expansion of the NYX Professional Makeup brand and the continuing growth of Maybelline New York.
- ◆ **Eastern Europe:** the Zone posted growth of +8.6% like-for-like and +11.4% reported. Turkey and Central Europe were the growth drivers, and sales in Russia were satisfactory. All the Divisions made market share gains. In this Zone, e-commerce now accounts for more than 5% of sales.
- ◆ **Africa, Middle East:** this Zone is at -7.1% like-for-like and -9.4% reported, with a clear improvement in the second half. Despite substantial declines in markets, the situation is stabilising in the Gulf states. Egypt's growth was dynamic.

### 1.3.1.3. 2017 consolidated results

#### OPERATING PROFITABILITY AND CONSOLIDATED INCOME STATEMENT

The finalisation, on 7 September 2017, of the disposal of The Body Shop leads to account for the businesses sold, for 2017, in accordance with the IFRS 5 accounting rule on discontinued operations.

	2015		2016		2017	
	€ millions	% sales	€ millions	% sales	€ millions	% sales
<b>Sales</b>	<b>25,257.4</b>	<b>100.0%</b>	<b>25,837.1</b>	<b>100.0%</b>	<b>26,023.7</b>	<b>100.0%</b>
Cost of sales	-7,277.4	28.8%	-7,341.7	28.4%	-7,359.2	28.3%
<b>Gross profit</b>	<b>17,980.0</b>	<b>71.2%</b>	<b>18,495.4</b>	<b>71.6%</b>	<b>18,664.5</b>	<b>71.7%</b>
Research and development expenses	-794.1	3.1%	-849.8	3.3%	-877.1	3.4%
Advertising and promotion expenses	-7,359.6	29.1%	-7,498.7	29.0%	-7,650.6	29.4%
Selling, general and administrative expenses	-5,438.6	21.5%	-5,607.0	21.7%	-5,460.5	21.0%
<b>OPERATING PROFIT</b>	<b>4,387.7</b>	<b>17.4%</b>	<b>4,539.9</b>	<b>17.6%</b>	<b>4,676.3</b>	<b>18.0%</b>

Gross profit, at 18,664 million euros, came out at 71.7% of sales, compared with 71.6% in 2016, that is an increase of 10 basis points.

Research and Development expenses, at 3.4% of sales, have increased slightly in relative value.

As announced, Advertising and promotion expenses increased to 29.4% of sales, representing an increase of 40 basis points.

Selling, general and administrative expenses, at 21.0% of sales, have reduced by 70 basis points, mainly due to the impact of the sale of The Body Shop.

Overall, operating profit, at 4,676 million euros, has grown by 3.0%, and amounts to 18.0% of sales, representing an increase of 40 basis points. Excluding exchange rates, operating profit grew by +4.4%.

#### NET PROFIT FROM CONTINUING OPERATIONS

The finalisation, on 7 September 2017, of the disposal of The Body Shop leads to account for the businesses sold, for 2017, in accordance with the IFRS 5 accounting rule on discontinued operations.

From operating profit to net profit excluding non-recurring items:

€ millions	2015	2016	2017	Evolution
<b>Operating profit</b>	<b>4,387.7</b>	<b>4,539.9</b>	<b>4,676.3</b>	<b>+3.0%</b>
Finance costs excluding dividends received	-13.8	-19.3	-22.9	
Sanofi dividends	336.9	346.5	350.0	
<b>Pre-tax profit excluding non-recurring items</b>	<b>4,710.8</b>	<b>4,867.1</b>	<b>5,003.3</b>	<b>+2.8%</b>
Income tax excluding non-recurring items	-1,219.7	-1,216.8	-1,250.5	
Net profit from equity affiliates excluding non-recurring items	-	-0.1	-0.1	
Non-controlling interests	-1.3	-3.0	-3.9	
<b>Net profit excluding non-recurring items attributable to owners of the company<sup>(1)</sup></b>	<b>3,489.8</b>	<b>3,647.2</b>	<b>3,748.7</b>	<b>+2.8%</b>
<b>EPS<sup>(2)</sup> (€)</b>	<b>6.18</b>	<b>6.46</b>	<b>6.65</b>	<b>+3.0%</b>
<b>NET PROFIT AFTER NON-CONTROLLING INTERESTS</b>	<b>3,297.4</b>	<b>3,051.7</b>	<b>3,581.4</b>	<b>+15.3%</b>
Diluted EPS after non-controlling interests (€)	5.84	5.50	6.36	
Diluted average number of shares	564,891,388	564,509,135	563,528,502	

(1) Non-recurring items include mainly capital gains and losses on long-term asset disposals, impairment of long-term assets, restructuring costs and elements relating to identified operational income and expenses, non-recurring and significant regarding the consolidated performance.

(2) Diluted net earnings per share excluding non-recurring items after non-controlling interests.

Finance expenses came out at 23 million euros.

Sanofi dividends amounted to 350 million euros.

Income tax excluding non-recurring items amounted to 1,250 million euros. This represents a tax rate of 25.0%.

Net profit excluding non-recurring items after non-controlling interests from continuing operations amounted to 3,749 million euros, an increase of +2.8% and +4.1% at constant exchange rates.

Earnings per Share, at 6.65 euros, is up by +3.0%, and +4.3% at constant exchange rates.

Non-recurring items after non-controlling interests amounted to -167 million euros net of tax, mainly due to the disposal of The Body Shop, to the impact of the reimbursement of taxes on dividends, and to the positive impact of the American tax reform on differed tax liabilities.

Net profit came out at 3,581 million euros, strongly increasing by 15.3%.

## NET PROFIT AFTER ATTRIBUTABLE TO OWNERS OF THE COMPANY: €3,581 MILLION

The finalisation, on 7 September 2017, of the disposal of The Body Shop leads to account for the businesses sold, for 2017, in accordance with the IFRS 5 accounting rule on discontinued operations.

€ millions	2015	2016	2017	Evolution 2016/2017
<b>Net profit excluding non-recurring items after non-controlling interests</b>	<b>3,489.8</b>	<b>3,647.2</b>	<b>3,748.7</b>	<b>+2.8%</b>
Non-recurring items net of tax	-192.4	-541.4	-167.2	
Net profit from non-continuing operations	-	-	-	
<b>NET PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY</b>	<b>3,297.4</b>	<b>3,051.7</b>	<b>3,581.4</b>	<b>+15.3%</b>

### Cash flow statement, Balance sheet and Cash position

Gross cash flow amounted to 4,972 million euros, an increase of 5.4%.

The working capital requirement decreased by 261 million euros.

Investments amounted to 1,263 million euros, representing 4.9% of sales.

The net cash flow <sup>(1)</sup>, came out at 3,969 million euros, a strong increase of +19.6%.

The balance sheet remains particularly solid with shareholders' equity amounting to 24.8 billion euros, and net cash at 1,872 million euros at 31 December 2017.

### Proposed dividend at the Annual General Meeting of 17 April 2018

The Board of Directors has decided to propose to the Shareholders' Annual General Meeting of 17 April 2018 a dividend of 3.55 euros per share, an increase of +7.6% compared with the dividend paid in 2017. The dividend will be paid on 27 April 2018 (ex-dividend date 25 April 2018 at 0:00 a.m., Paris time).

### Share capital

As of 31 December 2017, the capital of the company is formed by 560,519,088 shares, each with one voting right.

### Operating profit, by operational division and geographic zone

#### BY OPERATIONAL DIVISION

The finalisation, on 7 September 2017, of the disposal of The Body Shop leads to account for the businesses sold, for 2017, in accordance with the IFRS 5 accounting rule on discontinued operations.

	2015		2016		2017	
	€ millions	% sales	€ millions	% sales	€ millions	% sales
Professional Products	678	20.0%	689	20.3%	669	20.0%
Consumer Products	2,386	20.1%	2,417	20.2%	2,419	20.0%
L'Oréal Luxe	1,497	20.7%	1,623	21.2%	1,856	21.9%
Active Cosmetics	415	22.8%	431	23.2%	471	22.6%
<b>COSMETICS DIVISIONS TOTAL</b>	<b>4,976</b>	<b>20.5%</b>	<b>5,160</b>	<b>20.7%</b>	<b>5,415</b>	<b>20.8%</b>
Non-allocated <sup>(1)</sup>	-643	-2.6%	-654	-2.6%	-739	-2.8%
<b>TOTAL GROUP AFTER NON-ALLOCATED</b>	<b>4,333</b>	<b>17.8%</b>	<b>4,506</b>	<b>18.1%</b>	<b>4,676</b>	<b>18.0%</b>

(1) Non-allocated items consist of the expenses of Functional Divisions and fundamental research, stock option and free grant of shares costs, which are not allocated to the Cosmetics Divisions. This item also includes non-core activities, such as insurance, reinsurance and banking.

After a difficult 2017, the profitability of the Professional Products Division came out at 20.0%.

The profitability of the Consumer Products Division came out at 20.0%, representing a slight decrease of 20 basis points compared with 2016.

The profitability of L'Oréal Luxe, at 21.9%, strongly increased in 2017, which is an increase of 70 basis points.

At Active Cosmetics Division, profitability came out at 22.6%.

Non-allocated expenses increased by 2.8% of sales, mainly due to the increase in digital costs.

(1) Net cash flow = Gross cash flow + changes in working capital - capital expenditure.



## BY GEOGRAPHIC ZONE

The finalisation, on 7 September 2017, of the disposal of The Body Shop leads to account for the businesses sold, for 2017, in accordance with the IFRS 5 accounting rule on discontinued operations.

	2015 <sup>(1)</sup>		2016		2017	
	€ millions	% sales	€ millions	% sales	€ millions	% sales
Western Europe <sup>(1)</sup>	1,800	22.6%	1,832	22.9%	1,860	22.9%
North America	1,257	18.9%	1,392	19.6%	1,411	19.2%
New Markets <sup>(1)</sup>	1,919	19.9%	1,936	19.7%	2,144	20.3%
<b>COSMETICS ZONES TOTAL</b>	<b>4,976</b>	<b>20.5%</b>	<b>5,160</b>	<b>20.7%</b>	<b>5,415</b>	<b>20.8%</b>
Non-allocated <sup>(2)</sup>	-643	-2.6%	-654	-2.6%	-739	-2.8%
<b>TOTAL GROUP AFTER NON-ALLOCATED</b>	<b>4,333</b>	<b>17.8%</b>	<b>4,506</b>	<b>18.1%</b>	<b>4,676</b>	<b>18.0%</b>

(1) As of July 1<sup>st</sup>, 2016, the Asian Travel Retail business of the Consumer Products Division, previously recorded under the Western Europe Zone, was transferred to the Asia, Pacific Zone. All figures for earlier periods have been restated to allow for this change.

(2) Non-allocated items consist of the expenses of Functional Divisions and fundamental research, stock option and free grant of shares costs, which are not allocated to the Cosmetics Divisions. This item also includes non-core activities, such as insurance, reinsurance and banking.

Profitability in Western Europe at 22.9%, is at an identical level to that of 2016.

And in the New Markets, profitability strongly increased and exceeded, for the first time, 20% of sales.

In North America, profitability came out at 19.2%, slightly lower than 2016.

## Sales of the cosmetics branch by business segment

### CONSOLIDATED SALES

€ millions	2016/2017 progression				
	2015	2016	2017	Like-for-like	Reported figures
Skincare	7,190	7,089	7,624	+7.6%	+7.5%
Make-up	5,784	6,576	7,266	+10.2%	+10.5%
Haircare	4,782	4,779	4,559	-3.2%	-4.6%
Hair colourants	3,091	3,021	3,076	+2.0%	+1.8%
Perfumes	2,376	2,367	2,393	+2.1%	+1.1%
Other <sup>(1)</sup>	1,067	1,085	1,107	+1.2%	+2.0%
<b>TOTAL COSMETICS SALES</b>	<b>24,290</b>	<b>24,916</b>	<b>26,024</b>	<b>+4.8%</b>	<b>+4.4%</b>

(1) "Other" includes hygiene products, sales made by American distributors with non-Group brands.

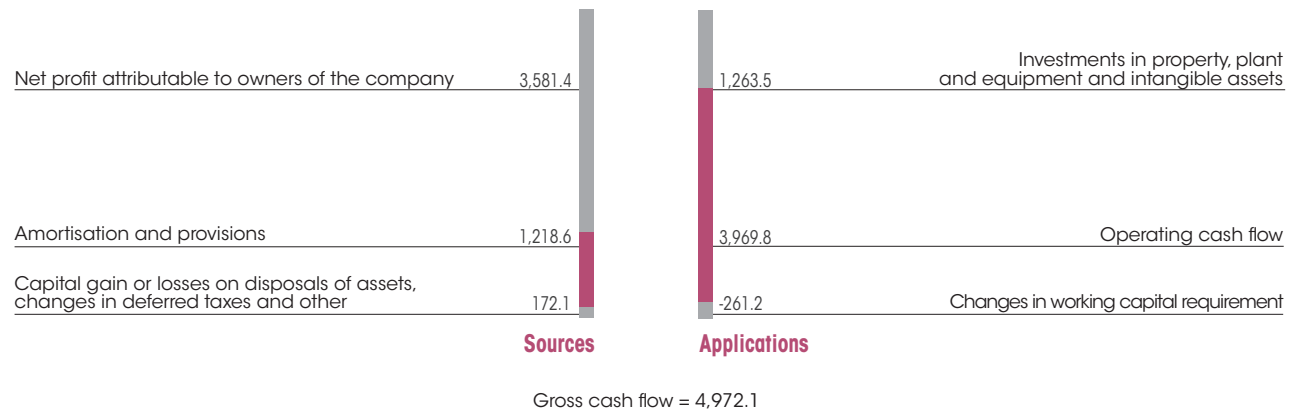
## Simplified consolidated income statements

€ million	31.12.2015	31.12.2016	31.12.2017	% 2017 sales
<b>Sales</b>	<b>25,257.4</b>	<b>25,837.1</b>	<b>26,023.7</b>	<b>100.0%</b>
<b>Gross profit</b>	<b>17,980.0</b>	<b>18,495.4</b>	<b>18,664.5</b>	<b>71.7%</b>
Research and development	-794.1	-849.8	-877.1	3.4%
Advertising and promotion	-7,359.6	-7,498.7	-7,650.6	29.4%
Selling, general and administrative expenses	-5,438.6	-5,607.0	-5,460.5	21.0%
<b>Operating profit</b>	<b>4,387.7</b>	<b>4,539.9</b>	<b>4,676.3</b>	<b>18.0%</b>
<b>Operational profit</b>	<b>4,194.3</b>	<b>3,996.1</b>	<b>4,400.0</b>	
Finance costs excluding dividends received	-13.8	-19.3	-22.9	
Sanofi dividends	336.9	346.5	350.0	
Income tax	-1,222.9	-1,214.6	-901.3	
Non-controlling interests	-1.1	-2.9	-4.1	
Impact of deconsolidation of The Body Shop *			-240.1	
<b>Net profit attributable to owners of the company</b>	<b>3,297.4</b>	<b>3,051.7</b>	<b>3,581.4</b>	<b>13.8%</b>
Non-recurring items (expense -/income +)	-192.4	-541.5	-167.2	
<b>Net profit excluding non-recurring items after non-controlling interests **</b>	<b>3,489.8</b>	<b>3,647.2</b>	<b>3,748.7</b>	<b>14.4%</b>
Diluted earnings per share attributable to owners of the company (euros)	5.84	5.50	6.36	
Diluted earnings per share attributable to owners of the company excluding non-recurring items (euros)	6.18	6.46	6.65	

\* The finalisation of the disposal of The Body Shop on 7 September 2017 led to the application, in 2017, of IFRS 5 for discontinued operations.

\*\* Net profit excluding non-recurring items excludes asset depreciations, restructuring costs, tax effects and minority interests of continuing activities.

## Sources and application of funds



## Financial ratios

	2015	2016	2017
(% of sales) Operating profit/Sales	17.4%	17.6%	18.0%
(% of shareholders' equity) Net profit excluding non-recurring items after non-controlling interests/Opening shareholders' equity	17.3%	15.4%	15.1%
(% of shareholders' equity) Net gearing <sup>(1)</sup>	n/a	n/a	n/a
Gross cash flow/Investments	3.8x	3.4x	3.9x

(1) Net gearing: Current and non-current debt – Cash and cash equivalents / Shareholders' equity after non-controlling interests

### L'Oréal 2011-2017

The announcement on February 11<sup>th</sup>, 2014, of the disposal of 50% of Galderma leads to account for this business in accordance with IFRS 5 accounting rule on discontinued operations. In accordance with IFRS 11 accounting rule, Innéov has been consolidated under the equity method as of January 1<sup>st</sup>, 2014. All figures for earlier periods have been restated accordingly.

€ millions	2011 <sup>(1)</sup>	2012 <sup>(1)</sup>	2013 <sup>(8)</sup>	2014 <sup>(8)</sup>	2015	2016	2017
<b>Results</b>							
Consolidated sales	20,343	21,638	22,124	22,532	25,257	25,837	26,023
Operating profit	3,293	3,558	3,760	3,891	4,388	4,540	4,676
As a percentage of consolidated sales	16.2%	16.4%	17.0%	17.3%	17.4%	17.6%	18.0%
Profit before tax excluding non-recurring items	3,563	3,874	4,056	4,198	4,711	4,867	5,003
Net profit excluding non-recurring items after non-controlling interest <sup>(2)</sup>	2,583	2,861	3,032	3,125	3,490	3,647	3,748
Net profit attributable to owners of the company	2,438	2,868	2,958	4,910	3,297	3,106	3,581
Total dividend	1,212	1,380	1,507	1,511	1,742	1,868	2,006
<b>Balance sheet</b>							
Non-current assets	19,141	20,903	21,485	23,284	24,458	25,585	24,320
Current assets excl. cash and cash equivalents	6,070	6,096	6,730	6,858	7,854	8,300	7,972
Cash and cash equivalents	1,652	2,235	2,659	1,917	1,400	1,746	3,047
Equity <sup>(3)</sup>	17,627	20,925	22,651	20,197	23,617	24,504	24,819
Net current and non-current debt <sup>(4)</sup>	-504	-1,948	-2,320	671	-618	-481	-1,872
Gross cash flow	3,226	3,507	3,758	3,808	4,399	4,717	4,972
<b>Per share data (euros)</b>							
Diluted earnings per share attributable to owners of the company excluding non-recurring items <sup>(2)</sup>	4.32	4.73	4.99 <sup>(5)</sup>	5.34	6.18	6.46	6.65
Dividend	2.00	2.30	2.50	2.70	3.10	3.30	3.55 <sup>(6)</sup>
Share price at December 31 <sup>st</sup> <sup>(7)</sup>	80.70	104.90	127.70	139.30	155.30	173.40	184.95
Highest share price during the year <sup>(7)</sup>	91.24	106.40	137.85	140.40	181.30	177.90	197.15
Lowest share price during the year <sup>(7)</sup>	68.83	79.22	103.65	114.55	133.40	142.65	167.75
Diluted weighted average number of shares outstanding <sup>(7)</sup>	597,633,103	605,305,458	608,001,407	585,238,674	564,891,388	564,509,135	563,528,502

(1) The 2011 and 2012 balance sheets have been restated to allow for the change in accounting method relating to revised IAS 19.

(2) For 2012, 2013, 2014 and 2015 it is the net profit from continuing operations.

(3) Plus non-controlling interests.

(4) The net cash surplus is €504 million in 2011, €1,948 million in 2012, €2,320 million in 2013, €618 million in 2015, €481 million in 2016 and 1,872 M€ in 2017. In 2014, net debt is €671 million.

(5) Net profit to owners of the company per share, excluding non-recurring items, published on December 31<sup>st</sup>, 2013 was €5.13.

(6) Dividend proposed to the Annual General Meeting of April 17<sup>th</sup>, 2018.

(7) The L'Oréal share has been listed in euros on the Paris Stock Exchange since January 4<sup>th</sup>, 1999, where it was first listed in 1963. The share capital is €112,103,817.60 at December 31<sup>st</sup>, 2017; the par value of one share is €0.2.

(8) The balance sheets at December 31<sup>st</sup>, 2013 and December 31<sup>st</sup>, 2014 have been restated to reflect the change in accounting policies on recognition of levies resulting from the application of IFRIC 21.

#### 1.3.1.4. Significant, recent events and prospects

##### Significant events of 2017

- On 10 January, L'Oréal announced the signing of a definitive agreement with Valeant to acquire the brands CeraVe, AcneFree and Ambi. The acquisition of these brands completes and strengthens the Active Cosmetics Division's positions in the United States, enabling it to meet growing demand for active skincare products at accessible prices. The acquisition was finalised on 6 March 2017.
- Between 13 February and 15 March, L'Oréal bought back 2,846,604 of its shares in order to cancel them, in

accordance with the authorisation voted by the Annual General Meeting of 20 April 2016, and with the decision of the Board of Directors on 9 February 2017.

- On 20 April 2017, the Annual General Meeting of L'Oréal appointed Mr Paul Bulcke as a Director, and renewed the tenure as Directors of Mrs Françoise Bettencourt Meyers and Mrs Virginie Morgon. Furthermore, the Annual General Meeting decided on the distribution of a dividend of €3.30 per share, with a payment date of 3 May 2017.

- ◆ The Board of Directors' meeting, held at the close of the Annual General Meeting, decided, pursuant to the authorisation voted by the Annual General Meeting on 20 April 2016, on the cancellation of 2,846,604 L'Oréal shares acquired within the scope of the share buyback programme decided by the Board of Directors on 9 February 2017. The shares were cancelled on 31 May 2017. The share capital of L'Oréal at 30 June 2017 amounts to 111,993,452 euros, divided into 559,967,260 shares, each with a par value of 0.2 euro.
- ◆ On 20 April 2017, L'Oréal announced the appointment of Mr Nicolas Hieronimus as Deputy CEO, in charge of Divisions. Mr Nicolas Hieronimus will also continue in his role as President of the L'Oréal Luxe Division.
- ◆ On 2 May 2017, L'Oréal USA announced the acquisition of key assets from Four Star Salon Services, a full-service wholesale distributor of products to hair salons in New York, New Jersey and Connecticut. This acquisition will provide SalonCentric with expanded distribution coverage in the United States.
- ◆ On 7 September 2017, after obtaining the necessary authorisations from the relevant authorities, L'Oréal and Natura Cosméticos finalised the definitive agreement for the sale of The Body Shop to Natura, in accordance with the terms of the project announced on 9 June 2017.
- ◆ On 19 September 2017, L'Oréal was awarded the second prize for Diversity in Senior Management Bodies at the Corporate Governance Grand Prix ceremony organised by l'AGEFI.
- ◆ On 21 September 2017, L'Oréal was awarded first prize for its Code of Ethics at the Labrador *Grands Prix de la Transparence* ceremony.
- ◆ On 9 October 2017, the OECD (Organisation for Economic Co-operation and Development) announced that it had accepted two new methods, developed by L'Oréal's Research laboratories, which can be used in place of animal testing to assess skin allergy and eye irritation.
- ◆ On 20 October 2017, L'Oréal announced a strategic partnership with STATION F, the world's largest start-up campus, to support the development of early stage digital beauty start-ups.
- ◆ On 20 November 2017, at the 5<sup>th</sup> edition of the "*Palmarès de la féminisation des instances dirigeantes*" organised by Ethics & Boards, L'Oréal's commitment to both gender equality and professional equality was recognised, and L'Oréal received the Award for Gender Equality at Top Management Level.

- ◆ On 21 November 2017, at the CDP <sup>(1)</sup> Europe Awards in Brussels, L'Oréal obtained for the second year running the best possible score, an "A" rating, in each of the three fields of combating climate change, sustainable water stewardship and protecting forests.

### **Significant events that have occurred since the beginning of 2018**

No significant event has occurred since the beginning of 2018.

### **2018 prospects**

As for 2018, in a market that should remain dynamic and contrasted, L'Oréal more than ever before has the best advantages in terms of innovation, brand power, digital prowess, and the quality of its teams all over the world, to win market share and strengthen its Beauty leadership. L'Oréal is therefore confident that, this year once again, it will outperform the market and achieve significant growth in like-for-like sales and an increase in profitability.

#### **1.3.1.5. L'Oréal's investment policy responds to long-term objectives**

L'Oréal is an industrial company which develops chiefly through two types of investment:

1. scientific investments and investments in equipment which are explained at length in several sections of this document (see in particular section 1.2.5. and section 1.2.6.);
2. marketing investments which are made on an ongoing basis and are inherent to the Group's activities in the cosmetics industry. To capture new market share, in-depth research tailored to each situation must be conducted, and advertising and promotional expenses need to be attuned to the familiarity of the brands and their competitive position in each country. Lastly, investments in point-of sale (POS) advertising materials ensure optimal presence for our brands in points of sale.

For reasons relating to strategy and competition, L'Oréal cannot therefore provide any systematic information on future investments.

In 2017, the Group's investments totalled €1,264 million, or 4.9% of its sales. This level reflects the Group's constant efforts in terms of improving industrial efficiency, research and digital development performance and enhancing brand value.

(1) CDP is an independent international organisation which assesses companies' environmental performance.

Investment commitments in 2017 can be broken down as follows:

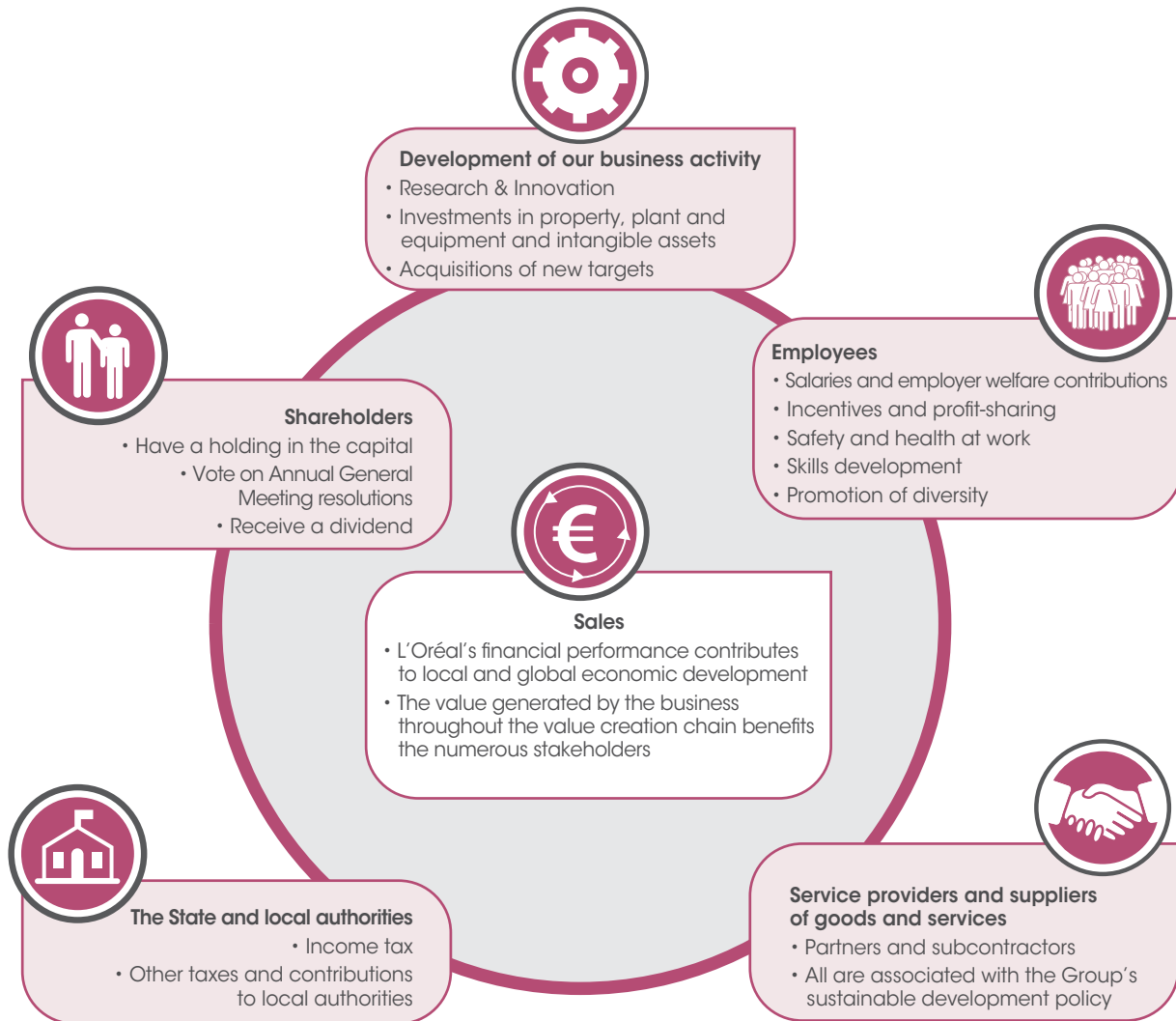
- ◆ production and the supply chain represent approximately 27% of total investments;
- ◆ marketing investments, including moulds, POS advertising materials and stores account for 46%;
- ◆ IT investments spread over all these categories represent 19% of total investments;

- ◆ research and the head offices in different countries account for the remainder.

See notes 3.2.2, 7.2 and 12.2 to the Consolidated Financial Statements for more details of these investments.

Despite their strategic nature, none of these investments taken individually is material enough at Group level to warrant more detailed disclosure.

*The stakeholders in the Group's business*



1.3.2. CONSTANT, SHARED GROWTH

Priority to human capital

L'Oréal has always been guided by humanist values that have led it to place the individual and talent at the very heart of its organisation. As its founder, Eugène Schueller affirmed with conviction "a company is not walls and machines but men, men and more men."

These strategic intangible assets are one of the Group's main competitive advantages in the long term, alongside its brands, governance and Research.

The Group's human and social project revolves around two priorities: the first is individual performance development of employees and future leaders and the second is social performance.

L'Oréal has always targeted constant, sustainable growth.

Since its very beginnings, the Group has been committed to developing its presence in all regions of the world by applying the fundamental rules of a good corporate citizen. The products offered to consumers meet the highest quality standards; the Group's social commitments are the same in all its subsidiaries; all production centres comply with the same rules aimed at reducing their environmental footprint. Social audits are conducted in relation to the suppliers of plants and distribution centres.

Each subsidiary contributes, in accordance with its resources, to the L'Oréal Foundation's major programmes, notably "For Women in Science", "Beauty for a Better Life", or other Group philanthropic initiatives, such as Hairdressers against Aids (see chapter 3). Above and beyond its solid long-term economic performances, the Company seeks to be exemplary and sets itself demanding standards in order to limit its environmental

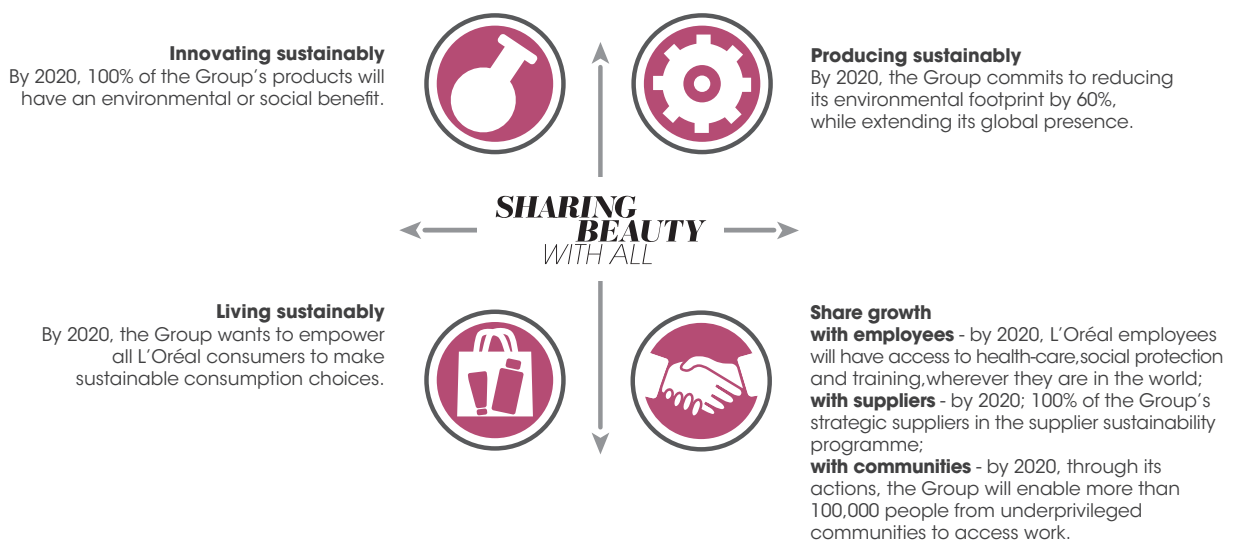
footprint. In October 2013, all the L'Oréal Group's Sustainable Development commitments were formally provided for and structured at a strategic level within the scope of the *Sharing Beauty With All* programme.

Sharing Beauty With All

The *Sharing Beauty With All* programme presents the targets that the Group has set itself for 2020 with the aim of reducing its environmental impact and increasing its social commitments, while sharing its growth with the surrounding communities. Every year, L'Oréal reports on its strategy and its results transparently and giving figures via performance indicators. A panel of independent international experts called the Panel of Critical Friends meets regularly to review progress made and take a critical look at the actions taken and suggest improvements.

The *Sharing Beauty With All* programme stands out for its complete integration into the Company's value chains it therefore covers all the Group's impacts, broken down into four areas:

- ♦ innovating sustainably, which aims at improving the environmental and social profile of products (see section 1.2.5);
- ♦ producing sustainably, to reduce the environmental footprint of the Group's plants and distribution centres, all over the world (see section 1.2.6);
- ♦ living sustainably, to engage with consumers and offer them the possibility to make sustainable consumption choices;
- ♦ developing sustainably to share growth with all the Group's stakeholders (employees, suppliers, communities).

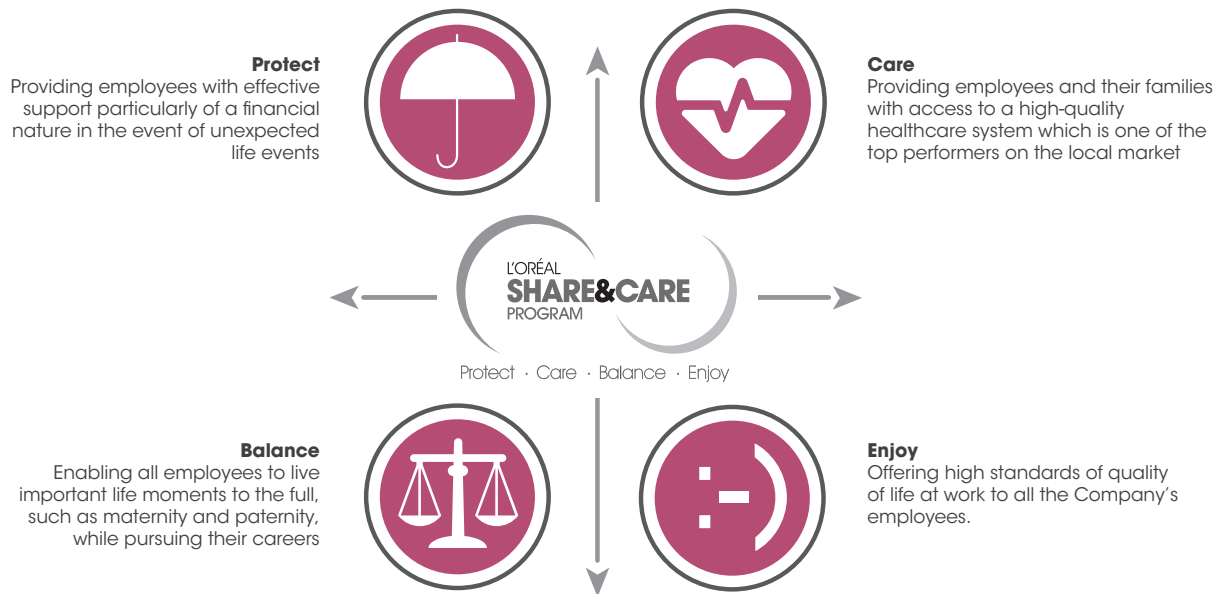


## Sharing growth

Sharing growth with its stakeholders is one of L'Oréal's priorities. In this spirit, the Group applies its vision of responsible corporate citizenship with its employees, its suppliers and the communities with which it interacts.

## ... with the employees

The L'Oréal Share & Care programme is a large-scale social programme initiated at the end of 2013. It consists of commitments revolving around 4 pillars put in place in all countries: social protection, healthcare, parenthood and quality of life at work.



In this way, "by 2020, L'Oréal employees will have access to healthcare, social protection and training, wherever they are in the world."



(1) I.e. 100% of the employees within the scope of the "L'Oréal Share & Care" programme (the Group's permanent employees except, in certain countries, part-time contracts <21 hours a week, beauty advisers and store employees, noting that the integration of recent acquisitions and new subsidiaries takes place gradually).

## ... with suppliers

"By 2020, 100% of the Group's strategic suppliers will be participating in our supplier sustainability programme."

L'Oréal considers that the activities of its suppliers are part of its wider social and environmental footprint. This is why the Group has decided to associate its suppliers with its social, ethical and environmental commitments. This concerns first and foremost its "strategic" suppliers, who represent over 80% of the Group's direct purchases (raw materials, packaging and subcontracting).

Following on from the responsible purchasing policy it has implemented since 2002 known as the L'Oréal Buy & Care

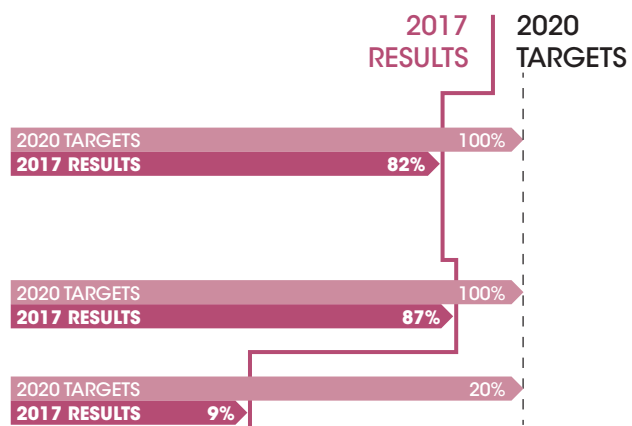
programme, the *Sharing Beauty With All* programme has enabled the Group to associate its suppliers more with its CSR initiatives by developing a twofold approach:

- ♦ the supplier selection process now takes into consideration their environmental and social performances;
- ♦ the Group makes available to them continuous improvement tools to enable them to carry out a better self-assessment and improve.

**82% of the Group's strategic suppliers have been evaluated and selected on the basis of their environmental and social performance.** They represent more than 74% of total direct purchases (raw materials, packaging items and subcontracting) Furthermore, in 2017, 1,231 social audits <sup>(1)</sup> were carried out, making a total of over 9,400 since 2006.

**87% of strategic suppliers <sup>(2)</sup> have completed a self-assessment of their sustainability policy with the Group's support.**

**9% of strategic suppliers <sup>(2)</sup> are members of the Group's Solidarity Sourcing programme.**



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

(2) Strategic suppliers are suppliers whose added value is significant for the Group by contributing to the L'Oréal sustainable strategy by their weight, their innovations, their strategic alignment and their geographical deployment. 80% of the amount of direct purchases will be ultimately covered by this approach. Thus, by 2020, the supplier portfolio will only comprise suppliers with the best CSR results: new suppliers selected according to their performances, and historical suppliers retained because they are among the best.

## ...with communities

"By 2020, the Group will enable more than 100,000 people from socially or financially deprived communities to access work through its actions."

Due to its large number of purchasing programmes and its many industrial and administrative sites all over the world, L'Oréal makes a contribution to many local projects. As a general rule, the Group's establishments and its subsidiaries build good relationships with the communities in the areas in which they operate, and make every effort to share their growth.

This ambition led to a commitment in the *Sharing Beauty With All* programme: enabling over 100,000 people from socially or

financially deprived communities to access work by 2020. This means that L'Oréal will support as many people outside the Company as there are employees in the Group.

To achieve this target, L'Oréal has implemented various programmes: professional training for people in highly vulnerable situations, the inclusion of persons with disabilities or the deployment of *Solidarity Sourcing* projects.



**Solidarity Sourcing**

In 2010, L'Oréal created *Solidarity Sourcing*, a global responsible purchasing programme which aims to open up the Group's calls for tenders to companies that employ people from economically vulnerable communities in order to enable them to have durable access to work and to income, as well as to companies that traditionally do not have access to the large calls for tenders of multinational companies.

Within this framework, the purchasers work in partnership with the representatives of the *Sharing Beauty With All* programme located in each country.



**Towards more sustainable consumption behaviours**

Finally, L'Oréal wants to offer its consumers the possibility to make sustainable consumption choices. To this end, L'Oréal mobilises all its brands, for all Divisions confined, around two main levers of action:

- ◆ **assessing and improving their environmental and social footprint:** L'Oréal's laboratories, alongside the Development & Packaging teams and the RSE team, carry out analyses of the portfolio of formulas and packaging of each of the Group's brands. Target: defining a sustainable innovation plan, which identifies drivers for improvement with regard to every one of its ranges and every one of its products and sets out an action plan. In 2017, this work was carried out with 91% of the Group's brands;
- ◆ **engagement alongside consumers:** conscious of the ability of its brands to mobilise their stakeholders – business partners, customers, consumers, the general public – around today's major environmental and social causes, the Group pledged that everyone would identify a cause that they personally want to defend and undertake campaigns to raise awareness. In 2017, 46% of the brands conducted this type of action. Furthermore, since 2013, L'Oréal conducts quantitative and qualitative studies to gain a better understanding of what its consumers want and to identify the most engaging manner to get them involved in Sustainable Development issues in the cosmetics sector. And, for the first time in 2016, the Group held a consumer sustainability panel to share with them its commitments and its results to date, and to get feedback and receive suggestions for improvements.

## 1.4. AN ORGANISATION THAT SERVES THE GROUP'S DEVELOPMENT

*The Group's organisation responds to a dual challenge: pursuing the strategy which has enabled L'Oréal to be successful over the last century and at the same time inventing the new L'Oréal of the 21<sup>st</sup> century, perfectly matched to an ever-changing world.*

### 1.4.1. L'ORÉAL S.A.

L'Oréal S.A. is a French company, with its head office in France. It performs a sales activity that is specific to France. L'Oréal parent company also functions as a holding company and has a role of strategic coordination as well as scientific, industrial and marketing coordination for the L'Oréal Group on a global basis.

The Group's subsidiaries develop the Group's business in their respective territory. To do so, they define the strategy specific to their market, make the most suitable choices, and manufacture, directly or indirectly, and market the products they decide to sell on their market.

Almost all of the subsidiaries are owned by L'Oréal S.A, which has a holding or control percentage equal or close to 100% <sup>(1)</sup>. The detailed list of these subsidiaries is set out in the notes to the consolidated and parent company financial statements.

### 1.4.2. OPERATIONAL DIVISIONS

The Group's business activities are organised into four Operational Divisions. In its markets, each Operational Division develops and enhances a range of its own brand of consumer products.

- ◆ The Consumer Products Division's goal is to democratise access to the best that the world of beauty has to offer.

Growth in this Division is underpinned by four major global brands (L'Oréal Paris, Garnier, Maybelline New York and NYX Professional Makeup Professional Makeup), and by the deployment of its specialised and regional brands (Essie, Niely, Dark and Lovely, etc.).

Across all Divisions and markets, digital resources are not only an opportunity to leverage the enormous growth acceleration potential inherent in e-commerce, but also a chance to optimise the Division's marketing models.

- ◆ L'Oréal Luxe creates exceptional experiences and products, for the most demanding consumers in selective distribution.

The Division has built a unique portfolio of prestigious brands including iconic mainstream, aspirational, alternative and specialist brands (Lancôme, Yves Saint Laurent Beauté, Giorgio Armani Beauty, Kiehl's, Urban Decay, Biotherm, Ralph Lauren, IT Cosmetics).

Locally, digital resources mean we can offer L'Oréal Luxe customers an exceptional experience with inspiring content, the opportunity to establish a personalised, value-added relationship and an e-commerce strategy that encapsulates each brand's particular added value.

- ◆ The Professional Products Division provides expertise to beauty professionals

For over 100 years, this Division has acquired extensive knowledge of, and provided tailored support solutions for, the hairdressing sector. It has built up a unique brand portfolio which currently includes L'Oréal Professionnel, Kérastase, Redken, Matrix, Biolage, Pureology, Decléor and Carita.

Digital resources are a powerful lever to reinvent the professional beauty world and help transform the industry by creating a direct and inspiring link between brands, professionals and their customers in each market.

- ◆ The Active Cosmetics Division's goal is to help everyone in their quest to have healthy and beautiful skin.

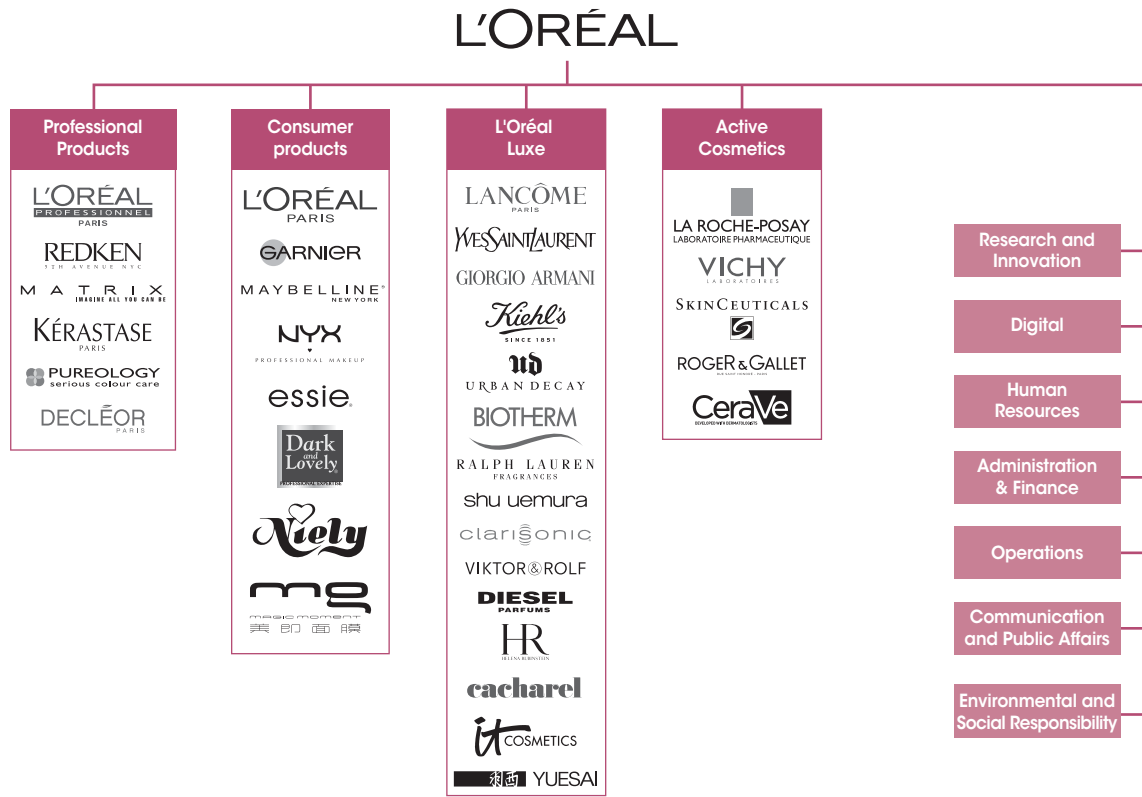
Its portfolio of highly complementary brands (Vichy, La Roche-Posay, SkinCeuticals, and Roger&Gallet) is designed to keep pace with major skincare trends and recommendations of healthcare professionals. The recent acquisition of the US brand CeraVe has recently added to this portfolio.

In its markets, the Division is developing or reinventing dermocosmetics in all distribution channels, including pharmacies, drugstores, branded retail, and e-commerce sites. It is launching new products and services on the recommendation and advice of health and beauty opinion leaders and influencers, in retail outlets and on digital platforms.

Travel Retail is a fast-growing channel that conveys the Company's image and is increasing in line with passenger numbers. By establishing the multi-Division Travel Retail department, the Group aims to develop this segment implementing a global shopper strategy: a bespoke approach tailored according to language, culture and beauty rituals, enabling the Group to respond to the aspirations of this new generation of travellers.

(1) Furthermore, it is mentioned, pursuant to Article L. 232-1 of the French Commercial Code, that L'Oréal S.A. has branches.

**SIMPLIFIED ORGANISATION CHART**



### 1.4.3. SUPPORT DEPARTMENTS

Several specialist corporate departments provide their expertise and support to the Operational Divisions, to subsidiaries in their market and to the other business activities:



The Group's international development has naturally meant that L'Oréal has had to adapt its organisation to the need to coordinate the establishment and development of its brands on every continent.

Various geographical zones have been created for this purpose, each with operational responsibility for the subsidiaries based in the countries of its region:

- ◆ Western Europe zone;
- ◆ Americas zone;
- ◆ Asia, Pacific zone;
- ◆ Eastern Europe zone;
- ◆ Africa, Middle East Zone.

#### 1.4.4. MEMBERS OF L'ORÉAL'S EXECUTIVE COMMITTEE

The Executive Committee, L'Oréal's top executive management body, puts into practice the strategic orientations defined by the Board of Directors and directs L'Oréal's business activities all over the world. Its members head the Operational Divisions, the Corporate Functional department and the geographic zones, reflecting the complementarity of the Group's expertise.

First name/Last name	Position
Jean-Paul Agon	Chairman and Chief Executive Officer
Nicolas Hierominus	Deputy Chief executive officer, in charge of Divisions
Laurent Attal	Executive Vice-President – Research and Innovation
Vianney Derville	Executive Vice-President – Western Europe Zone
Barbara Lavernos	Executive Vice-President – Operations
Brigitte Liberman	President – Active Cosmetics
Isabel Marey-Semper <sup>(1)</sup>	Executive Vice-President – Communication and Public Affairs
Christian Mulliez	Executive Vice-President – Chief Financial Officer
Alexis Perakis-Valat	President – Consumer Products
Alexandre Popoff	Executive Vice-President – Eastern Europe and Africa, Middle East Zone
Lubomira Rochet	Chief Digital Officer
Nathalie Roos	President – Professional Products
Frédéric Rozé	Executive Vice-President – Americas Zone
Jérôme Tixier	Executive Vice-President – Human Resources and Advisor to the Chairman
Jochen Zaumseil	Executive Vice-President – Asia, Pacific Zone

(1) Since January 2018, Mrs Lucia Dumas is head of the Communication and Public Affairs Division, taking over from Mrs Isabelle Marey-Semper



## 1.5. INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

The Group operates in a constantly changing environment and like any company, L'Oréal is necessarily exposed to risks which could have a negative impact for it if they were to materialise.

In order to ensure the sustainability of its development and the achievement of its objectives, the Group strives to anticipate and manage the risks to which it is exposed in its different areas of activity.

L'Oréal's risk management consists in identifying, managing and controlling risks that may affect the smooth running of the Company. It also participates in value creation by promoting the good use of resources to minimise the impact of negative events and maximise the realisation of opportunities.

Risk management therefore goes beyond a strictly financial framework.

By contributing to preventing and managing the risks to which the Group is exposed, the purpose of the Internal Control system is to enable the Group's industrial and economic development to take place in a steady and sustainable manner in a control environment appropriate for the Group's businesses.

In L'Oréal, Internal Control is a system that applies to the Company and its consolidated subsidiaries and aims at ensuring that:

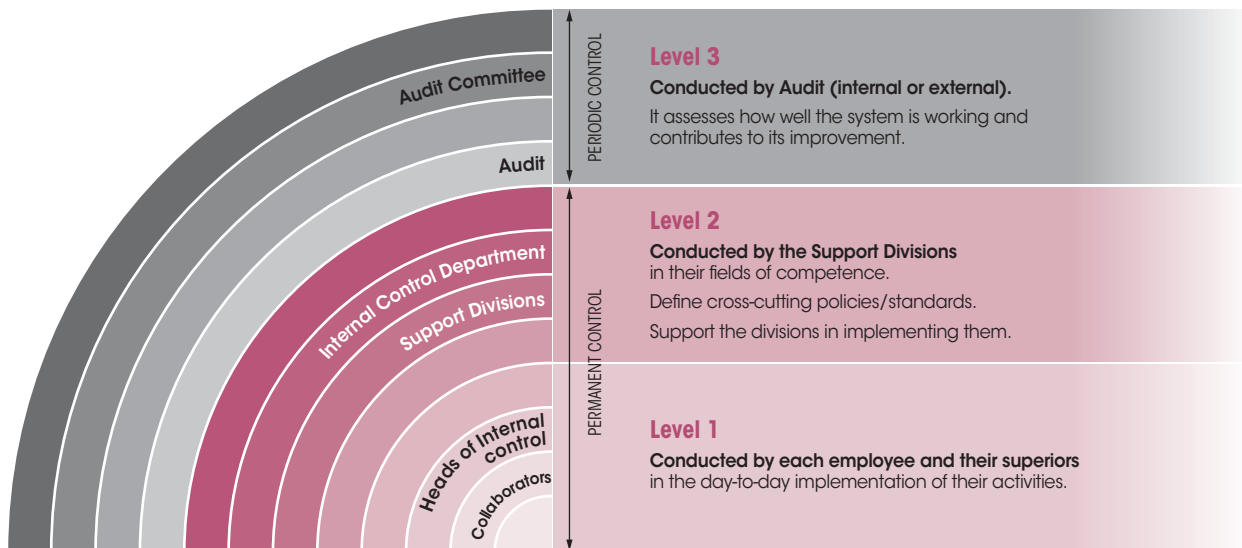
- ◆ economic and financial targets are achieved in compliance with the laws and regulations in force;
- ◆ the orientations set by General Management are followed;
- ◆ the Group's assets are valued and protected;
- ◆ the Group's financial and accounting information is reliable and provides true and fair statements.

The control environment, which is critical to the Internal Control system, good risk management and the application of procedures, is based on people, behaviour and the organisational structure. In L'Oréal, it forms part of a culture of rigour and commitment communicated by senior management and is also in line with the Group's strategic choices.

Risk management and Internal Control are the affair of everyone, from all the employees to the governance bodies.

The Internal Control system is the subject of ongoing supervision in order to verify whether it is relevant and meets the Group's objectives and addresses its issues.

See also chapter 2. Risk factors and control environment.



# 2

## Corporate governance\*



<b>2.1. Framework for the implementation of corporate governance principles</b>	<b>46</b>	<b>2.5. Remuneration of the executive officers</b>	<b>86</b>
2.1.1. AFEP-MEDEF Code: the reference code	46	2.5.1. Report on the principles and criteria for the determination, allocation and distribution of the remuneration applicable to the executive officers, in respect of their corporate office, as provided for by article L. 225-37-2 of the French Commercial Code	86
2.1.2. The balance of powers on the Board	47	2.5.2. Termination indemnities and pension scheme	92
<b>2.2. Composition of the Board of Directors</b>	<b>49</b>	2.5.3. Procedure for setting the remuneration of the executive officer	95
2.2.1. List of corporate offices and directorships held by the corporate officers at 31 December 2017	49	2.5.4. Remuneration of the chairman and Chief Executive Officer due or allocated with respect to 2017	98
2.2.2. Table showing the composition of the Board of Directors at 31 December 2017	60	<b>2.6. Summary statement of trading by executive officers in L'Oréal shares in 2017</b>	<b>103</b>
2.2.3. Changes in corporate offices and directorships of the Directors	61	<b>2.7. Summary table of the recommendations of the AFEP-MEDEF Code which have not been applied</b>	<b>104</b>
2.2.4. The guiding principles	62	<b>2.8. Risk factors and control environment</b>	<b>105</b>
<b>2.3. Organisation and modus operandi of the Board of Directors</b>	<b>66</b>	2.8.1. Definition and objectives of Internal Control	105
2.3.1. General information on the meetings of the Board of Directors and its Committees in 2017	66	2.8.2. Components of the Internal Control and risk management system	105
2.3.2. The activities of the Board of Directors	67	2.8.3. System relating to the preparation and processing of financial and accounting information	110
2.3.3. The activities of the Board Committees	68	2.8.4. Vigilance plan	112
2.3.4. Self-evaluation by the Board of Directors	73	2.8.5. Risk factors and risk management	119
2.3.5. Appendix: complete text of the Internal Rules of the Board of Directors	74	<b>2.9. Statutory Auditors' Reports</b>	<b>133</b>
2.4.1. Rules for allocation in respect of the 2017 financial year	84	Statutory Auditors' Special Report on regulated agreements and commitments with third parties	133
2.4.2. Amounts paid in respect of the 2017 financial year	84		
2.4.3. Rules for allocation in respect of the 2018 financial year	85		

\* This information forms an integral part of the Annual Financial Report as provided in Article L. 451-1-2 of the French Monetary and Financial Code.

This chapter describes the way in which the Board of Directors' work is prepared and organised and includes a summary of the principles of organisation guaranteeing a balance of powers. It includes the complete text of the Internal Rules of the Board of Directors.

All components of the remuneration of the corporate officers are provided as is the trading in L'Oréal shares reported by corporate officers in 2017, and the remuneration policy pursuant to Article L. 225-37-2 of the French Commercial Code

The Internal Control procedures and the Vigilance Plan implemented by the Company are also described as well as the Risk Factors.

## 2.1. FRAMEWORK FOR THE IMPLEMENTATION OF CORPORATE GOVERNANCE PRINCIPLES

### 2.1.1. AFEP-MEDEF CODE: THE REFERENCE CODE

The Corporate Governance Code to which the Company refers is the AFEP-MEDEF Code. This code may be consulted on its website at the following address: <http://www.medef.com/>.

In accordance with the provisions of Article L. 225-37, paragraph 6 of the French Commercial Code, this chapter includes a specific section of the Management Report on corporate governance and reports on the following:

- ◆ the Board's composition and the application of the principle of balanced gender representation on the Board;
- ◆ the ways in which the Board's work is prepared and organised;
- ◆ the Code of Corporate Governance to which the Company refers, the provisions which have not been applied and the reasons for this non-application;
- ◆ the principles and rules adopted by the Board of Directors to determine the remuneration and benefits of all kinds granted to the Directors and executive officers;

- ◆ the principles and criteria for the determination, allocation and distribution of the fixed, variable and exceptional components making up the total remuneration and benefits of all kinds that may be granted to the executive officers, in respect of their corporate office;
- ◆ limitations placed by the Board of Directors on the powers of the Chief Executive Officer.

The other information included in the particular section of the Management Report dedicated to corporate governance is published in chapter 6, specifically:

- ◆ the table summarising the authorisations in force granted by the Annual General meeting (see paragraph 6.2.2.);
- ◆ the special rules for shareholder participation in the Annual General meeting or the provisions of the Articles of Association providing for the rules (see paragraph 6.1.11);
- ◆ the elements with the potential to have an impact in the event of a public offer for the purchase or exchange of the Company's securities (see paragraph 6.3.).

In accordance with the recommendations of the AFEP-MEDEF Code, this chapter identifies, in a summary table, those provisions of the code which were not applied and explains the reasons for that choice.



## 2.1.2. THE BALANCE OF POWERS ON THE BOARD

L'Oréal has a method of corporate governance that is suited to its specificities and is part of a constant quest for progress

### 2.1.2.1. Method of performance of General Management adapted to the specificities of L'Oréal

After a period of five years (between 2006 and 2011) during which the duties of Chairman of the Board of Directors and those of Chief Executive Officer were separated in order to ensure a smooth transition between Sir Lindsay Owen-Jones and Mr Jean-Paul Agon, the Board of Directors decided in 2011 to reunify these duties and to appoint Mr Jean-Paul Agon as Chairman and Chief Executive Officer of L'Oréal.

On 17 April 2014, the Annual General meeting renewed the tenure of Mr Jean-Paul Agon as Director. At its meeting on the same day, the Board of Directors decided to continue to combine the duties of Chairman and Chief Executive Officer and to entrust Mr Jean-Paul Agon with such duties once again, considering that this method of General Management was the best suited to L'Oréal's specificities.

This decision was made, following the recommendations by the Appointments and Governance Committee, in the best interest of the Company and with the constant concern that the mode of governance chosen will make it possible to optimise the Group's financial and economic performances and to create the most favourable conditions for its long-term development.

The Board of Directors indeed considers that the quality and longstanding nature of this performance cannot be dissociated from a clear vision of the Group's future prospects, directly shared with Board members. This vision is that of a Chairman and Chief Executive Officer who, after spending his entire career in the Group, has precise operational knowledge of the commercial entities and the business lines. The business sector in which L'Oréal operates is one in which decisions have to be taken quickly in a highly competitive international environment, and the beauty profession also requires strong, coherent communication.

In addition, this method of implementing General Management duties is appropriate for L'Oréal's particular shareholder structure: stable, loyal shareholders with two major shareholders highly committed to the Group's long-term development.

As the tenure of Mr Jean-Paul Agon as Director is due to expire in 2018, the renewal of his tenure for a term of four years will be submitted to the Annual General meeting of 17 April 2018.

The meeting of the Board of Directors of 17 April 2018, following the Annual General meeting of the same day, will decide on the rules governing General Management. It will decide whether or not to maintain the combination of duties of Chairman and Chief Executive Officer and on the duties it will entrust to Mr Agon subject to the renewal of his term of office.

### 2.1.2.2. The balance of powers on the Board

The Board of Directors ensures that it is in a position to fully perform its role so that the balance of powers is guaranteed.

#### *Harmonious composition of the Board of Directors*

The balance of powers on the Board of Directors principally rests on its coherent and harmonious composition and on the qualities of its Directors.

Serving alongside the Chairman and Chief Executive Officer are five Directors appointed by the majority shareholders, who include the two Vice-Chairmen of the Board, seven independent Directors who are in the majority on the Board (seven out of thirteen Board members, excluding the employee Directors) and two Directors representing the employees. All of them are strongly committed and vigilant.

The diversity and complementarity of the Directors' experience and expertise (entrepreneurial, financial, industrial, digital, etc.) enable them to quickly and thoroughly understand the development issues facing the L'Oréal Group, the leader in the highly competitive, globalised cosmetics market in which the requirement to innovate and adapt is very high.

The balance between the Directors who have longstanding knowledge and those who have been appointed more recently makes it possible to combine new viewpoints with consistency of decisions over the long-term.

#### *The relationships organised between the Board and the General Management*

The General Management communicates completely transparently with all the Directors and keeps them regularly informed of all aspects of the Company's affairs and its performances.

The Board has the means enabling it to handle with complete freedom the questions that concern it, notably when this involves determining the Company's strategic orientations, ensuring and monitoring their implementation and overseeing the good management thereof. It has the possibility to meet with the senior managers of L'Oréal at the time of presentations or sessions dedicated to strategy.

The Board provides the General Management with invaluable support for strategic decision-making through its reflections and the impetus it provides. The Chairman and Chief Executive Officer conducts the Board's work in order to obtain this adherence to strategy and to ensure the Company's development with complete confidence and peace of mind. It is naturally in the interest of all the shareholders but also of all the stakeholders for the Chairman and Chief Executive Officer to lead the debates and encourage discussions on the Board of Directors. The Board may meet at any time if required by current events. It may also decide to organise meetings without the presence of executive corporate officers (executive sessions).

Furthermore, although the General Management is vested with the broadest powers to act in all circumstances in the name of the Company, transactions for a significant amount or which are outside the Company's normal course of business are submitted to the Board of Directors.

#### *Attentive management of conflicts of interest*

The Directors have to act in all circumstances in the interest of the Company and of all its shareholders.

Every year, the Board of Directors evaluates the situation of Directors with the aim of preventing conflicts of interest.

Each Director has the formal obligation to report potential conflicts of interest which could concern him/her and, in any event, must abstain from participating in the corresponding debates and deliberations.

#### *Active, effective specialised Board Committees*

The setting-up of Board Committees, their composition and the enlargement of their responsibilities contribute to the good balance of powers and are a point to which the Board of Directors pays particular attention.

All of the committees include independent Directors: 60% for the Audit Committee and the Human Resources and Remuneration Committee and 50% for the Appointments and Governance Committee. The Chairman/Chairwoman of each of these committees is independent. Only the Strategy and Sustainable Development Committee is chaired by the Chairman and Chief Executive Officer. He does not serve on any other committees.

Two of the four committees are chaired by women, the Audit Committee and the Appointments and Governance Committee.

The employees Directors are active on the Board Committees. One is a member of the Human Resources and Remuneration Committee and the other a member of the Audit Committee.

These committees are completely free to define their respective agendas. They report on their work to the Board of Directors, prepare for its meetings and make proposals to the Board.

Within the framework of the review of its activities at the end of 2017, the Board once again highlighted the quality of the work and recommendations of its committees which helped it to make well-informed decisions.

#### *A regular evaluation of the organisation and modus operandi of the Board*

Within the framework of the annual evaluation of its *modus operandi*, on the basis of the best corporate governance practices, the Directors set themselves new objectives every year for an improvement in the quality of their organisation. They strive to adopt an optimal method of functioning and ensure that they have all the necessary strengths to perform their remits successfully, with complete freedom.

Thus in 2017, the Board of Directors confirmed that the current mode of governance was well-balanced and effective. The decision-making processes are clear and the balance of powers is properly ensured. As it prefers to have a direct relationship with the Chairman and Chief Executive Officer, it does not consider the appointment of a Lead Director to be necessary.

#### *Internal Rules that are regularly updated*

In order to structure and organise its action, L'Oréal's Board of Directors has adopted Internal Rules reaffirming the guiding principles of its remit and the means at its disposal to perform its remit.

The Internal Rules address both the formal aspects of the Board's remits and the rights and obligations of the Directors (knowledge of and compliance with regulations, recommendations and obligations, respect of the Company's interest, obligations of diligence and provision of information, reserve and confidentiality, responsibility with regard to stock market ethics, etc.). It is updated by the Board in order to take account of the changes in the laws and regulations, good corporate governance practices and its own *modus operandi*, particularly within the scope of the annual evaluation of its work. The latest updates to the Internal Rules were made on 9 February and 12 October 2017. They involved the rules regarding the holding of a minimum number of L'Oréal shares by the Directors and stock market ethics (Internal Advisor for Stock Market Ethics). The Internal Rules are published in full in this chapter.

## 2.2. COMPOSITION OF THE BOARD OF DIRECTORS

"L'Oréal's Board of Directors is made up of individuals from different backgrounds who have extensive business experience and have had success at the highest levels."

Jean-Paul Agon – Chairman and Chief Executive Officer

The composition of the Board of L'Oréal, the rules it applies to its work, its *modus operandi*, and the work that it has carried out in the year, evaluated on an annual basis by the Directors, as well as the decisions made, are described in this chapter. The Board wishes to point out that it carries out its work above all on a collective basis, in accordance with ethical principles and in compliance with the legal provisions, regulations and market recommendations.

At 31 December 2017, the Board of Directors comprises 15 members:

- ◆ the Chairman and Chief Executive Officer, Mr Jean-Paul Agon;
- ◆ five Directors appointed among the majority shareholders, three of whom are from the Bettencourt Meyers family (Mrs Françoise Bettencourt Meyers, Mr Jean-Pierre Meyers and Mr Jean-Victor Meyers) and two from Nestlé, (Mr Paul Bulcke and Mrs Béatrice Guillaume-Grabisch). The two Vice-Chairmen of the Board are chosen from among these members;

- ◆ seven independent Directors: Mrs Sophie Bellon, Mrs Belén Garijo, Mrs Virginie Morgon, Mrs Eileen Naughton, Mr Charles-Henri Filippi, Mr Xavier Fontanet and Mr Bernard Kasriel;
- ◆ two Directors representing the employees, Mrs Ana Sofia Amaral and Mr Georges Liarakapis.

Following the appointment of Directors representing the employees to the Board of Directors, an elected representative of the Central Works Council of L'Oréal, Mr Thierry Magontier, also attends Board meetings, in an advisory capacity.

The breakdown of L'Oréal's share capital at 31 December 2017 is shown in chapter 6 of this Document.

### 2.2.1. LIST OF CORPORATE OFFICES AND DIRECTORSHIPS HELD BY THE CORPORATE OFFICERS AT 31 DECEMBER 2017



#### JEAN-PAUL AGON

French  
Age: 61

With the L'Oréal Group since 1978, following an international career as General Manager of the Consumer Products Division in Greece and of L'Oréal Paris in France, as International Managing Director of Biotherm, General Manager of L'Oréal Germany, Executive Vice-President of the Asia zone, President and CEO of L'Oréal USA, Jean-Paul Agon was appointed Deputy Chief Executive Officer of L'Oréal in 2005 and then Chief Executive Officer in April 2006 and finally Chairman and CEO in 2011. A Director of L'Oréal since 2006, he is the Chairman of the Strategy and Sustainable Development Committee. Jean-Paul Agon is also Chairman of the L'Oréal Corporate Foundation and a Director of Air Liquide.

#### EXPIRY DATE OF TERM OF OFFICE 2018

- ◆ Professional address: L'Oréal – 41, rue Martre – 92117 Clichy Cedex
- ◆ Holds 900,000 L'Oréal shares

#### OTHER CORPORATE OFFICES AND DIRECTORSHIPS HELD

##### French company

Air Liquide S.A.\* Director

##### Other

L'Oréal Corporate Foundation Chairman of the Board

#### CORPORATE OFFICES AND DIRECTORSHIP OVER THE LAST FIVE YEARS THAT HAVE EXPIRED

Expiry date of term of office

##### Foreign companies

Galderma Pharma S.A. (Switzerland) Director 2014

L'Oréal USA Inc. USA Director 2014

\* Listed company.

**FRANÇOISE BETTENCOURT MEYERS**

French

Age: 64

Daughter of Mrs Liliane Bettencourt, granddaughter of the founder of L'Oréal, Mr Eugène Schueller, Françoise Bettencourt Meyers has been the Chairwoman of the family-owned holding company Téthys since 31 January 2012, is the Chairwoman of the Supervisory Board of the investment subsidiary Téthys Invest, Chairwoman of the Bettencourt Schueller Foundation and Honorary President of the Pour l'Audition Foundation. She has been a Director of L'Oréal since 1997 and a member of the Strategy and Sustainable Development Committee since 2012.

**EXPIRY DATE OF TERM OF OFFICE 2021**

- ◆ Professional address: Téthys – 27-29, rue des Poissonniers – 92200 Neuilly-sur-Seine
- ◆ Holds 33,165,832 L'Oréal shares

**OTHER CORPORATE OFFICES AND DIRECTORSHIPS HELD****French companies**

Téthys SAS	Chairwoman Chairwoman of the Supervisory Board
Téthys Invest SAS	Chairwoman of the Supervisory Board
Financière l'Arcouest SAS	Chairwoman
Société Immobilière Sebor SAS	Chairwoman

**Other**

Bettencourt Schueller Foundation	Chairwoman of the Board of Directors
Pour l'Audition Foundation	Honorary President and member of the Board of Directors

**CORPORATE OFFICES AND DIRECTORSHIP OVER THE LAST FIVE YEARS THAT HAVE EXPIRED****Expiry date of term of office**

None



**PAUL BULCKE**

A Belgian and Swiss national  
Age : 63

Paul Bulcke is the Chairman of the Board of Directors of Nestlé. He was a Director of L'Oréal from 2012 to June 2014. Since 2017, he has been the Vice-Chairman of the Board of Directors, a member of the Strategy and Sustainable Development Committee, of the Appointments and Governance Committee and of the Human Resources and Remuneration Committee. He is also a Director of Roche Holding in Switzerland.

**EXPIRY DATE OF TERM OF OFFICE 2021**

- ◆ Professional address: Nestlé – Avenue Nestlé, 55 – CH 1800 Vevey – Switzerland
- ◆ Holds 3,000 L'Oréal shares

**MAIN CORPORATE OFFICE HELD OUTSIDE L'ORÉAL**

Nestlé S.A. (Switzerland)*	Chairman of the Board
----------------------------	-----------------------

**OTHER CORPORATE OFFICES AND DIRECTORSHIPS HELD**

**Foreign company**

Roche Holding Ltd (Switzerland)*	Member of the Board of Directors
----------------------------------	----------------------------------

**Other**

Avenir Suisse Foundation (Switzerland)	Member of the Board of Directors
--	----------------------------------

International Business Council of the World Economic Forum (WEF)	Member
--	--------

Table Ronde des Industriels Européens (Belgium)	Member
---	--------

**CORPORATE OFFICES AND DIRECTORSHIP OVER THE LAST FIVE YEARS THAT HAVE EXPIRED**

**Expiry date of term of office**

**French company**

L'Oréal	Director	2014
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**Foreign companies**

Nestlé Health Science S.A. in Lutry (Switzerland)	Member of the Strategic Advisory Board	2017
---	--	------

Nestlé Skin Health S.A. (Switzerland)	Member of the Strategic Advisory Board	2017
---------------------------------------	--	------

Cereal Partners Worldwide (Switzerland)	Co-Chairman of the Supervisory Board	2016
---	--------------------------------------	------

Nestlé S.A.	Managing Director	2016
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**Other**

Consumer Goods Forum	Member of the Board of Directors and member of the Governance Committee	2017
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\* Listed companies.

**JEAN-PIERRE MEYERS**

French

Age: 69

Director of L'Oréal since 1987, Vice-Chairman of the Board of Directors since 1994, Jean-Pierre Meyers is a member of the Strategy and Sustainable Development Committee, the Appointments and Governance Committee and the Human Resources and Remuneration Committee. He is Vice-Chairman of the Supervisory Board and Chief Executive Officer of the family-owned holding company Téthys, Chairman of the investment subsidiary Téthys Invest, Vice-Chairman of the Bettencourt Schueller Foundation and President of the Pour l'Audition Foundation.

**EXPIRY DATE OF TERM OF OFFICE 2020**

- ♦ Professional address: Téthys – 27-29, rue des Poissonniers – 92200 Neuilly-sur-Seine
- ♦ Holds 15,332 L'Oréal shares

**OTHER CORPORATE OFFICES AND DIRECTORSHIPS HELD****French companies**

Téthys SAS	Vice-Chairman of the Supervisory Board Chief Executive Officer
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Téthys Invest SAS	Chairman and member of the Supervisory Board
-------------------	--

**Other**

Bettencourt Schueller Foundation	Vice-Chairman of the Board of Directors
----------------------------------	---

Pour l'Audition Foundation	Chairman and member of the Board of Directors
----------------------------	---

**CORPORATE OFFICES AND DIRECTORSHIPS OVER THE LAST FIVE YEARS THAT HAVE EXPIRED****Expiry date of term of office****Foreign company**

Nestlé S.A. (Switzerland)	Director	2014
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**ANA SOFIA AMARAL**

Portuguese

Age: 52

Scientific and Technical Affairs Director for L'Oréal Portugal, Ana Sofia Amaral was appointed in 2014 by L'Oréal's *Instance Européenne de Dialogue social*/European Works Council as Director representing the employees. She is a member of the Human Resources and Remuneration Committee.

**EXPIRY DATE OF TERM OF OFFICE 2018**

- ♦ Professional address: Rua Dr António Loureiro Borges, Edifício 7 – Arquiparque – Miraflores – 2796-959 Linda A Velha – Portugal

**OTHER CORPORATE OFFICES AND DIRECTORSHIPS HELD****Foreign companies**

EMBOPAR Embalagens de Portugal SGPS S.A.	Permanent representative of L'Oréal Portugal on the Board of Directors Member of the Remuneration Commission
--	---

Sociedade Ponto Verde	Director Member of the Remuneration Commission
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**CORPORATE OFFICES AND DIRECTORSHIPS OVER THE LAST FIVE YEARS THAT HAVE EXPIRED****Expiry date of term of office**

None



**SOPHIE BELLON**

French  
Age: 56

Chairwoman of the Board of Directors at Sodexo. After a career in the United States in finance, she joined Sodexo in 1994, where she held various positions, in particular as Head of the France Entreprises Division, followed by Head of Strategy, Research, Development and Innovation Department. Sophie Bellon has been a Director of L'Oréal since 2015, Chairwoman of the Appointments and Governance Committee and member of the Audit Committee.

**EXPIRY DATE OF TERM OF OFFICE 2019**

- ◆ Professional address: Sodexo – 255 Quai de la Bataille de Stalingrad – 92130 Issy-Les-Moulineaux
- ◆ Holds 1,043 L'Oréal shares

**MAIN CORPORATE OFFICE HELD OUTSIDE L'ORÉAL**

Sodexo*	Chairwoman of the Board of Directors
---------	--------------------------------------

**OTHER CORPORATE OFFICES AND DIRECTORSHIPS HELD**

**French companies**

Bellon SA**	Member of the Management Board
PB Holding SAS**	Chairwoman

**Other**

Association Nationale des Sociétés par Actions (ANSA)	Member of the Board of Directors
Pierre Bellon Foundation	Founding Member
SWIFT (Sodexo Women's International Forum for Talent)	Co-Chair

**CORPORATE OFFICES AND DIRECTORSHIPS OVER THE LAST FIVE YEARS THAT HAVE EXPIRED**

**Expiry date of term of office**

**French companies**

Sodexo	Vice-Chairwoman of the Board of Directors In charge of Research-Development-Innovation Strategy	2016
Bellon S.A.	Chairwoman of the Management Board	2015

\* Listed company.

\*\* Sodexo Group companies.

**CHARLES-HENRI FILIPPI**

French

Age: 65

Chairman of Citigroup for France until December 2017, after having spent his career within the HSBC group, Charles-Henri Filippi has been a Director of L'Oréal since 2007 and is a member of the Audit Committee, the Appointments and Governance Committee and Chairman of the Human Resources and Remuneration Committee. He is also a Director of Orange and Nexity.

**EXPIRY DATE OF TERM OF OFFICE 2019**

- ◆ Professional address: Citigroup France – 1-5, rue Paul Cézanne – 75008 Paris
- ◆ Holds 2,000 L'Oréal shares

**MAIN CORPORATE OFFICE HELD OUTSIDE L'ORÉAL**

Citigroup France	Chairman
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**OTHER CORPORATE OFFICES AND DIRECTORSHIPS HELD****French companies**

Nexity*	Director
---------	----------

Orange*	Director
---------	----------

Piasa S.A	Director
-----------	----------

**Foreign company**

ABERTIS* (Spain)	Member of the International Advisory Board
------------------	--

**Other**

ADIE ( <i>Association pour le Droit à l'Initiative Économique</i> )	Director
---	----------

**CORPORATE OFFICES AND DIRECTORSHIPS OVER THE LAST FIVE YEARS THAT HAVE EXPIRED****Expiry date of term of office****French companies**

Femu Qui S.A.	Member of the Supervisory Board	2015
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Nexity	Non-voting member of the Board of Directors	2014
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Euris	Member of the Supervisory Board	2014
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**Other**

<i>Association des Amis de l'Opéra-Comique</i>	Director	2017
--	----------	------

<i>Association des Amis de l'Opéra-Comique</i>	Chairman	2015
--	----------	------

Centre National d'Art et de Culture Georges Pompidou	Director	2013
--	----------	------

\* Listed companies.





**XAVIER FONTANET**

French  
Age: 69  
Former Chairman and Chief Executive Officer of Essilor (1996-2009) and former Chairman of the Board of Directors of Essilor (2010-2012). Xavier Fontanet has been a Director of L'Oréal since May 2002 and member of the Strategy and Sustainable Development Committee. He is also a member of the Board of Directors of Schneider Electric.

**EXPIRY DATE OF TERM OF OFFICE 2018**

- ◆ Professional address: 41, rue Martre – 92117 Clichy Cedex
- ◆ Holds 1,050 L'Oréal shares

**OTHER CORPORATE OFFICES AND DIRECTORSHIPS HELD**

**French companies**

Rexecode	Director
Schneider Electric S.A.*	Director

**Other**

ANSA ( <i>Association Nationale des Sociétés par Actions</i> )	Permanent representative of Essilor International and member of the Board of Directors
<i>Centre des Professions Financières</i> (Financial Professions Centre)	Director
Carrefour Foundation	Director

**CORPORATE OFFICES AND DIRECTORSHIPS OVER THE LAST FIVE YEARS THAT HAVE EXPIRED** **Expiry date of term of office**

**French company**

Essilor International S.A	Director	2016
---------------------------	----------	------

\* Listed company.



**BELÉN GARIJO**

Spanish  
Age: 57  
Chairwoman and Chief Executive Officer of Merck Healthcare, a company bringing together all the pharmaceutical businesses of the German Merck group and a member of this Group's Executive Committee, Belén Garijo has been a Director of L'Oréal since 2014 and is a member of the Human Resources and Remuneration Committee. She is also a Director of BBVA (Spain).

**EXPIRY DATE OF TERM OF OFFICE 2018**

- ◆ Professional address: Merck KGAA – Frankfurter STR 250 Postcode F131/314 – 64293 Darmstadt – Germany
- ◆ Holds 1,000 L'Oréal shares

**MAIN CORPORATE OFFICE HELD OUTSIDE L'ORÉAL**

Merck Healthcare (Germany)	Chairman and Chief Executive Officer
----------------------------	--------------------------------------

**OTHER CORPORATE OFFICES AND DIRECTORSHIPS HELD**

**Foreign company**

BBVA* (Spain)	Director
---------------	----------

**CORPORATE OFFICES AND DIRECTORSHIPS OVER THE LAST FIVE YEARS THAT HAVE EXPIRED**

None

\* Listed company.

**BÉATRICE GUILLAUME-GRABISCH**

French  
Age: 53

Béatrice Guillaume-Grabisch is the Chief Executive Officer of Nestlé Germany, a group that she joined in 2013 after a career in various consumer goods groups (Colgate-Palmolive, Beiersdorf, Johnson & Johnson, L'Oréal, Coca-Cola). She has been a L'Oréal Director since 2016 and is a member of the Audit Committee.

**EXPIRY DATE OF TERM OF OFFICE 2020**

- ◆ Professional address: Nestlé – AG Lyoner Straße 23 – 60528 Frankfurt am Main – Germany
- ◆ Holds 1,400 L'Oréal shares

**MAIN CORPORATE OFFICE HELD OUTSIDE L'ORÉAL**

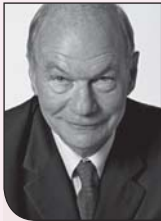
Nestlé Germany	Chief Executive Officer
----------------	-------------------------

**OTHER CORPORATE OFFICES AND DIRECTORSHIPS HELD****Foreign company**

MarkenVerband/Brand producers' association (Germany)	Member of the Management Board
--	--------------------------------

**CORPORATE OFFICES AND DIRECTORSHIPS OVER THE LAST FIVE YEARS THAT HAVE EXPIRED****Expiry date of term of office****Foreign company**

Henkel (Germany)	Director	2016
------------------	----------	------

**BERNARD KASRIEL**

French  
Age: 71

A former Chief Executive Officer of Lafarge, Bernard Kasriel has been a Director of L'Oréal since 2004, and is a member of the Strategy and Sustainable Development Committee. He is also a Director of Nucor (United States).

**EXPIRY DATE OF TERM OF OFFICE 2020**

- ◆ Professional address: 1, rue Saint-James – 92200 Neuilly-sur-Seine
- ◆ Holds 1,525 L'Oréal shares

**OTHER CORPORATE OFFICES AND DIRECTORSHIPS HELD****Foreign company**

Nucor (United States)*	Director (until 5 January 2018)
------------------------	---------------------------------

**CORPORATE OFFICES AND DIRECTORSHIPS OVER THE LAST FIVE YEARS THAT HAVE EXPIRED****Expiry date of term of office**

Arkema S.A.	Director	2017
-------------	----------	------

\* Listed company.



**GEORGES LIAROKAPIS**

French and Greek  
Age : 55  
Coordinator of Sustainability for L'Oréal Western Europe, Georges Liarokapis was appointed in 2014 by the CFE-CGC as a Director representing the employees. He is a member of the Audit Committee.

**EXPIRY DATE OF TERM OF OFFICE 2018**

- ♦ Professional address: 41, rue Martre – 92117 Clichy Cedex

**OTHER CORPORATE OFFICES AND DIRECTORSHIPS HELD**

None

**CORPORATE OFFICES AND DIRECTORSHIPS OVER THE LAST FIVE YEARS THAT HAVE EXPIRED**

None



**JEAN-VICTOR MEYERS**

French  
Age : 31  
A member of the Supervisory Board of the family-owned holding company Téthys since January 2011, member of the Supervisory Committee of the investment subsidiary Téthys Invest and Chairman of Exempleire, Jean-Victor Meyers has been a Director of L'Oréal since 2012 and is a member of the Audit Committee.

**EXPIRY DATE OF TERM OF OFFICE 2020**

- ♦ Professional address: Téthys – 27-29, rue des Poissonniers – 92200 Neuilly-sur-Seine
- ♦ Holds 1,500 L'Oréal shares

**OTHER CORPORATE OFFICES AND DIRECTORSHIPS HELD**

**French companies**

Téthys SAS	Member of the Supervisory Board
Téthys Invest SAS	Member of the Supervisory Board
Exempleire SAS	Chairman

**CORPORATE OFFICES AND DIRECTORSHIPS OVER THE LAST FIVE YEARS THAT HAVE EXPIRED**

None

**VIRGINIE MORGON**

French

Age: 48

Virginie Morgon is Chief Executive Officer of Eurazeo (Chairwoman of the Management Board as of 19 March 2018), where she began working in 2008 after sixteen years at Lazard, and Chairwoman of Eurazeo North America Inc. (USA). She has been a Director of L'Oréal since 2013 and is Chairwoman of the Audit Committee. She is Vice-Chairwoman of the Board of Directors of Moncler SpA, Chairwoman of the Supervisory Board of Asmodee Holding and Eurazeo PME, Director of Abasic (Desigual), member of the Supervisory Board of Grandir (Les Petits Chaperons Rouges) and of Vivendi. She is also Co-Chair of the French committee of Human Rights Watch.

**EXPIRY DATE OF TERM OF OFFICE 2021**

- ♦ Professional address: 745 Fifth Avenue - 10151 New-York - USA
- ♦ Holds 1,000 L'Oréal shares

**MAIN CORPORATE OFFICE HELD OUTSIDE L'ORÉAL**

Eurazeo* <sup>E</sup>	Chief Executive Officer (Chairwoman of the Management Board as of 19 March 2018)
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**OTHER CORPORATE OFFICES AND DIRECTORSHIPS HELD****French companies**

Asmodee Holding <sup>E</sup>	Chairwoman of the Supervisory Board
CPK <sup>E</sup>	Vice-Chair of the Supervisory Committee
Eurazeo PME <sup>E</sup>	Chairwoman of the Supervisory Board
Grandir <sup>E</sup> (Les Petits Chaperons Rouges investment)	Member of the Supervisory Board
Vivendi*	Member of the Supervisory Board

**Foreign companies**

Abasic SL (Spain) <sup>E</sup>	Director
Eurazeo North America Inc. (USA) E	Chairwoman
Moncler SpA (Italy) <sup>E</sup>	Vice-Chairwoman of the Board of Directors
Open Road Parent LLC <sup>E</sup> (USA)	Member of the Board of Directors
Trader Interactive LLC <sup>E</sup> (USA)	Member of the Board of Directors

**Other**

Human Rights Watch	French committee Co-Chair
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**CORPORATE OFFICES AND DIRECTORSHIPS OVER THE LAST FIVE YEARS THAT HAVE EXPIRED****Expiry date of term of office****French companies**

Legendre Holding 43 (People Doc investment)	Chairwoman	2017
Legendre Holding 44 (Investissement Fintrax)	Chairwoman	2017
Legendre Holding 47 (Investissement Les Petits Chaperons Rouges)	Chairwoman	2017
AccorHotels	Director	2016
Eliis	Member of the Supervisory Board	2016
Holdelis	Member of the Board of Directors	2016
LH APCOA	Chief Executive Officer	2016
Legendre Holding 45	Chairwoman	2016
Legendre Holding 46	Chairwoman	2016
Eliis	Chairwoman of the Supervisory Board	2015
Holdelis	Chairwoman of the Board of Directors	2014
Legendre Holding 33	Chairwoman	2014
Edenred	Director	2013

**Foreign companies**

APCOA Group GmbH (Germany)	Managing Director	2016
Broletto 1 Srl (Italy)	Chairwoman of the Board of Directors	2015
Euraleo Srl (Italy)	Managing Director	2015
APCOA Parking AG (Germany)	Chairwoman of the Supervisory Board	2014
APCOA Parking Holdings GmbH (Germany)	Chairwoman of the Advisory Board	2014
Intercos SpA (Italy)	Managing Director	2014
Sportswear Industries Srl (Italy)	Director	2013

**Other**

Human Rights Watch	Vice-President of Paris	2017
Women's Forum (WEFCOS)	Member of the Board of Directors	2014

\* Listed companies.

E Subsidiaries or investments managed by Eurazeo (whether alone or in concert).



**EILEEN NAUGHTON**

American  
Age: 60

Eileen Naughton is Vice-President People Operations at Google which she joined in 2006 following various roles with Time Warner, including the position of President of Time Group from 2002 to 2005. She has been a Director of L'Oréal since 2016 and a member of the Human Resources and Remuneration Committee.

**EXPIRY DATE OF TERM OF OFFICE 2020**

- ♦ Professional address: Google Inc. – 1600 Amphitheatre Parkway, Mountain View, CA 94043 USA
- ♦ Holds 1,000 L'Oréal shares in the form of ADRs (American Depositary Receipts)

**MAIN CORPORATE OFFICE HELD OUTSIDE L'ORÉAL**

Google Inc.	Vice-President, People Operations
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**CORPORATE OFFICES AND DIRECTORSHIPS OVER THE LAST FIVE YEARS THAT HAVE EXPIRED** **Expiry date of term of office**

**Foreign companies**

Google UK & Ireland	Vice-President Managing Director	2016
XO Group (USA)	Director	2014

## 2.2.2. TABLE SHOWING THE COMPOSITION OF THE BOARD OF DIRECTORS AT 31 DECEMBER 2017

	Independence	Expiry date of current term of office	Board Committees			
			Strategy & sustainable development	Audit	HR & Remuneration	Appointments & Governance
Mr Jean-Paul AGON		2018	●			
Mrs Françoise BETTENCOURT MEYERS		2021	●			
Mr Paul BULCKE		2021	●		●	●
Mr Jean-Pierre MEYERS		2020	●		●	●
Mrs Ana Sofia AMARAL	Director representing the employees	2018			●	
Mrs Sophie BELLON	◆	2019		●		●
Mr Charles-Henri FILIPPI	◆	2019		●	●	●
Mr Xavier FONTANET	◆	2018	●			
Mrs Belén GARIJO	◆	2018			●	
Mrs Béatrice GUILLAUME-GRABISCH		2020		●		
Mr Bernard KASRIEL	◆	2020	●			
Mr Georges LIAROKAPIS	Director representing the employees	2018		●		
Mr Jean-Victor MEYERS		2020		●		
Mrs Virginie MORGON	◆	2021		●		
Mrs Eileen NAUGHTON	◆	2020			●	

◆ Independence within the meaning of the criteria of the AFEP-MEDEF Code as assessed by the Board of Directors.

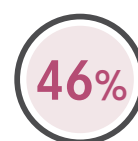
● Committee Chairman/Chairwoman ● Committee Member.



Average age of the Directors at 31/12/2017



Independent Directors



Female Directors (excluding Directors representing the employees)

### 2.2.3. CHANGES IN CORPORATE OFFICES AND DIRECTORSHIPS OF THE DIRECTORS

#### Changes in 2017

- ◆ **Renewal of the tenures of Mrs Françoise Bettencourt Meyers and Mrs Virginie Morgon as Directors for a period of four years**

The Annual General meeting of 20 April 2017 renewed the tenures of Mrs Françoise Bettencourt Meyers and Mrs Virginie Morgon as Directors for a period of four years.

- ◆ **Tenure as Director expiring in 2017: Mr Peter Brabeck-Letmathe**

Mr Peter Brabeck-Letmathe's tenure expired at the close of the Annual General meeting on 20 April 2017. Mr Peter Brabeck-Letmathe had informed the Board of Directors that he did not want his tenure to be renewed following the end of his office as Chairman of the Board of Directors of Nestlé in April 2017.

- ◆ **Appointment as a Director for a period of four years in 2017: Mr Paul Bulcke**

The Annual General meeting of 20 April 2017 appointed Mr Paul Bulcke, Chairman of the Board of Directors of Nestlé, as a Director for a period of four years.

#### Changes scheduled in 2018

- ◆ **Renewal of the tenure of Mr Jean-Paul Agon**

Mr Jean-Paul Agon joined the L'Oréal Group in 1978 and has been a Director since 2006.

Following an international career as General Manager of the Consumer Products Division in Greece and of L'Oréal Paris in France, International Managing Director of Biotherm, General Manager of L'Oréal Germany, Executive Vice-President of the Asia Zone, and President and CEO of L'Oréal USA, Mr Jean-Paul Agon was appointed Deputy Chief Executive Officer of L'Oréal in 2005, then Chief Executive Officer in April 2006.

He has been Chairman and Chief Executive Officer of L'Oréal since 2011.

Mr Jean-Paul Agon has in-depth knowledge of the L'Oréal Group, to which he has very strong ties. He has been committed to the Company's success for over 39 years.

He is also the Chairman of the L'Oréal Corporate Foundation and a Director of Air Liquide.

During his last term of office, he attended all of the meetings of the Board and of the Strategy and Sustainable Development Committee, which he chairs.

- ◆ **Renewal of the tenure of Mrs Belén Garijo**

Mrs Belén Garijo has been a Director of L'Oréal since April 2014 and a member of the Human Resources and Remuneration Committee since 2015.

Belén Garijo, 57, a Spanish national, is a graduate of the University of Medicine of Madrid. After several years in pharmacology research at the University of Madrid, she joined the pharmaceutical industry. She has been Chairwoman and Chief Executive Officer of Merck Healthcare since 2011. The company combines the pharmaceutical businesses of the German group Merck. She is also a member of the Group's Executive Committee.

Mrs Garijo is a highly involved independent Director. She provides her expertise in the healthcare sector, her international business experience at the highest levels and her strategic vision to the Board.

Mrs Garijo's attendance has been 88% over the four years of her tenure.

- ◆ **Expiry date of the term of office of Mr Xavier Fontanet**

Mr Xavier Fontanet, who has been a Director since 2002, did not wish to renew his term of office.

At the Board meeting of 8 February 2018, the Board extended its sincere thanks to Mr Xavier Fontanet for the quality of his contribution to the discussions of the Board and to the work of the various committees he had been part of.

- ◆ **Resignation of Mr Charles-Henri Filippi from his position as Director**

The Board of Directors meeting of 8 February 2018 recorded the resignation of Mr Charles-Henri Filippi following his appointment as Partner and Managing Director of Lazard in March 2018, given the nature of the business relations between Lazard and L'Oréal. Mr Filippi was appointed a Director in 2007 and his term of office ended on 8 February 2018.

The Board extended its warmest thanks to Mr Filippi for his contribution to the work of the Board and of the three Committees of which he was a member or Chairman (Audit Committee, Appointments and Governance Committee and Human Resources and Remuneration Committee).

- ◆ **Appointment of two new Directors in 2018: Mr Axel Dumas and Mr Patrice Caine**

- Appointment of Mr Axel Dumas as a Director

Following the proposal made by the Appointments and Governance Committee, the Board of Directors submitted the appointment of Mr Axel Dumas as Director, for a period of four years, to the Annual General meeting.

Mr Axel Dumas, 47, a French national, holds a Masters in Business law and a degree in philosophy. He is a graduate of Sciences Po and of the Harvard Business School (AmP179).

He began his career at BNP Paribas in China, before moving to the United States.

Mr Axel Dumas joined the financial department of Hermès in 2003 then became Sales Director for France. He was appointed Chief Executive Officer of Hermès Jewellery in 2006 and has been the Chief Executive Officer of Hermès Leather Goods and Saddlery division since 2008. In May 2011, Mr Axel Dumas was appointed as Executive

Vice-President of Operations and member of the Executive Committee of the Group.

A member of the sixth generation of the Group founded by Thierry Hermès in 1837, he has been Executive Chairman of Hermès International since June 2013.

Mr Axel Dumas will provide his strategic vision to the L'Oréal Board as well as his knowledge of the luxury goods sector and his international experience.

The appointment of Mr Axel Dumas as Director for a period of four years is submitted to the Annual General meeting.

- Appointment of Mr Patrice Caine as a Director

Following the proposal made by the Appointments and Governance Committee, the Board of Directors submitted the appointment of Mr Patrice Caine as Director, for a period of four years, to the Annual General Meeting.

Mr Patrice Caine, 48, is a graduate of *Ecole Polytechnique* and *Ecole des Mines* in Paris. He began his career in 1992 in the pharmaceutical industry before becoming a mergers and acquisitions and corporate strategy consultant in London.

From 1995 to 1998, he was special advisor to the Prefect of the Franche-Comté region in France and held several positions at DRIRE (French agency responsible for industry, research and the environment).

He was part of the *Conseil Général des Mines* from 1998 to 2000 in charge of human resources for the *Corps des Mines*. From 2000 to 2002, he worked as technical advisor on energy on the staff of the French Minister of the Economy, Finance and Industry.

Patrice Caine joined the Strategy department of Thales Group in 2002 then held management positions in different operating units (Aviation and Naval, Communications, Navigation and Identification, Air Systems, Radiocommunications Products, Network and Infrastructure Systems and Protection Systems). He joined Thales' Executive Committee in February 2013 as Senior Executive Vice-President, Chief Operating Officer and Chief Performance Officer.

He has been Chairman and Chief Executive Officer of the Thales group since December 2014.

Mr Patrice Caine will provide the L'Oréal Board with his strategic vision, his industrial expertise and his experience in new technologies and cybersecurity.

The appointment of Mr Patrice Caine as Director for a period of four years is submitted to the Annual General meeting.

## 2.2.4. THE GUIDING PRINCIPLES

### 2.2.4.1. Experienced Directors who complement one another

The Directors of L'Oréal come from different backgrounds. They complement one another due to their different professional experience, their skills and their nationalities. They have good knowledge of the Company. The Directors are present, active and closely involved. These are all assets which contribute to the quality of the Board's deliberations in the context of the decisions that it is called on to make.

### 2.2.4.2. Two Directors representing the employees since July 2014

Two Directors representing the employees are members of the Board of Directors and of two of its committees. With the particular looking glass related to their wide knowledge of the Company, they provide further insight that enriches the quality of the Board's debates and decisions and those of the committees of which they are members.

Mrs Ana Sofia Amaral was appointed by the *Instance Européenne de Dialogue Social/European Works Council* (IEDS/EWC). She holds the duties of Scientific and Technical Affairs Director for L'Oréal Portugal.

Mr Georges Liarokapis was appointed by the CFE-CGC, the most representative trade union in L'Oréal for France. He holds the duties of Coordinator of Sustainability for L'Oréal Western Europe.

They both resigned from their duties as employee representatives before joining the Board of Directors.

As soon as they took up their office, they benefited from a training programme provided by an external body concerning, in particular, the role and functioning of the Board of Directors, the rights and obligations of Directors and their liability. Like any new Director, the Directors representing the employees followed an induction course intended to perfect their knowledge of the Company's organisation and activities, which involved in particular individual interviews with the Group's main senior managers.

Following a one-year integration period providing an introduction to the Board's *modus operandi* and the main challenges faced by the Company, Mrs Ana Sofia Amaral and Mr Georges Liarokapis joined the Human Resources and Remuneration Committee and the Audit Committee, respectively, after the Annual General meeting on 22 April 2015.

They receive attendance fees based on the same allocation rules as other Directors. The components of their remuneration as employees are not published.

The four-year directorships of Mrs Ana Sofia Amaral and Mr Georges Liarokapis will expire at the end of the Annual General meeting of 17 April 2018. Pursuant to Article 8 of the Articles of Association, the most representative union organisation within L'Oréal for France, and the *Instance Européenne de Dialogue Social* (European Works Council) will be required to appoint their respective representatives before that date for a term of office of four years.



### 2.2.4.3. Gender equity on the Board of Directors

At 31 December 2017, out of a total of 13 Directors (excluding the two Directors representing the employees), six members of L'Oréal's Board of Directors are women, a proportion of 46%. In addition, two committees out of four are chaired by a woman: The Audit Committee and the Appointments and Governance Committee.

### 2.2.4.4. Independent Directors

#### *All the Directors of L'Oréal have freedom of judgment*

The balance of powers on the Board is ensured through a very precise definition and sharing of the tasks to be carried out by everyone.

All the Directors receive information on an ongoing basis and have suitable means for the performance of their duties. They all have a duty of acting with due care and attention and participate, in total independence, in the decisions and work of the Board and, where applicable, its committees.

They are all required to comply with the rules in force with regard to conflicts of interest.

#### *The Directors who qualify as independent in light of the criteria defined by the AFEP-MEDEF Code*

A member of the Board is considered as independent when he/she does not maintain any relationship of any kind with the Company, its Group or its management which could interfere with his/her freedom of judgement.

With this in mind, the criteria which guide the Board in determining whether a member can qualify as independent are the following criteria specified by the AFEP-MEDEF Code:

- ◆ the member must not be an employee or executive officer of the Company, employee or an executive officer or Director of a company that is consolidated by the Company, an employee, executive officer or Director of its parent company or of a company consolidated by that parent company and must not have held any of these positions during the previous five years;
- ◆ the member must not be an executive officer of a company in which the Company directly or indirectly holds the office of Director or in which an employee designated as such or an executive officer of the Company (either currently or having performed such duties within the last five years) holds an office as Director;
- ◆ the member must not be a customer, supplier, investment banker or financial banker which is important for the Company or its Group, or for which the Company or its Group represents a significant proportion of business;
- ◆ the member must not have any close family links with a corporate officer;
- ◆ the member must not have been the Company's statutory auditor over the five previous years;
- ◆ the member must not have been a Director of the Company for more than twelve years.

At its meeting on 6 December 2017, the Board of Directors examined, on a case-by-case basis, the situation of each of the members concerned in light of the independence criteria provided for in the AFEP-MEDEF Code.

	Not an employee or executive officer	No cross-directorships	No business relationships	No family links	Not a statutory auditor	Not a Director for more than 12 years	Classification adopted
Mrs Sophie Bellon	Yes	Yes	Yes	Yes	Yes	Yes	Independent
Mr Charles-Henri Filippi	Yes	Yes	Yes <sup>(1)</sup>	Yes	Yes	Yes	Independent
Mr Xavier Fontanet	Yes	Yes	Yes	Yes	Yes	No <sup>(2)</sup>	Independent
Mrs Belén Garijo	Yes	Yes	Yes	Yes	Yes	Yes	Independent
Mr Bernard Kasriel	Yes	Yes	Yes	Yes	Yes	No <sup>(2)</sup>	Independent
Mrs Virginie Morgon	Yes	Yes	Yes	Yes	Yes	Yes	Independent
Mrs Eileen Naughton	Yes	Yes	Yes <sup>(1)</sup>	Yes	Yes	Yes	Independent

(1) Based on the work carried out by the Appointments and Governance Committee, the Board of Directors analysed on 6 December 2017, as it does every year, the financial flows that took place during the financial year between L'Oréal and companies in which the Directors who qualify as independent also hold an office or perform duties.

Particular attention was paid to the situations of Mr Charles-Henri Filippi and Mrs Eileen Naughton.

The Board noted that the relations between L'Oréal and Citigroup France, of which Mr Charles-Henri Filippi is the Chairman, were not significant given the amount. Furthermore, the possibility for L'Oréal to use a panel of banks, in a competitive context, rules out all relationship of dependence. Furthermore, Mr Charles-Henri Filippi is aware that he is obliged to notify the L'Oréal Board of Directors of any situation that may constitute a conflict of interest, or potential conflict of interest, and that he must refrain from participating in the corresponding deliberations and decisions. Furthermore, at Citigroup, he will not take part in the work that could concern L'Oréal. The business relations with Citigroup France are not therefore liable to affect Mr Charles-Henri Filippi's independence.

Since then, the Board of Directors' meeting of 8 February 2018 recorded the resignation of Mr Charles-Henri Filippi following his appointment as Partner and Managing Director of Lazard in March 2018, given the nature of the business relations between Lazard and L'Oréal. Mr Filippi was appointed a Director in 2007 and his term of office ended on 8 February 2018.

Concerning the relations between L'Oréal and Google, of which Mrs Eileen Naughton is a senior management executive, following a review thereof, the Board considers that they are not significant, either in terms of total purchases by the L'Oréal Group or in terms of its total media purchases. Google is a significant digital provider for L'Oréal, without however having any exclusive relationship. Furthermore, in light of the Human Resources position she holds at Google, Mrs Eileen Naughton does not have any decision-making power with regard to the contracts that constitute the business relationship with L'Oréal. Finally, Mrs Naughton has undertaken not to take part in any discussion or decision that could concern the business relationships between either of the companies. The business relations with Google are therefore unlikely to affect Mrs Naughton's independence.

(2) Based on the work conducted by the Appointments and Governance Committee, the Board of Directors carefully examined the situation of Mr Xavier Fontanet and Mr Bernard Kasriel whose tenures have exceeded 12 years. The Board of Directors took into account the objectivity that Mr Xavier Fontanet and Mr Bernard Kasriel have always shown at the time of the debates and decisions of the Board, their ability to express their convictions from specific and different angles and provide a balanced judgement under all circumstances during Board discussions, notably, with regard to General Management. They have consistently shown, thanks to their experience as senior management executives at the very highest levels of large international groups and their current and previous eminent duties outside of the Board, an independent spirit, perspective and remarkable freedom to speak, enabling them to simultaneously challenge and support General Management in defining the Group's strategy. Their good knowledge of the Group adds to their well-informed, critical judgment capacity.

Furthermore, the Board considered that the personality, leadership and commitment shown by Mr Xavier Fontanet, recognised by L'Oréal's shareholders, 98.28% of whom approved the renewal of his tenure on 17 April 2014, were all guarantees of his independent-mindedness. It also considered that the freedom of speech, close involvement and critical mind of Mr Bernard Kasriel, whose tenure was renewed by 98.49% of the shareholders on 20 April 2016, are all qualities proving his independence.

These qualities, combined with a deep understanding of the Group, enable them to understand the challenges facing the Company in order to make an effective contribution to the work of the Board in the sole interest of the Company and to provide perspective on its decisions while ensuring the continuity of the Board's debates.

In light of these assessment elements, which were analysed with great care, the Board of Directors considered that the 12-year criterion, defined by the AFEP-MEDEF Code, among five other criteria, was not sufficient in and of itself for Mr Xavier Fontanet and Mr Bernard Kasriel to automatically lose their status as independent Directors.

In summary, on 31 December 2017, seven members of the Board of Directors out of 13 (excluding the Directors representing the employees) qualify as independent (i.e. 53.8% of the Board of Directors):

- ◆ Mrs Sophie Bellon;
- ◆ Mr Charles-Henri Filippi;
- ◆ Mr Xavier Fontanet;
- ◆ Mrs Belén Garijo;
- ◆ Mr Bernard Kasriel;
- ◆ Mrs Virginie Morgon;
- ◆ Mrs Eileen Naughton.

#### 2.2.4.5. Responsible Directors

##### *Handling of conflicts of interest*

Within the scope of the law and the rights and obligations of the Directors as defined in the Internal Rules of the Board of Directors of L'Oréal, and in accordance with the AFEP-MEDEF Code, the Directors are subject to compliance with the rules in force with regard to conflicts of interest and stock market ethics.

Thus, "all Directors are obliged to notify the Board of any situation that may constitute a conflict of interest, or potential conflict of interest, and must refrain from participating in the corresponding deliberation". In this regard, on the basis of the

reports made by each Director, the Board has not identified any conflict of interests. The information pursuant to Annex I of European regulation No. 809/2004 set out hereafter contains additional details in this respect.

##### *Information relating to corporate officers pursuant to Annex I of European regulation No. 809/2004*

##### **Family links existing between the corporate officers (Article 11 of the Annex)**

Mrs Françoise Bettencourt Meyers is Mr Jean-Pierre Meyers' wife and the mother of Mr Jean-Victor Meyers.

Mr Jean-Pierre Meyers is the husband of Mrs Françoise Bettencourt Meyers and the father of Mr Jean-Victor Meyers.

Mr Jean-Victor Meyers is the son of Mrs Françoise Bettencourt Meyers and of Mr Jean-Pierre Meyers.

##### **Absence of any conviction or incrimination on the part of the corporate officers (Article 11 of the Annex)**

To the Company's knowledge, over the last five years, the corporate officers and Directors have not been convicted for fraud, associated with a bankruptcy, receivership or liquidation, or the subject of any official public incrimination or sanction imposed by statutory or regulatory authorities (including designated professional bodies) or a decision by a court disqualifying them from acting as a member of an administrative, management or supervisory body or from acting in the management or conduct of the business of any issuer.

**Potential conflicts of interest between the duties of the corporate officers with regard to L'Oréal, and their private interests and/or other duties (Articles 12 and 18.3 of the Annex)**

The situation of each of the Directors in light of the independence criteria set out in the AFEP-MEDEF Code is examined in paragraph 2.2.4.4. The method of organisation and *modus operandi* adopted by the Board would allow it, where applicable, to prevent any wrongful exercise of control by a shareholder, in particular due to the presence of seven independent Directors on the Board of Directors (See also chapter 6 of this Document concerning agreements relating to shares in the Company's capital).

The Company was informed of the participation, amounting to 100 shares, of its Chairman and Chief Executive Officer, Mr Jean-Paul Agon, in the collective lock-up agreements signed on 16 December 2016 by Thélys SAS and members of the Bettencourt Meyers family group under the Dutreil law. The Appointments and Governance Committee Meeting of 6 December 2016 examined this arrangement prior to signature of the agreement and considered that it could not be contested on the basis of the Company's interests, nor could it lead to consequences for the Company's governance, and informed the Board of Directors accordingly.

**Information on service contracts with members of the administrative bodies (Article 12 of the Annex)**

No corporate officers or Directors have a service contract with L'Oréal or any of its subsidiaries providing for the granting of benefits upon termination of such contract.

**Stock market ethics**

The Board noted the rules to be applied to prevent insider trading, in particular those resulting from European Regulation (EU) No. 596/2014 on Market Abuse which became applicable

on 3 July 2016, and the recommendations of the French financial markets authority (the *Autorité des Marchés Financiers* or "AMF"), in particular regarding the periods during which it is prohibited from trading in shares. It decided to amend its Internal Rules accordingly.

On the basis of the legal provisions, regulations and market recommendations, L'Oréal's Stock Market Code of Ethics points out that inside information must only be passed on and used for professional purposes.

Inside information is precise information of a non-public nature, which, if made public, could have a significant influence on the share price. Such inside information may fall into one of three categories: strategic, linked to the definition and application of the Group's development policy; recurring, linked to the annual schedule for production and publication of annual and interim financial statements, regular releases or periodic meetings devoted to financial information; exceptional, linked to a specific programme, project or financial transaction.

The Stock Market Code of Ethics states that any person in possession of inside information must proceed with the greatest caution when trading in or enabling others to trade in L'Oréal shares, and emphasises that any misconduct in this area may result in criminal proceedings. The Internal Rules of the Board specifically ask Directors to refrain from trading in L'Oréal shares precisely in certain periods and when they have access to inside information.

Lastly, Directors are required to notify the AMF of each transaction carried out by them or by persons closely affiliated with them related to L'Oréal shares. The Company reminds them regularly of this obligation (see section 2.7 Summary of trading by corporate officers in *L'Oréal shares in 2017*).

## 2.3. ORGANISATION AND MODUS OPERANDI OF THE BOARD OF DIRECTORS

### 2.3.1. GENERAL INFORMATION ON THE MEETINGS OF THE BOARD OF DIRECTORS AND ITS COMMITTEES IN 2017

#### 2.3.1.1. Committed Directors, with in-depth knowledge of the Company

The preparation and holding of the meetings of the Board of Directors and its Committees require increasing availability and significant investment by the Directors.

L'Oréal's Directors are regularly informed of all the Company's activities and its performances in a highly competitive universe.

The Directors can propose any subject that is appropriate for good governance for inclusion on the agenda for the work by the Board and its Committees with complete independence. The Directors meet at least once a year without the presence

of the executive officer, the Directors representing the employees or any other Group employees (executive session).

The committees prepare for the discussions and deliberations by the Board. Board meetings are generally held in the presence of senior managers of the Company invited to attend on the basis of topical developments at L'Oréal and many aspects of its strategy. In an open, constructive dialogue, exchanges of views, in confidence, contribute to the quality of the Directors' work.

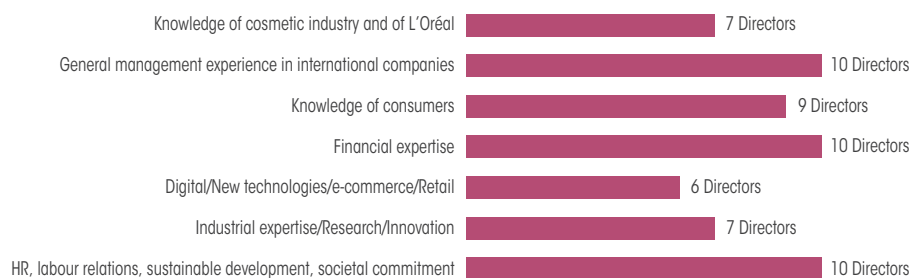
With their complementary expertise and freedom of judgment, the Directors collectively ensure that the measures adopted contribute to implementation of L'Oréal's strategy. The discussions on the Board, encouraged by the Chairman, take place transparently and in great detail.

#### Skills and expertise of members of the Board of Directors

All L'Oréal Directors provide the Board of Directors with:

- ◆ Good judgement
- ◆ Ethics
- ◆ Concern for the interests of the Company
- ◆ Strategic vision
- ◆ A sense of innovation and entrepreneurship
- ◆ International experience
- ◆ Experience of the functioning of Governance bodies

L'Oréal's Directors complement one another on account of their different professional experience and business undertakings. Their individual skills and expertise cover the following fields related to L'Oréal's strategy:



#### 2.3.1.2. Assiduous Directors

In 2017, the Board met 7 times. The attendance rate at Board meetings was 96.4% on average. The attendance rate at Board Committee meetings is specified below.

The allocation of attendance fees, based on the rate of attendance by each of the Directors at Board meetings and

presence at the meetings of its various committees, is described in section 2.4.

The rules on the breakdown of attendance fees allocated in respect of the 2017 financial year take into account the recommendations of the AFEP-MEDEF Code, with a predominant overall variable portion taking account of the rate of attendance at meetings of the Board and its Committees.

## 2.3.2. THE ACTIVITIES OF THE BOARD OF DIRECTORS

### 2.3.2.1. General missions and Internal Rules

The Directors oversee the Group's economic and financial management and contribute to defining its strategy. They examine and approve the main lines of action adopted by the General Management, which implements them.

In this connection, the Board seeks on an ongoing basis to adopt a *modus operandi* which, while strictly complying with the law, assures the conditions of good corporate governance.

The Board's work is based on Internal Rules, regularly updated, designed to supplement the legal, regulatory and statutory rules and the market recommendations to which the Board refers. The Internal Rules are made public in full in this document and published on L'Oréal's website.

### 2.3.2.2. The Board's work focused on business activities and strategy

Thanks to transparent, relevant information based on a constructive, open dialogue with the General Management, the Board actively contributes to development of strategy.

The agendas are designed to cover many topics (business, ethics, Social and Environmental Responsibility, digital, Human Resources, etc.) with the aim of approaching every topic from a strategic angle.

The in-depth analysis, at each meeting, of the Group's activities and results, of the sales generated by Divisions, geographic zones and brands, and market share gains enables the Directors to be immersed in the Company's economic realities and to be continually informed of the problems faced by L'Oréal.

The Board is also informed throughout the year of developments in the cosmetics market, the results of competitors and the Group's relative positioning. It carefully monitors major changes and trends in consumer trends and, in particular, the development of e-commerce and new distribution channels. It receives regular updates on the consequences of the digital revolution for the Group's activities and the way in which L'Oréal takes on the opportunities provided by this sea change. The Board is thus completely up-to-date on L'Oréal's economic environment, the new challenges faced and the main changes in the cosmetics business.

It meets the Group's main senior managers regularly and thus benefits from in-depth knowledge of the professions, jobs, performances and challenges specific to each business segment. It is able to forge a clear, independent opinion of the opportunities for the Group's development over the next few years.

In 2017, the Directors welcomed L'Oréal's Executive Vice-President for Research and Innovation with the members of his Management Committee to introduce them to new issues related to research and the challenges it must face. They discussed the strategic orientations set for this field.

The Directors reviewed the changes which are dramatically transforming the industrial world. The Executive Vice-President of Operations of L'Oréal explained the reasons which have led Operations to adapt to deal with the changes taking place in the cosmetics business and the new expectations of customers and consumers, while continuously improving performance.

The Executive Vice-President of the Professional Products Division presented the structural changes the professional products market is undergoing to the Directors. She provided a diagnosis of the Group's results in this business sector and identified the areas of growth for the Division in the coming years. The proposals resulted in in-depth exchanges between the members of the Board.

The Directors debated with the Executive Vice-President of the Consumer Products Division who gave a comprehensive presentation on the mass market for beauty products and competition in the sector. A diagnostic review was carried out for the Consumer Products Division. The development strategy for the coming years was analysed.

The Board also decided to interview the Executive Vice-President Human Resources on the Group's Human Resources policy. The discussions covered recruitment and talent development. On this occasion, the *Simplicity* programme, aimed at promoting new ways of working, managing and interacting in order to release the energy required to further increase growth and improve the quality of life at work, was presented to the Directors.

The Board also contributes to the development of strategy, by analysing the interest of acquisitions, their impact on the Company's financial structure and on its long-term development capabilities. In 2017, the Directors reviewed a number of new projects, including CeraVe, a beauty brand which has been added to the Active Cosmetics Division portfolio.

The Board paid a great deal of attention to the monitoring of acquisitions made in previous years and requested that it receive a regular update on the transactions carried out: integration within the Group, synergies, complementarity, creation of a business plan developed at the time of acquisition and value creation for L'Oréal.

The Board followed the disposal process for The Body Shop which resulted in the signature of a sale agreement with Natura.

The Central Works Council was once again consulted and issued an opinion, pursuant to the French law of 14 June 2013 relating to security of employment, on the Company's strategic orientations, as previously defined by the Board of Directors. The Board reviewed the Central Works Council's opinion and responded thereto.

Every year, the Board makes a full evaluation of its *modus operandi* and its organisation. It discusses this evaluation when the item is put on the Board meeting agenda. This evaluation leads to proposals for improvements and makes it possible to define the strategic topics on which the Board particularly wishes to focus its reflections (see self-evaluation of the Board of Directors below).

### 2.3.2.3. Provision of information to the Board on the Company's financial situation, cash position and commitments

The financial situation and the cash position are reviewed at least twice a year at a Board meeting, when the annual financial statements are approved and when the interim financial statements are reviewed, or at any other time if necessary. The balance sheet structure remains solid.

The Company's commitments are reviewed within the framework of the annual renewal of the authorisations given to the Chairman and Chief Executive Officer and the delegations of authority it grants. It also reviews every year the agreements entered into and authorised during previous financial years which continued in force.

As attested to by the preparatory work of its committees (see below), the Board also analyses other aspects of strategy, the Group's economic and financial management and the Company's environmental, social and societal commitments. The committees' work systematically gives rise to a report presented by their Chairman/Chairwoman at Board meetings.

### 2.3.3. THE ACTIVITIES OF THE BOARD COMMITTEES

The Board's debates and decisions are assisted by the work performed by its Committees, which report to it after each of their meetings. The remits of each committee are described in detail in the Internal Rules of the Board of Directors.

In 2017, the committees were once again tasked with preparing the Board's deliberations. The composition of these committees, their remits and their work in 2017 are described in detail below.

The Board's Committees act strictly within the framework of the remits given to them by the Board. They prepare actively for its work and make proposals but they do not have any decision-making powers. All the Directors who are members of a committee participate in Committee meetings with complete freedom of judgment and in the interest of all the shareholders.

## STRATEGY AND SUSTAINABLE DEVELOPMENT COMMITTEE

### COMPOSITION

- Mr. Jean-Paul Agon (Chairman)
- Mrs. Françoise Bettencourt Meyers
- Mr. Paul Bulcke
- Mr. Xavier Fontanet
- Mr. Bernard Kasriel
- Mr. Jean-Pierre Meyers

The committee met five times in 2017, with an attendance rate of 100%.

It is specified that two members are part of the Bettencourt Meyers family and one member is from Nestlé.

### MAIN REMITS

- ◆ Providing insight, through its analyses, into the strategic orientations submitted to the Board.
- ◆ Monitoring the implementation and advancement of significant operations in progress and ensuring that the main financial balances are maintained.
- ◆ Examination of the main strategic lines of development, options or projects presented by the General Management, and their economic and financial consequences, opportunities for acquisitions and financial transactions liable to significantly change the balance sheet structure.
- ◆ Verification of the integration of the Company's commitments with regard to Sustainable Development, in light of the challenges specific to the Group's business activities and its objectives.
- ◆ Examination of the proposed strategic orientations defined by the Board with a view to consultation of the Central Works Council.

### 2017 MAIN ACTIVITIES

- ◆ Analysis of turnover and update on the business.
- ◆ Update on changes in the market place and on the competition.
- ◆ Analysis of the performance of the latest product launches.
- ◆ Examination of the Group's strategic development prospects.
- ◆ Review of the main acquisition projects, and follow-up of recent acquisitions.
- ◆ Review of the strategy of the Professional Products Division.
- ◆ Update on the disposal of The Body Shop.
- ◆ Update on the progress of the *Sharing Beauty With All* programme

### CHANGES PLANNED FOR 2018

Subject to a favourable vote by the Annual General Meeting of 17 April 2018 on appointments and renewals, the composition of the Strategy and Sustainable Development Committee will be as follows:

- Mr Jean-Paul Agon (Chairman)
- Mrs Françoise Bettencourt Meyers
- Mr Paul Bulcke
- Mr. Bernard Kasriel
- Mr. Jean-Pierre Meyers

## AUDIT COMMITTEE

### COMPOSITION

- Mrs. Virginie Morgon (Chairwoman)
- Mrs. Sophie Bellon
- Mr. Charles-Henri Filippi
- Mrs. Béatrice Guillaume-Grabisch
- Mr. Georges Liarokapis
- Mr. Jean-Victor Meyers

The number of independent Directors is 3 out of 5, namely 60% (excluding the Director representing the employees).

A Director representing the employees, Mr. Georges Liarokapis, is a member of this committee.

The Audit Committee met four times in 2017, with an attendance rate of 100%.

The committee is chaired by Mrs. Virginie Morgon, an independent Director who has recognised financial expertise.

The members of the Audit Committee have the necessary financial and accounting skills due to their professional experience and their good knowledge of the Group's accounting and financial procedures.

The Statutory Auditors attend meetings, except for the deliberations that concern them.

The committee meets at least twice a year without management presence, with the participation of the Statutory Auditors.

The committee did not deem it appropriate to call upon outside expert.

The Chairman and Chief Executive Officer is not a committee member.

### MAIN REMITS

- ♦ Monitoring of the process for preparation of financial information.
- ♦ Monitoring of the statutory audit of the annual and consolidated accounts by the Statutory Auditors.
- ♦ Review of the audit plans and the Statutory Auditors' work programme and the results of their audits.
- ♦ Monitoring of the Statutory Auditors' independence.
- ♦ Approval of non-audit services.
- ♦ Monitoring of the efficiency of the Internal Control and risk management systems.
- ♦ Warning role with regard to the Chairman of the Board in the event of detection of a substantial risk which in its view is not adequately taken into account.
- ♦ Task of monitoring the Group's main risk exposures and sensitivities.
- ♦ Review of the programme and objectives of the Internal Audit Department and the Internal Control system methods and procedures used.
- ♦ Annual review of the section of the Management Report on risk factors and Internal Control and risk management procedures.

### 2017 MAIN ACTIVITIES

- ♦ Review of annual, interim results and balance sheet.
- ♦ Review of Statutory Auditors' Reports.
- ♦ Review of the Statutory Auditors' 2017 audit plan and the results of the audits carried out, their recommendations and the follow-up actions taken, as part of the statutory audit of the accounts.
- ♦ Review of the audits carried out by the Statutory Auditors with regard to CSR information, enlargement of the audit scope and improvement of data reliability making it possible to issue a voluntary reasonable assurance report.
- ♦ Approval by the Audit Committee of non-audit services.
- ♦ Review of the update to the Internal Rules related to the missions of the Audit Committee following European regulation (EU) No. 537-2014 and the order of 17 March 2016.
- ♦ Monitoring of Internal Audit activities, including CSR commitments.
- ♦ Review by the Board of the measures taken to enhance Internal Control.
- ♦ Review of the Vigilance plan (law No. 2017-399 on the duty to act with due care).
- ♦ Review of the measures introduced to comply with the Sapin 2 law concerning transparency and the fight against corruption.
- ♦ Monitoring of the project to comply with the European GDPR regulation (General Data Protection Regulation).
- ♦ Review of the procedure for managing insider information (European Market Abuse regulation).
- ♦ Review of legal risks and potential litigation and of major events that could have a significant impact on L'Oréal's financial situation and on its assets and liabilities.
- ♦ Review of new payment methods.
- ♦ Review of Digital performance.

### CHANGES PLANNED FOR 2018

Subject to a favourable vote by the Annual General Meeting of 17 April 2018 on appointments and renewals, the composition of the Audit Committee will be as follows:

- Mrs. Virginie Morgon (Chairwoman)
- Mrs. Sophie Bellon
- Mr. Axel Dumas
- Mrs. Béatrice Guillaume-Grabisch
- Mr. Georges Liarokapis\*
- Mr. Jean-Victor Meyers

\* The term of Mr Georges Liarokapis as Employee Director ends on 17 April 2018. It is up to CFE-CGC, the most representative union at L'Oréal in France, to renew the term of office of Mr Liarokapis or to appoint a new Employee Director for another term of four years.



## APPOINTMENTS AND GOVERNANCE COMMITTEE

### COMPOSITION

- Mrs. Sophie Bellon (Chairwoman)
- Mr. Paul Bulcke
- Mr. Charles-Henri Filippi
- Mr. Jean-Pierre Meyers

The number of independent Directors is 2 out of 4, namely 50%.

The committee met 4 times in 2017 with an attendance rate of 100%.

The Chairman and Chief Executive Officer can attend Committee meetings except with regard to any matters on the agenda that concern him directly.

### MAIN REMITS

- ◆ Reflections and recommendations to the Board with regard to the methods of performance of General Management and the status of the executive officers.
- ◆ Issuing an opinion on proposals made by the Chairman of the Board of Directors for appointment of the Chief Executive Officer, where applicable.
- ◆ Preparation of succession plans for the executive officers in the event of an unforeseen vacancy.
- ◆ Proposal to the Board of new Directors.
- ◆ Examination of the classification as independent Director which is reviewed by the Board every year.
- ◆ Verification of the due and proper application of the Code of Corporate Governance to which the Company refers (AFEP-MEDEF Code).
- ◆ Discussion on governance issues related to the functioning and organisation of the Board.
- ◆ Conducting the reflection process with regard to the committees that are in charge of preparing the Board's work.
- ◆ Preparation for the decisions by the Board with regard to updating its Internal Rules.

### 2017 MAIN ACTIVITIES

- ◆ Analysis of the 2017 voting policies of investors and proxy advisors with regard to governance topics (composition of the Board, balance of powers, tenures, independence of Directors, *etc.*).
- ◆ Reflection on the composition of the Board (diversity, complementary of profiles, skills, expertise, gender parity, combining of offices, *etc.*).
- ◆ Selection and interviews with candidates and proposals to the Board for validation.
- ◆ Reflection on composition of the Board Committees and proposals.
- ◆ Proposal to the Board concerning training for the Directors representing employees for 2018.
- ◆ Examination of the independence of each of the Directors in light of the criteria set out in the AFEP-MEDEF Code.
- ◆ Determination of the terms and conditions of the annual evaluation of the Board.
- ◆ Analysis of the 2017 reports of the AMF and the *Haut Comité de Gouvernement d'Entreprise* (High Committee on Corporate Governance).
- ◆ Review of the succession plans with a view to ensuring the continuity of General Management.
- ◆ Review of the key positions in the organisation from the perspective of ensuring the continuity of business activities (in the short-term).
- ◆ Review of the change to the Internal Rules with regard to the missions of the Audit Committee (European regulation No. 537-2014) and the appointment of an internal stock market ethics advisor.

### CHANGES PLANNED FOR 2018

Subject to a favourable vote by the Annual General Meeting of 17 April 2018 on appointments and renewals, the composition of the Appointments and Governance Committee will be as follows:

- Mrs. Sophie Bellon (Chairwoman)
- Mr. Paul Bulcke
- Mr. Patrice Caine
- Mr. Jean-Pierre Meyers

## HUMAN RESOURCES AND REMUNERATION COMMITTEE

### COMPOSITION

- Mr. Charles-Henri Filippi (Chairman)
- Mrs. Belén Garijo
- Mrs. Ana-Sofia Amaral
- Mr. Jean-Pierre Meyers
- Mr. Paul Bulcke
- Mrs. Eileen Naughton

The number of independent Directors is 3 out of 5, namely 60% (excluding the Director representing the employees).

A Director representing the employees, Mrs. Ana Sofia Amaral, is a member of this committee.

In 2017, the committee met 5 times with an attendance rate of 97%.

The Chairman and Chief Executive Officer can attend Committee meetings except with regard to any matters on the agenda that concern him directly.

### MAIN REMITS

- Making proposals relating to the remuneration of the Chairman of the Board of Directors and that of the Chief Executive Officer, where applicable.
- Setting of the total amount of attendance fees to be submitted to the Annual General Meeting and the method of distribution.
- Determination of the policy for Long-Term Incentive plans, in particular through plans for free grants of shares or performance shares (ACAs).
- Monitoring of the Human Resources policy: employee relations, recruitment, diversity, etc.
- Monitoring of the application of the Code of Ethics in the Company.

### 2017 MAIN ACTIVITIES

- Analysis of the performance of the executive officer in 2016 and communication to the Board of a recommendation with regard to setting the annual variable remuneration for 2016, and the targets and weightings for 2017.
- Reflection concerning the structure of the executive officer's annual variable remuneration and targets objectives for 2018.
- Analysis of the 2017 voting policies of investors and proxy advisors concerning remuneration issues.
- Say on Pay: preparation of the draft resolutions proposed to the Annual General Meeting of 20 April 2017 (*ex ante* vote on the remuneration policy for 2017 and *ex post* vote on the components of remuneration paid to the executive officer for 2016) and review of the proposed resolutions for the Annual General Meeting of 17 April 2018.
- Delivery of the Long-Term Incentives (LTI) plans: recording of the performances relating to 2013 ACAs plan.
- Long-Term Incentives plans: preparation of the ACAs plan of 20 April 2017. Proposal for a grant to the executive officer.
- Reflection on the principles for implementing a worldwide employee share ownership plan.
- Directors' attendance fees: breakdown of 2017 attendance fees and recommendation for the policy and scales applicable in 2018. Preparation of the draft resolution submitted to the Annual General Meeting of 17 April 2018.
- Defined benefit pension scheme: application of the provisions resulting from the law of 6 August 2015 and proposal for the performance conditions for the executive officer.
- Ethics: presentation of the Activity Report and identification of watch points.

### CHANGES PLANNED FOR 2018

Subject to a favourable vote by the Annual General Meeting of 17 April 2018 on appointments and renewals, the composition of the Human Resources and Remuneration Committee will be as follows:

- Mrs. Sophie Bellon (Chairwoman)
- Mrs. Belén Garijo
- Mrs. Ana-Sofia Amaral\*
- Mr. Jean-Pierre Meyers
- Mr. Paul Bulcke
- Mrs. Eileen Naughton

\* The term of Mrs Ana Sofia Amaral as Employee Director ends on 17 April 2018. It is up to Instance Européenne de Dialogue Social (European Works Council) to renew the term of office of Mrs Amaral or to appoint a new Employee Director for another term of four years.

### 2.3.4. SELF-EVALUATION BY THE BOARD OF DIRECTORS

Every year, the Board carries out the formal evaluation provided for by the AFEP-MEDEF Code of its composition, its organisation and its *modus operandi*, in particular in order to verify that, under these conditions, the agenda for its work duly covers the scope of its remits, that important questions have been appropriately prepared for and discussed and to measure the contribution made by each member to the Board's work.

This evaluation is carried out within the framework of the AFEP-MEDEF Code, to which the Board refers and market recommendations like those of the AMF.

The evaluation procedure for 2017 was examined by the Appointments and Governance Committee.

This evaluation is carried out with the help of a thematic interview guide setting out the principles provided for by the code, accompanied by a questionnaire enabling each Director to think about the Board's due and proper functioning and his/her personal contribution to the Board's work and decisions.

This document, approved by the Appointments and Governance Committee before it was sent to each Director, served as a basis for the individual interviews arranged between the Directors and the Secretary of the Board.

These interviews concerned the Board's composition, its organisation and its *modus operandi*.

The Directors were again asked to consider certain Governance topics: separation of the duties of Chairman and Chief Executive Officer, the question of scheduling meetings of the Board of Directors without the presence of the executive Directors, the appointment of a Lead Director and the conduct of the General Meeting.

The activities of the committees were reviewed, in particular the procedure for analysis of the independence of the Directors and any conflicts of interest.

The Directors expressed their opinion more specifically with regard to the quality and relevance of the information provided to them, on the agendas for the Board meeting, and the drafting of the minutes and gave their points of view on the Board's involvement in the definition of L'Oréal's strategy.

They formulated suggestions for improvements and submitted proposals with regard to strategic themes and subjects which they would like to discuss in further detail in 2018.

The summary of these interviews, carried out by the Secretary of the Board, was submitted first to the Appointments and Governance Committee and thereafter to the Board of Directors, followed by a debate between the Directors and decisions for 2018.

Firstly, concerning the Board's composition, the Directors gave very positive feedback. The Board has a balance of major shareholders, independent Directors and salaried Directors. It is also balanced in terms of age, length of tenure, gender and nationality. The skills of its members are varied and complementary and cover business development and finance, marketing, Human Resources, digital technologies

and communications. It is renewed with continuity in mind to ensure a good rapport between the most senior Directors and those more recently appointed. This balance makes it possible to combine new vision with consistent decisions over the long term.

The Directors are of the opinion that all the members of the Board are active, diligent and involved. They share the same concern for acting in L'Oréal's long-term interests.

The composition of the committees was considered appropriate with the right experts serving on each one. The gender parity of committee Chairs was noted.

The functioning of the Board and of the committees, and the pace and frequency of their meetings were deemed appropriate.

The preparation of the Board and its Committees are appropriate with a good level of information enabling very thorough work. The reports provided by the committee Chairs during the Board meetings were interesting and very comprehensive. They provided a good understanding of the topics covered and enable the Board to take the right decisions.

The quality of the dialogue and of the discussions was emphasised as was the role of the Chairman who listens carefully and is open to questions. He is transparent and does not downplay criticism. This makes the discussions productive and constructive. Members are able to speak in a climate of trust, with great mutual respect. The Directors thus exercised their complete freedom of judgment in 2017, as they have in previous years. This freedom of judgment enabled them to participate, in total independence, in the work and the collective decisions of the Board and the activities of the committees.

The Directors are of the opinion that the information provided was of high quality and transparent. The format of the information provided to it in connection with business activities in general and the main events in the Group's cyclical activity, is satisfactory. Making documentation available prior to Board or Committee meetings, in compliance with the requirements of confidentiality and the time constraints with which the Company is faced, boosts the quality of the debates.

The Board considered that its driving role for the Group's strategic-decision making was fulfilled satisfactorily.

The Directors appreciated the fact that an analysis of sales, markets and competition is conducted consistently at each meeting. They enable the Directors to be immersed in the realities of the Company and remain fully informed of L'Oréal issues on a continuous basis.

Executive involvement is deemed essential. They were happy that a point on the Board's agenda was dedicated to them on a regular basis. In 2017, the Board was able to work on the strategies of the Professional Products Division, the Consumer Products Division and of Group Operations. The Directors were also positive about the strategy day which, in 2017, was dedicated to Research and Innovation at L'Oréal. All of the presentations were well prepared and enabled discussion and exchange. The issues were presented from a strategic angle and the action plans presented promoted forward-looking thought.

The in-depth understanding of the Group's issues and development prospects, in a changing cosmetics market, thus made it possible for the Board to give a well-informed opinion on the acquisition projects that were submitted to it by General Management in 2017.

It also appreciated the fact that the agendas for Board and Committee meetings cover all of the Group's fields of activity (business, ethics, CSR, digital, Human Resources, *etc.*), and clearly showcase the various problems.

Concerning Governance topics, the Directors believe that the method of organisation of the General Management chosen, with a Chairman and Chief Executive Officer, is best suited to L'Oréal's current situation. The balance of power is assured, given, notably, the role of the major shareholders, and the freedom of speech enjoyed by the Directors.

In light of this analysis, they do not consider it necessary to appoint a Lead Director. By opting for the combination of duties, the Board chose to opt for a direct relationship between the Chairman and Chief Executive Officer and the Directors: the appointment of a Lead Independent Director who would intervene between the Chairman and the other Directors would not be consistent with this choice.

They consider the introduction of executive sessions as positive. Since 2016, the Directors meet at least once a year without the presence of the executive officer, the Directors representing the employees or any other Group employee. An executive session was held in December 2017.

The Board is attentive to the handling of conflicts of interest. It also attaches particular importance to analysis of the independence of the Directors.

For 2018, various decisions with regard to improvements were made. They concern, in particular, the time required to provide management information and presentations and the development of the use of a digital tablet for the Board and Committees.

The Directors also stated their desire to go into further detail about certain strategic points and to handle them in a

cross-functional way. They made proposals with regard to the topics to be included on the Board's agenda in 2018. After discussion, a list was adopted of the subjects considered to be a priority.

Concerning the Board's self-evaluation procedure in 2018, the Board did not think it appropriate, as in 2017, to entrust this evaluation to an external body, considering that the current process was satisfactory. The interview guide will be re-examined once again by the Appointments and Governance Committee which will supervise the process in liaison with the Secretary of the Board. The summary of the interviews with the Directors will be discussed at a Board meeting as is the case every year.

### 2.3.5. APPENDIX: COMPLETE TEXT OF THE INTERNAL RULES OF THE BOARD OF DIRECTORS

These Rules are applicable to all present and future Directors, whether they are appointed by the General Meeting or by the employees, and are intended to complement the legal, regulatory and statutory rules and those under the Articles of Association in order to state accurately the *modus operandi* of the Board of Directors and its Committees, in the interests of the Company and of its shareholders.

L'Oréal's Board of Directors refers to the principles of corporate governance as presented by the AFEP-MEDEF Code. The Internal Rules specify the *modus operandi* of the Board, in the interests of the Company and of all its shareholders, and those of its committees, whose members are Directors to whom it gives preparatory assignments for its work. The latest updates to the Internal Rules were made on 9 February and 12 October 2017. They involved the rules regarding the holding of a minimum number of L'Oréal shares by the Directors and Stock Market Ethics (Internal Advisor for Stock Market Ethics). As was the case for previous versions, the Internal Rules are made public in full in this chapter.

## Preamble

The Board of Directors of L'Oréal ("the Company") is a collegial body which is mandated by all the shareholders. It has the authority given to it by law to act in all circumstances in the best interests of the Company.

By exercising its legal prerogatives, the Board of Directors ("the Board") fulfills the following main duties: it validates the Company's strategic orientations, appoints the executive officers given responsibility for managing the Company within the scope of this strategy, chooses the method of organisation of General Management (combination or separation of the roles of Chairman and Chief Executive Officer), oversees management and ensures the quality of the financial and extra-financial information provided to the shareholders and to the markets.

The organisation of the Board's work and its composition is adapted to the specificities of L'Oréal and is in line with an approach of constant progress. The Board's main responsibility is to adopt the method of organisation and the *modus operandi* which enable it to perform its duties to the best of its ability. Its organisation and its *modus operandi* are described in these Internal Rules which it draws up, and which are published in full on L'Oréal's website and in the Registration Document.

The Board's actions are carried out within the framework of the AFEF-MEDEF Code. The Report of the Chairman on the Board's composition and on the way in which the Board's work is prepared and organised explains, where applicable, the recommendations that have not been adopted in light of the Company's specificities.

These Rules apply to all the Directors, both current and future, whether they are appointed by the Annual General Meeting or the employees, and are intended to complement the legal, regulatory and statutory rules and those under the Articles of Association in order to state accurately the *modus operandi* of the Board of Directors and its Committees.

## 1. DUTIES AND AUTHORITY OF BOARD OF DIRECTORS

### 1.1. The general powers of the Board

The Board of Directors determines the Company's business strategy and oversees the implementation thereof.

Subject to the powers expressly conferred to General Shareholders' Meetings and within the limit of the Company's purpose, the Board deals with all matters regarding the smooth running of the Company and settles issues concerning the Company by virtue of its decisions. At any time in the year, the Board carries out the controls and verifications it deems appropriate.

The Board prepares for and convenes General Shareholders' Meetings and sets the agenda. It puts the parent company and consolidated financial statements to the vote and presents to the meeting its Management Report to which is attached the Report of the Chairman approved by the Board.

The Board sets the remuneration of the Directors and executive officers. It reports on its policy and its decisions in its Management Report and in the Report of its Chairman. The General Shareholders' Meeting is consulted every year on the components of remuneration due or allocated to each executive officer for the past financial year. The Board is a collegial body which is legally unable to delegate its authority, except to the General Management in those cases expressly provided for by law. Within the scope of its work, it may decide to set up committees which do not have decision-making powers but have the task of providing all useful information for the discussions and decisions which it is called upon to make. The Board decides on the composition of the committees and the rules with regard to their *modus operandi*.

The Board may ask one or more of its members or third parties to carry out special assignments or projects aimed in particular at studying one of more specific topics.

### 1.2. Relations between General Management and the Board

#### 1.2.1. Form of General Management

General Management of the Company is carried out, under his responsibility, by either the Chairman of the Board of Directors (the Chairman and Chief Executive Officer) or by another individual with the position of Chief Executive Officer. Leaving the possibility to choose between the separation or combination of roles, the law does not give preference to any form and gives the Board authority to choose between the two methods of organisation of the General Management in light of the specificities of the Company.

Whether the General Management is carried out by a Chairman and Chief Executive Officer or a Chief Executive Officer, the Board has the same prerogatives. It may in particular take all specific measures aimed at ensuring the continued balance of powers.

#### 1.2.2. Powers of General Management

The General Management, which may be carried out by the Chairman of the Board of Directors or by a Chief Executive Officer, is vested with the broadest powers to act in all circumstances in the name of the Company. It must exercise these powers within the limit of the Company's purpose subject to the powers expressly granted by French law to General Shareholders' Meetings and the Board of Directors.

The Board has the possibility to provide for limitations on the powers of the General Management. Thus, transactions which may materially impact the scope of consolidation of the Company, in particular, transactions involving an amount in excess of €250,000,000 and all new transactions which are outside the normal course of business for an amount in excess of €50,000,000, must be submitted to the Board. In any event, the Board of Directors must be informed of the conclusion and implementation of all transactions.

The General Management represents the Company in its dealings with third parties.

Upon a proposal by the Chief Executive Officer, the Board may appoint one or more individuals responsible for assisting the Chief Executive Officer, who will hold the corporate office of Deputy Chief Executive Officer(s).

### 1.2.3. The duties of the General Management

Whatever the form of organisation chosen (Chairman and Chief Executive Officer or Chief Executive Officer), the General Management is required to provide each Director with all the documents and information required to carry out their duties.

More specifically, the General Management provides the Board members with useful information in connection with the preparation of meetings, or at any time during the life of the Company if the importance or urgency of the information so requires. This provision of ongoing information also includes any relevant information concerning the Company, and in particular press articles and reports containing financial analysis.

The General Management gives the Board and its Committees the possibility to meet with the senior managers of L'Oréal within the strict framework of their remits and duties. In consultation with the General Management, the Board and the Committees may use external consultants if they consider it necessary.

The Board is informed, at the time of closing of the annual financial statements and the review of the interim financial statements or at any other time if necessary, of the Company's financial situation and cash position.

## 2. COMPOSITION OF THE BOARD

### 2.1. The Directors

The Directors of the Company:

- ◆ provide their expertise and professional experience;
- ◆ are required to act with due care and attention and participate actively in the work and discussions of the Board;
- ◆ have complete freedom of judgement.

This freedom of judgement enables them in particular to participate, in total independence, in the decisions and work of the Board, and, where appropriate, of its committees.

#### 2.1.1. Independence

The Board reviews the independence of each of its members every year, after obtaining the opinion of the Appointments and Governance Committee, in particular in light of the independence criteria in the AFEP-MEDEF Code and taking account of the specificities of L'Oréal. The findings of this evaluation are reported to the shareholders and made available to the general public.

#### 2.1.2. Diversity

The Board considers the issue of the desirable balance of its composition and that of its committees, notably in the representation of men and women, nationalities and diversity of skills. The objectives, terms and conditions and results of its policy in this area are made public in the Report of the Chairman approved by the Board and included in the Registration Document.

#### 2.1.3. Renewal of tenures

The length of the term of office of Directors is four years. However, the staggering of the terms of office is organised in order to avoid renewal of too many Directors all at once and favour the harmonious renewal of the Directors.

In principle, it is agreed by the Board members that all Directors will tender their resignation to the Board prior to the General Shareholders' Meeting following their 73rd birthday and that they will no longer apply for renewal of their tenure if this rule does not enable them to perform their office for at least two years.

In any event, in accordance with French law and the Articles of Association, the total number of Directors who are over 70 years of age may not exceed one third of the Directors in office.

### 2.2. The Chairman of the Board

The Board of Directors must elect a Chairman from among its members.

The Chairman of the Board organises and oversees the Board's work and reports thereon to the General Shareholders' Meeting.

He sets the dates and the agenda for Board meetings and leads the discussions.

The Chairman is actively involved in defining the Company's growth strategy and encourages and strengthens, *inter alia*, links between the Company and the main market players.

The Chairman oversees the work of the Company's bodies responsible for corporate governance and ensures, in particular, that the Directors are able to perform their duties. He may ask for the communication of any document or information that is likely to assist the Board of Directors in preparing for its meetings.

The Chairman of the Board must use his best efforts to promote the values and image of the Company at all times. He expresses his views in that capacity.

He is provided with the material resources required to perform his duties.

The Chairman of the Board takes care, particularly in the event of separation of roles, to develop and maintain a trustful and regular relationship between the Board and the General Management, in order to guarantee continuous, ongoing implementation by the General Management of the orientations defined by the Board.

### 3. RIGHTS AND OBLIGATIONS OF THE DIRECTORS

#### 3.1. Knowledge of and compliance with regulatory texts, recommendations and obligations

Each of the members of the Board declares that they have read the following documents:

- ◆ the Company's Articles of Association;
- ◆ the legal and regulatory texts that govern French *sociétés anonymes* within the framework of the functioning of a Board of Directors and in particular the rules relating to:
  - the number of offices that may be held simultaneously;
  - the agreements and transactions concluded between the Director and the Company;
  - the definition of the powers of the Board of Directors;
  - the holding and use of inside information, which are set out hereafter in point 3.6.;
  - the recommendations defined in the AFEP-MEDEF Code;
- ◆ L'Oréal's Code of Ethics;
- ◆ L'Oréal's Stock Market Code of Ethics;
- ◆ and the provisions of these Rules.

#### 3.2. Respect for the interests of the Company

The Directors are required to act in all circumstances in the interest of the Company and all its shareholders.

The Directors are under the obligation of notifying the Board of all situations constituting a conflict of interest, even if such conflict is only potential, and must refrain from participating in the corresponding deliberations.

The Directors inform the Board every year of the offices and positions they hold in other companies and of any conflicts of interest, even if they are only potential, that they have identified (see Annual Report on independence under Article 4.4).

The Board furthermore discusses every year the assessment of whether or not the business relationships maintained between the companies in which the Directors hold their offices and the Company are significant. It reports on its evaluation in the Registration Document.

#### 3.3. Obligation of diligence and provision of information

The Director must devote the necessary time and attention to his/her duties.

He/she must limit the number of offices held so as to ensure his availability.

A Director must not hold more than four other terms of office in listed companies outside the Group, including foreign companies. The Director concerned is given enough time to bring his/her situation into compliance with this rule, where required.

The Director must keep the Board informed of the terms of office held in other companies, including his/her participation on the Board Committees of such French or foreign companies.

An executive officer must not hold more than two tenures as Director in listed companies outside the Group, including foreign companies. The Director must ask for the Board's opinion before accepting a new corporate office in a listed company.

Each Board member undertakes to be diligent:

- ◆ by attending all Board meetings, where necessary by means of videoconference or telecommunication facilities, except in the case of a major impediment;
- ◆ by attending, wherever possible, all the General Shareholders' Meetings;
- ◆ by attending the meetings of the Board Committees of which he/she is a member.

In connection with decisions to be made, the Director must ensure that he/she has all the information he/she considers as essential for the smooth conduct of the work of the Board or the committees. If this information is not made available to him/her, or he/she considers that it has not been made available, he/she must request such information from the Chairman of the Board who is required to ensure that the Directors are in a position to perform their duties.

#### 3.4. Training for Directors

All the Directors, and in particular those representing the employees, may benefit, on their appointment or throughout their directorship, from the appropriate training programmes for the performance of the office.

These training programmes are organised and proposed by the Company and are provided at its expense.

#### 3.5. Obligation of reserve and confidentiality

The Directors undertake not to express themselves individually other than in the internal deliberations of the Board on questions raised at Board meetings.

Outside the Company, only collegial expression is possible, particularly in the form of releases intended to provide the markets with information.

With regard to information not in the public domain to which the Director has access as a result of his duties, the Director must consider him/herself to be bound by strict professional confidentiality, which is more demanding than the mere legal obligation of discretion. This obligation applies to all persons called on to attend Board meetings, and covers all information of a confidential nature and all

information presented as confidential by the Chairman of the Board.

Beyond this legal obligation and to ensure the quality of the discussions of the Board of Directors, all the information given to Board members and the opinions they express have to be kept strictly confidential. This obligation applies to any person invited to attend a Board meeting.

### 3.6. Stock market ethics

#### 3.6.1. Principles

The Company has put in place a "Stock Market Code of Ethics" that is regularly updated, in particular to take into account changes in the regulations in force. This code was updated following the applicability, as from 3 July 2016, of European regulation (EU) No. 596/2014 on market abuse (the "Market Abuse Regulation"). The Board members comply with the Principles of Stock Market Ethics "related to inside information" provided for by this code.

Inside information must only be used by the Director in the exercise of his office. Such information must in no case be communicated to a third party other than in the exercise of the Director's duties, and for any other purpose or any other activity than those for which it is held.

It is the duty of all Directors to refrain from trading in, having others trade in, or enabling others (including through recommendations or encouragements) to trade in the securities of the Company on the basis of this information, until such time as the information has been made public.

It is the personal responsibility of each Director to determine whether the information he/she holds is inside information or not, and accordingly whether he/she may or may not use or transmit any of the information, and whether he/she may or may not trade or have others trade in the Company's securities.

#### 3.6.2. Abstention periods

During the period preceding the publication of any inside information to which Directors have access, in their capacity of insiders, the members of the Board must by law refrain from all trading in L'Oréal securities.

Furthermore, in accordance with the Market Abuse Regulation and the recommendations of the French Financial Markets Authority (AMF), they are prohibited from trading in the Company's shares over the following periods:

- ◆ a minimum of 30 calendar days before the date of publication of the press release on the annual and half-year results;
- ◆ a minimum of 15 calendar days before the date of publication of the press release on quarterly financial information.

The Directors are only authorised to trade in L'Oréal shares the day after the date of publication of the press release.

#### 3.6.3. Insider trading

The Director has been informed of the provisions in force relating to the holding of inside information, insider trading and the unlawful disclosure of inside information: Articles 465-1 *et seq.*, L. 621-14 and L. 621-15, III c of the French Monetary and Financial Code and Articles 7 *et seq.* of the Market Abuse Regulation.

#### 3.6.4. Obligation of reporting trading in the securities of the Company

In accordance with the applicable regulations, the Directors and closely associated persons, as defined by Article 3.1.26 of the Market Abuse Regulation, must inform the AMF of<sup>(1)</sup> all acquisitions, sales, subscriptions or exchanges involving the Company's shares and of transactions involving related instruments where the cumulative amount of such transactions is higher than €20,000 for the prevailing calendar year.

The Directors and closely associated persons must submit their declarations to the AMF by e-mail within 3 trading days following completion of the transaction.

These individuals must simultaneously provide a copy of this declaration to the Secretary of the Company's Board of Directors.

The declarations are then posted on the AMF's website and are mentioned in an annual summary set out in the Company's Management Report.

#### 3.6.5. Appointment of an Internal Stock Market Ethics Advisor

L'Oréal has appointed an Internal Stock Market Ethics Advisor.

He is responsible for assisting, in confidence, any person who so requests, with the analysis and assessment of their situation, without prejudice to the principle of personal accountability.

### 3.7. Holding of a minimum number of shares

In accordance with the AFEP-MEDEF Code and independently of any obligation to hold shares under the Articles of Association, the Directors must personally be shareholders of the Company and hold a significant number of shares.

Each Director shall own at least 1,000 shares in the Company. On the date of his/her appointment by the Annual General Meeting, every Director must hold at least 500 shares, with the remainder to be acquired at the latest within the next 24 months.

(1) On the AMF's secure website called ONDE after requesting identifiers by email sent to the following address [ONDE\\_Administrateur\\_Deposant@amf-france.org](mailto:ONDE_Administrateur_Deposant@amf-france.org).



The decision as to whether the shares held by the Director should be registered or deposited, in full or in part, is the responsibility of the Director.

This stock ownership obligation is not applicable to the Directors representing the employees.

## 4. MODUS OPERANDI OF THE BOARD OF DIRECTORS

### 4.1. Convening the Board

The Board is convened by any appropriate means. Notices convening a meeting may be transmitted by the Secretary of the Board of Directors. They are sent in writing at least eight days prior to each meeting, except in particular circumstances. The notices specify the venue of the meeting, which may be the registered head office or any other venue.

All the documents that are necessary to inform the Directors about the agenda and about any questions submitted to the Board for review are enclosed with the notice convening the meeting or are sent or provided to them within a reasonable period of time, prior to the meeting.

These documents may be provided to them on a secure digital platform, within a reasonable period of time prior to the meeting. They may in exceptional cases be provided at the meeting.

### 4.2. Board meetings and method of participation

The Board meets as often as required in the best interest of the Company, and at least five times per year.

The dates of the Board meetings for the following year are set no later than the beginning of the summer, except in the case of Extraordinary Meetings.

The frequency and length of Board meetings must be such that they allow for an in-depth review and discussion of the matters that fall within the scope of the remits of the committees.

The Directors meet once a year without the presence of the executive officer, the Directors representing the employees or any other Group employee.

In accordance with the legal and regulatory provisions and with Article 9 paragraph 2 of the Articles of Association, Directors who take part in Board meetings by means of videoconference or telecommunication facilities are deemed to be present for the purpose of calculating the quorum and the majority.

These means must guarantee simultaneous, continuous retransmission of the debates.

However, these means of participation are excluded when the Board so decides and in any event when it decides with regard to closing

of the Company's parent company and consolidated financial statements and on the preparation of the Management Report.

A Director who participates by means of videoconference or teletransmission must ensure that the confidentiality of the debates is preserved.

The attendance register mentions the Board members who attend Board meetings by means of videoconference or telecommunication facilities, with the Secretary of the meeting having the task of initialling the register for them.

### 4.3. Minutes of the Board meetings

Minutes are prepared for each Board meeting.

The minutes of the meeting mention the use of videoconference or telecommunication facilities and the name of each person who participated in the Board by such means. The minutes also indicate whether any technical incidents occurred during a meeting held by means of videoconference or telecommunication facilities, if such incidents disrupted the course of the meeting.

The minutes of the deliberations include a summary of the debates and specify the decisions that were made. They mention the questions raised or the reservations expressed by participants.

The draft minutes of the last Board meeting are sent or given to all the Directors at the latest on the date when the next meeting is convened.

The Secretary of the Board is empowered to issue and certify copies or extracts of the minutes of Board meetings.

### 4.4. The Secretary of the Board

The Secretary is appointed by the Board. He/she assists the Chairman in organising the Board's work and in particular with regard to the definition of the annual work programme and the dates of Board meetings.

With the support of the General Management, he/she ensures the quality and production, sufficiently in advance, of the documents and drafts put to the vote of the Board at its meetings.

He/she prepares the draft minutes of Board meetings, which are submitted for the Board's approval.

He/she is responsible for the secure IT platform made available to the Directors.

He/she monitors on an ongoing basis changes in the regulations and reflections in the marketplace with regard to the corporate governance of listed companies.

The Secretary organises, together with the Chairman, the annual evaluation of the Board's work and receives the Annual Reports on independence by each Director (see Article 3.2).

Every Director may consult the Board Secretary at any time with regard to the scope of the rights and obligations linked to his/her office.

#### 4.5. Annual evaluation of the *modus operandi* of the Board

Every year, the Board carries out an evaluation of its ability to respond to the expectations of the shareholders by reviewing its composition, its organisation and its *modus operandi*.

At its last meeting for the year and on the basis of a summary of the interviews that are previously organised and conducted with each Director, on the basis of a guide which includes the recommendations adopted by the AFEP-MEDEF Code, the Board discusses points of view and opinions expressed. It draws the conclusions from this with the aim of improving the conditions for the preparation and organisation of its work and that of its committees.

The results of the evaluation, with the avenues of progress that remain open, are passed on to the shareholders in the Annual Report and at the time of the General Shareholders' Meeting.

## 5. BOARD COMMITTEES

When the Board sets up committees, it appoints the members of these committees and determines their duties and responsibilities.

These committees act within the remit granted to them by the Board and therefore have no decision-making power. The committees may not at any time take over the powers of the General Management as set out in chapter 1.2.2. of these Rules.

The committee members are Directors. They are appointed by the Board in person and may not be represented. All Board members have the necessary qualifications due to their professional experience. They actively take part in Committee meetings with complete freedom of judgement and in the interest of the Company.

The task of secretary of each committee is carried out by a person appointed in agreement with the Chairman/Chairwoman of the committee. It may also be performed by the Secretary of the Board.

Each committee defines the frequency of its meetings. These meetings are held at the Company's registered head office or at any other place decided by the Chairman/Chairwoman of the committee.

The Chairman/Chairwoman of each committee prepares the agenda for each meeting.

The committees may make contact, in the performance of their duties, with the Company's main senior managers, in agreement with the Chairman of the Board and after informing the General Management and will report on such contacts to the Board.

The Board may entrust a committee Chairman/Chairwoman, or one or more of its members, with a special assignment or project to carry out specific research or study future possibilities. The designated individual will report on this work to the committee concerned such that

the committee may deliberate on this work and in turn report thereon to the Board.

For each Committee meeting, its members may decide to invite any other person of their choice to attend as needs be and on an advisory basis, when they consider it appropriate.

In its field of competence, each committee makes proposals and recommendations and expresses opinions as the case may be. For this purpose, it may carry out or have carried out any studies that may assist in the deliberations by the Board. When they use the services of external consultants, the committees must ensure that their service is objective.

### 5.1. Strategy and Sustainable Development Committee

#### 5.1.1. Remit

The remit of the Strategy and Sustainable Development Committee is to throw light, through its analyses and debates, on the Group's strategic orientations as submitted to the Board of Directors and to monitor the implementation and advancement of significant operations in progress.

The committee examines:

- ◆ the main strategic lines of development, options and projects presented by the General Management, and their economic, financial, societal and environmental consequences;
- ◆ opportunities for acquisitions or investments which involve significant amounts or which represent a departure from the Group's usual business operations, and the conditions relating to their implementation;
- ◆ financial transactions liable to significantly change the balance sheet structure;
- ◆ the Company's commitments with regard to Sustainable Development, in light of the issues specific to the Group's business activities and its objectives, and the means and resources put in place;
- ◆ the proposed strategic orientations to be defined by the Board with a view to consultation of the Central Works Council.

More generally, the committee debates all questions considered essential for the future strategy of the Group and for preserving its main financial balances.

#### 5.1.2. Work organisation

It meets when convened by the Chairman/Chairwoman of the committee whenever he/she or the Board considers this appropriate.

The agenda of the meetings is set by the Chairman/Chairwoman of the committee, in conjunction with the Board of Directors if the Board initiates the meeting.

The Strategy and Sustainable Development Committee reports on its work to the Board whenever necessary, and at least once a year.

## 5.2. The Audit Committee

### 5.2.1. Remit

The Audit Committee, acting under the responsibility of the members of the Board, is responsible for monitoring issues relating to the preparation and control of accounting and financial information, the Internal Control and risk management systems, and questions relating to the Statutory Auditors.

The Audit Committee must make sure that the General Management has at its disposal the means to enable it to identify and manage the economic, financial and legal risks facing the Group inside and outside France in carrying out its normal or exceptional operations.

Without prejudice to the areas of authority of the Board of Directors, this committee is responsible in particular for:

- ◆ carrying out the process for preparation of financial information and, where applicable, making recommendations to guarantee the integrity thereof;

the committee is informed of the accounting rules applicable within the Group. Any issues that may be encountered in the due and proper application of such rules are referred to it. It examines any proposal for a change in accounting standards or in accounting methods and keeps itself informed in particular with regard to accounting standards at national and international level;

the review of the accounts by the Audit Committee is accompanied by a presentation by the Vice-President, Finance describing the Company's significant off-balance sheet commitments;

- ◆ monitoring the efficiency of the Internal Control and risk management systems, and Internal Audit, in order to obtain reasonable assurance with regard to their effectiveness and their coherent application;

it is also responsible for monitoring the Group's main risk exposures and sensitivities. The committee reviews, in particular, the programme and objectives of the Internal Audit Department and reviews the main topics that it identifies as well as the Internal Control systems methods and procedures used;

each year it reviews the section of the Management Report relating to "risk factors" and the Report of the Chairman of the Board relating to Internal Control and risk management procedures;

the Audit Committee's review of the financial statements is accompanied by a presentation by the Vice-President, Finance describing the Company's exposure to significant risks;

- ◆ monitoring the performance of the statutory audit in respect of the annual and, where applicable, the consolidated accounts by the Statutory Auditor;

It reviews the audit plan and the Statutory Auditors' work programme, the results of their audits, their recommendations and the follow-up action taken further to such recommendations;

it reviews the breakdown of the fees billed by the Statutory Auditors between audit services as such, audit-related work and any other services they provide;

it takes into account the findings and conclusions of the *Haut Conseil du Commissariat aux Comptes* (the Superior Council of Statutory Auditors) following the audits carried out pursuant to Articles L. 821-9 *et seq.* of the French Commercial Code;

- ◆ making sure that the Statutory Auditors comply with their independence requirements;

it makes a recommendation with regard to the Statutory Auditors proposed for appointment by the Annual General Meeting, and makes further recommendations for the renewal of such appointments, in accordance with Article L. 823-3-1 of the French Commercial Code;

- ◆ approving the provision of the non-audit services provided by the Statutory Auditors, referred to in Article L. 822-11-2 of the French Commercial Code, in accordance with the "Code of Conduct for the provision of services that may be entrusted to the Statutory Auditors of the L'Oréal Group and to their networks" approved by the Audit Committee at its meeting on 6 December 2016 and approved by the Board of Directors at its meeting on 9 February 2017;

it makes a decision on this issue after having analysed the risks with regard to the independence of the Statutory Auditors and the protection measures they apply. The committee can thus approve each non-audit service on a case-by-case basis or approve a set of services;

- ◆ reporting regularly to the Board on the performance of its remit. It also reports on the repercussions of the audit engagement, the way in which this engagement contributed to the integrity of financial information and the role that it played in this process. The committee informs the Board of Directors without delay of any difficulty encountered.

This monitoring enables the committee to issue recommendations, if necessary, concerning the improvement of existing processes and the possible setting up of new procedures.

The Audit Committee can be consulted for all questions relating to procedures for controlling risks of an unusual nature, particularly when the Board or the General Management considers it appropriate to submit such questions to it.

### 5.2.2. Composition

All the Directors who are members of this committee have the necessary qualifications due to their professional experience and their good knowledge of the Group's accounting and financial procedures.

As soon as they are appointed, the members of the Audit Committee must receive specific information on the Company's accounting, financial or operational particularities.

The appointment or renewal of the Chairman/Chairwoman of the Audit Committee, proposed by the Appointments and Governance Committee, must be the subject of a specific review by the Board.

The Chairman and Chief Executive Officer or the Chief Executive Officer is not a member of the Audit Committee.

### 5.2.3. Work organisation

The Chairman/Chairwoman of the Audit Committee issues guidelines for the committee's work each year, based on his/her judgement concerning the importance of the specific types of risk faced, in agreement with the General Management and the Board.

The committee meets when convened by its Chairman/Chairwoman, whenever the Chairman or Board considers this appropriate.

The agenda of the meetings is set by the Chairman of the committee, in relation with the Board if the latter initiated the convening of the meeting. The agenda is sent to the committee members before the meeting, together with the information which is useful for their debates.

To carry out its remit successfully, the Audit Committee may also, in agreement with the General Management, obtain information from people who are able to assist it in the performance of its tasks, and in particular senior managers in charge of economic and financial issues and those in charge of information processing.

#### 5.2.3.1. Relations with the Statutory Auditors

The committee regularly interviews the Statutory Auditors, including outside the presence of management.

The Statutory Auditors inform the Audit Committee of:

- ◆ the general work programme implemented as well as the various sampling tests they have carried out;
- ◆ the changes which they consider should be made to the financial statements to be approved or other accounting documents, making any appropriate observations on the valuation methods used to prepare them;
- ◆ the irregularities and inaccuracies they may have discovered;
- ◆ the conclusions resulting from the above observations and rectifications with regard to the results for the period compared to those for the previous period.

The Statutory Auditors also assess, with the Audit Committee, the risks with regard to their independence and the protective measures taken to mitigate these risks. For this purpose, the committee obtains a statement of independence from the Statutory Auditors.

They inform the committee of significant Internal Control weaknesses, with regard to the procedures for preparation and processing of accounting and financial information, and provide it with the documents required by law every year.

#### 5.2.3.2. Activity Report

The Audit Committee regularly reports to the Board on the performance of its remit and takes note of the Board's observations.

The committee informs the Board without delay of any difficulty encountered.

In its report, the Audit Committee makes the recommendations it considers appropriate with regard to:

- ◆ the suitability of the various procedures and of the system as a whole in terms of achieving the objective of managing information and risk;
- ◆ the effective application of the procedures in place, and where appropriate the means implemented to achieve this aim.

It also formulates in its report all recommendations and proposals aimed at improving the effectiveness of the various procedures or at adapting them to a new situation.

If during its work, the committee detects a substantial risk which in its view is not adequately taken into account, it warns the Chairman of the Board accordingly.

## 5.3. Appointments and Governance Committee

### 5.3.1. Remit

The main tasks of the Appointments and Governance Committee, within the context of the work of the Board, are to:

- ◆ review and propose to the Board candidates for appointment as new Directors;
- ◆ provide the Board with clarifications on the conditions of performance of General Management and the status of the executive officers;
- ◆ issue an opinion on proposals made by the Chairman of the Board for the appointment of the Chief Executive Officer;
- ◆ ensure the implementation of a procedure for the preparation of succession plans for the executive officers in the event of an unforeseen vacancy;
- ◆ ensure the application of the AFEP-MEDEF Code to which the Company refers;
- ◆ discuss governance issues related to the functioning and organisation of the Board;
- ◆ decide on the conditions in which the regular evaluation of the Board is carried out;
- ◆ discuss the classification of Directors as independent which is reviewed by the Board every year prior to publication of the Annual Report;
- ◆ conduct a review of the committees that are in charge of preparing the Board's work;

- ◆ prepare for the decisions by the Board with regard to updating its Internal Rules.

### 5.3.2. Work organisation

The committee meets when convened by its Chairman/Chairwoman, whenever the Chairman or Board considers this appropriate.

The agenda of the meetings is set by the Chairman of the committee, in relation with the Board if the latter initiated the convening of the meeting.

The committee may meet at any time it considers to be appropriate, for example to assess the performance of the Company's senior managers.

The Chairman of the Board is associated with its work, except with regard to all the topics concerning him personally.

The committee must regularly report on its work to the Board and makes proposals to the Board.

## 5.4. The Human Resources and Remuneration Committee

### 5.4.1. Remit

The Board freely determines the remuneration of the Chairman, the Chief Executive Officer and the Deputy Chief Executive Officers.

Within this framework, the main tasks of the Human Resources and Remuneration Committee are to make proposals with regard to the following in particular:

- ◆ the fixed and variable remuneration of the Chairman of the Board and any other benefits he receives;
- ◆ the fixed and variable remuneration of the Chief Executive Officer and any other benefits he receives (pension, termination indemnities, *etc.*);
- ◆ the total amount of attendance fees to be submitted to the General Shareholders' Meeting and the method of distribution of such fees;
- ◆ the implementation of Long-Term Incentive plans, such as, for example, those that could provide for the distribution of stock options or for free grants of shares.

The committee looks at the questions relating to the remuneration of the executive officers outside their presence.

The committee also examines:

- ◆ all of the other components of the Human Resources policy including employee relations, recruitment, diversity, talent management and fostering employee loyalty. As part of this review, the committee is informed, in particular, of the remuneration policy for the main non-executive corporate officers;
- ◆ the rules of ethical conduct, as set out in the Code of Business Ethics, and the Group's strong values, such as respect and integrity, that must be widely disseminated, known and put into practice.

### 5.4.2. Work organisation

The committee meets when convened by its Chairman/Chairwoman, whenever the Chairman or Board considers this appropriate. The agenda of the meetings is set by the Chairman of the committee, in relation with the Board if the latter initiated the convening of the meeting.

The committee may meet at any time it considers to be appropriate, for example to assess the performance of the Company's senior managers.

The Chairman of the Board is associated with its work, except with regard to all the topics concerning him personally. The committee is required to report regularly on its work to the Board and make proposals to the Board.

## 6. REMUNERATION OF DIRECTORS

The Directors receive attendance fees in the amount approved by the vote at the Ordinary General Meeting, and which are allocated as decided by the Board.

The method of allocation of attendance fees comprises a predominant variable portion determined on the basis of the regularity of attendance at Board and Committee meetings.

The Board of Directors may award exceptional remuneration for specific assignments or projects entrusted to the Directors and subject to regulated agreements.

The Directors have the possibility of asking for reimbursement of the expenses necessary for the performance of their corporate office upon presentation of supporting documents.

## 2.4. REMUNERATION OF THE MEMBERS OF THE BOARD OF DIRECTORS

The Directors receive attendance fees in the maximum amount approved by the vote at the Ordinary General Meeting, and which are allocated as decided by the Board.

### 2.4.1. RULES FOR ALLOCATION IN RESPECT OF THE 2017 FINANCIAL YEAR

The amount of attendance fees divided between the Directors includes a predominant variable portion depending on the degree of regularity in attending meetings, in accordance with the provisions of the AFEP-MEDEF Code.

The Board adopted the following rules for a full year:

Board of Directors	Fixed annual sum	Amount per Board meeting	Total amount for the Board of Directors (on the basis of 6 meetings a year)
	€30,000	€6,500	€69,000

Board Committees	Fixed annual amount (40%)	Variable annual amount (60%)*	Total amount per committee**
Audit	€10,000	€15,000	€25,000
Strategy and Sustainable Development	€6,000	€9,000	€15,000
Appointments and Governance	€4,000	€6,000	€10,000
Human Resources and Remuneration	€4,000	€6,000	€10,000

\* Allocated on the basis of the rate of attendance at Committee meetings.

\*\* On the basis of a 100% attendance rate.

The attendance fees allocated to the Chairman/Chairwoman of each of these committees are doubled and also consist of a fixed part of 40% and a variable part of 60%.

### 2.4.2. AMOUNTS PAID IN RESPECT OF THE 2017 FINANCIAL YEAR

A total amount of €1,311,300, which falls within the maximum overall amount of €1,450,000 voted by the Annual General Meeting on 17 April 2014, was distributed to the Directors at the beginning of 2018 in respect of the 2017 financial year, for a total of seven meetings of the Board of Directors (including one non-remunerated meeting) and 18 Committee meetings.

The average attendance rates at meetings in 2017 are 96.4% for the Board of Directors, 100% for the Strategy and Sustainable Development Committee, 100% for the Audit Committee, 100% for the Appointments and Governance

Committee and 97% for the Human Resources and Remuneration Committee.

It should be noted that the Board of Directors recorded the wish expressed by Mr. Jean-Paul Agon in 2014 to forego attendance fees in his capacity as Chairman and Chief Executive Officer.

Mr. Jean-Paul Agon thus receives no attendance fees from companies of the L'Oréal Group.

## | AMOUNTS OF ATTENDANCE FEES ALLOCATED (€)

Directors	2017 financial year (total of 7 meetings and 18 Committee meetings)	2016 financial year (total of 6 meetings and 17 Committee meetings)
Mr. Jean-Paul Agon	0	0
Mrs. Françoise Bettencourt Meyers	84,000	75,000
Mr. Peter Brabeck-Letmathe *	24,000	95,000
Mr. Paul Bulcke *	80,000	-
Mr. Jean-Pierre Meyers	104,000	95,000
Mrs. Ana-Sofia Amaral	79,000	70,000
Mrs. Sophie Bellon	114,000	85,000
Mr. Charles-Henri Filippi	124,000	105,500
Mr. Xavier Fontanet	84,000	77,500
Mrs. Belén Garijo	71,300	63,800
Mrs. Béatrice Guillaume-Grabisch	94,000	68,750
Mr. Bernard Kasriel	84,000	83,000
Mr. Georges Liarokapis	94,000	85,000
Mr. Jean-Victor Meyers	94,000	85,000
Mrs. Virginie Morgon	119,000	97,500
Mrs. Eileen Naughton	62,000	45,000
<b>TOTAL</b>	<b>1,311,300</b>	<b>1,131,050 <sup>(1)</sup></b>

\* Director whose term of office began or ended during the 2017 financial year.

(1) This amount does not include the attendance fees paid to Directors whose term of office ended in 2016.

### 2.4.3. RULES FOR ALLOCATION IN RESPECT OF THE 2018 FINANCIAL YEAR

In order to maintain the appeal of the Board, taking into account intercontinental travel, and in order to remunerate the Directors for their attendance at additional Board meetings, the Board, on the recommendation of the Human Resources and Remuneration Committee, has decided to propose, at the Annual General Meeting of 17 April 2018, to revise the maximum amount of annual attendance fees, set at €1,450,000 since 2014 and to increase the amount to a maximum €1,600,000.

The authorisation would replace that granted by the Annual General Meeting in 2014.

As of 2018, the attendance fees for Directors whose tax residence is located outside of Europe would be increased to €10,000 per Board meeting instead of €6,500. The attendance fees paid for taking part in the Appointments and Governance Committee and the Human Resources and Remuneration Committee, currently set at €10,000 per year, would be increased to €11,500 per year (of which 60% based on attendance).

## 2.5. REMUNERATION OF THE EXECUTIVE OFFICERS

### 2.5.1. REPORT ON THE PRINCIPLES AND CRITERIA FOR THE DETERMINATION, ALLOCATION AND DISTRIBUTION OF THE REMUNERATION APPLICABLE TO THE EXECUTIVE OFFICERS, IN RESPECT OF THEIR CORPORATE OFFICE, AS PROVIDED FOR BY ARTICLE L. 225-37-2 OF THE FRENCH COMMERCIAL CODE

Pursuant to Article L. 225-37-2 of the French Commercial Code, as introduced pursuant to the law relating to transparency, the fight against corruption and the modernisation of economic life known as the Sapin II law, the Annual General meeting of 17 April 2018 is called upon to approve, by voting on resolution n°. 10 in chapter 7 of this document, on the basis of this report, the principles and criteria for the determination, allocation and distribution of the fixed, variable and exceptional components of total remuneration and benefits of all kinds that may be granted to the executive officers<sup>(1)</sup> for their corporate office.

It is specified, pursuant to Article L. 225-37-2, that the payment of the variable and exceptional components, in respect of the 2017 financial year, is conditional on the approval thereof by the Annual General meeting of 17 April 2018.

At the present time, Mr Jean-Paul Agon, in the capacity of Chairman and Chief Executive Officer, is the only executive officer concerned by this report.

#### 2.5.1.1. Fundamental principles for determination of the remuneration of the executive officers

The Board refers, in particular, to the recommendations of the AFEP-MEDEF Code for the determination of the remuneration and benefits granted to the executive officers.

In accordance with these recommendations, it makes sure that the remuneration policy complies with the principles of comprehensiveness, balance, comparability, consistency, transparency and proportionality, and takes into account market practices.

#### *Appointment as executive officers of employees who have completely succeeded in the various stages of their careers in the Group*

L'Oréal's constant practice has been to appoint as executive officers employees who have completely succeeded in the various stages of their careers in the Group.

The remuneration policy applicable to the executive officers is the logical result of this choice.

It must make it possible to attract the most talented employees of L'Oréal to the very top positions in General Management, without them being deprived for all that, after a long career in the Group, of the benefits to which they would have continued to be entitled had they remained employees.

To achieve this objective, the Board of Directors decided to maintain the employment contract of the executive officers who have at least 15 years of length of service in the Group and ensured that the benefits under the suspended employment contract are not combined with those in respect of the corporate office.

This is why the Board of Directors has decided to make a clear distinction between:

- ♦ firstly, the remuneration components related to the corporate office that are the subject matter of this report: fixed and variable remuneration and grant of performance shares;

The policy adopted by the Board for each of these components and the breakdown thereof are set out in sections 2.5.1.2. of this chapter;

- ♦ secondly, the other benefits that may be due pursuant to the suspended employment contract and calculated on the basis of the remuneration on the date of suspension of the employment contract: termination indemnities, retirement indemnities in the event of voluntary retirement or retirement at the Company's request, financial consideration for the non-competition clause and the defined benefit pension scheme.

All these benefits do not relate to the corporate office and are therefore not covered by this report. The Chairman and Chief Executive Officer's benefits were approved by the Annual General meeting on 27 April 2010 deciding on the basis of the Statutory Auditors' Special Report. Information relative to benefits attached to suspended employment contract are developed in section 2.5.2 of this chapter.

#### *Remuneration that is consistent with that of the Company's senior managers*

The executive officers' remuneration policy is in line with the policy which was applied to them as senior manager.

It is based on the same foundations and the same instruments as those applied to the Company's executive officers. The remuneration principles are therefore stable and durable.

The Board of Directors is informed every year of the Group's Human Resources Policy. It is in a position to verify the consistency between the executive officer's remuneration and the arrangements put in place, in particular, for the members of the Group's Executive Committee, on the basis of the work by the Human Resources and Remuneration Committee and the Appointments and Governance Committee.

(1) The executive officers of a French "société anonyme à conseil d'administration" (i.e. limited company with a Board of Directors) are the following: the Chairman of the Board of Directors who is responsible for the Company's general management or the Chairman & Chief Executive Officer, the Chief Executive Officer and the Deputy Chief Executive Officers.



### **Competitive remuneration in comparison to a coherent and stable reference panel**

The remuneration of the executive officers must be competitive in order to attract, motivate and retain the best talents in the top positions in the Company.

This remuneration is assessed overall, namely by taking into account all the components that make it up.

To assess the competitiveness of this remuneration, a coherent and stable reference panel is defined with the assistance of an external consulting firm.

It is made up of French and international companies that hold the position of global leader. These companies operate on similar markets and are, in the cosmetics sector, direct competitors of L'Oréal, or operate on the wider everyday consumer goods market, as regards all or part of their business activities.

For 2018, the panel consists of the remuneration of the executives of the following companies:

Coty	Kimberly Clark	Reckitt Benckiser	Beiersdorf	Danone
GSK	Henkel	LVMH	Unilever	Colgate Palmolive
Estée Lauder	Johnson & Johnson	Procter & Gamble		

This panel is re-examined every year by the Human Resources and Remuneration Committee in order to check its relevance. It may evolve, to take into account the changes in the structure or business activities of the selected companies, on the basis of the proposals made by the external firm.

### **Remuneration that is directly linked to the Company's strategy**

#### **a) Close links with the strategy**

The remuneration policy applied to the executive officers is directly linked to the Group's strategy.

It supports its development model. It promotes harmonious, regular, durable growth, both over the short and long-term.

The Board of Directors' constant desire is indeed to incite the General Management both to maximise performance for each financial year and to ensure that it is repeated and regular year-on-year.

#### **b) Performance targets that are directly correlated with those of the Company and create value**

The Board of Directors chooses to correlate the executive officer's performance directly with the Company's performance by using the same performance indicators, in particular of a financial nature.

The choice of correlating the performance criteria for the executive officer's remuneration with the Company's performance indicators, particularly those of a financial nature, is the guarantee of a decipherable, relevant remuneration policy.

These criteria make it possible to assess L'Oréal's intrinsic performance, namely its progress year-on-year via internal performance indicators and also its relative performance as compared to its market and its competitors via external growth indicators.

The objectives adopted generate long-term value creation. In particular, the choice of varied operational financial criteria aims at encouraging durable, balanced growth. An overall long-term performance results from the convergence of these criteria.

These objectives also have to be an incentive for the executive officer to adapt the Group's strategy to the profound transformations in the world of beauty, and the digital revolution in particular.

#### **c) Predominant share of remuneration subject to performance conditions**

The executive officers' remuneration has to include a predominant portion subject to performance conditions, with annual and multi-annual assessment periods adapted to the time horizon of each of these objectives.

### **Remuneration that is directly in line with the Group's ambitious social, societal and environmental commitments**

The remuneration must be designed to favour a regular and sustainable development, in line with the Group's commitments with regard to ethics, and respectful towards the environment in which L'Oréal operates.

The annual variable portion of the remuneration is based on extra-financial criteria, in particular relating to environmental and societal commitments and Human Resources, which will be assessed year-on-year in a long-term perspective.

### **Remuneration that creates medium or long-term value for the shareholders**

The executive officers' remuneration must be linked to the changes over the medium to long-term in the Company's intrinsic value and in share performance.

A significant portion of the executive officers' remuneration thus consists of performance shares, a significant percentage of which is retained until the end of their corporate office, with the undertaking not to carry out risk hedging transactions.

This leads to alignment with the shareholders' interests, understood as long-term value creation (see paragraph 6.5.2.2. on total shareholder return).

### 2.5.1.2. Policy with regard to fixed and variable remuneration and grant of performance shares

#### *The allocation key for the annual remuneration*

The executive officer's annual remuneration consists of fixed remuneration, annual variable remuneration and the grant of performance shares.

It does not include any exceptional components.

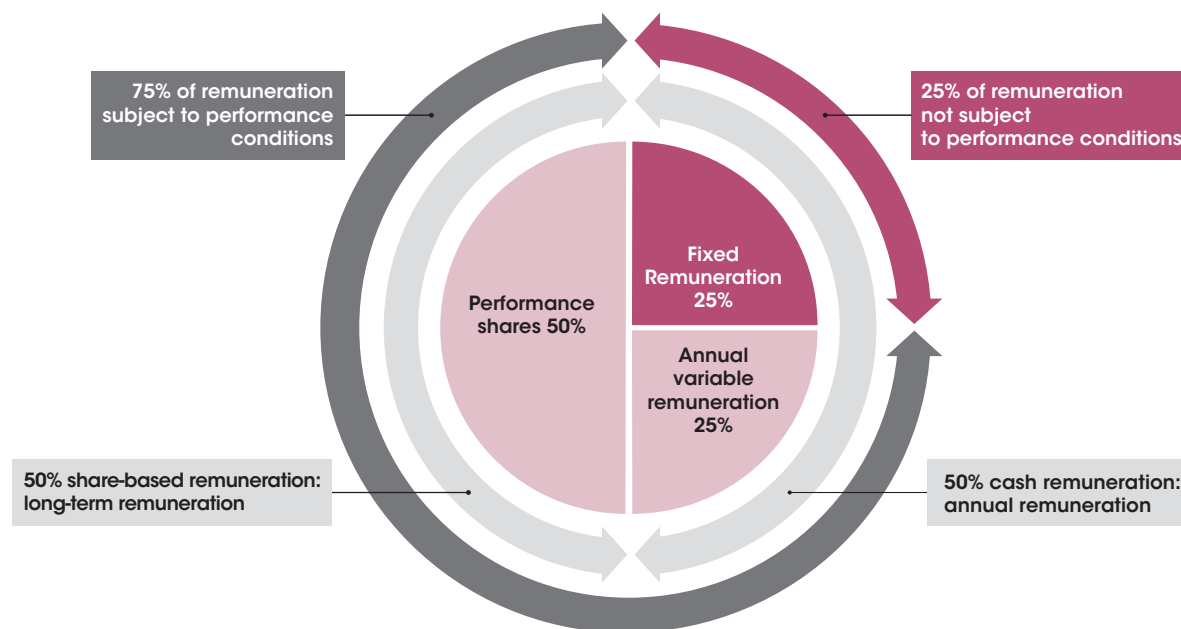
The Board of Directors adopts the various components of this remuneration, paying attention to the necessary balance between each of them.

Each component of annual remuneration corresponds to a well-defined and clearly substantiated objective.

The various components of annual remuneration form a balanced whole with a breakdown that is approximately:

- ◆ 50/50 between fixed and annual variable remuneration on the one hand and long-term remuneration (performance shares) on the other;
- ◆ 50/50 between cash remuneration and share-based remuneration;
- ◆ 75/25 between remuneration subject to performance conditions and remuneration not subject to performance conditions.

#### DIAGRAM SHOWING THE BALANCE BETWEEN THE DIFFERENT COMPONENTS OF ANNUAL REMUNERATION



N.B.: the employer's contributions to the additional social protection plans are to be added to the above.

#### *Fixed remuneration*

The fixed remuneration must reflect the responsibilities of the executive officer, his level of experience and his skills.

It is stable for several years and may be re-examined at the time of renewal of the term of office. It serves as a basis to determine the maximum percentage of annual variable remuneration.

#### *Annual variable remuneration*

Annual variable remuneration is expressed as a percentage of fixed remuneration and can amount to up to a maximum of 100% of the fixed remuneration.

It must not lead to taking inappropriate, excessive risks. For this purpose, it must remain reasonable in comparison with the fixed portion.

It is designed to align the remuneration allocated to the executive officer with the Group's annual performance and to promote the implementation of its strategy year after year.

The variable remuneration is based on precise performance appraisal criteria determined at the beginning of the year by the Board of Directors.

It consists for 60%, of financial criteria that are directly correlated with the Company's performance indicators:

- ◆ growth in like-for-like sales as compared to the budget;

- ◆ growth in market share as compared to the main competitors;
- ◆ growth in operating profit as compared to the previous year;
- ◆ growth in net earnings per share as compared to the previous year;
- ◆ growth in cash flow as compared to the previous year.

And for 40% of:

- ◆ extra-financial criteria related, in particular, to progress in the *Sharing Beauty With All* sustainable development programme and implementation of the Human Resources and digital development policy;
- ◆ as well as qualitative criteria.

The financial and extra-financial criteria are simple and quantifiable. They represent a predominant portion of the annual variable remuneration.

A limit on the qualitative portion is set every year.

The weighting of each of the criteria and the objectives to be met are set at the beginning of the year concerned and communicated to the executive officer.

### Other benefits

#### a) Award of performance shares

Since 2009, the Board of Directors has awarded performance shares to employees of the Group and, since 2012, also to its executive officer, within the scope of Articles L. 225-197-1 *et seq.* of the French Commercial Code and the authorisations voted by the Annual General meeting.

The objective of these awards is to encourage achievement of the Group's long-term objectives and the resulting value creation for the shareholders. Consequently, the final vesting of the shares is subject to performance conditions which are recorded at the end of a vesting period of four years as from the date of grant.

The value of these shares, estimated at the date of grant according to the IFRS applied for the preparation of the consolidated financial statements, represents approximately 50% of the executive officer's total remuneration and may not exceed 60%.

The Board of Directors reserves the possibility to decide on an additional grant if a particular event justifies it. This potential grant to the executive officer, duly documented by the Board of Directors, cannot exceed the annual ceiling of 10% of the total number of free shares granted in respect of that same financial year.

The executive officer is required to retain 50% of the free shares finally allocated to him at the end of the vesting period, in registered form, until the termination of his duties.

The executive officer makes a formal undertaking not to enter into any risk hedging transactions with regard to the performance shares, until the end of the holding period set by the Board of Directors.

An executive officer may not be awarded performance shares at the time of his departure.

#### Performance conditions

The performance criteria concern all the shares granted to the executive officer.

They take into account partly:

- ◆ growth in like-for-like cosmetics sales of L'Oréal as compared to a panel of L'Oréal's major direct competitors;
- ◆ growth in L'Oréal's consolidated operating profit.

The Board of Directors considers that these two criteria, assessed over a long period of 3 full financial years and reapplied to several plans, are complementary, in line with the objectives and specificities of the Group and are of a nature to promote continuous, balanced long-term growth. They are exacting but remain a source of motivation for the beneficiaries.

The shares only vest at the end of a four-year period, allowing sufficient time to be able to assess the performance achieved over three full financial years.

#### Thresholds for final vesting:

Pursuant to the criterion relating to sales, in order for all the free shares granted to finally vest for the beneficiaries at the end of the vesting period, L'Oréal must outperform the average growth in sales of the panel of competitors consisting of the following companies: Unilever, Procter & Gamble, Estée Lauder, Shiseido, Beiersdorf, Johnson & Johnson, Henkel, LVMH, Kao and Coty. Below this level, the grant decreases. The Board defines a threshold, not made public for confidentiality reasons, below which no share will finally vest pursuant to this criterion.

Pursuant to the criterion related to operating profit, in order for all the free shares granted to finally vest at the end of the vesting period, a level of growth defined by the Board, but not made public for confidentiality reasons, must be met or exceeded. Below that level, the grant decreases. If the operating profit does not increase in absolute value over the period, no share will finally vest pursuant to this criterion.

The results recorded each year to determine the levels of performance achieved are published in chapter 6.

**HISTORY OF THE ACHIEVEMENT OF PERFORMANCE CONDITIONS**

Performance share plan dated:	17/04/2012	26/04/2013	17/04/2014
Arithmetical average of performances for financial years	2013-2014-2015	2014-2015-2016	2015-2016-2017
For 50%: growth in like-for-like cosmetics sales as compared to a panel of competitors	+1.1 point *	+1.07 point *	+ 0.73 point*
For 50%: growth in the Group's operating profit**	+7.02%	+6.59%	+6.43%
<b>Performance shares granted</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

\* Panel of competitors: Unilever, Procter & Gamble, Estée Lauder, Shiseido, Beiersdorf, Johnson & Johnson, Henkel, LVMH, Kao, Revlon and Elizabeth Arden. Estimates before Revlon publication.

\*\* Restatement of Galderma and Innéov in 2014.

**Consequences on the performance shares in the event of departure**

The right to the performance shares is lost in the event of departure from the Group due to resignation (other than in the case of termination of corporate office in connection with the exercise of pension rights under applicable retirement regimes) or termination for gross misconduct or gross negligence. In any case, the final vesting of the shares remains subject to achievement of the performance conditions.

The choice made by the Board of maintaining, except in the above-mentioned cases, the entitlement to the grants of performance shares to the executive officer in the event of departure prior to expiry of the vesting period is motivated by the following considerations. The performance shares represent a predominant component of the executive officer's annual remuneration assessed during their year of grant; they are the consideration for the performance of his corporate office subject to the achievement of long-term performances. The maintenance thereof incites the executive officer to take a long term view.

The same rules apply to all of the beneficiaries of these plans.

**b) Attendance fees**

The Board of Directors can decide to pay attendance fees to the executive officer. In such cases, they would be paid in accordance with the same rules as those applicable to the other Directors.

**c) Benefits additional to remuneration**

- Benefits in kind

There are no plans to supplement the executive officer's fixed remuneration by granting benefits in kind.

The executive officer benefits from the necessary material resources for performance of his office such as, for example, the provision of a car with a chauffeur. These arrangements, which are strictly limited to professional use, are not benefits in kind.

- Additional social protection schemes

The executive officer continues to be treated in the same way as a senior manager during the term of his corporate office which allows him to continue to benefit from the additional social protection schemes and, in particular, from the employee benefit and healthcare schemes applicable to the Company's employees.

The amount of the employer's contributions concerning the defined contribution pension scheme will be deducted from the pension due in respect of the defined benefit pension in accordance with the provisions of this collective scheme.

### 2.5.1.3. Breakdown of the components of remuneration for the 2018 financial year applicable to Mr Jean-Paul Agon, only executive officer concerned by this Report

	Amount	Description																												
<b>Fixed remuneration</b>	€2,200,000	At its meeting of 8 February 2018, and on the proposal of the Human Resources and Remuneration Committee, the Board of Directors decided to maintain Mr Jean-Paul Agon's fixed remuneration at the gross amount of €2,200,000 on an annual basis.																												
<b>Variable annual remuneration</b>	Cap 100% of the fixed remuneration	<p>The annual variable remuneration is designed to align the executive officer's remuneration with the Group's annual performance and to promote the implementation of its strategy year after year.</p> <p>It is expressed as a percentage of fixed remuneration and this percentage may reach a maximum of 100% of fixed remuneration.</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">CRITERIA FOR ASSESSMENT OF THE PERFORMANCE FOR 2018</th> <th style="text-align: right;">Weightings</th> </tr> </thead> <tbody> <tr> <td>◆ <b>FINANCIAL CRITERIA</b></td> <td style="text-align: right;"><b>60%</b></td> </tr> <tr> <td>◆ Growth in like-for-like sales as compared to the budget</td> <td style="text-align: right;">15%</td> </tr> <tr> <td>◆ Growth in market share as compared to the main competitors</td> <td style="text-align: right;">15%</td> </tr> <tr> <td>◆ Growth in operating profit as compared to 2017</td> <td style="text-align: right;">10%</td> </tr> <tr> <td>◆ Growth in net earnings per share as compared to 2017</td> <td style="text-align: right;">10%</td> </tr> <tr> <td>◆ Growth in cash flow as compared to 2017</td> <td style="text-align: right;">10%</td> </tr> <tr> <td>◆ <b>EXTRA-FINANCIAL AND QUALITATIVE CRITERIA</b></td> <td style="text-align: right;"><b>40%</b></td> </tr> <tr> <td>◆ <i>Quantifiable criteria allocated in equal portions for the following criteria:</i></td> <td style="text-align: right;"><i>25%</i></td> </tr> <tr> <td>1/3 CSR (Sharing Beauty With All programme): Innovating sustainably, Producing sustainably, Living sustainably; Sharing our growth;</td> <td></td> </tr> <tr> <td>1/3 Human Resources: Gender parity, Talent development, Access to training;</td> <td></td> </tr> <tr> <td>1/3 Digital Development;</td> <td></td> </tr> <tr> <td>◆ <i>Individual qualitative performance:</i></td> <td style="text-align: right;"><i>15%</i></td> </tr> <tr> <td>Management, Image, Company reputation, Dialogue with stakeholders.</td> <td></td> </tr> </tbody> </table> <p>The quantifiable, financial (60%) and extra-financial (25%) criteria account for 85% of annual variable remuneration. The weighting of each of these criteria, both financial, extra-financial and qualitative, and the targets to be met were set at the start of the year and communicated to the executive officer. The assessment is made without offsetting among criteria. Pursuant to Article L. 225-37-2 of the French Commercial Code, payment of the annual variable remuneration is conditional on approval by the Annual General meeting called to approve the 2018 financial statements.</p>	CRITERIA FOR ASSESSMENT OF THE PERFORMANCE FOR 2018	Weightings	◆ <b>FINANCIAL CRITERIA</b>	<b>60%</b>	◆ Growth in like-for-like sales as compared to the budget	15%	◆ Growth in market share as compared to the main competitors	15%	◆ Growth in operating profit as compared to 2017	10%	◆ Growth in net earnings per share as compared to 2017	10%	◆ Growth in cash flow as compared to 2017	10%	◆ <b>EXTRA-FINANCIAL AND QUALITATIVE CRITERIA</b>	<b>40%</b>	◆ <i>Quantifiable criteria allocated in equal portions for the following criteria:</i>	<i>25%</i>	1/3 CSR (Sharing Beauty With All programme): Innovating sustainably, Producing sustainably, Living sustainably; Sharing our growth;		1/3 Human Resources: Gender parity, Talent development, Access to training;		1/3 Digital Development;		◆ <i>Individual qualitative performance:</i>	<i>15%</i>	Management, Image, Company reputation, Dialogue with stakeholders.	
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<b>Other benefits</b>		<p>Concerning the grant of performance shares in 2018, the Board will be called upon to decide on the implementation of a new plan within the scope of the authorisation requested from the General meeting on 20 April 2016.</p> <p>The allocation which would be decided in favour of Mr Jean-Paul Agon would comply with the recommendations of the AFEP-MEDEF Code of November 2016 and, in particular, that relating to the value of the shares granted which should not deviate from L'Oréal's prior practices: the value of the grant (estimated according to IFRS), represents approximately 50% of the executive officer's total remuneration without exceeding 60%.</p> <p>Mr Jean-Paul Agon is also required to hold 50% of the free shares that are finally allocated to him at the end of the vesting period, in registered form, until the termination of his duties.</p> <p>The final vesting of these shares is subject to the fulfilment of performance conditions which would be recorded at the end of a 4-year vesting period commencing from the date of grant.</p> <p>The number of shares that finally vests would depend, for half of them, on growth in like-for-like cosmetics sales compared to those of a panel of competitors, which is composed of Unilever, Procter&amp;Gamble, Estée Lauder, Shiseido, Beiersdorf, Johnson &amp; Johnson, Henkel, LVMH, Kao, Coty; and for the other half, on growth in the consolidated operating profit of the L'Oréal Group.</p> <p>The calculation would be based on the arithmetic average for the three full financial years of the vesting period. The first full year taken into account for assessment of the performance conditions relating to this grant would be 2019.</p> <p>Concerning the criterion related to sales, in order for all the free shares granted to finally vest for the beneficiaries at the end of the vesting period, L'Oréal has to outperform the average growth in sales of the panel of competitors. Below that level, the grant decreases. The Board defines a threshold, which is not made public for confidentiality reasons, below which no share finally vests pursuant to this criterion.</p> <p>Concerning the criterion related to operating profit, a level of growth, defined by the Board, but not made public for confidentiality reasons, must be met or exceeded in order for all the free shares granted to finally vest for the beneficiaries at the end of the vesting period. Below this level, the grant decreases. If the operating profit does not increase in absolute value over the period, no share will finally vest pursuant to this criterion.</p>																												
◆ <b>Performance shares</b>																														
◆ <b>Attendance fees</b>	€0	Mr Jean-Paul Agon did not wish to receive attendance fees in his capacity as Chairman and Chief Executive Officer.																												
◆ <b>Benefits in addition to remuneration</b>		<p>◆ <b>Benefits in kind</b></p> <p>Mr Jean-Paul Agon benefits from the necessary material resources for performance of his office such as, for example, the provision of a car with a chauffeur. These arrangements, which are strictly limited to professional use, to the exclusion of all private use, are not benefits in kind.</p> <p>◆ <b>Additional social protection schemes: defined contribution pension, employee benefit and healthcare schemes</b></p> <p>Mr Jean-Paul Agon continues to be treated in the same way as a senior manager during the entire term of his corporate office which allows him to continue to benefit from the additional social protection schemes and, in particular, the employee benefit and healthcare schemes applicable to the Company's employees. The amount of the employer's contributions concerning the defined contribution pension scheme will be deducted from the pension due in respect of the defined benefit pension in accordance with the provisions of this collective scheme. The continuation of this treatment was approved by the Annual General meeting on 27 April 2010.</p>																												

## 2.5.2. TERMINATION INDEMNITIES AND PENSION SCHEME

These benefits are not related to performance of the corporate office, but could be due under the suspended employment contract.

### 2.5.2.1. Maintenance of the employment contract and separation of the benefits attached to the employment contract on the one hand and to the corporate office on the other

The AFEP-MEDEF Code to which L'Oréal refers, recommends, but does not mandatorily require, that companies should put an end to the practice of combining an employment contract with a corporate office.

L'Oréal's Board of Directors shares the objectives of this recommendation which aims at avoiding the possibility of concurrently obtaining benefits both from the employment contract and the corporate office and at prohibiting any interference with the possibility of removing executive officers *ad nutum*. The Board of Directors has formally provided for the methods of application of the objectives of the recommendation, as adapted to the context in the L'Oréal Group.

The Board's intention is to use the treatment set out below for any new corporate officer appointed who has over 15 years' length of service in the Group at the time of his appointment.

As L'Oréal's ongoing policy is to appoint employees who have completely succeeded in the various stages of their careers in the Group as executive officers, the Board does not want these executives to be deprived of the benefits to which they would have continued to be entitled had they remained employees, after spending many years of their career at L'Oréal.

The Board of Directors has considered that the objective pursued by the AFEP-MEDEF recommendation could be fully achieved by maintaining the suspension of the employment contract and clearly separating out the benefits related to the employment contract on the one hand from those relating to the corporate office on the other.

Remuneration in respect of the corporate office will in no event be taken into consideration for calculation of the indemnities due pursuant to the collective agreement and the Company-level agreements applicable to all L'Oréal's senior managers.

The remuneration under the suspended employment contract to be used to calculate all the rights attached thereto, and in particular for the calculation of the defined-benefit pension, will be established on the basis of the remuneration at the date of suspension of the contract. This remuneration will be revised every year by applying the revaluation coefficient in respect of salaries and pension contributions published by the French State pension fund.

The length of service applied will take into consideration the entire career, including the years spent as an executive officer.

### 2.5.2.2. Termination indemnities, retirement indemnities in the event of voluntary retirement or retirement at the Company's request, financial consideration for the non-competition clause

In the event of departure, and depending on the reasons for such departure, the executive officer will only be paid the termination indemnities, except in the event of gross misconduct or gross negligence, or the retirement indemnities in the event of voluntary retirement or retirement at the Company's request due pursuant to the employment contract that has been suspended, to the exclusion of any indemnity due in respect of the corporate office.

These indemnities, which are attached solely to termination of the employment contract and in strict application of the National Collective Agreement for the Chemical Industries and the Company-level agreements applicable to all L'Oréal's managers, are due in any event pursuant to the public policy rules of French labour law. They are not subject to any condition other than those provided for by the National Collective Agreement for the Chemical Industries or the above-mentioned company-level agreements. The same applies to the non-competition clause and the related financial consideration.

### 2.5.2.3. Defined benefit pension scheme

The executive officer, subject to ending his career in the Company, will benefit from one of the defined benefit pension schemes currently applicable to the Group's senior managers. This is the scheme to which he was subject as an employee.

The main features of these schemes, which fall under Article L. 137-11 of the French Social Security Code, are as follows:

- ◆ they concern all the senior managers of L'Oréal in France, whether active or retired, thereby involving more than 500 people;
- ◆ the minimum length of service requirement for access to the schemes is 10 years;
- ◆ the increase in the potential rights takes place over a long period of time, from 25 to 40 years depending on the scheme in question;
- ◆ the reference period taken into account for the calculation of the benefits is three years; the average of the amounts of remuneration for the best three years out of the last seven years is used;
- ◆ the schemes are financed by contributions paid to an insurance institution. These contributions are deductible from corporate income tax and are subject to the employer's contribution as provided by Article L. 137-11.2°a) of the French Social Security Code at a rate of 24%.

In the light of the legal characteristics of defined benefit pension schemes (the rights only accrue if the beneficiary ends his career in the Company and the funding of this scheme cannot be broken down individually by employee) and on account of the characteristics specific to the L'Oréal schemes, known as "differential" schemes since they take into account, in order to supplement them, all the other pensions such as those resulting, *inter alia*, from the French basic and supplementary pension schemes, the precise amount of the pension annuity will in fact only be calculated on the date when the beneficiary applies for all his pensions.

#### 2.5.2.4. Situation of Mr Jean-Paul Agon

Mr Jean-Paul Agon, then Deputy Chief Executive Officer, was appointed as Chief Executive Officer in April 2006, following a brilliant career spanning 27 years with L'Oréal.

The Board of Directors noted that if, in accordance with the AFEP-MEDEF recommendation, Mr Jean-Paul Agon's employment contract with L'Oréal was to be terminated, Mr Agon would lose the status he had acquired as a result of the 27 years he spent working for the Group as an employee.

The Board did not want Mr Jean-Paul Agon, who accepted the office of Chief Executive Officer after 27 years working with L'Oréal, to be deprived of the benefits to which he would have continued to be entitled had he remained an employee, and adopted the following measures:

#### *Maintenance of the employment contract and separation of the benefits attached to the employment contract on the one hand and to the corporate office on the other*

The remuneration under the suspended employment contract to be taken into account for all the rights attached thereto, and in particular for the calculation of the defined benefit pension referred to below, is based on the amount of remuneration at the date of suspension of the contract in 2006, namely fixed remuneration of €1,500,000 and variable remuneration of €1,250,000.

This remuneration is reviewed every year by applying the revaluation coefficient in respect of salaries and pension contributions published by the French State pension fund. As of 1 January 2018, fixed remuneration amounts to €1,684,500 and variable remuneration to €1,403,750.

The length of service applied takes into consideration his entire career, including the years during which he was Chief Executive Officer and Chairman and Chief Executive Officer.

<p><b>Termination indemnity and non-competition indemnity</b></p>	<p><b>Payment solely of the termination indemnities due pursuant to the employment contract to the exclusion of any indemnity in the event of termination of the corporate office</b></p> <p>Payment of the indemnities due under the suspended employment contract was approved by the Annual General meeting on 27 April 2010.</p> <p>In the event of departure, and depending on the reasons, Mr Jean-Paul Agon would only be paid the dismissal indemnities, except in any event pursuant to the public policy rules of French labour law. They are not subject to any condition other than those provided for by the National Collective Agreement for the Chemical Industries or the above-mentioned company-level agreements. The same applies to the non-competition clause and the related financial consideration.</p> <p>Pursuant to the schedule of indemnities under the National Collective Agreement for the Chemical Industries, in the event of dismissal, except in the event of gross misconduct or gross negligence, the indemnity would be capped, in light of Mr Jean-Paul Agon's length of service, at 20 months' remuneration under the suspended employment contract.</p> <p>In respect of the employment contract, pursuant to the provisions of the National Collective Agreement for the Chemical Industries, in the event of termination of the employment contract, the indemnity due in consideration of the non-competition clause would be payable every month for two years on the basis of two-thirds of the monthly fixed remuneration attached to the suspended employment contract unless Mr Jean-Paul Agon were to be released from application of the clause.</p> <p>For information purposes, the cumulative amount of the indemnity provided for under the collective bargaining agreement and the indemnity in consideration of the non-competition clause which would have been due to Mr Jean-Paul Agon had his employment contract ended on 31 December 2017 through termination, except in the event of gross misconduct or gross negligence, would have represented an amount of less than 24 months of the fixed and variable remuneration which he received in 2017 as an executive officer.</p>
<p><b>Supplementary pension scheme</b></p>	<p><b>Maintenance of entitlement to the defined benefit pension scheme for the Group's senior managers</b></p> <p>Mr Jean-Paul Agon benefits, under his suspended employment contract, from the <i>Garantie de Retraite des Membres du Comité de Conjoncture</i> (Pension Cover of the Members of the <i>Comité de Conjoncture</i>) scheme closed on 31 December 2000. The main features of this scheme, which falls under Article L. 137-11 of the French Social Security Code, are as follows:</p> <ul style="list-style-type: none"> <li>◆ around 120 senior managers (active or retired) are concerned;</li> <li>◆ the minimum length of service requirement was 10 years at the time of closure of the scheme on 31 December 2000;</li> <li>◆ the Pension Cover may not exceed 40% of the calculation basis, plus 0.5% per year for the first twenty years, then 1% per year for the following twenty years, nor may it exceed the average of the fixed portion of the remuneration for the three years used as the calculation basis out of the last seven years prior to the end of the beneficiary's career in the Company;</li> <li>◆ the Guarantee is financed by contributions paid to an insurance institution. These contributions are deductible from corporate income tax and are subject to the employer's contribution as provided by Article L. 137-11,2°a) of the French Social Security Code at a rate of 24%.</li> </ul> <p>For information purposes, the estimated amount of the pension that would be paid to Mr Jean-Paul Agon, under L'Oréal's "<i>Garantie de Retraite des Membres du Comité de Conjoncture</i>" scheme, had he been able to apply for a full-rate pension from the French social security scheme on 31 December 2017, after 39 years' length of service at L'Oréal, would be €1.57 million, <i>i.e.</i> around 37% of the fixed and variable remuneration he received as an executive officer in 2017.</p> <p>This information is given as an indication after estimating the main pension entitlements accrued by Mr Jean-Paul Agon, at 65 years of age, as a result of his professional activities, according to the rules regarding the application for payment of such pensions in force at 31 December 2017 and which may be subject to change.</p> <p>The amount of the pension paid to Mr Jean-Paul Agon, under L'Oréal's <i>Garantie de Retraite des Membres du Comité de Conjoncture</i> scheme will in fact only be calculated on the date when he applies for all his pensions.</p> <p>As a reminder, the rights to the defined benefit pension are uncertain and conditional on the beneficiary ending his career in the Company. The funding of this scheme by L'Oréal cannot be broken down individually by employee.</p>

The above provisions are subject to the regulated agreements and commitments procedure. The corresponding agreement was approved by the Annual General meeting on 27 April 2010 making a decision with regard to the Special Report prepared by the Statutory Auditors. The provisions of this agreement remained unchanged within the scope of the appointment of Mr Jean-Paul Agon as Chairman and Chief Executive Officer as from 18 March 2011 and the renewal of his term of office on 17 April 2014. This is the only agreement entered into and authorised in previous years for which performance continued during the 2017 financial year. Pursuant to Article L. 225-40-1 of the French Commercial Code, this agreement was examined by the Board of Directors on 8 February 2018, which confirmed the relevance and terms thereof.

Pursuant to Article L. 225-22-1 of the French Commercial Code as amended by the law of 6 August 2015 on economic growth, activity and equal opportunities, the provisions of the suspended employment contract representing defined benefit pension scheme commitments for the period of service in the corporate office are subject to the scheme provided for by Article L.225-42-1 of the French Commercial Code.

These legal provisions are applicable for the first time at the time of renewal of the tenure of Mr Jean-Paul Agon, the Chairman and Chief Executive Officer, about which the Board of Directors will decide following the Annual General meeting of 17 April 2018.

The Board of Directors, at its meeting of 8 February 2018, approved the implementation of the provisions of Mr Jean-Paul Agon's employment contract for the duration of the renewed corporate office, as approved by the Annual General meeting on 27 April 2010, corresponding to defined benefit pension scheme commitments as described in paragraph 2.5.2.3. of this document. The Board of Directors has subordinated the increase in conditional rights for the period to the achievement of the performance conditions, assessed in light of the Company's performance.

It should be noted that, pursuant to the provisions of the employment contract suspension agreement corresponding to defined benefit pension commitments for the period of service of the new tenure, the Chairman and Chief Executive Officer will benefit from:

- ◆ revaluation of the calculation basis of his pension based on the revaluation coefficient for salaries and pension contributions published by the Caisse Nationale d'Assurance Vieillesse (French State pension fund); and
- ◆ the inclusion of his seniority corresponding to the number of years of service in the renewed corporate office, until such

time as Mr Jean-Paul Agon will reach the 40-year seniority ceiling provided for by the scheme, *i.e.*, 1 September 2018. He will not be granted any other additional annuities.

Pursuant to Article L. 225-42-1 of the Commercial Code, the Board of Directors, on the basis of the proposals made by the Human Resources and Remuneration Committee, has decided to take into account the same performance as that retained to determine the annual variable remuneration of the executive officer.

The increase for a financial year will depend on the achievement of at least 80% of the performance targets taken into account to determine the annual variable remuneration of Mr. Jean-Paul Agon. In the event that the 80% threshold is not met, no increase will be granted for the financial year.

Pursuant to Article L. 225-42-1 of the French Commercial Code, the Board of Directors will verify, on an annual basis, compliance with the conditions that it set and will determine, for that year, before the Ordinary General meeting called to approve the financial statements of the last financial year, the increase in the conditional entitlements for the Chairman and Chief Executive Officer corresponding to commitments for the defined benefit pension scheme for the duration of the renewed corporate office.

The Board of Directors submits for approval to the Annual General Meeting on 17 April 2018, the application of the provisions of the suspended employment contract to calculate the entitlement of Mr Agon to receive the defined pension benefit scheme, for the duration of the renewed corporate office.

In so doing, the Board of Directors has decided to continue with the policy it has always implemented at the Company, whereby employees who are appointed executive officers are not deprived of the benefits that they would have continued to receive if they had remained employees. This is the case with Mr Jean-Paul Agon, who is being appointed an executive officer after 27 years with L'Oréal.

The table set out below, presented in the form recommended by the AMF, clearly shows that there are no concurrent benefits under the suspended employment contract and the corporate office.

It is moreover stated that the AMF considers that a company complies with the AFEP-MEDEF Code when it explains the maintenance of the employment contract of a senior manager as being due to his length of service as an employee in the Company and his personal situation and provides detailed substantiation in this respect.



Mr Jean-Paul Agon <sup>(1)</sup> Chairman and Chief Executive Officer	Employment contract <sup>(2)</sup>		Supplementary pension scheme <sup>(3)</sup>		Indemnities or benefits due or which may become due as a result of termination or change of duties <sup>(4)</sup>		Indemnities relating to a non-competition clause <sup>(5)</sup>	
	Yes	No	Yes	No	Yes	No	Yes	No
	X		X			X	X	

(1) Mr Jean-Paul Agon has been a Director since 25 April 2006, the date on which he was appointed as Chief Executive Officer. His tenure was renewed at the Annual General meeting on 27 April 2010. Mr Jean-Paul Agon has been Chairman and Chief Executive Officer since 18 March 2011. His mandate was renewed on 17 April 2014 and is submitted once again to the Annual General Meeting of 17 April 2018.

(2) Mr Jean-Paul Agon's employment contract is suspended throughout the entire length of his corporate office.

(3) Pursuant to his employment contract, Mr Jean-Paul Agon is entitled to benefit from the Garantie de Retraite des Membres du Comité de Conjoncture (Pension Cover of the Members of the Comité de Conjoncture) as described in the chapter 3. This defined benefit pension scheme provides that the building up of rights to benefits is conditional on the beneficiary ending his career in the Company; the funding of this scheme by L'Oréal cannot be broken down individually by employee.

(4) No indemnity is due in respect of termination of the corporate office. In respect of the employment contract, pursuant to the schedule of indemnities of the National Collective Agreement for the Chemical Industries, in the event of termination, except in the case of gross misconduct or gross negligence, the termination indemnity would be capped, in light of Mr Jean-Paul Agon's length of service, at 20 months' remuneration related to the employment contract.

(5) In respect of the employment contract, pursuant to the provisions of the National Collective Agreement for the Chemical Industries, in the event of termination of the employment contract, the indemnity due in consideration of the non-competition clause would be payable every month for two years on the basis of two thirds of the monthly fixed remuneration related to the employment contract unless Mr Jean-Paul Agon were to be released from application of the clause.

### 2.5.3. PROCEDURE FOR SETTING THE REMUNERATION OF THE EXECUTIVE OFFICER

Remuneration is established in such a way as to guarantee the due and proper application of the policy and rules set by the Board of Directors. It bases its decision on the work and recommendations of the Human Resources and Remuneration Committee which has the necessary information to prepare its recommendations, and more particularly to assess the performances of the executive officer in light of the Group's short and long-term objectives.

#### 2.5.3.1. The Human Resources and Remuneration Committee uses the studies conducted by an independent consulting firm.

These studies are based on an international panel of world leaders, which will serve as a reference for the comparative remuneration studies. This panel is made up of executive officers of French and international companies with a position of world leader in comparable luxury and consumer goods industries (see paragraph 2.5.1.1.).

The studies conducted with the independent consulting firm also enable the committee to measure:

- ◆ the comparative results of L'Oréal in light of the criteria adopted by the Group to assess the executive officer's performance;
- ◆ the link between the executive officer's remuneration and his performance;
- ◆ the relevance over time of the remuneration structure and the objectives assigned to him.

#### 2.5.3.2. The Human Resources and Remuneration Committee has all useful internal information in its possession

This information enables it to assess the performance of the Company and that of its executive officer both from an economic standpoint and in extra-financial fields.

The Group's annual economic and financial results are presented every year completely and exhaustively to the members of the Human Resources and Remuneration Committee at its meeting in February, and are used as a basis for the assessment of the financial performance criteria for the executive officer's variable remuneration.

The principles of the Human Resources policy are regularly presented to the committee members or at a Board of Directors meeting by the Executive Vice-President Human Resources.

Similarly, the Senior Vice-President, Chief Ethics Officer, also regularly explains the policy and the actions taken in this field.

Two members of the Human Resources and Remuneration Committee are members of the Strategy and Sustainable Development Committee at which the actions taken with regard to the programmes concerning the Group's social and environmental responsibility are discussed.

This information contributes to the assessment of the qualitative portion of the annual variable remuneration.

The Chairman of the Human Resources and Remuneration Committee is a member of the Audit Committee and participates in the closing of the financial statements as well as the examination of the risk prevention policy.

The committee can also carry out a more in-depth evaluation of the Company's performance by contacting the Company's main senior managers, after informing the General Management.

This information enriches their vision of the strategy and performances of the Company and its executive officer.

The recommendations to the Board of Directors are made on these bases, and the Board then makes its decisions collectively concerning the executive officer's remuneration.

The organisation of the work of the Human Resources and Remuneration Committee concerning the remuneration of the executive officer is shown in the chart on the next page.

**2.5.3.3** The Committee examines the expectations of investors and proxy advisors, and the rules and recommendations of the regulatory authorities

It carefully analyses the law and reports concerning executive compensation, notably the Autorité des Marchés Financiers'

report on corporate governance and the compensation of executives of listed companies, and the report of the High Committee on Corporate Governance. It is mindful of the observations and requests of investors and strives to accommodate them while preserving consistency in the remuneration policy adopted by the Board and subject to constraints relating to the disclosure of confidential information.

**2.5.3.4. Chart of the organisation of the work of the Human Resources and Remuneration Committee concerning the remuneration of the executive officer**

February 2017	April 2017	October 2017	December 2017	February 2018
<p><b>Presentation of the 2017 study on the executive officer's remuneration carried out by an independent consulting firm including:</b></p> <ul style="list-style-type: none"> <li>composition of the panel, link between performance and remuneration, balance and structure of the remuneration.</li> </ul> <p><b>Recommendations concerning the 2016 remuneration:</b></p> <ul style="list-style-type: none"> <li>evaluation and setting of the variable remuneration after a review of the 2016 financial and extra-financial results;</li> <li>draft resolution on the Say On Pay.</li> </ul> <p><b>Recommendations concerning the 2017 remuneration:</b></p> <ul style="list-style-type: none"> <li>fixed remuneration;</li> <li>setting of the level of 2017 variable remuneration, the weight of the performance criteria and the objectives to be met;</li> <li>Draft resolution for the remuneration policy.</li> </ul> <p><b>Long-term incentive plans:</b></p> <ul style="list-style-type: none"> <li>assessment of the performance levels achieved for the ACA Plans vesting;</li> <li>reflection on the 2017 ACAs Plan.</li> </ul>	<p><b>Recommendations for the 2017 ACAs plan:</b></p> <ul style="list-style-type: none"> <li>policy and rules for grants including those applicable to the executive officer;</li> <li>list of beneficiaries including the executive officer;</li> <li>level of grants including those to the executive officer.</li> </ul>	<p><b>Reflection on 2018 remuneration policy:</b></p> <ul style="list-style-type: none"> <li>analysis of the vote on the ex ante and ex post resolutions on the remuneration of the executive officer (AGM of 20 April 2017);</li> <li>CAC40 benchmark practices.</li> </ul>	<p><b>Work on the resolution on the remuneration policy applicable to the executive officers:</b></p> <ul style="list-style-type: none"> <li>to be submitted to the 2018 Annual General Meeting.</li> </ul> <p><b>Analysis of the AMF and HCGE reports on executive remuneration issues.</b></p>	<p><b>Presentation of the 2018 study on the executive officer's remuneration carried out by an independent consulting firm including:</b></p> <ul style="list-style-type: none"> <li>composition of the panel, link between performance and remuneration, balance and structure of the remuneration.</li> </ul> <p><b>Recommendations concerning the 2017 remuneration:</b></p> <ul style="list-style-type: none"> <li>evaluation and setting of the variable remuneration after a review of the 2017 financial and extra-financial results;</li> <li>ex post draft resolution on Say On Pay</li> </ul> <p><b>Recommendations concerning the 2018 remuneration policy:</b></p> <ul style="list-style-type: none"> <li>including fixed remuneration, annual variable remuneration and award of performance shares;</li> <li>Draft resolution for the 2018 remuneration policy.</li> </ul> <p><b>ACAs Plans:</b></p> <ul style="list-style-type: none"> <li>assessment of the performance levels achieved for the 2014 ACAs Plan finally vesting;</li> <li>reflection on the 2018 ACAs Plan.</li> </ul>

## 2.5.4. REMUNERATION OF THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER DUE OR ALLOCATED WITH RESPECT TO 2017

### 2.5.4.1. Fixed remuneration

On the proposal of the Human Resources and Remuneration Committee, the Board of Directors decided on 9 February 2017 to maintain the fixed annual remuneration of Mr Jean-Paul Agon at a gross amount of €2,200,000.

### 2.5.4.2. Annual variable remuneration

Concerning Mr Jean-Paul Agon's annual variable remuneration for 2017, the objective had been set at a gross amount of €2,200,000, representing 100% of the fixed remuneration. This sum represents the maximum amount of variable remuneration that may be paid to him.

At its meeting on 9 February 2017, the Board of Directors had set the variable remuneration criteria applicable for 2017 and the respective weighting of such criteria. The financial criteria represent 60% of the variable remuneration while the extra-financial and qualitative criteria represent 40%. These financial criteria are directly correlated with the Company's economic performance indicators: growth in sales and market

share as compared to its main competitors, in operating profit, EPS and cash flow.

At its meeting on 7 February 2018, the Human Resources and Remuneration Committee assessed the performance of Mr Jean-Paul Agon with regard to each of the criteria set by the Board for allocation of the annual variable remuneration. The assessment is carried out on a criterion-by-criterion basis without offsetting among the criteria.

The tight correlation between the criteria selected and the economic performance of the Company requires strict confidentiality. The Board has decided not to disclose the rate of achievement of each of the criteria selected in order to avoid providing the competition with information about the operational implementation of its strategy. The achievement rate is provided for all of the financial criteria and for all of the extra-financial and qualitative criteria.

On the basis of the recommendations of the Human Resources and Remuneration Committee, the Board of Directors decided, at its meeting on 8 February 2018, to allocate €2,038,732 to Mr Jean-Paul Agon in respect of the 2017 annual variable remuneration.

This represents 92.7% of the maximum amount of variable remuneration that could be paid to him, respectively 91.1% for financial targets and 95.0% for extra-financial and qualitative targets.

## 2017 FINANCIAL TARGETS: 60% OF TOTAL ANNUAL VARIABLE REMUNERATION

FINANCIAL CRITERIA	WEIGHTING	2017
Comparable sales as compared to the budget	15%	€26,023.7 million*
Market share as compared to the main competitors**	15%	+0.4 point
Operating profit as compared to 2016	10%	€4,676.3 million or +3.0%
Net earnings per share as compared to 2016***	10%	€6.65 or +3.0%
Cash-flow**** as compared to 2016	10%	€3,969.8 million or +19.6%
<b>RATE OF ACHIEVEMENT OF FINANCIAL CRITERIA</b>		<b>91.1%</b>

\* Budget not disclosed for confidentiality reasons.

\*\* Panel of competitors: Unilever, Procter & Gamble, Estée Lauder, Shiseido, Beiersdorf, Johnson & Johnson, Henkel, LVMH, Kao and Coty.

\*\*\* Diluted net earnings per share attributable to owners of the Company from continuing operations excluding non-recurring items.

\*\*\*\* Operational cumulative cash flow = Cash provided by operating activities - Purchases of property, plant and equipment and intangible assets.

**2017 EXTRA-FINANCIAL AND QUALITATIVE TARGETS (40% OF TOTAL ANNUAL VARIABLE REMUNERATION)**

CSR CRITERIA: SHARING BEAUTY WITH ALL PROGRAMME	2017 RESULTS	2016 RESULTS*
<p>The Sharing Beauty With All programme was launched in October 2013 by Mr Jean-Paul Agon. It structures the Group's CSR strategy and sets ambitious targets to be met by 2020. This project consists of 4 pillars, for which the 2017 achievements are set out in detail in chapter 3.</p>		
<p><b>"Innovating Sustainably"</b> (see chapter 3 § 3.2.1.)</p> <ul style="list-style-type: none"> <li>Improved environmental or social benefit for 100% of our products.</li> </ul>	<ul style="list-style-type: none"> <li>76% of the new products analysed have an improved social or environmental profile.</li> </ul> <p>Note: Deployment in 2017 of "SPOT": a more comprehensive and demanding analysis tool that covers 14 criteria (Recommendations of the Product Environmental Footprint - European Commission)</p>	82 %
<p><b>"Producing Sustainably"</b> (see chapter 3 § 3.2.2.)</p> <ul style="list-style-type: none"> <li>-60% CO2 emissions</li> <li>-60% water consumption (plants and distribution centres)</li> <li>-60% waste generation</li> </ul>	<p>Reduction of our environmental footprint by (<i>versus</i> 2005):</p> <ul style="list-style-type: none"> <li>-73% CO<sub>2</sub> emissions</li> <li>-48% water consumption</li> <li>-37% waste generation by plants and distribution</li> </ul>	<p>- 67 %</p> <p>- 48 %</p> <p>- 35 %</p>
<p><b>"Living Sustainably"</b> (see chapter 3 § 3.2.3.)</p> <ul style="list-style-type: none"> <li>Each brand will have assessed its environmental and social footprint.</li> <li>Each brand will have reported on its progress and associated consumers with its commitments.</li> </ul>	<ul style="list-style-type: none"> <li>91% of brands have evaluated their impact.</li> <li>46% of brands have carried out an action to raise awareness among consumers.</li> </ul>	<p>90 %</p> <p>46 %</p>
<p><b>"Developing Sustainably"</b> (see chapter 3 § 3.2.4.)</p> <ul style="list-style-type: none"> <li>With employees (L'Oréal Share &amp; Care programme) 100% of L'Oréal employees around the world will have access to healthcare and social protection in 2020.</li> <li>With strategic suppliers:</li> <li>With communities:</li> </ul>	<ul style="list-style-type: none"> <li>96% of the Group's permanent employees have access to healthcare coverage reflecting the best practices in their country of residence.</li> <li>92% of the Group's permanent employees benefit from financial protection in the event of unexpected life events, such as death or total permanent disability.</li> <li>87% of them carried out a self-assessment of their Sustainable Development policy.</li> <li>Access to work for 53,505 people.</li> </ul> <p>Note: the 2016 figure included 20,728 beneficiaries <i>via</i> Community Trade The Body Shop, <i>i.e.</i> 46,805 beneficiaries on a 2016 like-for-like basis.</p>	<p>88 %</p> <p>85 %</p> <p>83 %</p> <p>67 533</p>
HUMAN RESOURCES CRITERIA	2017 RESULTS	2016 RESULTS
<p><b>Gender Balance</b></p> <ul style="list-style-type: none"> <li>Improving gender parity, in particular at the level of senior management positions.</li> </ul>	<p>33% of women on the Executive Committee.</p> <p>45% of key positions held by women.</p> <p>France: 2<sup>nd</sup> place in the 2017 "Féminisation des Instances dirigeantes" ranking (French Ministry of health, social affairs and women's rights) and Prix de la Parité des Instances Exécutives.</p> <p>Worldwide: 1<sup>st</sup> place in Equileap 2017 (first ranking of companies worldwide on compliance with parity criteria)</p>	<p>33 %</p> <p>42,6 %</p> <p>4<sup>th</sup> place</p> <p>N/A</p>
<p><b>Talent Development</b></p> <ul style="list-style-type: none"> <li>Positive policy results for the recruitment of both experienced and more junior talented employees, and talent development all over the world, in order to favour the emergence of local talent.</li> <li>Attractive, targeted, digital employer communication.</li> </ul>	<p>No. 8 in the Universum global ranking.</p> <p>Strong presence on social networks: 1.28 million followers on LinkedIn. Digital sourcing has become the first source of recruitment.</p> <p>Seven million visits to the loreal.com "Careers" page</p>	<p>no. 9 worldwide</p> <p>1 million</p>
<p><b>Access to training</b></p> <ul style="list-style-type: none"> <li>100% of employees will receive training once a year starting in 2020.</li> </ul>	<p>78% of employees received training in 2017.</p> <p>170,000 hours of digital training</p>	77 %

\* Based on data published in the 2016 Registration Document. Note that certain indicators were impacted by the disposal of The Body Shop

DIGITAL DEVELOPMENT CRITERIA	2017 RESULTS
<ul style="list-style-type: none"> <li>◆ Increase in sales achieved in e-commerce</li> <li>◆ Partnerships and innovation</li> <li>◆ Continuation of the Company's digital transformation: <ul style="list-style-type: none"> <li>◆ Training:</li> <li>◆ Continuation of the recruitment policy for business segment experts</li> </ul> </li> <li>◆ L2 Digital IQ ranking</li> </ul>	<ul style="list-style-type: none"> <li>◆ 3rd country in the Group in terms of sales (€2.1 billion representing +34%/2016) Implementation of a digital performance management tool in the 30 first countries of the Group.</li> <li>◆ Partnerships with start-ups: Founders Factory Partech, incubator at Station F, Modiface and Perfect Corp. Development of connected objects: launch of UV Sense, the first portable, battery-free electronic UV sensor. Development of the Hair Color 3D try on application launched by L'Oréal Professional</li> <li>◆ Over 15,500 people trained and assisted (2015-2017), via daily e-learning practices (more than 190,000 modules viewed), collaborative work sessions, reverse mentoring. Learning expedition by the Executive Committee to Seattle in November 2017. Digital skills test (DM1) used for all external and internal recruitment to develop personalised training plans.</li> <li>◆ L2 Digital IQ 2017 ranking: at least 3 Group brands in the Top 10 Beauty in China, the United States, Germany, the United Kingdom and France. 1 billion visitors to all of the Group's websites and 2.2 billion videos viewed on the Internet. 241 million L'Oréal brand social network followers (+30%/2016).</li> </ul>
QUALITATIVE CRITERIA	2017 RESULTS
Management	<ul style="list-style-type: none"> <li>◆ High retention rate for the Top 250.</li> <li>◆ Changes in the Executive Committee.</li> <li>◆ "Simplicity" programme: promote new ways of working, managing and interacting to further increase growth and improve the quality of life at work via a collaborative and cooperative approach. Training programme for 3,000 managers in 2017.</li> <li>◆ "Pulse" survey (internal employee opinion survey): improved results for 25 of the 28 questions asked in 2016.</li> </ul>
Image, Reputation, Dialogue with stakeholders.	<ul style="list-style-type: none"> <li>◆ Personal involvement in the Sharing Beauty With All programme and the L'Oréal Share &amp; Care programme, internally and with regard to the international experts and organisations involved with these projects.</li> <li>◆ L'Oréal came first in the Newsweek 2017 Global 500 Green Rankings which assess the performance of the largest groups in terms of Sustainable Development.</li> <li>◆ L'Oréal is one of only two companies in the world, among nearly 3,000, to have received three times a "A" rating from the Carbon Disclosure Project for the second year in a row, i.e., the highest score in three areas: the climate, sustainable water management and the fight against deforestation.</li> <li>◆ Attendance at forums and conferences which promote the value of the Company in society: <ul style="list-style-type: none"> <li>◆ Global Positive Forum (Paris, 1 September 2017 – how to build a better world for future generations)</li> <li>◆ CDP Europe Awards (Brussels, 20 November 2017 – on the role of companies in the fight against climate change)</li> <li>◆ International Economic Forum of the Americas (Paris, OECD, 7 December 2017 - on globalisation and inequality)</li> </ul> </li> <li>◆ Diversity: L'Oréal entered the TOP 100 of Bloomberg's 2018 Gender-Equality Index. The index promotes companies which are highly committed to professional equality. The Group received the maximum score in the "Products" and "Commitment to Communities" categories of the index.</li> <li>◆ Ethics: L'Oréal was once again recognised in 2017 by Ethisphere as one of the World's Most Ethical Companies, and has been part of the United Nations Global Compact 100 stock index since its creation. Ethics Day, 13 October 2016: live webchat with Mr Jean-Paul Agon open to all employees worldwide. In 2017, L'Oréal received Labrador's Transparency Grand Prix for its code of Ethics.</li> </ul>
<b>RATE OF ACHIEVEMENT OF TARGETS EXTRA-FINANCIAL AND QUALITATIVE CRITERIA</b>	<b>95.0 %</b>

#### 2.5.4.3. Attendance fees

At the Board meeting of 28 November 2014, Mr Jean-Paul Agon informed the members of the Board of Directors that he no longer wished, in his capacity as Chairman and Chief Executive Officer, to receive attendance fees.

The Board of Directors took due note of the decision made by Mr Jean-Paul Agon for 2014 and the following years.

#### 2.5.4.4. Award of performance shares (ACAs)

Within the scope of Articles L. 225-197-1 *et seq.* of the French Commercial Code and the authorisation of the Combined General meeting of 20 April 2016, the Board of Directors decided on 20 April 2017, taking into account Mr Jean-Paul Agon's performances, to grant him 32,000 performance shares (ACAs – Conditional grants of shares).

According to the IFRS applied for the preparation of the consolidated financial statements, the estimated fair value of one performance share (ACAs) under the plan of 20 April 2017, of which Mr Jean-Paul Agon is a beneficiary, is €166.90. This fair value was €154.32 on 20 April 2016.

The estimated fair value according to the IFRS of the 32,000 performance shares (ACAs) granted in 2017 to Mr Jean-Paul Agon is therefore €5,340,800.

These shares will only finally vest, in full or in part, if the performance conditions described below are reached.

#### Performance conditions

Final vesting of these shares is subject to achievement of performance conditions which will be recorded at the end of a four-year vesting period as from the date of grant.

Half of the number of shares that finally vests will depend on growth in like-for-like cosmetics sales as compared to those of a panel of competitors, such panel consisting in 2017 of Unilever, Procter & Gamble, Estée Lauder, Shiseido, Beiersdorf, Johnson & Johnson, Henkel, LVMH, Kao, Coty; the other half will depend on the growth in the L'Oréal Group's consolidated operating profit.

The calculation will be based on the arithmetical average for the three full financial years of the vesting period. The first full year taken into account for evaluation of the performance conditions relating to this grant is 2018.

In order for all the free shares granted to finally vest at the end of the vesting period pursuant to the criterion related to sales, L'Oréal has to outperform the average growth in sales of the panel of competitors. Below this level, the grant decreases. The Board defines a threshold, not made public for confidentiality reasons, below which no share will finally vest pursuant to this criterion.

In order for all the free shares granted to finally vest at the end of the vesting period pursuant to the criterion related to operating profit, a level of growth defined by the Board, but not made public for confidentiality reasons, must be met or exceeded. Below this level, the grant decreases. If the operating profit does not increase in absolute value over the period, no share will finally vest pursuant to this criterion.

The figures recorded each year to determine the levels of performance achieved are published in chapter 6 of this document.

#### Main characteristics of the grant

This plan made it possible to grant 906,000 performance shares (ACAs) to 2,038 beneficiaries.

The grant of performance shares (ACAs) which Mr Jean-Paul Agon received in 2017 represents 3.53% of the total number of performance shares (ACAs) granted.

Moreover, Mr Jean-Paul Agon, as an executive officer, shall retain 50% of the shares which will finally vest for him at the end of the vesting period in registered form, until the termination of his duties as L'Oréal's Chairman and Chief Executive Officer.

Furthermore, as for previous grants, Mr Jean-Paul Agon has undertaken not to use any risk hedging instruments.

It should be noted that no stock options to purchase or subscribe for shares, and no other Long-Term Incentives, were granted to Mr Jean-Paul Agon in 2017.

#### 2.5.4.5. Maintenance of the benefit of the additional social protection schemes applicable to the Company's employees

Mr Jean-Paul Agon will continue to be entitled to benefit from the additional social protection schemes, in particular the employee benefit and healthcare scheme applicable to the Company's employees, due to the fact that he will be treated as a senior manager throughout the entire length of his corporate office.

The amount of the employer's contributions to the employee benefit and mutual schemes amounted to € 2,879 in 2017, and the amount of the employer's contribution to the Defined Benefit Pension scheme amounted to € 6,080.

Under the Defined Benefit Pension Scheme ("RCD L'Oréal", as described in chapter 3 of this Document), whose rights are strictly proportional to the contributions paid, and which benefits all employees of L'Oréal in France, the estimated amount of Jean-Paul Agon's annual retirement pension at 31 December 2017 would be € 3,413 gross.

As for all other senior executives of the Group, the capital resulting from the employer contributions of the RCD L'Oréal will be deducted from the amount of the Retirement Guarantee for the calculation of the life annuity potentially due under this plan so that these benefits do not add up (see section 2.5.2.4).

As a reminder, the lifetime risk related to the plans resulting from article 83.2 of the French Tax Code is borne by the insurer.

As of 31 December 2017, the distribution of contributions was as follows: a contribution from the Company, subject to a 20% social contribution, of 0.5% for the portion of remuneration below a French social security ceiling and 3% for the portion of remuneration between one and six social security ceilings; and an employee contribution of 0.2% for the portion of remuneration below one French social security ceiling and 3% for the portion of remuneration between one and six French social security ceilings. The contributions paid by the Company and the related taxes are deductible from the corporate income tax.

**2.5.4.6. Summary table of Mr Jean-Paul Agon's remuneration  
Chairman and Chief Executive Officer**

€	2017		2016	
	Amounts due	Amounts paid	Amounts due	Amounts paid
Fixed remuneration	2,200,000	2,200,000	2,200,000	2,200,000
Annual variable remuneration <sup>(1)</sup>	2,038,732	1,992,100	1,992,100	1,782,000
Exceptional remuneration	-	-	-	-
Directors' fees	-	-	-	-
Benefits in kind	-	-	-	-
<b>TOTAL</b>	<b>4,238,732</b>	<b>4,192,100</b>	<b>4,192,100</b>	<b>3,982,000</b>

(1) The variable remuneration due for year N is paid in N+1. With respect to variable remuneration for 2017, it will be paid subject to the approval of resolution 11 by the Annual General meeting of 17 April 2018.

**SUMMARY TABLE OF REMUNERATION AND PERFORMANCE SHARES AWARDED TO MR JEAN-PAUL AGON, CHAIRMAN  
AND CHIEF EXECUTIVE OFFICER**

€	2017	2016
Remuneration due in respect of the financial year	4,238,732	4,192,100
Value of the performance shares granted during the financial year	5,340,800 <sup>(1)</sup>	4,938,240 <sup>(2)</sup>
<b>TOTAL</b>	<b>9,579,532</b>	<b>9,130,340</b>

(1) Corresponding to 32,000 performance shares x €166.90 (estimated fair value on 20 April 2017 according to the IFRS applied for the preparation of the consolidated financial statements).

(2) Corresponding to 32,000 performance shares x €154.32 (estimated fair value on 20 April 2016 according to the IFRS applied for the preparation of the consolidated financial statements).

**HISTORY OF THE STOCK OPTIONS GRANTED TO MR JEAN-PAUL AGON SINCE HIS APPOINTMENT AS AN EXECUTIVE  
OFFICER THAT CAN STILL BE EXERCISED AT 31 DECEMBER 2017 (SEE ALSO CHAPTER 6)**

Grant date	Number of options granted	Number of options not yet exercised	1st possible date of exercise	Date of expiry	Subscription price (euros)
25.03.2009 <sup>(1)</sup>	-	-	-	-	-
27.04.2010	400,000	400,000	28.04.2015	27.04.2020	80.03
22.04.2011	200,000 <sup>(2)</sup>	200,000	23.04.2016	22.04.2021	83.19

(1) As Mr Jean-Paul Agon informed the Board of Directors that he did not wish to be granted any share subscription options with respect to 2009, he did not receive any grant under the plan dated 25 March 2009.

(2) The Board of Directors' meeting of 22 April 2011 allocated 400,000 share subscription options to Mr Jean-Paul Agon who waived 200,000 of the options. He therefore benefits from 200,000 stock options under the plan decided by the Board of Directors on 22 April 2011.

**TABLE SHOWING THE STOCK OPTIONS TO PURCHASE OR SUBSCRIBE FOR SHARES EXERCISED BY MR JEAN-PAUL AGON  
DURING THE 2017 FINANCIAL YEAR**

Grant date	Stock options for the purchase or subscription of shares exercised	Exercise price
Stock options granted during performance of the corporate office		
30 November 2007	350,000	91.66

Mr Jean-Paul Agon, as executive officer, must retain a number of shares corresponding to 50% of the "balance of the shares resulting from the exercise of the stock options", in registered form, until the termination of his duties as Chairman and Chief Executive Officer of L'Oréal.

The "balance of the shares resulting from the exercise of the stock options" should be understood to mean the total number of shares resulting from the exercise of stock options minus the number of shares that have to be sold to finance the exercise of the stock options in question and, where applicable, the payment of any immediate or deferred taxes,

social levies and costs relating to the exercise of these stock options as applicable at the date of exercise of the options. If the number of shares thus determined which must be retained until the termination of Mr Jean-Paul Agon's duties as Chairman and Chief Executive Officer is not a whole number of shares, the number of shares will be rounded down to the nearest whole number of shares.

Mr Agon has undertaken not to enter into any risk hedging transactions.



**HISTORY OF CONDITIONAL GRANTS OF SHARES TO MR JEAN-PAUL AGON SINCE HIS APPOINTMENT AS AN EXECUTIVE OFFICER**

Grant date	Number of ACAs granted	Performance conditions <sup>(3)</sup>	Grant value (IFRS fair value)	Date of final vesting of all or part of the ACAs	First possible date of sale of a portion of them
17 April 2012 <sup>(1)</sup>	50,000	Yes	3,853,500	18 April 2016	18 April 2018
26 April 2013 <sup>(1)</sup>	40,000	Yes	4,494,800	27 April 2017	27 April 2019
17 April 2014 <sup>(1)</sup>	40,000	Yes	4,183,200	18 April 2018	18 April 2020
22 April 2015 <sup>(1)</sup>	32,000	Yes	5,167,680	23 April 2019	23 April 2021
20 April 2016 <sup>(2)</sup>	32,000	Yes	4,938,240	21 April 2020	21 April 2020
20 April 2017 <sup>(2)</sup>	32,000	Yes	5,340,800	21 April 2021	21 April 2021

(1) At the end of the vesting period, Mr Jean-Paul Agon, as a French resident on the date of granting of the shares, is required to hold the shares definitively vested for him for an additional 2-year period during which the shares cannot be disposed of.

(2) The 20 April 2016 and 20 April 2017 Plans set a four-year vesting period, but do not provide for any holding period.

(3) See the performance conditions in chapter 6 of this document.

**TABLE OF PERFORMANCE SHARES THAT BECAME AVAILABLE DURING THE FINANCIAL YEAR FOR EACH EXECUTIVE OFFICER**

- ◆ The 50,000 performance shares granted to Mr Jean-Paul Agon and permanently vested on 18 April 2016 are subject to a two-year holding period, *i.e.* until 18 April 2018.
- ◆ The 40,000 performance shares granted to Mr Jean-Paul Agon and permanently vested on 27 April 2017 are subject to a two-year holding period, *i.e.* until 27 April 2019.

Mr Jean-Paul Agon, as an executive officer, will hold 50% of the shares that finally vest in registered form until the end of his term of office as Chairman and Chief Executive Officer of L'Oréal.

Mr Jean-Paul Agon has undertaken not to enter into any risk hedging transactions.

**2.6. SUMMARY STATEMENT OF TRADING BY EXECUTIVE OFFICERS IN L'ORÉAL SHARES IN 2017**

(Article 223-26 of the General Regulation of the *Autorité des Marchés Financiers*)

Person concerned	Description of the financial instrument	Nature of transaction	Number of transactions	Total amount
Jean-Paul Agon, Chairman and Chief Executive Officer	Exercise of options under the SO plan of 30/11/2007	Exercise of stock options	4	€32,081,000.00
	Shares	Sale	7	€8,363,449.00
Béatrice Guillaume-Grabish Director	Shares	Acquisition	1	€69,200.00
Eileen Naughton Director	L'Oréal American Depositary Receipt	Acquisition	1	US\$25,384.23

## 2.7. SUMMARY TABLE OF THE RECOMMENDATIONS OF THE AFEP-MEDEF CODE WHICH HAVE NOT BEEN APPLIED

Recommendations of AFEP-MEDEF Code      L'Oréal's practices and justifications

### Independence criteria for the Directors (point 8.5 of the code)

Criterion providing that in order to be considered as independent a Director must not "have been a Director for more than twelve years".

The Board of Directors carefully examined the situation of Mr Xavier Fontanet and Mr Bernard Kasriel whose tenures have exceeded 12 years. The Board of Directors took into account the objectivity that Mr Xavier Fontanet and Mr Bernard Kasriel have always shown at the time of the debates and decisions of the Board, their ability to express their convictions from specific and different angles and provide a balanced judgement under all circumstances during Board discussions, notably, with regard to General Management. They have consistently shown, thanks to their experience as senior management executives at the very highest levels of large international groups and their current and previous eminent duties outside of the Board, an independent spirit, perspective and remarkable freedom to speak, enabling them to simultaneously challenge and support General Management in defining the Group's strategy. Their good knowledge of the Group adds to their well-informed, critical judgment capacity.

Furthermore, the Board considered that the personality, leadership and commitment shown by Mr Xavier Fontanet, recognised by L'Oréal's shareholders, 98.28% of whom approved the renewal of his tenure on 17 April 2014, were all guarantees of his independent-mindedness. The tenure of Mr Fontanet expires at the close of the Annual General Meeting on 17 April 2018. Mr Fontanet has informed the Board of Directors that he did not wish to renew his tenure.

The Board also considered that the freedom of speech, close involvement and critical mind of Mr Bernard Kasriel, whose tenure was renewed by 98.49% of the shareholders on 20 April 2016, are all qualities proving his independence.

These qualities, combined with a deep understanding of the Group, enable them to understand the challenges facing the Company in order to make an effective contribution to the work of the Board in the sole interest of the Company and to provide perspective on its decisions while ensuring the continuity of the Board's debates.

### Composition of the board committees: proportion of independent members on the committees (points 15.1, 16.1 and 17.1 of the code):

The proportion of independent Directors on the Audit Committee must be at least two-thirds.

The Audit Committee consists of 60% of independent Directors (*i.e.*, three out of five, excluding Directors representing the employees). The committee is chaired by Mrs Virginie Morgon, an independent Director. The Board of Directors considers this composition satisfactory in light of the necessary presence of two Directors from L'Oréal's majority shareholders and its choice of maintaining a limited number of members in order to ensure the efficiency of the work of this committee which requires a certain level of expertise in finance or accounting.

The Selection or Appointments Committee and the Remuneration committee must be composed of a majority of independent Directors.

The Appointments and Governance Committee currently consists of 50% independent Directors. The committee is chaired by Mrs Sophie Bellon, an independent Director.

Furthermore, it should be noted that the *Haut Comité du Gouvernement d'Entreprise* specified that "an Audit Committee that consists of three independent members out of five, or a Remuneration Committee with two out of four, remains in keeping with the spirit of the code as long as they are chaired by an independent Director" (report of October 2014)

### The executive officer's employment contract (point 21 of the code):

It is recommended, though not mandatorily required, that when a senior manager or executive becomes a corporate officer of the Company, his/her employment contract with the Company or another company of the Group should be terminated by agreed termination or by resignation.

The Board of Directors considered that the objective pursued by this recommendation can be fully achieved by maintaining the suspension of the employment contract and clearly separating out the benefits related to the employment contract on the one hand from those relating to his corporate office on the other. Furthermore, the Board of Directors has decided to eliminate all right to any indemnity in the event of termination of the corporate office. This position of the Board applies to the current office of Mr Jean-Paul Agon and, in future, to any new executive officer appointed who has over 15 years' length of service in the Group at the time of appointment. L'Oréal's ongoing policy has been to appoint employees who have completely succeeded in the various stages of their career in the Group as executive officers. This is how Mr Jean-Paul Agon, then Deputy Chief Executive Officer, was appointed as Chief Executive Officer of L'Oréal in April 2006, following a brilliant career spanning 27 years with L'Oréal. The Board of Directors noted that if, in accordance with the AFEP-MEDEF recommendation, Mr Jean-Paul Agon's employment contract with L'Oréal was to be terminated, Mr Agon would lose the status he acquired as a result of the twenty-seven years he spent working for the Group as an employee. Indeed, the AMF considers that a company complies with the AFEP-MEDEF Code when it justifies the maintenance of its executive officer's employment contract on the basis of his length of service as an employee in the Company and his personal situation (2014 AMF report on Corporate Governance and Executive Compensation).

## 2.8. RISK FACTORS AND CONTROL ENVIRONMENT

At the request of the Chairman and Chief Executive Officer and the Board of Directors, the Administration and Finance Division compiled the information contained in this Document based on the different types of work carried out by departments working on Internal Control and management of the Group's risks which aims at covering the main operational, legal, industrial, environmental, economic and financial risks and to present the Internal Control and risk management procedures aimed at preventing them better and bringing them under control.

### 2.8.1. DEFINITION AND OBJECTIVES OF INTERNAL CONTROL

#### 2.8.1.1. Reference work

For the preparation and drafting of this Document and the definition of Internal Control, L'Oréal used the Reference Framework and its application guide initially published in January 2007, and updated on 22 July 2010 by the *Autorité des Marchés Financiers* (AMF).

#### 2.8.1.2. Internal Control Objectives

In L'Oréal, Internal Control is a system that applies to the Company and its consolidated subsidiaries ("the Group") and aims at ensuring that:

- ♦ economic and financial targets are achieved in compliance with the laws and regulations in force;
- ♦ the orientations set by General Management are followed;
- ♦ the Group's assets are valued and protected;
- ♦ the Group's financial and accounting information is reliable and provides true and fair statements.

By contributing to preventing and managing the risks to which the Group is exposed, the purpose of the Internal Control system is to enable the Group's industrial and economic development to take place in a steady and sustainable manner in a control environment appropriate for the Group's businesses. There are however limits inherent in any system and process. These limits result from a number of factors, in particular the uncertainties of the outside world or malfunctions that may occur due to technical or human failures.

The choice of how to handle a risk is made, in particular, by making an informed choice between the opportunities to be seized and the cost of the risk treatment measures, taking into account their possible effects on the occurrence and/or the consequences of the risk.

#### 2.8.1.3. Continuous improvement of the Internal Control system

With the aim of continually improving the system of Internal Control, the Group continued with its efforts in 2017 by notably taking the following actions:

The corpus of standards and procedures was bolstered with, in particular:

- ♦ new, summary operating guides to remind employees of the Group's principles and to facilitate the sharing of best practices (real estate, information security, advertising rights and personal data protection in the European Union);
- ♦ revamping of the programme to raise awareness of the risks of fraud.

The deployment of online corruption prevention training (e-learning) is continuing.

The network of Internal Control managers continued to be built up worldwide through:

- ♦ specific training courses;
- ♦ a special-purpose social network which encourages and facilitates the sharing of best practices.

Communication within the Group on the main priorities of the Internal Control is promoted by the "Internal Control Awards" which rewards the best global initiatives and through the Risk Management and Compliance Department's intranet which makes it possible to communicate all over the world on Internal Control initiatives, tools and events.

### 2.8.2. COMPONENTS OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

#### 2.8.2.1. Organisation and environment

The control environment, which is critical to the Internal Control system, good risk management and the application of procedures, is based on people, behaviour and the organisational structure. In L'Oréal, it forms part of a culture of rigour and commitment communicated by senior management and is also in line with the Group's strategic choices.

##### *The Group's Ethical Principle*

##### **Ethical Principals**

L'Oréal was built on strong Ethical Principles that guide its development and shape its reputation: Integrity, Respect, Courage and Transparency. L'Oréal's commitment to acting ethically and responsibly is summarised in a document called "The L'Oréal Spirit" accessible to everyone.

L'Oréal's Code of Ethics is available in 45 languages and in Braille in English and French. It is distributed to all employees around the world. It enables employees to understand how these Ethical Principles need to be reflected in their behaviour and actions by providing simple rules and a description of concrete situations they may encounter. The Code of Ethics applies to all employees, corporate officers and members of the Executive and Management Committees of the Group and its subsidiaries worldwide. Since 2010, eleven supplements to the Code of Ethics have covered certain aspects of the Code in more details. Country Managers (or for Corporate or Zone staff, the members of the Group's Executive Committee to whom they report) are responsible for ensuring the respect of the Code of Ethics in their Country.

Respect of these Ethical Principles is integrated in the annual appraisal system for all employees through three ethical competencies : "Take accountability with courage and transparency", "Delivers both sustainable and short-term results with integrity" and "Treats all individuals in a respectful and consistent manner".

L'Oréal published its Human Rights Policy in 2017 to share its commitment to its stakeholders, namely its consumers and civil society, and to describe how this commitment is respected in practice.

#### The Senior Vice-President and Chief Ethics Officer

Reports directly to the Chairman and Chief Executive Officer on a regular basis.

His mission is to:

- ◆ ensure the promotion and integration of best practices within the Group, providing guidance in ethical decision-making;
- ◆ ensure employees are trained;
- ◆ oversee the handling of concerns, if any, and directly manage those related to senior management positions;
- ◆ measure and assess the Company's ethical performance; and
- ◆ oversee respect for Human Rights in the Group.

He reports in this regard to the Board of Directors and the Audit Committee on a regular basis.

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

#### Ethics Day: an annual day on ethics

Ethics Day has been held since 2009: a live webchat with L'Oréal's Chairman and Chief Executive Officer enables all of the Group's employees to ask questions and exchange on the day-to-day application of L'Oréal's Ethical Principles. Ethics discussions are also organised locally with each Country Manager. In 2017, over 60% of employees took part in this dialogue and over 5,700 questions were asked worldwide. The employees have a dedicated intranet site which provides additional information on ethics.

#### Implementation of L'Oréal's ethics programme

The role of the 74 Ethics Correspondents all over the world is to assist the Country Managers/Entity Managers in implementing the ethics programme and enable all the employees to have a local point of contact whilst favouring the normal routes for handling concerns by management. The Ethics Correspondents benefit every year from a specific coordination and training programme. The ethics training campaign is on-going. A specific and compulsory e-learning course on ethics is available in all countries. As of 31 December 2017, 74% of the employees with access to the online module had completed this course. The Ethics Department also provides in-room training sessions. In 2017, 29 training courses were delivered to 436 employees, representing 866 hours of training (Country Managers, Buyers and Human Resources).

L'Oréal's "Open Talk" policy enables employees to raise any concerns they may have directly with the Group's Senior Vice-President and Chief Ethics Officer including *via* a secure website. All allegations are examined and appropriate measures are taken, where applicable.

A practical tool enables Country Managers to evaluate and analyse any local ethical risks and to take the necessary measures to prevent them. An annual reporting system allows to monitor the implementation of the ethics programme.

The Senior Vice-President and Chief Ethics Officer regularly visits the Group's entities all over the world (head offices, plants, distribution centres and research centres) to meet employees at all levels of the Company and visit the various sites. In 2017, within this framework, he visited 18 countries, making a total of 81 countries visited since the end of 2013.

Ethics risks are systematically reviewed during audit assignments, through individual interviews. These interviews are conducted separately with the Country Manager and the Administrative and Financial Director.

#### L'Oréal corporate social, societal and environmental responsibility

Convinced that Sustainable Development is an essential factor for success and durability, L'Oréal has adopted an ambitious corporate social, societal and environmental policy, which is shared by its management and its teams and is based on a core set of strong ethical principles defined by the Group: Integrity, Respect, Courage and Transparency (see paragraph 3.1. *The L'Oréal Group's corporate social, environmental and societal policies*)

In 2013, a new level was reached with the implementation of the *Sharing Beauty With All* programme. Clear targets have been set for 2020 in terms of innovation, production, meeting the challenges of sustainable consumption, and sharing the Group's growth (see paragraph 3.2 *The Sharing Beauty With All programme*).

It should be noted that the financial risks related to the effects of climate change and the measures taken by the Group to reduce them through the *Sharing Beauty With All* programme are set out in chapter 3.

### Human Resources policy

The quality and skills of male and female employees are key components of the Internal Control system. Human Resources policy within L'Oréal is defined by the constant search for excellence in recruitment and by the development of talent within the Group, so as to ensure that it has the required level of skills in all areas. These activities also form part of the Group's diversity policy, which seeks to value and respect difference throughout the organisation. The Learning *teams* all over the world offer technical training and personal development programmes, including programmes to help employees with integration or management; such programmes are tailored to different job profiles and aimed at providing mastery of different skills in all areas of activity. The international *Share & Care* programme, which meets the *essential needs* of each of the Group's employees in terms of social protection, healthcare, parenthood and quality of life at work, is deployed in all of the Group's subsidiaries. It also encourages each subsidiary to launch its own initiatives to meet local expectations.

### Information systems

The information systems, chosen in accordance with the strategic orientations given by the Group's Global IT Department, integrate, in particular, implementation of a single "ERP" (Enterprise Resource Planning) management software application used by the vast *majority* of commercial subsidiaries, and which issues instructions regarding systems security. The worldwide roll-out of this integrated software package also contributes to strengthening the reliability and the security of the process of production of information, notably accounting and financial information. In pursuit of the same objective, the deployment of an integrated production and management solution in the Group's industrial entities is continuing.

### The procedures and standards governing the activities

Each Functional Division has responsibility, in its own specific field, for defining the principles and standards applicable to all the entities. In order to make it easier for employees to take on board all these principles and standards, the key points have been summarised in the "Fundamentals of Internal Control" that are regularly updated.

This guide is a reference framework for the Group's operational activities, and is presented in the form of an information sheet for each area. Each information sheet refers to the detailed charters, codes and standards of the Group. The information sheets are regularly updated, supplemented, validated by the experts in each area of expertise and presented to the Group Management Committee.

A management standard with regard to segregation of duties was distributed to all entities in 2010. It defines the main rules to be observed in the fields of sales, purchasing, logistics, finance, Human Resources and information systems management. The application of these rules is aimed at better preventing of the risks of fraud and reducing the probability that errors (whether intentional or not) may remain undetected.

### Communication of information inside the Group

The "Fundamentals of Internal Control" guide is circulated individually to the Managing Directors, Finance Directors, and Internal Control managers of all the consolidated subsidiaries, including the industrial entities. Furthermore, the Fundamentals, codes, charters and standards, together with the information related to the organisation, changes and instructions from the Functional Divisions are made permanently available to the subsidiaries on the Group's intranet sites.

A library provides all employees with reference works, guides, charters, codes of conduct and expert contacts organised by business line and by subject.

Meetings are regularly organised aimed at passing on information about orientations of the General Management to managers of the subsidiaries. The Functional Divisions also coordinate their networks of experts through seminars and training sessions. Newsletters give managers regular news and pass on strong messages with regard to Internal Control.

Finally, *the Awards* illustrate the Group's commitment to sustainably strengthening Internal Control: they are aimed at showcasing the best initiatives and promoting exchanges of best operational practices between the Group's subsidiaries.

#### 2.8.2.2. Control and supervision activities: those involved and their roles

Risk management and Internal Control is everyone's business, from all the employees to the governance bodies.

This system is the subject of ongoing supervision in order to verify whether it is relevant and meets the Group's objectives and addresses its issues.

The main players involved in monitoring Internal Control and risk management are:

- ◆ the General Management and its Management Committee (Audit Committee);
- ◆ the Audit Committee and the Board of Directors;
- ◆ the Operational Divisions and the geographic zones;
- ◆ the Functional Departments and Divisions, including the Risk Management and Compliance Department, the Internal Control Department and the Internal Audit Department.

#### General Management and its Management Committee (Executive Committee)

The role of the General Management is to define the general principles regarding Internal Control and to ensure that they are correctly put in place. Within the scope of their worldwide Internal Control responsibilities, the members of the Management Committee rely on operational and functional managers, according to their respective areas of expertise. These managers must ensure implementation of these general principles and make sure of the correct functioning of the procedures enabling the level of Internal Control required by General Management to be attained.

### **The Audit Committee and the Board of Directors**

The Board of Directors has always asserted the importance that it attributes, together with General Management, to Internal Control and to its main areas of application. Since its creation, the Audit Committee has been responsible for monitoring actions undertaken in the area of Internal Control and it reports thereon to the Board of Directors. Its remits are defined in the Internal Rules of the Board of Directors.

Each year, the committee performs a review of the Internal Audit plan, its objectives and the general conclusions of Internal Audit assignments. Major Internal Control projects and initiatives are also presented to it. The committee then prepares a report with its own remarks for the Board of Directors.

### **The Operational Divisions and geographical zones**

The Group is organised into worldwide Divisions and geographical zones which are fully responsible, with the management of each country, commercial or industrial entity, for the achievement of the objectives defined by the General Management with regard to Internal Control. The Functional Divisions bring their expertise to all operational employees.

Worldwide responsibilities for Internal Control of the activities of their Division or department are entrusted to each of the members of the Management Committee. A system of delegation of authority is in place and continues to be reinforced. The powers of the legal representatives of Group companies and of those to whom they delegate are limited and controlled in accordance with the provisions of the Legal Charter.

Specialists in financial control, information systems, Human Resources or industrial and logistics techniques provide support to operational employees at all levels of the organisation, which makes it easier to disseminate Internal Control best practices.

### **The Functional Divisions and Departments**

Through their network of specialists or *via* regular audits, the Functional Divisions review the functioning of their respective areas of responsibility, as follows:

- ◆ the Purchasing Department with regard to suppliers and their working conditions;
- ◆ the Environment, Health & Safety Department, for checks related to site safety and environmental compliance;
- ◆ the Quality Department to measure performance and the progress made by industrial entities with regard to the quality of production;
- ◆ the Global IT Department to assess compliance with the Security Policy.

Indicators and reporting procedures enable *the* regular monitoring of the local activities of most of these Functional Divisions.

Each of the Functional Divisions defines, in their own areas, the focuses and procedures that they pass on to the countries and entities.

### **The Administration and Finance Division**

This Division's main role is to assist and control the operational employees in their administrative, financial and legal activities and in the processing of information. In order to do so, it sets the operating rules that apply to all entities and is responsible for the definition and deployment of tools, procedures and best practices, particularly in the following areas: financial control, accounting and consolidation, financing and treasury, tax matters, legal affairs, financial communication, strategic planning, information systems and insurance.

An Internal Control Committee has the task of taking all measures to promote the proper understanding and the proper application of the Group's Internal Control rules and also to monitor progress on important Internal Control projects. It consists of the Administrative and Finance Director and of the Risk Management and Compliance, Internal Control, Operational Finance, Internal Audit and Organisation and Information Systems (Global IT) Directors.

### **The Risk Management and Compliance Department**

The objective of this department, which was created in 2012, is to identify, assess and prioritise risks with all those concerned, and keep the risk mapping analysis up-to-date. Its aim is to promote optimal use of resources to minimise and control the impact of negative events and maximise the realisation of opportunities.

### **The Internal Control Department**

This department, which is separate from Internal Audit and placed under the responsibility of the Risk Management and Compliance Department, ensures the distribution and updating of the "Fundamentals of Internal Control" guide. Frequent actions at seminars and during training cycles and the publication of newsletters help to increase knowledge of this tool, to improve its application and use by operational employees and keep them informed of the Group's projects and priorities in the area of Internal Control.

It is responsible for the continued development of the network of Internal Control managers in the Group's entities. In this connection, the role of this function was specifically detailed and a training module was created. At the end of 2017, the Internal Control Department had a network of 140 local managers present in the Group's different entities.

The Internal Control Department leads the Internal Control Committee and coordinates the implementation of projects decided by the Internal Control Committee with the business line experts. The updating of the standards mentioned in this document is one example of this work.

With the constant desire for improvement, the Internal Control Department, on the basis of the "Fundamentals of Internal Control" reference guide, develops, disseminates and coordinates self-evaluation campaigns focusing on the main risks and issues identified, gradually being rolled out in each of the professions and businesses. The self-evaluation of Internal Control makes it possible for the Group's entities to ensure the due and proper functioning of the system and to reinforce it with operational actions.

In addition, this department monitors the regulatory obligations relating to Internal Control.

### The Internal Audit Department

In addition to its role of supervision of application of the Internal Control system, the Internal Audit Department carries out cross-functional analyses with regard to possible Internal Control weaknesses based on findings noted during their assignments. These analyses make it possible to orient the work of the Internal Control Committee and to identify the priority areas for improvement and strengthening of procedures.

Internal Audit is carried out by a central team that reports directly to the Executive Vice-President Administration and Finance. This department carries out regular assignments to audit major processes and check on the application of Group principles and standards.

Internal Audit assignments are submitted to the General Management and the Audit Committee for their approval and give rise, with their agreement, to the preparation of an annual audit plan. The choice of assignments notably takes into account the assessment of the risks identified.

The size, the contribution to key economic indicators, the history of the entities together with the pattern of their development, are factors that are also taken into consideration for the preparation of the annual audit plan.

The Internal Audit Department carried out 44 assignments in 2017, 33 of which involved commercial entities representing over 31% of the Group's sales and five involving plants. The audited plants represent 16% of worldwide production in units. Furthermore, 6 other assignments were carried out with regard to specific topics. Audit assignments systematically lead to the preparation of a report comprising a presentation of the findings and related risks and making recommendations regarding an action plan to be put in place by the audited entity.

The Internal Audit Department relies on the support of the Group's integrated "ERP" (Enterprise Resource Planning) software package for the performance of its work and has developed a certain number of specific transactions that contribute to increasing the efficiency of its work. Since 2007, complementary assignments aimed at verifying certain key Internal Control points in the configuration of the "ERP" software have been performed. In addition, in 2014, the Internal Audit Department finalised the GRC (Governance, Risk, Compliance) tool, which now enables it to carry out its assignments using an integrated tool and to consolidate in real-time the progress made in the action plans of the audited entities.

The action plans decided on further to the audits are followed up regularly by the Internal Audit Department, which measures the rate of progress made in the implementation of the recommendations, weighted by the risk levels applied. The summary of performance and results of the assignments and the progress of the action plans are presented to the General Management and the Audit Committee every year.

The Internal Audit Department shares the results of its audits with the Group's Statutory Auditors. The remarks made by the external auditors within the scope of their annual audit are also taken into consideration by the Internal Audit Department when it carries out its assignments.

### The Global IT Department

Strategic choices concerning systems are determined by the Group Information Systems Department, which is responsible, in particular, for the implementation of an "ERP" (Enterprise Resource Planning) management software application used by the vast majority of the Group's commercial subsidiaries, plants and logistics services. The department issues instructions regarding systems security and supports the Group's digital transformation.

The Group also has an Information Systems Security Policy. Based on the international ISO 27001 standards, this policy covers the main topics of Information Systems security, describing the general principles to be applied for each of them. It enables all the Group's Information Systems teams, and by extension, all employees, to share clear objectives, best practices and levels of control adapted to the risks incurred, notably, the risk of cyber attack. This policy is accompanied by an information systems security audit programme conducted by an outside firm. It is also supplemented by an Information and Communication Technologies Code of Conduct, and a Code of Good Practice for the use of social media.

### The Operations Division

This Division comprises the departments responsible for Quality, EHS (Environment, Health and Safety), Purchasing, Information Systems (production), Production and Industrial Strategy Management, the supply chain, the Group's Safety Policy and its entire real estate portfolio. It defines the overall Operations strategy worldwide and establishes the standards and methods applicable in the areas of quality, safety, the environment and security for deployment in all of the countries in which the Group operates. It manages the Group's comprehensive strategy to enable the Operations teams in the Operational Divisions and regions to implement innovation, industrial and logistics policies suited to the markets.

In line with the Group's Code of Ethics, since 2011, the buyers have a practical and ethical guide *The Way We Buy* which aims at helping all employees in their relationships with the Group's suppliers. In addition, the buyers have the Group guides, *The Way We Compete* and *The Way We Prevent Corruption* for which online training (e-learning) is given.

The standard for *Management of suppliers* and tender procedures specify the conditions for competitive tendering and for the registration of the main suppliers. The general terms of purchase are used as the framework for transactions with suppliers. The *Purchase Commitments* and *Order Management* standard is aimed at facilitating and strengthening control of the spending and investments of Group entities.

In the area of the supply chain, the main assignments consist in defining and applying the sales planning, customer demand management, development and control of customer service processes, particularly through management of physical order fulfilment, application of the general terms of sale, the follow-up of orders, management of customer returns and customer disputes as well as accounts receivable collection procedures. Measures are also recommended for the management of distribution centres and inventories, subcontracting, product traceability, business continuity plans and transportation.

### The other Functional Departments

The following departments are also involved in Internal Control:

- ◆ the Human Resources Department monitors and supervises all obligations related to personnel management, specifies the documents to be provided to employees, the remuneration of the workforce and personnel expenses, recruitment, training and evaluation procedures, the rules to be complied with in the area of payroll management and the implementation of the *Share & Care* programme;
- ◆ the Research and Innovation Department is responsible in particular for cosme-to-vigilance and the quality of the formulas used in product composition (see chapter 3 *Cosmetovigilance and impact on safety assessment*);
- ◆ the Communications and Public Affairs Department, which co-ordinates communications initiatives, prepares crisis management principles and ensures that they are applied (see paragraph 2.8.5.3.1 *Image and reputation*);
- ◆ the Security and Safety Department, which has defined a security and safety policy for people, travel, property, information and data confidentiality (see paragraph 2.8.5.3.1. *Employee safety*).

### 2.8.3. SYSTEM RELATING TO THE PREPARATION AND PROCESSING OF FINANCIAL AND ACCOUNTING INFORMATION

For the preparation of this report, L'Oréal based itself on the Application Guide for Internal Control of accounting and financial information published by issuers, which is part of the Reference Framework published by the AMF on 22 July 2010. This approach is part of an overall process aimed at making continual progress and improving the Internal Control system that has already been set up.

#### 2.8.3.1. Definition, scope and objectives

Internal Control for accounting and finance covers the processes that provide accounting data: the process of producing financial information, the accounts closing process and financial communication actions.

The Internal Control system with regard to accounting and financial aspects aims to ensure:

- ◆ compliance with accounting regulations and the correct application of the principles on which the financial statements are based;
- ◆ application of the guidelines set by the General Management with regard to financial information;
- ◆ protection of assets;
- ◆ quality of the reporting that contributes to the preparation of the published financial statements and the reliability of their centralised treatment for the Group with a view to their distribution and their use for monitoring purposes;

- ◆ control of the production of financial, general and management accounting information including fraud prevention.

The scope of application of the Internal Control procedures relating to the preparation and processing of financial and accounting information encompasses the parent company and all subsidiaries included in the consolidated financial statements.

#### 2.8.3.2. Monitoring process for the organisation of the accounting and finance functions

##### *Organisation of the Finance Department*

Dedicated teams of specialists ensure the implementation of accounting and financial monitoring, under the supervision of General Management, in the following areas: accounting, consolidation, tax matters, management, financial services and treasury.

In the Administration and Finance Department, the preparation of the Group's consolidated financial results is the responsibility of the Operational Finance Department. The tax function, consisting of a network of tax lawyers at corporate level, in the zones and in the 17 countries of the Group that are the most exposed, monitors the changes in regulations, ensures compliance with the local rules, and oversees the implementation of the Group's tax policy, and in particular the strict application of the transfer pricing policy and the customs rules. The presence of management controllers at each level of the organisation helps to reinforce the Internal Control system. This network of management controllers of the subsidiaries is led by the Operational Management Department.

The processing and pooling of cash flows and hedging of currency and interest rate risks are carried out by the Group Corporate Finance Department, which is in charge of identifying commitments and enabling their proper booking.

##### *Group standards*

The Group has put in place a set of accounting policies and standards consistent with IFRS, the consolidated accounting standards.

The application of these standards is compulsory for all consolidated subsidiaries in order to provide uniform and reliable financial information.

These accounting policies are regularly updated, taking into account the changes in regulations and accounting principles:

- ◆ they set out the principles required for harmonised accounting treatment of transactions. They specify in particular the methods of recording balance sheet items and of identification and valuation of off-balance sheet commitments. The Group's Accounting Department monitors, on an ongoing basis, new accounting standards currently under preparation, with a view to alerting the General Management and anticipating their effects on the Group's financial statements;
- ◆ the chart of accounts, which is common to all subsidiaries, provides the definitions and the methodology for the preparation of the reporting required for the preparation of the financial statements.



The management standards describe how the rules should be applied from an operational standpoint. They not only specify the rules applicable to the valuation of certain significant accounts in the balance sheet and the income statement, but also the controls and validations applicable to the key processes.

The management standards are regularly supplemented and are thus part of the continuous improvement process. The purpose of this work is both to take action in response to the findings of the Internal Audit Department and to cover the areas corresponding to the accounting and financial risks of subsidiaries. This work has made it possible to bring our approach more closely into line with the recommendations set out in the Application Guide relating to Internal Control of accounting and financial information of the AMF Reference Framework.

### *Organisation and security of information systems*

Decisions with regard to the selection of software that is adapted to the Group's financial and accounting requirements are made jointly by the Operational Finance Department and the Information Systems Department.

At the level of information systems, the teams work on strengthening the procedures for the separation of tasks and improved control of access rights. Tools have been made available to enable them to ensure that access rights comply with the Group's rules.

### *Management tools*

The system for monthly reporting of the various economic indicators enables the monitoring of the evolution of the performance of each subsidiary in a continuous and harmonised manner. It also enables assurance to be obtained that such performance is in line with the objectives set.

The reporting and consolidation system, used by all entities, ensures the consistency and reliability of figures at the level of each subsidiary through blocking controls that operate before the financial data is uploaded to Group level. In this regard, the operating profit and loss account by destination, which is common to both management and general accounting, contributes to strengthening the control of accounts in the financial statements through the use of a single reference framework.

In addition, the Group's organisation, which is based on reporting from each subsidiary that is provided directly by the countries to the parent company, without any intermediate aggregates for the vast majority of the subsidiaries, enables optimisation of the data transfer and the completeness of the information, and in particular enables the checking of the accuracy of the exchange conversion rates.

The Managing Director and the Finance Director of each subsidiary make a joint commitment with regard to the quality, reliability and completeness of the accounting and financial information they have prepared and sent to the Group's Operational Finance Department, through a representation letter that they jointly sign.

### *The Audit Committee*

The role and missions of the Audit Committee are described above. These tasks are in compliance with European regulations and, in particular, Directive 2014/56/EU and

EU regulation 537/2014 on statutory audits, and are based on the report by the working group on the Audit Committee published by the AMF on 22 July 2010.

### **2.8.3.3. Processes used to prepare accounting and financial information**

#### *Operational processes contributing to accounting figures*

All of the processes that contribute to accounting figures, particularly sales and purchases, and inventory, fixed asset, payroll and treasury management are covered by specific procedures, follow-up checks and rules for validation, authorisation and booking operations.

#### *Closing of the accounts, consolidation and management reporting information*

The accounts closing process is governed by precise instructions and is based on a detailed time schedule circulated to all the subsidiaries to make sure that deadlines are met and the financial statements are prepared in a consistent manner. In this regard, the Group has introduced two *hard closings* (anticipating the work involved in the closure of the financial statements) in May and November which make it possible to better anticipate and speed up closing times. For the preparation of the consolidated financial statements, validation procedures apply at each stage of the process of reporting and processing information. Their purpose is to verify in particular that:

- ◆ inter-company transactions are correctly adjusted and eliminated (these are reported on a monthly basis);
- ◆ consolidation operations are checked;
- ◆ accounting standards are correctly applied;
- ◆ the consolidated published accounting and financial data are harmonised and properly determined and general accounting data and management reporting figures used in the preparation of the financial information are consistent.

#### *Financial communication*

Managers in charge of Financial Communication prepare a precise timetable for publication of up-to-date information on the Group to the financial markets. This timetable complies with the requirements of market authorities. These managers ensure, with the assistance of the Legal Department, that communications are made within the required deadlines and in accordance with laws and regulations, which they constantly monitor.

Their role is also to publish, precisely and accurately, the information provided by the Operational Finance Department and the Legal Department. All material information provided to the financial community reflects with truth and transparency the situation and activities of the Group and the process is carried out in accordance with the principle of equal provision of information to all shareholders.

#### *The Statutory Auditors*

All accounting and financial information prepared by consolidated subsidiaries is subject to a limited review at the time of the half-year closing process and to a full audit at

year-end, by the external auditors. Twice a year, the Managing Director and the Finance Director of each consolidated subsidiary make a joint commitment as to the true and fair view, reliability and completeness of the financial information by jointly signing a representation letter.

Audit assignments in the countries are almost all entrusted to members of the networks of the two Statutory Auditors who, after having jointly performed the review of all the Group's accounts and the manner in which they were prepared, are responsible for issuing an opinion on the Group's consolidated financial statements. The Statutory Auditors issue an opinion as to whether the consolidated financial statements and parent company financial statements give a true and fair view. They are kept informed from the early stages of preparation of the financial statements and present an overview of their work to the Group's accounting and finance managers and to the Audit Committee at the time of the half-year and annual closings.

## 2.8.4. VIGILANCE PLAN

### 2.8.4.1. Introduction

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

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

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

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

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

These common measures are not exclusive of additional actions implemented by L'Oréal and its Subsidiaries in these same areas, which are described in other chapters of this

Document, and namely chapter 3, or additional actions voluntarily implemented by the Suppliers.

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

The Vigilance Plan contains the Rules aiming to prevent the risk of serious impacts on human rights, fundamental freedoms, health, safety and the environment resulting from the activities of Subsidiaries and Suppliers (2.8.4.2.). It also includes measures for the effective application of these rules by Subsidiaries and Suppliers as well as regular evaluation procedures to ensure compliance (2.8.4.3.). Lastly, it includes a whistle-blowing mechanism (2.8.4.4.).

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

### 2.8.4.2. Applicable rules

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

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

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

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

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

### The abolition of child labour

L'Oréal has chosen to set a compulsory minimum hiring age of 16 for its entire staff, a minimum age which is higher than that required by Conventions no. 138 and 182 of the International Labour Organization.

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

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

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

L'Oréal refers to the definition of forced and compulsory labour in Convention no. 29 of the International Labour Organisation. Forced and compulsory labour is defined as "all work or service which is exacted from any person under the menace of any penalty and for which the said person has not offered himself voluntarily".

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

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

### Freedom of movement

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

### Freedom of association

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

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

### Non-discrimination

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

### Working hours

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

### Salary deductions and undue charges

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

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

### Sexual and moral harassment

L'Oréal forbids sexual and moral harassment and asks that its Suppliers do likewise.

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

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

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

#### 1. Risks concerning serious damage to the environment

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

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

## 2. Risks concerning serious damage to health and safety

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

- (i) Risks associated with buildings and the use of equipment
  - the soundness of buildings (construction and interior fitting out, including the compliance of equipment with operating authorisations and building permits issued by local authorities in compliance with the applicable legislation and, in any event, adaptation to the activity for which the buildings are intended),
  - the use of motorised forklift trucks and Automatic Guided Vehicles (AGV): risks caused by interactions and interference between forklift trucks, AGVs and pedestrians,
  - injuries caused by interactions between humans and machines: risks related to access to the moving parts of work equipment;
- (ii) Risks related to energy sources and materials
  - exposure to energy sources, fluids and hazardous emissions including electricity, high pressure, vapour, hot water and high temperatures,
  - fires resulting, notably, from flammable products and materials and electrical installations,
  - exposure to hazardous dusts and chemical products: by inhalation, ingestion or contact with the skin,
  - exposure to high noise levels;
- (iii) Risks related to work activities
  - entry in confined spaces and/or the risk of anoxia,
  - isolated work: risks associated with working alone for long periods of time,
  - slipping and falls,
  - the ergonomics of workstations related to load handling,
  - construction work (risks for the employees of the Subsidiaries and Suppliers during construction work),
  - work at heights (risk of falls associated with the use of ladders and step stools, access to, and work on, platforms and on roofs, use of lift tables and scaffolding, etc.).

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

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

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

#### 2.8.4.3.1. Measurement of the effective application of the Vigilance Plan

##### 1. Adoption of the Applicable Rules

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

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

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

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

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

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

##### 2. Governance

L'Oréal's commitment to human rights and fundamental freedoms, health, safety and the environment is supported at the highest level of the Company by its Chairman and Chief Executive Officer who renews L'Oréal's commitment to the United Nations Global Compact each year.

###### (i) Human Rights and Fundamental Freedoms

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

Country Managers/Entity Managers within the Group are in charge of implementing the human rights and fundamental freedoms policy in their country or entity. The Group's Senior Vice-President and Chief Ethics Officer meets systematically with each new Country Manager/Entity Manager and with the Human Resources Directors of the Subsidiaries to raise their awareness about human rights and fundamental freedoms issues.

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

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

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

**(ii) The environment, health and safety**

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

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

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

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

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

**3. Communication and training**

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

**(i) Human Rights and Fundamental Freedoms**

**Communication**

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

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

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

An Ethics intranet site is available to employees.

An annual Ethics Day has been held since 2009. A live *webchat* with L'Oréal's Chairman and Chief Executive Officer enables all the Group's employees to ask questions and exchange on the day-to-day application of L'Oréal's Ethical Principles, including respect for human rights and fundamental freedoms. Ethics chats are also organised locally with each Country Manager.

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

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

**Training**

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

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

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

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

**Communication**

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

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

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

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

**Training**

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

General EHS training includes:

- core general training when a new employee arrives at a Site (L'Oréal employee or temporary staff) regardless of their position;
- fire safety training, first aid, pollution prevention, recycling, general EHS awareness raising, etc.

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

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

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

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

**2.8.4.3.2. Monitoring compliance with the Plan****1. Non-compliance with the Applicable Rules risk mapping**

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

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

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

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

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

**SUBSIDIARY AUDIT MATRIX**

Type of country	Sites audited
All countries	Plants and distribution centres

**SUPPLIER AUDIT MATRIX**

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

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

## 2. Audit and self-assessment system

### (i) Audits

#### Audits of the Applicable Rules

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

Audits are done by specialist external companies

When a Subsidiary or Supplier is audited, the process is carried out in compliance with the risk mapping mentioned in paragraph 2.8.4.3.2.1. A written audit report is prepared.

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

There are three types of audits:

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

The possible outcomes of the audits are as follows:

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

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

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

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

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

#### EHS audits specific to Subsidiaries

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

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

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

#### Additional procedures

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

### (ii) Self-assessment system

#### Human rights and fundamental freedoms

An annual ethics reporting system enables monitoring of the implementation of the Applicable Rules in the Subsidiaries, namely with regard to human rights and fundamental freedoms. The Countries are informed of



their potential areas for improvement by the Office of the Chief Ethics Officer.

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

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

#### The environment, health and safety

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

#### 2.8.4.4. Whistle-blowing mechanism and reporting system

L'Oréal's "Open Talk" policy enables employees to namely report serious abuses of human rights and fundamental freedoms and breaches of rules related to health and safety and respect for the environment, notably via a secure Internet site (ethics whistle-blowing line) directly to the Senior Vice-President and Chief Ethics Officer.

It is planned to open the Group's ethics whistle-blowing line ([www.loreal.ethics.com](http://www.loreal.ethics.com)) to all of the Group's stakeholders in 2018. A new procedure to collect and handle reports will also be published.

### 2.8.5. RISK FACTORS AND RISK MANAGEMENT

#### 2.8.5.1. Definitions and general framework

In L'Oréal, the system of management of risks (events or situations of which the realisation, which is uncertain, has a positive or negative impact) applies to the Company and its consolidated subsidiaries ("the Group").

Risk management consists in identifying, managing and controlling risks that may affect the smooth running of the Company. It also participates in value creation by promoting the good use of resources to minimise the impact of negative events and maximise the realisation of opportunities. Risk management therefore goes beyond a strictly financial framework.

In order to ensure the sustainability of its development and the achievement of its objectives, the Group strives to anticipate and manage the risks to which it is exposed in its different areas of activity. In addition, the Internal Rules of the Board of Directors specify the role played by the Audit Committee which "must make sure that the General Management has at its disposal the means to enable it to identify and manage the economic, financial and legal risks facing the Group inside and outside France in carrying out its normal or exceptional operations".

On the basis of the work by the Internal Audit Department, the analysis of major accounting and financial risks, in conjunction with the processes used by subsidiaries, makes it possible to identify Internal Control improvements and update the Group's standards.

#### 2.8.5.2. Risk mapping

The risk mapping for all of L'Oréal's activities is updated periodically: this process of identification and analysis of the significant risks and processes enhances knowledge of the Group's risks by formalising and consolidating the work already done to date. The results of this work were presented to the Audit Committee. It is the responsibility of the Risk Management and Compliance Department to lead this process which makes it possible to prepare the appropriate action plans and it makes a presentation to the Audit Committee every year on the main progress made. The main risks to which the Group is exposed are described below.

#### 2.8.5.3. Risk factors

The Group operates in a changing environment. Like any company, it is necessarily exposed to risks which, if they were to materialise, could have a negative impact on its business activities, its financial situation and its assets, particularly in terms of reputation and image. This chapter describes the main risks to which the Group considers that it is exposed: risks specific to L'Oréal's activities, followed by legal, industrial and environmental risks, and finally risks of an economic and financial nature.

Faced with these risks, L'Oréal has set up an Internal Control system to prevent and manage them more effectively. The Internal Control and risk management procedures are therefore described in this chapter as provided for by Article L. 225-100-1 of the French Commercial Code.

However, a wholly risk-free environment cannot be guaranteed. Moreover, the Group could be adversely impacted by other risks of which it is not currently aware or which it does not consider material at the date of this Document.

**RISKS TO WHICH THE GROUP BELIEVES IT IS EXPOSED:**

<b>Business risks</b>	Image and reputation	121
	Product quality and safety	121
	Responsible communication	121
	Seasonal nature of business	122
	Geographic presence and economic and political environment	122
	Distribution network	122
	Competition	122
	Innovation and consumer expectations	123
	External growth transactions	123
	Risks related to Human Resources management	123
	Safety and Security	124
	Employee health and safety	124
	Information Systems and Data	125
	Risk of an Internal Control failure	125
<b>Legal risks</b>	Intellectual property: trademarks, designs & models, domain names	126
	Industrial property: patents	126
	Regulatory changes	127
	Other legal risks and litigation	127
<b>Industrial and environmental risks</b>	Production and supply chain	128
	Supplier dependence	128
	Environment and safety	128
<b>Counterparty risk</b>		129
<b>Customer risk</b>		129
<b>Liquidity risk</b>		129
<b>Financial and market risks</b>	Interest rate risk	130
	Currency risk	130
	Risk relating to the impairment of intangible assets	130
	Shareholding risk	131
	Risk with regard to assets financing employee benefit commitments (plan assets)	131
	Risk relating to changes in tax regulations	131
	Core commodity risk	131
<b>Insurance</b>	The Group's overall insurance policy	131
	Integrated worldwide programmes	131-132

2.8.5.3.1. Business risks

**BUSINESS RISKS \ IMAGE AND REPUTATION**

Risk identification	Risk management
<p>The Company's reputation and its brand image may be compromised at any time in a globalised world where information is disseminated rapidly. No company is safe from an undesirable event, whether this involves the use or misuse of a product or reprehensible individual conduct. Circulation of detrimental information in the media, regardless of whether or not such information is founded, has been facilitated by the introduction of new technologies and the development of social networks, and could also affect the Company's reputation and brand image.</p>	<p>In order to reduce the risks that could result from events of this kind, L'Oréal has set up a system which monitors English- and French-language websites on an ongoing basis. The subsidiaries deploy their own social media and web monitoring systems under the aegis of their Director of Communications and must immediately report a media risk in their country to the Corporate Communications Department.</p> <p>L'Oréal has also set up a crisis management procedure which is tasked with preventing, managing and limiting the consequences of undesirable events on the Company across the globe. The Group crisis management officer reports directly to General Management.</p> <p>Furthermore, the deployment of the Code of Ethics throughout the Group aims at reinforcing the dissemination of the rules of good conduct which form the basis of L'Oréal's integrity and ethics. These rules of good conduct seek to guide actions and behaviour, inspire choices and make sure that the Group's values are reflected in the everyday acts of each employee. L'Oréal has also implemented a Code of Good Practice for the use of social media by its employees.</p>

**BUSINESS RISKS \ PRODUCT QUALITY AND SAFETY**

Risk identification	Risk management
<p>Consumer safety is an absolute priority for L'Oréal. Safety assessment is at the heart of the development of new products and a prerequisite before a product is launched on the market. The principles governing the Group's quality and safety policy are:</p> <ul style="list-style-type: none"> <li>◆ satisfaction of customer needs;</li> <li>◆ compliance with safety requirements and legislation;</li> <li>◆ product quality and conformity across the supply chain.</li> </ul>	<p>The Worldwide Safety Evaluation organisation specifically evaluates the safety of raw materials and finished products. It establishes the toxicological profile of the ingredients used and the tolerance of the formulas before they are launched on the market.</p> <p>The same safety standards are applied worldwide to ensure that consumers from across the globe have access to products of identical quality.</p> <p>L'Oréal goes one step further in safety assessments by monitoring the potential adverse effects that may arise once the product is on the market through its international cosmeo-vigilance network. This network collects, validates and analyses, using recognised rigorous methodologies, the adverse effects related to the use of a product. This allows for the appropriate corrective measures to be taken where necessary (see paragraph 3.1.4.5. <i>Cosmeo-vigilance and impact on safety assessment</i>).</p> <p>In terms of questions that civil society may ask regarding certain substances and their effects on health and the environment, three points summarise L'Oréal's position:</p> <ul style="list-style-type: none"> <li>◆ vigilance with regard to any new scientific data;</li> <li>◆ co-operation with the relevant authorities;</li> <li>◆ precaution leading to the substitution of ingredients in the event of a proven risk or a strongly suspected risk.</li> </ul> <p>The Group has also put in place insurance policies protecting it in particular against third party liability claims related to its products (see <i>Integrated worldwide programmes</i> below). The measures taken in favour of consumer health and safety are described in further detail in chapter 3. Finally, production quality standards define rules governing the quality of products, for all stages from creation to production and distribution. Almost all the plants are ISO 9001-certified as regards production.</p>

**BUSINESS RISKS \ RESPONSIBLE COMMUNICATION**

Risk identification	Risk management
<p>L'Oréal provides consumers with innovative products whose success is based on their quality and performance. The benefits of these products are highlighted in the Group's communications. Despite all due care taken to guarantee the accuracy and fairness of the claims made in these communications, there is always a possibility that they may be challenged by the authorities, organisations or consumers.</p>	<p>In order to reduce the risk of any such challenges arising, the International Product Communication Evaluation Department ensures the conformity of product communications before they are introduced on the market. The Group's Code of Ethics sets out the fundamental principles of responsible communication and L'Oréal has made a commitment to implement the International Chamber of Commerce Consolidated Code of Advertising and Marketing Communication Practice and the Cosmetics Europe Charter and Guiding Principles on responsible advertising and marketing communication to which the key global cosmetics industry players in Europe adhere. The Group's principles for "responsible product advertising and marketing communication" are summarised in an operational brochure disseminated worldwide in order to raise employee awareness about compliance with ethical principles and legal and regulatory requirements in the matter.</p>

**BUSINESS RISKS \ SEASONAL NATURE OF BUSINESS**

Risk identification	Risk management
In certain cases and for specific products, the timing of sales can be linked to climate conditions, such as for example sun care products. Products and brands sought after by consumers as gifts see particularly strong sales at year-end and during holiday periods. This is the case for fragrances. A major disruption in any of these factors could affect L'Oréal's sales.	L'Oréal endeavours to mitigate these risks through the diversity and enrichment of its range of products and by organising product launches and special product promotional events throughout the entire year.

**BUSINESS RISKS \ GEOGRAPHIC PRESENCE AND ECONOMIC AND POLITICAL ENVIRONMENT**

Risk identification	Risk management
L'Oréal has subsidiaries in 69 countries and 68.8% of its cosmetics sales are generated outside of Western Europe. Global growth in the cosmetics market has led L'Oréal to develop its activities in countries within the "New Markets" Zone, which represented over 40.5% of its cosmetics sales in 2017. The breakdown of L'Oréal's sales and sales growth are set out in chapter 1 of this Document.  Besides the currency risks mentioned in note 10.1. in chapter 4, <i>Hedging of currency risk</i> and <i>in the Currency risk</i> section below, political or economic disturbances in countries where the Group generates a significant portion of its sales could have an impact on its business activities.	However, its broad global presence helps to maintain a balance in sales and enables results to be offset between countries and geographic zones. In periods of major economic slowdown or sovereign debt crises in certain countries, the Group's sales growth could however be affected.

**BUSINESS RISKS \ DISTRIBUTION NETWORK**

Risk identification	Risk management
To sell its products, L'Oréal uses independent distribution channels as well as a limited number of stores which are owned by the Company. The combination or disappearance of distribution chains and changes in regulations with regard to selective distribution could impact the development of the Group's brands in the country or countries concerned.	The presence of the Group's brands in all types of distribution networks helps mitigate any potential negative impact.

**BUSINESS RISKS \ COMPETITION**

Risk identification	Risk management
Due to its size and brand positioning, L'Oréal is subject to constant pressure from local and international competitors across the globe.  Competition is healthy: it drives the Group's teams around the world to always do their utmost to serve the interests of consumers and the Group's brands. Winning market share, improving operating profitability and thereby ensuring growth are a permanent challenge in a context where companies constantly strive to obtain the best positions for their products and launch the most attractive and effective product ranges offering an optimal price/quality ratio.	With a view to the roll-out of its "Universalisation" strategy, the Group has rethought its innovation model and is constantly increasing its investments in research. L'Oréal's research teams innovate to respond to the infinite diversity of beauty aspirations all over the world. Thanks to this ability to implement long-term research programmes, L'Oréal can maintain its lead over its competitors (see chapter 1 <i>Research and Innovation adapted to the market</i> ).

**BUSINESS RISKS \ INNOVATION AND CONSUMER EXPECTATIONS**

Risk identification	Risk management
<p>The development of innovative products and their adaptation to market requirements is an ongoing priority for the Group. If it fails to anticipate or interpret changes in consumer expectations and new trends, especially with regard to digital solutions and connected tools, its sales could be affected.</p>	<p>The Consumer &amp; Market Insights Department, part of the Innovation Division, is constantly monitoring changes in consumers' cosmetic expectations by product category and major regions of the world. This work enables the Group's researchers to develop new products that are in tune with market needs, as discussed in the paragraph <i>Research and Innovation adapted to the market</i> (see paragraph 1.2.5.).</p> <p>The Digital Division is responsible for accelerating the Group's digital transformation by helping the brands create enriched spaces for expression and helping teams to establish more interactive, close-knit and bespoke relationships with consumers, while leveraging the opportunities for developing business through digital media as a distribution channel.</p> <p>Consumers' expectations with regard to Sustainable Development are also at the heart of the <i>Sharing Beauty With All</i> programme unveiled in 2013 (see chapter 3).</p>

**BUSINESS RISKS \ EXTERNAL GROWTH TRANSACTIONS**

Risk identification	Risk management
<p>As part of its growth strategy, L'Oréal has made, and may have occasion to make acquisitions or sign licence agreements.</p> <p>However, implementation of this strategy depends on L'Oréal identifying development opportunities at an acceptable cost and under acceptable conditions.</p> <p>These operations may have a negative impact on the Group's results if the Group fails to successfully integrate the activities of the acquired companies and their personnel, products and technologies under the expected conditions, or if it fails to achieve the expected synergies or to successfully handle liabilities not anticipated when the transaction was completed and for which L'Oréal has little or no protection from the seller.</p>	<p>The Group has put in place a monitoring process for such transactions, which includes:</p> <ul style="list-style-type: none"> <li>◆ setting up multidisciplinary teams to prepare projects and due diligence work;</li> <li>◆ a review by the Board of Directors' Strategy and Sustainable Development Committee and then by the Board of Directors, of acquisition or equity investment opportunities that represent significant amounts or fall outside the scope of the Group's usual business activities, and of the conditions for their implementation.</li> </ul> <p>Acquisitions, which are decided by the Board of Directors, are regularly reviewed by the Board of Directors which is informed of the conditions of integration and the performances achieved.</p>

**BUSINESS RISKS \ RISKS RELATED TO HUMAN RESOURCES MANAGEMENT**

Risk identification	Risk management
<p>One of the keys to L'Oréal's success lies in the talent of its staff. If L'Oréal fails to identify, attract, retain and train competent employees who behave responsibly, particularly within the context of digital transformation, the development of its activities and its results could be affected.</p>	<p>The Group looks to create a motivating, engaging professional environment which also encourages employees to take on board the Group's values, notably those covered by the Code of Ethics.</p> <p>L'Oréal finds, recruits and develops its employees in a long-term perspective in which training plays a core role throughout the employee's career.</p> <p>To ensure employee loyalty, the Group has implemented a remuneration policy that combines external competitiveness with internal equity, and which rewards both individual and collective performances. L'Oréal's Human Resources policy is further described in paragraph 3.1.2. of this document.</p> <p>The launch of the international <i>Share &amp; Care</i> programme, which meets the essential needs of employees in terms of social protection, healthcare, parenthood and quality of life at work, helps the Group to be more competitive and demonstrates its belief that social and economic performance are not just closely related but mutually reinforcing.</p>

**BUSINESS \ SAFETY RISKS**

Risk identification	Risk management
<p>The Group's presence in 69 countries and at more than 465 Sites (excluding stores and the point-of-sales outlets of distributor customers) exposes it to a variety of risks inherent to the environments it works in (geopolitical, economic and social, malicious acts, climate and natural disasters). The direct and indirect consequences of these risks may adversely affect the Group's resources: namely, people and tangible and intangible assets.</p>	<p>In order to permanently protect these resources (or Group assets) against malicious acts, the Security and Safety Department helps in the preventive implementation of technical, HR and operational procedures to limit the residual risk of malicious damage and support the Group's international development in high-risk countries. For this purpose, the Security Division:</p> <ul style="list-style-type: none"> <li>◆ has implemented a watch and evaluation of the state of security in the countries in which the Group is active;</li> <li>◆ carries out evaluation visits in the countries in which it is present;</li> <li>◆ creates country security brochures for international travellers;</li> <li>◆ defines the security standards and minimum protection to be implemented to protect the Group's activities.</li> </ul> <p>The security measures are adjusted and reassessed based on the local situation and the level of exposure of employees and Sites.</p>

**BUSINESS \ EMPLOYEE HEALTH AND SAFETY RISKS**

Risk identification	Risk management
<p>The protection of employees' health and safety is one of L'Oréal's priorities and is an integral part of the Environment, Health and Safety (EHS) policy and the Group's human and social relations policy. It is rooted in the evaluation and prevention of professional risks in the Company as described in detail in chapter 3. Nevertheless, the risk of accidents at the workplace or occupational diseases cannot be entirely ruled out.</p>	<p>Beyond compliance with the legal provisions and regulations applicable to health and safety in the various countries where it operates, the Group has also set ambitious objectives in terms of its employees' safety.</p> <p>This safety culture has led to setting high standards and involving employees at all levels of the Company. Each Site manager is assessed with regard to their ability to deploy the Health and Safety policy and their results.</p> <p>In the area of safety, procedures relating to the protection of persons, property and products set out the principles for covering industrial and logistical risks relating to organisation and safety. Almost all the plants are ISO 14001-certified for their environmental policy and OHSAS 18001-certified (or have an equivalent certification) for their safety policy.</p> <p>Within the scope of this EHS policy, prevention is based on the Safety Hazard Assessment Procedure "SHAP" carried out by employees on the ground under the responsibility of the Site manager. This programme helps identify dangers both overall and for each workstation, and assesses the corresponding risks. The SHAP method thus makes it possible to draw up a risk map for the sites, assess the level of risks and put in place the necessary oversight measures. It is based on a dialogue between those in charge and contributes to a significant collective improvement in risk management. This approach is constantly evolving and is updated regularly in line with changes at Sites and experience on the ground. EHS audits are conducted every three or four years in each plant and distribution centre. The risk mapping is reviewed within the scope of this audit. In 2017, 12 plants, 12 distribution centres, two research centre and four administrative sites were subject to an EHS risk audit.</p> <p>In order to ensure the well-being of its employees, in 2013, the Group launched the international L'Oréal <i>Share &amp; Care</i> programme based on four pillars: social protection, healthcare, parenthood and quality of life at work. Stress prevention and workstation ergonomics training is included in the programme, which is now deployed in all of the Group's Subsidiaries (see chapter 3 of this document).</p>

**BUSINESS RISKS \ INFORMATION SYSTEMS AND DATA**

Risk identification	Risk management
<p>The day-to-day management of activities such as purchasing, production and distribution, invoicing, reporting and consolidation, as well as internal data exchange and access, relies on the proper functioning of all technical infrastructure and IT applications.</p> <p>As part of the digital transformation and ongoing development of information technologies and their applications, the Group's business activities, expertise and, more generally, its relations with all stakeholders in its social and economic environment, depend on being able to function in an increasingly virtual and digital environment.</p> <p>The European General Data Protection Regulation (GDPR), applicable as of May 2018, provides for significant sanctions and for controls in every country by the national authorities.</p> <p>The malfunction or breakdown of these systems or the misappropriation of confidential or personal data processed by L'Oréal or its partners for exogenous or endogenous reasons (including intrusions, malicious acts, etc.) could have a significant impact (reputation, consumer confidence, etc.).</p>	<p>To minimise the impact that this type of occurrence could have, the Information Systems Department has introduced strict rules with regard to data back-up, protection of, and access to, confidential data and data security with regard to both computer hardware and software applications. Furthermore, in order to adapt to the development of new methods of communication and to the digital transformation of its activities, L'Oréal has introduced an Information and Communication Technologies Code of Practice.</p> <p>The Group's principles with regard to personal data management have been disseminated all over the world to raise the awareness of all employees about respect for ethical principles and legal and regulatory requirements in the matter.</p> <p>L'Oréal has initiated a project to comply with the GDPR, at Group level, which is based on a Strategic Committee, a Steering Committee and business line task forces, as well as a Data Privacy Committee and a Project manager in each country.</p> <p>To address the growing threat of cybercrime, L'Oréal takes continuous steps to strengthen the resources dedicated to information system security.</p> <p>This plan relies in particular on anti-intrusion equipment, an information system security audit programme, protecting sensitive equipment and providing global supervision for identifying irregularities. L'Oréal's safety focus is constantly adjusted to deal with new threats of cyberattacks. For example, the Group is increasingly investing in systems for detecting and reacting to warnings and security incidents and in the periodic supervision of the effectiveness of such solutions.</p> <p>Furthermore, the Group deployed all over the world in 2016 an on-line training programme on best practices with regard to safety and security, intended for all the employees.</p>

**BUSINESS RISKS \ RISK OF AN INTERNAL CONTROL FAILURE**

Risk identification	Risk management
<p>L'Oréal has set up an Internal Control system (see paragraph 2.8.1.2. <i>Internal Control Objectives</i>) which, however effective it may be, can only provide reasonable and not absolute assurance that the Company's objectives can be achieved due to the inherent limitations of any control system. Accordingly, the Group cannot rule out the risk of an Internal Control failure that may expose it to an act of fraud in particular.</p>	<p>The components of the Internal Control and risk management system implemented are detailed in paragraph 2.8. In the areas of fraud and corruption, the deployment of a programme designed to raise awareness of fraud risk has been rolled out to all the Management Committees of the Group's subsidiaries (setting out the main operational scenarios that could occur, the whistle-blowing systems and the existing procedures and controls) and helps to reduce the Group's exposure to this risk. In addition, the Group has also published a guide, created from country-specific corruption risk mapping, and is deploying an e-learning module on corruption prevention which will round out the commitments and principles set out in L'Oréal's Code of Ethics and described in the Social, Environmental and Societal Information below (see paragraph 3.5.1).</p>

## 2.8.5.3.2. Legal risks

## LEGAL RISKS \ INTELLECTUAL PROPERTY: TRADEMARKS, DESIGNS &amp; MODELS, DOMAIN NAMES

Risk identification	Risk management
<p>The trademarks, designs &amp; models and domain names, and particularly the major international brands listed in the <i>Operational Divisions</i> section (see paragraph 1.4.2.), are strategic intangible assets of the Group, primarily owned by L'Oréal which licences them to Group companies against royalties.</p> <p>A few brands, primarily marketed by L'Oréal Luxe, including Giorgio Armani, Yves Saint Laurent, Ralph Lauren, Cacharel, Viktor&amp;Rolf and Diesel, have been licensed to the Group.</p> <p>In light of the large number of countries in which its products are sold and the multiple potential prior rights that may exist in each of these countries, it is impossible to rule out the possibility that third parties may initiate legal action to contest the registration and or use of L'Oréal intellectual property rights.</p> <p>This potential risk has to be mentioned in order to provide a comprehensive account of risk. However, the likelihood of it occurring is low due to the care taken upstream to secure launches.</p> <p>The trademarks, packaging and the products themselves may be counterfeited by third parties wanting to illegally claim the benefits of their reputation and earn illicit profits from the work and investments of the Group.</p>	<p>Special care is given to the protection of the trademarks, designs &amp; models and domain names belonging to the Group. This responsibility is entrusted to a special unit of the Legal Department. The department ensures the worldwide protection, management and defence of intellectual property rights <i>via</i> searches for prior rights, monitoring of registration and renewal procedures, the implementation of monitoring services and the initiation of appropriate legal action against counterfeiters.</p> <p>The L'Oréal Group is also an active member of organisations which have set themselves the goal of combating counterfeiting and promoting good commercial practices. This is the case of the French Manufacturers' association (<i>Union des Fabricants</i>), the <i>Association des Praticiens du Droit des Marques et des Modèles</i> (APRAM) and the <i>Association Information et Management</i> (AIM).</p>

## LEGAL RISKS \ INDUSTRIAL PROPERTY: PATENTS

Risk identification	Risk management
<p>Research and Innovation are the historic pillars of L'Oréal's development. The dedication of L'Oréal's research teams has made it one of the leading industrial patent filers in its field for many years now. The technologies developed are licensed to Group companies against royalties.</p> <p>In addition to protecting the inventions of the Group, the goal is to check the free use of a technology prior to the launch of products and services, in a highly competitive environment in which multiple patents are filed by many different players.</p>	<p>In order to protect the Group against the risk of appropriation of a molecule, a production process or packaging by another company, L'Oréal has set up the International Industrial Property Department, a specific structure which is part of the Research and Innovation Department. It is responsible for filing the Group's patents, their use and their defence on a worldwide basis. It also carries out studies on the free use of Group products with regard to third-party patents. However, it cannot be ruled out that third parties may infringe patents held by the Group, contest their validity or attempt to enforce their own industrial property rights on L'Oréal.</p>



**LEGAL RISKS \ REGULATORY CHANGES**

Risk identification	Risk management
L'Oréal is subject to the laws which apply to all companies. The diversity of applicable local laws and regulations and their constant evolution expose the Group to a risk of non-compliance or increased compliance costs.	As an active member of professional associations in the countries in which its industry is represented, L'Oréal is involved in an ongoing dialogue with national or regional authorities in charge of specifically regulating products in its industrial sector in order to anticipate or manage any risks that may arise from changes in the regulatory landscape.
The European REACH (Registration, Evaluation and Authorisation of Chemicals) and CLP (Classification, Labelling and Packaging) regulations aimed at increasing the safety of chemicals for humans and the environment, require that all user companies prove that they have implemented appropriate risk management measures. May 2018 will be the last deadline for registering substances sold in Europe, primarily impacting many SMEs that supply the Group's industry and will be the starting point for the review of these regulations.	L'Oréal communicates proactively with its European suppliers in order to ensure a consistent supply of compliant raw materials. It also plays an active role in the process for increasing the safety of the chemical products manufactured or imported by its European legal entities. Within the framework of national and European associations, L'Oréal helps analyse and draft practical guides for the implementation of changes to these regulations.
L'Oréal is also subject in Europe to the European Cosmetics Directive on animal testing of cosmetic ingredients which has been amended several times.	An action plan has been drawn up at L'Oréal in order to improve the design and methods used to assess the safety of raw materials. This plan is being implemented on an accelerated basis in order to prepare as thoroughly as possible for the full application of these regulations in 2018. It led to the end of testing finished products on animals in 1989 (14 years before it became a legal obligation in Europe) and the development of predictive evaluation strategies to meet European regulations which prohibit the offering for sale of products containing any ingredient that has been tested on animals after 11 March 2013. (See paragraph 1.2.5. <i>Ethically respectful research</i> ).
Certain countries are moreover subject to export restrictions, embargoes, economic sanctions or other forms of trade restrictions levied by the European Union, the United States and other countries or organisations.	L'Oréal has put in place a compliance programme aimed at ensuring that the entities in its Group comply with the regulations applicable to them with regard to embargoes and economic sanctions.

**LEGAL RISKS \ OTHER LEGAL RISKS AND LITIGATION**

Risk identification	Risk management
In the ordinary course of its business, the Group will potentially be involved in legal actions and is subject to tax, customs and administrative audits. The potential exposure to significant litigation is described in note 11.2. of the Consolidated Accounts.	<p>The Legal Charter reaffirms the obligation to comply with local legislation and notably sets out the internal principles for signature, the general and specific rules relating to contracts, trademark law, intellectual property law, company law and competition law and the protection of personal data.</p> <p>Furthermore, the Group's Legal Department has set up a training programme on competition law for the employees concerned. It also distributes practical guides concerning the issues related to competition law and participation in professional associations which define the principles to be complied with and provide operational answers to any questions which employees may have in this area.</p> <p>A provision is set aside in the parent company and consolidated financial statements whenever the Group has an obligation towards a third party likely to involve an outflow of economic resources whose cost can be reliably estimated.</p> <p>There are no other governmental procedures, legal or arbitration proceedings, including any proceedings or procedures of which the Company is aware, which are pending or threatened, that may have, or have had over the last 12 months, material effects on the financial situation or profitability of the Company and/or the Group.</p>

### 2.8.5.3.3. Industrial and environmental risks

In order to improve the efficiency and productivity of its industrial processes, L'Oréal carries out most of its production in 41 plants, each specialising in a specific type of technology.

INDUSTRIAL AND ENVIRONMENTAL RISKS \ PRODUCTION AND SUPPLY CHAIN	
Risk identification	Risk management
<p>Products must be made available on the market on the scheduled dates to meet time-to-market and customer demands, in order to enable new product ranges to be referenced by distributors in a cosmetics market that requires companies to be increasingly responsive.</p> <p>A major stoppage of activity at a plant or distribution centre could therefore have an adverse effect on the achievement of commercial objectives.</p>	<p>To prevent this risk, business continuity plans exist for each operational site. The Group is currently deploying a single methodology of business continuity plans at all its plants and all its distribution centres. These plans aim at planning for the unavailability of part of the Group's supply chain as far as possible and resuming business activities as quickly as possible.</p>
INDUSTRIAL AND ENVIRONMENTAL RISKS \ SUPPLIER DEPENDENCE	
Risk identification	Risk management
<p>L'Oréal is dependent on its external suppliers for the delivery of materials (raw materials and packaging items) that are essential for the manufacture of finished products, which may therefore suffer a disruption as the result of a failure by an important supplier.</p>	<p>L'Oréal analyses the risks associated with its purchasing channels and suppliers on a regular basis. The Group secures its supplies based on these analyses (for example by developing alternative sources of supply or by duplicating the packaging moulds for its strategic products).</p>
INDUSTRIAL AND ENVIRONMENTAL RISKS \ EMPLOYEE SAFETY	
Risk identification	Risk management
<p>The cosmetics industry has a limited environmental risk profile. However, as is the case for any production, distribution, research and general administration operations, L'Oréal is exposed to safety and environmental issues (for example related to the use of certain raw materials, the use of machines or electrical equipment in production or storage areas, handling operations liable to cause accidents involving bodily injury, waste water treatment, etc.). The main risk for the Group's industrial sites is the risk of fire due to the inflammable materials used in products (alcohol, propellant gases, powders, oxidants and solvents) and the storage of combustible products and chemicals.</p> <p>The Group's activities are subject to laws and regulations which require it to comply with increasingly strict standards for the environment, health and safety and could increase the cost of compliance.</p> <p>In addition, over the past few years, changes resulting from global warming have increased the unpredictability, frequency and severity of natural catastrophes. The risks related to climate change, pursuant to Article L. 225-100-1 of the French Commercial Code, are described in chapter 3.</p>	<p>The Group's Environment, Health and Safety (EHS) policy aims to minimise the impact on the environment and guarantee the health and safety of employees, customers and the communities in which L'Oréal carries out its activities. As a result of this policy, the risks inherent in our business activities are systematically identified and brought under control.</p> <p>This rigorous EHS policy has been implemented throughout the Group for many years.</p> <p>The Operations Division issues Internal Rules that set out the principles of L'Oréal's EHS policy. An EHS officer is appointed at each site. Training programmes are systematically organised. EHS performance indicators are collected monthly from all production sites, distribution centres and from administrative and research sites with over 50 people. Fire risk is dealt with in the framework of very strict fire prevention standards (National Fire Protection Association standards).</p> <p>Moreover, under its <i>Sharing Beauty With All</i> programme, the Group pursues its initiatives aimed at reducing its environmental footprint by setting itself ambitious, concrete targets (see chapter 3). L'Oréal has undertaken to improve its production conditions to reduce its environmental footprint by 60% in 2020 from a 2005 baseline. In all its plants and distribution centres, the Group strives to reduce its greenhouse gas emissions, its water consumption and its waste generation. It also pledges to reduce the footprint from transportation of its products and to no longer send waste to landfill. As well as being implemented on all the industrial sites, EHS policy has been rolled out to all the Group's research centres and administrative sites. The <i>Working Sustainably</i> programme, launched in 2016, which aims at reducing the environmental impact of these activities, has moreover reinforced the commitment by these sites to environmental issues.</p>
<p>The L'Oréal Group operates 97 industrial Sites, three of which are classified as "Seveso Top-tier Threshold".</p>	<p>The industrial sites classified as Seveso Top-tier Threshold are subject to strict regulations via the European Union's Seveso Directive on the prevention of the risk of major accidents due to the storage of chemical or flammable products.</p>

#### 2.8.5.3.4. Counterparty risk

COUNTERPARTY RISK	
Risk identification	Risk management
<p>The Group is exposed to the counterparty risk of financial institutions which it uses within the scope of its business activities.</p> <p>However, the Group considers that its exposure to this risk is low (see note 9.5. <i>Counterparty risk</i> of the Consolidated Financial Statements) in light of its management system.</p>	<p>The Group deals primarily with international banks and insurance companies which have the best ratings from the three main specialised rating agencies.</p> <p>When the Group makes financial investments, in the form of either bank deposits or marketable securities (see note 8.2. <i>Cash and cash equivalents</i> of the Consolidated Financial Statements), it gives priority to short-term transferable instruments from first-rate financial institutions.</p>

#### 2.8.5.3.5. Customer risk

CUSTOMER RISK	
Risk identification	Risk management
<p>Customer risk may result from a failure to collect receivables due to cash problems encountered by customers or to customers no longer being in business.</p>	<p>However, this risk is limited by the Group's policy of taking out receivables insurance cover as far as this is permitted by local conditions. The risk associated with credit insurance is mentioned in paragraph 2.8.5.3.8. <i>Insurance</i> below).</p> <p>Due to the large number and variety of distribution channels worldwide, the likelihood of a significant impact on the Group as a whole remains limited. The ten largest distributor customers represent 21% of the Group's sales. The amount considered at risk of non-collection and set aside as a provision is set out in note 3.3.2. <i>Trade accounts receivable</i> of the Consolidated Financial Statements. This amount does not exceed 2% of gross accounts receivable.</p>

#### 2.8.5.3.6. Liquidity risk

LIQUIDITY RISK	
Risk identification	Risk management
<p>The L'Oréal Group's liquidity risk is managed with the primary aim of ensuring continued financing and optimising the financial cost of debt.</p>	<p>The Group's Corporate Finance Department centralises all of the subsidiaries' financing needs and negotiations with financial institutions so as to have better control over borrowing conditions. Any transactions that may be carried out directly by subsidiaries are closely supervised.</p> <p>To this effect, the Group has unused confirmed credit lines from several first-rate banks totalling €3,675 million, including 450 million in USD facilities (€375 million). None of the lines of credit have a maturity under one year and all of them have maturities staggered from 2019 to 2022. (see note 8.1.10. <i>Confirmed credit lines</i> of the Consolidated Financial Statements)</p> <p>The availability of these credit lines is not dependent on financial covenants. The Group also regularly uses the financial markets through the use of short-term marketable instruments in France and commercial paper in the United States. None of this debt includes an early repayment clause linked to financial ratios (see Notes 8.1.1. <i>Analysis of debt by type</i> and 8.1.3. <i>Analysis of debt by maturity</i> and note 9.6. <i>Liquidity risk</i> of the Consolidated Financial Statements).</p> <p>When the Group makes financial investments, in the form of either bank deposits or marketable securities, it gives priority to short-term transferable instruments from first-rate financial institutions.</p> <p>The L'Oréal Group benefits from the following short-term credit ratings:</p> <ul style="list-style-type: none"> <li>◆ A-1+, awarded in September 2017 by Standard &amp; Poor's;</li> <li>◆ Prime 1, awarded in May 2017 by Moody's;</li> <li>◆ F1+, awarded in September 2017 by FitchRatings.</li> </ul> <p>These ratings are unchanged compared to those assigned in 2016.</p>

## 2.8.5.3.7. Financial and market risks

FINANCIAL AND MARKET RISKS \ INTEREST RATE RISK	
Risk identification	Risk management
For the requirements of its development and its capital expenditure policy, L'Oréal uses borrowings and short-term marketable instruments. The Group mainly refinances at floating rates, as mentioned in note 8.1.5. <i>Breakdown of fixed rate and floating rate debt</i> of the Consolidated Financial Statements.	<p>None of the Group's borrowings or debt contains an early repayment clause linked to financial ratios (covenants).</p> <p>In order to limit the negative impact of interest rate fluctuations, the Group has a non-speculative interest rate management policy using derivatives as appropriate, as described in notes 9.3. <i>Hedging of interest rate risk</i> and 9.4. <i>Sensitivity to changes in interest rates</i> of the Consolidated Financial Statements.</p> <p>Other details with regard to debt and interest rates are also provided in notes 8.1.6. <i>Effective interest rates</i>, 8.1.7. <i>Average interest rates on debt</i> and 8.1.8. <i>Fair value of borrowings and debt</i> of the Consolidated Financial Statements.</p>
FINANCIAL AND MARKET RISKS \ CURRENCY RISK	
Risk identification	Risk management
Due to its international presence, L'Oréal is naturally exposed to currency fluctuations. Fluctuations between the main currencies may therefore have an impact on the Group's results when translating the foreign currency financial statements of subsidiaries into euros, and may therefore make it difficult to compare performances between two financial years. In addition, commercial flows resulting from purchases and sales of items, products, royalties and services arise between subsidiaries in different countries. Procurement by subsidiaries is mainly in the currency of the supplier's country.	<p>The Financial Code and the exchange risk management standard specify, in particular, the principles to be applied by Group entities to ensure that management of currency risk is both prudent and centralised.</p> <p>To limit currency risk, the Group adopts a conservative approach whereby it hedges a significant portion of its annual requirements for the following year through currency forward contracts (purchases or sales) or through options. Requirements are established for the following year on the basis of the operating budgets of each subsidiary. These requirements are then reviewed regularly throughout the year in progress. In order to obtain better visibility over the flows generated, currency risk management is centralised through the Treasury Department at head office (Group Corporate Finance Department), which uses a specific tool for centralising the subsidiaries' requirements by currency (FX report).</p> <p>The system of foreign exchange risk hedging is presented to the Audit Committee. The hedging methodology and the values involved are described in note 9.1. <i>Hedging of currency risk</i> of the Consolidated Financial Statements.</p>
Significant changes in the monetary environment could have an impact on the Group's results and shareholders' equity.	The analysis of sensitivity to currency fluctuations and the impact on equity are set out in detail in note 10.3. <i>Other comprehensive income</i> of the Consolidated Financial Statements. Finally, the impact of foreign exchange gains and losses on the income statement is described in note 9.2. <i>Foreign exchange gains and losses</i> of the Consolidated Financial Statements.
FINANCIAL AND MARKET RISKS \ RISK RELATING TO THE IMPAIRMENT OF INTANGIBLE ASSETS	
Risk identification	Risk management
As stated in the section on legal risks, L'Oréal's brands are a strategic asset for the Group and may be subject to impairment.	<p>As described in note 7 <i>Intangible assets</i> of the Consolidated Financial Statements, brands with an indefinite useful life and goodwill are not amortised but are tested for impairment at least once a year. Where the recoverable amount of a brand is lower than its net book value, an impairment loss is recognised. Similarly, any difference between the recoverable amount of each cash-generating unit and the net book value of the assets including goodwill would lead to an impairment loss in respect of the asset, recorded in the income statement. The amounts for the last three financial years are provided in note 4 <i>Other operational income and expenses</i> of the Consolidated Financial Statements.</p> <p>The data and assumptions used in impairment tests carried out on cash-generating units that comprise material amounts of goodwill and non-amortisable brands are set out in note 7.3. <i>Impairment tests on intangible assets</i> of the Consolidated Financial Statements.</p>
FINANCIAL AND MARKET RISKS \ EQUITY RISK	
Risk identification	Risk management
L'Oréal does not invest its cash in shares. The main equity risk for L'Oréal is the 9.43% stake it held in Sanofi at 31 December 2017, for an amount described in note 8.3. <i>Non-current financial assets</i> of the Consolidated Financial Statements	If the Sanofi share price suffered a significant or prolonged decline in value below its initial share price, this would potentially lead L'Oréal to write down its asset through the income statement as explained in note 9.7. <i>Shareholding risk</i> of the Consolidated Financial Statements.

**FINANCIAL AND MARKET RISKS \ RISKS WITH REGARD TO ASSETS FINANCING EMPLOYEE BENEFIT COMMITMENTS**

Risk identification	Risk management
<p>By nature, assets used to finance employee benefit commitments are exposed to fluctuations on the markets in which such assets are invested.</p> <p>A sharp, prolonged downturn in the financial markets may have an impact on the value of the portfolios created (see note 5.4. <i>Post-employment benefits, termination benefits and other long-term employee benefits</i> of the Consolidated Financial Statements).</p>	<p>Pursuant to the provisions of the Group's Internal Charter on the Management of Plan Assets, the allocation by category of assets is subject to limits aimed in particular at reducing volatility and correlation risks between these different asset categories. A Supervisory Committee for the pension and employee benefit schemes offered to the Group's employees ensures that these principles are implemented and monitored, as described in the <i>Employee benefit and pension schemes</i> section in the <i>Social information</i> section (see chapter 3). Moreover, the Group chooses insurers and custodians with robust ratings from the three main specialist rating agencies.</p>

**FINANCIAL AND MARKET RISKS \ RISK RELATING TO CHANGES IN TAX REGULATIONS**

Risk identification	Risk management
<p>The Group is exposed to risks arising from changes in tax regulations or from their interpretation. An increase in existing taxes, the introduction of new taxes, or double taxation concerning in particular corporate income tax, customs duties, import taxes, the repatriation of dividends or social levies, could have an adverse impact on the Company's results.</p>	<p>The Tax Department and the Operational Finance Department, assisted where applicable by external advisors, monitor these changes to ensure that the Group complies with these regulations.</p> <p>In the event of a dispute or a difference in interpretation with the tax authorities, L'Oréal may defend its position by taking legal action.</p>

**FINANCIAL AND MARKET RISKS \ CORE COMMODITY RISK**

Risk identification	Risk management
<p>The production of cosmetics depends on the purchase of raw materials whose prices vary. These raw materials or components are used in the manufacture of products or in their packaging. The main core raw materials are polyethylene, polypropylene, aluminium and vegetable oils and their by-products. An exceptionally sharp increase in the price of these raw materials or energy prices on the world market could have a direct effect on the manufacturing cost of the cosmetics. However, it is estimated that the impact of this rise on gross margin would remain limited.</p>	<p>In order to anticipate the impact of these fluctuations and as a preventive measure, L'Oréal negotiates price indices with its main suppliers of raw materials and packaging items.</p> <p>Also in order to offset market volatility, L'Oréal rolls out ongoing efforts in terms of cost-cutting projects and actions to improve industrial productivity. Pooled responsibility for purchases has made it possible to reinforce these measures.</p>

**2.8.5.3.8. Insurance**

**The Group's overall insurance policy**

The objective of the Group's policy on insurance is to protect the Group's assets and people from the occurrence of identified material and insurable risks that could adversely affect it.

For that purpose, the Group has implemented global insurance programmes (in particular for the Property Damage & Interruption of Operations, Third-Party Liability and Transport risks) which make it possible to manage the insurance cover and provide for uniform insurance cover for all its subsidiaries throughout the world, except in countries where this type of arrangement is not permitted (see Restrictions below). National programmes have been set up in the countries in which global programmes cannot be deployed.

This policy is applied as follows:

- ◆ at parent company level, the Group has negotiated insurance programmes on a worldwide basis with first-rate insurance companies to cover its main risks on the basis of the cover available;

- ◆ at local level, subsidiaries have to put in place mandatory insurance cover in order to meet their local regulatory obligations.

The financial solvency of the insurers chosen is an important criterion in the Group's insurer selection process. Most of the insurance programmes subscribed by the Group involve co-insurance. Globally, the world's main insurance companies are involved in one or more of these Group programmes.

**Integrated worldwide programmes**

**General third party liability**

General third-party liability includes operating liability, third-party liability related to products, and sudden and accidental environmental damage.

The Group has had a programme in place for all of its subsidiaries across the globe for several years (except where restrictions apply). The programme covers the monetary consequences of the civil liability of Group entities, when they are liable.

Claim activity under this programme has historically been low, which shows the extremely high quality requirements and safety standards applied by the Group in managing its operations and in designing and manufacturing its products.

***Property Damage and Interruption of Operations***

Fire, lightning, explosion, theft and natural disasters are notably insured, within the limits of the products available on the insurance market.

The Group has set up a global programme to cover its property, chiefly: fixed assets and inventories (except where restrictions apply). This programme also includes a chapter on operating losses directly resulting from an insured property loss or damage.

As the capacity of the insurance market is limited for certain risks, this programme includes sublimits, particularly as regards natural disasters. Finally, it also provides for prevention inspections for the Group's sites conducted by specialist departments of the leading insurer.

***Transport by road, sea and air of all flows of goods***

The Group has set up an insurance programme to cover the transportation of all its products. All subsidiaries benefit from the protection offered by this worldwide programme, which

ensures that appropriate cover is provided (except where restrictions apply).

***Customer credit risk***

Group subsidiaries are encouraged to purchase credit insurance, assisted by head office and under the terms and conditions negotiated, in addition to their own credit management policy, provided that insurance cover compatible with their level of commercial activity is available under financially acceptable conditions.

Nevertheless, in a period of major economic slowdown, large insurance companies could scale back their commitments on the credit insurance market as they may decide to reduce their cover of amounts receivable in certain countries. The insurance policies put in place in these countries could be affected by this trend.

***Self-insurance***

Through its reinsurance subsidiary, the Group carries risk retention levels that are not material at consolidated level, and these are applicable over and above local deductible amounts. This involves one programme: "Property Damage and Interruption of Operations".

## 2.9. STATUTORY AUDITORS' REPORTS

### STATUTORY AUDITORS' SPECIAL REPORT ON REGULATED AGREEMENTS AND COMMITMENTS WITH THIRD PARTIES

(Annual General Meeting for the approval of the financial statements for the year ended December 31, 2017)

To the Shareholders,

In our capacity as Statutory Auditors of your Company, we hereby present our report on regulated agreements and commitments with third parties.

It is our responsibility to report to shareholders, based on the information provided to us, on the main terms and conditions of, as well as the reasons provided for, the agreements and commitments that have been disclosed to us or that we may have identified as part of our engagement, without commenting on their relevance or substance or identifying any undisclosed agreements or commitments. Under the provisions of article R. 225-31 of the French Commercial Code (*Code de commerce*), it is the responsibility of the shareholders to determine whether the agreements and commitments are appropriate and should be approved.

Where applicable, it is also our responsibility to provide shareholders with the information required by article R.225-31 of the French Commercial Code in relation to the performance during the year of agreements and commitments already approved by the Annual General Meeting.

We performed the procedures that we deemed necessary in accordance with the professional standards applicable in France to such engagements. These procedures consisted in verifying that the information given to us is consistent with the underlying documents.

#### Agreements and commitments submitted for the approval of the Annual General Meeting

##### A. Agreements and commitments authorized during the year

We were not informed of any agreements or commitments entered into during the year to be submitted for approval at the Annual General Meeting pursuant to the provisions of article L. 225-38 of the French Commercial Code.

##### B. Agreements and commitments authorized after the year-end

We were informed of the following commitment authorized after the year-end and given prior approval by the Board of Directors.

**Commitments made by the Company with regard to Jean-Paul Agon, Chairman and Chief Executive Officer, concerning defined-benefit pensions**

Pursuant to article L.225-22-1 of the French Commercial Code, as amended by the French law of August 6, 2015 for growth, activity and equality of economic opportunities, the provisions of the suspended employment contract corresponding to defined-benefit pension commitments determined for the period of exercise of the corporate office are subject to the rules set forth in article L.225-42-1 of the same Code.

In accordance with the law, these provisions will apply for the first time on the re-appointment of Jean-Paul Agon as Chairman and Chief Executive Officer of the Company, which matter is to be decided by the Board of Directors immediately after the Annual General Meeting of April 17, 2018.

On February 8, 2018, the Board of Directors authorized the commitments made with regard to Jean-Paul Agon providing for the implementation for the period of exercise of the renewed term of corporate office of the provisions of his employment contract, as approved by the Annual General Meeting of April 27, 2010, corresponding to defined benefit pension commitments, which are described in chapter 2 of the management report. The Board made the increase of the conditional rights over this period subject to fulfilment of the applicable performance conditions, as assessed in the light of the performance conditions of the Company.

It is specified that pursuant to the provisions of the agreement to suspend the employment contract on defined benefit pension commitments and for the period of exercise of his new term of office:

- ◆ firstly, the calculation base of the Chairman and Chief Executive Officer's pension will be revalued on the basis of the salaries and contributions revaluation coefficient published by the French state pension fund (*Caisse nationale d'assurance vieillesse*), as presented in the second part of this report; and
- ◆ secondly, the Chairman and Chief Executive Officer will continue to accrue seniority during the renewed term of his corporate office, up to the date on which he reaches the upper limit of 40 years of service required under the scheme, namely, on September 1, 2018. No other additional annuity will be granted to him.

Pursuant to article L.225-42-1 of the French Commercial Code, the Board of Directors, acting on the recommendations of the Human Resources and Remuneration Committee, decided to tie the performance of the executive corporate officer to that of the Company, by applying the Company's performance indicators, which are also used to determine the annual variable remuneration of the executive officer.

The increase for a given financial year will therefore depend on the fulfilment of at least 80% of the performance objectives taken into account to determine the annual variable remuneration of Jean-Paul Agon. If the 80% threshold is not met, no increase will be granted for the financial year in question.

Pursuant to article L.225-42-1 of the French Commercial Code, the Board of Directors will verify compliance with the conditions it has stipulated annually and prior to the Annual General Meeting called to approve the financial statements for the last complete financial year. At this time, the Board will also determine the increase, for said financial year, of the conditional rights of the Chairman and Chief Executive Officer corresponding to defined benefit pension commitments for the period of exercise of the renewed term of corporate office.

#### *Interest of the commitment for the Company*

The Board of Directors thus decided to continue the Company's long-standing policy of not depriving employees appointed as executive officers of advantages from which they would have continued to benefit had they remained employees. This is the case of Jean-Paul Agon, who was appointed as an executive officer after 27 years of service at L'Oréal.

## Agreements and commitments already approved by the Annual General Meeting

### *Agreement concerning Jean-Paul Agon*

- ◆ Suspension of Jean-Paul Agon's employment contract during the term of his corporate office;
- ◆ Elimination of all rights to remuneration in respect of the corporate office:

In the event of departure, and depending on the reasons for such departure, Jean-Paul Agon will only be paid the termination indemnities (save for gross misconduct or gross negligence) or retirement indemnities due in the event of voluntary retirement or retirement at the Company's request pursuant to the employment contract that has been suspended. These indemnities, which are attached solely to termination of the employment contract and in strict application of the French collective bargaining agreement for the chemicals industry (*Convention collective nationale des industries chimiques*) and the company-level agreements applicable to all L'Oréal managers, are automatically due pursuant to the public policy rules of French labor law. They are not subject to any condition other than those provided for by the collective bargaining agreement or the above-mentioned company-level agreements. The same applies to the non-competition clause and the related financial consideration.

Under no circumstances may the remuneration in respect of the corporate office be taken into consideration for the calculation of the indemnities due pursuant to the collective bargaining agreement and the company-level agreements applicable to all L'Oréal senior managers.

Jean-Paul Agon will continue to benefit from the defined-benefit pension scheme currently applicable to the Group's senior managers as from his re-appointment as Chairman and Chief Executive Officer, which is to be decided by the Board of Directors following the Annual General Meeting of April 17, 2018 in accordance with the new conditions decided by your Board of Directors and presented in the first part of this report.

- ◆ Terms and conditions relating to the suspension of Jean-Paul Agon's employment contract:
  - The reference remuneration to be taken into account for all rights attached to the employment contract and in particular for the calculation of the pension under the defined-benefit scheme will be based on the amount of remuneration at the date of suspension of the employment contract in 2006, namely, fixed remuneration of €1,500,000 and variable remuneration of €1,250,000. This reference remuneration is revised annually by applying the revaluation coefficient in respect of salaries and pension contributions published by the French state pension fund (*Caisse nationale d'assurance vieillesse*). As of January 1, 2018, the fixed remuneration amounted to €1,684,500 and the variable remuneration to €1,403,750.
  - The seniority applied will cover his entire career, including his years as Chairman and Chief Executive Officer.
- ◆ Jean-Paul Agon will continue to be treated in the same way as a senior manager throughout the term of his corporate office, which allows him to benefit from the additional social protection schemes, including the employee benefit and healthcare schemes applicable to the Company's employees, as described in chapter 2 of the management report.

Neuilly-sur-Seine, February 20, 2018

The Statutory Auditors

PricewaterhouseCoopers Audit  
G rard Morin

Deloitte & Associ s  
Fr d ric Moulin



# 3

## L'Oréal's corporate social, environmental and societal responsibility\*



<b>3.1. L'Oréal's corporate social, environmental and societal policies</b>	<b>137</b>	<b>3.4. Tables of concordance</b>	<b>208</b>
3.1.1. A Group with a longstanding commitment	137	3.4.1. Table of concordance in respect of social, environmental and societal matters	208
3.1.2. The L'Oréal Group's Human Resources policy	138	3.4.2. GRI Standards Content Index	210
3.1.3. The L'Oréal Group's environment, health and safety (EHS) policy	156	<b>3.5. Statutory Auditors' Reports</b>	<b>214</b>
3.1.4. The L'Oréal Group's societal commitment	169	3.5.1. Report by one of the Statutory Auditors, appointed as an independent third party, on the consolidated human resources, environmental and social information included in the Management Report	214
<b>3.2. The Sharing Beauty With All programme</b>	<b>181</b>	3.5.2. Reasonable assurance report of the statutory auditors on a selection of consolidated human resources, social, environmental, health and safety information published in the Management Report	219
3.2.1. Innovating sustainably	182		
3.2.2. Producing sustainably	188		
3.2.3. Living sustainably	196		
3.2.4. Developing sustainably	198		
<b>3.3. Methodological notes</b>	<b>205</b>		
3.3.1. Social data	205		
3.3.2. Health and safety data	205		
3.3.3. Environmental data	206		
3.3.4. Societal data	207		
3.3.5. Innovating sustainably data	207		

\* This information forms an integral part of the Annual Financial Report as provided in Article L. 451-1-2 of the French Monetary and Financial Code.

At the end of 2013, the Group presented its Sustainable Development commitments for 2020, through the *Sharing Beauty With All* programme. This public announcement testifies to L'Oréal's ambition and the strong commitment of its management and all its teams to build and ensure sustainable growth. L'Oréal has a solid Sustainable Development legacy. This chapter describes the L'Oréal Group's corporate social, environmental and societal policies while also reporting on the progress made within the scope of the *Sharing Beauty With All* programme.

## Introduction

L'Oréal's ambition is to win one billion new consumers by developing a universalisation strategy to respond to the specific beauty needs of men and women all over the world. The Group's growth strategy is partly based on its commitment to decouple its growth from its consumption of natural resources and its emissions, and to involve consumers, who are at the heart of its business activities, by offering them products which are both sustainable and aspirational, thus inciting them to make sustainable choices.

Convinced that Sustainable Development is an essential factor for success and durability, L'Oréal has adopted an ambitious corporate social, societal and environmental policy, which is shared by its management and teams and is based on a core

set of strong ethical principles defined by the Group: Integrity, Respect, Boldness and Transparency. In 2013, a new level was reached with the implementation of the *Sharing Beauty With All* programme. Clear targets were set for 2020 in terms of innovation, production, meeting the challenges of sustainable consumption, and sharing the Group's growth. Every year, L'Oréal reports on the progress made and its achievements in its Registration Document, in the *Sharing Beauty With All* Progress Report, its dedicated website [www.sharingbeautywithall.loreal.com](http://www.sharingbeautywithall.loreal.com) and through annual reporting with regard to the United Nations Global Compact which L'Oréal has supported since 2003.

## EFFORTS THAT HAVE BEEN RECOGNISED AND REWARDED

In 2017, as in previous years, L'Oréal was acclaimed by the most demanding organisations in this field, and in particular:

- ◆ the extra-financial rating agency Vigeo Eiris ranked the Group No. 1 in all sectors;
- ◆ for the sixth consecutive year, the extra-financial rating agency Oekom Research AG gave L'Oréal Prime status, a rating awarded to the top-performing companies;
- ◆ the CDP, an independent international NGO that assesses companies' environmental performance, gave L'Oréal a triple "A", representing the top score, for each of the ratings made on key topics: the fight against climate change, sustainable water management and forest conservation. Only two companies in the world obtained this triple "A" score in 2017;

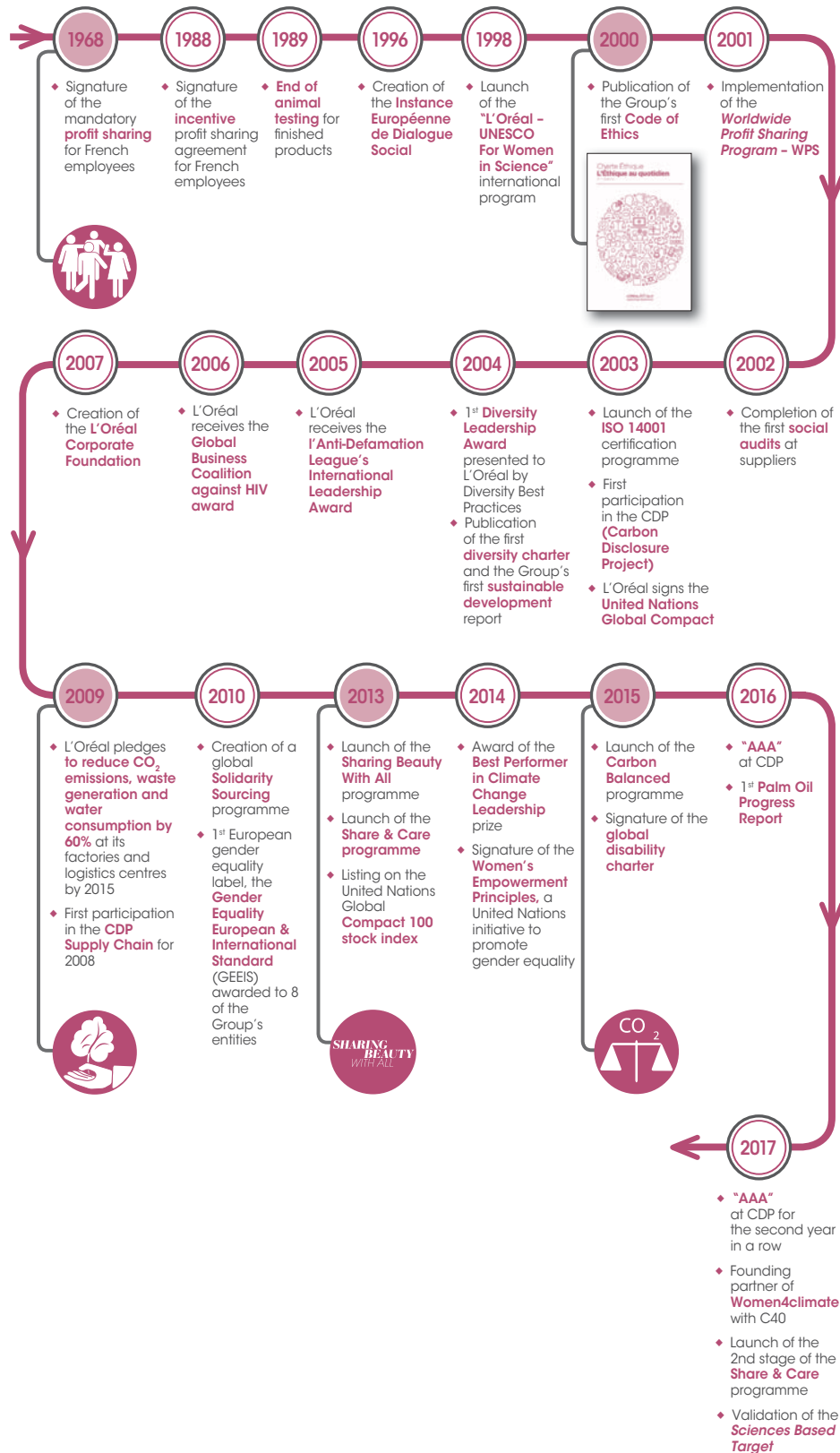
- ◆ L'Oréal was recognised for the eighth time as one of the « World's Most Ethical Companies » by the Ethisphere Institute and ranked first throughout 2017 in the Personal and Household Goods category in the Covalence ranking.

The Group's good performances mean that it is regularly included in the indices requiring the highest standards:

- ◆ extra-financial rating agency Ethibel's Sustainability Indices Excellence Europe and Excellence Global;
- ◆ the FTSE4Good index;
- ◆ the United Nations Global Compact 100 stock index since its creation in 2013;
- ◆ the Euronext-Vigeo indices which highlight the top performing companies in the areas of the environment, corporate social responsibility and governance.

### 3.1. L'ORÉAL'S CORPORATE SOCIAL, ENVIRONMENTAL AND SOCIETAL POLICIES

#### 3.1.1. A GROUP WITH A LONGSTANDING COMMITMENT



### 3.1.2. THE L'ORÉAL GROUP'S HUMAN RESOURCES POLICY

L'Oréal's Human Resources Department have always had the mission of supporting the HR Group's growth and supporting its transformation initiatives. In order to be sustainable, L'Oréal's growth relies first and foremost on the men and women in the Company who are the key drivers of the Group's success. Built on the strength of this conviction, the Group's social and human project is based on both individual development and collective strength.

#### People as the central focus

The conviction that everyone's talent makes a difference has always caused the Group to put the human dimension at the centre of its concerns and its development. L'Oréal finds, recruits and develops its employees in a long-term perspective in which training and development play a core role throughout the employee's career.

#### A Human Resources Policy at the service of growth

The Human Resources Department support L'Oréal's growth objectives and its three main priorities: universalisation, digital transformation and corporate social responsibility commitments.

In support of universalisation, understood as globalisation that respects differences, the role of our Human Resources teams is to accelerate the recruitment and development of talents from all over the world and to prepare tomorrow's leaders, fostering the emergence of the best local talents in support of the ambition to win one billion new consumers.

The Human Resources teams provide support during all the changes in the Company, its organisation and its businesses. The digital transformation therefore relies both on recruiting highly talented employees, integrating new businesses and the dissemination of a digital culture at all levels. This transformation also concerns HR practices, in particular, employer communication, the identification and recruitment of talented people and the training and development of employees with an increased level of e-learning.

Human Resources also play a central role in transforming working and management methods, particularly through the "Simplicity" programme. This programme, launched in 2017, plays an essential role in growth through innovation and increasing L'Oréal's appeal throughout the world.

The *Simplicity* programme aims to develop a new mind set at the core of the Group, one that is based on greater cooperation and trust within flexible and effective teams. The implementation of *Simplicity* is supported by a large-scale programme, LeadEnable for Simplicity. Launched this year for the Group's Top Managers, LeadEnable supports managerial

transformation and promotes new ways of managing teams and working together.

#### A leader in social innovation

For L'Oréal, there can be no sustainable economic growth without social progress. Throughout its history, the Group has set itself the target of offering an environment in which everyone can reveal their talents, improve and thrive. Therefore, within the scope of the 2020 targets of the *Sharing Beauty With All* programme, L'Oréal made the commitment to provide annual training to all of its employees worldwide.

In addition, *L'Oréal's Share & Care* programme, which launched in 2013 and was rolled out to all of the Group's subsidiaries, offers employees a shared framework of social benefits in the areas of employee benefit schemes, health, parenthood and the quality of life at work. In addition to this shared framework, the programme ensures that each subsidiary is at the same level of best practice in each country. Finally, each subsidiary is invited to launch its own initiatives to contribute to social innovation and to maintain L'Oréal's position as one of the most attractive employers in every market. L'Oréal took a further step forward in 2017 in order to reinforce the programme by setting new targets for 2020 with a particular emphasis on quality of life at work and parenthood.

#### 3.1.2.1. Recruiting and supporting talents

The Group constantly strives to enhance its pool of talents, in all countries.

It enforces a diversified recruitment policy based around several recruitment channels, including partnerships with the best educational institutions internationally and its student competition (Brandstorm), which attract tens of thousands of students from all over the world each year.

To ensure an effective selection process, L'Oréal has also developed its own selection methods to recruit the best talents - those who best represent the diversity of cultures - who are capable of expressing the different aspirations of consumers on a global scale, from among more than a million unprompted applications received every year.

The proactive approach offered by social networks in particular facilitates further diversification and enrichment of the sources of job applications for the Group.

In parallel with this approach, L'Oréal has developed digital employer communication aimed at sharing, daily and transparently, the rich variety of its professions and jobs and the diversity of its career paths, and making it possible, as an underlying objective, to understand the Group's culture.

L'Oréal is recognised as one of the most attractive companies in the world for young graduates and one of the companies that provides the most leadership training <sup>(1)</sup>.

(1) Source: *Universum 2017*.

In all the countries in which L'Oréal is present, the objective pursued is to develop a lasting relationship with each new employee. Building a personalised induction process makes it possible to give everyone the keys to success within the Group, both from an operational standpoint and with the desire to

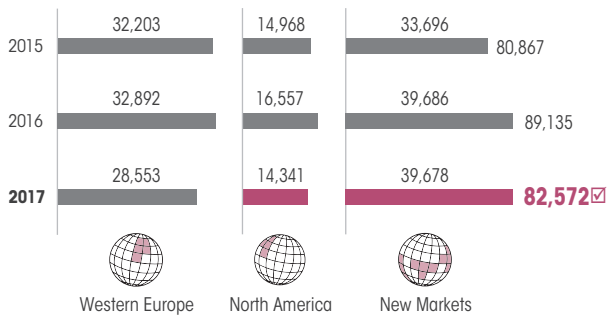
share the corporate culture. Stimulating career paths allow everyone to develop their talent and make it possible to increase competitiveness and innovation and to pursue the Company's international expansion.



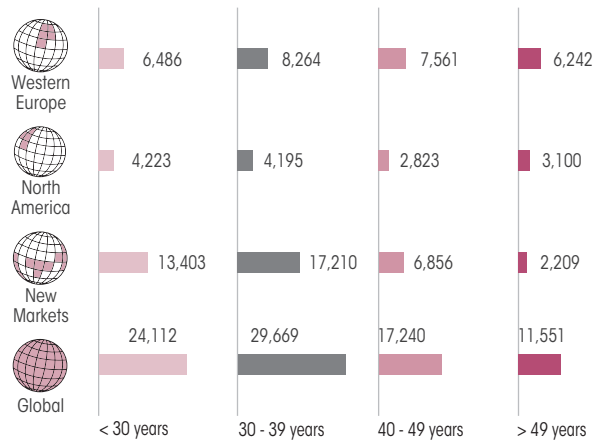
**13,633 employees hired on permanent contracts in 2017**

*Distribution of workforce*<sup>(1)</sup>

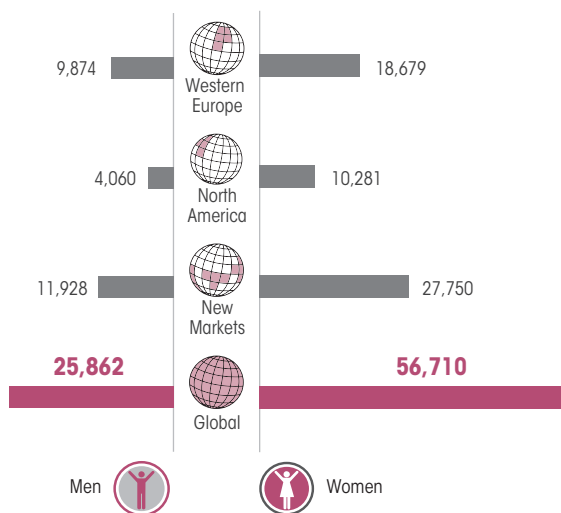
**BY GEOGRAPHIC ZONE**



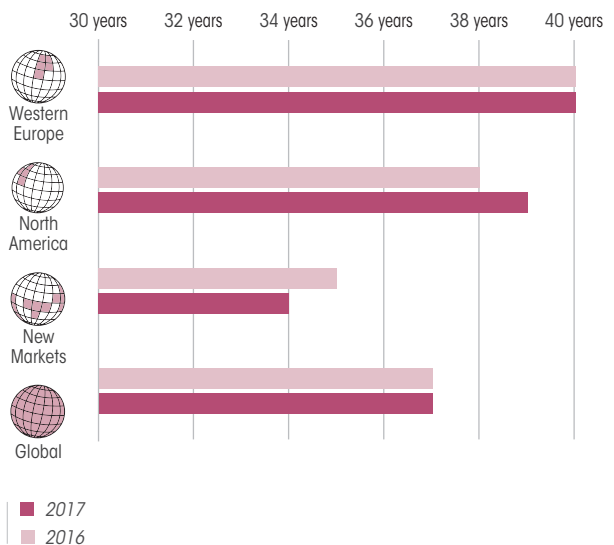
**BY AGE GROUP**



**BY GENDER**



**AVERAGE AGE BY GEOGRAPHIC ZONE**



Statutory Auditors have expressed a reasonable assurance with regard to this indicator.  
(1) Excluding recent acquisitions. See methodological note 3.3.1.1.

**NUMBER OF DEPARTURES**

	2015	2016	2017
Number of departures (resignations, agreed terminations, dismissals) (permanent contracts)	10,068	10,498	10,555
Number of dismissals (permanent contract)	2,386	2,589	2,787

To achieve the objective of sustainable growth which is the best guarantee it can offer its employees, L'Oréal has to continually adapt to its environment. This may lead to restructuring, particularly in light of the current difficult economic climate. Nevertheless, any decision that may affect the working life and jobs of employees is made after in-depth

consideration and is the subject of clear, regular communication with regard to employees and an ongoing dialogue with the employees themselves and their representatives, in accordance with L'Oréal's values of integrity and transparency.

**ABSENTEEISM RATES**

Total absenteeism rate (%)	4.22%	C/(A+B)
Absenteeism rate due to illness (included in the overall absenteeism rate)	2.24%	D/(A-B)

(A) Number of working days worked by all statutory employees.

(B) Number of days of annual leave enjoyed by all statutory employees.

(C) Number of days of absence (sick leave, occupational diseases, maternity leave, paternity leave, accidents in the workplace and/or travel-to-work accidents or any other paid or unpaid absence).

(D) Number of days of sick leave (excluding occupational diseases, maternity leave, work-related accidents and/or travel-to-work accidents).

**3.1.2.2. Priority given to employee training throughout their careers**

Within the scope of the Group's universalisation strategy, the mission of the Learning teams is to contribute to L'Oréal's competitive advantage by developing talents, by anticipating the skills required to enable the Group to remain one step ahead, by accompanying the Company's transformations and by ensuring the cohesion of the teams all over the world through dissemination of the corporate culture.

L'Oréal has always considered the development of its employees as one of the main drivers of its performance and its transformation. To prepare tomorrow's leaders, the Group's ambition is to provide all its employees throughout the world with the best possible response in terms of training.

***The vision of Learning for all***

For L'Oréal, *Learning for all* is a question of social responsibility. Therefore, within the scope of the *Sharing Beauty With All* programme, L'Oréal made the commitment that by 2020, every employee will have access to training wherever they are in the world.

**78% of the Group's employees**

participated in at least one training course in 2017

To achieve the ambition of *Learning for all* aimed at enabling the largest possible number of employees to develop, L'Oréal has set up a training system open to everyone without distinction as to employee professional level, jobs or countries. This system makes it possible to:

- ◆ promote the global dissemination of the corporate culture and the integration of new employees;
- ◆ help to develop each person's potential;
- ◆ accelerate the transmission of know-how and develop strategic professional skills.

## MYLEARNING.COM: A PORTAL DEDICATED TO EMPLOYEE TRAINING

### My Learning

The mylearning.com portal aims to offer a whole range of innovative development resources to the largest possible number of employees, for continuous interactive learning that is accessible at any time. The portal exists in 27 languages and is deployed in all countries in which L'Oréal is present.

Since 2013, the number of e-learning hours has increased sevenfold and there are now more than 46,700 regular users of the training platform.

Whatever their job, their duties or their country, all employees are encouraged to be active agents of their own development. The mylearning.com portal offers a wealth of more than 10,000 pedagogical resources, organised around the following 3 objectives:

1. Communication of the knowledge related to L'Oréal's core business (marketing, sales, operations, Research & Innovation, etc.);
2. Managerial development (leadership, collaborative networking, agility, etc.);
3. Support for all the international programmes concerning responsible business conduct (ethics, *Sharing Beauty With All*, antitrust law, information security, etc.).

#### MOOCs in 2017:

Employees can now take MOOCs (Massive Open Online Courses) thanks to the pioneering partnership signed with the leading provider, Coursera. Through this arrangement, over 150 universities all over the world offer certificate courses. Students consider the possibilities offered by these courses as excellent, they appreciate the freedom of learning, accessibility on their mobile phones and above all the possibility to attach these certificates to their LinkedIn profile. The subjects that attract the most students are management, digital developments with data science as well as coding, design thinking and learning how to learn. In one year, almost 3,200 people registered for MOOCs, there were nearly 19,000 training hours and an exceptional 30% certification rate.

#### Mylearning.com 2017 results:

46,700 active users, 640,000 training modules followed (representing an average of 14 modules per learner), 170,000 training hours online, representing an average of 3.6 hours per user.

## FIT CULTURE APP: THE FIRST MOBILE APPLICATION SPECIFICALLY FOR NEW HIRES

As part of the integration process for each new hire across the world, L'Oréal has developed the first mobile application (available in 11 languages) whose purpose is to enable each new hire to understand and grasp the Company's culture. This is a major advance in the world of Human Resources in the digital era which impacts more than 10,000 new recruits each year.

The application's concept is as follows:

- ◆ there are content capsules on subjects such as corporate spirit, agility and cooperation;
- ◆ each capsule contains a mixture of text, photos, videos testimonies, quizzes and mini games;
- ◆ in game mode, new employees play and win points;
- ◆ new employees complete real tasks that are related to the capsules in order to put theory into practice;
- ◆ as they make progress, the new employees earn *Insider Secrets*: a fact, a story or a myth involving L'Oréal;
- ◆ the application gives new employees the freedom to choose where and when they wish to learn.

### *Training at the service of the Group's performance*

Training is at the centre of the major challenges related to the Company's development: digital revolution, new leadership model *LeadEnable*, IT (*Information Technology*) transformation, Industry 4.0.

Launched in 2015, the *Digital Upskilling* training programme is one of the pillars of the Group's digital acceleration strategy. This programme began by communicating the Group's digital ambition in the area of e-commerce, marketing and love brands, in order to create a shared language. The programme is gradually evolving to support the development of new skills that are essential in order to develop new competitive advantages for the Group.

During 2016-2017, the programme forms part of two major ongoing areas of focus:

- ◆ consolidating the new skills necessary for the digital transformation (e-commerce, advertising precision, analytics);
- ◆ integrating digital in all of the Group's training plans.

The *Digital Upskilling* programme relies systematically on three educational principles:

- ◆ contributing new knowledge in terms of vocabulary, best practice, and academic content;
- ◆ connecting with the external world: immersion activities with digital agencies, consumer interviews;
- ◆ practical application during work sessions: workshops that allow action plans to be prepared in order to integrate digital technology into the different businesses lines.

Since 2015, the programme has involved more than 15,500 employees. Online training represents 20% of this programme's hours.

2017 is the first year of implementing the Group's *Simplicity* project, based on cooperation and trust and on flexible and effective teams.

The aim has been to involve the management teams in this project as part of a training programme called *LeadEnable for Simplicity*, which lasts for 2.5 days. The programme has already led to 3,700 managers receiving training in 2017. Using 360° evaluation and joint development meetings, this training aims to share a new management vision. The 2018 target is to continue to roll out this programme worldwide.

L'Oréal ensures the global consistency of its main programmes and their suitability for the needs of each geographic zone thanks to an international network of Learning managers. The local teams contribute to the preparation of new Learning offerings with a principle of co-development. These training programmes are essential to understanding the Group's strategy and building a feeling of belonging by developing both an internal and international network.

The training is structured into fields of expertise (marketing, commerce, research, operations, management, personal development, etc.).

Employees benefit from two annual individual interviews with their manager, one of them being dedicated to identifying development needs. Personal training paths are built on the basis of these discussions, with the help of the Learning managers.

Employees then have access to a comprehensive set of development resources offering a mix of in-room training, training videos, digital and social experiences and coaching in the work situation. They can thus build their own training experience, while sharing their practices with colleagues all over the world. Finally, all the training actions include a system of assessment which makes it possible to measure the impact on performance and managerial skills.

### L'Oréal's training policy rewarded

In 2017, L'Oréal received the technology excellence award from Brandon Hall group for the best company university strategy, rewarding the successful integration of training as part of the Group's transformation process.

The Brandon Hall group HCM (*Human Capital Management*) excellence awards programme is the most prestigious in the industry. Often called "Academy Awards" by the professional, talented management executives being trained, this programme, launched in 1994, is the first of its kind in the learning industry.

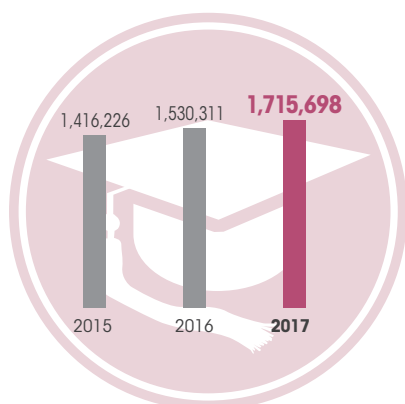
The Group received two other awards:

- ◆ the "U-Spring - Printemps des Universités d'Entreprise" - rewarding L'Oréal for being the "perfect example of the learning company";
- ◆ the "Victoire des Leaders du Capital Humain" (VLCH) award emphasising our HR engagement with the "Learning for all" programme.

### NUMBER OF EMPLOYEES TRAINED IN 2017

	Western Europe	North America	New Markets	Global
Number of employees trained	24,524	10,184	30,909	64,617
Training hours	564,395	230,775	920,528	1,715,698

### NUMBER OF TRAINING HOURS





### 3.1.2.3. Remuneration policy

#### The principles

The L'Oréal's remuneration policy has the objective of contributing to the achievement of the Group's objectives and is an integral part of its development strategy. L'Oréal wants to attract and foster the loyalty of talented employees, propose motivating career paths and encourage its employees' performance and commitment, while accompanying the evolution of jobs and business. For L'Oréal, social performance and economic performance are indeed closely linked.

The Group wishes to offer each and every one of its employees a remuneration policy that combines external competitiveness with internal equity, and which rewards both individual and collective performances.

To do so, external surveys are conducted every year with specialist firms to ensure that L'Oréal's positioning is appropriate as compared to the local market. A "total remuneration" approach is also adopted, which proposes a very competitive system of remuneration for each employee, consisting of monetary and non-monetary components. The Group furthermore undertakes to associate its employees with the Company's results through profit sharing systems set up all over the world.

Finally, L'Oréal's ambition is for every employee to understand his/her remuneration and how it is determined. Accordingly, the Group makes sure that it communicates clearly and transparently on this subject to everyone. L'Oréal's remuneration policy is based on an annual performance assessment system (MAP) for employees applied in all the Group's subsidiaries. It makes it possible to communicate on the rules for determining remuneration, the process and the decisions made. Furthermore, the Group's subsidiaries are encouraged to give employees once a year, a document showing the increases in their remuneration and its various components with the aim of clarity and transparency.

#### PERSONNEL COSTS (INCLUDING PAYROLL COSTS)

€ millions	2015	2016	2017
<b>TOTAL</b>	<b>4,967.5</b>	<b>5,182.6</b>	<b>5,433.5</b>

The comparison between the three years takes into account the foreign exchange impacts and is not representative of the real changes in personnel costs.

#### Plans for the conditional grant of shares to employees (ACAs)

L'Oréal sets up long-term incentive plans in favour of its employees and executive officers in an international context, based on the grant of performance shares.

It pursues a dual objective:

- ♦ motivating and associating those who make major contributions with future increases in the Group's results;
- ♦ increasing solidarity and helping to instil a Group spirit among its managers by seeking to foster their loyalty over time, notably internationally, in a context of stronger competition for talents.

The acquisition of these shares is subject to the achievement of performance targets. In order to ensure consistency with the Group's strategic objectives, the choice of tools, beneficiaries and performance criteria is the subject of a precise policy (see section 6.4 "Long-term incentive plans"). The Board of Directors decides, after receiving the opinion of the Human Resources and Remuneration Committee, on the opening of these plans and the applicable rules.

50% of the beneficiaries of the 20 April 2017 Plan are women. Nearly 3,200 employees representing 10% of the managers throughout the world, 62% of whom are in international subsidiaries, benefit from at least one stock option plan or one conditional grant of shares plan (ACAs).

#### Worldwide profit sharing, incentive and mandatory profit sharing schemes

For many years, L'Oréal's policy has been to associate employees with the results of the Company with the aim of strengthening the Group spirit and enhancing their motivation.

In the context of the existing profit sharing, incentive and mandatory profit sharing schemes €298 million were redistributed to L'Oréal's employees in 2017, on the basis of the 2016 results.

In 1968, a mandatory employee profit sharing agreement ("participation") was signed in France, followed by an incentive profit sharing agreement ("intéressement") in 1988, and these agreements have been consistently renewed since then.

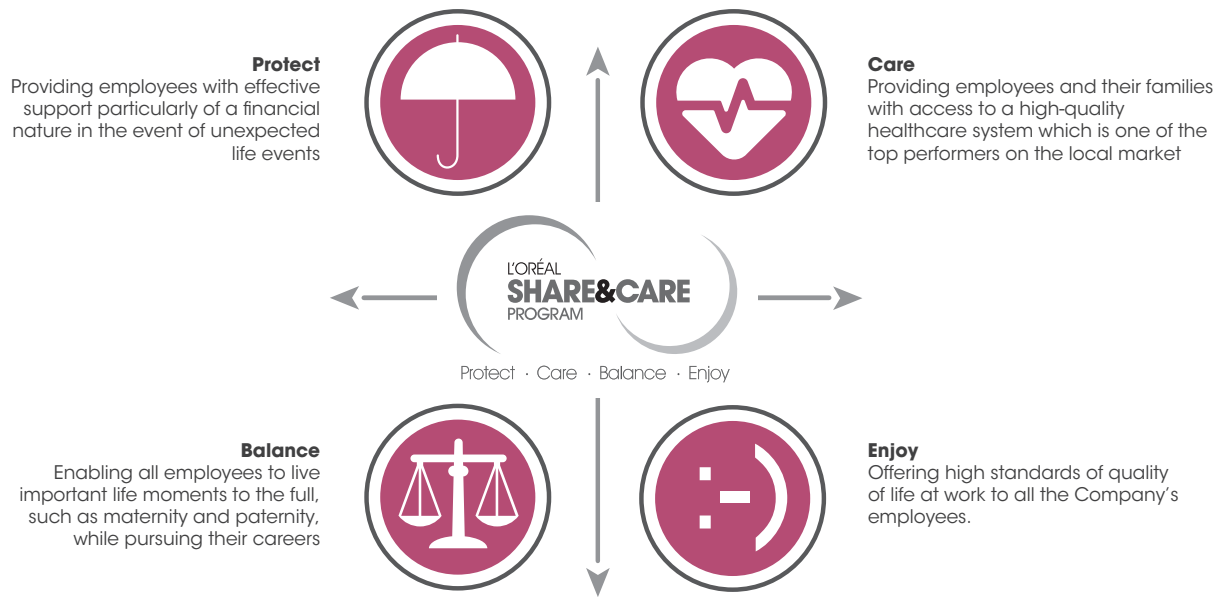
Since 2001 L'Oréal has implemented a *Worldwide Profit Sharing* programme (WPS) in all the Group's subsidiaries in which the employees do not benefit from profit sharing programmes provided for by law or employee agreements. The amounts paid within this framework are calculated locally on the basis of the sales and earnings of each subsidiary, as compared to the budgeted targets.

#### AMOUNTS PAID UNDER THESE PROGRAMMES

€ millions	2015	2016	2017
<b>TOTAL*</b>	<b>260</b>	<b>268</b>	<b>298</b>

\* Incentive Profit Sharing, Mandatory Profit Sharing, Additional Employer Contributions, Worldwide Profit Sharing.

### 3.1.2.4. L'Oréal Share & Care programme: an accelerator of social progress



Throughout its history, L'Oréal has set itself the target of offering its employees security and protection to enable them to work with peace of mind. *L'Oréal's Share & Care* programme follows on from this long tradition of social progress and attention to the individual. L'Oréal relies on the conviction that the Company makes, and will continue to make, a difference by putting people at the centre of its concerns, its organisation and therefore its development.

The Group has thus adopted the objective of creating a work environment in which all employees can thrive both at a professional and personal level.

With its *L'Oréal Share & Care* programme, L'Oréal has universalised its social model, in a manner that is completely consistent with its global dimension: this is a strong commitment which reflects the Company's vision, whereby sustainable growth necessarily goes hand in hand with a global vision and a high level of social performance.

The programme was launched in 2013 and put in place in collaboration with all countries, with an ambitious objective: implementing a common set of social benefits, i.e. minimum

universal social protection measures in all countries, and becoming one of the top performers in each local market, by improving the common skill set whenever local best practices offer more.





In addition to these measures that are common to all the countries, the *L'Oréal Share & Care* programme aims to make each country a "social innovation laboratory", by encouraging them to develop initiatives that are in line with the expectations of their employees.

The essential components of the *L'Oréal Share & Care* programme have now been deployed in all the countries in which L'Oréal has subsidiaries.

The second phase of the project, initiated in January 2017, aims to add to or improve some commitments by setting global targets for 2020. This involves improving social welfare for employees in the programme's four pillars. These measures include the introduction of a minimum paternity leave of ten fully paid days, the strengthening the *flexwork*, telecommuting and flexible working hours schemes, wherever local practices so allow, or the expansion of employee benefit schemes.

**The four pillars of L'Oréal's Share & Care programme**

This large-scale social programme consists of commitments revolving around four pillars put in place in all countries: social welfare, health, parenthood and quality of life at work.

PILLARS OF THE L'ORÉAL SHARE & CARE PROGRAMME	OBJECTIVES	MAIN COMMITMENTS ACHIEVED IN ALL COUNTRIES <sup>(1)</sup>
<p><b>Protect</b> (social protection)</p> 	<p>Providing employees and their families with effective support of a financial nature in the event of unexpected life events.</p>	<p>A capital sum, or a pension, equivalent to 24 months' salary in case of natural or accidental death. A capital sum, or a pension, equivalent to 24 months' salary in case of total permanent disability. A social protection scheme aligned with the best practices in each country.</p>
<p><b>Care</b> (healthcare)</p> 	<p>Providing employees and their families with access to a high-quality healthcare system.</p>	<p>In the event of major risks (hospital stays, surgery, drugs for chronic and serious conditions) at least 75% of the medical costs are reimbursed. Prevention and information measures with regard to individual health (medical check-up, online risk assessment, etc.) and also collective health (melanoma, HIV, diabetes, obesity, etc.) are implemented according to local priorities.</p>
<p><b>Balance</b> (parenthood)</p> 	<p>Enabling all employees to fully experience milestones in life such as maternity and paternity, while pursuing their careers.</p>	<p>A minimum of 14 weeks' maternity leave with full pay. The Group ensures that women on maternity leave benefit from salary increases equivalent to those they would have received had they been present in the Company. A minimum of 3 days' paternity leave with full pay.</p>
<p><b>Enjoy</b> (quality of life at work)</p> 	<p>Offering high standards of quality of life at work and contributing to professional fulfilment of all the Company's employees.</p>	<p>Flexible working arrangements (telecommuting, flexible working hours or other flexible aspects). New premises are accessible, particularly via public transport and offer pleasant, collaborative working spaces. Training programmes in workstation ergonomics are provided to all employees. Training programmes for managers with regard to stress prevention have been put in place or are being developed.</p>

<sup>(1)</sup> The Group's permanent employees (Cosmetics) except, in certain countries, part-time contracts working <21 hours a week, occasional contracts, beauty advisers and store employees, noting that the integration of recent acquisitions and new subsidiaries takes place gradually.

### FOCUS ON L'ORÉAL USA

"L'Oréal USA is very proud of the work we have accomplished and continue to do support Share & Care programme. We want L'Oréal USA to be a best-in-class company. That means we must continue to measure and to benchmark ourselves against other best-in-class companies to ensure that our benefit offerings are both advanced and competitive."

Frédéric Rozé - CEO, L'Oréal USA.

When the programme was launched in 2013, the main improvements for L'Oréal USA were within the "Balance" pillar. For instance, paternity or adoption leave were not offered. Since then, programmes of 10 days for each were instituted, and parental and adoption leave increased to 15 days in January 2018. Maternity leave was also increased from 13 to 14 weeks.

Beginning 2016, recognizing the importance of work-life balance, L'Oréal USA enhanced the "Enjoy" pillar by increasing its flexible work offerings. A "Vacation Buy" programme was introduced, where employees can purchase up to 5 additional days of vacation, increasing to 10 in 2018. The flexibility of the "Work From Home" policy was also increased, shifting from two days per month to six non-consecutive days per quarter.

In October 2017, L'Oréal USA was named by Working Mother Magazine as one of the 100 Best Companies for working mothers. They were recognized for their progressive programmes in advancement of women, flexibility, childcare and paid parental leave.

In addition to its core programmes, L'Oréal USA promotes Share & Care all along the year. 2017 initiatives include:

- ◆ *RedBrick Health App*, launched in January to make it easier for employees to access their wellness information;
- ◆ *Beauty of Mindfulness*, a weekly on site meditation programme introduced in February;
- ◆ *Bring your Child to Work Day*, the USA family day that took place in March;
- ◆ *The Virtual Therapy Sessions* programme was introduced in April, to help employees deal with stress. This is a companion programme to *Virtual Doctor Visits* launched in 2016, where employees and their dependents can receive routine medical treatment 24/7 virtually from a board certified doctor;

- ◆ *Save Our Skin (SOS)*, one of their most important events, took place in May. Skin cancer screenings were offered on site with dermatologists. 1,372 employees received a free skin check;
- ◆ In October, the Breast Cancer Awareness Month, L'Oréal USA HR launched its *L'Oréal USA HR Gives Back year-round philanthropic* programme with Lash Out Against Breast Cancer event. Their facilities across the country participated with proceeds going to the Ralph Lauren Pink Pony Fund, for cancer care and prevention;
- ◆ In addition Ergonomic assessments took place in June, Flu shots were offered to employees in September and onsite biometric screenings took place in November.

When the wellness of so many employees was at risk due to hurricanes which began in September, L'Oréal USA employees pulled together to provide relief efforts to ravaged areas of Texas, the Gulf Coast and Puerto Rico. L'Oréal USA and IT Cosmetics founders pledged to match employee donations up to \$50,000 with the proceeds going to the American Red Cross. Employees' donation totalled \$50,814. In addition, many L'Oréal USA locations held blood drives, thousands of cases of water were provided, as well as 85 portable generators, etc., and a great quantity of L'Oréal products.

### *The assessment tools with regard to deployment of L'Oréal's Share & Care programme*

In order to ensure transparency and reliability, the entire programme is regularly subject to measurement and assessment, in order to verify that it has been implemented in accordance with the objectives:

- ◆ Self-assessment and definition of the action plan through a reporting tool: the *Follow-up-Tool*, completed by each country annually;
- ◆ Internal Audit: Internal Audit plans in the subsidiaries contain detailed verification of the programme's implementation;
- ◆ External audit: certain key indicators are audited within the scope of the external audit pursuant to Article 225 of French law No. 2010-788 of 12 July 2010.

### **The Advisory Board for the L'Oréal Share & Care programme**

In order to cast a critical eye over the programme, to provide an analysis of the main social trends and to study best practices in the major regions of the world, L'Oréal has set up an Advisory Board chaired by Jérôme Tixier, Executive Vice-President Human Resources, and composed of personalities from outside the Group representing different geographic zones, and consisting of academics, trade union officials or members of international organisations.

Since 2014, the Advisory Board has met annually with the aim of providing support for developments in the L'Oréal Share & Care programme over the coming years, accordingly making a big contribution to the second stage of the programme, launched in January 2017.

### **The international labour organisation associated with the L'Oréal Share & Care programme**

Preparation of the L'Oréal Share & Care programme attracted the attention of the ILO (International Labour Organization) in the context of its study on the contribution by large companies to broader social protection all over the world.

A close collaboration was developed and enabled the ILO to launch the Global Business Network for Social Protection Floor in October 2015 which aims to act collectively and mobilise companies in order to create a basic set of social protection measures for everyone. L'Oréal is a founding member of this new business network created by the ILO to promote social protection all over the world.

Currently, nearly 73% of the world's population <sup>(1)</sup> does not have access to basic social welfare. However, some companies, like L'Oréal, have set up social protection systems for their employees world-wide. On the strength of these initiatives, the ILO has chosen to get major international companies together so that they can provide their contribution and support the creation and extension of a basic set of social protection measures all over the world.

#### **3.1.2.5. Employee benefit and pension schemes**

L'Oréal wants to make sure that its employees benefit from competitive pension and benefit schemes in all countries. In accordance with the legislation and practices in each country, the Group contributes to the funding of pension schemes, pre-retirement arrangements and employee benefit schemes offering a variety of additional coverage for its employees.

Since 2002, a Supervisory Committee for Pension and Employee Benefit schemes ensures the implementation of

these schemes in the subsidiaries and the monitoring of L'Oréal's Pension and Employee Benefits policy.

This policy provides for general principles in the following areas: defining and implementing schemes, relations with employees, financing schemes and the cost and management thereof. Approval must first be obtained from the Supervisory Committee prior to the introduction of any new scheme or the modification of any existing scheme. Approval must first be obtained from the Supervisory Committee prior to the introduction of any new scheme or the modification of any existing scheme. The Supervisory Committee works closely with the operational management of the Divisions and zones.

L'Oréal's commitments with regard to benefit cover are part of the "Protect" pillar of the L'Oréal Share & Care programme. In all countries, L'Oréal guarantees the payment of a capital sum, or equivalent pension, equal to a minimum of 24 months' salary in the event of death or total permanent disability, or more where local practice is better.

The characteristics of the pension schemes and other pre-retirement benefits offered by the subsidiaries vary depending on the applicable laws and regulations as well as the practices of the companies in each country.

In 82% of the countries in which L'Oréal is established, the Group participates in extending additional retirement benefits for its employees that exceed the minimum benefits provided for by social security (United States, the Netherlands, Belgium, Brazil, Chile, Japan, Pakistan, Hungary). This policy is carried out through defined benefit and/or defined contribution schemes. In some cases, the defined benefit schemes have been closed to new recruits who are offered defined contribution schemes (Belgium, the Netherlands and the United Kingdom).

In defined contribution schemes, the Company's commitment mainly consists in paying a percentage of the employee's annual salary (into a pension plan) each year.

Defined benefit schemes are financed by payments into specialist funds or by setting up provisions, in accordance with the accounting standards adopted by L'Oréal. The performance of the managers of the main funds established, as well as the financial stability rating of the custodians, are regularly reviewed by the Supervisory Committee.

L'Oréal does not propose company pension schemes in countries which do not have an appropriate legal framework or a long-term investment instrument and in countries where there is satisfactory public social security coverage. The Supervisory Committee continues to be attentive to changes in local situations and, when required, additional Employee Benefit schemes are put in place.

(1) OIT, World Social Protection Report 2014-2015.

### Overview of the Pension and Employee Benefit schemes in France

#### Pension schemes

In order to supplement the pensions provided for by the compulsory French social security pension scheme, the ARRCO or the AGIRC (mandatory French supplementary pension schemes), L'Oréal has implemented the following supplementary pension schemes:

#### Defined contribution scheme (RCD L'Oréal)

In September 2003, L'Oréal set up a "defined contribution pension scheme".

Since 1 January 2015, all categories of employees are the beneficiaries of this scheme, which is financed jointly by L'Oréal and the employee, and which makes it possible for everyone to create pension savings, with a contribution on Bracket A as from 2015, it being specified that the

remuneration subject to contributions is capped at six times the French annual social security ceiling. As of 1 January 2016, the contributions have been increased on Brackets A, B and capped at half of Bracket C.

This scheme grants entitlement to the payment to the beneficiary retiree, after he/she has applied for his/her pension entitlements from the compulsory French social security pension scheme, of a Life Annuity as well as, after his/her death, the payment to the spouse and/or ex-spouse(s) of a Surviving Spouse Pension, if this option was chosen at the time of triggering of the annuity.

The Life Annuity is calculated on the basis of the capital formed by the contributions paid and the financial income on such contributions at the end of the employee's career. The employer's commitment is limited to the payment of the contributions stipulated.

### SUMMARY TABLE FOR L'ORÉAL'S DEFINED CONTRIBUTION PENSION SCHEME (RCD L'ORÉAL)

€ millions	31.12.2015	31.12.2016	31.12.2017
Number of members	12,747	13,770	14,885
<b>TOTAL NET CONTRIBUTIONS</b>	<b>13.5</b>	<b>19.6</b>	<b>22.8</b>

#### Defined benefit pension schemes

L'Oréal has also set up several differential or additional defined benefit schemes with conditional entitlements, in order to take into account the important developments impacting these schemes and with the aim of arriving at a coherent system between the different pension schemes that exist in the Company.

The "Supplementary pension scheme for Former senior managers" (*Retraite supplémentaire des Retraités Anciens Cadres Dirigeants*) concerns retirees who have held the responsibilities of senior managers (within the meaning of Article L. 212-15-1 of the French Labour code) for a minimum of 10 years, hired or promoted to this position as from 1 January 2016, and who end their career in the Company. This is an additional defined benefit pension scheme which grants entitlement to payment of a life annuity. The reference salary taken into account for calculation of the rights is the fraction of the salary which exceeds six times the French annual social security ceiling. The basis for calculation of the supplementary pension is the average of the revalued reference salaries for the best three full years of activity out of the seven calendar years prior to the end of their career. The supplementary pension would be 1.36% of the calculation base per year of service within the Group, up to a maximum of 25 years. Any retiree who so wishes will be able to choose an option of a surviving spouse pension.

Access to the "Retirement Income Guarantee for former senior managers" (*Garantie de Ressources des Retraités Anciens Cadres Dirigeants*) was closed on 31 December 2015. This scheme, created on 1 January 2001, was open to former L'Oréal senior managers who, in addition to fulfilling the requirement of having ended their career with the Company, met the condition of having had the status of senior manager

within the meaning of Article L. 3111-2 of the French Labour code for at least ten years at the end of their career. This scheme provides entitlement to payment to the beneficiary retiree of a Life Annuity, as well as, after his/her death, payment to the beneficiary's spouse and/or ex-spouse(s) of a Surviving Spouse Pension and, to the children, of an Orphan Pension, subject to the children fulfilling certain conditions.

The calculation base for the Income Guarantee is the average of the salaries for the best three years out of the seven calendar years prior to the end of the senior manager's career at L'Oréal. The Income Guarantee is calculated based on the beneficiary's number of years of professional service in the Company, assessed at the date of the end of his/her career at L'Oréal, and limited to a maximum of 25 years, each year leading to a steady, 1.8% gradual increase in the level of the Guarantee. At that date, the gross Income Guarantee may not exceed 50% of the calculation base for the Income Guarantee, or exceed the average of the fixed part of the salaries for the three years used in the calculation base. A gross annuity and gross Lump Sum Equivalent are then calculated, taking into account the sum of the annual pensions accrued on the date when the beneficiary applies for his/her pension as a result of his/her professional activity and on the basis of a beneficiary who is 65 years of age. The Life Annuity is the result of the conversion into an annuity at the beneficiary's age on the date he/she applies for his/her pension of the gross Lump Sum Equivalent, less the amount of all payments due as a result of termination of the employment contract, excluding any paid notice period and paid holiday, and less all salaries paid under any early retirement leave, if such Lump Sum Equivalent is the result of these operations. Around 340 senior managers are eligible for this scheme, subject to their fulfilment of all the conditions after having ended their career with the Company.

Access to the "Pension Cover for Members of the Comité de Conjoncture" (*Garantie de Retraite des Membres du Comité de Conjoncture*) has been closed since 31 December 2000. This former scheme granted entitlement to payment to the beneficiary retiree, after having ended his/her career with the Company, of a Life Annuity as well as, after his/her death, payment to the spouse and/or ex-spouse(s) of a Surviving Spouse Pension and, to the children, of an Orphan Pension, subject to the children fulfilling certain conditions. The calculation base for the Pension Cover is the average of the salaries for the best three years out of the seven calendar years prior to the end of the beneficiary's career at L'Oréal. The Pension Cover is calculated on the basis of the beneficiary's number of years' service and limited to a maximum of 40 years, it being specified that at the date of closure of the scheme, on 2000, the minimum length of service required was 10 years. The Pension Cover may not exceed 40% of the calculation base for the Pension Cover, plus 0.5% per year for the first 20 years, then 1% per year for the following 20 years, nor exceed the average of the fixed part of the salaries for the 3 years used in the calculation base. Around 120 Senior managers (active or retired) are eligible for this scheme subject to the proviso, for those in active employment, that they fulfil all the conditions after having ended their career with the Company.

#### Collective Retirement Savings plan (PERCO)

Since 2003, L'Oréal has proposed that employees make savings with a view to their retirement within the scope of the PERCO. L'Oréal has added an additional employer contribution of +50% to the investment made by employees in the PERCO every year since 2004. Since 2016, the additional employer contribution for the mandatory profit sharing amount invested in the PERCO has been increased to +100% for the first gross amount of €1,000 invested, remaining at 50% over and above such amount. Each year, employees may also invest up

ten days of holiday from the time savings account (CET) in the PERCO. When these day are put into the PERCO, they give rise to an additional employer contribution of +20%.

#### Pre-retirement arrangements

L'Oréal pays close attention to the retirement conditions of its employees and pre-retirement arrangements that have been in force for a number of years were confirmed and improved within the scope of the agreement on the employment of older workers, signed on 30 September 2013.

The existing arrangements are, in particular:

- ♦ early retirement leave ("congé de fin de carrière", CFC): this early retirement arrangement consists of exempting employees from the requirement to perform their activities. However, during this period, they remain employees of L'Oréal and continue to receive their remuneration (within the limit of €10,009 gross/month) as well as mandatory profit sharing, incentive profit sharing payments and paid leave;
- ♦ retirement indemnities ("indemnité de départ à la retraite", IDR): a new scale of indemnities at L'Oréal was implemented by a company-level agreement as from 2011. It is more favourable than the French National Collective Bargaining Agreement for the Chemical Industries.

Thus, when he/she retires, an employee may benefit from retirement indemnities ranging from 2 months' salary for 5 years' service to eight months' salary for 40 years of service.

In order to increase the special leave prior to retirement, the employee may opt to convert his/her retirement indemnities into time, or he/she may choose to receive payment of the retirement indemnities which will be made at the time when he/she leaves the Company.

	31.12.2015			31.12.2016			31.12.2017		
	Men	Women	Total	Men	Women	Total	Men	Women	Total
Early retirement leave	81	165	246	87	171	258	82	177	259
Compulsory retirement on the Company's initiative	0	0	0	0	0	0	0	0	0
Voluntary retirement	75	160	235	80	135	215	85	144	229

Source HR France statistics for 2015, 2016 and 2017.

These commitments are guaranteed by external financial cover aimed at gradually building up funds derived from premiums paid to external organisations.

The commitments net of funds invested and the actuarial differences are booked as a provision in consolidated to balance sheet liabilities. The position at a given year does not prejudge future changes in provisions due, in particular, to actuarial gains and losses related to financial market variations which might impact pension scheme commitments and plan assets.

The evaluation method used to calculate the retirement and pre-retirement benefit commitments is the retrospective method based on estimated calculations of the final salary.

These commitments take into account the employer's contribution to the healthcare schemes for retirees.

	31.12.2015	31.12.2016	31.12.2017
Provision for pension commitments in consolidated balance sheet liabilities	376.5	146.1	-63.9

€ millions

### Employee Benefit schemes in France

In addition to the compulsory guarantees provided for by the collective bargaining agreements, L'Oréal has set up, in France, under an agreement, an Employee Benefit scheme providing additional collective guarantees to its employees.

All these guarantees are based on the gross income up to eight times the French annual social security ceiling, except for the Education Annuity which is limited to up to four times the ceiling. They are generally financed on Brackets A, B and C of income as defined by the French social security, except for the Education Annuity which is based on Brackets A and B, and the Surviving Spouse Pension which is based on Brackets B and C.

This Employee Benefit scheme provides guarantees in the event of:

- ◆ temporary disability: for all employees, 90% of their gross income limited to 8 times the French annual social security ceiling, net of all deductions, after the first 90 days off work;
- ◆ permanent disability: for all employees, a fraction, depending on the extent of the disability, ranging up to 90% of their gross income, limited to 8 times the French annual social security ceiling, net of all deductions;

€ thousands

	31.12.2015	31.12.2016	31.12.2017
Net Employee Benefit Contributions for the financial year	12,543	13,351	13,750 <sup>(1)</sup>

(1) Estimate.

### Minimum guaranteed Lump Sum Death Benefits

Since 1 December 2004, and 1 January 2005 for sales representatives, L'Oréal has put in place an additional guaranteed Lump Sum Death Benefit that supplements, where applicable, for all employees, the Lump Sum Death Benefit to the extent of three years' average income. A maximum limit is set for this guarantee.

The total amount of the capital at risk needed to fund the Surviving Spouse Pension and Education Annuity, the Lump Sum Death Benefits and the minimum guaranteed Lump Sum Death Benefit is also capped.

### ◆ Death:

- for all employees, the payment of a Lump Sum Death Benefit, increased depending on the employee's family status. The amount of this Benefit is doubled in the event of accidental death,
- for the employees affiliated with the AGIRC supplementary pension scheme, the payment of a Spouse Pension to the surviving spouse. This ensures that the spouse has an income similar to the Surviving Spouse Pension that would have been paid by AGIRC if death had occurred at the age of 65,
- for all employees, the payment of an Education Annuity to each dependent child, according to an age-based schedule.

The total amount of the Lump Sum Equivalent for these guarantees may not exceed €2.3 million per event.

The capital for the Spouse Pension is the first to be applied, followed by the Education Annuity; the balance of the basic scheme is then used to calculate the Lump Sum Death Benefit, possibly increased by the minimum guaranteed Lump Sum Death Benefit.

### Healthcare expenses

The healthcare scheme is compulsory for all the employees of L'Oréal and its French subsidiaries. Employees have the option of including their family members in these schemes. Contributions are generally individual. The contribution by the employee is partly financed by the Company.



### 3.1.2.6. Work organisation

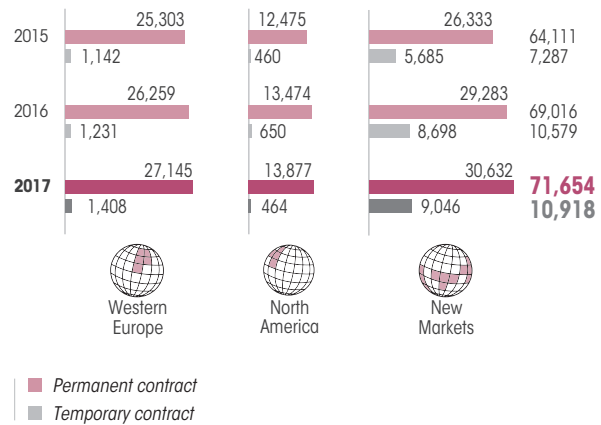
Work organisation is established, in each subsidiary, depending on the local context and activity, in accordance with the legal and contractual obligations. In several subsidiaries, both work organisation and working time are the subject of company-level agreements. In addition, the Group has made flexible working time one of the key components of the Enjoy pillar of the L'Oréal's *Share & Care programme*. Thus, each Group subsidiary has put in place at least one programme that provides for flexibility in one of the following areas: flexible working hours, adjustment to working hours on occurrence of specific events, implementation of time-off in lieu for additional working hours (banking of hours), and telecommuting if the work organisation so allows (see below).

The second stage in L'Oréal's *Share & Care programme*, which was launched in January 2017 for the period 2017-2020, is set to reinforce these aspects even further, particularly telecommuting and flexible working hours.

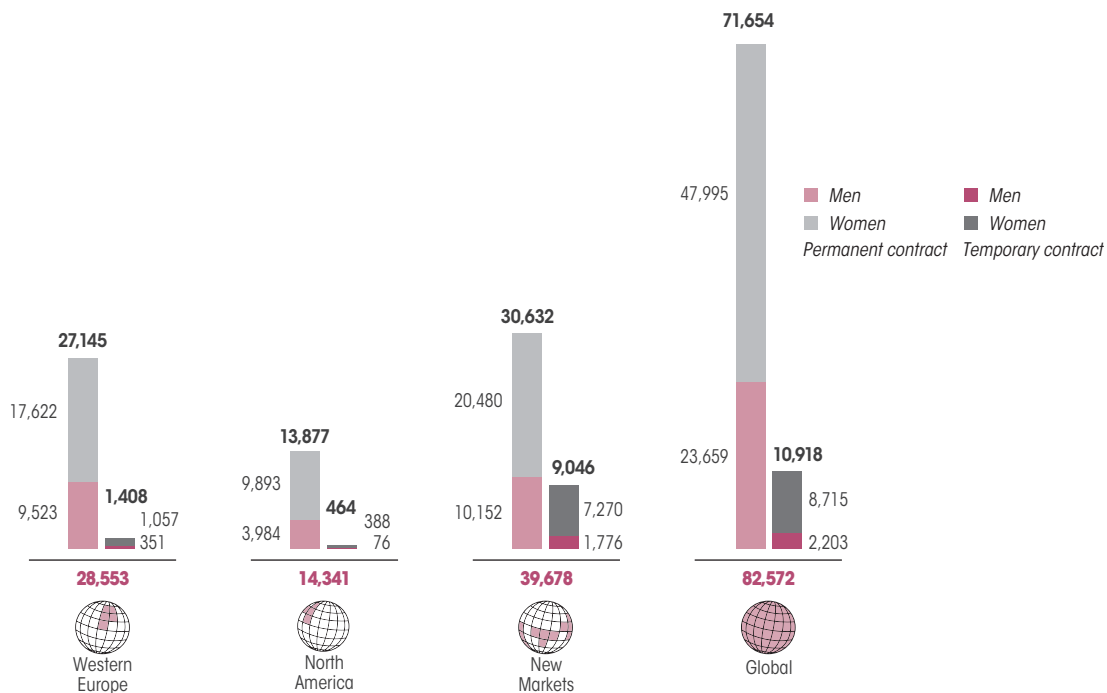
Employees from all categories have chosen this option of part-time work.

In 2017, there are 6,319 part-time employees, 5,808 of whom are women and 511 men.

### BREAKDOWN BY TYPE OF CONTRACT BY GEOGRAPHIC ZONE OVER THREE YEARS



### BREAKDOWN BY TYPE OF CONTRACT BY GEOGRAPHIC ZONE AND BY GENDER



#### Focus on telecommuting

Within the framework of L'Oréal *Share & Care*, the Group has made a commitment to promoting initiatives for flexible work arrangements everywhere in the world, within the context of the different local business requirements.

A Group Charter, which provides the framework for flexible work arrangements, has been distributed to all subsidiaries. They are developing innovative programmes with the aim of improving the quality of life at work to attract and retain the most talented employees. In particular, these initiatives take the form of telecommuting and are often associated with other forms of flexibility.

In France, a system of telecommuting has existed since 2009. These programmes now enables employees who are interested in working from home up to two days a week of such arrangement. In 2017, more than 1,800 employees telecommute, 64% of whom are executives.

Internationally, in 2009, the United States launched the "Work From Home" programme, which offers employees the opportunity to work from home for a maximum of six non-consecutive days per quarter.

At the end of 2017, 42 of the Group's 69 subsidiaries have already introduced similar programmes and other subsidiaries are considering the possibility of joining this initiative.

Flexible working hours are already in place in 45 subsidiaries.

### **An active social dialogue with employees and their representatives**

L'Oréal undertakes to respect the freedom of association and to recognise the right to collective bargaining as provided in the United Nations Global Compact, of which L'Oréal has been a member since 2003. In countries where freedom of association and the right to collective bargaining are restricted or non-existent, L'Oréal ensures that other modes of dialogue exist with its employees enabling them to report any concerns they have.

In the context of this general principle, the social climate at L'Oréal is the fruit of an ongoing dialogue between management, employees and their representatives, in accordance with trade union rights in each country and with a neutral attitude with regard to the various trade union organisations.

Employee representative institutions are in place in most of the European subsidiaries, in several Asian subsidiaries (China, Indonesia, India, South Korea, etc.), in Africa (South Africa, Morocco, Kenya, etc.), in North and South America (the United States, Canada, Mexico, Brazil, Argentina, etc.), and also in Australia and New Zealand.

In total, 82.1% of the Group's employees work in subsidiaries where there are employee representative institutions. 42.7% of the Group's employees are covered by a collective agreement, and in almost all cases (96.9%), these are company-level agreements.

In the cases where there is no employee representative institution (often in subsidiaries with a small workforce), the dialogue is conducted directly with the employees, in complete compliance with the principles of transparency and trust that are applied uniformly throughout the Group.

### **THE INSTANCE EUROPÉENNE DE DIALOGUE SOCIAL/EUROPEAN WORKS COUNCIL**

An agreement signed in 1996 between L'Oréal and French and European trade unions (FECCIA and EMCEF) led to the establishment of the Company's *Instance Européenne de Dialogue Social*/European Works Council (IEDS/EWC). The initial agreement has been regularly updated, in particular in 2009 to introduce a new information and consultation procedure which applies to transnational projects involving local consultation procedures. This procedure is implemented with the Liaison Secretariat extended to include members from the countries concerned or with the entire IEDS/EWC, depending on the geographic and strategic dimensions of the transnational project. This process allows for the possibility of an opinion from the IEDS/EWC. This revision of the agreement represented an

important advance which aims to reinforce social dialogue at L'Oréal while remaining a step ahead of changes in legislation. The agreement has been renewed, without any major change, for the period 2017-2020.

The IEDS/EWC leads discussions and formal meetings with its members about the Group's current situation and future prospects, on the basis of an agenda prepared with the Liaison Secretariat following a one-day preparatory meeting with the members of this body.

It has 30 members, who receive regular training on economic and social issues.

Today, the IEDS/EWC covers approximately 30,500 employees in 28 countries which are part of the European Economic Area; among whom the 17 countries with more than 150 employees are directly represented.

### Number of company-level agreements

L'Oréal's social policy permits the signing of a certain number of company-level agreements in the subsidiaries every year. In 2017, 145 agreements were signed in France and 94 agreements were signed in the rest of the world. In total, the number of agreements in force at 31 December 2017 was 784, of which 519 are in France.

These agreements, which mainly concern working-time organisation, remuneration and working conditions (working hours, quality of life at work, gender equality, telecommuting, etc.), contribute to the smooth running of the Company and to its performance, by reinforcing employee participation and dialogue with their representatives.

### Information on company-level agreements in force with regard to health and safety

L'Oréal's health and safety standards are very strict and often exceed the statutory obligations in the various countries concerned. The Health and Safety committees and their activities do not necessarily lead to the signing of specific agreements, but rather to shared monitoring on this subject (application of legal and L'Oréal's standards, analysis of situations, etc.) in accordance with the principle of continuous improvement.

35 agreements in force at 31 December 2017 which totally or partially relate to health and safety issues have nevertheless been identified outside France.

### 3.1.2.7. Diversity and Inclusion

L'Oréal creates products for men and women in every sphere of life. So that the Group's products meets beauty-related expectations and needs in all their infinite diversity, it is essential that our employees reflect this diversity and that they promote inclusion.

In order to achieve this target, L'Oréal encourages working environments where everyone, whatever their ethnicity, social background, religion, gender, sexual orientation, age or disability feels valued. By creating an atmosphere that encourages all employees to develop and flourish, the entire Company benefits as a result.

At L'Oréal, the human factor, in all its diverse aspects, is what is important, both inside the Company and within local communities and this applies on every continent.

The Company is committed to supporting Diversity and Inclusion and its achievements are widely recognised. The Group has set itself three targets in order to continue to make progress in this area:

- ◆ ensuring gender equality at all levels of the Company;
- ◆ recruiting more people with disabilities;
- ◆ reinforcing cultural and social diversity.

The Group shares its achievements and progress in a new dedicated section of the website [www.loreal.com](http://www.loreal.com) (<http://www.loreal.fr/group/diversite-et-inclusion>).

A network of Diversity Coordinators present in 64 of the Group's entities <sup>2</sup> conducts initiatives in relation with the Group's policy, while adapting them to the local context in each country.

In 2004, L'Oréal was a founding member of the first Diversity Charter in France. The Group has now signed 19 charters in total (Morocco, Hong Kong, the Baltics, the Czech Republic, Hungary, Poland, Slovakia, France, Argentina, Mexico, the United States, Austria, Belgium, Denmark, Germany, Italy, the Netherlands, Portugal and Spain).

In Autumn 2017, out of over 5,000 companies, L'Oréal was recognised by Thomson Reuters as one of the 10 best companies with regard to Diversity and Inclusion.

### Gender equality

Achieving real gender equality is a key challenge for the Company, both to promote a culture of Inclusion and to increase L'Oréal's ability to innovate now and in the future.

L'Oréal therefore ensures that all jobs are accessible to women and men both at the level of recruitment and with regard to career development possibilities up to top-level responsibilities. A significant amount of work is still being done to create a real ecosystem that supports the careers of all the Group's men and women, with particular attention to the pivotal periods of parenthood (see section 3.1.2.4 "Share & Care - Balance").

Equileap, a non-profit organisation, has ranked 3,000 listed companies and awarded L'Oréal first place in its 2017 prize list. This new ranking will help investors to better identify leading companies in the area of gender parity and thus allow them to invest on the basis of a new differentiating criteria.

In the fifth edition of the "Féminisation des instances dirigeantes des grandes entreprises françaises" (feminisation of management bodies of large French companies) awards, L'Oréal was awarded, in 2017, second prize for its commitments in support of equality at the highest level of the Company.

### L'ORÉAL AND EQUITY

At 31 December 2017, women account for:

- ◆ 69% of the total workforce;
- ◆ 63% of executives;
- ◆ 62% of local managers;
- ◆ 42% of expatriates in place;
- ◆ 45% of Group key positions <sup>(1)</sup>;
- ◆ 68% of employees who were promoted;
- ◆ 62% <sup>2</sup> of international brands are managed by women;
- ◆ 33% of the Audit Committee members;
- ◆ 46% of the members of the Board of Directors.

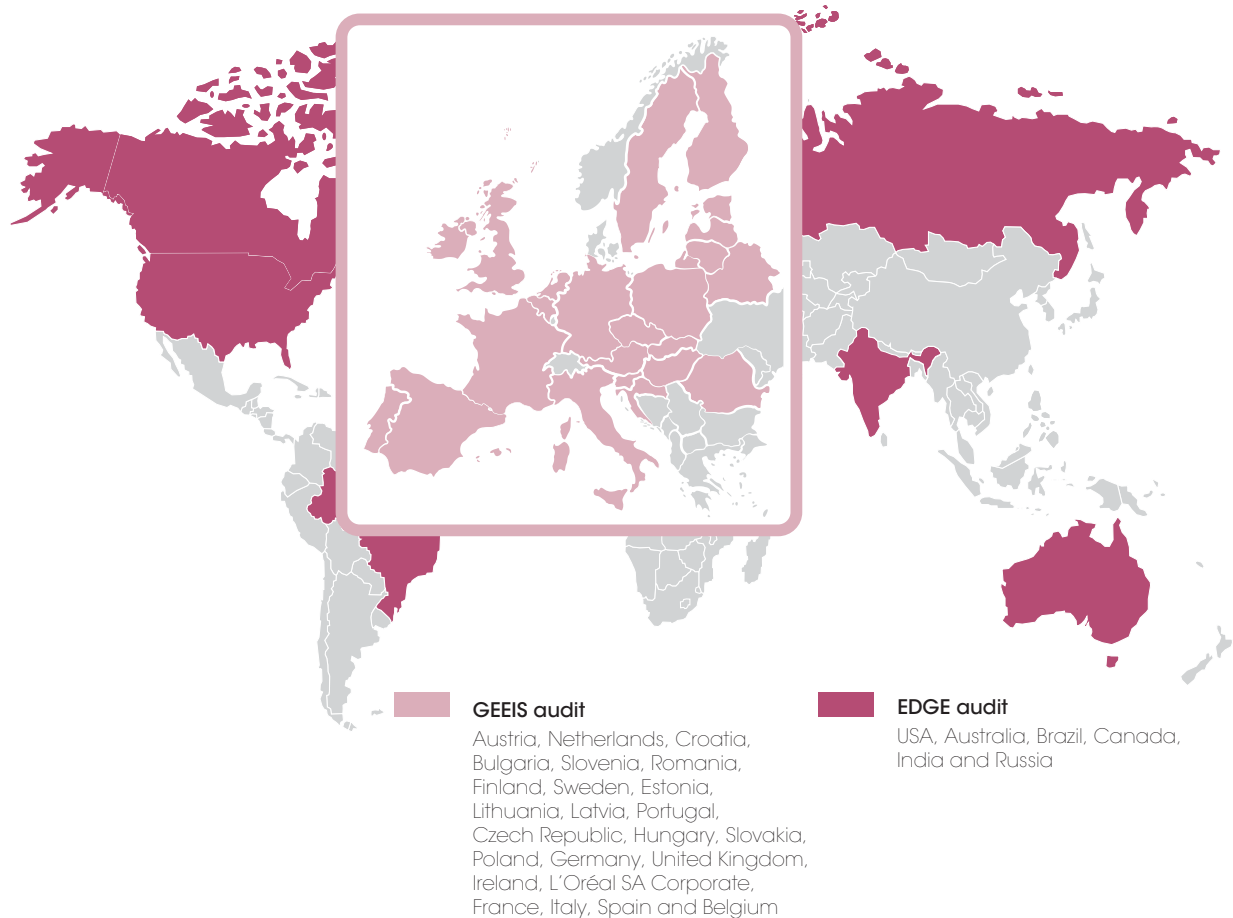
(1) Group key positions: Positions that are identified as key for the Group and followed directly on an international level by the members of the HR Audit Committee (approximately 1,200 positions).  
<sup>2</sup> The Statutory Auditors have expressed a reasonable assurance with regard to this indicator.

### Certifications in Europe

For its entities in Europe, L'Oréal has been awarded since 2010 the first European label, the *Gender Equality European & International Standard* (GEEIS). This label is awarded to companies meeting nine key criteria on gender equality (general policy, assessment of general policy, action plan, social dialogue, management training, gender balance,

equal pay practices, work-life balance, introduction of shared inclusive culture). In 2017, L'Oréal *Corporate* based in France and the European subsidiaries in 23 countries were awarded the GEEIS<sup>2</sup> label and are audited regularly to measure their progress. France, the Netherlands, France (L'Oréal S.A.) the Czech Republic, Italy and Poland were among the L'Oréal subsidiaries that achieved re-certification in 2017.

### L'ORÉAL CORPORATE AND 29 SUBSIDIARIES OBTAINED CERTIFICATION IN 2017



For the other entities outside Europe, L'Oréal relies on the *Economic Dividend for Gender Equality* (EDGE) certification process. To obtain this certification, the audited subsidiaries must provide three sources of information on gender equality (gender statistics, policies & practices questionnaire and an employee survey). L'Oréal USA was the first subsidiary to obtain the label in 2014 and was re-certified in 2016. In 2015, five others finalised the certification process (Australia, Brazil,

Canada, India, and Russia) which enabled countries from Asia and Latin America to be included for the first time. These 5 subsidiaries were re-certified in 2017<sup>2</sup>.

In total, in 2017, 29 subsidiaries, together with L'Oréal Corporate based in France, continue to be EDGE or GEEIS certified, representing 63% of the total workforce.

<sup>2</sup> The Statutory Auditors have expressed a reasonable assurance with regard to this indicator.

### Inclusion of people with disabilities

Since 2008, L'Oréal has developed a global policy to include people with disabilities within the Company (see also 3.2.4.3. "Developing sustainably with our surrounding communities"). In this manner, 1,042 disabled employees (with permanent or fixed-term contracts) worked for L'Oréal <sup>(1)</sup> at 31 December 2017. This policy focuses on five global priorities:

- ◆ recruitment: L'Oréal promotes the recruitment of people with disabilities in all countries, whether or not there is a legal obligation; In India, the Group has launched R.I.D.E (*Recruitment Initiative for Disabled Enablement*), an initiative facilitating support for new employees with disabilities;
- ◆ job retention: one of the objectives of the Disability & Inclusion policy is to enable any employee with a documented disability to keep his/her position by making adjustments to the workplace if necessary, and to allow the employee to develop his/her skills and evolve in the Company; In China, L'Oréal and JD.com, the Company specialised in e-commerce, have created "*Inclusive Beauty*", a training programme to provide people with disabilities with the skills required for online sales;
- ◆ physical accessibility to premises and digital accessibility to information: improving accessibility of workplace premises for employees with disabilities is one of L'Oréal's objectives. All new sites must therefore now meet this objective. Certain countries have retained an audit firm to evaluate the changes needed and the work to be carried out to improve the accessibility of their premises. L'Oréal is also working on improving the accessibility of digital tools. Since 2015, L'Oréal Brazil has therefore been offering, with Voz da Beleza, the first fully accessible consumer portal;
- ◆ raising the employee awareness: internal communication and training are closely related to the success of L'Oréal's Disability & Inclusion policy with the main objective being to raise the awareness of employees about the integration of employees with disabilities;
- ◆ partnerships with experts: L'Oréal's teams work in close collaboration with both international and local experts (associations and non-profit organisations, NGOs, etc.) in order to continuously learn and improve the Group's Disability & Inclusion policy.

### International initiatives and awards obtained

Since 2016, L'Oréal has been one of the companies that has signed the Global Business and Disability Network charter of

the ILO (*International Labour Organisation*) aimed at promoting and including people with disabilities in companies.

For the International Day of persons with disabilities declared by the United Nations, a communication kit was sent to all the Group's subsidiaries at the end of 2016 in order to help them organise awareness-raising events on disability. In 2017, 47 subsidiaries <sup>¶</sup> worked on disability-related projects.

### Reinforcing cultural and social diversity.

L'Oréal's ambition is to reflect the societies in which the Group operates, at all levels and in all functions. Particular attention is therefore paid to the diversification of recruitment sources, to ensuring equal opportunities for career development, and to raising the awareness of employees and management on this subject.

By increasingly diversifying the sources of the recruitments in its subsidiaries, L'Oréal wishes to enable all talented individuals to take on high-level responsibilities within the Company, whatever their origins. In 2017, 21 countries focused part of their diversity strategy on social and multicultural origins in line with the realities in their countries.

L'Oréal Germany put in place a specific programme designed to give young refugees the opportunity to carry out an internship in the local teams. Six positions were created in different departments and functions and recruitment is under way for an internship programme to begin in 2018. Interns will be fully integrated into the normal internship programme (events, exchanges, networking, presentations), will have a mentor and will follow German courses.

L'Oréal USA received a maximum score of 100 in *the Corporate Equality Index 2018*, consisting of an investigation and a report managed by the *Human Rights Campaign Foundation*. This score reflects the commitment by L'Oréal USA in favour of equality for persons who are part of the LGBT (lesbian, gay, bisexual and transgender) community within the Company.

L'Oréal France has signed the "Autre Cercle" charter of Commitment, a French association combatting discrimination related to sexual orientation or gender identity.

At a global level, L'Oréal works in partnership with the ENAR (*European Network Against Racism*), *Equal at Work* network, which enables it to hold discussions with other companies on this subject.

(1) This indicator only takes into account employees who wanted to declare their disability and/or have it recognised, as all the employees concerned do not systematically wish to do so.

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

**Inclusive management**

In order to support these initiatives, L'Oréal trains its employees in diversity, by organising "Diversity Training Workshops". During

this one-day in-class training session, the awareness of participants is raised on this topic, in particular through discussions and role playing.



**At the end of 2017, more than 28,000 employees have taken part in "Diversity Training Workshops" all over the world**

Since 2010, L'Oréal has also been a committed participant in EVE programme seminars. This is an initiative of the Danone Group that strives to help women to become agents of change in their companies thanks to inspirational and motivational abilities. Since 2014, there has been a new Asia-Pacific EVE seminar and another was launched in Africa in December 2017. At the end of 2017, 430 Group employees have had the opportunity to take part in this training since its creation.

The internal training programme *LeadEnable*, launched this year for the Group's top managers, supports managerial transformation and promotes new ways of managing teams and of working together, in particular, by incorporating an inclusive management component.

### 3.1.3. THE L'ORÉAL GROUP'S ENVIRONMENT, HEALTH AND SAFETY (EHS) POLICY

A pioneering, socially responsible company, L'Oréal applies an ambitious policy with regard to the Environment (E), Health (H) and Safety (S) in order to minimise its environmental impact and guarantee the health and safety of employees, customers and the communities in which the Group performs its business activities.

This has been reflected, for a number of years, in the desire to systematically control the risks related to the safety of people and the environment, that are inherent in the Group's business activities. Any establishment or renovation of a site, any launch of new equipment or manufacturing processes, any changes in industrial processes give rise to a risk assessment and action plans that make it possible to reduce their potential impacts.

This commitment has led to deployment of the Group's EHS policy over the entire spectrum of its business activities, but also beyond it. Indeed, in the area of safety, the Group ensures compliance with the regulations and observance of its own standards on its sites (industrial or administrative sites, research laboratories, stores), and makes sure that its subcontractors and suppliers ensure the safety of persons and the environment through a specifically dedicated audit programme.

With respect to the environmental policy, it covers the entire value chain for products: from design (eco-design of packaging and formulas, reduction of the impact of formulas on ecosystems, etc.) and sourcing of raw materials (respect for biodiversity, fight against deforestation, etc.), to production, distribution and transportation. It also incorporates the Group's real estate assets.

### 3.1.3.1. An EHS system built over many years

	2017	<ul style="list-style-type: none"> <li>▶ "AAA" rating obtained within the scope of the CDP</li> <li>▶ First "dry factory" plant in the Group and first administrative site certified ISO 50001</li> <li>▶ Launch of "Energyscan"</li> <li>▶ "Safe@work /Safe@Home" programme</li> </ul>
"AAA" rating obtained within the scope of the CDP	2016	
	2015	<ul style="list-style-type: none"> <li>▶ Fulfilment of the "0 waste to landfill" target for the factories</li> </ul>
Achievement of the target of -50% CO <sub>2</sub> emissions vs. 2005 baseline for plants and distribution centres	2014	
Launch of ISO 50001 certification of the factories		
	2013	<ul style="list-style-type: none"> <li>▶ Launch of the SBWA programme and new commitments for the reduction of the environmental footprint of Operations</li> <li>▶ Launch of Waterscan</li> <li>▶ Deployment of the "EHS" manual</li> </ul>
Creation of the EHS function in the L'Oréal stores	2012	
	2011	<ul style="list-style-type: none"> <li>▶ Launch of the Ergonomic Attitude programme</li> </ul>
Création of EHS Culture Audits	2010	
	2009	<ul style="list-style-type: none"> <li>▶ 1<sup>st</sup> response to the CDP</li> <li>▶ First environmental commitments by the Group: -50% CO<sub>2</sub> emissions, water consumption and waste generation between 2005 and 2015</li> <li>▶ Launch of MESUR and SIO tools for Safety</li> </ul>
Group Carbon Assessment	2008	
	2007	<ul style="list-style-type: none"> <li>▶ Measurement and report of CO<sub>2</sub> emissions (Scope 1 &amp; Scope 2)</li> </ul>
1 <sup>st</sup> environmental objective for the Group (reduction in energy consumption)	2004	
	2003	<ul style="list-style-type: none"> <li>▶ 14001 certification for the plants</li> <li>▶ Creation of the EHS functions on the R&amp;I and administrative sites</li> <li>▶ Creation of the first procedures for R&amp;I</li> </ul>
Reinforcement of EHS Audits through the presence of external local experts	2001	
	2000	<ul style="list-style-type: none"> <li>▶ Organisation of global EHS governance: a Corporate team and an EHS Director by zone</li> <li>▶ Launch of SHAP tools and root cause analysis</li> </ul>
1 <sup>st</sup> EHS Audits	1996	
	1993	<ul style="list-style-type: none"> <li>▶ Creation of the internal EHS Awards</li> </ul>
1 <sup>st</sup> EHS seminar	1992	
Launch of on-site fire prevention inspections		
	1991	<ul style="list-style-type: none"> <li>▶ Creation of the "Industrial Risks" department in the Operations Division and the ETNEHS function on the sites</li> <li>▶ Creation of the first EHS procedures and EHS reporting</li> </ul>

SHAP: Safety Hazards Assessment Procedure.

CDP: Carbon Disclosure Project.

MESUR (Managing Effective Safety Using Recognition and Realignment).

SIO: Safety Improvement Opportunity.

Waterscan: A tool that makes it possible to quantify possible savings of water used in a plant.

ETNEHS: EHS& Facilities.

Energyscan: A tool that makes it possible to quantify possible savings of energy used in a plant.

Science Based Target: A commitment to reduce greenhouse gas emissions over the long term, in accordance with the Paris climate agreements.

### 3.1.3.2. The fundamentals of the Group's EHS policy

The Group's EHS policy is based on a set of stringent standards, compiled in an EHS manual which is a reference work for all the sites all over the world. If knowledge of, and compliance with, these procedures are fundamental, the lasting improvement of the safety results and environmental performance essentially requires the dissemination of a sustainable EHS culture to each and every one of the Group's employees. A dedicated training programme has been built for this purpose with the aim of passing on this EHS culture at every level of the organisation. In a manner consistent with this

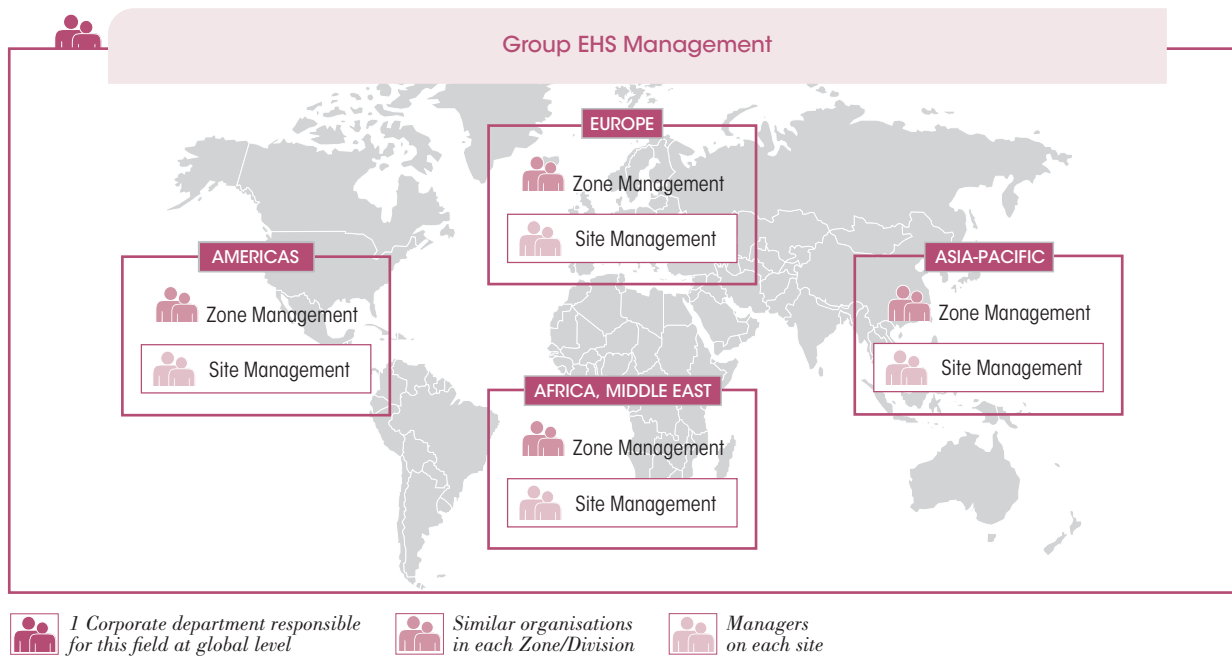
entire approach, an audit system, which combines both a "Risk" and a "Culture" evaluation, makes it possible to assess both compliance with the Group's standards and the residual risks, and the level of dissemination of the culture.

#### EHS on-site

#### EHS organisation and reference manual

The Group's EHS organisation has been structured to match the global organisation of the Operations Division: it consists of a central Corporate department, similar organisations in each geographic zone and managers at each site.

### GLOBAL EHS ORGANISATION



In support of this organisation, the EHS manual is the reference tool for the Group's operational sites. It is essential to the improvement of their performances and the pursuit of the main EHS objectives: zero accident for the Group and 60%

reduction in the Operations Division's environmental footprint between 2005 and 2020. It defines the EHS management system and the responsibilities shared at all levels of the organisation, up to the operational responsibilities:

<b>General Management</b>	The Executive Vice-President Operations, who reports to the Group's Chairman & Chief Executive Officer, is responsible for the Environment, Health and Safety policy.
<b>Plant managers and distribution centre managers</b>	They are responsible for the deployment and effective implementation of the policies defined. Their remuneration is partly linked to their performances in the areas of the Environment, Health and Safety.
<b>EHS managers</b>	Managers dedicated to compliance with the EHS policy ensure the implementation of the rules, Group procedures and the associated performance objectives in all the Group's entities.



The EHS manual furthermore determines the measures to be applied to control the facilities and activities, in particular to reduce to the greatest extent possible the risks of injury to persons and damage to property and the environment. It covers the following areas in particular:

- ◆ the safety of persons and property;
- ◆ fire safety;
- ◆ maintenance and work;
- ◆ risks of accidental pollution;
- ◆ efficiency of the use of resources, water and energy consumption;
- ◆ greenhouse gas emissions, waste water discharges, waste generation and treatment.

This policy is accompanied by the monthly reporting of detailed indicators which make it possible to monitor changes in the results with regard to each of these areas and thus to identify anomalies and incidents.

This EHS manual is rolled out at all industrial sites, research centres and administrative sites. Deployment of the manual within stores is underway.

#### Training in EHS policy and practices

Training sessions devoted to L'Oréal's EHS policy and practices have been provided for at all levels of the Company. They constitute one of the cornerstones for implementing the measures aimed at disseminating the EHS culture in all the Group's entities.

#### Objectives of the training sessions

- ◆ defining and sharing the EHS vision, challenges and values across the Group;
- ◆ enabling managers to implement the EHS policy effectively within their entities;
- ◆ identifying the EHS risks inherent in a role, task, behaviour or the use of equipment and adopting appropriate preventive and corrective measures;
- ◆ enabling managers to identify, in their activities, the actions that could help to improve the EHS performance of their site.

#### Training courses provided

Training	OBJECTIVE	PROFILES CONCERNED	2017 RESULTS
<b>EHS expertise</b>	Guaranteeing a high level of expertise for EHS managers in the Group	EHS teams	<b>17</b> persons trained worldwide
<b>Leadership &amp; Safety culture</b>	Training managers in the EHS culture of their unit	Top managers	<b>49</b> persons trained worldwide
<b>EHS Operations &amp; Labs</b>		Managers and operational supervisors	<b>230</b> persons trained worldwide
<b>Ergonomic Attitude programme</b>	Training in the health and safety issues specific to the Operations Division sites	Experts, managers and employees	<b>60</b> experts and <b>4,979</b> employees trained (managers, technicians, etc.)

In addition to these specialist training sessions, all new L'Oréal employees receive general and specific training at their workstation including the Group's EHS rules before taking up their positions.

#### A worldwide audit programme

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

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

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

L'Oréal also shares with its subcontractors the objective of improving Environmental, Health and Safety performances. Audits are carried out by independent third parties for this purpose on production or logistics subcontracting sites, in accordance with the criteria defined by L'Oréal, which are similar to those used for the Group's entities.

**TYPES OF AUDITS CONDUCTED IN 2017**

	OBJECTIVES	METHODOLOGY	2017 AUDITS
<b>Risk audits</b>	Ensuring that the technical equipment, processes and operating methods implemented by management and used by employees do not carry risks of damage to their health, safety or the environment. Ensuring that the sites comply with all the legal obligations to which they are subject. Giving the Group's General Management objective knowledge of the risks in the areas of EHS on the L'Oréal sites and providing the assurance that they are under control.	For five years, these audits have covered all international operations. They are carried out by external independent experts.	These risk audits were carried out at one plant, 10 distribution centres and 2 administrative sites.
<b>EHS culture audits</b>	Measuring and developing management's leadership and internal EHS culture so that EHS is at the heart of the responsibilities of all operational managers.	All the Group's sites are subject to regular EHS culture audits. These audits are carried out by internal EHS specialists through Group interviews with 20-30% of the site's workforce.	An EHS culture audit was carried out at 1 administrative site.
<b>Combined EHS Risk and Culture Audits</b>	Combination of the risk and culture audits.	This combined audit is carried out with the help of external independent experts for the risks aspects and by internal teams for the culture-related aspects.	These combined risk and culture audits were carried out at 2 plants, 2 distribution centres, 2 research centers and 2 administrative sites.
<b>Combined Quality, Environment, Health, Safety and Performance Audits</b>	Optimising the professional practices audits at a site by combining the various existing Operations Division audit programmes.	This audit is conducted on the basis of the reference manuals for each of the EHS, Quality and Performance professions, with the help of external independent experts as regards EHS risks and by internal experts for each of the audited areas.	These combined audits were carried out at 9 plants.
<b>Real estate audits</b>	Checking that the buildings are in compliance with the Group's real estate procedures, and on the due and proper completion of extension or renovation operations and preservation of the assets. Since 2009, these audits have included an additional component: internal air quality and energy performance.	The Real Estate Department carries out annual audits of the Company's real estate assets on a rotating basis with the assistance of external independent experts.	11 sites were audited.
<b>Industrial subcontractor audits</b>	Verifying the production conditions of the Group's industrial subcontractors (manufacture of products, particularly aerosols, inflammable products, etc.)	These audits are carried out with the assistance of external independent experts. If necessary, a follow-up audit is scheduled.	46 sites were audited.
<b>Logistics subcontractor audits</b>	The objective is to evaluate the level of EHS management of the site and to identify the presence of insufficiently controlled risks.	These audits are carried out with the assistance of external independent experts. The evaluation of the site following the audit determines the action plan to be implemented and the frequency of future audits.	13 logistics subcontractors were audited.

In addition to these audits, loss prevention inspections are carried out regularly by external independent experts within the scope of the Group's Fire and Environment insurance policies. In 2017, 8 plants, 1 distribution centre and 1 laboratory were inspected in 6 countries with regard to environmental risks (Belgium, Brazil, France, United States, India and Poland) and 16 sites with regard to fire prevention in 11

countries (Germany, China, Spain, France, Italy, Japan, Mexico, Russia, Singapore, Taiwan and the USA).

Of the audits described above, 91% involved a risk component which is always carried out by external independent auditors specialising in the area being audited.

### Integrating acquisitions into all these processes

The Group regularly acquires new industrial sites. A formal integration process then makes it possible to provide these sites with extra support and assistance in order for them to be brought into compliance with all the EHS requirements defined, and to bring under control the potential risks.

The purpose of this integration process is to enable these sites to rapidly achieve the performance level expected by the Group. It comprises:

1. A regulatory compliance audit carried out by an independent third party within 6 months of the acquisition;
2. Deployment of the EHS processes described above (EHS manual, EHS reporting, training, audit programme);
3. Monitoring of its integration within the Group.

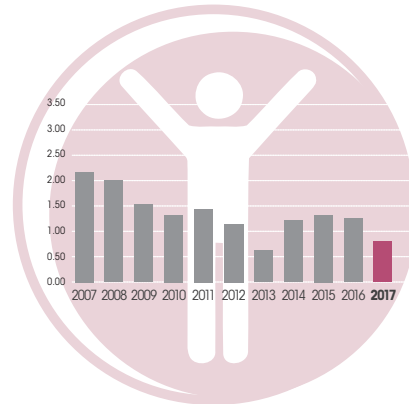
### 3.1.3.3. The Group's Health and Safety policy

#### A shared ambitious policy

L'Oréal undertakes to develop, produce, distribute and sell innovative products of the highest quality, while having an ethical conduct and looking after, in particular, the health and safety of employees, consumers and the communities in which the Group performs its activities. The Health (H) and Safety (S) policy is defined and implemented in order to meet these requirements. It is a priority objective of the Group's general policy and constitutes one of its main managerial pillars. Each manager is assessed with regard to his/her ability to deploy the policy, and with regard to his/her Health and Safety results.

"Zero accident" is the ambitious commitment that L'Oréal has set itself with regard to the safety of its employees. To achieve this target, the Group has put in place comprehensive programmes aimed at reducing the risks and ensuring constant improvement in results. This safety culture has led to setting high standards and involving employees at all levels of the Company <sup>(1)</sup>.

### PERFORMANCE SUMMARY FOR PLANTS AND DISTRIBUTION CENTRES SINCE 2006 (TFC)



#### Priority focuses for deployment of the Health and Safety Policy

The main EHS focuses and orientations relate to the following eight areas:

1. Definition and deployment of strategy and action plans to achieve the 2020 target: TFC (Conventional Frequency Rate) <sup>(2)</sup> <0.5 for all the Group's sites;
2. Commitment and visible participation by management;
3. Initiatives to deal with the most frequent incidents, including in particular a global economics programme and a specific programme to prevent falls and hand injuries;
4. Organisation and EHS practices in line with the Group's standards with OHSAS 18001 accreditation for all Operations Division sites;
5. Specific training programme for managers, EHS managers and operators/technicians;
6. Ongoing improvement of the Health and Safety management systems at all sites;
7. Active employee participation;
8. Sharing of resources, feedback and best practices.

(1) These rates may be inaccurate by 5% at most due to the local interpretation of the rules; work to improve the accuracy of these indicators is currently in progress.

(2) TFC = Number of lost-time accidents per million hours worked for L'Oréal staff.

**Frequency rate – number of accidents in the workplace in 2017**

The 2017 results are an improvement over the previous year for the Group as a whole. 108 lost-time accidents (L'Oréal staff and temporary employees) were reported in 2017,

representing a conventional frequency rate (TfC) of 0.81<sup>□</sup> (1.21 in 2016) and an extended frequency rate (TFe) of 0.96<sup>□</sup> (1.32 in 2016).

**FREQUENCY RATE IN 2017**

The 108 lost-time accidents (L'Oréal staff and temporary employees) registered in the Group in 2017 lead to the following frequency rates per entity:

	SITES	TfC 2017 <sup>(1)</sup>	VARIATION IN TFC VS 2016	TFe 2017 <sup>(2)</sup>	VARIATION IN TFE VS 2016
	Plants and distribution centres	0.68 <sup>□</sup>	-31%	1.25 <sup>□</sup>	+7%
	Administrative sites	0.43	-42%	0.39	-42%
	R&I Sites	1.13	-36%	1.03	-46%
	Sales forces & Stores	1.72	-22%	2.06	-27%
	Group: all sites	0.81 <sup>□</sup>	-33%	0.96 <sup>□</sup>	-27%

**Accident severity rate**

The accident severity rate is below that for 2016 for the Group. It stands at 0.02<sup>□</sup> for the Group and 0.04<sup>□</sup> for the plants and distribution centres in 2017.





(1) TfC concerns L'Oréal's staff.

(2) TFe concerns L'Oréal's staff and temporary employees.

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

**A global programme dedicated to improving safety**

L'Oréal has equipped itself with the necessary tools and programmes to attain excellence with regard to safety:

<p><b>Involvement of all employees</b></p> 	EHS Monitoring Committees	The Management Committee of each site carries out a general review of the action plans and the effectiveness of the EHS programmes.
	SIO (Safety Improvement Opportunities)	This programme incites employees to inform their direct managers of situations considered as involving risks in order for corrective measures to be taken.
	<i>Constructive Challenge</i>	This framework programme aims at improving individual safety culture so that each and every employee plays a proactive role both in his/her own safety and that of others. The objective of this programme is to cover 100% of the sites in 2020.
<p><b>A programme to improve the ergonomics culture</b></p> 	<i>Ergonomic attitude</i>	This programme, which is intended to be extended to all the Group's sites by 2020, has been based since 2015 on a roadmap consisting of four levels which enable the sites to systematically improve their ergonomics culture and determine their individual action plans.
<p><b>Safety control tools</b></p> 	MESUR (Managing Effective Safety Using Recognition and Realignment)	These are periodic on-site safety visits by a manager. In 2015, the programme was also deployed on certain administrative and research sites. In 2017, 26,207 MESUR visits were conducted on all the L'Oréal Group's sites.
	Group EHS audits	The "Combined Risk and Culture Audits" carried out as from 2014 fully include the evaluation of EHS culture and risk management, the assessment of the visible commitment by managers and employees and the process of ongoing improvement through action plans.
<p><b>Dedicated training sessions</b></p> 	Safety Training for management	In 2017, 49 "top managers" (managers of plants or distribution centres, Management Committee members etc.) attended the <i>Leadership &amp; Safety Culture</i> seminar, held at the CEDEP, the European Centre for Executive Development at the INSEAD campus in France. Since the start of this programme, 450 senior managers have been trained. The main objectives of these seminars are raising awareness of top managers about safety issues, to increase their leadership ability and to see these behaviours adopted and maintained over the long term.

In 2014, an Ergonomic Attitude Governance Committee was launched with the Group's senior managers (from Operations, R&I, Marketing, IT, HR and the EHS teams). This committee's role is to determine the vision, objectives and actions to be

deployed within the Group and to ensure that this programme provides effective support for L'Oréal's *Share & Care* programme. The committee has defined a roadmap and, since 2015, it meets twice a year to oversee its deployment.

### 3.1.3.4. The Group's environmental policy

L'Oréal, which has long been committed to reducing its environmental footprint, has stepped up its ambition with the *Sharing Beauty With All* programme. Deployment of the Group's growth strategy, which aims at winning a billion new consumers, provides at the same time for acceleration of the reduction of the environmental impact of its activities.

Low-carbon growth and the preservation of natural resources are at the centre of this strategy. The Group's environmental policy thus rests on the foundations of the reduction in the consumption of natural resources (energy, water, raw materials), the use of renewable energies, wastewater management, and recovery of the waste generated to the best possible extent.

The implementation of this policy provides for all the sites to systematically combine operational performance and environmental performance, through knowledge, measurement and optimisation of the environmental impacts, in carrying out their activities and the deployment of their projects.

In each area (energy supply, water resources management and recovery of waste), the sites give preference as far as possible to the implementation of local projects in order to contribute to the development of the territories on which they are established.

#### Reducing the environmental footprint of industrial operations

Whether it involves building a new plant, the purchase of new equipment, or defining new processes, each industrial development is an opportunity for reducing the environmental footprint. It is the fruit of a longstanding commitment. From 1992, the construction of a site performance measurement and reporting system for water and energy consumption and waste generation made it possible very early on to monitor the sites' environmental results on a monthly basis, and from 2009, to set pioneering targets with regard to the Operations Division scope: a reduction of - 50% in CO<sub>2</sub> emissions in absolute terms, in water consumption in litres per finished product and in waste generation in grams per finished product by 2015 from a 2005 baseline.

Within the scope of the *Sharing Beauty With All* programme, the Group has increased these initial commitments by raising these reduction targets from 50% to 60% between 2005 and 2020. The Group also pledged by 2020 to no longer send any industrial waste to landfill and to reduce CO<sub>2</sub> emissions from the transportation of its products by 20% per sales unit per kilometre from a 2011 baseline (transportation from the production sites to customer delivery).

These targets have led to:

- ◆ the implementation by each site of detailed improvement plans, the effectiveness of which is assessed at the time of the Group's EHS audits;
- ◆ continuous improvement in the sites' environmental performance for several years, notably via the definition

and dissemination of best practices in terms of energy efficiency, CO<sub>2</sub> emissions, consumption of water and natural resources and waste reduction and treatment;

- ◆ major developments and technological innovations in each of the 3 areas (CO<sub>2</sub>, water, waste), going as far as the implementation of completely integrated solutions taking into consideration all the environmental impacts. Certain plants, like those in Libramont, Burgos and Settimo, now have facilities on their sites making it possible to produce renewable energy (from biomethanation, biomass or photovoltaics), to treat and recycle part of the industrial water, and to reduce waste generation while promoting waste recovery.

See also paragraph 3.2.2. *Producing sustainably.*

#### Managing risks and controlling the impact of sites on their environment

As soon as a project for a new site is being considered, an overall environmental impact study is required immediately during the design phase. The objective is to minimise the project's impact on the environment and to adapt the project to local conditions at the destination site. In the same way, at the time of the purchase of land or buildings, L'Oréal conducts a due diligence which includes, in particular, a review of the environmental aspects.

#### Ground use

With regard to operation of the sites, the preventive measures described in the internal procedures must be complied with in order to prevent all forms of pollution (soil, groundwater, underground water, etc.). These measures are verified at the time of EHS audits and inspections by insurers.

L'Oréal's policy with regard to soil use is as follows:

- ◆ reducing the impact of construction on the environment, for example by using a zone which is already industrially developed, or an existing industrial site or industrial wasteland;
- ◆ if possible, the site will have to be on a plot of land located over 30 metres from any body of water (sea, ponds, lakes, rivers, etc.);
- ◆ the site will avoid land situated on natural spaces, public green spaces, land which is the habitat for endangered or disappearing species or any other undeveloped zone (for example: farmland, etc.);
- ◆ rehabilitating polluted sites (industrial wasteland) where development is more difficult due to environmental contamination (real contamination or contamination perceived as such), thus avoiding construction on natural or undeveloped land;
- ◆ preventing soil erosion which may result from rainwater runoff or wind erosion during construction, *inter alia* by protecting the arable soil layer which is stored to enable it to be reused;

- ◆ maintaining or restoring existing natural habitats and biodiversity;
- ◆ maximising the green space areas on the site (even in excess of the local regulations) and minimising the impermeable areas or natural spaces.

### Noise pollution

L'Oréal's industrial activities are not particularly noisy. The sites comply with the noise standards to which they are subject. The internal environmental reporting system informs L'Oréal each month of any non-compliance on this subject.

### Provisions for environmental risks

The amount of the provisions booked for environmental risks is not material. Two sites have set aside a provision for the treatment of their soil. Most of this provision corresponds to land which does not require any treatment for the activities which are currently carried out on the site (see note 12.3. of the Consolidated Financial Statements).

### Implementation of a continuous improvement process

In order to make environmental performance lasting part of industrial processes, L'Oréal has embarked since 2003 on the process of ISO 14001 (Environmental Management) certification of all its plants. As of the end of 2017, 88% of plants are ISO 14001 certified, i.e. 36 plants out of 41. Over the next few years, the last plants acquired or those recently built will be ISO 14001 certified. The Group has also defined processes and guidelines making it possible to achieve levels of excellence in all the business units.

Furthermore, in 2015, the Group launched an ISO 50001 (Energy management) certification programme with the objective of certifying all its plants by 2020, according to a defined roadmap. As of the end of 2017, 44% of plants are ISO 50001 certified, i.e. 18 plants, including 16 in Europe, 1 in Brasil and 1 in India.

### Deploying the environmental strategy outside the industrial sites

#### Reducing the environmental impact related to transportation

L'Oréal as pledge, within the scope of the *Sharing Beauty With All* programme, to reduce by 20% the CO<sub>2</sub> emissions per sales

unit per kilometre generated by transportation of its products between 2011 and 2020. The scope of consolidation covers the transportation flows of finished products from the production sites up to the first customer delivery point. In 2017, the Group developed, in collaboration with the transportation teams and transportation partners, a strategy based on the pillars of the *Sharing Beauty With All* programme. The implementation of this strategy is based employee access to operational tools that allow them to prioritise sustainable transportation: guidelines according to the mode of transportation, comparison sheets of the modes of transportation and energy that are available together with a simulation tool for calculating emissions and the publication of a standard whose aim is to reduce shipments by air. As a matter of priority, partners will henceforth be chosen based on quality of service and Sustainable Development criteria.

#### Deploying the environmental strategy on the administrative sites and in the research centres

The processes making it possible to apply the environmental policy on the industrial sites have been gradually rolled out at the administrative sites and the research centres. Audits (risk, culture, combined risk and culture, real estate) are carried out on those sites in particular and EHS training courses are now accessible to EHS managers of these sites. The environmental indicator reporting requirement has now been extended to these sites in order to be able to measure, monitor and manage their performance more precisely. In this regard, the *Working Sustainably* programme provides for objectives of reducing between 2020 from a 2016 baseline CO<sub>2</sub> emissions by 60% in absolute terms, energy consumption in kWh per 100 hours worked by 20%, water consumption in litres per 100 hours worked by 20%, and waste generation in kg per 100 hours worked by 20%. It aims to reinforce the commitment of the administrative sites and the research centres with regard to the environment and to encourage them to identify and formally provide for action plans. It also involves engaging employees at these sites in the development of eco-responsible behaviours.

The environmental data reporting system for administrative sites and research centres is audited annually. The 2016 data were audited in order to establish the baseline for these objectives.

### ENVIRONMENTAL INDICATORS OF THE ADMINISTRATIVE SITES AND RESEARCH CENTRES:

Indicator	Unit	2017
Hours worked (L'Oréal and temporary employees)	1,000 hours	68,481
Total energy consumption	MWh	181,457 <sup>☐</sup>
Energy consumption per 100 hrs worked	kWh/100 hours	265
CO <sub>2</sub> emissions (Scopes 1&2) <sup>(1)</sup>	Tonnes	33,171 <sup>☐</sup>
Water consumption	m <sup>3</sup>	399,340 <sup>☐</sup>
Water consumption per 100 hrs worked	l/100 hours	583
Transportable waste <sup>(2)</sup>	Tonnes	6,104 <sup>☐</sup>
Transportable waste per 100 hrs worked	Kg/100 hours	8.9

<sup>☐</sup> The Statutory Auditors have expressed a reasonable assurance with regard to this indicator.

(1) CO<sub>2</sub> emissions calculated in accordance with the concepts defined by the GHG protocol, and monitored according to the Market-based CO<sub>2</sub> indicator.

(2) Transportable waste excluding returnable packaging rotation, with returnable packaging accounted at source.

### Working alongside suppliers and subcontractors

Above and beyond its strict requirements with regard to its own sites, L'Oréal has for a number of years deployed an environmental policy all across the value chain of its products and its activities.

Indeed, L'Oréal works in partnership with its suppliers to improve the environmental profile of its products via the eco-design of packaging, ingredients and formulas and their method of transportation.

A worldwide joint development initiative with transportation partners, *Sharing Beauty With All Transportation Labs*, has been implemented in Europe, Africa Middle East, North America, Latin America, Asia-Pacific and Brazil. The Group has brought together more than 200 international, regional and local suppliers in order to share its *Sharing Beauty With All* commitments and to develop sustainable transportation initiatives.

L'Oréal also makes available to its suppliers training tools aimed at promoting the Group's best practices. The Group invited 376 suppliers to participate in 2017 in the "CDP Supply Chain", the CO<sub>2</sub> emission reporting programme for companies. In order to support its suppliers in this demanding process, L'Oréal sends their results with its comments and the opportunities for improvement to each of them. The Group also provides them with a toolbox to help them to understand the CDP questionnaires better. These actions contribute to supporting them in the development of their environmental strategy and monitoring the improvement of their performance year after year.

In 2015, the Group set itself the ambition that, by 2020, suppliers representing 80% of the direct purchases:

- ◆ will participate in the "CDP Supply Chain";
- ◆ will set targets for reducing their carbon footprint;
- ◆ will communicate on their action plans to succeed in reaching this target.

The Group also ensures control of the environmental risks associated with the activities of its subcontractors, focusing on compliance with local environmental laws and verification of the absence of environmental risks, by means of EHS audits (see section 3.1.3.2.). Where a difficulty is identified, an improvement plan is then defined and progress checked regularly.

### Monitoring the Group's main greenhouse gas emissions

For the fifth year running, L'Oréal was given a score of "A" by the CDP, representing the highest level of performance of the Climate Leadership Index with regard to management of its carbon footprint, its strategy with regard to climate change and the transparency of its policy.

L'Oréal carries out a Greenhouse Gas Assessment (GHG Assessment) for all the Group's activities annually, in order to measure its CO<sub>2</sub> emissions and identify the action plans that will enable it to reduce its impact. This Assessment, which has been prepared since 2007 is made in accordance with the Green House Gas Protocol (GHG Protocol) rules, the international reference method for recording GHG Emissions. It

makes it possible to determine the Group's total carbon footprint according to three defined Scopes:

- ◆ **Scope 1:** "direct emissions from sources owned or controlled by the reporting entity";
- ◆ **Scope 2:** "indirect emissions in connection with the consumption of electricity, heat or steam necessary for production of the product or the operations of the reporting entity";
- ◆ **Scope 3:** "other indirect emissions related to the supply chain (upstream emissions) and the use of products and services during their life cycle (downstream emissions)".

In 2017, work was carried out to improve all scopes of the GHG Assessment tool in order to refine its perimeters and input data and to align emission factors with those of SPOT (*Sustainable Product Optimisation Tool*: the Group's own tool for assessing the environmental and social footprint for its products).

### Scopes 1 and 2 – emissions measured and reported on a monthly basis

These CO<sub>2</sub> emissions are measured by all the Group's sites and reported monthly.

Scopes 1 and 2 correspond to those for which the Group takes direct action via programmes to control energy consumption deployed on the sites and for the procurement of renewable energy. They are the subject of ambitious reduction targets as part of the *Sharing Beauty With All* programme (see section 3.2. *Sharing Beauty With All* programme):

- ◆ the "Producing sustainably" objectives cover the industrial sites (plants and distribution centres), and provide for a reduction of 60% in CO<sub>2</sub> emissions in absolute value between 2005 and 2020;
- ◆ the commitments related to the *Working Sustainably* programme cover all the administrative sites and research centres, with a reduction target of 60% in CO<sub>2</sub> emissions in absolute value by 2020 from and 2016 baseline.

For 2017, all these emissions represented 65.7 thousand tonnes for the plants and distribution centres, and are -73% down as compared to 2005, and 33.2 thousand tonnes for the administrative sites and research centres down 17% vs 2016.

The margin of uncertainty at the Group level is approximately 1% for plants and distribution centres and 5% for administrative sites and research centres.

### Scopes 1 and 2 – emissions estimated annually

Scopes 1 and 2 were supplemented this year:

- ◆ energy consumption from the use of long-term hire vehicles, previously reported under Scope 3 (business travel);
- ◆ energy consumption from stores operated by the Group.

For 2017, total emissions are estimated to be 34.7 thousand tonnes for long-term hire vehicles and 16.7 thousand metric tonnes for branded retail stores.

The margin of uncertainty at the level of the Group is approximately 20-30%.



**Scope 3 – emissions estimated annually**

Scope 3 covers all other greenhouse gas emissions not directly related to the sites operated by the Group or to the manufacture of products in our plants but to other stages in its life cycle (procurement, transportation, use, end of life, etc.) and other impacts related to the Group's activities (business travel, etc.). These emissions are the subject of an annual estimate according to the GHG Protocol methodology.

In 2017, work was carried out on Scope 3 of the GHG Assessment in order to improve its perimeters, input data and emission factors.

For 2017, L'Oréal Group's GHG balance is estimated to be 9.76 million tonnes, representing an increase of 2 million tonnes compared with 2016:

- ◆ - 1 million tonnes from the updating of the emission factors used;
- ◆ - 1 million tonnes from the improvement in the accuracy of the perimeters considered.

The GHG Protocol defines 15 types of emissions associated with Scope 3:

Upstream or Downstream	Scope 3 categories
Upstream	1. Purchased products and services
	2. Capital goods
	3. Fuel- and energy-related activities (not included in Scope 1 and Scope 2 emissions)
	4. Upstream transportation and distribution
	5. Waste generated by the sites
	6. Business travel
	7. Employee commuting
	8. Upstream leased assets
Downstream	9. Downstream transportation and distribution
	10. Processing of sold products
	11. Use of sold products
	12. End-of-life treatment of sold products
	13. Downstream leased assets
	14. Franchises
	15. Investments

The main types of emissions, representing over 90% of Scope 3 break down as follows:

- ◆ **Use of sold products: 3,884 thousand tonnes**  
CO<sub>2</sub> emissions related to the use of L'Oréal products by consumers are due to the hot water used for rinsing off certain products, such as shampoos, shower gels, dyes etc. CO<sub>2</sub> emissions for this category are mainly related to the nature and method of production of the energy used to heat the water.
- ◆ **Purchased products and services: 3,327 thousand tonnes**  
CO<sub>2</sub> emissions related to this category derive from the preparation of all of the materials used for the products

manufactured by the Group and their promotion at points of sale. These emissions include the extraction of materials, their transportation to suppliers, then their processing prior to delivery.

- ◆ **Downstream transportation and distribution: 635 thousand tonnes**

CO<sub>2</sub> emissions from this category derive from sold product transportation emissions: the transportation flows of finished products from the production sites up to the first customer delivery point.

- ◆ **Capital goods: 573 thousand tonnes**

CO<sub>2</sub> emissions from this category derive from emissions arising from capital goods acquired or purchased by L'Oréal in 2017 (property, production, IT etc.).

- ◆ **End-of-life treatment of sold products: 535 thousand tonnes**

CO<sub>2</sub> emissions from this category derive from the treatment of sold products after their use: packaging items treated in the existing channels and wastewater treated in water treatment plants. The CO<sub>2</sub> emissions for this category are mainly related to the nature and method of production of the energy used for each type of treatment.

- ◆ **Upstream transportation and distribution: 163 thousand tonnes**

CO<sub>2</sub> emissions from this category derive from emissions generated by the transportation of items purchased and transported to production and distribution sites.

- ◆ **Business travel: 160 thousand tonnes**

CO<sub>2</sub> emissions related to this heading correspond to business travel for all employees from all countries. These emissions take into account the different means of transport used (short-term car hire, train or plane).

The Group's commitments to a low-carbon economy have already led to several initiatives and achievements aimed at reducing the important categories under Scope 3:

- ◆ programmes conducted with the Group's suppliers for many years in order to raise their awareness of the main environmental issues and, in particular, the control of their CO<sub>2</sub> impacts. This is the case via the CDP Supply Chain, in which L'Oréal invited 376 suppliers to participate in 2017. Within the framework of the *Sharing Beauty With All* programme, participation by strategic suppliers has been made compulsory and 94% of the suppliers asked to participate have responded positively. In December 2015 at the time of the COP21, L'Oréal pledged that suppliers representing 80% of direct purchases:
  - will participate in the "CDP Supply Chain",
  - will set targets for reducing their carbon footprint,
  - will communicate on their action plans to succeed in reaching this target;

- ◆ an initial commitment made by the Group concerning the reduction of the impact of downstream transportation, with a target of a reduction in greenhouse gas emissions resulting from the transportation of its finished products, from the production sites up to the first customer delivery point, by -20% per sales unit per kilometre, by 2020 from a 2011 baseline (see *Sharing Beauty With All* programme below);
- ◆ the Carbon Balanced commitment, providing that the residual emissions for Scopes 1 and 2, and the downstream transportation category of Scope 3, will be compensated for in 2020 thanks to an ambitious insetting programme: the remainder of these emissions must be balanced via the reduction of the carbon emissions in the sustainable sourcing channels for certain raw materials, in partnership with the suppliers;
- ◆ finally, in 2015, L'Oréal undertook to define *Science Based Targets* (SBT) in order to reduce its greenhouse gas emissions over the long term, in accordance with the Paris climate agreements. In December 2017, the SBT initiative endorsed the Group's proposals covering its entire value chain and its impacts. L'Oréal is committed to reducing greenhouse gas emissions in absolute terms for its scopes 1, 2 and 3 by 25% by 2030 against a 2016 baseline year. In particular, L'Oréal Group is committed to reducing greenhouse gases from all of the sites that it operates by 100%.

#### Margin of uncertainty related to the Scope 3 estimates

In general, greenhouse gas assessments are, by definition, subject to a margin of error or "uncertainty". The highest level of uncertainty concerns the Scope 3 estimate, in light of the number and nature of the data necessary for its calculation (emission factors of the energy used to heat the water necessary for the phase of use of our rinse-off products all over the world, the quantity of water necessary for rinsing off, CO<sub>2</sub> emissions of our raw materials and packaging suppliers, distances travelled for transportation, etc.).

Because measurement of the global CO<sub>2</sub> impact of the Group's activities is essential information in light of the commitments made to fight against climate change, efforts are made year after year to increase the reliability of these data. The level of uncertainty of the Group's Scope 3 emissions is between 20 and 30%.

This means that, unlike for Scopes 1 and 2, the changes in Scope 3 emissions from one year to the next may be related more to the quality of the data collected and the calculation methods used than real measurement of a change in performance. This margin of uncertainty with regard to Scope 3 is a reality for all companies, and does not make it possible to consider this data as an adequate benchmark or method of performance assessment.

#### Adaptation to the consequences of climate change

Conscious of the consequences of climate change, L'Oréal has initiated its transition towards an increasingly responsible business development model in which the extra-financial issues are placed at the same level as the financial objectives with a vision of global performance. The ambition is to design an innovative low-carbon business model and to make a contribution to the major collective challenge represented by limiting global warming.

For this purpose, the Group has, for example, pledged to slash the absolute quantities of greenhouse gas emissions in its plants and its distribution centres by 60% (*versus* a 2005 baseline) *via* targets provided for in the *Sharing Beauty With All* programme; with the Carbon Balanced programme, between now and 2020, the L'Oréal Group is going to balance its greenhouse gas emissions (Scope 1, Scope 2 and emissions related to downstream transportation) by generating carbon savings in the sustainable sourcing channels for its raw materials, in partnership with the Group's suppliers (see paragraph 3.2.2. *Producing sustainably*).

Furthermore, the L'Oréal Group evaluates and integrates the risks related to climate change in its overall risk management process in order to adopt the most suitable solutions.

The main risks identified are as follows:

- ◆ an increase in the frequency and intensity of rainfall, in particular in river areas, may momentarily interrupt or slow production and distribution processes;
- ◆ episodes of extreme drought may affect the availability of resources;
- ◆ cyclones, hurricanes and typhoons may damage facilities, hamper the supply chain and potentially threaten employee safety.

These risks and their consequences may also represent a financial risk for the Group, in particular with regard to the security and safety of employees (see the paragraphs on *Safety and Environment and safety* of the Risk factors chapter, section 2.8.5.3.1.), production and the supply chain (see the paragraph on *Production and supply chain* of the Risk factors chapter, section 2.8.5.3.3.), an increase in charges, etc. In order to manage these risks, to lessen their impact and to guarantee business continuity, L'Oréal has implemented a certain number of measures including:

- ◆ a business continuity plan and a crisis management plan;
- ◆ a security policy making it possible to manage the consequences of extreme climate events, in particular on the Group's information systems, and its *data centres*;
- ◆ programmes to assist in preserving natural resources in areas affected by drought.

### 3.1.4. THE L'ORÉAL GROUP'S SOCIETAL COMMITMENT

Via the *Sharing Beauty With All* programme, the Group has reaffirmed its commitment to responsible growth shared with its employees, its suppliers and the surrounding communities.

As the Group's societal commitment extends well beyond its philanthropic activities, L'Oréal maintains an ongoing dialogue with its stakeholders and continually interacts with the local social and economic fabric in which it carries out its business activities. Furthermore, L'Oréal applies the strictest measures in terms of consumer safety, anti-corruption measures and respect for Human Rights.

#### 3.1.4.1. Conducting a constant dialogue with stakeholders

L'Oréal attaches great importance to the dialogue with its stakeholders, namely with all those whose actions are likely to have an impact on L'Oréal and all those who are concerned by its activities.

Within the framework of an ongoing dialogue and as part of a process aimed at making continual progress, L'Oréal endeavours to take account of stakeholder expectations in its strategy.

For this purpose, the Group has defined and developed a method of ad hoc interaction, that it considers the most efficient and appropriate, with all those involved.

#### *A strategy of an evolving dialogue*

The dialogue conducted by L'Oréal with its stakeholders took place in three phases:

**1<sup>st</sup> phase:** upstream of the definition of the Group's *Sharing Beauty With All* commitments with regard to Sustainable Development, L'Oréal engaged in dialogue between 2011 and 2013 with 754 organisations, including an in-person dialogue

with 232 of them, through forums organised by the Group in 8 key countries. In 2012, the Group launched a "materiality analysis" to establish the priority focuses of its Sustainable Development strategy. This made it possible to identify 29 topics for attention shared by the stakeholders with regard to the Group. L'Oréal was then able to compare stakeholder expectations with the definition of its own CSR strategy.

The materiality analysis took place in 4 phases:

- ◆ identification and prioritisation of stakeholder expectations;
- ◆ identification and prioritisation of Sustainable Development challenges for L'Oréal;
- ◆ establishment of materiality;
- ◆ revision of CSR strategy and L'Oréal's indicators.

Thanks to this process, L'Oréal is able, at regular intervals, to revise the priorities of its CSR strategy, assess the relevance of its indicators and adapt its reporting by communicating on the most "material" topics, namely those that are at the heart of the concerns of the stakeholders and the main challenges for the Group.

**2<sup>nd</sup> phase:** in 2013 the Group set up a dialogue platform hosted on the *loreal.com* website making it possible to continue this dialogue on-line, offering the possibility for NGOs, associations and non-profit organisations to interact with the Group's experts.

**3<sup>rd</sup> phase:** since 2013, L'Oréal has set up special-purpose panels and consultations with regard to various topics in order to include the views of NGOs, associations, non-profit organisations and experts in its thought process and its projects. In 2016, the Group updated its materiality grid and, in 2017, engaged in dialogue with 110 stakeholders in order to challenge its projects and progress.

	RELATIONSHIPS MAINTAINED	A FEW INITIATIVES
Employees	L'Oréal sets up a large number of dialogue arrangements with its employees to ensure their health, safety and well-being at work while listening to their concerns.	In 2017, over 60% of the Group's employees took part in Ethics Day in 2017, and more than 5,700 issues were raised worldwide. Also in 2017, all employees were invited to respond to an ethics survey and to send their suggestions about "What more can we do about Ethics at L'Oréal?". This survey enabled us to collect more than 1,100 suggestions from 64 countries.
Suppliers	L'Oréal maintains an extensive dialogue with its suppliers and shares with them its ambitions in the area of Sustainable Development.	During annual Business Reviews, L'Oréal discusses 5 main subjects with its suppliers: quality, innovation, competitiveness, delivery/supply chain and Corporate Social Responsibility. 293 Business Reviews took place in 2017.
Consumers	L'Oréal is heedful of both current and future needs and concerns of its consumers, in particular with regard to Sustainable Development.	In 2017, L'Oréal continued its policy of actively listening to consumers regarding Sustainable Development issues through a number of studies carried out in France and worldwide in order to understand their expectations and to refine its policies.
Shareholders	To enrich and develop a relationship of trust with all of its shareholders, L'Oréal maintains an ongoing dialogue by organising regular meetings, by participating in marketplace actions and <i>via</i> a whole range of multimedia tools.	<ul style="list-style-type: none"> <li>◆ Publication of the first Digital Activity Report in 2015;</li> <li>◆ Publication of an Integrated Report in 2017;</li> <li>◆ Participation in 2017 in the Actionaria Stock Market Fair for the 14<sup>th</sup> consecutive year;</li> <li>◆ The organisation of around ten meetings and site visits with shareholders in France and Belgium;</li> <li>◆ Sending of shareholders' letters and newsletters;</li> <li>◆ Presentation on the US subsidiary by the Executive Vice-President – Americas zone at the Annual General meeting in April 2017.</li> </ul>
Customers (distributors)	As it does with its suppliers, L'Oréal builds close relationships with its distributors by involving them in the preparation of joint Sustainable Development projects.	In 2017, Carrefour Italy and L'Oréal developed an educational campaign for primary schoolchildren on the theme of recycling plastics. Teachers organised interactive workshops during which the children learned about plastic packaging and its recyclability. This is a three-year commitment involving hundreds of schools and in partnership with an association of pupils' parents and the Istituto Italiano Imballaggio.
NGOs, associations and not-for-profit organisations	<p>The Panel of Critical Friends is an external governance body, which reviews the progress made on the <i>Sharing Beauty With All</i> programme year on year, by casting a critical eye over the actions conducted, suggesting improvements and challenging L'Oréal's Sustainable Development ambition.</p> <p>Since 2013, L'Oréal sets up panels and launches consultations on various topics in order to include the views of NGOs, associations and not-for-profit organisations in its reflection process and its projects. Once a year, all L'Oréal's employees are invited to spend a day on voluntary actions for associations and not-for-profit organisations, on public utility projects and supporting the surrounding communities, while continuing to receive their salary.</p>	<p>In 2017, L'Oréal held a dialogue at corporate level with 110 organisations from all over the world to discuss its initiatives and challenge its progress.</p> <p>In 2017, for the 9th edition of Citizen Day, more than 30,000 employees took part in the event in 68 countries.</p>
Extra-financial rating agencies and investors	L'Oréal guarantees the transparency of its information and discusses CSR topics regularly with both extra-financial rating agencies and with investors.	L'Oréal is in contact, in particular, with Vigeo Eiris, OEKOM, the CDP, etc. to discuss extra-financial performance and identify areas for improvement.
The scientific community including researchers and academics	Research and Innovation are an integral part of the identity of L'Oréal which maintains close links with a large number of public or private research centres all over the world, in the form of partnerships or collaboration, in areas as varied as green chemistry, synthetic biology, genomics, skin stem cells, microfluidics, bioprinting, or the microbiome.	<ul style="list-style-type: none"> <li>◆ Through the L'Oréal Foundation's <i>For Women in Science</i> programme, the Foundation rewards scientists and awards scholarships to young female researchers;</li> <li>◆ L'Oréal, a long-standing partner of CEEBIOS (the European centre for excellence in biomimicry in Senlis), signed a long-term corporation agreement with the institution based on biomimicry principles in order to contribute to its sustainable innovation ambition;</li> <li>◆ With its membership of 9 eminent scientists, the Scientific Advisory Board extended its work in 2017 on the impact of the environment (in particular pollution) on skin and hair health during a specific session in China and continued its quest for future solutions in the area of mechanobiology and sensoriality.</li> </ul>

	RELATIONSHIPS MAINTAINED	A FEW INITIATIVES
The public authorities	At local, national or international level, L'Oréal maintains close relationships with the public authorities in particular <i>via</i> professional associations.	L'Oréal is a member of many associations all over the world, including: Cosmetics Europe, AIM (European Brands Association), WFA (World Federation of Advertisers), the US Cosmetics Industry Association, CAFFCI (China Association of Fragrance Flavour and Cosmetic Industries), ISTMA (Indian Soap and Toiletries Mfrs Association), CTPA (Cosmetic, Toiletry & Perfumery Association), etc.
Students and young graduates	L'Oréal has been identified as one of the most attractive companies for students.	<ul style="list-style-type: none"> <li>♦ Organisation of Business Contests in 2017, more than 25,000 students from all over the world registered for the Brandstorm competition;</li> <li>♦ Support for various chairs, like the marketing chair at the Saïd Business School, Oxford University, the Entrepreneurship chair at the HEC business school and the Leadership and Diversity Chair at the ESSEC business school in France, or the Marketing – Innovation &amp; Creativity chair at INSEAD. L'Oréal also partners with CEMS, an alliance of more than 30 business schools worldwide: Bocconi University, LSE, Stockholm School of Economics, ESADE, Tsinghua University School of Economics, etc.</li> </ul>

### 3.1.4.2. L'Oréal Group fully engaged in philanthropic initiatives through its Foundation

Since 2007, the L'Oréal Foundation's initiatives have been focusing on science and beauty, L'Oréal Group's passion and fields of expertise.

Under the chairmanship of L'Oréal's Chairman and CEO, Jean-Paul Agon, the L'Oréal Foundation's Board of Directors membership includes individuals from the Group and from outside the Company, chosen for their expertise in the fields of Science and Philanthropic Beauty.

With its *For Women in Science* initiative in partnership with UNESCO, the L'Oréal Foundation encourages women researchers all over the world and recognises excellence in an area where women are still not sufficiently represented. The L'Oréal Foundation is going further with the *For Girls in Science* programme, whose aim is to encourage young girls to pursue scientific career paths at school.

As part of its *Beauty for a Better Life* programme, in partnership with local NGOs, the L'Oréal Foundation trains women in very difficult social or economic situations about the beauty industry (hairdressing and make-up), in order to help them to find employment. In France, it also offers free beauty care and well-being treatments, privately and in hospital settings, particularly for female cancer patients. These treatments are provided by socio-beauticians who are specially trained to help these women on the path to recovery.

#### *"L'Oréal-UNESCO For Women In Science": a commitment maintained for almost 20 years*

To fight against the under-representation of women in the scientific world, the L'Oréal Foundation created the L'Oréal-UNESCO *Pour les Femmes et la Science (For Women in Science)* in 1998. This international programme is born of one conviction: the world needs science, and science needs women. It is for this reason that the programme identifies, rewards, encourages and showcases each year women from all continents who, through their discoveries, contribute to advancing knowledge.



**2,800 women in science from over 115 countries who have received awards and been rewarded since 1998.**

Each year the L'Oréal Foundation celebrates and promotes five eminent female researchers, one from each of the five continents, whose work exerts an international influence and who are selected on the basis of their world-changing discoveries. Since 1998, 97 prize-winners have been honoured for the excellence of their scientific work, including professors Elizabeth H. Blackburn, Ada Yonath and Christiane Nüsslein-Volhard who received Nobel Prizes.

Every year, the L'Oréal Corporate Foundation also supports 275 young women scientists who will conduct tomorrow's science by helping them during their thesis or post-doctoral studies, a pivotal moment. A L'Oréal-UNESCO *For Women in Science* grant is awarded to them at national and regional ceremonies in more than 48 countries. Since 2001, from over 9,000 applications, more than 2,700 young female scientists from 115 countries have been supported by a grant from the L'Oréal Foundation and UNESCO.

In 2014, in France, marking a new stage in its commitment to science, the L'Oréal Foundation launched, in partnership with the French Education Ministry, *L'Oréal For Girls in Science*, which aims to make the scientific subjects more attractive and to encourage more scientific career paths, in particular for

young girls, thanks to classroom appearances by more than 140 female ambassadors (recipients of France L'Oréal-UNESCO *For Women in Science* grants and female employees of L'Oréal Research).



**15,000 pupils have been the subject of awareness campaigns every year since 2014.**

### *Beauty for a Better Life*

#### **Beauty care and well-being treatments**

Considering that beauty is at the heart of the self-reconstruction process, the L'Oréal Foundation, through its *Beauty for a Better Life* programme, supports and funds the provision of free beauty care and well-being treatments in medical and social environments thanks to the partnerships that it has built with non-profit and hospital organisations such as Unicancer, Emmaüs and Joséphine. These treatments are

provided by socio-beauticians who are specially trained. They play a role in improving well-being, self-esteem, fighting spirit and social cohesion and are key moments, whether for patients whose bodies are ravaged by illness or by people who were often marginalised and find it difficult to reintegrate into society.



**In 2017, in France, more than 25,000 beauty care and well-being treatments were provided allowing the L'Oréal Foundation to support more than 14,000 vulnerable people.**

#### **Training in beauty professions for the most vulnerable populations**

Because education is a powerful engine of social integration, the international component of the *Beauty for a Better Life* programme provides excellent and free beauty industry training, such as in hairdressing and make-up, to vulnerable people in order to help them find employment. The beneficiaries are women who are socially or economically vulnerable, victims of conflicts or violence or who have left home or school. The L'Oréal Foundation's goal is to give them back their motivation and self-respect, through high-quality training provided by professionals and leading to a recognised qualification.

The international training programme is deployed in 27 countries (South Africa, Argentina, China, Colombia, United Arab Emirates, India, Mexico, Pakistan, Vietnam, etc.) thanks to a strong partnership between the L'Oréal Foundation, L'Oréal Group subsidiaries, NGOs, associations and non-profit organisations recognised for their commitment to the communities, together with local authorities.



**In 2017, as part of the *Beauty for a Better Life* programme, 3,771 people in very difficult living situations were trained in the beauty professions.**

### A partnership with Médecins du Monde to give children a smile

The L'Oréal Foundation also supports the Médecins du Monde association's reconstructive surgery operations (*Opération Sourire* or "Operation Smile") for children who suffer from congenital malformations and young women who have been

victims of acid-throwing attacks. The L'Oréal Foundation enables these people to recover their dignity and be accepted back into their community.



More than 900 children operated on in 2017 as part of Opération Sourire (Operation Smile).

#### 3.1.4.3. Rolling out initiatives locally in favour of the communities

In addition to the large programmes initiated by the Foundation and rolled out across the world, each and every L'Oréal entity is encouraged to take local actions in relation with the situations in their particular countries. In 2017, L'Oréal thus supported numerous projects throughout the world, involving actions in the fields of solidarity, education, culture or the environment.

##### *Citizen Day*

Armed with the conviction that everyone has a role to play, L'Oréal mobilises its employees at the time of a citizenship action day, known as Citizen Day.

Every year since 2010, L'Oréal's employees spend a day of their working time offering their skills and devoting their energy to several hundred associations in the social and environmental field.

This involves, for example, cleaning natural sites, setting up well-being workshops for people in vulnerable situations, repainting senior centres or people facing hardships, helping job-seekers to prepare their résumés, etc.

For the last eight years, more and more employees have demonstrated their commitment. In 2017, with some 30,000 participants and more than 166,000 hours of voluntary work, the L'Oréal Citizen Day provided support to 707 associations in 68 countries.

##### *Pursuing local initiatives in favour of employment*

L'Oréal is a leading economic player in all the geographical zones where it is established. On this basis, it contributes to local employment and thus participates in regional development. Within the scope of its policy for the professional integration of people who are having great difficulty finding work, the Group has undertaken a large number of local initiatives.

In 2017, the Group continued its initiatives in several countries with the following examples in particular:

##### *The distribution centre in Streetboro (USA)*

The distribution centre in Streetboro in the United States has entered into a partnership with the S.A.W association - Solutions At Work - in order to facilitate the professional integration of people with disabilities.

S.A.W works with L'Oréal in order to identify activities that could be carried by people with disabilities within the centre and proposes candidates.

In 2017, this partnership allowed 12 people with mental disabilities to be employed in Streetboro on packaging activities (labelling, sorting, etc.).

This initiative enabled employment to be provided to people with disabilities and to increase their integration within a workplace environment. It also plays a role in raising the awareness of L'Oréal employees.

##### *The distribution centre in Denmark*

The L'Oréal distribution centre was recognised by the Greve local authority for its involvement in the training and inclusion of job-seekers.

This involved training people between 19 and 54 years of age who are excluded from the employment market following unexpected life events and physical, mental or psychological disabilities.

In 2017, 15 people were able to follow a programme at the centre which provided them with

- ◆ theoretical training in safety, ergonomics and rules to follow in the world of employment. This training is provided by the centre's management teams;
- ◆ then additional practical training in the centre where they are assisted by volunteer sponsors employed by L'Oréal and trained for this purpose.

The 15 people sponsored received 2,078 training hours, of which 279 hours involved practical training, with the remainder being dedicated to theoretical training in order to guarantee the effective integration into and adjustment of these people to the professional world.

Since then, four have been working at Greve as temporary employees, three have found a job in other companies, three have resumed studying for degrees and one person is still being trained at Greve.

### Supporting training for young people

As a socially involved company, L'Oréal is gambling on young people by investing in training for the new generations. For a number of years, the Group has developed close partnerships with primary and secondary schools but also universities and leading graduate management, engineering and research

schools. Its objective is to offer students the opportunity of discovering the Company during their studies, by offering them internships every year and, for over 20 years, apprenticeship or work experience contracts in all employment positions.

Through its sites and its subsidiaries, the Group undertakes a host of initiatives to support training for young people:

### INDONESIA – JABABEKA : L'ORÉAL COMPUTER CLASS (LCC)

"L'Oréal Computer Class" is a joint programme between the L'Oréal plant in Indonesia, the Youth Desk of the Indonesian National Commission for UNESCO, the Jababeka Industrial Estate, President University and the Al Amin vocational high school.

It is entirely financed by L'Oréal Manufacturing Indonesia.

Created in January 2015, the aim of this project is to improve the abilities and skills of disadvantaged young people in Cikarang so as to give them the means to enter the employment market.

The training programme, endorsed and established by the teams at "President University" and the UNESCO Youth Desk, lasts for six months. It includes weekly training given by student volunteers in different areas: IT, marketing and promotion, public relations and creative design.

After a month of preparation, the students must present a team project on entrepreneurship. The three best proposals will receive support from the L'Oréal Manufacturing Indonesia plant.

When the training is concluded, a certificate signed by the Indonesian National Commission for UNESCO and L'Oréal Manufacturing Indonesia will be given to all of the beneficiaries and volunteers.

Since 2015, 1,300 people have benefited from this programme.

### SPAIN – BURGOS: STEM TALENT GIRL

The Burgos plant has entered into a partnership with STEM Talent Girl (science, technology, engineering and mathematics).

By means of this collaboration, the objective is to encourage young women students to continue their studies in the so-called STEM scientific disciplines.

For this, high school students are supported from the age of 13-14 years in their studies by female sponsors in a scientific field working at the Burgos plant.

The sponsors' role will be to support these young girls in choosing their vocational Direction and in demystifying the various technical and scientific professions. They will help them to have more confidence in themselves and to question certain prejudices based on gender stereotypes.

As a result, there are currently 15 women from the Burgos plant who will be inspirational sponsors, helping these students for two years during the first phase of STEM Talent Girl.

### GERMANY- KARLSRUHE : REFUGEES

The Karlsruhe plant has developed an initiative to support the integration of refugees.

For this, the plant has contacted associations and non-profit organisations, local authorities and employment agencies.

This initiative involves presenting the Operations Division businesses in schools where there are specific classes for child refugees who are undertaking technical training. During these presentations, L'Oréal presented learning opportunities and the professions in question.

In 2017, this integration work enabled young refugees to benefit from 2017:

- ◆ two introductory two-week courses with production line technicians;
- ◆ a four-month administration course for a female refugee without employment experience;
- ◆ an induction course for a chemical engineer without employment experience.



### 3.1.4.4. Fair practices

The L'Oréal Group wishes to act in all circumstances in accordance with the ethical principles that it has set and to comply with the laws and regulations in force in all the countries where it is present.

#### Actions taken to prevent all forms of corruption

##### L'Oréal, signatory of the United Nations Global Compact

L'Oréal has been a member of the United Nations Global Compact since 2003 and supports the fight against corruption. The Group is committed to complying with the United Nations Anti-Corruption Convention of 31 October 2003 and to applying all applicable laws, including those governing anti-corruption.

This commitment is supported at the highest level of the Company by its Chairman and Chief Executive Officer who renews L'Oréal's commitment to the United Nations Global Compact every year.

L'Oréal is a member of the International Chamber of Commerce Anti-Corruption Commission and a member of *Transparency International France*.

##### L'Oréal's Code of Ethics and the practical corruption prevention guides

L'Oréal's Code of Ethics publicly states a zero-tolerance policy on corruption which applies to all employees, corporate officers, Directors and members of the Executive and Management Committees of the Group and its subsidiaries worldwide. L'Oréal's Code of Ethics was updated in 2014. Available in 45 languages, and in French and English in Braille, it is distributed to all employees worldwide.

L'Oréal has also published a more detailed anti-corruption policy that is available on its website [loreal.com](http://loreal.com).

With regard to employees, the Group also has other reference documents for the purpose of specifying the practices to be adopted and on anti-corruption:

- ◆ **Specific anti-corruption Guide:** rolled out throughout the Group as a whole since 2013, it covers the relationships with each of L'Oréal's stakeholders, in particular with the Public Authorities and intermediaries. This practical Guide is intended to specify the Group's standards and to help employees to handle situations that they might encounter in the performance of their duties. It reaffirms L'Oréal's corruption prevention policy which was approved by the Chairman and Chief Executive Officer and the Executive Committee and presented to the Board of Directors. This policy posted online on L'Oréal's website ([www.loreal.com](http://www.loreal.com)) restates the following principles:
  - the zero-tolerance policy on corruption,
  - the prohibition on facilitation payments,
  - the prohibition on all contributions to political parties or politicians with the aim of obtaining a commercial advantage,
  - the prohibition on giving and accepting gifts and/or invitations that might influence or be perceived as influencing a business relationship,
  - communication of the commitment to preventing corruption to the Group's business partners,
  - compliance with these commitments by intermediaries or agents representing L'Oréal, particularly in countries where there is a high risk of corruption;
- ◆ **Employee guide - Gifts/Invitations:** distributed in 2014 on a groupwide basis to specify the rules in this regard;
- ◆ **Nos Achats Au Quotidien (The Way We Buy):** a practical and ethical guide governing the relationships between suppliers and all employees involved in purchasing decisions. This document has been translated into 12 languages.




### The involvement of everyone in preventing corruption

<b>The Executive Committee</b>	Regularly reviews the corruption prevention policy presented to the Board of Directors.
<b>The Director of Risk Management and Compliance</b>	He is responsible for developing the anti-corruption programme. He leads corruption risk mapping.
<b>The Country Managers</b>	They are responsible for the proper deployment of the anti-corruption programme and for compliance with the anti-corruption policy.
<b>Employees</b>	May contact their management, their Legal Director, their Administrative & Financial Director, their Internal Control Manager, their Ethics Correspondent or the Director of Risk Management and Compliance and, ultimately, the Senior Vice-President and Chief Ethics Officer if they have any questions about compliance with this commitment. The aim is to ensure that all the situations encountered are thoroughly examined and, where applicable, that the appropriate steps can be taken.

### Sharing the fight against corruption with the Group's business partners

L'Oréal wants to share its commitment to fight against corruption with its business partners and as such, compliance with the law is included in the Group's general terms of purchase. It moreover reserves the right to put an end to any relationships with business partners who fail to comply with anti-corruption laws.

### Anti-corruption measures implemented within the Group

<p><b>Group-level risk assessment</b></p> 	<p>The risk of corruption is included in the Group-level risk assessment. Specific corruption risk mapping is in place at Group level and in each country.</p> <p>A tool enables Country Managers to assess and analyse possible local ethical risks (including corruption) and to take the necessary prevention measures.</p>
<p><b>Specific Human Resources procedures</b></p>	<p>A "delivers both sustainable and short-term results with integrity" ethical competency is included in the annual appraisal system for all employees.</p>
<p><b>L'Oréal's "Open Talk" policy</b></p> 	<p>This enables employees to express any concerns they may have, including with regard to corruption, namely directly via a secure website to the Group's Senior Vice-President and Chief Ethics Officer. Any allegation raised in good faith is examined in detail and appropriate measures are taken, where necessary, in the event of non-compliance with the corruption prevention policy.</p>
<p><b>Training</b></p>	<p>Online anti-corruption training (e-learning), which is available in 18 languages, is currently being deployed all over the world.</p>
<p><b>Internal Control within the scope of the control procedures for operational activities</b></p> 	<p>The Group's Internal Control system provides for control procedures for operational activities and in particular with regard to separation of tasks.</p> <p>L'Oréal's Internal Audit teams are particularly vigilant in this respect. Corruption risks are systematically reviewed during Internal Audit assignments, through individual interviews with regard to Ethics. These interviews include questions specifically concerning corruption and are conducted separately with the Country Manager and the Administrative and Financial Director. They give rise to an individual report reviewed and signed by these latter persons.</p>
<p><b>Due diligence prior to proposed acquisitions</b></p>	<p>The answers to the "ethics questionnaire" submitted to target companies are intended to identify whether corruption risk prevention has been taken into account by such companies.</p>

## A Group supporting Human Rights

### L'Oréal, signatory of the United Nations Global Compact

L'Oréal has been a member of the United Nations Global Compact since 2003 and is committed to respecting and promoting Human Rights. This includes, in particular, the Fundamental Conventions of the International Labour Organization even though these conventions have not all been ratified by all the countries where L'Oréal is present. This commitment is supported at the highest level of the Company by its Chairman and Chief Executive Officer who renews L'Oréal's commitment to the United Nations Global Compact every year.

In 2014, L'Oréal signed the *Women's Empowerment Principles*, a UN Women and UN Global Compact initiative then, in 2015, L'Oréal joined the UN Global Compact LEAD Group that brings together the companies most committed to sustainability.

Lastly, L'Oréal supports and contributes to the Sustainable Development goals of the United Nations.

### Commitment of all employees to respect for Human Rights

- ◆ The Senior Vice-President and Chief Ethics Officer is in charge of overseeing the respect of Human Rights in the Group. This mission has been entrusted to him by L'Oréal's

Chairman and Chief Executive Officer, to whom he reports regularly. He informs the Board of Directors and the Executive Committee;

- ◆ The Human Rights Steering Committee, chaired by the Senior Vice-President and Chief Ethics Officer, and comprising representatives of different activities, functions and geographical zones is in the process of being formed;
- ◆ Country Managers are in charge of implementing the Human Rights policy in their country. The Group's Senior Vice-President and Chief Ethics Officer meets systematically with each new Country Manager and Country Human Resources Director in order to raise their awareness on Human Rights issues;
- ◆ The Human Resources teams are responsible for employees' respect for Human Rights;
- ◆ The Purchasing teams are responsible for respect for Human Rights at the sites of suppliers and subcontractors;
- ◆ Employees may contact their management, their Human Resources Director, their Legal Director, their Purchasing Director, their Ethics Correspondent and, ultimately, the Senior Vice-President and Chief Ethics Officer if they have any questions about compliance with this commitment.

## L'Oréal's Code of Ethics and other policies supporting Human Rights

The L'Oréal Spirit	Main commitments with regard to employees (health, hygiene, safety and security, diversity, sexual and moral harassment, privacy).
	The Group's commitments to the abolition of child labour and forced labour, the selection of suppliers and the contribution to the community.
Code of Ethics	L'Oréal's commitments to respecting and promoting Human Rights, with reference in particular to the Universal Declaration of Human Rights and the United Nations Guiding Principles on Business and Human Rights.
Human Rights Policy	L'Oréal's commitments to its stakeholders, particularly its consumers and civil society, and which describes the way in which these commitments are fulfilled in practice.
"The Way We Buy"	A practical guide intended to specify the Group's standards and to help employees handle situations that they could encounter in the performance of their duties in relationships with suppliers.
Ethical Commitment Letter	Suppliers and subcontractors are asked to comply with the ethical commitment letter that refers to compliance with the Fundamental Conventions of the International Labour Organization as well as local laws.
"Suppliers/Subcontractors and Child Labour"	Description of the main commitments concerning child labour by suppliers/subcontractors.

### Actions implemented in the Group in favour of Human Rights

In addition to the measures already described in L'Oréal's Vigilance plan (see paragraph 2.8.4.), a number of voluntary measures have been introduced within the Group:

<p><b>Risk assessment</b></p> 	<p><b>Risk assessment</b> with regard to Human Rights is based in particular on the indicators of the Verisk Maplecroft index <sup>(1)</sup>. A tool enables Country Managers to assess any local ethical risks (including with regard to Human Rights). Since 2013, 88% of countries <sup>(2)</sup> have carried out an ethics self-assessment. The precise analysis of supplier and subcontractor risks is carried out by the Purchasing Department, namely through social audits.</p> <p>All of L'Oréal's plants and distribution centres worldwide are audited on a regular basis in the area of respect for Human Rights, employment standards and health and safety. These audits are carried out by external independent service providers following the same framework used for suppliers. These audits are mainly based on the SA 8000 standard recognised worldwide (see section 3.2.4.2.). All plants and distribution centres are subject to a social audit every three years. All sites were audited in 2014-2015. The 2017-2018 campaign is under way and 62% of sites had been audited by the end of 2017.</p> <p><b>An annual ethics reporting system</b> enables monitoring of the implementation of the ethics programme, particularly with regard to Human Rights. The Countries are informed of their potential areas for improvement by the Office of the Chief Ethics Officer. 100% of the countries completed their annual ethics reporting practices in 2017.</p>
<p><b>Ongoing communication</b></p> 	<p>Ethics Day: an annual day on ethics has been organised since 2009. A live webchat with L'Oréal's Chairman and Chief Executive Officer enables all the Group's employees to ask questions and exchange on the application of L'Oréal's Ethical Principles on a day-to-day basis, including respect for Human Rights. Ethics chats are also organised locally with each Country Manager.</p> <p>In 2017, over 60% of the employees took part in these chats and over 5,700 questions were asked worldwide. The Senior Vice-President and Chief Ethics Officer regularly visits the Group's entities all over the world to meet employees at all levels of the Company. In 2017, within this framework, he visited 18 countries, making a total of 81 countries visited since the end of 2013.</p> <p>99% of the countries have communicated on at least one topic related to Human Rights. Employees also have access to a dedicated intranet site which provides additional information on ethics, including on Human Rights.</p>
<p><b>Training</b></p> 	<p>A specific, compulsory e-learning course on ethics covering Human Rights issues in particular is currently being rolled out in all countries.</p> <ul style="list-style-type: none"> <li>As of 31 December 2017, 74% of the employees with access to the online module had completed this course.</li> <li>29 in-room training sessions were provided to 436 employees, representing 866 hours of training in 2017.</li> <li>In 2017, 111 purchasers were trained in responsible purchasing practices. This training is compulsory for any new purchaser.</li> <li>94% of the Group's countries included subjects related to Human Rights in their local training programme.</li> </ul>
<p><b>Specific Human Resources procedures</b></p>	<p>A "Treats all individuals in a respectful and consistent manner" ethical competency is included in the annual appraisal system for all employees.</p>
<p><b>Operational procedures</b></p> 	<p>In accordance with its commitments to compliance with the principles of the Convention on Biological Diversity, in 2005, L'Oréal included in its sustainable sourcing policy for renewable raw materials compliance with the rights of indigenous peoples, which is based on obtaining a prior agreement, and the guarantee of a fair return to the local populations.</p> <p>During an acquisition of premises or construction site project, L'Oréal must ensure that the former owners and occupiers have not been unfairly removed and/or that any expropriation by the authorities has been conducted in accordance with international law. This includes namely checking that the previous owner but also the occupiers/users of the land have been consulted, have given their free and informed consent and have been compensated, where appropriate.</p> <p>The agreement of the Group's Security and Safety Department is required before choosing a new security services provider or renewing an ongoing contract with such a service provider. Where it is locally possible, L'Oréal gives preference to security service providers who have adhered to the International Code of Conduct for Private Security Service Providers.</p> <p>The subsidiaries enter into contracts locally for property security services and check on the skills, official accreditations and training of security guards.</p>
<p><b>Due diligence prior to proposed acquisitions</b></p>	<p>The answers to the "Ethics and Human Rights questionnaire" submitted to target companies are intended to identify whether the risks related, <i>inter alia</i>, to failure to respect Human Rights (abolition of child labour and compulsory and forced labour, etc.) have been taken into account by such companies.</p>
<p><b>L'Oréal's "Open Talk" policy</b></p> 	<p>This enables employees to express any concerns they may have, including with regard to Human Rights, in particular to the Group's Senior Vice-President and Chief Ethics Officer directly <i>via</i> a secure website. Any allegation raised in good faith is examined in detail and appropriate measures are taken, where necessary, in the event of non-compliance with the Human Rights policy.</p> <p>No allegation of any Human Rights violation, and namely the violation of the rights of indigenous peoples, was reported to the Group's Senior Vice-President and Chief Ethics Officer in 2017.</p>

(1) Verisk Maplecroft is an internationally renowned risk analysis and strategy consulting firm, which provides a wide spectrum of risk analyses, including risks related to Human Rights.

(2) Excluding L'Oréal Caribe and L'Oréal entities in France

**Promotion of and compliance with the ILO conventions**

Even though no L'Oréal sites have been identified as presenting a substantial risk of incidents of non-compliance with the principles of freedom of association and/or the right to collective bargaining, forced labour, child labour or discrimination, all L'Oréal sites, wherever they are in the world, are subject to control in the form of compulsory Annual Reporting, via the Annual Ethics Reporting platform and the *Country reporting* intranet system for the collection of Human Resources data.

All internal social audits (see above "Actions implemented in the Group in favour of Human Rights") and social audits of suppliers cover the questions of freedom of association and the right to collective bargaining, forced labour, child labour and discrimination. All of these social audits are carried out by independent external service providers. In the event of a major non-compliance, corrective action plans are put in place and a follow-up audit is carried out. When carrying out social audits of suppliers, the most serious cases of non-compliance or the absence of effective implementation of a corrective action plan may lead to breaking off commercial relations or, where applicable, non-referencing of a new supplier.

	WITHIN THE COMPANY	SUPPLIER SOCIAL AUDITS
<b>Respect for freedom of association and the right to collective bargaining</b>	The measures taken are described in paragraph 3.1.2.6. <i>Work organisation</i> . In countries where freedom of association and the right to collective bargaining are restricted or non-existent, L'Oréal ensures that other modes of dialogue exist with its employees enabling them to report any concerns they have.	2.7% <sup>□</sup> of non-compliance related to the issue of "Freedom of association". Most of the cases of non-compliance concerned the absence of trade union elections or creation of the Workers' Committee in countries where this is a local requirement <sup>(1)</sup> .
<b>Elimination of all forms of forced or compulsory labour</b>	Recourse to prison labour is possible when it is voluntary within the scope of a professional reinsertion programme, and paid at market price. Suppliers/subcontractors must request the authorisation of L'Oréal before they have recourse to this form of labour. Furthermore, all Group entities are required to ensure that none of their employees are subject to the retention of identity papers or travel documents, or are obliged to pay recruitment fees or to deposit money affecting their ability to leave their employment.	5.8% <sup>□</sup> of non-compliance related to the issue of forced or compulsory labour. Most of the cases of non-compliance concerned the retention of identity papers or abusive contracts. Two severe cases of non-compliance concerned the lack of freedom to leave work stations to go to the toilet, the other being a case of work subcontracted to prisons.
<b>The abolition of child labour</b>	All L'Oréal entities are required to verify the age of their new employees when they are hired. L'Oréal has chosen to set a compulsory minimum age of 16 for its entire staff, a minimum age which is higher than that required by the International Labour Organisation. In light of their young age, employees who are between 16 and 18 years old are subject to specific conditions. They may not do night work, overtime, work involving the use of hazardous substances or tools or for carrying heavy loads. They benefit from a reinforced training programme, appointment of an internal "tutor" and inclusion on a special register. In 2017, 14 employees aged between 16 and 18 worked within the Group's entities.	None <sup>□</sup> of the social audits conducted in 2017 of suppliers and subcontractors revealed the employment of a child who was less than 16 years of age.
<b>Elimination of all forms of discrimination</b>	The measures taken are described in paragraph 3.1.2.7. <i>Diversity and Inclusion</i> .	0.8% <sup>□</sup> of non-compliance related to the "Discrimination" chapter. They mainly concerned pre-employment pregnancy tests and one case of discrimination against a trade union member. The five suppliers involved were asked to cease this practice. A follow-up audit will be organised.

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

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

### 3.1.4.5. The measures taken in favour of consumer health and safety

#### *Guaranteeing the quality and safety of products all over the world*

Consumer safety is an absolute priority for L'Oréal. Safety assessment is at the centre of development of new products and a prerequisite before any product is launched on the market.

The same safety requirements are applied to all our products so that consumers from all over the world have access to the same quality of products.

The L'Oréal Group has set up a global entity (*Worldwide Safety Evaluation*) consisting of nearly 100 employees across 3 continents whose role is to assess and guarantee the safety of the products developed by the Group.

#### *Assessing product safety*

L'Oréal has set up a process to ensure that all products developed by the Group, whatever the geographical location of the laboratory in charge of the project, are subject to the same level of rigorous safety evaluation. The evaluations by the Worldwide Safety Evaluation entity based on a multidisciplinary scientific approach, are carried out at all stages of the product life cycle. This approach enables L'Oréal to meet the safety requirements of the national regulations in force in all the countries in which its products are put on sale, testifying to their safety of use. A safety report is issued for each product launched on the market.

The product safety evaluation is based on the evaluation of each ingredient that enters into the composition of the product and the finished product itself. It is carried out on the basis of existing safety data and the latest medical and scientific knowledge, as well as conditions of use. If necessary, L'Oréal conducts additional safety studies in qualified laboratories all over the world. The results of these studies are interpreted by experienced scientists who are specially trained in safety issues with regard to cosmetic ingredients and products.

Furthermore, L'Oréal's ethical principles, rooted in both scientific rigour and responsiveness to societal concerns, lead to a pre-emptive approach whereby formulations are evolved by removing and/or replacing substances on the basis of new data.

L'Oréal's added value, in terms of the safety assessment of ingredients and finished products, lies in its investment for nearly 40 years in the development of predictive methods and tissue engineering, and their international regulatory recognition. For many years, the Group has thus been investing in science and technology to create new evaluation tools which are used every day by safety assessors.

L'Oréal also works closely with all the international stakeholders involved in relevant industries in order to progress the development of alternative cross-disciplinary solutions in the field of safety assessment.

This longstanding commitment means that since 1989, or 14 years before regulations required, the Group no longer carries out animal testing in laboratories for any of its products. Equally, L'Oréal no longer tests its ingredients on animals. L'Oréal no longer tolerates any exceptions to this rule and this applies worldwide. The Group also does not delegate responsibility for doing so to anyone else. Some authorities may nevertheless decide to carry out animal testing themselves for certain cosmetic products and this is still the case in China. For more than 10 years, L'Oréal has been the company most committed to getting Chinese authorities and scientists to recognise alternative methods and changing cosmetic regulations to achieve the complete and final elimination of animal testing. As a result, since 2014, some products manufactured and marketed in China such as shampoos, shower gels and certain make-up products are no longer tested on animals.

In fact, L'Oréal's products continually evolve as and when technological innovations occur, but with the constant desire to guarantee the highest level of safety for both consumers and professionals.



**Cosmeto-vigilance and impact on safety assessment**

Finally, after the product is launched on the market, L'Oréal continues to evaluate the use and tolerance of its products sold via the international cosmeto-vigilance network. This network collects, validates and analyses, using recognised rigorous methodologies, the adverse effects related to the use of a product.

This organisation makes it possible to identify any potential exceptionally "unusual" intolerances on the market. In such cases, supplementary investigations may be proposed to the consumers concerned. The product dossier is then re-examined in order to identify the cause of the intolerance and take appropriate measures where required. If necessary, a change may be made in the composition of the formula.

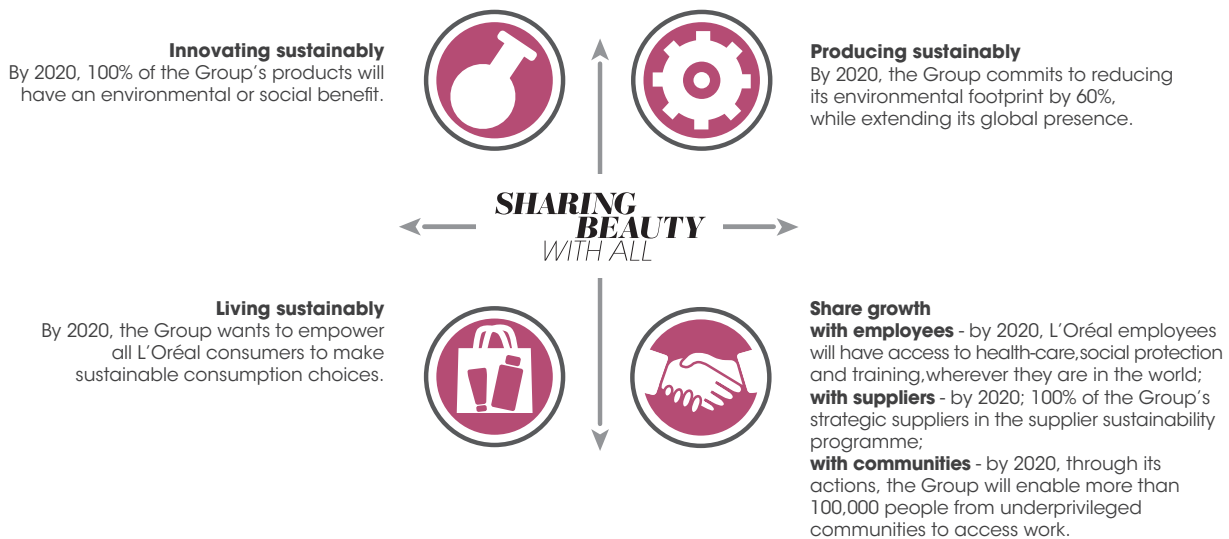
This information is used to update the corresponding cosmetic product dossiers.

**3.2. THE SHARING BEAUTY WITH ALL PROGRAMME**

**An objective of sustainable growth**

The *Sharing Beauty With All* programme presents the targets that the Group has set itself for 2020 with the aim of reducing its environmental impact and increasing its social and societal commitments, while sharing its growth with the surrounding communities.

This programme, whose results are regularly reviewed and challenged by a panel of independent international experts (Panel of Critical Friends <sup>(1)</sup>) is based on four pillars:



(1) L'Oréal has set up an external governance body, called The Panel of Critical Friends which meets, together with Jean-Paul Agon, with the Group's Chairman and Chief Executive Officer, once a year to challenge the progress made on the Sharing Beauty With All programme. This panel of international experts is chaired by José Maria Figueres (Former President of Costa Rica, President of the Carbon War Room, strongly committed to environmental topics) and consists of Lo Sze Ping, CEO of WWF China, Mehjabeen Abidi-Habib, Pakistani researcher in human ecology, natural resource management specialist, HRH Celenhle Dlamini, a South African who is one of the Directors of the Ubuntu Institute, David Jones, former Havas Worldwide CEO, Founder of One Young World and the author of Who Cares Wins, and Khalid AlKhudair, CEO and Founder of Glowork, an organisation engaged in the emancipation of women in Saudi Arabia through employment. Invited to attend the latest Panel of Critical Friends: Nigel Salter, CEO of Salterbaxter, Solitaire Townsend, CEO and co-founder of Futerra, and Sille Krukow, nudging specialist and expert in behavioural design, founder of Krukow.

### 3.2.1. INNOVATING SUSTAINABLY

"By 2020, 100% of the Group's products will have an environmental or social benefit."

2020 TARGETS	2017 RESULTS
100% of the Group's products will have a positive environmental or social benefit. Every time it invents or updates a product, its environmental or societal profile will be improved against at least one of the following criteria:	76% of new products that have been screened have an improved environmental or social profile <sup>(1)</sup> .
♦ the new formula uses renewable raw materials that are sustainably sourced or raw materials derived from green chemistry;	48% of new or updated products have an improved social/environmental profile due to a new formula including sustainably sourced renewable raw materials or raw materials respecting the principles of green chemistry.
♦ the new formula reduces the environmental footprint, particularly with regard to water;	52% of new or updated products have an improved environmental profile due to a new formula with a reduced environmental footprint.
♦ the new packaging has an improved environmental profile;	55% of new or updated products have an improved environmental profile due to improved packaging.
♦ the new product has a positive societal impact.	31% of new or updated products have an improved social profile thanks to a positive social impact.

(1) These are new products, i.e. products for which new formulas have been developed and which are produced for the first time in the Group's plants or products for which packaging was changed/updated in 2017.

On an everyday basis, formulators are encouraged to use raw materials with a favourable environmental profile. Raw materials without any foreseeable impact on the aquatic environment, or sustainably sourced renewable raw materials or raw materials respecting green chemistry principles, are given preference as from conception of the formulas.

#### 3.2.1.1 A product environmental and social profile assessment tool

In 2017, the SPOT (*Sustainable Product Optimisation Tool*) tool has been rolled out to all Group brands (except recent acquisitions). This tool enables the complete environmental and societal/social footprint of a product to be calculated in accordance with the European Commission recommendation (*Product Environmental Footprint*) on the use of common methods to measure and communicate the life cycle environmental performance of products and organisations. A methodology for measuring the social impact products has been jointly developed with nine international experts in the field of social life cycle assessments.

The SPOT tool provides exhaustive measurements of all environmental factors by integrating 14 impact factors used by the European product environmental footprint framework. A standardised version of these different impacts is applied on the basis of the average impacts of a European consumer. Then, in order to obtain a unique product environmental footprint (formula and packaging), these impacts are added together using the so-called "Planetary Boundaries" method. The final stage involves comparing the footprint to a benchmark in order to obtain a dimensionless score between zero and 10 which allows the product design teams to measure their progress.

The SPOT tool has replaced the previously used environmental and social improvement assessment systems for formulas and packaging. SPOT takes account of more criteria and allows for a more complete and demanding analysis where the different impacts are weighted according to their contribution to the product's overall impact. This tool has enabled the environmental and societal/social footprint of all updated or new products developed in 2017 to be assessed.

#### 3.2.1.2 Giving preference to the use of sustainably sourced renewable raw materials

The Group's constant concern with regard to the sourcing of its raw materials is, over and above quality considerations, to guarantee the sustainability of resources.

In 2010, the signatory countries to the Convention on Biological Diversity adopted the Nagoya Protocol, aimed at regulating access to the genetic resources of a given region and the fair and equitable sharing of the benefits arising from the use of those resources.

Conscious of these issues well before the Nagoya Protocol came into force, L'Oréal's Research Department has continuously striven, since 2005, to adopt an approach aimed at securing its sourcing channels for the future to respond to the issues of sustainable use of Biodiversity. For this purpose, the Group gives preference, in particular, to the use of renewable raw materials, namely those whose carbon content is mostly of plant origin, and ensures that they are responsibly sourced.



**Responsible sourcing:** the *Sharing Beauty With All* programme has increased the Group's ambitions in all areas of Sustainable Development. Thus, in 2020, 100% of the renewable raw materials must be sustainably sourced. In this respect, they must be traceable with an identified botanic and geographic origin. The respect for Human Rights in accordance with ILO principles is expected throughout the production chain. In terms of culture and plant harvesting, attention is also placed on the economic development of producers and respect for traditional knowledge associated with biodiversity in accordance with the principles of the Nagoya Protocol; equality of producers; preservation of biodiversity and combating climate change.

In 2017, 100% of the renewable raw materials used by the Group were reassessed based on criteria such as respect for biodiversity and contribution to socio-economic development in the territories from which they originate.

Out of the 360 plants species which are the source of the renewable raw materials used by the Group, around 8% (in number) involve significant biodiversity issues (protection measures, impact of production on natural environments) depending on their geographic origin and their extraction or production method. They are the subject of specific action plans entered into with suppliers and, where necessary, benefit from the systematic support of independent external third parties, in order to handle the real impacts on the territories of origin of the ingredients.

At the end 2017, 98% of the renewable raw materials (in Group purchase volumes -74% in number) are the subject of improvement plans or actions with the suppliers concerned in order to ensure sustainable sourcing - this is the case, in particular, of the species identified as the most sensitive (8%) and for 100% of purchases of palm oil and derivatives.

L'Oréal has defined "sustainable sourcing risk" indicators making it possible to assess the streams of renewable raw materials in sustainability terms. These environmental, social

and economic indicators from external data bases are consolidated within the SCAN index (Sustainable Characterization index). "Plant Information Sheets" have also been prepared for the plant species that may be used. They add to the SCAN index with bibliographical information enabling the assessment to be fine tuned. The Group updates the information collected regularly.

For its Guar project in India, L'Oréal won the gold medal in the Sustainable and Responsible Purchasing category, at the 2016 Purchasing Awards.

With regards to raw materials, the Group promotes green chemistry principles which encourage the development of ingredients with a favourable environmental profile made from plant raw materials, which minimise the number of synthesis stages, non-toxic solvent and energy consumption, and the production of by-products.

## BIODIVERSITY AND LOCAL DEVELOPMENT

### THAILAND - Tree planting in rice fields to restore soils

L'Oréal's obtains supplies of rice bran oil from the Isan region in North-Eastern Thailand where the producers are among the poorest in the country. In this context, L'Oréal has chosen to get its supplies from a certified fair trade and organic farming cooperative. In partnership with Pur Projet, L'Oréal has implemented an agroforestry programme: planting trees in rice production areas enriches the soils and biodiversity and helps to improve water retention. In 2017, more than 67,168 trees were planted making a total of 138,036 since 2015. This programme also contributes to L'Oréal's *Carbon Balanced* ambition, as the plantations have enabled the capture of 8,843 teq CO<sub>2</sub>.

### 2017 results

59% (in terms of volume) of the raw materials used by L'Oréal are renewable, namely around 1,650 raw materials from nearly 360 species of plants from over 100 countries.



**46% in terms of number of the Group's newly registered raw materials are renewable and 22% of them respect green chemistry principles.**

L'Oréal finalised the traceability campaigns launched with all its suppliers, thus making it possible for 100% of plant-based ingredients to now be traced to their country of production, or even as far as the biomass production site.

#### CERTAIN PRODUCTS SOLD IN 2017 HAVE A PERCENTAGE OF RENEWABLE RAW MATERIALS ABOVE 98%

Powermix Shot Color Omega Color Radiance	L'Oréal Professionnel
Crème de Corps Nourishing Dry Body Oil	Kiehl's
Sanoflore Sublime Red Berries Moisturising complexion enhancer	Sanoflore
Sanoflore Sublime Pink Peppercorns Moisturising complexion enhancer	Sanoflore
Garnier SkinActive soothing botanical rose water toner	Garnier

Currently, more than 25% of the raw materials used by L'Oréal (in terms of volume) are based on green chemistry principles (i.e., they come from renewable resources, are transformed using an environmentally respectful process and have a favourable environmental profile). This represents more than 750 raw materials. In 2017, 35 new raw materials based on green chemistry principles have been registered.

### ASSOCIATING THE GROUP'S SUPPLIERS WITH ITS QUEST FOR PROGRESS

L'Oréal has defined a progress-focused approach which will make it possible to attain the *Sharing Beauty With All* programme targets. The global scale of the programme has encouraged the Group to share its initiative with its renewable raw material suppliers. L'Oréal is attentive to four criteria: traceability, conformity, consideration of critical issues and acceptability.

An in-depth investigation into the supply chains is initiated with certain suppliers for the most sensitive raw materials. It starts with a document analysis and goes as far as an on-site investigation conducted by an independent third party. The investigation varies according to the nature and level of the environmental and social risk. In 2016, this method was subject to several critical reviews by external stakeholders. These made it possible to recognise the relevance of this management system for the sustainable sourcing of renewable raw materials.

In the event of a variance compared to the Group's sustainable sourcing targets, corrective action plans are undertaken in cooperation with suppliers and with the systematic support of independent external third parties.

The Group also integrates environmental and social issues relating to the industrial operations of its suppliers in other initiatives (the "Buy & Care" responsible purchasing programme).

### Fighting against deforestation

Within the scope of its "Zero deforestation" commitment, L'Oréal deploys an innovative strategy for the traceability of its palm oil derivatives, in partnership with all the stakeholders (small-scale growers, NGOs and suppliers):

- ◆ 100% of purchases of palm oil and palm oil and palm kernel derivatives have been certified as sustainable according to the RSPO criteria ([www.rspo.org](http://www.rspo.org)) since 2012;
- ◆ 74% of the main derivatives come from sources that are identified (as far as the mills).

### L'Oréal, a responsible, innovative company

L'Oréal consumes less than 400 tonnes of palm oil every year, but nevertheless consumes 74,000 tonnes of derivatives of palm oil (which come from the palm fruit pulp) and palm kernel oil (extracted from the palm fruit kernel). These two oils are used to produce glycerine, fatty acids and fatty alcohols which form part of the composition of the Group's products.

### Continuing the efforts made at certification

100% of the volumes of palm oil used by L'Oréal meet the standards and procedures of the Roundtable on Sustainable Palm Oil (RSPO), via one of its most demanding traceability models, the SG (Segregated) model. Concerning the derivatives, which are also 100% certified, L'Oréal has increased the proportion of its physically certified purchases to reach a "Mass Balance" of 51% at the end of 2017, as against 34% in 2016 (the remainder continues to be covered by the RSPO "Book & Claim" model) in addition to the purchase of RSPO Next certificates.

### Ensuring the traceability of derivatives as far as the mills

Within the framework of its "Zero deforestation" commitment made in 2014, the Group had pledged to trace the main palm and palm kernel derivatives that it uses as far as the mills by the end of 2015. This is a difficult task as the process for transformation of the derivatives involves a large number of players and many branches of the supply chains.

An initial phase involving a survey was conducted in 2014, with the support of a firm of independent experts, of L'Oréal's strategic suppliers, who supply more than half its palm and palm kernel derivatives. Since 2015, L'Oréal has therefore continued to enhance its data collection by extending the scope to cover all its suppliers in order to be able to trace and identify the origin of 100% of its main palm and palm kernel derivatives. The results of this work show that Malaysia and Indonesia are the main countries from which supplies are obtained and that, for 2016, 91% of these volumes of palm and palm kernel derivatives can be traced to the refineries, 74% up to the mills and 15% as far as the plantations.

Since 2016 the Group has also begun verifications with regard to the products traced up to identified mills to ensure that they are not linked to deforestation. L'Oréal relies on the Global Forest Watch risk assessment tool in order to this. L'Oréal has also developed a specific tool the Sustainable Palm Index to assess the level of commitment, progress and achievements of its direct suppliers in moving towards sustainable palm oil.

### Malaysia: supporting small-scale palm growers

Small-scale independent palm growers represent approximately 40% of the world's palm oil production. With poor knowledge of agricultural practices, they are sometimes forced, in order to increase their low output, to extend their palm plantations illegally. In Malaysia, L'Oréal has launched a project called SPOTS (*Sustainable Palm Oil & Traceability with Sabah small producers*), a completely new initiative on the palm derivatives market, in which traceability of production up to the plantation does not exist. In partnership with three of its suppliers, all committed to the project on a long-term basis, and with the support of Wild Asia, a social enterprise, L'Oréal has agreed to purchase the RSPO-certified production of 500 small-scale palm growers for 5 years. These growers are thus given fairer, long-term access to the international market, which enables them to improve their agricultural practices and their living conditions and thereby avoid deforestation. By the end of 2017, 347 farmers have been audited and RSPO-certified.

#### 3.2.1.3. Reduction of the environmental footprint particularly with regard to water

L'Oréal opened its first research laboratory as early as 1995 to anticipate and reduce its environmental footprint. Through this initiative, the Group has developed expertise with regard to the potential impacts of its cosmetic products on aquatic environments. It assesses the raw materials included in the formulation of its products right from the design phase, thus making a strict selection of ingredients.

In 2013, an index was developed making it possible to quantify the environmental performance of a cosmetic formula. To do this, a calculation method for the Water Footprint specific to cosmetic products was also applied (performance index for a formula based on the environmental profile of its ingredients in terms of biodegradability and aquatic eco-toxicity) to the entire portfolio of formulas.

100% of the existing formulas in the product portfolio and the new formulas designed in 2017 are assessed on the basis of the foregoing criteria.

#### Measuring the environmental impact of formulas and improving their biodegradability

For several years, L'Oréal has carried out life cycle assessments of its products in order to identify and evaluate their impacts on the environment. These studies show that for rinsed-off products, one of the main environmental impacts is related to the quantity of water withdrawn and the quality of wastewater discharged, during the phase of use.

In order to minimise this impact, the Group makes efforts to measure and increase the biodegradability of its formulas and reduce their water footprint.

### Formula eco-conception tool

To classify the products according to the benefits offered to the consumer, all 19 product types manufactured by the Group (shampoos, hair care products, shower gels, skin care products, cleansers, hair colours, styling products, deodorants, sun care products, make-up, perfumes, etc.) were analysed. After having defined 143 product categories and screened more than 40,000 formulas between 2014 and 2015, an eco-design tool was created at the end of 2015 to guarantee that all new formulas are developed with the goal of an improved environmental profile with identical benefits for the consumer. In 2016, a formula creation tool was rolled out. It is used by all the teams of product formulators to assess the biodegradability and water footprint at the time of creation of all new formulas, and is incorporated as one of the improvement drivers in the SPOT tool.

Among the new products launched in 2017, the products below have formulas with biodegradability levels of over 98% across L'Oréal's Divisions.

In 2017, L'Oréal has maintained the average biodegradability rate of shampoos at 91% and has increased the biodegradability rate of shower gels to 87%.

Vichy Densi-Solutions Hair mass recreating concentrate	VICHY
Yves Saint Laurent top secret illuminating Water-based foam cleanser	YVES SAINT-LAURENT
Garnier SkinActive soothing botanical honey flower toner	GARNIER
Fructis Hair Food banana hair mask	GARNIER
L'Oréal Paris Smooth Sugars Purifying exfoliant	L'ORÉAL PARIS

#### 3.2.1.4. Improving the environmental profile of packaging

Packaging represents a significant part of the environmental impact of cosmetic products. The reduction in the environmental footprint of packaging is therefore naturally part of the "Innovating sustainably" commitment under the *Sharing Beauty With All* programme.

In 2007, L'Oréal launched a Packaging and the Environment policy based on three pillars, called the "3Rs":

- ◆ Respect: respecting consumers, the environment and biodiversity;
- ◆ Reduce: designing packaging articles and finished products with an optimised weight and size;
- ◆ Replace: substituting for non-renewably sourced materials, alternative materials such as recycled materials or bio-sourced materials.

These pillars are applied well ahead of each launch, right from the Marketing brief and are orchestrated via a global, systematic eco-design process for the Group's packaging. This process is continuously enriched with documents and tools. Conscious of the fact that Sustainability is a consumer expectation and a source of innovation, the Packaging & Development teams are fully involved in the *Sharing Beauty With All* programme.

This approach has been extended to POS (Point-of-Sale) advertising display stands. An eco-design process based on detailed best practices and key performance indicators has been defined. A pilot process was launched in 2015, then rolled out to 7 operational entities in 2016. Enhanced by this experience, the eco-design process was reworked in 2017 in order to allow a worldwide deployment from 2018 onwards.

#### **Respect: materials vigilance and respect for resources**

L'Oréal requires food quality level for all the materials used in packaging in contact with its products so as to ensure a very high level of quality and safety. The Group also takes a proactive approach with its suppliers in order to ensure that packaging does not contain any sensitive substances. Audits are conducted regularly in order to ensure the conformity of the packaging items delivered.

L'Oréal has undertaken not to produce finished products containing PVC from 1 January 2018. In 2017, except for recent acquisitions, PVC now only represents 0.007% of the plastic used by the Group.

Control of the source of the materials used in the packaging is a major issue which requires responsible sourcing. L'Oréal has set itself the target of using, for its paper, cardboard or wooden packaging, materials from responsibly managed forests, exploited with respect for populations and forest ecosystems. The paper and cardboard used for packaging come from forests that are preferably FSC or PEFC certified (or have obtained any other certification recognised by PEFC International). In 2017, more than 97% of the paper used for product leaflets and 100% of the cardboard used for boxes was certified as being from sustainably managed forests. This certification process is also used for POS advertising (cardboard stands, graphic printing): in 2017, 89% of the paper/cardboard used in POS advertising was certified (this figure covers 98% of the expenses in this category). Since 2010, L'Oréal has been a member of the Forest Stewardship Council (FSC) in France and the FSC branding is the only one claimed on packaging for L'Oréal products.

Finally, with the objective of improving the recycling of its products on the market, several Group brands have undertaken to provide consumers with detailed information on sorting instructions (Mennen, Ushuaïa, L'Oréal Professionnel).

#### **Reduce: systematic optimisation of the resources used for packaging**

Weight and volume reduction in packaging, an integral part of design, is a major driver for improvement in the environmental profile of products. Every year, L'Oréal launches new initiatives aimed at reducing the quantity of materials used in packaging. They are then recorded through indicators.

5,092 tonnes of packaging materials were saved between 2008 and the end of 2017 due to actions to reduce them at source. In 2017, 389 tonnes of virgin materials were saved.

To illustrate, the following initiatives were implemented by the packaging teams in 2017 to lighten the weight or reduce the volume of packaging:

- ◆ 13% in the weight of aluminium deodorant cans for the Mens Expert and Narta brands in the Europe zone, representing aluminium savings of 10.4 tonnes;
- ◆ 10% in the weight of the glass pots of the Lancôme brand in Europe, representing glass savings of 7.4 tonnes;
- ◆ 22% in the weight of body lotion bottles of the Nice & Lovely brand in the Africa zone, representing PE plastic savings of 5.1 tonnes.

In addition, to improve the use of resources used for packaging, L'Oréal is introducing ever more refillable products into the market. For example, in 2017, for the Luxe Division, the Group put 45% more refillable products on the market compared with 2016. The Consumer Products Division has also launched a L'Oréal Paris brand refillable pot in Asia.

To limit packaging volumes for its finished products, L'Oréal has defined its own procedures in the absence of harmonised international regulations.

To optimise the flows of components, L'Oréal has developed *wall-to-wall* <sup>(1)</sup> production enabling the environmental impact to be reduced as a result.

To evaluate the impact of its finished products, L'Oréal makes the following tools available in its design centres:

- ◆ SPOT (*Sustainable Product Optimisation Tool*) a new tool to meet *Sharing Beauty With All* commitments (see paragraph 3.2.3 "Living Sustainably"). This tool takes into account a comprehensive set of impact indicators that facilitate a robust assessment both of the environmental and social impacts of the products. It has been deployed for all of the Group's brands (except for recent acquisitions);
- ◆ a tool to help in reducing the environmental impacts of transport packaging for packing items from the suppliers to the plants and finished products from the plants to the Group's distribution centres.

(1) Since 2010, the Group has implemented wall-to-wall production, which consists in setting up, within its plants, a production unit for packaging operated by a supplier. This partnership makes it possible to develop reactivity and industrial flexibility, while reducing the transportation of packaging and generation of waste related to their packing.

**Replace**

Aware that non-renewable resources will not last forever, the Group seeks to replace them with recycled materials or biomass-based materials. Several brands include in their bottles up to 100% of recycled plastic (Kiehl's, Redken, L'Oréal Paris), or recycled glass (L'Oréal Professionnel, Garnier, Biotherm, Vichy).

L'Oréal also contributes to the development of new sources of recycled materials by means of a partnership with new suppliers. In India, for example, L'Oréal supported the creation of a channel of new recycled, food quality PET plastic with Reliance.

7,294 tonnes of recycled materials made it possible to save the equivalent quantity of virgin materials in 2017 (nearly 10% more than in 2016).

The 250 ml bottle of the Kiehl's "Calendula" range is 100% recycled PET plastic, thus saving 32.6 tonnes of virgin plastic over a year. The bottles of the L'Oréal Paris "Botanicals" ranges

are also 100% recycled PET plastic, which enables 84.5 tonnes of virgin plastic to be saved over a year.

In 2017, L'Oréal launched for the first time on the market 100% recycled, food quality PE plastic shampoo bottles: Pureology, Biolage, Redken, in the United States. The Pureology launch also received a prize at the NJPEC Awards in the cosmetics category, rewarding the efforts put into the eco-design of this packaging.

Beyond the eco-design of this packaging, L'Oréal is also researching solutions to improve the end-of-life of its packaging. In this area, L'Oréal has created a consortium with Carbios to perfect an enzymatic biorecycling process with the goal of restoring the original material without it degrading. L'Oréal has also joined the Ellen MacArthur foundation whose objective is to rethink the life-cycle of plastic so that plastic packaging never becomes a waste and is re-inserted into the economy in the form of materials with biological or technical value.



**7,294 tonnes of recycled materials**  
used in the Group's packaging

**3.2.1.5. Demonstrating a societal benefit**

The objectives of the *Sharing Beauty With All* programme express L'Oréal's conviction that the reduction of the environmental footprint of its products has to be accompanied by an improvement in their societal benefit.

By using fair trade for its procurement of raw materials, L'Oréal responds to this requirement. It contributes to the social [2017 results](#)

integration of people in difficulty while guaranteeing environmentally friendly sourcing. Equity in business and equal opportunities have gradually become major pillars of the Group's responsible purchasing programme *Solidarity Sourcing* launched in 2010 (see paragraph 3.2.4.3 *Solidarity Sourcing*).



**31% of new or updated products have an improved social profile thanks, in particular, to the *Solidarity Sourcing* programme.**

For example, in 2017:

- ◆ since 2014, 100% of our shea butter purchases come from Burkina Faso.
- ◆ the Group's purchasing contracts guarantee 36,000 women, who are partners within the female of women producers:
  - prepayments for their crops,
  - a fair price,
  - access to training,
  - the implementation of community projects;
- ◆ in Burkina Faso, less than 3% of families have access to electricity and 87% of households use wood for cooking. Energy expenditure represents almost one quarter of household budgets and 105,000 hectares of forest disappear every year. Since its introduction in 2016, the sustainable and fair sourcing system has striven to combat fuel poverty and deforestation by facilitating the distribution of so-called improved stoves to women. The project's impacts are increasing:
  - household wood consumption has reduced by half and significant savings are being achieved,

- thousands of hours of unpaid work are avoided (collecting wood, cooking),
- working conditions are improved (60% less smoke in rooms),
- CO<sub>2</sub> emissions are reduced.

The group gets its essential oils from the Bio-plantes cooperative, an organisation of local producers in the Drôme provençale area, who cultivate 35 species of aromatic plants on almost 300 hectares.

In addition to the organic farming certification covering 100% of the surface area under cultivation by the producers, the cooperative also has a "bio-solidarity" certification, a label given to products arising from the North/North fair trade movement. In 2017, 29 farmers directly benefited from purchases of these raw materials.

### 3.2.2. PRODUCING SUSTAINABLY

"By 2020, the Group commits to reducing its environmental footprint by 60%".

Within the scope of the *Sharing Beauty With All* programme, L'Oréal has undertaken to improve its production conditions to reduce its environmental footprint by 60% in 2020 from a 2005 baseline. In all its plants and distribution centres, the Group

strives to reduce its greenhouse gas emissions, its water consumption and its waste generation. It also pledges to reduce the footprint from transportation of its products and to no longer send waste to landfill.

2020 TARGETS	2017 RESULTS
Reducing CO <sub>2</sub> emissions at our plants and distribution centres by 60% in absolute terms, from a 2005 baseline.	The percentage of achievement is already a <b>73%</b> reduction in CO <sub>2</sub> emissions from a 2005 baseline <sup>(1)</sup> .
Reducing our water consumption by 60% per finished product unit, from a 2005 baseline.	A reduction of <b>48%</b> in water consumption from a 2005 baseline <sup>(2)</sup> .
Reducing waste generated by 60% per finished product unit, from a 2005 baseline.	A <b>reduction of 37%</b> in waste generation from a 2005 baseline <sup>(3)</sup> .
Sending zero waste to landfill.	<b>Less than 0.1%</b> of waste from plants and distribution centres was sent to landfill <sup>(4)</sup> . With one exception, all of the Group's plants and distribution centres achieved the target of zero waste to landfill (excluding regulatory obligations).
Reducing CO <sub>2</sub> emissions from transportation of products by 20% per sales unit per km from a 2011 baseline.	Transportation of products led to CO <sub>2</sub> emissions of 357,770 tonnes in 2017, which represents 0.0228 g CO <sub>2</sub> sales unit/km. A <b>18%</b> reduction in CO <sub>2</sub> emissions generated by transportation of products per sales unit/km, from a 2011 baseline <sup>(5)</sup> .

(1) The calculation of CO<sub>2</sub> emissions concerns Scopes 1 and 2 of plants and distribution centres. The reduction percentage is calculated in absolute value from a 2005 baseline.

(2) The water consumption calculation concerns plants and distribution centres. The reduction percentage is calculated in litres of water per finished product from a 2005 baseline.

(3) The calculation of waste generation concerns plants and distribution centres. The reduction percentage is calculated in grams of waste per finished product from a 2005 baseline. This indicator includes transportable waste (excluding returnable packaging rotation loops, with returnable packaging accounted at source).

(4) The percentage of waste sent to landfill is calculated by dividing the quantity of waste sent to landfill (0.85 tonnes<sup>excl</sup> excluding regulatory obligations by the total quantity of waste generated (105,326 tonnes<sup>incl</sup> including returnable packaging rotation, excluding waste sent to landfill due to regulatory obligations and transport pallets).

(5) The scope of consolidation covers the transportation flows of finished products from the production sites up to the first customer delivery point. The calculations are made for the Group scope with the exception of NYX Professional Makeup Professional Make-up Europe (flow IDC NYX Professional Makeup Europe to CDC Country or NYX Professional Makeup Country stores), Atelier Cologne, CeraVe, AcneFree, Ambi, and IT Cosmetics as well as products sold online from the Group's websites

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

#### 3.2.2.1. Reducing greenhouse gas emissions by 60% from a 2005 baseline

As the cosmetics industry has a relatively low energy demand and relatively low CO<sub>2</sub> emissions as compared with other industrial sectors, L'Oréal's production sites are not subject to the CO<sub>2</sub> emission quotas provided for by the European regulations. However, L'Oréal, a company that is invested in the fight against climate change, conducts a particularly proactive policy for the reduction of its CO<sub>2</sub> emissions.

The Group, moreover, set itself ambitious targets as from 2009: reducing greenhouse gas emissions at its plants and distribution centres by 50% between 2005 and 2015. This objective was fulfilled in 2014 even though production volumes increased by 21% as compared to 2005. This performance continued for the following years and in 2017, a reduction of

73% in CO<sub>2</sub> emissions was achieved while production has increased by 33% since 2005.

For the 5<sup>th</sup> consecutive year, L'Oréal was recognised as one of the leading companies worldwide in the fight against climate change, by the annual CDP rating. L'Oréal was given a score of "A", representing the highest level of performance against the Climate Leadership Index criteria with regard to management of its carbon footprint and its strategy with regard to climate change and the transparency of its policy.

In order to limit its impact on climate change and to fulfil its objective of reducing greenhouse gas emissions, L'Oréal has deployed a strategy based on two axes:

1. Reducing its energy requirements by improving energy efficiency across all its facilities (buildings, equipment, etc.);
2. Making increased use of renewable energies.

**Reducing energy consumption**

For over twenty years, the Group has been endeavouring to reduce its energy consumption. These efforts essentially concern two areas:

- ♦ ongoing improvement of industrial processes and the performance of associated equipment;

- ♦ optimisation of energy consumption in the buildings. In this respect, any new Group building has to comply with the strictest environmental standards.

This policy made it possible to reduce the consumption of plants and distribution centres in kWh per finished product by 35% between 2005 and 2017.

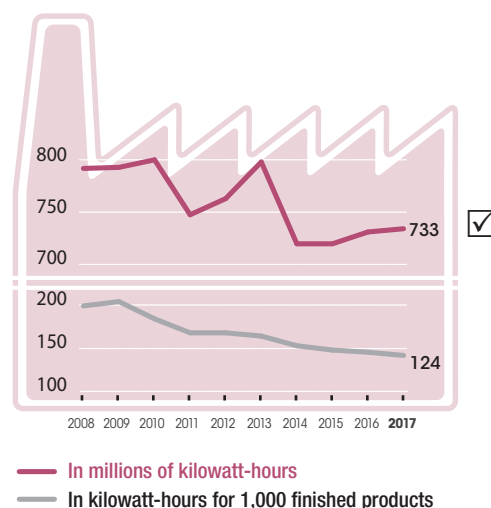
**IMPROVING ENERGY EFFICIENCY THANKS TO THE "ENERGYSCAN" PROJECT**

In order to support our *Sharing Beauty With All* objectives, and to facilitate the ISO 50001 energy efficiency projects, the Energyscan tool, a standard tool for the analysis and exhaustive mapping of energy consumption is now deployed at each of the Group's plants. This tool allows the different energy utilisation items (utilities, production, buildings) to be categorised and the consumption for each of these categories to be identified. The best performance levels for a given use are established as a standard for plants with similar technology and then represent a target for each plant. A platform for exchanging "Best Practices" between sites complements this diagnostic tool.

The projects making it possible to achieve these targets are identified and quantified on each site and the completion of such projects scheduled over time.

This forms the Group's "Energy roadmap", the performance of which is monitored on a monthly basis.

**TOTAL ENERGY CONSUMPTION IN KILOWATT-HOURS**



**DATA RELATING TO CONSUMPTION WITH AN IMPACT ON GLOBAL WARMING**

	2016	2017
Renewably sourced electricity (MWh)	266,470	302,089
Biogas (MWh)	13,461	45,721
Other renewably sourced energy (MWh)	47,440	41,114
<b>Total renewably sourced energy (MWh)</b>	<b>327,371</b>	<b>388,924</b> <input checked="" type="checkbox"/>
Non-renewable electricity (MWh)	122,178	90,601 <input checked="" type="checkbox"/>
Gas (MWh)	238,434	214,044 <input checked="" type="checkbox"/>
Fuel oil (MWh)	9,908	7,261 <input checked="" type="checkbox"/>
Other non-renewable energies (MWh)	32,853	32,292 <input checked="" type="checkbox"/>
<b>Total non-renewable energy (MWh)</b>	<b>403,374</b>	<b>344,198</b>
<b>TOTAL ENERGY CONSUMPTION (MWH)</b>	<b>733,745</b>	<b>733,122</b> <input checked="" type="checkbox"/>

In order to anchor this performance in a sustainable manner in the industrial management processes, the Group has undertaken ISO 50001 certification of its plants since 2014. Its objective is the certification of 100% of its production sites by 2020. As of the end of 2017, 44% of the plants have already been ISO 50001 certified.

**Use of renewable energies**

L'Oréal has defined a strategy involving the use of renewable energies which is based on the potentialities offered by each local context.

To this effect, over the last few years, several large projects have been rolled out on certain of the Group's sites, enabling them to produce their own renewable energy directly and thereby significantly reducing their CO<sub>2</sub> emissions:

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

- ◆ the French sites of Rambouillet and Roye and those in Burgos in Spain and Turin in Italy receive their energy supplies from the installation of biomass-fired boilers or plants which are fuelled exclusively by local resources;
- ◆ the Belgian plant in Libramont covers almost all its energy needs through biomethanation, also using local resources, which allows for the combined production of heat and power;
- ◆ in China, in the United States and in Spain, several plants are equipped with photovoltaic panels;
- ◆ the energy mix of the Settimo plant in Italy consists of several locally produced renewable energies: solar panels installed on the roof of the plant and a biomass plant which

supply power, the town's heating network, and finally the biogas produced from municipal waste.

Other sites have chosen to procure renewable energies according to the local offerings. This is the case, for example, of the Chinese plant in Yichang which has chosen to cover all its energy needs by connecting to the hydroelectricity produced from the dam located nearby.

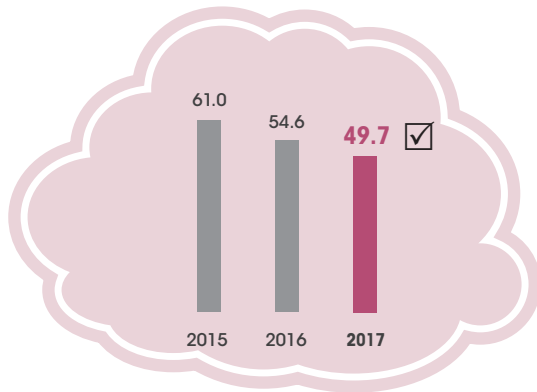
### 2017 results

Thanks to these projects and a longstanding investment in renewable energies, 24 of the Group's sites achieved carbon neutrality by the end of 2017.

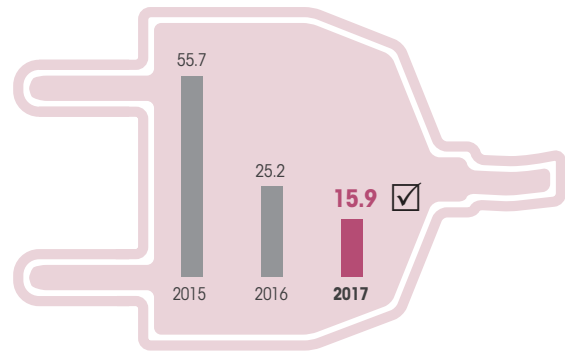
In 2017, 53% of the energy consumed by the plants and distribution centres came from renewable sources<sup>54</sup>.

### The Group's greenhouse gas emissions

#### DIRECT CO<sub>2</sub> (THOUSANDS OF TONNES)<sup>(1)</sup>

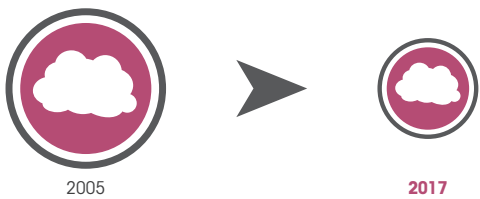


#### MARKET-BASED INDIRECT CO<sub>2</sub> (THOUSANDS OF TONNES)<sup>(2)</sup>



### 2017 results

#### GREENHOUSE GAS EMISSIONS



**-73%**  
(in absolute value: tonnes of CO<sub>2</sub>, with a constant scope, according to the GHG Protocol)

#### The Group's emissions, excluding greenhouse gas

in tonnes – for the scope of the plants and distribution centres	2016	2017
SO <sub>2</sub>	4.8	4.0
VOCs	169	174
Ozone depleting substances	2.3* <sup>(2)</sup>	2.2 <sup>54</sup>

\* Emissions from the refrigeration units used at sites are now part of the monthly reporting on emissions.

<sup>54</sup> Statutory Auditors have expressed a reasonable assurance with regard to this indicator.

(1) The monitoring indicator for CO<sub>2</sub> emissions now includes emissions related to refrigerant leaks.

(2) The Group's emissions are now calculated in accordance with the concepts defined by the GHG protocol, and monitored according to the Market-based CO<sub>2</sub> indicator.



### THE CARBON BALANCED PROJECT: TOWARDS A LOW-CARBON COMPANY BY 2020

At the end of 2017, L'Oréal posted a reduction of -73% in carbon emissions related to its industrial activities for production that has increased by 33% since 2005. This is a major signal: the Group is proving that it is possible to decouple economic growth from carbon emissions.

In light of the urgent climate situation, the Group pledged to balance its residual CO<sub>2</sub> emissions (Scopes 1 and 2, downstream transportation of its finished products) by 2020, in order to become a *Carbon Balanced* company.

This new ambition reinforces L'Oréal's low carbon strategy, L'Oréal now applying a twofold approach in order to reduce its carbon footprint:

1. 60% reduction in absolute terms of emissions related to its industrial activities by 2020 compared to 2005, through increasing use of renewable energies and by improving energy efficiency at its industrial sites;
2. Reaching a balance, by 2020, in the remainder of those emissions by reducing carbon emissions from its sustainable sourcing of raw materials, in partnership with its suppliers.

Through this new ambition, L'Oréal wants to avoid carbon emissions in an equivalent quantity to these residual greenhouse gas emissions (approximately 400,000 tonnes of CO<sub>2</sub> per annum, in 2014). This innovative programme is being rolled out via various projects structured around three main areas of focus in line with the methodologies developed by international standards and the Kyoto protocol:

- ◆ improvement in energy efficiency;

- ◆ promotion of productive, low-carbon agricultural practices;
- ◆ development of forest management and agroforestry projects.

To evaluate and accompany this new process, L'Oréal has set up a committee of independent experts, who are all carbon specialists, chaired by Christian de Perthuis, Professor at the Paris Dauphine University and founder of the Climate Economics Chair.

In 2017, the committee of experts supported L'Oréal in developing the *Carbon Balanced* programme framework, a methodology to be used in selecting, developing and monitoring projects. This document is shared with all suppliers, project leaders and the auditing bodies involved.

It has been estimated that, in 2017, the first four energy and forestry projects that have been put in place since 2015 have made it possible to generate carbon savings of 45,291 teq of CO<sub>2</sub>.

#### Indonesia example: peat land rehabilitation

In Indonesia, on the island of Borneo, L'Oréal launched in 2017, with one of its palm derivatives suppliers, a four-year project for the ecological rehabilitation of peat land. For years Indonesian peat land has been being drained then burned in order to be converted into farmland. This activity releases huge quantities of greenhouse gases and is conducive to fires in the dry season. To stop this, the project plans to train village communities in sustainable farming practices on specific land. It also plans to rewet 2,000 hectares in order to regenerate the local biodiversity. In 2017, this project helped to avoid the emission of 31,700 teq CO<sub>2</sub>.

### Reducing emissions related to transportation of products

Within the scope of the *Sharing Beauty With All* programme, L'Oréal has initiated the reduction in greenhouse gas (GHG) emissions engendered by the transportation of its products and has set itself a target of a reduction of 20% per sales unit per kilometre by 2020 from a 2011 baseline. The scope of consolidation covers the transportation flows of finished products from the production sites up to the first customer delivery point<sup>(1)</sup>. To achieve this objective, a large number of action plans for transportation are being deployed all over the world.

In 2017, the sustainable transport strategy was strengthened by the worldwide implementation of *Transportation Labs*. This first stage was the opportunity to bring together the whole of L'Oréal's transportation ecosystem - the transportation partners together with the experts and main innovators in the area. The *Transportation Labs* took place throughout the year in the six

regions of the world and brought together 510 participants including 205 suppliers and 17 experts and innovators. The objective was: to share the *Sharing Beauty With All* commitments and to position sustainable transportation as a priority development focus.

During the second stage, specific tools have been developed: recommendations by transportation mode, technical sheets comparing transportation modes, a special procedure governing shipments by air and a simplified tool for simulating CO<sub>2</sub> emissions. They should allow the teams to prioritise sustainable transportation solutions and to select the most advanced partners following this approach.

#### Other initiatives were deployed during 2017

In Europe, multimodal solutions were implemented enabling road journeys to be reduced and to be replaced by less CO<sub>2</sub> consuming solutions such as rail and sea transportation.

(1) With the exception of the transportation of finished products sold online from the Group's websites.

As a result, for flows from our plants to the country distribution centres, multimodal solutions increased in volume from 6% in 2014 to 19% in 2017.

In Russia, for example, deliveries to the regional distribution centre in Novosibirsk have been made by train since April 2017, producing a 5% reduction in CO<sub>2</sub> emissions between 2016 and 2017 for the Consumer Products Division.

For Turkey, deliveries from European plants are now made by train from Luxembourg to Trieste and then by boat to Turkey.

And, in the United Kingdom, following a call for tenders which made the sustainable transportation criteria a priority, 100% of deliveries between European plants and the Trafford Park distribution centre are made by multimodal transportation using railway and/or sea transportation.

This initiative produced a 24% reduction in CO<sub>2</sub> emissions between 2016 and 2017

#### Other initiatives were deployed during 2017:

Transportation of products led to 357,770 tonnes of CO<sub>2</sub> emissions in 2017, which represents 0.0228 g CO<sub>2</sub>/sales unit. As compared to 2011, the CO<sub>2</sub> sales unit/km emission indicator has fallen by 18%.

#### 3.2.2.2. Reducing water consumption per finished product by 60% from a 2005 baseline

Water is used at each stage of production or use of the products, first of all by the Group's suppliers for the preparation of raw materials and packaging, then in its plants and finally by consumers at the time of their use. The Group is therefore endeavouring to reduce its water footprint throughout the life cycle of its products, and more particularly during production.

L'Oréal implements its industrial programme by systematically applying simple principles aimed at preserving this resource through the prudent use of water, using the minimum for its needs, and taking into account its local availability.

Since 2005, L'Oréal has slashed absolute water use by its plants and distribution centres by 31%, while production (excluding raw materials plants) has increased by 33%. This led to a 48% reduction in its water consumption in litres per finished product at the end of 2017. Within the framework of the *Sharing Beauty With All* programme, the Group has pledged to augment this performance to 60% between now and 2020.

The sustainable water management strategy is based, in particular, on the following main principles:

- ◆ mapping and reduction in water consumption;
- ◆ reuse of industrial water without treatment, for a new purpose;
- ◆ recycling of the water used, after a specific additional treatment stage.

### MAPPING AND REDUCTION IN WATER CONSUMPTION

A standard tool for the exhaustive mapping of water consumption is now deployed in each of the Group's plants – the Waterscan tool. This tool allows for categorisation of the different water utilisation items (cleaning of production tools, cooling, sanitary facilities, etc.) and to identify consumption in each of these categories. The best performances for a given use are established as a Group standard, and are then set as a target for each plant. The projects making it possible to achieve these targets are identified and quantified on each site and the completion of such projects scheduled over time. This forms the Group's "Water roadmap", performance of which is monitored on a monthly basis.

#### Mapping and reduction in water consumption in industrial processes

L'Oréal has worked more particularly on reducing consumption of the water used for cleaning production equipment and packaging lines at its plants. An operation required to maintain very strict hygiene standards and which represents 34% of total water use by the industrial sites. Firstly, the quantity of water used for these operations is reduced to a minimum, without affecting product quality (specific optimisation of use of cleaning water, determined on the basis of the formula for each product manufactured and the equipment used). In addition, equipment improvements have made it easier to wash the facilities. Finally, training courses in best cleaning practices are provided to the operational teams all over the world, thanks to the OPTICIP (*OPTimisation Cleaning In Place*).

#### Reuse of industrial water without treatment, for a new purpose

The exhaustive mapping of plant water consumption also enables the identification of opportunities for the direct reuse, without specific treatment of the used water, for another purpose, primarily the direct reuse of unpolluted cooling water for equipment cleaning requirements, or the reuse of water from the on-site treatment planned to dilute the chemical products used in the treatment of industrial wastewater.

#### Recycling and on-site treatment of all of the used water that cannot be avoided or reused in its current state

The principle consists in re-treating wastewater when it leaves the site's wastewater treatment plant using various different technologies (ultra-filtration, reverse osmosis, etc.). These treatment operations make it possible to obtain very high quality water, that conforms to the Group's standards for reuse in certain industrial processes. Water treated in this way may be reused to clean or cool production equipment, for example.

As at the end 2017, 11 of the Group's plants have recycling facilities of this kind, forerunners in the cosmetics industry, which enable them to reuse water. The Group is continuing to deploy these technologies on its production sites. For some plants, the volume of recycled water covers more than 50% of their utility water requirements.

**GOING FURTHER TO PRESERVE NATURAL WATER RESOURCES: THE "DRY FACTORY" CONCEPT**

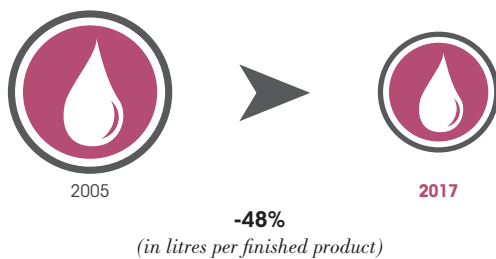
The *Dry Factory* concept involves only using town mains water for human consumption and for producing high quality water used in product manufacture; with the water required for industrial processes (cleaning equipment, services, etc.) being 100% reused or recycled continuously on-site.

In 2017, the *Dry Factory* concept was implemented for the first time by the plant at Burgos in Spain:

- ◆ the improvements to industrial processes have contributed to an 80% reduction in water requirements compared with 2005;
- ◆ a recycling system has been introduced: industrial wastewater, after pre-treatment in the on-site wastewater treatment plant, is reprocessed using different technologies (multi-layered filters, nanofiltration, etc.) in order to extract very high quality water. This is then used continuously to clean production tools and services as a replacement for town mains water.

**2017 results**

**| WATER CONSUMPTION**



Total water consumption in the plants and distribution centres was 2,216<sup>sq</sup> thousand m<sup>3</sup> in 2017, representing a 2% increase in absolute value as compared to 2016, and a 1% decrease with regard to production (l/FP).

**Treatment of industrial wastewater**

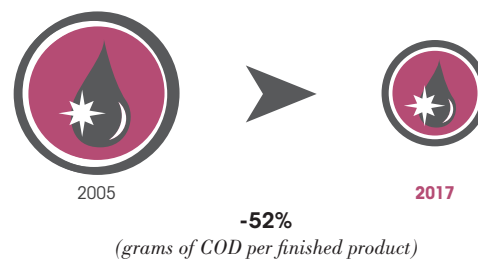
Approximately half of L'Oréal's plants have their own wastewater treatment plants, which are essential prerequisites for recycling. These use a range of methods, including physical, chemical and biological processes, adapted to the characteristics of the wastewater and local discharge conditions.

In 2017, total chemical oxygen demand for the Group's wastewater (in tonnes of COD), after on-site treatment has fallen by 36% as compared to a 2005 baseline. It amounts to 0.8 g of COD per finished product, representing a decrease of 52% compared with 2005.

L'Oréal is continuing to install on-site wastewater treatment facilities, such as, for example, the new facility installed in Kenya in 2017.

**2017 results**

**| WASTEWATER QUALITY INDEX**



	2016	2017
Accidental spills (m <sup>3</sup> )	1	1
Wastewater after treatment (m <sup>3</sup> )	1,128,495	1,146,648
COD (tonnes)	4,562	4,839

An accidental spill in the Rambouillet plant occurred during the manufacture of a shampoo: a small amount of foam was vented through a roof vent. Rain caused it to run into a ditch alongside the plant.

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

### THE WATER DISCLOSURE PROJECT: A CDP INITIATIVE IN FAVOUR OF THE TRANSPARENCY OF WATER INFORMATION

Since 2010, L'Oréal has taken part in the *Water Disclosure Project*, of which it is one of the Founding Responders. This programme is aimed at encouraging companies to publish every year their water management strategy, their results and the projects they have launched to improve their performances and to reduce the risks with regard to their activities related to water consumption. It was launched by the CDP, an important, independent non-profit organisation which promotes transparency and environmental information reporting with regard to several topics: global warming, water, deforestation, etc.

In 2017, L'Oréal was recognised for the first time as one of the world leaders for its strategy and its actions with regard to sustainable water management given a score of "A", i.e. the highest possible level of performance in the CDP rating.

L'Oréal is also working with its supply chain on sustainable water management. In 2017, for the 5<sup>th</sup> edition of the *Water Disclosure Project* supply chain, L'Oréal selected 97 of its suppliers, mainly of raw materials, packaging items and subcontracting services on the basis of the following 3 criteria: technologies using particularly high amounts of water, the location of at least one production site in water stressed areas, and the significance of the volumes of purchases by L'Oréal. 84 of them agreed to take part in the programme and will be given an individual result sheet showing the comments of the Group's environmental experts, which will enable them to identify the key points for progress. L'Oréal also encourages these suppliers to measure, report and set themselves water consumption reduction targets for each of their production sites and to deploy a water-related risk assessment and management system.

#### 3.2.2.3. Reducing waste generation per finished product by 60% from a 2005 baseline

For many years, L'Oréal has followed an ambitious waste management policy that goes far beyond regulatory compliance and the prevention of risks. Within the framework of the *Sharing Beauty With All* programme, the Group has raised its ambition by pledging to reduce the waste generated by its plants and distribution centres by 60%. An ambitious challenge, in light of L'Oréal's exacting definition of waste.

Indeed, any solid discharge that is not a finished product intended for consumers is considered as waste, whatever its treatment and future recovery. This includes, for example, raw material packaging or packing items, wastewater treatment plant sludge, broken pallets, etc.

#### Reducing waste generation at source

L'Oréal's commitment concerning waste reduction requires the involvement of a large number of players. It is an environmental performance indicator, first and foremost for its industrial sites but also across the Group's value chain:

- ◆ from packaging, in which the teams are mobilised through an eco-design process for transport packaging (reduction of weight or volume, optimisation, reuse, etc.) aimed at reducing waste as from the design of packaging;
- ◆ to the purchasing teams, the privileged contacts with suppliers who are the main producers of transport packaging for raw materials and packing items received in the Group's plants;
- ◆ through all the industrial teams involved in the quest for ongoing improvement of the manufacturing and packaging processes, in order to reduce losses; or also by developing wall-to-wall production, a process which reduces at source the waste related to the procurement of components;
- ◆ and up to the whole of the supply chain for which the reduction in obsolete inventories is essential for the reduction of waste related to the activities. For example, in 2016, the Europe zone initiated a programme for the reduction of obsolete products through concerted action, firstly, with regards to sale forecasts and, secondly, with regards to recovery via outlets, family sales, staff sales and gifts.

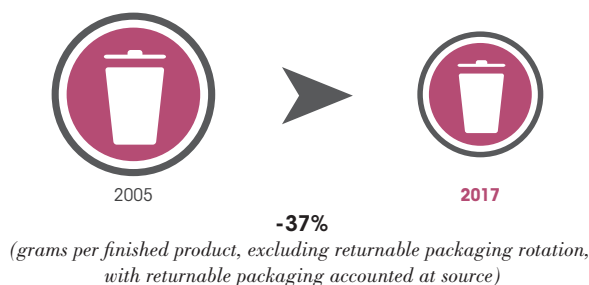
Furthermore, the Group has initiated a campaign against wasting food. L'Oréal adopts best practices in the Company restaurants that it manages directly, serving approximately 2,000 meals a day in the Paris region: there is very strict monitoring of use-by dates and inventories, real-time and on-demand cooking, and a service that is attentive to the quantities served while satisfying individual demands.

A food donation agreement has been entered into with Restaurants du Cœur which has as a result been able to benefit from around 3,000 meals in the Aulnay-sous-Bois municipal area in 2017. Donations of excess food are also requested from Company restaurants managed as concessions in order to encourage this initiative to support non-profit associations.

Reduction of waste generation by the industrial sites is therefore a cross-disciplinary, managerial and organisational challenge.

2017 results

GENERATION OF TRANSPORTABLE WASTE



The generation of waste at the industrial sites represented 87,187 tonnes in 2017 corresponding to a 1% decrease in absolute value as compared to 2016, and a 4% decrease with regard to production (g/FP). This reduction is the result of a number of medium- and long-term projects, right across the value chain of the Operations Division.

	2016	2017
Transportable waste excluding returnable packaging rotation, with returnable packaging accounted at source (tonnes)	88,342	87,187 <sup>□</sup>
Returnable packaging rotation (tonnes) <sup>(2)</sup>	21,112	19,026 <sup>□</sup>
Total recovered (tonnes)	105,826	101,253 <sup>□</sup>
Recovery index (%) <sup>(3)</sup>	97	96 <sup>□</sup>
Material recovery index (%) <sup>(4)</sup>	63	61 <sup>□</sup>

- (1) System for recording returnable transport packaging, excluding transport pallets: L'Oréal records the weight of its returnable packaging in transportable waste when it is used for the first time. Then, each of its sites endeavours to maximise the number of rotations. This recording of the weight of returnable packaging at source is an incentive for rotation and contributes to increasing the life of the packaging through its reuse.
- (2) In order to obtain a more accurate understanding of the recovery and raw material recovery indices, these indicators are now calculated excluding transport pallets which represent a significant part of the returnable packaging in rotation.
- (3) The recovery index corresponds to the quantity of waste recovered (101,253 t) whether material or energy, excluding transport pallets, divided by the total amount of waste generated (105,326 t), including returnable packing rotation, excluding waste sent to landfill due to regulatory obligations and excluding transport pallets).
- (4) The material recovery index corresponds to the quantity of waste recovered, excluding transport pallets, reused or recycled (64,543 t) divided by the total amount of waste generated (105,326 t), including returnable packing rotation, excluding waste sent to landfill in accordance with regulatory obligations and excluding transport pallets).

Recovering the waste generated

The reduction of waste generation also reflects the efficient use of resources. The Group's ambition is to pursue this commitment, while associating it with that of recovery of the waste that it has not been possible to avoid. Indeed, the Group makes sure, at the same time, that it treats the waste in the best possible manner, and an extremely good recovery performance has been obtained for many years.

In 2013, L'Oréal further set an objective of zero waste to landfill by 2020 for its industrial sites (excluding regulatory obligations); work was undertaken with specialised companies and the local authorities for the implementation of suitable treatment solutions. Mobilisation of all the sites thus made it possible to get very close to zero waste to landfill target over 2017 as a whole. With the exception of one site in the first months of the year, each distribution centre was successful in finding a channel for all of its wastes in 2017.

Achievement of the target of "zero waste to landfill" is the first stage of a more global process of circular savings in which the Group is engaged. The objective is to maximise the recovery of its waste by giving priority to reuse or recycling. Furthermore, L'Oréal seeks to promote as far as possible the local treatment of waste, in order to reduce the environmental impact of the waste and to create potential synergies with other organisations and entities in the territory.

2017 results

96% of waste was recovered in 2017 <sup>□</sup>, i.e. 10% more than in 2005 (29 plants and 29 distribution centres have a recovery rate of 100% in 2017).<sup>□</sup>

3.8% of waste was destroyed without recovery (incineration without recovery for energy use and waste to landfill not including regulatory constraints), i.e. 4,034 tonnes.

<sup>□</sup> The Statutory Auditors have expressed a reasonable assurance with regard to this indicator.

### 3.2.3 LIVING SUSTAINABLY

"By 2020, the Group wants to empower all L'Oréal consumers to make sustainable consumption choices".

2020 TARGETS	2017 RESULTS
A product assessment tool will evaluate the environmental and social profile of all new products. All brands will make this information available to allow consumers to make sustainable lifestyle choices.	<p><b>100%</b> of new or updated products are assessed using the SPOT product assessment tool.</p> <p>The indicator of the percentage of brands that provide consumers with information from the SPOT tool will be completed as soon as the environmental and social information system, which is in the process of being prepared and which will be deployed by 2020, is finalised.</p>
All brands will have assessed their environmental and social impact and made commitments to improve their footprint.	<p><b>91%</b> of the brands have evaluated their social or environmental impact.</p> <p>This percentage is calculated on the basis of their share of consolidated sales for 2016.</p>
Every brand will report on its progress and associate consumers with its commitments.	<p><b>46%</b> of the brands have carried out an action to raise awareness among consumers.</p> <p>The percentage of brands raising awareness among consumers about sustainable lifestyle choices in 2017 is calculated on the basis of their share of consolidated sales for 2016.</p>
Our consumers will be able to influence our sustainability actions through a Consumer Sustainability Panel.	<p>Following the framework of the consultative panels in 2016, the Group's initiatives take into account consumers' expectations expressed in a series of surveys conducted in 2017 on Sustainable Development challenges.</p>

#### 3.2.3.1. Assessing the footprint of our products

##### *The Sustainable Product Optimisation Tool: a tool for assessing the environmental and social footprints of our products*

In 2017, the SPOT (*Sustainable Product Optimisation Tool*) tool has been rolled out to all Group brands (except recent acquisitions). This tool enables the complete environmental and societal/social footprint of a product to be calculated in accordance with the European Commission recommendation (*Product Environmental Footprint*) on the use of common methods to measure and communicate the life cycle environmental performance of products and organisations. A methodology for measuring the social impact products has been jointly developed with 9 international experts in the field of social life cycle assessments.

The SPOT tool provides exhaustive measurements of all environmental factors by integrating 14 impact factors used by the European product environmental footprint framework. A standardised version of these different impacts is applied on the basis of the average impacts of a European consumer. Then, in order to entertain a unique product environmental

footprint (formula and packaging), these impacts are added together using the so-called *Planetary Boundaries* method. The final stage involves comparing the footprint to a benchmark in order to obtain a dimensionless score between zero and 10 which allows the product design teams to measure their progress.

This tool has enabled the environmental and societal/social footprint of all updated or new products in 2017 to be assessed.

##### *Developing ongoing improvement plans with the brands*

At the same time as the development of the tool, each brand will have assessed its environmental and societal footprint by 2020 and will have made commitments to improve it.

In order to do so, the Packaging & Development teams, the CSR team and the laboratories conduct, with the Management Committees of the international brands, analyses of their portfolios of formulas and their packaging. The aim is to define sustainable innovation plans in order to systematically identify the possible improvement drivers for each range and each product in order to activate them.

This has enabled many brands to improve the environmental and social profile of their products launched in terms of both formula and packaging.

For example, in 2017, the Vichy brand updated its Aqualia Thermal rich cream. By using SPOT, it has been possible to accurately quantify progress on each of the four main areas for improvement:

- ◆ packaging: the use of 10% recycled glass and a 10 g reduction in the weight of the cap (a reduction of 44%) have enabled a reduction in the amount of materials used and the removal of the box's plastic coating encourages recycling;
- ◆ water footprint of formula: the biodegradability rate has increased from 71% to 97%;
- ◆ sustainably sourced renewable ingredients and derived from green chemistry: their proportion increased from 55% to 95%;
- ◆ social impact: the formula now includes shea butter from a L'Oréal sustainable procurement programme in Burkina Faso.

### 3.2.3.2. Raising awareness among consumers about sustainable lifestyle choices

Conscious of the influencing ability of its brands, L'Oréal encourages them to inform and mobilise their business partners, customers and consumers around today's major environmental and social causes. Each brand must therefore identify a cause that it personally wants to defend and undertake campaigns to raise awareness. In 2017, 46% of the brands conducted this type of action.

Brands who have already made commitments have continued their activity: Armani with Acqua for Life, its initiative to support access to drinking water; Biotherm and its commitment to ocean protection alongside *Mission Blue*. La Roche-Posay and its anti skin cancer initiative (more than 120 million people have undertaken to have their moles checked in order to prevent melanoma since the campaign began in 2014) or L'Oréal Professionnel and its initiative to prevent musculoskeletal problems (more than 330,000 hairdressers have had their awareness raised in 2017).

Among the new campaigns launched in 2017, Garnier has joined with Unicef in order to support children living in countries with humanitarian crises, which affect one child out of four, representing 537 million children worldwide. By supporting Unicef's action and funding Child Friendly Spaces throughout the world, the brand supported 300,000 children in 2017. SkinCeuticals, the skincare expert brand, for its part launched, with the NGO ReSurge International, a programme to train the first generation of women in reconstructive surgery in developing countries.

### 3.2.3.3. Brands that are committed to acting ethically

The L'Oréal Group recognises the importance of responsible advertising and marketing communication as essential means of providing information to consumers with regard to the characteristics and qualities of cosmetic products. In this respect, L'Oréal, a member of Cosmetics Europe, signed the charter on responsible advertising and marketing communication on cosmetics in 2012. The purpose of this charter is to set the cosmetics industry common ground towards responsible cosmetics advertising and marketing communication in Europe.

It makes it possible to ensure that advertising and marketing communications:

- ◆ comply with the relevant European and national regulations and the applicable self-regulatory framework;
- ◆ are sincere, truthful and not misleading;
- ◆ allow informed choices by the consumer;
- ◆ are socially responsible.

L'Oréal is also a member of the French Union of Advertisers (*Union Des Annonceurs* or "UDA") and contributed to preparation of its Charter on Responsible Communication. The Group reports on its actions in this field every year. Since 2012, L'Oréal has developed a training programme for its marketing teams employees in order to keep them apprised of good communication practices.

### 3.2.4. DEVELOPING SUSTAINABLY

Sharing growth with its stakeholders is one of L'Oréal's priorities. The Group applies its vision of responsible corporate citizenship with regard to its employees, its suppliers and the surrounding communities.

#### 3.2.4.1. ... with our employees

*"By 2020, L'Oréal employees will have access to healthcare, social protection and training, wherever they are in the world."*

2020 TARGETS	2017 RESULTS
Our employees will benefit from healthcare coverage aligned with the best practices of the country they are based in.	96% of the Group's permanent employees have access to healthcare coverage reflecting best practices in their country of residence <sup>(1)</sup> .
Our employees will benefit from financial protection in the event of unexpected life events such as death or total permanent disability.	92% of the Group's permanent employees benefit from financial protection in the event of unexpected life events, such as death or total permanent disability <sup>(1)</sup> .
Our employees will have access to training wherever they are in the world.	78% of the Group's employees followed at least one training course in 2017.

(1) I.e. 100% of the employees within the scope of the "L'Oréal Share & Care" programme (the Group's permanent employees except, in certain countries, part-time contracts <21 hours a week, beauty advisers and store employees, noting that the integration of recent acquisitions and new subsidiaries takes place gradually).

#### *Providing all the Group's employees with healthcare coverage and financial protection in the event of unexpected life events*

L'Oréal seeks to offer its employees the best levels of social protection and to universalise its social model, in a manner that is completely consistent with its global dimension. This is a strong commitment which reflects the Company's vision, whereby sustainable growth necessarily goes hand in hand with a global vision and a high level of social performance. L'Oréal has made the commitment (see *L'Oréal's Share & Care* programme) that all employees will have access to:

- ◆ healthcare coverage which is aligned with best practices in their country of residence;
- ◆ financial protection in the event of unexpected life events, such as temporary or permanent disability.

#### *Providing access to one training session per year for all the Group's Employees wherever they are in the world*

Training is at the heart of Human Resources strategy. L'Oréal thereby puts itself in a position to attract the best talents and prepare the leaders of the future. The Group's ambition is to enable its employees, whatever their profession, job, position or country, to have access to development opportunities throughout their working life. This vision is borne out by its training policy called *Learning for All*. The *Sharing Beauty With All* programme has translated this ambition into a commitment: to have all employees benefit from a training initiative every year by 2020 (see paragraph 3.1.2.2 relating to training).



**3.2.4.2. ... with our suppliers**

"By 2020, 100% of the Group's strategic suppliers will be participating in our supplier sustainability programme."

2020 TARGETS	2017 RESULTS
All strategic suppliers <sup>(1)</sup> will be evaluated and selected based on social and environmental performance.	<b>82%</b> of the Group's strategic suppliers <sup>(1)</sup> have been evaluated and selected on the basis of their environmental and social performance. They represent more than 74% of total direct purchases (raw materials, packing items and subcontracting) Furthermore, in 2017, 1,231 social audits <sup>☒</sup> were carried out, making a total of over 9,400 since 2006.
All strategic suppliers <sup>(1)</sup> will have completed a self-assessment of their sustainability policy with the Group's support.	<b>87%</b> of strategic suppliers <sup>(1)</sup> have completed a self-assessment of their sustainability policy with the Group's Sustainable Development. This percentage is based on the calculation of the number of suppliers who, in 2017, had been assessed on their social, environmental and ethical policies, as well as the application of such policies at their own suppliers, by Ecovadis.
All suppliers will have access to L'Oréal training tools to improve their sustainability policies.	An online site dedicated to suppliers has been launched. It proposes e-learning modules, videos presentations on ethics, climate change, social audits, etc. Initially available to strategic suppliers <sup>(1)</sup> , it is in the process of being rolled out.
20% of strategic suppliers <sup>(1)</sup> will be associated with our <i>Solidarity Sourcing</i> programme.	<b>9%</b> of strategic suppliers <sup>(1)</sup> are associated with the Group's <i>Solidarity Sourcing</i> programme.

(1) Strategic suppliers are suppliers whose added value is significant for the Group by contributing to the L'Oréal sustainable strategy by their weight, their innovations, their strategic alignment and their geographical deployment. Eventually, 80% of the amount of direct purchases will ultimately be covered by this approach. The portfolio of suppliers will therefore solely consist, in 2020, of suppliers with the best CSR results: new suppliers selected on their performances and longstanding suppliers whom the Group continues to use as they are some of the best.

As a socially responsible company L'Oréal includes its entire value chain, including the work carried out by its suppliers, in its Sustainable Development policy. There are thousands of suppliers throughout the world who cover the Group's needs in terms of packaging, raw materials, subcontracting, production equipment, promotional and advertising items, etc. The global volume of purchases directly related to production represented €4.4 billion in 2017.

The Group has decided to use its partners' environmental and social performances as a selection criterion. On this basis, the commitments under the *Sharing Beauty With All* programme fit in with, and follow on from, those in the Group's responsible purchasing policy initiated in 2002 with the *L'Oréal Buy & Care* programme. This contributes to sharing good practices and the Company's values and standards with its suppliers.

**Assessing and selecting the Group's strategic suppliers on the basis of their social and environmental performance**

The Corporate Social and Environmental Responsibility (CSR) commitments of suppliers play a significant role in the choice of the Group's business partners. In this respect, L'Oréal's purchasing teams have defined 5 pillars of performance that make it possible to assess and choose suppliers:

- ◆ Quality;
- ◆ Corporate Social and Environmental Responsibility;

- ◆ Innovation;
- ◆ Supply chain & Service;
- ◆ Competitiveness.

These pillars form the basis both for daily performance and for long-term strategies. A global scorecard has been deployed for all purchasing fields and makes it possible to precisely measure suppliers' results, in particular their compliance with their environmental, social and societal commitments which represent 20% of the final assessment.

The CSR strategy and action plans of suppliers are fully integrated into their relationship with L'Oréal and are therefore discussed at strategic meetings (Business Reviews). In this way, in 2017, 293 business reviews were carried out. The evaluation of suppliers on the CSR pillar is based, in particular, on their compliance with their social audits, the implementation of *Solidarity Sourcing* projects and their results in the "CDP Supply Chain" programme for the reduction of CO<sub>2</sub> emissions.

Suppliers and subcontractors are also asked to comply with the standards set out in the ethical commitment letter that relate to the Fundamental Conventions of the International Labour Organization as well as local laws, in particular with regard to minimum wages, working time and health and safety (see section 3.1.4.4 *Respect for the ILO Conventions*).

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



### 82% of the Group's strategic suppliers were evaluated and selected on their environmental and social performance.

They represent more than 74% of total direct purchases (raw materials, packaging items and subcontracting).

#### PROVIDING SUPPORT TO NEW SUPPLIERS

L'Oréal actively seeks to work with suppliers who share its ethical values and commitments. Its purchasing teams have the task of identifying new suppliers and integrating them in light of the Group's expectations and its strategy via the *Welcome On Board* (WOB) supplier referencing process. This allows it to make sure that the supplier is of real interest and to provide the supplier with all the information, documents and contacts required for it to understand the expectations and processes at L'Oréal. The final objective is to obtain the supplier's commitment to L'Oréal's values.

#### Ensuring compliance with commitments by subcontractors and suppliers through social audits

The Group's subcontractors and its suppliers of raw materials, packaging, production equipment and POS advertising/promotional items and materials located in countries identified as being at risk in accordance with *Verisk Maplecroft* are subject to a mandatory social audit aimed in particular at ensuring compliance with the applicable laws, Human Rights and Labour law. This audit also verifies employee safety and working conditions in the workplace and how the environment is taken into account.

The social audits are carried out on behalf of L'Oréal by independent external service providers.

The initial audits and the re-audits three years later are financed by the Group. Follow-up audits that make it possible to verify the effectiveness of the action plans are paid for by the suppliers.

Ten areas are audited:

- ◆ child labour;
- ◆ forced and compulsory labour;
- ◆ the environment, hygiene and safety;
- ◆ compliance with the laws relating to trade unions;
- ◆ non-discrimination;
- ◆ disciplinary practices;
- ◆ sexual harassment or a hostile working environment;
- ◆ due payment of remuneration and benefits;
- ◆ working time;
- ◆ relations with subcontractors.

L'Oréal's social audit is based to a great extent on the internationally recognised SA 8000 standard. The Group has also imposed more stringent criteria, particularly with regard to the minimum age for child labour. It is set at 16 years of age for all employees working for suppliers, a higher age limit than the minimum age required by the Fundamental Conventions of the International Labour Organization (ILO).

Suppliers and subcontractors may nevertheless request waivers from the Group Purchasing Director for the use of employees under the age of 16 upon presentation of a complete file (schooling, type of contract, working conditions, type of work).

Pursuant to the "Suppliers/Subcontractors and Child Labour" policy, formally laid down in 2011, waivers of this kind are only possible for apprenticeship programme or for children carrying out light work if this work does not affect their health and safety or their regular attendance at school, where the local law allows it and when the supplier/subcontractor has appointed an internal "tutor" for the children.

**Key figures**

6,400 supplier sites have been subject to social audits since the reporting tool was set up in 2006:

- ◆ 1,231 audits <sup>☒</sup> were carried out in 2017, making a total of over 9,400 since 2006;
- ◆ 45% of the audits in 2017 were carried out in Asia;
- ◆ 66% of supplier sites audited for the first time (initial audits) presented major instances of non-compliance. During follow-up audits, there were no longer any major non-compliances for 42% of the suppliers who were initially non-compliant;
- ◆ 59% of all of the sites audited presented major non-compliances in 2017.

**SHARING AND JOINT DEVELOPMENT WITH SUPPLIERS**

L'Oréal wants to share, stimulate and jointly develop solutions with its suppliers in order to promote best practices throughout its value chain; these are thus used to inspire and support partners in deploying their own action plans. This support is provided worldwide by:

- ◆ Supplier Days in Europe in 2012 and in the United States in 2016;
- ◆ *Sharing Beauty With All* events with suppliers organised in Asia during the first half of 2017 (China, Indonesia, India and Japan). meeting in the form of a working group, 121 suppliers, EHS operatives and L'Oréal buyers held discussions on the achievement of L'Oréal's plants in the areas of waste reduction, CO<sub>2</sub> emissions and water consumption, together with *Solidarity Sourcing* initiatives;
- ◆ An online site for suppliers in the process of being rolled out. Strategic information provided by purchasing, ethics, SWBA or group managers are posted on this site in videos or very hands-on tool kits on CDP Ecovadis or through the *Solidarity Sourcing* programme and, lastly, e-learning courses on social auditing.
- ◆ The purchasing teams also pass on this information on a daily basis in their contact with suppliers. A number of suppliers can also testify about their good practices, for example, through the *Solidarity Sourcing* programme.

**Inciting strategic suppliers to reduce their greenhouse gas emissions**

L'Oréal has successfully pledged to combat climate change by setting ambitious targets, in particular that of reducing its CO<sub>2</sub> emissions by 60% between 2005 and 2020, for its plants and distribution centres (this target was exceeded in 2017). At the same time, L'Oréal also wants to actively contribute to reducing the greenhouses gases of its supply chain. Approximately 33% of the Group's carbon footprint results from the activities of its suppliers. This is the reason why L'Oréal has associated its suppliers since 2009 with the process for measurement and reduction of its carbon footprint by encouraging them to work with the CDP, within the framework of the CDP Supply Chain programme. This NGO, of which L'Oréal has been a member since 2003, invites companies to publish their environmental impact and provides them with measurement, evaluation and communication tools.

Within the framework of the *Sharing Beauty With All* programme, participation by L'Oréal's strategic suppliers in the CDP Supply Chain has now been made compulsory and 94% of the suppliers asked to participate have responded positively. They have been selected in the 6 fields of purchases (raw materials, packaging items, production equipment, subcontracting, POS advertising/promotional items and materials and indirect purchases), all over the world. They are suppliers involved in industries that generate CO<sub>2</sub>, and may be large industrial groups or small and medium-sized businesses. In December 2015 at the time of the COP21, L'Oréal pledged that suppliers representing 80% of direct purchases:

- ◆ will participate in the CDP Supply Chain;
- ◆ will set targets for reducing their carbon footprint;
- ◆ will communicate on their action plans to succeed in reaching this target.

As of the end of 2017, the suppliers fulfilling this commitment represent 60% of direct purchases.

L'Oréal continues to be recognised by the CDP as one of companies that is the most committed to reducing greenhouse gas emissions. The large number of the Group's suppliers who are partners of the CDP testifies to this fact. This growing commitment results in particular from the strong commitment of L'Oréal's Purchasing and Environmental teams who transmit results with comments and opportunities for improvement to the suppliers who participated. CDP Supply chain performance is at the heart of the discussions during the annual business reviews, but also throughout the year.

In addition to their participation, L'Oréal pledged to ensure that its suppliers would make progress. In order to achieve this, in 2017, the Purchasing and Environmental teams:

- ◆ organised meetings with subcontracting providers on climate change and the CDP;

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

- ◆ led online conferences for suppliers wishing to know more;
- ◆ continued to develop online toolboxes to help suppliers to gain an understanding of these subjects.

The average of 2017 supplier scores is "C" since 2016 (with a change in the rating by CDP for the second year running). In 2017, 64 additional suppliers agreed to participate for the first time in the CDP Supply Chain (local American suppliers and transportation companies). The total number of suppliers who have thus worked on climate change is 355 (out of the 376 suppliers invited to participate this year); from this number 209 suppliers allocated their emissions to L'Oréal.

### THE GROUP'S SUPPLIERS ASSOCIATED WITH THE WATER DISCLOSURE PROJECT

Within the framework of the *Sharing Beauty With All* programme, L'Oréal has pledged to reduce its water footprint, which very naturally led the Group to join the Water Disclosure Project, as soon as it was launched in 2013. This project is aimed at measuring and reducing the water footprint of suppliers who form part of L'Oréal's global footprint. L'Oréal has selected 97 suppliers principally of raw materials, packaging items and subcontracting services on the basis of three selection criteria:

- ◆ the supplier delivers significant volumes of purchases to L'Oréal;
- ◆ it has at least one production site in a water stressed area;
- ◆ and/or its production technology uses high amounts of water;

In 2017, 84 of purchases suppliers agreed to take part.

In addition to their participation, L'Oréal encourages its suppliers to commit to:

- ◆ measuring and reporting water consumption for all of its production sites,
- ◆ developing and implementing a management system for water consumption risk, and
- ◆ a clear policy on reducing water consumption;

At the end of 2017, suppliers fulfilling this commitment represented 57% of costs in relation to all suppliers selected (raw materials, packaging items and subcontracting). Their average score is B-

### The Group's suppliers associated with the FOREST Disclosure Project

L'Oréal is committed to the Zero Deforestation policy: Zero deforestation commitment, traceability of products related to deforestation (palm oil and derivatives, paper, soya, replanting projects, etc.) and has also been a participant in CDP Forest since 2012. In 2017, for the second time, L'Oréal received an A score for this CDP Forest element.

With the new CDP Forest programme devoted to the supply chain, which was launched in 2017, L'Oréal has been encouraging its 10 main suppliers of paper, palm oil and soya to take part. As of the end of 2017, 100% of suppliers selected to part in the first year.

### All L'Oréal's strategic suppliers will carry out a self-assessment with regard to their sustainability policy

L'Oréal has initiated a programme for assessment of strategic suppliers and their Sustainability policy. In addition to its own assessment, L'Oréal has an evaluation carried out of the Sustainable Development policies of its suppliers. The purpose of these evaluations carried out by Ecovadis is to refine the analysis of supplier performances and to help them to improve by identifying their areas for progress.

In addition to the Social Audits and CDP Supply Chain programme, L'Oréal encourages its suppliers to develop their ethics policies with a focus on combating corruption, monitoring the health and safety of their employees and their sustainable purchasing deployment policies.

### 2017 results

More than 480 suppliers had their social, environmental and ethical policies evaluated by Ecovadis as well as the deployment of such policies at their own suppliers in 2017. 153 of them represent 87% of the Group's strategic suppliers.

### Associating 20% of the Group's strategic suppliers with the Group's Solidarity Sourcing programme

Using L'Oréal's Purchases as a driver for the promotion of social inclusion is the objective of the *Solidarity Sourcing* programme. The Group is pursuing this global *Solidarity Sourcing* and responsible purchasing programme initiative created in 2010, which aims to help to give people from economically vulnerable communities durable access to employment and income. In the same way as it shares its environmental commitments with its suppliers, the Group has set a target within the framework of the *Sharing Beauty With All* programme of associating 20% of its strategic suppliers with the *Solidarity Sourcing* programme.

### 2017 results

9% of the Group's strategic suppliers were associated with the Group's *Solidarity Sourcing* programme in 2017.

### 3.2.4.3 ... with the communities around us

"By 2020, the Group will enable more than 100,000 people from socially or financially deprived communities to access work through its actions."

2020 TARGETS	2017 RESULTS
100,000 people from socially or financially deprived communities will be able to access work through the following programme:	Over <b>53,505</b> people from socially or financially deprived communities have had access to work.
◆ Solidarity Sourcing;	<b>48,692</b> people accessed work through the <i>Solidarity Sourcing</i> programme.
◆ Professionalisation in the business of beauty;	<b>3,771</b> people from an underprivileged environment were trained in beauty professions.
◆ Employment of disabled people and people from under-represented socio-ethnic groups.	<b>1,042</b> people with disabilities worked for L'Oréal <sup>(1)</sup> .

(1) This figure takes into account the total number of disabled employees (with permanent and fixed-term employment contracts) as at 31 December 2017. This indicator only takes into account employees who wanted to declare their disability and have it recognised, as all the employees concerned do not systematically wish to do so.

Due to its many industrial and administrative sites all over the world, L'Oréal is strongly involved, in the vicinity of its sites, in the life of the surrounding local communities. A company committed to demonstrating strong corporate citizenship, L'Oréal makes a contribution to many local projects. As a general rule, the Group's establishments and its subsidiaries build good relations with the communities in the areas in which they operate, and make every effort to share their growth with them.

This ambition led to a commitment in the *Sharing Beauty With All* programme: enabling over 100,000 people from socially or financially deprived communities to access work by 2020. This means that L'Oréal will support as many people outside the Company as there are employees in the Group.

#### Solidarity Sourcing

#### Solidarity Sourcing, the emblematic purchasing programme which is part of the *Sharing Beauty With All* programme

Created in 2010, *Solidarity Sourcing* is L'Oréal's global responsible purchasing programme.

Its aim is to use the Group's purchasing power to serve social inclusion. It consists in dedicating part of its purchases to suppliers giving people who are generally excluded from the labour market durable access to work and income.

The Group is therefore continuing to open up its procurement process to companies who employ people from economically

vulnerable communities, including small companies and those who have more difficulty in having access to multinational companies.

The *Solidarity Sourcing* programme concerns for example: fair trade producers, companies which employ disabled workers, social insertion enterprises or companies owned by minorities (when this is permitted by the national legislation).

*Solidarity Sourcing* offers a novel purchasing approach due to its global, holistic nature:

- ◆ the programme is deployed in all the geographic zones;
- ◆ it concerns all areas of purchases (raw materials, packaging, subcontracting, promotional items and indirect retail, etc.);
- ◆ it comprises an environmental aspect for the projects that require it.

The ambition of the programme is to associate economic performance with a positive social, societal and environmental footprint.

In 2017, *Solidarity Sourcing* enabled 48,692 people from socially or economically vulnerable communities all over the world to gain access to work or to keep a job and receive a decent income. This represents an additional 6,192 people (+15%) compared to 2016 on a like for like basis <sup>(1)</sup>.

(1) L'Oréal, all geographic zones and areas of purchases, excluding The Body Shop.

This programme has offered the opportunity for the Group's purchasers to enrich their jobs by contributing to improving the lives of thousands of people involved in the production of the goods and services purchased. As a result, in 2017, the number of purchasers involved in a *Solidarity Sourcing* project reached 141 an increase of 20% compared with 2016.

In addition, L'Oréal encourages its strategic suppliers to implement programmes inspired from the *Solidarity Sourcing* programme for their own purchases. In 2017, 9% of these suppliers have thus applied a similar programme. L'Oréal pledged that 20% of them would be involved in the project by 2020.

#### **Solidarity Sourcing: solidarity at Website Factory in India**

In 2017, L'Oréal's first *Solidarity Sourcing* project involving the strategic issue of digital development was launched. Under the name Website Factory, it is based primarily in India in partnership with the supplier, Photon. Brands such as L'Oréal Paris, Garnier, Kerastase and Essie use this project to

implement their websites and to have them maintained. Located in the area of Chennai that is classified as a "priority development area", this programme is based on three areas of focus:

- ◆ the development of employment and the revitalisation of the region;
- ◆ practising an inclusion policy for local disadvantaged communities, primarily through a training programme;
- ◆ guaranteed respect for equality for women and minorities from disadvantaged social backgrounds.

It has 69 full-time employees, a figure that, taking business prospects into account, is set to double from 2018 onwards.

### 3.3. METHODOLOGICAL NOTES

#### 3.3.1. SOCIAL DATA

##### 3.3.1.1. Scope of consolidation

The workforce indicated, and the breakdowns in this respect, correspond to the total workforce <sup>(1)</sup>.

The employees of the French companies Retail Excellence 4, Atelier Cologne and Saint Gervais Mont Blanc, with a total of 511 employees are included in the total headcount. The different distributions of these workforces are calculated in proportion to the distribution of French employees. These employees are excluded from all other data.

##### 3.3.1.2. Indicators

The indicators chosen are those used in the management of employees and of the social aspects of the Company. They reflect the results of the Human Resources policy.

##### 3.3.1.3. Data

Four methods are used to collect data for the defined scope:

- ◆ most of the data are collected using the dedicated "Country Reporting" intranet system, available in all countries in which there is a L'Oréal subsidiary;
 

The system covers several topics - workforce, training, absenteeism, labour relations, the *L'Oréal Share & Care* programme, remuneration, diversity, recruitment and profit sharing:

  - at the beginning of each year, the local Human Resources Directors provide the required data for the previous year,
  - when the data are compiled, each country must validate a charter committing to the accuracy of all the data provided;
- ◆ other data are collected by each department concerned (*i.e.* Training, Recruitment) using dedicated systems which follow the same operational and dissemination approach;
- ◆ if information is not consolidated for the entire Cosmetics Division scope, it can be extrapolated from the available results for the entities connected to the local Information Systems (IS), provided that the scope covered by such entities is representative;
- ◆ lastly, the specific data relating to "managers" and other specific populations (expatriates, key positions, *etc.*) are gathered from the "CAROL" online career monitoring system, deployed in all Cosmetic Divisions subsidiaries.

The number of employees trained is calculated on the basis of all types of training format and length. The number of employees trained who received less than 1 hour's training is not significant.

Concerning the *Share & Care* indicator relating to healthcare coverage, the best practices in the countries are regularly evaluated in each country in which the Group is present.

A process of continuous improvement of these systems has been put in place. The systems are reviewed each year, taking into account the Statutory Auditors' recommendations and monitoring objectives for subsequent years: updating the indicators to be monitored, improving their definition, and enhancing the communication, monitoring and control process.

#### 3.3.2. HEALTH AND SAFETY DATA

##### 3.3.2.1. Scope of consolidation

The safety indicators relate to the Cosmetics sites (plants, distribution centres, administrative sites, research centres and stores) as well as sales forces. For 2017, The Body Shop has been excluded from the scope.

Safety reporting covers 100% of plants and distribution centres and over 90% of the workforce of the administrative sites, research centres, sales forces and stores.

The safety indicators of the plants and distribution centres sold or closed during the financial year are reported in full up to the date of their exit from the scope. The plants or distribution centres that join the Group have a maximum period of two years to connect to the environmental and safety reporting systems. In accordance with this rule, no site is affected this year.

##### 3.3.2.2. Indicators

The indicators applied are those used in the management of the Group's sites. They reflect the results of the Group's Environment, Health and Safety (EHS) policy.

##### 3.3.2.3. Data

The following method is used to collect data for the defined scope:

The health and safety data are collected using the dedicated site reporting intranet system, available in all countries in which there is a L'Oréal subsidiary. The required data are reported every month by the local managers.

(1) The subsidiaries in Venezuela were deconsolidated as of 31 December 2015. Certain recent acquisitions/subsidiaries (Atelier Cologne USA, Côte d'Ivoire, Bangladesh, Luxembourg), whose information systems are not yet connected to the Group's systems, are excluded from the scope of the reporting. They represent 0.04% of the Group's employees. The objective is to integrate them into the reporting for 2018.

When the data are compiled, each site must validate the accuracy of all the data provided.

A process of continuous improvement of these systems has been put in place. These systems are reviewed each year, taking into account the Statutory Auditors' recommendations and monitoring objectives for subsequent years: updating the indicators to be monitored, improving their definition, and enhancing the communication, monitoring and control process.

### 3.3.3. ENVIRONMENTAL DATA

#### 3.3.3.1. Scope of consolidation

The indicators set out relate to the Cosmetics sites: plants, distribution centres, administrative sites and research centres. For 2017, The Body Shop has been excluded from the scope.

The environmental indicators of the plants and distribution centres sold or closed during the financial year are reported in full up to the date of their exit from the scope. The plants or distribution centres that join the Group have a maximum period of two years to connect to the environmental reporting systems: during the 2017 financial year, 100% of the plants and distribution centres took part in the reporting system.

The indicators do not take into account the impacts of exceptional work concerning water and energy consumption and waste generation. Similarly, in the special case where a subcontractor is located geographically on the sites, its impacts are not taken into account.

In order to cover all the Group's impacts, the environmental reporting has been extended to the Group's administrative and R&I sites in 2016. In 2017, 89 administrative and R&I sites, representing over 80% of the workforce of the Group's administrative and R&I sites, participated in the reporting. As they share their premises with other companies, a number of sites could not obtain some information: 96% of these sites provided information relating to energy consumption and CO<sub>2</sub> emissions, 92% of the sites reported their water consumption and 88% of the sites reported their quantity of waste.

#### 3.3.3.2. Indicators

The indicators chosen are those used in the management of the Company's sites. They reflect the results of the Group's Environment, Health and Safety (EHS) policy.

**Greenhouse gases** The Group's CO<sub>2</sub> emissions are now calculated in accordance with the concepts defined by the GHG protocol, and monitored according to the Market-based CO<sub>2</sub> indicator.

With the desire for comparability, the data on CO<sub>2</sub> emissions for the 2005 baseline provided have been updated in light of

these rules (recalculated on the basis of a constant scope). The calculation of the 2005 baseline is based on the 2003 emission factors of local electricity suppliers - when they are available. When the emission factors are not available, IEA (International Energy Agency) and eGrid<sup>(1)</sup> emission factors, available in 2006, corresponding to IEA factors for 2003 and EPA<sup>(2)</sup> (eGRID) factors for 2000, are used. For the estimates for the following years, the emission factor used follows the GHG Protocol rules: in general, the factor provided by the supplier, which is the most accurate; if it is not known, the regional emission factor is used or failing this, the IEA emission factor (the 2015 IEA edition for 2017 emissions).

Comment concerning Scope 3: unlike Scopes 1 and 2, the changes in Scope 3 emissions from one year to the next may relate more to the quality of the data collected and the methods of calculation used than to a real measurement of change in performance. This margin of uncertainty with regard to Scope 3 is a reality for all companies, and does not make it possible to consider this data as an adequate benchmark or method of performance assessment.

**Carbon balanced** : As part of the peat land rehabilitation project in Indonesia, the total carbon gains achieved by South Pole Group over the 2016-2017 period is 46,680 teqCO<sub>2</sub>. For 2017, L'Oréal is claiming the amount of carbon gains during these two years (as the 2016 carbon gains were not claimed in that year), capped by agreement at 31,723 teqCO<sub>2</sub> with the remainder comprising a buffer that can be carried forward to following financial years.

**Waste**: L'Oréal includes in transportable waste everything that comes out of a plant or a distribution centre and which is not a finished or semi-finished product (for example, the following are included for a plant: raw material packaging or packing items, wastewater treatment plant sludge, broken pallets, etc.).

In order to improve the system of waste performance monitoring and exhaustively record the waste generated by the use of returnable packaging, a system of recording returnable packaging at source was put in place in 2014. L'Oréal thus records the weight of its returnable packaging at source in transportable waste, with each of the sites being responsible for maximising the number of rotations. The recording of the weight of reusable packaging at source is a measure intended to encourage rotation of this returnable packaging and contributes, through its reuse, to increasing the useful life of the packaging.

Sites that no longer send any waste for destruction or to landfill except for regulatory constraints are considered to have attained a 100% recovery rate.

To obtain a more accurate understanding of the recovery and raw material recovery indices, these indicators are now calculated excluding transport pallets which represent a significant part of the returnable packaging in rotation.

(1) Emissions & Generation Resource Integrated Database.

(2) Environmental Protection Agency.



### 3.3.3.3. Data

The following method is used to collect data for the defined scope: the data are collected using the dedicated intranet-based site reporting system, available in all countries in which there is a L'Oréal subsidiary. The required data are reported every month by the local managers.

When the data are compiled, each site or zone must validate the accuracy of the data provided.

A process of continuous improvement of these systems has been put in place. They are reviewed each year by the Statutory Auditors, taking into account their recommendations and monitoring objectives for subsequent years: updating the indicators to be monitored, improving their definition, and enhancing the communication, monitoring and control process.

## 3.3.4. SOCIETAL DATA

### 3.3.4.1. Scope of consolidation

The scope covers, depending on the indicators, L'Oréal parent company, France or the Group. The specific scope is specified for each indicator.

### 3.3.4.2. Indicators

The indicators chosen are those within the scope of the Grenelle II regulations, with the aim of data comparability.

### 3.3.4.3. Data

The following methods are used to collect data for the defined scope:

- ◆ the data relating to Ethics is collected by the Ethics Department using the Annual Ethics Reporting platform. A certain amount of data is collected by the Country reporting intranet system for the collection of Human Resources data (see the Human Resources data reporting methodology described above);
- ◆ the other data are collected from the Corporate Department concerned (Communications Department, Sustainable Development Department, Human Resources Department, Purchasing Department, Worldwide Safety Evaluation and the Director of Risk Management and Compliance).

## 3.3.5. INNOVATING SUSTAINABLY DATA

### 3.3.5.1. Scope of consolidation

The calculation is performed using a scope restricted to products designed or updated by L'Oréal's design centres and produced by the Group's plants or by subcontractors.

The calculation of the indicators is based on all new or updated products (sales models only), *i.e.* products manufactured in 2017 which did not exist in 2016.

The products considered in 2017 cover all categories of formulas (including make-up and perfumes).

The calculation of the indicators is made on the basis of the number of new or updated products, either in terms of formula or in terms of packaging.

New or updated products do not include "nuanced extensions" or changes in appearance that do not affect the environmental and social profile.

### 3.3.5.2. Indicators

Concerning the indicator on the "Percentage of products analysed with an improved social or environmental profile (as a %)": a new or updated product is included in the indicator if its profile has been improved according to the SPOT methodology. This methodology seeks to aggregate the performance of each driver to ensure that the potential deterioration of one of them is scientifically offset by an overall improvement in the environmental and social profile.

With regards to the indicator "Percentage of new or renovated products having an improved environmental profile thanks to a new formula with a reduced environmental footprint": the improvement is assessed on the basis of the biodegradability and eco-toxicity criteria of the new formula or the updated formula compared to the average rating of the product family concerned, for an equivalent use. It concerns products with a new or updated formula, but also new products with an existing formula in new packaging.

Concerning the indicator "Percentage of new or renovated products having an improved environmental profile thanks to a reduction in the environmental footprint of new packaging": the improvement is assessed on the basis of the criteria of the quantity of resources used, quality/sustainability of the resources used (recycled) and management of the end of life of the new packaging or updated packaging compared to the average rating of the product family concerned, for an equivalent use. It only concerns products for which the packaging is new or updated.

Concerning the indicator "Percentage of new or updated products having an improved social profile because of their positive social impact": the indicator corresponds to the percentage of new or updated products including raw materials or packaging obtained under the *Solidarity Sourcing* programme. It also includes products providing information to consumers about product performance or best practice in terms of Sustainable Development.

### 3.4. TABLES OF CONCORDANCE

#### 3.4.1. TABLE OF CONCORDANCE IN RESPECT OF SOCIAL, ENVIRONMENTAL AND SOCIETAL MATTERS

Page		Grenelle II - French Decree of 24 April 2012 and of 19 August 2016	Global Compact
	<b>PRINCIPLES</b>		
205-207	Scope of reporting		
205-207	Comply or explain		
205-207	Data comparability		
205-207	Reference to standards		
214-216	Attestation with regard to the exhaustiveness of information		
214-216	Opinion with regard to the true and fair view given by the information		
	<b>SOCIAL INFORMATION</b>		
	<b>Employment</b>		
139	♦ Total workforce		# 3 to 8 and # A, # D
139	♦ Distribution of employees by gender, by age and by geographic zone		
138-139	♦ Recruitments		
140	♦ Dismissals		
143	♦ Remuneration and trends		
	<b>Work organisation</b>		
151-152	♦ Organisation of working time		# 3 to 8
140	♦ Absenteeism		
	<b>Social relation</b>		
152-153	♦ Organisation of the social dialogue		# 3 to 8
153	♦ Situation with regard to collective agreements		
	<b>Health &amp; Safety</b>		
156-163	♦ Health and safety conditions at work		# 3 to 8
153	♦ Status report on agreements signed with trade union organisations with regard to health and safety at work		
161-162	♦ Frequency and severity of accidents at work		
140	♦ Occupational diseases		
	<b>Training</b>		
140-142	♦ Training policy implemented		# 3 to 8
142	♦ Total number of training hours		
	<b>Equality of treatment</b>		
153-154	♦ Measures taken to promote gender equality		# 3 to 8 and # A, # D
155	♦ Measures taken in favour of employment and professional insertion of the disabled		
155-156	♦ Policy to combat discrimination		
	<b>Promotion &amp; compliance with the ILO conventions</b>		
177-179	♦ Compliance with freedom of association and the right to collective bargaining		# 3 to 8 and # A, # D
177-179	♦ Elimination of employment and professional discrimination		
177-179	♦ Elimination of forced or compulsory labour		
177-179	♦ Effective abolition of child labour		
	<b>ENVIRONMENTAL INFORMATION</b>		
	<b>General environmental policy</b>		
164-168	♦ Company structure to take into account environmental issues and, where applicable, environmental evaluation or certification measures		# 9 to 11
159	♦ Training actions and provision of information to employees with regard to environmental protection		
188-195	♦ Measures to prevent environmental risks and pollution		
165,273	♦ Amount of the provisions and cover with regard environmental risks, on condition that this information is not liable to cause serious harm to the Company in a lawsuit in process		
	<b>Pollution</b>		
192-194	♦ Means devoted to prevention of environmental risks and pollution		# 9 to 11
165	♦ Noise disturbances and any other pollution related to an activity		
	<b>Circular economy</b>		
	(l) Prevention and management of waste		
194-195	♦ Measures to prevent, recycle, reuse, other forms of recovery and waste elimination		# 9 to 11
194	♦ Fight against food waste		

Page	Grenelle II - French Decree of 24 April 2012 and of 19 August 2016	Global Compact
	(II) Sustainable use of resources	
192-194	♦ Water consumption and water supply depending on local constraints	
194-195	♦ Raw material consumption and measures taken to improve efficiency in their use	
188-192	♦ Energy consumption, measures taken to improve energy efficiency and use of renewable energies	
164-165	♦ Soil use	
	<b>Climate change</b>	# 9 to 11
166-168	♦ Significant sources of greenhouse gas emissions generated by the activity, in particular by the use of goods and services produced by the Company	
188-192	♦ Greenhouse gas emissions generated by the Company's activities	
167-168	♦ Adaptation to the consequences of climate change	
	<b>Protection of biodiversity</b>	# 9 to 11
182-188	♦ Measures taken to preserve or develop biodiversity	
	<b>SOCIETAL INFORMATION</b>	
	<b>Social, economic and territorial impact</b>	# 16 à 18 and 21 and # C
173-174	♦ On employment and regional development	
173-174	♦ On neighbouring or local populations	
	<b>Relations maintained with people or organisations who are stakeholders of the Company's activities</b>	# 2 and 16 to 18 and # 21
169-171	♦ Specifically, associations promoting professional integration, educational establishments, environmental defence associations, consumer associations and neighbouring populations	
169-171	♦ The conditions for the dialogue with these people or organisations	
171-173	♦ Partnership or philanthropy actions	
	<b>Subcontractors and suppliers</b>	# 2 to 11 and # B
199-202	♦ Taking into account social and environmental issues in purchasing policy	
199-202	♦ The importance of subcontracting and taking their social and environmental responsibility into account in relations with suppliers and subcontractors	
	<b>Fair practices</b>	
175-176	♦ The actions taken to prevent corruption	# 12 to 14
180-181	♦ The measures taken in favour of consumer health and safety	# 6 to 8
177-179	<b>Other actions taken in favour of Human Rights</b>	# 3 to 5 and # A to D

### 3.4.2. GRI STANDARDS CONTENT INDEX

This report has been prepared in accordance with the GRI Standards : Core Option. Material issues have been mapped with the relevant GRI Standards disclosure. Content relating to the indicator list below is available within the table or at the location provided.

Theme	Standard number	Disclosure title	Additional information	Level of compliance	Location of information
<b>GENERAL DISCLOSURES</b>					
General Disclosures	102-1	Name of the organization		Fully compliant	1.1
General Disclosures	102-2	Activities, brands, products, and services		Fully compliant	1.2
General Disclosures	102-3	Location of headquarters		Fully compliant	1.1
General Disclosures	102-4	Location of operations		Fully compliant	1.2
General Disclosures	102-5	Ownership and legal form		Fully compliant	1.1
General Disclosures	102-6	Markets served		Fully compliant	1.2
General Disclosures	102-7	Scale of the organization		Fully compliant	1.2
General Disclosures	102-8	Information on employees and other workers		Fully compliant	3.1.2
General Disclosures	102-9	Supply chain		Fully compliant	1.2.6
General Disclosures	102-10	Significant changes to the organization and its supply chain		Fully compliant	1.2.6
General Disclosures	102-11	Precautionary Principle or approach		Fully compliant	1.2.5 5.2.1
General Disclosures	102-12	External initiatives		Fully compliant	3.1.4.1
General Disclosures	102-13	Membership of associations		Fully compliant	3.1.4.1
General Disclosures	102-14	Statement from senior decision-maker		Fully compliant	Introduction
General Disclosures	102-15	Key impacts, risks, and opportunities		Fully compliant	1.2.3; 5.5
General Disclosures	102-16	Values, principles, standards, and norms of behavior		Fully compliant	3.1
General Disclosures	102-17	Mechanisms for advice and concerns about ethics		Fully compliant	3.1.4.4 5.4.4
General Disclosures	102-18	Governance structure		Fully compliant	2.2.1 to 2.2.4 2.2.3
General Disclosures	102-19	Delegating authority		Fully compliant	2.2.1 to 2.2.4 2.2.3
General Disclosures	102-20	Executive-level responsibility for economic, environmental, and social topics		Fully compliant	2.2.1 to 2.2.4 2.2.3
General Disclosures	102-21	Consulting stakeholders on economic, environmental, and social topics		Fully compliant	3.1.4.1
General Disclosures	102-22	Composition of the highest governance body and its committees		Fully compliant	2.2.1
General Disclosures	102-23	Chair of the highest governance body		Fully compliant	2.2

Theme	Standard number	Disclosure title	Additional information	Level of compliance	Location of information
General Disclosures	102-24	Nominating and selecting the highest governance body		Fully compliant	2.3.5
General Disclosures	102-25	Conflicts of interest		Fully compliant	2.2.4.5
General Disclosures	102-26	Role of highest governance body in setting purpose, values, and strategy		Fully compliant	2.3.3
General Disclosures	102-27	Collective knowledge of highest governance body		Fully compliant	1.2.3
General Disclosures	102-28	Evaluating the highest governance body's performance		Fully compliant	2.5.1.1 2.5.1.2
General Disclosures	102-29	Identifying and managing economic, environmental, and social impacts		Fully compliant	2.5.1.1 3.1.4.1
General Disclosures	102-30	Effectiveness of risk management processes		Fully compliant	2.3.3
General Disclosures	102-31	Review of economic, environmental, and social topics		Fully compliant	2.3.3
General Disclosures	102-32	Highest governance body's role in sustainability reporting		Fully compliant	2.3.3
General Disclosures	102-33	Communicating critical concerns		Fully compliant	2.3.3
General Disclosures	102-40	List of stakeholder groups		Fully compliant	3.1.4.1
General Disclosures	102-41	Collective bargaining agreements		Fully compliant	3.1.2.6
General Disclosures	102-42	Identifying and selecting stakeholders		Fully compliant	3.1.4.1
General Disclosures	102-43	Approach to stakeholder engagement		Fully compliant	3.1.4.1
General Disclosures	102-44	Key topics and concerns raised		Fully compliant	3.1.4.1
General Disclosures	102-45	Entities included in the consolidated financial statements		Fully compliant	1.4.1 1.4.2
General Disclosures	102-46	Defining report content and topic boundaries		Fully compliant	3.1.4.1 3.3
General Disclosures	102-47	List of material topics	<a href="https://sharingbeautywithall.loreal.com/">https://sharingbeautywithall.loreal.com/</a>	Fully compliant	Sharing Beauty with All website
General Disclosures	102-48	Restatements of information		Fully compliant	3.3
General Disclosures	102-49	Changes in reporting		Fully compliant	3.3
General Disclosures	102-50	Reporting period		Fully compliant	1
General Disclosures	102-51	Date of most recent report		Fully compliant	1
General Disclosures	102-52	Reporting cycle		Fully compliant	3.3
General Disclosures	102-53	Contact point for questions regarding the report		Fully compliant	End of report
General Disclosures	102-54	Claims of reporting in accordance with the GRI Standards		Fully compliant	3.3
General Disclosures	102-55	GRI content index		Fully compliant	3.3
General Disclosures	102-56	External assurance		Fully compliant	3.5

Theme	Standard number	Disclosure title	Additional information	Level of compliance	Location of information
Management Approach	103-1	Explanation of the material topic and its Boundary		Fully compliant	3.1 3.2
Management Approach	103-2	The management approach and its components		Fully compliant	3.1 3.2
Management Approach	103-3	Evaluation of the management approach		Fully compliant	3.1 3.2
<b>ECONOMIC</b>					
Anti-corruption	205-1	Operations assessed for risks related to corruption	Corruption risk is taken into account in the Group's risk assessment. A specific mapping of corruption risks is carried out at Group level and by each country.	Fully compliant	3.1.4.4 5.5
Anti-corruption	205-2	Communication and training about anti-corruption policies and procedures	The L'Oréal Ethics Charter publicly states a zero-tolerance policy on corruption that applies to all employees, corporate officers and members of the Executive Committees as well as those of the Group's management and its subsidiaries worldwide. Available in 45 languages and in French and English Braille, it is distributed to all employees worldwide.	Fully compliant	3.1.4.4 3.2.4.2
<b>ENVIRONMENTAL</b>					
Energy	302-1	Energy consumption within the organization	Fuel consumption from non-renewable sources : 7 261 396 kWh Fuel consumption from renewable fuel sources : 0 kWh Total consumption of non-renewable electricity : 90 601 277 kWh Total consumption of renewable electricity : 302 088 779 kWh Total consumption of non-renewable heating : 13 344 597 kWh Total consumption of renewable heating : 34 511 366 kWh Total quantity of energy produced at sites : 31 898 333 kWh 53% of renewable energy in total energy consumption	Fully compliant	3.2.2.1
Energy	302-3	Energy intensity	Energy intensity : 124 kWh/1,000 FP	Fully compliant	3.2.2.1
Energy	302-4	Reduction of energy consumption		Fully compliant	3.2.2.1
Water	303-1	Water withdrawal by source	Volume of water withdrawn – Surface water, including water from wetlands, rivers, lakes and oceans and ground water : 206 414 m <sup>3</sup> Volume of water withdrawn – Rainwater collected directly and stored : 6 293 m <sup>3</sup> Volume of water withdrawn – Waste water from another organization : 0 m <sup>3</sup> Water from municipal water suppliers or water from other water utilities : 2 003 061 m <sup>3</sup> Total volume of water consumed by plants and distribution centres 2 215 768 m <sup>3</sup> 34% of water consumption intended for cleaning (plants and distribution centres)	Fully compliant	3.2.2.2
Biodiversity	304-2	Significant impacts of activities, products, and services on biodiversity		Fully compliant	3.2.1
Emissions	305-1	Direct (Scope 1) GHG emissions		Fully compliant	3.2.2.1
Emissions	305-2	Energy indirect (Scope 2) GHG emissions		Fully compliant	3.1.3.4 3.2.2.1
Emissions	305-3	Other indirect (Scope 3) GHG emissions		Fully compliant	3.1.3.4 3.2.2.1
Emissions	305-4	GHG emissions intensity	Intensity of direct CO <sub>2</sub> emissions at 12/31/2017 : 8,4 g eq. CO <sub>2</sub> /FP (Scope 1) Variation in the intensity of direct CO <sub>2</sub> emissions compared to 2005 : -61% Intensity of indirect CO <sub>2</sub> emissions at 12/31/2017 2,7 g eq. CO <sub>2</sub> /FP (Scope 2, Market Based) Variation in the intensity of indirect CO <sub>2</sub> emissions compared to 2005 : -92% (Scope 2, Market based) Intensity of CO <sub>2</sub> emissions at 12/31/2017 : 11,1 g eq. CO <sub>2</sub> /FP (Scope 1, Scope 2, Market Based) Variation in the intensity of CO <sub>2</sub> emissions as compared with 2005 : -80% (Scope 1, Scope 2, Market Based)	Fully compliant	3.1.3.4 3.2.2.1
Emissions	305-5	Reduction of GHG emissions	Variation in direct CO <sub>2</sub> emissions as compared to 2005 (Scope 1) : -48% Variation in indirect CO <sub>2</sub> emissions as compared to 2005 (Scope 2, Market Based) : -89%	Fully compliant	3.1.3.4 3.2.2.1
Effluents and Waste	306-2	Waste by type and disposal method	Waste recovered through energy recovery : 36 711 tonnes Waste recovered through reuse and recycling : 86 928 tonnes Waste incinerated without energy recovery : 4 034 tonnes	Fully compliant	3.2.2.3
Effluents and Waste	306-3	Significant spills		Fully compliant	3.2.2.2

Theme	Standard number	Disclosure title	Additional information	Level of compliance	Location of information
Supplier Environmental Assessment	308-1	New suppliers that were screened using environmental criteria	All new suppliers completed the ethical commitment letter (except for certain categories, such as subscriptions for example, considered as not at risk). L'Oréal actively seeks to work with suppliers who share its ethical values and commitments. Its purchasing teams have the task of identifying new suppliers and integrating them in light of the Group's expectations and its strategy via the Welcome On Board (WOB) supplier referencing process. L'Oréal also uses analyses and ratings provided by Ecovadis, an analytical company, to evaluate the policies implemented by the Suppliers, among others, in terms of the items of the Vigilance Plan.  Moreover, 76% of all direct L'Oréal suppliers have participated in the CDP Supply Chain Climate Change programme, and 60% have reported target actions.	Fully compliant	3.1.3.4
<b>SOCIAL</b>					
Employment	401-1	New employee hires and employee turnover	Employee turnover : 12,78%	Fully compliant	3.2.1
Occupational Health and Safety	403-1	Workers representation in formal joint management-worker health and safety committees		Fully compliant	3.1.2.6 3.1.3.2
Training and Education	404-1	Average hours of training per year per employee		Fully compliant	3.1.2.2
Training and Education	404-3	Percentage of employees receiving regular performance and career development reviews	All employees receive an annual performance and career development review.	Fully compliant	3.1.2.3
Child Labor	408-1	Operations and suppliers at significant risk for incidents of child labor	87% of strategic suppliers have completed a self-assessment of their sustainability policy with the Group's Sustainable Development.  This percentage is based on the calculation of the number of suppliers who, in 2017, had been assessed on their social, environmental and ethical policies, as well as the application of such policies at their own suppliers, by Ecovadis. Out of all cases of non compliance, 3,8% related to child labour. In the event of major non-conformities, corrective action plans are put in place and are subject to a follow-up audit. The most serious cases of non-compliance or the absence of effective implementation of a corrective action plan may lead to the cessation of commercial relations.	Fully compliant	3.1.4.4
Forced or Compulsory Labor	409-1	Operations and suppliers at significant risk for incidents of forced or compulsory labor		Fully compliant	3.1.4.4 5.4.3.2
Human Rights Assessment	412-1	Operations that have been subject to human rights reviews or impact assessments		Fully compliant	3.1.4.4
Human Rights Assessment	412-2	Employee training on human rights policies or procedures		Fully compliant	3.1.4.4
Supplier Social Assessment	414-2	Negative social impacts in the supply chain and actions taken	86% of portfolio of suppliers audited (out of those to be audited) Audits – Europe : 237 Audits – Asia, Pacific : 558 Audits – Americas : 395 Audits – Africa, Middle East Zone : 41 Out of all cases of non compliance: 36,4% were related to working conditions, health and safety 22,9% were related to working hours 18,5% were related to remuneration 22,2% were categorised as "Other"  In the event of major non-conformities, corrective action plans are put in place and are subject to a follow-up audit. The most serious cases of non-compliance or the absence of effective implementation of a corrective action plan may lead to the cessation of commercial relations.	Fully compliant	3.2.4.2
Customer Health and Safety	416-1	Assessment of the health and safety impacts of product and service categories		Fully compliant	3.1.4.5
Marketing and Labeling	417-1	Requirements for product and service information and labeling	L'Oréal complies with legal requirements regarding the labelling and marketing of its products, in particular their composition, methods of use and disposal instructions in the countries it operates in. Policies and initiatives going beyond legal requirements are listed in the report.	Fully compliant	3.1.4.5 3.2.1.4 3.2.3.3

## 3.5. STATUTORY AUDITORS' REPORTS

### 3.5.1. REPORT BY ONE OF THE STATUTORY AUDITORS, APPOINTED AS AN INDEPENDENT THIRD PARTY, ON THE CONSOLIDATED HUMAN RESOURCES, ENVIRONMENTAL AND SOCIAL INFORMATION INCLUDED IN THE MANAGEMENT REPORT

This is a free translation into English of the Statutory Auditors' report issued in French and is provided solely for the convenience of English speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional standards applicable in France.

**For the year ended December 31<sup>st</sup>, 2017**

To the Shareholders,

In our capacity as Statutory Auditor of L'Oréal (the "Company"), appointed as independent third party and certified by COFRAC under number 3-1060 (whose scope is available at [www.cofrac.fr](http://www.cofrac.fr)), we hereby report to you our report on the consolidated human resources, environmental and social information for the year ended December 31<sup>st</sup>, 2017, included in the management report (hereinafter named "CSR Information"), pursuant to article L.225-102-1 of the French Commercial Code (Code de commerce).

#### Company's responsibility

The Board of Directors is responsible for preparing a company's management report including the CSR Information required by article R.225-105-1 of the French Commercial Code in accordance with the Guidelines used by the Company (hereinafter the "Guidelines"), summarised in the management report and available on request from the company's head office.

#### Independence and quality control

Our independence is defined by regulatory texts, the French Code of ethics (*Code de déontologie*) of our profession and the requirements of article L.822-11-3 of the French Commercial Code. In addition, we have implemented a system of quality control including documented policies and procedures regarding compliance with the ethical requirements and applicable legal and regulatory requirements.

#### Statutory Auditor's responsibility

On the basis of our work, our responsibility is to:

- ◆ attest that the required CSR Information is included in the management report or, in the event of non-disclosure of a part or all of the CSR Information, that an explanation is provided in accordance with the third paragraph of article R.225-105 of the French Commercial Code (Attestation regarding the completeness of CSR Information);
- ◆ express a limited assurance conclusion that the CSR Information taken as a whole is, in all material respects, fairly presented in accordance with the Guidelines (Conclusion on the fairness of CSR Information).

However, it is not for us to express an opinion on the compliance with the other legal provisions applicable, in particular those set out by the article L. 225-102-4 of the commercial code (plan of vigilance) and by the law n ° 2016-1691 of December 9, 2016 known as Sapin II (fight against corruption).

Our work involved 9 persons and was conducted between September 2017 and February 2018 during a 10 weeks period. We were assisted in our work by our CSR experts.

We performed our work in accordance with the order dated 13 May 2013 defining the conditions under which the independent third party performs its engagement and with the professional guidance issued by the French Institute of statutory auditors (Compagnie nationale des commissaires aux comptes) relating to this engagement and with ISAE 3000 concerning our conclusion on the fairness of CSR Information.<sup>(1)</sup>

(1) Assurance engagements other than audits or reviews of historical financial information.



## 1. Attestation regarding the completeness of CSR Information

### *Nature and scope of our work*

On the basis of interviews with the individuals in charge of the relevant departments, we obtained an understanding of the Company's sustainability strategy regarding human resources and environmental impacts of its activities and its social commitments and, where applicable, any actions or programmes arising from them.

We compared the CSR Information presented in the management report with the list provided in article R.225-105-1 of the French Commercial Code.

For any consolidated information that is not disclosed, we verified that explanations were provided in accordance with article R.225-105, paragraph 3 of the French Commercial Code within the limitations set out in the methodological note described in the chapter related to the human resources, environmental and social information of the management report.

### *Conclusion*

Based on the work performed and given the limitations mentioned above, we attest that the required CSR Information has been disclosed in the management report.

## 2. Conclusion on the fairness of CSR Information

### *Nature and scope of our work*

We conducted about twenty interviews with about thirty persons responsible for preparing the CSR Information in the departments in charge of collecting the information and, where appropriate, responsible for internal control and risk management procedures, in order to:

- ◆ assess the suitability of the Guidelines in terms of their relevance, completeness, reliability, neutrality and understandability, and taking into account industry best practices where appropriate;
- ◆ verify the implementation of data-collection, compilation, processing and control process to reach completeness and consistency of the CSR Information and obtain an understanding of the internal control and risk management procedures used to prepare the CSR Information.

We determined the nature and scope of our tests and procedures based on the nature and importance of the CSR Information with respect to the characteristics of the Company, the human resources and environmental challenges of its activities, its sustainability strategy and industry best practices.

Regarding the CSR Information that we considered to be the most important and whose list is given in annex:

- ◆ at parent entity level we referred to documentary sources and conducted interviews to corroborate the qualitative information (organisation, policies, actions), performed analytical procedures on the quantitative information and verified, using sampling techniques, the calculations of the data. We also verified that the information was consistent and in agreement with the other information in the management report;
- ◆ at the level of a representative sample of entities/divisions/sites, selected by us <sup>(1)</sup> on the basis of their activity, their contribution to the consolidated indicators, their location and a risk analysis,] we conducted interviews to verify that procedures are properly applied, and we performed tests of details, using sampling techniques, in order to verify the calculations and reconcile the data with the supporting documents.

This work represents 20% of headcount considered as typical size of the social component, and between 18% and 87% of environmental data considered as characteristic variables of the environmental component

For the remaining consolidated CSR Information, we assessed its consistency based on our understanding of the company.

(1) Selected sample : verification of HR indicators : 3 affiliates : Hong Kong, USA, Spain / verification of EHS indicators : Nansha, Suzhou, Yichang, China Distribution Center, China Research and Innovation Center, Baddi, Pune, India Administrative Site, India Research and Innovation Center, Saint Quentin, Chimex Mourenx, Roye Distribution Center, Aulnay Administrative Site, St Ouen Research and Innovation Center, Cosmelor, Jababeka, Kenya, Kosmepol, Burgos, Josefa Valcarcel Administrative Site, Sales Espagne, UK Stores Administrative Site.

We also assessed the relevance of explanations provided for any information that was not disclosed, either in whole or in part.

We believe that the sampling methods and sample sizes we have used, based on our professional judgement, are sufficient to provide a basis for our limited assurance conclusion; a higher level of assurance would have required us to carry out more extensive procedures. Due to the use of sampling techniques and other limitations inherent to information and internal control systems, the risk of not detecting a material misstatement in the CSR information cannot be totally eliminated.

### *Conclusion*

Based on the work performed, no material misstatement has come to our attention that causes us to believe that the CSR Information, taken as a whole, is not presented fairly in accordance with the Guidelines.

Neuilly-sur-Seine, February 20<sup>th</sup>, 2018

One of the Statutory Auditors

PricewaterhouseCoopers Audit

G rard Morin  
Partner

Sylvain Lambert

Partner of the "Sustainable Development" Department

## APPENDIX

## Appendix: CSR Information that we considered to be the most important

*Human resources*

- ◆ Total workforce and split by gender, age and geographical area, including: Total workforce, Breakdown of headcount by geographic zone, Breakdown of headcount by short-term and long-term contracts, Breakdown of headcount by gender, Breakdown of headcount by age categories ;
- ◆ Hires and dismissals, including: Number of hires with long-term contracts, and Number of leaves at the initiative of the company;
- ◆ Compensation and variation, including Worldwide Profit Sharing 2016 (paid in 2017);
- ◆ Worktime organization, including Share & Care: Number of countries which have implemented "Teleworking / Smart working" organizational features, Share & Care: Number of countries that have implemented "Daily flexible working time" organizational features, and Share & Care : Number of countries that have implemented the "banking hours" organizational feature;
- ◆ Absenteeism, including: Global absenteeism rate and Absenteeism rate due to sick leaves;
- ◆ Organization of social dialogue, Employees information and consulting procedures, Negotiation procedure, including: Percentage of employees working in the Group subsidiaries where representative bodies have been implemented;
- ◆ Overview of Collective Agreement, including: Number of collective agreements in effect on December, 31<sup>st</sup> and Percentage of the Group employees covered by a (national and/or sectorial and/or company) collective convention;
- ◆ Health & Safety working conditions, including: Number of MESUR (Managing Effective Safety Using Recognition & realignment) visits performed;
- ◆ Work accidents, their frequency and their gravity, as well as professional diseases, including: Frequency rate, Enlarged frequency rate, Work accidents gravity rate;
- ◆ Implemented policy and measures taken in favor of training;
- ◆ Total number of training hours, including: Number of training hours, and Percentage of the Group employees that benefitted from at least one training per year;
- ◆ Implemented policy and measures taken in favor of gender equality, including: Percentage of brands led by women;
- ◆ Implemented policy and measures taken in favor of the employment and of the insertion of the disabled people, including: Total number of statutory (permanent and fixed-term) employees with disability working for L'Oréal and Number of countries that have submitted Disability projects;
- ◆ Policy against discrimination, including: Number of subsidiaries that have received the European Label

"Gender Equality European Standard" GEES, Number of subsidiaries that have received the European Label "Economic Dividend for Gender Equality" EDGE, Number of countries that have appointed a Disability Coordinator, and Number of countries that have oriented part of their strategy on social and ethnic origins;

- ◆ Promotion of and compliance with ILO's conventions clauses relative to the elimination of forced labor or mandatory work, including: Confirmation that countries have implemented a mechanism to fight against forced labor;
- ◆ Promotion of and compliance with ILO's conventions relative to the effective abolition of child labor, including: Confirmation that countries have implemented a mechanism to fight against child labor and Number of employees aged 16-18.

*Environmental information*

- ◆ Organization of the company to take into account environmental issues and, when applicable, evaluation or certification processes, including: Information relative to the implementation of the Product Assessment Tool and Percentage of the brands that have evaluated their environmental or social impact;
- ◆ Measures of prevention, of reduction or of reparation of air, water and soil discharges which severely damage the environment, including: Post-treatment Chemical Oxygen Demand (COD), Volumes of wastewater released at the exit of the site after or without internal treatment, Sulfur emissions, and Quantity of Volatile Organic Compounds (VOCs) discharged;
- ◆ Measures of prevention, recycling, reuse, or other forms of waste valorization and elimination, including: Transportable waste excluding returnable packaging in rotation, with returnable packaging accounted at source, Returnable packaging in rotation, Treatment of transportable waste linked to activity, Recovery index, Material recovery index, Waste to landfill, Waste to landfill for local regulatory constraints;
- ◆ Net total water consumption, Water supply according to local constraints, including: Net water consumption by FG units produces, and Water consumption by usage type;
- ◆ Consumption of raw materials and measures taken to improve the efficiency of their usage , including: Percentage of renewable raw materials among the raw materials used by the Group, Percentage of analyzed products presenting an improved environmental or social profile, Percentage of new or renewed products presenting an improved environmental profile thanks to a new formula of which the environmental footprint has been reduced, Percentage of new and renewed products presenting an improvement of their environmental profile thanks to a new formula integrating renewable or renewed raw materials sourced in a responsible way and presenting an improved environmental footprint, or respecting the green chemistry principles and Percentage of new or renewed products presenting an improved environmental profile, thanks to a package which environmental footprint has been reduced;

- ◆ Energy consumption, measures taken to improve the energy efficiency and renewable energies usage, including: total energy consumption, Breakdown by energy source: Electricity, Gas, Fuel, Steam, Other, Percentage of renewable energy consumed, and Renewable Energy consumed;
  - ◆ Significant Greenhouse Gas emission sources, generated by the company's activity, particularly by goods and services that it produces, including: Cooling gas leakages, Volumes of "market-based" and "location-based" CO<sub>2</sub> emissions, CO<sub>2</sub> emissions from transportation of end products, CO<sub>2</sub> emissions from Scope 3 significant sources, including goods and services usage and Information relative to the Carbon balanced programme;
  - ◆ Measures taken to preserve biodiversity including: Information relative to the programme to fight against deforestation.
- Social information**
- ◆ Territorial, economic and social impact in respect of employment and regional development, including: Number of people that were hired via the "Solidarity Sourcing" programme, Number of people in very precarious conditions, and trained for free to the beauty industry jobs in the frame of the "Beauty For a Better Life" programme, which is supported by the L'Oréal Foundation, and Percentage of new or renewed products presenting an improved social profile thanks to a positive social impact;
  - ◆ Territorial, economic and social impact on the waterside and nearby populations, including: Local Managers outside France (key positions);
  - ◆ Conditions of the dialogue with the stakeholders or the organizations interested by the company's activity, including: Information relative to the Group involvement with its stakeholders;
  - ◆ Inclusion of social and environmental issues in the company's purchase policy, including: Percentage of the Group's strategic suppliers which have been evaluated and selected on the basis of their environmental and societal performance, Percentage of the strategic suppliers that made, with the support of the Group, an auto-evaluation of their policy in terms of sustainable development;
  - ◆ Importance of the subcontracting and inclusion of the suppliers and subcontractors' corporate social responsibility, including: Percentage of strategic suppliers related to the "Solidarity Sourcing" programme, Number of social audits realized, Repartition of non-conformity observed during the suppliers' social audits by audited chapter and Percentage of the suppliers portfolio that have been audited (among those that have been audited);
  - ◆ Measures taken in favor of the health and of the security of the consumers, including: Percentage of the brands that have made one action to raise public-awareness, and Information relative to the systems of cosmetics vigilance.

### 3.5.2. REASONABLE ASSURANCE REPORT OF THE STATUTORY AUDITORS ON A SELECTION OF CONSOLIDATED HUMAN RESOURCES, SOCIAL, ENVIRONMENTAL, HEALTH AND SAFETY INFORMATION PUBLISHED IN THE MANAGEMENT REPORT

This is a free English translation of the Statutory Auditors' report issued in French and is provided solely for the convenience of English-speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional standards applicable in France.

**For the year ended 31 December 2017**

To the Shareholders,

In our capacity of Statutory Auditors of L'Oréal ("the Company") and on L'Oréal's request, we carried out verification works aiming at giving a reasonable assurance on a selection of consolidated human resources, social, environmental, health and safety information for the year ended 31 December 2017 published in L'Oréal Management Report.

- ◆ The information selected by L'Oréal is the following:
  - Human resources information
  - Total workforce, breakdown of headcount by geographic zone, local managers excluding France (key positions);
  - Number of countries that have submitted a disability insertion project 2017 and number of countries with a diversity coordinator;
  - Percentage of brands managed by women, number of entities having been awarded the European label "Gender Equality European & International Standard" – GEEIS, the label "Economic Dividend for Gender Equality" – EDGE and expecting to be awarded with a label.
- ◆ Social information
  - Number of social audits carried out during the year and distribution of non-compliances noted by subject audited.
- ◆ Environmental, health and safety information
  - Units of finished goods produced, quantity of produced bulk;
  - CO<sub>2</sub> emissions using "marked-based" and "location based" method, direct and indirect emissions, total energy consumption, breakdown by energy source (electricity, gas, fuel, steam, other energies), percentage of renewable energy consumed, renewable electricity consumed, refrigerant gas leakages;
  - Total net total water consumption (m<sup>3</sup> and l/FG);
  - Transportable waste excluding returnable packaging in rotation, with returnable packaging accounted at source, returnable packaging in rotation, treatment of transportable waste linked to activity, waste to landfill, of which for local regulatory constraints, recovery and material recovery rates;
  - Conventional frequency rate, enlarged frequency rate, and severity rate for work accidents.

This information has been prepared under the responsibility of L'Oréal Board of Directors in accordance with the guidelines used by the Company (hereinafter the "Guidelines") of which a summary appears in the Management Report and that are available upon request from the Operations, Human relations and Corporate Social Responsibility Departments.

Based on our work, it is our responsibility to express a conclusion of reasonable assurance on these selected pieces of information.

#### Nature and scope of procedures

- ◆ We performed our work described below in accordance with the professional guidance issued by the French Institute of Statutory Auditors (*Compagnie nationale des commissaires aux comptes*) relating to this engagement and with the international standard ISAE 3000.
- ◆ We have conducted the following diligences giving a reasonable assurance on the fact that the consolidated human resources, social, environmental, health and safety information selected by L'Oréal has been presented, in all material aspects, in compliance with the Guidelines used by L'Oréal.
- ◆ We have examined, at Group level, the reporting procedures set up by L'Oréal with regard to their relevance, completeness, reliability, neutrality and clarity.

- ◆ We have verified the process set up to collect, compile, process and check the selected information with regard to its completeness and consistency. We have also reviewed the internal control and risk management procedures used to prepare the selected information.
- ◆ We have conducted analytical procedures and verified calculations and data consolidation through various samplings. This work has been backed with interviews with persons from L'Oréal Sustainable Development Department in charge of data collection and consolidation.
- ◆ We have selected a sample of entities for which:
  - we have verified, through interviews with people in charge of data collection, the correct application of the Guidelines;
  - we have conducted detailed testing on representative samples consisting in calculation verification and corroboration of that with supporting documents.
- ◆ The following entities were selected:
  - For consolidated human resources information selected: the activities in France, in Hong Kong, and in Spain, representing 20% of the headcount of the Group;
  - For consolidated social information selected: the company headquarters of L'Oréal that centralizes all information;
  - For consolidated environmental, health and safety information selected: South Africa, Germany, Brazil (DC Niely, Niely), China, (DC China, Nansha, R&I China, Suzhou, Yichang), Spain (Burgos, SA Josefa Valcarcel, Sales Spain), USA (DC S. Brunswick, DC Walton, Littlerock, Piscataway), France (Aulnay, CAP, Chimex Mourenx, DC Roye, DC Vemars, Ormes, Rambouillet, R&I St Ouen, SA Aulnay, Saint Quentin), Inde (Baddi, Pune, R&I Inde, SA Inde), Indonesia (Jababeka), Italy (DC Italy), Japan (Cosmelor), Kenya, Pologne, UK (DC Trafford, SA UK Stores), Turkey, representing 57% of the finished goods units produced by the manufacturing sites of the Group.

We were assisted in our work by our sustainability experts.

## Conclusion

Based on our work, the consolidated human resources, social, environmental, health and safety information selected by L'Oréal, presented hereinabove and published in its Management Report, has been presented, in all material aspects, in accordance with the Guidelines.

Neuilly-sur-Seine, 20 February 2018

The Statutory Auditors,

*Original French version signed by the Statutory Auditors*

Deloitte & Associés

Frédéric Moulin  
Partner

Julien Rivals  
Partner, Sustainability services

PricewaterhouseCoopers Audit

Gérard Morin  
Partner

Sylvain Lambert  
Partner, Sustainability services

# 4

## 2017 Consolidated Financial Statements\*



<b>4.1.</b> Compared consolidated income statements	<b>223</b>	<b>4.6.</b> Notes to the consolidated financial statements	<b>229</b>
<b>4.2.</b> Consolidated statement of comprehensive income	<b>224</b>	<b>4.7.</b> Consolidated companies at 31 December 2017	<b>276</b>
<b>4.3.</b> Compared consolidated balance sheets	<b>225</b>	<b>4.7.1</b> Fully consolidated companies	276
<b>4.4.</b> Consolidated statements of changes in equity	<b>226</b>	<b>4.7.2.</b> Equity-accounted companies	280
<b>4.5.</b> Compared consolidated statements of cash flows	<b>228</b>	<b>4.8.</b> Statutory auditors' report on the consolidated financial statements	<b>281</b>

\* This information forms an integral part of the Annual Financial Report as provided in Article L. 451-1-2 of the French Monetary and Financial Code.

L'Oréal parent company is a French company with its registered office in France, which performs a sales activity specific to that country.

At the same time, L'Oréal parent company has firstly a role of holding company and strategic coordination and secondly that of scientific, industrial and marketing coordination of the L'Oréal Group on a worldwide basis.

Most of the subsidiaries have a role of marketing of the products manufactured by the Group's factories in the countries or zones in which it is established. To do so, they define the strategy specific to their market, make the most suitable choices.

Almost all of the subsidiaries are owned by L'Oréal parent company which has a holding or control percentage equal or close to 100%.

The financial statements set out in this chapter present the results of the L'Oréal Group as a whole, including all subsidiaries.

The Statutory Auditors' Report on the consolidated financial statements has been included at the end of this chapter.



## 4.1. COMPARED CONSOLIDATED INCOME STATEMENTS

€ millions	Notes	REMINDER* Reported 2016				
		2017	2016 <sup>(1)</sup>	2015 <sup>(1)</sup>	2016	2015
<b>Net sales</b>	3.1	<b>26,023.7</b>	<b>24,916.3</b>	<b>24,290.2</b>	<b>25,837.1</b>	<b>25,257.4</b>
Cost of sales		-7,359.2	-7,068.6	-6,994.2	-7,341.7	-7,277.4
<b>Gross profit</b>		<b>18,664.5</b>	<b>17,847.7</b>	<b>17,295.9</b>	<b>18,495.4</b>	<b>17,980.0</b>
Research and development		-877.1	-841.2	-787.4	-849.8	-794.1
Advertising and promotion		-7,650.6	-7,264.4	-7,132.8	-7,498.7	-7,359.6
Selling, general and administrative expenses		-5,460.5	-5,236.0	-5,042.9	-5,607.0	-5,438.6
<b>Operating profit</b>	3.1	<b>4,676.3</b>	<b>4,506.1</b>	<b>4,332.9</b>	<b>4,539.9</b>	<b>4,387.7</b>
Other income and expenses	4	-276.3	-541.3	-188.5	-543.8	-193.4
<b>Operational profit</b>		<b>4,400.0</b>	<b>3,964.8</b>	<b>4,144.4</b>	<b>3,996.1</b>	<b>4,194.3</b>
Finance costs on gross debt		-35.5	-27.4	-20.3	-32.6	-23.7
Finance income on cash and cash equivalents		38.5	39.0	59.4	39.1	55.6
<b>Finance costs, net</b>		<b>3.1</b>	<b>11.6</b>	<b>39.1</b>	<b>6.5</b>	<b>31.9</b>
Other financial income (expenses)	8.4	-26.0	-25.8	-43.3	-25.8	-45.7
Sanofi dividends		350.0	346.5	336.9	346.5	336.9
<b>Profit before tax and associates</b>		<b>4,727.0</b>	<b>4,297.1</b>	<b>4,477.2</b>	<b>4,323.4</b>	<b>4,517.4</b>
Income tax	6	-901.3	-1,213.7	-1,229.4	-1,214.6	-1,222.9
Share of profit in associates		-0.1	-0.1	4.0	-0.1	4.0
<b>Net profit from continuing operations</b>		<b>3,825.6</b>	<b>3,083.4</b>	<b>3,251.8</b>	<b>3,108.7</b>	<b>3,298.5</b>
<b>Net profit from discontinued operations</b>	2.3	<b>-240.1</b>	<b>25.3</b>	<b>46.8</b>	-	-
<b>Net profit</b>		<b>3,585.5</b>	<b>3,108.7</b>	<b>3,298.5</b>	<b>3,108.7</b>	<b>3,298.5</b>
Attributable to:						
♦ owners of the company		3,581.4	3,105.8	3,297.4	3,105.8	3,297.4
♦ non-controlling interests		4.1	2.9	1.1	2.9	1.1
Earnings per share attributable to owners of the company (euros)		6.40	5.55	5.92	5.55	5.92
Diluted earnings per share attributable to owners of the company (euros)		6.36	5.50	5.84	5.50	5.84
Earnings per share of continuing operations attributable to owners of the company (euros)	10.4	6.83	5.51	5.83	5.55	5.92
Diluted earnings per share of continuing operations attributable to owners of the company (euros)	10.4	6.78	5.46	5.75	5.50	5.84
Earnings per share of continuing operations attributable to owners of the company, excluding non-recurring items (euros)	10.4	6.70	6.47	6.17	6.52	6.26
Diluted earnings per share of continuing operations attributable to owners of the company, excluding non-recurring items (euros)	10.4	6.65	6.41	6.08	6.46	6.18

(1) The 2016 and 2015 consolidated income statements are presented to reflect the impacts of the application of IFRS 5 relative to discontinued operations, by restating The Body Shop business on a single line "Net profit from discontinued operations" (see note 2.3.).

\* For consistency with the financial information provided outside of the financial statements, we believed it useful to show the Group's financial performance when The Body Shop was an integral part of its continuing operations.

## 4.2. CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

€ millions	Notes	2017**	2016*	2015*
<b>Consolidated net profit for the period</b>		<b>3,585.5</b>	<b>3,108.7</b>	<b>3,298.5</b>
Financial assets available-for-sale		-597.1	-201.0	347.6
Cash flow hedges		88.9	-124.0	60.1
Cumulative translation adjustments		-824.8	19.6	373.7
Income tax on items that may be reclassified to profit or loss <sup>(1) (2)</sup>		4.5	86.3	-28.9
<b>Items that may be reclassified to profit or loss</b>		<b>-1,328.5</b>	<b>-219.1</b>	<b>752.5</b>
Actuarial gains and losses	10.3	280.0	-1.3	598.1
Income tax on items that may not be reclassified to profit or loss <sup>(1) (2)</sup>		-107.9	-39.3	-205.3
<b>Items that may not be reclassified to profit or loss</b>		<b>172.1</b>	<b>-40.6</b>	<b>392.8</b>
<b>Other comprehensive income</b>		<b>-1,156.5</b>	<b>-259.7</b>	<b>1,145.3</b>
<b>Consolidated comprehensive income</b>		<b>2,428.9</b>	<b>2,849.0</b>	<b>4,443.8</b>
Attributable to:				
♦ owners of the company		2,424.8	2,845.6	4,443.1
♦ non-controlling interests		4.1	3.4	0.7

\* 2016 and 2015 as reported including The Body Shop.

\*\* Including The Body Shop over eight months in 2017.

(1) Including, in 2017, €20.4 million and -€21.5 million respectively from the revaluation of deferred tax in France following the change in the tax rate by 2022, and deferred tax in the USA following the change in the tax rate at 1 January 2018.

(2) The tax effect is as follows:

€ millions	2017	2016	2015
Financial assets available-for-sale	37.3	41.7	-14.4
Cash flow hedges	-32.8	44.6	-14.4
<b>Items that may be reclassified to profit or loss</b>	<b>4.5</b>	<b>86.3</b>	<b>-28.9</b>
Actuarial gains and losses	-107.9	-39.3	-205.3
<b>Items that may not be reclassified to profit or loss</b>	<b>-107.9</b>	<b>-39.3</b>	<b>-205.3</b>
<b>TOTAL</b>	<b>-103.4</b>	<b>47.0</b>	<b>-234.1</b>

### 4.3. COMPARED CONSOLIDATED BALANCE SHEETS

#### ASSETS

€ millions	Notes	31.12.2017	31.12.2016 <sup>(1)</sup>	31.12.2015 <sup>(1)</sup>
<b>Non-current assets</b>		<b>24,320.1</b>	<b>25,584.6</b>	<b>24,457.6</b>
Goodwill	7.1	8,872.3	8,792.5	8,151.5
Other intangible assets	7.2	2,579.1	3,179.4	2,942.9
Property, plant and equipment	3.2	3,571.1	3,756.9	3,403.5
Non-current financial assets	8.3	8,766.2	9,306.5	9,410.9
Investments in associates		1.1	1.0	1.0
Deferred tax assets	6.3	530.3	548.3	547.9
<b>Current assets</b>		<b>11,019.0</b>	<b>10,045.6</b>	<b>9,253.7</b>
Inventories	3.3	2,494.6	2,698.6	2,440.7
Trade accounts receivable	3.3	3,923.4	3,941.8	3,627.7
Other current assets	3.3	1,393.8	1,420.4	1,486.9
Current tax assets		160.6	238.8	298.6
Cash and cash equivalents	8.2	3,046.6	1,746.0	1,399.8
<b>TOTAL</b>		<b>35,339.1</b>	<b>35,630.2</b>	<b>33,711.3</b>

(1) 2016 and 2015 balance sheets as reported including The Body Shop.

#### EQUITY & LIABILITIES

€ millions	Notes	31.12.2017	31.12.2016 <sup>(1)</sup>	31.12.2015 <sup>(1)</sup>
<b>Equity</b>	<b>10</b>	<b>24,818.5</b>	<b>24,504.0</b>	<b>23,617.0</b>
Share capital		112.1	112.4	112.6
Additional paid-in capital		2,935.3	2,817.3	2,654.4
Other reserves		14,752.2	13,951.6	12,873.4
Other comprehensive income		3,904.7	4,237.6	4,517.5
Cumulative translation adjustments		-413.5	410.9	391.9
Treasury stock		-56.5	-133.6	-233.3
Net profit attributable to owners of the company		3,581.4	3,105.8	3,297.4
<b>Equity attributable to owners of the company</b>		<b>24,815.7</b>	<b>24,501.9</b>	<b>23,613.9</b>
Non-controlling interests		2.8	2.1	3.1
<b>Non-current liabilities</b>		<b>1,347.2</b>	<b>1,918.9</b>	<b>1,920.6</b>
Provisions for employee retirement obligations and related benefits	5.4	301.9	711.8	807.2
Provisions for liabilities and charges	11.1	434.9	333.3	195.9
Deferred tax liabilities	6.3	597.0	842.9	876.8
Non-current borrowings and debt	8.1	13.4	30.9	40.8
<b>Current liabilities</b>		<b>9,173.4</b>	<b>9,207.3</b>	<b>8,173.7</b>
Trade accounts payable		4,140.8	4,135.3	3,929.0
Provisions for liabilities and charges	11.1	889.2	810.7	754.6
Other current liabilities	3.4	2,823.9	2,854.4	2,597.3
Income tax		158.5	173.2	151.9
Current borrowings and debt	8.1	1,161.0	1,233.7	741.0
<b>TOTAL</b>		<b>35,339.1</b>	<b>35,630.2</b>	<b>33,711.3</b>

(1) 2016 and 2015 balance sheets as reported including The Body Shop.

## 4.4. CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

€ millions	Common shares outstanding	Share capital	Additional paid-in capital	Retained earnings and net profit	Other comprehensive income	Treasury stock adjustments	Cumulative translation adjustments	Equity attributable to owners of the company	Non-controlling interests	Total equity
<b>At 31.12.2014</b>	<b>554,241,878</b>	<b>112.3</b>	<b>2,316.8</b>	<b>14,683.5</b>	<b>3,745.9</b>	<b>-683.0</b>	<b>17.8</b>	<b>20,193.3</b>	<b>3.6</b>	<b>20,196.9</b>
Consolidated net profit for the period				3,297.4				3,297.4	1.1	3,298.5
Financial assets available-for-sale					333.2			333.2		333.2
Cash flow hedges					45.6			45.6		45.6
Cumulative translation adjustments							374.1	374.1	-0.4	373.7
<b>Other comprehensive income that may be reclassified to profit and loss</b>					<b>378.8</b>		<b>374.1</b>	<b>752.9</b>	<b>-0.4</b>	<b>752.5</b>
Actuarial gains and losses					392.8			392.8		392.8
<b>Other comprehensive income that may not be reclassified to profit and loss</b>					<b>392.8</b>			<b>392.8</b>	<b>-</b>	<b>392.8</b>
<b>Consolidated comprehensive income</b>				<b>3,297.4</b>	<b>771.6</b>		<b>374.1</b>	<b>4,443.1</b>	<b>0.7</b>	<b>4,443.8</b>
Capital increase	4,657,959	0.9	337.6					338.5		338.5
Cancellation of Treasury stock		-0.6		-362.8		363.4		-		-
Dividends paid (not paid on Treasury stock)				-1,511.4				-1,511.4	-2.6	-1,514.0
Share-based payment				117.6				117.6		117.6
Net changes in Treasury stock	1,088,341			-77.1		86.3		9.2		9.2
Purchase commitments for non-controlling interests				23.5				23.5	1.5	25.0
Changes in scope of consolidation								-		-
Other movements				0.1				0.1	-0.1	-
<b>At 31.12.2015</b>	<b>559,988,178</b>	<b>112.6</b>	<b>2,654.4</b>	<b>16,170.8</b>	<b>4,517.5</b>	<b>-233.3</b>	<b>391.9</b>	<b>23,613.9</b>	<b>3.1</b>	<b>23,617.0</b>
Consolidated net profit for the period				3,105.8				3,105.8	2.9	3,108.7
Financial assets available-for-sale					-159.3			-159.3		-159.3
Cash flow hedges					-79.3			-79.3	-0.1	-79.4
Cumulative translation adjustments							19.0	19.0	0.6	19.6
<b>Other comprehensive income that may be reclassified to profit and loss</b>					<b>-238.6</b>		<b>19.0</b>	<b>-219.6</b>	<b>0.5</b>	<b>-219.1</b>
Actuarial gains and losses					-40.6			-40.6		-40.6
<b>Other comprehensive income that may not be reclassified to profit and loss</b>					<b>-40.6</b>			<b>-40.6</b>	<b>-</b>	<b>-40.6</b>
<b>Consolidated comprehensive income</b>				<b>3,105.8</b>	<b>-279.2</b>		<b>19.0</b>	<b>2,845.6</b>	<b>3.4</b>	<b>2,849.0</b>
Capital increase	2,074,893	0.4	162.8					163.2		163.2
Cancellation of Treasury stock		-0.6		-498.9		499.5		-		-
Dividends paid (not paid on Treasury stock)				-1,741.9				-1,741.9	-3.4	-1,745.2
Share-based payment				120.4				120.4		120.4
Net changes in Treasury stock	-1,964,675			-99.3		-399.8		-499.1		-499.1
Purchase commitments for non-controlling interests								-	-0.1	-0.1
Changes in scope of consolidation				-0.8				-0.8	-0.9	-1.7
Other movements				1.2	-0.7			0.6	-0.1	0.5
<b>At 31.12.2016</b>	<b>560,098,396</b>	<b>112.4</b>	<b>2,817.3</b>	<b>17,057.3</b>	<b>4,237.6</b>	<b>-133.6</b>	<b>410.9</b>	<b>24,501.9</b>	<b>2.1</b>	<b>24,504.0</b>

## 2017 Consolidated Financial Statements\*

### CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

€ millions	Common shares outstanding	Share capital	Additional paid-in capital	Retained earnings and net profit	Other compre- hensive income	Treasury stock	Cumulative translation stock adjustments	Equity attributable to owners of the company	Non- controlling interests	Total equity
<b>At 31.12.2016</b>	<b>560,098,396</b>	<b>112.4</b>	<b>2,817.3</b>	<b>17,057.3</b>	<b>4,237.6</b>	<b>-133.6</b>	<b>410.9</b>	<b>24,501.9</b>	<b>2.1</b>	<b>24,504.0</b>
Consolidated net profit for the period				3,581.4				3,581.4	4.1	3,585.5
<i>Financial assets available-for-sale</i>					-559.7			-559.7		-559.7
<i>Cash flow hedges</i>					55.5			55.5	0.4	55.9
<i>Cumulative translation adjustments</i>							-824.5	-824.5	-0.3	-824.8
<b>Other comprehensive income that may be reclassified to profit and loss</b>					<b>-504.2</b>		<b>-824.5</b>	<b>-1,328.7</b>	<b>0.1</b>	<b>-1,328.6</b>
<i>Actuarial gains and losses</i>					172.1			172.1		172.1
<b>Other comprehensive income that may not be reclassified to profit and loss</b>					<b>172.1</b>			<b>172.1</b>	<b>-</b>	<b>172.1</b>
<b>Consolidated comprehensive income</b>				<b>3,581.4</b>	<b>-332.2</b>		<b>-824.5</b>	<b>2,424.8</b>	<b>4.1</b>	<b>2,428.9</b>
Capital increase	1,509,951	0.3	118.0					118.3		118.3
Cancellation of Treasury stock		-0.6		-498.6		499.2		-		-
Dividends paid (not paid on Treasury stock)				-1,857.7				-1,857.7	-3.5	-1,861.2
Share-based payment				128.8				128.8		128.8
Net changes in Treasury stock	-1,860,384			-77.2		-422.0		-499.2		-499.2
Changes in scope of consolidation				-1.3				-1.3		-1.3
Other movements				1.0	-0.7			0.3		0.3
<b>At 31.12.2017</b>	<b>559,747,963</b>	<b>112.1</b>	<b>2,935.3</b>	<b>18,333.7</b>	<b>3,904.7</b>	<b>-56.5</b>	<b>-413.5</b>	<b>24,815.7</b>	<b>2.8</b>	<b>24,818.5</b>

## 4.5. COMPARED CONSOLIDATED STATEMENTS OF CASH FLOWS

€ millions	Notes	REMINDER* Reported 2016				
		2017	2016 <sup>(1)</sup>	2015 <sup>(1)</sup>	2016	2015
<b>Cash flows from operating activities</b>						
Net profit attributable to owners of the company		3,581.4	3,105.8	3,297.4	3,105.8	3,297.4
Non-controlling interests		4.1	2.9	1.1	2.9	1.1
Elimination of expenses and income with no impact on cash flows:						
♦ depreciation, amortisation and provisions		1,218.5	1,382.3	908.2	1,424.5	933.8
♦ changes in deferred taxes	6.1	-194.8	86.5	71.6	79.8	53.4
♦ share-based payment (including free shares)	5.5	126.7	120.4	117.6	120.4	117.6
♦ capital gains and losses on disposals of assets		-3.9	-16.2	0.2	-16.2	0.2
Net profit from discontinued operations		240.1	-25.3	-46.8	-	-
Share of profit in associates net of dividends received		0.1	0.1	-4.0	0.1	-4.0
<b>Gross cash flow</b>		<b>4,972.2</b>	<b>4,656.4</b>	<b>4,345.4</b>	<b>4,717.3</b>	<b>4,399.5</b>
Changes in working capital	3.5	261.1	4.3	-217.5	-12.7	-196.4
Net cash provided by operating activities from discontinued operations		-36.7	43.9	75.2	-	-
<b>Net cash provided by operating activities (A)</b>		<b>5,196.6</b>	<b>4,704.7</b>	<b>4,203.1</b>	<b>4,704.6</b>	<b>4,203.1</b>
<b>Cash flows from investing activities</b>						
Purchases of property, plant and equipment and intangible assets		-1,263.5	-1,334.9	-1,132.1	-1,386.5	-1,172.1
Disposals of property, plant and equipment and intangible assets		8.2	34.2	6.5	34.2	6.5
Changes in other financial assets (including investments in non-consolidated companies)		-70.7	-42.9	-35.2	-42.9	-35.2
Effect of changes in the scope of consolidation	2.2	-166.5	-1,209.0	-375.8	-1,209.3	-435.3
Net cash (used in) from investing activities from discontinued operations		-24.4	-51.8	-99.5	-	-
<b>Net cash (used in) from investing activities (B)</b>		<b>-1,516.9</b>	<b>-2,604.5</b>	<b>-1,636.1</b>	<b>-2,604.5</b>	<b>-1,636.1</b>
<b>Cash flows from financing activities</b>						
Dividends paid		-1,870.7	-1,832.9	-1,534.8	-1,832.9	-1,534.8
Capital increase of the parent company		118.3	163.2	338.6	163.2	338.6
Disposal (acquisition) of Treasury stock		-499.2	-499.1	9.2	-499.1	9.2
Purchase of non-controlling interests		-2.0	-	-	-6.1	-
Issuance (repayment) of short-term loans		-86.6	446.0	-1,840.2	449.8	-1,832.4
Issuance of long-term borrowings		-	1.8	1.1	1.8	1.1
Repayment of long-term borrowings		-7.0	-16.4	-4.6	-17.5	-5.8
Net cash (used in) from financing activities from discontinued operations		71.5	-3.5	6.5	-	-
<b>Net cash (used in) from financing activities (C)</b>		<b>-2,275.7</b>	<b>-1,740.8</b>	<b>-3,024.1</b>	<b>-1,740.8</b>	<b>-3,024.1</b>
Effect of changes in exchange rates and fair value (D)		-65.3	-13.1	-60.1	-13.1	-60.1
<b>Change in cash and cash equivalents (A+B+C+D)</b>		<b>1,338.7</b>	<b>346.2</b>	<b>-517.2</b>	<b>346.2</b>	<b>-517.2</b>
<b>Cash and cash equivalents at beginning of the year (E)</b>		<b>1,746.0</b>	<b>1,399.8</b>	<b>1,917.0</b>	<b>1,399.8</b>	<b>1,917.0</b>
Net effect of changes in cash and cash equivalents of discontinued operations (F)		-38.1	-	-	-	-
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (A+B+C+D+E+F)</b>	<b>8.2</b>	<b>3,046.6</b>	<b>1,746.0</b>	<b>1,399.8</b>	<b>1,746.0</b>	<b>1,399.8</b>

(1) The statements of cash flows for 2016 and 2015 are presented to reflect the impacts of IFRS 5 regarding discontinued operations (see note 2.3).

\* For consistency with the financial information provided outside of the financial statements, we believed it useful to show the Group's financial performance when The Body Shop was an integral part of its continuing operations.

Income tax paid amount to €989.2 million excluding The Body Shop, €1,041.0 million (€1,029.4 million excluding The Body Shop) and €1,398.9 (€1,385.1 million excluding The Body Shop) respectively for the 2017, 2016 and 2015 financial years.

Interest paid amount to €35.8 million excluding The Body Shop, €35.4 million (€31.0 million excluding The Body Shop) and

€23.9 million (€21.5 million excluding The Body Shop) respectively for the 2017, 2016 and 2015 financial years.

Dividends received, excluding those from discontinued operations, amount to €350.0 million, €346.5 million and €336.9 million respectively for the years 2017, 2016 and 2015, and are included within gross cash flow.

## 4.6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Notes contents

<b>NOTE 1</b>	Accounting principles	229	<b>NOTE 9</b>	Derivatives and exposure to market risks	261
<b>NOTE 2</b>	Main events of the period	230	<b>NOTE 10</b>	Equity – Earnings per share	265
<b>NOTE 3</b>	Operating items – Segment information	233	<b>NOTE 11</b>	Provisions for liabilities and charges – Contingent liabilities and material ongoing disputes	270
<b>NOTE 4</b>	Other operational income and expenses	239	<b>NOTE 12</b>	Off-balance sheet commitments	273
<b>NOTE 5</b>	Number of employees, personnel costs and employee benefits	240	<b>NOTE 13</b>	Transactions with related parties	274
<b>NOTE 6</b>	Income tax	247	<b>NOTE 14</b>	Fees accruing to auditors and members of their networks payable by the Group	275
<b>NOTE 7</b>	Intangible assets	249	<b>NOTE 15</b>	Subsequent events	276
<b>NOTE 8</b>	Financial assets and liabilities – Cost of debt	257			

4

### NOTE 1 Accounting principles

The consolidated financial statements of L'Oréal and its subsidiaries ("the Group") published for 2017, have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted in the European Union as of 31 December 2017.

On 8 February 2018, the Board of Directors closed the consolidated financial statements at 31 December 2017. The financial statements will not become final until they have been approved by the Annual General Meeting of shareholders to be held on 17 April 2018.

The Group did not early adopt any standards or interpretations not mandatorily applicable in 2017.

The Group may be concerned by the following standards:

- ◆ IFRS 15 "Revenue from contracts with customers" applicable as of 1 January 2018. The Group has not identified any principles already applied that could be called into questions;
- ◆ IFRS 9 "Financial Instruments" applicable as from 1 January 2018, the Group is primarily concerned by:
  - the change in the accounting treatment of investments and their remeasurement through profit or loss or through equity not reclassifiable to profit or loss under the fair value option. The shares concerned relate mainly to the Group's investment in Sanofi;
  - the possibility of deferring recognition of the time value of currency options in equity in the same way as for forward hedges, so as to only impact income at the date the hedged transactions occur. The impact of the change in accounting method over full-year 2017 is not material;

- ◆ IFRS 16 "Leases" applicable at 1 January 2019. The Group has completed the lease-identification stage and is now working on simulating the impact that the application of this standard will have on its financial statements. The processing of data and the calculation of the impact this standard will have on the Group's financial statements will be carried out by a specific information system that will make it possible to generate the associated accounting entries.

The Group is not concerned by the new standards or the new amendments to the standards published and effective as of 1 January 2017, except for the amendment to IAS 7 "Information disclosure requirements", effective as of 1 January 2017. Note 8 to the financial statements has been amended accordingly.

#### 1.1. Use of estimates

The preparation of the consolidated financial statements in accordance with international accounting standards requires that the Group make a certain number of estimates and assumptions that may affect the value of the Group's assets, liabilities, equity and net profit (loss).

These estimates and assumptions mainly concern the measurement of goodwill and other intangible assets, provisions, pension obligations, deferred taxes and share-based payment. Estimates used by the Group in relation to these different areas are made on the basis of information available at the date the accounts are prepared and described in detail in each specific associated note.

## 1.2. Scope and methods of consolidation

All companies included in the scope of consolidation have a financial year ending 31 December or close their accounts on that date.

All companies directly or indirectly controlled by the parent company L'Oréal have been fully consolidated.

Group companies that are jointly controlled by the parent company and a limited number of other shareholders under a contractual agreement have been accounted for by the equity method in accordance with IFRS 11.

Associates over which the Group has a significant influence have been accounted for by the equity method.

## 1.3. Translation of the accounts of foreign subsidiaries

The assets and liabilities of foreign subsidiaries are translated at closing exchange rates. Income statement items are translated at average exchange rates for the year.

The resulting translation difference attributable to the Group is entered directly under equity under the item *Cumulative translation adjustments*, while the translation difference attributable to non-controlling interests is recognised under the *Non-controlling interests* item.

## 1.4. Valuation of goodwill in foreign currencies

Goodwill generated on foreign companies is considered to form part of the assets and liabilities of the foreign company, and is therefore expressed in the entity's functional currency and translated using exchange rates effective at the closing date. Goodwill recorded before 1 January 2004 continues to be recorded in euros.

### NOTE 2

## Main events of the period

### 2.1. Changes in the scope of consolidation

#### 2.1.1. Year 2017

##### a) Acquisitions

On 10 January 2017, L'Oréal announced the signing of a definitive agreement with Valeant to acquire the skincare brands CeraVe, AcneFree and Ambi for a cash purchase price of US \$1.3 billion.

CeraVe was founded in 2005 and offers a range of advanced skincare products, specifically cleansers, moisturisers, sunscreens, healing ointments and a dedicated baby line. Developed with dermatologists, CeraVe is one of the fastest growing skincare brands in the US with average growth over the past two years exceeding 20%. CeraVe's multi-channel distribution strategy includes drug stores, mass and beauty retailers, and select online outlets.

AcneFree markets and distributes, in the USA, a complete range of OTC skin-cleanser products that can be obtained without prescription, and acne-treatment products. Ambi distributes skincare products designed to meet the needs of multi-ethnic consumers. Both brands are distributed in drug stores, mass retailers and select online outlets.

These three brands generated combined annual sales of approximately US \$168 million in 2016.

CeraVe, AcneFree and Ambi will become part of L'Oréal's Active Cosmetics Division, which includes brands such as La Roche-Posay, Vichy and SkinCeuticals that are developed with

and endorsed by health professionals – dermatologists, paediatricians and other physicians.

This operation was finalised on 3 March 2017.

This acquisition has been fully consolidated since 3 March 2017.

On 2 May 2017, L'Oréal USA announced that SalonCentric has agreed to acquire key assets from Four Star Salon Services, a full-service wholesale distributor headquartered in Hauppauge, New York. This acquisition will provide SalonCentric, L'Oréal USA's professional salon distribution operation, with expanded distribution coverage of salon professional products within New York, New Jersey and Connecticut.

The acquisition will align Four Stars' field sales and stores with SalonCentric's field sales and store network. In total, 11 stores and various field positions that service approximately 3,500 salons will be included in the transaction.

This operation was finalized on 31 May 2017.

This acquisition has been fully consolidated since 31 May 2017.

The cost of these new acquisitions represents €1,252.8 million. The total amount of goodwill and other intangible assets resulting from these acquisitions has been provisionally estimated at €1,025.2 million and €198.4 million respectively. The allocation of the purchase price to the identifiable intangible assets of these acquisitions had not been finalised at 31 December 2017. In 2017, these acquisitions represent around €154.1 million in full-year net sales and €31.0 million in full-year operating profit.



## b) Other operation

On 9 June 2017, L'Oréal announced, following an extensive review of the strategic options for The Body Shop to ensure its best future development, having received a firm offer from Natura Cosméticos SA to acquire The Body Shop and has entered into exclusive discussions with Natura. The sale contract to Natura Cosméticos SA was signed on 27 June 2017.

After obtaining the necessary authorisations from the competent authorities, L'Oréal and Natura Cosméticos SA finalised the definitive agreement to sell The Body Shop to Natura on 7 September 2017, in accordance with the terms of the project communicated on 9 June 2017 (note 2.3.).

## 2.1.2. Year 2016

### Acquisitions

On 4 January 2016, L'Oréal USA announced the signing of an agreement to acquire key assets from Raylon Corporation, a fullservice wholesale distributor of salon professional products. The acquisition will expand SalonCentric's distribution coverage of salon professional products in Pennsylvania, New Jersey, Delaware, and portions of Maryland, West Virginia and New York, representing approximately 3,500 salons. This acquisition has been fully consolidated since 26 February 2016.

On 30 June 2016, L'Oréal announced the signature of an agreement to acquire Atelier Cologne. Launched in 2009, Atelier Cologne specialised in niche perfumery sold in selected retailers. This operation was finalised on 25 July 2016. This acquisition has been fully consolidated since 25 July 2016.

On 13 July 2016, L'Oréal has submitted a firm offer to Rivadis group for the acquisition of the Société des Thermes de Saint-Gervais-les-Bains and licence to use the Saint-Gervais Mont-Blanc brand. Based on this offer, the Rivadis group has granted exclusive negotiation rights to L'Oréal. This operation was finalised early-November and has been fully consolidated since 1 November 2016.

On 22 July 2016, L'Oréal announced the signing of a definitive agreement to acquire IT Cosmetics, one of the fastest growing prestige beauty brands in the United States for a cash purchase price of US \$1.2 billion. For last 12 months prior to the acquisition, IT Cosmetics had net sales of US \$182 million. Founded by Jamie Kern Lima and Paulo Lima and co-owned by TSG Consumer Partners, IT Cosmetics was developed with leading plastic surgeons to provide women with innovative, problem-solving skincare and makeup products that empower them to feel confident and beautiful. This operation was finalised on 31 August 2016. This acquisition has been fully consolidated since 31 August 2016.

The cost of these new acquisitions amounted to €1,238.8 million. The total amount of goodwill and other intangible assets resulting from the acquisitions amounted to €932.5 million and €286.3 million, respectively. In 2016, these acquisitions represented €224.5 million in full-year net sales and €51.5 million in full-year operating profit.

## 2.1.3. Year 2015

### a) Acquisitions

On 8 September 2014, L'Oréal announced that it had signed an agreement to acquire Niely Cosméticos. Founded in 1981 by Daniel Fonseca de Jesus, Niely Cosméticos is the largest independent hair colouration and hair care company in Brazil, one of the world's largest hair colour and hair care markets. With a net revenue of 406 million Brazilian Reals (€130 million) in 2014, the Niely Cosméticos Group has two main brands: Cor & Ton for hair colouration and Niely Gold for shampoos and care. Furthermore, Niely Cosméticos has industrial and logistical facilities in Nova Iguaçu, in the State of Rio. The approval granted by the local regulatory authorities was confirmed in early January 2015. On 31 March 2015, L'Oréal finalised the acquisition of Niely Cosméticos. This acquisition has been fully consolidated since 1 April 2015.

On 3 February 2015, The Body Shop announced the completion of the deal to acquire the assets of Adidem Pty Limited, the Company operating The Body Shop Australia since 1983. This acquisition will move the fifth biggest The Body Shop market's retail sales from a Franchise operation to a Company-Owned market. This acquisition has been fully consolidated since 2 February 2015.

The cost of these new acquisitions amounted to €380.5 million. The total amount of goodwill and other intangible assets resulting from the acquisitions was €348.0 million and €24.5 million, respectively. These acquisitions represent around €183.1 million in full-year net sales and €0.9 million in full-year operating profit.

### b) Other operation

In late November 2014, L'Oréal and Nestlé announced their intention to end the operations of their joint venture Innéov. On 24 April 2015, Nestlé Skin Health announced that Galderma, its company focused on medical solutions, would acquire certain assets of Innéov Group to serve as the foundation for its entry into the nutraceutical market. This operation was finalised on 30 June 2015.

## 2.2. Impact of changes in the scope of consolidation in the cash flow statement

In 2017, this item mainly related to the acquisitions of CeraVe and the assets of Four Star Salon Services, as well as the sale of The Body Shop to Natura.

In 2016, this item mainly related to the acquisitions of Raylon, IT Cosmetics, Atelier Cologne and Thermes Saint-Gervais.

In 2015, this item mainly related to the acquisition of Niely Cosmetics.

## 2.3 Discontinued operations and assets and liabilities held for sale

On 9 June 2017, L'Oréal announced, following an extensive review of the strategic options for The Body Shop to ensure its best future development, having received a firm offer from Natura Cosmetics SA to acquire The Body Shop and has entered into exclusive discussions with Natura. The sale contract to Natura Cosmetics SA was signed on 27 June 2017.

After obtaining the necessary authorisations from the competent authorities, L'Oréal and Natura Cosmetics SA finalised the definitive agreement to sell The Body Shop to Natura on 7 September 2017, in accordance with the terms of the project communicated on 9 June 2017.

The Body Shop business has been accounted for as a *business held for sale* as of 30 June 2017.

Consequently, The Body Shop business is shown within *discontinued operations* in the consolidated income statements and in the consolidated statements of cash flows for all periods presented. Transactions carried out between The Body Shop group companies and other consolidated companies have been eliminated. At 31 December 2016, The Body Shop was financed by Group cash for an amount of €53.3 million. Other intragroup transactions are not material.

The notes to the income statements have been adjusted for The Body Shop business for all periods presented.

### 2.3.1. Income statements from discontinued operations (The Body Shop)

€ millions	2017	2016	2015
Net sales	524.7	920.8	967.2
Operating profit	-15.7	35.6	55.3
Net profit from discontinued operations <sup>(1)</sup>	-240.1	25.3	46.8

(1) Of which - €13.7 million in profits generated during the period until the disposal. The effective sale of this business generated a disposal loss net of expenses amounting to -€226.4 million, including a mechanical exchange loss of -€245.3 million.

### 2.3.2. Statements of cash flows from discontinued operations (The Body Shop)

€ millions	2017	2016	2015
Net cash provided by operating activities	-36.7	43.9	75.2
Cash flows from investing activities	-24.4	-51.8	-99.5
Cash flows from financing activities	71.5	-3.5	6.5
<b>NET CASH (USED IN) FROM DISCONTINUED OPERATIONS</b>	<b>10.4</b>	<b>-11.4</b>	<b>-17.8</b>

## 2.4. Situation in Venezuela

Our subsidiaries in Venezuela were deconsolidated at 31 December 2015 for the following reasons:

- ◆ an increasingly difficult economic situation in the country;
- ◆ constraints imposed by the government restricting our operations and limiting our scope for taking and implementing operational decisions;

- ◆ currency fluctuations making the operations of our subsidiaries no longer material.

The deconsolidation of our Venezuelan subsidiaries is reflected by a negative €107.2 million impact shown in *Other non-recurring income and expenses* in our 2015 consolidated financial statements.

The situation did not improve in 2017 and our Venezuelan subsidiaries are currently accounted for using the cost model.

NOTE 3

## Operating items – Segment information

### ACCOUNTING PRINCIPLES

#### Net sales

Net sales are recognised when the risks and rewards inherent to ownership of the goods have been transferred to the customer.

Sales incentives, cash discounts and product returns are deducted from sales, as are incentives granted to distributors or consumers resulting in a cash outflow, such as commercial cooperation, coupons, discounts and loyalty programmes.

Sales incentives, cash discounts, provisions for returns and incentives granted to customers are recorded simultaneously to the recognition of the sales if they can be estimated in a reasonably reliable manner, based mainly on statistics compiled from past experience and contractual conditions.

#### Cost of sales

The cost of goods sold consists mainly of the industrial production cost of products sold, the cost of distributing products to customers including freight and delivery costs, either directly or indirectly through depots, inventory impairment costs, and royalties paid to third parties.

#### Research and development expenditure

Expenditure during the research phase is charged to the income statement for the financial year during which it is incurred.

Expenses incurred during the development phase are recognised as *Intangible assets* only if they meet all the following criteria set out in IAS 38:

- ◆ the project is clearly defined and the related costs are separately identified and reliably measured;
- ◆ the technical feasibility of the project has been demonstrated;
- ◆ the intention and ability to complete the project and to use or sell the products resulting from the project have been demonstrated;
- ◆ the resources necessary to complete the project and to use or sell it are available;

- ◆ the Group can demonstrate that the project will generate probable future economic benefits, as the existence of a potential market for the production resulting from the project, or its internal usefulness has been demonstrated.

In view of the very large number of development projects and uncertainties concerning the decision to launch products relating to these projects, L'Oréal considers that some of these capitalisation criteria are not met.

#### Advertising and promotion expenses

These expenses consist mainly of expenses relating to the advertisement and promotion of products to customers and consumers. They are charged to the income statement for the financial year in which they are incurred.

#### Selling, general and administrative expenses

These expenses relate mainly to sales teams and sales team management, marketing teams and administrative services, as well as general expenses and the costs of share-based payment (stock options and free shares).

#### Operating profit

Operating profit consists of gross profit less research and development expenses, advertising and promotion expenses, and selling, general and administrative expenses.

#### Property, plant and equipment

Property, plant and equipment are recorded on the balance sheet at their acquisition cost and are not subject to revaluation.

Significant capital assets financed through capital leases, which transfer to the Group substantially all of the risks and rewards inherent to their ownership, are recorded as assets on the balance sheet. The corresponding debt is recorded within Borrowings and debt on the balance sheet.

Investment subsidies are recorded as liabilities under *Other current liabilities*.

The components of property, plant and equipment are recorded separately if their estimated useful lives, and therefore their depreciation periods, are materially different.

Property, plant and equipment are depreciated using the straight-line method, over the following useful lives:

Buildings	10-40 years
Industrial machinery and equipment	5-15 years
Point-of-sales advertising: stands and displays	3 years
Other tangible assets	3-10 years

Depreciation and impairment losses are recorded in the income statement according to the use of the asset.

In view of their nature, property, plant and equipment are considered to have a value of zero at the end of the useful lives indicated above.

## Inventories

Inventories are valued at the lower of cost or net realisable value. Cost is calculated using the weighted average cost method.

A provision is made for obsolete and slow-moving inventories on the basis of their probable net realisable value, estimated on the basis of historic and projected data.

## Trade accounts receivable

Accounts receivable from customers are recorded at their nominal value, which corresponds to their fair value.

A provision is made for any doubtful receivables based on an assessment of the risk of non-recovery.

The Group's policy is to recommend credit insurance coverage when this is allowed by local regulations.

## 3.1. Segment information

### 3.1.1 Segment information

The Group's business activities are organised into four Operational Divisions. In its markets, each Operational Division develops and enhances a range of its own brand of consumer products:

- ◆ the Professional Products Division, which, for over 100 years, has acquired extensive knowledge of, and provided tailored support solutions for, the hairdressing sector. It has built up a unique brand portfolio which currently includes L'Oréal Professionnel, Kérastase, Redken, Matrix, Blolage, Pureology, Decléor and Carita;
- ◆ the Consumer Products Division, the growth of which is underpinned by four major global brands (L'Oréal Paris, Garnier, Maybelline New York and NYX Professional Makeup), and by the deployment of its specialised and regional brands (Essie, Niely, Dark and Lovely, etc.);
- ◆ L'Oréal Luxe has built a unique portfolio of prestigious brands including iconic mainstream, aspirational, alternative and specialist brands (Lancôme, Yves Saint Laurent Beauté, Giorgio Armani Beauty, Kiehl's, Urban Decay, Biotherm, Ralph Lauren, IT Cosmetics);

- ◆ the Active Cosmetics Division, whose goal is to help everyone in their quest to have healthy and beautiful skin. Its portfolio of highly complementary brands (Vichy, La Roche-Posay, SkinCeuticals, and Roger&Gallet) is designed to keep pace with major skincare trends and recommendations of healthcare professionals. The recent acquisition of the US brand CeraVe has recently added to this portfolio.

The non-allocated item includes expenses incurred by the Functional Divisions, fundamental research and the costs of stock options not allocated to the Operational Divisions. It also includes activities that are auxiliary to the Group's core businesses, such as insurance, reinsurance and banking.

As of 1 July 2016, the Asian Travel Retail business of the Consumer Products Division, previously recorded under the Western Europe Zone, was transferred to the Asia, Pacific Zone. All figures for earlier periods have been restated to allow for this change.

As of 31 December 2017, The Body Shop ceased to be an Operational Division following the definitive sales agreement signed at the beginning of September 2017 (note 2.3.) The information below has been restated accordingly.

The performance of each Operational Division is measured on the basis of operating profit.

€ millions	Sales	Operating profit	Operational assets <sup>(1)</sup>	Investments in property, plant and equipment and intangible assets	Depreciation, amortisation and provisions
<b>2017</b>					
Professional Products	3,350.4	669.4	3,126.1	86.5	160.3
Consumer Products	12,118.7	2,419.0	8,975.6	626.9	582.1
L'Oréal Luxe	8,471.7	1,855.8	6,459.8	335.6	395.6
Active Cosmetics	2,082.9	471.2	2,247.9	47.6	68.5
<b>OPERATIONAL DIVISIONS TOTAL</b>	<b>26,023.7</b>	<b>5,415.4</b>	<b>20,809.4</b>	<b>1,096.6</b>	<b>1,206.5</b>
Non-allocated		-739.1	827.3	159.1	107.7
<b>GROUP</b>	<b>26,023.7</b>	<b>4,676.3</b>	<b>21,636.7</b>	<b>1,255.7</b>	<b>1,314.2</b>

(1) Operational assets mainly include goodwill, intangible assets and property, plant and equipment, trade accounts receivable and inventories.

€ million		Operating profit	Operational assets <sup>(1)</sup>	Investments in property, plant and equipment and intangible assets	Depreciation, amortisation and provisions
2016	Sales				
Professional Products	3,399.7	688.6	3,410.9	125.7	149.2
Consumer Products	11,993.4	2,417.1	9,462.2	659.8	534.4
L'Oréal Luxe	7,662.4	1,622.8	6,507.0	335.8	374.9
Active Cosmetics	1,860.7	431.5	1,101.2	56.3	60.6
<b>OPERATIONAL DIVISIONS TOTAL</b>	<b>24,916.3</b>	<b>5,160.0</b>	<b>20,481.2</b>	<b>1,177.6</b>	<b>1,119.1</b>
Non-allocated		-653.9	834.2	177.5	123.7
<b>GROUP</b>	<b>24,916.3</b>	<b>4,506.1</b>	<b>21,315.5</b>	<b>1,355.0</b>	<b>1,242.8</b>

(1) Operational assets mainly include goodwill, intangible assets and property, plant and equipment, trade accounts receivable and inventories.

€ millions		Operating profit	Operational assets <sup>(1)</sup>	Investments in property, plant and equipment and intangible assets	Depreciation, amortisation and provisions
2015	Sales				
Professional Products	3,399.7	678.5	3,342.4	127.5	154.9
Consumer Products	11,844.2	2,385.8	9,057.4	539.7	511.7
L'Oréal Luxe	7,230.0	1,497.5	5,235.6	305.4	300.1
Active Cosmetics	1,816.3	414.7	991.5	49.7	54.7
<b>OPERATIONAL DIVISIONS TOTAL</b>	<b>24,290.2</b>	<b>4,976.4</b>	<b>18,626.9</b>	<b>1,022.2</b>	<b>1,021.4</b>
Non-allocated		-643.5	759.3	119.6	127.4
<b>GROUP</b>	<b>24,290.2</b>	<b>4,332.9</b>	<b>19,386.2</b>	<b>1,141.8</b>	<b>1,148.8</b>

(1) Operational assets mainly include goodwill, intangible assets and property, plant and equipment, trade accounts receivable and inventories.

Operational assets can be reconciled to the 2017, 2016 and 2015 balance sheets as follows:

€ millions	2017	2016	2015
<b>Operational assets</b>	<b>21,636.7</b>	<b>21,315.5</b>	<b>19,386.2</b>
Non-current financial assets	8,766.2	9,306.5	9,410.9
Investments in associates	1.1	1.0	1.0
Deferred tax assets	530.3	548.3	547.9
Other current assets	1,358.2	1,468.5	1,584.1
Cash and cash equivalents	3,046.6	1,746.0	1,399.8
<b>Non-allocated assets</b>	<b>13,702.4</b>	<b>13,070.3</b>	<b>12,943.7</b>
The Body Shop assets	-	1,244.4	1,381.4
<b>TOTAL ASSETS</b>	<b>35,339.1</b>	<b>35,630.2</b>	<b>33,711.3</b>

### 3.1.2. Information by geographic zone

All information is presented on the basis of geographic location of the subsidiaries.

#### 3.1.2.1. Consolidated net sales by geographic zone

	2017		Growth (%)		2016 <sup>(1)(2)</sup>		2015 <sup>(1)(2)</sup>	
	€ millions	% of total	Published data	Excluding exchange effect	€ millions	% of total	€ millions	% of total
Western Europe	8,125.3	31.2%	1.5%	2.6%	8,008.0	32.1%	7,968.4	32.8%
of which France	2,444.6	9.4%	-0.9%	-0.9%	2,467.4	9.9%	2,552.6	10.5%
North America	7,350.5	28.2%	3.5%	5.3%	7,098.8	28.5%	6,654.4	27.4%
New Markets	10,547.8	40.5%	7.5%	8.4%	9,809.5	39.4%	9,667.4	39.8%
Asia Pacific	6,151.8	23.6%	9.2%	11.4%	5,635.4	22.6%	5,537.9	22.8%
Latin America	1,952.9	7.5%	6.2%	5.2%	1,838.0	7.4%	1,871.3	7.7%
Eastern Europe	1,750.8	6.7%	11.4%	8.6%	1,571.5	6.3%	1,530.4	6.3%
Africa, Middle East	692.4	2.7%	-9.4%	-7.1%	764.5	3.1%	727.9	3.0%
<b>GROUP</b>	<b>26,023.7</b>	<b>100.0%</b>	<b>4.4%</b>	<b>5.7%</b>	<b>24,916.3</b>	<b>100.0%</b>	<b>24,290.2</b>	<b>100.0%</b>

(1) 2016 and 2015 sales are presented in order to reflect the impact of discontinued operations (note 2.3).

(2) As of 1 July 2016, the Asian Travel Retail business of the Consumer Products Division, previously recorded under the Western Europe Zone, was transferred to the Asia Pacific Zone. All figures for earlier periods have been restated to allow for this change.

## 3.1.2.2. Breakdown of operating profit of Operational Divisions by geographic zone

€ millions	2017	2016 <sup>(1)(2)</sup>	2015 <sup>(1)(2)</sup>
Western Europe	1,860.4	1,831.5	1,800.5
North America	1,411.3	1,392.3	1,256.8
New Markets	2,143.6	1,936.2	1,919.2
<b>OPERATIONAL DIVISIONS TOTAL</b>	<b>5,415.4</b>	<b>5,160.0</b>	<b>4,976.4</b>
Non-allocated	-739.1	-653.9	-643.6
<b>GROUP</b>	<b>4,676.3</b>	<b>4,506.1</b>	<b>4,332.9</b>

(1) Operating profit for 2016 and 2015 is presented in order to reflect the impact of discontinued operations (see note 2.3.).

(2) As of 1 July 2016, the Asian Travel Retail business of the Consumer Products Division, previously recorded under the Western Europe Zone, was transferred to the Asia, Pacific Zone. All figures for earlier periods have been restated to allow for this change.

## 3.1.2.3. Breakdown of operational assets and consolidated investments by geographic zone

€ millions	2017		2016		2015	
	Operational assets	Investments in property, plant and equipment and intangible assets	Operational assets	Investments in property, plant and equipment and intangible assets	Operational assets	Investments in property, plant and equipment and intangible assets
Western Europe	8,600.9	371.7	7,867.3	378.2	7,368.5	323.8
North America	6,929.2	346.9	7,017.2	399.0	5,913.3	308.9
New Markets	5,279.3	378.0	5,596.7	400.3	5,345.0	389.6
Non-allocated	827.3	159.2	834.2	177.5	759.3	119.6
<b>GROUP</b>	<b>21,636.7</b>	<b>1,255.7</b>	<b>21,315.5</b>	<b>1,355.0</b>	<b>19,386.2</b>	<b>1,141.8</b>
The Body Shop assets	-	24.1	1,244.4	51.5	1,381.4	40.0
<b>GROUP (INCLUDING THE BODY SHOP)</b>	<b>21,636.7</b>	<b>1,279.8</b>	<b>22,559.9</b>	<b>1,406.6</b>	<b>20,767.6</b>	<b>1,181.9</b>

## 3.2. Depreciation and amortisation expense and Property, plant and equipment

## 3.2.1. Depreciation and amortisation expense

Depreciation and amortisation of property, plant and equipment and intangible assets included in operating expenses amounted to €1,169.4 million (€1,147.6 million excluding The Body Shop), €1,028.4 million (€985.3 million excluding The Body Shop) and €963.0 million (€921.4 million excluding The Body Shop) respectively, for 2017, 2016 and 2015.

## 3.2.2. Property, plant and equipment

€ millions		Acquisitions/ Depreciation	Disposals/ Reversals	Translation difference	Other movements <sup>(1)</sup>	
2017	31.12.2016					31.12.2017
Land and buildings	2,254.7	69.5	-33.4	-91.0	-38.1	2,161.7
Machinery and equipment	3,423.3	185.1	-90.3	-160.4	81.4	3,439.2
Point-of-sales advertising: stands and displays	2,073.3	424.8	-245.5	-148.6	-122.4	1,981.6
Other property, plant and equipment and fixed assets in progress	1,789.5	384.7	-103.2	-123.7	-239.1	1,708.1
<b>Gross value</b>	<b>9,540.8</b>	<b>1,064.1</b>	<b>-472.4</b>	<b>-523.7</b>	<b>-318.2</b>	<b>9,290.7</b>
Land and buildings	1,163.4	77.2	-32.1	-37.5	-71.2	1,099.9
Machinery and equipment	2,328.5	268.7	-88.2	-102.4	-4.5	2,402.2
Point-of-sales advertising: stands and displays	1,412.8	409.4	-245.0	-97.7	-109.5	1,369.9
Other property, plant and equipment	879.2	164.8	-102.3	-61.5	-32.6	847.6
<b>Depreciation and provisions</b>	<b>5,783.9</b>	<b>920.1</b>	<b>-467.6</b>	<b>-299.1</b>	<b>-217.8</b>	<b>5,719.6</b>
<b>Property, plant and equipment – Net</b>	<b>3,756.9</b>	<b>144.0</b>	<b>-4.8</b>	<b>-224.6</b>	<b>-100.4</b>	<b>3,571.1</b>

(1) These mainly include the impact of changes in the scope of consolidation and fixed assets in progress allocated to other fixed assets.

€ millions						
2016	31.12.2015	Acquisitions/ Depreciation	Disposals/ Reversals	Translation difference	Other movements <sup>(1)</sup>	31.12.2016
Land and buildings	2,223.4	70.9	-84.3	-9.5	54.3	2,254.7
Machinery and equipment	3,204.0	219.9	-121.8	29.9	91.4	3,423.3
Point-of-sales advertising: stands and displays	1,896.5	410.7	-287.5	13.5	40.1	2,073.3
Other property, plant and equipment and fixed assets in progress	1,579.2	494.6	-110.5	22.8	-196.6	1,789.5
<b>Gross value</b>	<b>8,903.1</b>	<b>1,196.0</b>	<b>-604.1</b>	<b>56.7</b>	<b>-10.9</b>	<b>9,540.8</b>
Land and buildings	1,154.9	78.6	-73.1	-0.5	3.5	1,163.4
Machinery and equipment	2,196.3	250.6	-118.8	27.0	-26.7	2,328.5
Point-of-sales advertising: stands and displays	1,320.0	375.3	-287.2	4.8	-	1,412.8
Other property, plant and equipment	828.5	142.3	-110.0	7.6	10.9	879.2
<b>Depreciation and provisions</b>	<b>5,499.6</b>	<b>846.8</b>	<b>-589.1</b>	<b>38.9</b>	<b>-12.4</b>	<b>5,783.9</b>
<b>Property, plant and equipment – Net</b>	<b>3,403.5</b>	<b>349.2</b>	<b>-15.0</b>	<b>17.8</b>	<b>1.4</b>	<b>3,756.9</b>

(1) These mainly include the impact of changes in the scope of consolidation and fixed assets in progress allocated to other fixed assets.

€ millions						
2015	31.12.2014	Acquisitions/ Depreciation	Disposals/ Reversals	Translation difference	Other movements <sup>(1)</sup>	31.12.2015
Land and buildings	2,146.2	56.7	-36.3	25.5	31.3	2,223.4
Machinery and equipment	3,005.0	189.8	-131.1	31.8	108.4	3,204.0
Point-of-sales advertising: stands and displays	1,622.8	345.3	-189.9	58.6	59.7	1,896.5
Other property, plant and equipment and fixed assets in progress	1,379.9	404.7	-71.2	36.8	-170.9	1,579.2
<b>Gross value</b>	<b>8,153.9</b>	<b>996.6</b>	<b>-428.5</b>	<b>152.6</b>	<b>28.5</b>	<b>8,903.1</b>
Land and buildings	1,100.7	78.6	-33.0	14.0	-5.3	1,154.9
Machinery and equipment	2,054.1	239.6	-129.5	26.2	5.9	2,196.3
Point-of-sales advertising: stands and displays	1,117.8	339.9	-189.6	39.6	12.3	1,320.0
Other property, plant and equipment	740.2	128.2	-69.8	27.7	2.2	828.5
<b>Depreciation and provisions</b>	<b>5,012.8</b>	<b>786.2</b>	<b>-421.9</b>	<b>107.4</b>	<b>15.1</b>	<b>5,499.6</b>
<b>Property, plant and equipment – net</b>	<b>3,141.1</b>	<b>210.4</b>	<b>-6.6</b>	<b>45.2</b>	<b>13.4</b>	<b>3,403.5</b>

(1) These mainly include the impact of changes in the scope of consolidation and fixed assets in progress allocated to other fixed assets.

Property, plant and equipment include capital lease contracts for the following amounts:

€ millions	31.12.2017	31.12.2016	31.12.2015
Land and buildings	10.7	56.7	64.1
Machinery and equipment	-	-	2.7
Other property, plant and equipment and fixed assets in progress	21.3	25.1	30.0
<b>Gross value</b>	<b>32.0</b>	<b>81.8</b>	<b>96.8</b>
Depreciation	19.6	51.1	61.2
<b>Net value</b>	<b>12.5</b>	<b>30.7</b>	<b>35.6</b>

### 3.3. Inventories, Trade accounts receivable and Other current assets

#### 3.3.1. Inventories

€ millions	31.12.2017	31.12.2016	31.12.2015
Finished products and consumables	2,302.2	2,446.4	2,191.3
Raw materials, packaging and semi-finished products	507.4	550.3	517.4
<b>Gross value</b>	<b>2,809.6</b>	<b>2,996.8</b>	<b>2,708.7</b>
Valuation allowance	315.0	298.2	268.0
<b>Inventories – net</b>	<b>2,494.6</b>	<b>2,698.6</b>	<b>2,440.7</b>

#### 3.3.2. Trade accounts receivable

€ millions	31.12.2017	31.12.2016	31.12.2015
Gross value	3,969.8	3,993.4	3,677.8
Valuation allowance	46.4	51.6	50.1
<b>Net book value</b>	<b>3,923.4</b>	<b>3,941.8</b>	<b>3,627.7</b>

Trade accounts receivable are due within one year. Group policy is to recommend credit insurance coverage as far as local conditions allow.

The non-collection risk on trade receivables is therefore minimised, and this is reflected in the level of the allowance, which is less than 2% of gross receivables at the end of 2017.

#### 3.3.3. Other current assets

€ millions	31.12.2017	31.12.2016	31.12.2015
Tax and employee-related receivables (excluding income tax) <sup>(1)</sup>	546.2	548.6	544.9
Prepaid expenses	295.8	312.0	300.4
Derivatives	240.5	254.2	283.0
Current financial assets <sup>(2)</sup>	23.6	49.5	101.7
Other current assets	287.7	256.1	256.9
<b>TOTAL</b>	<b>1,393.8</b>	<b>1,420.4</b>	<b>1,486.9</b>

(1) Including the €189.5 million fine paid in April 2015 following the decision of the competition authority in France (note 11.2.2.b).

(2) Nestlé repaid €43.9 million of loans in July and August 2016.

### 3.4. Other current liabilities

€ millions	31.12.2017	31.12.2016	31.12.2015
Tax and employee-related payables (excluding income tax)	1,268.8	1,301.1	1,241.8
Credit balances on trade receivables	944.6	855.0	841.7
Fixed asset payables	178.5	196.5	156.3
Derivatives	190.5	330.4	205.4
Other current liabilities	241.5	171.4	152.1
<b>TOTAL</b>	<b>2,823.9</b>	<b>2,854.4</b>	<b>2,597.3</b>

### 3.5. Changes in working capital

This caption amounts to €261.1 million, €4.3 million and -€217.5 million respectively in 2017, 2016 and 2015, and can be analysed as follows:

€ millions	2017	2016	2015
Inventories	-82.6	-196.4	-110.0
Trade accounts receivable	-266.7	-238.4	-275.2
Trade accounts payable	317.1	169.9	395.7
Other receivables and payables	293.3	269.2	-228.0
<b>TOTAL</b>	<b>261.1</b>	<b>4.3</b>	<b>-217.5</b>



NOTE 4

## Other operational income and expenses

### ACCOUNTING PRINCIPLES

#### Other income and expenses

The *Other income and expenses* item includes capital gains and losses on disposals of property, plant and equipment and intangible assets, impairment of assets, restructuring costs, and clearly identified, non-recurring income and expense items that are material to the consolidated financial statements.

The cost of restructuring operations is fully provisioned if it results from a group obligation towards a third party originating from a decision taken by a competent body which is announced to the third parties concerned before the end of the reporting period. This cost consists mainly of

severance payments, early retirement payments, the cost of unworked notice periods, the costs of training for employees affected by the restructuring measures, and other costs relating to site closures. Any write-offs of fixed assets or impairment charged against inventories and other assets related directly to these restructuring measures are also recorded as restructuring costs.

#### Operational profit

Operational profit is calculated based on operating profit and includes other income and expenses such as capital gains and losses on disposals of property, plant, and equipment and intangible assets, impairment of assets, and restructuring costs.

This item breaks down as follows:

€ millions	2017	2016	2015
Capital gains and losses on disposals of property, plant and equipment and intangible assets <sup>(1)</sup>	3.9	16.2	-0.2
Impairment of property, plant and equipment and intangible assets <sup>(2)</sup>	-	-447.2	-
Restructuring costs <sup>(3)</sup>	-262.5	-99.3	-83.3
Other <sup>(4)</sup>	-17.8	-11.0	-105.0
<b>TOTAL</b>	<b>-276.3</b>	<b>-541.3</b>	<b>-188.5</b>

(1) Including, in 2016, €17.7 million in capital gains on sales of buildings in the Paris region in connection with the geographical concentration of business operations in France.

(2) In 2016, the Magic brand and goodwill (€49.0 million (€36.7 million after tax) and €162.7 million respectively), as well as Clarisonic goodwill (€235.5 million) (note 7).

(3) Of which:

- in 2017, the repositioning of Clarisonic's distribution activities (€10.0 million), the discontinuance of several Selective Division brands in countries where they are dilutive (€26.4 million), the reorganisation of activities in Brazil to cope with the difficult economic environment (€50.3 million), the reorganisation of IT structures in Europe (€9.2 million) as well as various projects to rationalise sales teams and operational and administrative structures in Western Europe (€29.4 million), the restructuring of the activities of the Consumer Products Division in China (€58.2 million), the pooling of the "international marketing" Divisions of the Global Selective Divisions on one site (€33.9 million), the launch of the Professional Products Division global transformation plan (€21.8 million), the pooling of accounting activities in several geographic zones (€7.7 million), as well as the continued reorganisation of the French business activities of the four Divisions (€12.4 million);
- in 2016, the geographical concentration of the French commercial entities of the four Divisions at a single site and the associated reorganisation (€45.4 million), uniting of Operations and Research & Innovation at a single site (€3.5 million), the rescaling of subsidiaries in Germany and Switzerland (€12.1 million), the discontinuance of the Matrix brand in Brazil (€4.3 million), the ongoing reorganisation of NYX Professional Makeup distribution activities (€3.8 million), the integration of Magic's corporate support functions with those of L'Oréal China, the reorganisation of Magic distribution activities (€27.2 million), and the streamlining of production of Clarisonic products (€5.2 million);
- in 2015, the reorganisation of logistics activities for the Luxe business in Northern Europe (€13.1 million), the combination of headquarters in Milan in Italy and the reorganisation of logistics activities (€5.8 million), the reorganisation of Nordic teams around Denmark (€7.6 million), the completion of the reorganisation of logistics activities in Spain, which now include the Professional Products Division, along with the reorganisation of the Consumer Products sales team (€15.8 million), the reduction in headcount in Argentina as a result of the country's economic difficulties (€10.9 million), the write-down of a research building in Chicago, United States (€2.7 million), the reorganisation of Decléor and Carita distribution activities (€19.1 million) and NYX Professional Makeup distribution activities (€8.6 million), and the discontinuance of our operations in Nigeria (€3.9 million).

(4) Including:

- in 2017, acquisition-related costs (€12.9 million), as well as adjustments made to the opening balance sheet of Atelier Cologne (€4.5 million);
- in 2016, reversals of provisions for contingencies recognised in the opening balance sheet of NYX Professional Makeup, Magic and Niely at the time of the acquisition (€6.9 million), offset by acquisition-related costs (€20.3 million);
- in 2015, the deconsolidation of the Venezuelan subsidiary (€107.2 million) (note 2.4.), the reversal of the provision for liabilities in an amount of €9.2 million following the out-of-court settlement reached with the Belgian competition authority in June 2015, the additional €1 million following the termination of the proceedings with the German competition authority, acquisition-related costs (€8.9 million) and the upward revision of the 2014 exceptional "solidarity" tax on high salaries (€1.2 million).

**NOTE 5** Number of employees, personnel costs and employee benefits**5.1. Number of employees**

	31.12.2017	31.12.2016	31.12.2015
Western Europe	28,555	27,579	26,445
North America	14,363	14,118	12,915
New Markets	39,688	38,044	33,909
<b>TOTAL <sup>(1) (2)</sup></b>	<b>82,606</b>	<b>79,741</b>	<b>73,269</b>

(1) Excluding employees of equity-accounted companies.

(2) Excluding the impact of The Body Shop which accounted for 9,590 employees in 2016 and 9,612 in 2015.

**5.2. Personnel costs**

€ millions	2017	2016	2015
<b>Personnel costs (including welfare contributions) <sup>(1) (2)</sup></b>	<b>5,433.5</b>	<b>5,182.6</b>	<b>4,967.5</b>

(1) Excluding personnel costs of equity-accounted companies.

(2) Excluding personnel costs related to The Body Shop which amounted to €255.3 million in 2016 and €255.5 million in 2015.

Personnel costs include the pension expense (excluding the interest component), the cost of any share-based payments (stock options and free shares), and payroll taxes.

**5.3. Executive compensation**

Costs recorded in respect of compensation and similar benefits granted to the Management Committee and the Board of Directors can be analysed as follows:

€ millions	2017	2016	2015
Directors' fees	1.3	1.2	1.2
Salaries and benefits including employer welfare contributions	32.3	29.9	30.6
Employee retirement obligation charges	9.7	15.6	17.3
Share-based payment (stock option and free shares)	26.1	24.1	25.8

The number of executives who were members of the Management Committee was 15 at 31 December 2017, the same as at 31 December 2016 and compared to 16 at 31 December 2015.

## 5.4. Post-employment benefits, termination benefits and other long-term employee benefits

### ACCOUNTING PRINCIPLES

The Group operates pension, early retirement and other benefit schemes depending on local legislation and regulations.

For obligatory state schemes and other defined-contribution schemes, the Group recognises in the income statement contributions payable when they are due. No provision has been set aside in this respect as the Group's obligation does not exceed the amount of contributions paid.

The characteristics of the defined benefit schemes in force within the Group are as follows:

- ◆ French regulations provide for specific length-of-service awards payable to employees on retirement. An early retirement plan and a defined benefit plan have also been set up. In some Group companies there are also measures providing for the payment of certain healthcare costs for retired employees. These obligations are partially funded by an external fund, except those relating to healthcare costs for retired employees;
- ◆ for foreign subsidiaries with employee pension schemes or other specific obligations relating to defined benefit plans, the excess of the projected benefit obligation over the scheme's assets is recognised by setting up a provision for charges on the basis of the actuarial value of employees' vested rights.

The charges recorded in the income statement during the year include:

- ◆ service cost, *i.e.* additional rights vested by employees during the accounting period;
- ◆ the impact of any change to existing schemes on previous years or of any new schemes;
- ◆ interest cost, *i.e.* change in the value of the discounted rights over the past year;
- ◆ income on external funds calculated on the basis of the discount rate applied to the benefit obligation.

The latter two items represent the interest component of the pension expense. The interest component is shown within Finance Result on the *Other financial income and expenses* line.

To determine the discounted value of the obligation for each scheme, the Group applies an actuarial valuation method based on the final salary (projected unit credit method). The obligations and the fair value of plan assets are assessed each year using length-of-service, life expectancy, staff turnover by category and economic assumptions (such as inflation rate and discount rate).

The calculation method used for 2016 and previous financial years involves discounting the cash flows related to the various plans using a single interest rate. As interest rates have dropped sharply over the past few years, in 2017 the Group used a simplified granular approach to calculate its service cost for the period. Under this simplified approach, two different discount rates are used to calculate the obligation and the service cost based on the duration of the future cash flows relating to each of these items. This change does not affect the calculation of the overall obligation but reduced service cost, primarily for the US and France in 2017 owing to durations exceeding those of the obligation and the interest rate yield curve in these countries. Interest cost continues to be calculated by applying to plan assets the discount rate used for the obligation and by applying the differential interest rate to service cost for the period.

Actuarial gains and losses arising on post-employment defined benefit obligations are recognised in equity.

Actuarial gains and losses in relation to other benefits such as jubilee awards and long-serve bonuses are immediately charged to the income statement.

The liability corresponding to the Company's net defined benefit obligation regarding its employees is recorded in the balance sheet on the *Provisions for employee retirement obligation and related benefits* line.

The actuarial assumptions used to calculate these obligations take into account the economic conditions specific to each country or Group company. The main weighted average assumptions for the Group are as follows:

In %	31.12.2017	31.12.2016	31.12.2015
Discount rate (commitment)	2.2%	2.4%	2.9%
Discount rate (cost of services rendered)*	2.5%	2.4%	2.9%
Salary increases	3.6%	3.9%	4.5%

\* Used for the cost of services rendered for the following financial year.

	31.12.2017			31.12.2016		31.12.2015			
	Initial rate	Final rate	Application of final rate	Initial rate	Final rate	Application of final rate	Initial rate	Final rate	Application of final rate
Expected rate of health care inflation	5.7%	4.2%	2023	5.7%	4.2%	2021	5.8%	4.3%	2021

The discount rates are obtained by reference to market yields on high quality corporate bonds having maturity dates equivalent to those of the obligations.

Bond quality is assessed by reference to the AA-/Aa3 minimum rating provided by one of the three main credit-rating agencies.

Discount rates can be broken down by geographic zone as follows:

In %	2017	2016	2015
<b>Weighted average (all countries) based on the benefit obligation</b>	<b>2.2%</b>	<b>2.4%</b>	<b>2.9%</b>
of which:			
euro zone <sup>(1)</sup>			
Discount rate (commitment)	1.6%	1.8%	2.4%
Discount rate (cost of services rendered)*	1.9%	1.8%	2.4%
USA			
Discount rate (commitment)	3.3%	3.5%	3.8%
Discount rate (cost of services rendered)*	3.5%	3.5%	3.8%
United Kingdom			
Discount rate (commitment)	2.5%	2.5%	3.8%
Discount rate (cost of services rendered)*	2.5%	2.5%	3.8%

(1) The weighted average for 2017 consists of a 1.7% discount rate on annuity plans with an average term of 19.6 years and a 1.5% discount rate on capital plans with an average term of 13.3 years.

\* Used for the cost of services rendered for the following financial year.

A 50 basis point decrease in the discount rates would increase the projected defined benefit obligation by €201.6 million for the euro zone, €62.7 million for the United States and €80.4 million for the United Kingdom.

The expected returns on plan assets are based on the discount rates used.

The breakdown of plan assets is as follows:

In %	31.12.2017	31.12.2016	31.12.2015
Equity securities <sup>(1)</sup>	42.1%	38.5%	39.2%
Bonds	49.3%	54.0%	52.4%
Property assets <sup>(2)</sup>	4.4%	4.1%	4.3%
Monetary instruments	2.6%	1.7%	2.7%
Other	1.7%	1.7%	1.4%
<b>TOTAL</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

(1) Of which L'Oréal shares: nil.

(2) Of which property assets occupied by Group entities: nil.

The allocation of plan assets has to comply with specific investment limits for the different classes of assets and meet minimum rating criteria for monetary instruments and bonds.

The variations during 2017, 2016 and 2015 are set out below:

€ millions	Present value of defined benefit obligation	Plan assets	Net provisions
<b>Balance at 31 December 2014</b>	<b>4,760.3</b>	<b>-3,280.6</b>	<b>1,479.7</b>
Service cost	180.0	-	180.0
Interest cost	136.1	-	136.1
Expected return on assets	-	-104.0	-104.0
Past service cost: new plans / plan amendments	-13.1	-	-13.1
Curtailments	-13.2	-	-13.2
Settlements	-96.5	94.5	-2.0
Benefits paid	-251.5	190.7	-60.8
Contributions paid	4.3	-228.0	-223.7
Actuarial gains and losses	-600.2	2.3	-597.9
Translation differences	151.8	-130.0	21.8
Other movements	-3.3	7.6	4.3
<b>Balance at 31 December 2015</b>	<b>4,254.7</b>	<b>-3,447.5</b>	<b>807.2</b>
Service cost	173.4	-	173.4
Interest cost	128.5	-	128.5
Expected return on assets	-	-108.2	-108.2
Past service cost: new plans / plan amendments	2.8	-	2.8
Curtailments	-20.5	-	-20.5
Settlements	-	-	-
Benefits paid	-187.5	125.4	-62.1
Contributions paid	6.4	-234.1	-227.7
Actuarial gains and losses	126.5	-125.2	1.3
Translation differences	-41.3	58.0	16.7
Other movements <sup>(1)</sup>	33.8	-33.4	0.4
<b>Balance at 31 December 2016</b>	<b>4,476.8</b>	<b>-3,765.1</b>	<b>711.8</b>
Service cost	170.2	-	170.2
Interest cost	105.0	-	105.0
Expected return on assets	-	-88.6	-88.6
Past service cost: new plans / plan amendments	2.2	-	2.2
Curtailments	-20.8	-	-20.8
Settlements	-94.8	96.1	1.3
Benefits paid	-192.6	131.1	-61.5
Contributions paid	6.6	-210.1	-203.5
Actuarial gains and losses	-37.9	-242.1	-280.0
Translation differences	-187.8	153.8	-34.0
Other movements	-5.1	5.0	-0.2
<b>BALANCE AT 31 DECEMBER 2017</b>	<b>4,221.7</b>	<b>-3,919.8</b>	<b>301.9</b>

(1) Including in 2016, an amendment to a pension plan in Germany (change from a defined contribution plan to a defined benefit plan) for €40.5 million following the decrease in interest rates.

The total present value of defined benefit obligations breaks down as follows between wholly or partly funded plans and wholly unfunded plans:

€ millions	31.12.2017	31.12.2016	31.12.2015
Present value of defined benefit obligations wholly or partly funded	3,843.2	4,049.3	3,732.5
Fair value of plan assets	3,919.8	3,765.1	3,447.5
Net position of defined benefit obligations wholly or partly funded	-76.6	284.2	285.0
Present value of defined benefit obligations wholly unfunded	378.5	427.5	522.2

The retirement expense charged to the income statement is recorded within personnel expenses for the operating part and within financial costs for the financial part and can be analysed as follows:

€ millions	2017	2016 <sup>(1)</sup>	2015 <sup>(1)</sup>
Service cost	170.2	173.4	180.0
Interest cost	105.0	128.5	136.1
Expected return on plan assets	-88.6	-108.2	-104.0
New plans/plan amendments	2.2	2.8	-13.1
Curtailments	-20.8	-20.5	-13.2
Settlements	1.3	-	-2.0
<b>TOTAL</b>	<b>169.2</b>	<b>176.0</b>	<b>183.8</b>

(1) Including The Body Shop.

Contributions to defined contribution plans recognised as an expense for 2017, 2016 and 2015 amounted to €463.1 million, €463.1 million (€435.6 million excluding The Body Shop) and €446.5 million (€417.1 million excluding The Body Shop) respectively.

A change of 1% point in medical cost inflation would have the following impact:

€ millions	Increase of 1%	Decrease of 1%
Impact on projected benefit obligation	12.8	-10.6
Impact on current service cost and interest costs	0.5	-0.4

Actuarial gains and losses for the periods presented are as follows:

€ million	Present value of defined benefit obligation	Plan assets	Net provisions
<b>2017</b>			
Actuarial gains and losses: experience adjustments	-31.7	-242.1	-273.8
Actuarial gains and losses: demographic assumptions	-15.1	-	-15.1
Actuarial gains and losses: financial assumptions	9.0	-	9.0
<b>TOTAL</b>	<b>-37.9</b>	<b>-242.1</b>	<b>-280.0</b>

€ million	Present value of defined benefit obligation	Plan assets	Net provisions
<b>2016</b>			
Actuarial gains and losses: experience adjustments	-55.5	-125.2	-180.7
Actuarial gains and losses: demographic assumptions	-9.1	-	-9.1
Actuarial gains and losses: financial assumptions	191.1	-	191.1
<b>TOTAL</b>	<b>126.5</b>	<b>-125.2</b>	<b>1.3</b>

€ million	Present value of defined benefit obligation	Plan assets	Net provisions
<b>2015</b>			
Actuarial gains and losses: experience adjustments	-101.3	2.3	-99.0
Actuarial gains and losses: demographic assumptions	-140.4	-	-140.4
Actuarial gains and losses: financial assumptions	-358.5	-	-358.5
<b>TOTAL</b>	<b>-600.2</b>	<b>2.3</b>	<b>-597.9</b>

## 5.5. Stock subscription or purchase options - Free shares

### ACCOUNTING PRINCIPLES

In accordance with the requirements of IFRS 2 "Share-based payment", the value of options or free shares granted as calculated at the grant date is expensed in the income statement over the vesting period, which is generally 5 years for purchase options and 4 years for free shares.

The fair value of stock options is determined using the Black & Scholes model. This model takes into account the characteristics of the plan such as the exercise price and exercise period, and market data at the grant date such as the risk-free rate, share price, volatility, expected dividends and behavioural assumptions regarding 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. The cost of the additional 2-year holding period applicable to French residents, for plans prior to 1 January 2016, is determined based on the interest rate granted to the employee, considered equivalent to the rate which would be granted by a bank to a private individual customer with an average financial profile.

The impact of IFRS 2 on profit for the period is booked on the *Selling, general and administrative expenses* line of the income statement at Group level, and is not allocated to the Divisions or geographic zones.

#### a) Share subscription or purchase options

The table below sets out data concerning option plans in force at 31 December 2017.

Grant date	Number of options	Number of options not yet exercised	Exercise period		Exercise price
			from	to	
30.11.2007	4,000,000	-	01.12.2012	30.11.2017	€91.66
25.03.2009	3,650,000	333,148	26.03.2014	25.03.2019	€50.11
27.04.2010	4,200,000	1,292,620	28.04.2015	27.04.2020	€80.03
22.04.2011	1,470,000	608,007	23.04.2016	22.04.2021	€83.19

All plans have a 5-year exercise period and no performance-related conditions, except the 22 April 2011 plan (for all participants) and the 27 April 2010 and 25 March 2009 plans (for members of the Management Committee). All of the performance conditions of these plans have been definitively fulfilled.

The fair value of options is determined using the Black & Scholes method based on the following assumptions:

	Subscription options			
	November 2007	March 2009	April 2010	April 2011
Risk-free rate of return	4.01%	3.15%	2.83%	3.42%
Expected life span	7 years	7 years	7 years	8 years
Expected volatility	23.00%	31.95%	23.53%	22.60%
Expected dividends	1.24%	2.83%	1.86%	2.10%
Share price	€94.93	€50.94	€80.50	€85.68
Exercise price	€91.66	€50.11	€80.03	€83.19
Fair value	€25.88	€12.16	€17.17	€18.58

Expected volatility is equal to the implied volatility of the options listed on MONEP at the grant dates. As from 2007, in order to mitigate the effects of atypical phenomena, the volatility used corresponds to the average between implied volatility at the grant date and historic volatility over the expected life span of the option. The expected life span has been adjusted to take account of behavioural assumptions relating to the beneficiaries.

Data concerning all share option plans during fiscal years 2015, 2016 and 2017 are set out below:

	31.12.2017		31.12.2016		31.12.2015	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
<b>Number of options not exercised at beginning of period</b>	<b>3,798,051</b>	<b>€77.04</b>	<b>5,933,374</b>	<b>€77.61</b>	<b>10,770,989</b>	<b>€75.28</b>
♦ Options granted	-	-	-	-	-	-
♦ Options exercised	-1,509,576	€78.40	-2,080,123	€78.65	-4,808,115	€72.39
♦ Options expired	-54,700	-	-55,200	-	-29,500	-
<b>Number of options not exercised at end of period</b>	<b>2,233,775</b>	<b>€76.43</b>	<b>3,798,051</b>	<b>€77.04</b>	<b>5,933,374</b>	<b>€77.61</b>
of which:						
♦ number of exercisable options at end of period	2,233,775	€76.43	3,798,051	€77.04	4,704,874	€76.16
♦ expired options at end of period	-	-	-	-	3,000	-

The weighted average share price was €181.49, €163.04 and €162.95 respectively for 2017, 2016 and 2015.

The total charge recorded in 2016 and 2015 amounted to €1.6 million and €9.3 million respectively. No stock option plan expenses were recognised in 2017.

## b) Free shares

The table below summarises data relating to the free share plan.

Share subscription plans	Grant date		Number of shares granted	Number of shares issued/allotted	Number of shares not fully vested
	Share purchase plans	Vesting date			
	22.04.2011	23.04.2015	1,038,000	939,300	
	17.04.2012	18.04.2016	1,325,050	1,233,900	
	26.04.2013	27.04.2017	1,057,820	988,180	
17.04.2014		18.04.2018	1,068,565	1,050	1,015,515
22.04.2015		23.04.2019	860,150	675	830,325
20.04.2016		21.04.2020	906,100	125	898,150
20.04.2017		21.04.2021	906,000	-	906,000

For the conditional grant of shares, the plan provides for a 4-year vesting period after which vesting is effective and final, subject to meeting the conditions of the plan. After this vesting period, a 2-year mandatory holding period applies for French residents, for plans prior to 1 January 2016, during which the shares cannot be sold.

The performance conditions concern for the 20 April 2017, 20 April 2016, 22 April 2015 and 17 April 2014 plans:

- ♦ for 50% of shares granted, the increase in comparable Cosmetic revenues in relation to growth in revenues for a panel of competitors:
  - the 2018, 2019 and 2020 fiscal years under the 2017 plan,
  - the 2017, 2018 and 2019 fiscal years under the 2016 plan,
  - the 2016, 2017 and 2018 fiscal years under the 2015 plan,
  - the 2015, 2016 and 2017 fiscal years under the 2014 plan;
- ♦ for 50% of shares granted, the increase over the same period in Group consolidated operating profit.

The calculation will be based on the arithmetic average of the performance in the:

- ♦ 2018, 2019 and 2020 fiscal years under the 2017 plan;
- ♦ 2017, 2018 and 2019 fiscal years under the 2016 plan;
- ♦ 2016, 2017 and 2018 fiscal years under the 2015 plan;
- ♦ 2015, 2016 and 2017 fiscal years under the 2014 plan.

and will use a predefined allocation scale based on the performance percentage achieved. No performance condition applies below a block of 200 shares.

A total of 936,300 shares, 1,230,850 shares and 986,220 shares were definitively granted, respectively, on 23 April 2015 under the 22 April 2011 plan, on 18 April 2016 under the 17 April 2012 plan and on 27 April 2017 under 26 April 2013 plan.

At 31 December 2017, the performance conditions were deemed to have been met.



The fair value of free share awards is determined using the following assumptions:

Grant date	Stock purchase plans				Stock subscription plans		
	April 2011	April 2012	April 2013	April 2014	April 2015	April 2016	April 2017
Risk-free rate of return	2.60%	1.43%	0.50%	0.65%	-0.02%	-0.06%	-0.35%
Discount for post-vesting transfer restrictions for French employees	8.54%	8.06%	5.75%	4.46%	1.70%	n/a	n/a
Expected dividends	2.10%	2.14%	1.76%	2.06%	1.52%	1.85%	1.82%
Share price	€85.68	€93.68	€130.45	€121.35	€177.10	€168.10	€181.75
<b>Fair value</b>							
♦ Employees resident in France	€70.36	€77.07	€112.37	€104.58	€161.49	€154.32	€166.90
♦ Employees not resident in France	€77.67	€84.62	€119.87	€109.99	€164.50	€154.32	€166.90

The expense recorded in 2017, 2016 and 2015 amounted to €126.7 million, €118.8 million and €108.4 million, respectively

## NOTE 6 Income tax

### ACCOUNTING PRINCIPLES

The income tax charge includes the current tax expense payable by each consolidated tax entity and the deferred tax expense. Deferred tax is calculated whenever there are temporary differences between the tax basis of assets and liabilities and their basis for consolidated accounting purposes, using the balance sheet liability method.

The restatement of assets and liabilities linked to capital lease contracts results in the booking of deferred tax.

Deferred tax includes irrecoverable taxation on estimated or confirmed dividends.

Deferred tax is measured using the tax rate enacted at the closing date and which will also apply when the temporary differences reverse.

Deferred tax assets generated by tax loss carryforwards are only recognised to the extent it is probable that the entities will be able to generate taxable profit against which they can be utilised.

Under the French system of tax consolidation, the taxable profits of some French companies are offset when determining the overall tax charge, which is payable only by L'Oréal, the parent company of the tax Group. Tax consolidation systems also exist outside France.

### 6.1. Detailed breakdown of income tax

€ millions	2017	2016	2015
Current tax	1,096.1	1,127.2	1,157.9
Deferred tax	-194.8	86.5	71.6
<b>INCOME TAX</b>	<b>901.3</b>	<b>1,213.7</b>	<b>1,229.4</b>

## 6.2. Analysis of tax charge

The income tax charge may be analysed as follows:

€ millions	2017	2016	2015
<b>Profit from continuing operations before tax and associates</b>	<b>4,727.0</b>	<b>4,297.1</b>	<b>4,477.2</b>
Theoretical tax rate	28.95%	28.91%	30.15%
<b>Expected tax charge</b>	<b>1,368.3</b>	<b>1,242.5</b>	<b>1,349.9</b>
Impact of permanent differences <sup>(1)</sup>	0.5	131.7	1.5
Impact of tax rate differences <sup>(2)</sup>	-305.9	-164.6	-116.1
Change in unrecognised deferred taxes	-21.2	9.3	12.0
Other <sup>(3)</sup>	-140.4	-5.2	-17.9
<b>GROUP TAX CHARGE</b>	<b>901.3</b>	<b>1,213.7</b>	<b>1,229.4</b>

(1) In 2016, this amount included €130.5 million relating to impairment losses recognised against Clarisonic and Magic (note 4.1.).

(2) Including in 2017, profits of €147 million relative to the impact on deferred tax balances of the decrease in the tax rate from 38.25% to 24.95% in the USA, and €35 million and €45 million respectively in 2017 and 2016 relative to the impact on deferred tax balances of the decrease in the tax rate from 34.43% to 25.83% planned in France by 2022.

(3) Including tax credits, taxes on dividend distributions, tax reassessments and provisions for tax liabilities.

- including, in 2017, €211.1 million related to the 3% tax on dividends paid, following the claim filed for the 2013 to 2017 financial years, net of charges paid in June 2017 in respect of 2017 in the amount of €55.7 million. This account also includes a charge of €62 million relating to an exceptional and additional contribution of 30% in France;
- including, in 2016, a charge of €52 million relating to the 3% tax on dividends paid as well as income of €57 million relating to claims filed in order to recover the share of costs and expenses levied on certain dividends paid to consolidated companies by companies based in the European Union;
- including, in 2015, a charge of €45 million relating to the 3% tax on dividends paid.

The expected tax charge reflects the sum of pre-tax profit for each country, multiplied by the normal taxation rate. The theoretical tax rate reflects the total expected tax charge as a percentage of pre-tax profit. The impact of any reduced tax rates existing in certain countries in addition to the normal tax rates is included on the line *Impact of tax rate differences*.

## 6.3. Deferred taxes in the balance sheet

The net change in deferred taxes (assets and liabilities) can be analysed as follows:

€ millions	
<b>Balance of deferred tax assets at 31 December 2014</b>	<b>834.0</b>
<b>Balance of deferred tax liabilities at 31 December 2014</b>	<b>-855.2</b>
Income statement impact (including The Body Shop)	-53.4
Translation differences	-47.1
Other effects <sup>(1)</sup>	-207.2
<b>Balance of deferred tax assets at 31 December 2015</b>	<b>547.9</b>
<b>Balance of deferred tax liabilities at 31 December 2015</b>	<b>-876.8</b>
Income statement impact (including The Body Shop)	-79.8
Translation differences	17.5
Other effects <sup>(1)</sup>	96.7
<b>Balance of deferred tax assets at 31 December 2016</b>	<b>548.3</b>
<b>Balance of deferred tax liabilities at 31 December 2016</b>	<b>-842.9</b>
Income statement impact (including The Body Shop)	197.2
Translation differences	12.7
Other effects <sup>(1)</sup>	18.0
<b>BALANCE OF DEFERRED TAX ASSETS AT 31 DECEMBER 2017</b>	<b>530.3</b>
<b>BALANCE OF DEFERRED TAX LIABILITIES AT 31 DECEMBER 2017</b>	<b>-597.0</b>

(1) Including mainly the deferred tax impact of currency hedging instruments recognised in equity, as well as the tax effect on actuarial gains and losses recognised in equity. 2017 and 2016 also take into account the impact of a decrease in the tax rate in France on the Group's stake in Sanofi for €16.6 million and €33 million, respectively, and, in 2017, the impact of the decrease in the rate on deferred taxes in the USA on currency hedges and an actuarial difference amounting to €26 million, as well as the impact of the sale of The Body Shop for €79 million.

Deferred tax assets and liabilities recorded in the balance sheet may be broken down as follows:

€ millions	31.12.2017		31.12.2016		31.12.2015	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Temporary differences	520.3	346.9	536.4	542.0	537.8	510.4
Deferred tax liabilities on revaluation of Sanofi		250.1		300.9		366.4
Tax credits and tax loss carry-forwards	10.0		11.9		10.1	
<b>DEFERRED TAX TOTAL</b>	<b>530.3</b>	<b>597.0</b>	<b>548.3</b>	<b>842.9</b>	<b>547.9</b>	<b>876.8</b>

Deferred tax assets on temporary differences mainly relate to provisions for pensions and early retirement (€77.2 million, €211.3 million and €196.8 million respectively at the end of 2017, 2016 and 2015) and provisions for liabilities and charges (€138.9 million, €153.4 million and €190.2 million at the end of 2017, 2016 and 2015).

Deferred tax liabilities on temporary differences mainly relate to intangible assets acquired in the context of business combinations other than non-tax-deductible goodwill.

Deferred tax assets whose recovery is not considered probable are not recorded in the financial statements; such assets amount to €35.5 million at 31 December 2017 compared with €102.5 million at 31 December 2016 and €79.2 million at 31 December 2015.

## NOTE 7 Intangible assets

### 7.1. Goodwill

#### ACCOUNTING PRINCIPLES

Business combinations are accounted for by the purchase method. The assets, liabilities and contingent liabilities of the Company acquired are measured at fair value at the acquisition date. Any valuation differences identified when the acquisition is carried out are recorded under the corresponding asset and liability items.

Any residual difference between the cost of an acquisition and the Group's interest in the fair value of the identified assets and liabilities is recorded as *Goodwill* and allocated to the Cash Generating Units expected to benefit from the acquisition or the related synergies.

Goodwill generated on the acquisition of an associate is presented in the *Investments in associates* line.

For business combinations carried out after 1 January 2010, the main changes with regard to previously applicable accounting principles are set out below:

- ♦ for each acquisition, the Group chooses whether to recognise the full amount of goodwill regardless of the ownership interest acquired, or an amount of goodwill corresponding to its interest in the acquired company (previously the only method allowed);

- ♦ deferred tax assets recognised after the initial accounting is complete are included in profit or loss, and in contrast to previous practices, the amount of goodwill that would have been recorded had the deferred tax asset been recognised as an identifiable asset at the acquisition date is not deducted;
- ♦ costs incurred in respect of a business combination are now expensed and no longer included in the cost of the acquisition;
- ♦ the cost of the acquisition, which includes contingent consideration, is recognised and measured at its acquisition-date fair value. Subsequent changes in fair value, affecting in particular the contingent consideration recorded in liabilities, are taken to *Other income and expenses* in the income statement and no longer treated as an adjustment to goodwill;
- ♦ any previous interest held in the acquiree prior to the date control was obtained is now remeasured at its acquisition-date fair value, with the corresponding gain or loss on remeasurement taken to the income;
- ♦ purchase commitments for minority interests are recognised in financial debt at the acquisition-date fair value. Subsequent changes in fair value of the commitment are recognised by adjusting equity.

Goodwill is allocated by Cash Generating Unit or by groups of Cash Generating Units. A Cash Generating Unit consists of one or more worldwide trademarks.

€ million				
2017	31.12.2016	Acquisitions/ Disposals	Other movements	31.12.2017
L'Oréal Professionnel/Kérastase	397.9	7.6	-25.2	380.3
Matrix	436.2		-44.6	391.5
Redken/PureOlogy	585.6	13.6	-59.6	539.6
Decléor and Carita	137.4			137.4
Other	3.4		-0.4	3.0
<b>Professional Products Total</b>	<b>1,560.4</b>	<b>21.2</b>	<b>-129.8</b>	<b>1,451.7</b>
L'Oréal Paris	870.5		-18.1	852.4
Maybelline/Garnier	1,291.7		-105.7	1,186.0
Magic Holdings	274.0		-16.8	257.2
LaSCAD	158.3			158.3
NYX Professional Makeup	345.1		-34.9	310.2
Niely	180.3		-24.7	155.6
Other	186.8		-18.0	168.8
<b>Consumer Products Total</b>	<b>3,306.7</b>		<b>-218.2</b>	<b>3,088.5</b>
Lancôme	800.3		-5.2	795.1
Shu Uemura	141.7		-12.4	129.3
YSL Beauté	519.8			519.8
Perfumes	447.8		6.2	453.9
L'Oréal Beauty Device <sup>(1)</sup>	73.9		-4.1	69.8
Urban Decay	161.1		-17.0	144.1
IT Cosmetics	812.4		-63.4	749.0
Other	65.6		-1.0	64.6
<b>L'Oréal Luxe Total</b>	<b>3,022.6</b>		<b>-96.9</b>	<b>2,925.6</b>
Vichy/Dermablend	285.5		-7.3	278.1
CeraVe	-	1,004.0	-61.0	943.0
Other	123.8		-8.1	115.7
<b>Active Cosmetics Total</b>	<b>409.2</b>	<b>1,004.0</b>	<b>-76.4</b>	<b>1,336.8</b>
Other	83.9		-14.3	69.6
<b>The Body Shop</b>	<b>409.8</b>	<b>-382.4</b>	<b>-27.5</b>	<b>-</b>
<b>GROUP TOTAL</b>	<b>8,792.5</b>	<b>642.9</b>	<b>-563.1</b>	<b>8,872.3</b>

(1) This Cash Generating Unit mainly concerns Clarisonic.

2017 acquisitions mainly relate to CeraVe and Four Star Salon Services for €1,025.2 million.

2017 disposals mainly relate to The Body Shop on 7 September 2017 (see note 2.3.). This sale generated a write-off of goodwill for a value of -€382.4 million.

Other movements mainly reflect the negative currency impact of €580.9 million.

The accumulated impairment losses relating to L'Oréal Beauty Device, Magic, Softsheen-Carson, Yue-Sai and Sanoflore amount to €218.3 million, €153.1 million, €141.4 million, €31.1 million and €35.7 million respectively at 31 December 2017.

€ million				
2016	31.12.2015	Acquisitions/ Disposals	Other movements	31.12.2016
L'Oréal Professionnel/Kérastase	388.4	2.7	6.7	397.9
Matrix	426.3		9.9	436.2
Redken/PureOlogy	565.4	4.8	15.4	585.6
Decléor and Carita	137.4			137.4
Other	3.3		0.1	3.4
<b>Professional Products Total</b>	<b>1,520.8</b>	<b>7.5</b>	<b>32.1</b>	<b>1,560.4</b>
L'Oréal Paris	795.0	13.6	61.8	870.5
Maybelline/Garnier	1,215.1		76.6	1,291.7
Magic Holdings	453.9		-179.9	274.0
LaSCAD	158.3			158.3
NYX Professional Makeup	336.1	0.1	9.0	345.1
Niely	232.2		-51.9	180.3
Other	180.7		6.1	186.8
<b>Consumer Products Total</b>	<b>3,371.3</b>	<b>13.7</b>	<b>-78.3</b>	<b>3,306.7</b>
Lancôme	803.0		-2.7	800.3
Shu Uemura	133.0		8.7	141.7
YSL Beauté	519.8			519.8
Perfumes	334.8	112.9		447.8
L'Oréal Beauty Device <sup>(1)</sup>	311.9		-238.0	73.9
Urban Decay	156.7		4.4	161.1
IT Cosmetics	-	779.5	32.9	812.4
Other	65.4		0.3	65.6
<b>L'Oréal Luxe Total</b>	<b>2,324.6</b>	<b>892.4</b>	<b>-194.5</b>	<b>3,022.6</b>
Vichy/Dermablend	283.3		2.2	285.5
Other	121.7		2.1	123.8
<b>Active Cosmetics Total</b>	<b>405.0</b>	<b>-</b>	<b>4.3</b>	<b>409.2</b>
Other	80.0		3.9	83.9
<b>The Body Shop</b>	<b>449.9</b>	<b>-</b>	<b>-40.0</b>	<b>409.8</b>
<b>GROUP TOTAL</b>	<b>8,151.5</b>	<b>913.6</b>	<b>-272.5</b>	<b>8,792.5</b>

(1) This Cash Generating Unit mainly concerns Clarisonic.

2016 acquisitions mainly relate to IT Cosmetics, Atelier Cologne, the Thermes Saint-Gervais and the American distributor Raylon for €913.6 million.

Goodwill amounting to €232.2 million and resulting from the acquisition of Niely was allocated to the L'Oréal Paris CGU for €51.6 million and to the Maybelline/Garnier CGU for €45.1 million, based on expected synergies.

No significant disposals took place during 2016.

Other movements mainly reflect the positive impact of changes in exchange rates for €117.4 million, as well as the recognition of impairment losses against L'Oréal Beauty Device (€235.6 million) and against Magic (€162.7 million) (note 7.3.).

The accumulated impairment losses relating to L'Oréal Beauty Device, Magic, Softsheen-Carson, Yue-Sai and Sanoflore amounted to €246.3 million, €163.1 million, €158.8 million, €33.1 million and €35.7 million respectively at 31 December 2016.

€ million				
2015	31.12.2014	Acquisitions/ Disposals	Other movements	31.12.2015
L'Oréal Professionnel/Kérastase	364.6	4.8	19.0	388.4
Matrix	391.0		35.3	426.3
Redken/PureOlogy	518.5		46.9	565.4
Decléor and Carita	136.5		0.8	137.4
Other	-		3.3	3.3
<b>Professional Products Total</b>	<b>1,410.6</b>	<b>4.8</b>	<b>105.3</b>	<b>1,520.8</b>
L'Oréal Paris	782.1	7.4	5.5	795.0
Maybelline/Garnier	1,141.4	6.0	67.7	1,215.1
Magic Holdings	427.1		26.8	453.9
LaSCAD	158.3			158.3
NYX Professional Makeup	304.7		31.4	336.1
Niely	-	286.4	-54.2	232.2
Other	175.4		5.3	180.7
<b>Consumer Products Total</b>	<b>2,989.0</b>	<b>299.8</b>	<b>82.5</b>	<b>3,371.3</b>
Lancôme	797.5		5.5	803.0
Shu Uemura	119.9		13.1	133.0
YSL Beauté	519.8			519.8
Perfumes	334.8			334.8
L'Oréal Beauty Device <sup>(1)</sup>	285.2		26.7	311.9
Urban Decay	142.6		14.1	156.7
Other	64.5		0.9	65.4
<b>L'Oréal Luxe Total</b>	<b>2,264.3</b>	<b>-</b>	<b>60.3</b>	<b>2,324.6</b>
Vichy/Dermablend	272.9	4.8	5.6	283.3
Other	114.9		6.7	121.7
<b>Active Cosmetics Total</b>	<b>387.8</b>	<b>4.8</b>	<b>12.3</b>	<b>405.0</b>
Other currencies	84.3		-4.3	80.0
<b>The Body Shop</b>	<b>389.4</b>	<b>51.6</b>	<b>8.9</b>	<b>449.9</b>
<b>GROUP TOTAL</b>	<b>7,525.5</b>	<b>361.1</b>	<b>265.0</b>	<b>8,151.5</b>

(1) This Cash Generating Unit mainly concerns Clarisonic.

2015 acquisitions mainly relate to Niely and The Body Shop Australia for €337.9 million.

No significant disposals took place during 2015.

Other movements mainly reflect the positive impact of changes in exchange rates for €272.9 million.

The accumulated impairment losses relating to Softsheen-Carson, Yue-Sai and Sanoflore amount to €152.6 million, €34.4 million and €35.7 million respectively at 31 December 2015.

## 7.2. Other intangible assets

### ACCOUNTING PRINCIPLES

Intangible assets are recorded on the balance sheet at cost. Intangible assets identified following an acquisition as well as internally generated intangible assets are also included in this item.

#### a) Intangible assets acquired through business combinations

They mainly consist of trademarks, customer relationships and formulas and patents.

With regard to trademarks, the use of the discounted cash flow method is preferred to enable the value in use to be monitored more easily following the acquisition. Two approaches have been adopted to date:

- ◆ **premium-based approach:** this method involves estimating the portion of future cash flows that could be generated by the trademark, compared with the future cash flows that the activity could generate without the trademark;
- ◆ **royalty-based approach:** this involves estimating the value of the trademark by reference to the levels of royalties demanded for the use of similar trademarks based on sales forecasts drawn up by the Group.

These approaches are based on a qualitative analysis of the trademark in order to ensure that the assumptions selected are relevant. The discount rate used is based on the weighted average cost of capital (WACC) for the target acquired. Terminal growth rates are consistent with available market data (generally 2.5% for Europe and 3% for the rest of the world, except in specific cases).

A trademark may have a finite or an indefinite useful life span.

Local trademarks which are to be gradually replaced by an international trademark already existing within the Group have a finite useful life span.

They are amortised over their useful lives as estimated at the date of acquisition.

International trademarks are trademarks which have an indefinite life span. They are tested for impairment at least once a year during the fourth quarter, and whenever an adverse event occurs. Adverse events may result among other things from an increase in market interest rates or from a decrease in actual sales or operational profit compared to forecasts.

The impairment test consists of calculating the recoverable amount of the trademark based on the model adopted when the acquisition took place.

Customer relationships refer to relations developed with customers either through contractual arrangements or by non-contractual means through constant revenue streams resulting from the target's competitive position or reputation in its market.

The useful life of a customer relationship is limited and varies depending on the estimated attrition rate of existing customers at the time of the acquisition.

The Group may decide to identify and value patents and formulas that it intends to develop.

The value of a patent or a formula is assessed on the basis of the future profits expected from its ownership in the future, in accordance with the royalty-based approach.

The amortisation period applicable to patents corresponds to the period during which they enjoy legal protection. Formulas, which are not protected by legal means, are amortised over a maximum period of 5 years.

#### b) Internally generated intangible assets

These mainly consist of software.

The development costs of software for internal use are capitalised for the programming, coding and testing phases. The costs of substantial updates and upgrades resulting in additional functions are also capitalised.

Capitalised development costs are amortised from the date the software is made available in the entity concerned and over its probable useful life, which, in most cases, is between 5 and 8 years.

€ million						
2017	31.12.2016	Acquisitions/ Amortisation	Disposals/ Reversals	Change in the scope of consolidation <sup>(1)</sup>	Other movements	31.12.2017
Brands with indefinite useful life <sup>(2)</sup>	2,219.5	-	-	-260.3	-198.2	1,761.0
Amortisable brands and product ranges	117.9	0.1	-	1.0	-7.9	111.0
Licences and patents	323.6	0.4	-10.1	1.0	-6.7	308.3
Software	1,151.2	67.1	-44.9	-42.4	41.1	1,172.0
Customer relationships	606.8	-	-1.4	3.0	-65.8	542.6
Key money	82.3	7.7	-2.4	-36.9	2.2	53.0
Other	263.6	140.3	-27.3	-52.4	-125.8	198.5
<b>Gross value</b>	<b>4,765.0</b>	<b>215.7</b>	<b>-86.1</b>	<b>-387.0</b>	<b>-361.1</b>	<b>4,146.4</b>
Brands with indefinite useful life	165.5	-	-	-	-10.7	154.8
Amortisable brands and product ranges	79.8	4.1	-	-1.5	-4.2	78.2
Licences and patents	150.5	11.7	-10.1	-	-3.1	149.0
Software	804.5	127.7	-44.9	-26.9	-43.8	816.6
Customer relationships	290.9	96.6	-1.4	-	-36.5	349.6
Key money	19.5	4.7	-2.4	-14.0	0.7	8.6
Other	74.9	5.3	-26.8	-38.7	-4.3	10.4
<b>Amortisation and provisions</b>	<b>1,585.5</b>	<b>250.2</b>	<b>-85.5</b>	<b>-81.0</b>	<b>-101.9</b>	<b>1,567.4</b>
<b>Other intangible assets – net</b>	<b>3,179.4</b>	<b>-34.5</b>	<b>-0.6</b>	<b>-305.9</b>	<b>-259.2</b>	<b>2,579.1</b>

(1) This item consists mainly of changes in the scope of consolidation: The Body Shop and CeraVe.

(2) At 31 December 2017, brands with an indefinite useful life consist mainly of Matrix (€298.3 million), IT Cosmetics (€201.5 million), CeraVe (€173.7 million), Kiehl's (€132.4 million), Shu Uemura (€103.8 million), NYX Professional Makeup (€95.0 million), Clarisonic (€92.1 million), Decléor and Carita (€81.4 million), and Magic (€80.8 million).

Other movements mainly consisted of the negative change in exchange rates over the period of -€241.7 million.

Accumulated impairment losses amounted to €14.0 million on Biomedic, €42.6 million on Yue-Sai, €52.2 million on Softsheen-Carson and €46.1 million on Magic at 31 December 2017.

€ million						
2016	31.12.2015	Acquisitions/ Amortisation	Disposals/ Reversals	Change in the scope of consolidation <sup>(1)</sup>	Other movements	31.12.2016
Brands with indefinite useful life <sup>(2)</sup>	2,031.5	-	-	234.1	-46.0	2,219.5
Amortisable brands and product ranges	116.1	1.8	-	-	0.1	117.9
Licences and patents	319.6	2.6	-0.4	0.9	1.0	323.6
Software	1,031.2	87.2	-52.0	0.1	84.7	1,151.2
Customer relationships	539.5	-	-	55.2	12.0	606.8
Key money	70.0	12.1	-1.5	0.5	1.3	82.3
Other	232.2	106.9	-0.1	0.0	-75.4	263.6
<b>Gross value</b>	<b>4,340.1</b>	<b>210.6</b>	<b>-54.1</b>	<b>290.9</b>	<b>-22.5</b>	<b>4,765.0</b>
Brands with indefinite useful life	116.9	49.0	-	-	-0.3	165.51
Amortisable brands and product ranges	76.3	4.6	-	-	-1.1	79.8
Licences and patents	135.5	15.5	-0.5	0.3	-0.4	150.5
Software	739.6	109.5	-52.0	0.0	7.5	804.5
Customer relationships	241.1	41.0	-	0.0	8.7	290.9
Key money	17.1	3.8	-1.4	0.0	0.0	19.5
Other	70.8	7.0	-0.1	0.0	-2.8	74.9
<b>Amortisation and provisions</b>	<b>1,397.2</b>	<b>230.5</b>	<b>-54.0</b>	<b>0.3</b>	<b>11.6</b>	<b>1,585.5</b>
<b>Other intangible assets – net</b>	<b>2,942.9</b>	<b>-19.9</b>	<b>-0.2</b>	<b>290.6</b>	<b>-34.1</b>	<b>3,179.4</b>

(1) This item consists mainly of changes in the scope of consolidation resulting from IT Cosmetics.

(2) At 31 December 2016, brands with an indefinite useful life consist mainly of The Body Shop (€486.5 million), Matrix (€330.1 million), IT Cosmetics (€228.6 million), Kiehl's (€145.1 million), Magic (€135.2 million), Shu Uemura (€110.8 million), NYX Professional Makeup (€106.3 million), Clarisonic (€102.5 million) and Decléor and Carita (€81.4 million).

Other movements mainly consisted of the negative change in exchange rates over the period for -€29.8 million.

Accumulated impairment losses amounted to €14.0 million on Biomedic, €45.4 million on Yue-Sai, €57.0 million on Softsheen-Carson and €49.1 million on Magic at 31 December 2016.



€ million						
2015	31.12.2014	Acquisitions/ Amortisation	Disposals/ Reversals	Change in the scope of consolidation <sup>(1)</sup>	Other movements	31.12.2015
Brands with indefinite useful life <sup>(2)</sup>	1,875.6	-	-	28.6	127.3	2,031.5
Amortisable brands and product ranges	110.7	0.4	-	-	5.0	116.1
Licences and patents	288.0	14.0	-1.2	-	18.8	319.6
Software	906.5	62.0	-31.4	0.9	93.2	1,031.2
Customer relationships	479.5	-	-	13.8	46.2	539.5
Key money	64.7	6.8	-1.5	-	-0.1	70.0
Other	193.8	102.1	-1.2	2.9	-65.3	232.2
<b>Gross value</b>	<b>3,918.8</b>	<b>185.3</b>	<b>-35.3</b>	<b>46.2</b>	<b>225.1</b>	<b>4,340.1</b>
Brands with indefinite useful life	109.9	-	-	-	7.0	116.85
Amortisable brands and product ranges	69.3	4.8	-	-	2.2	76.3
Licences and patents	123.1	13.6	-1.2	-	-	135.5
Software	640.6	109.0	-31.4	0.8	20.6	739.6
Customer relationships	181.5	39.0	-	-	20.6	241.1
Key money	14.7	2.9	-0.4	-	-	17.1
Other	65.2	7.5	-1.7	-	-0.3	70.8
<b>Amortisation and provisions</b>	<b>1,204.2</b>	<b>176.8</b>	<b>-34.7</b>	<b>0.8</b>	<b>50.1</b>	<b>1,397.2</b>
<b>Other intangible assets – net</b>	<b>2,714.6</b>	<b>8.5</b>	<b>-0.6</b>	<b>45.4</b>	<b>175.0</b>	<b>2,942.9</b>

(1) This item consists mainly of changes in the scope of consolidation resulting from Niely and The Body Shop Australia.

(2) At 31 December 2015, brands with an indefinite useful life consist mainly of The Body Shop (€564.9 million), Matrix (€321.9 million), Kiehl's (€141.8 million), Magic (€140.4 million), Shu Uemura (€105.9 million), NYX Professional Makeup (€103.4 million), Clarisonic (€99.8 million) and Decléor and Carita (€81.4 million).

Other movements mainly consisted of the positive change in exchange rates over the period for €155.7 million as well as the allocation of the purchase price of Coloright acquired in 2014 (shown on the *Licences and patents* line for €16.4 million under the technology).

Accumulated impairment losses amount to €14.0 million on Biomedic, €47.2 million on Yue-Sai and €55.7 million on Softsheen-Carson at 31 December 2015.

### 7.3. Impairment tests on intangible assets

#### ACCOUNTING PRINCIPLES

Goodwill is not amortised. It is tested for impairment at least once a year during the fourth quarter or whenever an adverse event occurs. Adverse events may result among other things from an increase in market interest rates or from a decrease in actual sales or operational profit compared to forecasts.

Impairment tests consist of comparing the carrying amount of assets including goodwill with the recoverable amount of each Cash Generating Unit. A Cash Generating Unit corresponds to one or more worldwide brands. A Cash Generating Unit can contain several brands depending on organisational criteria and particularly when distribution circuits and commercial/management structures are pooled. Recoverable values are determined on the basis of discounted operating cash flow forecasts covering a period of 10 years (the period considered necessary for the strategic positioning of an acquisition) and a terminal value. The cash flows are determined in the currencies of the countries in question and are translated, in the same

way as the net carrying amounts to which they are compared, at the estimated exchange rate for the following year. The discount rate used for these calculations is based on the weighted average cost of capital (WACC), which amounts to 6.8% in 2017, to 6.8% in 2016 and 6.9% in 2015 for amounts in euro, adjusted where appropriate by a country risk premium according to the geographic zones concerned. The discount rates are post-tax rates applied to post-tax cash flows, and result in recoverable amounts identical to those obtained by applying pre-tax rates to pre-tax cash flows. The assumptions adopted in terms of sales growth and terminal values are reasonable and consistent with the available market data (generally 2.5% for Europe and 3% for the rest of the world for terminal values except in specific cases).

The use of discounted cash flow forecasts is preferred in order to determine recoverable amounts, unless details of similar recent transactions are readily available.

Impairment charged against goodwill cannot be reversed.

Impairment tests of Cash Generating Units for which the carrying amount of goodwill and intangible assets with indefinite useful lives is significant, are carried out based on the following data and assumptions:

€ millions	Net carrying amount of goodwill and brands with an indefinite useful life	Discount rate (%)	
		International excluding USA	USA
<b>2017 Test</b>			
Maybelline/Garnier	1,186.0	6.8	7.7
L'Oréal Paris	852.4	6.8	7.7
Lancôme	795.1	6.8	7.7
Matrix	689.8	6.8	7.7
Redken/PureOlogy	607.4	6.8	7.7
YSL Beauté	519.8	6.8	(1)
Perfumes/Helena Rubinstein/Atelier Cologne	470.2	6.8	7.7
NYX Professional Makeup	405.2	6.8	7.7
L'Oréal Professionnel/Kérastase	380.3	6.8	7.7
Magic	338.1	9.3	
Vichy/Dermablend	315.1	6.8	(1)
L'Oréal Beauty Device	161.9	6.8	7.7
<b>2016 Test</b>			
Maybelline/Garnier	1,291.7	6.8	7.8
The Body Shop	896.4	7.1	(1)
L'Oréal Paris	870.5	6.8	7.8
Lancôme	800.3	6.8	7.8
Matrix	766.2	6.8	7.8
Redken/PureOlogy	662.5	6.8	7.8
YSL Beauté	519.8	6.8	(1)
Perfumes/Helena Rubinstein/Atelier Cologne	464.1	6.8	7.8
NYX Professional Makeup	451.5	6.8	7.8
L'Oréal Professionnel/Kérastase	397.9	6.8	7.8
Magic	360.2	9.1	
Vichy/Dermablend	324.3	6.8	(1)
L'Oréal Beauty Device	176.4	6.8	7.8
<b>2015 Test</b>			
Maybelline/Garnier	1,215.1	6.9	8.1
The Body Shop	1,014.7	7.3	(1)
Lancôme	803.0	6.9	8.1
L'Oréal Paris	795.0	6.9	8.1
Matrix	748.2	6.9	8.1
Redken/PureOlogy	640.0	6.9	8.1
Magic	594.3	9.5	
YSL Beauté	519.8	6.9	(1)
L'Oréal Beauty Device	411.7	6.9	8.1
L'Oréal Professionnel/Kérastase	388.4	6.9	8.1
Vichy/Dermablend	321.7	6.9	(1)

(1) Since the USD amounts for the YSL Beauté, The Body Shop and the Vichy/Dermablend CGUs are not material, no specific discount rate has been used in this respect.

Impairment tests carried out on the two CGUs (L'Oréal Beauty Device and Magic) at 31 December 2017 did not lead to any change in the impairment losses recognised at 31 December 2017.

At 31 December 2017, a 1% increase in the discount rate on all Cash Generating Units of the Group would lead to an impairment loss risk of around €61.9 million.

The terminal growth rate is consistent in accordance with market data, i.e. 2.5% for Europe and 3% for the rest of the world.

A 1% decrease in the terminal growth rate on all Cash Generating Units of the Group would lead to an impairment loss risk of around €19.6 million.

A 1-point decrease in the margin rate over the business plan period on all Cash Generating Units of the Group would lead to an impairment loss risk of around €31.2 million.

NOTE 8

## Financial assets and liabilities – Cost of debt

### ACCOUNTING PRINCIPLES

#### Finance costs, net

Net financial debt consists of all current and non-current financial borrowings and debt, less cash and cash equivalents.

Net finance costs consist of income and expenses arising on the items making up net financial debt during the accounting period, including gains and losses on the corresponding interest rate and foreign exchange rate hedges. As interest rate derivatives are fully effective, no ineffectiveness impacts finance costs.

#### Borrowings and debts

Borrowings and debt are valued at amortised cost based on an effective interest rate.

In accordance with the principle of fair value hedge accounting, fixed-rate borrowings and debt swapped at a floating rate are valued on the balance sheet at market value. The resulting changes in value are recorded as finance costs and are offset by changes in the value of the related interest rate swaps.

The fair value of fixed-rate debt is determined by the discounted cash flow method using bond yield curves at the closing date, allowing for the spread corresponding to the Group's risk class to be taken into account.

The carrying amount of floating-rate debt is a reasonable approximation of its fair value.

Medium- and long-term borrowings and debt are recorded under *Non-current liabilities*. Short-term borrowings and debt and the current portion of medium- and long-term borrowings and debt are presented under *Current liabilities*.

#### Cash and cash equivalents

Cash and cash equivalents consist of cash in bank accounts, units of cash unit trusts and liquid short-term investments with a negligible risk of changes in value and a maturity date of less than three months at the date of acquisition.

Investments in shares and cash, which are held in an account blocked for more than three months, cannot be recorded under cash and are presented under *Other current assets*.

Bank overdrafts considered to be financing are presented in *Current borrowings and debt*.

Units of cash unit trusts are considered to be assets available-for-sale. As such, they are valued in the balance sheet at their market value at the closing date. Any related unrealised gains are accounted for in *Finance costs net* in the income statement.

The carrying amount of bank deposits is a reasonable approximation of their fair value.

#### Non-current financial assets

Non-current financial assets include investments in non-consolidated companies and long-term loans and receivables maturing after more than 12 months.

Investments in non-consolidated companies are considered to be financial assets available-for-sale. As such, they are valued on the basis of their fair value, and unrealised losses and gains are accounted for through equity on the line *Other comprehensive income*.

The fair value of listed securities is determined on the basis of the share price at the closing date. If the fair value of unlisted securities cannot be reliably determined, these securities are valued at cost.

If the unrealised loss accounted for through equity is representative of significant or prolonged impairment, this loss is recorded in the income statement.

Long-term loans and receivables are considered to be assets generated by the business. As such, they are valued at amortised cost. If there is an indication of a loss in value, a provision for impairment is recorded.

## 8.1. Borrowings and debt

The Group takes out bank loans to cover its medium-term financing needs and issues short-term marketable instruments in France and commercial paper in the US to cover its financing needs in the short term. None of the Group's borrowings or debt contains an early repayment clause linked to financial ratios (covenants).

### 8.1.1. Debt by type

€ millions	31.12.2017		31.12.2016		31.12.2015	
	Non-current	Current	Non-current	Current	Non-current	Current
Short-term marketable instruments	-	768.1	-	979.8	-	505.4
MLT bank loans	0.3	0.3	1.3	2.7	1.6	0.4
Debt on capital lease contracts	4.6	2.9	20.3	4.3	24.3	5.8
Overdrafts	-	261.0	-	36.7	-	57.3
Other borrowings and debt	8.6	128.7	9.3	210.2	14.9	172.1
<b>TOTAL</b>	<b>13.4</b>	<b>1,161.0</b>	<b>30.9</b>	<b>1,233.7</b>	<b>40.8</b>	<b>741.0</b>

### 8.1.2. Change in debt

€ millions	31.12.2016	Non-cash changes				31.12.2017
		Cash-flows	Changes in the scope of consolidation	Translation adjustments/differences	Changes in fair value	
Short-term marketable instruments	979.8	-112.5	-	-99.2	-	768.1
MLT bank loans	4.0	-3.2	-	-0.2	-	0.6
Debt on capital lease contracts	24.6	-4.4	-11.3	-1.4	-	7.5
Overdrafts	36.7	231.4	-1.0	-6.1	-	261.0
Other borrowings and debt	219.5	-64.1	-	-17.4	-0.7	137.3
<b>TOTAL</b>	<b>1,264.6</b>	<b>47.2</b>	<b>-12.3</b>	<b>-124.4</b>	<b>-0.7</b>	<b>1,174.4</b>

### 8.1.3. Debt by maturity date

€ millions	31.12.2017	31.12.2016	31.12.2015
Under 1 year <sup>(1)</sup>	1,161.0	1,233.7	741.0
1 to 5 years	4.2	12.1	24.7
Over 5 years	9.2	18.8	16.1
<b>TOTAL</b>	<b>1,174.4</b>	<b>1,264.6</b>	<b>781.8</b>

(1) At 31 December 2017, the Group had confirmed undrawn credit lines for € 3,675.2 million compared with €3,726.6 million at 31 December 2016 and €3,813.3 million at 31 December 2015. These lines were not subject to any covenants.

Estimated interest expense at 31 December 2017, as at 31 December 2016 and 2015, is not material given the outstanding debt at these dates, comprising short-term marketable instruments drawn at very short terms and at negative interest rates in France, very short-term miscellaneous borrowings contracted locally by subsidiaries, and finance lease liabilities.

These estimates are computed on the basis of the effective interest rate at the end of the financial year, after allowing for hedging instruments and assuming that no debt is rolled over at maturity. Amounts payable under capital leases are not taken into account as they are not material.

#### 8.1.4. Debt by currency

€ millions	31.12.2017	31.12.2016	31.12.2015
Euro (EUR)	378.2	21.8	127.2
US Dollar (USD)	630.2	989.1	415.5
Colombian Peso (COP)	29.4	14.6	2.2
Brazilian Real (BRL) <sup>(1)</sup>	27.6	93.9	41.6
Chinese Yuan Renminbi (CNY)	19.2	46.8	55.4
Chilean Peso (CLP)	18.7	10.7	-
Egyptian Pound (EGP)	13.6	11.9	24.4
Indonesian Rupiah (IDR)	9.2	21.7	21.8
South African Rand (ZAR)	7.5	7.8	-
Kenyan Shilling (KES)	6.6	7.6	6.5
Argentine Peso (ARS)	2.5	-	-
British Pound (GBP)	2.2	15.0	18.7
Turkish Lira (TRY)	-	5.2	3.0
Other	29.5	18.5	65.5
<b>TOTAL</b>	<b>1,174.4</b>	<b>1,264.6</b>	<b>781.8</b>

(1) Including €5.1 million in amounts due to non-controlling interests in 2015 in respect of the Emporio Body Store acquisition.

#### 8.1.5. Breakdown of fixed and floating rate debt (after allowing for interest rate hedging instruments)

€ millions	31.12.2017	31.12.2016	31.12.2015
Floating rate	1,132.3	1,202.6	748.9
Fixed rate	42.1	62.1	32.9
<b>TOTAL</b>	<b>1,174.4</b>	<b>1,264.6</b>	<b>781.8</b>

#### 8.1.6. Effective interest rates

Effective interest rates on Group debt after allowing for hedging instruments are 0.94% in 2017 compared with 0.68% in 2016 and 0.22% in 2015 for short-term marketable instruments.

Bank loans amounted to €0.6 million at 31 December 2017 compared with €4.0 million at 31 December 2016 and €2.0 million at 31 December 2015.

#### 8.1.7. Average debt interest rates

Average debt interest rates after allowing for hedging instruments break down as follows:

	31.12.2017	31.12.2016	31.12.2015
Euro (EUR) <sup>(1)</sup>	-0.42%	-0.33%	0.04%
US Dollar (USD)	1.00%	0.48%	0.15%

(1) The fall in euro interest rates is now reflected by drawdowns of short-term marketable instruments with negative interest rates.

#### 8.1.8. Fair value of borrowings and debt

The fair value of fixed-rate debt is determined for each loan by discounting future cash flows, based on bond yield curves at the balance sheet date, after allowing for the spread corresponding to the Group's risk rating.

The net carrying amount of outstanding bank loans and other floating-rate loans is a reasonable approximation of their fair value.

The fair value of borrowings and debt amounted to €1,175.0 million at 31 December 2017 compared with €1,265.3 million at 31 December 2016 and €782.5 million at 31 December 2015.

#### 8.1.9. Debt covered by collateral

No debt was covered by material amounts of collateral at 31 December 2017, 2016 and 2015.

#### 8.1.10. Confirmed credit lines

At 31 December 2017, L'Oréal and its subsidiaries had €3,675.2 million of confirmed undrawn credit lines, compared with €3,726.6 million at 31 December 2016 and €3,813.3 million 31 December 2015. At 31 December 2017, these credit lines had a maturity of between one and four years.

## 8.2. Cash and cash equivalent

€ millions	31.12.2017		31.12.2016		31.12.2015	
	Carrying amount	Acquisition cost	Carrying amount	Acquisition cost	Carrying amount	Acquisition cost
Marketable securities	1,810.4	1,810.8	758.4	758.5	335.3	335.3
Bank accounts and other cash and cash equivalents	1,236.1	1,236.1	987.6	987.6	1,064.5	1,064.5
<b>TOTAL</b>	<b>3,046.6</b>	<b>3,046.9</b>	<b>1,746.0</b>	<b>1,746.1</b>	<b>1,399.8</b>	<b>1,399.8</b>

Marketable securities consist mainly of SICAV money-market funds and unit trusts (on which the return is based on EONIA). Marketable securities are considered as Financial assets available-for-sale.

As in FY 2016 and 2015, no unrealised loss was recorded at 31 December 2017.

Term accounts with a maturity of less than 3 months at inception are shown on the *Bank accounts and other cash and cash equivalents* line.

## 8.3. Non-current financial assets

€ millions	31.12.2017		31.12.2016		31.12.2015	
	Carrying amount	Acquisition cost	Carrying amount	Acquisition cost	Carrying amount	Acquisition cost
<b>Financial assets available-for-sale</b>						
♦ Sanofi <sup>(1)</sup>	8,494.6	4,033.5	9,091.7	4,033.5	9,292.7	4,033.5
♦ Unlisted securities <sup>(2)</sup>	32.1	127.1	17.5	112.5	4.1	99.0
<b>Financial assets at amortised cost</b>						
♦ Non-current loans and receivables	239.5	242.4	197.3	200.8	114.1	118.3
<b>TOTAL</b>	<b>8,766.2</b>	<b>4,403.0</b>	<b>9,306.5</b>	<b>4,346.8</b>	<b>9,410.9</b>	<b>4,250.8</b>

(1) L'Oréal's stake in Sanofi was 9.43% at 31 December 2017. The carrying amounts at 31 December 2017, 31 December 2016 and 31 December 2015 (€8,494.6 million, €9,091.7 million and €9,292.7 million respectively) correspond to the market value of the shares based on the closing price at each of these dates (€71.85, €76.90 and €78.60, respectively). The acquisition cost of €4,033.5 million corresponds to an entry cost of €34.12.

(2) As the fair value of unlisted securities cannot be reliably determined, they are recognised at acquisition cost less any impairment losses. Changes in acquisition costs between 2016 and 2015 relate primarily to investments made in several investment funds.

## 8.4. Other financial income and expenses

This account can be broken down as follows:

€ millions	2017	2016	2015
Interest component of pension costs	-16.3	-20.3	-32.1
Other financial income and expenses	-9.7	-5.5	-11.2
<b>TOTAL</b>	<b>-26.0</b>	<b>-25.8</b>	<b>-43.3</b>

NOTE 9

## Derivatives and exposure to market risks

### ACCOUNTING PRINCIPLES

Derivative instruments entered into to hedge identifiable foreign exchange and interest rate risks are accounted for in accordance with hedge accounting principles.

Forward foreign exchange contracts and options are put in place in order to hedge items recorded in the balance sheet (fair value hedges) and cash flows on highly probable future commercial transactions (cash flow hedges).

All foreign exchange hedging instruments are recorded on the balance sheet at their market value, including those which relate to purchases and sales in the next accounting period. Hence changes in the fair value of these hedging instruments is recorded as follows:

- ◆ changes in the market value linked to variations in the time value of forwards used as hedges are recognised in equity and the amount accumulated in equity impacts the income statement at the date on which the hedged transactions are completed;
- ◆ changes in the market value linked to variations in the time value of options are recognised in the income statement;
- ◆ changes in the market value linked to variations in the spot rate between the inception of the hedge and the closing date are charged to equity, and the amount accumulated in equity impacts income statements at the date on which the transactions hedged are

completed. Any remaining hedge ineffectiveness is recognised directly in the income statement.

In application of hedge accounting, unrealised exchange gains and losses relating to unsold inventories are deferred in the inventories item in the balance sheet. Similarly, if a currency hedge has been taken out in respect of fixed assets purchased with foreign currency, these assets are valued in the balance sheet on the basis of the hedging rate.

The Group may decide to hedge certain investments in foreign companies. Exchange gains or losses relating to these hedges are directly charged to consolidated equity, under the item *Cumulative translation adjustments*.

With regard to interest rate risk, fixed-rate debt and financial loans hedged by interest rate swaps are valued in the balance sheet at their market value. Changes in the fair value of these items are recorded as finance costs and offset by adjustments to the fair value of the related hedging derivatives. Floating-rate debt and financial loans are valued at cost, which corresponds to their market value. The swaps or caps which hedge these items are valued in the balance sheet at their market value, with changes in value recorded directly through equity on the *Other comprehensive income* line.

The fair value of interest rate derivative instruments is their market value. Market value is calculated by the discounted cash flow method at the interest rate effective at the closing date.

To manage its exposure to currency and interest rate risks arising in the course of its normal operations, the Group uses derivatives negotiated with counterparties rated investment grade.

In accordance with Group rules, currency and interest rate derivatives are set up exclusively for hedging purposes.

### 9.1. Hedging of currency risk

The Group is exposed to currency risk on commercial transactions recorded on the balance sheet and on highly probable future transactions.

The Group's policy regarding its exposure to currency risk on future commercial transactions is to hedge, before the end of the year, a large part of the currency risk for the following year, using derivatives based on operating budgets in each subsidiary.

All the Group's future foreign currency flows are analysed in detailed forecasts for the coming budgetary year. Any currency risks identified are hedged by forward contracts or by options in order to reduce as far as possible the currency

exposure of each subsidiary. The term of the derivatives is aligned with the Group's settlements. Exchange rate derivatives are negotiated by REGEFI (the Group's bank) or, in exceptional cases, directly by the Group's subsidiaries when required by local regulations. Such operations are supervised by REGEFI.

As the Group's bank, REGEFI is subject to European Market Infrastructure Regulations (EMIR). Published by the European Commission in September 2012, EMIR is aimed at moving OTC markets towards a centralised model, thereby enhancing market transparency and regulatory oversight and decreasing systemic risk using a guarantee mechanism. As the Group's companies must borrow and invest their cash in their own currency, the exchange rate risks generated by managing their own cash and debt are almost non-existent.

Owing to the Group's policy of hedging a large part of annual requirements for the following year before the end of the current year, the sensitivity of profit or loss to changes in foreign

exchange rates at 31 December is marginal. The impact of changes in foreign exchange rates on the foreign exchange cash flow hedges reserve is described in note 10.3.

All derivative financial instruments held for the currency risk hedging purposes have a maturity of less than 18 months at inception and can be analysed as follows:

€ millions	Nominal			Market value		
	31.12.2017	31.12.2016	31.12.2015	31.12.2017	31.12.2016	31.12.2015
<b>Currency futures</b>						
<b>Purchase/Sale of EUR against foreign currencies</b>	<b>1,784.8</b>	<b>2,148.0</b>	<b>1,648.5</b>	<b>61.5</b>	<b>-92.7</b>	<b>15.5</b>
GBP/EUR	229.0	352.4	293.1	5.6	24.1	-1.8
USD/EUR	188.3	181.2	204.8	13.6	-21.8	-17.3
CNY/EUR	185.1	143.6	-14.8	1.4	-0.3	-9.4
CAD/EUR	173.2	180.1	104.0	1.9	-2.6	5.9
MXN/EUR	168.3	156.9	177.4	8.9	4.0	5.2
RUB/EUR	127.7	243.1	203.2	-1.7	-44.3	27.0
AUD/EUR	97.1	82.9	89.7	3.0	-2.7	-0.5
TRY/EUR	76.7	84.1	82.8	4.1	5.7	-1.3
BRL/EUR	57.7	78.4	55.8	2.9	-14.1	7.4
KRW/EUR	54.4	52.3	44.5	0.3	0.1	-0.3
EUR/Asia Pacific currencies	218.6	297.5	155.8	19.1	-29.5	-8.5
EUR/Eastern European currencies	68.9	85.7	69.5	-2.0	0.1	0.0
EUR/Other currencies	139.8	209.9	182.9	4.4	-11.4	9.0
<b>Purchase of USD against foreign currencies</b>	<b>434.8</b>	<b>441.2</b>	<b>236.1</b>	<b>-10.6</b>	<b>-13.3</b>	<b>24.6</b>
USD/Latin American currencies	149.7	177.2	112.2	-3.6	-13.7	16.5
USD/CAD	82.9	84.1	80.1	-3.0	2.7	6.0
USD/Other currencies	202.2	179.9	43.8	-3.9	-2.2	2.1
<b>Sale of USD against foreign currencies</b>	<b>14.2</b>	<b>23.1</b>	<b>128.8</b>	<b>-4.8</b>	<b>9.2</b>	<b>15.6</b>
USD/Asia Pacific currencies	14.1	23.1	128.8	-4.8	9.2	15.6
USD/Other currencies	0.1	-	-	-	-	-
<b>Other currency pairs</b>	<b>705.0</b>	<b>658.0</b>	<b>324.1</b>	<b>-27.2</b>	<b>14.5</b>	<b>0.5</b>
<b>CURRENCY FUTURES TOTAL</b>	<b>2,938.8</b>	<b>3,270.4</b>	<b>2,337.5</b>	<b>18.9</b>	<b>-82.2</b>	<b>56.1</b>
<b>Currency options</b>						
EUR/GBP	101.6	49.7	-	3.3	3.9	-
EUR/RUB	76.7	39.6	35.6	4.0	0.2	10.4
EUR/USD	75.5	39.0	186.1	5.0	0.2	1.3
EUR/CNY	37.8	17.5	44.0	1.7	0.3	0.9
EUR/HKD	34.9	36.2	68.8	2.8	0.1	0.5
EUR/TRY	10.5	-	5.0	1.9	-	-0.2
EUR/Other currencies	23.9	7.5	34.7	2.4	-	4.9
<b>Other currencies pairs</b>	<b>8.1</b>	<b>9.1</b>	<b>18.4</b>	<b>0.2</b>	<b>0.0</b>	<b>4.1</b>
<b>CURRENCY OPTIONS TOTAL</b>	<b>369.0</b>	<b>198.6</b>	<b>392.6</b>	<b>21.3</b>	<b>4.8</b>	<b>21.9</b>
Of which total options purchased	369.0	198.6	392.6	21.3	4.8	21.9
<b>TOTAL</b>	<b>3,307.8</b>	<b>3,469.0</b>	<b>2,730.1</b>	<b>40.2</b>	<b>-77.4</b>	<b>78.0</b>

The market values by type of hedging are as follows:

€ millions	2017	2016	2015
Fair value hedges <sup>(1)</sup>	-0.6	-20.0	0.2
Cash flow hedges	40.8	-57.4	77.8
<b>TOTAL</b>	<b>40.2</b>	<b>-77.4</b>	<b>78.0</b>

(1) Fair value hedges relate to currency risks on operating receivables and payables as well as on foreign currency investments and financing.

The fair value of the derivatives is their market value.

The Group has no significant foreign currency exposures that are not hedged in the balance sheet.



## 9.2. Foreign exchange gains and losses

### ACCOUNTING PRINCIPLES

Foreign exchange gains and losses resulting from the difference between the value of foreign currency operating income and expenses translated at the spot rate effective

on the transaction date and at the exchange rate effective on the settlement date are recognised directly on the appropriate income and expense lines, after allowing for hedging derivatives.

Foreign exchange gains and losses break down as follows:

€ millions	2017	2016	2015
Time value	-90.5	-44.8	-34.0
Other foreign exchange gains and losses	-5.0	87.1	-28.6
<b>TOTAL</b>	<b>-95.5</b>	<b>42.3</b>	<b>-62.7</b>

Foreign currency transactions are translated at the spot rate at the transaction date.

Assets and liabilities denominated in foreign currencies have been translated using the exchange rates effective at the closing date. Foreign exchange gains and losses also include the following items relating to derivative instruments:

- ◆ changes in market value linked to variations in the time value;

- ◆ changes in market value linked to variations in the spot rate between the inception of the hedge and the date when the hedged transactions are completed;

- ◆ residual ineffectiveness linked to excess hedges and recognised directly in the income statement under other foreign exchange gains and losses for -€8.4 million, -€10.9 million and €3.9 million in 2017, 2016 and 2015 respectively.

These amounts are allocated to the appropriate operating expense items as follows:

€ millions	2017	2016	2015
Cost of sales	-77.8	28.2	-72.7
Research and development	3.3	6.9	29.8
Advertising and promotion	-12.4	4.6	-12.9
Selling, general and administrative expenses	-8.6	2.6	-6.8
<b>Foreign exchange gains and losses</b>	<b>-95.5</b>	<b>42.3</b>	<b>-62.7</b>

## 9.3. Hedging of interest rate risk

The Group did not have any interest rate hedging instruments at 31 December 2017, 2016 and 2015.

The impact of a 100 basis point rise in interest rates on the fair value of the Group's fixed-rate financial assets and liabilities, after allowing for any interest rate derivatives, can be estimated at €0.1 million at 31 December 2017 compared with €0.2 million at 31 December 2016 and 31 December 2015.

## 9.4. Sensitivity to changes in interest rates

An increase of 100 basis points in interest rates would have had a direct positive impact of +€19.1 million on the Group's net finance costs at 31 December 2017, compared with a direct positive impact of +€5.4 million at 31 December 2016 and a direct positive impact of +€6.5 million at 31 December 2015. This calculation allows for cash, cash equivalents and derivatives, and assumes that total net debt/net cash remains stable and that fixed-rate debt at maturity is replaced by floating-rate debt.

## 9.5. Counterparty risk

The Group has financial relations with international banks rated investment grade. The Group thus considers that its exposure to counterparty risk is low.

Furthermore, the financial instruments used to manage exchange rate and interest rate risk are issued by leading international banking counterparties.

## 9.6. Liquidity risk

The Group's liquidity risk can be assessed on the basis of its outstanding short-term debt under its paper programme. Should these bank facilities not be renewed, the Group would have confirmed undrawn credit lines of €3,675.2 million at 31 December 2017. The availability of these credit lines is not dependent on financial covenants.

## 9.7. Shareholding risk

No cash has been invested in shares.

Available cash is invested with top-ranking financial institutions in the form of non-speculative instruments which can be drawn in very short periods. At 31 December 2017, marketable securities consist mainly of unit trusts (note 8.2.).

At 31 December 2017, the Group held 118,227,307 Sanofi shares for an amount of €8,494.6 million (note 8.3.). A change of plus or minus 10% in the market price of these shares relative to the market price of €71.85 on 31 December 2017 would have an impact of plus or minus €849.5 million before tax on Group equity.

If the share price were to fall significantly below €34.12 (the initial cost of the Sanofi shares), or fall below that price for a prolonged length of time, L'Oréal may have to recognise an impairment loss on its asset through profit or loss.

At 31 December 2016, the Group held 118,227,307 Sanofi shares for an amount of €9,091.7 million (note 8.3.). A change of plus or minus 10% in the market price of these shares relative to the market price of €76.90 on 31 December 2016 would have an impact of plus or minus €909.2 million before tax on Group equity.

At 31 December 2015, the Group held 118,227,307 Sanofi shares for an amount of €9,292.7 million (note 8.3.). A change of plus or minus 10% in the market price of these shares relative to the market price of €78.60 on 31 December 2015 would have an impact of plus or minus €929.3 million before tax on Group equity.

## 9.8. Fair value hierarchy

IFRS 7 as amended in 2009 requires financial assets and liabilities recognised at fair value in the balance sheet to be classified according to three levels:

- ◆ level 1: quoted prices on an active market;
- ◆ level 2: valuation techniques using observable inputs;
- ◆ level 3: valuation techniques using unobservable inputs.

The following table provides an analysis of financial instruments recorded at fair value by level of the fair value hierarchy.

<i>€ millions</i>				
<b>31 December 2017</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total fair value</b>
<b>Assets at fair value</b>				
Foreign exchange derivatives		230.3		230.3
Sanofi shares	8,494.6			8,494.6
Marketable securities	1,827.5			1,827.5
<b>TOTAL ASSETS AT FAIR VALUE</b>	<b>10,322.1</b>	<b>230.3</b>	<b>-</b>	<b>10,552.4</b>
<b>Liabilities at fair value</b>				
Foreign exchange derivatives		190.5		190.5
<b>TOTAL LIABILITIES AT FAIR VALUE</b>	<b>-</b>	<b>190.5</b>	<b>-</b>	<b>190.5</b>

<i>€ millions</i>				
<b>31 December 2016</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total fair value</b>
<b>Assets at fair value</b>				
Foreign exchange derivatives		254.2		254.2
Sanofi shares	9,091.7			9,091.7
Marketable securities	758.5			758.5
<b>TOTAL ASSETS AT FAIR VALUE</b>	<b>9,850.2</b>	<b>254.2</b>	<b>-</b>	<b>10,104.4</b>
<b>Liabilities at fair value</b>				
Foreign exchange derivatives		330.4		330.4
<b>TOTAL LIABILITIES AT FAIR VALUE</b>	<b>-</b>	<b>330.4</b>	<b>-</b>	<b>330.4</b>

€ millions

31 December 2015	Level 1	Level 2	Level 3	Total fair value
<b>Assets at fair value</b>				
Foreign exchange derivatives		283.0		283.0
Sanofi shares	9,292.7			9,292.7
Marketable securities	335.3			335.3
<b>TOTAL ASSETS AT FAIR VALUE</b>	<b>9,628.0</b>	<b>283.0</b>	<b>-</b>	<b>9,911.0</b>
<b>Liabilities at fair value</b>				
Foreign exchange derivatives		205.4		205.4
<b>TOTAL LIABILITIES AT FAIR VALUE</b>	<b>-</b>	<b>205.4</b>	<b>-</b>	<b>205.4</b>

### 9.9. Offsetting financial assets and financial liabilities

Financial assets and liabilities resulting from foreign exchange and/or interest rate hedging transactions entered into with the Group's counterparty banks are not offset in the balance sheet since they are FBF (French Banking Federation) or ISDA (International Swaps and Derivatives Association) agreements

that only provide for offsetting in the event of default by one of the parties to the agreement. Accordingly, they do not meet the offsetting criteria set out in IAS 32.

Had the agreements been offset at the level of each counterparty bank, assets and liabilities would have decreased by €80.1 million, €125.4 million and €114.2 million respectively at 31 December 2017, 2016 and 2015.

## NOTE 10 Equity – Earnings per share

### 10.1. Share capital and additional paid in capital

Share capital consisted of 560,519,088 shares with a par value of €0.20 at 31 December 2017, following the exercise of subscription options for 1,509,576 shares and 375 free shares and the cancellation of 2,846,604 shares.

Share capital consisted of 561,855,741 shares with a par value of €0.20 at 31 December 2016, following the exercise of subscription options for 6,255 shares and 1,231,570 free shares and the cancellation of 3,202,500 shares.

Share capital consisted of 562,983,348 shares with a par value of €0.20 at 31 December 2015 following the exercise of subscription options for 4,657,509 shares and 450 free shares and the cancellation of 2,905,000 shares.

### 10.2. Treasury stock

#### ACCOUNTING PRINCIPLES

Treasury stock is recorded at acquisition cost and deducted from equity. Capital gains/losses on disposal of Treasury stock net of tax are charged directly to equity and do not contribute to profit for the financial year.

#### a) 2017

The change in the number of shares in 2017 is as follows:

In shares	Share capital	Treasury stock	Common shares outstanding
<b>AT 01.01.2017</b>	<b>561,855,741</b>	<b>-1,757,345</b>	<b>560,098,396</b>
Shares cancelled	-2,846,604	2,846,604	
Options and free shares exercised	1,509,951	986,220	2,496,171
Treasury stock purchased		-2,846,604	-2,846,604
<b>AT 31.12.2017</b>	<b>560,519,088</b>	<b>-771,125</b>	<b>559,747,963</b>

The change in Treasury stock in 2017 is as follows:

<i>In shares</i>	Buyback programme	Allocated to stock option/ free-share plans	<b>Total</b>	€ millions
<b>AT 01.01.2017</b>		<b>1,757,345</b>	<b>1,757,345</b>	<b>133.6</b>
Shares cancelled	-2,846,604		-2,846,604	-499.2
Options and free shares exercised		-986,220	-986,220	-77.2
Treasury stock purchased	2,846,604		2,846,604	499.2
<b>AT 31.12.2017</b>	-	<b>771,125</b>	<b>771,125</b>	<b>56.5</b>
€ millions	-	56.5	56.5	

## b) 2016

The change in the number of shares in 2016 was as follows:

<i>In shares</i>	Share capital	Treasury stock	Common shares outstanding
<b>AT 01.01.2016</b>	<b>562,983,348</b>	<b>-2,995,170</b>	<b>559,988,178</b>
Shares cancelled	-3,202,500	3,202,500	
Options and free shares exercised	2,074,893	1,237,825	3,312,718
Treasury stock purchased		-3,202,500	-3,202,500
<b>AT 31.12.2016</b>	<b>561,855,741</b>	<b>-1,757,345</b>	<b>560,098,396</b>

The change in Treasury stock in 2016 was as follows:

<i>In shares</i>	Buyback programme	Allocated to stock option/ free-share plans	<b>Total</b>	€ millions
<b>AT 01.01.2016</b>		<b>2,995,170</b>	<b>2,995,170</b>	<b>233.3</b>
Shares cancelled	-3,202,500		-3,202,500	-499.5
Options and free shares exercised		-1,237,825	-1,237,825	-99.7
Treasury stock purchased	3,202,500		3,202,500	499.5
<b>AT 31.12.2016</b>	-	<b>1,757,345</b>	<b>1,757,345</b>	<b>133.6</b>
€ millions	-	133.6	133.6	

## c) 2015

The change in the number of shares in 2015 was as follows:

<i>In shares</i>	Share capital	Treasury stock	Common shares outstanding
<b>AT 01.01.2015</b>	<b>561,230,389</b>	<b>-6,988,511</b>	<b>554,241,878</b>
Shares cancelled	-2,905,000	2,905,000	
Options and free shares exercised	4,657,959	1,088,341	5,746,300
Treasury stock purchased			
<b>AT 31.12.2015</b>	<b>562,983,348</b>	<b>-2,995,170</b>	<b>559,988,178</b>

The change in Treasury stock in 2015 was as follows:

<i>In shares</i>	Buyback programme	Allocated to stock option/ free-share plans	<b>Total</b>	€ millions
<b>AT 01.01.2015</b>	<b>2,905,000</b>	<b>4,083,511</b>	<b>6,988,511</b>	<b>683.0</b>
Shares cancelled	-2,905,000		-2,905,000	-363.4
Options and free shares exercised		-1,088,341	-1,088,341	-86.3
Treasury stock purchased	-			
<b>AT 31.12.2015</b>	-	<b>2,995,170</b>	<b>2,995,170</b>	<b>233.3</b>
€ millions	-	233.3	233.3	

### 10.3. Other comprehensive income

The following tables indicate movements in this item:

€ millions	31.12.2017	31.12.2016	31.12.2015
<b>Financial assets available-for-sale</b>			
Reserve at beginning of period	5,058.2	5,259.2	4,911.6
Changes in fair value over period	-597.0	-201.0	347.6
Impairment loss recorded in profit and loss	-	-	-
Changes in fair value recorded in profit and loss	-	-	-
<b>Reserve at end of period</b>	<b>4,461.2</b>	<b>5,058.2</b>	<b>5,259.2</b>

€ millions	31.12.2017	31.12.2016	31.12.2015
<b>Cash flow hedges – foreign exchange</b>			
Reserve at beginning of period	24.7	148.8	88.8
Changes in fair value over period	162.5	-118.7	168.0
Changes in fair value recorded in profit and loss	-74.2	-5.2	-108.0
Deconsolidation	2.4	-0.1	-
<b>Reserve at end of period</b>	<b>115.4</b>	<b>24.7</b>	<b>148.8</b>

The table below shows the impact of an increase or decrease of over 10% in the euro and US dollar against other currencies on the foreign exchange cash flow hedging reserve and the market value of the hedging instruments:

€ millions	31.12.2017	31.12.2016	31.12.2015
Impact of a 10% increase in the EUR against all other Group currencies	+250.0	+224.5	+216.2
Impact of a 10% decrease in the EUR against all other Group currencies	-217.4	-214.4	-200.4
Impact of a 10% increase in the USD against key Group currencies	+10.0	+24.5	-11.7
Impact of a 10% decrease in the USD against key Group currencies	+3.6	-14.2	+21.9

€ millions	31.12.2017	31.12.2016	31.12.2015
<b>Cash flow hedges – interest rates</b>			
Reserve at beginning of period	-	-	-
Changes in fair value over period	-	-	-
Changes in fair value recorded in profit and loss	-	-	-
<b>Reserve at end of period</b>	<b>-</b>	<b>-</b>	<b>-</b>

€ millions	31.12.2017	31.12.2016	31.12.2015
<b>Actuarial gains/(losses) and impact of asset ceiling</b>			
Reserve at beginning of period	-946.2	-944.2	-1,542.2
Actuarial gains/(losses) over the period	279.9	-1.3	594.7
Impact of asset ceiling	-	-	3.4
Deconsolidation and other	-5.6	-0.7	-0.1
<b>Reserve at end of period</b>	<b>-671.8</b>	<b>-946.2</b>	<b>-944.2</b>

€ millions	31.12.2017	31.12.2016	31.12.2015
<b>Other comprehensive income</b>			
Gross reserve	3,904.7	4,136.6	4,463.8
Associated tax effect	-	100.9	53.7
<b>Reserve net of tax</b>	<b>3,904.7</b>	<b>4,237.6</b>	<b>4,517.5</b>

## 10.4. Net profit from continuing operations attributable to owners of the company excluding non-recurring items – Earnings per share

### ACCOUNTING PRINCIPLES

Earnings per share are calculated in accordance with the rules set out in IAS 33.

Basic earnings per share are obtained on the basis of the weighted average number of shares outstanding during the year, less the average number of treasury shares held deducted from equity.

Where applicable, diluted earnings per share take into account dilutive stock options and free shares in accordance with the Treasury stock method, under which sums collected on exercise or purchase are assumed to be allocated firstly to share buybacks at market price.

### 10.4.1. Reconciliation with net profit from continuing operations

Net profit from continuing operations attributable to owners of the company excluding non-recurring items reconciles as follows with net profit of continuing operations attributable to owners of the company:

€ millions	2017	2016	2015
<b>Net profit from continuing operations attributable to owners of the company</b>	<b>3,821.7</b>	<b>3,080.5</b>	<b>3,248.1</b>
Capital gains and losses on property, plant and equipment and intangible assets	-3.9	-16.2	0.2
Impairment of property, plant and equipment and intangible assets	-	447.2	-
Restructuring costs	262.5	99.4	83.3
Other <sup>(1)</sup>	17.8	11.0	105.0
Tax effect on non-recurring items	-83.4	-36.1	-28.7
Non-controlling interests on non-recurring items	-0.1	-0.1	-0.2
Tax effect on acquisitions and internal restructuring	-16.1	5.6	-13.4
Impact of the decrease in the US tax rate	-90.3	-	-
Impact of the decrease in the French tax rate on deferred tax liabilities relating to the Sanofi shareholding	-13.4	-24.0	-
3% tax levied on dividends paid and 2017 exceptional and additional contributions <sup>(2)</sup>	-146.0	52.3	45.3
Costs net of tax of the discontinuation of the Innéov operation by L'Oréal and disposal of a part of its assets	-	-	-3.4
<b>NET PROFIT FROM CONTINUING OPERATIONS ATTRIBUTABLE TO OWNERS OF THE COMPANY EXCLUDING NON-RECURRING ITEMS</b>	<b>3,748.7</b>	<b>3,619.6</b>	<b>3,436.2</b>

(1) Including €107.2 million relative to the deconsolidation of our subsidiaries in Venezuela at 31 December 2015 (note 2.4.).

(2) Following the decision taken by the Constitutional Court in October 2017 to invalidate the additional 3% contribution, the amounts paid for the financial years 2013 to 2017 were reimbursed with default interest. In return, exceptional contributions and an additional contribution to the exceptional contribution were introduced by the amended finance law for 2017 and are included in this line item.

### 10.4.2. Earnings per share attributable to owners of the company

The tables below set out earnings per share attributable to owners of the company (excluding the dilutive impact of shares carrying preferential dividend rights; note 10.4.5.):

2017	Net profit attributable to owners of the company	Number of shares	Earnings per share attributable to owners of the company
	(€ millions)		(€)
Earnings per share	3,581.4	559,233,644	6.40
Stock options	-	1,792,615	-
Free shares	-	2,502,243	-
<b>DILUTED EARNINGS PER SHARE</b>	<b>3,581.4</b>	<b>563,528,502</b>	<b>6.36</b>

2016	Net profit attributable to owners of the company (€ millions)	Number of shares	Earnings per share attributable to owners of the company (€)
Earnings per share	3,105.8	559,190,339	5.55
Stock options	-	2,677,722	-
Free shares	-	2,641,074	-
<b>DILUTED EARNINGS PER SHARE</b>	<b>3,105.8</b>	<b>564,509,135</b>	<b>5.50</b>

2015	Net profit attributable to owners of the company (€ millions)	Number of shares	Earnings per share attributable to owners of the company (€)
Earnings per share	3,297.4	557,351,236	5.92
Stock options	-	4,480,499	-
Free shares	-	3,059,653	-
<b>DILUTED EARNINGS PER SHARE</b>	<b>3,297.4</b>	<b>564,891,388</b>	<b>5.84</b>

### 10.4.3. Earnings per share from continuing operations excluding non-recurring items

The tables below set out in detail earnings per share from continuing operations attributable to owners of the company excluding non-recurring items (excluding the dilutive impact of shares carrying preferential dividend rights, note 10.4.5.):

2017	Net profit attributable to owners of the company excluding non-recurring items (€ millions)	Number of shares	Net profit attributable to owners of the company excluding non-recurring items (€)
Earnings per share excluding non-recurring items	3,748.7	559,233,644	6.70
Stock options	-	1,792,615	-
Free shares	-	2,502,243	-
<b>Diluted earnings per share excluding non-recurring items</b>	<b>3,748.7</b>	<b>563,528,502</b>	<b>6.65</b>

2016	Net profit attributable to owners of the company excluding non-recurring items (€ millions)	Number of shares	Net profit per share attributable to owners of the company excluding non-recurring elements (€)
Earnings per share excluding non-recurring items	3,619.6	559,190,339	6.47
Stock options	-	2,677,722	-
Free shares	-	2,641,074	-
<b>Diluted earnings per share excluding non-recurring items</b>	<b>3,619.6</b>	<b>564,509,135</b>	<b>6.41</b>

2015	Net profit attributable to owners of the company excluding non-recurring items (€ millions)	Number of shares	Net profit per share attributable to owners of the company excluding non-recurring items (€)
Earnings per share excluding non-recurring items	3,436.2	557,351,236	6.17
Stock options	-	4,480,499	-
Free shares	-	3,059,653	-
<b>Diluted earnings per share excluding non-recurring items</b>	<b>3,436.2</b>	<b>564,891,388</b>	<b>6.08</b>

### 10.4.4. Calculation of the number of shares

All potential ordinary shares are included in the calculation of earnings per share since all stock option plans have a dilutive impact on the periods presented.

### 10.4.5. Diluted earnings per share including the impact of shares carrying preferential dividend rights

The table below shows the calculation of diluted earnings per share taking into account the 10% preferential dividend payable for 2017 on shares held continuously in registered form between 31 December 2015 and the 2018 dividend

payment date. The number of shares eligible for the preferential dividend cannot exceed 0.5% of the share capital for any one shareholder.

2017	Number of shares	Diluted earnings per share	Diluted earnings per share of continuing operations
Shares carrying ordinary dividend rights	517,623,734	6.30	6.73
Shares carrying preferential dividend rights	45,904,768	6.93	7.40

2016	Number of shares	Diluted earnings per share	Diluted earnings per share of continuing operations
Shares carrying ordinary dividend rights	523,478,712	5.46	5.46
Shares carrying preferential dividend rights	41,030,423	6.01	6.01

2015	Number of shares	Diluted earnings per share	Diluted earnings per share of continuing operations
Shares carrying ordinary dividend rights	529,927,154	5.80	5.80
Shares carrying preferential dividend rights	34,964,234	6.38	6.38

## NOTE 11

## Provisions for liabilities and charges – Contingent liabilities and material ongoing disputes

### 11.1. Provisions for liabilities and charges

#### ACCOUNTING PRINCIPLES

Provisions for liabilities and charges are set up to cover probable outflows for the benefit of third parties without any equivalent consideration being received by the Group in return. They relate mainly to restructuring costs and tax risks and litigation, industrial, environmental and commercial risks relating to operations (breach of contract, product returns) and employee-related risks.

These provisions are estimated on the basis of the assumptions deemed most probable or by using statistical methods, depending on the type of provisions.

Provisions for liabilities and charges are recorded either as *Non-current liabilities* or as *Current liabilities*, depending on their nature. Provisions for liabilities or litigation which must be settled within 12 months of the closing date, and those linked to the normal operating cycle (such as product returns), are recorded as *Current liabilities*. Other provisions for liabilities and charges are recorded as *Non-current liabilities*.



### 11.1.1. Closing balances

€ millions	31.12.2017	31.12.2016	31.12.2015
<b>Non-current provisions for liabilities and charges</b>	<b>434.9</b>	<b>333.3</b>	<b>195.9</b>
Other non-current provisions <sup>(1)</sup>	434.9	333.3	195.9
<b>Current provisions for liabilities and charges</b>	<b>889.2</b>	<b>810.7</b>	<b>754.6</b>
Provisions for restructuring	146.0	47.5	50.9
Provisions for product returns	303.6	323.4	309.3
Other current provisions <sup>(1)</sup>	439.6	439.8	394.4
<b>TOTAL</b>	<b>1,324.1</b>	<b>1,144.0</b>	<b>950.4</b>

(1) This item notably includes provisions for tax risks and litigation, as well as industrial, environmental and commercial risks relating to operations (breach of contract), personnel costs, investments in associates when the Group's share in the net asset is negative, as well as risks relating to investigations carried out by competition authorities (note 11.2.2.a and b).

At end-December 2017, some L'Oréal subsidiaries in France received a reassessment proposal relative to 2014 financial year, mainly concerning corporate tax. After consulting with its tax advisors, L'Oréal decided to contest these reassessments and sought the legal means of recourse to ensure its defence.

In January 2015, decree 8.393/2015 stated that commercial companies in Brazil would be liable for the indirect IPI tax on certain products as from 1 May 2015. L'Oréal is challenging the legal grounds of this decree and its application and considers that the provisions recognised in the financial statements are adequate to cover its tax risks and litigation.

### 11.1.2. Changes in provisions for liabilities and charges during the period

€ millions	31.12.2015	31.12.2016	Charges <sup>(2)</sup>	Reversals (used) <sup>(2)</sup>	Reversals (not used) <sup>(2)</sup>	Other <sup>(1)</sup>	31.12.2017
Provisions for restructuring	50.9	47.5	156.6	-41.8	-10.1	-6.0	146.0
Provisions for product returns	309.3	323.4	331.1	-276.7	-54.9	-19.4	303.6
Other provisions for liabilities and charges	590.2	773.1	257.0	-129.3	-68.6	42.3	874.5
<b>TOTAL</b>	<b>950.4</b>	<b>1,144.0</b>	<b>744.7</b>	<b>-447.8</b>	<b>-133.7</b>	<b>16.9</b>	<b>1,324.1</b>

(1) Mainly resulting from translation differences and €67.1 million relating to the dispute on IPI with the tax administration in Brazil (note 11.2.1.).

(2) These figures can be analysed as follows:

€ millions	Charges	Reversals (used)	Reversals (not used)
♦ Other income and expenses	156.9	-44.0	-10.1
♦ Operating profit	494.1	-388.4	-89.4
♦ Financial (income)/expense	-	-	-
♦ Income tax	93.7	-15.4	-34.2

The change in this caption in 2016 can be analysed as follows:

€ millions	31.12.2014	31.12.2015	Charges <sup>(2)</sup>	Reversals (used) <sup>(2)</sup>	Reversals (not used) <sup>(2)</sup>	Other <sup>(1)</sup>	31.12.2016
Provisions for restructuring	65.5	50.9	48.5	-40.4	-6.1	-5.4	47.5
Provisions for product returns	244.4	309.3	303.1	-216.8	-79.3	7.2	323.4
Other provisions for liabilities and charges	605.7	590.2	219.7	-115.2	-51.8	130.1	773.1
<b>TOTAL</b>	<b>915.6</b>	<b>950.4</b>	<b>571.3</b>	<b>-372.4</b>	<b>-137.2</b>	<b>131.9</b>	<b>1,144.0</b>

(1) Mainly resulting from translation differences, scope of consolidation changes and €58.4 million relating to the dispute on IPI with the tax administration in Brazil (note 11.2.1.).

(2) These figures can be analysed as follows:

€ millions	Charges	Reversals (used)	Reversals (not used)
♦ Other income and expenses	50.6	-40.5	-7.8
♦ Operating profit	480.2	-322.2	-107.1
♦ Financial (income)/expense	-	-	-
♦ Income tax	40.5	-9.7	-22.3

The change in this caption in 2015 can be analysed as follows:

€ millions	31.12.2013	31.12.2014	Charges <sup>(2)</sup>	Reversals (used) <sup>(2)</sup>	Reversals (not used) <sup>(2)</sup>	Other <sup>(1)</sup>	31.12.2015
Provisions for restructuring	98.2	65.5	37.1	-36.4	-20.7	5.4	50.9
Provisions for product returns	226.6	244.4	263.7	-172.9	-46.6	20.7	309.3
Other provisions for liabilities and charges	378.5	605.7	141.7	-107.2	-95.4	45.4	590.2
<b>TOTAL</b>	<b>703.3</b>	<b>915.6</b>	<b>442.5</b>	<b>-316.5</b>	<b>-162.7</b>	<b>71.5</b>	<b>950.4</b>

(1) Mainly resulting from translation differences and €24.7 million relating to the dispute on IPI with the tax administration in Brazil (note 11.2.1.).

(2) These figures can be analysed as follows:

€ millions	Charges	Reversals (used)	Reversals (not used)
♦ Other income and expenses	37.1	-54.3	-30.0
♦ Operating profit	387.1	-253.4	-78.2
♦ Financial (income)/expense	-	-	-
♦ Income tax	18.3	-8.8	-54.5

## 11.2. Contingent liabilities and material ongoing disputes

Besides certain disputes arising in the ordinary course of its operations and for which the provisions set aside are considered to be appropriate by the Group (note 11.1.), L'Oréal is party to several material disputes, described below:

### 11.2.1. Tax disputes

#### Brazil - IPI indirect tax base challenged

L'Oréal received tax reassessment notices regarding the indirect IPI tax for fiscal years 2008, 2011, 2012 and 2013 totalling €561.3 million, including interest and penalties. The Brazilian tax authorities questioned the plant disposal price used to calculate the IPI tax base. After consulting with its tax advisors, L'Oréal considers that the Brazilian tax authorities' position is unfounded and has challenged these notices. L'Oréal continues its legal proceedings with the tax and legal authorities. As a result, no provision has been recognised in this respect.

#### India – Advertising, marketing and promotional costs challenged

L'Oréal received several tax reassessment notices regarding fiscal years 2007/08 to 2013/14 for the most part concerning the tax deductibility of advertising, marketing and promotional expenses for a total amount of €117.5 million including interest and penalties. After consulting with its tax advisors, L'Oréal decided to contest these notices and continues the legal proceedings with the administrative and legal authorities. As a result, no provision has been recognised in this respect.

### 11.2.2. Investigations carried out by the competition authorities

The national competition authorities in several European countries have launched investigations targeting the cosmetics industry in particular.

#### a) Europe (excluding France)

The proceedings are at different stages:

- ♦ in Spain, the decision in first instance was appealed against before the Court of Cassation and subsequently the Constitutional Court. In October 2016, the Constitutional Court dismissed the appeal lodged by L'Oréal España claiming breach of the fundamental rights of the defence. The Court of Cassation's ruling is therefore final and binding. The competition authority is to recalculate the fine in light of the criteria adopted by the Court of Cassation; however, it cannot exceed the amount initially set by the competition authority. The Group maintains its provision for the full amount of the fine initially notified;
- ♦ in Greece, in its decision passed down on 4 October 2017, the Greek competition authority condemned L'Oréal Hellas to pay a fine of €2.6 million for carrying out anti-competitive practices in 2005-2006. L'Oréal Hellas refuted all allegations of having engaged in anti-competitive practices with other luxury cosmetics manufacturers. L'Oréal Hellas appealed this decision on 4 December 2017. The total amount of the fine has been provisioned.

## b) France

In France, the decision in first instance was handed down by the French competition authority on 18 December 2014 in the household and personal care sector concerning events that took place in the early 2000s. L'Oréal S.A. was ordered to pay a fine of €189.5 million.

On 27 October 2016, the Paris Court of Appeal upheld this first instance decision.

L'Oréal refutes all accusations of concerted practices with its competitors and regrets that the French competition authority did not take into account the highly competitive French market in household and personal care products as illustrated

A provision has been set aside for all disputes still in progress at 31 December 2017 amounting to €212.3 million at the year-end, versus €214.4 million at end-2016 and €212.5 million at end-2015.

At the present time, no other exceptional events or disputes are highly likely to have a material impact on the earnings, financial position, assets, or operations of the Company or the L'Oréal Group.

by the number of manufacturers and retailers present on the market, the large choice of products available to consumers, and the high degree of innovation and number of product launches.

L'Oréal has lodged an appeal in cassation. No ruling from the Court of Cassation had been handed down at 31 December 2017.

It should be noted that since the appeal and appeal in cassation do not entail a stay in the judgement, the fine provisioned at the end of 2014 was paid on 28 April 2015.

At 31 December 2017, the provision was maintained in liabilities and the payment recognised in *Other current assets*.

## NOTE 12 Off-balance sheet commitments

### 12.1. Operating lease commitments

These amount to €2,385.0 million at 31 December 2017 compared with €2,840.4 million at 31 December 2016 and €2,697.2 million at 31 December 2015, of which:

- ◆ €475.5 million was due within one year at 31 December 2017, compared with €536.8 million at 31 December 2016 and €477.9 million at 31 December 2015;
- ◆ €1,222.0 million was due within one to five years at 31 December 2017, compared with €1,372.8 million at 31 December 2016 and €1,310.9 million at 31 December 2015;
- ◆ €687.5 million was due in over five years at 31 December 2017, compared with €930.8 million at 31 December 2016 and €908.4 million at 31 December 2015.

### 12.2. Other off-balance sheet commitments

Confirmed credit lines are discussed in note 8.1.10.

Other significant off-balance sheet commitments have been identified and measured. They chiefly fall due within one year and are as follows:

€ millions	31.12.2017	31.12.2016	31.12.2015
Guarantees given <sup>(1)</sup>	305.9	324.0	229.2
Guarantees received	60.2	59.8	54.4
Capital expenditure orders <sup>(2)</sup>	284.1	306.7	302.8
Firm purchase commitments under logistics supply contracts	770.8	640.9	533.8

(1) These consist mainly of guarantees given to governmental bodies or concerning loans granted to third parties who are partners of the Group, and the net commitment toward the L'Oréal Foundation for its long-term action programme.

(2) Despite their strategic nature, none of these investments taken individually is material enough at Group level to warrant more detailed disclosure.

### 12.3. Environmental risks

The Group strictly complies with regulations and laws relating to environmental protection, and does not expect that they will have any significant impact on the future operations, financial position, earnings or assets.

The risks identified at 31 December 2017 are not material.

**NOTE 13** Transactions with related parties**13.1. Transactions with associated companies (Related parties)**

Equity-accounted companies include joint ventures only.

The consolidated financial statements include transactions carried out between the Group and its equity-accounted companies, considered to be related parties. The main transactions with these related parties and the associated outstanding balances are as follows:

€ millions	2017	2016	2015
Sales of goods and services	0.1	0.1	-
Financial expenses and income	-	-	-

The following receivables and payables were recorded on the balance sheet for the related parties:

€ millions	31.12.2017	31.12.2016	31.12.2015
Operating receivables	0.1	0.1	0.3
Operating payables	0.1	0.1	-
Financial receivables	-1.5	-1.5	-5.5

**13.2. Related parties with a significant influence on the Group**

L'Oréal has been informed that on 16 December 2016, the members of the Bettencourt Meyers family group, and Mr. Jean-Paul Agon for 100 shares, signed lock-up agreements under the Dutreil law for 185,704,189 L'Oréal shares representing 33.065% of the capital and of the voting rights of the Company on the date of the agreement.

The lock-up agreements were concluded in application of Articles 787 B and 885 I *bis* of the French General Tax Code for a period of two years, tacitly renewable for one-year periods. They do not include any preferential rights for sales or acquisitions for the benefit of the signatories and do not constitute a concerted action *vis-à-vis* the Company.

In 2017, no significant transactions were carried out with a member of senior management or a shareholder with a significant influence, except for the operation above.

NOTE 14

## Fees accruing to auditors and members of their networks payable by the Group

### FEES FOR THE 2017 FINANCIAL YEAR

€ millions excl. VAT	PricewaterhouseCoopers Audit				Deloitte & Associés			
	Auditor PricewaterhouseCoopers Audit		Network		Auditor Deloitte & Associés		Network	
	Amount	%	Amount	%	Amount	%	Amount	%
<b>Review of interim, company and consolidated financial statements</b>								
L'Oréal	1.2	36%	n/a	n/a	1.2	58%	n/a	n/a
Fully consolidated subsidiaries	0.7	22%	5.1	61%	0.6	29%	3.6	71%
<b>Subtotal</b>	<b>2.0</b>	<b>58%</b>	<b>5.1</b>	<b>61%</b>	<b>1.8</b>	<b>87%</b>	<b>3.6</b>	<b>71%</b>
<b>Non-audit services <sup>(1)</sup></b>								
L'Oréal	1.4	42%	-	-	0.3	13%	-	-
Fully consolidated subsidiaries	-	-	3.2	39%	-	-	1.4	29%
<b>Subtotal</b>	<b>1.4</b>	<b>42%</b>	<b>3.2</b>	<b>39%</b>	<b>0.3</b>	<b>13%</b>	<b>1.4</b>	<b>29%</b>
<b>TOTAL</b>	<b>3.4</b>	<b>100%</b>	<b>8.3</b>	<b>100%</b>	<b>2.1</b>	<b>100%</b>	<b>5.0</b>	<b>100%</b>

(1) Mainly concerning acquisition/disposal audits.

### FEES FOR THE 2016 FINANCIAL YEAR

€ millions excl. VAT	PricewaterhouseCoopers Audit				Deloitte & Associés			
	Auditor PricewaterhouseCoopers Audit		Network		Auditor Deloitte & Associés		Network	
	Amount	%	Amount	%	Amount	%	Amount	%
<b>Review of interim, company and consolidated financial statements</b>								
L'Oréal	1.0	39%	n/a	n/a	1.1	29%	n/a	n/a
Fully consolidated subsidiaries	0.7	28%	4.9	53%	0.7	16%	4.3	80%
<b>Subtotal</b>	<b>1.8</b>	<b>67%</b>	<b>4.9</b>	<b>53%</b>	<b>1.8</b>	<b>45%</b>	<b>4.3</b>	<b>80%</b>
<b>Non-audit services <sup>(1)</sup></b>								
L'Oréal	0.8	31%	-	-	2.0	53%	-	-
Fully consolidated subsidiaries	0.1	2%	4.3	47%	0.1	2%	1.0	20%
<b>Subtotal</b>	<b>0.9</b>	<b>33%</b>	<b>4.3</b>	<b>47%</b>	<b>2.1</b>	<b>55%</b>	<b>1.0</b>	<b>20%</b>
<b>TOTAL</b>	<b>2.6</b>	<b>100%</b>	<b>9.2</b>	<b>100%</b>	<b>3.9</b>	<b>100%</b>	<b>5.3</b>	<b>100%</b>

(1) Mainly concerning acquisition audits.

**NOTE 15** Subsequent events

No event occurred between the balance sheet date and the date when the Board of Directors authorised the consolidated financial statements for issue.

**4.7. CONSOLIDATED COMPANIES AT 31 DECEMBER 2017****4.7.1 FULLY CONSOLIDATED COMPANIES**

Company	Head office	% interest
Atelier Cologne (as a group)	France	100.00
Banque de Réalisations de Gestion et de Financement (Regefi)	France	100.00
Beauté, Recherche & Industries	France	100.00
Beautycos International Company Limited	China	100.00
Beautylux International Cosmetics (Shanghai) Co. Ltd	China	100.00
Biotherm	Monaco	99.80
Canan Kozmetik Sanayi Ve Ticaret A.S.	Turkey	100.00
Centre Logistique d'Essigny (Cloe)	France	100.00
Chimex	France	100.00
Cobelsa Cosméticos, S.A.	Spain	100.00
Coloright Ltd	Israel	100.00
Compagnie Thermale Hôtelière et Financière (CTHF)	France	99.98
Comptoir Lainier Africain (Colainaf)	Morocco	100.00
Cosbel S.A. de C.V.	Mexico	100.00
Cosmelor Ltd	Japan	100.00
Cosmephil Holdings Corporation Philippines	The Philippines	100.00
Cosmetil	Morocco	49.80
Cosmétique Active France	France	100.00
Cosmétique Active International (CAI)	France	100.00
Cosmétique Active Production (CAP)	France	100.00
Digit Invest Immobilier	France	100.00
Egyptelcor LLC	Egypt	100.00
Elebelle Proprietary Limited	South Africa	100.00
EpiSkin	France	99.89
Erwiton S.A.	Uruguay	100.00
Fapagau & Cie	France	100.00
Faproréal	France	100.00
Finval	France	100.00
Fabel S.A. de C.V.	Mexico	100.00
Gemey Maybelline Garnier	France	100.00
Gemey Paris – Maybelline New York	France	100.00
Helena Rubinstein	France	100.00
Helena Rubinstein Italia S.p.À.	Italy	100.00

Company	Head office	% interest
Holdial	France	100.00
Interbeauty Cosmetics Ltd	Israel	92.97
Interbeauty Products Limited	Kenya	100.00
IT Cosmetics Limited	United Kingdom	100.00
Kosmepol Sp. z.o.o.	Poland	100.00
L & J Ré	France	100.00
L'Oréal (China) Co. Ltd	China	100.00
L'Oréal (Thailand) Ltd	Thailand	100.00
L'Oréal (UK) Ltd	United Kingdom	100.00
L'Oréal Adria d.o.o.	Croatia	100.00
L'Oréal Argentina Sociedad Anonima	Argentina	100.00
L'Oréal Australia Pty Ltd	Australia	100.00
L'Oréal Balkan d.o.o.	Serbia	100.00
L'Oréal Baltic SIA	Latvia	100.00
L'Oréal Bangladesh Limited	Bangladesh	100.00
L'Oréal Belgilux S.A.	Belgium	100.00
L'Oréal Brasil Comercial de Cosméticos Ltda	Brazil	100.00
L'Oréal Brasil Pesquisas e Inovacao Ltda	Brazil	100.00
L'Oréal Brasil-Licenciamentos Empresariais, Cosméticos e Perfumes Ltda	Brazil	100.00
L'Oréal Bulgaria EOOD	Bulgaria	100.00
L'Oréal Canada, Inc.	Canada	100.00
L'Oréal Central America S.A.	Panama	100.00
L'Oréal Central West Africa Ltd	Nigeria	100.00
L'Oréal Ceska Republika s.r.o.	Czech Republic	100.00
L'Oréal Chile S.A.	Chile	100.00
L'Oréal Colombia S.A.S.	Colombia	100.00
L'Oréal Cosmetics Industry S.A.E.	Egypt	100.00
L'Oréal Côte d'Ivoire	Ivory Coast	100.00
L'Oréal Danmark A/S	Denmark	100.00
L'Oréal Deutschland GmbH	Germany	100.00
L'Oréal East Africa Limited	Kenya	100.00
L'Oréal Egypt LLC	Egypt	100.00
L'Oréal España S.A.	Spain	100.00
L'Oréal Finland Oy	Finland	100.00
L'Oréal Guatemala S.A.	Guatemala	100.00
L'Oréal Hellas S.A.	Greece	100.00
L'Oréal Hong Kong Limited	Hong Kong	100.00
L'Oréal India Private Limited	India	100.00
L'Oréal Investments B.V.	The Netherlands	100.00
L'Oréal Italia S.P.Ä.	Italy	100.00
L'Oréal Kazakhstan Limited Liability Partnership	Kazakhstan	100.00
L'Oréal Korea Limited	Korea	100.00
L'Oréal Liban SAL	Lebanon	99.98
L'Oréal Libramont	Belgium	100.00
L'Oréal Magyarország Kozmetikai Kft	Hungary	100.00
L'Oréal Malaysia SDN BHD	Malaysia	100.00

Company	Head office	% interest
L'Oréal Manufacturing Midrand (Proprietary) Limited	South Africa	100.00
L'Oréal Maroc	Morocco	50.00
L'Oréal Mexico Servicios S.A. de C.V.	Mexico	100.00
L'Oréal Mexico S.A. de C.V.	Mexico	100.00
L'Oréal Middle East	United Arab Emirates	100.00
L'Oréal Nederland B.V.	The Netherlands	100.00
L'Oréal New Zealand Limited	New Zealand	100.00
L'Oréal Norge A/S	Norway	100.00
L'Oréal Österreich GmbH	Austria	100.00
L'Oréal Pakistan Private Limited	Pakistan	100.00
L'Oréal Panama Comercial S.A.	Panama	100.00
L'Oréal Panama S.A.	Panama	100.00
L'Oréal Peru S.A.	Peru	100.00
L'Oréal Philippines, Inc.	The Philippines	100.00
L'Oréal Polska Sp. z o.o.	Poland	100.00
L'Oréal Portugal Unipessoal, Lda	Portugal	100.00
L'Oréal Produits de Luxe France	France	100.00
L'Oréal Produits de Luxe International	France	100.00
L'Oréal Produktion Deutschland Beteiligung GmbH	Germany	100.00
L'Oréal Produktion Deutschland GmbH & Co. Kg	Germany	100.00
L'Oréal Romania SRL	Romania	100.00
L'Oréal Saipo Industriale S.p.À.	Italy	100.00
L'Oréal Saudi Arabia	Saudi Arabia	75.00
L'Oréal Singapore Pte Ltd	Singapore	100.00
L'Oréal Slovenija Kozmetika d.o.o.	Slovenia	100.00
L'Oréal Slovensko s.r.o.	Slovakia	100.00
L'Oréal SLP S.A. de C.V.	Mexico	100.00
L'Oréal South Africa Holdings (Proprietary) Limited	South Africa	100.00
L'Oréal Suisse S.A.	Switzerland	100.00
L'Oréal Sverige AB	Sweden	100.00
L'Oréal Taiwan Co. Ltd	Taiwan	100.00
L'Oréal Türkiye Kozmetik Sanayi Ve Ticaret Anonim Sirketi	Turkey	100.00
L'Oréal UAE General Trading LLC	United Arab Emirates	99.80
L'Oréal Ukraine	Ukraine	100.00
L'Oréal Uruguay S.A.	Uruguay	100.00
L'Oréal USA, Inc. (as a group)	United States	100.00
L'Oréal Verwaltungs GmbH	Germany	100.00
L'Oréal Vietnam Co. Ltd	Vietnam	100.00
L'Oréal West Africa Limited	Ghana	100.00
La Roche-Posay Laboratoire Dermatologique	France	99.98
Laboratoire Sanoflore	France	100.00
Laboratorios de Cosméticos Vogue S.A.S.	Colombia	100.00
Lancôme Parfums et Beauté & Cie	France	100.00
Lehoux et Jacqué	France	100.00
LOA1	France	100.00
LOA3	France	100.00



Company	Head office	% interest
LOA5	France	100.00
LOA6	France	100.00
LOA7	France	100.00
LOA8	France	100.00
Logistica 93 S.r.l.	Italy	100.00
Magic Holdings (as a group)	China	100.00
Masrelor LLC	Egypt	100.00
Matrix Distribution GmbH	Germany	100.00
Niely do Brasil Industrial Ltda	Brazil	100.00
Nihon L'Oréal Kabushiki Kaisha	Japan	100.00
NLO Kabushiki Kaisha	Japan	100.00
NYX Professional Makeup SPRL/BVBA	Belgium	100.00
Oomes B.V.	The Netherlands	100.00
P.T. L'Oréal Indonesia	Indonesia	100.00
P.T. Yasulor Indonesia	Indonesia	100.00
Parbel of Florida, Inc.	United States	100.00
Prestige et Collections International	France	100.00
Procosa Productos de Beleza Ltda	Brazil	100.00
Productos Capilares L'Oréal S.A.	Spain	100.00
Redken France	France	100.00
Retail Excellence 4	France	100.00
Scental Limited	Hong Kong	100.00
Shanghai Episkin BioTechnology Co. Ltd	China	99.89
Shanghai L'Oréal International Trading Co. Ltd	China	100.00
Shu Uemura Cosmetics Inc.	Japan	100.00
Sicôs & Cie	France	100.00
SLP Asistencia S.A. de C.V.	Mexico	100.00
Société Hydrominérale de La Roche-Posay (SHRP)	France	99.98
Soprococ	France	100.00
Soproréal	France	100.00
Sparlys	France	100.00
Thermes de Saint-Gervais-Les-Bains Le Fayet	France	100.00
Yichang Tianmei International Cosmetics Co. Ltd	China	100.00
Zao L'Oréal	Russia	100.00

**4.7.2. EQUITY-ACCOUNTED COMPANIES**

Company	Head office	% interest
Innéov Argentina S.A.	Argentina	50.00 <sup>(1)</sup>
Innéov Deutschland GmbH	Germany	50.00 <sup>(1)</sup>
Innéov España S.A.	Spain	50.00 <sup>(1)</sup>
Innéov Hellas A.E.	Greece	50.00 <sup>(1)</sup>
Innéov Italia S.r.l.	Italy	50.00 <sup>(1)</sup>
Innéov Mexico S.A. de C.V.	Mexico	50.00 <sup>(1)</sup>
Innéov Taiwan Co. Ltd	Taiwan	50.00 <sup>(1)</sup>
Nutricos Technologies	France	50.00 <sup>(1)</sup>

(1) Companies jointly owned with Nestlé.

## 4.8. STATUTORY AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

(For the year ended December 31, 2017)

To the Shareholders,

### Opinion

In compliance with the engagement entrusted to us by your Annual General Meeting, we have audited the accompanying consolidated financial statements of L'Oréal for the year ended December 31, 2017.

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the Group as at December 31, 2017 and of the results of its operations for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

The audit opinion expressed above is consistent with our report to the Audit Committee.

### Basis for opinion

#### *Audit framework*

We conducted our audit in accordance with professional standards applicable in France. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under these standards are further described in the "Responsibilities of the Statutory Auditors relating to the audit of the consolidated financial statements" section of our report.

#### *Independence*

We conducted our audit engagement in compliance with the independence rules applicable to us, for the period from January 1, 2017 to the date of our report and in particular we did not provide any non-audit services prohibited by article 5(1) of Regulation (EU) No 537/2014 or the French Code of Ethics (*Code de déontologie*) for Statutory Auditors.

### Justification of assessments – Key audit matters

In accordance with the requirements of articles L.823-9 and R.823-7 of the French Commercial Code (*Code de commerce*) relating to the justification of our assessments, we inform you of the key audit matters relating to the risks of material misstatement that, in our professional judgment, were of most significance in our audit of the consolidated financial statements, as well as how we addressed those risks.

These matters were addressed as part of our audit of the consolidated financial statements as a whole, and therefore contributed to the opinion we formed as expressed above. We do not provide a separate opinion on specific items of the consolidated financial statements.

**Description of risk****How our audit addressed this risk**Measurement of intangible assets

See Note 7.1. – Goodwill, Note 7.2. – Other intangible assets, Note 7.3. – Impairment tests on intangible assets, and Note 4 – Other operational income and expenses, to the consolidated financial statements

At December 31, 2017, the carrying amount of goodwill and other intangible assets recognized in the consolidated financial statements totaled €11,451 million, representing 32% of assets. These assets consist primarily of goodwill and non-amortized brands with indefinite useful life, recognized following business combinations.

When an adverse event occurs, or at least once a year, the Group verifies that the carrying amount of these assets is not greater than their recoverable amount and does not present a risk of impairment (impairment test).

The recoverable amount of each Cash Generating Unit (CGU) is determined on the basis of discounted operating cash flow forecasts covering a period of 10 years (the period considered necessary for the strategic positioning of an acquisition) and a terminal value.

The main assumptions taken into account in the measurement of recoverable amount concern:

- ◆ growth in sales and margin rate;
- ◆ a perpetual growth rate for calculating the terminal value; and
- ◆ discount rates based on the weighted average cost of capital, where necessary adjusted by a country risk premium.

The impairment tests performed at December 31, 2017 on the L'Oréal Beauty Device and Magic CGUs did not lead to any change in the impairment losses recognized at 31 December 2016.

We deemed the measurement of these assets to be a key audit matter because of their relative materiality in the consolidated financial statements and because the calculation of their recoverable amount requires a high degree of judgment from management in terms of projecting future cash flows and determining the main assumptions to be used.

We examined the methodology for performing impairment tests. In particular, we assessed the quality of the process for drawing up and approving budgets and forecasts by management, the reasonableness of the main estimates made and, more specifically:

- ◆ the consistency of projections of sales and margin rates with past performance of the Group and the economic and financial context in which the Group operates;
- ◆ the corroboration of the growth rates used with analyses of the performance of the global cosmetics market, taking into account specific features of the local markets and distribution channels in which the Group operates;
- ◆ the discount rates applied to the estimated cash flows, by comparing their inputs with external references, with the guidance of our valuation experts;
- ◆ the analyses of the sensitivity of the recoverable amount to the key main assumptions used, as described by management in Note 7.3 to the consolidated financial statements, and to our own analyses.

Measurement of provisions for liabilities and charges and contingent liabilities

See Note 11 – Provisions for liabilities and charges - Contingent liabilities and material ongoing disputes, to the consolidated financial statements

The Group is exposed to various risks arising in the ordinary course of its operations, particularly tax risks, industrial, environmental and commercial risks relating to operations, employee-related risks and risks related to antitrust investigations, for which provisions amounting to €1,021 million had been recorded at December 31, 2017.

When the amount or due date of a liability can be estimated with sufficient reliability, provisions are recorded for these risks. When this is not the case, the Group provides disclosures on contingent liabilities in the notes to the consolidated financial statements.

The contingent liabilities and material ongoing disputes disclosed in Note 11.2.1 include tax disputes in Brazil and India, which amounted to €561 million and €118 million respectively at end 2017.

We deemed the determination and measurement of provisions for liabilities and charges to be a key audit matter given:

- ◆ the high degree of judgment required from management to determine which risks should be provisioned and to measure with sufficient reliability the amounts of these provisions;
- ◆ the potentially material impact of these provisions on the Group's operating profit.

In order to identify and gain an understanding of all of the existing disputes and liabilities as well as the corresponding judgments made, we conducted interviews with the Group General Management, the Legal and Tax Departments and the relevant local management teams at all levels of the organization, in France and abroad. We corroborated the list of identified disputes with:

- ◆ the Group's risk assessment, as presented by management to the Audit Committee;
- ◆ the information provided by the principal law firms acting for the Group, from which we obtained confirmations.

We assessed the quality of management's estimates by comparing the amounts paid out with the provisions recorded in recent years.

Regarding the most significant disputes for which a provision was recorded, with the guidance of our experts in the field, we carried out the following procedures:

- ◆ we examined the procedural aspects and/or the legal or technical opinions prepared by the lawyers or external experts selected by management in order to assess the merits of the decision to record a provision;
- ◆ on the basis of the information provided to us, we critically assessed the estimated ranges of risk level determined by the Group's lawyers and verified that the measurements used by management fall within these ranges;
- ◆ when appropriate, we verified the consistency of the approaches adopted for these assessments.

Regarding contingent liabilities, with the guidance of our experts in the field, we examined the procedural aspects and/or the legal or technical opinions prepared by the lawyers or external experts selected by management in order to assess the merits of the decision not to record a provision. We verified the appropriateness of the disclosures provided in the notes to the consolidated financial statements.

**Description of risk****How our audit addressed this risk****Recognition of net sales – estimation of items to be deducted from sales**

*See Note 3 – Accounting principles – Net sales, to the consolidated financial statements*

Sales incentives, discounts and product returns are deducted from sales, as are incentives granted to distributors or consumers, such as commercial cooperation, coupons, discounts and loyalty programmes.

These various deductions are recorded simultaneously to the recognition of sales, based mainly on statistics compiled from past experience and contractual conditions.

We deemed estimating these amounts at the reporting date to be both difficult (due to the range of contracts and contractual conditions prevalent in the Group's different markets) and sensitive (sales are a key indicator in the assessment of the performance of the Group and its management), and to have a material impact in the financial statements.

Accordingly, these estimates constitute a key audit matter given the risk that product returns, sales incentives, discounts and other incentives granted to customers (distributors or consumers) are not fully catalogued and/or properly measured and thus that net sales are not accounted for correctly or in the appropriate reporting period.

We assessed the appropriateness of the accounting policies applied by the Group with respect to the recognition of product returns, sales incentives, discounts and other incentives granted to customers, with respect to IFRS.

We familiarized ourselves with the internal control systems implemented by the Group's commercial entities, with a view to measuring and accounting for items deducted from sales, especially at the end of the reporting period, and we tested, on a sample basis, the main controls of those systems.

We also carried out substantive tests on representative samples in order to ascertain whether product returns and incentives granted to customers were being estimated correctly. Our tests consisted primarily in:

- ♦ assessing the appropriateness of valuation methods, in particular through a critical assessment of the assumptions used, verification of the consistency of the methods, and analysis of the unwinding of provisions from the previous year;
- ♦ reconciling the statistics compiled from past experience and contractual conditions with the data contained in the IT systems dedicated to the management of commercial conditions;
- ♦ verifying the calculation of the corresponding expenses (including the residual commitment at the end of the reporting period) and how they are recorded in the accounting system and presented in the consolidated financial statements;

4

**Verification of the information pertaining to the Group presented in the management report**

As required by law and in accordance with professional standards applicable in France, we have also verified the information pertaining to the Group presented in the management report of the Board of Directors.

We have no matters to report as to its fair presentation and its consistency with the consolidated financial statements.

**Report on other legal and regulatory requirements*****Appointment of the Statutory Auditors***

We were appointed Statutory Auditors of L'Oréal at the Annual General Meeting of April 29, 2004 for both PricewaterhouseCoopers Audit and Deloitte & Associés.

As at December 31, 2017, PricewaterhouseCoopers Audit and Deloitte & Associés were in the fourteenth year of total uninterrupted engagement.

**Responsibilities of management and those charged with governance for the consolidated financial statements**

Management is responsible for preparing consolidated financial statements presenting a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and for implementing the internal control procedures it deems necessary for the preparation of consolidated financial statements free of material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is 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 it expects to liquidate the company or to cease operations.

The Audit Committee is responsible for monitoring the financial reporting process and the effectiveness of internal control and risk management systems, as well as, where applicable, any internal audit systems, relating to accounting and financial reporting procedures.

The consolidated financial statements were approved by the Board of Directors.

## Responsibilities of the Statutory Auditors relating to the audit of the consolidated financial statements

### *Objective and audit approach*

Our role is to issue a report on the consolidated financial statements. Our objective is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free of material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards 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 consolidated financial statements.

As specified in article L.823-10-1 of the French Commercial Code, our audit does not include assurance on the viability or quality of management of the company.

As part of an audit conducted in accordance with professional standards applicable in France, the Statutory Auditors exercise professional judgment throughout the audit. They also:

- ◆ Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence considered to be sufficient and appropriate to provide a basis for their opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- ◆ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control;
- ◆ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management and the related disclosures in the notes to the consolidated financial statements;
- ◆ Assess the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of the audit report. However, future events or conditions may cause the company to cease to continue as a going concern. If the Statutory Auditors conclude that a material uncertainty exists, they are required to draw attention in the audit report to the related disclosures in the consolidated financial statements or, if such disclosures are not provided or are inadequate, to issue a qualified opinion or a disclaimer of opinion;
- ◆ Evaluate the overall presentation of the consolidated financial statements and assess whether these statements represent the underlying transactions and events in a manner that achieves fair presentation;
- ◆ Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. The Statutory Auditors are responsible for the direction, supervision and performance of the audit of the consolidated financial statements and for the opinion expressed thereon.

### *Report to the Audit Committee*

We submit a report to the Audit Committee which includes in particular a description of the scope of the audit and the audit programme implemented, as well as the results of our audit. We also report any significant deficiencies in internal control that we have identified regarding the accounting and financial reporting procedures.

Our report to the Audit Committee includes the risks of material misstatement that, in our professional judgment, were of most significance in the audit of the consolidated financial statements and which constitute the key audit matters that we are required to describe in this report.

We also provide the Audit Committee with the declaration provided for in article 6 of Regulation (EU) No 537/2014, confirming our independence within the meaning of the rules applicable in France, as defined in particular in articles L.822-10 to L.822-14 of the French Commercial Code and in the French Code of Ethics for Statutory Auditors. Where appropriate, we discuss any risks to our independence and the related safeguard measures with the Audit Committee.

Neuilly-sur-Seine, February 20, 2018

The Statutory Auditors

PricewaterhouseCoopers Audit  
G rard Morin

Deloitte & Associ s  
Fr d ric Moulin

# 5

## 2017 Parent Company Financial Statements\*



<b>5.1.</b> Compared income statements	<b>286</b>	<b>5.6.</b> Other information relating to the financial statements of L'Oréal parent company	<b>309</b>
<b>5.2.</b> Compared balance sheets	<b>287</b>	<b>5.6.1.</b> Expenses and charges falling under article 223 quater of the French Tax Code	309
<b>5.3.</b> Changes in shareholders' equity	<b>288</b>	<b>5.6.2.</b> Invoices issued and received not paid at the end of the financial year and in arrears	309
<b>5.4.</b> Statements of cash flows	<b>289</b>	<b>5.6.3.</b> Net sales (excluding taxes)	310
<b>5.5.</b> Notes to the parent company financial statements	<b>290</b>	<b>5.7.</b> Five-year financial summary	<b>310</b>
		<b>5.8.</b> Investments (main changes including shareholding threshold changes)	<b>311</b>
		<b>5.9.</b> Statutory Auditors' Report on the financial statements	<b>312</b>

\* This information forms an integral part of the Annual Financial Report as provided in the Article L. 451-1-2 of the French Monetary and Financial Code.

The individual financial statements set out in this chapter are those of the L'Oréal parent company. They show the financial position of the parent company *stricto sensu*. Unlike the consolidated financial statements, they do not include the results of the Group's subsidiaries.

The information with regard to the parent company financial statements that was previously included in the Management Report of the Board of Directors is now included in this chapter.

The pages concerned are the table showing the main changes and thresholds crossed regarding investments in subsidiaries and the five-year financial summary as well as the amount of expenses and charges provided for in Article 223 *quater* of the French Tax Code, and the table showing trade accounts payable provided for by Articles L. 441-6-1 and D. 441-4 of the French Commercial Code. The Statutory Auditor's Report on the parent company financial statements completes this information.

## 5.1. COMPARED INCOME STATEMENTS

€ millions	Notes	31.12.2017	31.12.2016	31.12.2015
<b>Operating revenue</b>		<b>4,017.5</b>	<b>3,381.2</b>	<b>3,283.1</b>
Sales	2	3,613.5	3,053.1	2,967.6
Reversals of provisions and transfers of charges		69.2	65.2	50.5
Other revenue	3	334.8	262.9	265.0
<b>Operating expenses</b>		<b>-3,697.5</b>	<b>-3,212.7</b>	<b>-3,053.9</b>
Purchases and change in inventories		-358.8	-206.5	-209.3
Other purchases and external charges		-1,976.8	-1,754.0	-1,667.6
Taxes and similar payments		-105.3	-110.0	-100.6
Personnel costs		-898.6	-827.0	-825.9
Depreciation, amortisation and charges to provisions	5	-169.6	-205.6	-147.3
Other charges		-188.4	-109.6	-103.2
<b>Operating profit</b>		<b>320.0</b>	<b>168.5</b>	<b>229.2</b>
Net financial revenue	6	2,637.2	3,009.5	2,671.9
Net charges/reversals of provisions and transfers of charges	6	122.3	-96.1	118.4
Exchange gains and losses		-111.9	-167.5	-12.2
<b>Net financial income</b>		<b>2,647.6</b>	<b>2,745.9</b>	<b>2,778.1</b>
<b>Profit before tax and exceptional items</b>		<b>2,967.6</b>	<b>2,914.4</b>	<b>3,007.3</b>
<b>Exceptional items</b>	7	<b>-62.2</b>	<b>5.8</b>	<b>42.0</b>
Employee Profit Sharing		-19.7	-18.9	-17.2
Income tax	8	166.0	113.1	23.3
<b>NET PROFIT</b>		<b>3,051.7</b>	<b>3,014.4</b>	<b>3,055.4</b>



## 5.2. COMPARED BALANCE SHEETS

### ASSETS

€ millions (net value)	Notes	31.12.2017	31.12.2016	31.12.2015
Intangible assets	11	2,234.4	1,535.5	1,298.8
Tangible assets	12	498.0	477.3	455.6
Financial assets	14	10,237.1	10,571.1	10,229.0
<b>Non-current assets</b>		<b>12,969.5</b>	<b>12,583.9</b>	<b>11,983.4</b>
Inventories		64.7	26.8	36.2
Prepayments to suppliers		6.2	7.1	23.8
Trade accounts receivable	16	567.6	493.1	526.1
Other current assets	16	452.5	471.4	548.5
Marketable securities	15	95.3	124.7	234.8
Cash and cash equivalents	27	806.5	180.9	192.5
<b>Current assets</b>		<b>1,992.8</b>	<b>1,304.0</b>	<b>1,561.9</b>
Prepaid expenses		58.2	42.0	52.1
Unrealised exchange losses	21	46.4	18.4	20.0
<b>TOTAL ASSETS</b>		<b>15,066.9</b>	<b>13,948.3</b>	<b>13,617.4</b>

### SHAREHOLDERS' EQUITY AND LIABILITIES

€ millions	Notes	31.12.2017	31.12.2016	31.12.2015
Share capital		112.1	112.4	112.6
Additional paid-in capital		2,935.3	2,817.3	2,654.5
Reserves and retained earnings		6,922.8	6,269.6	5,454.1
Net profit		3,051.7	3,014.4	3,055.4
Regulated provisions		89.1	92.2	80.7
<b>Shareholders' equity</b>		<b>13,111.0</b>	<b>12,305.9</b>	<b>11,357.3</b>
<b>Provisions for liabilities and charges</b>	<b>18</b>	<b>466.3</b>	<b>401.6</b>	<b>460.8</b>
Borrowings and debts	19	211.6	169.0	868.0
Trade accounts payable	20	684.5	486.8	508.9
Other current liabilities	20	571.4	574.8	407.3
<b>Other liabilities</b>		<b>1,467.5</b>	<b>1,230.6</b>	<b>1,784.2</b>
Unrealised exchange gains	21	22.1	10.2	15.1
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>		<b>15,066.9</b>	<b>13,948.3</b>	<b>13,617.4</b>

### 5.3. CHANGES IN SHAREHOLDERS' EQUITY

The share capital comprises 560,519,088 shares with a par value of €0.2 each following transactions carried out in 2017:

- ◆ subscription to 1,509,576 shares following the exercise of options, and grant of 375 free shares;
- ◆ cancellation of 2,846,604 treasury shares.

Changes in shareholders' equity are as follows:

€ millions	Share capital	Additional paid-in capital	1976 revaluation reserve	Reserves and retained earnings	Net profit	Regulated provisions	Total
<b>Balance at 31 December 2014 before appropriation of net profit</b>	<b>112.2</b>	<b>2,316.8</b>	<b>43.7</b>	<b>2,346.0</b>	<b>4,938.0</b>	<b>87.1</b>	<b>9,843.8</b>
Changes in share capital	1.0	337.7					338.7
Cancellation of Treasury stock	-0.6			-362.2			-362.8
Appropriation of 2014 net profit				3,426.6	-3,426.6		0
Dividends paid for 2014					-1,511.4		-1,511.4
2015 net profit					3,055.4		3,055.4
Other movements during the period						-6.4	-6.4
<b>Balance at 31 December 2015 before appropriation of net profit</b>	<b>112.6</b>	<b>2,654.5</b>	<b>43.7</b>	<b>5,410.4</b>	<b>3,055.4</b>	<b>80.7</b>	<b>11,357.3</b>
Changes in share capital	0.4	162.8					163.2
Cancellation of Treasury stock	-0.6			-497.9			-498.5
Appropriation of 2015 net profit				1,313.5	-1,313.5		0
Dividends paid for 2015					-1,741.9		-1,741.9
2016 net profit					3,014.4		3,014.4
Other movements during the period						11.5	11.5
<b>Balance at 31 December 2016 before appropriation of net profit</b>	<b>112.4</b>	<b>2,817.3</b>	<b>43.7</b>	<b>6,226.0</b>	<b>3,014.4</b>	<b>92.2</b>	<b>12,306.0</b>
Change in accounting policy at 1 January 2017 <sup>(1)</sup>				-4.7			-4.7
<b>Balance at 1 January 2017 before appropriation of net profit</b>	<b>112.4</b>	<b>2,817.3</b>	<b>43.7</b>	<b>6,221.3</b>	<b>3,014.4</b>	<b>92.2</b>	<b>12,301.3</b>
Changes in share capital	0.3	118.0					118.3
Cancellation of Treasury stock	-0.6			-497.6			-498.2
Appropriation of 2016 net profit				1,156.7	-1,156.7		0.0
Dividends paid for 2016					-1,857.7		-1,857.7
2017 net profit					3,051.7		3,051.7
Other movements during the period			-1.2			-3.2	-4.4
<b>BALANCE AT 31 DECEMBER 2017 BEFORE APPROPRIATION OF NET PROFIT</b>	<b>112.1</b>	<b>2,935.3</b>	<b>42.5</b>	<b>6,880.4</b>	<b>3,051.7</b>	<b>89.0</b>	<b>13,111.0</b>

(1) First application of regulation No. 2015-05 issued by the Autorités des Normes Comptables (ANC) relative to derivative financial instruments and hedging operations (see note 1).

Reserves include an amount of €9.9 million in 2017 corresponding to unpaid dividends on treasury shares, compared with €14.2 million in 2016 and €12.8 million in 2015.

Accelerated tax-driven depreciation at 31 December 2017 amount to €88.8 million compared with €91.9 million at 31 December 2016 and €74.3 million at 31 December 2015.

Details of option plans and free share plans are provided in note 17.

## 5.4. STATEMENTS OF CASH FLOWS

€ millions	Notes	31.12.2017	31.12.2016	31.12.2015
<b>Operating activities</b>				
<b>Net profit</b>		<b>3,051.7</b>	<b>3,014.4</b>	<b>3,055.4</b>
Depreciation and amortisation	12	105.7	106.1	95.1
Charges to provisions (net of reversals)		-93.3	131.7	-119.6
Gains and losses on disposals of non-current assets		61.4	-10.4	1.6
Other non-cash transactions <sup>(1)</sup>		71.5	126.3	118.0
<b>Gross cash flow</b>		<b>3,197.0</b>	<b>3,368.1</b>	<b>3,150.5</b>
Changes in working capital	25	292.4	148.6	-314.8
<b>Net cash provided by operating activities</b>		<b>3,489.4</b>	<b>3,516.7</b>	<b>2,835.7</b>
<b>Investing activities</b>				
Investments in non-current assets		-2,209.5	-1,372.4	-577.3
Changes in other financial assets	26	46.7	11.9	-25.2
Disposals of non-current assets		962.9	110.9	21.8
<b>Net cash from (used in) investing activities</b>		<b>-1,199.9</b>	<b>-1,249.6</b>	<b>-580.7</b>
<b>Financing activities</b>				
Capital increase		118.3	163.2	338.6
Dividends paid		-1,857.7	-1,741.9	-1,511.4
Changes in financial debt		196.9	-103.5	-1,733.8
<b>Net cash from (used in) financing activities</b>		<b>-1,542.5</b>	<b>-1,682.2</b>	<b>-2,906.6</b>
Cash acquired or sold in the period (complete transfer of assets and liabilities)		32.7	-1.0	34.1
<b>Change in cash and cash equivalents</b>		<b>779.7</b>	<b>583.9</b>	<b>-617.5</b>
Net Cash and cash equivalents at beginning of year		26.4	-557.5	60.0
<b>NET CASH AND CASH EQUIVALENTS AT THE END OF YEAR</b>	<b>27</b>	<b>806.1</b>	<b>26.4</b>	<b>-557.5</b>

(1) Relating mainly to the value of free shares vested under the 2011, 2012 and 2013 plans which matured in 2015, 2016 and 2017, respectively.

## 5.5. NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

### Notes contents

<b>NOTE 1</b>	Accounting principles	291	<b>NOTE 17</b>	Stock purchase or subscription options – Free shares	300
<b>NOTE 2</b>	Sales	294	<b>NOTE 18</b>	Provisions for liabilities and charges	301
<b>NOTE 3</b>	Other revenue	294	<b>NOTE 19</b>	Borrowings and debt	301
<b>NOTE 4</b>	Average headcount	294	<b>NOTE 20</b>	Maturity of payables	302
<b>NOTE 5</b>	Depreciation, amortisation and charges to provisions	294	<b>NOTE 21</b>	Unrealised exchange gains and losses	302
<b>NOTE 6</b>	Net financial income	295	<b>NOTE 22</b>	Derivative financial instruments	303
<b>NOTE 7</b>	Exceptional items	295	<b>NOTE 23</b>	Transactions and balances with related entities and parties	304
<b>NOTE 8</b>	Income tax	295	<b>NOTE 24</b>	Off-balance sheet commitments	304
<b>NOTE 9</b>	Increases or reductions in future tax liabilities	296	<b>NOTE 25</b>	Changes in working capital	305
<b>NOTE 10</b>	Research costs	296	<b>NOTE 26</b>	Changes in other financial assets	305
<b>NOTE 11</b>	Intangible assets	297	<b>NOTE 27</b>	Cash and cash equivalents at the end of the year	305
<b>NOTE 12</b>	Tangible assets	297	<b>NOTE 28</b>	Disclosures	305
<b>NOTE 13</b>	Non-current assets held under finance leases	298	<b>NOTE 29</b>	Subsequent events	305
<b>NOTE 14</b>	Financial assets	298	<b>NOTE 30</b>	Table of subsidiaries and holdings	306
<b>NOTE 15</b>	Marketable securities	299			
<b>NOTE 16</b>	Maturity of receivables	299			

### Highlights of the financial year

Under the conditions of the merger project dated 9 May 2017, LaScad contributed all of its assets to L'Oréal as part of said merger, which in turn appropriated all of its liabilities. The merger went into force at midnight on 30 June 2017 with retroactive effect to 1 January 2017.

The company Gemey Maybelline Garnier granted L'Oréal a lease management rental contract enabling it to use the former's business assets to "design and market L'Oréal Group products on French mass-market retail channels, notably comprising a distribution centre and stores". This lease management rental agreement went into effect as of 1 July

2017 for a period of six months, renewable by tacit consent on a six-month basis.

On 9 June 2017, L'Oréal announced, following an extensive review of the strategic options for The Body Shop to ensure its best future development, having received a firm offer from Natura Cosméticos S.A. to acquire The Body Shop and entered into exclusive discussions with Natura. The sale contract to Natura Cosméticos S.A. was signed on 27 June 2017.

After having obtained the necessary authorisations from the competent authorities, L'Oréal and Natura Cosméticos S.A. finalised the definitive agreement to sell The Body Shop to Natura on 7 September 2017, in accordance with project communicated on 9 June 2017.

NOTE 1

## Accounting principles

The Company's annual financial statements are prepared in accordance with French law and regulations (French Chart of Accounts) and with French generally accepted accounting principles.

### **CHANGE IN ACCOUNTING METHOD APPLIED AT 1 JANUARY 2017: ANC Regulation No. 2015-05 relative to derivative financial instruments and hedging operations**

This regulation notably specifies that:

- ♦ income from hedging instruments be presented on the same line in the income statement as hedged items, and recognised symmetrically;
- ♦ option premiums and income/discounts must impact profit and loss at the same time as the hedged items;
- ♦ the overall currency position be calculated on a currency-per-currency basis, include items with a maturity date effective in the same accounting year, and exclude hedging operations and the items they cover;
- ♦ unrealised gains/losses relative to isolated open positions be booked under Translation Adjustments;
- ♦ a provision for currency risk be recognised in the event of an unrealised foreign currency loss.

In accordance with regulations, the impact of the change in accounting method was limited to existing operations at 1 January 2017.

This change led to a reduction in opening shareholders' equity at 1 January 2017, to the tune of €4.7 million net of tax, which was offset by increases in the amount of unrealised exchange losses (€104.9 million), corporate income tax receivables (€2.5 million), unrealised exchange gains (€11.8 million) and provisions for currency losses (€100.3 million).

### **1.1. Sales**

These are comprised of sales of goods (net of returns from distributors and rebates and discounts) and services (including technological assistance fees).

### **1.2. Advertising and promotion expenses**

Expenses relating to the advertisement and promotion of products to customers and consumers are recognised as expenses for the year in which the advertisement or promotional initiative takes place.

### **1.3. Research and development costs**

Research and development costs are recognised in expenses in the period in which they are incurred.

### **1.4. Income tax**

The Company has opted for the French tax group regime. French companies included in the scope of tax consolidation recognise an income tax charge in their own accounts on the basis of their own taxable profits and losses.

L'Oréal, as the parent company of the tax group, recognises as tax income the difference between the aggregate tax charges recognised by the subsidiaries and the tax due on the basis of consolidated taxable profit or loss of the tax group.

### **1.5. Intangible assets**

Intangible assets are recorded in the balance sheet at purchase cost, including acquisition costs.

Pursuant to Regulation No. 2015-06 issued by the French accounting standards-setter (*Autorité des Normes Comptables* - ANC), technical merger losses were allocated to the corresponding underlying assets, reclassified to special-purpose accounts at 1 January 2016 and amortised where appropriate.

The value of newly acquired trademarks is calculated based on a multi-criteria approach taking into consideration their reputation and their future contribution to profits.

In accordance with regulation No. 2004-06 on assets, certain trademarks have been identified as amortisable in accordance with their estimated useful life.

Non-amortisable trademarks are tested for impairment at least once a year on the basis of the valuation model used at the time of their acquisition. An impairment is recorded where appropriate. Initial trademark registration costs are recorded as expenses.

Patents are amortised over a period ranging from 2 to 10 years.

Business goodwill is not amortised. It is written down whenever the present value of future cash flows is less than the book value.

Software of material value is amortised using the straight-line method over its probable useful life, generally between 5 and 7 years. It is also subject to accelerated tax-driven amortisation, which is recognised over a 12-month period.

Other intangible assets are usually amortised over periods not exceeding 20 years.

## 1.6. Tangible assets

Tangible assets are recognised at purchase cost, including acquisition expenses.

The useful lives of tangible assets are as follows:

	Length
Buildings	20-50 years
Fixtures and fittings	5-10 years
Industrial machinery and equipment	10 years
Other tangible assets	3-10 years

Both straight-line and declining-balance depreciation is calculated over the actual useful lives of the assets concerned. Exceptionally, industrial machinery and equipment is depreciated using the straight-line method over a period of ten years, with all additional depreciation classified as accelerated tax-driven depreciation.

## 1.7. Financial assets

### 1.7.1. Investments

These items are recognised in the balance sheet at purchase cost excluding incidental expenses.

Their value is assessed annually by reference to their value in use, which is mainly based on the current and forecast profitability of the subsidiary concerned and the share of equity owned. If the value in use falls below the net book value, an impairment is recognised.

### 1.7.2. Other financial assets

Loans and other receivables are valued at their nominal amount. Loans and other receivables denominated in foreign currencies are translated at the exchange rate prevailing at the end of the financial year. If necessary, impairments are recognised against these items to reflect their value in use at the end of the financial year.

Treasury stock acquired in connection with buyback programmes to be cancelled is recognised in other long-term investments.

At the end of the financial year, other long-term investments are compared with their probable sale price and a provision for impairment recognised where appropriate.

## 1.8. Inventories

Inventories are valued using the weighted average cost method.

An impairment is made for obsolete and slow-moving inventories on the basis of their probable net realisable value, estimated on the basis of historic and projected data.

## 1.9. Trade accounts receivable and other receivables

Trade accounts receivable and other receivables are recorded at their nominal value. Where appropriate, an impairment is recognised based on an assessment of the risk of non-recovery.

## 1.10. Marketable securities

Marketable securities are recognised at purchase cost and are valued at the end of the financial year at their probable sale price.

Treasury stock held that is specifically allocated to employee stock option and free shares plans recognised in marketable securities.

No discount is granted on the exercise price of the options. Provided that the shares are purchased at a lower price than the exercise price, no impairment is required. However, an impairment is recognised in the event of a decline in the market price, representing the difference between the book value of the Treasury stock and the average share price in the month preceding the reporting date.

A provision for liabilities and charges in respect of shares of Treasury stock allocated to free share plans for L'Oréal S.A. parent company employees is recognised over the period during which the rights to the free shares vest. Shares of Treasury stock allocated to free share plans for employees of Group subsidiaries are written down in full. However, the subsidiaries concerned will bear most of the cost of granting these free shares.

## 1.11. Provisions for liabilities and charges

Provisions for liabilities and charges are recognised to cover probable outflows of resources to third parties, without receipt of equivalent consideration by the Company. They relate mainly to commercial and financial contingencies and litigation (subsidiaries...) and to Administration and employee-related contingencies.

These provisions are estimated on the basis of the most likely assumptions or by using statistical methods, depending on their type.

## 1.12. Accounting for foreign currency transactions and exchange rate hedges

All receivables and payables denominated in foreign currencies are translated at the exchange rates prevailing at the end of the financial year.

Exchange rate hedging instruments are contracted to hedge commercial transactions recognised in the balance sheet and future transactions that are considered to be highly probable. Gains and losses generated by these instruments are recognised symmetrically with the gains and losses arising on the hedged items, in the same aggregate as profit and loss.

Option premium income/discounts are recognised in profit and loss when the hedged item is recognised.

Derivatives that are not designated as hedges are classified as isolated open positions. These are recognised at their fair value in the balance sheet, and offset an "Unrealised gains or losses" account.

Translation differences on operating assets and liabilities and related hedging instruments are also recognised in the balance sheet as "Unrealised exchanged losses" or "Unrealised exchange gains".

A provision is recognised if the sum of these unrealised exchange gains and losses shows a potential exchange loss based on the overall exchange position, calculated on a currency-by-currency basis. The overall foreign exchange position excludes translation differences of hedging instruments and hedged items.

In accordance with French accounting standards, the potential gain resulting from the overall foreign exchange position is not recognised as income in the income statement.

Hedges have already been taken out in respect of forecasted operating transactions for the next financial year. The impact of such hedges on profit or loss will be recorded during the same accounting period as the transactions hedged.

### 1.13. Accounting for interest rate instruments

In the case of interest-rate hedges, for gains and losses arising on interest rate swaps and caps, hedging financial liabilities are recorded on a time-proportion basis symmetrically with the gains and losses on the items hedged.

### 1.14. Employee retirement obligations and related benefits

L'Oréal S.A. operates pension, early retirement and other benefit schemes for employees and retired employees in accordance with local legislation and regulations. Corporate officers are regarded as employees for all additional benefits relating to their remuneration, and are therefore covered by the same employee benefit schemes.

These obligations are partially funded by an external scheme where the funds are gradually built up through contributions paid. The contributions are expensed as incurred under the Other purchases and external charges caption.

The related obligations are measured using an actuarial valuation method based on final salaries. The method takes account of length of service, life expectancy, turnover by category of personnel and economic assumptions such as inflation and discount rates.

No provision is recognised in the balance sheet for net unfunded obligations, which are shown in off-balance sheet commitments.

Since 2004, the obligation in respect of long-service awards is no longer recognised as an off-balance sheet commitment; instead, a provision is recognised in the balance sheet based on an actuarial valuation of the obligation.

**NOTE 2** Sales

€ millions	31.12.2017	31.12.2016	31.12.2015
Sales of goods <sup>(1)</sup>	1,368.2	873.4	905.7
Services <sup>(2)</sup>	2,053.0	1,929.3	1,781.5
Other revenues	192.3	250.4	280.4
<b>TOTAL</b>	<b>3,613.5</b>	<b>3,053.1</b>	<b>2,967.6</b>

(1) The growth in sales of goods stems from the merger with LaScad and from the management lease of the business assets of the Gemey Maybelline Garnier.

(2) Including invoicing of technological assistance.

The Company generated €1,987.4 million of its sales in France in 2017, compared with €1,467.6 million in 2016 and €1,411.8 million in 2015.

**NOTE 3** Other revenue

This account mainly includes trademark royalties as well as foreign exchange gains on operations, booked under Other revenue since 1 January 2017 pursuant to ANC Regulation No. 2015-05.

**NOTE 4** Average headcount

Average headcount can be broken down as follows:

	2017 <sup>(1)</sup>	2016	2015
Executives	4,230	3,902	3,671
Supervisors	1,994	1,968	1,958
Administrative staff	235	249	234
Manual workers	211	201	219
Sales representatives	390	333	303
<b>TOTAL</b>	<b>7,060</b>	<b>6,653</b>	<b>6,385</b>
Apprentices	201	196	211

(1) Including an additional 411 employees from the merger with LaScad and the management lease contract granted by Gemey Maybelline Garnier.

Pursuant to ANC Regulation No. 2015-06, the method used to calculate average headcount for 2016 was changed: in particular, the calculation no longer includes personnel made available.

**NOTE 5** Depreciation, amortisation and charges to provisions

Depreciation, amortisation and charges to provisions can be broken down as follows:

€ millions	31.12.2017	31.12.2016	31.12.2015
Depreciation and amortisation	-103.5	-103.2	-93.8
Impairment of non-current assets <sup>(1)</sup>	-6.7	-43.0	-
Impairment of current assets	-4.5	-2.7	-6.9
Provisions for liabilities and charges	-54.9	-56.7	-46.6
<b>TOTAL</b>	<b>-169.6</b>	<b>-205.6</b>	<b>-147.3</b>

(1) In 2016, this item relates to the write-down of the business goodwill of Clarisonic.



## NOTE 6 Net financial income

Net financial income amounts includes the following items:

€ millions	31.12.2017	31.12.2016	31.12.2015
Dividends received	2,691.2	3,139.1	2,796.0
Revenues on other receivables and marketable securities	1.4	0.4	0.4
Interest expense on borrowings and financial debt	-4.5	-2.2	-1.7
Other <sup>(1)</sup>	-50.9	-127.8	-122.8
<b>TOTAL</b>	<b>2,637.2</b>	<b>3,009.5</b>	<b>2,671.9</b>

(1) Including mainly the net carrying amount of free shares vested under the 2011, 2012 and 2013 plans which matured in 2015, 2016 and 2017, respectively. This should be looked at in conjunction with the reversal of the impairment loss on treasury shares.

Additions to provisions net of reversals and expense transfers chiefly concern:

€ millions	31.12.2017	31.12.2016	31.12.2015
Impairment of financial investments <sup>(1)</sup>	5.6	-245.0	0.3
Impairment of other financial assets	0.2	-	39.8
Impairment of Treasury stock	79.0	100.5	79.6
Provisions for liabilities and charges relating to financial items	37.5	51.7	-7.2
Other movements	-	-3.3	5.9
<b>TOTAL</b>	<b>122.3</b>	<b>-96.1</b>	<b>118.4</b>

(1) In 2016, this item concerns the write-down of shares in Magic for €218.8 million.

## NOTE 7 Exceptional items

Exceptional items represented -€62.2 million in 2017, compared to €5.8 million in 2016 and €42.0 million in 2015.

## NOTE 8 Income tax

The income tax breaks down as follows:

€ millions	31.12.2017	31.12.2016	31.12.2015
Tax on profit before tax and exceptional items	156.6	105.5	18.3
Tax on exceptional items and employee Profit Sharing	9.4	7.6	5.0
<b>INCOME TAX</b>	<b>166.0</b>	<b>113.1</b>	<b>23.3</b>

In 2017, the income tax gain recognised by L'Oréal includes income of €184.3 million (excluding default interest) from an additional 3% tax on dividends following the claims filed for the 2013 to 2017 financial years, net of €55.7 million in charges paid in June 2017, and savings in the amount of €58.7 million resulting from tax consolidation. It also includes €51.2 million stemming from the impact of an exceptional and additional 30% in tax on companies with sales in excess of €3 billion.

In 2016, the income tax gain recognised by L'Oréal includes the additional 3% tax on dividends (€52.3 million) and saving of €173.1 million resulting from tax consolidation. It also includes income of €57 million relating to claims filed in order to recover the share of costs and expenses levied on certain dividends paid to tax-consolidated companies by companies based in the European Union.

In 2015, the income tax gain recognised by L'Oréal includes the additional 3% tax on dividends (€45.3 million) and saving of €144.9 million resulting from tax consolidation.

The application of tax legislation led to an increase of €45.6 million in net profit for 2017, chiefly reflecting the net charge to regulated provisions along with research and corporate sponsorship tax credits among others.

The CICE (*Crédit d'Impôt Compétitivité Emploi*) tax credit is recognised as a deduction from personnel costs in an amount of €6.4 million *versus* €5.1 million in 2016 and €4.8 million in 2015. The CICE tax credit represents 7% of eligible salaries paid in 2017 (*versus* 6% in 2015 and 2016) and was allocated to investments in premises.

## NOTE 9

## Increases or reductions in future tax liabilities

€ millions	31.12.2015		31.12.2016		Changes		31.12.2017	
	Asset	Liability	Asset	Liability	Asset	Liability	Asset	Liability
<b>Temporary differences</b>								
Regulated provisions	-	25.6		31.6	10.0	9.0		30.6
Temporarily non-deductible charges	66.6		55.5		93.2	64.0	84.7	
Charges deducted (or revenue taxed) for tax purposes but not yet recognised		1.7		2.8	2.8	8.4		8.4
Temporarily non-taxable revenue	-	-						
<b>Deductible items</b>								
Tax losses, deferred items	-	-						
<b>Potentially taxable items</b>								
Special reserve for long-term capital gains		182.7		182.7				182.7

These figures factor in the social contribution of 3.3% which is added to corporate income tax, both at normal and reduced rates, and the reduction in the tax rate in 2022 for intangible asset impairment.

## NOTE 10

## Research costs

Expenses booked in Research activities in 2017 totalled €895.0 million compared with €858.1 million in 2016 and €825.7 million in 2015.

## NOTE 11 Intangible assets

€ millions	31.12.2015	31.12.2016	Acquisitions/ Amortisation	Disposals/ Reversals	Other movements <sup>(2)</sup>	31.12.2017
Patents and trademarks	512.6	556.4	58.7	-	19.5	634.6
Business goodwill <sup>(1)</sup>	806.2	891.4	549.9	-0.2	55.1	1,496.2
Software	291.6	347.7	20.2	-3.5	25.9	390.3
Other intangible assets	70.0	186.5	-	-	-	186.5
Intangible assets in progress	73.8	90.1	101.8	-32.7	-35.2	124.0
<b>Gross value</b>	<b>1,754.2</b>	<b>2,072.1</b>	<b>730.6</b>	<b>-36.4</b>	<b>65.3</b>	<b>2,831.6</b>
Patents and trademarks	91.5	103.1	10.8	-	4.5	118.4
Business goodwill	0.3	0.3	0.5	-0.3	0.1	0.6
Software	218.3	241.4	37.9	-3.5	1.9	277.7
Other intangible assets	48.8	52.4	3.6	-	-	56.0
<b>Amortisation</b>	<b>358.9</b>	<b>397.2</b>	<b>52.8</b>	<b>-3.8</b>	<b>6.5</b>	<b>452.7</b>
Patents and trademarks	51.4	51.4	-	-	-	51.4
Business goodwill <sup>(3)</sup>	41.6	84.6	-	-	-	84.6
Other intangible assets	3.5	3.5	4.9	-	-	8.4
<b>Impairment</b>	<b>96.5</b>	<b>139.5</b>	<b>4.9</b>	<b>-</b>	<b>-</b>	<b>144.4</b>
<b>NET VALUE</b>	<b>1,298.8</b>	<b>1,535.4</b>	<b>672.9</b>	<b>-32.6</b>	<b>58.8</b>	<b>2,234.5</b>

(1) In 2017, the increase in business goodwill relates to the acquisition of CeraVe.

In 2016, the increase in business goodwill relates to the acquisition of IT Cosmetics.

(2) Most of the other movements stem from the merger with LaScod and from asset reclassification.

(3) In 2016, the increase in business goodwill impairment relates to the acquisition of Clarisonic.

5

## NOTE 12 Tangible assets

€ millions	31.12.2015	31.12.2016	Acquisitions/ Depreciation	Disposals/ Reversals	Other movements	31.12.2017
Land	78.6	77.4	0.2	-1.2	0.1	76.5
Buildings	624.8	619.6	11.8	-18.6	14.8	627.6
Industrial machinery and equipment	182.0	186.7	12.8	-7.9	1.2	192.8
Other tangible assets	157.4	188.0	10.8	-11.1	13.4	201.1
Tangible assets in progress	45.0	25.4	42.4	-	-19.7	48.1
Advances and prepayments	0.4	10.7	-	-	-10.0	0.7
<b>Gross value</b>	<b>1,088.2</b>	<b>1,107.8</b>	<b>78.0</b>	<b>-38.8</b>	<b>-0.2</b>	<b>1,146.8</b>
Land	0.5	0.7	0.2	-	-	0.9
Buildings	388.7	383.1	21.2	-18.6	-	385.7
Industrial machinery and equipment	142.6	147.1	9.2	-7.8	0.1	148.6
Other tangible assets	100.5	99.3	22.1	-10.5	0.7	111.6
<b>Amortisation</b>	<b>632.3</b>	<b>630.2</b>	<b>52.7</b>	<b>-36.9</b>	<b>0.8</b>	<b>646.8</b>
Industrial machinery and equipment	0.3	0.3	1.8	-	-	2.1
<b>Impairment</b>	<b>0.3</b>	<b>0.3</b>	<b>1.8</b>	<b>-</b>	<b>-</b>	<b>2.1</b>
<b>NET BOOK VALUE</b>	<b>455.6</b>	<b>477.3</b>	<b>23.5</b>	<b>-1.9</b>	<b>-1.0</b>	<b>497.9</b>

Depreciation and amortisation recognised in 2017 against tangible and intangible assets included:

- ◆ €101.7 million on a straight-line basis;
- ◆ €1.8 million on a declining-balance basis;
- ◆ €2.1 million relating to exceptional depreciation and amortisation.

**NOTE 13 Non-current assets held under finance leases**

€ millions	Non current assets under finance leases at 31.12.2017				Balance sheet including assets under finance leases		
	Cost on initial recognition <sup>(1)</sup>	Depreciation <sup>(2)</sup>		Net book value	Gross value	Depreciation	Net book value
		Period	Accumulated				
Balance sheet captions							
Land and buildings	9.2	-0.5	-3.8	5.4	713.3	-390.5	322.8
<b>TOTAL AT 31.12.2017</b>	<b>9.2</b>	<b>-0.5</b>	<b>-3.8</b>	<b>5.4</b>	<b>713.3</b>	<b>-390.5</b>	<b>322.8</b>
Total at 31.12.2016	9.2	-0.4	-3.3	5.9	706.3	-387.2	319.1
Total at 31.12.2015	9.2	-0.5	-2.9	6.3	712.6	-392.1	320.5

(1) Value of the assets on the date the leases were signed.

(2) Depreciation charge for the year and accumulated depreciation that would have been recognised for these assets had they been purchased outright – Depreciation method on a straight-line basis over 20 years.

€ millions	Finance lease commitments						Residual purchase price under the lease
	Lease payments made		Lease payments outstanding at year-end			Total payable	
	Period	Accumulated	Less than 1 year	1 to 5 years	More than 5 years		
Balance sheet captions							
Land and buildings	1.1	9.0	1.1	0.5	-	1.6	-
<b>TOTAL AT 31.12.2017</b>	<b>1.1</b>	<b>9.0</b>	<b>1.1</b>	<b>0.5</b>	<b>-</b>	<b>1.6</b>	<b>-</b>
Total at 31.12.2016	1.1	7.9	1.1	1.6	-	2.7	-
Total at 31.12.2015	1.1	6.8	1.1	2.7	-	3.8	-

**NOTE 14 Financial assets**

€ millions	31.12.2015	31.12.2016	Acquisitions/ Subscriptions	Disposals/ Reductions	Other movements <sup>(4)</sup>	31.12.2017
Investments <sup>(1)</sup>	10,460.2	10,898.8	180.8	-992.5	595.5	10,682.6
Loans and other receivables	100.7	71.4	820.2	-127.2	-700.4	64.0
L'Oréal shares <sup>(2)</sup>	0	-	498.2	-498.2	-	-
Other <sup>(3)</sup>	28.6	174.5	438.0	-558.1	3.9	58.3
<b>Gross value</b>	<b>10,589.5</b>	<b>11,144.7</b>	<b>1,937.2</b>	<b>-2,176.0</b>	<b>-101.0</b>	<b>10,804.9</b>
Investments	359.6	572.7	4.0	-9.7	-	567.0
Loans and other receivables	0.8	0.8	0.6	-0.8	-	0.6
Other currencies	0.1	0.2	-	-	-	0.2
<b>Impairment</b>	<b>360.5</b>	<b>573.7</b>	<b>4.6</b>	<b>-10.5</b>	<b>-</b>	<b>567.8</b>
<b>NET VALUE</b>	<b>10,229.0</b>	<b>10,571.0</b>	<b>1,932.6</b>	<b>-2,165.5</b>	<b>-101.0</b>	<b>10,237.1</b>

(1) The bulk of this increase concerns the acquisition of Gemey Maybelline Garnier securities and the sale of The Body Shop.

(2) On 9 February 2017, the Board of Directors approved the buyback of L'Oréal shares for a maximum amount of €500 million. The shares were cancelled in accordance with the decision by the Board of Directors on 20 April 2017.

(3) Mainly include the cash-collateral agreements granted to the bank of the Group.

(4) Most of the other movements stem from the merger with LaScad and from asset reclassification.

The detailing subsidiaries and affiliates is presented at the end of the present notes.

## NOTE 15 Marketable securities

This item breaks down as follows:

€ millions	31.12.2017	31.12.2016	31.12.2015
L'Oréal shares	56.5	133.6	233.3
Financial instruments/Premiums paid on options	38.8	35.4	100.6
<b>Gross value</b>	<b>95.3</b>	<b>169.0</b>	<b>333.9</b>
L'Oréal shares	-	-44.3	-99.1
Financial instruments/Premiums paid on options	-	-	-
<b>Impairment</b>	<b>-</b>	<b>-44.3</b>	<b>-99.1</b>
<b>NET BOOK VALUE</b>	<b>95.3</b>	<b>124.7</b>	<b>234.8</b>

L'Oréal shares of Treasury stock acquired in connection with employee free share plans had a net value of €89.3 million at 31 December 2016 against €134.2 million at 31 December 2015.

In 2017, the Group attributed 986,220 free shares.

Stock purchase options expiring in 2017 represent a total of 771,125 shares, for a gross value (equal to the net value) of €56.5 million.

In 2017, the total market value of Treasury stock amounted to €144.7 million based on the average share price in December

and to €142.6 million based on the closing share price on 31 December.

In 2016, the total market value of Treasury stock amounted to €294.2 million based on the average share price in December and to €304.7 million based on the closing share price on 31 December.

In 2015, the total market value of Treasury stock amounted to €474.2 million based on the average share price in December and to €465.1 million based on the closing share price on 31 December.

## NOTE 16 Maturity of receivables

€ millions	Less than 1 year	More than 1 year	Gross	Impairment	Net
Loans and other receivables	58.1	5.9	64.0	-0.6	63.4
Other financial assets	48.1	-	48.1	-	48.1
Trade accounts receivable	568.9	-	568.9	-1.3	567.6
Other current assets, of which	454.3	-	454.3	-1.8	452.5
Tax and employee-related receivables <sup>(1)</sup>	351.8	-	351.8	-	351.8
Other receivables	102.5	-	102.5	-1.8	100.7
<b>Prepaid expenses</b>	<b>58.3</b>	<b>-</b>	<b>58.3</b>	<b>-</b>	<b>58.3</b>

(1) Including a corporate income tax receivable in the amount of €90.2 million and a fine of €189.5 million paid to the French competition authority on 28 April 2015.

Accrual accounts included in receivables amount are as follow:

€ millions	31.12.2017	31.12.2016	31.12.2015
Trade accounts receivable	2.1	41.9	89.9
Other receivables	47.8	23.8	22.6
<b>Total</b>	<b>49.9</b>	<b>65.7</b>	<b>112.5</b>

**NOTE 17** Stock purchase or subscription options – Free shares**17.1** Share subscription or purchase options

The table below sets out data concerning option plans in force at 31 December 2017:

Grant date	Number of options	Number of options not yet exercised	Exercise period		Exercise price
			From	To	
30.11.2007	4,000,000	-	01.12.2012	30.11.2017	91.66
25.03.2009	3,650,000	333,148	26.03.2014	25.03.2019	50.11
27.04.2010	4,200,000	1,292,620	28.04.2015	27.04.2020	80.03
22.04.2011	1,470,000	608,007	23.04.2016	22.04.2021	83.19

All plans have a five-year exercise period and no performance-related conditions, except the 22 April 2011 plan (for all participants) and the 27 April 2010 and 25 March 2009 plans for members of the Management Committee.

All of the performance conditions of these plans have been definitively fulfilled.

**17.2.** Free shares

The table below summarises data relating to the free share plan.

Grant date		Vesting date	Number of shares granted	Number of shares issued/allotted	Number of shares not definitively vested
Share subscription plans	Share purchase plans				
	22.04.2011	23.04.2015	1,038,000	939,300	-
	17.04.2012	18.04.2016	1,325,050	1,233,900	-
	26.04.2013	27.04.2017	1,057,820	988,180	-
17.04.2014		18.04.2018	1,068,565	1,050	1,015,515
22.04.2015		23.04.2019	860,150	675	830,625
20.04.2016		21.04.2020	906,100	125	898,150
20.04.2017		21.04.2021	906,000	-	906,000

For the conditional grant of shares, the plan provides for a four-year vesting period after which vesting is effective and final, subject to meeting the conditions of the plan. After this vesting period, a two-year mandatory holding period applies for French residents, during which the shares cannot be sold, for plans 2011 to 2015.

The performance conditions concern:

- ◆ for the 20 April 2017, 20 April 2016, 22 April 2015, and 17 April 2014 plans:
  - for 50% of shares attributed, the increase in comparable Cosmetics revenues for the 2018, 2019 and 2020 fiscal years under the 2017 plan; for the 2017, 2018 and 2019 fiscal years under the 2016 plan; for the 2016, 2017 and 2018 fiscal years under the 2015 plan; and the 2015, 2016 and 2017 fiscal years under the 2014 plan in relation to the growth in revenues for a panel of competitors;
  - for 50% of shares granted, the increase over the same period in the Group's consolidated operating profit.

The calculation will be based on the arithmetic average of the performance in the 2018, 2019 and 2020 fiscal years under the 2017 plan; in the 2017, 2018 and 2019 fiscal years under the 2016 plan; in the 2016, 2017 and 2018 fiscal years under the 2015 plan; and in the 2015, 2016 and 2017 fiscal years under the 2014 plan; and will use a predefined allocation scale based on the performance percentage achieved. No performance condition applies below a block of 200 shares.

- ◆ The plans of 22 April 2011, 17 April 2012 and 26 April 2013 were definitively vested by the allocation of, respectively, 936,300 shares on 23 April 2015, 1,230,850 shares on 18 April 2016 and 986,220 shares on 27 April 2017.

At 31 December 2017, the performance conditions were deemed to have been met.

A rebilling agreement concerning the cost of free shares has been set up between L'Oréal S.A. and the subsidiaries concerned for the plans 2011, 2012 and 2013.

## NOTE 18 Provisions for liabilities and charges

€ millions	31.12.2015	31.12.2016	Charges	Reversals (used)	Reversals (Not used)	Other	31.12.2017
Provisions for litigation <sup>(1)</sup>	202.5	195.4	1.5	-1.2	-0.4	-	195.3
Provisions for foreign exchange losses <sup>(2)</sup>	4.9	8.2	31.4	-108.8	-	100.6	31.4
Provisions for expenses	118.4	107.3	88.1	-75.6	-5.3	10.1	124.6
Other provisions for liabilities <sup>(3)</sup>	135.0	90.7	30.7	-2.6	-5.1	1.3	115.0
<b>TOTAL</b>	<b>460.8</b>	<b>401.6</b>	<b>151.7</b>	<b>-188.2</b>	<b>-10.8</b>	<b>112.0</b>	<b>466.3</b>

(1) L'Oréal SA was ordered to pay a fine of €189.5 million following the decision handed down in first instance by the French competition authority on 18 December 2014. L'Oréal appealed against this decision. On 27 October 2016, the Paris Court of Appeal upheld the first instance decision. L'Oréal has lodged an appeal in cassation. It should be noted that since the appeal did not entail a stay in the judgement, the fine provisioned at the end of 2014 was paid on 28 April 2015. The provision was maintained in liabilities and the payment recognised in "Other current assets" (see note 16).

(2) The change booked under "Other movements" stems from the change in accounting method relative to ANC Regulation No. 2015-05 (note 1.12).

(3) This section mainly includes provisions set aside to cover risks related to government bodies, commercial and financial risks, and personnel-related costs.

The changes in provisions for liabilities and charges impact the 2017 income statement as follow:

€ millions	Charges	Reversals (used)	Reversals (not used)
Operating profit	54.8	-47.4	-7.8
Net financial income	69.7	-138.5	-
Exceptional items	27.2	-2.3	-3.0
<b>TOTAL</b>	<b>151.7</b>	<b>-188.2</b>	<b>-10.8</b>

## NOTE 19 Borrowings and debt

L'Oréal obtains financing through medium-term bank loans and issues short-term marketable instruments in France. The amount of the programme is €4,000 million. None of the Group's borrowings or debt contains an early repayment clause linked to financial ratios (covenants).

Liquidity on the short-term marketable instruments issues is provided by confirmed short-term credit facilities with banks, which amounted to €3,675 million at 31 December 2017, €3,727 million at 31 December 2016 and €3,813 million at 31 December 2015.

All borrowings and debt are denominated in euros and can be broken down as follows:

### BREAKDOWN BY TYPE OF DEBT

€ millions	31.12.2017	31.12.2016	31.12.2015
Bonds	-	-	-
Short-term marketable instruments	200.0	-	100.0
Bank overdrafts and financing with the Group's cash pool	-	154.5	750.3
Other borrowings and debt	11.6	14.5	17.7
<b>TOTAL</b>	<b>211.6</b>	<b>169.0</b>	<b>868.0</b>

### BREAKDOWN BY MATURITY DATE

€ millions	31.12.2017	31.12.2016	31.12.2015
Less than 1 year	200.5	154.7	850.5
1 to 5 years	9.9	13.0	16.2
More than 5 years	1.2	1.3	1.3
<b>TOTAL</b>	<b>211.6</b>	<b>169.0</b>	<b>868.0</b>

**EFFECTIVE INTEREST RATE AND AVERAGE INTEREST RATE ON BORROWINGS AND DEBT**

The fall in euro interest rates is now reflected by drawdowns of short-term marketable instruments with negative interest rates. The average interest rate on short-term marketable instruments was -0.42% in 2017, compared with -0.33% in 2016 and 0.04% in 2015.

**NOTE 20 Maturity of payables**

€ millions	Less than 1 year	More than 1 year	Total
<b>Trade accounts payable</b>	<b>684.5</b>	-	<b>684.5</b>
<b>Other current liabilities, of which</b>	<b>534.8</b>	<b>36.6</b>	<b>571.4</b>
Tax and employee-related payables	352.3	-	352.3
Payables related to non-current assets <sup>(1)</sup>	34.1	36.1	70.1
Other payables	148.4	0.5	148.9

(1) Non-current payables relate to earn-out clauses on acquisitions.

Accrual accounts included in trade accounts payable and other current liabilities are as follows:

€ millions	31.12.2017	31.12.2016	31.12.2015
<b>Trade accounts payable</b>	<b>388.8</b>	<b>279.2</b>	<b>266.5</b>
<b>Payables related to non-current assets</b>	<b>61.0</b>	<b>65.2</b>	<b>49.3</b>
<b>Tax and employee-related payables, of which</b>	<b>291.5</b>	<b>251.6</b>	<b>234.9</b>
Provision for employee Profit Sharing	22.6	20.3	18.3
Provision for incentives	89.3	80.1	74.2
<b>Other payables</b>	<b>46.5</b>	<b>28.4</b>	<b>26.6</b>
<b>TOTAL</b>	<b>787.8</b>	<b>624.4</b>	<b>577.3</b>

**NOTE 21 Unrealised exchange gains and losses**

The revaluation of foreign currency receivables and payables at the exchange rates prevailing at 31 December, taking account of hedging instruments, led to the recognition of the following unrealised exchange gains and losses:

€ millions	Unrealised exchange losses			Unrealised exchange gains		
	31.12.2017	31.12.2016	31.12.2015	31.12.2017	31.12.2016	31.12.2015
Financial receivables	8.2	9.2	8.1	0.1	0.1	-
Trade accounts receivable	0.2	1.8	4.0	0.1	3.1	0.5
Borrowings and debt	-	-	-	-	-	-
Trade accounts payable	0.6	1.7	1.4	0.4	0.5	2.1
Derivative financial instruments	37.4	5.7	6.5	21.5	6.5	12.5
<b>TOTAL</b>	<b>46.4</b>	<b>18.4</b>	<b>20.0</b>	<b>22.1</b>	<b>10.2</b>	<b>15.1</b>

The overall foreign exchange position, calculated on a currency-per-currency basis, at 31 December 2017 is an unrealised loss of €31.4 million. This loss is recognised. At 31 December 2016, the overall foreign exchange position was an unrealised loss of €8.2 million compared with an unrealised loss of €4.9 million at 31 December 2015.



## NOTE 22 Derivative financial instruments

Derivative financial instruments can be broken down as follows:

€ millions	Notional			Market value		
	31.12.2017	31.12.2016	31.12.2015	31.12.2017	31.12.2016	31.12.2015
<b>Purchase of EUR</b>						
against foreign currencies						
EUR/CNY	319.1	256.7	224.0	-0.9	-2.1	-7.9
EUR/RUB	198.1	218.2	227.6	-3.1	-44.1	26.0
EUR/KRW	63.9	61.4	46.0	0.2	0.0	-0.5
EUR/BRL	58.5	56.2	57.3	2.2	-14.8	6.6
EUR/GBP	42.4	49.9	55.3	0.8	2.9	-0.8
EUR/USD	43.5	43.8	5.3	2.1	-3.8	2.7
EUR/THB	41.4	35.8	31.1	0.1	-1.9	-0.7
EUR/TWD	37.9	35.2	37.0	1.0	-2.1	0.3
EUR/IDR	29.9	31.6	26.6	0.7	-3.0	-1.5
EUR/ZAR	22.1	27.6	27.0	-1.8	-3.5	4.1
EUR/CAD	23.7	25.2	21.8	0.5	-0.8	1.4
EUR/AUD	17.1	18.6	18.9	0.5	-0.5	-0.1
EUR/MYR	16.7	14.6	13.9	-0.4	0.4	1.0
EUR/INR	17.4	13.0	14.2	-0.5	-1.7	-0.8
EUR/CLP	10.4	10.9	10.0	-0.3	-1.0	0.3
EUR/TRY	8.6	9.1	6.7	0.4	0.5	-0.1
EUR/PEN	6.5	4.2	3.2	0.1	-0.4	0.0
EUR/PLN	0.0	8.7	9.6	0.0	0.1	0.1
EUR/SEK	7.3	7.2	6.7	0.1	0.1	-0.1
EUR/RSD	7.8	7.1	7.3	-0.4	-0.2	-0.3
EUR/CHF	5.7	7.0	9.1	0.4	-0.1	0.2
EUR/HKD	0.0	6.3	0.0	0.0	-0.4	0.0
EUR/NOK	5.2	5.8	5.3	0.2	-0.2	0.4
EUR/PHP	5.7	5.3	5.8	0.1	-0.1	-0.1
EUR/DKK	4.4	5.3	5.3	0.0	0.0	-0.1
EUR/Other currencies	30.2	26.7	22.6	0.4	-1.0	0.0
Sale of EUR against foreign currencies						
EUR/JPY	20.7	24.5	27.2	-1.8	-0.5	0.9
EUR/SGD	14.9	11.2	15.9	-0.1	0.0	-0.2
EUR/PLN	31.6	0.0	0.0	0.8	0.0	0.0
EUR/HKD	7.5	0.0	2.9	-0.6	0.0	0.2
Purchase of USD against foreign currencies						
USD/BRL	50.6	70.3	67.4	-0.1	-9.8	9.3
USD/THB	58.4	57.7	55.9	-2.8	0.7	1.3
USD/KRW	21.0	30.8	25.7	-1.1	1.7	0.7
USD/MYR	20.3	21.8	21.8	-1.5	1.7	2.1
USD/TWD	18.5	20.2	21.2	-0.4	0.2	0.9
USD/PEN	15.4	20.1	19.0	-0.5	-0.5	0.8
USD/PHP	17.6	18.0	12.0	-0.5	0.7	0.2
USD/INR	16.3	17.4	18.3	-0.5	-0.7	-0.1
USD/RUB	6.3	12.1	11.3	-0.5	-1.6	1.4
USD/ZAR	5.8	6.4	5.1	-0.8	-0.4	0.8
USD/Other currencies	8.9	0.0	0.0	-0.3	0.0	0.0
Sale of USD against foreign currencies						
USD/CNY	46.1	57.3	57.1	1.4	-3.9	-2.0
USD/IDR	0.0	3.2	3.7	0.0	0.1	0.1
Other currencies pairs						
JPY/CNY	21.5	20.1	14.8	-1.7	-0.5	0.1
PLN/RUB	14.9	13.7	13.0	0.3	-2.9	1.5
JPY/KRW	7.3	8.4	4.9	-0.6	-0.3	0.2
JPY/TWD	6.5	6.1	6.2	-0.3	-0.6	0.4
SGD/THB	5.7	3.0	1.9	-0.2	-0.2	-0.1
Other currencies	10.0	10.0	10.5	-0.5	-0.1	0.2
<b>Currency futures total</b>	<b>1,449.3</b>	<b>1,423.7</b>	<b>1,313.5</b>	<b>-9.9</b>	<b>-94.6</b>	<b>49.0</b>

€ millions	Notional			Market value		
	31.12.2017	31.12.2016	31.12.2015	31.12.2017	31.12.2016	31.12.2015
<b>Currency options</b>						
EUR/RUB	76.7	39.5	35.6	4.0	0.2	10.4
EUR/CNY	37.8	17.5	44.0	1.7	0.3	0.9
EUR/USD	25.4	14.9	68.7	1.8	0.1	0.4
USD/BRL	4.8	7.8	14.8	0.2	0.0	3.5
EUR/BRL	4.6	7.5	13.6	0.5	0.0	3.2
EUR/GBP	9.0	3.7	0.0	0.3	0.4	0.0
Other currencies	7.8	2.2	7.5	0.5	0.0	0.8
<b>Currencies options total</b>	<b>166.1</b>	<b>93.1</b>	<b>184.2</b>	<b>8.9</b>	<b>1.0</b>	<b>19.2</b>
♦ Of which total options purchased	166.1	93.1	184.2	8.9	1.0	19.2
♦ Of which total options sold	0.00	0.0	0.0	0.0	0.0	0.0
<b>TOTAL INSTRUMENTS</b>	<b>1,615.4</b>	<b>1,516.8</b>	<b>1,497.6</b>	<b>-1.0</b>	<b>-93.6</b>	<b>68.2</b>

## NOTE 23 Transactions and balances with related entities and parties

All material related-party transactions were entered into on an arm's length basis.

## NOTE 24 Off-balance sheet commitments

### 24.1. Lease commitments

Operating lease commitments amount to €85.1 million due in less than one year, €246.7 million due between one and 5 years and €139.9 million due after 5 years.

The breakdown of finance lease commitments is provided in note 13.

### 24.2. Other off-balance sheet commitments

Confirmed credit facilities are set out in note 19.

Other off-balance sheet commitments can be broken down as follows:

€ millions	31.12.2017	31.12.2016	31.12.2015
Commitments in connection with employee retirement obligations and related benefits <sup>(1)</sup>	-97.7	74.1	297.3
Commitments to buy out non-controlling interests	8.6	9.3	8.7
Guarantees given <sup>(2)</sup>	1,741.4	1,977.8	797.2
Guarantees received	3.8	4.2	8.5
Capital expenditure orders	84.6	69.7	62.0
Documentary credits	-	-	-

(1) The discount rate used to measure these commitments at 31 December 2017 is 1.50% for plans providing for payment of capital and 1.75% for annuity plans, compared with respectively, 1.50% and 2.00% at end-2016, and 2.25% and 2.50% at end-2015.

An agreement for the pooling of employee-related liabilities was set up in 2004. Pursuant to this agreement, commitments are allocated among the French companies in the Group and their financing is organised in proportion to their respective payroll costs (customised for each plan) so that the companies are joint and severally liable for meeting the aforementioned commitments within the limit of the collective funds built up.

(2) This line includes miscellaneous guarantees and warranties, of which €1,709.1 million at 31 December 2017 on behalf of the Group's direct and indirect subsidiaries, compared with €1,937.3 million at 31 December 2016 and €788.0 million at 31 December 2015. Seller's warranties are also included in this amount as appropriate.

### 24.3. Contingent liabilities

In the ordinary course of its operations, L'Oréal is involved in legal actions and is subject to tax assessments, customs controls and administrative audits. The Company sets aside a provision when a risk is found to exist and the related cost can be reliably estimated.

No exceptional event or dispute is highly likely to have a material impact on the earnings, financial position, assets or operations of the Company.

## NOTE 25 Changes in working capital

Changes in working capital can be broken down as follows:

€ millions	31.12.2017	31.12.2016	31.12.2015
Inventories	-15.7	11.2	-3.0
Accounts Receivable <sup>(1)</sup>	214.0	146.1	-349.1
Accounts Payable	94.1	-8.7	37.3
<b>TOTAL</b>	<b>292.4</b>	<b>148.6</b>	<b>-314.8</b>

(1) In 2015, this item mainly includes changes in corporate income tax receivables amounting to €178.8 million and the fine handed down by the French competition authority for €189.5 million.

## NOTE 26 Changes in other financial assets

This line primarily includes cash flows relating to financial instruments, classified in *Marketable Securities*, and cash flows arising on collateral posted with the Group's bank, classified as *Long-term Investments*.

## NOTE 27 Cash and cash equivalents at the end of the year

Cash and cash equivalents can be broken down as follows:

€ millions	31.12.2017	31.12.2016	31.12.2015
Cash	806.5	180.9	192.5
Accrued interest receivable	-	-	-
Bank overdrafts and financing with the Group's cash pool (see note 19)	-	-154.4	-750.3
Accrued interest payable	-0.4	-0.1	0.3
<b>CASH AND CASH EQUIVALENTS</b>	<b>806.1</b>	<b>26.4</b>	<b>-557.5</b>

## NOTE 28 Disclosures

Statutory audit fees are presented in the note 14 to the Consolidated financial statements.

## NOTE 29 Subsequent events

No event occurred between the balance sheet date and the date when the Board of Directors authorised the financial statements for issue.

**NOTE 30** Table of subsidiaries and holdingsTABLE OF SUBSIDIARIES AND HOLDINGS AT 31 DECEMBER 2017  
(€ THOUSANDS)**DETAILED INFORMATION**

	Capital	Other equity	% holding	Book value of investment		Profit or loss in last year	Dividends <sup>(1)</sup> booked during the year
				Gross	Net		
<b>A. Main french subsidiaries (Holdings of over 50%)</b>							
Banque de Réalisations de Gestion et de Financement (Regefi)	19,250	109,141	100.00	75,675	75,675	31,851	39,973
Beauté, Recherche & Industries	1,069	11,085	100.00	9,495	9,495	11,560	11,494
Chimex	1,958	10,684	100.00	21,501	21,501	2,885	4,605
Cosmétique Active France	24	46	61.97	130	130	32,147	19,591
Cosmétique Active International	19	13,947	88.97	15,100	15,100	13,538	26,855
Cosmétique Active Production	186	17,027	80.13	5,081	5,081	6,359	6,508
EpiSkin	13,609	7,798	99.89	17,978	17,978	775	0
Fapagau & Cie	15	4,328	79.00	12	12	9,234	5,349
Finval	2	(0)	100.00	2	2	3,298	3,660
Gemey Maybelline Garnier	50	2,305	100.00	165,592	165,592	36,138	18,480
Gemey Paris – Maybelline New York	35	7,363	99.96	46	46	170,612	16,327
Helena Rubinstein	30	1	99.95	46,661	46,661	7,641	4,040
Holdial	1	0	98.00	1	1	6,820	786
L & J Ré	1,500	11,391	99.99	1,500	1,500	141	0
La Roche-Posay Laboratoire Pharmaceutique	380	4,437	99.98	27,579	27,579	23,679	29,567
Nutricos Technologies	535	(127)	50.00	38,125	0	369	0
Laboratoire Sanoflore	10	1,147	100.00	5,197	1,697	976	982
Lancôme Parfums & Beauté & Cie	1,192	54,302	100.00	3,235	3,235	63,194	0
Lehoux et Jacque	39	(219)	100.00	263	263	814	0
L'Oréal Produits de Luxe France	84	56,284	92.75	53,612	53,612	4,084	6,341
L'Oréal Produits de Luxe International	98	75,253	99.38	73,872	73,872	16,161	23,814
LOA3	90,402	(458)	100.00	90,400	90,400	(35,276)	0
LOA5	2,853	3,158	100.00	6,303	6,303	(7)	0
LOA6	3	(2)	100.00	3	3	(2)	0
LOA7	3	(7)	100.00	3	3	(5)	0
LOA8	5	(4)	100.00	5	5	(4)	0
Prestige & Collections International	76	94,380	52.12	25,290	25,290	61,924	42,951
Magic Holdings International Limited	9,765	61,385	100.00	615,198	396,398	(177)	0
Sicôs & Cie	375	8,254	80.00	999	999	12,730	8,251
Soprococ	8,250	9,462	100.00	11,904	11,904	6,493	4,497
Soproréal	15	4,204	99.90	15	15	2,702	2,437
Sparlys	5,477	1,954	100.00	8,553	8,553	5,991	3,841
Thermes De Saint Gervais Les Bains Le Fayet	599	2,119	100.00	15,122	15,122	(561)	0
<b>B. Main french investments (Holdings of under 50%)</b>							
Sanofi <sup>(2)</sup>			9.43	423,887	423,887		349,953

(1) The SNCs (general partnership), and Sociétés civiles (non trading companies), that are not tax consolidated, distribute.

(2) Listed company. - At the end of 2017, L'Oréal owns 118,227,307 shares. Their market value at 31/12/2017 amounts to €8,494,632 thousand.

	Capital	Other equity	% holding	Book value of investment		Profit or loss in last year	Dividends booked during the year
				Gross	Net		
<b>A. Main foreign subsidiaries (Holdings of over 50%)</b>							
Atelier Cologne (Luxembourg)	1,210	17,125	100.00	105,300	105,300	547	0
Beautycos International Co. Ltd (China)	52,482	30,385	73.46	46,195	46,195	4,287	0
Beautylux International Cosmetics (Shanghai) Co.Ltd (China)	5,629	(1,610)	100.00	16,871	3,822	268	0
Biotherm (Monaco)	152	16	99.80	3,545	3,545	5,336	5,648
Canan Kozmetik Sanayi Ve Ticaret A.S. (Turkey)	6,451	34,918	100.00	30,290	30,290	3,167	1,339
Cosmelor Ltd (Japan)	548	12,116	100.00	35,810	17,710	2,988	0
Cosmephil Holdings Corporation (Philippines)	171	(145)	100.00	400	14	0	0
Egyptelor LLC (Egypt)	6	367	99.80	7	7	63	0
Elebelle (Proprietary) Ltd (South Africa)	806	52,236	100.00	61,123	49,519	2,422	2,319
Erwiton S.A. (Uruguay)	739	1,739	100.00	17	17	9,933	9,105
Kosmepol Sp. z.o.o. (Poland)	38,844	55,534	99.73	48,965	48,965	2,465	0
L'Oréal Adria d.o.o. (Croatia)	131	1,300	100.00	1,503	1,503	6,988	7,403
L'Oréal Argentina SA (Argentina)	24,234	67,004	95.00	148,602	102,688	30,905	33,057
L'Oréal Australia Pty Ltd	2,711	16,184	100.00	33,867	33,867	46,192	47,355
L'Oréal Balkan d.o.o. (Serbia)	1,283	13	100.00	1,285	1,285	1,634	1,374
L'Oréal Baltic SIA (Latvia)	387	1,222	100.00	529	529	4,275	3,575
L'Oréal Bangladesh (Bangladesh)	154	177	100.00	154	154	(1,200)	0
L'Oréal Brasil Comercial de Cosméticos Ltda	315,133	96,105	90.82	287,833	287,833	37,239	3,476
L'Oréal Belgilux S.A. (Belgium)	16,124	18,173	98.93	77,150	77,150	28,698	31,536
L'Oréal Brasil Pesquisas e Inovação Ltda	45,887	2,135	99.99	45,654	45,654	1,074	0
L'Oréal Bulgaria EOOD	102	710	100.00	102	102	3,881	3,426
L'Oréal Canada Inc.	3,979	(5,415)	100.00	146,517	146,517	81,951	74,902
L'Oréal Central America (Panama)	8	(371)	100.00	8	8	24	0
L'Oréal Central West Africa (Nigeria)	3,443	(3,221)	99.91	18,106	0	0	0
L'Oréal Ceska Republika s.r.o (Czech Republic)	2,268	61	100.00	4,983	4,983	11,277	8,397
L'Oréal Chile S.A. (Chile)	6,173	5,509	100.00	43,784	43,784	32,128	31,342
L'Oréal China Co Ltd (China)	43,498	68,940	100.00	345,733	345,733	272,235	231,775
L'Oréal Colombia S.A. (Colombia)	10,688	64,069	96.57	72,547	72,547	5,001	0
L'Oréal Cosmetics Industry S.A.E (Egypt)	58,382	(7,195)	100.00	58,363	42,563	2,590	0
L'Oréal Côte D'Ivoire	100	(255)	100.00	100	100	(92)	0
L'Oréal Danmark A/S (Denmark)	270	5,153	100.00	8,336	8,336	9,884	9,931
L'Oréal Deutschland GmbH (Germany)	12,647	278,929	100.00	76,855	76,855	176,489	177,104
L'Oréal East Africa Ltd (Kenya)	439	19,802	99.90	36,750	13,750	(2,430)	0
L'Oréal Espana S.A. (Spain)	59,911	20,880	63.86	299,154	299,154	85,942	48,931
L'Oréal Finland Oy (Finland)	673	(8)	100.00	1,280	1,280	9,657	10,093
L'Oréal Guatemala S.A.	1,044	849	100.00	2,162	2,162	1,340	1,036
L'Oréal Hellas S.A. (Greece)	9,736	6,011	100.00	35,307	35,307	14,238	7,461
L'Oréal Hong-Kong Ltd	(77)	24,310	99.97	24,276	24,276	76,591	321,496
L'Oréal India Private Ltd (India)	48,691	24,606	100.00	75,987	75,987	26,243	0
L'Oréal Investments B.V. (The Netherlands)	18	(1)	100.00	18	18	0	0
L'Oréal Israel Ltd	4,137	9,610	92.97	38,497	38,497	8,754	7,987
L'Oréal Italia Spa	1,680	54,743	100.00	226,469	226,469	76,121	77,315
L'Oréal Kazakhstan Llp (Kazakhstan)	422	1,335	100.00	422	422	3,832	7,477
L'Oréal Korea Ltd (Korea)	1,991	700	100.00	20,794	20,794	11,971	9,868
L'Oréal Liban SAL	3,139	2,472	99.98	7,700	7,700	17,450	11,883
L'Oréal Magyarország Kosmetikai Kft (Hungary)	428	120	100.00	787	787	5,317	3,010
L'Oréal Malaysia SDN BHD (Malaysia)	3,268	6,607	100.00	6,762	6,762	7,196	7,822
L'Oréal Mexico S.A. de C.V. (Mexico)	2,349	131,287	100.00	8,443	8,443	34,948	35,819
L'Oréal Middle East (United Arab Emirates)	7,761	4,582	100.00	54,379	54,379	22,542	36,906
L'Oréal Nederland B.V. (The Netherlands)	1,178	26	100.00	22,014	22,014	28,422	26,523
L'Oréal New Zealand Ltd (New Zealand)	44	2,913	100.00	6,110	6,110	7,023	7,545
L'Oréal Norge A/S (Norway)	1,384	4,952	100.00	4,050	4,050	15,378	15,815
L'Oréal Österreich GmbH (Austria)	2,915	2,020	100.00	3,818	3,818	14,915	13,010
L'Oréal Pakistan Private Ltd	16,910	(16,119)	100.00	16,929	0	885	0

	Capital	Other equity	% holding	Book value of investment		Profit or loss in last year	Dividends booked during the year
				Gross	Net		
L'Oréal Panama S.A.	159	1,814	100.00	168	168	4,778	6,912
L'Oréal Peru S.A. (Peru)	2,322	(374)	100.00	3,739	3,739	1,300	0
L'Oréal Philippines Inc.	14,196	(10,772)	99.53	39,107	4,107	1,277	0
L'Oréal Polska Sp. Z.O.O. (Poland)	405	1,537	100.00	707	707	30,776	31,271
L'Oréal Portugal Lda	495	436	100.00	6,459	6,459	15,164	15,683
L'Oréal Romania SRL (Romania)	799	497	100.00	974	974	7,439	7,139
L'Oréal Saudi Arabia (Saudi Arabia)	5,682	(634)	74.63	4,260	4,260	1,507	0
L'Oréal Singapore Pte Ltd (Singapore)	1,165	6,030	100.00	18,991	18,991	7,503	7,020
L'Oréal Slovenija kozmetika d.o.o. (Slovenia)	465	396	100.00	856	856	786	671
L'Oréal Slovensko s.r.o (Slovakia)	98	282	100.00	173	173	3,618	3,027
L'Oréal Suisse S.A. (Switzerland)	346	7,801	100.00	160,311	160,311	22,263	29,931
L'Oréal Sverige AB (Sweden)	2,038	2,560	100.00	2,247	2,247	22,220	20,402
L'Oréal Taiwan Co Ltd (Taiwan)	187	166	100.00	17,881	17,881	31,306	22,722
L'Oréal Thailand Ltd	3,992	1,328	100.00	5,238	5,238	41,971	31,036
L'Oréal Türkiye Kozmetik Sanayi Ve Ticaret Anonim Sirketi	39,142	4,902	100.00	55,093	51,093	15,011	8,202
L'Oréal UK Ltd (United Kingdom)	121,150	(32,609)	100.00	145,573	145,573	179,601	114,443
L'Oréal Ukraine	3,033	10,266	100.00	2,990	2,990	10,680	10,085
L'Oréal Uruguay S.A.	485	10,160	100.00	5,435	5,435	5,387	4,939
L'Oréal USA Inc. <sup>(3)</sup>	647,710	3,294,444	100.00	4,851,879	4,851,879	803,694	327,314
L'Oréal Venezuela C.A.	32	365	100.00	26,953	0	15,990	0
L'Oréal Vietnam Co Ltd	9,645	(17,065)	100.00	9,754	4	367	0
L'Oréal West Africa (Ghana)	8	(10,838)	100.00	0	0	(3,560)	0
Masrelor LLC (Egypt)	17,686	43	100.00	17,573	2,073	(6)	0
Nihon L'Oréal KK (Japan)	(17,697)	159,426	100.00	351,504	332,763	14,497	15,768
Oomes B.V. (Netherlands)	6,354	55,960	100.00	144,312	144,312	27,658	27,668
Parbel of Florida, Inc. (USA)	40	37	100.00	100,317	100,317	30,002	32,430
Procosa Productos de Beleza Ltda (Brazil)	154,342	137,551	100.00	223,938	223,938	(1,335)	4,368
P.T. L'Oréal Indonesia	1,510	7,244	99.00	2,305	2,305	9,505	5,631
P.T. Yasulor Indonesia	73,931	17,819	99.99	110,022	79,022	2,340	0
Scental Limited (Hong Kong)	5	175	100.00	8	8	0	0
Venprobel (Venezuela)	0	0	100.00	2,722	0	0	0

**B. Main Foreign investments (Holdings of under 50%)**

	n/s	n/s	n/s	n/s	n/s	n/s	n/s
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For foreign subsidiaries and investments, the capital reserves and retained earnings have been translated into thousands of euros on the basis of year-end exchanges rates, while profits and losses have been translated at average rate. It is specified that the list above is not exclusive.

(3) Figures from the sub-consolidation of L'Oréal USA Inc.

**GLOBAL INFORMATION RELATING TO SUBSIDIARIES AND INVESTMENTS**

	Subsidiaries		Other Investments	
	French	Foreign	French	Foreign
Book value of shares held				
♦ gross (after revaluation)	1,331,993	8,924,168	423,887	1
♦ net	1,071,568	8,617,615	423,887	1
Amount of loans and advances granted	0	53,367		
Amount of guarantees and security granted	12,966	1,696,156		
Amount of dividends booked	281,519	2,059,723	349,953	1

## 5.6. OTHER INFORMATION RELATING TO THE FINANCIAL STATEMENTS OF L'ORÉAL PARENT COMPANY

### 5.6.1. EXPENSES AND CHARGES FALLING UNDER ARTICLE 223 QUATER OF THE FRENCH TAX CODE

It is stipulated that the total amount of expenses and charges falling under Article 223 *quater* of the French Tax Code and the amount of tax applicable to such expenses and charges are as follows:

Expenses and charges	€2.1 million
Corresponding tax amount	€1.0 million

### 5.6.2. INVOICES ISSUED AND RECEIVED NOT PAID AT THE END OF THE FINANCIAL YEAR AND IN ARREARS

In accordance with the French law on the Modernisation of the Economy of 4 August 2008 and Articles L. 4416-1 and D. 441-4 of the French Commercial Code, invoices issued and received not paid at 31 December 2017 and in arrears break down as follows:

#### APPENDIX 4-1 TO ARTICLE A. 441-2

Invoices received and issued not paid at the end of the financial year and in arrears (table foreseen in I of Article D. 441-4)

In Euros	Article D441 I-1: invoices received not paid at the end of the financial year and in arrears					Article D441 I-2: invoices issued not paid at the end of the financial year and in arrears					Total (1 day and more)	
	0 days (indicative)	1 - 30 days	31 - 60 days	61 - 90 days	91 days and more	0 days (indicative)	1 - 30 days	31 - 60 days	61 - 90 days	91 days and more		
<b>(A) Late payment tranches</b>												
Number of invoices concerned	91					1,289	7,092				27,559	
Total amount of invoices concerned, including taxes	764,056	2,860,889	813,230	74,248	129,028	3,877,395	8,019,603	27,247,376	8,243,494	8,058,254	24,747,084	68,296,207
Percent of total amount of purchases for the financial year, including taxes	0.03%	0.11%	0.03%	0.00%	0.00%	0.15%						
Percent of sales for the financial year, including taxes							0%	0.74%	0.23%	0.22%	0.68%	1.86%
<b>(B) Invoices excluded from (A) because of disputed or unrecognised payables and receivables</b>												
Number of invoices			1,900							705		
Total amount of excluded invoices			5,667,105							1,660,266		
<b>(C) Benchmark payment terms used (contractual or statutory term, Article L.441 or L.443 of the French Commercial Code)</b>												
Benchmark payment terms used to calculate late payments			Statutory payment terms: 45 days from end of month						Statutory payment terms: 45 days from end of month			

**5.6.3. NET SALES (EXCLUDING TAXES)**

Net sales (€ millions)	2017	2016	Variation in %
1 <sup>st</sup> quarter	801.6	809.4	-0.96
2 <sup>nd</sup> quarter	784.6	802.6	-2.24
3 <sup>rd</sup> quarter	1,116.1	706.9	57.89
4 <sup>th</sup> quarter	911.2	734.2	24.11
<b>TOTAL</b>	<b>3,613.5</b>	<b>3,053.1</b>	<b>18.36</b>

N.B: This includes sales of goods net of any rebates and discounts granted, along with services provided and technology royalties.

**5.7. FIVE-YEAR FINANCIAL SUMMARY****L'ORÉAL PARENT COMPANY (EXCLUDING SUBSIDIARIES)**

€ millions (except for earnings per share, shown in euros)

	2013	2014	2015	2016	2017
<b>I. Financial position at financial year-end</b>					
• a) Share capital	121.2	112.2	112.6	112.4	112.1
• b) Number of shares	605,901,887	561,230,389	562,983,348	561,855,741	560,519,088 <sup>(1)</sup>
• c) Number of convertible bonds	0				
<b>II. Overall results of operations</b>					
• a) Net pre-tax sales	2,777.0	2,818.6	2,967.6	3,053.1	3,613.5
• b) Pre-tax profit before depreciation, amortisation, provisions and reversals of provisions (including provision for investment activities and Profit Sharing reserve)	2,562.0	5,418.1	3,024.7	3,158.0	2,917.8
• c) Income tax	-9.7	112.9	-23.3	-113.1	-166.0
• d) Net profit	2,366.1	4,938.0	3,055.4	3,014.4	3,051.7
• e) Amount of distributed profits	1,507.3	1,511.4	1,741.9	1,857.7	2,005.9 <sup>(2)</sup>
<b>III. Results of operations per share</b>					
• a) Profit after tax and Profit Sharing, but before depreciation, amortisation and provisions	4.22	9.42	5.38	5.79	5.47
• b) Net profit	3.91	8.80	5.43	5.36	5.44
• c) Dividend paid on each share (not including tax credit)	2.50	2.70	3.10	3.30	3.55 <sup>(2)</sup>
<b>IV. Personnel</b>					
• a) Number of employees	6,163	6,220	6,385	6,653	7,060
• b) Total salaries	515.6	541.7	560.9	569.8	612.2
• c) Amount paid for welfare benefits (social security, provident schemes, etc.)	261.3	253.5	265.0	257.2	286.4

(1) The share capital comprises 560,519,088 shares with a par value of €0.2, following the subscription of 1,509,576 shares following the exercise of options and grant of 375 of free shares, as well as cancellation of 2,846,604 treasury shares.

(2) The dividend will be proposed to the Annual General meeting of 17 April 2018.



## 5.8. INVESTMENTS (MAIN CHANGES INCLUDING SHAREHOLDING THRESHOLD CHANGES)

### INVESTMENTS

(Main changes including shareholding threshold changes >5%)

Headings	31.12.2016		Acquisitions	Subscriptions	Others	31/12/2017	
	Amount	%	Amount	Amount	Amount	Amount	%
LOA5	1.8	100.00		4.5		6.3	100.00
L'Oréal brasil pesquisa	38.9	99.99		6.7		45.7	99.99
The Body Shop	992.4	100.00			-992.4 <sup>(2)</sup>	0.0	
Exclusive Signatures International	0.2	99.80			-0.2 <sup>(1)</sup>	0.0	
Parfums Guy Laroche	1.7	100.00			-1.7 <sup>(1)</sup>	0.0	
Gemey Maybelline Garnier	0.0	66.61	165.5			165.6	100.00
LaScad	12.8	99.26	8.1		-20.9 <sup>(1)</sup>	0.0	
L'Oréal East Africa	29.8	99.90		7.0		36.7	99.90
L'Oréal USA	4,165.2	100.00		686.7		4,851.9	100.00
Thermes de Saint-Gervais les Bains Le Fayet	12.6	100.00		2.5		15.1	100.00
<b>TOTAL</b>	<b>5,255.4</b>		<b>173.7</b>	<b>707.4</b>	<b>-1,015.2</b>	<b>5,121.2</b>	

(1) Complete transfer of assets and liabilities/merger.

(2) Disposal.

## 5.9. STATUTORY AUDITORS' REPORT ON THE FINANCIAL STATEMENTS

(For the year ended December 31, 2017)

To the Shareholders,

### Opinion

In compliance with the engagement entrusted to us by your Annual General Meeting, we have audited the accompanying financial statements of L'Oréal for the year ended December 31, 2017.

In our opinion, the financial statements give a true and fair view of the assets and liabilities and of the financial position of the Company as at December 31, 2017 and of the results of its operations for the year then ended in accordance with French accounting principles.

The audit opinion expressed above is consistent with our report to the Audit Committee.

### Basis for opinion

#### *Audit framework*

We conducted our audit in accordance with professional standards applicable in France. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under these standards are further described in the "Responsibilities of the Statutory Auditors relating to the audit of the financial statements" section of our report.

#### *Independence*

We conducted our audit engagement in compliance with the independence rules applicable to us for the period from January 1, 2017 to the date of our report and in particular we did not provide any non-audit services prohibited by article 5(1) of Regulation (EU) No 537/2014 or the French Code of Ethics (Code de déontologie) for Statutory Auditors.

### Emphasis of matter

Without qualifying our opinion, we draw your attention to the matter set out in Note 1, "Accounting principles", to the financial statements, which describes the change of accounting policy as a result of the first-time application as of January 1, 2017 of ANC regulation 2015-05 on forward financial instruments and hedging.

### Justification of assessments – Key audit matters

In accordance with the requirements of articles L.823-9 and R.823-7 of the French Commercial Code (*Code de commerce*) relating to the justification of our assessments, we inform you of the key audit matters relating to the risks of material misstatement that, in our professional judgment, were of most significance in our audit of the financial statements, as well as how we addressed those risks.

These matters were addressed as part of our audit of the financial statements as a whole, and therefore contributed to the opinion we formed as expressed above. We do not provide a separate opinion on specific items of the financial statements.

**Description of risk**

**How our audit addressed this risk**

**Measurement of investments**

*See Note 1.7 – Investments, Note 14 – Financial assets, and Note 30 – Table of subsidiaries and holdings, to the parent company financial statements*

At December 31, 2017, the carrying amount of investments recognized in the balance sheet amounted to €10,116 million, representing 67% of total assets. Investments are recognized at purchase cost excluding incidental expenses.

An impairment loss is recognized if the value in use of a given item falls below its carrying amount.

As described in Note 1.7 to the financial statements, the value of these items is assessed annually by reference to their value in use, which is mainly based on the current and forecast profitability of the subsidiary concerned and the share of equity owned.

In order to estimate the value in use of these items, management must use judgment to project future cash flows and determine the main assumptions to be used.

Given the materiality of investments in the balance sheet and the inherent uncertainty of certain components of the calculations, including the forecasts used to calculate value in use, we deemed the measurement of investments to be a key audit matter, carrying a risk of material misstatement.

We examined the methodology employed by management to estimate the value in use of investments.

Our audit work consisted primarily in verifying, on the basis of the information provided to us, that the estimated values determined by management were based on an appropriate measurement method and underlying data and, depending on the investment:

- ♦ for valuations based on historical data: comparing the data used in the impairment tests performed on investments with the accounting data drawn from the audited financial statements of the subsidiaries concerned;
- ♦ for valuations based on an estimated value in use:
- ♦ assessing the consistency of projections of sales and margin rates with past performance and the economic and financial context;
- ♦ corroborating the growth rates used with analyses of the performance of the global cosmetics market, taking into account the specific features of local markets and distribution channels in which the Group operates;
- ♦ assessing the discount rates applied to the estimated cash flows, by comparing their inputs with external references, with the guidance of our valuation experts.

**Recognition of sales - estimation of items to be deducted from sales**

*See Note 1 – Accounting Principles, and 1.1 - Sales, to the parent company financial statements*

Sales incentives, discounts and product returns are deducted from sales of goods.

These various deductions are recorded simultaneously to the recognition of sales, based mainly on statistics compiled from past experience and contractual conditions.

We deemed estimating these amounts at the reporting date to be both difficult (due to the range of contracts and contractual conditions prevalent in the Company's different markets) and sensitive (sales are a key indicator in the assessment of the performance of the Company and its management), and to have a material impact in the financial statements.

Accordingly, these estimates constitute a key audit matter given the risk that sales incentives, discounts and other incentives granted to customers (distributors or consumers) are not fully catalogued and/or properly measured and thus that net sales are not accounted for correctly or in the appropriate reporting period.

We assessed the appropriateness of the accounting policies applied by the Company with respect to the recognition of product returns, sales incentives, discounts and other incentives granted to customers, with respect to French accounting principles.

We familiarized ourselves with the internal control systems implemented by the Group's commercial entities, with a view to measuring and accounting for items deducted from sales, especially at the end of the reporting period, and we tested, on a sample basis, the main controls of those systems.

We also carried out substantive tests on representative samples in order to ascertain whether product returns and incentives granted to customers were being estimated correctly.

Our tests consisted primarily in:

- ♦ assessing the appropriateness of valuation methods, in particular through a critical assessment of the assumptions used, verification of the consistency of the methods, and analysis of the unwinding of provisions from the previous year;
- ♦ reconciling the statistics compiled from past experience and contractual conditions with the data contained in the IT systems dedicated to the management of commercial conditions;
- ♦ verifying the calculation of the corresponding expenses (including the residual commitment at the end of the reporting period) and how they are recorded in the accounting system and presented in the financial statements.

## Verification of the management report and of the other documents provided to the shareholders

In accordance with professional standards applicable in France, we have also performed the specific verifications required by French law.

### *Information given in the management report with respect to the Company's financial position and the financial statements*

We have no matters to report as to the fair presentation and the consistency with the financial statements of the information given in the management report of the Board of Directors and in the other documents provided to the shareholders with respect to the financial position and the financial statements.

### *Report on corporate governance*

We attest that the Board of Directors' report on corporate governance sets out the information required by articles L.225-37-3 and L.225-37-4 of the French Commercial Code.

Concerning the information given in accordance with the requirements of article L.225-37-3 of the French Commercial Code relating to remuneration and benefits received by corporate officers and any other commitments made in their favor, we have verified its consistency with the financial statements, or with the underlying information used to prepare these financial statements and, where applicable, with the information obtained by your Company from companies controlling it or controlled by it. Based on this work, we attest to the accuracy and fair presentation of this information.

### *Other information*

In accordance with French law, we have verified that the required information concerning the purchase of investments and controlling interests and the identity of the shareholders and holders of the voting rights has been properly disclosed in the management report.

## Report on other legal and regulatory requirements

### *Appointment of the Statutory Auditors*

We were appointed Statutory Auditors of L'Oréal at the Annual General Meeting of April 29, 2004 for both PricewaterhouseCoopers Audit and Deloitte & Associés.

As at December 31, 2017, PricewaterhouseCoopers Audit and Deloitte & Associés were in the fourteenth year of total uninterrupted engagement.

### *Responsibilities of management and those charged with governance for the financial statements*

Management is responsible for preparing financial statements presenting a true and fair view in accordance with French accounting principles, and for implementing the internal control procedures it deems necessary for the preparation of financial statements free of material misstatement, whether due to fraud or error.

In preparing the financial statements, management is 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 it expects to liquidate the company or to cease operations.

The Audit Committee is responsible for monitoring the financial reporting process and the effectiveness of internal control and risk management systems, as well as, where applicable, any internal audit systems, relating to accounting and financial reporting procedures.

The financial statements were approved by the Board of Directors.

## Responsibilities of the Statutory Auditors relating to the audit of the financial statements

### *Objective and audit approach*

Our role is to issue a report on the financial statements. Our objective is to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards 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.

As specified in article L.823-10-1 of the French Commercial Code, our audit does not include assurance on the viability or quality of management of the company.

As part of an audit conducted in accordance with professional standards applicable in France, the Statutory Auditors exercise professional judgment throughout the audit. They also:

- ◆ Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence considered to be sufficient and appropriate to provide a basis for their opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- ◆ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control.
- ◆ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management and the related disclosures in the notes to the financial statements;
- ◆ Assess the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of the audit report. However, future events or conditions may cause the company to cease to continue as a going concern. If the Statutory Auditors conclude that a material uncertainty exists, they are required to draw attention in the audit report to the related disclosures in the financial statements or, if such disclosures are not provided or are inadequate, to issue a qualified opinion or a disclaimer of opinion;
- ◆ Evaluate the overall presentation of the financial statements and assess whether these statements represent the underlying transactions and events in a manner that achieves fair presentation.

### Report to the Audit Committee

We submit a report to the Audit Committee which includes in particular a description of the scope of the audit and the audit programme implemented, as well as the results of our audit. We also report any significant deficiencies in internal control that we have identified regarding the accounting and financial reporting procedures.

Our report to the Audit Committee includes the risks of material misstatement that, in our professional judgment, were of most significance in the audit of the financial statements and which constitute the key audit matters that we are required to describe in this report.

We also provide the Audit Committee with the declaration provided for in article 6 of Regulation (EU) No 537-2014, confirming our independence within the meaning of the rules applicable in France, as defined in particular in articles L.822-10 to L.822-14 of the French Commercial Code and in the French Code of Ethics for Statutory Auditors. Where appropriate, we discuss any risks to our independence and the related safeguard measures with the Audit Committee.

Neuilly-sur-Seine, February 20, 2018

The Statutory Auditors

PricewaterhouseCoopers Audit  
Deloitte & Associés

Gérard Morin  
Frédéric Moulin



# 6

## Stock Market Information Share capital



<b>6.1. Information relating to the Company</b>	<b>318</b>	<b>6.3.2.</b> Changes in allocation of the share capital and voting rights over the last three years	323
6.1.1. Legal form	318	<b>6.3.3.</b> Employee share ownership	324
6.1.2. Law governing the Issuer	318	<b>6.3.4.</b> Disclosures to the Company of legal thresholds crossed during the financial year	324
6.1.3. Business activity	318	<b>6.3.5.</b> Shareholders' agreements relating to shares in the Company's share capital	324
6.1.4. Date of incorporation and term of the Company (article 5 of the Articles of Association)	318	<b>6.3.6.</b> Buyback by the Company of its own shares	326
6.1.5. Purpose of the Company (extracts from article 2 of the Articles of Association)	318	<b>6.4. Long-Term Incentive plans*</b>	<b>328</b>
6.1.6. Company registration number	318	<b>6.4.1.</b> Presentation of the stock option plans for the purchase or subscription of shares and plans for the Conditional Grants of Shares to Employees (ACAs)	328
6.1.7. Consultation of documents relating to the Company	319	<b>6.4.2.</b> Stock option plans for the subscription and purchase of L'Oréal parent company shares	329
6.1.8. General Management (article 11 of the Articles of Association)	319	<b>6.4.3.</b> Plans for the Conditional Grants of Shares (ACAs)	330
6.1.9. Financial year (article 14 of the Articles of Association)	319	<b>6.4.4.</b> Renewal of the authorisation for the conditional grant of shares submitted to the Ordinary and Extraordinary General Meeting of 17 April 2018	333
6.1.10. Statutory distribution of profits (article 15 of the Articles of Association)	319	<b>6.5. The L'Oréal share/L'Oréal share market</b>	<b>334</b>
6.1.11. Annual General Meeting	320	<b>6.5.1.</b> L'Oréal share	334
6.1.12. Statutory share ownership threshold	320	<b>6.5.2.</b> L'Oréal share market	335
<b>6.2. Information concerning the share capital*</b>	<b>320</b>	<b>6.6. Information policy</b>	<b>339</b>
6.2.1. Statutory requirements governing changes in the share capital and shareholders' rights	320	<b>6.6.1.</b> Complementary communications media	339
6.2.2. Issued share capital and authorised unissued share capital	320	<b>6.6.2.</b> A large number of shareholder events for a regular and detailed dialogue	339
6.2.3. Changes in the share capital over the last five years	322	<b>6.6.3.</b> Financial calendar for 2018	340
<b>6.3. Shareholder structure*</b>	<b>323</b>	<b>6.6.4.</b> Financial news releases in 2017	340
6.3.1. Legal entities or individuals acting in concert over the Company to the Company's knowledge	323		

\* This information forms an integral part of the Annual Financial Report as provided in the Article L. 451-1-2 of the French Monetary and Financial Code, except paragraph 6.3.5.5. subsequent to the approval of the Report.

L'Oréal is a French *société anonyme* (limited company) listed in Paris.

This chapter sets out the information relating to its share capital and the main details of its legal form and its Articles of Association.

All the information on the L'Oréal share and L'Oréal share market are also included in this chapter.

## 6.1. INFORMATION RELATING TO THE COMPANY

### 6.1.1. LEGAL FORM

L'Oréal is incorporated in France as a *société anonyme*.

### 6.1.2. LAW GOVERNING THE ISSUER

French Law.

### 6.1.3. BUSINESS ACTIVITY

L'Oréal S.A. is a French company, with its head office in France. It performs a sales activity that is specific to France. At the same time, L'Oréal S.A. also acts as the holding company and provides strategic, industrial and scientific coordination and marketing for the L'Oréal Group throughout the world. The subsidiaries operate the Group's business activities in the country or region in which they are located. In this role, they manufacture or commission and commercialise the products they decide to sell on their market.

L'Oréal Group wholly owns the vast majority of its subsidiaries. It also has investments, details of which are set out in the notes to the Consolidated Financial Statements.

### 6.1.4. DATE OF INCORPORATION AND TERM OF THE COMPANY (ARTICLE 5 OF THE ARTICLES OF ASSOCIATION)

"The Company's term shall be ninety-nine years, which began to run on 1 January 1963 and which shall thus expire on 31 December 2061, except in the event of early dissolution or of extension, as provided for in these Articles of Association."

### 6.1.5. PURPOSE OF THE COMPANY (EXTRACTS FROM ARTICLE 2 OF THE ARTICLES OF ASSOCIATION)

The Company's corporate purpose, both in France and/or at any other location anywhere throughout the entire world, shall be as follows:

- ◆ the manufacturing and the sale of cosmetics products in general; of all devices intended for the same uses as the products listed above; of all household maintenance products; of all products and articles relating to feminine and/or child hygiene and to the embellishment of human beings; the demonstration and advertising of such products; the manufacturing of packaging articles;
- ◆ the filing and acquisition of all patents, licenses, processes and manufacturing trademarks, their exploitation, their assignment and/or their contribution;
- ◆ all diversification transactions and all commercial, financial, movable property and/or real property transactions, made in the Company's interest, under any form whatsoever;
- ◆ the direct or indirect involvement in all transactions such as those listed above, in particular by means of the creation of companies, the contribution to pre-existing companies, the merger or the alliance with such companies.

### 6.1.6. COMPANY REGISTRATION NUMBER

632 012 100 Paris Trade and Companies Registry.

Code LEI (*Legal Entity Identifier*): 529900J11GG6F7RKVI53.



### 6.1.7. CONSULTATION OF DOCUMENTS RELATING TO THE COMPANY

The Articles of Association, financial statements, reports and information for shareholders can be consulted, in the conditions provided for by law, at 41, rue Martre, 92117 Clichy Cedex, France, preferably by appointment. See also the [www.loreal-finance.com](http://www.loreal-finance.com) website.

### 6.1.8. GENERAL MANAGEMENT (ARTICLE 11 OF THE ARTICLES OF ASSOCIATION)

1. "In accordance with legal provisions, the General Management of the Company is assumed, under its responsibility, either by the Chairman of the Board of Directors, or by another natural person appointed by the Board of Directors and bearing the title of Chief Executive Officer.

The choice between these two modes of exercising General Management is made by the Board of Directors each time a Chairman of the Board of Directors or a Chief Executive Officer is appointed or has his tenure renewed. The Board of Directors must inform shareholders and third parties of this choice in accordance with the statutory provisions.

The choice of the Board of Directors concerning the mode of exercise of the General Management is made on the basis of a majority vote of the Directors present or represented.

Changing the mode of exercise of the General Management does not involve a modification of the Articles of Association.

2. Depending on the choice made by the Board of Directors in accordance with the provisions of § 1 above, the General Management is carried out either by the Chairman, or by a natural person, appointed by the Board of Directors and bearing the title of Chief Executive Officer.
3. The Chief Executive Officer is granted the most extensive powers to act in all circumstances on behalf of the Company. He exercises these powers within the limitations of the object of the Company, and subject to the powers expressly granted by law to Shareholders' Meetings.

The Chief Executive Officer represents the Company in its relations with third parties. The Company is bound even by actions of the Chief Executive Officer which are outside the object of the Company, unless the Company can prove that the third party was aware that the action was outside the object of the Company, or that the third party could not be unaware of this in view of the circumstances, it being stated however that the mere publication of the Articles of Association does not constitute such proof.

4. On the proposal of the Chief Executive Officer, whether this office is assumed by the Chairman of the Board of Directors or by another person, the Board of Directors may appoint one or more natural persons in charge of

assisting the Chief Executive Officer, with the title of Deputy Chief Executive Officer.

In agreement with the Chief Executive Officer, the Board of Directors determines the extent and duration of the powers granted to the Deputy Chief Executive Officers."

### 6.1.9. FINANCIAL YEAR (ARTICLE 14 OF THE ARTICLES OF ASSOCIATION)

"Each financial year shall have a duration of twelve months, to begin on 1<sup>st</sup> January and to end on 31 December of each year."

### 6.1.10. STATUTORY DISTRIBUTION OF PROFITS (ARTICLE 15 OF THE ARTICLES OF ASSOCIATION)

- A. "From the distributable profits, the following amounts shall be withheld, in the following order:

1. The amount required to pay the "primary dividend" to the shareholders equal to five percent (5%) of the amounts paid up on the unredeemed securities in accordance with calls for funds, provided however that (where the profits for a given year do not allow such dividend to be paid) the shareholders shall not be entitled to claim such dividend from out of the profits of subsequent years.
2. From the available remainder, the Ordinary General Meeting, upon a proposal by the Board of Directors, shall have the authority to resolve to withhold the amounts that it deems appropriate (and even the entire amount of such available remainder), either to be carried forward to the next financial year, or to be paid into a "prudential fund" or into one or more ordinary, extraordinary or special reserve funds. Such reserve fund(s), which shall not bear any interest, may be distributed to the shareholders, or allocated to complete the 5% primary dividend for the shareholders, in the event of insufficient results during one or more financial years, or to acquire and to cancel shares in the Company, or to redeem in whole or in part such shares.
3. The remaining balance (if any) shall be divided up among all the shareholders, without any discrimination, and each share shall entitle its holder to receive the same income.

However, any shareholder who can prove at the end of a financial year, that shares have been registered in his name for at least two years and that they continue to be registered in his name at the date of payment of the dividend paid for such financial year, will be entitled to a preferential dividend on the shares that are thus registered, equal to 10% of the dividend (initial dividend and additional dividend) paid on the other shares, including in the event of payment of the dividend in new shares, the preferential dividend thus paid being rounded down to the nearest lower cent, if necessary.

Similarly, any shareholder who can prove, at the end of a financial year, that shares have been registered in his name for at least two years and that they continue to be registered in his name at the date of completion of an

increase in capital carried out through capitalisation of reserves, profits or share premiums by the distribution of bonus shares, shall be entitled to an increase in the number of bonus shares to be distributed to him, equal to 10%, this number being rounded down to the nearest lower unit in the event of fractional share rights.

The new shares created in this manner will be identical, for the purposes of calculating the rights to the preferential dividend and to the increased share allocations, to the old shares from which they result.

The number of shares eligible for these preferential dividends may not exceed 0.5% of the share capital at the closing date of the past financial year, for the same shareholder.

- B.** The losses (if any) shall be charged to the retained earnings from preceding financial years or to the reserve funds, and the balance shall be booked into a special 'carry forward' account."

### 6.1.11. ANNUAL GENERAL MEETING

Annual General Meetings are governed by all the legal provisions and regulations laid down in this connection. It is specified that, in accordance with Article 12 of the Company's Articles of Association, if the Board of Directors decides when the General Meeting is called, any shareholder may take part in the meeting by videoconference or by any other telecommunication or remote transmission means including the Internet, under the conditions stipulated by the applicable regulations at the time it is used. If this decision is taken, it is communicated in the meeting notice published in the *Bulletin des Annonces Légales Obligatoires* (B.A.L.O).

Since the Annual General Meeting of 29 April 2004, double voting rights have been eliminated. Applying the provisions of French law No. 2014-384 of 29 March 2014, the Annual General Meeting of 22 April 2015 confirmed that each share entitles the holder to only one vote at General Meetings.

### 6.1.12. STATUTORY SHARE OWNERSHIP THRESHOLD

"Any holder, whether direct or indirect, of a fraction of the Company's share capital equal to 1%, or a multiple of this percentage lower than 5%, is required to inform the Company within a period of fifteen days in the event that these thresholds have been passed in either direction" (Article 7, paragraph 2 of the Articles of Association). This provision of the Articles of Association supplements the legal requirements covering disclosures concerning the crossing, upwards or downwards, of thresholds relating to one-twentieth, one-tenth, three-twentieths, one-fifth, one-quarter, three-tenths, one-third, one-half, two-thirds, eighteen-twentieths or nineteen-twentieths of share capital or of voting rights" (Article L. 233-7 of the French Commercial Code).

"If not disclosed in accordance with the conditions stipulated by law or by the Articles of Association, shares exceeding the fraction which should have been disclosed are deprived of voting rights at Shareholders' Meetings, in accordance with the conditions stipulated in the French Commercial Code, if during a meeting the failure to disclose is noted, and if one or more shareholders together holding at least 5% of the share capital so request during the meeting" (Article 7, paragraph 3 of the Articles of Association).

It is proposed that the Annual General Meeting of 17 April 2018 update the statutory provisions in order to align the regime for declarations of threshold crossing in the Company's Articles of Association with the regime provided for by the French Commercial Code. See chapter 7, resolution no.18.

See the complete text of the Company's Articles of Association on the [www.loreal-finance.com](http://www.loreal-finance.com) website, "Financial information" section.

## 6.2. INFORMATION CONCERNING THE SHARE CAPITAL\*

### 6.2.1. STATUTORY REQUIREMENTS GOVERNING CHANGES IN THE SHARE CAPITAL AND SHAREHOLDERS' RIGHTS

None.

### 6.2.2. ISSUED SHARE CAPITAL AND AUTHORISED UNISSUED SHARE CAPITAL

The share capital amounted to €112,103,817.60 at 31 December 2017. It was divided into 560,519,088 shares with a par value of €0.20 each, all of the same class and ranking *pari passu*.

The table set out below which summarises (particularly in application of Articles L. 225-129-1 and L. 225-129-2 of the

French Commercial Code) the currently valid authorisations granted to the Board of Directors by the Annual General Meeting of shareholders concerning the capital. It shows the use made of such authorisations over the financial year and presents the authorisations which are to be put to the vote at the Annual General Meeting on 17 April 2018.

\* This information forms an integral part of the Annual Financial Report as provided in Article L. 451-1-2 of the French Monetary and Financial Code.

Authorisations in force					Authorisations proposed to the Annual General Meeting of 17 April 2018		
	Date of the Annual General Meeting (resolution no.)	Length (expiry date)	Maximum authorised amount	Use of the authorisation in 2017	Resolution No.	Length	Maximum calling
<b>Share capital increases</b>							
Capital increase through the issue of shares with maintenance of preferential subscription rights	20 April 2017 (11 <sup>th</sup> )	26 months (20 June 2019)	Increase the share capital to €157,319,607 <sup>(1)</sup>	None			
Capital increase via the capitalisation of share premiums, reserves, profits or other amounts	20 April 2017 (12 <sup>th</sup> )	26 months (20 June 2019)	Increase the share capital to €157,319,607 <sup>(1)</sup>	None			
Capital increase reserved for L'Oréal employees savings plan (PEE)	20 April 2017 (13 <sup>th</sup> )	26 months (20 June 2019)	1% of share capital at the date of the Annual General Meeting (i.e. a maximum of 5,624,925 shares at 20 April 2017) <sup>(2)</sup>	None	16 <sup>th</sup>	26 months (17 June 2020)	1% of share capital on the date of the Annual General Meeting (i.e., as an indication, 5,605,190 shares at 31 December 2017) <sup>(2)</sup>
Capital increase reserved for employees of foreign subsidiaries	20 April 2017 (14 <sup>th</sup> )	18 months (20 October 2018)	1% of share capital at the date of the Annual General Meeting (i.e. a maximum of 5,624,925 shares at 20 April 2017) <sup>(2)</sup>	None	17 <sup>th</sup>	18 months (17 October 2019)	1% of share capital on the date of the Annual General Meeting (i.e., as an indication, 5,605,190 shares at 31 December 2017) <sup>(2)</sup>
Share capital increase in order to remunerate the contributions in kind of equity securities or securities giving access to the share capital of third party companies.	N/A	N/A	N/A	N/A	14 <sup>th</sup>	26 months (17 June 2020)	2% of the share capital on the date of the decision to increase the capital (i.e., as an indication, 11,210,381 shares at 31 December 2017)
<b>Buyback by the Company of its own shares</b>							
Buyback by the Company of its own shares	20 April 2017 (9 <sup>th</sup> )	18 months (20 October 2018)	10% of share capital on the date of the buybacks (i.e., as an indication, 56,185,574 shares at 31 December 2016)	2,846,604 <sup>(3)</sup>	12 <sup>th</sup>	18 months (17 October 2019)	10% of share capital on the date of the buybacks (i.e., as an indication, 56,051,908 shares at 31 December 2017)
<b>Reduction in the share capital via cancellation of shares</b>							
Cancellation of shares purchased by the Company within the scope of Article L. 225-209 of the French Commercial Code	20 April 2016 (14 <sup>th</sup> )	26 months (20 June 2018)	10% of share capital on the date of cancellation per 24-month period (i.e., as an indication, 56,298,334 shares at 31 December 2015)	2,846,604	13 <sup>th</sup>	26 months (17 June 2020)	10% of share capital on the date of cancellation per 24-month period (i.e. as an indication, 56,051,908 shares at 31 December 2017)
Cancellation of shares purchased by the Company within the scope of Article L. 225-208 of the French Commercial Code	20 April 2016 (14 <sup>th</sup> )	26 months (20 June 2018)	750,000 shares	None	13 <sup>th</sup>	26 months (17 June 2020)	771,125 shares
<b>Free grants of shares</b>							
Grant of existing free shares or shares to be issued to the employees	20 April 2016 (15 <sup>th</sup> )	26 months (20 June 2018)	0.6% of the share capital on the grant decision date (i.e., as an indication, 3,377,900 shares at 31 December 2015)	906,000	15 <sup>th</sup>	26 months (17 June 2020)	0.6% of the share capital on the grant decision date (i.e., as an indication, 3,363,114 shares at 31 December 2017)

(1) Total ceiling on capital increases, for all authorisations. It corresponds to maximum increases of 40% of the capital.

(2) The cumulative amount of the increases in share capital that may be carried out pursuant to the 16th and 17th resolutions submitted for a vote of the Annual General Meeting on 17 April 2018 may not exceed the maximum amount of 1% of the share capital which constitutes a ceiling which applies jointly to the 13th and 14th resolutions adopted by the Annual General Meeting of 20 April 2017.

(3) It should be noted that the buyback transactions in February and March 2017 were completed under the authorisation granted by the Annual General Meeting of 20 April 2016, which expired on 20 October 2017.

Since 22 June 2013, the Board of Directors no longer has an authorisation to allocate stock options to purchase or subscribe for shares.

At 31 December 2017, 2,233,775 share subscription options had been allocated and not yet exercised. All these options are exercisable on the basis of one new share per option, and are therefore liable to lead to the creation of the same number of shares. Furthermore, 3,650,290 conditional shares had been

granted to Group employees subject to performance conditions, not yet met. Out of these, 3,650,290 shares will be created when necessary and, where applicable, by capitalisation of reserves. Accordingly, the potential share capital of the Company amounts to €113,280,630.60, divided into 566,403,153 shares with a par value of €0.20.

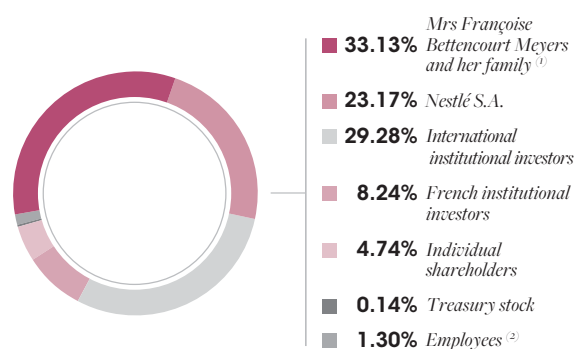
The Company has not issued any securities which grant indirect entitlement to shares in the capital.

### 6.2.3. CHANGES IN THE SHARE CAPITAL OVER THE LAST FIVE YEARS

Date	Nature of transaction	Amount of the change in share capital	Share premiums	Amount of the share capital on completion of the transaction	Number of shares created or cancelled	Number of shares after the transaction
31.12.2012				€121,762,165.40		608,810,827
01.01 to 10.02.2013	Exercise of share subscription options	€115,508.80	€48,046,701.36	€121,877,674.20	577,544	609,388,371
11.02.2013	Cancellation of shares	-€1,015,450.00		€120,862,224.20	-5,077,250	604,311,121
11.02 to 25.03.2013	Exercise of share subscription options	€154,620.00	€62,560,063.50	€121,016,844.20	773,100	605,084,221
26.03.2013	Conditional grant of shares	€47,560.00		€121,064,404.20	237,800	605,322,021
26.03 to 26.05.2013	Exercise of share subscription options	€105,598.00	€42,689,529.48	€121,170,002.20	527,990	605,850,011
27.05.2013	Conditional grant of shares	€80.00		€121,170,082.20	400	605,850,411
27.05 to 29.11.2013	Exercise of share subscription options	€422,853.40	€132,489,663.04	€121,592,935.60	2,114,267	607,964,678
29.11.2013	Cancellation of shares	-€806,278.20		€120,786,657.40	-4,031,391	603,933,287
30.11 to 31.12.2013	Exercise of share subscription options	€393,720.00	€136,453,362.00	€121,180,377.40	1,968,600	605,901,887
01.01 to 27.04.2014	Exercise of share subscription options	€160,065.40	€47,381,984.35	€121,340,442.80	800,327	606,702,214
28.04.2014	Conditional grant of shares	€77,860.00		€121,418,302.80	389,300	607,091,514
29.04 to 07.07.2014	Exercise of share subscription options	€243,377.00	€74,294,609.14	€121,661,679.80	1,216,885	608,308,399
08.07.2014	Cancellation of shares	-€9,700,000.00		€111,961,679.80	-48,500,000	559,808,399
09.07 to 31.12.2014	Exercise of share subscription options	€284,398.00	€93,932,388.88	€112,246,077.80	1,421,990	561,230,389
01.01 to 01.03.2015	Exercise of share subscription options	€197,786.40	€63,711,066.62	€112,443,864.20	988,932	562,219,321
02.03.2015	Conditional grant of shares	€90.00		€112,443,954.20	450	562,219,771
02.03 to 21.04.2015	Exercise of share subscription options	€62,240.80	€20,382,327.94	€112,506,195.00	311,204	562,530,975
22.04.2015	Cancellation of shares	-€581,000.00		€111,925,195.00	-2,905,000	559,625,975
22.04 to 31.12.2015	Exercise of share subscription options	€671,474.60	€253,534,790.22	€112,596,669.60	3,357,373	562,983,348
01.01 to 30.06.2016	Exercise of share subscription options	€226,538.40	€89,132,049.59	€112,823,208.00	1,132,692	564,116,040
30.06.2016	Cancellation of shares	-€640,500.00		€112,182,708.00	-3,202,500	560,913,540
01.07 to 12.07.2016	Exercise of share subscription options	€9,974.00	€3,995,962.20	€112,192,682.00	49,870	560,963,410
13.07.2016	Conditional grant of shares	€205.00		€112,192,887.00	1,025	560,964,435
14.07.2016 to 31.12.2016	Exercise of share subscription options	€178,261.20	€69,671,555.92	€112,371,148.20	891,306	561,855,741
01.01.2017 to 02.05.2017	Exercise of share subscription options	€136,585.00	€49,890,155.95	€112,507,733.20	682,925	562,538,666
03.05.2017	Conditional grant of shares	€25.00		€112,507,758.20	125	562,538,791
03.05.2017 to 31.05.2017	Exercise of share subscription options	€38,323.60	€16,191,514.77	€112,546,081.80	191,618	562,730,409
31.05.2017	Cancellation of shares	-€569,320.80		€111,976,761.00	-2,846,604	559,883,805
01.06.2017 to 30.06.2017	Exercise of share subscription options	€16,641.00	€6,033,441.35	€111,993,402.00	83,205	559,967,010
30.06.2017	Conditional grant of shares	€50.00		€111,993,452.00	250	559,967,260
01.07.2017 to 31.12.2017	Exercise of share subscription options	€110,365.60	€45,927,808.87	€112,103,817.60	551,828	560,519,088

## 6.3. SHAREHOLDER STRUCTURE\*

### SHAREHOLDER STRUCTURE AT 31 DECEMBER 2017



(1) Consisting of Mrs. Françoise Bettencourt Meyers, Mr. Jean-Pierre Meyers, Mr. Jean-Victor Meyers and Mr. Nicolas Meyers, succeeding Mrs. Liliane Bettencourt, and Téthys SAS.

(2) Concerns the employees and former employees of L'Oréal. Pursuant to law No. 2015-990 of 6 August 2015, the percentage also includes, in 2017, bonus shares granted in accordance with Article L. 225-197-1 of the French Commercial Code. Of which 0.77% in the L'Oréal employee savings plan (PEE) as defined by Article L. 225-102 of the French Commercial Code.

### 6.3.1. LEGAL ENTITIES OR INDIVIDUALS ACTING IN CONCERT OVER THE COMPANY TO THE COMPANY'S KNOWLEDGE

The Bettencourt Meyers family, on the one hand, and Nestlé S.A., on the other hand, are shareholders of the Company and have declared that they are acting in concert (see the sections 6.3.2 and 6.3.5 below *Changes in allocation of the share capital and voting rights over the last three years and Shareholders' agreements relating to shares in the Company's share capital*).

### 6.3.2. CHANGES IN ALLOCATION OF THE SHARE CAPITAL AND VOTING RIGHTS OVER THE LAST THREE YEARS

Over the last three years, the allocation of the share capital and the voting rights has changed as follows:

	31.12.2017			31.12.2016			31.12.2015		
	Number of shares	% of capital	% of voting rights <sup>(4)</sup>	Number of shares	% of capital	% of voting rights <sup>(4)</sup>	Number of shares	% of capital	% of voting rights <sup>(4)</sup>
Mrs. Françoise Bettencourt Meyers and her family <sup>(1)</sup>	185,715,079	33.13	33.13	185,704,089	33.05	33.05	185,704,089	32.99	32.99
Nestlé S.A.	129,881,021	23.17	23.17	129,881,021	23.12	23.12	129,881,021	23.07	23.07
Concert party <sup>(2)</sup>	315,596,100	56.30	56.30	315,585,110	56.17	56.17	315,585,110	56.06	56.06
Employees <sup>(3)</sup>	7,304,411	1.30	1.30	6,714,399	1.20	1.20	4,628,294	0.82	0.82
Public	236,847,452	42.26	42.26	237,798,887	42.32	42.32	239,774,774	42.59	42.59
Treasury stock	771,125	0.14	0.14	1,757,345	0.31	0.31	2,995,170	0.53	0.53
<b>TOTAL</b>	<b>560,519,088</b>	<b>100.0</b>	<b>100.0</b>	<b>561,855,741</b>	<b>100.0</b>	<b>100.0</b>	<b>562,983,348</b>	<b>100.0</b>	<b>100.0</b>

(1) Including, at 31 December 2017, 152,514,292 L'Oréal shares held in absolute ownership by Téthys SAS, a company controlled by the Bettencourt Meyers family, 33,165,832 shares held in absolute ownership by Mrs. Françoise Bettencourt Meyers, 15,332 held in absolute ownership by Mr. Jean-Pierre Meyers, 1,500 held in absolute ownership by Mr. Jean-Victor Meyers, 1,500 held in absolute ownership by Mr. Nicolas Meyers, and 16,623 shares related to the estate of Mrs. Liliane Bettencourt.

(2) The Bettencourt Meyers family and Nestlé S.A. act in concert (see "Shareholders' agreements relating to shares in the Company's share capital" below).

(3) Concerns the employees and former employees of L'Oréal. Pursuant to law No. 2015-990 of 6 August 2015, the percentage also includes, in 2017, bonus shares granted in accordance with Article L. 225-197-1 of the French Commercial Code. Of which 0.77% in the L'Oréal Employee Savings Plan (PEE) as defined by Article L. 225-102 of the French Commercial Code.

(4) Calculated in accordance with Article 223-11 of the General Regulation of the AMF.

To the Company's knowledge, at 31 December 2017, the members of the Executive Committee held less than 1% of the share capital.

The number of shares held by each of the members of the Board of Directors is shown in the information sheets on the Directors set out in chapter 2 of this document.

The Company is authorised to trade in its own shares on or off the Stock Exchange in accordance with Articles L. 225-209 et seq. of the French Commercial Code, within the limits and in

accordance with the purposes defined by the authorisations that are granted to it by its Annual General Meeting.

At 31 December 2017, the Company held, on this basis, 771,125 of its own shares (representing 0.14% of the share capital), which, valued at their purchase price, represented €56.5 million in L'Oréal S.A.'s financial statements. None of these shares is allocated to covering the stock option plans for the purchase of shares allocated to employees and executive officers of Group companies that have not yet expired or to covering a conditional employee share plan.

\* This information forms an integral part of the Annual Financial Report as provided in Article L. 451-1-2 of the French Monetary and Financial Code with the exception of section 6.3.5.5 subsequent to the approval of the Report.

### 6.3.3. EMPLOYEE SHARE OWNERSHIP

The employees and former employees of L'Oréal and its affiliates held 7,304,411 shares at 31 December 2017 representing 1.30% <sup>(1)</sup> of the share capital, of which 0.77% in the Employee Savings Plan (PEE). At that date, this stake in the capital is held by 11,056 employees participating in the Group Employee Savings Plan as defined by Article L. 225-102 of the French Commercial Code.

### 6.3.4. DISCLOSURES TO THE COMPANY OF LEGAL THRESHOLDS CROSSED DURING THE FINANCIAL YEAR

On 26 September 2017, Téthys, a French *société par actions simplifiée* (joint-stock company), (27-29 rue des Poissonniers, 92200 Neuilly-sur-Seine (France)) declared that it individually crossed below the threshold of 30% of L'Oréal's voting rights and individually held 152,514,292 Company shares, representing the same number of voting rights, namely 27.22% of the capital and voting rights <sup>(2)</sup>.

Mrs. Françoise Bettencourt Meyers declared that she individually crossed above the threshold of 5% of the voting rights of L'Oréal and individually held 33,165,832 L'Oréal shares, representing the same number of voting rights, namely 5.92% of the Company's share capital and voting rights <sup>(2)</sup>.

These thresholds were crossed due to the redistribution of the shareholders' rights in L'Oréal following the death of Mrs. Liliane Bettencourt.

Neither the Bettencourt Meyers family nor the concert between it and Nestlé S.A. crossed a threshold on this occasion.

### 6.3.5. SHAREHOLDERS' AGREEMENTS RELATING TO SHARES IN THE COMPANY'S SHARE CAPITAL

The Company is not aware of any shareholders' agreements relating to shares in its share capital other than the agreement described below.

#### 6.3.5.1. Memorandum of agreement signed on 3 February 2004

A memorandum of agreement was signed on 3 February 2004 between Mrs. Liliane Bettencourt and her family, and Nestlé, providing for the merger of Gesparal into L'Oréal (merger completed on 29 April 2004) and it contains the following clauses:

##### *Ownership ceiling clause*

The parties agreed not to increase their shareholdings or their voting rights held in L'Oréal, either directly or indirectly, in any manner whatsoever, for a minimum period of three years as from 29 April 2004, and in any case not until six months have elapsed after the death of Mrs. Bettencourt <sup>(3)</sup>.

##### *Lock-up clause (clause expired on 29 April 2009)*

The parties agreed not to transfer any or all of their L'Oréal shares either directly or indirectly, for a period of five years as from 29 April 2004.

##### *Exceptions to the undertaking to limit the shareholding and the lock-up clause*

- a) The undertaking to limit the shareholding does not apply if the increase in the shareholding results from a reduction in the number of L'Oréal shares or voting rights, the acquisition by the Company of its own shares, or the suspension or removal of the voting rights of a shareholder.
- b) The undertaking to limit the shareholding and the lock-up clause will no longer apply in the event of a takeover bid for L'Oréal shares, as from the date of publication of the clearance decision (*avis de recevabilité*) and up until the day after the publication of the notice of results (*avis de résultat*).
- c) In the event of an increase in the share capital of L'Oréal, the parties may, provided that the other party has voted in favour of the capital increase, acquire shares or subscribe for new shares, in order to maintain their holding at the percentage existing prior to the said transaction.
- d) The parties are free to carry out transfers of L'Oréal shares, in the case of individuals, in favour of an ascendant, descendant or spouse in the form of a gift, and in the case of individuals or legal entities, in favour of any company in which the individual or legal entity carrying out the transfer holds over 90% of the share capital and voting rights.

(1) Concerns the employees and former employees of L'Oréal. Pursuant to law No. 2015-990 of 6 August 2015, the percentage also includes, in 2017, bonus shares granted in accordance with Article L. 225-197-1 of the French Commercial Code.

(2) On the basis of a share capital at 31 August 2017 consisting of 560,233,630 shares representing an equal number of voting rights pursuant to paragraph 2 of Article 223-11 of the AMF's of the General Regulations.

(3) See the amendment entered into on 10 February 2014, section 6.3.5.2.

**Pre-emption clause  
(clause expired on 29 April 2014)**

The parties have reciprocally granted each other a pre-emption right concerning the L'Oréal shares they hold since the date of the merger, and those they will hold after such date.

This pre-emption right, that came into force on expiry of the lock-up clause for a period of five years, expired on 29 April 2014.

**"No concert party" provision  
(clause expired on 29 April 2014)**

The parties have agreed for a period of ten years from the effective date of the merger not to conclude an agreement with any third party and not to form a concert party relating to the shares making up the share capital of L'Oréal.

Breach of such undertaking entitles the other party to exercise its pre-emption right with regard to the shareholding of the party having committed such breach, for a price per share equal to the average of the share prices for the last thirty trading sessions prior to notification of exercise of the pre-emption right.

**Board of Directors**

The Memorandum of agreement did not provide for any change to the composition of the Board of Directors as compared to its composition at the date of signing, but did stipulate an undertaking by the parties to vote in favour of the appointment as Directors of three members proposed by the other party.

The Bettencourt Meyers family and Nestlé also agreed to vote in favour of the appointment of two Vice-Chairmen of the Board of Directors, one proposed by the Bettencourt family, and the other by Nestlé.

The parties provided for the creation on the Board of Directors of L'Oréal of a committee called the Strategy and Implementation Committee which has six members, and is chaired by the Chairman of the Board of Directors of L'Oréal and composed of two members proposed by the Bettencourt Meyers family, two members proposed by Nestlé and one other independent Director. The committee meets six times a year.

**Length**

Unless otherwise stipulated, the Memorandum of agreement will remain in force for five years from 29 April 2004, and in all cases until a period of six months has elapsed after the death of Mrs. Bettencourt.

**Agreement by the parties to act in concert**

The parties declared that they would act in concert for a period of five years from 29 April 2004. On 9 April 2009, the Bettencourt Meyers family and Nestlé published the following press release:

*"On 3 February 2004, the Bettencourt Meyers family and Nestlé signed an agreement organising their relationship and the management of their stakes within the L'Oréal Company.*

*The agreement is public and remains unchanged. It foresees the non-transferability of their respective stakes in the capital of L'Oréal until 29 April 2009, the other clauses (in particular, limitation on the shareholding, pre-emption, escrow,*

*prohibition on constituting a concert party with any third party, composition of the Board of Directors and of the Strategy and Implementation Committee) continue to be effective until the expiry date mentioned in the 2004 deed.*

*The Bettencourt Meyers family and Nestlé will continue to act in concert with regard to the L'Oréal Company beyond 29 April 2009."*

**6.3.5.2. Amendment signed on  
10 February, 2014**

In meetings held on 10 February 2014, the respective Boards of Directors of Nestlé and L'Oréal approved by unanimous decision of their voting members a strategic transaction for both companies under which L'Oréal would buy 48.5 million of its own shares (8% of its share capital) from Nestlé. L'Oréal and Nestlé's joint news release of 11 February 2014, describes this transaction in detail.

The buyback was subject to fulfilment of a condition precedent, namely the closing of the acquisition by Nestlé of all the shares held by L'Oréal in the companies of the Galderma group. The condition was fulfilled and all the L'Oréal shares purchased by L'Oréal were cancelled; following the transaction, Nestlé's stake in L'Oréal's capital was reduced from 29.4% to 23.29% while the Bettencourt Meyers family's stake increased from 30.6% to 33.31% of the capital at 31 December 2013.

In order to reflect the change in the stake held by Nestlé in their agreements, on 10 February 2014, the Bettencourt Meyers family and Nestlé signed an amendment agreement to their memorandum of agreement of 3 February 2004.

**Ownership ceiling clause**

Subject to closing of the transaction and as from the date thereof, the clause limiting the respective shareholdings of the Bettencourt Meyers family and Nestlé both in terms of capital and voting rights will continue to apply under the same conditions, for the term of the memorandum of agreement, namely until the expiry of a period of six months after the death of Mrs. Liliane Bettencourt, and on the basis of their respective stakes in terms of capital and voting rights resulting from the transaction.

**Board of Directors**

Subject to closing of the transaction and as from the date thereof, it is provided that for the remaining term of the memorandum of agreement, the undertaking by the Bettencourt Meyers family to vote in favour of the appointment on L'Oréal's Board of Directors of members proposed by Nestlé will from now on only concern two members, as against three previously.

The reciprocal undertaking by Nestlé to vote in favour of the appointment on L'Oréal's Board of Directors of members proposed by the Bettencourt Meyers family will continue to concern three members.

**Escrow agreement**

The escrow agreement for the L'Oréal shares respectively held by the Bettencourt Meyers family and by Nestlé was terminated prior to its expiry date.

**Agreement by the parties to act in concert**

The parties stated that they would continue to act in concert for the remaining term of the memorandum of agreement.

The other provisions of the memorandum of agreement still in force that have not been expressly amended by the amendment agreement will remain unchanged.

Joint press release issued by the Bettencourt Meyers family and Nestlé on 11 February 2014:

"Nestlé and L'Oréal announced today the buyback by L'Oréal of L'Oréal shares sold by Nestlé. Subject to completion of the transaction, Nestlé's ownership in L'Oréal will decrease from 29.4% to 23.29%, and the Bettencourt Meyers Family's ownership will increase from 30.6% to 33.31%.

The Bettencourt Meyers Family and Nestlé have amended the shareholders' agreement of 3 February 2004 to take into account the new shareholding structure, once the transaction is completed.

The number of Nestlé representatives on the Board of Directors of L'Oréal will be brought down from three to two. The ownership ceiling provisions of the agreement will continue to apply to the new levels of ownership in the same conditions.

This amendment will be communicated to the *Autorité des Marchés Financiers*.

The Bettencourt Meyers family and Nestlé will continue to act in concert with respect to L'Oréal for the remaining duration of the shareholders' agreement."

**6.3.5.3. Collective lock-up agreements within the scope of articles 787 B and 885 I bis of the French Tax Code**

The members of the Bettencourt Meyers family, consisting of Mrs. Liliane Bettencourt, Mrs. Françoise Bettencourt Meyers, Director, Mr. Jean-Pierre Meyers, Vice-Chairman of the Board of Directors, Mr. Jean-Victor Meyers, Director, Mr. Nicolas Meyers and Téthys SAS, as well as Mr. Jean-Paul Agon, Chairman and Chief Executive Officer, for 100 shares, signed lock-up agreements under the Dutreil law on 16 December 2016.

These lock-up agreements were concluded in application of Articles 787 B and 885 I bis of the French Tax Code for a period of two years, tacitly renewable for one-year periods. The L'Oréal shares which are the subject of these agreements represent 33.065% of the capital and of the voting rights at 16 December 2016. These lock-up agreements do not include any preferential rights for sales or acquisitions for the benefit of the signatories and do not constitute a concerted action.

**6.3.5.4. Press release published by Mrs. Françoise Bettencourt Meyers on 21 September 2017**

Following the death of Mrs. Liliane Bettencourt on 21 September 2017, Mrs. Françoise Bettencourt Meyers reiterated, on behalf of the Bettencourt Meyers family, her full commitment and loyalty to L'Oréal.

**6.3.5.5. Nestlé S.A. press release of 15 February 2018**

"Our shareholding in L'Oréal continues to be an important investment for us and we remain committed to the company that has given us very good returns over the years. We have full confidence in L'Oréal's management and strategic direction. The shareholders agreement between Nestlé and the Bettencourt family is due to expire on March 21, 2018. In order to maintain all available options for the benefit of Nestlé's shareholders, the Board of Directors has decided not to renew this agreement. We do not intend to increase our stake in L'Oréal and are committed to maintaining our constructive relationship with the Bettencourt family."

**6.3.6. BUYBACK BY THE COMPANY OF ITS OWN SHARES****6.3.6.1. Information concerning share buybacks during the 2017 financial year**

In 2017, the Company bought back 2,846,604 of its own shares, in accordance with the authorisation voted by the Annual General Meeting of 20 April 2016.

The table set out below summarises the transactions carried out within this framework, and the use made of the shares bought back:

Date of authorisation of the Annual General Meeting	13 <sup>th</sup> resolution of 20 April 2016
Expiry date of the authorisation	20 October 2017
Maximum amount of authorised buybacks	10% of share capital on the date of the buybacks (i.e., as an indication, 56,298,334 shares at 31 December 2015)
Maximum purchase price per share	€230
Authorised purposes	Cancellation Share purchase options Free grants of shares Liquidity and market stabilisation External growth
Board of Directors' meeting that decided on the buybacks	9 February 2017
Purpose of buybacks	Cancellation
Period of buybacks made	From 13 February 2017 to 15 March 2017
Number of shares purchased	2,846,604*
Average purchase price per share	€174.99**
Use of shares purchased	Cancellation

\* These shares were cancelled on 31 May 2017.

\*\* Before costs.



### 6.3.6.2. Transactions carried out by L'Oréal with respect to its shares in 2017

Percentage of share capital held by the Company directly and indirectly at 31 December 2017 of which:	0.137%
♦ those intended to cover existing share purchase plans	0.000%
♦ those intended to cover conditional shares	0.000%
♦ intended to be cancelled	0.000%
Number of shares cancelled during the last 24 months	6,049,104
Number of shares held in the portfolio at 31.12.2017	771,125
Net book value of the portfolio at 31.12.2017	€56.5 M
Portfolio market value at 31.12.2017	€142.6 M

	Total gross transactions	
	Purchases	Sales/Transfers*
Number of shares	N/A	N/A
Average transaction price	N/A	N/A
Average exercise price	N/A	N/A
Amounts	N/A	N/A

\* Exercises and cancellations of share purchase options granted to employees and executive officers of Group companies.

No use was made of derivatives to make the share buybacks. There is no open purchase or sale position at 31 December 2017.

### 6.3.6.3. Renewal by the Annual General Meeting of the authorisation given to the Board to trade in the Company's shares

By voting a new resolution, the Annual General Meeting could give the Board of Directors the means to enable it to continue with the buyback policy.

This authorisation would be given for a maximum period of 18 months as from the date of the Annual General Meeting and the purchase price per share could not exceed €250 (excluding expenses), it being specified that in the event of filing of a public offer by a third party with regard to the shares of the Company, the Board of Directors will not be able to use this authorisation during the public offer period without the prior authorisation of the Annual General Meeting.

The Company would be able to buy its own shares for the following purposes:

- ♦ their cancellation;
- ♦ their sale within the scope of employee share ownership programmes and their allocation to free grants of shares for the benefit of employees and executive officers of the L'Oréal Group;
- ♦ liquidity provision through a liquidity agreement;
- ♦ retaining them and subsequently using them as payment in connection with external growth transactions.

The authorisation would concern up to 10% of the share capital, *i.e.* for information purposes, at 31 December 2017, 56,051,908 shares for a maximum amount of €14,012,977,000 it being stipulated that the Company may at no time hold over 10% of its own share capital.

The purchase, sale, exchange or transfer of these shares may be carried out by any means on one or more occasions, on or off the stock market, including in whole or in part, through the acquisition, sale, exchange or transfer of blocks of shares. These means include the use of all financial instruments and derivatives (see resolution 12 presented in chapter 7).

## 6.4. LONG-TERM INCENTIVE PLANS\*

### 6.4.1. PRESENTATION OF THE STOCK OPTION PLANS FOR THE PURCHASE OR SUBSCRIPTION OF SHARES AND PLANS FOR THE CONDITIONAL GRANTS OF SHARES TO EMPLOYEES (ACAS)

#### Policy

For several years, L'Oréal has set up long-term incentive plans in favour of its employees and executive officers in an international context.

It pursues a dual objective:

- ◆ motivating and associating those who make big contributions with future increases in the Group's results;
- ◆ increasing solidarity and helping to instil a group spirit among them by seeking to foster their loyalty over time.

Until 2009, L'Oréal's Board of Directors exclusively granted stock options to the senior managers and executive officers whom L'Oréal wished to reward for their performance and their important role in business development and in the Group's current and future projects, wherever they might be located.

In 2009, L'Oréal's Board of Directors enlarged its policy by introducing a mechanism for the conditional grants of shares to employees (ACAs).

The objective was:

- ◆ to provide a long-term incentive offering greater motivation to all those who only received stock options occasionally or in limited numbers;
- ◆ to reach out to a broader population of potential beneficiaries, particularly internationally, in a context of increased competition with regard to talents.

In 2011, L'Oréal's Board of Directors decided to make ACAs the primary tool for its long-term incentive policy by extending the grant of shares to the main senior managers of the Group who until then had only received stock options: thus, except for the Chairman and Chief Executive Officer who received stock options only, the main senior managers of L'Oréal, including the members of the Executive Committee, received a mix of stock options and conditional grants of shares in order to encourage both their spirit of enterprise and to reward their performance in the medium to long term. Other eligible employees were incentivised by conditional grants of shares only.

In 2012, the Board of Directors, on the proposal of the Human Resources and Remuneration Committee, went one step further in this policy and decided to replace the grant of stock options by conditional grants of shares (ACAs) for all beneficiaries including the Chairman and Chief Executive Officer.

Since 2013, the Board of Directors, on the proposal of the Human Resources and Remuneration Committee, has continued this policy to make conditional grants of shares (ACAs), to the exclusion of any other long-term incentive instrument.

The plans are proposed by General Management to the Board of Directors which decides, after receiving the opinion of the Human Resources and Remuneration Committee, with regard to the opening of these plans and the applicable conditions and rules.

Since 2009, these grants are made after publication of the financial statements for the previous financial year, in accordance with the AFEP-MEDEF recommendation.

The decision with regard to each individual grant is, in every case, contingent on the quality of the performance rendered at the time of implementation of the plan with particular attention being paid to the main talents for the future. According to the eligibility criteria linked to the position held by the beneficiary and the size of the entity or the country in which the beneficiary works, in a concern for equity on an international scale, these grants are made every year, every two years or every three years.

The General Management and the Board of Directors stress the importance that is given to bringing together the interests of the beneficiaries of stock options and conditional grants of shares and those of the shareholders themselves.

The employees and executive officers who are the beneficiaries share with the shareholders the same confidence in the strong steady growth of the Company with a medium and long-term vision. This is why stock options were granted for a period of 10 years including a five-year lock-up period, and conditional grants of shares for a period of four years followed, for France up until the 2015 plan, by a 2-year waiting period during which these shares cannot be sold.

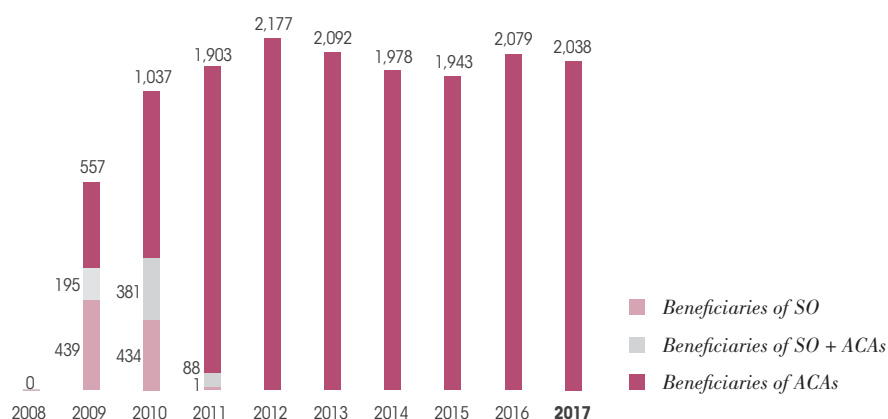
The Board of Directors draws the attention of the beneficiaries of stock options and conditional grants of shares to the regulations in force concerning persons holding "inside information". The beneficiaries of stock options and conditional grants of shares undertake to read the Stock Market Code of Ethics which is attached to the regulations for the stock option plans or the plans for the conditional grant of shares from which they benefit and to comply with the provisions thereof.

#### Number of beneficiaries

50% of the beneficiaries of the 20 April 2017 plan are women. Nearly 3,200 employees representing 10% of the managers throughout the world, 62% of whom are in international subsidiaries, benefit from at least one stock option plan or one conditional grant of shares plan (ACAs).

\* This information forms an integral part of the Annual Financial Report as provided in Article L. 451-1-2 of the French Monetary and Financial Code.

**CHANGE IN THE NUMBER OF BENEFICIARIES OF STOCK OPTIONS AND ACAS SINCE 2008**



**6.4.2. STOCK OPTION PLANS FOR THE SUBSCRIPTION AND PURCHASE OF L'ORÉAL PARENT COMPANY SHARES**

No stock options for the purchase or subscription of shares were granted in 2017, as the Board of Directors has decided since 2012, on the proposal of the Human Resources and Remuneration Committee, to replace the grant of stock options with ACAs for all beneficiaries including the Chairman and Chief Executive Officer.

**6.4.2.1. Current stock option plans for the subscription of L'Oréal parent company shares <sup>(1)</sup>**

The main features of the plans that existed at 31 December 2017, are included in the tables set out hereafter:

AGM authorisation date	24.04.2007	16.04.2009	22.04.2011
Date of Board of Directors' meeting	25.03.2009	27.04.2010	22.04.2011
Total number of beneficiaries	634	815	89
Total number of shares that may be subscribed or purchased	3,650,000	4,200,000	1,470,000
Of which may be subscribed or purchased by the executive officers <sup>(2)</sup> :			
♦ Mr. Jean-Paul Agon	0 <sup>(3)</sup>	400,000	200,000 <sup>(4)</sup>
Start date for exercise of the options	26.03.2014	28.04.2015	23.04.2016
Date of expiry	25.03.2019	27.04.2020	22.04.2021
Subscription or acquisition price (€)	50.11 (S)	80.03 (S)	83.19 (S)
Number of stock options exercised at 31.12.2017	3,083,852	2,658,680	627,993
Of which subscribed	3,083,852	2,658,680	627,993
Total number of share subscription or purchase options that have been cancelled or lapsed	233,000	248,700	234,000
<b>Number of share subscription or purchase options remaining year-end</b>	<b>333,148</b>	<b>1,292,620</b>	<b>608,007</b>

(1) There are no share subscription option plans at subsidiaries of L'Oréal.

(2) This is the number of stock options granted to the executive officer during his term of office within the scope of each of the above-mentioned plans. Mr. Jean-Paul Agon has been an executive officer since April 2006.

(3) As Mr. Jean-Paul Agon informed the Board of Directors that he did not wish to be granted any share subscription options with respect to 2009, he did not receive any stock option under the plan dated 25 March 2009.

(4) The Board of Directors' meeting of 22 April 2011 allocated 400,000 share subscription options to Mr. Jean-Paul Agon. Mr. Agon waived the right to 200,000 of these options. He therefore benefits from 200,000 stock options under the plan decided by the Board of Directors at its meeting of 22 April 2011.

There were 2,233,775 outstanding options granted by the Board of Directors within the scope of the authorisations voted by the Annual General Meetings and not yet exercised at

31 December 2017, at an average price of €76.43, namely 0.40% of the 560,519,088 shares making up the share capital at such date.

**6.4.2.2. Share subscription or purchase options granted to employees other than executive officers of L'Oréal or exercised by them during the 2017 financial year**

	Total number of options granted	Weighted average price
Options granted by L'Oréal parent company to the ten employees <sup>(1)</sup> to whom the largest number of stock options was granted	No stock options granted in 2017	N/A

(1) Employees other than executive officers of L'Oréal parent company or employees of companies included in the scope of grant of the stock options.

	Total number of shares subscribed or purchased	Weighted average price	Plan of 30.11.07 (S)	Plan of 25.03.09 (S)	Plan of 27.04.10 (S)	Plan of 22.04.11 (S)
Options held with regard to L'Oréal parent company exercised by the ten employees <sup>(1)</sup> who have thus purchased or subscribed for the largest number of options	236,800	€72.08	33,200	81,100	72,500	50,000

(1) Employees other than executive officers of L'Oréal parent company or employees of companies included in the scope of grant of the stock options.

**6.4.3. PLANS FOR THE CONDITIONAL GRANTS OF SHARES (ACAS)****6.4.3.1. Authorisation of the Ordinary and Extraordinary Annual General Meeting of 20 April 2016**

The Ordinary and Extraordinary General Meeting of 20 April 2016 gave the Board of Directors the authorisation to carry out free grants of existing shares and/or shares to be issued of the Company to employees and executive officers of the Company and of its French or foreign affiliates under the conditions of Article L. 225-197-2 of the French Commercial Code.

The Ordinary and Extraordinary General Meeting set the period of validity of the authorisation, which may be used on one or more occasions, at 26 months.

The total number of free shares granted in this manner may not represent more than 0.6% of the share capital recorded on the date of the Board of Directors' decision.

The number of free shares granted to the Company's executive officers may not represent more than 10% of the total number of free shares granted during a financial year pursuant to this resolution.

The Board of Directors will determine the identity of the beneficiaries of the free grants of shares and the number of free shares granted to each of them as well as the conditions to be met in order for the shares to finally vest, and in particular the performance conditions.

These performance conditions will take into account:

- ◆ partly, growth in L'Oréal's comparable cosmetics sales as compared to those of a panel of its biggest direct competitors;
- ◆ partly, growth in L'Oréal's consolidated operating profit.

The Board of Directors indeed considers that these two criteria, assessed over a long period of three financial years and applied to several plans, are complementary, in line with the Group's objectives and suitable to its specificities and should make it possible to promote balanced, continuing growth over the long term. The grant of such shares to their beneficiaries, for all or part of the shares granted, will become final and binding subject to satisfaction of the other conditions set at the time of grant, at the end of a minimum vesting period of four years.

The grant of these shares to their beneficiaries will become final and binding prior to the expiry of the above-mentioned vesting periods in the event of disability of the beneficiary corresponding to classification in the second or third categories provided for in Article L. 341-1 of the French Social Security Code (*Code de la sécurité sociale*) and such shares will be freely transferable in the event of disability of the beneficiary corresponding to classification in the above-mentioned categories under the French Social Security Code.

The Board of Directors will be able to provide for vesting and holding periods which are longer than the minimum periods set above.

The mechanism for the Conditional Grant of Shares to employees complies with the AFEP-MEDEF Code of Corporate Governance and in particular:

- ◆ any conditional grants of shares to the executive officers will be decided by the Board of Directors after assessment of their performance;
- ◆ the final vesting of all or part of the shares will be linked to performance conditions to be met that are set by the Board;
- ◆ the executive officers will be obliged to retain 50% of the shares that are definitively granted to them at the end of the vesting period in registered form until the termination of their duties;
- ◆ an executive officer may not be granted any shares at the time of his departure.

#### 6.4.3.2. Conditional grants of shares granted within the framework of the authorisation of 20 April 2016 (ACAs plan of 20 April 2017)

On the basis of the proposals made by the General Management and examined by the Human Resources and Remuneration Committee, the Board of Directors decided, at its meeting on 20 April 2017, to make a conditional grant of shares within the scope of the authorisation granted by the Annual General Meeting on 20 April 2016.

The share capital at 20 April 2017 consisted of 562,492,510 shares, which gave the possibility to distribute 3,374,958 shares.

The Board of Directors used this authorisation at its meeting of 20 April 2017 by granting 906,000 free shares to 2,038 beneficiaries.

This is a free grant of shares to be issued.

##### **Vesting of the shares is subject to a dual condition:**

- ◆ **of presence:** the shares granted will only finally vest after a period of four years at the end of which the beneficiary must still be an employee of the Group (save the exceptions provided for by law or the Plan regulations);
- ◆ **of performance:**
  - vesting of all or part of 50% of the shares granted will depend on the growth in comparable cosmetics sales for financial years 2018, 2019 and 2020 as compared to those of a panel of L'Oréal's biggest direct competitors consisting of Unilever, Procter & Gamble, Estée Lauder, Shiseido, Beiersdorf, Johnson & Johnson, Henkel, LVMH, Kao, Coty;
  - vesting of all or part of 50% of the shares granted will depend on growth in the Group's consolidated operating profit, over the same period.

The calculation will be made on the basis of the arithmetic mean of the performances for the 2018, 2019 and 2020 financial years.

Pursuant to the criterion relating to sales, in order for all the free shares granted to finally vest for the beneficiaries at the end of the vesting period, L'Oréal must outperform the average growth in sales of the panel of competitors. Below this level, the grant decreases. The Board defines a threshold, not made public for confidentiality reasons, below which no share will finally vest pursuant to this criterion.

Pursuant to the criterion relating to operating profit, in order for all the free shares granted to finally vest for the beneficiaries at the end of the vesting period, a level of growth defined by the Board, but not made public for confidentiality reasons, must be achieved or exceeded. Below this level, the grant decreases. If the operating profit does not increase in absolute value over the period, no share will finally vest pursuant to this criterion.

The Human Resources and Remuneration Committee is responsible for communicating to the Board of Directors the level of indicators recorded for the years to be used for the calculation of the performance conditions. The Board of Directors records, at the appropriate time, the level of performance achieved on which the number of shares that finally vests depends.

The data recorded year after year to determine the levels of performance achieved are published in paragraphs 6.4.3.5 and 6.4.3.6.

The vesting of the first 200 conditional shares (ACAs) is not subject to fulfilment of the performance conditions except for the members of the Executive Committee, including the Chairman and Chief Executive Officer.

#### 6.4.3.3. Shares granted to the ten employees other than executive officers to whom the largest number of shares have been granted

The total number of shares granted in 2017 to the ten employees other than corporate officers who received the largest number of shares amounts to 137,600 shares.

**6.4.3.4. Existing conditional grant of shares at 31 December 2017**

Date of authorisation by the Extraordinary General Meeting	26.04.2013	22.04.2015	20.04.2016	20.04.2016
Date of grant by the Board of Directors	17.04.2014	22.04.2015	20.04.2016	20.04.2017
Total number of shares conditionally granted	1,068,565	860,150	906,100	906,000
<i>Of which the ten employees other than executive officers granted the largest number of shares <sup>(1)</sup></i>	153,400	126,100	128,600	137,600
Number of beneficiaries	1,978	1,943	2,079	2,038
Performance conditions	<ul style="list-style-type: none"> <li>◆ 50% growth in comparable cosmetics sales as compared to that of a panel of competitors <sup>(2)</sup></li> <li>◆ 50% growth in the L'Oréal Group's consolidated operating profit</li> </ul>			
Date of final vesting for French tax residents at the date of grant	17.04.2018	22.04.2019	20.04.2020	20.04.2021
Date of final vesting for non-French tax residents at the date of grant	17.04.2018	22.04.2019	20.04.2020	20.04.2021
End of the waiting period for French tax residents at the date of grant	17.04.2020	22.04.2021	N/A	N/A

(1) Employees who are not executive officers of L'Oréal or employees of companies included within the scope of the grant of shares.

(2) For the 2014 plan, the panel consists of the following companies: Unilever, Procter & Gamble, Estée Lauder, Shiseido, Beiersdorf, Johnson & Johnson, Henkel, LVMH, Kao, Revlon, Elizabeth Arden.

For the 2015, 2016 and 2017 plans, the panel consists of the following companies: Unilever, Procter & Gamble, Estée Lauder, Shiseido, Beiersdorf, Johnson & Johnson, Henkel, LVMH, Kao, Coty.

**6.4.3.5. Shares definitively invested under the 17 April 2014 ACAs plan**

The Board of Directors recorded at its meeting on 8 February 2018 that the performance levels achieved during the three years taken into consideration within the scope of the 17 April 2014 plan, namely 2015, 2016 and 2017, exceeded the levels set for the grant of all the shares (ACAs).

Accordingly, the beneficiaries who fulfil the conditions under the plan on 17 April 2018 and, in particular, the condition of presence in the Company, will receive all the shares that were granted to them.

For information purposes, 40,000 shares were granted to the executive officer.

**TABLE MONITORING THE PERFORMANCE CONDITIONS OF THE ACAS PLAN OF 17 APRIL 2014**

ACAs plan of 17 April 2014	2015	2016	2017	Arithmetic average of performances for FY 2015, 2016 and 2017
50% growth in comparable cosmetics sales compared to a panel of competitors*	+0.8 point (+4.1%/+3.3%)	+1.2 points (+ 4.9%/+ 3.7%)	+0.2 point** (+4.8%/+4.6%)**	+0.73 point**
50% growth in the Group's operating profit	+12.80% (3,890.7/4,387.7)	+3.5% (4,387.7/4,539.9)	+3.0% (4,539.9/4,676.3)	+6.43%

\* Panel of competitors: Unilever, Procter & Gamble, Estée Lauder, Shiseido, Beiersdorf, Johnson & Johnson, Henkel, LVMH, Kao, Revlon and Elizabeth Arden. Estimates before Revlon publication.

\*\* Estimates before Revlon publication.

#### 6.4.3.6. Tables monitoring performance conditions for the ACAs plans that are currently in progress

ACAs plan of 22 April 2015	2016	2017	2018
50% growth in comparable cosmetics sales as compared to that of a panel of competitors*	<b>+1.8 points</b> (+4.9%/+3.1%)	<b>+0.4 point</b> (+4.8%/+4.4%)	to come
50% growth in the Group's operating profit	<b>+3.5%</b> (4,387.7/4,539.9)	<b>+3.0%</b> (4,539.9/4,676.3)	to come

\* Panel of competitors: Unilever, Procter & Gamble, Estée Lauder, Shiseido, Beiersdorf, Johnson & Johnson, Henkel, LVMH, Kao and Coty.

ACAs plan of 20 April 2016	2017	2018	2019
50% growth in comparable cosmetics sales as compared to that of a panel of competitors*	<b>+0.4 point</b> (+4.8%/+ 4.4%)	to come	to come
50% growth in the Group's operating profit	<b>+3.0%</b> (4,539.9/4,676.3)	to come	to come

\* Panel of competitors: Unilever, Procter & Gamble, Estée Lauder, Shiseido, Beiersdorf, Johnson & Johnson, Henkel, LVMH, Kao and Coty.

ACAs plan of 20 April 2017	2018	2019	2020
50% growth in comparable cosmetics sales as compared to that of a panel of competitors*	to come	to come	to come
50% growth in the Group's operating profit	to come	to come	to come

\* Panel of competitors: Unilever, Procter & Gamble, Estée Lauder, Shiseido, Beiersdorf, Johnson & Johnson, Henkel, LVMH, Kao and Coty.

#### 6.4.4. RENEWAL OF THE AUTHORISATION FOR THE CONDITIONAL GRANT OF SHARES SUBMITTED TO THE ORDINARY AND EXTRAORDINARY GENERAL MEETING OF 17 APRIL 2018

The authorisation granted by the Annual General Meeting on 20 April 2016 to the Board Directors to grant free shares to Group employees and certain executive officers expires in 2018.

A new authorisation will be submitted to the Annual General Meeting on 17 April 2018. See resolution no. 15 in chapter 7.

## 6.5. THE L'ORÉAL SHARE/L'ORÉAL SHARE MARKET

### 6.5.1. L'ORÉAL SHARE

#### 6.5.1.1. Information on the L'Oréal share

ISIN code: FR0000120321.

Loyalty Bonus codes:

- ◆ Shares that already benefit from the preferential dividend: FR0011149590.
- ◆ Dividend +10% in 2018: FR0013053097.
- ◆ Dividend +10% in 2019: FR0013217056.
- ◆ Dividend +10% in 2020: FR0013295268.

Minimum lot: 1 share.

Par value: €0.20.

Trading on the spot market of Euronext Paris.

Eligible for the Deferred Settlement Service (SRD).

Un-sponsored American Depositary Receipts are freely traded in the United States through certain banks operating in the United States.

#### 6.5.1.2. Stock market data

Price at 29 December 2017	€184.95
Average of last 30 days' closing prices for 2017	€187.18
Low	€167.75
	02.02.2017
High	€197.15
	26.06.2017

#### Annual share price increase at 31 December 2017

◆ L'Oréal	+6.66%
◆ CAC 40	+9.26%
◆ Euronext 100	+10.58%
◆ DJ Euro Stoxx 50	+6.49%
◆ Stoxx Europe 600 Personal and Household Goods	+9.31%
Market capitalisation at 31 December 2017	€103.67 billion <sup>(1)</sup>

#### At 31 December 2017, the L'Oréal share weighed:

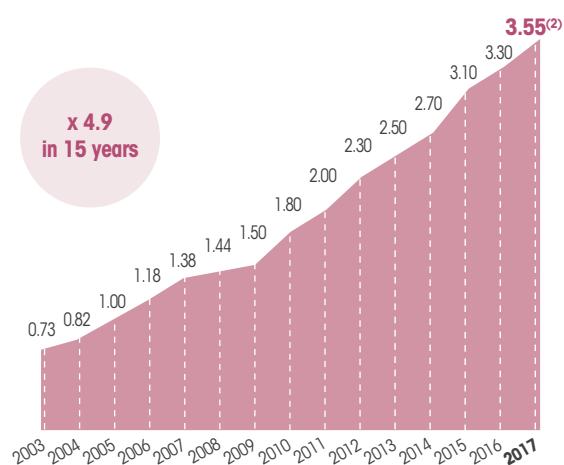
◆ in the CAC 40	4.02%
◆ in the Euronext 100 <sup>(2)</sup>	3.93%
◆ in the DJ Euro Stoxx 50	1.89%
◆ in the Stoxx Europe 600 Personal and Household Goods	6.34%

<sup>(1)</sup> Out of the number of shares at 31 December 2017, i.e. 560,519,088 shares.

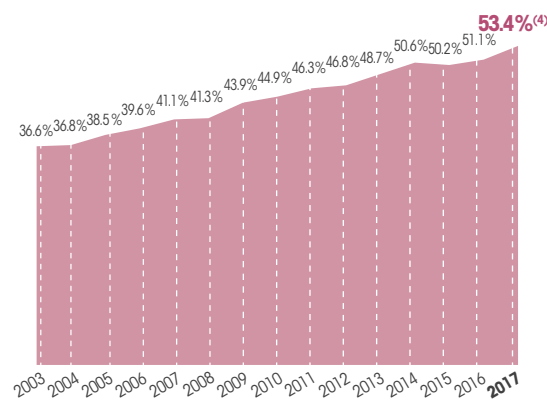
<sup>(2)</sup> Based on the total number of shares for the Euronext 100 index.

#### 6.5.1.3. Dynamic shareholder return policy

- ◆ Earnings per share: €6.65 <sup>(1)</sup>
- ◆ Dividend per share: €3.55 <sup>(2)</sup>
- ◆ A regular increase in the dividend per share (€):



- ◆ Share of profits dedicated to dividends<sup>(3)</sup> (as %): 53.4% <sup>(4)</sup>



<sup>(1)</sup> Diluted net profit excluding non-recurring items, Group share, per share from continuing operations.

<sup>(2)</sup> Dividend proposed to the Annual General Meeting of 17 April 2018.

<sup>(3)</sup> Dividend distribution rate based on diluted net profit excluding non-recurring items, Group share, per share. Taking into account Sanofi not consolidated in 2003.

<sup>(4)</sup> On the basis of the dividend proposed to the Annual General Meeting of 17 April 2018.



## 6.5.2. L'ORÉAL SHARE MARKET

### 6.5.2.1. Trading volumes and change in the price of the Company's share

According to Euronext data, the only stock market for which reliable retrospective statistics could be collected.

Date	Price (€)			Average daily trading volume (€ millions)
	High	Low	Average	
<b>2015</b>				
January	160.20	133.40	146.59	133.35
February	162.70	152.05	157.69	131.55
March	174.25	160.00	168.78	122.43
April	181.30	167.25	175.68	116.54
May	178.00	164.90	171.81	112.59
June	175.20	159.65	166.55	122.26
July	173.60	153.80	165.62	105.82
August	178.95	140.40	164.13	130.81
September	156.30	142.35	148.18	125.65
October	175.35	152.15	165.58	139.35
November	171.00	162.65	167.36	102.22
December	171.85	152.00	158.31	105.10

Date	Price (€)			Average daily trading volume (€ millions)
	High	Low	Average	
<b>2017</b>				
January	174.00	168.35	170.75	91.80
February	177.25	167.75	173.18	119.22
March	180.15	173.90	177.50	101.06
April	186.40	177.80	181.77	120.89
May	191.80	182.80	188.28	103.44
June	197.15	182.20	189.53	117.68
July	186.25	174.10	181.12	105.00
August	180.40	172.55	176.19	87.75
September	188.50	175.35	178.90	105.41
October	191.55	179.20	185.79	88.67
November	194.95	182.95	187.68	96.60
December	190.80	184.05	187.61	96.78

Date	Price (€)			Average daily trading volume (€ millions)
	High	Low	Average	
<b>2016</b>				
January	157.55	142.65	150.16	121.95
February	160.40	146.20	153.80	138.04
March	162.20	151.20	156.48	128.73
April	169.45	151.30	159.81	105.04
May	169.00	155.65	161.00	78.92
June	172.70	155.20	165.88	123.30
July	177.90	166.10	173.60	88.40
August	177.25	167.70	172.03	65.06
September	175.55	163.95	168.46	84.69
October	170.65	160.70	165.99	84.54
November	170.00	156.50	160.72	104.85
December	173.40	156.85	167.40	95.03

Date	Price (€)			Average daily trading volume (€ millions)
	High	Low	Average	
<b>2018</b>				
January	188.85	180.90	184.55	90.16
February	184.30	170.30	176.18	131.84

**CHANGE IN THE L'ORÉAL SHARE PRICE COMPARED TO THE CAC 40 INDEX FROM 1 JANUARY 2009 TO 28 FEBRUARY 2018**

**6.5.2.2. Total shareholder return**

Amongst the various economic and financial indicators used to measure value creation, L'Oréal has chosen to apply the criterion of Total Shareholder Return (TSR). This indicator is a

synthetic measurement that takes into account not only the value of the share but also the dividend income received (excluding tax credits before 1 January 2005).

**6.5.2.2.1. Five-year evolution of a portfolio of approximately €15,000 invested in L'Oréal shares with reinvestment of dividends**

Date of transaction	Nature of transaction	Investment (€)	Income (€)	Number of shares after the transaction
31.12.2012	Purchase of 143 shares at €104.90	15,000.70		143
10.05.2013	Dividend: €2.30 per share		328.90	143
	Reinvestment: purchase of 3 shares at €134.05	402.15		146
05.05.2014	Dividend: €2.50 per share		365.00	146
	Reinvestment: purchase of 3 shares at €123.90	371.70		149
07.05.2015	Dividend: €2.70 per share		402.30	149
	Reinvestment: purchase of 3 shares at €168.60	505.80		152
03.05.2016	Dividend: €3.10 per share		471.20	152
	Reinvestment: purchase of 3 shares at €157.80	473.40		155
03.05.2017	Dividend: €3.30 per share		511.50	155
	Reinvestment: purchase of 3 shares at €184.55	553.65		158
<b>TOTAL</b>		<b>17,307.40</b>	<b>2,078.90</b>	
<b>TOTAL NET INVESTMENT</b>		<b>15,228.50</b>		

Portfolio value at 31.12.2017 (158 shares at €184.95, share price at 31.12.2017): €29,222.10

The initial capital has thus been multiplied by 1.9 over 5 years (5-year inflation rate = 2.97% - Source INSEE) and the final capital is 1.9 times the total net investment.

The Total Shareholder Return of the investment is thus 14% per year (assuming that the shares are sold on 31 December 2017, excluding tax on capital gains).

NOTA: Any income tax that may be paid by the investor as a result of the successive dividend payments is not taken into account.

**6.5.2.2.2. Ten-year evolution of a portfolio of approximately €15,000 invested in L'Oréal shares with reinvestment of dividends**

Date of transaction	Nature of transaction	Investment (€)	Income (€)	Number of shares after the transaction
31.12.2007	Purchase of 153 shares at €97.98	14,990.94		153
30.04.2008	Dividend: €1.38 per share		211.14	153
	Reinvestment: purchase of 3 shares at €76.21	228.63		156
24.04.2009	Dividend: €1.44 per share		224.64	156
	Reinvestment: purchase of 5 shares at €52.02	260.08		161
05.05.2010	Dividend: €1.50 per share		241.50	161
	Reinvestment: purchase of 4 shares at €76.77	307.08		165
04.05.2011	Dividend: €1.80 per share		297.00	165
	Reinvestment: purchase of 4 shares at €85.79	343.16		169
03.05.2012	Dividend: €2.00 per share		338.00	169
	Reinvestment: purchase of 4 shares at €92.84	371.36		173
10.05.2013	Dividend: €2.30 per share		397.90	173
	Reinvestment: purchase of 3 shares at €134.05	402.15		176
05.05.2014	Dividend: €2.50 per share		440.00	176
	Reinvestment: purchase of 4 shares at €123.90	495.60		180
07.05.2015	Dividend: €2.70 per share		486.00	180
	Reinvestment: purchase of 3 shares at €168.60	505.80		183
03.05.2016	Dividend: €3.10 per share		567.30	183
	Reinvestment: purchase of 4 shares at €157.80	631.20		187
03.05.2017	Dividend: €3.30 per share		617.10	187
	Reinvestment: purchase of 4 shares at €184.55	738.20		191
<b>TOTAL</b>		<b>19,274.20</b>	<b>3,820.58</b>	
<b>TOTAL NET INVESTMENT</b>		<b>15,453.62</b>		

Portfolio value at 31.12.2017 (191 shares at €184.95, share price at 31.12.2017): €35,325.45

The initial capital has thus been multiplied by 2.4 over 10 years (10-year inflation rate = 9.91% - Source INSEE) and the final capital is 2.29 times the total net investment.

The Total Shareholder Return of the investment is thus 8.74% per year (assuming that the shares are sold on 31 December 2017, excluding tax on capital gains).

NOTA: Any income tax that may be paid by the investor as a result of the successive dividend payments is not taken into account.

**6.5.2.2.3. 20-year evolution of a portfolio of approximately €15,000 invested in L'Oréal shares with reinvestment of dividends and share attribution rights**

Date of transaction	Nature of transaction	Investment (€)	Income (€)	Number of shares after the transaction
31.12.1997	Purchase of 42 shares at €359.02	15,078.73		42
12.06.1998	Dividend: €2.43918 per share		102.45	42
	Reinvestment: purchase of 1 share at €473.05	473.05		43
15.06.1999	Dividend: €2.82031 per share		121.27	43
	Reinvestment: purchase of 1 share at €586.50	586.50		44
15.06.2000	Dividend: €3.40 per share		149.60	44
	Reinvestment: purchase of 1 share at €825.00	825.00		45
03.07.2000	Ten-for-one share split			450
08.06.2001	Dividend: €0.44 per share		198.00	450
	Reinvestment: purchase of 3 shares at €78.15	234.45		453
04.06.2002	Dividend: €0.54 per share		244.62	453
	Reinvestment: purchase of 4 shares at €74.95	299.80		457
27.05.2003	Dividend: €0.64 per share		292.48	457
	Reinvestment: purchase of 5 shares at €61.10	305.50		462
14.05.2004	Dividend: €0.73 per share		337.26	462
	Reinvestment: purchase of 6 shares at €63.65	381.90		468
11.05.2005	Dividend: €0.82 per share		383.76	468
	Reinvestment: purchase of 7 shares at €56.50	395.50		475
10.05.2006	Dividend: €1.00 per share		475.00	475
	Reinvestment: purchase of 7 shares at €72.65	508.55		482
03.05.2007	Dividend: €1.18 per share		568.76	482
	Reinvestment: purchase of 7 shares at €86.67	606.69		489
30.04.2008	Dividend: €1.38 per share		674.82	489
	Reinvestment: purchase of 9 shares at €76.21	685.89		498
24.04.2009	Dividend: €1.44 per share		717.12	498
	Reinvestment: purchase of 14 shares at €52.02	728.21		512
05.05.2010	Dividend: €1.50 per share		768.00	512
	Reinvestment: purchase of 11 shares at €76.77	844.47		523
04.05.2011	Dividend: €1.80 per share		941.40	523
	Reinvestment: purchase of 11 shares at €85.79	943.69		534
03.05.2012	Dividend: €2.00 per share		1,068.00	534
	Reinvestment: purchase of 12 shares at €92.84	1,114.08		546
10.05.2013	Dividend: €2.30 per share		1,255.80	546
	Reinvestment: purchase of 10 shares at €134.05	1,340.50		556
05.05.2014	Dividend: €2.50 per share		1,390.00	556
	Reinvestment: purchase of 12 shares at €123.90	1,486.80		568
07.05.2015	Dividend: €2.70 per share		1,533.60	568
	Reinvestment: purchase of 10 shares at €168.60	1,686.00		578
03.05.2016	Dividend: €3.10 per share		1,791.80	578
	Reinvestment: purchase of 12 shares at €157.80	1,893.60		590
03.05.2017	Dividend: €3.30 per share		1,947.00	590
	Reinvestment: purchase of 11 shares at €184.55	2,030.05		601
<b>TOTAL</b>		<b>32,448.96</b>	<b>14,960.74</b>	
<b>TOTAL NET INVESTMENT</b>		<b>17,488.21</b>		

Portfolio value at 31.12.2017 (601 shares at €184.95, share price at 31.12.2017): €111,154.95

The initial capital has thus been multiplied by 7.37 over 20 years (20-year inflation rate = 27.5% – Source INSEE) and the final capital is 6.36 times the total net investment.

The Total Shareholder Return of the investment is thus 9.96% per year (assuming that the shares are sold on 31 December 2017, excluding tax on capital gains).

NOTA: Any income tax that may be paid by the investor as a result of the successive dividend payments is not taken into account.

### 6.5.2.3. Dividends

The limitation period for dividends is five years. Any dividends for which payment has not been requested are paid to the *Caisse des Dépôts et Consignations*.

## 6.6. INFORMATION POLICY

L'Oréal is committed to improving the quality of its financial information and takes steps to ensure it maintains a regular dialogue with its shareholders and with French and international investors. Beyond its legal obligations, a whole range of tools: printed and digital media, events and meetings, investor conferences and roadshows, are made available to all those in contact with us to enable them to get a better understanding of L'Oréal's business model and the potential of the beauty market.

### 6.6.1. COMPLEMENTARY COMMUNICATIONS MEDIA

Keen on transparency and accessibility of information, in 2017, L'Oréal's Financial Communications Department shared a wealth of information with the entire financial community via a whole range of communication tools, using digital media to a great extent.

L'Oréal makes available two exhaustive annual, highly complementary publications, the Annual Report – discover the entire annual report online at [www.loreal-finance.com/en/annual-report-2017/](http://www.loreal-finance.com/en/annual-report-2017/) – and the Registration Document.

The [www.loreal-finance.com](http://www.loreal-finance.com) website contains a complete set of all financial and extra-financial information. Its content and its ergonomics evolve regularly to provide ever quicker, easier access to information.

The L'Oréal Finance mobile application, available on App Store and Google Play, makes it possible to keep L'Oréal Finance news close to hand. Downloaded nearly 42,000 times, it is greatly appreciated by professionals and individual shareholders.

The Shareholders' newsletters and L'Oréal Finance News make it possible to keep subscribers regularly informed of all major events in the life of the Group.

Re-edited in 2017, the Shareholder Brochure presents the "5 reasons to take part in the L'Oréal adventure" and describes the advantages of registered shares to answer the questions that shareholders may have with regard to this method of holding shares.

### 6.6.2. A LARGE NUMBER OF SHAREHOLDER EVENTS FOR A REGULAR AND DETAILED DIALOGUE

- ◆ Every year, the Financial Communications Department organises a financial information meeting and telephone conferences intended for analysts and institutional investors, to which journalists specialising in the cosmetics sector are invited. The presentations of the L'Oréal Group's financial results and the business activities of the Operational Divisions are broadcast live online on the financial website [www.loreal-finance.com](http://www.loreal-finance.com). All the information presented is made available on this site, on the day its publication, when the annual and half-yearly results are published, as well as at investor conferences or Capital Market Days.
- ◆ A number of meetings with shareholders, organised in different forms in several large provincial cities in France and also in the Paris region, in collaboration with the French Individual Investor and Investment Club Federation (*Fédération des Investisseurs Individuels et des Clubs d'Investissement – F2iC*), the Society of Investor Relation Managers in France (*Cercle de Liaison des Informateurs Financiers en France – CLIFF*), shareholder associations and financial newspapers brought together nearly 2,000 participants. In 2017, the Individual Shareholder Relations Department successfully organised various site visits (to the Group's stores and laboratories) and Shareholder Meetings.
- ◆ Participation in the Actionaria Stock Market Fair for the fourteenth year running, which brought together more than 400 people who attended a presentation by Mr. Jean-Paul Agon, Chairman and CEO of L'Oréal. Many shareholders were also able to meet representatives of the Group directly at the L'Oréal stand and obtain information on registering their shares.

Through all these events, the Individual Shareholder Relations Department team had the opportunity to meet nearly 4,000 individual shareholders in 2017.

- ◆ Testifying to the loyalty of the shareholders who accompany the Group's development over the long term, more and more shareholders are showing an interest in becoming registered shareholders. Thanks to the preferential dividend and the numerous advantages related to this method of shareholding, becoming a registered shareholder enables the Group's shareholders to be known to the Group, to have systematic and regular access to information, and to be closely involved in the Company's development.
- ◆ A real forum for consultation and dialogue with the individual shareholders, the Shareholder Consultation Committee consists of 14 shareholders appointed for three years. Representative of L'Oréal's individual shareholders, they actively participate, through their reflections and their work, in developing and enriching the Group's financial communication on themes such as: Annual General Meeting and digital communication. In 2017, the Shareholder Consultation Committee met four times.
- ◆ The Investor Relations Department (IRD) organises numerous meetings throughout the year with institutional investors of the main international financial marketplaces. Like it does every year, the IRD invited analysts and investors to Capital Market Days which were devoted this year to the German market. In all, in 2017, they thus met over 600 investors.
- ◆ Finally, a freephone service is available to L'Oréal shareholders calling from France (0 800 66 66 66) or other countries (+33 1 40 14 80 50). An interactive vocal server gives shareholders round the clock access to information on the share price and key dates or provides them with a summary of the latest press release. The Shareholder Services Department is also available on this number during opening hours (8.45 a.m. – 6 p.m. Paris time).

### 6.6.3. FINANCIAL CALENDAR FOR 2018

08.02.2018	2017 Annual results
12.04.2018	First quarter 2018 sales
17.04.2018	Ordinary and Extraordinary General Meeting
July 2018 *	First-half 2018 sales and results
October 2018 *	Sales at 30 September 2018

\* The precise date will be indicated on the website [www.loreal-finance.com](http://www.loreal-finance.com)

### 6.6.4. FINANCIAL NEWS RELEASES IN 2017

09.02.2017	2016 Annual results
06.03.2017	L'Oréal finalises the acquisition of CeraVe, AcneFree and Ambi
15.03.2017	Ordinary and Extraordinary General Meeting of 20 April 2017/2016 Registration Document
18.04.2017	First quarter 2017 Sales
20.04.2017	Ordinary and Extraordinary General Meeting and Board of Directors' meeting of 20 April 2017
02.05.2017	SalonCentric, L'Oréal USA's distributor, acquires the assets of Four Stars Salon Services
09.06.2017	L'Oréal and Natura enter into exclusive discussions regarding The Body Shop
27.06.2017	Signature of the contract for the L'Oréal sale of The Body Shop to Natura
27.07.2017	First-half 2017 results
03.08.2017	2017 Half-year Financial Report
08.09.2017	L'Oréal and Natura finalise the sale of The Body Shop to Natura
02.11.2017	Sales at 30 September 2017

# 7

## Annual General Meeting



<b>7.1. Draft resolutions and report of the Board of Directors (statement of reasons) to the Ordinary and Extraordinary General Meeting to be held on 17 April 2018 (adopted on 8 February 2018)</b>	<b>342</b>	<b>7.2. Statutory Auditors' Reports</b>	<b>363</b>
7.1.1. Ordinary part	343	7.2.1. Special Report by the Statutory Auditors on the reduction in share capital by cancellation of purchased shares	363
7.1.2. Extraordinary part	355	7.2.2. Special Report by the Statutory Auditors on the authorisation of free grants of existing shares and/or shares to be issued to employees and executive officers	364
		7.2.3. Statutory Auditors' Report on the issue of shares and securities giving access to the Company's share capital reserved for members of an employee savings scheme	365
		7.2.4. Statutory Auditors' Report on the issue of shares and securities giving access to the Company's share capital reserved for the benefit of categories of beneficiaries consisting of employees of foreign subsidiaries within the scope of an employee share ownership programme	366

This chapter sets out the draft resolutions which will be submitted to L'Oréal's Ordinary and Extraordinary General Meeting, the Board of Directors' report ("statement of reasons") on these resolutions and the Statutory Auditors' Reports referred to by some of these resolutions. This meeting will be held on 17 April 2018 at the Palais des Congrès, in Paris.

## **7.1. DRAFT RESOLUTIONS AND REPORT OF THE BOARD OF DIRECTORS (STATEMENT OF REASONS) TO THE ORDINARY AND EXTRAORDINARY GENERAL MEETING TO BE HELD ON 17 APRIL 2018 (ADOPTED ON 8 FEBRUARY 2018)**

### **ORDINARY PART**

1. Approval of the 2017 parent company financial statements
2. Approval of the 2017 consolidated financial statements
3. Allocation of the Company's net income for 2017 and setting of the dividend
4. Appointment of Mr. Axel Dumas as a Director
5. Appointment of Mr. Patrice Caine as a Director
6. Renewal of the tenure of Mr. Jean-Paul Agon as a Director
7. Renewal of the tenure of Mrs. Belén Garijo as a Director
8. Setting the amount of the annual attendance fees allocated to the members of the Board of Directors
9. Approval of the application of the defined benefit pension plan provisions of the employment contract of Mr. Agon for the duration of the renewed corporate office
10. Approval of the principles and criteria for the determination, allocation and distribution of the components of the total remuneration and the benefits of all kinds that may be granted to the executive officers
11. Approval of the fixed and variable components of the total remuneration and benefits of all kinds paid or allocated to Mr. Jean-Paul Agon for the 2017 financial year due to his mandate as Chairman and Chief Executive Officer
12. Authorisation for the Company to buy back its own shares

### **EXTRAORDINARY PART**

13. Authorisation granted to the Board of Directors to reduce the share capital through the cancellation of shares purchased by the Company within the scope of Articles L. 225-209 and L. 225-208 of the French Commercial Code
14. Delegation of authority granted to the Board of Directors for the purpose of increasing the share capital in order to remunerate the contributions in kind of equity securities or securities giving access to the share capital of third-party companies
15. Authorisation granted to the Board of Directors to carry out free grants of existing shares and/or shares to be issued with cancellation of shareholders' preferential subscription right to employees and executive officers
16. Delegation of authority to the Board of Directors for the purpose of carrying out a capital increase reserved for employees with cancellation of the shareholders' preferential subscription right
17. Delegation of authority to the Board of Directors in order to enable it to carry out a capital increase reserved for categories of beneficiaries consisting of employees of foreign subsidiaries, with cancellation of the shareholders' preferential subscription right, within the scope of an employee share ownership programme
18. Amendment to the statutory provisions for declarations of threshold crossing
19. Powers for formalities



### 7.1.1. ORDINARY PART

#### RESOLUTIONS 1, 2, 3: APPROVAL OF THE ANNUAL (PARENT COMPANY AND CONSOLIDATED) FINANCIAL STATEMENTS FOR 2017, ALLOCATION OF THE COMPANY'S NET INCOME AND SETTING OF THE DIVIDEND

##### STATEMENT OF REASONS

Having reviewed the Reports of the Board of Directors and the Statutory Auditors, the Annual General Meeting is called on to approve:

- ◆ the parent company financial statements, with an income statement which shows net income of €3,051,719,329.20 for 2017 compared with €3,014,442,845.08 for 2016;
- ◆ the 2017 consolidated financial statements.

The details of these financial statements are set out in the 2017 Annual Financial Report and the main data included in the file for calling this Annual General Meeting.

The Board of Directors proposes to the Annual General Meeting:

- ◆ an ordinary dividend of €3.55 per share, representing an increase of 7.6% compared with the dividend for the previous year.

The rate of distribution of the ordinary dividend (ordinary dividend paid/net income diluted per share from continuing operations excluding non-recurring items, diluted, attributable to owners of the Company) would be 53.4% in 2017. Over the last five financial years, this rate was:

Year	2012	2013	2014	2015	2016
Rate of distribution	46.8%	48.7%	50.6%	50.2%	51.1%

- ◆ A per share preferential dividend of €3.90, corresponding to a 10% increase over the ordinary dividend. This amount is rounded down to the nearest euro cent, pursuant to Article 15 of the Company's Articles of Association.

The preferential dividend will be granted to the shares held in registered form since 31 December 2015 at the latest, and which continuously remain in registered form until the dividend payment date in 2018. The number of shares eligible for these preferential dividends may not exceed 0.5% of the share capital at the closing date of the past financial year, for the same shareholder.

If the Annual General Meeting approves this proposal, the ex-dividend date for the dividends (both ordinary and preferential) will be 25 April 2018 at zero hour, Paris time, and they will be paid on 27 April 2018.

The amount of the ordinary dividend and the preferential dividend is eligible for the tax deduction provided for in Article 158-3-2° of the French Tax Code, which is applicable in the event that an individual beneficiary opts to tax his or her income from movable assets on the progressive scale of income tax.

##### First resolution: Approval of the 2017 parent company financial statements

The Annual General Meeting, deliberating in accordance with the quorum and majority requirements for Ordinary General Meetings, having reviewed the Reports of the Board of Directors and the Statutory Auditors, approves the Report of the Board of Directors and the 2017 parent company financial statements, as presented, and the transactions included in these financial statements and summarised in these Reports, showing net income of €3,051,719,329.20, compared with €3,014,442,845.08 for 2016.

##### Second resolution: Approval of the 2017 consolidated financial statements

The Annual General Meeting, deliberating in accordance with the quorum and majority requirements for Ordinary General Meetings, having reviewed the Reports of the Board of Directors and the Statutory Auditors, approves the 2017 consolidated financial statements and the transactions included in these financial statements and summarised in these Reports.

##### Third resolution: Allocation of the Company's net income for 2017 and setting of the dividend

The Annual General Meeting, deliberating in accordance with the quorum and majority requirements for Ordinary General Meetings, on the proposal of the Board of Directors, decides to allocate the net income for the 2017 financial year, amounting to €3,051,719,329.20, as follows:

No allocation to the legal reserve which already represents over one-tenth of the share capital	—
Amount allocated to the shareholders as a dividend* (including preferential dividend)	€2,005,909,431.20
<b>Balance that will be allocated to the "Other reserves" item</b>	<b>€1,045,809,898.00</b>

\* Including an initial dividend equal to 5% of the amounts paid up on the shares, i.e. the total amount of the share capital.

This amount is calculated on the basis of the number of shares forming the capital at 31 December 2017 and will be adjusted to reflect:

- ◆ the number of shares issued between 1 January 2018 and the date of payment of this dividend following the exercise of stock options or the final vesting of new free shares granted and giving entitlement to such dividend;
- ◆ the final number of shares eligible for the preferential dividend, taking into account sales or transfer to a bearer account between 1 January 2018 and the date of payment of the dividend.

The Annual General Meeting therefore declares an ordinary dividend to be paid of €3.55 per share, the preferential dividend entitling eligible holders to a total of €3.90 per share. The preferential dividend will be granted to the shares held in registered form since 31 December 2015 at the latest, and which continuously remain in registered form until the dividend

payment date, it being specified that the number of shares giving entitlement to such preferential dividend cannot exceed 0.5% of share capital for any one shareholder. The ex-dividend date for the dividends (both ordinary and preferential) will be 25 April 2018 at zero hour (Paris time) and they will be paid on 27 April 2018.

In the event that, at the time of payment of the dividend, the Company holds treasury shares, the distributable profit corresponding to the unpaid dividend due to the holding of such shares would be allocated to the "Other reserves" item.

For individuals domiciled in France, the dividend to be received as from 1 January 2018 is subject to income tax at a flat rate but may be taxed progressively if the shareholder so chooses. In such a case, the dividend is eligible for the tax deduction provided for in Article 158-3-2° of the French Tax Code.

The table set out below gives the amounts of the dividends distributed, that were fully eligible for the tax deduction provided for in Article 158-3-2° of the French Tax Code, for the last three financial years:

	2014	2015	2016
Ordinary dividend per share	€2.70	€3.10	€3.30
Preferential dividend per share	€0.27	€0.31	€0.33

## RESOLUTIONS 4, 5, 6 AND 7: TENURES OF DIRECTORS



### STATEMENT OF REASONS

#### 1. *Composition of L'Oréal's Board of Directors at 31 December 2017*

The Directors of L'Oréal come from different backgrounds. They complement one another due to their different professional experience, their skills and their nationalities. They have good knowledge of the Company. The Directors are present, active and closely involved. These are all assets which contribute to the quality of the Board's deliberations in the context of the decisions that it is called on to make.

The Directors are attentive and vigilant and exercise complete freedom of judgement. This freedom of judgment enables them in particular to participate, in complete independence, in the decisions or work of the Board and its Committees.

**Jean-Paul Agon**, age 61, joined the L'Oréal Group in 1978. Following an international career as General Manager of the Consumer Products Division in Greece and of L'Oréal Paris in France, International Managing Director of Biotherm, General Manager of L'Oréal Germany, General Manager of the Asia Zone, President and Chief Executive Officer of L'Oréal USA, Jean-Paul Agon was appointed as Deputy Chief Executive Officer of L'Oréal in 2005, and then Chief Executive Officer in April 2006 and finally Chairman and Chief Executive Officer in 2011. A Director of L'Oréal since 2006, he is also the Chairman of

the Strategy and Sustainable Development Committee. Jean-Paul Agon is also the Chairman of the L'Oréal Corporate Foundation and a Director of Air Liquide.

**Françoise Bettencourt Meyers**, 64, daughter of Liliane Bettencourt and granddaughter of the founder of L'Oréal, Eugène Schueller, has been the Chairwoman of the family-owned holding company Téthys since 31 January 2012, and is the Chairwoman of the Supervisory Board of the investment subsidiary Téthys Invest, Chairwoman of the Bettencourt Schueller Foundation and Honorary President of the Foundation *Pour l'Audition*. Françoise Bettencourt Meyers has been a Director of L'Oréal since 1997 and a member of the Strategy and Sustainable Development Committee since 2012.

**Paul Bulcke**, 63, a dual citizen of Belgium and Switzerland, is the Chairman of the Board of Directors of Nestlé. Paul Bulcke was a Director at L'Oréal from 2012 to June 2014 and has been back in that position since 2017. Paul Bulcke is the Vice-Chairman of the Board of Directors, and is a member of the Strategy and Sustainable Development Committee, the Appointments and Governance Committee, and the Human Resources and Remuneration Committee. He is also a Director of Roche Holding (Switzerland).

**Jean-Pierre Meyers**, age 69, has been a Director of L'Oréal since 1987, Vice-Chairman of the Board of Directors since 1994, and is a member of the Strategy and Sustainable Development Committee, the Appointments and Governance Committee and the Human Resources and Remuneration Committee. Jean-Pierre Meyers is Vice-Chairman of the Supervisory Board and Chief Executive Officer of the

family-owned holding company Téthys, Chairman of the investment subsidiary Téthys Invest, Vice-Chairman of the Bettencourt Schueller Foundation and President of the Foundation *Pour l'Audition*.

**Ana Sofia Amaral**, age 52, of Portuguese nationality, is Scientific and Technical Affairs Director for L'Oréal Portugal. Ana Sofia Amaral was appointed in 2014 by L'Oréal's *Instance Européenne de Dialogue Social*/European Works Council as a Director representing the employees. She is a member of the Human Resources and Remuneration Committee.

**Sophie Bellon**, 56, is the Chairwoman of the Board of Directors of Sodexo. After a career in finance in the United States, she joined Sodexo in 1994, where she held a variety of positions, including as the Country Manager for the Business Division in France then as R&D and Innovation Strategy Manager. Sophie Bellon has been a Director at L'Oréal since 2015, she is the Chairwoman of the Appointments and Governance Committee and a member of the Audit Committee.

**Charles-Henri Filippi**, age 65, was Chairman of Citigroup for France until December 2017, after having spent his career within the HSBC group. Charles-Henri Filippi has been a Director of L'Oréal since 2007 and is a member of the Audit Committee, the Appointments and Governance Committee and Chairman of the Human Resources and Remuneration Committee. He is also a Director of Orange and Nexity.

**Xavier Fontanet**, age 69, former Chairman and Chief Executive Officer (1996-2009) and former Chairman of the Board of Directors of Essilor (2010-2012), has been a Director of L'Oréal since May 2002 and is a member of the Strategy and Sustainable Development Committee. He is also a member of the Board of Directors of Schneider Electric.

**Belén Garijo**, age 57, of Spanish nationality, is Chairwoman and Chief Executive Officer of Merck Healthcare, a company bringing together the pharmaceutical businesses of German group Merck, and a member of the Merck group's Executive Committee. Belén Garijo has been a Director of L'Oréal since 2014 and is a member of the Human Resources and Remuneration Committee. She is also a Director of BBVA (Spain).

**Béatrice Guillaume-Grabish**, 53, is the Chief Executive Officer of Nestlé Germany, having joined the Nestlé group in 2013 after a career in a variety of consumer goods corporations (Colgate-Palmolive, Beiersdorf, Johnson & Johnson, L'Oréal, Coca-Cola). Béatrice Guillaume-Grabish has been a Director at L'Oréal since 2016 and is a member of the Audit Committee.

**Bernard Kasriel**, age 71, a former Chief Executive Officer of Lafarge, has been a Director of L'Oréal since 2004, and is a member of the Strategy and Sustainable Development Committee. He is also a Director of Nucor (United States).

**Georges Liarokapis**, age 55, of French and Greek nationality, is Coordinator of Sustainability for L'Oréal Western Europe. Georges Liarokapis was appointed by the CFE-CGC as a Director representing the employees in 2014. He is a member of the Audit Committee.

**Jean-Victor Meyers**, age 31, has been a member of the Supervisory Board of the family-owned holding company Téthys since January 2011, and is a member of the Supervisory Committee of the investment subsidiary Téthys Invest and Chairman of Exempleire. Jean-Victor Meyers has been a Director of L'Oréal since 2012 and is a member of the Audit Committee.

**Virginie Morgon**, age 48, is Chief Executive Officer of Eurazeo, which she joined in 2008, after working for sixteen years at Lazard, as well as President and Chief Executive Officer of Eurazeo North America Inc. (USA). Virginie Morgon has been a Director of L'Oréal since 2013 and is the Chairwoman of the Audit Committee. She is Vice-Chairwoman of the Board of Directors of Moncler SpA, Chairwoman of the Supervisory Board of Asmodee Holding and Eurazeo PME, Director of Abasic (Desigual), member of the Supervisory Board of Grandir (Les Petits Chaperons Rouges) and of Vivendi. She is also Co-President of the French Committee of Human Rights Watch.

**Eileen Naughton**, age 60, of American nationality, is Vice-President People Operations at Google, which she joined in 2006 after holding various responsibilities with Time Warner, including the position of President of Time group from 2002 to 2005. She has been a Director of L'Oréal since 2016 and is a member of the Human Resources and Remuneration Committee.

## 2. Resolutions submitted for approval to the Annual General Meeting of 17 April 2018

The appointment of two new Directors is put to the vote of the Annual General Meeting as well as the renewal of two Directors whose tenure expires at the close of this Annual General Meeting.

### 2.1 Appointment of two new Directors: Mr Axel Dumas and Mr Patrice Caine

The tenure of Mr. Xavier Fontanet, who has been a Director of L'Oréal since 2002 and is a member of the Strategy and Sustainable Development Committee, comes to an end after the Annual General Meeting of 17 April 2018.

Mr. Xavier Fontanet has informed the Board of Directors that he did not wish to renew his tenure.

At the Board meeting of 8 February 2018, the Board extended his sincere thanks to Mr. Xavier Fontanet for the quality of his contribution to the discussions of the Board and to the work of the various committees he had been part of.

The Board of Directors meeting of 8 February 2018 also recorded the resignation of Mr Charles-Henri Filippi following his appointment as Partner and Managing Director of Lazard in March 2018, given the nature of the business relations between Lazard and L'Oréal. The tenure of Mr Filippi as Director ended on 8 February 2018.

The Board extended its warmest thanks to Mr Charles-Henri Filippi for his contribution to the work of the Board and of the three Committees of which he was a member or Chairman (Audit Committee, Appointments and Governance Committee and Human Resources and Remunerations Committee).

◆ **Appointment of Mr Axel Dumas as Administrator (resolution 4)**

On the recommendation of the Appointments and Governance Committee, the Board of Directors submits the appointment of Mr. Axel Dumas, Executive Chairman of Hermès International, as Director, to the Annual General Meeting.

Mr. Axel Dumas, 47, a French national, holds a Masters in business law and a degree in philosophy. He is a graduate of Sciences Po and of the Harvard Business School (AmP 179). He began his career at BNP Paribas in China where he worked from 1995 to 1997 before moving to the United States from 1999 to 2003.

Mr. Axel Dumas joined the Financial Department of Hermès in 2003 then became Sales Director for France. He was appointed Chief Executive Officer of Hermès Jewellery in 2006 and has been the Chief Executive Officer of Hermès Leather Goods and Saddlery division since 2008. In May 2011, Mr. Axel Dumas was appointed as Executive Vice-President of Operations and member of the Executive Committee of the group.

A member of the sixth generation of the group founded by Thierry Hermès in 1837, he has been Executive Chairman of Hermès International since June 2013.

Mr. Axel Dumas will provide his strategic vision to the L'Oréal Board as well as his knowledge of the luxury goods sector and his international experience.

The appointment of Mr. Axel Dumas as Director for a period of four years is submitted to the Annual General Meeting.

◆ **Appointment of Mr Patrice Caine as Administrator (resolution 5)**

On the recommendation of the Appointments and Governance Committee, the Board submits the appointment of Mr. Patrice Caine, Chairman and Chief Executive Officer of the Thales group, as a Director, to the Annual General Meeting.

Mr. Patrice Caine, 48, is a graduate of *École Polytechnique* and *École des Mines* in Paris. He began his career in 1992 in the pharmaceutical industry before becoming a mergers and acquisitions and corporate strategy consultant in London.

From 1995 to 1998, he was special advisor to the Prefect of the Franche-Comté Region in France and held several positions at DRIRE (French agency responsible for industry, research and the environment).

He was part of the *Conseil Général des Mines* from 1998 to 2000 in charge of human resources for the *Corps des Mines*. From 2000 to 2002, he worked as technical advisor on energy on the staff of the French Minister of the Economy, Finance and Industry.

Patrice Caine joined the Strategy Department of Thales group in 2002 then held management positions in different operating units (Aviation and Naval, Communications, Navigation and Identification, Air Systems, Radio-communications Products, Network and Infrastructure Systems and Protection Systems). He joined Thales' Executive Committee in February 2013 as Senior

Executive Vice-President, Chief Operating Officer and Chief Performance Officer.

He has been Chairman and Chief Executive Officer of the Thales group since December 2014.

Mr. Patrice Caine will provide the L'Oréal Board with his strategic vision, his industrial expertise and his experience in new technologies and cybersecurity.

The appointment of Mr. Patrice Caine as Director for a period of four years is submitted to the Annual General Meeting.

**2.2 Renewal of the tenure of two Directors: Mr Jean-Paul Agon and Mrs Belén Garijo**

The terms of Mr. Jean-Paul Agon and of Mrs. Belén Garijo as Directors expire in 2018, and their renewal for four years is submitted to the Annual General Meeting.

◆ **Renewal of the tenure of Mr. Jean-Paul Agon as Director (resolution 6)**

Mr. Jean-Paul Agon joined the L'Oréal Group in 1978 and has been a Director since 2006.

Following an international career as General Manager of the Consumer Products Division in Greece and of L'Oréal Paris in France, as International Director of Biotherm, General Manager of L'Oréal Germany, Executive Vice-President of the Asia Zone, and President and Chief Executive Officer of L'Oréal USA, Mr. Jean-Paul Agon was appointed Deputy Chief Executive Officer of L'Oréal in 2005, then Chief Executive Officer in April 2006.

He has been Chairman and Chief Executive Officer of L'Oréal since 2011.

Mr. Jean-Paul Agon has in-depth knowledge of the L'Oréal Group, to which he has very strong ties. He has been committed to the Company's success for over 39 years.

He is also the Chairman of the L'Oréal Corporate Foundation and a Director of Air Liquide.

Mr Agon's attendance has been 100% over the four years of his tenure.

◆ **Renewal of the tenure of Mrs. Belén Garijo as a Director (resolution 7)**

Mrs. Belén Garijo has been a Director of L'Oréal since 2014 and a member of the Human Resources and Remuneration Committee since 2015.

Mrs. Belén Garijo, 57, of Spanish nationality, is a graduate of the University of Medicine of Madrid. After several years in pharmacology research at the University of Madrid, she joined the pharmaceutical industry. She has been Chairwoman and Chief Executive Officer of Merck Healthcare since 2011. The company combines the pharmaceutical businesses of the German group Merck. She is also a member of the group's Executive Committee. She is also a Director of BBVA (Spain).

Mrs. Garijo is a highly involved independent Director. She provides her expertise in the healthcare sector, her international business experience at the highest levels and her strategic vision to the Board. Mrs. Garijo's attendance has been 88% over the four years of her tenure.

### 3. Composition of the Board of Directors after the Annual General Meeting of 17 April 2018

If the Annual General Meeting votes in favour of the renewals and appointment proposed to it in 2018, the expiry dates of the terms of office of the 15 Directors of L'Oréal would be as follows:

	Independence	Expiry date of current term of office	Board Committees			
			Strategy and Sustainable Development	Audit	HR and Remuneration	Appointments and Governance
Mr. Jean-Paul Agon		2022	P			
Mrs. Françoise Bettencourt Meyers		2021	•			
Mr. Paul Bulcke		2021	•		•	•
Mr. Jean-Pierre Meyers		2020	•		•	•
Mrs. Ana Sofia Amaral*	Employee Director	2022			•	
Mrs. Sophie Bellon	♦	2019		•	P	P
Mr. Patrice Caine	♦	2022				•
Mr. Axel Dumas	♦	2022		•		
Mrs. Belén Garijo	♦	2022			•	
Mrs. Béatrice Guillaume-Grabisch		2020		•		
Mr. Bernard Kasriel	♦	2020	•			
Mr. Georges Liarakapis**	Employee Director	2022		•		
Mr. Jean-Victor Meyers		2020		•		
Mrs. Virginie Morgon	♦	2021		P		
Mrs. Eileen Naughton	♦	2020			•	

♦ Independence within the meaning of the criteria of the AFEP-MEDEF Code as assessed by the Board of Directors.

P Committee Chairman/Chairwoman

• Committee Member

\* The term of Mrs. Ana Sofia Amaral as employee Director ends on 17 April 2018 (following the Annual General Meeting). It is up to Instance Européenne de Dialogue Social (European Works Council) to renew the term of office of Mrs. Amaral or to appoint a new employee Director for another term of four years.

\*\* The term of Mr. Georges Liarakapis as employee Director ends on 17 April 2018 (following the Annual General Meeting). It is up to CFE-CGC, the most representative union at L'Oréal in France, to renew the term of office of Mr. Liarakapis or to appoint a new employee Director for another term of four years.

#### 3.1. Independence of the Directors

The Appointments and Governance Committee proposes to the Board of Directors every year to review on a case-by-case basis the situation of each of the Directors with regard to their independence according to the criteria set out in the AFEP-MEDEF Code.

The review of the independence of these Directors was carried out by the Board of Directors on the basis, in particular, of a study of the relationships existing between the Company and the companies in which the Directors hold offices. Moreover, the Board of Directors considered that a term of office of over 12 years was not sufficient in itself for Mr Kasriel to automatically lose the status of independent Director.

If the Annual General Meeting votes in favour of the appointments and renewals that are proposed by the Board of Directors, the number of Independent Directors would be 7 out of 13, namely a rate of independence of 54% (the two Directors representing the employees are not taken into account pursuant to the AFEP-MEDEF Code).

#### 3.2. Balanced gender representation on the Board of Directors

If the Annual General Meeting votes in favour of the appointments and renewals proposed to it, the number of women on the Board of Directors would be 6 out of the 13 Directors appointed by the Annual General Meeting, namely a percentage representation of women of 46% (the two Directors representing the employees are not taken into account pursuant to the French Commercial Code).

#### 3.3. Length of tenure and minimum number of shares held

The length of the terms of office of the Directors appointed by L'Oréal's Annual General Meeting is set at four years, or a shorter period in order to provide for staggered renewal of the Directors' terms of office. The term of office of a Director who is not appointed by the Annual General Meeting is four years. The Directors appointed by the Annual General Meeting each hold a minimum of 1,000 L'Oréal shares. On the date of his/her appointment by the Annual General Meeting, every Director must hold at least 500 shares, with the remainder to be acquired at the latest within the next 24 months. The full list of the offices, duties and directorships held by the Directors is set out on pages 49 et seq. of the Registration Document.

***Fourth resolution: Appointment of Mr. Axel Dumas as a Director***

The Annual General Meeting, deliberating in accordance with the quorum and majority requirements for Ordinary General Meetings, having reviewed the Report of the Board of Directors, appoints Mr. Axel Dumas as a Director for a period of four years.

His tenure will expire at the end of the Annual General Meeting to be held in 2022 to review the financial statements for the previous financial year.

***Fifth resolution: Appointment of Mr. Patrice Caine as a Director***

The Annual General Meeting, deliberating in accordance with the quorum and majority requirements for Ordinary General Meetings, having reviewed the Report of the Board of Directors, appoints Mr. Patrice Caine as a Director for a period of four years.

His tenure will expire at the end of the Annual General Meeting to be held in 2022 to review the financial statements for the previous financial year.

***Sixth resolution: Renewal of the tenure of Mr. Jean-Paul Agon as a Director***

The Annual General Meeting, deliberating in accordance with the quorum and majority requirements for Ordinary General Meetings, having reviewed the Report of the Board of Directors, renews the tenure of Mr. Jean-Paul Agon as Director for a period of four years.

His tenure will expire at the end of the Annual General Meeting to be held in 2022 to review the financial statements for the previous financial year.

***Seventh resolution: Renewal of the tenure of Mrs. Belén Garijo as a Director***

The Annual General Meeting, deliberating in accordance with the quorum and majority requirements for Ordinary General Meetings, having reviewed the Report of the Board of Directors, renews the tenure of Mrs. Belén Garijo as Director for a period of four years.

Her tenure will expire at the end of the Annual General Meeting to be held in 2022 to review the financial statements for the previous financial year.

**RESOLUTION 8: SETTING THE AMOUNT OF THE ANNUAL ATTENDANCE FEES ALLOCATED TO MEMBERS OF THE BOARD OF DIRECTORS****STATEMENT OF REASONS**

With the goal of maintaining the attractiveness of serving on the Board, particularly taking into consideration the inter-continental travel involved, and to compensate the Directors for participating in additional Board meetings, it is proposed that the maximum annual amount of the attendance fees, which has not changed since 2014 and is currently €1,450,000, be reviewed.

On the recommendation of the Human Resources and Remuneration Committee, the Board proposes to the Annual General Meeting that the maximum annual amount of the attendance fees be increased to €1,600,000.

The authorisation would replace that granted by the Annual General Meeting in 2014.

The principles for the distribution of these fees are described on paragraph 2.4 of the Registration Document and provide for a predominant variable portion based on attendance.

***Eighth resolution: Setting the amount of the annual attendance fees allocated to the members of the Board of Directors***

It is proposed to the Annual General Meeting that the Board of Directors receive a maximum annual amount of €1,600,000 as attendance fees, until the Annual General Meeting decides otherwise, with the Board of Directors being tasked with setting the distribution and payment schedule for the attendance fees.

## RESOLUTION 9: APPROVAL OF THE APPLICATION OF THE DEFINED BENEFIT PENSION PLAN PROVISIONS OF THE EMPLOYMENT CONTRACT OF MR. AGON FOR THE DURATION OF THE RENEWED CORPORATE OFFICE



### STATEMENT OF REASONS

Pursuant to Article L. 225-22-1 of the French Commercial Code as amended by the law of 6 August 2015 on economic growth, activity and equal opportunities, the provisions of the suspended employment contract representing defined benefit pension scheme commitments for the period of service in the corporate office are subject to the scheme provided for by Article L. 225-42-1 of the French Commercial Code.

These legal provisions are applicable for the first time at the time of renewal of the tenure of Mr. Jean-Paul Agon, the Chairman and Chief Executive Officer, which the Board of Directors will decide on following the Annual General Meeting of 17 April 2018.

The Board of Directors, at its meeting of 8 February 2018, approved the implementation of the provisions of Mr. Jean-Paul Agon's employment contract for the duration of the renewed corporate office, as approved by the Annual General Meeting of 27 April 2010, corresponding to defined benefit pension scheme commitments, as described on paragraph 2.5.2.4 of the Registration Document.

The Board of Directors has subordinated the increase in conditional rights for the period to the achievement of the performance conditions, assessed in light of the Company's performance.

It should be noted that, pursuant to the provisions of the employment contract suspension agreement corresponding to defined benefit pension commitments for the period of service of the new tenure, the Chairman and Chief Executive Officer will benefit from:

- ◆ the revaluation of the calculation basis of his pension based on the revaluation coefficient for salaries and pension contributions published by the *Caisse Nationale d'Assurance Vieillesse* (French State pension system); and
- ◆ the inclusion of his seniority corresponding to the number of years of service in the renewed corporate office, until such time as Mr. Jean-Paul Agon will reach the 40-year seniority ceiling provided for by the scheme, *i.e.*, 1 September 2018. He will not be granted any other additional annuities.

Pursuant to Article L. 225-42-1 of the French Commercial Code, the Board of Directors, on the basis of the proposal made by the Human Resources and Remuneration Committee, has decided to take into account the same performance as that retained to determine the annual variable remuneration of the executive officer.

The increase for a financial year will depend on the achievement of at least 80% of the performance targets taken into account to determine the annual variable remuneration of Mr. Jean-Paul Agon. In the event that the 80% threshold is not met, no increase will be granted for the financial year.

Pursuant to Article L. 225-42-1 of the French Commercial Code, the Board of Directors will verify, on an annual basis, compliance with the conditions that it set and will determine, for that year, before the Ordinary General Meeting called to approve the financial statements of the last financial year, the increase in the conditional entitlements for the Chairman and Chief Executive Officer corresponding to commitments for the defined benefit pension scheme for the duration of the renewed corporate office.

The Board of Directors submits to this Annual General Meeting, for its approval, the application of the provisions of the suspended employment contract to calculate the entitlement of Mr. Jean-Paul Agon to the defined pension benefit scheme, for the duration of the renewed corporate office.

In so doing, the Board of Directors has decided to continue with the policy it has always implemented at the Company, whereby employees who have more than 15 years' seniority when they are appointed as company Directors within the Group are not deprived of the benefits that they would have continued to receive if they had remained employees. This is the case with Mr. Jean-Paul Agon, who is being appointed an executive officer after 27 years with L'Oréal.

***Ninth resolution: Approval of the application of the defined benefit pension plan provisions of the employment contract of Mr. Agon for the duration of the renewed corporate office***

The Annual General Meeting, deliberating in accordance with the quorum and majority requirements for Ordinary General Meetings, having reviewed the Special Report of the Statutory Auditors on related-party agreements and commitments, and in accordance with the provisions of Articles L. 225-22-1 and L. 225-42-1 of the French Commercial Code and Article 229-II of law No. 2015-990 of 6 August 2015, approves the application of the following beginning on 17 April 2018, subject to the relevant performance conditions:

- ◆ the review of the benchmark remuneration;
- ◆ the due consideration of the seniority corresponding to the number of years in office for the renewed corporate office;

on the calculation of the defined benefit pension scheme for Mr. Jean-Paul Agon, pursuant to the agreement to suspend the employment contract approved by the Annual General Meeting of 27 April 2010.

This decision is taken subject to the condition precedent that the term as Chairman and Chief Executive Officer of Mr. Jean-Paul Agon is renewed by the Board of Directors, which should take place after this meeting.

**RESOLUTION 10: APPROVAL OF THE PRINCIPLES AND CRITERIA FOR THE DETERMINATION, ALLOCATION AND DISTRIBUTION OF THE COMPONENTS OF THE TOTAL REMUNERATION AND THE BENEFITS OF ALL KINDS THAT MAY BE GRANTED TO THE EXECUTIVE OFFICERS**



**STATEMENT OF REASONS**

Pursuant to Article L. 225-37-2 of the French Commercial Code, the Annual General Meeting is called on to approve the principles and criteria for the determination, allocation and distribution of the components of the total

remuneration and the benefits of all kinds that may be granted to the executive officers due to their mandate.

These principles and criteria are presented in the Report of the Board of Directors and are set out in paragraph 2.5.1 of the Registration Document.

***Tenth resolution: Approval of the principles and criteria for the determination, allocation and distribution of the components of the total remuneration and the benefits of all kinds that may be granted to the executive officers***

The Annual General Meeting, deliberating in accordance with the quorum and majority requirements for Ordinary General Meetings, having reviewed the Report of the Board of Directors drawn up pursuant to Article L. 225-37-2 of the French Commercial Code, approves the principles and criteria for the determination, allocation and distribution of the components of the total remuneration and the benefits of all kinds that may be granted to the executive officers.



## RESOLUTION 11: APPROVAL OF THE FIXED AND VARIABLE COMPONENTS OF THE TOTAL REMUNERATION AND BENEFITS OF ALL KINDS PAID OR ALLOCATED TO MR JEAN-PAUL AGON FOR THE 2017 FINANCIAL YEAR DUE TO HIS TENURE AS CHAIRMAN AND CHIEF EXECUTIVE OFFICER



### STATEMENT OF REASONS

Pursuant to Article L. 225-100 of the French Commercial Code, as amended by the law on transparency, the fight against corruption and the modernisation of economic life, known as the Sapin II law, the fixed and variable

components of the total remuneration and benefits of all kinds paid or allocated to Mr. Jean-Paul Agon for the 2017 financial year due to his tenure as Chairman and Chief Executive Officer must be approved by the Annual General Meeting.

### SUMMARY TABLE OF THE COMPONENTS OF REMUNERATION PAID OR ALLOCATED FOR THE 2017 FINANCIAL YEAR

Components of remuneration paid or allocated for the 2017 financial year	Amounts or accounting valuation put to the vote	Description
<b>Fixed remuneration</b> Change in 2017/2016	€2,200,000 0%	At its meeting on 9 February 2017, the Board of Directors decided, on the proposal of the Human Resources and Remuneration Committee, to maintain the fixed gross annual remuneration of Mr. Jean-Paul Agon at €2,200,000.
<b>Variable annual remuneration</b>	€2,038,732 92.7% out of a maximum target of 100% of the fixed remuneration	<p>The annual variable remuneration is designed to align the remuneration allocated to the Chairman and Chief Executive Officer with the Group's annual performance and to promote the implementation of its strategy year after year.</p> <p>It is expressed as a percentage of fixed remuneration and this percentage may reach a maximum of 100% of fixed remuneration.</p> <p><b>CRITERIA FOR ASSESSMENT OF THE PERFORMANCE FOR 2017</b></p> <ul style="list-style-type: none"> <li>♦ <b>FINANCIAL CRITERIA</b> <span style="float: right;"><b>60%</b></span> <ul style="list-style-type: none"> <li>• Growth in comparable sales as compared to the budget <span style="float: right;">15%</span></li> <li>• Growth in market share as compared to the main competitors <span style="float: right;">15%</span></li> <li>• Growth in operating profit as compared to 2016 <span style="float: right;">10%</span></li> <li>• Growth in net earnings per share as compared to 2016 <span style="float: right;">10%</span></li> <li>• Growth in cash flow as compared to 2016 <span style="float: right;">10%</span></li> </ul> </li> <li>♦ <b>EXTRA-FINANCIAL AND QUALITATIVE CRITERIA</b> <span style="float: right;"><b>40%</b></span> <ul style="list-style-type: none"> <li>• <b>Quantifiable criteria (allocated equally among the following criteria)</b> <span style="float: right;"><b>25%</b></span> <ul style="list-style-type: none"> <li>- CSR (<i>Sharing Beauty With All</i> programme): Innovating sustainably, Producing sustainably, Consuming sustainably; Sharing our growth;</li> <li>- Human Resources: Gender parity, Development of talented employees, Access to training;</li> <li>- Digital Development.</li> </ul> </li> <li>• <b>Individual qualitative performance:</b> <span style="float: right;"><b>15%</b></span> <ul style="list-style-type: none"> <li>Management, Image, Company reputation, Dialogue with stakeholders.</li> </ul> </li> </ul> </li> </ul> <p>The assessment is carried out on a criterion-by-criterion basis without offsetting among the criteria.</p> <p>A summary of achievements in 2017 is available on pages 98 to 100 of the Registration Document.</p> <p><b>ASSESSMENT FOR 2017 BY THE BOARD OF DIRECTORS OF 8 FEBRUARY 2018</b></p> <p>On the basis of the above-mentioned assessment criteria, the Board of Directors decided, on the proposal of the Human Resources and Remuneration Committee, to award gross variable remuneration of €2,038,732 for 2017, namely 92.7% of the maximum objective, with a level of achievement of the financial and extra-financial and qualitative criteria of 91.1% and 95.0% respectively.</p> <p>For confidentiality reasons, L'Oréal does not disclose the breakdown of the amounts paid by criteria; the elements used for assessment are described on pages 98 and 100 of the Registration Document.</p> <p>Pursuant to Article L. 255-37-2 of the French Commercial Code, the payment of this variable annual remuneration is subject to the approval of this eleventh resolution.</p>

Components of remuneration paid or allocated for the 2017 financial year	Amounts or accounting valuation put to the vote	Description
<b>Other benefits</b>		
◆ Performance shares	32,000 performance shares valued at €5,340,800 (fair value estimated according to the IFRS standards used to prepare the consolidated financial statements)	<p>Within the scope of the authorisation of the Ordinary and Extraordinary General Meeting of 20 April 2016 (resolution No. 15), the Board of Directors of 20 April 2017 decided, on the proposal of the Human Resources and Remuneration Committee, to make a conditional grant of 32,000 shares ("ACAs") to Mr. Jean-Paul Agon. The estimated fair value of one performance share (ACAs) under the 20 April 2017 plan according to the IFRS standards applied for the preparation of the consolidated financial statements is €166.90, i.e. a fair value of €5,340,800 for the 32,000 ACAs granted to Mr. Jean-Paul Agon in 2017. For the 20 April 2016 plan, the fair value of one ACAs amounted to €154.32.</p> <p>Final vesting of these shares is subject to achievement of performance conditions which will be recorded at the end of a 4-year vesting period as from the date of grant.</p> <p>Half of the number of shares that finally vests will depend on growth in comparable cosmetics sales as compared to those of a panel of competitors, such panel consisting of Unilever, Procter &amp; Gamble, Estée Lauder, Shiseido, Beiersdorf, Johnson &amp; Johnson, Henkel, LVMH, Kao, Coty; the other half will depend on the growth in L'Oréal's consolidated operating profit.</p> <p>The calculation will be based on the arithmetic average for the three full financial years of the vesting period. The first full year taken into account for evaluation of the performance conditions relating to this grant is 2018. Monitoring of the performance conditions year after year is described in detail on pages 332 and 333 of the Registration Document.</p> <p>With respect to the criterion relating to sales, in order for all the free shares granted to finally vest for the beneficiaries at the end the vesting period, L'Oréal has to outperform the average growth in sales of the panel of competitors. Below this level, the grant decreases. The Board defines a threshold, not made public for confidentiality reasons, below which no share will finally vest pursuant to this criterion.</p> <p>Concerning the criterion related to operating profit, a level of growth, defined by the Board, but not made public for confidentiality reasons, must be met or exceeded in order for all the free shares granted to finally vest for the beneficiaries at the end of the vesting period. Below this level, the grant decreases. If the operating profit does not increase in absolute value over the period, no share will finally vest pursuant to this criterion.</p> <p>The grant of shares from which Mr. Jean-Paul Agon benefited in 2017 represents 3.53% of the total number of ACAs granted to the 2,038 beneficiaries of this same plan. In accordance with the authorisation granted by the Annual General Meeting on 20 April 2016, this grant of shares does not exceed 0.6% of the share capital, it being understood that the maximum amount granted to the executive officers may not represent more than 10% of the total number of free shares that may be granted. No stock option to purchase or subscribe for shares or other long-term incentive was granted to Mr. Jean-Paul Agon in 2017.</p>
◆ Directors' fees	€0	Mr. Jean-Paul Agon did not wish to receive attendance fees in his capacity as Chairman and Chief Executive Officer.
◆ Benefits additional to remuneration	€0	<ul style="list-style-type: none"> <li>◆ Benefits in kind: Mr. Jean-Paul Agon benefits from the necessary material resources for performance of his office such as, for example, the provision of a car with a chauffeur. These arrangements, which are strictly limited to professional use, to the exclusion of all private use, are not benefits in kind.</li> <li>◆ Additional social protection schemes: defined-contribution provident, healthcare-costs and pension schemes. Mr. Jean-Paul Agon continues to be treated in the same way as a senior manager during the entire term of his corporate office which allows him to continue to benefit from the additional social protection schemes and, in particular, the employee benefit and healthcare schemes applicable to the Company's employees. The amount of the employer's contributions to these different schemes was €8,959 in 2017, €6,080 of which related to the defined contribution pension scheme, it being noted that the amount due in this respect will be deducted from the pension due in respect of the defined benefit pension in accordance with the provisions of this collective scheme. The continuation of this treatment was approved by the Annual General Meeting on 27 April 2010.</li> </ul>
	€8,959	

Mr. Jean-Paul Agon does not receive exceptional or multi-year remuneration.

Information on the (i) severance benefit, (ii) dismissal or retirement benefits, (iii) on the compensation as monetary consideration for the non-compete clause, and (iv) on the supplementary defined benefit pension scheme benefits that Mr. Agon may be entitled to under his suspended employment

contract, which were submitted to the AFEP-MEDEF for its advisory opinion, can be found on pages 93 to 94 of the Registration Document. The application of Mr. Agon's suspended employment contract in the calculation of his defined benefit pension scheme benefits for his renewed term of office is being submitted for the approval of the shareholders in the ninth resolution.

**Eleventh resolution: Approval of the fixed and variable components of the total remuneration and benefits of all kinds paid or allocated to Mr. Jean-Paul Agon for the 2017 financial year due to his mandate as Chairman and Chief Executive Officer**

Pursuant to Articles L. 225-37-2 and 225-100 of the French Commercial Code, the Annual General Meeting, deliberating in accordance with the quorum and majority requirements for Ordinary General Meetings, approves the fixed and variable

components of the total remuneration and benefits of all kinds paid or allocated to Mr. Jean-Paul Agon for the 2017 financial year due to his tenure as Chairman and Chief Executive Officer as presented in the statement of reasons for this resolution.

## RESOLUTION 12: AUTHORISATION FOR THE COMPANY TO BUY BACK ITS OWN SHARES

### STATEMENT OF REASONS

As the existing authorisation is due to expire in October 2018, it is proposed that the Annual General Meeting give the Board a new authorisation, it being specified that in the event of filing of a public offer by a third party with regard to the shares of the Company, the Board of Directors will not be able to use this authorisation during the public offer period without the prior authorisation of the Annual General Meeting.

The Company would be able to buy its own shares for the following purposes:

- ◆ their cancellation by a reduction in its capital;
- ◆ their sale within the scope of employee share ownership programmes and their allocation to free grants of shares for the benefit of employees and executive officers of the L'Oréal Group;
- ◆ liquidity provision through a liquidity agreement entered into with an investment services provider in accordance with the Code of Ethics recognised by the *Autorité des Marchés Financiers*;

- ◆ retaining them and subsequently using them as payment in connection with external growth transactions.

The purchase, sale, exchange or transfer of these shares may be carried out by any means, on one or more occasions, in particular on or off the stock market, including in whole or in part, through the acquisition, sale, exchange or transfer of blocks of shares. These means include, where applicable, the use of all financial instruments and derivatives.

The authorisation would expire at the end of a period of 18 months as from this Annual General Meeting and would come into force on 21 October 2018, namely upon the expiry of the current authorisation for the Company to buy back its own shares which will expire on 20 October 2018.

The purchase price per share could not exceed €250 (excluding expenses). The authorisation would concern a maximum of 10% of the share capital, namely, for information purposes, at 31 December 2017, 56,051,908 shares for a maximum amount of €14,012,977,000 it being specified that the Company could not at any time hold more than 10% of its own capital.

**Twelfth resolution: Authorisation for the Company to buy back its own shares**

The Annual General Meeting, deliberating in accordance with the quorum and majority requirements for Ordinary General Meetings, having reviewed the Report of the Board of Directors, authorises the Board of Directors, with the possibility for it to delegate to the Chairman and Chief Executive Officer, to purchase shares of the Company, in accordance with Articles L. 225-209 *et seq.* of the French Commercial Code and EU Regulation No. 596/2014 of the European Parliament and of the Council of 16 April 2014 and subject to the following conditions:

- ◆ the purchase price per share may not be greater than €250 (excluding expenses);
- ◆ the number of shares that may be bought by the Company may not exceed 10% of the number of shares forming the capital of the Company at the time the shares are bought back, that is, for information purposes, at 31 December

2017, 56,051,908 shares for a maximum amount of €14,012,977,000, it being stipulated that the Company may at no time hold over 10% of its own share capital.

The Company may buy back its own shares under the conditions defined by the laws and regulations in force, and notably with a view to:

- ◆ their cancellation by a reduction in its capital;
- ◆ their allocation or sale to employees and corporate officers of the Company and affiliates, under the terms and conditions provided for by French or foreign law, and in particular within the scope of employee profit sharing schemes, free grants of shares or all employee share ownership programmes as well as for the purpose of carrying out any transaction to cover the above-mentioned employee share ownership programmes;

- ◆ liquidity provision through a liquidity agreement entered into with an investment services provider in accordance with the Code of Ethics recognised by the *Autorité des Marchés Financiers*;
- ◆ retaining them and subsequently using them as payment in connection with external growth transactions.

The purchase, sale, exchange or transfer of these shares may be carried out by any means, on one or more occasions, in particular on or off the stock market, including in whole or in part, through the acquisition, sale, exchange or transfer of blocks of shares. These means include, where applicable, the use of all financial instruments and derivatives.

These transactions may be carried out at any time, in accordance with the regulations in force at the time of the transactions concerned, it being specified that in the event of filing of a public offer by a third party with regard to the shares

of the Company, the Board of Directors will not be able to use this authorisation during the public offer period without the prior authorisation of the Annual General Meeting.

The Annual General Meeting decides that this authorisation will expire at the end of a period of 18 months following this Annual General Meeting and will come into force on 21 October 2018, namely upon the expiry of the current authorisation for the Company to buy back its own shares which will expire on 20 October 2018.

The Board of Directors will have the possibility of allocating and reassigning to any of these objectives all the treasury shares currently held by the Company. Full powers are granted to the Board of Directors, with the possibility for it to delegate, for the implementation of this resolution and more generally do anything that may be necessary.

## 7.1.2. EXTRAORDINARY PART

### RESOLUTION 13: AUTHORISATION GRANTED TO THE BOARD OF DIRECTORS TO REDUCE THE SHARE CAPITAL THROUGH THE CANCELLATION OF SHARES PURCHASED BY THE COMPANY WITHIN THE SCOPE OF ARTICLES L. 225-209 AND L. 225-208 OF THE FRENCH COMMERCIAL CODE



#### STATEMENT OF REASONS

The authorisation granted to the Board of Directors in 2016 to cancel shares purchased by the Company within the scope of Article L. 225-209 of the French Commercial Code is due to expire.

It is proposed that the Annual General Meeting give the Board a new authorisation allowing it to carry out share cancellations, subject to the legal limits. This authorisation shall be granted for a duration of twenty-six months from the Annual General Meeting of 17 April 2018 and shall render ineffective all previous authorisations.

With regard to the authorisation granted to the Board of Directors to cancel shares purchased by the Company within the scope of Article L. 225-208 of the French Commercial Code:

Certain share purchase options granted in the past may no longer be exercised due, for example, to the departure of

their beneficiaries. The resolution to cancel shares purchased by the Company within the scope of Article L. 225-209 of the French Commercial Code, indicated above, does not allow for the cancellation of these shares, as the legal regimes for cancellation are separate.

The authorisation granted to the Board of Directors in 2016 to cancel the corresponding shares, purchased by the Company within the scope of Article L. 225-208 of the French Commercial Code, is due to expire.

It is proposed that the shares corresponding to share purchase options that may no longer be exercised be allocated to the cancellation policy currently conducted by the Board of Directors, up to a maximum limit of 771,125 shares (0.14% of the share capital at 31 December 2017), i.e. a maximum reduction in share capital of €154,225.

This authorisation shall be granted for a duration of twenty-six months from the Annual General Meeting of 17 April 2018 and shall render ineffective all previous authorisations.

#### *Thirteenth resolution: Authorisation granted to the Board of Directors to reduce the share capital through the cancellation of shares purchased by the Company within the scope of Articles L. 225-209 and L. 225-208 of the French Commercial Code*

The Annual General Meeting, deliberating in accordance with the quorum and majority requirements for Extraordinary General Meetings, having reviewed the Report of the Board of Directors and the Special Report of the Statutory Auditors:

- ◆ authorises the Board of Directors, in accordance with Article L. 225-209 of the French Commercial Code, to cancel, on one or more occasions, the shares owned by the Company under Article L. 225-209 of the French Commercial Code, subject to a limit of 10% of the share capital existing on the day of cancellation per twenty-four-month period;
- ◆ authorises the Board of Directors, in accordance with Articles L. 225-204 and L. 225-205 of the French Commercial Code, to cancel, on one or more occasions, a maximum of 771,125 shares (0.14% of the share capital at 31 December 2017) purchased by the Company on the basis of Article L. 225-208 of the French Commercial Code to cover share purchase option plans and which correspond or will correspond to options that may no longer be exercised.

Full powers are granted to the Board of Directors, which can delegate said powers, to:

- ◆ carry out a reduction in share capital by cancellation of shares;
- ◆ determine the final amount of the capital reduction;
- ◆ set the terms and record the completion thereof;
- ◆ deduct the difference between the book value of the cancelled shares and their nominal amount from the available reserves and premiums;
- ◆ amend the Articles of Association accordingly;
- ◆ and more generally, carry out all actions and formalities and do everything necessary for the implementation of this resolution.

These authorisations are granted for a duration of twenty-six months from this Annual General Meeting and shall render ineffective all previous authorisations with the same purpose.

## RESOLUTION 14: DELEGATION OF AUTHORITY GRANTED TO THE BOARD OF DIRECTORS FOR THE PURPOSE OF INCREASING THE SHARE CAPITAL IN ORDER TO REMUNERATE THE CONTRIBUTIONS IN KIND OF EQUITY SECURITIES OR SECURITIES GIVING ACCESS TO THE SHARE CAPITAL OF THIRD-PARTY COMPANIES



### STATEMENT OF REASONS

The Annual General Meeting is asked to grant a delegation of authority to the Board of Directors to allow it to increase the Company's share capital in order to remunerate the contributions in kind granted to the Company, and comprising equity securities or securities giving access to the share capital of third-party companies, outside of a public exchange offer, to carry out possible external growth transactions.

The Board will make a decision based on the Contribution Auditors' report on, notably, the value of the contributions, if required.

The amount of share capital increase(s) that may be carried out pursuant to this resolution will be limited to 2% of the share capital on the day of the share capital increase decision, and will be charged against the total ceiling for capital increases provided for in paragraph 2) of the eleventh resolution approved during the Annual General Meeting of 20 April 2017.

This delegation of authority will not apply in the context of a public offer for Company securities.

This authorisation cancels the shareholders' preferential subscription right.

### *Fourteenth resolution: Delegation of authority granted to the Board of Directors for the purpose of increasing the share capital in order to remunerate the contributions in kind of equity securities or securities giving access to the share capital of third-party companies*

The Annual General Meeting, having reviewed the Report of the Board of Directors, deliberating in accordance with the quorum and majority requirements for Extraordinary General Meetings, and acting in accordance with the provisions of Articles L. 225-129 *et seq.* of the French Commercial Code, and specifically Article L. 225-147 paragraph 6 of the said code:

- 1) delegates to the Board of Directors, subject to the conditions set by law, the power to carry out a capital increase, on one or several occasions, up to 2% of the share capital on the day of the capital increase decision, based on the report by the Contribution Auditors indicated in the 1st and 2nd paragraphs of Article L. 225-147 mentioned above, if required, for the purpose of remunerating the contributions in kind granted to the Company, comprising equity securities or securities giving access to the share capital, through the issue, on one or several occasions, of ordinary shares in the Company, when the provisions of Article L. 225-148 of the French Commercial Code are not applicable;
- 2) decides that the amount of the capital increases that may be carried out pursuant to this resolution will be charged against the total ceiling for capital increases provided for in paragraph 2) of the eleventh resolution approved during the Annual General Meeting of 20 April 2017;
- 3) decides that in the event a public offer is filed by a third party with regard to the shares of the Company, the Board of Directors will not be able to implement this delegation of authority during the public offer period without the prior authorisation of the Annual General Meeting;
- 4) notes that, in accordance with the law, shareholders will not have a preferential subscription right to securities issued pursuant to this delegation;
- 5) decides that the Board of Directors will have full powers, with the faculty to delegate further under the conditions provided for by law, to implement this resolution, notably in order to:
  - a) decide to conduct a capital increase to remunerate the contributions,
  - b) determine the list of equity securities or securities giving access to the share capital contributed, approve, based on the report by the Contribution Auditors indicated in the first and second paragraph of Article L. 225-47 mentioned above, if required, the assessment of the contributions, set the conditions for the issue of shares remunerating the contributions, as well as, if applicable, the amount of any cash portion to be paid, approve the granting of special advantages and their value, and reduce, if the contributors agree, the assessment of contributions or the remuneration of special advantages,
  - c) duly note the completion of each capital increase and amend the Articles of Association accordingly,
  - d) deduct any costs of such a capital increase from the contribution premiums and take from this amount the amounts necessary to increase the legal reserve,
  - e) in general, carry out all measures and formalities that may be useful for the issue, the listing, and the financial services of the shares issued pursuant to this delegation;
- 6) sets the period of validity of this delegation at 26 months as from the date of this Annual General Meeting.

## RESOLUTION 15: AUTHORISATION GRANTED TO THE BOARD OF DIRECTORS TO CARRY OUT FREE GRANTS OF EXISTING SHARES AND/OR SHARES TO BE ISSUED WITH CANCELLATION OF SHAREHOLDERS' PREFERENTIAL SUBSCRIPTION RIGHT TO EMPLOYEES AND EXECUTIVE OFFICERS



### STATEMENT OF REASONS

It is proposed that the Annual General Meeting renew its authorisation to carry out free grants of shares to Group employees and certain executive officers which will expire in 2018.

Under the scope of this authorisation, the number of free shares that may be granted may not exceed 0.6% of the share capital on the date of the Board of Directors' decision. The maximum nominal amount of the capital increases that may be carried out pursuant to this authorisation will be charged against the total ceiling provided for in paragraph 2) of the eleventh resolution approved during the Annual General Meeting of 20 April 2017.

The total number of free shares granted to the executive officers during a financial year may not represent more than 10% of the total number of free shares granted in respect of that same financial year.

In application of Article L. 225-197-1 of the French Commercial Code, the free grant of shares to their beneficiaries will become final and binding subject to the satisfaction of the other conditions set at the time of the grant, and specifically the employment condition, for all or part of the shares granted:

- ◆ either after a minimum vesting period of two years, and in this case, without a minimum holding period;
- ◆ or after a minimum vesting period of one year, it being stated that the beneficiaries must then hold these shares for a minimum of one year from their final allocation.

In all these cases, the Board of Directors proposes that the vesting and holding periods should be a minimum of four years. The Board of Directors shall have the power, in all cases, to provide for vesting periods which are longer than the minimum periods set above or to provide for a holding period.

If the Annual General Meeting approves this resolution, any free grants of shares shall be decided by the Board of Directors on the basis of the proposals made by the General Management and examined by the Human Resources and Remuneration Committee.

The Board of Directors will decide the identity of the beneficiaries of the grants, the number of shares allocated to each one and the performance conditions to be met for the final vesting of all or part of the shares.

These performance conditions will take into account:

- ◆ partly, growth in comparable cosmetics sales of L'Oréal as compared to a panel of L'Oréal's major direct competitors;

- ◆ partly, growth in L'Oréal's consolidated operating profit.

The figures recorded each year to determine the levels of performance achieved are published in the Annual Financial Report.

The Board of Directors considers that these two criteria, assessed over a long period of three financial years and applied to several plans, are complementary, in line with the Group's objectives and suitable to its specificities and should make it possible to promote balanced, continuing growth over the long term. They are exacting but remain a source of motivation for the beneficiaries.

Pursuant to the criterion relating to sales, in order for all the free shares granted to finally vest for the beneficiaries at the end of the vesting period, L'Oréal must outperform the average growth in sales of the panel of competitors. This panel comprises Unilever, Procter & Gamble, Estée Lauder, Shiseido, Beiersdorf, Johnson & Johnson, Henkel, LVMH, Kao, Coty. Below this level, the grant decreases. The Board defines a threshold, not made public for confidentiality reasons, below which no share will finally vest pursuant to this criterion.

Pursuant to the criterion relating to operating profit, in order for all the free shares granted to finally vest for the beneficiaries at the end of the vesting period, a level of growth defined by the Board, but not made public for confidentiality reasons, must be achieved or exceeded. Below this level, the grant decreases. If the operating profit does not increase in absolute value over the period, no share will finally vest pursuant to this criterion.

These performance conditions will apply to all individual allocations in excess of 200 free shares per plan, with the exception of executive officers and members of the Executive Committee, for which they will apply to the totality.

The free grant of shares may be carried out without performance conditions as part of the allocations carried out for all Group staff, or for shares allocated on the basis of cash subscriptions carried out as part of an increase in share capital reserved for Group employees pursuant to the 16<sup>th</sup> resolution.

Any allocations to executive officers shall be decided by the Board of Directors on the basis of the proposals made by the Human Resources and Remuneration Committee after an assessment of their performance.

The executive officers of L'Oréal will be obliged to retain 50% of the free shares that are definitively granted to them at the end of the vesting period in registered form until the termination of their duties.

**Fifteenth resolution: Authorisation granted to the Board of Directors to carry out free grants of existing shares and/or shares to be issued with cancellation of shareholders' preferential subscription right to employees and executive officers**

The Annual General Meeting, having reviewed the Report of the Board of Directors and the Special Report of the Statutory Auditors, deliberating in accordance with the quorum and majority requirements for Extraordinary General Meetings and acting in accordance with Articles L. 225-197-1 *et seq.* of the French Commercial Code:

- 1) authorises the Board of Directors to carry out, on one or several occasions, free grants of existing shares or shares to be issued in L'Oréal, to employees and executive officers of the Company and of its French or foreign affiliates under the conditions of Article L. 225-197-2 of the French Commercial Code or to certain categories of employees and executive officers;
- 2) sets the validity period of this authorisation, which may be used on one or several occasions, at 26 months from 21 June 2018, namely upon the expiry of the current authorisation to carry out the allocation of existing shares to employees and executive officers that will end on 20 June 2018;
- 3) decides that the total number of free shares granted in this manner may not represent more than 0.6% of the share capital recorded on the date of the Board of Directors' decision, it being stated that this maximum number of existing shares or shares to be issued does not take into account the number of additional shares that may be allocated as the result of an adjustment in the number of shares initially allocated following a transaction on the Company's share capital;
- 4) decides that the maximum nominal amount of the increases in share capital that may be carried out pursuant to this authorisation will be charged against the total ceiling provided for in paragraph 2) of the eleventh resolution approved during the Annual General Meeting of 20 April 2017;
- 5) decides that the number of free shares granted to the Company's executive officers may not represent more than 10% of the total number of free shares granted during that same financial year pursuant to such resolution;
- 6) decides that the Board of Directors shall determine the identity of the beneficiaries or categories of beneficiaries of the allocations and the number of free shares granted to each one as well as the conditions to be met in order for the allocation to become binding, and notably the performance conditions, it being stated that the free grant of shares may be carried out without performance conditions as part of an allocation (i) for the benefit of all employees of L'Oréal and, if applicable, of its French and foreign affiliates, or (ii) for the benefit of employees and executive officers of foreign companies subscribing to a capital increase carried out pursuant to the 17<sup>th</sup> resolution of this Annual General Meeting or taking part in an employee shareholder transaction through the disposal of existing shares, or (iii) for the benefit of employees that are not members of the Executive Committee for a maximum of 200 free shares allocated as part of each of the plans decided by the Board of Directors;
- 7) decides (i) that the grant of such shares to their beneficiaries, for all or part of the shares granted, will become final and binding subject to satisfying the other conditions set at the time of the grant, at the end of a minimum vesting period of four years, and (ii) that the Board of Directors may set, and if applicable decide the duration of, a holding period for the vested shares;
- 8) decides that the grant of these shares to their beneficiaries will become final and binding prior to the expiry of the above-mentioned vesting periods in the event of disability of the beneficiary corresponding to a classification in the second or third categories provided for in Article L. 341-4 of the French Social Security Code (*Code de la sécurité sociale*) and that such shares will be freely transferable in the event of disability of the beneficiary corresponding to a classification in the above mentioned categories under the French Social Security Code;
- 9) authorises the Board of Directors to carry out, where necessary, during the vesting period, adjustments to the number of shares associated with any possible transactions on the Company's share capital under the meaning of Article L. 225-181 of the French Commercial Code, so as to preserve the rights of the beneficiaries;
- 10) duly notes that this authorisation automatically entails, for the benefit of the beneficiaries of the free shares, the waiver by shareholders of their preferential subscription rights and of the portion of the reserves, profits or share premiums which, where applicable, are necessary for the issue of new shares;
- 11) delegates full powers to the Board, with the power to delegate further subject to the legal limits, to implement this authorisation.



## RESOLUTIONS 16 AND 17: DELEGATIONS OF AUTHORITY GRANTED TO THE BOARD OF DIRECTORS FOR THE PURPOSE OF CARRYING OUT A CAPITAL INCREASE RESERVED FOR EMPLOYEES AND CERTAIN CATEGORIES OF EMPLOYEES INTERNATIONALLY, WITH CANCELLATION OF THE SHAREHOLDERS' PREFERENTIAL SUBSCRIPTION RIGHT



### STATEMENT OF REASONS

It is proposed to the Annual General Meeting, pursuant to the 16<sup>th</sup> resolution, to delegate to the Board of Directors the authority to decide on an increase in capital in favour of the Group's employees who are members of an Employee Savings Scheme.

This resolution, valid for a period of 26 months, would enable the employees of Group companies to subscribe for L'Oréal shares within the scope, in France, of the employee savings schemes.

In order for the Board to be able to deploy, where applicable, a world employee share ownership programme under the best possible conditions, it is also proposed to the Annual General Meeting pursuant to the 17<sup>th</sup> resolution to delegate to the Board of Directors the authority to decide on the increase in capital in favour of Group employees or categories of Group employees outside France.

This resolution, valid for a period of 18 months, would make it possible to propose the subscription of L'Oréal shares to Group employees or categories of Group employees outside France, after adapting the conditions of the offer to local specificities.

In accordance with the French Labour Code, pursuant to the 16<sup>th</sup> resolution, the issue price may not be higher than the average of the trading prices on the Euronext Paris market for the twenty trading days prior to the date of the decision setting the opening date of the subscription period nor may it be over 20% lower than this average.

Pursuant to the 17<sup>th</sup> resolution, the issue price would be determined under similar terms and conditions to those set for the 16<sup>th</sup> resolution and could also be set taking into account the specific regime of an offering of shares in the Company which would be carried out within the scope of a system of share ownership governed by foreign law.

The Annual General Meeting is therefore asked to delegate to the Board of Directors, pursuant to the 16<sup>th</sup> and 17<sup>th</sup> resolutions, the authority to decide to carry out the increase in capital of the Company, on one or more occasions, within the limit of 1% of the share capital, namely for information purposes at 31 December 2017 through the issue of 5,605,190 new shares, this ceiling being applicable jointly to the 16<sup>th</sup> and 17<sup>th</sup> resolutions. The amount of the capital increases that may be carried out pursuant to the 16<sup>th</sup> and 17<sup>th</sup> resolutions will be charged against the total ceiling for capital increases provided for in paragraph 2) of the eleventh resolution approved during the Annual General Meeting of 20 April 2017.

### *Sixteenth resolution: Delegation of authority to the Board of Directors for the purpose of carrying out a capital increase reserved for employees with cancellation of the shareholders' preferential subscription right*

The Annual General Meeting, having reviewed the Reports of the Board of Directors and the Statutory Auditors, deliberating in accordance with the quorum and majority requirements for Extraordinary General Meetings and acting in accordance with the provisions of Articles L. 225-129-2, L. 225-129-6 and L. 225-138-1 of the French Commercial Code and Articles L. 3332-18 *et seq.* of the French Labour Code:

- 1) delegates to the Board of Directors the authority to carry out, on one or more occasions, on its own decisions alone, in the proportions and at the times it may consider appropriate, the issue of shares or securities giving access to the Company's capital reserved for employees, executive officers and eligible former employees, of the Company and of its French and foreign affiliates as defined by Article L. 225-180 of the French Commercial Code and Article L. 3344-1 of the French Labour Code, who are members of an Employee Savings Scheme;
- 2) decides to cancel, in favour of the employees, executive officers and eligible former employees, of the Company and of its French and foreign affiliates as defined by Article L. 225-180 of the French Commercial Code and Article L. 3344-1 of the French Labour Code, who are

members of an employee savings scheme, the shareholders' preferential subscription right for the shares or securities giving access to the Company's capital, it being specified that the subscription of the shares or securities giving access to the Company's capital issued on the basis of this resolution may be carried out through any employee investment fund, and in particular a "structured" employee investment fund within the meaning of the regulations of the French financial markets authority (*Autorité des Marchés Financiers* - AMF), or any other collective body authorised by the regulations;

- 3) sets the period of validity of this delegation of authority at 26 months as from the date of this Annual General Meeting, and records that this delegation renders ineffective the unused portion of any prior delegation for the same purpose; it being specified that in the event of filing of a public offer by a third party with regard to the shares of the Company, the Board of Directors will not be able to use this authorisation during the public offer period without the prior authorisation of the Annual General Meeting;

- 4) decides to set at 1% of the share capital existing at the date of this Annual General Meeting, the capital increase that could thus be carried out (namely, for information purposes, at 31 December 2017, an increase in the share capital by a maximum nominal amount of €1,121,038 through the issue of 5,605,190 new shares), it being specified that the cumulative amount of the increases in share capital that may be carried out pursuant to this resolution and the 17<sup>th</sup> resolution may not exceed the maximum amount of 1% of the share capital existing at the date of this Annual General Meeting which constitutes a ceiling which applies jointly to the 16<sup>th</sup> and 17<sup>th</sup> resolutions;
- 5) decides that the amount of the capital increases that may be carried out pursuant to this resolution will be charged against the total ceiling for capital increases provided for in paragraph 2) of the eleventh resolution approved during the Annual General Meeting of 20 April 2017;
- 6) decides that the subscription price may include a discount as compared with the average of the trading prices on the Euronext Paris market for the 20 trading days prior to the date of the decision setting the opening date of the subscription period. Such discount may not exceed 20% of this average, it being specified that the Board of Directors, or the person to whom it delegates, if it deems it appropriate, is expressly authorised to reduce or eliminate the discount, in particular to take into account legal and tax regimes applicable in the countries of residence of the beneficiaries of the capital increase;
- 7) decides, pursuant to Article L. 3332-21 of the French Labour Code, that the Board of Directors will be able to provide for the free grant to the beneficiaries specified above of shares that have already been issued or are to be issued, as an additional employer contribution that may be paid pursuant to the employee savings scheme regulations, and/or in respect of the discount, provided that, after taking into account their equivalent monetary value, assessed on the basis of the subscription price, this does not lead to the limits provided for in Articles L. 3332-11 and L. 3332-19 of the French Labour Code being exceeded;
- 8) decides that the Board of Directors will have full powers, with the possibility to delegate further under the conditions provided for by law, to implement this delegation of authority within the limits and under the conditions specified above in particular in order to:
  - set the conditions that must be met by the employees and eligible former employees to be able to subscribe, individually or through an employee investment fund, for the shares issued pursuant to this delegation,
  - decide on the list of the companies whose employees may benefit from the issue,
  - decide on the amount to be issued, the features, where applicable, of the securities giving access to the Company's capital, the issue price, the dates of the subscription period and the terms and conditions of each issue,
  - set the time period allotted to the beneficiaries to pay up their shares or securities and the payment terms,
  - set the date, even with retrospective effect, as of which the new shares will carry dividend rights,
  - deduct, where applicable, the costs, taxes and fees of such issues from the amount of the share premiums and deduct, where applicable, from the amounts of the share premiums, the amounts required to increase the legal reserve to the level required by the French legislation and regulations in force, and, in the event of an issue of new free shares granted in respect of the additional employer contribution and/or discount, to deduct, where applicable, the sums necessary for paying up such shares from the reserves, profits or share premiums, as it chooses,
  - in general, carry out all acts and formalities, take all decisions and enter into any agreements that may be useful or necessary for the due and proper completion of the share issues made pursuant to this delegation of authority and record the final completion of the capital increase(s) made pursuant to this delegation of authority and amend the Articles of Association accordingly.

**Seventeenth resolution: Delegation of authority to the Board of Directors in order to enable it to carry out a capital increase reserved for categories of beneficiaries consisting of employees of foreign subsidiaries, with cancellation of the shareholders' preferential subscription right, within the scope of an employee share ownership programme**

The Annual General Meeting, deliberating in accordance with the quorum and majority requirements for Extraordinary General Meetings, having reviewed the Reports of the Board of Directors and the Statutory Auditors, and acting in accordance with the provisions of Articles L. 225-129-2 and L. 225-138 of the French Commercial Code:

- 1) delegates to the Board of Directors the authority to decide to increase the Company's share capital, on one or more occasions, in the proportions and at the times it may consider appropriate, through the issue of shares or securities giving access to the Company's capital with cancellation of the shareholders' preferential subscription right in favour of the beneficiaries defined below;
- 2) decides to cancel the shareholders' preferential subscription right for the shares and securities giving access to the Company's capital within the scope of this delegation of authority and to reserve the right to subscribe them to one or several categories of beneficiaries meeting the following characteristics: (i) employees and executive officers of affiliates of the Company under the conditions of Article L. 225-180 of the French Commercial Code and Article L. 3341-1 of the French Labour Code and which have their registered office outside France and/or (ii) for UCITS or other entities governed by French or foreign law, whether or not they constitute a legal person, of employee share ownership schemes invested in shares of the Company whose unit holders or shareholders will consist of the persons mentioned in paragraph (i) or enabling the persons mentioned in paragraph (i) to benefit, either directly or indirectly, from a Company employee share ownership plan or employee share savings scheme;
- 3) sets the period of validity of this delegation of authority at 18 months as from the date of this Annual General Meeting, and records that this delegation renders ineffective the unused portion of any prior delegation for the same purpose; it being specified that in the event of filing of a public offer by a third party with regard to the shares of the Company, the Board of Directors will not be able to use this authorisation during the public offer period without the prior authorisation of the Annual General Meeting;
- 4) decides that the issue price of the new shares, to be issued pursuant to this delegation of authority, will be set, (i) on the basis of an average of the trading prices on the Euronext Paris market for the twenty trading days prior to the date of the decision of the Board of Directors, or of the Chief Executive Officer, setting the opening date of the subscription period, with a maximum discount of 20%, and/or (ii) at the same price as decided on the basis of the 16<sup>th</sup> resolution at the time of a simultaneous transaction, and/or (iii) in accordance with the terms and conditions for setting the subscription price for the Company's shares taking into account the specific regime of an offering of shares in the Company which would be carried out within the scope of a share ownership scheme governed by foreign law, and in particular within the scope of a Share Incentive plan in the United Kingdom or a 401k or 423 plan in the United States;
- 5) decides to set at 1% of the share capital existing at the date of this Annual General Meeting, the capital increase that could thus be carried out (namely, for information purposes, at 31 December 2017, an increase in the share capital by a maximum nominal amount of €1,121,038 through the issue of 5,605,190 new shares), it being specified that the cumulative amount of the increases in share capital that may be carried out pursuant to this resolution and the 16<sup>th</sup> resolution may not exceed the maximum amount of 1% of the share capital existing at the date of this Annual General Meeting which constitutes a ceiling which applies jointly to the 16<sup>th</sup> and 17<sup>th</sup> resolutions;
- 6) decides that the amount of the capital increases that may be carried out pursuant to this resolution will be charged against the total ceiling for capital increases provided for in paragraph 2) of the eleventh resolution approved during the Annual General Meeting of 20 April 2017;
- 7) decides that the Board of Directors will have full powers, with the possibility to delegate further under the conditions provided for by law, to make use of this delegation of authority on one or more occasions, in particular in order to:
  - decide on the list of beneficiaries, from one or more categories of beneficiaries defined above, or the categories of employees who will be beneficiaries of each issue and the number of shares to be subscribed by each of them,
  - determine the formulas and methods of subscription which will be presented to the employees in each country concerned, in light, where applicable, of the local legal constraints that apply, and select the countries chosen from those in which the Group has subsidiaries as well as such subsidiaries whose employees will be able to participate in the transaction,
  - decide on the maximum number of shares to be issued, within the limits set by this resolution and record the final amount of each increase in capital and amend the Articles of Association accordingly,
  - decide on the dates and any other terms and conditions of such an increase in capital under the conditions provided for by law,
  - deduct the costs of such an increase in capital from the amount of the related share premiums and take from this amount the amounts necessary to increase the legal reserve to one-tenth of the new amount of the share capital resulting from such an increase,
  - in general, carry out all acts and formalities, take all decisions and enter into any agreements that may be useful or necessary for the due and proper completion of the share issues made pursuant to this delegation of authority and record the final completion of the capital increase(s) made pursuant to this delegation of authority and amend the Articles of Association accordingly.

**RESOLUTION 18: AMENDMENT TO THE STATUTORY PROVISIONS FOR DECLARATIONS OF THRESHOLD CROSSING****STATEMENT OF REASONS**

It is proposed that the Annual General Meeting update the statutory provisions for declarations of threshold crossings in order to align the system for declarations of threshold crossings in the Company's Articles of Association with the system provided for by the French Commercial Code.

The aim is to take into account the different cases of assimilation now provided for by the legal provisions and to adjust the system of sanctions accordingly.

Moreover, the notification period currently stipulated in the Company's Articles of Association (15 calendar days) is long and consequently limits the effectiveness of the declarations of statutory threshold crossings from a Company information viewpoint. A period of five trading days, exceeding by one day the period of four trading days applicable to legal threshold crossings, would be more relevant and in line with the practices of the majority of the market.

The thresholds which, when crossed, give rise to a declaration are unchanged compared to the current version of the Articles of Association.

***Eighteenth resolution: Amendment to the statutory provisions for declarations of threshold crossing***

The Annual General Meeting, having reviewed the Report of the Board of Directors, deliberating in accordance with the quorum and majority requirements for Extraordinary General

Meetings, decides to amend the second and third paragraphs of Article 7 of the Articles of Association as follows:

**Current version:**

"Any holder, whether direct or indirect, of a fraction of the Company's share capital equal to 1%, or a multiple of this percentage lower than 5%, is required to inform the Company within a period of fifteen days in the event that these thresholds have been passed in either direction.

If not disclosed in accordance with the conditions stipulated by law or by the Articles of Association, shares exceeding the fraction which should have been disclosed are deprived of voting rights at Shareholders' Meetings, in accordance with the conditions stipulated in the French Commercial Code, if during a meeting the failure to disclose is noted, and if one or more shareholders together holding at least 5% of the share capital so request during the meeting."

**Proposed new version:**

"Any person, acting alone or in concert, who comes to hold, directly or indirectly, a number of shares or voting rights representing a fraction of the share capital or voting rights, taking into account equivalent securities under the meaning of Article L. 233-9 of the French Commercial Code, equal to 1% or a multiple of this percentage, and lower than 5%, must inform the Company of the total number of shares, voting rights and securities giving access to the share capital that it holds, as well as of equivalent securities under the meaning of Article L. 233-9 of the French Commercial Code, within a period of five trading days, from the date of the threshold crossing, pursuant to the notification and content conditions stipulated by the legal and regulatory provisions applicable to declarations of legal threshold crossings, and, notably by declaring the information that must be provided when a legal threshold is crossed to the French Financial Markets Authority (AMF), in accordance with its General Regulations. Such notice must also be given to the Company when a shareholder's ownership falls below one of the thresholds set forth above.

If not disclosed in accordance with the conditions stipulated by law or by the Articles of Association, the shares of the offending shareholder exceeding the fraction which should have been disclosed are deprived of voting rights, in accordance with the conditions stipulated in the French Commercial Code, if during a General Meeting the failure to disclose is noted and if one or more shareholders together holding at least 5% of the share capital so request during said meeting."

**Resolution 19: Powers for formalities****STATEMENT OF REASONS**

This resolution is intended to grant the powers necessary to carry out all formalities resulting from the holding of the Annual General Meeting.

***Nineteenth resolution: Powers for formalities***

The Annual General Meeting grants full powers to the bearer of an original, copy or extract of these minutes to accomplish all legal and administrative formalities, and to make all filings and announcements prescribed by law.

## 7.2. STATUTORY AUDITORS' REPORTS

### 7.2.1. SPECIAL REPORT BY THE STATUTORY AUDITORS ON THE REDUCTION IN SHARE CAPITAL BY CANCELLATION OF PURCHASED SHARES

(Ordinary and Extraordinary Annual General Meeting of April 17, 2018 - Thirteenth resolution)

To the Shareholders,

In our capacity as Statutory Auditors of your Company and in accordance with articles L.225-204 and L.225-209 of the French Commercial Code (*Code de commerce*), which apply in the event of a share capital reduction by cancellation of shares purchased by a company, we hereby report to you on our assessment of the reasons for and terms and conditions of the planned share capital reductions.

We performed the procedures that we deemed necessary in accordance with the professional standards applicable in France to such engagements. Those standards require that we ensure that the reasons for and terms and conditions of the planned share capital reductions, which are not considered to affect shareholder equality, comply with the applicable legal provisions.

#### Reduction of share capital by cancellation of shares purchased by the Company in accordance with article L.225-214 of the French Commercial Code

The proposed capital reduction relates to the cancellation of the Company's shares purchased under conditions set forth in article L.225-208 of the French Commercial Code.

The Board of Directors invites you to delegate, for a period of 26 months as of the date of this Annual General Meeting, the authority to cancel, on one or more occasions, a maximum number of 771,125 shares purchased by your Company pursuant to article L.225-208 of the French Commercial Code to cover share purchase options which currently correspond, or will correspond in the future, to options that are no longer exercisable.

We have no matters to report on the reasons for and the terms and conditions of this transaction, which will reduce the Company's share capital by a maximum amount of €154,225.

#### Reduction of share capital by cancellation of shares purchased by the Company in accordance with article L.225-209 of the French Commercial Code

The Board of Directors invites you to delegate, for a period of 26 months as of the date of this Annual General Meeting, the authority to cancel, on one or more occasions, with a maximum limit of 10% of the share capital as of the date of the cancellation, and within a given period of 24 months, shares purchased pursuant to an authorization for the Company to purchase its own shares in accordance with article L.225-209 of the French Commercial Code. The authorization to purchase shares is submitted for the approval of the Annual General Meeting under the twelfth resolution and would be granted for a period of 18 months.

We have no matters to report on the reasons for and the terms and conditions of the proposed capital reduction.

Neuilly-sur-Seine, February 20, 2018

The Statutory Auditors

PricewaterhouseCoopers Audit  
Gérard Morin

Deloitte & Associés  
Frédéric Moulin

## 7.2.2. SPECIAL REPORT BY THE STATUTORY AUDITORS ON THE AUTHORISATION OF FREE GRANTS OF EXISTING SHARES AND/OR SHARES TO BE ISSUED TO EMPLOYEES AND EXECUTIVE OFFICERS

**(Ordinary and Extraordinary Annual General Meeting of April 17, 2018 - Fifteenth resolution)**

To the Shareholders,

In our capacity as the Statutory Auditors of your Company and in accordance with article L.225-197-1 of the French Commercial Code (*Code de commerce*), we hereby report to you on the proposed authorization to grant existing and/or newly issued shares to employees and corporate officers of L'Oréal and French or non-French entities related to that company, within the meaning of article L.225-197-2 of the French Commercial Code, or to certain categories of said employees and corporate officers, a matter submitted for your approval.

On the basis of its report, the Board of Directors invites you to authorize it, for a period of 26 months as of June 21, 2018, to grant existing and/or newly released shares on one or more occasions, within the limit of 0.6% of the share capital as at the date of the Board of Directors' decision, it being specified that the aggregate amount of any capital increases that may be carried out under this resolution will be counted against the maximum limit for capital increases provided for in paragraph 2 of the eleventh resolution approved at the Annual General Meeting held on April 20, 2017.

It is the role of the Board of Directors to prepare a report on the proposed transaction. It is our responsibility to provide you with our observations, if any, in respect of the information provided to you on the proposed transaction.

We performed the procedures that we deemed necessary in accordance with the professional standards applicable in France to such engagements. These procedures consisted in verifying in particular that the proposed terms and conditions of the transaction described in the Board of Directors' report comply with the applicable legal provisions.

We have no matters to report on the information provided in the Board of Directors' report, with respect to the proposed authorization to grant shares.

Neuilly-sur-Seine, February 20, 2018

The Statutory Auditors

PricewaterhouseCoopers  
Audit Gérard Morin

Deloitte & Associés  
Frédéric Moulin

### 7.2.3. STATUTORY AUDITORS' REPORT ON THE ISSUE OF SHARES AND SECURITIES GIVING ACCESS TO THE COMPANY'S SHARE CAPITAL RESERVED FOR MEMBERS OF AN EMPLOYEE SAVINGS SCHEME

(Ordinary and Extraordinary Annual General Meeting of April 17, 2018 – Sixteenth resolution)

To the Shareholders,

In our capacity as the Statutory Auditors of your Company and in accordance with articles L.228-92 and L.225-135 *et seq.* of the French Commercial Code (*Code de commerce*), we hereby report to you on the proposed delegation of authority to the Board of Directors to issue shares or securities giving access to the Company's share capital, with cancellation of preferential subscription rights, reserved for employees, corporate officers and eligible former employees of your Company and of French and foreign entities related to that company within the meaning of article L.225-180 of the French Commercial Code and of article L.3344-1 of the French Labor Code (*Code du travail*), who are members of a Company employee share savings programme, a matter submitted for your approval.

This transaction is submitted for your approval in accordance with the provisions of article L.225-129-6 of the French Commercial Code and articles L.3332-18 *et seq.* of the French Labor Code.

The total number of shares that may be issued, on one or more occasions, under this delegation, may not exceed 1% of the Company's share capital as at the date of this Annual General Meeting, it being specified that the aggregate amount of the capital increases that may be carried out under this resolution and the seventeenth resolution may not exceed the maximum amount of 1% of the share capital as at the date of this Annual General Meeting, and that the amount of any capital increases that may be carried out, either immediately or in the future, under this resolution will be counted against the maximum limit for capital increases provided for in paragraph 2 of the eleventh resolution approved at the Annual General Meeting held on April 20, 2017.

On the basis of its report, the Board of Directors invites you to delegate for a period of twenty-six months as of the date of this Annual General Meeting, the authority to decide to undertake one or more share capital increases and to cancel your preferential subscription rights to the securities to be issued. The Board of Directors would be responsible for setting the final terms and conditions of any such issue.

It is the role of the Board of Directors to prepare a report in accordance with Articles R.225-113 *et seq.* of the French Commercial Code. It is our responsibility to express an opinion on the fairness of the information taken from the financial statements, on the proposed cancellation of preferential subscription rights and on certain other information relating to this issue, presented in this report.

We performed the procedures that we deemed necessary in accordance with the professional standards applicable in France to such engagements. These procedures consisted in verifying the information disclosed in the Board of Directors' report pertaining to the transaction and the terms and conditions for setting the issue price of the securities to be issued.

Subject to a subsequent review of the terms and conditions of each proposed issue, we have no matters to report as regards the methods used to set the issue price of the shares to be issued as set out in the Board of Directors' report.

Since the final terms and conditions of the issue(s) have not been set, we do not express an opinion in this respect or, consequently, on the proposed cancellation of shareholders' preferential subscription rights.

In accordance with article R.225-116 of the French Commercial Code, we will prepare an additional report if and when the Board of Directors uses this delegation of authority to issue shares or securities giving access to other securities, or issue securities giving access to securities to be issued.

Neuilly-sur-Seine, February 20, 2018

The Statutory Auditors

PricewaterhouseCoopers Audit  
G rard Morin

Deloitte & Associ s  
Fr d ric Moulin

7

#### 7.2.4. STATUTORY AUDITORS' REPORT ON THE ISSUE OF SHARES AND SECURITIES GIVING ACCESS TO THE COMPANY'S SHARE CAPITAL RESERVED FOR THE BENEFIT OF CATEGORIES OF BENEFICIARIES CONSISTING OF EMPLOYEES OF FOREIGN SUBSIDIARIES WITHIN THE SCOPE OF AN EMPLOYEE SHARE OWNERSHIP PROGRAMME

**(Ordinary and Extraordinary Annual General Meeting of April 17, 2018 – Seventeenth resolution)**

To the Shareholders,

In our capacity as the Statutory Auditors of your Company and in accordance with articles L.228-92 and L.225-135 *et seq.* of the French Commercial Code (*Code de commerce*), we hereby report to you on the proposed delegation of authority to the Board of Directors to issue shares and securities giving access to the Company's share capital, with cancellation of preferential subscription rights, reserved for one or more categories of beneficiaries meeting the following characteristics: (i) employees and corporate officers of entities related to the Company within the meaning of article L.225-180 of the French Commercial Code and article L.3341-1 of the French Labor Code (*Code du travail*), which have their registered office outside France and/or (ii) UCITS or other entities governed by French or foreign law, whether or not they have legal personality, established for the purposes of employee share ownership programmes invested in shares of the Company whose unitholders or shareholders will consist of the persons defined in (i) or enabling the persons defined in (i) to benefit, either directly or indirectly, from an employee share ownership or Company employee share savings programme, a matter submitted for your approval.

The total number of shares that may be issued, on one or more occasions, under this delegation, may not exceed 1% of the Company's share capital as at the date of this Annual General Meeting, it being specified that the aggregate amount of the capital increases that may be carried out under this resolution and the sixteenth resolution may not exceed the maximum amount of 1% of the share capital as at the date of this Annual General Meeting, and that the amount of any capital increases that may be carried out, either immediately or in the future, under this resolution, will be counted against the maximum limit for capital increases provided for in paragraph 2 of the eleventh resolution approved at the Annual General Meeting held on April 20, 2017.

On the basis of its report, the Board of Directors invites you to delegate for a period of eighteen months as of the date of this Annual General Meeting, the authority to decide to undertake one or more share capital increases and to cancel your preferential subscription rights to the securities to be issued. The Board of Directors would be responsible for setting the final terms and conditions of any such issue.

It is the role of the Board of Directors to prepare a report in accordance with articles R.225-113 *et seq.* of the French Commercial Code. It is our responsibility to express an opinion on the fairness of the information taken from the financial statements, on the proposed cancellation of preferential subscription rights and on certain other information relating to the issue, presented in this report.

We performed the procedures that we deemed necessary in accordance with the professional standards applicable in France to such engagements. These procedures consisted in verifying the information disclosed in the Board of Directors' report relating to the transaction and the terms and conditions for setting the issue price of the securities to be issued.

Subject to a subsequent review of the terms and conditions of each proposed issue, we have no matters to report as regards the methods used to set the issue price of the securities to be issued as set out in the Board of Directors' report.

Since the final terms and conditions of the issue(s) have not been set, we do not express an opinion in this respect or, consequently, on the proposed cancellation of shareholders' preferential subscription rights.

In accordance with article R.225-116 of the French Commercial Code, we will prepare an additional report if and when the Board of Directors uses this delegation of authority to issue shares or securities giving access to other securities, or issue securities giving access to securities to be issued.

Neuilly-sur-Seine, February 20, 2018

The Statutory Auditors

PricewaterhouseCoopers Audit  
G rard Morin

Deloitte & Associ s  
Fr d ric Moulin



# 8

## Appendix



<b>8.1. Statutory Auditors</b>	<b>368</b>	<b>8.5. Registration Document table of concordance</b>	<b>370</b>
8.1.1. Statutory Auditors	368	<b>8.6. Annual Financial Report table of concordance</b>	<b>372</b>
8.1.2. Fees accruing to auditors and members of their networks payable by the Group	368	<b>8.7. Table of concordance with the AMF tables on the remuneration of executive officers and Directors</b>	<b>372</b>
<b>8.2. Historical financial information included by reference</b>	<b>368</b>	<b>8.8. Table of concordance of the Management Report</b>	<b>373</b>
<b>8.3. Person responsible for the Registration Document and the Annual Financial Report</b>	<b>369</b>		
<b>8.4. Declaration by the person responsible for the Registration Document and the Annual Financial Report</b>	<b>369</b>		

## 8.1. STATUTORY AUDITORS

### 8.1.1. STATUTORY AUDITORS

2010, 2011, 2012, 2013, 2014, 2015, 2016 and 2017	Current appointments			
	Date of first appointment	Date of appointment	Term of office	Expiry date
<b>Auditors</b>				
<b>PricewaterhouseCoopers Audit</b>				
Auditor, member of the Compagnie Régionale de Versailles, represented by Gérard Morin 63 rue de Villiers 92200 Neuilly-sur-Seine (France)				
	29 April 2004	20 April 2016	6 years	
<b>Deloitte &amp; Associés</b>				
Auditor, member of the Compagnie Régionale de Versailles, represented by Frédéric Moulin 185 avenue Charles de Gaulle 92200 Neuilly-sur-Seine (France)				
	29 April 2004	20 April 2016	6 years	AGM reviewing the financial statements for 2021 to be held in 2022
<b>Substitute auditors</b>				
<b>Mr. Georghiou Jean-Christophe</b>				
63 rue de Villiers 92200 Neuilly-sur-Seine (France)				
	20 April 2016	20 April 2016	6 years	
<b>Société BEAS</b>				
195, avenue Charles de Gaulle 92200 Neuilly-sur-Seine (France)				
	27 April 2010	20 April 2016	6 years	

### 8.1.2. FEES ACCRUING TO AUDITORS AND MEMBERS OF THEIR NETWORKS PAYABLE BY THE GROUP

See note 14 of the *Consolidated financial statements* in chapter 4 of this document.

## 8.2. HISTORICAL FINANCIAL INFORMATION INCLUDED BY REFERENCE

In accordance with Article 28 of European regulation EC No. 809/2004 of 29 April 2004, this 2017 Registration Document contains the following information by reference:

- the consolidated financial statements for the year ended 31 December 2016, prepared in accordance with IFRS and the related Statutory Auditors' Report presented on pages 209 to 268 of the 2016 Registration Document filed with the *Autorité des Marchés Financiers* on 14 March 2017 under the number D. 17-0168, and also information extracted from the 2016 Management Report presented on pages 23 to 32 of the 2016 Registration Document;
- the consolidated financial statements for the year ended 31 December 2015, prepared in accordance with IFRS and the related Statutory Auditors' Report presented on pages 193 to 253 of the 2015 Registration Document, filed with the *Autorité des Marchés Financiers* on 15 March 2016 under number D.16-0137, and also information extracted from the 2015 Management Report presented on pages 16 to 31 of the 2015 Registration Document.

### **8.3. PERSON RESPONSIBLE FOR THE REGISTRATION DOCUMENT AND THE ANNUAL FINANCIAL REPORT**

Mr. Christian Mulliez, Executive Vice-President Administration and Finance, on the authority of L'Oréal's Chairman and Chief Executive Officer, Mr. Jean-Paul Agon.

### **8.4. DECLARATION BY THE PERSON RESPONSIBLE FOR THE REGISTRATION DOCUMENT AND THE ANNUAL FINANCIAL REPORT**

"I declare that, having taken all reasonable care to ensure that such is the case, the information contained in this Registration Document is, to the best of my knowledge, in accordance with the facts and that there is no omission likely to affect the fairness of the presentation.

I certify that, to my knowledge, the financial statements have been prepared in accordance with the applicable set of accounting standards and give a true and fair view of the assets and liabilities, financial position and profit or loss of the Company and all the other companies included in the scope of consolidation, and that the elements of the Management Report included in this document, as detailed in the table of

concordance in section 8.8., present a fair review of the development and performance of the business and the position of the Company and all the other companies included in the scope of consolidation, together with a description of the principal risks and uncertainties that they face.

I have obtained a letter of completion of audit from the Statutory Auditors in which they state that they have verified the information relating to the financial position and the financial statements set out in this present document and have read the Registration Document in its entirety."

Clichy, 9 March 2018

On the authority of the Chairman and Chief Executive Officer,

Christian Mulliez,

Executive Vice-President, Chief Financial Officer

## 8.5. REGISTRATION DOCUMENT TABLE OF CONCORDANCE

In order to facilitate the reading of this Registration Document, the following table provides the page references of the main information required by Annex 1 of European regulation No. 809/2004/EC.

Schedule based on annex 1, Commission regulation No. 809/2004/EC	Pages
<b>1. Persons responsible</b>	
1.1. Name and function of the persons responsible	369
1.2. Declaration of the persons responsible	369
<b>2. Statutory Auditors</b>	<b>368</b>
<b>3. Selected financial information</b>	<b>9-11, 25-33</b>
3.1. Historical financial information	25-33, 310
3.2. Interim financial information	N/A
<b>4. Risk factors</b>	<b>119-132</b>
<b>5. Information about the issuer</b>	
5.1. History and development of the issuer	11-13
5.1.1. Corporate name	318
5.1.2. Place and number of incorporation	318
5.1.3. Creation date and duration	318
5.1.4. Headquarters, legal form, applicable law, country of origin, address and phone number of headquarters	318-319, 378
5.1.5. Important events with respect to business development	N/A
5.2. Investments	24, 34-35, 273
5.2.1. Main investments completed	24, 34
5.2.2. Main investments being completed	273
5.2.3. Main investments contemplated	34-35, 273
<b>6. Business overview</b>	
6.1. Principal activities	6, 11-15
6.2. Principal markets	13-15
6.3. Exceptional factors	N/A
6.4. Extent to which the issuer is dependent on patents or licenses, industrial, commercial or financial contracts or new manufacturing processes	16, 126
6.5. Basis for any statements made by the issuer regarding its competitive position	13-15
<b>7. Organisational structure</b>	<b>41-42</b>
7.1. Brief description of the Group	6-13
7.2. List of the significant subsidiaries	276-280, 306-308
<b>8. Property, plants and equipment</b>	<b>16, 20</b>
8.1. Existing or planned material tangible fixed assets	236-237
8.2. Any environmental issues that may affect the issuer's utilisation of the tangible fixed assets	128, 156-163
<b>9. Operating and financial review</b>	
9.1. Financial condition	9-11, 25-33
9.2. Operating results	25-33, 223
<b>10. Capital resources</b>	<b>225-228</b>
10.1. Information concerning the issuer's capital resources	225-228, 287-289
10.2. Sources and amounts of cash flows	32, 228, 289
10.3. Information on the borrowing requirements and funding structure	10, 130-131
10.4. Restrictions on the use of capital resources that have materially affected or could materially affect the issuer's operations	130, 258
10.5. Anticipated sources of funds needed to fulfil investments on which the management bodies have already made firm commitments and planned material tangible fixed assets	32, 130, 258-260
<b>11. Research and development, patents and licences</b>	<b>15-18</b>
<b>12. Trend information</b>	
12.1. Main trend since year end	34
12.2. Event likely to impact perspectives	N/A
<b>13. Profit forecasts or estimates</b>	<b>N/A</b>
<b>14. Board of Directors and General Management</b>	
14.1. Information about the Board of Directors and the General Management	6-8, 47-60
14.2. Conflicts of interests	64-65

Schedule based on annex 1, Commission regulation No. 809/2004/EC	Pages
<b>15. Remuneration and benefits</b>	
15.1. Amount of remuneration paid and benefits in kind	84-103
15.2. Amount set aside or accrued to provide pension, retirement or similar benefits	241-244
<b>16. Board practices</b>	
16.1. Date of expiration of the current term of office	7, 60
16.2. Service contracts with the issuer	65
16.3. Information about the committees	68-72
16.4. Statement of compliance with the regime of corporate governance	46
<b>17. Employees</b>	
17.1. Number of employees	9, 139-140
17.2. Shareholdings and stock options of the Board members	49, 102-103, 351-352
17.3. Arrangement involving the employees in the issuer's capital	357-361
<b>18. Major shareholders</b>	
18.1. Shareholders having more than a 5% interest in the issuer's capital or of voting rights	323
18.2. Existence of different voting rights	320
18.3. Control of the issuer	324-326
18.4. Arrangement, known to the issuer, the operation of which may at a subsequent date result in a change in control of the issuer	324-326
<b>19. Related party transactions</b>	<b>133-134, 274</b>
<b>20. Financial information concerning the issuer's assets and liabilities, financial position and profits and losses</b>	
20.1. Historical financial information	25-33, 310, 368
20.2. <i>Pro forma</i> financial information	N/A
20.3. Financial statements	223-283
20.4. Auditing of historical annual financial information	284, 312-315
20.5. Date of latest financial information	N/A
20.6. Interim and other financial information	N/A
20.7. Dividend policy	334
20.8. Legal and arbitration proceedings	127, 272-273
20.9. Significant change in the issuer's financial or trading position	N/A
<b>21. Additional information</b>	
21.1. Share capital	
21.1.1. Subscribed and authorised share capital	320, 265-266
21.1.2. Shares not representing capital	323
21.1.3. Treasury shares	323
21.1.4. Convertible, tradable securities or securities bearing rights of subscription	N/A
21.1.5. Acquisition rights and/or bonds attached to subscribed not liberated capital or to any capital increase	N/A
21.1.6. Options on share capital	N/A
21.1.7. Historical information on share capital	322-323
21.2. Memorandum and Articles of Association	318-320
21.2.1. Business activity	318
21.2.2. Governance and management organs	40, 46-58
21.2.3. Rights, privileges and restrictions applying to shares	N/A
21.2.4. Changes in shareholders rights	N/A
21.2.5. Convening of and admission to Annual General Meetings	320
21.2.6. Provisions likely to differ, delay or prevent a change in control	N/A
21.2.7. Statutory declarations of threshold crossing	320, 324
21.2.8. Conditions for change in share capital, when more restrictive than legal provisions	N/A
<b>22. Material contracts</b>	<b>N/A</b>
<b>23. Third party information, statement by experts and declarations of any interest</b>	<b>10, 13, 15</b>
<b>24. Documents on display</b>	<b>319</b>
<b>25. Information on holdings</b>	<b>311, 276-280</b>

## 8.6. ANNUAL FINANCIAL REPORT TABLE OF CONCORDANCE

In order to facilitate the reading of Annual Financial Report (*Rapport Financier Annuel*), the following table provides the page references of the main information required by Article L. 451-1-2 of the French Monetary and Financial Code and by Article 222-3 of the General Regulation of the *Autorité des Marchés Financiers*.

Schedule based on Article L. 451-1-2 of the French Monetary and Financial Code and on Article 222-3 of the General Regulation of the AMF	Pages
1. 2017 Annual Statements	285-311
2. 2017 Consolidated Financial Statements	221-280
3. 2017 Management Report of the Board of Directors	373-374
4. Declaration by the person responsible for the 2017 Annual Financial Report	369
5. Statutory Auditors' Report on the 2017 financial statements	312-316
6. Statutory Auditors' Report on the 2017 consolidated financial statements	281-284
7. Fees of Auditors	275

## 8.7. TABLE OF CONCORDANCE WITH THE AMF TABLES ON THE REMUNERATION OF EXECUTIVE OFFICERS AND DIRECTORS

The following thematic table has been prepared in order to make it possible to look at the information provided on remuneration from the perspective of the presentation in the form of 10 tables recommended by the AMF in its guide for preparing Registration Documents published on 10 December 2009 and amended on 17 December 2013 and 5 December 2014 (see also AFEP-MEDEF Code). It should be noted that some information is not presented in table form in light of its content (see the tables marked with an asterisk\* below).

Tables with regard to Remuneration provided for in the AMF's recommendations	Pages
Table No. 1. Summary of the remuneration, stock options and performance shares granted to each executive officer	102 2 <sup>nd</sup> table
Table No. 2. Summary of the remuneration of each executive officer	102 1 <sup>st</sup> table
Table No. 3. Attendance fees and other remuneration received by non-executive Directors	85
Table No. 4. Stock options for the subscription or purchase of shares granted during the financial year to each executive officer by the issuer and by any Group company	N/A
Table No. 5. Stock options for the subscription or purchase of shares exercised during the financial year by each executive officer	102 4 <sup>th</sup> table
Table No. 6. Performance shares granted to each executive officer	103 1 <sup>st</sup> table
Table No. 7. Performance shares that have vested for each executive officer*	103 2 <sup>nd</sup> table
Table No. 8. History of grants of stock options for the subscription or purchase of shares	102 3 <sup>rd</sup> table
Table No. 9. Stock options for the subscription or purchase of shares granted to the ten employees who are not executive officers receiving the largest number of options and options exercised by them	section 6.4.2.2.
Table No. 10. Historical information on free grants of shares	103

## 8.8. TABLE OF CONCORDANCE OF THE MANAGEMENT REPORT

In order to review the elements of the Management Report, the following thematic table makes it possible to identify the main information provided for by Articles L. 225-100 *et seq.*, L. 232-1 and R. 225-102 *et seq.* of the French Commercial Code and the specific section of the Annual Report related to the corporate governance pursuant to articles L. 225-37, al 6 *et seq.* of the French Commercial Code.

Headings of the 2017 Management Report	Pages
<b>The Group's situation and business activities in 2017 Comments on the financial year</b>	
Analysis of changes in the business, results and financial situation of the Company and the Group (including in particular the dividends distributed in respect of the three previous financial years and the amount of revenues eligible for the tax deduction on dividends)	25-33, 343-344
Significant events that have occurred since the beginning of 2017 and prospects	33-34
Research and development	15-18
Operations	18-24
<b>Parent company financial statements</b>	
Net sales	286, 294, 310
L'Oréal parent company balance sheet and income statement	286-287
Expenses and charges falling under Article 223 <i>quater</i> of the French Tax Code	309
Trade accounts payable and customers debt	309
Five-year financial summary	310
Subsidiaries and holdings	306-308, 311
<b>Risk factors</b>	
Business risks	121-125
Legal risks (challenges and constraints linked to the legislation, significant disputes...)	126-127
Industrial and environmental risks	128
Counterparty risk	129
Customer risks	129
Liquidity risk	129
Financial and market risks	130-131
Insurance	131-132
<b>Internal monitoring and risk management</b>	
Key features of the internal monitoring and risk management procedures related to the production and processing of financial and accounting information	
<b>Vigilance Plan</b>	<b>112</b>
<b>Corporate governance</b>	
Choice of organisation of the General Management	47-48
Limitations placed by the Board of Directors of the powers of the CEO	75
Board of Directors composition, conditions governing the preparation and organisation of the Board's work	49-60, 66-68
List of offices and directorships held by each of the corporate officers in any company during the financial year	49-60
Remuneration of the executive officers	84-103
Stock options granted to and exercised by the executive officers	102-103, 329-330
Commitments made with regard to the executive officers	92-95
Summary of trading by Directors and executive officers and their closely related parties in L'Oréal shares in 2017	103
Summary table of the outstanding delegations given to the Board of Directors by the Annual General meeting relating to capital increase	321
Description and application of the principle of balanced gender representation on the Board in 2017	61-63, 66
Provisions of the AFEP-MEDEF Code not applied and reasons for that choice	104
Special rules for shareholder participation in the Annual General meeting	320, 342
Elements with the potential to have an impact in the event of a public offer for the purchase or exchange of L'Oréal's securities	323-326
<b>Information on social, environmental and societal commitments</b>	
Information relating to employee issues and social consequences of L'Oréal's business activities	138-156
Environmental information	156-158
Information relating to societal commitments in favour of Sustainable Development	159-181
<b>Information concerning the share capital</b>	
Statutory requirements governing changes in the share capital and shareholders' rights	320
Structure and changes in the share capital ( <i>including the table summarising the authorisations in force granted by the Annual General Meeting with regard to share capital increases</i> )	321-323
Changes in allocation of the share capital and voting rights over the last three years	323

Headings of the 2017 Management Report	Pages
Employee share ownership	323-324
Disclosures to the Company of legal thresholds crossed	324
Shareholders' agreements relating to shares in the Company's share capital	324-326
Buyback by the Company of its own shares	326-327
Presentation of the L'Oréal S.A. parent company stock option plans and plans for the conditional grant of shares to employees	328-333







# Consult all the 2017 publications



## Annual Report

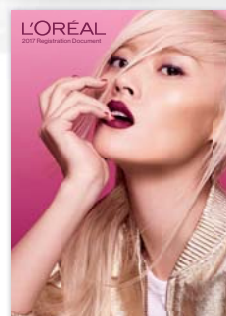
Overview of L'Oréal in 2017, its Divisions, brands and countries, driven by its mission - Beauty for All - and strategy - Universalisation.

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## Progress Report

2017 Progress Report of the “Sharing Beauty With All” sustainability programme.



## Registration Document

This document includes the integrated Report, in particular the 2017 financial statements, the Annual Financial Report, the Management Report of the Board of Directors including a section on Social and Environmental Responsibility.



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# L'ORÉAL

Incorporated in France as a "Société Anonyme"  
with registered capital of €112,103,817.60  
632 012 100 R.C.S. Paris

Headquarters:  
41, rue Martre  
92117 Clichy Cedex – France  
Tel.: +33 1 47 56 70 00  
Fax: +33 1 47 56 86 42

Registered office:  
14, rue Royale  
75008 Paris – France

**[www.loreal.com](http://www.loreal.com)**  
**[www.loreal-finance.com](http://www.loreal-finance.com)**