L'ORÉAL

2018 Registration Document

Annual Financial Report
Integrated Report

Contents

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

2018

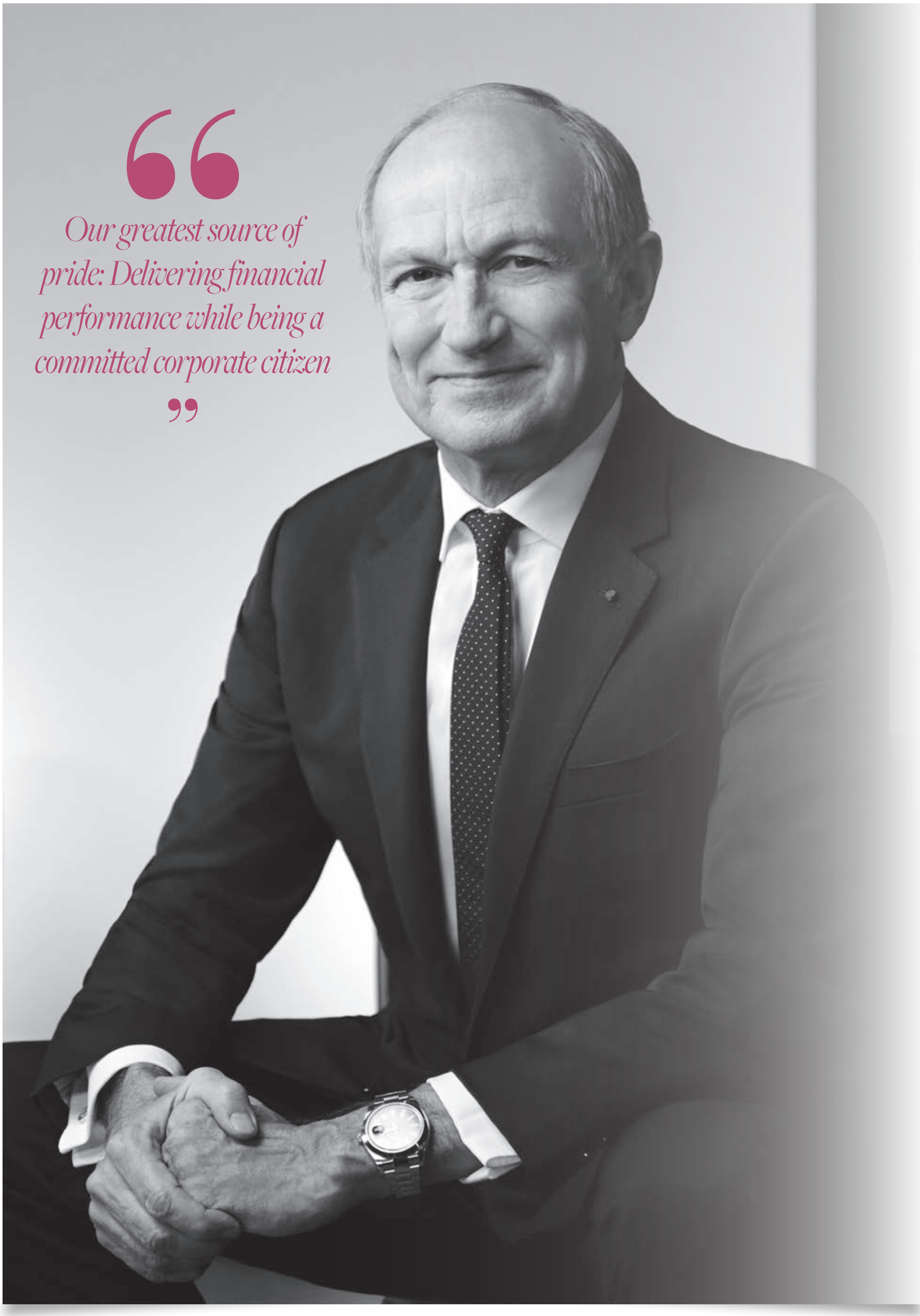
Annual Financial Report – Integrated Report
Corporate and Social Responsibility

AUTORITÉ DES MARCHÉS FINANCIERS
AMF

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 14th, 2019.

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.

By **Jean-Paul Agon,** Chairman and Chief Executive Officer



By **Jean-Paul Agon,** Chairman and Chief Executive Officer

The cosmetics market continued to grow steadily and in fact accelerated in 2018. Do you think this is a structural trend?

Clearly, the market has been particularly buoyant, making 2018 the best year in 20 years[1]. There are strong underlying trends driving this acceleration over the past few years.

The first, and probably most important factor is the insatiable desire for beauty across all countries and cultures. Second, premiumization: consumers are ready to pay more and trade up for products with new benefits, better performance and superior quality. Third, digitalization, as beauty and digital are a perfect match. It has never been easier to discover beauty, share it and buy products online, even in the most remote corners of the world. Digital is and will remain a terrific booster for beauty. Finally, our market is also fuelled by increased penetration of beauty all over the world. First, because of e-commerce, which is extending our reach far beyond the limits of traditional distribution, especially in emerging economies. Also because of many white spaces in terms of categories and countries. And finally because there are always new consumer targets.

Once again, L'Oréal outperformed the market. What were the drivers of this growth?

Our growth accelerated to produce our best year in more than 10 years. And we achieved a new record operating margin of 18.3%.

We significantly outperformed the market, generating strong positions in the most promising and strategic areas for the future.

We strongly reinforced our position in Asia Pacific, where we enjoyed our highest growth. Asia Pacific overtook North America to become our second largest zone this year. By sector, we outpaced the market in both Luxury, the most dynamic of the market, and Dermocosmetics, ideally placed to meet rapidly growing health and well-being expectations all over the world. We strengthened our leadership in two thriving channels: e-commerce and Travel Retail. Finally, we outperformed in skincare, the category where the combination of trusted brands, power franchises and the innovation offered by our R&I, is a winning equation.

You have said previously that digital is not the cherry on the cake, but the cake itself! How important it is for your business?

In fact, Digital is doing much more than generating additional business. It is radically transforming our company.

Digital is boosting our brand power. In this world of algorithms, bigger is truly better. In 2018, our biggest brands have become even stronger.

Digital is also strengthening our power to connect with consumers. The acquisition of ModiFace, for example, has been instrumental in enriching the services we offer.

Digital is now totally embedded in our teams: in every brand, in every Division, every function and every country, infusing the entire company with digital excellence.

Digital has been, and will continue to be, a powerful accelerator for growth.

Beyond Digital, new technologies are opening up new horizons for Beauty. And we are absolutely determined to be the pioneers, the champions and the leaders of this new Beauty Tech world.

You often say that your objective is to make L'Oréal not only an economic leader, but also a responsible and exemplary leader. What progress did you make?

Delivering financial performance while being a committed corporate citizen is probably our greatest source of pride. This is what motivates us to always go the extra mile. Once again, in 2018, we made major advances that have been recognised by renowned external institutions. L'Oréal is the only company in the world to obtain 3 "A" ratings from the CDP[2] for the third year running. It recognizes our actions in fighting climate change, ensuring water security and combatting deforestation. In terms of diversity, we were ranked as the top gender-balanced company in Europe by Equileap. And in terms of ethics, we are very proud that for the first time, in November 2018, we were ranked as the leading company worldwide, across all industries, by Covalence EthicalQuote.

Your 2018 results represent a historic achievement and you have been the leader of your market for years. What are the levers that will enable you to grow in the years to come?

Probably the same ones that have kept us growing for the last 110 years!

First, our absolute faith in the superior quality of our products, with our strategic focus on Research & Development. Because innovation is the name of the game in our business.

Second, our belief that top line growth is clearly the best route to create value for our shareholders. Our business model focuses on top-line growth and operational discipline. This model is robust, and our results have demonstrated this once again.

Third, our conviction that victories are won on the ground. Thanks to our unique culture, organisation and, of course, the incredible qualities of our 86,000 people who understand our consumers' desires and are fully empowered to deploy resources accordingly, acting like real entrepreneurs. Our strategically concentrated but operationally decentralized model, combined with the empowerment of teams in the countries, is what brings agility and excellence on the field.

Fourth, our ability to catch and seize growth wherever it emerges thanks to our total coverage of the market in terms of channels, categories, countries, prices and consumers. We maximize all opportunities wherever they are while minimizing exposure in areas which are slowing down.

And finally, our lead in sustainability and ethics. Our deep conviction is that economic and environmental, social and societal performance go hand in hand and mutually reinforce each other.

These 5 founding principles make L'Oréal a different kind of company, unique in this industry, perfectly adapted and in tune with the evolution of the world.

(1) Source: L'Oréal estimate of the global cosmetics market based on manufacturers' net prices. Excluding soaps, oral hygiene, razors and blades. Excluding currency effects..

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

1

Presentation of the Group Integrated report

The third edition of L'Oréal's Integrated report, this chapter is part of an inclusive approach and aims to present the well-balanced business model of L'Oréal Group, its strategic orientations, its 2018 results and its relationships with its stakeholders, particularly in the context of the *Sharing Beauty With All* program[(1)].

(1) See 1.3.2.

** This information forms an intergral 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

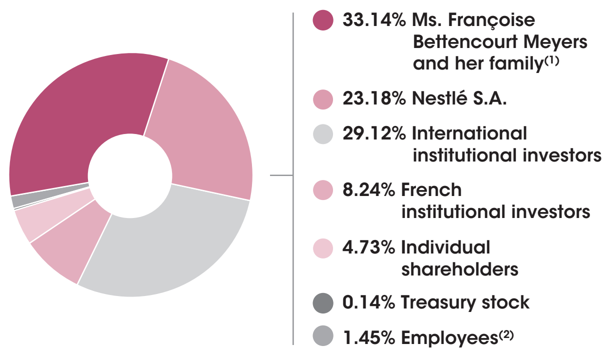
For 110 years, L'Oréal has devoted itself to one business: beauty, in which it is the world's leading company. It is the essence of the Group's action, because, far from being futile and superficial, cosmetics are full of meaning. They give everyone self-confidence, enable them to blossom and open up to others and contribute to individual and collective well-being.

Boasting an international portfolio of 36 diverse and complementary brands, the Group responds to all beauty expectations worldwide. Present in all distribution channels, L'Oréal has 86,030 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 2018



(1) Consisting of Ms. Françoise Bettencourt Meyers, Mr. Jean-Pierre Meyers, Mr. Jean-Victor Meyers and Mr. Nicolas Meyers, along with Téthys SAS.

(2) Concerns the employees and former employees of L'Oréal. Pursuant to law no. 2015-990 of 6 August 2015, since 2016, the percentage also includes the bonus shares granted in accordance with Article L. 225-197-1 of the French Commercial Code. Of which 0.84% as part of the L'Oréal Employee Savings Plan and employee investment fund 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 2018, the Board of Directors comprises 15 members:

- the Chairman and Chief Executive Officer, Mr. Jean-Paul Agon;
- three Directors (one of whom is the Board's Vice-Chairman) from the Bettencourt Meyers family, which owns 33.14% of the share capital - Ms. Françoise Bettencourt Meyers, Mr. Jean-Pierre Meyers and Mr. Jean-Victor Meyers;
- two Directors (one of whom is the Board's Vice-Chairman) from Nestlé, which owns 23.18% of the share capital - Mr. Paul Bulcke and Ms. Béatrice Guillaume-Grabisch;
- seven independent Directors: Ms. Sophie Bellon, Ms. Belén Garijo, Ms. Virginie Morgon, Ms. Eileen Naughton, Mr. Axel Dumas, Mr. Patrice Caine and Mr. Bernard Kasriel. 54% of the Directors are independent (7 out of 13 excluding the Directors representing the employees);
- two Directors representing the employees, Ms. Ana Sofia Amaral and Mr. Georges Liarokapis.

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 (see paragraph 2.2.1.2 "Diversity Policy applied to the Board") enables it to understand rapidly and in detail the development issues facing L'Oréal, the leader in a highly competitive globalised cosmetics market, in a fast-changing world.

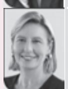
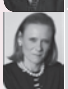
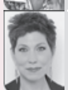
L'Oréal is attentive to compliance with the principle of balanced gender representation on the Board: 46% of its members are women (excluding Directors representing employees), and 3 Board Committees out of 4 are chaired by women: the Audit Committee, the Human Resources and Remuneration Committee and 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. 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. 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 2018

			Age	M/W	Nationality	Number of offices in listed companies*	Independence	Date of first appointment	Expiry date of term of office	Seniority on the Board	BOARD COMMITTEES: Strategy and Sustainable Development	BOARD COMMITTEES: Audit	BOARD COMMITTEES: HR and Remuneration	BOARD COMMITTEES: Appointments and Governance
Chairman and CEO	Mr. Jean-Paul AGON		62	M	French	1		25/04/2006	2022	12	C			
Françoise BETTENCOURT MEYERS and her family	Ms. Françoise BETTENCOURT MEYERS		65	W	French			12/06/1997	2021	21	●			
	Mr. Jean-Pierre MEYERS Vice-President		70	M	French			15/12/1987	2020	31	●		●	●
	Mr. Jean-Victor MEYERS		32	M	French			13/02/2012	2020	6		●		
Directors from Nestlé	Mr. Paul BULCKE** Vice-President		64	M	Belgian and Swiss	2		20/04/2017	2021	1	●		●	●
	Ms. Béatrice GUILLAUME-GRABISCH		54	W	French			20/04/2016	2020	2		●		
Independent Directors	Ms. Sophie BELLON		57	W	French	1	◆	22/04/2015	2019	3		●	C	C
	Mr. Patrice CAINE		49	M	French	1	◆	17/04/2018	2022	<1				●
	Mr. Axel DUMAS		48	M	French	1	◆	17/04/2018	2022	<1		●		
	Ms. Belén GARIJO		58	W	Spanish	1	◆	17/04/2014	2022	4			●	
	Mr. Bernard KASRIEL		72	M	French		◆	29/04/2004	2020	14	●			
	Ms. Virginie MORGON		49	W	French	1	◆	26/04/2013	2021	5		C		
	Ms. Eileen NAUGHTON		61	W	American		◆	20/04/2016	2020	2			●	
Directors representing employees	Ms. Ana Sofia AMARAL		53	W	Portuguese			15/07/2014	2022	4			●	
	Mr. Georges LIAROKAPIS		56	M	French and Greek			15/07/2014	2022	4		●		

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

**Number of offices (excluding L'Oréal) in listed companies, including foreign companies, in accordance with the provisions of point 18 of the AFEP-MEDEF Code (i.e. with the exception of offices held in subsidiaries and investments, alone or in concert, by an executive officer of companies whose main activity is to acquire and manage such interests).*

*** Paul Bulcke was a Director at L'Oréal from 2012 to June 2014 and has been again since 2017.*

57
Average age of the Directors at 31.12.2018

7
Independent Directors

46%
Female Directors (excluding Directors representing the employees)

Activities of the Board and its committees in 2018

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 2018, as it has done every year since 1996 (see Section 2.3.4 "Board of Directors Self-assessment").

BOARD OF DIRECTORS

7 meetings in 2018 and 3-day Strategic Seminar in Shanghai
92% attendance rate

Main work in 2018:

- **Corporate governance**: study of the draft resolutions on the renewal of tenures and appointments; organisation of the General Management and reappointment of Mr Jean-Paul Agon as Chairman and Chief Executive Officer; information on the expectations of investors and vote consulting companies; assessment of the Board's functioning;
- **Remuneration policy for executive officers and Human Resources**: validation of the remuneration policy and the amounts due or awarded to Mr Jean-Paul Agon; Employee shareholding plan; assessment of the diversity and cohesion policy;
- **Business activity and results**: systematic review of the business activity and results, sales and market share analysis; information on the cosmetics market; monitoring of new consumption trends (e-commerce, etc.); information on risk management and the cyber security programme;
- **Strategy:** development challenges (by zone and by business segment); monitoring of the results of the digital transformation; change in distribution networks and e-commerce; acquisitions and licences (projects and monitoring of business plans); Human Resources policy; Ethics;
- **Strategic Seminar in Shanghai in June 2018**

STRATEGY AND SUSTAINABLE DEVELOPMENT COMMITTEE

4 meetings
100% attendance rate

Main activities in 2018

- Analysis of sales, update on business activities, markets and 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 review of recent acquisitions
- Update on the progress of the Group's *Sharing Beauty With All* CSR programme

AUDIT COMMITTEE

4 meetings
100% attendance rate

Main activities in 2018

- Review of the accounts and financial situation
- Risk review and monitoring
- Review of Internal Control and Internal Audit
- Monitoring of the business plan for acquisitions
- Approval of non-audit services.
- Review of Statutory Auditors' Reports
- Review of the Vigilance Plan
- Assessment of the corruption prevention programme
- European GDPR (General Data Protection Regulation) regulation: assessment of compliance
- Cyber security: assessment of the measures deployed
- Fight against counterfeiting: assessment of the policies deployed

APPOINTMENTS AND GOVERNANCE COMMITTEE

5 meetings
93% attendance rate

Main activities in 2018

- Reflection on the composition of the Board and its committees
- Review of the succession plans
- Review of the independence of Directors
- Organisation and annual evaluation of the modus operandi of the Board
- General Management exercise modalities: recommendation to continue to combine the functions following the reappointment of Mr. Agon
- Topical issues with regard to Governance (AFEP-MEDEF Code updated in June 2018, Reports by the AMF and the *Haut Comité de Gouvernement d'Entreprise*, etc.)
- Diversity policy applied to the Board of Directors: objectives and 2018 results
- Review of the voting policies of the main investors and proxy advisors
- Amendment to the Internal Rules

HUMAN RESSOURCES AND REMUNERATION COMMITTEE

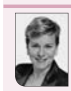
3 meetings
95% attendance rate

Main activities in 2018

- Assessment of the voting policies of the main investors and proxy advisors on compensation, with a view to the Annual General Meeting
- Assessment of the performance of the Chairman and Chief Executive Officer in 2017
- Recommendations concerning the 2018 remuneration policy
- Recommendations concerning the bonus structure and objectives for the Chairman & CEO for 2018
- Preparation of the Say On Pay resolutions (ex ante and ex post)
- Preparation of the resolution with regard to the pension plan provisions for the period of the renewed corporate office of Mr. Agon
- Long Term Incentive policy (Preparation of the draft resolution, 2018 Plan, proposed award of performance shares to the Chairman and Chief Executive Officer)
- Diversity: Policy developed internally and results obtained
- Distribution of attendance fees
- Employee shareholding plan: discussions, proposals and monitoring.

Composition of the 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 HIERONIMUS	Deputy Chief Executive Officer, in charge of Divisions
	Laurent ATTAL	Executive Vice-President Research and Innovation
	Vianney DERVILLE	Executive Vice-President Western Europe Zone
	Lucia DUMAS BEZIAN	Executive Vice-President Communication and Public Affairs
	Barbara LAVERNOS	Executive Vice-President Chief Technology and Operations Officer
	Jean-Claude LE GRAND	Executive Vice-President Human Relations
	Brigitte LIBERMAN	President Active Cosmetics
	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 Zones
	Stéphane RINDERKNECH	President L'Oréal China
	Lubomira ROCHET	Executive Vice-President Chief Digital Officer
	Nathalie ROOS	President Professional Products
	Frédéric ROZÉ	Executive Vice-President Americas Zone
	Jochen ZAUMSEIL	Executive Vice-President Asia Pacific Zone

Changes in the composition of the Executive Committee since 31 December 2018

Since 1 January 2019, Cyril Chapuy exercises the functions of President of L'Oréal Luxe and is a member of the Executive Committee.

On 9 February 2019, Christophe Babule became Executive Vice-President Chief Financial Officer, succeeding Christian Mulliez, and is thus a member of the Executive Committee.

1.2 BUSINESS MODEL - A DEVELOPMENT MODEL SERVING A CLEAR MISSION: BEAUTY FOR ALL

1.2.1 L'ORÉAL GROUP PROFILE

L'Oréal is the world leader in beauty – its sole business, its expertise and its passion for 110 years. The Group is split into Divisions that each has a specific vision of beauty, by consumption universe and distribution channels.

OUR MISSION

An exciting mission:

beauty for all.

Cosmetics are rich in meaning. They allow everyone to nurture their self-confidence, to express their personality and to open up to others.

The mission that L'Oréal has set itself, and which drives its teams, is to offer women and men all over the world the very best in cosmetics, in terms of quality, efficacy and safety, to satisfy all their needs and desires for beauty, in their infinite diversity.

OUR STRATEGY

A unique development strategy:

Universalisation

Universalisation means globalisation, in a finely tuned understanding of differences and respect for them. Our goal is to offer beauty that meets the specific aspirations of consumers in all parts of the world. In contrast to standardisation, it draws on an ability to listen to consumers and a profound respect for their differences.

The strategy is built on a portfolio of **36** diverse and complementary **brands**.

SUPPORT FUNCTIONS

Research and innovation

The Corporate Research and Innovation Department is responsible for advanced and applied research.

Digital

The Corporate Digital Department seeks to accelerate the Group's digital transformation by helping the brands to create enriched spaces for expression and helping the teams to build more interactive, personalised and closer relationships with consumers, while taking advantage of the business development opportunities offered by Digital as a distribution channel.

Operations

The Corporate Operations Department contributes to the Group's growth, from the design of packaging, sourcing, production and information systems through to the distribution of the Group's products thanks to an integrated value chain aimed at guaranteeing consumers around the world compliance with strict quality, security and safety standards, together with societal and environmental responsibility.

Human Resources

The Corporate Human Resources Department is in charge of recruitment, training and talent development policies and of coordinating social policy.

Administration & Finance

The Corporate Administration and Finance Department takes responsibility for the Group's financial policy, management and consolidation, acquisitions, and legal and tax co-ordination, as well as financial reporting, investor and shareholder relations, and strategic planning.

Communication and Public Affairs

The Corporate Communication and Public Affairs Department is responsible for coordinating corporate communication and coordinating brand communication.

Environmental and Social Responsibility

The Environmental and Social Responsibility Department is in charge of the Group's Sustainable Development policy through its Sharing Beauty With All programme, sponsorship actions and citizen engagement projects by the Group and the L'Oréal Corporate Foundation.

Professional Products

Offer the expertise of professional beauty based on 110 years of knowledge and support for the world of hairdressing.

CONTRIBUTION TO PERFORMANCE

Net sales
€3,262.5 million

12.1% share of Group sales

Operating margin as a % of sales
20.0%

MISSION

- A portfolio of unique brands.
- Reinvent professional beauty and support the transformation of the industry through digital resources: creation of a direct and inspiring link between brands, professionals and their consumers in each market.

OUR BRANDS

L'ORÉAL PROFESSIONNEL PARIS
REDKEN 5TH AVENUE NYC
MATRIX IMAGINE ALL YOU CAN BE
KÉRASTASE PARIS
PUREOLOGY serious colour care
DECLÉOR PARIS

Consumer products

Make the best in beauty available to all.

CONTRIBUTION TO PERFORMANCE
Net sales **€12,032.2 million**
44.7% share of Group sales
Operating margin as a % of sales **20.2%**

MISSION

- Growth is underpinned by four major global brands (L'Oréal Paris, Garnier, Maybelline New York and NYX Professional Makeup), and by the rollout of specialised and regional brands (Essie, Niely, Dark and Lovely, etc.).
- Digital resources are used across each market as a major growth driver with e-commerce, and as a tool for optimising the Division's marketing models.

OUR BRANDS

L'ORÉAL PARIS
GARNIER
MAYBELLINE NEW YORK
NYX PROFESSIONAL MAKEUP
essie
Dark and Lovely
Niely
mg magic moment 美即面膜
3CE STYLENANDA

L'Oréal Luxe

Create exceptional experiences and products for the most demanding consumers in selective distribution.

CONTRIBUTION TO PERFORMANCE
Net sales **€9,367.2 million**
34.8% share of Group sales
Operating margin as a % of sales **22.1%**

MISSION

- Orchestrate a unique portfolio of prestigious brands: iconic generalist brands, high-end aspiration brands, and alternative or specialised brands
- Use digital technology to provide local markets with:
  - an exceptional experience with inspiring content,
  - a valued personalised relationship,
  - the rollout of e-commerce that encapsulates the value added of each brand.

OUR BRANDS

LANCÔME PARIS
YvesSaintLaurent
GIORGIO ARMANI
Kiehl's SINCE 1851
URBAN DECAY
BIOTHERM
RALPH LAUREN FRAGRANCES
shu uemura
clarisonic
VIKTOR&ROLF
DIESEL PARFUMS
HR HELENA RUBINSTEIN
cacharel
it COSMETICS
YUESAI
VALENTINO

Active Cosmetics

Help everyone in their quest for healthy and beautiful skin.

CONTRIBUTION TO PERFORMANCE
Net sales **€2,275.5 million**
8.4% share of Group sales
Operating margin as a % of sales **23.0%**

MISSION

- Respond to major trends in skincare and the recommendation of health professionals with a portfolio of highly complementary brands.
- Develop or reinvent, in its markets, dermocosmetics in all distribution channels, including pharmacies, drugstores, cosmetic clinics, branded retail and e-commerce sites.
- Launch new products and services on the recommendation and advice of health and beauty opinion leaders and influencers, in retail outlets and on digital platforms.

OUR BRANDS

LA ROCHE-POSAY LABORATOIRE PHARMACEUTIQUE
VICHY LABORATOIRES
SKINCEUTICALS
ROGER&GALLET
CeraVe

1.2.2. KEY FIGURES

KEY FIGURES 2018

150 countries
International presence

N° 1
in beauty

110 years
Created in 1909

€112.7 billion
Market capitalisation*

* As of 31 December 2018

€914 million
Research and Innovation budget

505
Patents

86,030
Employees

1st Prize
Gender equality in business (1)

79%
of new or renovated products have an improved environmental or social profile

-77%
reduction in CO_2 emissions (plants and distribution centres)

-37%
reduction in waste (plants and distribution centres)

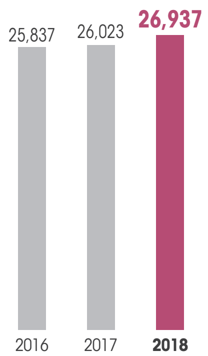
-48%
reduction in water consumption (plants and distribution centres)

57%
of the brands have carried out an action to raise awareness among consumers

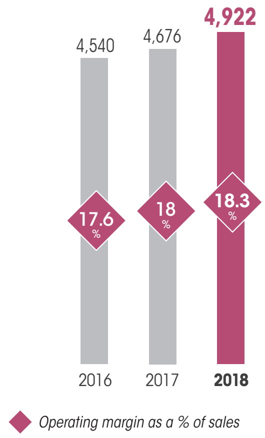
63,584
people from underprivileged communities have had access to work

(1) Equileap Europe prize, October 2018.

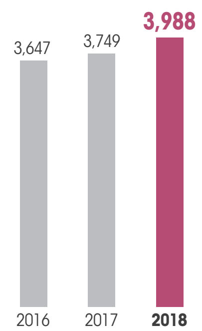
Consolidated sales
(€ million)



Operating profit
(€ million)



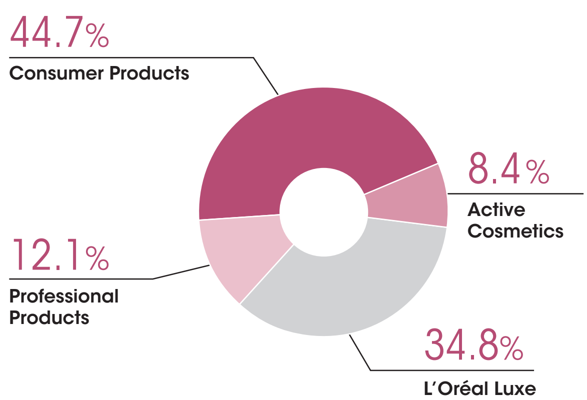
Net profit attributable to owners of the company excluding non-recurring items[(1)]
(€ million)



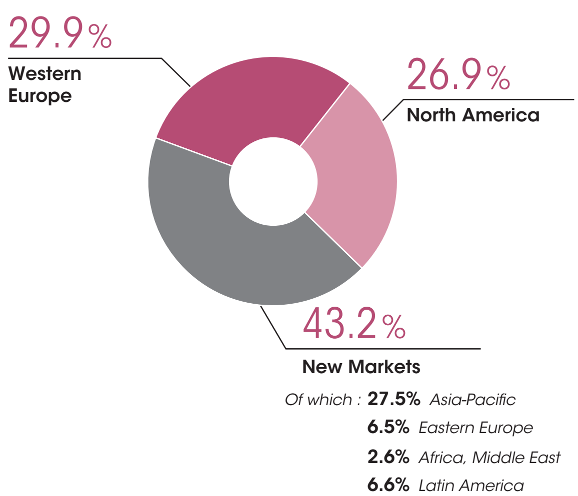
(1) Non-recurring include items mainly capital gains and losses and long-term asset disposals, impairment of long-term assets, restructuring costs and elements relating to identified operational incomes and expenses, no recurring and significant regarding the consolidated performance. See note 11.4 to the consolidated financial statements.

OPERATIONAL DIVISIONS SALES - 2018

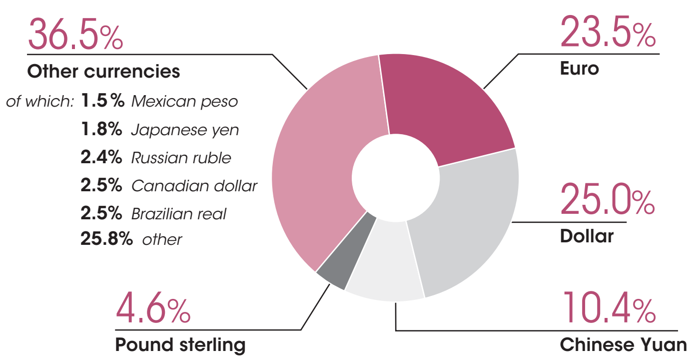
BY DIVISION



BY GEOGRAPHIC ZONE



CONSOLIDATED SALES BY CURRENCY



NET DEBT

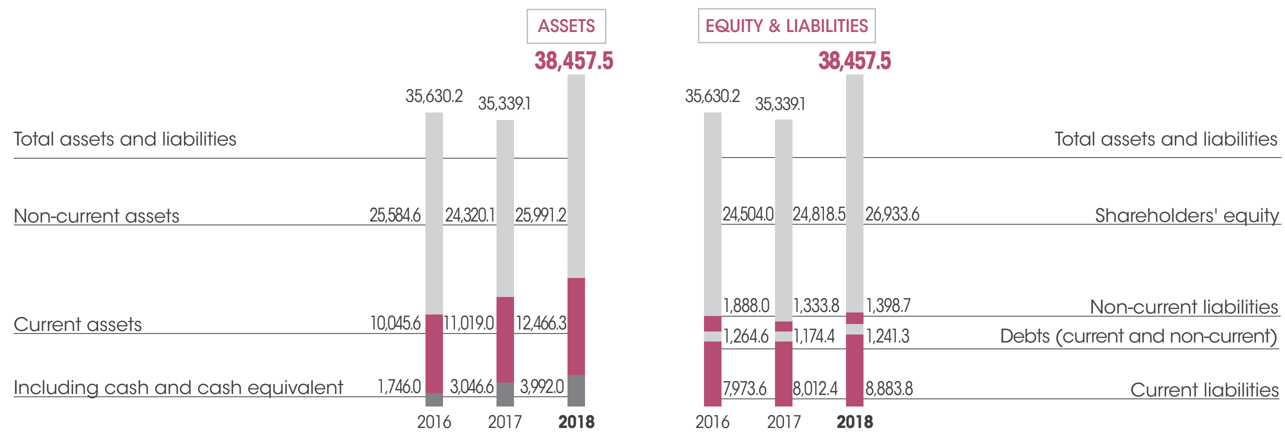
	31.12.2016	31.12.2017	**31.12.2018**
Net cash position = Net cash or net debt (€ million)(1)	+ 481,4	+ 1 872,2	+ 2 751
Net gearing (Net financial position/Equity)	n/a	n/a	n/a

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

SHORT-TERM RATINGS

A1 +	Standard & Poor's	SEPTEMBER 2018
PRIME 1	Moody's	APRIL 2018
F1 +	Fitch Ratings	SEPTEMBER 2018

A SOLID BALANCE SHEET *(€ MILLION)*



1.2.3. AN AMBITION: 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.

1.2.4. 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 2018, it generated 29.9% of its 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 regional hubs across the globe, led by central teams and fuelled by the Group's core expertise and fundamental knowledge.

L'Oréal's ambition is to win one billion new consumers in the coming years, *i.e.* double the number of men and women that use its products worldwide. The conquest of this billion new consumers will partly take place in New Markets, driven by a two-fold phenomena. On the one hand, the growth in the number of consumers thanks to the emergence of an increasingly numerous middle class, that wants to access quality products. On the other hand, the growth in expenditure per consumer, which is still five times lower than in mature countries.

L'Oréal has a considerable growth potential in the New Markets, which are already the Group's leading geographic zone.

Moreover, although L'Oréal's market share is much larger in the mature countries, its brand penetration still has significant scope for improvement, and the Group is continuing to invest in this direction.

HISTORY: THE IMPORTANT DATES IN THE GROUP'S DEVELOPMENT

Acquisitions of Modiface, Armani (licence renewal), Stylenanda, Pulp Riot, Valentino (licence), Thermes de la Roche-Posay, Logocos Equileap prize	2018	
	2017	Acquisition of CeraVe. Disposal of The Body Shop
Acquisition of IT Cosmetics.	2016	
	2015	Acquisition of Niely Cosmeticos.
L'Oréal/Nestlé strategic agreement, disposal of Galderma. 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 5th 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	Imedia, the first quick oxidation hair colour.
La Société Française de Teintures Inoffensives pour Cheveux is created by Eugene Schueller, 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 20th 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. Numerous acquisitions, from Maybelline in 1996 to CeraVe in 2017 and Pulp Riot in 2018, have considerably reinforced its presence in North America.

With the acquisitions of Stylenanda (Korean Beauty) and Logocos (German vegan and organic brands), the Group continues to broaden its portfolio and geographic presence.

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 L'Oréal 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 43.2% in 2018. Sales in New Markets increased greatly as a proportion of the Group's total sales between 2007 and 2018. In 2017, this Zone exceeded the symbolic threshold of €10 billion of sales.

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 [(1)]. 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.

Digital technologies are accelerating marketing and sales models

The beauty sector is one of those that has the most benefited from the new digital era. L'Oréal is the 3rd world advertiser - across all industries (source: AdAge ranking December 2018). Thus, the digital revolution touches the Group's marketing approach, and specifically the relationship with the consumer *via* the media: the concepts of owned and earned media have enriched the Group's advertising investments (paid) [(2)].

The points of contact collected by these new approaches enrich the Group's data capital. This data is stored and activated by the teams, in full compliance with personal data protection rules, in order to customise the interactions of brands with their consumers to provide the best possible beauty experience.

Transformation of distribution networks and sales functions

E-commerce is an essential distribution network for the Group. The online beauty market shows strong growth each year, both for advanced countries such as China and the USA and accelerating regions such as India, South-East Asia and Eastern European countries. E-commerce [(3)] represented 11% of the Group's sales in 2018, up 40.6%, or one and a half time faster than the world growth in online beauty products. The performance is particularly remarkable in China, with a large share of the Consumer Products Division's sales generated *via* e-commerce, and also at L'Oréal Luxe in the USA, where e-commerce also represents a high percentage of total sales.

(1) Source: L'Oréal estimates.

(2) Earned media refers to the exposure gained by a brand on Internet via social networks, blogs, etc. Owned media concerns the exposure on supports owned by a brand. Paid media is the advertising exposure purchased by a brand.

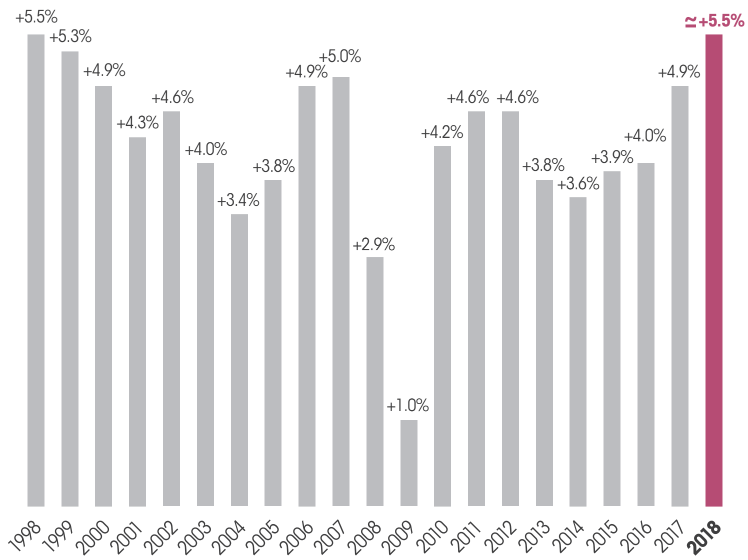
(3) Sales achieved on our brands' own websites + estimated sales achieved by our brands corresponding to sales through our retailers' websites (non-audited data); like-for-like growth.

1

1.2.5. THE BEAUTY MARKET, HUGE DEVELOPMENT POTENTIAL

Warning: the 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.

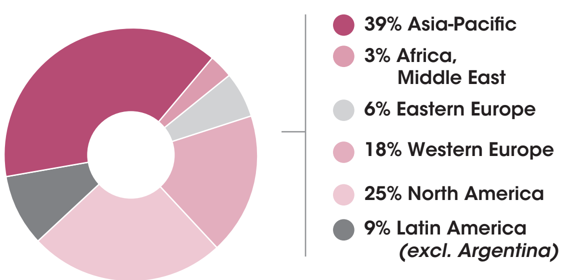
WORLDWIDE COSMETICS MARKET FROM 1998 TO 2018 (1)



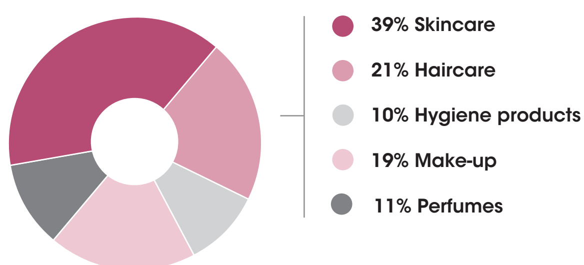
The cosmetics market remains a supply-led market driven by innovation, where consumers are always on the look-out for quality, performance and perceived results. The worldwide cosmetics market is worth over €200 billion [1]. It is a particularly robust market which is steadily expanding while proving 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.

BREAKDOWN OF THE WORLD COSMETICS MARKET IN 2018 (2)

BY GEOGRAPHIC ZONE



BY PRODUCT CATEGORY



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

In 2018, growth in the beauty market was between +5% and +6%. 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 universe.

Growth was robust for skincare in 2018, particularly in the selective market. This category remains the leading contributor to growth in the beauty market. Make-up also saw strong growth in 2018, but slightly lower than 2017.

The selective market once again surged ahead, driven by China and Travel Retail. It was the sector that made the largest contribution to growth in the beauty market in 2018.

We estimate that the pace of growth in the mass market was slightly up in 2018, although with growth limited to Japan and Russia, and with a difficult situation in Brazil. China saw strong growth in 2018 but conditions remained very tough in the Gulf States and in France.

Dermocosmetics continued to grow at a steady pace. Growth in the Professional market remained limited. Across all segments, the sharp acceleration in e-commerce continued.

North America saw a significant improvement in 2018 compared to 2017 thanks to the USA.

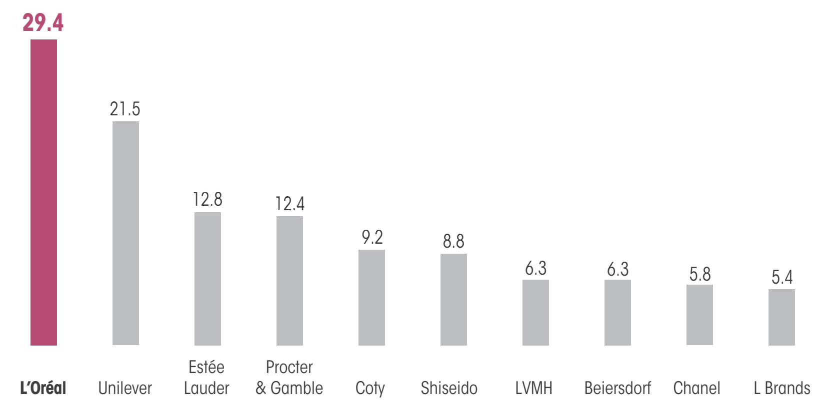
Western Europe was generally flat in 2018, due to a slowing of growth in Southern Europe and a still difficult French market.

The pace of growth picked up in New Markets to account for almost three-quarters of the beauty market's global growth in 2018:

- Asia had an exceptional year, driven by the very strong growth both inside and outside China. The beauty market in the Asia-Pacific region is now worth over 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;
- Eastern Europe grew at the same pace in 2018 as in 2017, in a context of slow growth in Russia.

MAIN WORLDWIDE PLAYERS

2017 revenue in billions of US $ (1)



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. The increase in the number of seniors, urbanisation and the development of the men's product market will be the main drivers of growth. Estimates project that the market will double by 2030 (2).

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) Source: Beauty's top 100, WWD, May 2018.
(2) Source: 2018 Paxton study for L'Oréal.

1.2.6. 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, US make-up brands like Urban Decay and IT Cosmetics as well as the Italian brand, Valentino, for L'Oréal Luxe; NYX Professional Makeup, an affordable make-up artist-inspired brand and Logocos with its vegan and organic brands for the Consumer Products Division; and Decléor and Pulp Riot which extend the growth potential of Professional Products.

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

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.

1.2.7. OPEN AND SUSTAINABLE RESEARCH & INNOVATION

More than a century ago, Eugène Schueller founded L'Oréal with a major invention: the first harmless hair colourant. Research became one of the Group's founding principles and one of the keys to its success. To invent beauty and meet the expectations of millions of men and women, L'Oréal continues to push the boundaries of science and to leverage its Sustainable Development and CSR policies as a source of new innovation opportunities that respect consumers, the environment and biodiversity. This steadfast commitment to innovation aims to offer everyone, everywhere in the world, the best of cosmetics in terms of quality, efficacy and safety.

Our implementation over the last few years of an international organisation shows the virtues of a multipolar organisation. It supports the Group's Universalisation strategy by expanding outwards and by reinforcing its capacity for innovation to meet the infinite diversity of beauty needs all over the world. As close as possible to consumers, the regional hubs adapt themselves with a true local relevance and enrich the flow of innovations.

RESEARCH FACILITIES AROUND THE WORLD

Research and Innovation budget *(€ million)*	
2016	850
2017	877
2018	**914**

Research and Innovation Headcount	
2016	3,862
2017	3,885
2018	**3,993**

Number of patents filed	
2016	473
2017	498
2018	**505**

A planetary research

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 teams create, develop and source raw materials, drawing on their knowledge of skin and hair from around the world; Applied Research then invents formula architectures that increase asset performance 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 expectations of consumers and to support them with the latest technological breakthroughs.

In order to adapt to consumer expectations worldwide, L'Oréal's research teams are present in all the geographic regions through 21 cosmetics research centres and 14 assessment centres. The research centres are grouped into 3 global centres in France (Advanced Research, Haircare *Métiers* and Cosmetics *Métiers*) and 6 regional hubs: Japan, USA, China, India, South Africa and Brazil. These regional hubs identify the needs of consumers and their cosmetic practices. The R&I teams build on this rich seam of scientific ecosystems to enter into collaboration agreements and excellence partnerships. The data generated enables researchers to develop new products, that are in tune with market needs and local expectations. The innovations produced are also shared in a coordinated way to promote discussion flows.

Innovations that strengthen consumer confidence

The development of digital technologies has created controversies over the safety of cosmetic products directly accessible to consumers, without providing them with all the elements for them to make an enlightened opinion. The assessment of the safety of a cosmetic product should not under any circumstances be based on the sole presence or absence of certain ingredients. Concerned over the number of contradictory opinions, some consumers are turning towards natural products, which for them are intrinsically safe. Aware of this phenomenon, researchers have reconsidered the way in which they develop new products, by including this perception of safety, whilst remaining intransigent over ingredient safety and product quality and efficacy, as well as over the accuracy of claims.

Similarly, L'Oréal's teams have accelerated the provision of qualitative information on all product ingredients to consumers: why they are used in a cosmetic product, their useful concentration, origin and traceability, their procurement with the lowest possible environmental impact, the ethical and social conditions of their production.

Inventing the materials for a responsible future

Designing sustainable polymers

Sharing a common vision of science, equally attentive to human health as to the environment, L'Oréal and the *Laboratoire de Chimie des Polymères Organiques* in Bordeaux have decided to join forces to develop polymers with cosmetic activity (skincare, makeup, etc.) that are respectful of the environment without compromising efficacy and performance. The eco-design of these new active ingredients is a major challenge, that imposes extremely strict rules: principles of green Chemistry, search for bio-sourced precursors, use of gentle procedures. This initiative is at the interface between several scientific disciplines to prepare the materials of the future, that are both high performance and sustainable, and that meet society's needs in the area of well-being.

Smart materials for haircare

L'Oréal research teams in Japan have joined the prestigious National Institute for Materials Science (NIMS), the only Japanese laboratory dedicated to the science of materials, to create a collaborative research centre. The objective is to develop responsible materials, namely ones that are respectful of the environment, energy resources and the fabric of society. This centre will start by focusing on intelligent polymers for haircare, to better meet consumer needs in styling and hair colourant products. Its work will also enable it to develop knowledge of the structure and functioning mechanisms of cosmetic materials, by making use of a range of cutting-edge analysis tools make available by the NIMS.

Innovating sustainably and collaboratively

100% plant-based colourants

Over 100 years after the first harmless hair dyes, L'Oréal is working on a new chapter in the Group's history by launching its first 100% plant-based colourants (Botanéa from L'Oréal Professional and Color Herbalia from Garnier): ranges that are suitable for all heads, either to cover white hair or provide tones. This technical achievement that meets a consumer demand is unique in many areas. It is the result of collaborative work by a multi-disciplinary team working directly with all the Group's departments: almost 1,000 people have worked to enable the emergence of these ranges. Combining performance and naturalness posed four main challenges: how to offer a wide range of tones from 100% natural ingredients, obtain a reproducible level of professional quality, set up a new sustainable and secure ingredient supply chain in India, and lastly, break the codes to simplify the use of these new products by consumers and hairdressers.

Organic competes with conventional

By deepening their knowledge of the ancestral benefits of plants over 10 years (pharmacopeia, herbalism, aromatherapy, etc) along with their own expertise in phytochemistry, extraction and distillation, the researchers now know how to offer organic products able to compete with conventional cosmetics in terms of efficacy and sensorality. Consumers looking for ever more natural products understand this well: this sector is posting strong growth. Militant organic products no longer compromise on pleasure, and brands that want to move in this direction no longer have to choose between efficacy and naturalness. Today's organic-certified care ranges can be just as sensorial and demanding as traditional products.

Technology resources

A second-generation UV sensor

After the launch of its connected patch in 2016 (My UV Patch La Roche Posay), L'Oréal's Tech incubator presented at the 2018 CES (1) the second generation of its solution: UV Sensor, developed with MC10, is the first electronic, portable UV sensor, without batteries, and with a design adapted to consumer behaviour. Presented in the form of a mini-sensor that sticks onto a nail, it measures the sunshine rate and UV exposure risks. Connected in NFC (2), it works in conjunction with an application that displays the real-time change in exposure. Having entered his/her phototype into the application, the user obtains a score that indicates the time spent in the sun with an alert in the event of over-exposure. UV Sensor offers precise advice, according to skin tone or the frequency of sun exposure. The device can also measure air pollution rates.

Helping the consumer use less water

Access to water is a growing problem, and according to the UN, by 2025, two-thirds of the global population could be living in conditions of water stress. Shampoos and shower gels are the products that use the most water in their usage phase. Hence the usefulness of finding a way to better use every drop of water. This challenge was met by combining the best water distribution and shampoo technologies.

The Swiss start-up, Gjosa, has developed a low-flow shower head that breaks up the water flow whilst accelerating drop speed, so that rinsing stays just as effective. To optimise the operation, L'Oréal's researchers have developed easy-to-rinse shampoos that transit directly by the shower head. Certain water jet parameters have been adjusted to obtain a rinsing phase that reduces energy consumption and water volume by over 70%. Tested in L'Oréal's laboratories, prototypes of this new shower head have been the subject of a campaign in a series of hair salons (South Africa and USA).

(1) Consumer Electronics Show Las Vegas.
(2) Near Field Communication, wireless, short-range and high frequency communication technology.

1.2.8. 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. In 2018, five 3D printing laboratories are in operation in L'Oréal's major design centres located in the USA, France, Japan, India and China. In total, almost 13,000 packaging prototypes were 3D printed in 2018.

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.

Unique QR Code technology and Big Data usage 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 across the continents. L'Oréal filed 87 patents for packaging and processes in 2018.

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 2018, the social or environmental profile of 79% of new or redesigned products have been improved. The Group includes up to 100% recycled plastic in some of its packaging. In 2018, L'Oréal committed to ensuring that all its plastic packaging will be refillable, reusable, recyclable or compostable by 2025.

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 cost-effective suppliers in accordance with the L'Oréal Buy & 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 which makes it possible to work with them on their supply chains for responsible sourcing and ensure the agility, reliability and traceability of sourcing. In 2018, the Group conducted 1,369 social audits ☑, making a total of more than 10,800 since 2006.

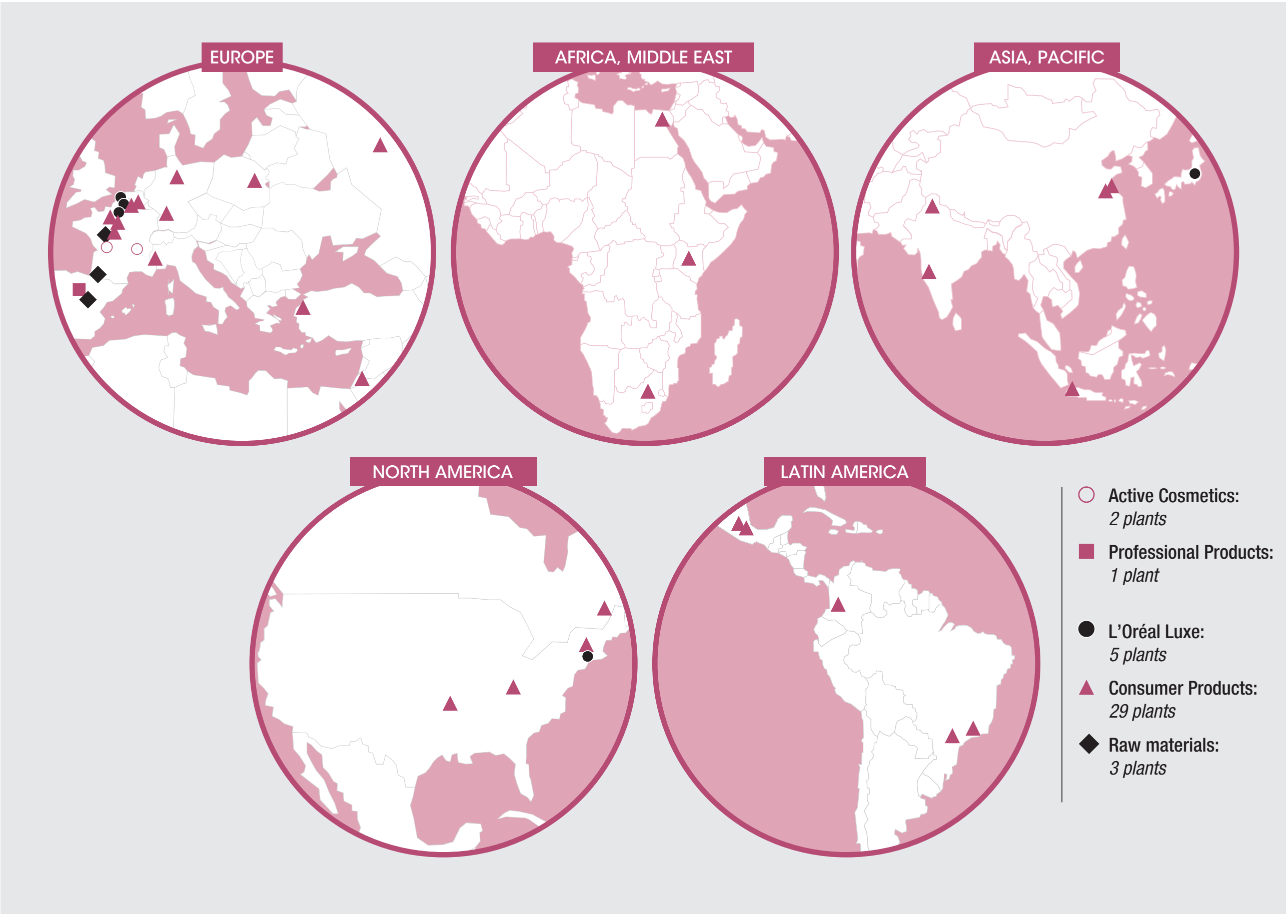
Furthermore, by creating the responsible purchasing programme called Solidarity Sourcing L'Oréal chose as from 2010 to enable sourcing from suppliers with an inclusive solidarity model, in other words, companies that offer employment to vulnerable workers and people in deprived communities, such as people with disabilities, the long-term unemployed or fair trade suppliers (see Solidarity Sourcing paragraph 3.3.3.4 "Measures taken for communities").

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

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

L'Oréal has 40 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. It is completed by production sub-contracting, to meet temporary demand peaks or for specific technologies (make-up pencils, soaps, etc.)

The Group's industrial organisation is also based on specialisation by technology (haircare, skincare, make-up, perfumes, etc) to maximise best practices, increase agility, improve productivity and adapt more easily to the specific needs of local clients and consumers.

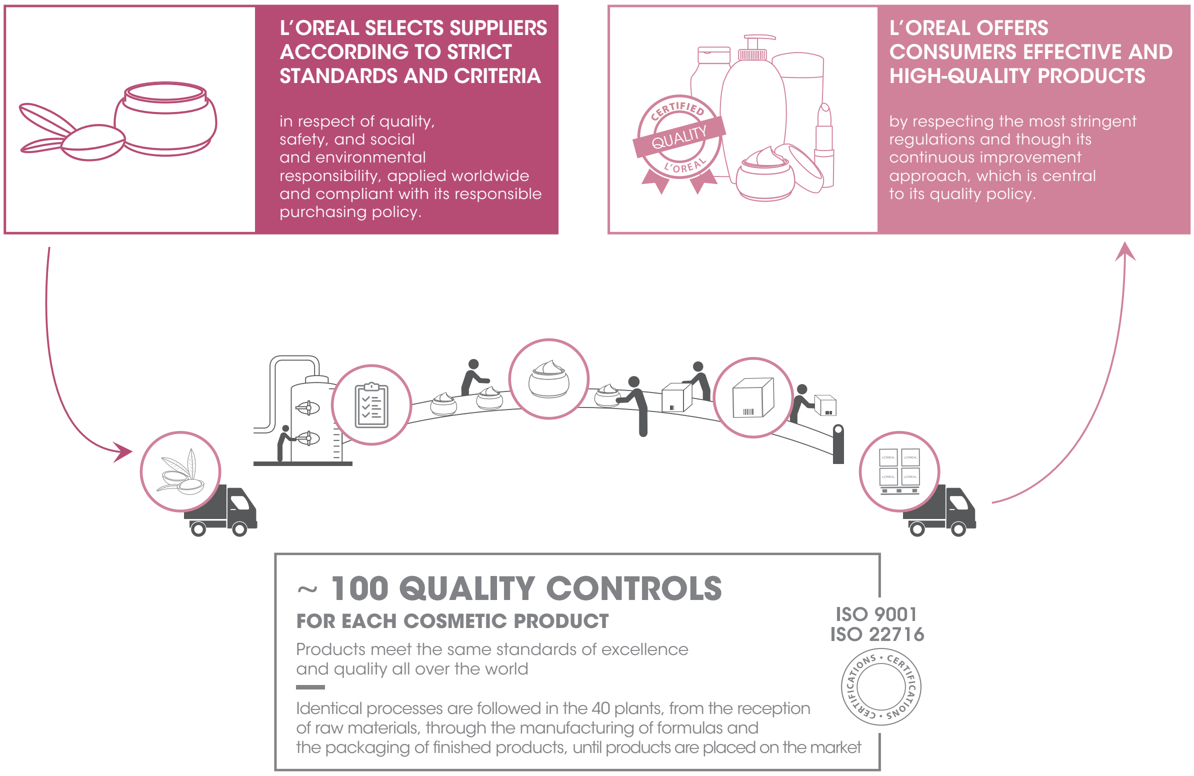


Product quality and safety: a priority

Offering consumers the highest quality product is an absolute priority. Over several decades, 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 2018, 92% 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 in route to customers.

Attesting to the effectiveness of the continuous quality improvement processes, the rate of consumer complaints improves continuously and stood at 49 complaints per million products sold in 2018.



Plants certified to the highest level

100 % **of the Group's plants** are **ISO 22716*** compliant	**92 %** **of the Group's plants** are **ISO 9001**** compliant

CERTIFICATIONS · CERTIFICATIONS ·

* Best practice in cosmetics manufacturing
** Quality management

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.

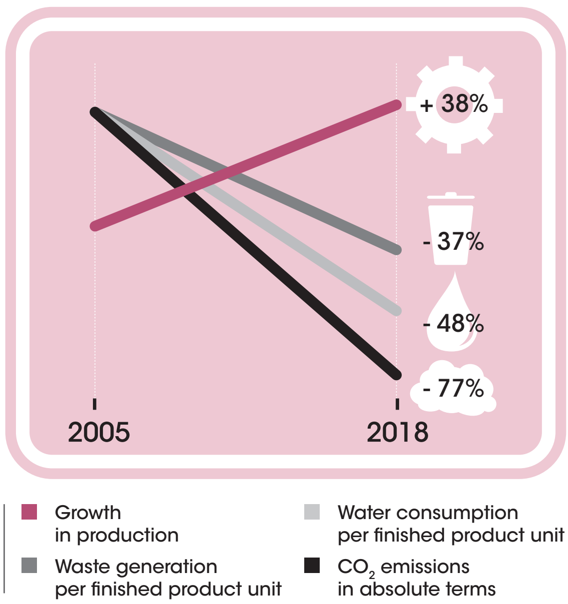
The Group is continuing to roll out its Operational Excellence System in all its plants to meet the challenges of a constantly changing world and go even further in adapting its industrial facilities to the needs of consumers. This process is based on the close involvement of all employees in technical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

In 2018, the Safety Management System, which applies worldwide for our teams on all administrative sites, laboratories, plants, distribution centres and stores, was recognised by RoSPA (The Royal Society for the Prevention of Accidents), notably for L'Oréal's single safety awareness programme: *Safe@Work, Safe@Home*.

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 2018 once again demonstrated L'Oréal's capacity to decouple increased production (+38% since 2005) from environmental impact with CO_2 emissions cut by 77% 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 97% of residual waste was recovered in 2018, meaning that it was reused, recycled or used for energy recovery.

RESPONSIBLE PRODUCTION



31 of L'Oréal's industrial sites were "carbon neutral" at year-end 2018, an increase of 29% since 2017, including 12 plants (Libramont in Belgium, Settimo in Italy, Burgos and Alcalá de Henares in Spain, Rambouillet, Ormes, Gauchy, Tours, Vichy and La Roche Posay in France, Karlsruhe in Germany, Yichang in China).

At year-end 2018, three plants were "dry plants" (Burgos in Spain, Settimo in Italy and Vorsino in Russia): all the water required by the utilities (equipment cleaning, steam production, etc.) comes from reused or recycled water in a closed circuit on-site (see paragraph "The dry plant concept", 3.3.1.3, B/ "Preserving water resources").

L'Oréal's over 25-year commitment to environmental leadership was recognised in 2016, 2017 and 2018, by the best possible rating from the CDP [1]. This year, L'Oréal became the only company worldwide, out of 7,000 companies assessed, to receive a triple "A" ranking for the third consecutive year, for its commitment and results in each of the key areas for environmental protection: the fight against climate change, sustainable water management and the fight against deforestation.

Fast-changing omni-channel logistics strategy

L'Oréal Group's supply chain organises and optimises all product delivery flows to all our customers as well as direct deliveries 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 (hair salons, mass-market retail channels, perfumeries, department stores, pharmacies, drugstores, medispas, branded retail, Travel Retail, e-commerce) with a brand portfolio of many different beauty and cosmetic product categories. L'Oréal continuously optimises all information flows and physical flows from suppliers to customers.

(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.

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.

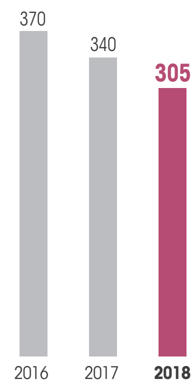
Sustainable Development is also central to the supply chain strategy. To shrink the environmental footprint of transport activities, L'Oréal deployed its global strategic initiative to promote cooperation between carriers and to co-develop tailored solutions to address the specific needs of each geographical 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

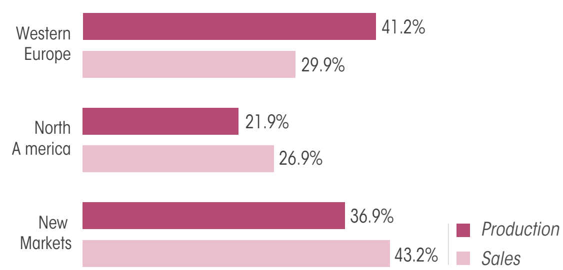
Operations have major economic responsibility for all the brands and markets and that impact total product costs.

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)



PRODUCTION AND SALES BY OPERATING DIVISIONS BY GEOGRAPHIC ZONE IN 2018: PRODUCTION CLOSE TO ITS MARKETS



1.3. GOOD GROWTH MOMENTUM FOR SHARED, LASTING DEVELOPMENT*

1.3.1. 2018 RESULTS*

In a beauty market that accelerated significantly in 2018, L'Oréal marked its best year of growth since 2007, at +7.1% (1), following a strong fourth-quarter increase of +7.7% (1).

All Divisions are growing, especially L'Oréal Luxe and Active Cosmetics, which both recorded double-digit growth. The big brands are the star performers, particularly in the L'Oréal Luxe Division, where Lancôme sales crossed the 3 billion euro mark. The Active Cosmetics Division achieved its highest growth for more than 10 years in a very dynamic skincare market. In the Consumer Products Division, 2018 was a good year for L'Oréal Paris and Maybelline New York. The Professional Products Division meanwhile recorded a modest increase in sales, thanks to a significant acceleration in the final quarter.

The performance by geographic Zone remained differentiated. In Western Europe, progress was held back by difficulties in some markets, while growth in North America improved compared with the previous year. The New Markets achieved their best performance since 2007, and the Asia Pacific Zone, driven by China, has now overtaken North America with sales exceeding €7 billion.

2018 was another very good year for two of our most powerful growth drivers. Firstly, e-commerce(2) which advanced by +40.6%, and now accounts for 11% of Group sales. Secondly, Travel Retail, which broke the 2 billion euro barrier with an increase of +27.1%.

The gross margin increased significantly and, after strong investments in research, innovation, and business drivers, the operating margin set a new record at 18.3% of sales.

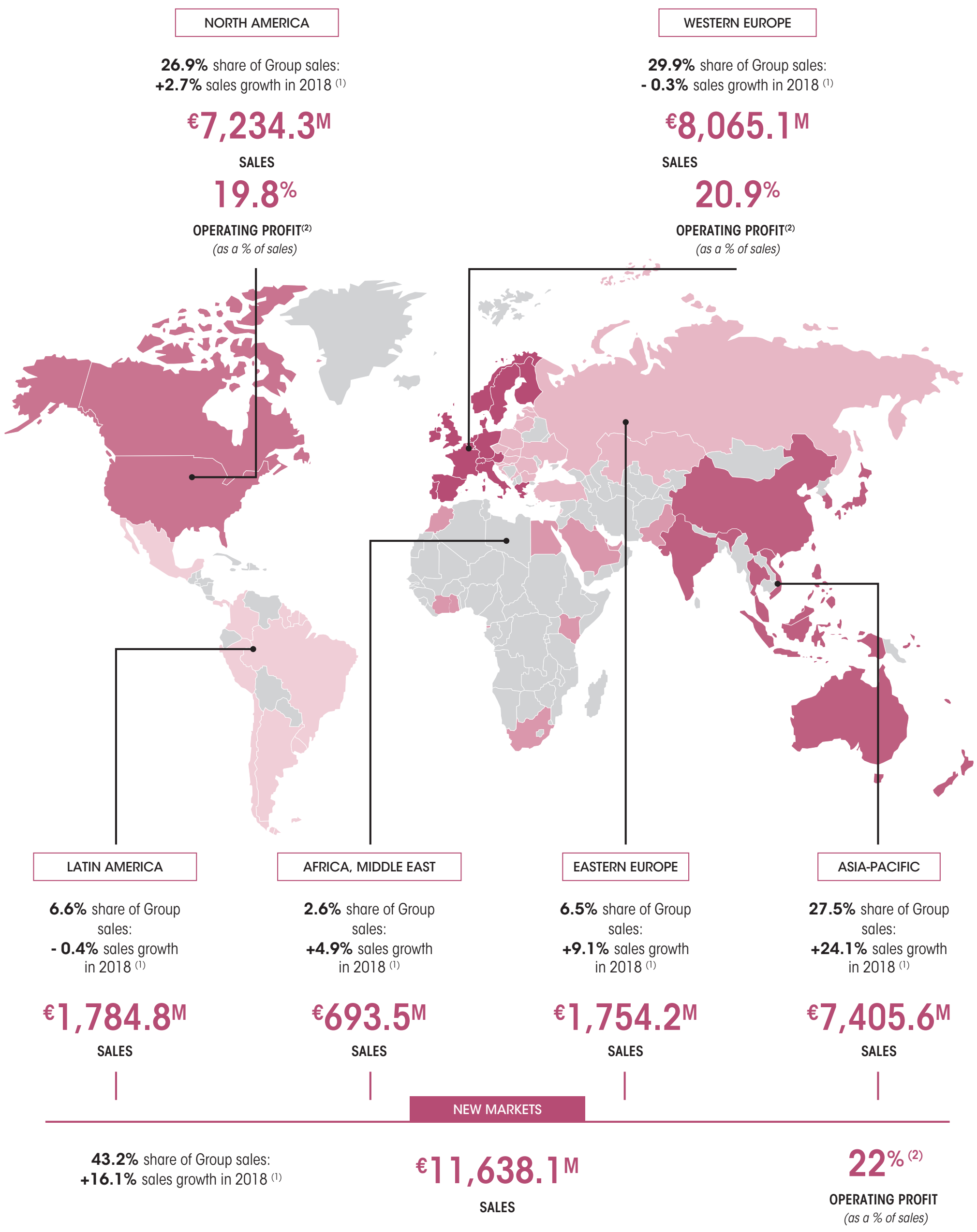
More than ever, it's the strength of L'Oréal's business model, robust and well-balanced, covering all circuits, all categories, all price points and addressing all consumers, that enables the Group to seize opportunities wherever they are. All over the world, our teams are alert and listening to consumers' needs and desires. They adapt and allocate resources with great agility, always in the pursuit of excellence. This is how L'Oréal delivers profitable and sustainable growth, and strengthens its position as the cosmetics market leader year after year.

And finally, in 2018, L'Oréal was recognised once again for its leadership in corporate environmental and social responsibility, notably by the CDP which identified L'Oréal, for the third consecutive year, as a world leader in sustainable development, with three 'A' scores for the management of climate change, water security and forests. L'Oréal has also been acknowledged for its commitment to gender equality, and was named number 1 in Europe for gender parity by Equileap. In terms of ethics, L'Oréal remains exemplary, and is ranked number 1 worldwide by the ethical reputation index Covalence EthicalQuote.

1.3.1.1. Overview of the results for 2018

- Sales: €26.9 billion
  - +7.1% like-for-like(1)
  - +8.0% at constant exchange rates
  - +3.5% based on reported figures
- Operating profit: €4.92 billion, representing 18.3% of sales
- Earnings per share (3) : €7.08, an increase of +6.5%
- Net profit after non-controlling interests: €3.89 billion, an increase of +8.8%
- Dividend (4) : €3.85, an increase of +8.45%

* *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.*
(1) *Like-for-like sales growth: based on a comparable scope of consolidation and identical exchange rates.*
(2) *Sales achieved on our brands' websites + estimated sales achieved by our brands corresponding to sales through our retailers' websites (non-audited data).*
(3) *Diluted net earnings per share excluding non-recurring items after non-controlling interests.*
(4) *Proposed at the Annual General Meeting of 18 April 2019.*



(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 growth of the L'Oréal Group was +7.1%.

The net impact of changes in the scope of consolidation amounted to +0.9%.

Growth at constant exchange rates was +8.0%.

At the end of 2018, currency fluctuations had a negative impact of -4.5%.

Based on reported figures, the Group's sales, at 31 December 2018, amounted to €26.9 billion, an increase of +3.5%.

1

SALES BY OPERATIONAL DIVISION AND BY GEOGRAPHIC ZONE

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

					2017/2018 progression	
€ millions	2016	2017	**2018**	**% 2018 sales**	Like-for-like	Reported figures
By Operational Division						
Professional Products	3,399.7	3,350.4	3,262.5	12.1%	+2.0%	-2.6%
Consumer Products	11,993.4	12,118.7	12,032.2	44.7%	+2.5%	-0.7%
L'Oréal Luxe	7,662.4	8,471.7	9,367.2	34.8%	+14.4%	+10.6%
Active Cosmetics	1,860.7	2,082.9	2,275.5	8.4%	+11.9%	+9.2%
Cosmetics Total	**24,916.3**	**26,023.7**	**26,937.4**	**100.0%**	**+7.1%**	**+3.5%**
By geographic zone						
Western Europe (1)	8,008.0	8,125.3	8,065.1	29.9%	-0.3%	-0.7%
North America	7,098.8	7,350.5	7,234.3	26.9%	+2.7%	-1.6%
New Markets, of which:	9,809.5	10,547.8	11,638.1	43.2%	+16.1%	+10.3%
◆ Asia, Pacific (1)	5,635.4	6,151.8	7,405.6	27.5%	+24.1%	+20.4%
◆ Latin America (3)	1,838.0	1,952.9	1,784.8	6.6%	-0.4%	-8.6%
◆ Eastern Europe	1,571.5	1,750.8	1,754.2	6.5%	+9.1%	+0.2%
◆ Africa, Middle-East (4)	764.5	692.4	693.5	2.6%	+4.9%	+0.2%
Total Cosmetics	**24,916.3**	**26,023.7**	**26,937.4**	**100.0%**	**+7.1%**	**+3.5%**
◆ The Body Shop	920.8	-		-	-	-
TOTAL GROUP (2)	**25,837.1**	**26,023.7**	**26,937.4**	**100.0%**	**+7.1%**	**+3.5%**

(1) 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.
(2) In the full-year 2016, reported Group sales included the sales of The Body Shop in amounts of €920.8 million.
(3) The Group has applied IAS 29 (Financial Reporting in Hyperinflationary Economies) to Argentina since July 1, 2018. The negative impact of this adjustment is 200 basis points on like-for-like growth in Latin America and 10 basis points on that of the entire L'Oréal Group in 2018.
(4) The application of IFRS 15 as of January 1, 2018 has resulted in a restatement of the 2018 revenue achieved with distributors when they work as agents and not for their own account. The impact of this restatement amounted to €28.2 million on the full-year revenue of the Africa and Middle East Zone. The effect of this accounting policy is not material in the income statement or balance sheet.

Professional products

The Professional Products Division ended the year at +2.0% like-for-like and -2.6% reported.

The year was marked by renewed dynamism in this Division, which accelerated in the fourth quarter. All geographic Zones are growing, except for Western Europe. The return to growth in the United States and Brazil has been confirmed. Momentum was maintained in the Asia Pacific Zone, driven by India and China, and in Eastern Europe.

Haircare is benefiting from the strong growth of *Kérastase*, combining the success of *Resistance Extentioniste* and *Fusio-Dose* customised in-salon haircare with the roll-out of a selective multi-channel strategy. Dynamism in hair colour is being driven by *Shades EQ* by *Redken,* which recorded another year of growth, the success of the *SoColor Cult* launch at *Matrix* and the good performance of *Dia* at *L'Oréal Professionnel*.

Consumer products

The Consumer Products Division posted fourth quarter growth of +2.8% like-for-like, and ended the year at +2.5% like-for-like and -0.7% reported.

The Division's three major brands are growing. *L'Oréal Paris* and *Maybelline New York* are maintaining their very good annual momentum, and *Garnier* accelerated in the fourth quarter.

Skincare is growing strongly, with double-digit growth worldwide in facial skincare, thanks to the excellent performance of *Revitalift Filler* by *L'Oréal Paris*, *Garnier* tissue masks and *Men Expert* skincare. Makeup growth continues, driven especially by *Maybelline New York* and the global success of *Superstay Matte Ink* and *Fit Me!*. In haircare there were two very successful launches: *Elseve Dream Lengths* and *Fructis Hair Food*.

The Division is facing ongoing difficulties in Western Europe, where the market remains sluggish, and in Brazil. It is winning market share in the United States and Eastern Europe, and continuing to accelerate sharply in Asia, thanks in particular to China and India.

E-commerce continues to show strong growth.

L'Oréal Luxe

L'Oréal Luxe sales grew by +14.4% like-for-like and +10.6% reported, with a second half at +15.1% like-for-like. The Division outperformed the market and made 2018 a historic year.

- The Division's four billionaire brands are posting double-digit growth. *Lancôme* is being driven by its skincare performance, with franchises *Génifique* and *Absolue*, and the undisputed success of *La Vie est Belle*. *Yves Saint Laurent* and *Giorgio Armani* had a very good year in fragrances, with *Black Opium*, *Y*, *Sì Passione* and *Acqua di Giò Absolu*, and in foundations. *Kiehl's* is benefiting from the acceleration in skincare, with an excellent performance from *Line-Reducing Concentrate*. The successful development of *IT Cosmetics* and *Atelier Cologne* is continuing.
- L'Oréal Luxe is winning market share in Asia Pacific, particularly in China where growth is double-digit. The Division performed well in dynamic markets in Travel Retail, Eastern Europe and Latin America. In Western Europe and Africa, Middle East, it is outperforming more difficult markets.
- Meanwhile, the Division continues to accelerate in e-commerce.

Active cosmetics

The Active Cosmetics Division maintained strong growth momentum in the fourth quarter, and ended an outstanding year at +11.9% like-for-like and +9.2% reported.

The Division continues to win market share across all geographic Zones at a rapid pace, with growth remaining strong in North America and in Asia.

All the major brands are contributing to the Division's growth.

- *La Roche-Posay* ended the year with double-digit growth, driven by its anti-wrinkle innovation *Hyalu B5*, and core franchises *Anthelios* and *Effaclar*, and is performing well across all Zones.
- Growth at *Vichy* is again bolstered by the success of *Minéral 89,* the star product of 2018.
- *SkinCeuticals* is posting very strong growth in all Zones, and strengthening its number 1 position in professional skincare in the United States.
- *CeraVe* is recording double-digit growth in North America, and has now been rolled out in more than 30 countries.
- E-commerce is accelerating sharply, and accounts for more than 13% of the Division's sales.

Multi-division summary by geographic zone

Western europe

The Zone recorded sales growth in the fourth quarter, and ended the year at -0.3% like-for-like, and -0.7% reported. In 2018, Western Europe was affected by the sluggishness of some markets, such as France and the United Kingdom, and by a slowdown in the makeup category.

L'Oréal Luxe is outperforming its market, thanks to the dynamism of *Lancôme*, *Giorgio Armani* and *Kiehl's*, and the same is true of the Active Cosmetics Division, thanks to the rapid growth of *La Roche-Posay* and the *CeraVe* roll-out. The Consumer Products Division is strengthening its positions in makeup, reflecting the good results of the *Maybelline New York* and *Essie* brands, and more recently in skincare, thanks to *L'Oréal Paris* anti-ageing products and *Garnier* cleansing.

North America

The Zone posted growth of +2.7% like-for-like and -1.6% reported.

The Consumer Products Division remains on track, and increased its market share in the makeup and hair colour segments, thanks to strong performances by the *L'Oréal Paris*, *Maybelline New York* and *Essie* brands. In luxury, skincare is a highly dynamic segment, with the *Kiehl's* and *IT Cosmetics* brands outperforming the market. L'Oréal Luxe is also growing faster than its market in the fragrance category. In the Professional Products Division, growth is driven by the *Redken* and *Matrix* brands, and by the acquisition of *Pulp Riot*. The upturn in the sales of the iconic *Kérastase* brand is also worth noting. The Active Cosmetics Division posted a good performance close to 20% with its brands *CeraVe*, *SkinCeuticals*, *La Roche-Posay* and *Vichy*, which are all delivering double-digit growth.

New Markets

- **Asia Pacific:** Growth in this Zone came out at +24.1% like-for-like and +20.4% reported. All four Divisions are winning market share. The dynamism of Chinese consumers, combined with the good performance of premium brands and rapid growth in several other South-East Asian markets as well as in Travel Retail, were the Zone's main growth drivers. The four Divisions posted robust fourth-quarter figures, thanks to the success of Singles' Day (11/11) sales in China. The acquisition of *Stylenanda* in June strengthened the Group's position in the Zone.
- **Latin America:** The Zone is at -0.4% like-for-like and -8.6% reported. The L'Oréal Luxe and Active Cosmetics Divisions are posting strong growth, and winning market share. In Brazil, the Professional Products Division is growing strongly, while the performance of the Consumer Products Division reflects ongoing challenges, but improved in the second half. The adjustment on 1 July to allow for hyperinflation in Argentina had a negative impact of -2.0% like-for-like on the Zone's annual growth.
- **Eastern Europe:** In this Zone growth amounted to +9.1% like-for-like and +0.2% reported. Growth was driven by all four Divisions, but especially by Active Cosmetics. Across the individual countries, Turkey, Ukraine, Romania and Czech Republic posted very dynamic growth. E-commerce is growing very quickly, by more than 50%.

- **Africa, Middle East:** The Zone recorded growth of +4.9% like-for-like and +0.2% reported, despite the unfavourable geopolitical context and sluggish markets, especially in the Middle East. Egypt and Morocco posted good growth, and all Divisions increased their market share. There was positive development in South Africa and Kenya, thanks in particular to the Consumer Products Division and the launch of the *Mixa* bodycare range.

1.3.1.3. 2018 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. For consistency with the financial information given outside the financial statements below, please refer to the tables published in the 2017 Registration Document (chapter 4, page 223) describing the financial performance of the Group when The Body Shop was an integral part of its continuing operations.

	2016		2017		**2018**	
	€ millions	% sales	€ millions	% sales	**€ millions**	**% sales**
Sales	**25,837.1**	**100.0%**	**26,023.7**	**100.0%**	**26,937.4**	**100.0%**
Cost of sales	-7,341.7	28.4%	-7,359.2	28.3%	-7,331.6	27.2%
Gross profit	**18,495.4**	**71.6%**	**18,664.5**	**71.7%**	**19,605.8**	**72.8%**
Research and development expenses	-849.8	3.3%	-877.1	3.4%	-914.4	3.4%
Advertising and promotion expenses	-7,498.7	29.0%	-7,650.6	29.4%	-8,144.7	30.2%
Selling, general and administrative expenses	-5,607.0	21.7%	-5,460.5	21.0%	-5,624.7	20.9%
OPERATING PROFIT	**4,539.9**	**17.6%**	**4,676.3**	**18.0%**	**4,922.0**	**18.3%**

Gross profit, at €19,605 million, came out at 72.8% of sales, compared with 71.7% in 2017, which is an improvement of 110 basis points.

Research and Development expenses, at €914 million, have increased by 4.3%.

As announced, advertising and promotion expenses increased to 30.2% of sales, representing an increase of 80 basis points.

Selling, general and administrative expenses, at 20.9% of sales, have been reduced by 10 basis points.

Overall, operating profit has grown by +5.3% to €4,922 million, and amounts to 18.3% of sales, representing an increase of 30 basis points.

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.

For consistency with the financial information given outside the financial statements below, please refer to the tables published in the 2017 Registration Document (chapter 4, page 223) describing the financial performance of the Group when The Body Shop was an integral part of its continuing operations.

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

€ millions	2016	2017	**2018**	Evolution
Operating profit	**4,539.9**	**4,676.3**	**4,922.0**	**+5.3%**
Finance costs excluding dividends received	-19.3	-22.9	-1.9	
Sanofi dividends	346.5	350.0	358.3	
Pre-tax profit excluding non-recurring items	**4,867.1**	**5,003.3**	**5,278.4**	**+5.5%**
Income tax excluding non-recurring items	-1,216.8	-1,250.5	-1,286.8	
Net profit from equity affiliates excluding non-recurring items	-0.1	-0.1	+0.1	
Non-controlling interests	-3.0	-3.9	-4.1	
Net profit excluding non-recurring items attributable to owners of the company (1)	**3,647.2**	**3,748.7**	**3,987.6**	**+6.4%**
EPS (2) (€)	**6.46**	**6.65**	**7.08**	**+6.5%**
NET PROFIT AFTER NON-CONTROLLING INTERESTS	**3,105.8**	**3,581.4**	**3,895.4**	**+8.8%**
Diluted EPS after non-controlling interests (€)	5.50	6.36	6.92	
Diluted average number of shares	564,509,135	563,528,502	563,098,506	

(1) Net profit excluding non-recurring items excludes impairment losses, restructuring costs, tax effects and minority interests.
(2) Diluted net earnings per share excluding non-recurring items after non-controlling interests.

Finance expenses came out at approximately €1.9 million.

Sanofi dividends amounted to €358 million.

Income tax excluding non-recurrent items amounted to €1,286 million, representing a tax rate of 24.4%.

Net profit excluding non-recurring items after non-controlling interests from continuing operations amounted to €3,987 million, an increase of +6.4%, and +10% at constant exchange rates.

Earnings per Share, at €7.08, is up by +6.5%.

Non-recurring items after non-controlling interests [1] amounted to -€92 million net of tax.

Net profit came out at €3,895 million, an increase of +8.8%.

NET PROFIT AFTER ATTRIBUTABLE TO OWNERS OF THE COMPANY: €3,895 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	2016	2017	2018	Evolution 2017/2018
Net profit excluding non-recurring items after non-controlling interests	**3,647.2**	**3,748.7[2]**	**3,987.6**	**+6.4%**
Non-recurring items net of tax[1]	-541.4	-167.2	-92.2	
Net profit from non-continuing operations	-	-	-	
NET PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY	**3,105.8**	**3,581.4**	**3,895.4**	**+8.8%**

Cash flow statement, Balance sheet and Cash position

Gross cash flow amounted to €5,178 million, an increase of 4.1%.

The working capital requirement decreased by €113 million.

At €1,416 million, investments represented 5.3% of sales.

Net cash flow[3] at €3,875 million, is down slightly after a strong increase in the previous year.

The balance sheet is particularly solid, with shareholders' equity amounting to €26.9 billion, and net cash at €2,751 million at 31 December 2018.

Proposed dividend at the Annual General Meeting of 18 April 2019

The Board of Directors has decided to propose to the shareholders' Annual General Meeting of 18 April 2019 a dividend of €3.85 per share, an increase of +8.5% compared with the dividend paid in 2018. The dividend will be paid on 30 April 2019 (ex-dividend date 26 April 2019 at 0:00 a.m., Paris time).

Share capital

At 31 December 2018, the capital of the company is formed by 560,396,652 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.

	2016		2017		2018	
	€ millions	% sales	€ millions	% sales	**€ millions**	**% sales**
Professional Products	689	20.3%	669	20.0%	652	20.0%
Consumer Products	2,417	20.2%	2,419	20.0%	2,428	20.2%
L'Oréal Luxe	1,623	21.2%	1,856	21.9%	2,072	22.1%
Active Cosmetics	431	23.2%	471	22.6%	523	23.0%
COSMETICS DIVISIONS TOTAL	**5,160**	**20.7%**	**5,415**	**20.8%**	**5,675**	**21.1%**
Non-allocated[4]	-654	-2.6%	-739	-2.8%	-753	-2.8%
TOTAL GROUP AFTER NON-ALLOCATED	**4,506**	**18.1%**	**4,676**	**18.0%**	**4,922**	**18.3%**

The profitability of the Professional Products Division came out at 20.0%.

The profitability of the Consumer Products Division came out at 20.2%, an improvement of 20 basis points compared with 2017.

The profitability of L'Oréal Luxe, at 22.1%, increased by 20 basis points.

The profitability of the Active Cosmetics Division came out at 23.0%, representing an increase of 40 basis points.

Non-allocated expenses amounted to €753 million, which is stable in relative value.

(1) Non-recurring items include impairment of assets, net profit of discontinued operations, restructuring costs and tax effects of non-recurring items.
(2) Net profit from continuing operations excluding non-recurring items attributable to owners of the company
(3) Net cash flow = Gross cash flow + changes in working capital - capital expenditure.
(4) 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.

BY GEOGRAPHIC ZONE

	2016		2017		2018	
	€ millions	% sales	€ millions	% sales	€ millions	% sales
Western Europe [1]	1,832	22.9%	1,860	22.9%	1,683	20.9%
North America	1,392	19.6%	1,411	19.2%	1,430	19.8%
New Markets [1]	1,936	19.7%	2,144	20.3%	2,562	22.0%
COSMETICS ZONES TOTAL[2]	**5,160**	**20.7%**	**5,415**	**20.8%**	**5,675.0**	**21.1%**
Non-allocated [3]	-654	-2.6%	-739	-2.8%	-753	-2.8%
TOTAL GROUP AFTER NON-ALLOCATED	**4,506**	**18.1%**	**4,676**	**18.0%**	**4,922**	**18.3%**

(1) 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.
(2) Before non-allocated.
(3) 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 came out at 20.9%, 200 basis points lower than last year.

In North America, profitability came out at 19.8%, an increase of 60 basis points compared with 2017.

And in the New Markets, profitability increased by 170 basis points compared to the previous year, and amounted to 22.0% of sales.

Sales by business segment

CONSOLIDATED SALES

				2017/2018 progression	
€ millions	2016	2017	2018	Like-for-like	Like-for-like
Skincare	7,089	7,624	8,557	+ 15.9 %	+ 12.2 %
Make-up	6,576	7,266	7,383	+ 5.3 %	+ 1.6 %
Haircare	4,779	4,559	4,358	+ 0.5 %	- 4.4 %
Hair colourants	3,021	3,076	2,950	- 0.6 %	- 4.1 %
Perfumes	2,367	2,393	2,495	+ 7.8 %	+ 4.3 %
Others[1]	1,085	1,107	1,194	+ 4.3 %	+ 7.9 %
TOTAL COSMETICS SALES	**24,916**	**26,024**	**26,937**	**+ 7.1 %**	**+ 3.5 %**

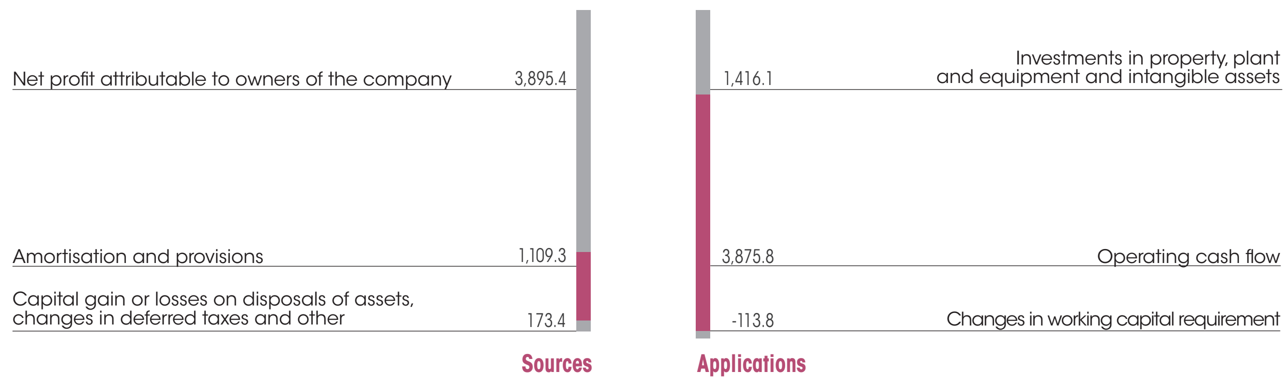
(1) "Other" includes hygiene products, sales made by American distributors with non-Group brands.

Simplified consolidated income statements

€ million	31.12.2016	31.12.2017	31.12.2018	% 2018 sales
Sales	**25,837.1**	**26,023.7**	**26,937.4**	**100.0%**
Gross profit	**18,495.4**	**18,664.5**	**19,605.8**	**72.8%**
Research and development	-849.8	-877.1	-914.4	3.4%
Advertising and promotion	-7,498.7	-7,650.6	-8,144.7	30.2%
Selling, general and administrative expenses	-5,607.0	-5,460.5	-5,624.7	20.9%
Operating profit	**4,539.9**	**4,676.3**	**4,922.0**	**18.3%**
Operational profit	**3,996.1**	**4,400.0**	**4,827.3**	
Finance costs excluding dividends received	-19.3	-22.9	-1.9	
Sanofi dividends	346.5	350.0	358.3	
Income tax	-1,214.6	-901.3	-1,284.3	
Non-controlling interests	-2.9	-4.1	-4.1	
Impact of deconsolidation of The Body Shop*		-240.1		
Net profit attributable to owners of the company	**3,105.8**	**3,581.4**	**3,895.4**	**14.5%**
Non-recurring items (expense -/income +)	-541.5	-167.2	-92.2	
Net profit excluding non-recurring items after non-controlling interests**	**3,647.2**	**3,748.7**	**3,987.4**	**14.8%**
Diluted earnings per share attributable to owners of the company *(euros)*	5.50	6.36	6.92	
Diluted earnings per share attributable to owners of the company excluding non-recurring items *(euros)*	6.46	6.65	7.08	

** The finalisation of the disposal of The Body Shop on 7 September 2017 lead 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



Gross cash flow = 5,178.1

Financial ratios

	2016	2017	**2018**
(% of sales) Operating profit/Sales	17.6%	18.0%	18.3%
(% of shareholders' equity) Net profit excluding non-recurring items after non-controlling interests/Opening shareholders' equity	15.4%	15.1	16.1%
(% of shareholders' equity) Net gearing (1)	n/a	n/a	n/a
Gross cash flow/Investments	3.4x	3.9x	3.7x

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

L'Oréal 2012-2018

The announcement on 11 February 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 1 January 2014. All figures for earlier periods have been restated accordingly.

€ millions	2012 (1)	2013 (8)	2014 (8)	2015	2016	2017	**2018**
Results							
Consolidated sales	21,638	22,124	22,532	25,257	25,837	26,023	26,937
Operating profit	3,558	3,760	3,891	4,388	4,540	4,676	4,922
As a percentage of consolidated sales	16.4%	17.0%	17.3%	17.4%	17.6%	18.0%	18.3%
Profit before tax excluding non-recurring items	3,874	4,056	4,198	4,711	4,867	5,003	5,278.4
Net profit excluding non-recurring items after non-controlling interest (2)	2,861	3,032	3,125	3,490	3,647	3,748	3,987.6
Net profit attributable to owners of the company	2,868	2,958	4,910	3,297	3,106	3,581	3,895.4
Total dividend	1,380	1,507	1,511	1,742	1,858	2,006	2,175
Balance sheet							
Non-current assets	20,903	21,485	23,284	24,458	25,585	24,320	25,991
Current assets excl. cash and cash equivalents	6,096	6,730	6,858	7,854	8,300	7,972	8,474
Cash and cash equivalents	2,235	2,659	1,917	1,400	1,746	3,047	3,992
Equity (3)	20,925	22,651	20,197	23,617	24,504	24,819	26,933
Net current and non-current debt (4)	-1,948	-2,320	671	-618	-481	-1,872	2,751
Gross cash flow	3,507	3,758	3,808	4,399	4,717	4,972	5,178
Per share data *(euros)*							
Diluted earnings per share attributable to owners of the company excluding non-recurring items (2)	4.73	4.99 (5)	5.34	6.18	6.46	6.65	7.08
Dividend	2.30	2.50	2.70	3.10	3.30	3.55 (6)	3.85 (6)
Share price at 31 December (7)	104.90	127.70	139.30	155.30	173.40	184.95	201.20
Highest share price during the year (7)	106.40	137.85	140.40	181.30	177.90	197.15	214.90
Lowest share price during the year (7)	79.22	103.65	114.55	133.40	142.65	167.75	170.30
Diluted weighted average number of shares outstanding (7)	605,305,458	608,001,407	585,238,674	564,891,388	564,509,135	563,528,502	563,098,506

(1) The 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 €1,948 million in 2012, €2,320 million in 2013, €618 million in 2015, €481 million in 2016, €1,872 million in 2017 and €2,751 million in 2018. In 2014, net debt is €671 million.
(5) Net profit to owners of the company per share, excluding non-recurring items, published on 31 December 2013 was €5.13.
(6) Dividend proposed to the Annual General Meeting of 18 April 2019.
(7) The L'Oréal share has been listed in euros on the Paris Stock Exchange since 4 January 1999, where it was first listed in 1963. The share capital is €112,079,330.40 at 31 December 2018; the par value of one share is €0.2.
(8) The balance sheets at 31 December 2013 and 31 December 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 2018

- On 16 March, L'Oréal announced the acquisition of the Canadian company ModiFace, an internationally recognised leader in augmented reality and artificial intelligence applied to the beauty industry.
- On 22 March, L'Oréal and Giorgio Armani announced the signing of an agreement to renew their licence until 2050.
- On 17 April, the L'Oréal Board of Directors decided, in application of the authorisation approved by the Annual General Meeting of 20 April 2017, to buy back L'Oréal shares for a maximum amount of €500 million in the second quarter of 2018. 2,497,814 shares were bought back from 23 April to 29 May 2018. They were cancelled by the Board of Directors on 26 July 2018.
- On 2 May, L'Oréal announced the acquisition of 100% of Nanda Co. Ltd., the Korean lifestyle makeup company founded by Mrs Kim So-Hee in Seoul in 2004. The acquisition was finalised on 20 June 2018.
- On 15 May, L'Oréal announced the launch of its first Employee Share Ownership Plan, rolled out in 52 countries, representing a maximum of 500,000 shares. The scheme has proven extremely successful, and gave rise to a capital increase on 24 July 2018.
- On 25 May, L'Oréal finalised the acquisition of professional hair colour brand Pulp Riot, which, under the leadership of its two founders David and Alexis Thurston, has been creating industry-leading content and using social media to inspire stylists.
- On 28 May, L'Oréal and Valentino announced the signature of a long-term licence agreement for the creation, development and distribution of fine fragrances and luxury beauty products under the Valentino brand.
- On 13 June, L'Oréal acquired a stake of 49% in the Tunisian company LiPP-Distribution which distributes the Group's brands in Tunisia.
- On 1 August, L'Oréal announced the project of acquisition for Société des Thermes de La Roche-Posay. This acquisition sustains and reinforces the dermatological positioning of the La Roche-Posay brand.
- On 1 August, L'Oréal announced the signing of an agreement to acquire the German beauty company Logocos Naturkosmetik AG, a pioneer in natural and organic cosmetics with brands including Logona and Sante. The acquisition was finalised on 17 October.
- On 21 September, L'Oréal announced an investment in the fund Partech Africa. This investment is an addition to the Group's previous investments in venture capital funds (Partech International Ventures, Founders Factory, Raise Investissement).
- On 24 September, L'Oréal was recognised as Global Compact Lead. This award, made by the United Nations Global Compact, rewards the Group's ongoing commitment to the world's largest corporate sustainability initiative.
- On 4 October, L'Oréal received the First Prize for Europe from Equileap as the top gender-balanced company. This award recognises the Group's efforts to promote gender equality all over the world.
- On 19 November 2018, the L'Oréal Group announced two important changes within its Executive Committee: Christophe Babule is appointed Executive Vice-President Chief Financial Officer, and will succeed Christian Mulliez as of 8 February 2019. Cyril Chapuy was appointed President L'Oréal Luxe, as of 1 January 2019, reporting to Nicolas Hieronimus, Deputy CEO in charge of Divisions.
- On 5 December 2018, L'Oréal announced the launch of BOLD, Business Opportunities for L'Oréal Development, a corporate venture capital fund that will take minority stakes in innovative startups with high growth potential. The fund will invest in new business models in marketing, Research & Innovation, digital, retail, communication, supply chain and packaging.
- On 20 December 2018, *Covalence EthicalQuote* ranked L'Oréal number 1 worldwide across all industries in its reputation index. This ranking of the world's largest listed companies reflects stakeholder and media perceptions, and companies' communication on environmental, social, governance and human rights issues.
- On 22 January 2019, L'Oréal was recognised for the third year in a row as a global leader in corporate sustainability by non-profit organisation CDP, with three 'A' scores for the management of climate change, water security and forests.

Significant events that have occurred since the beginning of 2019

No significant event has occurred since the beginning of 2019.

2019 prospects

In an economic context that remains volatile and uncertain, we are confident, thanks to our innovations, powerful brands, digital excellence and in particular our outstanding teams all over the world, that we can pursue our corporate social responsibility commitments, outperform the beauty market in 2019 and achieve another year of growth in both sales and profits.

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

L'Oréal is a growing industrial company thanks largely to two types of investments:

1. scientific and industrial, which are described in several sections of this document (paragraphs 1.2.7. and 1.2.8. in particular); and
2. marketing, which are made on an ongoing basis and are inherent to the Group's activities in the cosmetics industry. Indeed, winning new market share requires in-depth and situation-specific studies, as well as advertising and promotional expenses attuned not only to the familiarity of brands and their competitive position, but also to constant changes in consumers' aspirations – something that the subsidiaries' sales and marketing teams monitor constantly. 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 2018, the Group's investments totalled €1,416 million [1], or 5.3% 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.

Investment commitments in 2018 can be broken down as follows:

- production and the physical supply chain represent approximately 27% of total investments;
- marketing investments, including moulds, POS advertising materials and stores account for 47%;
- IT investments spread over all these categories represent 20% of total investments;
- research and the head offices in different countries account for the remainder.

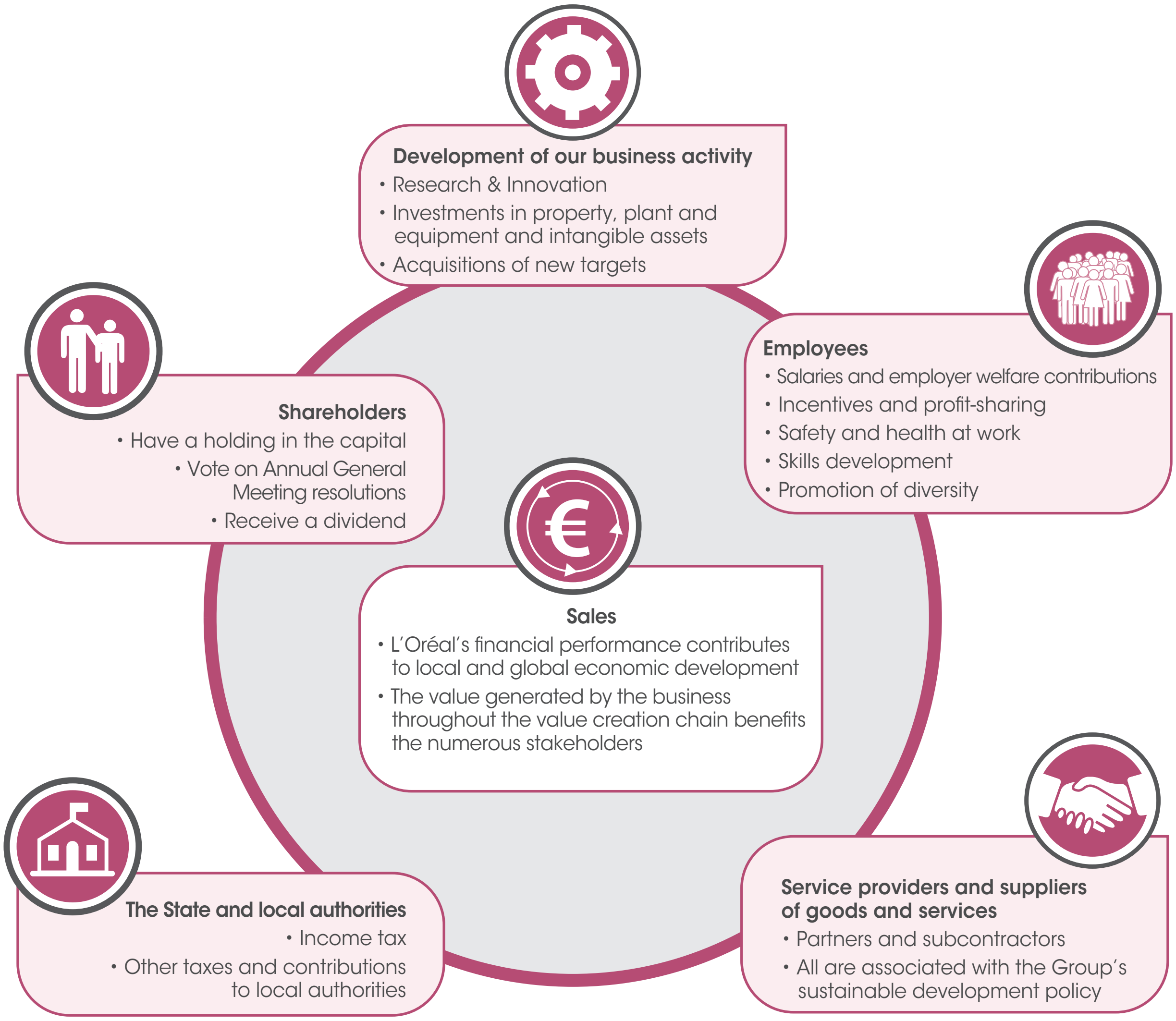
See notes 3.2.2, 7.2 and 13.2 to the Consolidated Financial Statements for more details of these investments.

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

(1) See Statement of Cash Flows, consolidated financial statements, Section 4.5.

1.3.2. CORPORATE SOCIAL RESPONSIBILITY (CSR): SHARED, LASTING GROWTH

The stakeholders in the Group's business



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 main programmes, notably "For Women in Science", "Beauty for a Better Life" or other Group philanthropy initiatives (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.

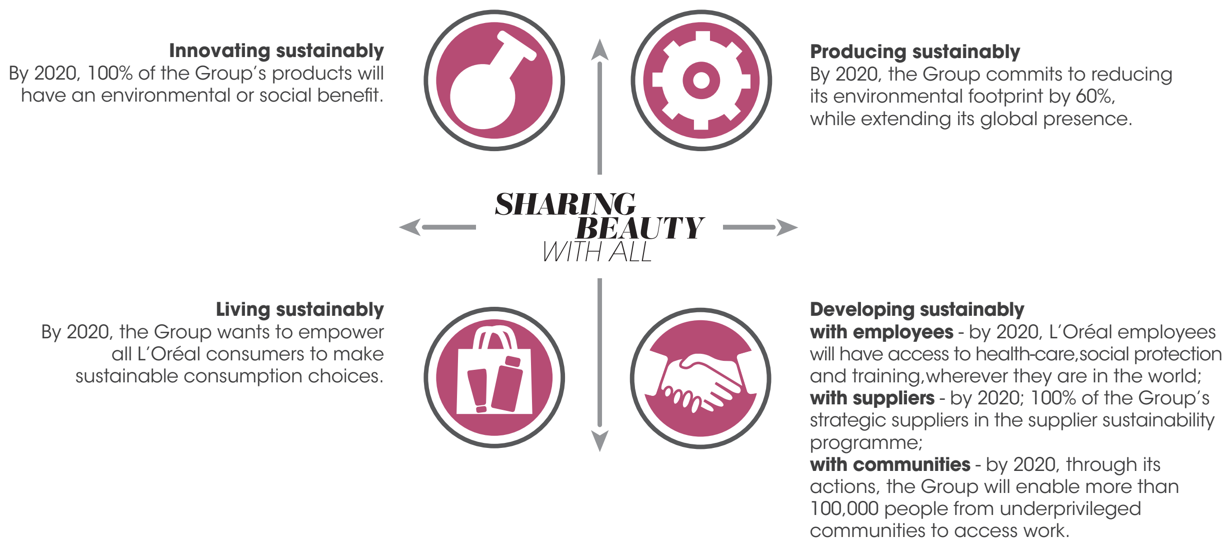
More consumers and more growth, for L'Oréal, necessarily imply more responsibilities. The Group intends to develop its activity with the utmost respect for the environment and the planet, and to reinforce its social and economic impact on the life of the people and communities that surround it. It is for this reason that in 2013, L'Oréal set itself ambitious Sustainable Development Goals that were formally provided for and structured at a strategic level within the scope of the *Sharing Beauty With All* programme.

The Group's CSR 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 chain. It therefore covers all the Group's impacts broken down into four areas:

- innovating sustainably, which aims at improving the environmental and social footprint of products (see section 1.2.7 and chapter 3);
- producing sustainably, to reduce the environmental footprint of the Group's plants and distribution centres, all over the world (see section 1.2.8. and chapter 3);



- 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).

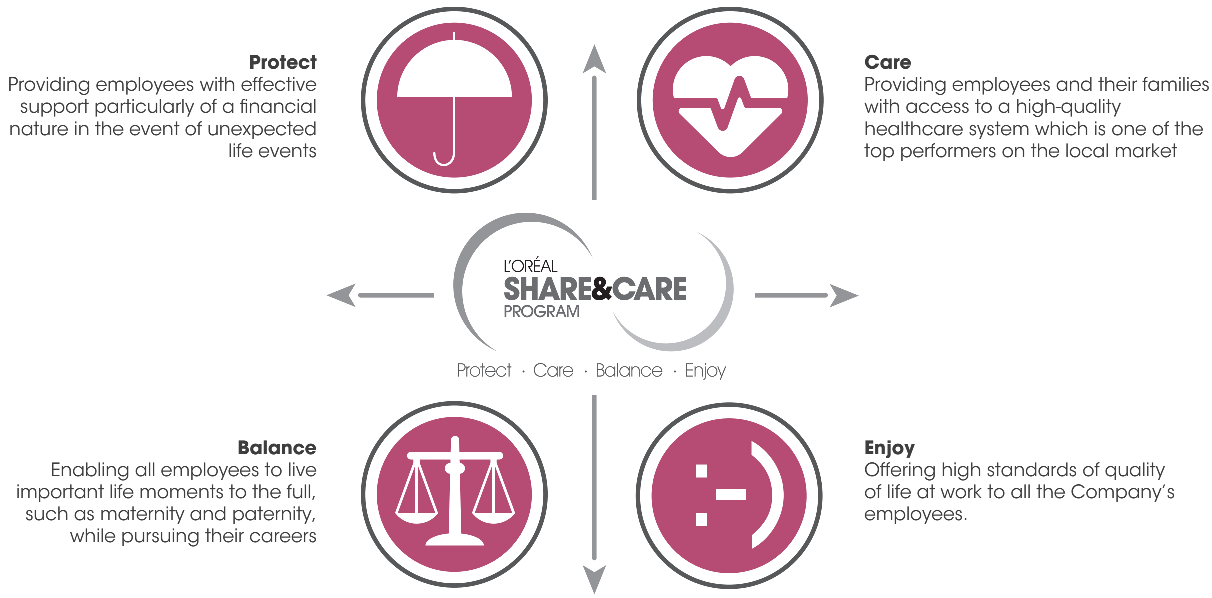
Developing sustainably

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 employees

"By 2020, L'Oréal employees (1) will have access to healthcare, social protection and training, wherever they are in the world."

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.



...with suppliers

"By 2020, 100% of the Group's strategic suppliers (2) will be participating in our supplier Sustainable Development 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* program 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.

(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).

(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. 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.

…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 CSR Department, 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 2018, this work was carried out with 88% 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 2018, 57% 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. In 2018, pursuing the work of the Advisory Committee established in 2016, L'Oréal continued its policy of actively listening to consumers on sustainable development issues through a number of studies conducted with consumer panels in the United States, China and Europe with a view to understanding their expectations and fine-tuning its policies.

Sharing Beauty With All: 2020 commitments, 2018 results

INNOVATING SUSTAINABLY

2020 TARGETS	2018 RESULTS		2017 RESULTS
100% of L'Oréal products will have an improved environmental or social profile. Every time the Group creates or renovates a product, it will improve the product's environmental or social profile with regard to at least one of these four criteria:	**79%**	of new or renovated products have an improved environmental or social profile.	76%
• the new formula uses renewable raw materials that are sustainably sourced or derived from green chemistry;	**43%**	of new or renovated products have an improved environmental profile due to a new formula incorporating renewable raw materials that are sustainably sourced or respect the principles of green chemistry.	
• the new formula reduces the product's environmental footprint, particularly with regard to water use;	**48%**	of new or renovated products have an improved environmental profile due to a new formula with a lower environmental footprint.	
• The new packaging has an improved environmental profile;	**58%**	of new or renovated products have an improved environmental profile due to packaging with a lower environmental footprint.	
• the new product has a positive social impact.	**31%**	of new or renovated products have an improved social profile as they notably incorporate raw materials from *Solidarity Sourcing* programmes.	

PRODUCING SUSTAINABLY

2020 TARGETS	2018 RESULTS		2017 RESULTS
L'Oréal will have reduced the CO_2 emissions generated by its plants and distribution centres by 60% in absolute terms, compared to 2005.	**- 77%**	reduction in CO_2 emissions from plants and distribution centres in absolute value since 2005.	- 73%
L'Oréal will have reduced its water consumption by 60% per finished product, compared to 2005.	**- 48%**	reduction in water consumption at plants and distribution centres since 2005 (in litres/finished product).	- 48%
L'Oréal will have reduced its waste generation by 60% per finished product, compared to 2005.	**- 37%**	reduction in waste generated from plants and distribution centres since 2005 (in grams per finished product).	- 37%
L'Oréal will send zero industrial waste to landfill.		The objective of sending "zero" waste to landfill (excluding regulatory obligations) has been achieved for all plants and distribution centres.	0,1%
L'Oréal will have reduced the CO_2 emissions linked to the transport of its product by 20% (in grams of CO_2 per sales unit per km), compared to 2011.	**- 8%**	reduction in CO_2 emissions linked to the transport of product (in grams of CO_2 per sales unit per km) since 2011 with 413,568 tonnes of CO_2 emitted in 2018, which represents 0.0256 g CO_2 per sales unit per km. ☑	- 18%

LIVING SUSTAINABLY

2020 TARGETS	2018 RESULTS		2017 RESULTS
L'Oréal will evaluate the environmental and social profile of all its products using an assessment tool. All brands will make this information publically available to allow consumers to make sustainable choices.	**100%**	of new or renovated products in 2018 were assessed using the product assessment tool. 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.	100%
All brands will assess their environmental and social impact and make commitments to improve it.	**88%**	of brands have assessed their environmental and social impact.	91%
Every brand will report on its sustainability progress and raise consumers awareness of its commitments.	**57%**	of brands conducted a consumer awareness initiative.	46%
Consumers will be able to influence L'Oréal's sustainability efforts through a consumer advisory committee.		In 2018, pursuing the work of the Advisory Committee established in 2016, L'Oréal continued its policy of actively listening to consumers on sustainable development issues through a number of studies conducted with consumer panels in the United States, China and Europe with a view to understanding their expectations and fine-tuning its policies.	

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

DEVELOPING SUSTAINABLY…

2020 TARGETS	2018 RESULTS		2017 RESULTS
… with communities			
By 2020, L'Oréal will enable more than 100,000 people from underprivileged communities to gain access to employment through the following programmes:	**63,584**	people from underprivileged communities gained access to employement.	53,505
• *Solidarity Sourcing* ;	**56,842**	people gained access to work through the *Solidarity Sourcing* programme.	48,692
• vocational training in the beauty sector;	**5,565**	people in difficult social or economic situations participated in free vocational training in the beauty sector through the *Beauty for a Better Life* programme, supported by the L'Oréal Foundation.	3,771
• employment of disabled people.	**1,177**	people with disabilities worked for L'Oréal.	1,042
… with suppliers			
All strategic suppliers(1) will be evaluated and selected based on social and environmental performance.	**83%**	of the Group's strategic suppliers have been evaluated and selected on the basis of their environmental and social performance. They represent more than 73% of total direct purchases (raw materials, packing items and subcontracting) Furthermore, in 2018, 1,369 social audits were carried out, making a total of over 10,800 since 2006.	82%
All strategic suppliers(1) will have completed a self-assessment of their sustainability policy with the Group's support.	**93%**	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 2018, had been assessed on their social, environmental and ethical policies, as well as the application of such policies at their own suppliers, by Ecovadis.	87%
All suppliers will have access to L'Oréal training tools to improve their sustainability policies.		Our dedicated online training platform was launched at the end of October 2016. It will firstly be made available to strategic suppliers, before being gradually implemented more broadly.	
20% of strategic suppliers(1) will be associated with our Solidarity Sourcing programme.	**13%**	of strategic suppliers are involved in the *Solidarity Sourcing* programme.	9%
… with employees			
Employees will benefit from health cover that reflects best practices in their country of residence.	**96%**	of the Group's permanent employees benefit from health cover that reflects best practice in their country of residence.	96%
Employees will benefit from financial protection in the event of a life-changing accident.	**93%**	of the Group's permanent employees have access to financial protection in the event of a life-changing accident (including death or permanent disability).	92%
Every L'Oréal employees will be able to attend at least one training session per year, wherever they are in the world.	**88%**	of the Group's employees benefitted from at least one training session in 2018.	78%

(1) *Strategic supplier = supplier whose added value is significant for the Group by contributing to the L'Oréal sustainable strategy by its weight, its innovations, its strategic alignment and its geographical deployment.*

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 110 years and at the same time inventing the new L'Oréal of the future, 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. 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.

The subsidiaries operate the Group's business activities in the country or region in which they are located. 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% [(1)]. 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 brands of consumer products (see paragraph 1.2.1 "Group Profile").

Travel Retail is a fast-growing transversal channel that conveys the Company's image and is expanding in line with passenger numbers. By establishing the multi-Division Travel Retail department, the Group has put in place the means to develop this segment using 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.

1.4.3. GEOGRAPHIC ZONE

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 (see paragraph 1.2.1 "Group Profile").

1.4.4. 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 (see paragraph 1.2.1 "Group Profile").

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

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, 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.

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, assessing and controlling risks that may affect the smooth running of the Company. It also participates in the Group's development by promoting the good use of resources to minimise the impact of negative events and maximise the realisation of opportunities.

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:

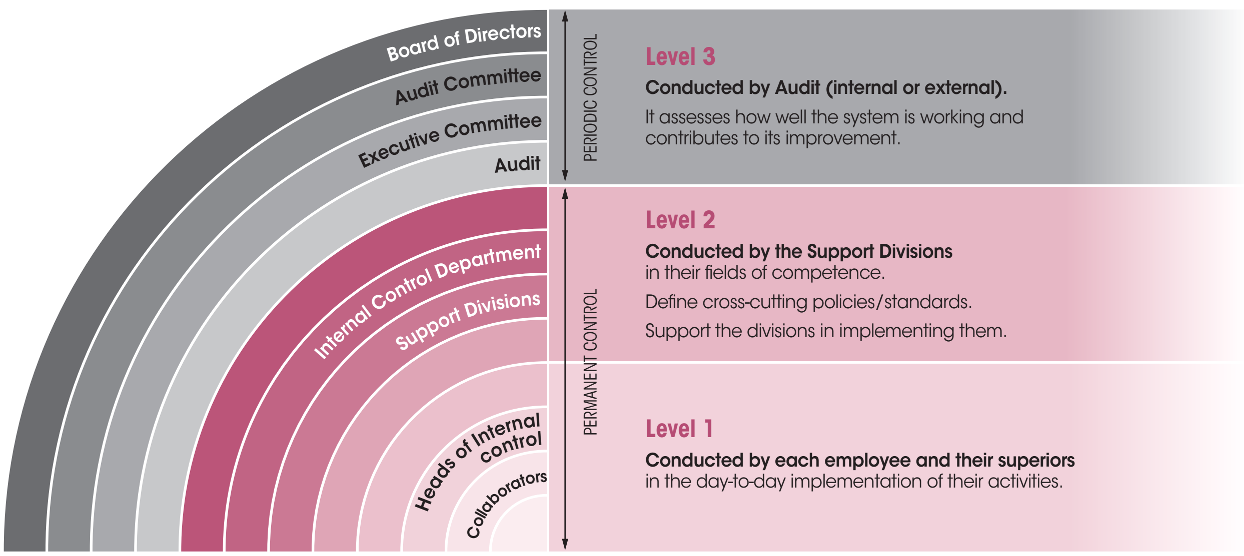
- economic and financial targets are achieved in compliance with the laws and regulations in force and the Group's ethical principles and standards;
- the orientations set by General Management are followed;
- the Group's assets and reputation are valued and protected;
- the Group's financial and accounting 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 in line with the Group's strategic choices.

Risk management and Internal Control is everyone's business, 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*

* *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 2018, 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 corporate 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 corporate officers, in respect of their 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 section 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 section 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 section 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. (see section 2.6)

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 and again on 17 April 2018, the Annual General Meeting renewed the term of office of Mr. Jean-Paul Agon as Director. At the end of this latter meeting, 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 specific needs.

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.

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 three Directors (one of whom is Vice-Chairman of the Board) from the Bettencourt Meyers family, two Directors (one of whom is Vice-Chairman of the Board) appointed by Nestlé, 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.

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 2018, 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 2018, 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 10 October 2018. They concern the general powers of the Board of Directors and the remit of the Audit Committee, further to the revision of the AFEP-MEDEF Code in June 2018. The Internal Rules are published in full in this chapter.

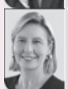
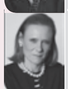
The composition of the Board of L'Oréal, the rules it applies to its work, its modus operandi, and the work that it has carried out in the year, evaluated on an annual basis by the Directors, as well as the decisions made, are described in paragraphs 2.2 and 2.3 below.

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 regulations and market recommendations.

2

2.2. COMPOSITION OF THE BOARD OF DIRECTORS

As of December 31, 2018

			Age	M/W	Nationality	Number of offices in listed companies*	Independence	Date of first appointment	Expiry date of term of office	Seniority on the Board	BOARD COMMITTEES: Strategy and Sustainable Development	BOARD COMMITTEES: Audit	BOARD COMMITTEES: HR and Remuneration	BOARD COMMITTEES: Appointments and Governance
Chairman and CEO	Mr. Jean-Paul AGON		62	M	French	1		25/04/2006	2022	12	C			
Françoise BETTENCOURT MEYERS and her family	Ms. Françoise BETTENCOURT MEYERS		65	W	French			12/06/1997	2021	21	●			
	Mr. Jean-Pierre MEYERS Vice-President		70	M	French			15/12/1987	2020	31	●		●	●
	Mr. Jean-Victor MEYERS		32	M	French			13/02/2012	2020	6		●		
Directors from Nestlé	Mr. Paul BULCKE** Vice-President		64	M	Belgian and Swiss	2		20/04/2017	2021	1	●		●	●
	Ms. Béatrice GUILLAUME-GRABISCH		54	W	French			20/04/2016	2020	2		●		
Independent Directors	Ms. Sophie BELLON		57	W	French	1	◆	22/04/2015	2019	3		●	C	C
	Mr. Patrice CAINE		49	M	French	1	◆	17/04/2018	2022	<1				●
	Mr. Axel DUMAS		48	M	French	1	◆	17/04/2018	2022	<1		●		
	Ms. Belén GARIJO		58	W	Spanish	1	◆	17/04/2014	2022	4			●	
	Mr. Bernard KASRIEL		72	M	French		◆	29/04/2004	2020	14	●			
	Ms. Virginie MORGON		49	W	French	1	◆	26/04/2013	2021	5		C		
	Ms. Eileen NAUGHTON		61	W	American		◆	20/04/2016	2020	2			●	
Directors representing employees	Ms. Ana Sofia AMARAL		53	W	Portuguese			15/07/2014	2022	4			●	
	Mr. Georges LIAROKAPIS		56	M	French and Greek			15/07/2014	2022	4		●		

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

**Number of offices (excluding L'Oréal) in listed companies, including foreign companies, in accordance with the provisions of point 18 of the AFEP-MEDEF Code (i.e. with the exception of offices held in subsidiaries and investments, alone or in concert, by an executive officer of companies whose main activity is to acquire and manage such interests).*

*** Paul Bulcke was a Director at L'Oréal from 2012 to June 2014 and has been again since 2017.*

57

Average age of the Directors at 31.12.2018

7

Independent Directors

46%

Female Directors (excluding Directors representing the employees)

2.2.1 THE GUIDING PRINCIPLES

2.2.1.1 Composition of the Board of Directors

At 31 December 2018, the Board of Directors comprises 15 members:

- the Chairman and Chief Executive Officer, Mr Jean-Paul Agon;
- three Directors from the Bettencourt Meyers family, which owns 33.14% of the share capital: Ms Françoise Bettencourt Meyers, Mr Jean-Pierre Meyers (Vice-Chairman of the Board of Directors) and Mr Jean-Victor Meyers;
- two Directors from Nestlé, which owns 23.18% of the share capital: Mr Paul Bulcke (Vice-Chairman of the Board of Directors) and Ms Béatrice Guillaume-Grabisch;
- seven independent Directors: Ms Sophie Bellon, Ms Belén Garijo, Ms Virginie Morgon, Ms Eileen Naughton, Mr Axel Dumas, Mr Patrice Caine and Mr Bernard Kasriel. 54% of the Directors are independent (7 out of 13 excluding the Directors representing the employees);
- two Directors representing the employees, Ms Ana Sofia Amaral and Mr Georges Liarokapis.

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 2018 is shown in chapter 6 of this Document.

2.2.1.2 Diversity policy applied to the Board of Directors: experienced Directors who complement one another

As it does every year, the Board considered the issue of the desirable balance of its composition and that of its Committees (representation of men and women, ages, qualifications, and professional experience).

The Directors of L'Oréal come from different backgrounds. They complement one another due to their different professional experience, their skills and their nationalities.

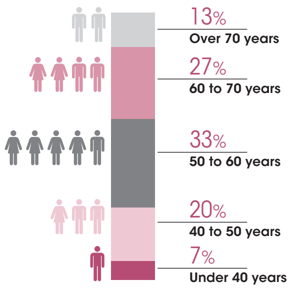
The Board is attentive to maintaining a balance between Directors with historical knowledge of the Company and Directors who have joined the Board more recently.

SUMMARY OF THE BOARD OF DIRECTORS' DIVERSITY POLICY TABLE:

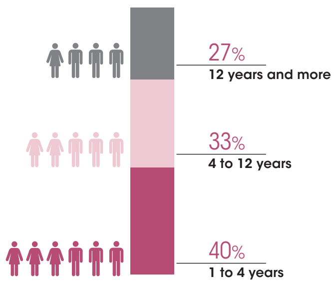
Criteria	Policy and objectives	Means of implementation and outcomes achieved in 2018
Age and seniority of Directors	Search for generational balance beyond compliance with the Internal Rules: ◆ no more than one-third of directors aged over 70, ◆ in principle, it is accepted that Directors must resign from the Board before the General Meeting following their 73rd birthday. Other than the age of Directors, search for balanced distribution in terms of seniority on the Board.	Directors are aged between 32 and 72, with an average age of 57. The Board considers that its composition is balanced, with Directors with long-standing knowledge of L'Oréal and Directors who have joined more recently.
Gender balance Representation of men and women	Compliance with the Copé-Zimmermann law, which provides for a minimum of 40% of directors of the same gender on Boards. Desire to maintain gender balance of around 50% on the Board. Gender balance in the Committees.	The Board considers that the proportion of 46% of female Directors reached since April 2016 represents balanced representation of men and women. Three out of four Committees are chaired by women (Audit Committee, Appointments and Governance Committee and Human Resources and Remuneration Committee).
Nationalities International profiles	Recruitment of international profiles: ◆ search for directors of foreign nationality or international culture, ◆ and/or having international experience in L'Oréal's strategic markets	The Board has seven different nationalities (American, Belgian, French, Greek, Portuguese, Spanish, Swiss). The majority of Directors have international careers and responsibilities. Six directors are based outside France.
Qualifications and professional experience	Search for complementarity in the experience of Directors. Definition of a base of skills and expertise shared by all Directors ("common core"). Skills related to L'Oréal's strategy and development objectives.	The Appointments and Governance Committee has identified a set of skills and expertise, validated by the Board. (see below)

SUMMARY OF RESULTS OBTAINED DURING THE 2018 FINANCIAL YEAR

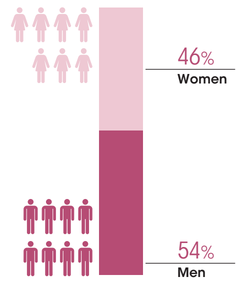
BREAKDOWN BY AGE



SENIORITY IN OFFICE



BREAKDOWN OF MEN/WOMEN



QUALIFICATIONS AND PROFESSIONAL EXPERIENCE OF L'ORÉAL DIRECTORS

Skills base and shared expertise

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

Skills related to the strategy and development objectives of L'Oréal

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:

With their complementary expertise and freedom of judgment, the Directors collectively ensure that the measures adopted contribute to the implementation of L'Oréal's strategy.

2.2.1.3 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.

Ms 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.

Both were appointed in 2014 and again in 2018 for a second 4-year term. They both resigned from their duties as employee representatives before joining the Board of Directors in 2014.

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.

Ms Ana Sofia Amaral and Mr Georges Liarokapis have been members of the Human Resources and Remuneration Committee and the Audit Committee, respectively, since 2015.

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

2.2.1.4 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 a corporate officer or Director of a company that is consolidated by the Company, an employee, corporate 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, financial banker, or advisor who is important to the Company or its Group, or for whom 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 5 December 2018, 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 significant business relationships	No family links	Not a Statutory Auditor	Not a Director for more than 12 years	Classification adopted
Ms Sophie Bellon	Yes	Yes	Yes	Yes	Yes	Yes	Independent
Mr Patrice Caine	Yes	Yes	Yes	Yes	Yes	Yes	Independent
Mr Axel Dumas	Yes	Yes	Yes	Yes	Yes	Yes	Independent
Ms Belén Garijo	Yes	Yes	Yes	Yes	Yes	Yes	Independent
Mr Bernard Kasriel	Yes	Yes	Yes	Yes	Yes	No (2)	Independent
Ms Virginie Morgon	Yes	Yes	Yes	Yes	Yes	Yes	Independent
Ms Eileen Naughton	Yes	Yes	Yes (1)	Yes	Yes	Yes	Independent

(1) Based on the work carried out by the Appointments and Governance Committee, the Board of Directors analysed on 5 December 2018, 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.

As to the significance of the business relationship, and in keeping with AMF recommendations, the Board of Directors carried out a quantitative and qualitative analysis, adopting a wide multi-criteria approach (duration and continuity, importance of the business relationship for L'Oréal and the Director, and organisation of the relationship).

Ms Eileen Naughton's situation was closely scrutinized.

Concerning the relations between L'Oréal and Google, of which Ms 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. Moreover, Google's relationship with L'Oréal remains extremely marginal in Google's sales. Furthermore, in light of the Human Resources position she holds at Google, Ms Eileen Naughton does not have any decision-making power with regard to the contracts that constitute the business relationship with L'Oréal. Finally, Ms 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 Ms 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 Bernard Kasriel, whose term in office, which was renewed by 98.49% on 20 April 2016, has exceeded 12 years. The Board of Directors took into account the objectivity that this latter has always shown at the time of the debates and decisions of the Board, and his ability to express his convictions from specific and different angles and provide a balanced judgement under all circumstances during Board discussions, notably, with regard to General Management. He has consistently shown, thanks to his experience as a senior management executive at the very highest level of a large international group, a remarkable independent spirit, perspective, and freedom to speak, enabling him to simultaneously challenge and support General Management in defining the Group's strategy.

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 Bernard Kasriel to automatically lose his status as independent Director.

In summary, on 31 December 2018, 7 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):

- Ms Sophie Bellon
- Mr Patrice Caine
- Mr Axel Dumas
- Ms Belén Garijo
- Mr Bernard Kasriel
- Ms Virginie Morgon
- Ms Eileen Naughton

2.2.1.5 Responsible Directors

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.

Handling of conflicts of interest

Concerning the potential conflicts between the duties of Directors and their private interests, which are to be reported by virtue of European Regulation n° 809/2004, each Director prepares a report each year about any potential conflicts of interest between his or her duties to L'Oréal and his or her private interests or other duties, specifically with regard to his or her other offices and functions. Based on these reports, the Board has not identified any conflict of interests at the date of their preparation.

Whatever the case, pursuant to the Internal Rules of the Board of Directors of L'Oréal, *"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"*.

Finally, the situation of the Directors in light of the independence criteria set out in the AFEP-MEDEF Code is examined every year by the Board of Directors and described in section 2.2.1.4.

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 14.1 of the Annex)

Ms 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 Ms Françoise Bettencourt Meyers and the father of Mr Jean-Victor Meyers.

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

Absence of any conviction or incrimination on the part of the corporate officers (Article 14.1 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 14.2 and 18.3 of the Annex)

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.

Regarding any arrangement or agreement entered into with the major shareholders, clients, suppliers, or others, under which a Director was selected as a member of the Board of Directors, an agreement between the Bettencourt Meyers family and Nestlé S.A., which expired on 21 March 2018, concerned the reciprocal voting commitment in favour of the appointment as Directors of three members proposed by the Bettencourt Meyers family and two members proposed by Nestlé (see also section 6.3.5 "Shareholders' agreements relating to shares in the Company's share 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 Téthys 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 14.2 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 (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 2018*").

2.2.2 LIST OF CORPORATE OFFICES AND DIRECTORSHIPS OF THE DIRECTORS EXERCISED AT 31 DECEMBER 2018

JEAN-PAUL AGON

French
Age: 62
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.

EXPIRY DATE OF TERM OF OFFICE: 2022

- Professional address: L'Oréal – 41, rue Martre – 92117 Clichy Cedex
- Holds 1,055,000 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: 65
Daughter of Liliane Bettencourt and granddaughter of the founder of L'Oréal, Eugène Schueller, Françoise Bettencourt Meyers 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.

EXPIRY DATE OF TERM OF OFFICE: 2021

- Professional address: Téthys – 27-29, rue des Poissonniers – 92200 Neuilly-sur-Seine
- Holds 33,182,455 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	
Others		
Bettencourt Schueller Foundation	Chairwoman of the Board of Directors	
Pour l'Audition Foundation	Honorary Chairwoman 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: 64
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).

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	
Others		
Avenir Suisse Foundation (Switzerland)	Member of the Board	
World Economic Forum (WEF)	Member Community of Chairpersons	
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
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.	Deputy Director	2016
Other		
Consumer Goods Forum	Member of the Board of Directors and member of the Governance Committee	2017

* *Listed companies.*

JEAN-PIERRE MEYERS

French
Age: 70
M. Jean-Pierre Meyers 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 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
Téthys Invest SAS	Chairman and member of the Supervisory Board
Others	
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 DIRECTORSHIP OVER THE LAST FIVE YEARS THAT HAVE EXPIRED		Expiry date of term of office
Foreign company		
Nestlé S.A. (Switzerland)	Director	2014

ANA SOFIA AMARAL

Portuguese
Age: 53
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; her tenure was renewed for a period of four years in 2018. She is a member of the Human Resources and Remuneration Committee.

EXPIRY DATE OF TERM OF OFFICE: 2022

- Professional address: Rua Dr António Loureiro Borges, Edificio 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

CORPORATE OFFICES AND DIRECTORSHIP OVER THE LAST FIVE YEARS THAT HAVE EXPIRED	Expiry date of term of office
None	

SOPHIE BELLON

French
Age: 57
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 of L'Oréal since 2015. She is the Chairwoman of the Appointments and Governance Committee, and the Compensation and Human Resources Committee, and a 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 S	Member of the Management Board	
PB Holding SAS S	Chairwoman	
France-China Committee (CPC)	Member of the Board of Directors	
Others		
Association Française des Entreprises Privées (AFEP)	Member of the Board of Directors	
Association Nationale des Sociétés par Actions (ANSA)	Member of the Board of Directors	
CORPORATE OFFICES AND DIRECTORSHIP 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 SA	Chairwoman of the Management Board	2015
Others		
Pierre Bellon Foundation	Founding Member	2018
SWIFT (Sodexo Women's International Forum for Talent)	Co-Chair	2018

* *Listed company.*
S *Sodexo Group companies.*

PATRICE CAINE

French
Age: 49
Chairman and Chief Executive Officer of Thales Group since December 2014, after holding management positions in various operating units (Aviation and Naval, Communications, Navigation and Identification, Air Systems, Radio-Communication Products, Network and Infrastructure Systems, and Protection Systems) from 2002 to 2013. Patrice Caine has been a Director of L'Oréal since April 2018, and is a member of the Appointments and Governance Committee.

EXPIRY DATE OF TERM OF OFFICE: 2022

- Professional address: Thales - Tour Carpe Diem - 31 place des Corolles - 92098 Paris La Défense Cedex
- Holds 1,000 L'Oréal shares

MAIN CORPORATE OFFICE HELD OUTSIDE L'ORÉAL		
Thales*	Chairman and Chief Executive Officer	
OTHER CORPORATE OFFICES AND DIRECTORSHIPS HELD		
French company		
Naval Group (ex DCNS)	Director	
Others		
France Industrie (le Cercle de l'Industrie et le Groupe des Fédérations Industrielles)	Director	
CORPORATE OFFICES AND DIRECTORSHIP OVER THE LAST FIVE YEARS THAT HAVE EXPIRED		**Expiry date of term of office**
Other		
École des Mines de Paris	Director	2016

* *Listed company.*

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AXEL DUMAS

French
Age: 48
Executive Chairman of Hermès International since 2013, after successively holding various positions in that company. 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, Axel Dumas was appointed as Executive Vice-President of Operations and member of the Executive Committee of the group. Axel Dumas has been a Director of L'Oréal since April 2018, and is a member of the Audit Committee.

EXPIRY DATE OF TERM OF OFFICE: 2022

- Professional address: 24, rue du Faubourg-Saint-Honoré - 75008 Paris
- Holds 1,000 L'Oréal shares

MAIN CORPORATE OFFICE HELD OUTSIDE L'ORÉAL		
Hermès International*[H]	Executive Co-Chairman	
OTHER CORPORATE OFFICES AND DIRECTORSHIPS HELD		
French companies		
Axam 2	Executive Chairman	
Comptoir Nouveau de la Parfumerie [H]	Permanent Representative of Hermès International, Director	
Hermès Sellier [H]	Chairman Executive Officer of the following Divisions: - Hermès Leather Goods and Saddlery; - Hermès Sales; - Hermès Silk and Textiles; - Hermès Travel Retail; - Hermès Jewellery;	- Hermès Men; - Hermès Women; - Hermès Group Services; - Hermès Home.
Maia	Executive Chairman	
Mathel	Executive Chairman	
H51	Director	
Foreign companies		
Faubourg Middle East[H] (United Arab Emirates)	Director	
Hermès Asia Pacific[H] (Hong Kong)	Director	
Hermès China[H] (China)	Chairman, Director	
Hermès China Trading[H] (China)	Chairman, Director	
Hermès Japan[H] (Japan)	Director	
Hermès Korea[H] (South Korea)	Chairman, Director	
Hermès of Paris[H] (United States)	Chairman, Director	
La Montre Hermès[H] (Switzerland)	Director	

CORPORATE OFFICES AND DIRECTORSHIP OVER THE LAST FIVE YEARS THAT HAVE EXPIRED		**Expiry date of term of office**
French companies		
Ateliers A.S.	Permanent Representative of Hermès International, Director	2018
Compagnie Hermès de Participations	Permanent Representative of Hermès International, Director	2018
CHP3	Chairman	2018
Hermès Sellier	Executive Corporate Officer of Hermès Distribution France	2018
Castille Investissement	Permanent Representative of Hermès International, Chairman	2016
Hermès Horizons	Chairman	2016
Isamyol 28	Permanent Representative of Hermès International, Chairman	2016
Isamyol 30	Permanent Representative of Hermès International, Chairman	2016
Isamyol 31	Permanent Representative of Hermès International, Chairman	2016
Isamyol 32	Permanent Representative of Hermès International, Chairman	2016

CORPORATE OFFICES AND DIRECTORSHIP OVER THE LAST FIVE YEARS THAT HAVE EXPIRED		Expiry date of term of office
Isamyol 33	Permanent Representative of Hermès International, Chairman	2016
Grafton Immobilier	Chairman	2015
Hermès Italy	Chairman of the Board of Directors, Director	2015
Immobilier du 5 rue de Furstemberg	Permanent Representative of Hermès International, Chairman	2015
Maroquinerie de Normandie	Permanent Representative of Hermès International, Chairman	2015
Motsch-George V	Permanent Representative of Hermès International, Chairman	2015
SCI Boissy Les Mûriers	Permanent Representative of Hermès International, Executive Chairman	2015
SCI Boissy Nontron	Permanent Representative of Hermès International, Executive Chairman	2015
SCI Edouard VII	Permanent Representative of Hermès International, Executive Chairman	2015
SCI Honossy	Permanent Representative of Hermès International, Executive Chairman	2015
SCI Les Capucines	Permanent Representative of Hermès International, Executive Co-Chairman	2015
SCI Auger-Hoche	Permanent Representative of Hermès International, Executive Chairman	2015
Tannerie de Vivoin	Permanent Representative of Hermès International, Chairman	2015
Créations Métaphores	Permanent Representative of Hermès International, member of the Management Board	2015
Isamyol 25	Permanent Representative of Hermès International, Chairman	2014
CHP2	Permanent Representative of Hermès International, Chairman	2014
Foreign companies		
Boissy Mexico (Mexico)	Permanent Director	2018
Hermès Canada (Canada)	Chairman, Director	2018
Hermès de Paris (Mexico)	Permanent Director	2018
Hermès Grèce (Greece)	Director	2018
Hermès Ibérica (Spain)	Director	2018
Hermès India Retail and Distributors (India)	Director	2018
Hermès Monte-Carlo (Principality of Monaco)	Permanent Representative of Hermès International, Deputy Chairman and Director	2018
Hermès Retail Malaysia (Malaysia)	Chairman, Director	2018
Herlee (Hong Kong)	Chairman, Director	2017
Hermès do Brasil (Brazil)	Member of the Advisory Board	2017
Hermès Immobilier Genève (Switzerland)	Director	2016
Hermès Australia (Australia)	Chairman of the Board of Directors, Director	2015
Hermès Benelux Nordics (Belgium)	Director	2015
Hermès GB (Great Britian)	Chairman, Director	2015
Hermès Monte-Carlo (Principality of Monaco)	Permanent Representative of Hermès Sellier and Director	2015
Hermès Latin America (United States)	Director	2015
Hermès of Hawaii (United States)	Chairman, Director	2014

* *Listed company.*
H *Member companies of the Hermès Group.*

BELÉN GARIJO

Spanish
Age: 58
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).

EXPIRY DATE OF TERM OF OFFICE: 2022

- 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)	Chairwoman and Chief Executive Officer
OTHER CORPORATE OFFICES AND DIRECTORSHIPS HELD	
Foreign company	
BBVA* (Spain)	Director
CORPORATE OFFICES AND DIRECTORSHIP OVER THE LAST FIVE YEARS THAT HAVE EXPIRED	
None	

* *Listed company.*

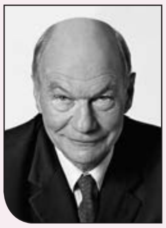
BÉATRICE GUILLAUME-GRABISCH

French
Age: 54
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-Grabisch has been a Director at L'Oréal 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 DIRECTORSHIP OVER THE LAST FIVE YEARS THAT HAVE EXPIRED		**Expiry date of term of office**
Foreign company		
Henkel (Germany)	Director	2016



BERNARD KASRIEL

French
Age: 72
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.

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

None

CORPORATE OFFICES AND DIRECTORSHIP OVER THE LAST FIVE YEARS THAT HAVE EXPIRED		Expiry date of term of office
French company		
Arkema S.A.	Director	2017
Foreign company		
Nucor (United States)	Director	2018

GEORGES LIAROKAPIS

French and Greek
Age: 56
Coordinator of Sustainability for L'Oréal Western Europe. Georges Liarokapis was appointed by the CFE-CGC union as a Director representing the employees in 2014; his tenure was renewed for a period of four years in 2018. He is a member of the Audit Committee.

EXPIRY DATE OF TERM OF OFFICE: 2022

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

OTHER CORPORATE OFFICES AND DIRECTORSHIPS HELD

None

CORPORATE OFFICES AND DIRECTORSHIP OVER THE LAST FIVE YEARS THAT HAVE EXPIRED	Expiry date of term of office
None	

JEAN-VICTOR MEYERS

French
Age: 32
A member of the Supervisory Board of the family-owned holding company Téthys since January 2011, and a member of the Supervisory Committee of the investment subsidiary Téthys Invest and Chairman of Exemplaire. 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
Exemplaire SAS	Chairman
Constantine Capital SAS	Chairman
CORPORATE OFFICES AND DIRECTORSHIP OVER THE LAST FIVE YEARS THAT HAVE EXPIRED	
None	

VIRGINIE MORGON

French
Age: 49
Chairwoman of the Management Board of Eurazeo, which she joined in 2008 after working for sixteen years at Lazard, as well as Chairwoman of Eurazeo North America Inc. (USA). She is also Co-Chair of the Paris Committee of Human Rights Watch. Virginie Morgon has been a Director of L'Oréal since 2013 and is the Chairwoman of the Audit Committee.

EXPIRY DATE OF TERM OF OFFICE: 2021

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

MAIN CORPORATE OFFICE HELD OUTSIDE L'ORÉAL	
Eurazeo*[E]	Chairwoman of the Management Board
OTHER CORPORATE OFFICES AND DIRECTORSHIPS HELD	
French companies	
Idinvest Partners [E]	Chairwoman of the Supervisory Board
Foreign companies	
Alpine Newco Inc. (USA) [E]	Chief Executive Officer / Chairwoman
Eurazeo North America Inc. (USA) [E]	Chairwoman
Moncler SpA (Italy)* [E]	Vice-Chairwoman of the Board of Directors
Other	
Human Rights Watch	Co-Chair of the French Committee

CORPORATE OFFICES AND DIRECTORSHIP OVER THE LAST FIVE YEARS THAT HAVE EXPIRED		Expiry date of term of office
French companies		
Eurazeo	Chief Executive Officer	2018
Asmodee Holding	Chairwoman of the Supervisory Board	2018
Eurazeo PME	Chairwoman of the Supervisory Board	2018
Grandir (Les Petits Chaperons Rouges investment)	Member of the Supervisory Board	2018
CPK	Vice-Chair of the Supervisory Committee	2018
Vivendi	Member of the Supervisory Board	2018
Legendre Holding 43 (People Doc investment)	Chairwoman	2017
Legendre Holding 44 (Investissement Fintrax)	Chairwoman	2017
Legendre Holding 47 (Les Petits Chaperons Rouges investment)	Chairwoman	2017
AccorHotels	Director	2016
Elis	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
Elis	Chairwoman of the Supervisory Board	2015
Holdelis	Chairwoman of the Board of Directors	2014
Legendre Holding 33	Chairwoman	2014
Foreign companies		
Abasic SL (Spain)	Director	2018
Open Road Parent LLC (USA)	Member of the Board of Directors	2018
Trader Interactive LLC (USA)	Member of the Board of Directors	2018
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
Others		
Women's Forum (WEFCOS)	Member of the Board of Directors	2014

* *Listed companies.*
E *Subsidiaries or investments of Eurazeo (whether alone or in concert).*

EILEEN NAUGHTON

American
Age: 61
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.

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. (USA)	Vice-President, People Operations	
CORPORATE OFFICES AND DIRECTORSHIP 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

2.2.3. CHANGES IN CORPORATE OFFICES AND DIRECTORSHIPS OF THE DIRECTORS

Changes in 2018

- **Renewal of the terms of office of Mr Jean-Paul Agon**

The Annual General Meeting of 17 April 2018 renewed the term of office of Mr Jean-Paul Agon for a 4-year period.

Mr Jean-Paul Agon joined the L'Oréal Group in 1978 and has been a Director since 2006. He has been Chairman and Chief Executive Officer of L'Oréal since 2011.

- **Renewal of the terms of office of Ms Belén Garijo**

The Annual General Meeting of 17 April 2018 renewed the term of office as Director of Ms Belén Garijo for a 4-year period.

- **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.

- **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.

- **Appointment of a new Director: Mr Patrice Caine**

The Annual General Meeting of 17 April 2018 appointed Mr Patrice Caine as Director for a 4-year period. Mr Caine is Chairman and Chief Executive Officer of Thales.

- **Appointment of a new Director: Mr Axel Dumas**

The Annual General Meeting of 17 April 2018 appointed Mr Axel Dumas as Director for a 4-year period. Mr Dumas is the Executive Chairman of Hermès International,

Changes scheduled in 2019

- **Renewal of the term of office of Ms Sophie Bellon**

Ms Sophie Bellon has been a Director at L'Oréal since April 2015. She chairs two Committees: the Human Resources and Remuneration Committee, and the Appointments and Governance Committee. She is also a member of the Audit Committee.

Ms Sophie Bellon, 57, has been Chairwoman of the Board of Directors of Sodexo since January 2016 after holding various positions in that group for more than 20 years.
Sodexo, a world leader in quality-of-life services, has locations in 72 countries and has 460,000 employees worldwide.

Ms Bellon is an independent Director, highly involved in the work of the Committees, who brings her multidisciplinary knowledge of the Company, her client expertise, her mastery of governance issues, her strategic vision, and her commitments to social and societal responsibility to the Board.

Over the four years of her term of office as Director, Ms Bellon's attendance has been 100% for meetings of the Board of Directors and 96% for the three Committees of which she is a member.

- **Appointment of a new Director: Ms Fabienne Dulac**

Following the proposal made by the Appointments and Governance Committee, the Board of Directors submitted the appointment of Ms Fabienne Dulac, Deputy Chief Executive of the Orange Group and Chairwoman and Chief Executive of Orange France, as Director, for a period of four years, to the Annual General Meeting.

Ms Fabienne Dulac, 51, is French and holds a Master of Advanced Studies (DEA) in Political Sociology obtained following studies in History and Modern Literature.

After working for the French Ministry of Home Affairs, she joined the corporate world, taking a position as Head of Communication and Marketing at VTCOM, a multimedia services development company, in 1993.

Ms Dulac joined France Telecom in 1997 in its Multimedia Division. Her responsibilities as Head of External Communication included all of France Telecom's multimedia businesses ; she particularly contributed to founding Wanadoo. She held various positions over a decade in marketing, business development, and customer relationships. In 2008, she was named Vice President of Digital business of Orange France. In 2011, Ms. Dulac became Head of the Orange North France Division in charge of Operations for France. In 2013, Ms Dulac was appointed Head of Communication at Orange France. In 2015, Ms Dulac was made Senior Vice-President of Orange France and joined the Executive Committee as Chairwoman and Chief Executive of Orange France.

She was appointed Deputy Chief Executive Officer of the Orange Group in May 2018. She is also Director of Orange Bank, as of Willa (an incubator dedicated to Female entrepreneurship).

Ms Fabienne Dulac will bring the Board of Directors her knowledge of the digital industry, consumers, and customer relationships, her human resources expertise and her experience in steering an organisation through a major transformation. Ms Dulac will also contribute her personal vision, drawn from her education and career, as well as her sense of innovation paired with her tremendous personal qualities.

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 2018

In 2018, the Board met 7 times.

Four Committees prepare for the discussions and deliberations by the Board. 16 meetings were held in 2018: 4 for the Strategy and Sustainable Development Committee, 4 for the Audit Committee, 5 for the Appointments and Governance Committee, and 3 for the Human Resources and Remuneration Committee.

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.

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

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. The discussions on the Board, encouraged by the Chairman, take place transparently and in great detail.

◆ Executive sessions

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 (Article 4.2 of the Internal Rules). An executive session was held following the meeting of the Board of Directors on 5 December 2018.

The Audit Committee also meets twice a year in the presence of the Statutory Auditors and in the absence of any representative from General Management, at the end of the meetings dedicated to reviewing the annual and interim financial statements. These two meetings were held on 8 February and 26 July 2018.

◆ Attendance

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

In 2018, the attendance rate at Board meetings was 92% on average. The individual attendance rate at Board and 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.

INDIVIDUAL ATTENDANCE RATES OF DIRECTORS IN 2018 AT BOARD AND COMMITTEE MEETINGS

	Board of Directors	Strategy and Sustainable Development Committee	Audit Committee	Appointments and Governance Committee	Human Resources and Remuneration Committee
Jean-Paul Agon	100%	100%			
Françoise Bettencourt Meyers	86%	100%			
Paul Bulcke	100%	100%		100%	100%
Jean-Pierre Meyers	100%	100%		100%	100%
Ana Sofia Amaral	100%				100%
Sophie Bellon	100%		100%	100%	100%
Patrice Caine (from 17/04/2018)	60%			67%	
Axel Dumas (from 17/04/2018)	60%		100%		
Belén Garijo	100%				67%
Béatrice Guillaume-Grabisch	100%		100%		
Bernard Kasriel	100%	100%			
Georges Liarokapis	100%		100%		
Jean-Victor Meyers	100%		100%		
Virginie Morgon	86%		100%		
Eileen Naughton	71%				100%
2018 AVERAGE	**92%**	**100 %**	**100%**	**93%**	**95%**

2.3.2. THE ACTIVITIES OF THE BOARD OF DIRECTORS

2.3.2.1 Main Remits 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.

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 Board ensures that all of the topics within its remit are thoroughly investigated by the Committees in charge of those issues. In 2018, the subjects of sustainable development, diversity, and gender balance, as well as succession plans, were reviewed by the Committees in order to report quality information to the Board with which to inform its decisions. Details on the activity of these Committees appear in section 2.3.3.

2.3.2.2. The Board's work in 2018

In 2018, the Board of Directors met 7 times. Directors also participated in a strategy seminar held in Shanghai on 5, 6, and 7 June.

The work and agendas were prepared so as to cover all of the subjects within the Board's remit and to meet the expectations expressed by the Directors in the annual evaluation of the modus operandi of the Board.

The Board is consistently informed of the work of the various Committees by each Chairperson and bases its decisions on their recommendations.

In 2018, the Board's activity was mainly focused on the following areas:

Corporate governance

In 2018, the Board of Directors deliberated on its composition, taking diversity into consideration in terms of gender, skills, and expertise (see section 2.2.1.2.). At the Annual General Meeting of 17 April 2018, it proposed renewal of the terms of office of Mr Jean-Paul Agon and Ms Belén Garijo as well as the appointment of two new Directors, Mr Patrice Caine and Mr Axel Dumas.

It debated the method of organisation of General Management. It opted to continue to combine the duties of Chairman of the Board and Chief Executive Officer, as this mode of governance appeared the most suited to L'Oréal's specific needs, and decided to entrust Mr Jean-Paul Agon with his duties as Chairman and Chief Executive Officer (see section 2.1.2.1).

Further to the renewal of a portion of its members, the Board of Directors also reviewed the chairperson and composition of the Committees in 2018. Ms Sophie Bellon was appointed Chairwoman of the Human Resources and Remuneration Committee, Mr Patrice Caine joined the Appointments and Governance Committee, and Mr Axel Dumas the Audit Committee.

The Board approved the agenda and the draft resolutions submitted to voting by the Annual General Meeting. It was informed of the expectations and positions of the main investors and proxy advisors, as expressed in meetings with the Company managers in charge of preparing for the Annual General Meeting. It approved the answers to the written questions.

It is noted that dialogue with shareholders is the domain either directly of the Chairman and Chief Executive Officer (General Meetings, meetings of the main investors, Actionaria Stock Market Fair, etc.), or the L'Oréal teams (governance roadshows, Consultative Committee of Individual Shareholders, etc.) in accordance with the principles of stock market ethics and equal access to information.

As every year, the Board made a full evaluation of its *modus operandi* and its organisation. It discussed this evaluation when the item was put on the Board meeting agenda. This evaluation led to proposals for improvements and made it possible to define the strategic topics on which the Board particularly wished to focus its reflections (see section 2.3.4).

Remuneration Policy and Human Resources

The Board deliberated on the rules relating to the remuneration of the executive officer and approved the remuneration of this latter for 2018, based on the extensive work by and recommendations from the Human Resources and Remuneration Committee.

It approved the 2018 Plan for the award of performance shares.

It decided on a worldwide employee shareholding Plan.

The Board was updated on the diversity and gender balance policy deployed in the Company, specifically with regard to the equal number of men and women in management bodies.

Business activity and results

The systematic and in-depth review, at each meeting, of the Group's activities and results and sales generated by Division, geographic area, brand, and e-commerce, as well as an analysis of market share gains, enabled 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 was also informed throughout the year of developments in the cosmetics market, the results of competitors and the Group's relative positioning.

It carefully monitored the major changes in consumer trends and, in particular, the development of e-commerce and new distribution channels. It received 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 universe.

The Board is informed of the Audit Committee's in-depth work, specifically on internal control and risk management. In 2018, it asked to meet with the Global IT Department Head, with a particular focus on the cybersecurity programme deployed in the Group.

Strategy

The Board meets with 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 2018, the Directors welcomed L'Oréal's Executive Vice-President Chief Digital Officer, who presented them with the new digital technology and the results of the digital transformation at L'Oréal. She outlined the programme in place and its strategic objectives aimed at making L'Oréal into a "Beauty Tech Company".

The Deputy Chief Executive Officer in charge of Divisions gave an in-depth explanation of the transformation of distribution networks and the strong growth in e-commerce. He also presented the Board with the developments in business drivers (expenses relating to the advertising and promotion of products to customers and consumers), in the highly digitised cosmetics universe. The Directors then debated the challenges and opportunities of these sea changes for the Group.

The Board also contributes to the development of strategy, by analysing the interest of acquisitions and the conclusion of licencing contracts. It studies their impact on the Company's financial structure and its long-term development capabilities. In 2018, the Directors once again reviewed a number of new projects, including the acquisition of ModiFace, renewal of the Armani licence, acquisition of Stylenanda and Pulp Riot, signature of the Valentino licence, and acquisition of Logocos Naturkosmetik, which were added to the brand portfolio of the Group's various Divisions.

The Board also 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 Central Works Council was once again consulted and issued an opinion 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.

The Board of Directors also handled many subjects including Human Resources and Ethics, with the aim of approaching every topic from a strategic angle.

And so the Board interviewed the Executive Vice-President Human Resources on the Group's Human Resources policy. The discussions covered recruitment and talent development. On this occasion, a progress update on 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 Chief Ethics Officer presented the Board with an overview of the geography of risks in terms of Human Rights and corruption. He reiterated the ethical principles that guide the actions and behaviour of L'Oréal and that of its employees when doing business, and described the tools being deployed in the Group to develop an Ethics culture.

Strategy Seminar in Shanghai

In June 2018, the Board traveled to Shanghai for three days, one of which was spent touring the distribution facilities, preceded by a presentation of the market and an "e-market visit." The Directors were welcomed at every point of sale by the heads of the various Divisions and business segments. At the Global Harbour Shopping Mall, they stopped at Watson, Sephora, and the Maybelline store, then visited Carrefour Gubei. They continued their visit in Department Stores where the Group's most prestigious brand kiosks are located. Finally, at the IFC Shopping Mall, they saw the Kérastase brand in a hair salon, then the Lancôme, Yves Saint Laurent Beauté, Kiehl's, Shu Uemura, SkinCeuticals, and Atelier Cologne shops.

After these field visits, the Directors spent more than one day reviewing L'Oréal's strategy in China. The President L'Oreal China introduced the review by presenting the major trends in the beauty market in China and then the outlook and three-year plan by Division, business segment, and distribution network. The heads of the different business segments then laid out the challenges specific to their activity. The Strategy Seminar was the opportunity for many discussions between the Directors and the members of the Management Committee of L'Oréal China and their close associates. Meetings were also held with key actors in the Group's business development in China (the Shanghai authorities, the head of a large Chinese e-commerce company, and an economic expert).

The seminar provided deep knowledge not only of the specifics of the Chinese cosmetics market but also the innovations that are transforming the beauty universe, for which China is in the vanguard.

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.

It reviews every year the agreements entered into and authorised during previous financial years and 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.

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.

In 2018, the Committees were once again tasked with preparing the Board's deliberations. The composition of these Committees, their remits and their work in 2018 are described in detail below.

STRATEGY AND SUSTAINABLE DEVELOPMENT COMMITTEE

COMPOSITION	Independence*	Number of meetings in 2018	Attendance rate (average 100%)	Date of appointment to the Committee
Mr. Jean-Paul Agon (Chairman)		4	100 %	2011
Ms. Françoise Bettencourt Meyers			100 %	2012
Mr. Paul Bulcke			100 %	2017
Mr. Bernard Karsiel	◆		100 %	2004
Mr. Jean-Pierre Meyers			100 %	2004

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

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.

2018 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.
- Update on the situation of the Group: Sharing Beauty With All CSR programme.

AUDIT COMMITTEE

COMPOSITION	Independence* 60 %	Number of meetings in 2018	Attendance rate (average 100%)	Date of appointment to the Committee
Ms. Virginie Morgon (Chairwoman)	◆	4	100 %	2013
Ms. Sophie Bellon	◆		100 %	2016
Mr. Axel Dumas	◆		100 %	2018 (May)
Ms. Béatrice Guillaume-Grabisch			100 %	2016
Mr. Georges Liarokapis	Employee Director		100 %	2015
Mr. Jean-Victor Meyers			100 %	2014

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

The committee is chaired by Ms. 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 discussions on items 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 member of the Committee.

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 findings 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.
- 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.

2018 MAIN ACTIVITIES

- Review of annual, interim results and balance sheet.
- Review of Statutory Auditors' Reports.
- Review of the Statutory Auditors' 2018 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 on an array of indicators.
- Approval by the Audit Committee of non-audit services.
- Monitoring of Internal Audit activities, including CSR commitments.
- Internal Control: 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).
- Assessment of the anti-corruption programme
- Assessment of compliance with the European General Data Protection Regulation (GDPR).
- 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.
- Monitoring of the business plan for major acquisitions.
- Cybersecurity: assessment of the measures deployed
- Assessment of procedures in place for combating counterfeiting
- Description of the work on the Non-Financial Information Statement (Order of 19 July 2017)

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APPOINTMENTS AND GOVERNANCE COMMITTEE

COMPOSITION	Independence* 50 %	Number of meetings in 2018	Attendance rate (average 93 %)	Date of appointment to the Committee
Ms. Sophie Bellon (Chairwoman)	◆	5	100%	2016
Mr. Paul Bulcke			100%	2017
Mr. Patrice Caine	◆		67%	(July) 2018
Mr. Jean-Pierre Meyers			100%	2007

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

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 and annual review of succession plans for the corporate 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.
- Evaluation of the *modus operandi* of the Board.

2018 MAIN ACTIVITIES

- Recommendation to the Board on the performance methods of General Management following the renewal of Mr Agon's term of office.
- Reflection on the composition of the Board (diversity, complementary of profiles, skills, expertise, gender parity, combining of offices, etc.) and proposal of a skills matrix for Directors.
- 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 2019.
- 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.
- Review of the succession plans for the purpose of ensuring the continuity of General Management in the event of an unforeseen vacancy and in the medium-term.
- Review of the key positions in the organisation from the perspective of ensuring the continuity of business activities (in the short-term).
- Analysis of the Senart-Notat Report: "L'entreprise, objet d'intérêt collectif" [Companies, subjects of collective interest].
- Review of the draft amendments to the AFEP-MEDEF Code submitted for public consultation.
- Analysis of the 2018 reports of the AMF and the Haut Comité de Gouvernement d'Entreprise (High Committee on Corporate Governance).
- Analysis of the 2018 voting policies of investors and proxy advisors with regard to governance topics (composition of the Board, balance of powers, terms of office, independence of Directors, etc.).
- Review of the amendments made to the Internal Rules in response to the June 2018 update to the AFEP-MEDEF Code.

HUMAN RESOURCES AND REMUNERATION COMMITTEE

COMPOSITION	Independence* 60 %	Number of meetings in 2018	Attendance rate (average 95%)	Date of appointment to the Committee
Ms. Sophie Bellon (Chairwoman)	◆	3	100 %	2018
Ms. Ana Sofia Amaral	Employee Director		100 %	2015
Mr. Paul Bulcke			100 %	2017
Ms. Belén Garijo	◆		67 %	2015
Mr. Jean-Pierre Meyers			100 %	2007
Ms. Eileen Naughton	◆		100 %	2017

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

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.

2018 MAIN ACTIVITIES

- Analysis of the performance of the executive officer in 2017 and communication to the Board of a recommendation with regard to setting the annual variable remuneration for 2017, and the targets and weightings for 2018.
- Reflection concerning the structure of the executive officer's annual variable remuneration and targets objectives for 2019.
- Analysis of the 2018 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 17 April 2018 (*ex ante* vote on the remuneration policy for 2018 and ex post vote on the components of remuneration paid to the executive officer for 2017) and review of the proposed resolutions for the 2019 Annual General Meeting.
- Defined-benefit pension scheme: preparation of the resolution on pension benefits (Art. L. 225-22-1 of the French Commercial Code) and proposal for the performance conditions for the executive officer.
- Delivery of the Long-Term Incentives (LTI) plans: recording of the performances relating to 2014 ACAs plan.
- Long-Term Incentive plans: review of the draft resolution in preparation for the 2018 Annual General Meeting and preparation of the ACAs plan of 17 April 2018. Proposal for a grant to the executive officer.
- Monitoring of establishment of the global employee shareholding plan launched in June 2018.
- Directors' attendance fees: breakdown of 2018 attendance fees and recommendation for the policy and scales applicable in 2019.
- Diversity and gender balance policy: presentation of the various levers and results obtained, specifically with regard to the equal number of men and women in management bodies [1].

(1) The results in terms of gender balance in the top 10% most responsible positions are presented in chapter 3 of this document, "L'Oréal and equity," section 3.3.2.6.

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 2018 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 called to once again consider certain Governance issues, specifically: separation of the functions of Chairman and Chief Executive Officer, scheduling of meetings of the Board of Directors without the presence of the Executive Directors, appointment of a Lead Director, and relations with shareholders over Corporate Governance issues.

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 and on the agendas for the Board meeting, 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 issues and subjects which they would like to discuss in further detail in 2019.

The summary of these interviews, carried out by the Secretary of the Board, was submitted first to the Appointments and Governance Committee meeting on 4 December 2018, and, the next day, to the Board of Directors, followed by a debate between the Directors and decisions for 2019.

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. The Directors are complementary in terms of ages, genders, nationalities, and personalities. Their high-level experience and skills are varied. They cover all areas connected with L'Oréal's strategy, as defined by the Board (see section 2.2.1.2.) There is a great cohesion among the Board members, and the new Directors were integrated rapidly and positively.

With regard to the modus operandi of the Board, it was stressed that the Directors are present, active, and involved, and support General Management in a constructive approach, providing real added value. They share the same concern for acting in L'Oréal's long-term interests.

The quality of dialogue was highlighted. Members are able to debate in a good atmosphere and a climate of trust. The Chairman and Chief Executive Officer is intent on allowing everyone to express themselves. He is open and transparent. He does not hesitate to bring up any topic, including critical points. The Directors feel free to ask questions. Discussions are productive and constructive. The Directors thus exercised their complete freedom of judgment in 2018, 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 composition and preparation of the Committees are considered appropriate, with the right experts serving on each one.

The pace and frequency of their meetings are deemed appropriate. Meetings are well organised, with a good level of information enabling very thorough work. Agendas are interesting and leave ample time for business and strategy issues. 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 Directors are of the opinion that the Board is completely and transparently informed, with a sufficient degree of detail. 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, is satisfactory and boosts the quality of the debates. The monthly press briefing, "L'Oréal This Month," covering activity in general and the main events of life in the Group, is very useful.

The consistent presentation at every Board meeting of sales, markets and competition, and the expansion of the analysis to include e-commerce and Travel Retail, are essential. 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.

The Directors appreciate that business topics are predominant on the meeting agendas. Management's presentations on their activities are interesting; they raise real issues and inspire thought and discussion. The Directors are happy that a point on the Board's agenda is dedicated to them on a regular basis.

Thus, in 2018, the Board found that the in-depth presentations by the Deputy Chief Executive Officer in charge of Divisions about the transformation of the distribution networks and the strong growth in e-commerce, along with his presentation on the developments in business drivers (expenses relating to the advertising and promotion of products to customers and consumers) in the highly digitised cosmetics universe addressed the issues from a strategic angle. These presentations fuel discussion and promote forward-looking thought.

The Strategy Seminar in China was particularly valued: field visits for distribution, exchanges and discussions with the Heads and their teams on all aspects of L'Oréal China, meetings with key players in the Group's business development in China (the Shanghai authorities, the head of a large Chinese e-commerce company, and an economics expert). The seminar provided deep knowledge of the Chinese beauty market and the opportunities for L'Oréal's growth in China.

Such in-depth understanding of the Group's issues and development prospects 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 2018.

The Board appreciates that the agendas of the Board and the Committee meetings over all of the Group's business activities - relating not only to business but also to Ethics, CSR, and Human Resources, which give an extremely complete picture of L'Oréal across these topics that are seen as strategic.

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

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 the composition of the Board (the presence of major shareholders, the number and background of independent Directors) 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. There would be little interest for L'Oréal in doing so, given the Board's current composition and ways of working. Indeed, the Directors wish to maintain a direct relationship with the Chairman and Chief Executive Officer. By opting once again for the combination of duties in 2018, the Board reaffirmed this choice. The appointment of a Lead Director who would intervene between the Chairman and the other Directors would not be consistent with this choice.

The Directors do not have any particular comment to make concerning the organisation of executive sessions. 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 2018.

The Board is attentive to the handling of conflicts of interest. It finds that these are well managed by the rules in force: non-participation in discussions and decisions, and an annual declaration of independence. It also attaches particular importance to the analysis of the independence of the Directors, which is carried out in depth each year.

When asked about the organisation of meetings with shareholders, investors, and proxy advisors on corporate governance subjects, the Directors consider that the current procedure (meetings steered by the department in charge of financial communication and shareholder relations) is satisfactory. They appreciate that their expectations are detailed in the minutes taken in the Committee and Board meetings by the Secretary of the Board, who is in attendance.

For 2019, various decisions with regard to improvements were made. They concern, in particular, the adherence to timing in the meetings, the time required to provide management information and presentations, and the development of the use of a digital tablet for the Board and Committee meetings. The Directors also stated their desire to go into further detail about certain strategic points. They made proposals with regard to the topics to be included on the Board's agenda in 2019. After discussion and review, upon a proposal by the Chairman, a list of the subjects considered to be a priority will be adopted by the Board meeting of 7 February 2019.

Concerning the Board's self-evaluation procedure in 2019, the Board did not think it appropriate, as in 2018, 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 has been 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 10 October 2018. They concern the general powers of the Board of Directors and the remit of the Audit Committee, further to the revision of the AFEP-MEDEF Code in June 2018. 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 corporate 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 AFEP-MEDEF Code. The Corporate Governance Report provides more detail on the Board's composition and on the way in which the Board's work is prepared and organised, and 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. REMIT AND AUTHORITY OF BOARD OF DIRECTORS

1.1 General powers of the Board

The Board of Directors determines the Company's business strategy, in consideration of social and environmental issues, and oversees the implementation thereof.

Subject to the powers expressly conferred to Annual General 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 ensures, as appropriate, that a mechanism for the prevention and detection of corruption and influence-peddling is in place.

The Board also ensures that the executive officers implement a policy of non-discrimination and diversity as regards the balance of women and men in management bodies.

The Corporate Governance Report relays the Board's activity.

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 Corporate Governance Report.

The Board sets the remuneration of the Directors and executive officers. It reports on its policy and decisions in its Management Report and in the Corporate Governance Report. The Annual General Meeting is consulted every year on the components of remuneration due or allocated to each corporate 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 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 specific needs 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 Corporate Governance Report and included in the Registration Document.

2.1.3. Terms of office

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 term of office 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 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/her 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 offices 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.

The Corporate Governance Report gives shareholders all useful information on the Directors' individual participation in these sessions and meetings.

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 [1] of 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 current 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.

(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

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.

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 Annual General 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 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 and non-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, non-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 and non-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.

  It conducts an annual review of the section of the Management Report on risk factors and 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 financial statements by the Statutory Auditors.

  It reviews the audit plan and the Statutory Auditors' work programme, the findings 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 protective 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 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 senior managers who are not executive 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 2018 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
		€10,000 (Directors located outside Europe)	€90,000
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	€4,600	€6,900	€11,500
Human Resources and Remuneration	€4,600	€6,900	€11,500

* *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 2018 FINANCIAL YEAR

A total amount of €1,320,595, which falls within the maximum overall amount of €1,600,000 voted by the Annual General Meeting on 17 April 2018, was distributed to the Directors at the beginning of 2019 in respect of the 2018 financial year, for a total of seven meetings of the Board of Directors (including one non-remunerated meeting) and 16 Committee meetings.

The average attendance rates at meetings in 2018 are 92% for the Board of Directors, 100% for the Strategy and Sustainable Development Committee, 100% for the Audit Committee, 93% for the Appointments and Governance Committee, and 95% 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.

AMOUNT OF ATTENDANCE FEES ALLOCATED (€)

Directors	**2018** *7 Board meetings (of which 6 with pay)* *16 Committee meetings*	2017 *7 Board meetings (of which 6 with pay)* *18 Committee meetings*
Mr Jean-Paul Agon	0	0
Ms Ana Sofia Amaral	80,500	79,000
Ms Sophie Bellon	134,250	114,000
Ms Françoise Bettencourt Meyers	77,500	84,000
Mr Paul Bulcke	107,000	80,000
Mr Patrice Caine [(1)]	50,020	-
Mr Axel Dumas [(1)]	63,250	-
Mr Charles-Henri Filippi [(1)]	25,800	124,000
Mr Xavier Fontanet [(1)]	19,000	84,000
Ms Belén Garijo	78,775	71,300
Ms Béatrice Guillaume-Grabisch	94,000	94,000
Mr Bernard Kasriel	84,000	84,000
Mr Georges Liarokapis	94,000	94,000
Mr Jean-Pierre Meyers	107,000	104,000
Mr Jean-Victor Meyers	94,000	94,000
Ms Virginie Morgon[(2)]	130,000	119,000
Ms Eileen Naughton[(2)]	81,500	62,000
TOTAL	**1,320,595**	**1,287,300**[(3)]

(1) Directors whose term of office began or ended during the 2018 financial year.
(2) Amount per Board meeting, increased to account for intercontinental travel for Directors located outside Europe.
(3) This amount does not include the attendance fees paid to Directors whose term of office ended in 2017.

2.4.3. RULES FOR ALLOCATION IN RESPECT OF THE 2019 FINANCIAL YEAR

With the goal of maintaining the attractiveness of serving on the Board, particularly taking into consideration the intercontinental travel involved, and to compensate the Directors for participating in additional Board meetings, the maximum annual amount of the attendance fees was increased to €1,600,000 beginning in 2018.

The Board of Directors decided to renew for 2019 the procedures for distributing the Directors' attendance fees applied for the 2018 year, as part of the €1,600,000 budget voted in by the Annual General Meeting of 17 April 2018.

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 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 18 April 2019 is called upon to approve, by voting on Resolution N°6 in the draft resolutions for approval, 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 [1] officers for their office.

It is specified, pursuant to Article L. 225-37-2, that the payment of the variable and exceptional components, in respect of the 2018 financial year, is conditional on the approval thereof by the Annual General meeting called to approve the 2018 financial statements.

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 section 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

(1) *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.*

by the Human Resources and Remuneration Committee and the Appointments and Governance Committee.

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.

The panel consists of French and international companies that have leading global positions. 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, essentially 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 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 non-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.

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.

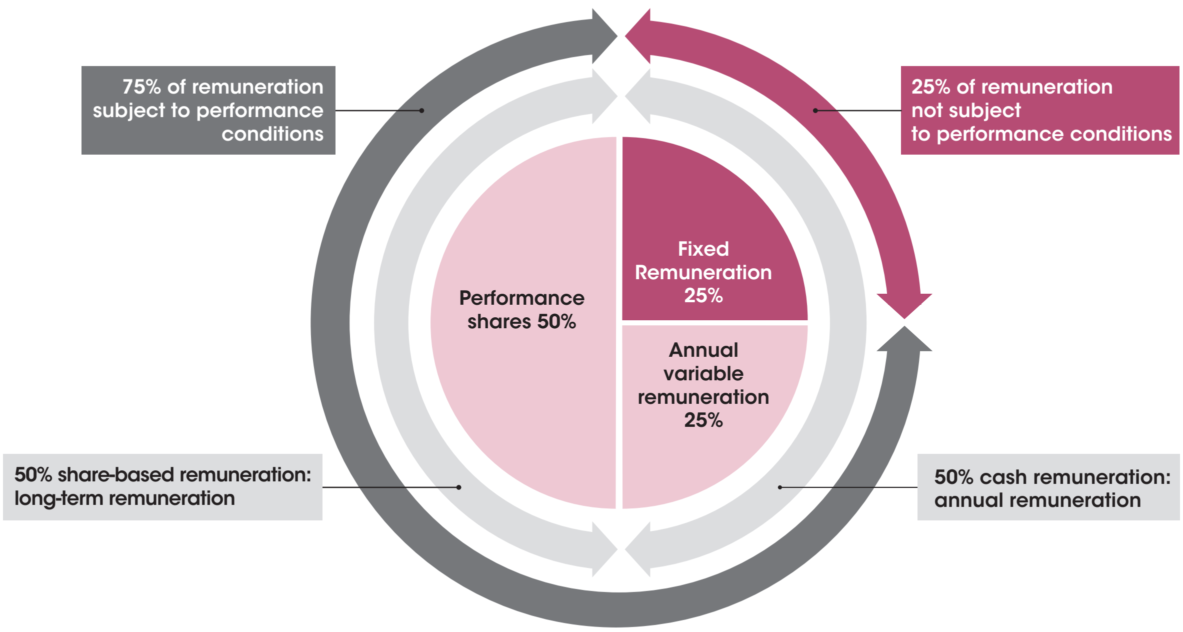
The Board of Directors adopts the various components of this remuneration, paying attention to the necessary balance between each of them.

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 compared to that of key 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:

- non-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 non-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, following a review of performance conditions.

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 that 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 OVER THE LAST 3 FINANCIAL YEARS

Performance share plan dated:	26/04/2013	17/04/2014	22/04/2015
Arithmetical average of performances for financial years	**2014 -2015 -2016**	**2015 -2016 -2017**	**2016 -2017 -2018**
For 50%: growth in like-for-like cosmetics sales as compared to a panel of competitors*	**+1.07 points**	**+0.73 points**	**+1.2 points**
For 50%: growth in the Group's operating profit**	**+6.59%**	**+6.43%**	**+3.91%**
Level of achievement of the performance conditions	100%	100%	82.6%

* *Panel of competitors for the 2012, 2013 and 2014 plans: Unilever, Procter & Gamble, Estée Lauder, Shiseido, Beiersdorf, Johnson & Johnson, Henkel, LVMH, Kao, Revlon, Elizabeth Arden. Panel of competitors from the 2015 plan: Unilever, Procter & Gamble, Estée Lauder, Shiseido, Beiersdorf, Johnson & Johnson, Henkel, LVMH, Kao, Coty.*

** *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 execution of his corporate office subject to the achievement of long-term performance;
- 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) Directors' 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 in addition 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 2019 financial year applicable to Mr Jean-Paul Agon, the only executive officer concerned by this report

<table>
<tr><th></th><th>Amount</th><th>Description</th></tr>
<tr><td>Fixed remuneration</td><td>€2,200,000</td><td>At its meeting of 7 February 2019, 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. This amount has not changed since 2014.</td></tr>
<tr><td>Annual variable remuneration</td><td>Cap 100% of the fixed remuneration</td><td>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.
The Board of Directors strives to encourage the executive officer both to maximise performance for each financial year and to ensure that it is repeated and regular year-on-year.
Annual variable remuneration can be a maximum of 100% of the fixed remuneration.

<table>
<tr><th>CRITERIA FOR ASSESSMENT OF THE PERFORMANCE FOR 2019</th><th>Weightings</th></tr>
<tr><td>◆ FINANCIAL CRITERIA</td><td>60%</td></tr>
<tr><td>• Growth in like-for-like sales as compared to the budget</td><td>15%</td></tr>
<tr><td>• Growth in market share compared to that of key competitors</td><td>15%</td></tr>
<tr><td>• Growth in operating profit as compared to 2018</td><td>10%</td></tr>
<tr><td>• Growth in net earnings per share as compared to 2018</td><td>10%</td></tr>
<tr><td>• Growth in cash flow as compared to 2018</td><td>10%</td></tr>
<tr><td>◆ NON-FINANCIAL AND QUALITATIVE CRITERIA</td><td>40%</td></tr>
<tr><td>• Quantifiable criteria: (% allocated equally among the following criteria)
- CSR (Sharing Beauty With All programme): Innovating sustainably, Producing sustainably, Living sustainably; Developing sustainably;
- Human Resources: Gender parity, Development of talented employees, Access to training;
- Digital Development.</td><td>25%</td></tr>
<tr><td>• Individual qualitative performance:
Management, Image, Company reputation, Dialogue with stakeholders.</td><td>15%</td></tr>
</table>
The quantifiable, financial (60%) and non-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. 225-100 of the French Commercial Code, payment of the annual variable remuneration is conditional on approval by the Annual General meeting called to approve the 2019 financial statements.</td></tr>
<tr><td>Other benefits
◆ Performance shares</td><td></td><td>Concerning the grant of performance shares in 2019, 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 17 April 2018.
The allocation which would be decided in favour of Mr Jean-Paul Agon would comply with the recommendations of the AFEP-MEDEF Code of June 2018 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%.
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.
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.
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&Gamble, Estée Lauder, Shiseido, Beiersdorf, Johnson & Johnson, Henkel, LVMH, Kao, Coty; and for the other half, on growth in the consolidated operating profit of the L'Oréal Group.
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 2020.
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.
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 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.</td></tr>
<tr><td>◆ Directors' fees</td><td>€0</td><td>Mr Jean-Paul Agon did not wish to receive attendance fees in his capacity as Chairman and Chief Executive Officer.</td></tr>
<tr><td>◆ Benefits in addition to remuneration</td><td></td><td>◆ 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.
◆ Additional social protection schemes: defined contribution pension, employee benefit and healthcare 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 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.</td></tr>
</table>

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 executive 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 for the pensions published by the pension insurance.

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 collective bargaining agreement or the above-mentioned company-level agreements.

In the event of termination of the employment contract, financial consideration for the non-competition clause would be paid under the terms of said contract, pursuant to the provisions of the National Collective Agreement for Chemical Industries, unless the executive officer were to be released from application of the clause. This clause does not apply in the event of voluntary retirement or compulsory retirement on the Company's initiative: no consideration for non-competition would be paid in such a situation.

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 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 explained in detail in section 3.3.2.5 and are listed below:

- 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. 137-11.2a) 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:

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 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 2019, the fixed remuneration amounted to €1,684,500 and the 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.

2) Termination indemnities, retirement indemnities in the event of voluntary retirementrt or retirement at the Company's request, financial consideration for the non-competition clause

Termination indemnity and non-competition indemnity	Payment of the indemnities due under the suspended employment contract was approved by the Annual General meeting on 27 April 2010. In the event of departure, and depending on the reasons, Mr Jean-Paul Agon would only be paid the dismissal indemnities, except in the event of gross misconduct or gross negligence, or retirement indemnities, in the event of voluntary retirement or retirement at the Company's request, due under 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 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 collective bargaining agreement or the above-mentioned Company-level agreements. The same applies to the non-competition clause and the related financial consideration. Pursuant to the schedule of indemnities under the National Collective Agreement for 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. In respect of the employment contract, pursuant to the provisions of the National Collective Agreement for 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. This clause does not apply in the event of voluntary retirement or compulsory retirement on the Company's initiative: no consideration for non-competition would be paid in such a situation. 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 2018 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 2018 as executive officer.

3) Defined benefit pension scheme

Supplementary pension scheme	Mr Jean-Paul Agon benefits, under his suspended employment contract, from the Garantie de Retraite des Membres du Comité de Conjoncture (Pension Cover of the Members of the "Comité de Conjoncture") 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: • around 120 senior managers (active or retired) are concerned; • the minimum length of service requirement was 10 years at the time of closure of the scheme on 31 December 2000; • 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; • 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. 137-11,2a) of the French Social Security Code at a rate of 24%. For information purposes, the estimated amount of the pension that would be paid to Mr Jean-Paul Agon, under L'Oréal's "Garantie de Retraite des Membres du Comité de Conjoncture" scheme, had he been able to apply for a full-rate pension from the French social security scheme on 31 December 2018, after 40 years' length of service at L'Oréal, would be €1.57 million, *i.e.* around 37% of the fixed and variable remuneration he received as executive officer in 2018. 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 2018 and which may be subject to change. The amount of the pension paid to Mr Jean-Paul Agon, under L'Oréal's "Garantie de Retraite des Membres du Comité de Conjoncture" scheme will in fact only be calculated on the date when he applies for all his pensions. 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.

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. Pursuant to Article L. 225-40-1 of the French Commercial Code, this agreement was examined by the Board of Directors on 7 February 2019, which confirmed the relevance and terms thereof.

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, pursuant to Article L. 225-22-1 as amended by the law of 6 August 2015 on economic growth, activity and equal opportunities.

These legal provisions were applied for the first time at the time of renewal of the term of office of Mr. Jean-Paul Agon, the Chairman and Chief Executive Officer, decided by the Board of Directors at its meeting of 17 April 2018, following the Annual General Meeting on the same day.

The Annual General Meeting of 17 April 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. 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 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:

- the calculation basis 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 set out above; and
- his seniority corresponding to the number of years of service in the renewed corporate office will be included, 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. Consequently, he cannot be granted any other additional annuities at a later date.

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. 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, at its meeting on 7 February 2019 the Board of Directors found that the performance conditions had been met in full. It therefore decided that:

- the calculation basis 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). The Board did, however, note that because the coefficient had not changed in 2018, the pension calculation basis remained unchanged;

- his seniority in his corporate office between 17 April 2018, the renewal date, and 1 September 2018, when he reached the 40-year seniority ceiling provided for by the scheme, will be taken into account.

Pursuant to Article L. 225-40-1 of the French Commercial Code, the terms of this commitment was examined by the Board of Directors on 7 February 2019, which confirmed the relevance and terms thereof.

4) AMF summary table

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, (1) Chairman and Chief Executive Officer	Employment contract (2)		Supplementary pension scheme (3)		Indemnities or benefits due or which may become due as a result of termination or change of duties (4)		Indemnities relating to a non-competition clause (5)	
	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 term of office 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 term of office was renewed on 17 April 2014, and on 17 April 2018 for a four-year period.

(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 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 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 (see section 2.5.2.4 on the accumulated amount of the contractual indemnity and the indemnity due in consideration of the non-competition clause).

(5) In respect of the employment contract, pursuant to the provisions of the National Collective Agreement for Chemical Industries, in the event of termination of the employment contract (excluding compulsory retirement on the Company's initiative), 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 (see section 2.5.2.4 on the accumulated amount of the contractual indemnity and the indemnity due in consideration of the non-competition 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 serves as a reference for the comparative remuneration studies.

This panel 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.

The 2019 panel comprised Directors of the following 14 companies: Beiersdorf, Colgate-Palmolive, Coty, Danone, Estée Lauder, GSK, Henkel, Johnson & Johnson, Kimberly Clark, Kering, LVMH, Procter & Gamble, Reckitt Benckiser, Unilever. It is used to assess the competitiveness of the executive officer's total remuneration.

In terms of market capitalisation, L'OREAL is above the 3rd quartile of companies on this panel, and above the average in terms of net sales.

According to an analysis by an independent firm for the 2017 financial year, Mr Agon's remuneration was above the average of companies on the panel, between the mid-point and the 3rd quartile.

This level is in line with the Company's remuneration policy, specifically the one in place for senior managers which aims to position their remuneration between the mid-point and 3rd quartile.

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 non-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. She is also president of the Appointments and Governance Committee, which offers her a Company-wide vision of the various performance assessment criteria.

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.

The Human Resources and Remuneration Committee carefully analyses the law and reports concerning executive remuneration, notably the French markets authority's (AMF) report on corporate governance and the remuneration 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 2018

Presentation of the 2018 study on the executive officer's remuneration carried out by an independent consulting firm including

- composition of the panel, link between performance and remuneration, balance and structure of the remuneration.

Recommendations concerning the 2017 remuneration

- evaluation and setting of the variable remuneration after a review of the 2017 financial and extra-financial results;
- draft Say On Pay resolution.

Recommendations concerning the 2018 remuneration

- fixed remuneration;
- setting of the level of 2018 variable remuneration, the weight of the objectives to be met;
- draft resolution for the remuneration policy.

Defined benefit pension

- draft resolution (Art. L. 225-22-1 and L. 225-42-1 of the French Commercial Code providing for the application of performance conditions).

Long term incentive plans

- assessment of performance levels achieved for the expiring 2014 ACAS Plan;
- thinking on the draft ACAS resolution submitted to the 2018 General Meeting, and the draft 2018 ACAS Plan.

April 2018

Recommendations for the 2018 ACAs plan

- policy and rules for grants including those applicable to the executive officer;
- list of beneficiaries including the executive officer;
- level of grants including those to the executive officer.

December 2018

Analysis of the AMF and HCGE reports on executive remuneration issues.

Work on the resolutions concerning the remuneration policy and the ex-post Say on Pay following meetings with investors and proxy advisors.

- to be submitted to the 2019 Annual General Meeting.

2.5.4. REMUNERATION OF THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER DUE OR ALLOCATED WITH RESPECT TO 2018

2.5.4.1. Fixed remuneration

On the proposal of the Human Resources and Remuneration Committee, the Board of Directors decided on 8 February 2018 to maintain the fixed annual remuneration of Mr Jean-Paul Agon at a gross amount of €2,200,000. This has remained unchanged since 2014.

2.5.4.2. Annual variable remuneration

Concerning Mr Jean-Paul Agon's annual variable remuneration for 2018, 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 8 February 2018, the Board of Directors had set the variable remuneration criteria applicable for 2018 and the respective weighting of such criteria. The financial criteria represent 60% of the variable remuneration while the non-financial 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 6 February 2019, 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 decided that to disclose objectives, even after the event, would provide the competition with information about the implementation of its strategy at operational level. The achievement rate is, however, published for each of the financial criteria and for all non-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 7 February 2019, to allocate €2,045,998 to Mr Jean-Paul Agon in respect of the 2018 annual variable remuneration.

This represents 93% of the maximum amount of variable remuneration that could be paid to him, respectively 91.7% for financial targets and 95% for non-financial and qualitative targets. The achievement rate of the financial criteria is detailed in the table below.

2018 FINANCIAL TARGETS (60% OF TOTAL ANNUAL VARIABLE REMUNERATION)

FINANCIAL CRITERIA	WEIGHTING	2018 RESULTS	ACHIEVEMENT RATE 2018	ASSESSMENT
Comparable sales as compared to the budget	15%	€26,937.4 million (1)	> 100%	Outperformance in relation to the objective Capped at 100%
Growth in market share compared to the main competitors (2)	15%	+1.2 points	80%	Below objective
Operating profit as compared to 2017	10%	€4,922 million, i.e. +5.3%	> 100%	Outperformance in relation to the objective Capped at 100%
Net earnings per share as compared to 2017 (3)	10%	€7.08, i.e. +6.5%	> 100%	Outperformance in relation to the objective Capped at 100%
Cash flow as compared to 2017 (4)	10%	€3,875.8 million, i.e. -2.4%	80%	Below objective
RATE OF ACHIEVEMENT OF FINANCIAL CRITERIA			**91.7%**	

(1) Budget not disclosed for confidentiality reasons.
(2) Panel of competitors: Unilever, Procter & Gamble, Estée Lauder, Shiseido, Beiersdorf, Johnson & Johnson, Henkel, LVMH, Kao and Coty.
(3) Diluted net earnings per share attributable to owners of the Company from continuing operations excluding non-recurring items.
(4) Operational cumulative cash flow = Cash provided by operating activities – Purchases of property, plant and equipment and intangible assets.

2018 NON-FINANCIAL OBJECTIVES (40% OF TOTAL ANNUAL VARIABLE REMUNERATION)

CSR CRITERIA THE *SHARING BEAUTY WITH ALL* PROGRAMME	2018 RESULTS	2017 RESULTS
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 2018 achievements are set out in detail in chapter 3 (see pararagraph 3.4)		
"Innovating Sustainably"		
◆ Improved environmental or social benefit for 100% of our products.	◆ 79% of new products that have been screened have an improved environmental or social profile.	76%
"Producing Sustainably" (plants and distribution centres)	Reduction of our environmental footprint by (*versus* 2005):	
◆ -60% CO_2 emissions	◆ -77% CO_2 emissions	-73%
◆ -60% water consumption	◆ -48% water consumption	-48%
◆ -60% waste generation	◆ -37% waste generation by plants and distribution. The objective was met to send 0% of waste from plants and distribution centres to landfill.	-37%
"Living Sustainably"		
◆ Each brand will have assessed its environmental and social footprint.	◆ 88% of brands have evaluated their impact.	91%
◆ Each brand will have reported on its progress and associated consumers with its commitments.	◆ 57% of the brands have carried out an action to raise awareness among consumers.	46%
"Developing Sustainably"		
◆ With employees (L'Oréal Share & Care programme) 100% of L'Oréal employees around the world will have access to healthcare and social protection in 2020.	◆ 96% of the Group's permanent employees have access to healthcare coverage reflecting the best practices in their country of residence.	96%
	◆ 93% of the Group's permanent employees benefit from financial protection in the event of unexpected life events, such as death or total permanent disability.	92%
◆ With strategic suppliers.	◆ 93% of the Group's strategic suppliers carried out a self-assessment of their Sustainable Development policy.	87%
◆ With communities.	◆ Access to work for 63,584 people.	53,505

HUMAN RESOURCES CRITERIA	2018 RESULTS	2017 RESULTS
Gender Balance		
◆ Improving gender parity, in particular at the level of senior management positions.	◆ 31% of Executive Committee members are women (11 men and 5 women)	33% (10m / 5w)
	◆ 45% of key positions held by women.	45%
	◆ France: 5th place in the 2018 "Féminisation des Instances dirigeantes" ranking (French Ministry of health, social affairs and women's rights on women in management bodies). *Grand Prix de la Mixité CAC40* (Diversity Awards) awarded by the Institute of Responsible Capitalism and Ethics & Boards	2nd place
	◆ Worldwide: 1st place in Equileap Europe 2018 ranking (first ranking of companies worldwide on compliance with parity criteria)	N°1 World
Talent Development		
◆ 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.	◆ N°12 in the Universum global ranking (business schools).	N°8 worldwide
◆ Attractive, targeted, digital employer communication.	◆ Strong presence on social networks: 1.67 million followers on LinkedIn. Digital sourcing has become the first source of recruitment.	1.28 million
Access to training		
◆ 100% of employees will receive training once a year starting in 2020.	◆ 88% of employees received training in 2018.	78%
	Over 184,000 hours of digital training	170,000 hours

DIGITAL DEVELOPMENT CRITERIA	2018 RESULTS
◆ Increase in sales achieved in e-commerce.	◆ €2.97 billion net sales, *i.e.* 11% of Group sales, up 40.6% on 2017.
◆ Partnerships and innovation	◆ Acquisition of Modiface, global leader in augmented reality in the beauty industry. Deployment of 20 Modiface service technologies in 16 countries. ◆ Launch of first skin diagnosis based on Modiface artificial intelligence for Vichy (2 patents obtained in collaboration with the R&I teams). Continuation of partnerships with Founders Factory, Partech and StationF: 2,500 start-up applicants, 70 projects run in partnership with brands, a minority investment through the BOLD investment fund in a StationF start-up: Sillages Paris. Attended the Las Vegas CES and Vivatech trade show in Paris.
◆ Continuation of the Company's digital transformation	◆ Transformation of marketing function to optimise Digital opportunities (11% of global beauty web traffic, 29% of beauty traffic on Youtube, over 6 billion Group brand videos viewed, 80% of product content optimised for the digital platforms). ◆ Recruitment and training: over 2,000 digital experts recruited and 26,000 people trained as part of the Upskilling programme (2015-2018). Move to the 2nd generation of digital skills tests (DMI) with the launch of the "CMI". 80% of marketing teams took these tests and 7,800 applicants at the recruitment phase. Learning expeditions: Operations, Travel Retail and Marketing teams.
◆ L2 Digital IQ ranking	◆ At least 3 brands in the top 10 L2 Digital ranking in the key countries: USA, UK, France, Germany and China.
QUALITATIVE CRITERIA	**2018 RESULTS**
Management	◆ High retention rate for the Top 250. ◆ "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 6,000 managers in 2018, *i.e.* a total of 9,300 managers trained in *Simplicity* since 2017. ◆ "Pulse" survey (internal employee opinion survey): improved results for 21 of the 31 questions asked in 2017.
Image, Reputation, Dialogue with stakeholders	◆ L'Oréal is the only company in the world, among nearly 6,000, to have received three "A" ratings from the Carbon Disclosure Project for the third consecutive year, *i.e.*, the highest score in three areas: the climate, sustainable water management and the fight against deforestation. ◆ Commitment to combat violence against women through signature of the European "One in three women" charter. ◆ Attendance at forums and conferences which promote the value of the Company in society: • Tech for Good forum, Paris: took part in a round table discussion on "Equality and Diversity in the new machine age" (May 2018) • World Policy Conference in Rabat (October 2018), • The *Fondation Agir Contre l'Exclusion* (Action Against Exclusion Foundation - FACE), a private foundation combating violence against women (November 2018) ◆ Diversity and Inclusion: L'Oréal moved up the TOP 100 of Bloomberg's 2019 Gender-Equality Index. The index promotes companies which are highly committed to professional equality. L'Oréal is in the Top 10 of the 2018 Thomson Reuters Diversity & Inclusion Index. Within the Company, presidency of the 10th edition of the Disability Awards: 65 participating countries, 5 projects received awards. ◆ Ethics: L'Oréal ranked N°1 worldwide in the Covalence EthicalQuote ethical reputation index and was recognised for the ninth time as one of the world's most ethical companies by the Ethisphere Institute. L'Oréal is one of the world's 34 UN Global Compact LEAD companies, it won the Transparency Grand Prix for its Ethics Charter for the second time and received the Prix d'Excellence in the Ethical Governance and Ethical Leadership categories by the Chair of the Law and Business Ethics Masters at Cergy-Pontoise university. Ethics day on 11 October 2018: live webchat with Jean-Paul Agon open to all employees worldwide.
RATE OF ACHIEVEMENT OF TARGETS NON-FINANCIAL AND QUALITATIVE CRITERIA	**95.0%**

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, taking into account Mr Jean-Paul Agon's performances and the stronger share price, the Board meeting of 17 April 2018 decided to grant him 30,000 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 17 April 2018, of which Mr Jean-Paul Agon is a beneficiary, is €176.17. This fair value was €166.90 on 20 April 2017.

The estimated fair value according to the IFRS of the 30,000 performance shares (ACAs) granted in 2018 to Mr Jean-Paul Agon is therefore €5,285,100.

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 4-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 2018 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 assessment of the performance conditions relating to this grant is 2019.

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 that 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 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 figures recorded each year to determine the levels of performance achieved are published in the Annual Financial Report.

Main characteristics of the grant

Under this plan, 931,000 performance shares (ACAs) were granted to 2,141 beneficiaries, representing 0.17% of the share capital.

The conditional award of performance shares to Mr Jean-Paul Agon in 2018 represented 3.22% of the total number of performance shares granted and 0.005% of the share capital at 31 March 2018.

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 2018.

2.5.4.5. Additional social protection schemes

Mr Jean-Paul Agon will continue 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 the employee benefit and healthcare schemes amounted to €3,735 in 2018, and the amount of the employer's contribution to the Defined Contribution Pension scheme amounted to €6,158.

Under the Defined Contribution 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 Mr Jean-Paul Agon's annual retirement pension at 31 December 2018 would be €3,905 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 2018, 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

	2018		2017	
In Euros	**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 (1)	2,045,998	2,038,732	2,038,732	1,992,100
Exceptional remuneration	-	-	-	-
Directors' fees	-	-	-	-
Benefits in kind	-	-	-	-
TOTAL	**4,245,998**	**4,238,732**	**4,238,732**	**4,192,100**

(1) *The variable remuneration due for year N is paid in N +1. The variable remuneration for 2018 will be paid subject to approval of Resolution N°7 by the Annual General Meeting on 18 April 2019.*

SUMMARY TABLE OF REMUNERATION AND PERFORMANCE SHARES AWARDED TO MR JEAN-PAUL AGON, CHAIRMAN AND CHIEF EXECUTIVE OFFICER

In Euros	**2018**	2017
Remuneration due in respect of the financial year	4,245,998	4,238,732
Value of the performance shares granted during the financial year	5,285,100 (1)	5,340,800 (2)
TOTAL	**9,531,098**	**9,579,532**

(1) *Corresponding to 30,000 performance shares x €176.17 (estimated fair value on 17 April 2018 according to the IFRS applied for the preparation of the consolidated financial statements).*
(2) *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).*

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 2018 (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 (1)	-	-	-	-	-
27.04.2010	400,000	200,000	28.04.2015	27.04.2020	80.03
22.04.2011	200,000 (2)	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 2018 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		
27 April 2010	200,000	€80.03

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 contributions 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 Jean-Paul 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 [3]	Grant value (IFRS fair value)	Date of final vesting of all or part of the ACAs	Number of shares definitively vested	First possible date of sale of a portion of them [4]
17 April 2012 [1]	50,000	Yes	3,853,500	18 April 2016	50,000	18 April 2018
26 April 2013 [1]	40,000	Yes	4,494,800	27 April 2017	40,000	27 April 2019
17 avril 2014 [1]	40,000	Yes	4,183,200	18 April 2018	40,000	18 April 2020
22 April 2015 [1]	32,000	Yes	5,167,680	23 April 2019	26,432	23 April 2021
20 April 2016 [2]	32,000	Yes	4,938,240	21 April 2020	NA	21 April 2020
20 April 2017 [2]	32,000	Yes	5,340,800	21 April 2021	NA	21 April 2021
17 April 2018 [2]	30,000	Yes	5,285,100	18 April 2022	NA	18 April 2022

(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, 20 April 2017 and 17 April 2018 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.
(4) Mr Jean-Paul Agon, as executive officer, must 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.

TABLE OF PERFORMANCE SHARES THAT BECAME AVAILABLE DURING THE 2018 FINANCIAL YEAR FOR EACH EXECUTIVE OFFICER

Grant date	Number of ACAs granted	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 [1]	50,000	3,853,500	18 April 2016	18 April 2018

(1) Mr Jean-Paul Agon, as executive officer, must 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 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 has carefully examined the situation of Mr Bernard Kasriel, whose term of office, which was renewed by 98.49% on 20 April 2016, has exceeded 12 years. The Board of Directors took into account the objectivity that this latter has always shown at the time of the debates and decisions of the Board, and his ability to express his convictions from specific and different angles and provide a balanced judgement under all circumstances during Board discussions, notably, with regard to General Management. He has consistently shown, thanks to his experience as a senior management executive at the very highest level of a large international group, a remarkable independent spirit, perspective, and freedom to speak, enabling him to simultaneously challenge and support General Management in defining the Group's strategy. These qualities, combined with a deep understanding of the Group, enable him 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 Bernard Kasriel to automatically lose his status as independent Director.
COMPOSITION OF THE BOARD COMMITTEES: PROPORTION OF INDEPENDENT MEMBERS ON THE COMMITTEES (POINTS 15.1, 16.1 AND 16.1 OF THE CODE):	
The proportion of independent Directors on the Audit Committee must be at least two-thirds. The Selection or Appointments Committee and the Remuneration Committee must be composed of a majority of independent Directors.	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 Ms 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 Appointments and Governance Committee currently consists of 50% independent Directors. The Committee is chaired by Ms Sophie Bellon, an independent Director. Furthermore, it should be noted that the *Haut Comité de 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. The AMF, in its recommendation 2012-02 updated on 30/11/2018, considers that a senior manager's length of service as a company employee and their personal situation may justify their employment contract remaining in place if the company makes the modifications appropriate for their individual situation (length of service and description of the benefits granted under the employment contract).

2.7. SUMMARY STATEMENT OF TRADING BY THE CORPORATE OFFICERS IN L'ORÉAL SHARES IN 2018

(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	Equity securities	Sale	11	€17,303,494.20
Chairman and Chief Executive Officer	Exercise of options under the SO plan of 27/04/2010	Exercise of stock options	3	€16,006,000.00
	Equity securities	Acquisition	1	€0
Virginie Morgon **Director**	Equity securities	Acquisition	1	€152,278.00
Patrice Caine **Director**	Equity securities	Acquisition	1	€99,739.50
Georges Liarokapis **Director**	Employees Mutual Fund (FCPE)	Acquisition	1	€13,746.00
	Employee shareholding plan	Acquisition	1	€12,474.00
Ana Sofia Amaral **Director**	Employee shareholding plan	Acquisition	1	€2,000.00
Françoise Bettencourt Meyers **Director**	Equity securities	Others*	1	€0

* *Transfer of 16,623 L'Oréal shares to Ms Françoise Bettencourt Meyers in connection with the estate of Ms Liliane Bettencourt.*

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 and the Group's Ethical Principles and standards;
- the orientations set by General Management are followed;
- the Group's assets and reputation 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 by making an informed choice between the risks to be controlled, the opportunities to be seized and the cost of the risk treatment measures, taking into account their 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 2018 by taking the following actions:

The corpus of standards and procedures was bolstered with, in particular:

- new summary operating guides put in place to remind employees of the Group's principles and to facilitate the sharing of best practices (customs, fiscal charter, supply chain standard, payroll management, retail, e-commerce, digital and the protection of personal data);
- an updated version of the Group's digital standard (see "Communication of information inside the Group");
- revamping of the programme to raise awareness of the risks of fraud.

The deployment of online training (prevention of corruption, data security, competition, personal data protection) is ongoing.

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 Principles

Ethical Principles

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.

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, 13 supplements to the Code of Ethics have covered certain aspects of the Code in more details.

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;
- oversee employee training;
- oversee the handling of concerns and directly manage those related to senior management positions;
- measure and assess the Company's ethical performance.

He reports 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 recourse to all the Group's teams and resources to carry out his work.

The Senior Vice-President and Chief Ethics Officer, reporting to the Chief Executive Officer, is in charge of overseeing respect for human rights within the Group (see section 3.3.3.) and is the L'Oréal representative for the United Nations Global Compact and NGOs linked to his business activity.

Implementation of L'Oréal's ethics programme

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. The Group's Senior Vice-President and Chief Ethics Officer meets systematically with each new Country Manager and with the Group's main senior managers to inform them of their role. The senior managers also have a tool available to help them develop their ethics leadership.

The role of the 75 Ethics Correspondents throughout the world is to assist the members of the Executive Committee and the Country Managers in implementing the ethics programme and to provide all employees with a local point of contact, whilst promoting the normal routes for handling concerns by management and Human Resources. The Ethics Correspondents benefit every year from a specific coordination and training 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. Since the end of 2013, he has carried out 91 country visits.

Ethical risks are assessed on the basis of the indicators of the Verisk Maplecroft business integrity and human rights compliance index. A practical tool has been created to enable 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 countries are informed of their potential areas for improvement by the Ethics Department. 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.

For prospective acquisitions, the responses to the "Ethics and Human Rights questionnaire" submitted to target companies serve to identify whether they have taken account of the risks, specifically those related to business ethics.

A specific and compulsory e-learning course on ethics is available in all countries. As of 31 December 2018, 82% of the employees with access to the online module had completed this course. The Ethics Department also dispenses classroom training as part of the ongoing training of managers and some functions. In 2018, 19 ethics training courses were delivered by the Ethics Department and Purchasing Department to 381 employees, representing 972.5 hours of training (Country Managers, Buyers and Human Resources).

Compliance with the Ethical Principles is integrated in the annual appraisal system for all employees which incorporates three skill sets: "Takes 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's "Speak Up" 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. In 2018, 529 possible ethical violations were identified either *via* the secure website, or *via* the Ethics Officers, and local or international management. All cases reported are thoroughly examined and appropriate measures are taken, where applicable. This policy was re-distributed worldwide in 2108. The Speak Up website was also opened up to temporary employees and stakeholders. In 2018, employees were notified of the number of cases of discrimination and sexual and other types of harassment reported at Group level worldwide in 2017, the number of complaints fully or partially upheld and the corrective measures put in place.

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 discuss the day-to-day application of L'Oréal's Ethical Principles. Each member of the Ethics Committee and each Country Manager also organises local ethics discussions. In 2018, at the 10th Ethics Day, over 60% of employees took part in this discussion and more than 6,800 questions were asked worldwide.

In addition to the Ethics Day, employees receive regular information about the Group's ethical policy and have a dedicated Intranet site.

L'Oréal corporate social, societal and environmental responsibility

It is now many years since L'Oréal began a profound transformation, across every area of our organisation, in order to help us adapt to the great changes we see in our world. Sustainable Development is a fundamental pillar of our transformation and a strategic priority for all our teams. In the firm belief 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 (see section 3.3.).

In 2013, the policy was taken once step further with the implementation of the L'Oréal Sustainable Development *Sharing Beauty With All* programme. Clear commitments were set for end 2020 in terms of innovation, production, meeting the challenges of sustainable consumption, and sharing the Group's growth (see sections 3.1 and 3.4.).

The 60 Sustainable Development Coordinators worldwide are tasked with helping the Country Managers/Area Managers implement the *Sharing Beauty With All* programme at their subsidiary. Progress of local implementation of the *Sharing Beauty With All* commitment is monitored by means of an annual reporting system.

The Social, Environmental and Societal risks, and the progress of the policies put in place to deal with these risks, are reviewed regularly as part of the Internal Audit process.

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. 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. All these activities also form part of the Group's diversity policy, which seeks to value and respect difference throughout the organisation.

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 segregation of duties standard is regularly updated and distributed to all entities. 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 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 Group digital standard provides all employees with guides, charters, codes of conduct and expert contacts organised by function 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. News published on the Intranet gives managers regular news and passes 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, digital, retail, purchasing, logistics and production 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 and personal data protection, 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 Executive Vice-President Chief Financial Officer and of the Risk Management and Compliance, Internal Control, Operational Finance, Internal Audit and Information Systems (Global IT) Directors.

The Risk Management and Compliance Department

The objective of this department 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 Director of Risk Management and Compliance reports directly to the Chairman and Chief Executive Officer.

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 2018, 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 Chairman and Chief Executive Officer. 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 size of the entities, their contribution to key economic indicators, pattern of development, historical precedence and the results of previous audits are factors that are taken into account when defining remits. The risk level assessment carried out by the area departments and experts in the different functions is also taken into account when putting together the annual audit plan.

The Internal Audit Department carried out 48 assignments in 2018, 29 of which involved commercial entities representing almost 35% of the Group's sales and 8 were carried out at plants contributing over 18% of the plants' global production. The 2018 Internal Audit also covered a research centre, a sourcing centre and an International Marketing Department. Finally, 8 other assignments were carried out with regard to specific topics.

An Audit report is systematically drafted, setting out the findings and related risks and giving an action plan of all the recommendations to be put in place by the audited entity. These action plans are followed up regularly by the Internal Audit Department which measures, and communicates to the relevant departments, the rate of progress made in actioning the recommendations.

The Internal Audit Department uses the Group's integrated Enterprise Resource Planning (ERP) software and has developed a number of specific transactions that help it better identify potential weaknesses in the most sensitive processes. Each year specific assignments focus on configuring certain key points of the Internal Audit in the ERP. The Internal Audit Department has Governance, Risk, Compliance (GRC) 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 actual achievement of the audit plan, assignment results and progress of the action plans are presented to General Management and the Audit Committee each year.

The audit results are shared with the Group's Statutory Auditors. The remarks made by the external auditors as part of their annual audit are also taken into consideration by the Internal Audit Department when defining its assignments.

Global IT Department

The strategic choices in terms of systems are determined by the Group's Global IT Department, whose main mission is to implement ERP management software which is used by the vast majority of the Group's commercial subsidiaries, plants and logistics services. It also supports the digital transformation by developing the use of Cloud services (SaaS, Iaas, PaaS) and connected objects.

Within the Department, the Information Systems Security Department is responsible for the Information Systems Security Policy. Based on the international ISO 27001 standard, this policy covers the main topics of Information Systems security, including the protection of personal data, and describes 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 in charge of Packaging and Development, Quality, EHS (Environment, Health and Safety), Production, Purchasing, Supply Chain, Information Systems (production), Digital Transformation and Industrial Strategy, 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 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 provided.

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 of defining and applying the sales planning, customer demand management, development and control of customer service processes, including through the 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 appraisal 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 for cosmeto-vigilance and the quality of the formulas used in product composition (see "Product quality and safety: a priority" in section 3.3.3.2);
- the Communications and Public Affairs Department, which co-ordinates communications initiatives, prepares crisis management principles and ensures that they are applied (see section 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 section 2.8.5.3.1.Employee health and 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 cash flow.

In the Administration and Finance Department, the Operational Finance Department prepares the Group's consolidated financial results: the latter coordinates a global network of management controllers who are responsible for ensuring compliance with the Group's accounting and management standards in order to ensure appropriate management of the result. The accounting process is managed worldwide by a team of specialists who ensure application of the IFRS and standardisation of the accounting procedures. Finally, the Operations Finance Division runs the Group's Taxation Division which comprises a network of tax lawyers at corporate level, in the regions and in the Group's most vulnerable countries, monitors 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 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.

The Operations Finance Division oversees the regular update of these Group standards, 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, applicable to all subsidiaries, and the key accounting processes provide the definitions and the methodology for preparing the reports which form the basis of the financial statements.

The management standards describe how the rules should be applied operationally. They give the valuation rules for some of the key balance sheet and income statement accounts and also stipulate the controls and checks 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 data.

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 tasks 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 section 2.8.4.3.2. of this Vigilance Plan (hereafter the "Suppliers").

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

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

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

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

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

2.8.4.2. Applicable rules

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

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

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

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

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

The abolition of child labour

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

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

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

Elimination of all forms of forced or compulsory labour

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

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

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

Freedom of movement

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

Freedom of association

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

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

Non-discrimination

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

Working hours

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

Salary deductions and undue charges

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

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

Sexual and moral harassment

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

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

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

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

1. Risks concerning serious damage to the environment

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

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

2. Risks concerning serious damage to health and safety

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

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

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

(ii) Risks related to energy sources and materials

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

(iii) Risks related to work activities

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

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

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

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

2.8.4.3.1. Measurement of the effective application of the Vigilance Plan

1. Adoption of the Applicable Rules

(i) Adoption of the Applicable Rules by Subsidiaries

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

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

(ii) Adoption of the Applicable Rules by suppliers

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

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

2. Governance

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

(i) Human Rights and Fundamental Freedoms

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

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

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

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

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

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

(ii) Environment, health and safety

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

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

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

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

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

3. Communication and training

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

(i) Human Rights and Fundamental Freedoms

Communication

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

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

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

An Ethics intranet site is available to employees.

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

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

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

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

Training

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

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

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

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

Communication

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

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

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

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

Training

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

General EHS training includes:

- core general training when a new employee arrives at a Site (L'Oréal employee or temporary staff) regardless of their position;
- fire safety training, first aid, pollution prevention, recycling, general EHS awareness raising, etc.

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

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

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

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

2.8.4.3.2. Monitoring compliance with the Plan

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

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

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

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

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

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

SUBSIDIARY AUDIT MATRIX

Type of country	Sites audited
All countries	Plants and distribution centres

SUPPLIER AUDIT MATRIX

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

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

2. Audit and self-assessment system

(i) Audits

Audits of the Applicable Rules

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

Audits are done by specialist external companies.

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

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

There are three types of audits:

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

The possible outcomes of the audits are as follows:

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

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

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

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

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

EHS audits specific to Subsidiaries

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

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

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

Additional procedures

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

(ii) Self-assessment system

Human rights and fundamental freedoms

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

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

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

The environment, health and safety

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

2.8.4.4. Whistleblowing mechanism and reporting system

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

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

2.8.4.5. Update on the effective implementation of the Vigilance Plan

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

2.8.4.5.1. Results of the application of the plan to subsidiaries

1. Adoption of the Applicable Rules by the Subsidiaries

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

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

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

2. Monitoring and control system in respect of Human Rights

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

100% of countries completed their annual ethics reporting practices.

Results by topic:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2.8.4.5.2. Results of the application of the plan to suppliers

1. Adoption of the Applicable Rules by Suppliers

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

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

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

2. Monitoring and control system

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

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

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

2.1. In terms of Human Rights

Results of the audits by topic

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

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

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

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

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

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

(iii) Freedom of association [2]: 3% of non-conformities ☑.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2.8.5. RISK FACTORS AND RISK MANAGEMENT

2.8.5.1. Definitions and general framework

In L'Oréal, the risk management system (events or situations of which the occurrence, which is uncertain, has a positive or negative impact) applies to the Company and its consolidated subsidiaries ("the Group").

Risk management consists of identifying, assessing and controlling risks that may affect the smooth running of the Company. It also participates in the Group's development by promoting the good use of resources to minimise the impact of negative events and maximise the realisation of opportunities.

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 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 & Compliance Department to lead this process which makes it possible to prepare the appropriate actions plans; it makes a presentation to the Audit Committee every year on the main areas of progress. 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.

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

RISKS TO WHICH THE GROUP BELIEVES IT IS EXPOSED:

2.8.5.3.1. Business risks

BUSINESS RISKS \ IMAGE AND REPUTATION

Risk identification	Risk management
The Company's reputation and its brand image may be compromised at any time in a globalised world where information is disseminated rapidly. L'Oréal is not 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. The development of collaboration with influencers whose behaviours, actions and positions may not be in line with the Group's ethical principles may adversely affect the Group's reputation given their position as opinion leaders for a significant subscriber community.	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. 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. 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. The Group's principles and operational processes to be complied with relating to partnerships with influencers, have been disseminated worldwide to the employees in question.

BUSINESS RISKS \ PRODUCT QUALITY AND SAFETY

Risk identification	Risk management
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: ◆ satisfaction of customer needs; ◆ compliance with safety requirements and legislation; ◆ product quality and conformity across the supply chain.	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. The same safety standards are applied worldwide to ensure that consumers from across the globe have access to products of identical quality. 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 cosmeto-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 "Product quality and safety: a priority" within section 3.3.3.2). 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: ◆ vigilance with regard to any new scientific data; ◆ co-operation with the relevant authorities; ◆ precaution leading to the substitution of ingredients in the event of a proven risk or a strongly suspected risk. The Group has also put in place insurance policies protecting it in particular against third party liability claims related to its products (see Integrated worldwide programmes 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 plants are ISO 9001 certified for their production and follow Good Manufacturing Practices in accordance with the ISO 22716 standard.

BUSINESS RISKS \ RESPONSIBLE PRODUCT COMMUNICATION

Risk identification	Risk management
Risk management 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.	In order to reduce the risk of any such challenges arising, the Worldwide Claims Substantiation 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 described in an summary brochure disseminated worldwide in order to raise employee awareness about compliance with ethical principles, specific legal and regulatory requirements and operational processes for the prior control of product communications.

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 68 countries and 70.1% of its sales are generated outside 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 43.2% of its cosmetics sales in 2018. 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, Hedging of currency risk and in the Currency risk 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.
Whilst the business in the United Kingdom is limited on a Group scale, the change in the situation with regard to Brexit is subject to specific monitoring.	The subsidiary in the United Kingdom has put in place a remedial plan to deal with the potential consequences of the Brexit in the short- to medium-term.

BUSINESS RISKS \ DISTRIBUTION NETWORK	
Risk identification	**Risk management**
To sell its products, L'Oréal uses independent distribution channels, and may develop direct distribution to the consumer for certain brands (branded retail and e-commerce). 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 of the increased digitisation of consumer relationships, 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 and digital services. 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 "Open and sustainable Research and Innovation", 1.2.7.). At the same time, the Group's acquisition strategy always takes into account changes in the competitive environment.

BUSINESS RISKS \ INNOVATION AND CONSUMER EXPECTATIONS	
Risk identification	**Risk management**
The development of innovative products and their adaptation to market requirements is an ongoing priority for the Group. If the Group fails to anticipate or interpret changes in consumer expectations, especially with regard to environmental issues, and new trends, notably digital solutions and connected tools, its sales could be affected.	The Consumer & 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 section "Open and sustainable Research and Innovation" (see section 1.2.7.). 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. Consumers' expectations with regard to Sustainable Development are also at the heart of the Sharing Beauty With All programme (see chapter 3) and are taken into account in developing the Group's brand and product portfolio.

BUSINESS RISKS \ EXTERNAL GROWTH TRANSACTIONS	
Risk identification	**Risk management**
As part of its growth strategy, L'Oréal has made, and may have occasion to make acquisitions or sign licence agreements. However, implementation of this strategy depends on L'Oréal identifying development opportunities at an acceptable cost and under acceptable conditions. 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 and in compliance with the Group's standards, 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. Within the normal framework of its activities, L'Oréal has conducted and may conduct disposal operations for which the execution conditions may significantly affect its results.	The Group has put in place a monitoring process for such transactions, which includes: ◆ setting up multidisciplinary teams to prepare projects and due diligence work; ◆ 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. 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.

BUSINESS RISKS \ RISKS RELATED TO HUMAN RESOURCES MANAGEMENT	
Risk identification	**Risk management**
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.	The Group develops a motivating, engaging professional environment but also encourages attachment to its values, notably those covered by the Code of Ethics and those that concern diversity, which is an essential element in the Human Resources policy. 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. 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 section 3.3.2. of this document. The launch of the international "Share & Care" 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.

BUSINESS \ SECURITY RISKS

Risk identification	Risk management
The Group's presence in 73 countries and at more than 448 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.	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 and Safety Department: ◆ has implemented a watch and evaluation of the state of security in the countries in which the Group is active; ◆ carries out evaluation visits in the countries in which it is present; ◆ creates country security brochures for international travellers; ◆ defines the security standards and minimum protection to be implemented to protect the Group's activities. The security measures are adjusted and reassessed based on the local situation and the level of exposure of employees and sites.

BUSINESS \ EMPLOYEE HEALTH AND SAFETY RISKS

Risk identification	Risk management
The protection of employees' health and safety is one of L'Oréal's priorities and is an integral part of the Health and Safety and Environment (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.	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. This safety culture has led to high standards being set, which often exceed legal obligations, and to the involvement of employees at all levels of the Company which is an essential factor. 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 2018, 14 plants, 13 distribution centres, 3 research centres and two administrative sites were subject to an EHS risk audit. Each Site Manager is assessed with regard to their ability to deploy the Health and Safety policy and their results. As at 31 December 2018, 33 plants out of 40 are certified OHSAS 18001 (or equivalent) for their safety policy. Employee health is at the heart of the "Care" pillar in L'Oréal's "Share & Care" programme, launched in 2013 and now deployed in all the Group's subsidiaries. This programme is based on four pillars: social welfare, health, parenthood and quality of life at work. In the health area, access to a quality health system is provided to employees and their families, and individual and collective prevention actions as well as training in stress prevention and the ergonomics of work stations have been implemented (for more details see section 3.3.2. "Human Resources Policy").

BUSINESS RISKS \ INFORMATION SYSTEMS	
Risk identification	**Risk management**
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. As part of the digital transformation and ongoing development of information technologies and their applications, which are also factors of acceleration and mobility, 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. The malfunction or breakdown of these systems or the loss of data for exogenous or endogenous reasons (including intrusions, malicious acts, etc.) could have a significant impact on the Group's business activities.	To minimise the impact that this type of occurrence could have, the Global IT Department has introduced strict rules with regard to security for infrastructure, equipment and applications. Furthermore, in order to adapt to the development of new methods of communication and collaboration, L'Oréal has introduced an Information and Communication Technologies Code of Practice. To address the growing threat of cybercrime, L'Oréal takes continuous steps to strengthen the resources dedicated to information system security. This plan relies in particular on anti-intrusion equipment, regular intrusion tests, 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. Furthermore, to mobilise its teams, in 2018, the Group carried out a worldwide awareness raising campaign, and deployed an online training programme on best practices with regard to safety intended for all the employees. 66% of employees had validated this e-learning programme as at 31 December 2018.

BUSINESS RISKS \ DATA	
Risk identification	**Risk management**
The data collected and processed by L'Oréal and its partners, with a volume that increases along with the development of digital activities, may be used fraudulently, or be lost or degraded. Furthermore, personal data protection regulations are being reinforced throughout the world. Specifically, the European General Data Protection Regulation (GDPR) which entered into force in May 2018, provides for significant sanctions. Any breach of data integrity or confidentiality, notably personal data processed by L'Oréal or its partners, for exogenous or endogenous reasons (including intrusions, malicious acts, etc.) could have a significant impact on reputation and consumer confidence and, ultimately, on the Group's business activities.	The Group constantly and progressively deploys policies, training and data management tools as well as the associated organisational and technical measures. The Global IT Department has introduced strict rules with regard to data security (back-up, protection of, and access to confidential data). The Group's principles governing the processing of personal data 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. An organisation based on a Group Governance Committee, a world Steering Committee and a network of Business Line, Zone and Country contacts responsible for personal data protection has been set up to coordinate the operational players involved. Specifically, the Group has appointed a Group Data Protection Officer (DPO) and set up a network of DPOs for all countries in the European Zone. This governance notably aims to monitor the Group's compliance with the different legislation, such as the GDPR in Europe, by ensuring the mobilisation of all stakeholders and by adapting customer, supplier and business line processes to the Group's rules and to applicable laws.

BUSINESS RISKS \ RISK OF AN INTERNAL CONTROL FAILURE	
Risk identification	**Risk management**
L'Oréal has set up an Internal Control system (see section 2.8.1.2. "Internal Control Objectives") 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. Thus, the Group cannot exclude the risk of an Internal Control failure likely to expose it notably to acts of fraud or corruption, that may have an impact on its activities, reputation and results.	The components of the Internal Control and Risk Management system implemented are detailed in this chapter. 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 deployed a comprehensive anti-corruption programme, notably including a specific guide, country-specific corruption risk mapping and an on-line e-learning training module which will round out the commitments and principles set out in L'Oréal's Code of Ethics and described in the "Corruption prevention policy" (see section 3.3.4).

2.8.5.3.2. Legal risks

LEGAL RISKS \ INTELLECTUAL PROPERTY: TRADEMARKS, DESIGNS & MODELS, DOMAIN NAMES

Risk identification	Risk management
The trademarks, designs & models and domain names, and particularly the major international brands listed in "L'Oréal Group's Profile" (section 1.2.1.), are strategic intangible assets of the Group, primarily owned by L'Oréal which licences them to Group companies in exchange for royalties. A few brands, primarily marketed by L'Oréal Luxe, including Giorgio Armani, Yves Saint Laurent, Ralph Lauren, Cacharel, Viktor&Rolf and Diesel, have been licensed to the Group. L'Oréal Group does not have, however, a significant dependency situation with regard to these licences. 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. 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 such launches. 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.	Special care is given to the protection of the trademarks, designs & 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 *via* searches for prior rights, monitoring of registration and renewal procedures, the implementation of monitoring services and the initiation of appropriate legal action against counterfeiters. 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 (*Union des Fabricants*), the Association des Praticiens du Droit des Marques et des Modèles (APRAM) and the Association Information et Management (AIM).

LEGAL RISKS \ INDUSTRIAL PROPERTY: PATENTS

Risk identification	Risk management
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 exclusively licensed to Group companies in exchange for royalties. 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 an increasing number of patents are filed by an increasing number of different players.	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 and monitors the legality of competitors' products with regard to the Group's 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.

LEGAL RISKS \ REGULATORY CHANGES

Risk identification	Risk management
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.	L'Oréal is involved in an ongoing dialogue with national or regional authorities in charge of specifically regulating products in its industrial sector, *via* the professional associations in which it is a member, in order to anticipate and 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 was the last deadline for registering substances sold in Europe, primarily impacting many SMEs that supply the Group's industry. This date also marks 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 was 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.
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 13.2. of the Consolidated Financial Statements, chapter 4.	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. 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. Training on personal data protection destined for all employees was also implemented in 2018. 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. The Company has no knowledge of any governmental procedures, legal or arbitration proceedings, which are pending or threatened, that may have, or have had over the last 12 months, material effects on the financial position or profitability of the Company and/or the Group, other than those described in note 12.2. to the Consolidated Financial Statements. The main legal risks are reported to the General Management and presented to the Audit Committee.

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 40 plants, each specialising in a specific type of technology.

INDUSTRIAL AND ENVIRONMENTAL RISKS \ PRODUCTION AND SUPPLY CHAIN	
Risk identification	**Risk management**
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. A major stoppage of activity at a plant or distribution centre could therefore have an adverse effect on the achievement of commercial objectives.	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.

INDUSTRIAL AND ENVIRONMENTAL RISKS \ SOURCING	
Risk identification	Risk management
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. The increasing world scarcity of resources (difficulty to access basic materials or climate risks, etc.) and supplier dependency are the main causes of unavailability.	To prevent these risks, L'Oréal regularly updates its inventory policies, reserves capacities with suppliers and negotiates long-term contracts. L'Oréal also looks for alternative sources for its raw materials, duplicates packaging moulds for its strategic products, implements operational continuity plans with its suppliers and reviews, if required, the design of its formulas and finished products.

INDUSTRIAL AND ENVIRONMENTAL RISKS \ ENVIRONMENT AND EMPLOYEE SAFETY	
Risk identification	**Risk management**
The cosmetics industry has a limited environmental risk profile. However, as with any production, distribution, research and general administration activity, L'Oréal is exposed to safety and environmental issues: fire, explosion, technical failure of facilities, information systems, or even human failure in the operation of existing facilities or works management. These industrial risks can result in human damage and/or accidental pollution (surface and groundwater, air, soil), within or outside the Group's sites, particularly if these are located in inhabited zones.	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. This rigorous EHS policy has been implemented throughout the Group for many years. 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). Moreover, under its *Sharing Beauty With All* 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 "Working Sustainably" 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.
Insufficient consideration of these impacts related to the use phase during the design of products could represent a risk for sales in certain areas of the world where access to water is difficult (water stress, quality of drinking water, etc.). Similarly, the use of predominantly plastic containers may represent an environmental risk resulting from the disposal of plastic waste, depending largely on the collection and treatment channels available.	The *Sharing Beauty With All* programme also aims to reduce the environmental footprint of its product formulas and to respect biodiversity through a sustainable and responsible sourcing policy for raw materials, the eco-design of packaging and commitments to "zero deforestation" so that 100% of the products proposed by 2020 have an improved environmental or social profile. One of the objectives set by the Group as part of the Science Based Targets is that by 2025, 100% of the Group's plastic packaging will be refillable, reusable, recyclable or compostable. This objective will have a direct effect on the end of life of packaging and stimulate the circular economy.
The L'Oréal Group operates 97 industrial sites, three of which are classified as "Seveso Top-tier Threshold".	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.

2.8.5.3.4. Counterparty risk

COUNTERPARTY RISK	
Risk identification	**Risk management**
The Group is exposed to the counterparty risk of financial institutions which it uses within the scope of its business activities. However, the Group considers that its exposure to this risk is low (see note 10.5. "Counterparty risk" of the Consolidated Financial Statements) in light of its management system.	The Group deals primarily with international banks and insurance companies which have the best ratings from the three main specialised rating agencies. When the Group makes financial investments, in the form of either bank deposits or marketable securities (see note 9.2. "Cash and cash equivalents" of the Consolidated Financial Statements, chapter 4), it gives priority to short-term transferable instruments from first-rate financial institutions.

2.8.5.3.5. Customer risk

CUSTOMER RISK	
Risk identification	**Risk management**
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.	This risk is limited as, subject to exceptions, it is covered locally by a credit insurance policy. The risk associated with credit insurance is mentioned in section 2.8.5.3.8. "Insurance" below. 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 10 largest distributor customers represent 22% 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. "Trade accounts receivable" of the Consolidated Financial Statements. This amount does not exceed 2% of gross accounts receivable.

2.8.5.3.6. Liquidity risk

LIQUIDITY RISK	
Risk identification	**Risk management**
The L'Oréal Group's liquidity risk is managed with the primary aim of ensuring continued financing and optimising the financial cost of debt.	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. To this effect, the Group has unused confirmed credit lines from several first-rate banks totalling €3,644 million, including 450 million in USD facilities (€394 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 9.1.10. "Confirmed credit lines" of the Consolidated Financial Statements, chapter 4). These lines were not subject to any 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 the Group's borrowings or debt contains an early repayment clause linked to financial ratios (see note 9.1.1. "Analysis of debt by type", 9.1.3. "Analysis of debt by maturity", and note 10.6. "Liquidity risk" of the Consolidated Financial Statements, chapter 4). 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. The L'Oréal Group benefits from the following short-term credit ratings: ◆ A-1+, confirmed in September 2018 by Standard & Poor's; ◆ Prime 1, confirmed in April 2018 by Moody's; ◆ F1+, confirmed in September 2018 by FitchRatings. These ratings are unchanged compared to those assigned previously.

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 9.1.5. "Breakdown of fixed rate and floating rate debt" of the Consolidated Financial Statements.	None of the Group's borrowings or debt contains an early repayment clause linked to financial ratios (covenants). 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 11.3. "Hedging of interest rate risk" and 10.4. "Sensitivity to changes in interest rates" of the Consolidated Financial Statements. Other details with regard to debt and interest rates are also provided in notes 9.1.6. "Effective interest rates", 9.1.7. "Average debt interest rates" and 9.1.8. "Fair value of borrowings and debt" of the Consolidated Financial Statements.

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.	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. 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). The system of foreign exchange risk hedging is presented to the Audit Committee. The hedging methodology and the values involved are described in note 10.1. "Hedging of currency risk" of the Consolidated Financial Statements.
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 11.3. "Other comprehensive income" of the Consolidated Financial Statements. Finally, the impact of foreign exchange gains and losses on the income statement is described in note 10.9. "Foreign exchange gains and losses" 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.	As described in note 7 "Intangible assets 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. "Other operational income and expenses" of the Consolidated Financial Statements. 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. "Impairment tests on intangible assets" of the Consolidated Financial Statements.

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 9.48% stake it held in Sanofi at 31 December 2018, for an amount described in note 9.3. "Non-current financial assets" 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 10.7. "Shareholding risk" of the Consolidated Financial Statements.

FINANCIAL AND MARKET RISKS \ RISKS WITH REGARD TO ASSETS FINANCING EMPLOYEE BENEFIT COMMITMENTS

Risk identification	Risk management
By nature, assets used to finance employee benefit commitments are exposed to fluctuations on the markets in which such assets are invested. A sharp, prolonged downturn in the financial markets may have an impact on the value of the portfolios created (see note 5.4. "Post-employment benefits, termination benefits and other long-term employee benefits" of the Consolidated Financial Statements).	Pursuant to the provisions of the Group's Internal Charter on the Assets Financing Employee Benefit Commitments, 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 "Employee benefit and pension schemes section" in the "Social information" section (see chapter 3). Moreover, the Group chooses insurers and custodians with robust ratings from the three main specialist rating agencies.

FINANCIAL AND MARKET RISKS \ RISK RELATING TO TAX REGULATIONS

Risk identification	Risk management
Due its global presence, the Group is subject to different tax regulations.	The Group is located in countries where it exercises a real operational and commercial activity. If applicable, the Group's presence in certain so-called "tax haven" countries is justified for operational reasons and the development of its activity and not for exclusively tax-based purposes.
The Group is exposed to risks arising from the multiplication and complexity of tax standards and changes in tax regulations or 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.	The Tax Department and the Finance Departments, assisted where applicable by external advisors, monitor the changes in tax regulations to ensure that the Group complies with these regulations. An international tax monitoring system has been set up. A Tax Charter, prepared in 2018, is currently being rolled out in the Group. This Charter covers the principles of the Group's tax policy. L'Oréal ensures that the transactions between Group companies are carried out in compliance with the principle of full competition as defined by the OECD. To meet its declarative obligations with respect to the OECD (country by country reporting), the Group has installed tools allowing it to remotely transmit the information to the French tax authorities and exchange with foreign administrations. The Group has also developed cooperative compliance programmes with certain tax authorities allowing it to limit tax risks.
The tax authorities in the countries in which the Group is present carry out tax audits that may lead to tax adjustments if there is a disagreement over the interpretation of the regulations. These audits may become disputes, and in certain countries, be subject to media coverage that may affect the Group's reputation.	Lastly, in an evolving international tax environment, the positions taken by the Group may be questioned and be subject to tax audits by the local tax authorities. In the event of a dispute or a difference in interpretation with the tax authorities, L'Oréal may legitimately defend its position by using the means of recourse available for its defence. A regular review of tax risks carried out by the Group's Tax Department in contact with the local financial teams enables the risks to be assessed, resulting, if applicable, to the recognition of a tax provision. The main tax risks are reported to the General Management and presented to the Audit Committee.

FINANCIAL AND MARKET RISKS \ CORE COMMODITY RISK

Risk identification	Risk management
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.	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. 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.

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 significant 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 a local level, the national programmes are deployed;
- in all cases, 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 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, the insurance offering includes 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 must set up 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 sales activity is available under financially acceptable conditions.

Nevertheless, in a period of major economic slowdown, the credit insurance market may contract and the large insurance companies may decide to reduce their coverage of certain customers.

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' REPORT

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, 2018)

This is a free translation into English of the Statutory Auditors' special 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 auditing standards applicable in France.

L'Oréal
14 rue Royale
75008 Paris

To the Shareholders,

In our capacity as Statutory Auditors of your Company, we hereby report to you on related-party agreements and commitments.

It is our responsibility to report to shareholders, based on the information provided to us, on the main terms and conditions of the agreements and commitments that have been disclosed to us or that we may have identified as part of our engagement, as well as the reasons given as to why they are beneficial for the Company, 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 provided to us is consistent with the underlying documents.

Agreements and commitments submitted for the approval of the Annual General Meeting

Agreements and commitments authorized and entered into during the year

We were not informed of any agreements or commitments authorized and 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.

Agreements and commitments already approved by the Annual General Meeting

Agreements and commitments approved during previous years

In accordance with article R.225-30 of the French Commercial Code, we were informed that the following agreement, already approved by the Annual General Meeting on April 27, 2010 and described in our special report of February 19, 2010, continued to be performed during the year.

Agreement concerning Jean-Paul Agon, Chairman and Chief Executive Officer

- 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 described in chapter 2 of the management 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, 2019, 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 definedcontribution pension, employee benefit and healthcare schemes applicable to the Company's employees, as described in chapter 2 of the management report.

Agreements and commitments approved during the year

We were informed that the following agreement, approved by the Annual General Meeting on April 17, 2018 and described in our special report of February 20, 2018, continued to be performed during the year.

Continued application of the provisions of Jean-Paul Agon's employment contract corresponding to defined-benefit pensions for the duration of his renewed term of corporate office from April 17, 2018

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 were applied for the first time on the re-appointment of Jean-Paul Agon as Chairman and Chief Executive Officer of the Company, which matter was decided by the Board of Directors at its 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 of the provisions of his employment contract for the duration of his renewed term of corporate office, 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 duration 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 paragraph A 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. As a result, no other supplementary annuity may be subsequently 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 take into account the same performance as that used to determine the annual variable remuneration of the executive corporate officer.

The increase in the conditional rights 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 duration of his renewed term of corporate office, as described, for financial year 2018, in chapter 2 of the management report.

Neuilly-sur-Seine and Paris-La Défense, February 18, 2019

The Statutory Auditors

PricewaterhouseCoopers Audit
Anne-Claire Ferrié

Deloitte & Associés
Frédéric Moulin

3

L'Oréal's corporate social, environmental and societal responsibility*

* *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 reports on the social, environmental and societal policies and progress, including *via* the *Sharing Beauty With All* programme encompassing the Group's by the end of 2020 Sustainable Development commitments.

L'Oréal also presents its progress and achievements in its *Sharing Beauty With All* Progress Report and its website www.loreal.com/sharing-beauty-with-all, and through its annual reporting made to the United Nations Global Compact. L'Oréal participates in 14 of the United Nations' 17 Sustainable Development Goals [1].

3.1. INTRODUCTION

One of L'Oréal's ambition is to reach a billion new consumers by developing a universalisation strategy designed to meet the expectations and needs of women and men around the world in terms of beauty, while at the same time being a societal leader.

L'Oréal's Ethical Principles – Integrity, Respect, Courage and Transparency – guide the Group's development and help establish its reputation. It is on these principles that its sustainable development, social and societal responsibility, compliance and philanthopy policies are based.

Firmly believing that acting ethically is the only way for a company to succeed in the long term, the Group has created the Office of the Chief Ethics Officer reporting to the Chairman and Chief Executive Officer.

At the end of 2013, L'Oréal translated its 2020 Sustainable Development commitments into the *Sharing Beauty With All* programme, which covers the Group's entire value chain and addresses all of the impacts of its products, from their design to their consumption. These commitments aim to decorrelate the Group's growth from its consumption of natural resources and its emissions, and to bring on board consumers, who are central to its business activities, by offering them products that are both sustainable and aspirational, thereby encouraging them to sustainable consumption choices (see section 1.2 for further details of the business plan).

(1) See www.loreal.fr/sharing-beauty-with-all

To guarantee greater strategic consistency between the measures the Group takes to integrate the sustainable development dimension across the entire value chain and its philanthropic work, the Corporate Social Responsibility Department reports directly to the Chairman and Chief Executive Officer [1].

This strategic programme, whose results are regularly reviewed and challenged by a panel of independent international experts (Panel of critical friends) [2], is based on four pillars:

Innovating sustainably
By 2020, 100% of the Group's products will have an environmental or social benefit.

Producing sustainably
By 2020, the Group commits to reducing its environmental footprint by 60%, while extending its global presence.

Living sustainably
By 2020, the Group wants to empower all L'Oréal consumers to make sustainable consumption choices.

Developing sustainably
with employees - by 2020, L'Oréal employees will have access to health-care,social protection and training,wherever they are in the world;
with suppliers - by 2020; 100% of the Group's strategic suppliers in the supplier sustainability programme;
with communities - by 2020, through its actions, the Group will enable more than 100,000 people from underprivileged communities to access work.

(1) The Chief Corporate Responsibility Officer has also been appointed General Manager of the L'Oréal Foundation.

(2) L'Oreal has established an external governance body known as the Panel of Critical Friends, which meets with Jean-Paul Agon, the Group's Chairman and Chief Executive Officer, 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 issues) 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, Khalid AlKhudair, CEO and founder of Glowork, an organisation advocating the emancipation of women in Saudi Arabia through employment and et Helio Mattar, Chairman and Director of the Akatu institute, who works in the field of sustainable development in Brazil. In 2018, the Panel of Critical Friends was held on 23 March at L'Oréal's head office in Clichy.

3.1.1. A GROUP WITH A LONGSTANDING COMMITMENT

1968
- Signature of the mandatory **profit** sharing for French employees

1979
- First production of reconstructed skin

1988
- Signature of the **incentive** profit sharing agreement for French employees

1989
- **End of animal** feeling for finished products

1996
- Creation of the **Instance Européenne de Dialogue Social**

1998
- Launch of the **"L'Oréal-Unesco For Women In Science"** international programme

2000
- Publication of the Group's first **Code of Ethics**

2001
- Implementation of the **Worldwide Profit Sharing Program- WPS**

2002
- Completion of the first **social audits** at suppliers

2003
- Launch of **ISO 14001** certification programme
- First participation In the CDO **(Carbon Disclosure Project)**
- L'Oréal signs the **United Nations Global Compact**

2004
- First prize in the **Diversity Leadership Award** presented to L'Oréal by Diversity Best Practices
- Publication of the first **diversity charter** and the Group's first **sustainable development** report

2006
- L'Oréal receives **the Global Business Coalition against HIV** award

2007
- Creation of the **L'Oréal corporate Foundation**
- First recognition as **"One of the World's Most Ethical Companies"**

2008
- Publication of the Group's first **Ethics Day**

2009
- L'Oréal pledges to reduce **CO_2, emissions, waste generation and water consumption by 50%** at its factories and logistics centres by 2015
- First participation In the **CDP Supply Chain** for 2008

2010
- Creation of a global **Solidarity Sourcing** programme
- First European gender equality label **the Gender Equality European & International Standard** (GEEIS) awarded to 8 of the Group's entities

2013
- Launch of the **"Sharing Beauty With All"** programme
- Launch of the **L'Oréal Share & Care** programme
- Listing on the **United Nations Global Compact 100** stock Index
- **The Way We Prevent Corruption** manual

2014
- Award of the **Best Performer in Climate Change Leadership prize**
- Signature **of Women's Empowerment Principles,** a United Nations Initiative to promote gender equality
- L'Oréal joins **Transparency International France**

2015
- Launch of **Carbon Balanced** programme
- Signature of the **global disability charter**

2016
- **"AAA"** in the CDP
- 1st **Palm Oil Progress Report**

2017
- **"AAA"** in the CDP for the second year in a row
- Founding partner of **Women 4 climate** with C40
- Launch of the second stage of the **Share & Care** programme
- **Sciences Based Target**
- **Human Rights** Policy

2018
- Circulation of the **Report Collection and Processing procedur**
- First employee **shareholding plan**
- **Act4Nature** Biodiversity Commitment
- 1st and only company worldwide rated **"AAA"** by CDP three years running
- 10 ème édition d'**Ethics Day**
- Achievement of the **"zero waste to landfill"** target for industrial sites
- L'Oréal recognized as a LEAD company by the **United Nations Global Compact**

3.1.2. CONSTANT DIALOGUE WITH STAKEHOLDERS

L'Oréal is keenly aware that a company can only grow and prosper if it cares about its ecosystem, which is made up of many actors. The Group attaches great importance to dialogue with all stakeholders.

Within the framework of ongoing dialogue and as part of a process aimed at making continual progress, L'Oréal endeavours to take into 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.

The dialogue conducted by L'Oréal with its stakeholders has gained importance over time. In the *Sharing Beauty With All* programme, for instance, it has seen three major phases:

1st phase: upstream of the definition of the Group's *Sharing Beauty With All* commitments with regard to Sustainable Development, between 2011 and 2013 L'Oréal engaged in dialogue 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 strategy.

The materiality analysis took place in 4 phases:

- identification and ranking of stakeholder expectations;
- identification and ranking of Sustainable Development challenges for L'Oréal;
- establishment of materiality;
- review of the Sustainable Development strategy and L'Oréal's indicators.

Thanks to this process, L'Oréal is able at regular intervals to revise the priorities of its Sustainable Development 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 stakeholders and the main challenges for the Group.

2nd 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.

3rd 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 Sustainable Development materiality analysis. Each year, the Group dialogues with its various stakeholders in order to challenge its projects and progress.

The table below highlights some examples among the initiatives taken in 2018.

	RELATIONSHIPS MAINTAINED	SOME INITIATIVES IN 2018
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.	Over 60% of the Group's employees took part in Ethics Day in 2018, and more than 6,800 questions were raised worldwide. Employees were also asked to respond to an ethics survey in 2018.
Suppliers	L'Oréal maintains an extensive dialogue with its suppliers and shares with them its ambitions and best practices in the area of Sustainable Development.	During annual Business Reviews, L'Oréal discusses 5 main subjects with its suppliers: quality, Corporate Social Responsibility, innovation, delivery/supply chain and competitiveness. In 2018, 325 Business Reviews took place.
Consumers	L'Oréal is heedful of both current and future needs and concerns of its consumers, in particular with regard to Sustainable Development.	In 2018, extending the work of the Advisory Committee established in 2016, L'Oréal continued its policy of actively listening to consumers on sustainable development issues through a number of studies conducted with consumer panels in the United States, China and Europe with a view to understanding their expectations and fine-tuning its policies.
Shareholders	L'Oréal is committed to developing a relationship of trust with all shareholders. To this end, the Financial Communication Department offers a range of multimedia tools, organises regular meetings with shareholders and their associations, and takes part in market initiatives.	◆ Publication of an interactive and enriched digital Annual Report; ◆ Publication in 2018 of the second edition of its Integrated Report; ◆ Participation in 2018 in the Actionaria Stock Market Fair for the 15th consecutive year; ◆ Organisation of around 10 meetings and site visits with shareholders from all French regions; ◆ Distribution of shareholders' letters and newsletters; ◆ Presentation of L'Oréal China by the country CEO, member of the Executive Committee at the Annual General Meeting in April 2018.

	RELATIONSHIPS MAINTAINED	SOME INITIATIVES IN 2018
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 2018, L'Oréal and Alibaba Group launched the "Green New Retail" project to reduce the environmental impact of their logistics systems and promote the use of greener packaging materials in express logistics. In 2018, the Group participated in Metro AG's Metro Water Campaign.
NGOs, associations and not-for-profit organisations	The Panel of Critical Friends is an external governance body, which reviews the progress made on the *Sharing Beauty With All* programme year on year, by casting a critical eye over the actions conducted, suggesting improvements and challenging L'Oréal's Sustainable Development ambition. Since 2013, L'Oréal has set 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 volunteering actions for associations and not-for-profit organisations, on public utility projects and supporting the surrounding communities, while continuing to receive their salary.	In 2018, the Panel met in March in the presence of Jean-Paul Agon, Chairman-CEO, in Clichy, France. In 2018, for the 9th edition of Citizen Day, more than 27,600 employees took part in the event in 63 countries.
Extra-financial rating agencies and investors	L'Oréal makes every effort to improve the information made available to its stakeholders, and regularly discusses CSR topics with extra-financial ratings agencies and with investors.	L'Oréal is in contact with bodies including Vigeo Eiris, ISS-OEKOM and the CDP to discuss its extra-financial performance and to 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.	• Through the L'Oréal Foundation's For Women in Science programme, the Foundation rewards scientists and awards scholarships to young female researchers; • L'Oréal research teams in Japan have joined the prestigious National Institute for Materials Science (NIMS), the only Japanese laboratory dedicated to the science of materials, to create a collaborative research centre. The objective is to develop responsible materials, namely ones that are respectful of the environment, energy resources and the fabric of society; • Sharing a common vision of science, equally attentive to human health as to the environment, L'Oréal and the Laboratory of Chemistry of Organic Polymers in Bordeaux have decided to join forces to develop polymers with cosmetic activity (skincare, makeup, etc.) that are respectful of the environment without compromising efficacy and performance.
The public authorities	At local, national or international level, L'Oréal maintains close relationships with the public authorities in particular *via* professional associations.	L'Oréal is a member of many associations all over the world, including: FEBEA (Federation of Beauty Enterprises), 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.

	RELATIONSHIPS MAINTAINED	SOME INITIATIVES IN 2018
Students and young graduates	L'Oréal is recognised as one of the most attractive companies for students. The Group has unique know-how in working on campus, allowing it to play a central role in meeting the expectations and needs of students around the world.	◆ Brandstorm, an international student competition, brings together more than 30,000 students from 65 different countries; ◆ L'Oréal awards several scholarships every year to students from partner schools in order to support the academic path of students who share the Group's values of innovation, entrepreneurship and diversity; ◆ L'Oréal provides financial support for various academic 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, the Masters and Chair in Business Law and Ethics at the University of Cergy-Pontoise and the Marketing, Innovation & Creativity Chair at INSEAD; ◆ L'Oréal is also a long-standing partner of CEMS, an alliance of more than 30 business schools worldwide, including Bocconi University, LSE, Stockholm School of Economics, ESADE, Tsinghua University School of Economics, etc.

Efforts that have been recognised and rewarded

In 2018, L'Oréal ranked No. 1 worldwide in the Covalence EthicalQuote ethical reputation index. Covalence EthicalQuote ranks the world's 581 largest public companies, reflecting the perceptions of stakeholders, the media and corporate communications on their environmental, social, governance and Human Rights issues. L'Oréal was also named one of the 34 LEAD companies of the United Nations Global Compact, reserved for the most advanced companies in terms of responsible business conduct and those that contribute to the United Nations Sustainable Development Goals.

As in previous years, L'Oréal was also acclaimed by the most demanding organisations in this field in 2018, and in particular:

- the extra-financial rating agency Vigeo Eiris ranked the Group No. 1 in all sectors;
- for the seventh consecutive year, extra-financial rating agency ISS-Oekom gave L'Oréal Prime status, a rating awarded to the top-performing companies;
- CDP, an independent international NGO that assesses the efforts made by companies to measure, report and reduce their greenhouse gas emissions, gave L'Oréal a triple "A", the top score, for each of the ratings on key issues: the fight against climate change, sustainable water management and the protection of forests. Only two companies in the world obtained this triple "A" score in 2018;
- L'Oréal was recognised for the 9th time as one of the World's Most Ethical Companies by the Ethisphere Institute.

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 Index in its Excellence Global and Excellence Europe indices;
- the Euronext-Vigeo Eiris indices which highlight the top performing companies in the areas of the environment, corporate social responsibility and governance.

3.2. MAIN NON-FINANCIAL RISKS

L'Oréal presents its strategy in terms of Social, Environmental and Societal Responsibility [1] with a view to meeting the new requirements of the Non-Financial Information Statement [2]. This declaration sets out the Group's key extra-financial risks and then describes the policies implemented to address them, monitored and measured by performance indicators and their readings. This presentation draws on the Group's business model, set out in Chapter 1 of this document. L'Oréal has a long-standing commitment to corporate social responsibility; section 3.3 also describe policies and actions implemented voluntarily other than in response to key risks.

3.2.1. RISK IDENTIFICATION PROCESS

In application of the Directive of 22 October 2014 on the disclosure of non-financial information, as transposed into French law, the main environmental, social and Human Rights risks and a discussion of the fight against corruption are presented in detail in this section 3.2 to the extent necessary to understand the Company's situation, business development, economic and financial results, and activity.

The Group's significant risks, *i.e.* those liable to have a material impact on its business, financial position or outlook, are described in Chapter 2 of this document (see section 2.8.5 "Risk factors and risk management") and have been prepared in reference with Group risk mapping (see section 2.8.5.2 "Risk mapping").

These risks bear on all areas of the Group's activities. Some of them are specific to non-financial issues; others are broader, and may stem from environmental or societal causes. These so-called "CSR" risks were the subject of detailed analysis in order to select the main CSR risks within the meaning of the Non-Financial Information Statement, based on the work of the Group's experts, in conjunction with the Group's Risk Management Department, and consistent with the Group's business model as described in Chapter 1 of this document. This work also draws on the sustainable development materiality analysis, the Group's Human Rights and corruption mapping, also achieved by each country on corruption, as well as on the risk analysis carried out within the framework of the Vigilance Plan (see section 2.8.4 "Vigilance Plan").

The main risks have been validated at the highest level of responsibility of the organisation by the relevant General Managements.

The Group's policies, described in section 3.3, address the need to prevent the main risks and to mitigate their impact. These policies also reflect a proactive approach that factors in stakeholder expectations.

3.2.2. MAIN RISKS IN RESPECT OF SOCIAL AND ENVIRONMENTAL RESPONSIBILITY, HUMAN RIGHTS AND CORRUPTION

The main risks in respect of social and environmental responsibility, Human Rights and corruption identified by the L'Oréal Group, as described in section 3.2.1, are set out below. The Group's policies, described in section 3.3, notably address the need to identify the main risks, to prevent them and to mitigate their impact.

For the main environmental risks, the concept of risk covers both risks related to the impact of the Group's activity on its ecosystem and the risks of the impact of climate change on its business model, activity and financial performance [3].

By contributing to preventing and controlling the risks to which the Group is exposed, these policies are intended to contribute to the Group's sustainable growth in a controlled environment suited to its business lines. 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.

(1) In this chapter, the acronym "CSR" refers to corporate social, environmental and societal responsibility.
(2) Prepared pursuant in particular to Article L. 225-102-1 of the French Commercial Code, resulting from order no. 2017-1180 which transposed Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 on the disclosure of non-financial information.
(3) In line with AMF recommendation 2018-12 of 29 October 2018.

Main environmental risks

Industrial risks

As with any production, distribution, research and general administration activity, L’Oréal is exposed to safety and environmental issues: fire, explosion, technical failure of facilities or their operation (such as those dedicated to the treatment of effluents and/or their discharge, or when managing work carried out on its sites for instance). Even though the cosmetics industry has a limited industrial risk profile, events of this nature can result in accidental pollution (surface and groundwater, air, soil), within or outside the Group’s sites. The risk of pollution cannot be totally eliminated.

Risks of natural origin

The Group is exposed to risks of natural origin in many countries. Risks of natural origin are those related to the occurrence of extreme weather events such as cyclones or floods, or those resulting from long-term climate change such as the rise in average temperatures, noticeable change in precipitation and the reduction of available water. To be sold, the products manufactured by the Group must be available on the market on the dates scheduled so as to respect customer requests and launch plans, in a cosmetics market where the need for responsiveness is growing constantly. A major stoppage of activity at a plant or distribution centre could therefore have an adverse effect on the achievement of commercial objectives.

These risks may impact the Group directly on its sites, or indirectly *via* the sites of suppliers and subcontractors, thereby reducing the availability of raw materials or packaging necessary to manufacture products. For instance, an exceptionally steep rise in the price of basic raw materials because of their scarcity, or in the energy costs necessary for their production due to carbon taxes, or even their total unavailability or the resulting failure of suppliers, could affect the Group’s performance.

Risks related to the use and end of life of products

The use of cosmetics and their disposal after use by consumers and professional customers (mainly hairdressers and beauticians) generate environmental impacts. So-called “rinsed” formulas (shampoos in particular) require water for their use, and the ingredients used in their composition can be found after use in domestic wastewater, the treatment of which is dependent on existing sanitation systems in place in the relevant geographies. Insufficient consideration of these impacts related to the use phase during the design of L’Oréal products could represent a risk for sales in certain areas of the world where access to water is difficult (water stress, quality of drinking water, etc.). Similarly, the use of predominantly plastic containers may represent an environmental risk resulting from the disposal of plastic waste, depending largely on the collection and treatment channels available.

Risk related to changing stakeholder expectations in terms of environmental and social performance

The Group expects consumer choices to be increasingly influenced by the carbon impact of products and the overall environmental performance of manufacturers, with certain categories of consumers becoming increasingly mindful of the impact of their purchasing decisions. If the Group is unable to anticipate change in such behaviours, to meet stakeholders’ expectations, to overcome the major environmental and social challenges, and to respond notably by the innovative adaptation of its products, a significant contribution to a low carbon economy and by the preservation of water and natural resources, its performance and reputation could be affected.

Risk of regulatory non-compliance

L’Oréal operates through subsidiaries located in many countries. Like any business, L’Oréal is subject to a wide range of constantly changing local laws and regulations in the areas of safety and the environment, including efforts to fight against climate change, and the preservation of water resources and biodiversity. This exposes it to the risk of regulatory non-compliance or higher compliance costs for its activities in a broad context of increasingly stringent standards.

Main social risks

Employee health and safety risk

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 Resources and Social policy. Nevertheless, the risk of accidents at the workplace or occupational diseases cannot be entirely ruled out.

Human Resources management risk

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.

Human Resources management notably covers the recruitment, development, collective commitment, remuneration, diversity and inclusion of Group employees.

Main Human Rights risks

In 2017, L'Oréal conducted analysis to identify the risks of non-compliance with the Human Rights and Fundamental Freedoms that have the greatest exposure to the most serious negative consequences potentially resulting from the Company's business activities and relationships. The risks were identified *via* a broad consultation at the Group's most directly concerned entities (over 300 employees consulted around the world). The Human Rights risk assessment is also based on the Verisk Maplecroft indicators [1].

The findings of this risk analysis have been included in the Human Rights policy. They cover the following issues:

- consumer health (product quality and safety, promotion of healthy behaviour and in particular the fight against eating disorders) and respect for privacy (protection of personal data);
- the Human Rights of L'Oréal employees and employees of the Group's suppliers in their working conditions (absence of child labour, forced labour, discrimination and sexual or moral harassment, respect for their freedom of association and the right to collective bargaining, their privacy and their health);
- the Human Rights of communities potentially impacted by the Group's activities (respect for the environment, right of access to water, consideration of Human Rights in the choice of raw materials and in particular the right of access of local populations to their land and respect for their traditional knowledge under the Nagoya Protocol);
- the rights of women insofar as they may face a greater risk of negative Human Rights impact.

Locally, a tool enables Country Managers to assess any local ethical risks (including with regard to Human Rights). Since 2013, 92% of Countries [2] have conducted an ethics self-assessment.

The analysis of supplier and subcontractor risks is carried out by the Purchasing Department.

Main corruption risks

L'Oréal operates in many countries where the risk of corruption can be significant and could lead L'Oréal employees, as well as third parties acting in its name or on its behalf, directly or indirectly, voluntarily or involuntarily, to adopt practices contrary to the Group's ethical principles and the prevailing regulations. Corruption takes a variety of forms that are not necessarily easy for employees to identify. For instance, the exchange of gifts or invitations of excessive value could be perceived as corruption.

The assessment of corruption risk is materialised by specific mapping, carried out at Group level and by each country in its local context.

The Group's activities involve relations with:

- public authorities and their representatives, either directly or *via* intermediaries or professional bodies, to obtain the authorisations necessary for the Group's activities, for instance. The countries in which the Group operates must be given support in the fight against public corruption;
- the Group's customers and suppliers;
- journalists, doctors, etc., to whom products can be given so that they can recommend them. Relationships are also maintained with third parties that, beyond the Group's products themselves, issue various or general opinions on the Company. Any action potentially deemed as being intended to cause the persons in question to breach their obligation of loyalty must be avoided.

Any breach of the Group's anti-corruption principles may be prejudicial to L'Oréal and its partners. Equally, any failure of a partner may be detrimental to L'Oréal.

(1) Verisk Maplecroft is an internationally renowned risk analysis and strategy consultancy that provides a wide spectrum of risk analyses, including risks related to Human Rights.
(2) Excluding L'Oréal Caribe and L'Oréal entities in France.

3.3. POLICIES, PERFOR MANCE INDICATORS AND RESULTS

3.3.1. ENVIRONMENTAL POLICY

L'Oréal, whose strategy is one of Universalisation, sees its economic performance and its environmental and social performance as being inextricably bound. Long committed to reducing its environmental footprint, the Group aims to be one of the best companies in the field by proving that it is possible to decorrelate growth and environmental and social impact, and to contribute positively to its ecosystem, throughout the world.

In 2013, L'Oréal intensified its environmental ambitions by launching the *Sharing Beauty With All* programme based on four pillars: "Innovating sustainably", "Producing sustainably", "Consuming sustainably" and "Developing sustainably". In 2015, the Group announced its aim of becoming a Carbon Balanced company by the end of 2020. In 2016, a programme was rolled out within *Sharing Beauty With All*: "Working sustainably". It brings administrative sites and research centres into the process of improving L'Oréal's environmental and social impacts. In 2017, through its membership of the Science Based Targets programme, an initiative of the CDP, the United Nations Global Compact, the World Resources Institute and NGO WWF, L'Oréal signalled its goal of reducing its global carbon emissions by 25% in relation to their 2016 levels by end of 2030, and of going one step further by putting its environmental policy at the service of a major collective challenge, namely efforts to combat climate change. To go further, L'Oréal became a core member of the Ellen MacArthur Foundation in 2018, with the aim of adopting refillable, reusable, recyclable and/or compostable plastic for all packaging by 2025.

Together, these programmes have allowed L'Oréal to broaden the scope of its action. Beyond its commitment to preserving the health and safety of its employees and reducing the impact of its sites on their environment, the Group has implemented an ambitious policy to reduce its environmental footprint by preserving natural resources (energy, water, materials, biodiversity) on all sites operated and throughout the product life cycle, from the supply of raw materials to product end of life. L'Oréal is increasingly involving its suppliers in this process, sharing its ambitions and best practices, with the vision of a comprehensive and inclusive environmental policy.

3.3.1.1. An ambitious EHS policy shared by all

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 [(1)], 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, the Group strives to ensure the regulatory compliance of its activities, compliance with its own standards on its sites (industrial or administrative sites, research centres, stores), and makes sure that its subcontractors and suppliers ensure the safety of persons and the environment through a specifically dedicated audit programme.

(1) *The Health and Safety policy addressing the health and safety risk of employees ("Main social risks", section 3.2.2) is presented and described in the discussion of the Human Resources policy (section 3.3.2).*

A SYSTEM BUILT UP OVER MANY YEARS

"AAA" rating obtained within the scope of the CDP for the third year Achievement of the "zero waste to landfill" target for industrial sites Triple recognition by RoSPA Launch of GHAP (new general SHAP)	2018	
	2017	"AAA" rating obtained within the scope of the CDP for the second year Validation of the Science Based Target First "dry factory" plant in the Group and first administrative site certified ISO 50001 Launch of "Energyscan" "Safe@work / Safe@Home" programme Launch of the LIFE programme
"AAA" rating obtained within the scope of the CDP	2016	
	2015	Achievement of the "zero waste to landfill" target for plants
Achievement of the target of 50% reduction in CO_2 emissions vs. the 2005 baseline for plants and distribution centres Launch of ISO 50001 certification of the factories	2014	
	2013	Launch of the SBWA programme and new commitments for the reduction of the environmental footprint of Operations Launch of waterscan Deployment of the "EHS" manual
Creation of the EHS function in the L'Oréal stores	2012	
	2011	Launch of the Ergonomic Attitude programme
Creation of EHS Culture Audits	2010	
	2009	First response to the CDP Supply Chain for Group suppliers First environmental commitments for the Group: 50% reductions in CO_2 emissions, water consumption and waste generation between 2005 and 2015 Launch of MESUR and SIO tools for Safety
Group Carbon Assessment	2008	
	2007	Measurement and report of CO2 emissions (Scope 1 & Scope 2) OHSAS certification of plants
First environmental objective for the Group (reduction of energy consumption)	2004	
	2003	14,001 certification for the plants Creation of the EHS functions on the R&I and administrative sites Creation of the first procedures for R&I
Reinforcement of EHS Audits through the presence of external local experts	2001	
	2000	Organisation of global EHS governance: a Corporate team and an EHS Director by zone Launch of SHAP tools and Root cause analysis
1st EHS Audits	1996	
	1993	Creation of the internal EHS Awards
1st EHS seminar Launch of on-site fire prevention inspections	1992	
	1991	Creation of the "Industrial Risks" department in the Operations Division and the ETNEHS function on the sites Creation of the first EHS procedures and EHS reporting

CDP: Carbon Disclosure Project.

Energyscan: A tool that makes it possible to quantify possible savings of energy used in a plant.

ETNEHS: EHS& Facilities.

GHAP: General Hazard Assessment Procedure.

MESUR: Managing Effective Safety Using Recognition and Realignment.

RoSPA: Royal Society for the Prevention of Accidents

Science Based Targets: A commitment to reduce greenhouse gas emissions over the long term, in accordance with the Paris climate agreements.

SHAP: Safety Hazards Assessment Procedure.

SIO: Safety Improvement Opportunity.

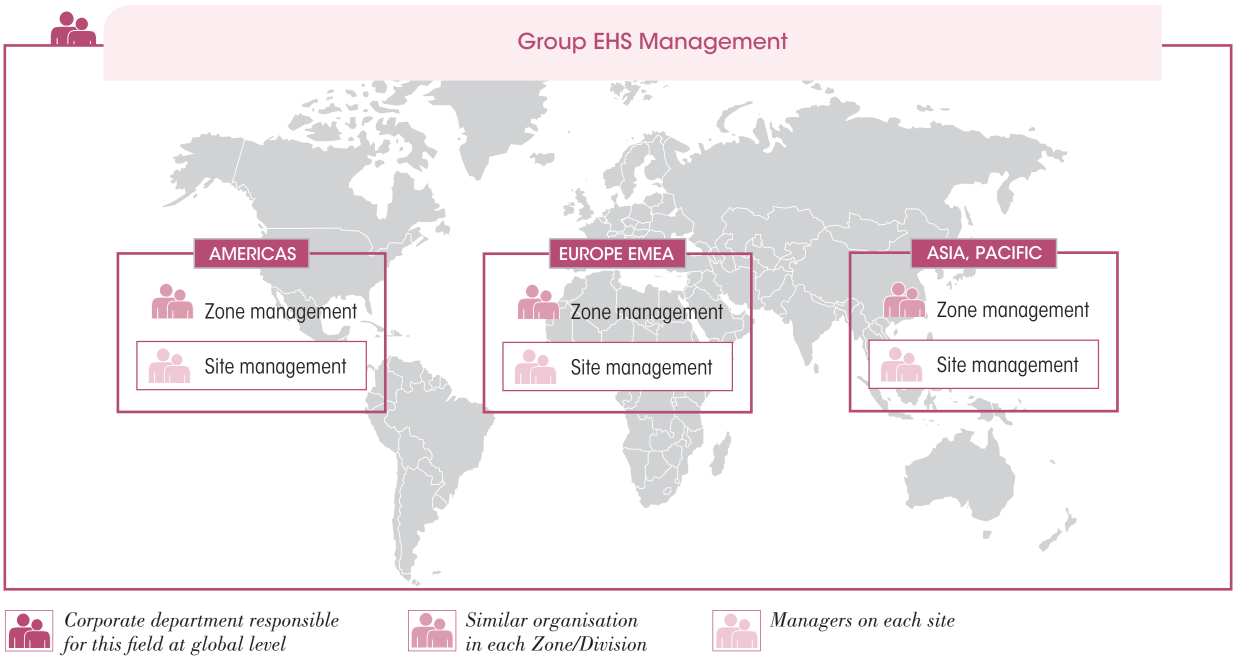
Waterscan: A tool that makes it possible to quantify possible savings of water used in a plant.

The Group's EHS policy is based on a set of stringent standards, compiled in an EHS manual which is a reference manual for all the sites all over the world. While 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 employee and large programmes of actions aimed at improving the security and environmental impact of its activities. A dedicated training programme has been established for this purpose with the aim of passing on this EHS culture at every level of the organisation. Lastly, in a manner consistent with this entire approach, an audit system combining both a "risks" and a "culture" evaluation serves to assess the compliance of activities with the key regulatory requirements, the proper application of the Group's standards and the degree to which the EHS culture is spread.

A global organisation and a reference manual

The EHS organisation, under the responsibility of the Operations Direction, has been structured to match the Group's global organisation: 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 sites. It is an essential means of improving their performance and respecting the key EHS commitments: to aim for zero accidents for the Group and to reduce the sites' environmental footprint (see under the heading "A continuous improvement process"). It defines the EHS management system and the responsibilities shared at all levels of the organisation, up to the operational responsibilities:

General Management	The Executive Vice-President Operations, who reports to the Chairman and Chief Executive Officer, is responsible for the Group Environment, Health and Safety policy.
Site managers (plants, distribution centres, administrative sites, research centres)	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.
EHS managers	Managers dedicated to compliance with the EHS policy ensure compliance with local regulations and the implementation of the rules, Group procedures and 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 people and damage to the environment and property [1]. It covers the following areas in particular:

- the safety of persons and property;
- fire protection;
- maintenance and work;
- pollution risk;
- efficiency of the use of resources, water and energy consumption;
- greenhouse gas emissions, waste water discharges, waste generation and treatment.

The policy is accompanied by monthly reporting of detailed indicators used to monitor changes in results in each of these areas and 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 of the implementation of the risk identification and management systems, and the application of the EHS culture in all Group entities, with the following main objectives:

- 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	OBJECTIVE	PROFILES CONCERNED	2018 RESULTS
EHS expertise	Guaranteeing a high level of expertise for EHS managers in the Group	EHS teams	44 people trained worldwide
Leadership & Safety culture **EHS for DOP**	Training managers in the EHS culture of their unit	Top managers DOP (Operations Directors)	60 people trained worldwide 41 people trained worldwide
EHS Operations & Labs **EHS for stores**		Managers and operational supervisors Managers of branded retail	147 people trained worldwide **41 people trained worldwide**
"Ergonomic Attitude" programme	Training in the health and safety issues specific to the Operations Division sites	Experts, managers and employees	**50 experts and 2,286 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. A follow-up visit is scheduled for the following year for those sites where it is necessary.

There are various audits called "risks", "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 significant requirements of local regulations and Group procedures and rules;
- progress in environmental, health and safety performances;
- significant 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.

(1) In collaboration, for goods, with the Safety and Real Estate departments.

TYPES OF AUDITS CONDUCTED IN 2018

	OBJECTIVES	METHODOLOGY	2018 AUDITS
Risk audits	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 the significant regulatory requirements of their activities. 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.	These audits cover all international operations. They are carried out by external independent experts.	These risk audits were carried out at 4 distribution centres.
EHS culture audits	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 of the Group's industrial sites and research centres are subject to regular EHS culture audits. Such audits are carried out by internal EHS specialists through interviews with 20-30% of the site's workforce.	Thse EHS culture audit were carried out at 4 administrative sites.
Combined EHS Risk and Culture Audits	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 audits were carried out at 4 plants, 7 distribution centres, 2 research centres and 3 administrative sites (including 1 combined administrative site and research centre).
Combined Quality, Environment, Health, Safety and Performance Audits	Optimising the professional practices audits at a site by combining the various existing Operations Direction audit programmes.	This audit is conducted for plants 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 internal experts for each of the audited areas.	These combined audits were carried out at 10 plants (risks and culture), 1 plant (culture), and 2 distribution centres (risks and culture).
Real estate audits	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.	1 site was audited.
Industrial subcontractor audits	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.	55 sites were audited.
Logistics subcontractor audits	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.	23 logistics subcontractors were audited.

In addition to these programmes, prevention inspections are regularly conducted by experts from the Group's insurance companies as part of external Fire and Environment insurance policies. In 2018, 5 plants, 1 distribution centre and 1 research centre in 3 countries (France, Russia, United States) were inspected with regard to environmental risks, and 17 sites in 10 countries (China, France, Germany, India, Indonesia, Netherlands, Poland, Spain, Turkey, United States) with regard to fire prevention.

Of the audits described above, 96% involved a risk component which is always carried out by external independent auditors specialising in the area being audited.

A continuous improvement process

The implementation of the standards, the spread of the L'Oréal EHS culture and the governance system in place contribute the continuous improvement of the Group's EHS performance. Major developments occurring within the framework of the Group's operations are also included, with this same aim; whether it involves building a new plant, purchasing new equipment or defining new processes, each industrial development is an opportunity to reduce the environmental footprint and safety risks.

Lastly, some major programmes within the EHS, or more generally within the Group, are vectors for progress in the areas of safety or the environment in all entities, and are the subject of detailed improvement plans, whose effectiveness is evaluated during audits:

The Life programme (Life threatening Incidents or Fatality Event)

For all L'Oréal sites, this programme covers activities posing risks that, if not controlled, could result in serious injury or illness. It extends over time the aim of moving towards "zero accidents" by ensuring the sustainability of actions and defining the requirements in terms of preparation for emergencies following an incident. It is backed up by a three-year communication campaign relayed by managers to cover the 10 identified families of LIFE risks.

The Sharing Beauty With All programme

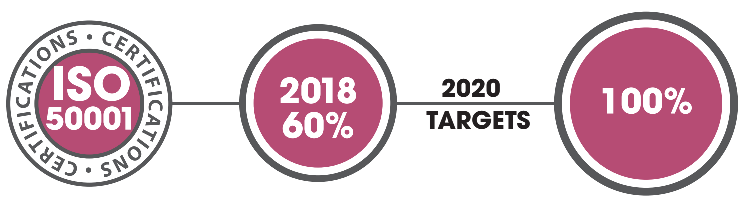
The programme's Producing Sustainably component has contributed to the continuous improvement in the sites' environmental performance for several years, notably *via* the definition and dissemination of best practices in terms of energy efficiency, CO_2 emissions, consumption of water and natural resources, and waste reduction and treatment. It sets reduction targets for reducing CO_2 emissions by 60% in absolute terms, water consumption in litres per finished goods by 60%, and waste generation in grams per finished product by 60%, with no more waste landfilled, between 2005 and 2020.

Major achievements and technological innovations have been made in each of the four areas (CO_2, water, waste, biodiversity), some involving the implementation of completely integrated solutions taking into consideration all the environmental impacts. Some plants, like those in Libramont (Belgium), Burgos (Spain) and Settimo (Italy), 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.

The programme's Working Sustainably component aims to achieve continuous improvement of the environmental performance of administrative sites and research centres. It lays down targets for reducing CO_2 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%, between 2016 and 2020. 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 formalise improvement plans. It also involves engaging employees at these sites in the development of eco-responsible behaviours. For instance, the Chevilly-Larue research centre has developed a programme aimed at integrating local biodiversity, which was recognised by the Ministry for the Environment through the "Business and Environment" prize in 2015. In 2018, this site also became a "birdlife sanctuary" through the efforts of the NGO LPO (League for the Protection of Birds) to create a refuge.

The Group is committed to an ISO/OHSAS certification process to permanently anchoring EHS performance on its industrial sites:

- In 2003, L'Oréal embarked on the process of ISO 14001 (Environmental Management) certification of all of its plants. As of the end of 2018, 85% of plants were ISO 14001 certified, *i.e.* 34 plants out of 40. Over the next few years, the last plants acquired or those recently built will be ISO 14001 certified.
- In 2015, the Group launched an ISO 50001 "Energy Management" certification programme with the objective of certifying all of its plants by 2020, in line with a clearly defined roadmap. As of the end of 2018, 60% of plants had been ISO 50001 certified, *i.e.* 24 plants, of which 18 in Europe, 3 in the United States, 1 in Brazil and 2 in China.



Some administrative sites and research centres have also initiated this process. The Madrid site was the first of the Group's administrative sites to receive ISO 50001 certification in 2017.

- Since 2007, L'Oréal has been involved in OHSAS 18001 and then ISO 45001 "Occupational Health and Safety Management" certification of all of its plants. As of the end of 2018, 83% of the Group's plants were OHSAS 18001 or ISO 45001 certified, *i.e.* 33 sites.

An internal Group communication system exists so that each site is informed when accidents, near accidents or significant incidents occur. Specific communication is circulated worldwide so that the facts and lessons to be learned, the existing rules and the new requirements to be applied are taken into account.

A process of integrating new sites

The Group regularly acquires new sites. A formal integration process then makes it possible to provide these sites [1] with extra support and assistance in order for them to be brought into compliance with all the EHS requirements defined, and to bring the potential risks under control.

The purpose of this 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 the integration within the Group.

3.3.1.2. Managing risks and controlling the impact of sites on their environment

The Group systematically issues warnings about the environmental impacts of its activities in the places where it operates, whether they concern soil, water or the air.

Controlling and limiting risks to the environment

Each site has a general environmental analysis that must be updated at least once every three years or whenever a significant change occurs.

All activities performed by employees (permanent or temporary) are covered by an environmental aspects analysis, including routine and maintenance activities. The preventive measures described in the internal procedures must be complied with in order to avoid all forms of pollution (soil, surface water, groundwater, air, etc.). Contingency plans in the event of accidental events are planned and are the subject of training for the people concerned. The proper implementation of these measures is verified during preventive inspections by insurers and periodic EHS audits.

Depending on the site, if significant risks are identified or if the L'Oréal standards or regulations impose specific requirements, a more detailed evaluation is carried out for the activities concerned. Appropriate action plans – with immediate action where necessary – are implemented to reduce significant risks to an acceptable level.

Any establishment or renovation of a site, any introduction of new equipment or manufacturing processes, and any changes in industrial processes also give rise to a risk assessment and action plans to reduce the potential impacts.

In the same way, at the time of the purchase of land or buildings, L'Oréal conducts due diligence, which includes, in particular, a review of the environmental aspects.

Land use

L'Oréal's land use commitments are based on the following fundamentals:

- establish an ecological inventory of the site. The purpose of the inventory is to preserve, restore and develop the site's biodiversity in its ecosystem. The inventory is performed by a local expert using the SITESv2 reference guide for sustainable land design and development, which is aligned with LEED environmental certification (Leadership in Energy and Environmental Design);
- reduce the impact of construction on the environment, for instance by choosing a zone that is already industrially developed, or an existing industrial site or industrial wasteland, or, for administrative sites, an urban area with a high population density close to a residential neighbourhood, ideally located in the city centre or in a neighbourhood well served by public transport;
- if possible, place the site on land located more than 30 metres from any body of water (sea, ponds, lakes, rivers, etc.), outside natural areas, public green spaces, land with endangered or threatened species, or any other undeveloped area (farmland, etc.);
- prevent 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;
- maintain or restore native natural habitats and biodiversity;
- maximise the green space areas on the site (even in excess of the local regulations) and minimising the impermeable areas or natural spaces;
- remediate 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.

Surface water

The Group has adopted standards for rainwater management in order to monitor its quality and avoid polluting it. For instance, sites are equipped with oil separators for parking areas. Similarly, any storage and operating area where spills are liable to occur must have adequate retention capacities. Sites must also have holding capacity to contain fire extinguishing water.

No spills were reported in 2018.

(1) *Does not apply to stores.*

Industrial effluent

26 L'Oréal plants have their own effluent treatment plant. They use a range of technologies, including physical, chemical and biological processes adapted to the characteristics of the effluent and local discharge conditions.

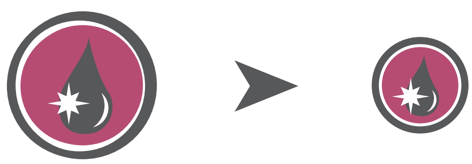
Equipment operation and effluent management are the sites' responsibility, and are subject to specific procedures and instructions. An internal audit or self-assessment of the corresponding facility is organised and documented at least once each year.

A self-monitoring system representative of effluent discharges has been established in each plant, and serves to monitor regulated and contractual parameters such as COD (chemical oxygen demand), BOD (biochemical oxygen demand), pH, the temperature of effluent and substances liable to disturb the operation of an internal or external effluent management facility. This self-monitoring is a tool for detecting the risk of overshooting, which helps anticipate non-compliance and initiate corrective actions.

In 2018, total chemical oxygen demand for the Group's effluent (in tonnes of COD) leaving the site fell by 36% as compared to 2005 and by 53% in grams per finished product, at 0.8g per finished product.

L'Oréal is continuing to install on-site wastewater treatment facilities, such as in Poland, Russia and the United States for instance in 2018.

EFFLUENT QUALITY INDEX



2005 **2018**

- 53%

(grams of COD per finished product)

On the scope of industrial sites	2017	**2018**
Accidental spills *(m^3)*	1	0
Effluent after treatment *(m^3)*	1,146,648	1,205,836
COD after treatment *(t)*	4,839	4,875

The Group's air emissions, excluding greenhouse gases

Industrial sites have an inventory and mapping of air emissions, which is updated once a year. The operation and maintenance of air emission collection and treatment facilities are subject to specific procedures and instructions.

Scope of industrial sites	2017	**2018**
SO_2 (t)	4.0	2.0
VOC (t)	160	171
Ozone depleting substances (t)	2.2*	2.0 ☑

☑ *The Statutory Auditors have expressed a reasonable assurance on this indicator.*

Noise pollution

L'Oréal's industrial activities are not particularly noisy. The sites comply with the noise standards to which they are subject. Internal environmental reporting is one way in which to ensure monthly readings of any non-compliance on this issue.

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, and a third to cover the risk of accidental spills. Most of this provision corresponds to land which does not require any treatment for the activities that are currently carried out on the site (see note 13.3 to the consolidated financial statements).

3.3.1.3. Fighting climate change and preserving natural resources

L'Oréal has set itself the major objective of fighting climate change and preserving natural resources in the overall exercise of its activity. All efforts are being made to achieve this objective in the sites where its activities are performed and across its entire value chain, from the search for renewable ingredients and the sustainable supply of raw materials to the transport of raw materials, their consumption and product end of life. L'Oréal is committed to continuously improving the impact of its products throughout their life cycle.

3.3.1.3.1 On operated sites

As part of the *Sharing Beauty With All* programme, L'Oréal is committed to improving the environmental footprint of all operated sites.

The Group strives to reduce greenhouse gas emissions [1], water consumption and waste generation, and to protect biodiversity. It is also committed to reducing the footprint of product transport, and no longer sending waste to landfill.

A/ Fighting climate change

As the cosmetics industry consumes little energy and has low CO_2 emissions compared with other sectors, L'Oréal is not subject to the CO_2 emission quotas provided for by European regulations, whether for industrial sites, administrative sites or research centres. However, L'Oréal, as a company that has been committed to the fight against climate change for many years, applies a particularly proactive policy for the reduction of its CO_2 emissions.

(1) *In the present Document, the Group's performance in terms of CO_2 emissions is expressed in CO_2 equivalent, i.e. eq CO_2.*

By 2016, the 2020 targets had been exceeded, with a 67% reduction in emissions. In 2018, a 77% reduction in CO_2 emissions was achieved on a 38% increase in production compared with 2005, demonstrating the Group's ability to decorrelate its growth from its environmental impact.

Lastly, in 2015, L'Oréal undertook to define Science Based Targets (SBT) to reduce its greenhouse gas emissions across its entire value chain and over the long term, in accordance with the Paris Climate Change Agreement. In December 2017, the "SBT" initiative validated the Group's proposal: L'Oréal is committed to reducing greenhouse gas emissions from its Scopes 1, 2 and 3 (1) by 25% in absolute terms by 2030, compared with 2016 basline. In particular, L'Oréal Group is committed to reducing greenhouse gases from all of the sites that it operates by 100%.

Group greenhouse gas emissions (Scopes 1 and 2, as per the GHG Protocol)

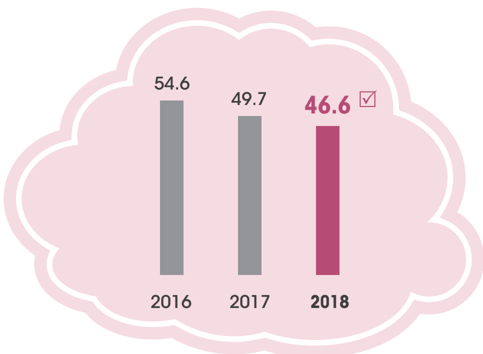
To limit its impact on climate change and fulfil its objective of reducing greenhouse gas emissions (Scopes 1 and 2), L'Oréal has implemented a strategy based on three pillars:

1. reducing its energy requirements by improving energy efficiency across all its facilities (buildings, equipment, etc.);
2. increasing the use of local renewable energy wherever possible;
3. achieving the targets defined for the sites without recourse to carbon offsetting.

3

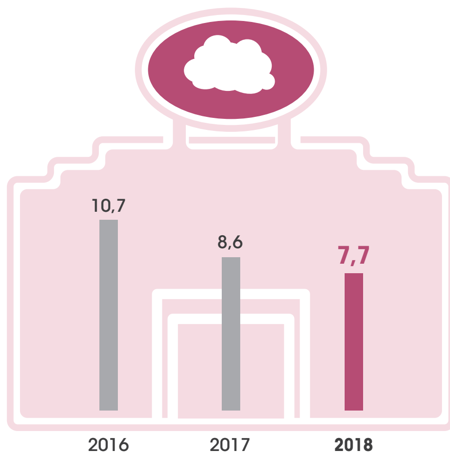
CO_2 SCOPE 1 OF INDUSTRIAL SITES

(THOUSANDS OF TONNES EQUIVALENT) (2)



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

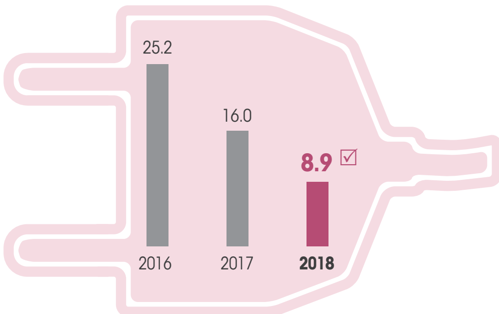
CO_2 SCOPE 1 OF ADMINISTRATIVE SITES AND RESEARCH CENTERS *(THOUSANDS OF TONNES EQUIVALENT) (2)*



(1) *As per the Greenhouse Gas Protocol (GHG Protocol): 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)".*

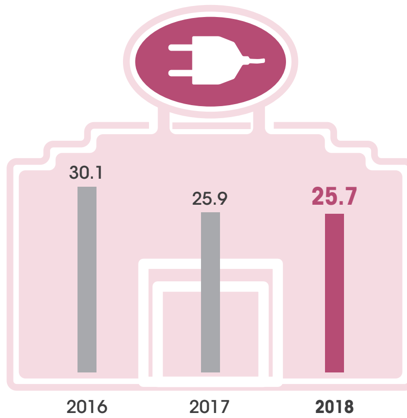
(2) *The Group's emissions are now calculated in accordance with the terms defined by the GHG protocol, and monitored in accordance with the market-based CO_2 indicator. The monitoring indicator for CO_2 emissions includes emissions related to refrigerant leaks.*

CO_2 SCOPES 1 AND 2 OF INDUSTRIAL SITES
(THOUSANDS OF TONNES EQUIVALENT)(1)

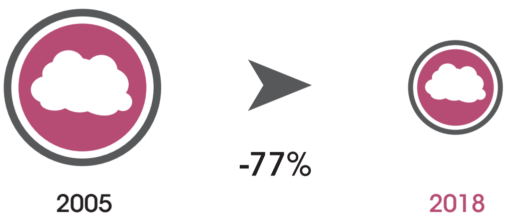


☑ *The Statutory Auditors have expressed a reasonable assurance with regard to this indicator.*

CO_2 SCOPE 2 OF ADMINISTRATIVE SITES AND RESEARCH CENTERS *(THOUSANDS OF TONNES EQUIVALENT)(1)*

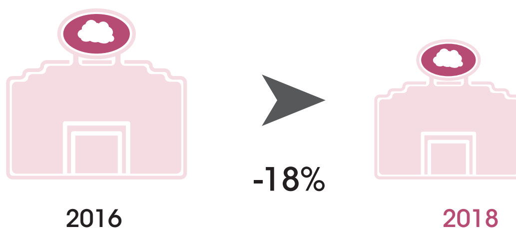


CO_2 SCOPES 1 AND 2 OF INDUSTRIAL SITES
(THOUSANDS OF TONNES EQUIVALENT)(1)



(in absolute terms: tonnes of CO_2 at constant scope, as per the GHG Protocol)

CO_2 SCOPES 1 AND 2 OF ADMINISTRATIVE SITES AND RESEARCH CENTERS



(in absolute terms: tonnes of CO_2 at constant scope, as per the GHG Protocol)

THE CARBON BALANCED PROJECT: TOWARDS A *LOW-CARBON COMPANY* BY THE END OF 2020

In view of the climate emergency, the Group has pledged to balance its residual CO_2 emissions (Scopes 1 and 2, downstream transportation of its finished products) by the end of 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_2 per year, 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:

(1) *The Group's CO_2 emissions are calculated in accordance with the terms defined by the GHG protocol, and monitored in accordance with the Market-based CO_2 indicator.*

- improvement in energy efficiency;
- promotion of productive, low-carbon agricultural practices;
- development of forest management and agroforestry projects.

To evaluate and support this approach, L'Oréal has developed, with the help of a committee of independent experts specialising in carbon, the *Carbon Balanced* programme framework, a methodology for selecting, developing and monitoring such projects. This document is shared with all suppliers, project leaders and the auditing bodies involved.

In 2018, L'Oréal continued to exchange views with external experts on issues relating to Insetting mechanisms, notably within the International Insetting Platform, or on methodologies for accounting for Scope 3 emission reductions by joining the Value chain intervention consortium led by the Gold Standard.

It has been estimated that the five energy and forestry projects implemented since 2015 made it possible to generate carbon savings of 59,341 tonnes of CO_2 equivalent in 2018.

Example in Burkina Faso: 3 years of collaboration whose impacts far exceed carbon gains

Since 2016, L'Oréal has been supporting the activities of social enterprise Nafa Naana, which has enabled more than 4,200 women, all shea gatherers in the South-West region of Burkina Faso, to access improved cooking equipment, fighting energy poverty and its consequences in terms of poverty and deforestation. Since its launch, the project has avoided the emission of more than 9,000 $teqCO_2$, and the cutting of more than 4,500 tonnes of wood traditionally harvested in forests. The use of the 5,370 items of cooking equipment, namely improved cooking stoves, has reduced unpaid domestic work by women – mostly spent preparing meals and collecting wood, often at the expense of income-generating activities – by more than 500,000 hours. Thanks to the wood savings achieved, energy expenditure, representing up to 30% of the household budget, has been reduced by more than CFA 45 million in the space of three years.

Reducing energy consumption

For over 20 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 reduced the consumption of plants and distribution centres in kWh per finished product by 36% between 2005 and 2018, and the consumption of administrative sites and research centres by 11% in kWh/100h worked between 2016 and 2018.

THE ENERGY EFFICIENCY OF PLANTS HAS IMPROVED THANKS TO THE ENERGYSCAN APPROACH

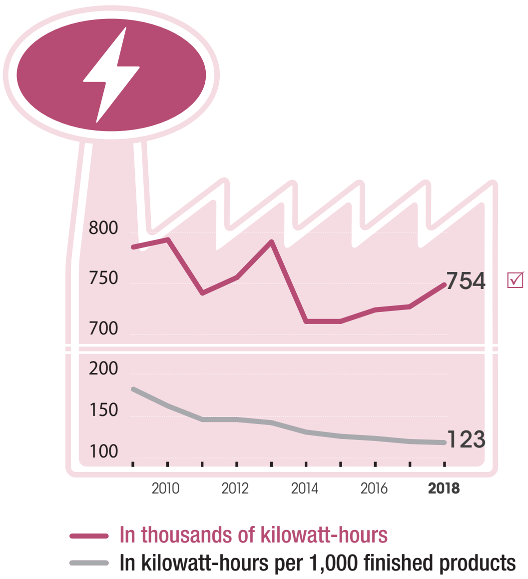
To support our *Sharing Beauty With All* objectives, and to facilitate ISO 50001 energy efficiency certification, the Energyscan tool, a standard tool for the analysis and exhaustive mapping of energy consumption, has now been rolled out at each of the Group's plants. This tool allows the different energy 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.

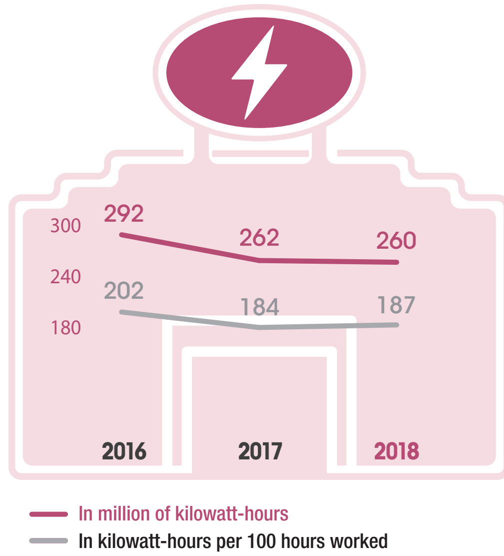
The projects making it possible to achieve these targets are identified and quantified on each site and the completion of such projects scheduled over time.

This forms the Group's "Energy roadmap", the performance of which is monitored on a monthly basis.

TOTAL ENERGY CONSUMPTION OF INDUSTRIAL SITES IN KILOWATT-HOURS



TOTAL ENERGY CONSUMPTION OF ADMINISTRATIVE SITES AND RESEARCH CENTERS IN KILOWATT-HOURS



☑ *The Statutory Auditors have expressed reasonable assurance about this indicator.*

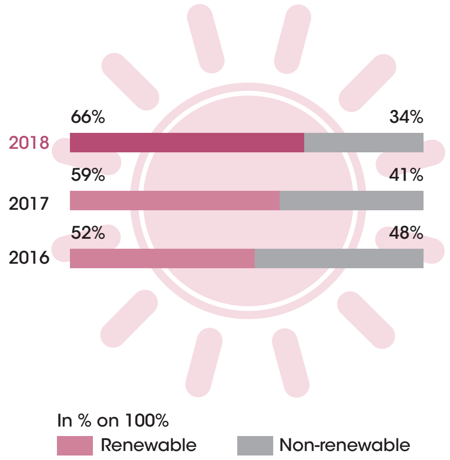
DATA RELATING TO CONSUMPTION WITH AN IMPACT ON GLOBAL WARMING

	Administrative sites and research centres		Industrial sites	
	2017	**2018**	2017	2018
Renewably sourced electricity (MWh)	73,754	74,857	345,051	380,491 ☑
Biogas (MWh)	407	6,238	46,040	78,260
Other renewably sourced energy (MWh)	5,277	4,765	41,114	36,037
TOTAL RENEWABLY SOURCED ENERGY (MWH)	**79,438**	**85,860**	**432,205**	**494,788** ☑
Non-renewably sourced electricity (MWh)	52,761	56,589	47,778	20,740 ☑
Gas (MWh)	36,352	28,361	213,725	198,731 ☑
Fuel oil (MWh)	224	195	7,261	7,516 ☑
Other non-renewably sourced energy (MWh)	15,154	15,783	32,292	36,622
TOTAL NON-RENEWABLY SOURCED ENERGY (MWH)	**104,490**	**100,929**	**301,056**	**259,609** ☑
TOTAL ENERGY CONSUMPTION (MWH)	**183,928**	**186,788**	**733,261**	**754,397** ☑

☑ *The Statutory Auditors have expressed a reasonable assurance with regard to this indicator*

Making increased use of renewable energies

PROPORTION OF RENEWABLE SOURCED ENERGY CONSUMED BY INDUSTRIAL SITES



L'Oréal has drafted a strategy involving the use of renewable energies, based on the potentialities offered by each local context.

In recent years, many projects have been implemented that allow some sites to use locally produced renewable energy, or to directly produce their own renewable energy. In 2018, 66% of the energy consumed by plants and distribution centres was renewable☑, and 57% of the electricity consumed by administrative sites and research centres was renewable. 38 of the Group's sites were carbon neutral by the end of 2018, including 12 plants, 19 distribution centres, 6 administrative sites and 1 research centre.

- The French sites of Rambouillet and Roye and those in Burgos in Spain and Settimo in Italy receive their energy supplies from biomass-fired boilers or plants 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, the United States, Mexico and 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;
- The Yichang plant in China has chosen to cover all of its energy needs by connecting to the hydroelectricity produced from the nearby dam;
- The La Roche Posay plant is supplied exclusively with biopropane;
- The Rio de Janeiro research centre is equipped with solar panels that cover 20% of its power needs.

Reducing emissions from product transport (Scope 3 as per the GHG Protocol)

Within the scope of the *Sharing Beauty With All* programme, L'Oréal has initiated the reduction in greenhouse gas (GHG) emissions generated 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. To achieve this objective, a large number of action plans for transportation are being deployed all over the world.

In 2017, the *Sharing Beauty With All* commitments were shared with the entire internal and external transport ecosystem: sustainable transport now ranks as a priority. 2018 was characterised by a swathe of global initiatives, drawing on tools made available to teams in 2017.

In 2018, in support of the sustainable transport strategy, seven priorities were communicated to the country transport teams *via* a manifesto. The first is reduction at source, especially with the study of the network in order to reduce distances travelled and the number of deliveries, as well as to optimise the fill rate. The resulting economic gains can be invested in sustainable transport solutions. It was also stated that all Group entities must make a contribution. Henceforth, when selecting the Group's carriers, the criterion of Sustainable Development is to come second after quality. In parallel with the implementation of the strategy and the manifesto, a more in-depth analysis of results put a spotlight on the biggest emissions contributors in transport: the use of air and urban transport.

For air transport, the pillar's first priority, a major change in the management of air transport was initiated in July 2018 through the publication of a standard issued by the Group's Head of Supply Chain and Operations Finance. The purpose of this standard is to limit the use of air transport to exceptional situations through systematic validation by two hierarchical levels. In parallel, each entity must monitor and report all of its air shipments and analyse the reasons behind the use of air.

For urban transport, the second priority, the Top 10 Cities project has been launched to establish decarbonisation plans for cities. Initially, 10 cities worldwide were selected and will be assisted by Corporate teams and external expertise. The project's aim is to promote the implementation of concrete transfers to sustainable transport solutions adapted to the local specificities and regulations. In a second step, the project will be extended to the main cities in which the Group operates.

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☑ *The Statutory Auditors have expressed a reasonable assurance on this indicator.*

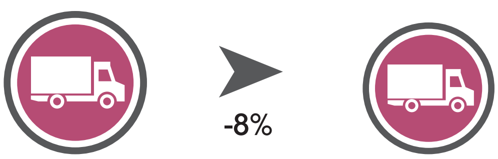
The Statutory Auditors have expressed a reasonable assurance with regard to this indicator.

For the first time and so as further to engage and value the Group's transport community, a CO_2 Challenge was launched in May 2018. This challenge allows L'Oréal entities in each area to highlight their local initiatives and compete in a global competition. The selection criteria are the reduction in CO_2 emissions, innovation, collaboration and replicability. 24 initiatives were submitted, and each area voted for its winning initiative in December 2018. The four finalists, selected to represent the Group's four geographies, will take part in the 2019 global challenge.

WINNING INITIATIVES OF THE FIRST STAGE OF THE CO_2 CHALLENGE #2018 EDITION

- For Europe, the winner was the Nordics Hub. The Danish-based Nordics Hub, in collaboration with a local sustainable transport partner, is to set up "mini"-urban power plants to allow the use of electric vehicles for deliveries in certain streets in central Copenhagen. The pilot will start in early 2019 and will use the subsidiary's parking spaces and charging stations for the duration of the test. This initiative will save 32,727 kg of CO_2 per year.
- For APAC, the winner was China with "Go Direct". To optimise distribution between the L'Oréal China distribution centre, the e-Distributor distribution centre in China and the JD.com regional centre, one of the country's leading e-commerce platforms, the subsidiary has collaborated with the latter. This "Go Direct" initiative enabled the subsidiary to make deliveries directly to its client's distribution centres, without first delivering to the distributor's centre. The "Go Direct" project has had numerous results: a 60% reduction in CO_2 emissions, a three-day improvement in delivery times, an increase in the order compliance rate from 80% to 98%, and a 50% reduction in unloading-related risk.
- For the Africa-Middle East zone, the Cairo plant won the challenge with the "Slipsheet" project. The Cairo plant and Dubai distribution centre have joined forces to implement new loading processes and make a shared investment in hardware to introduce slipsheets (cardboard supports that replace traditional wooden pallets). Not only are they lighter and cheaper, but they also optimise container use, with use at 90%, vs. 65% with standard pallets. This project resulted in a 25% reduction in CO_2 emissions and reduced the number of deliveries by 20%. The Africa Middle East zone has extended the project to other countries in the zone, notably Lebanon.
- For the Hispanic zone and Brazil, the winner was Brazil. Its initiative allows deliveries between the Sao Paulo plant and the Rio de Janeiro business centre to shift from using diesel to biomethane. L'Oréal is a pioneer in biomethane energy in Brazil; not only does it enable a reduction in CO_2 emissions by between 75% and 95%, but it also has a positive effect on waste reduction.

Another notable initiative is the "Milk Run" shipping initiative in Canada. In collaboration with Walmart, one of the Group's largest customers in Canada, the project consists in consolidating orders shipped in "Milk Runs" so as to reduce mileage and transport costs. This initiative, part of the Walmart Freight Program, not only generates 93 tonnes in CO_2 savings per year, but also saved more than €33,000 in 2018. Canada plans to roll out this initiative to all customers and also to flows between plants and the distribution centre.



(in absolute terms: tonnes of CO_2 at constant scope, as per the GHG Protocol)

Product transport resulted in 413,568 tonnes of CO_2 emissions in 2018, representing 0.0256 g CO_2/sales unit/km.

Tonnages shipped by the Group by air freight increased by 41% in 2018, resulting in a 42% increase in CO_2 emissions and a deterioration in the overall indicator. The increase stems chiefly from flows from our plants to the Luxury division's Asian markets, as well as deliveries to our Travel Retail customers in Asia. By contrast, road transport emissions did not increase in 2018, despite a 3% increase in tonnages. Over the 2011-2018 period, road transport emissions increased four times slower than tonnages shipped.

B/ Preserving water resources

L'Oréal is committed to preserving water resources throughout its value chain, especially on each of the sites operated. As part of the *Sharing Beauty With All* programme, the Group has raised its ambition by undertaking to reduce the water consumption of its plants and distribution centres by 60% (l/FP) compared with 2005, and the water consumed by its administrative sites and research centres by 20% (1/100 hours worked), where the Producing Sustainably and Working Sustainably programmes set a goal for the sustainable management of this vital resource. The action plans implemented around the world are based notably on the following key principles:

- the mapping of consumption;
- the implementation of reduction equipment and processes;
- and more specifically for plants; reuse of industrial water without treatment, for a new purpose and recycling of the water used, after a specific additional treatment stage.

Since 2005, L'Oréal has reduced the water consumption of its plants and distribution centres by 28% in absolute terms, on a 38% increase in the production of finished products, thereby demonstrating its ability to decorrelate its growth from its environmental impact. This led to a 48% reduction in its water consumption in litres per finished product at the end of 2018.

Since 2016, L'Oréal has reduced the water consumption of its administrative sites and research centres by 11% in litres per hundred hours worked. The Group has pledged to increase this performance to 20% by 2020.

A TOOL TO MAP PLANTS' 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.

Reducing water consumption in industrial processes

L'Oréal has specifically targeted the reduction of water consumption for cleaning production equipment and packaging lines at its plants. Cleaning of this nature is necessary in order to maintain very strict hygiene standards; it represents 35% 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, improvements to equipment have made it easier to clean 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).

Reusing industrial water without treatment

The exhaustive mapping of water consumption within a plant also enables the identification of opportunities for the direct reuse, without specific treatment, of water initially used for other purposes, primarily the direct reuse of unpolluted cooling water for equipment cleaning requirements, or the reuse of water from the on-site treatment plant to dilute the chemical products used in the treatment of industrial effluents.

Recycling wastewater

The principle involves re-treatment of effluent when it leaves the site's treatment plant, using various technologies (ultra-filtration, reverse osmosis, etc.). These operations make it possible to obtain very high quality water that meets 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 of the end of 2018, 12 of the Group's plants had recycling facilities of this kind, a first in the cosmetics industry, which enable them to reuse water. The rollout of these technologies on production sites is continuing. For some plants, the volume of recycled water covers more than 50% of their utility water requirements.

THE "DRY FACTORY" CONCEPT

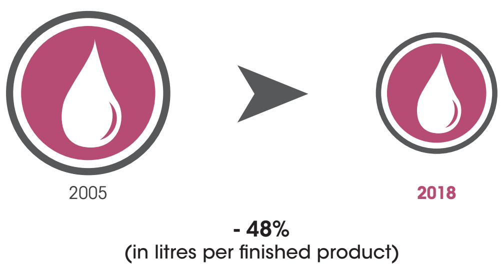
The "dry factory" concept involves only using town mains water for human consumption and for producing high-quality water used as raw material for product manufacture; the water required for industrial processes (cleaning equipment, steam production, etc.) is derived from reused water or water that is recycled continuously on the site.

It involves the implementation of a two-step system:

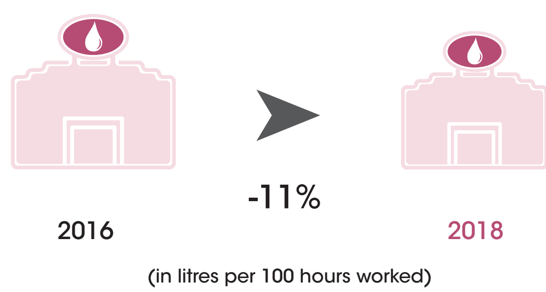
- optimisation of industrial processes: improvements to industrial processes have contributed to an 80% reduction in water requirements compared with 2005;
- the installation of a water recycling system: industrial effluents, after pre-treatment in the on-site treatment plant, are reprocessed using various technologies (ultrafiltration, reverse osmosis, 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. As such, water requirements for utilities are fully covered.

The "dry factory" concept was adopted for the first time in 2017 by the Burgos plant in Spain. In 2018, it was extended to the Vorsino and Settimo plants in Russia and Italy. It will be rolled out gradually to all plants where the conditions are met for its implementation.

WATER CONSUMPTION OF INDUSTRIAL SITES ☑



WATER CONSUMPTION OF ADMINISTRATIVE SITES AND RESEARCH CENTERS



Total water consumption in the plants and distribution centres was 2,302 thousand m³ ☑ in 2018, representing a 4% increase in absolute terms compared with 2017.

The total water consumption of administrative sites and research centres was 412,000 m³ in 2018, which represents 574 l/100h worked.

☑ *The Statutory Auditors have expressed a reasonable assurance on this indicator.*

THE WATER DISCLOSURE PROJECT: A CDP INITIATIVE FOR TRANSPARENCY IN RESPECT OF INFORMATION ON WATER AND WATER RISK MANAGEMENT ACROSS THE VALUE CHAIN

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 2018, L'Oréal was recognised for the third consecutive year as one of the world leaders for its strategy and actions in the sustainable management of water throughout its entire value chain, from the production of raw materials to the use of products by consumers, receiving 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 (see section 3.3.1.3.2. "Within the supply chain").

C/ Preserving resources and reducing waste

For several years, the Group has been implementing an ambitious approach to waste optimisation that goes well beyond regulatory compliance. As part of the *Sharing Beauty With All* programme, the Group has set itself the goal of reducing the waste generated by its plants and distribution centres by 60% (g/FP) compared with 2005, and the waste generated by its administrative sites and research centres by 20% (Kg/100 hours worked). 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 compounds, wastewater treatment plant sludge, broken pallets, etc. At the same time, the Group is committed to recovering more than 99% of waste generated by reusing it, recycling it, or using it as an energy source; for industrial sites, the proportion of materials recovered (reuse or recycling) will be 70% in 2020.

Reducing waste generation at source

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 approach to packaging articles and transport packaging (reduction of weight or volume, optimisation, reuse, etc.) aimed at reducing waste starting with the design of packaging;
- to the purchasing teams, which are privileged contacts with suppliers, with the aim of optimising packaging used for the transport of raw materials and packaging items received in the Group's plants, a major source of waste. The development of the wall-to-wall approach (production of packaging items close to the Group's production facilities) is a particularly effective means of reducing waste related to the supply of components at the source;
- through all the industrial teams involved in a process of continuous improvement of manufacturing and packaging processes in order to reduce losses during production;
- and to the whole of the supply chain, for which the reduction in obsolete inventories is essential for the reduction of waste related to the Group's activity. The Asia region has initiated a programme that combines industrial agility and improved sales forecasts with the aim of reducing obsolete products, and ensuring better flows *via* the establishment of outlets, family sales, sales to staff and donations to not-for-profit organisations.

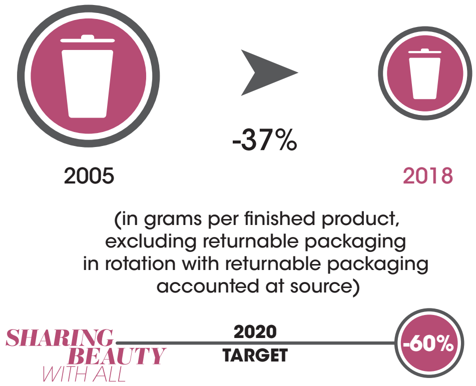
Furthermore, the Group has initiated a campaign against wasting food. Serving around 2,000 meals a day in the Paris region, L'Oréal adopts best practices in its directly managed restaurants: a genuine awareness programme for employees, the recovery of 100% of food waste *via* the Bio-Waste system, a very strict monitoring of use-by dates and stocks, real-time and on-demand cooking methods, and attention to quantities served.

A food donation agreement has been signed with NGO Restaurants du Cœur, which as a result received more than 4,500 meals in the town of Aulnay-sous-Bois in 2018.

The donation of surplus food is also requested of company restaurants run as concessions so as to promote this initiative with not-for-profit organisations such as Le Chaînon Manquant. In 2018, the equivalent of 3,000 meals were collected and redistributed.

Many initiatives are also being taken to develop responsible, fair and sustainable food in the Group's restaurants and cafeterias, such as the supply of fair trade coffee, the development of the use of local and organic products, and an emphasis on seasonal fruit and vegetables in the preparation of menus.

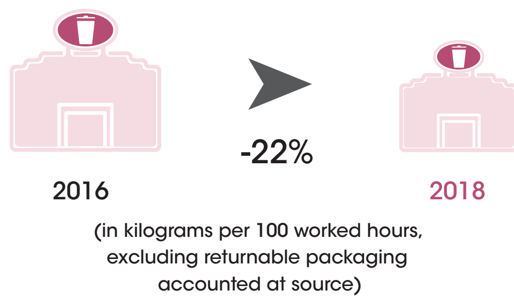
GENERATION OF TRANSPORTABLE WASTE FROM INDUSTRIAL SITES



Waste generation on industrial sites represented 91,050 tonnes in 2018 ☑, an increase of 5% in absolute terms compared with 2017. This increase is attributable in large part to the increase in the number of on-site treatment plants in 2018, which results in greater production of sludge, considered as waste.

Waste generated on administrative sites and research centres totalled 6,008 tonnes in 2018, representing reductions of 2% compared with 2017 and 22% compared with 2016 in kilograms per 100 hours worked.

GENERATION OF TRANSPORTABLE WASTE FROM ADMINISTRATIVE SITES AND RESEARCH CENTERS



☑ *The Statutory Auditors have issued a reasonable assurance report on this indicator.*

	Administrative sites and research centres		Industrial sites	
	2017	**2018**	2017	**2018**
Transportable waste excluding returnable packaging in rotation with returnable packaging accounted at source (tonnes) (1)	6,126	6,008	87,397	91,688 ☑
Returnable packaging in rotation (tonnes) (2)	0.0	0.12	19,026	21,403 ☑
Total recovered (tonnes)	5,272	5,297	101,468	109,367 ☑
Recovery index (%) (3) (5)	90	90	96	97 ☑
Total recovered material (tonnes)	2,889	2,607	64,729	68,274 ☑
Material recovery index (%) (4) (6)	49	44	61	61 ☑

☑ *The Statutory Auditors have expressed a reasonable assurance with regard to this indicator*

(1) *System for recording returnable transport packaging, excluding transport pallets: L'Oréal records the weight of its returnable packaging in transportable waste from first use. 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) *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 returnable packaging in rotation for industrial sites.*

(3) *The recovery index corresponds to the quantity of waste recovered (109,367 t for industrial sites), whether material or energy, excluding transport pallets, divided by the total amount of waste generated (112,363 t for industrial sites), including returnable packaging in rotation, excluding waste sent to landfill due to regulatory obligations and excluding transport pallets.*

(4) *The recovery index corresponds to the quantity of waste, excluding transport pallets, whether material or energy (5,297 t for administrative sites and research centres) divided by the total amount of waste generated (5,910 t for administrative sites and research centres), including returnable packaging, but excluding waste sent to landfill due to regulatory requirements and excluding transport pallets.*

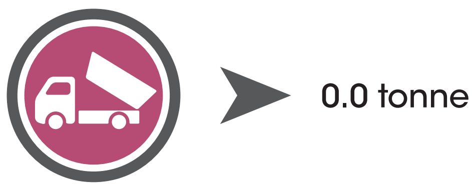
(5) *The material recovery index corresponds to the quantity of recovered (68,274 t for industrial sites), reused or recycled, excluding transport pallets, divided by the total amount of waste generated (112,363 t for industrial sites), including the returnable packaging, excluding waste sent to landfill due to regulatory obligations and excluding transport pallets.*

(6) *The material recovery index corresponds to the quantity of waste, excluding transport pallets, reused or recycled (2,607 t for administrative sites and research centres), divided by the total amount of waste generated (5,910 t for administrative sites and research centres), including returnable packaging, but excluding waste sent to landfill due to regulatory requirements and excluding transport pallets.*

Recovering the waste generated

The Group has adopted a systematic approach to material preservation. As such, beyond the reduction at source, the Group is also committed to finding the best solutions to recover the waste it produces. In 2018, 97% of the waste generated by industrial sites was recovered through re-use, recycling or use as an energy source, and 61% was recovered through re-use or recycling, thereby preserving the material.

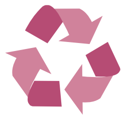
L'Oréal has set itself the goal of achieving "zero waste to landfill" by the end of 2020 for all sites (excluding regulatory constraints). Work has been done with specialised companies and local authorities to implement appropriate treatment solutions. Work at all plants and distribution centres resulted in the objective of "zero waste to landfill" being achieved in April 2017. The approach is more recent for administrative sites, and 331 tonnes of waste were sent to landfill in 2018 (excluding regulatory constraints).



In 2018, all of the Group's plants and distribution centres achieved the zero waste to landfill target (excluding regulatory requirements).

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. As far as possible, L'Oréal seeks to promote the local treatment of waste, in order to reduce the environmental impact of the waste and to create potential synergies with other local stakeholders.

Use of landfills due to regulatory requirements totalled 90 tonnes for plants and distribution centres, and 97 tonnes for administrative sites and research centres.

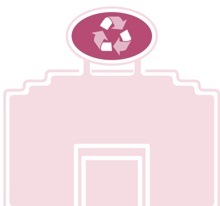


97%

waste recovery in 2018 for industrial sites ☑

97% of waste was recovered in 2018 for industrial sites , *i.e.* 10% more than in 2005. 19 plants and 29 distribution centres had a recovery rate of 100% in 2018.

3% of waste was destroyed without recovery (incineration without energy recovery and sent to landfill not including regulatory constraints) in 2018, *i.e.* 2,984 tonnes.



90 %

waste recovery in 2018 for administrative sites and research centres

90% of waste generated on administrative sites and research centres was recovered in 2018. 35 administrative sites and 3 research centres had a recovery rate of 100% in 2018.

3.3.1.3.2 Within the supply chain

Above and beyond its strict requirements with regard to its own sites, L'Oréal has for a number of years applied an environmental policy throughout its value chain.

Indeed, L'Oréal works in partnership with its suppliers to improve the environmental and social profile of its products *via* the eco-design of packaging, ingredients and formulas and their method of transportation.

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 €4.64 billion in 2018.

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 according to Verisk Maplecroft are subject to a mandatory social audit (and prior to any inclusion on the supplier panel) aimed notably at ensuring compliance with the applicable laws, Human Rights and labour law. This audit also covers employee safety and working conditions, and the way in which the impact of activities on 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).

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

SOCIAL AUDITS: A RIGOROUS AND CONTINUOUS IMPROVEMENT PROCESS

The social audit procedure was thoroughly reviewed in 2018:

The base of the questionnaire was extended to cover Health, Safety and Environment risks in the same way as in the Group's sites, and the purchasing categories requiring audit were expanded. For instance, outsourced distribution centres and electronic objects have been added to the scope.

At the same time, a global monitoring tool for social audits common to all purchasing areas provides for a shared database of audits and an analysis, notably of audits performed in comparison with the scope determined in the procedure.

Lastly, the new procedure and tool served as the basis of an e-learning module available to all purchasers as an adjunct to the Sourcing Discovery training module, which explains to every new purchaser the importance of the social audit programme, and the way in which purchasers must make it part of their daily lives.

The Group's purchasers accordingly promote the continuous improvement of their suppliers in line with the Group's standards.

Key figures

7,309 supplier sites have been subject to social audits since the reporting tool was rolled out in 2006 (see 2.8.5.2. "Results of the application of the plan to suppliers"):

- 1,369 audits ☑ (1) were carried out in 2018, making a total of over 10,800 since 2006;
- 48% of the audits in 2018 were carried out in Asia;
- Thus 85% of the supplier production sites requiring audits have been audited at least once.

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Inciting strategic suppliers to reduce their greenhouse gas emissions

Since 2009, L'Oréal has associated its suppliers with the process for measuring and reducing its greenhouse gas emissions 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 become essential. In 2018, 85% of the suppliers asked to participate have responded positively (90% for strategic suppliers). 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_2, 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*;
- set targets for reducing greenhouse gas emissions;
- will communicate on their action plans to succeed in reaching this target.

As of the end of 2018, the suppliers fulfilling this commitment represent 58% 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 2018, the Purchasing and Environmental teams:

- organised together with the CDP, meetings to explain and train on climate change, in particular for suppliers of direct purchases, transport and distribution centres;
- 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 2018 supplier scores has been "C" since 2016 (with new modifications to the rating system by CDP for the third consecutive time). In 2018, 82 additional suppliers agreed to participate for the first time in the *CDP Supply Chain* programme. The total number of suppliers working on climate change in this way is 437 (of the 516 invited this year). The participants in the *CDP Supply Chain* programme account for 82% of expenditure on direct purchases. Among them, 25 suppliers have assigned their emissions to L'Oréal. The average scores of suppliers accounting for 80% of direct purchases are C- in the Americas, B- in Asia, and B- in Europe.

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

(1) *Audits where the auditor was unable to access the site or where data were insufficient are included in the number of social audits carried out. They represent 3.7% of the total number of audits. (Note that these cases are excluded from the analysis of non-compliance by chapter as described in the vigilance plan.)*

ASSOCIATING THE GROUP'S SUPPLIERS WITH THE CDP WATER DISCLOSURE PROJECT

As part of the *Sharing Beauty With All* programme, L'Oréal has undertaken to reduce its water footprint, joining the Water Disclosure Project, an initiative aimed at measuring and reducing suppliers' water footprints, as soon as it was launched in 2013.

In 2018, for the sixth edition of the Carbon Disclosure Project Supply Chain programme, L'Oréal selected 103 of its suppliers, mainly of raw materials, packaging and subcontracting products on the following three criteria: technology consuming particularly large amounts of water, location of at least one production site in a water-stressed area and the size of L'Oréal's purchase volumes. 91 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.

At the end of 2018, suppliers fulfilling this commitment represented 63% of costs in relation to all suppliers selected (raw materials, packaging items and subcontracting). Their average score is: B-.

ASSOCIATING THE GROUP'S SUPPLIERS WITH THE CDP FOREST DISCLOSURE PROJECT

L'Oréal is committed to a target of Zero Deforestation, traceability of products with an impact on deforestation (palm oil and derivatives, paper, soybean, replanting projects, etc.) and has also been a participant in CDP Forest since 2012. In 2018, for the third consecutive 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 2018, L'Oréal has been encouraging its 38 main suppliers of paper, palm oil and soya to take part. As of the end of 2018, 84% of the selected suppliers had taken part in this second year.

Reporting suppliers that have implemented a zero deforestation policy and related initiatives represent 34% of expenditure in respect of all selected suppliers (raw material, packaging items and subcontracting).

Their average score is B-.

Encouraging strategic suppliers to self-assess their Sustainable Development policy

In 2014, L'Oréal initiated a programme for assessment of strategic suppliers and their Sustainability policy. In addition to its own assessment, L'Oréal has mandated Ecovadis evaluate its suppliers' Sustainable Development policies with the aim of fine-tuning supplier performance analysis and helping suppliers improve their performance by identifying areas for improvement. The Ecovadis evaluation enables L'Oréal not only to involve its suppliers in sustainable development, but also to encourage them to develop their ethics policies with a focus on combating corruption, monitoring the health and safety of their employees and the application of their sustainable purchasing policies (see 3.3.3.2. and also the following paragraphs "A commitment of the entire organisation", and 3.3.4. "A commitment shared with the Group's partners").

Results in 2018

In 2018, more than 620 suppliers undertook an Ecovadis assessment of their social, environmental and ethical policies, as well as their adoption by their own suppliers in 2018 (an increase of 139 suppliers compared with 2017). 161 of them represent 93% of the Group's strategic suppliers.

In 2018, 93% of strategic suppliers completed a self-assessment of their sustainability policy with L'Oréal's support.

SHARING BEAUTY WITH ALL — 2020 TARGET 100%

Selecting and evaluating strategic suppliers based on their environmental and social performance

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.

The 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 2018, 325 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_2 emissions.

In 2018, 83% of the Group's strategic suppliers were assessed and selected to date on the basis of their environmental and social performance.

SHARING BEAUTY WITH ALL — 2020 TARGET 100%

They represent more than 73% of total direct purchases (raw materials, packaging items and subcontracting).

To give suppliers access to L'Oréal training tools aimed at optimising their Sustainable Development policies, an online site dedicated to suppliers has been launched. It offers e-learning modules, videos, presentations on ethics, climate change, social audits, etc. Initially available to strategic suppliers, it is in the process of being rolled out.

A dedicated online training platform was launched at the **end of October 2016.** It will firstly be made available to strategic suppliers, before being gradually implemented more broadly.

SHARING BEAUTY WITH ALL — 2020 TARGET 100%

Using the Group's purchasing power to serve social inclusion

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 social and societal benefit.

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.

As part of the *Sharing Beauty With All* programme, this aim has resulted in a commitment to enabling more than 100,000 people from communities experiencing social or financial difficulties to access jobs by the end of 2020. This means that L'Oréal will support as many people outside the Company as there are employees in the Group.

Created in 2010, Solidarity Sourcing is L'Oréal's global responsible purchasing programme. In 2018, 56,842 economically or socially vulnerable people accordingly benefited from decent and lasting employment under this programme (see section 3.3.3.4. "Solidarity Sourcing")

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. Fair trade practices and equal opportunities have gradually become major pillars of the Group's Solidarity Sourcing programme.

2018 RESULTS:

31 % of new or updated products have an improved social profile thanks, in particular, to the Solidarity Sourcing programme.

(see section 3.3.1.3.3 Assesing the footprint of the products using the SPOT tool)

SHARING BEAUTY WITH ALL — 2020 TARGET — 100%

In the particular case of raw material purchases, a prerequisite for Solidarity Sourcing projects is that they combine responsible agricultural practices, environmental protection and biodiversity, and that they generate a positive societal impact, notably through the implementation of fair trade principles.

Examples include:

- Sourcing of shea butter:
  - Since 2014, 100% of our shea butter volumes have been sourced from Burkina Faso. The Group's purchasing contracts ensure prefinancing of crops, respect of a fair price, access to training and establishment of community projects to 37,000 women working together within groupings of women producers;
  - 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 energy 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_2 emissions are reduced;
- Sourcing of essential oils:
  - the Group sources essential oils from the SICA 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 2018, 29 farmers directly benefited from purchases of these raw materials.

3.3.1.3.3 Throughout the product life cycle

For L'Oréal, the preservation of resources covers the entire product life cycle, from research to use. Through its brands, the Group involves the consumer in a responsible consumption approach. The Packaging & Development teams, the CSR team and the laboratories conduct, together 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.

As part of the "Innovating sustainably" pillar of the *Sharing Beauty with All* programme, the Group has made the commitment that all L'Oréal products will have an improved environmental or social profile by the end of 2020. Whenever a product is created or updated, its environmental or social profile is improved. The Group is promoting sustainable innovation by reducing the environmental footprint of its product formulas by respecting biodiversity through a raw material sustainable sourcing policy, packaging eco-design and committing to "zero deforestation".

In 2018, 79% of new or updated products have an improved environmental or social profile.

SHARING BEAUTY WITH ALL — **2020 TARGET** 100%

In 2017, the SPOT (Sustainable Product Optimisation Tool) tool was rolled out to all Group brands (except recent acquisitions). This tool enables the complete environmental and 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 of products has been jointly developed with internal expertise (formula, packaging, plant, stakeholders) and nine international experts in the field of social life cycle assessments (see section 3.3.1.3.2 Using the Group's purchasing power to serve social inclusion).

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, to obtain a single value for the product environmental footprint (formula and packaging), impacts are aggregated using the so-called "Planetary Boundaries" method developed by an international team led by Professor Johan Rockström of the Stockholm Resilience Centre. The final stage involves comparing the footprint to a benchmark in order to obtain a dimensionless score between 0 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 social footprint of all updated or new products developed in 2018 to be assessed.

100% of new or renovated products in 2018 were assessed using the product assessment tool

SHARING BEAUTY WITH ALL — **2020 TARGET** 100%

Improving the environmental profile of packaging: the 3Rs

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 components and finished products with an optimised weight and size;

- Replace: substitute non-renewable sourced materials, alternative materials such as recycled materials or materials of natural origin.

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, notably with the help of the SPOT measurement tool. This process is continuously enriched with documents and tools. The *Sharing Beauty With All* commitments are an integral part of the Group's packaging strategy.

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 adjusted in 2017 in order to allow a worldwide rollout from 2018 onwards.

In 2018, 58% of new or updated products had an improved environmental profile due to improved packaging.

Respect: materials vigilance and preservation of resources

L'Oréal requires that all materials used in packaging in contact with its products be food grade. 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. This ensures an uncompromising level of quality and safety for consumers.

L'Oréal has undertaken not to produce finished products containing PVC from 1 January 2018. This undertaking was met, since, except for recent acquisitions, no components made from PVC were used in the manufacture of finished products in 2018.

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 2018, 100% of the paper used for product leaflets and more than 99.9%% 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 prints): in 2018, 93% of the paper/cardboard used in POS advertising was certified (this figure covers 99% of expenditure 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 the products it markets, several Group brands have undertaken to provide consumers with detailed sorting instructions (Mennen, Ushuaïa, L'Oréal Paris), and to design packaging that is compatible with existing sorting and recycling channels, thereby promoting material recovery after use of the product.

Weight and volume reduction: optimising resources used

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.

A continuous process is in place to reduce the weight of existing products in the catalogue. To illustrate, the following weight-reduction initiatives were implemented in 2018:

- 22% of the weight of the micellar cleansing water bottles for the Garnier brand in the Asia zone, *i.e.* 35 tonnes of PET plastic saved;
- 57% reduction in the weight of the PP plastic lids used for Vichy's Neovadiol brand in Europe, with 16 tonnes of plastic saved;
- Lightening of the weight of the glass pots for L'Oréal Paris in the Asia zone, representing glass savings of 7 tonnes.

In addition, to improve the use of resources used for packaging, L'Oréal is introducing ever more refillable products into the market. Rechargeable or refillable systems are increasingly being developed in the Group's various Divisions, including L'Oréal Professionnel's La Source fountain (Professional Products Division), the L'Oréal Paris refillable skincare jar and the pocket-sized 1,000 ml refill for Elsève's "Huile Extraordinaire" in Asia (Consumer Products Division) and Lancôme's refillable L'Absolu jar (Luxury Division).

To limit packaging volumes for its finished products, L'Oréal has established its own procedures for reduction at source. L'Oréal's requirements are respectful of local regulations, and even exceed regulations in most countries.

To optimise the flow of components, L'Oréal has developed wall-to-wall [(1)] production enabling the environmental impact to be reduced.

To evaluate the impact of its finished products, L'Oréal makes the following tools available in its design centres:

- An innovative tool, SPOT (Sustainable Product Optimisation Tool), to meet *Sharing Beauty With All* commitments (see paragraph 3.3.1.3.3).
- A tool to help in reducing the environmental impacts of transport packaging for packing componants from suppliers to plants and finished products from plants to the Group's distribution centres, particularly through optimisation of palletisation.

To share its research and results with the cosmetics industry, the Group created the SPICE initiative (Sustainable Packaging Initiative for Cosmetics) with Quantis (a consulting firm) in 2018. SPICE's purpose is to share the best practices and methodologies of each stakeholder (SPOT for L'Oréal), in order to harmonise the methods used to assess the packaging-related environmental footprint.

Replacement: new materials sources

Aware that non-renewable resources will not last forever, the Group seeks to replace them with recycled materials or biomass-based materials. L'Oréal is committed to using non-fossil sources for 50% of its plastics by 2025, with an initial target of 40% for PET plastic by 2020.

Several brands use recycled plastic in their bottles – up to 100% – or recycled glass.

8,705 tonnes of recycled material (including 3,720 tonnes of recycled PET plastic, *i.e.* 15% of total PET consumed) saved the equivalent amount of virgin materials in 2018.

For plastic packaging, Matrix's "Total Results" 300 ml bottle, for example, uses 100% recycled PET plastic, saving 70 tonnes of virgin plastic each year. The bottles used in the Pureology range are made from fully recycled PE plastic, which saves 176 tonnes of virgin plastic each year. As a reminder, L'Oréal launched fully recycled, food grade PE plastic shampoo bottles on the market for the first time in 2017.

For glass packaging, initiatives have been in place for several years, such as Vichy's Mineral 89 bottle, which contains 25% recycled glass, or the Biotherm Aquasource jar. In addition, the first loop of the premium glass circular economy was established by L'Oréal in 2018, in partnership with glassmaker Pochet. Glass waste from "Original Perfumery and Cosmetics" origin was recycled to produce the Viktor & Rolf brand's "Bonbon" and "Flowerbomb" bottles (for their Christmas editions).

L'Oréal also contributes to the development of new sources of recycled materials by means of a partnership with new suppliers. In India, for instance, L'Oréal has developed a recycled food grade PET plastic channel with Reliance.

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 degrading it. Similarly, in July 2018, L'Oréal signed a letter of intent with LOOP® for the provision of food grade PET plastic by chemical recycling. In 2017, L'Oréal 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. L'Oréal became a core member of the Ellen MacArthur Foundation in 2018, with the aim of adopting reusable, recyclable and/or compostable plastic for all packaging by 2025.

8,705 tonnes of recycled materials
used in the Group's packaging

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. L'Oréal has adopted green chemistry principles to promote the use of renewable raw materials, to design products serving to reduce waste and to preserve the water cycle. For more than 10 years, green chemistry has been a catalyst for L'Oréal's sustainable innovation policy. In the broadest sense, green chemistry aims to prevent upstream pollution and to combat the use and contamination of the environment at source. The increasing use of plant-based

(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 its packing.*

ingredients presents risks in terms of supply related to the consequences of climate change (availability and price), and can also result in environmental consequences through the cultivation of the crops that produce these ingredients (deforestation, soil depletion, consequences on biodiversity, for instance). Between 2013 and 2018, the percentage of raw materials by volume increased from 43% to 59%. Over the same period, the proportion of raw materials meeting green chemistry criteria increased from less than 10% to 27%.

59% (by volume) of the raw materials used by L'Oréal are renewable, *i.e.* roughly 1,567 raw materials from nearly 338 species of plants from over 100 countries.

45 % in terms of number of the Group's newly registered raw materials are renewable and **24%** of them respect green chemistry principles.

Products marketed in 2018 had a proportion of renewable raw materials above 97%

Beauty oil	La Provençale Bio
Fleur de Figuier hand and nail purifying gel	Roger&Gallet
Miracle cream - Aura Botanica	Kérastase
Cleansing oil in nourishing illuminator gel	Lancôme

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.

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, energy consumption, and the production of by-products.

Currently, more than 27% 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 740 raw materials. In 2018, 28 new raw materials based on green chemistry principles were registered.

Respect for biodiversity and societal contribution

As part of L'Oréal's individual commitments for Biodiversity Act4nature, the Group has set itself the target of ensuring that 100% of the Group's renewable raw materials are sustainably sourced by 2030. To be included in this category, they must be traceable, with an identified botanic and geographic origin.

The respect for Human Rights in accordance with ILO principles is now 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 issued from biodiversity in accordance with the principles of the Nagoya Protocol; equality between producers; preservation of biodiversity and fighting against climate change.

By relying on sustainable sourcing for the supply of renewable raw materials, L'Oréal contributes to the social integration of disadvantaged population groups while ensuring environmentally friendly sourcing. Fair trade and equal opportunities have gradually become major pillars of the Solidarity Sourcing responsible purchasing programme launched in 2010 (see 3.3.3.4 "Solidarity Sourcing").

In 2018, 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 338 plants species which are the source of the renewable raw materials used by the Group, around 12% (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.

For the palm oil and derivatives channel, 100% of supplies were subject to action plans with the suppliers concerned as of the end of 2018.

For other channels of raw materials of plant origin (17% of volumes and 41% of total renewable raw materials), L'Oréal, based on environmental, social and economic indicators from external databases (IHDI of the UNDP, PPE Yale University, Verisk Maplecroft country index), has defined indicators of "sustainable sourcing challenges" to evaluate renewable raw material channels in respect of their sustainability. These indicators are consolidated within the SCAN index (Sustainable CAracterizationN), allowing the Group to prioritise the implementation of our sustainable sourcing action plans. The Group updates the information collected regularly.

64% of volumes and 23% of raw materials identified as representing sustainable sourcing challenges according to the SCAN index are already the subject of plans or improvement initiatives with the relevant suppliers to ensure sustainable supply. Within three years, the goal is to reach 100%, notably by rolling out more widely a field audit procedure for producers (88 indicators), developed with the support of NGO Rainforest Alliance.

In 2018, 43% of new or updated products had 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.

MADAGASCAR: SUSTAINABLE SOURCING OF VANILLA ESSENTIAL OIL

In collaboration with its suppliers, local NGOs and producer communities, L'Oréal has launched a new Solidarity Sourcing project for its purchases of vanilla essential oil in Madagascar.

The objective is to develop a sustainable, traceable and high-quality supply chain that respects the integrity of natural ecosystems and helps improve living conditions in producing communities based in the Loky Manambato Protected Area. In 2018, the project had 154 producers split between two cooperatives, which benefited from training in responsible agricultural practices and fair remuneration. By 2020, the goal is to increase harvests and the quality of the vanilla, while bringing twice as many producers into the project.

"Zero deforestation" commitment

L'Oréal consumes less than 370 tonnes of palm oil every year, but nevertheless consumes almost 71,000 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.

As part of its "zero deforestation" commitment, L'Oréal is rolling out a specific strategy for palm oil derivatives, in partnership with all stakeholders (producers, 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) since 2012;
- 74% of the main derivatives come from sources that are identified (as far as the mills).

In terms of 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. For derivatives, which are also fully certified, L'Oréal had increased the proportion of its physically certified purchases to 54% of the Mass Balance of its purchases by the end of 2018, compared with 51% in 2017 and 34% in 2016 ; the remainder continues to be covered by the RSPO "Book & Claim" model.

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 progressively updated and enriched its data collection by extending the scope to cover all 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 2017, 97% of these volumes of palm and palm kernel derivatives can be traced to the refineries, 85% to the mills and 25% as far as the plantations.

In 2018, on the basis of this work, and with a goal of greater transparency, L'Oréal published the list of the 1,300 mills indirectly connected to its derivatives supply chain.

In 2016, L'Oréal rounded out its evaluation and selection tools for palm oil and palm kernel derivative suppliers with a specific tool known as the Sustainable Palm Index to assess the level of commitment, progress and the achievements of its direct suppliers in favour of sustainable palm oil. This tool is used annually to evaluate suppliers' progress towards the zero deforestation objective and their level of compliance with the Group's requirements. It was first made public in 2016 to enable it to be used by all players in the supply chain.

In 2018, to take its commitment further, L'Oréal initiated the development of a new tool in collaboration with ZSL (Zoological Society of London) and Transitions, to evaluate refineries and crushers (which extract the oil from the kernels), based on their reporting, their policies and their procedures. The indicators used for this assessment are aligned with the Group's standard requirements in respect of deforestation. This tool will be available at the end of 2019 and will be made public.

At mill level, since 2016, the L'Oréal Group has relied on Global Forest Watch's risk assessment tool to ensure that no derivative traced to mills is linked to deforestation.

In 2018, the procedure for dealing with cases of non-compliance with our zero deforestation commitment by direct or indirect suppliers was also made public.

INDONESIA: LAUNCH OF A PROJECT IN THE BERBAK REGION

In 2018, L'Oréal, in collaboration with Dutch NGO SNV (Netherlands Development Organisation), established a sustainable sourcing project for palm derivatives in Berbak, in Jambi province on the Indonesian island of Sumatra.

The project aims to support 12,500 independent small farmers in the coming 5 years in the improvement of production practices with the goal of preventing deforestation activities, while improving their standard of living (increasing and securing their income). The involvement of all stakeholders in the supply chain to support the project, from the mill to the derivatives manufacturer, reinforces traceability and improves the control of production practices to ensure the absence of deforestation.

Reducing the environmental footprint of formulas

Most of the ingredients used in the formulas (> 90%) have an end of life in domestic wastewater, and are treated by more or less advanced sanitation systems depending on the country.

All formulas marketed by the Group are safe for the environment. However, some of the ingredients used in formulas may have a significant environmental impact, which is why L'Oréal opened its first environmental research laboratory in 1995 to evaluate and reduce the environmental footprint of its formulas. Through this initiative, the Group has developed expertise with regard to the potential impacts of its cosmetic products on aquatic environments. Raw materials used in the formulation of products from the design stage are evaluated in such a way as to allow a strict selection of ingredients.

Measuring the environmental impact of formulas

In 2013, an index was developed to quantify the environmental performance of a cosmetic formula in respect of the aquatic environment. To do this, a calculation method for the Water Footprint specific to cosmetic products was also applied to the entire portfolio of formulas (performance index for a formula based on the environmental profile of its ingredients in terms of biodegradability and aquatic eco-toxicity). This methodology has now been integrated into the SPOT tool.

For several years, L'Oréal has carried out life cycle assessments of its products in order to identify, evaluate and improve their environmental impact.

Since 2017, the SPOT tool, applied to all of the Group's brands, has been used to calculate the full environmental and social footprint of new or updated Group products.

In 2018, 48% of new or renovated products have an improved environmental profile due to a new formula with a lower environmental footprint.

In 2018, 48% of new or updated products have an improved environmental profile due to a new formula with a lower environmental footprint.

Improving biodegradability through eco-design

The Group is working to measure and increase the biodegradability of its formulas and reduce their water footprint. These two parameters have been integrated into the SPOT product eco-design 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 defining 143 categories of products and screening more than 40,000 formulas between 2014 and 2015, the performance of each consumer benefit category was established to allow eco-design of products using the SPOT tool to ensure that all new formulas are developed with the goal of an improved environmental profile with identical benefits for the consumer. It is used by all teams of product formulators to assess the biodegradability and water footprint whenever new formulas are created.

Between 2013 and 2017 the aggregate biodegradability of the Group's formulas increased by 4 percentage points to 80%. Over the same period, the overall water footprint of the Group's formula portfolio was reduced by 5% in absolute terms, on an increase of roughly 4% in the amount of raw materials used.

Among the new products launched in 2018, the products below have formulas with biodegradability levels of over 98% across L'Oréal's Divisions:

Dercos Nutrients Nutri Protein Mask	Vichy
Color Herbalia Haircare	Garnier
Instant pre-makeup mask	Shu Uemura
Biolage R.A.W. rebalancing treatment	Matrix

Raising awareness among consumers about sustainable lifestyle choices

By end-2020, the Group wants to empower all L'Oréal consumers to make sustainable consumption choices.

The SPOT environmental and social assessment tool, rolled out to all of the Group's brands (excluding recent acquisitions), established the environmental and social profile of all new products in a process dating back to 2017. Our teams are now working to make the SPOT product assessments accessible, through a social and environmental information system that is relevant for consumers and in line with European recommendations on the subject. The system is under development and will be finalised and rolled out to the Group's brands by end-2020. In conjunction with the development of the tool, each brand will have assessed its environmental and societal footprint by end-2020 and will have made commitments to improve it (see 3.3.1.3.3).

In 2018, 88% of brands assessed their environmental and social impact

SHARING BEAUTY WITH ALL — **2020 TARGET** — 100%

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 of its own and conduct awareness campaigns among its consumers.

This commitment by the Group aims to meet the needs and expectations of consumers: according to the global survey conducted by Cone Communications in 2015, 90% of consumers are more likely to buy a brand that is committed to a cause, provided that the price and quality are the same. Moreover, 37% of consumers say they attach importance to corporate sustainability practices and policies, and 53% would even be prepared to boycott a brand if it was irresponsible in terms of sustainable development. These aspects underline the strategic importance for a brand of investing in a cause that reflects its identity, its values and its ecosystem (consumers, muses, distributors, etc.).

- Since 2011, Armani has been working on a global initiative for access to drinking water in partnership with UNICEF, WaterAid and Green Cross International;
- Since 2012, Biotherm has been partnering with NGO Mission Blue for the protection of oceans;
- La Roche-Posay is taking a stand against skin cancer (more than 100 million people have committed to getting their moles checked to prevent melanoma since the campaign started in 2014);
- L'Oréal Professionnel is committed to the prevention of musculoskeletal disorders (more than 330,000 hairdressers had their awareness raised in 2018);
- Garnier has joined forces with Unicef to support children living in countries affected by a humanitarian crisis, which affect 1 child out of 4, or 537 million children worldwide;
- 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;
- L'Oréal Paris Men Expert, a L'Oréal Paris brand, has partnered with the Movember Foundation, an international

men's health advocacy, to support prostate and testicular cancer research and suicide prevention;

- Lancôme is working alongside NGO Care by investing in literacy programmes; and Biolage has partnered with international NGO Conservation International to support the preservation of freshwater ecosystems.
- Biolage has partnered wih international NGO Conservation International to support the preservation of freshwater ecosystems.

In 2018, 57% of brands conducted a consumer awareness initiative

SHARING BEAUTY WITH ALL — **2020 TARGET** **100%**

In addition, to anticipate future consumption choices and take into account the expectations of our consumers in terms of social, environmental and societal responsibility, the Group regularly conducts studies among its consumers. In 2018, pursuing the work of the Advisory Committee established in 2016, L'Oréal continued its policy of actively listening to consumers on sustainable development issues through a number of studies conducted with consumer panels in the United States, China and Europe with a view to understanding their expectations and fine-tuning its policies.

3.3.1.3.4 Greenhouse gas assessment: an annual exercise

L'Oréal carries out an annually Greenhouse Gas Assessment (GHG Assessment) for all the Group's activities, in order to measure its CO_2 emissions and identify the action plans that will enable it to reduce its impact. This assessment, which has been performed since 2007 is made in accordance with the Greenhouse 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 related to 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 specific 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_2 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 3.4).

- the "Producing sustainably" objectives cover industrial sites (plants and distribution centres), and provide for a 60% reduction in CO_2 emissions in absolute terms between 2005 and 2020;
- commitments related to the "Working Sustainably" programme cover all administrative sites and research centres, and provide for a 60% reduction in CO_2 emissions in absolute terms between 2016 and 2020.

For 2018, all these emissions represented 55.5☑ thousand tonnes for the plants and distribution centres, and reduced by 77% as compared to 2005, and 33.4 thousand tonnes for the administrative sites and research centres reduced by 18% *vs* 2016.

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 the 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 2018, work was carried out on Scope 3 of the GHG Assessment in order to improve its input data and emission factors.

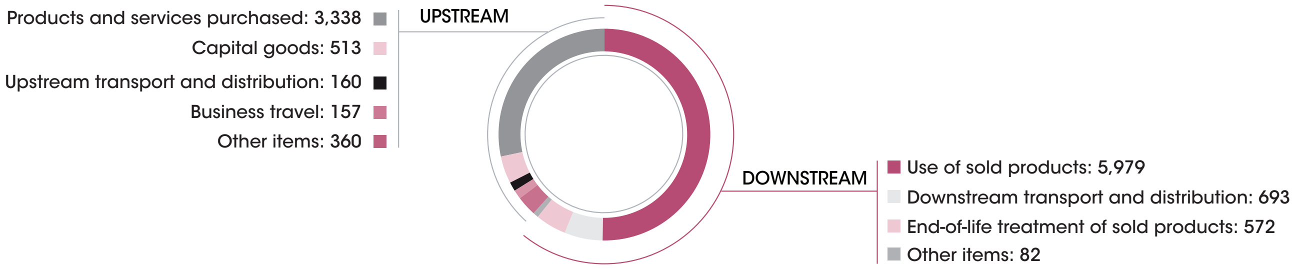
For 2018, L'Oréal Group's GHG balance is estimated to be 11,944 million tonnes, representing an increase of 2 million tonnes compared with 2017, mainly from the updating of the emission factors.

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

The GHG Protocol defines 15 items of emissions associated with Scope 3:

Upstream or downstream	Scope 3 categories	Scope	2018 emissions (in thousands of tonnes of CO_2eq.)
Upstream	1. Products and services purchased	CO_2 emissions related to the preparation of all of 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.	3,338
	2. Capital goods	CO_2 emissions from capital goods acquired or purchased by L'Oréal in 2018 (property, production, IT, etc.).	513
	3. Fuel- or energy-related activities (not included in Scope 1 and 2 emissions)	CO_2 emissions related to the extraction, production and transport of fuel and energy purchased by L'Oréal and its subcontractors. It also includes losses during the distribution of electricity.	137
	4. Upstream transport and distribution	CO_2 emissions generated by the transport of items purchased and shipped to production or distribution sites.	160
	5. Waste generated by sites	CO_2 emissions related to the treatment of production waste and effluents (by a third party) from facilities operated and owned by L'Oréal.	20
	6. Business travel	CO_2 emissions related to business travel for all employees in all countries. These emissions take into account the different means of transport used (short-term car hire, train or plane).	157
	7. Employee commuting	CO_2 emissions related to employees' journeys from their home to their workplace.	103
	8. Upstream leased assets	CO_2 emissions generated by stores and vehicles on long-term leases	100
Downstream	9. Downstream transport and distribution	CO_2 emissions related to the transport of sold products: this includes transport flows of finished products from the production sites to the first customer delivery point.	693
	10. Processing of sold products	Not relevant: our production is used directly by the end customer. There is no transformation of intermediate products.	-
	11. Use of sold products	CO_2 emissions related to the use of L'Oréal products by consumers due to the hot water used for rinsing off certain products, such as shampoos, shower gels, dyes, etc. CO_2 emissions for this item are mainly related to the nature and method of production of the energy used to heat the water.	5,979
	12. End-of-life treatment of sold products	CO_2 emissions relating to the treatment of sold products after their use: packaging items treated in existing channels and effluents treated in water treatment plants. CO_2 emissions for this item are related mainly to the nature and mode of production of the energy used for each treatments.	572
	13. Downstream leased assets	Not relevant: there is no exploitation of assets owned by L'Oréal and leased by other entities.	-
	14. Franchises	Not relevant: all stores are retail stores and are included in the "Upstream leased assets" category.	-
	15. Investments	CO_2 emissions related to L'Oréal's investments in 2018. Investments are accounted for by the share of L'Oréal's investments in the company or companies in question	82

THE MAIN EMISSIONS ITEMS IN SCOPE 3 (IN THOUSANDS OF TONNES EQUIVALENT IN %)



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:

- Since 2009, L'Oréal has involved its suppliers in the process of reducing its carbon footprint by encouraging them to participate in the *CDP Supply Chain* programme. In December 2015, at COP21, L'Oréal undertook to ensure that suppliers representing 80% of direct purchases participate in the *CDP Supply Chain*, set carbon reduction targets and communicate on action plans to achieve them;
- The Group has committed to a 20% reduction in the impact of downstream transport per sales unit and per kilometre between 2011 and 2020 (see under "Reducing emissions from product transport (Scope 3 as per the GHG Protocol)", section 3.3.1.3.1.);
- the Carbon Balanced commitment, providing that the residual emissions for Scopes 1 and 2, and the downstream transport category of Scope 3, will be offset 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 suppliers (see under "The *Carbon Balanced* project: towards a low-carbon company by the end of 2020", section 3.3.1.3.1.);
- Lastly, L'Oréal, through its SBT commitment validated by the initiative at the end of 2017, has sought to cover all impacts associated with its value chain. The 25% greenhouse gas emissions reduction commitment by 2030 (2016 baseline) covers all of its Scopes 1, 2, and 3 emissions (as per the GHG Protocol).

3.3.1.4. Adapting the model to the climate emergency

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.

The *Sharing Beauty With All* programme, rolled out globally since 2013 and supported at all levels of the organisation, has helped establish a culture in which environmental impacts and climate change are taken into account, each day influencing the decision-making process of each of the Group's "*Métiers*", as well as their major projects, as shown by the policies, programmes and outcomes described above.

In conjunction with this dynamic in favour of a low-carbon transition, L'Oréal is today rolling out the same ambitions in its desire to anticipate the effects of climate change and adapt its business model, its major governance and decision-making processes, its research, production and distribution to the constraints inherent in these future changes, but also to the opportunities that may emerge in its business sector, reflecting its values and its ambition of Beauty for All.

In this approach, L'Oréal has aligned itself with the recommendations of the Task Force on Climate-Related Financial Disclosure (TCFD), which encourages companies to include climate issues into their strategy, and to provide consistent, reliable and clear disclosure of information in order to allow investors to take into account climate-related financial risks in their decisions. Similarly, existing governance structures are adapted to facilitate the consideration of these challenges and their management.

The identification, assessment and management of risks related to climate change are taken into account at the highest level, notably by the Board of Directors. The Chief Corporate Responsibility Officer facilitates an internal sustainable development committee, which includes experts responsible for the rollout of the *Sharing Beauty With All* programme within the Operations, Research, Public Affairs, Communication and Brands Departments. It guarantees the implementation of the orientations and decisions adopted by this committee.

The Group's risk review includes the risks associated with climate change, whether they represent physical risks or risks associated with changes in the Group's value chain and its ecosystem. Risks as diverse as those associated with extreme weather events on the Group's infrastructures, or those residing in the supply chain, those inherent in the scarcity of resources, carbon taxes and their financial impacts, or those related to the Group's reputation and the expectations of consumers, are analysed, giving rise to the preparation of impact scenarios and the drafting of strategic guidelines.

Similarly, the profound changes to come are the subject of reflections on the prospective opportunities they may represent, notably wherever cosmetics can contribute positively to adapting to climate change, but also wherever there are opportunities to contribute positively to the regions and local communities in which the Group operates.

3.3.2. HUMAN RESSOURCES POLICY

L'Oréal's Human Resources Department has 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 this conviction, the Group's human and social project is based on highly individualised management of employees and on collective strength.

The Executive Vice-President Human Resources works under the Chairman and Chief Executive Officer and reports regularly to him. He is responsible for all aspects of the Group's Human Resources management.

L'Oréal's HR policy focuses on the identification, recruitment and development of employees and the rewarding and commitment of all, as well as on an active policy of diversity and inclusion. Dedicated policies are developed within the Group, as described in this section.

Identify, attract, develop: employees are central to the business model

The conviction that everyone's talent makes a difference has caused the Group to put the focus consistently on the human dimension. 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.

The Group's HR naturally reflects the business' three main strategic priorities: universalisation, digital transformation and social and environmental responsibility.

In support of universalisation, understood as globalisation that respects differences, the role of our HR teams is to accelerate the recruitment and development of talents across the world and to prepare tomorrow's leaders, fostering the emergence of the best local talents.

To identify and attract the most diverse talents, L'Oréal relies notably on digital technology, which is now the Group's main source of recruitment, in particular LinkedIn. It also uses artificial intelligence solutions to increase the capacity of its recruiters to locate a range of profiles.

Digital technology is one of the Group's major transformations supported by HR: the digital transformation relies on the recruitment of the best talents, the integration of new business lines and the spread of a digital culture at all levels. Building on this expertise, the Group has transformed its Employer communication, using more engaging and direct communication.

HR also plays a central role in the transformation of work and management methods. They accompanied the rollout of the *Simplicity* programme, initiated in 2016 to develop cooperation, instill more agile working methods and foster management based on trust and accountability. The programme was accompanied by a major managerial training plan known as *Lead and Enable for Simplicity*.

In line with the spirit of *Simplicity*, L'Oréal's HR adopted a brand new mode of operation in 2018 by becoming the incubator of country ideas and initiatives. This approach, known as "Disrupt HR" promotes co-construction and a test-and-learn approach designed to foster agility and respond more effectively and more instantly to the expectations of employees and job candidates. Artificial intelligence solutions, such as the chatbot Mya (see 3.3.2.2), are an illustration of this.

Protect and share: the force of the collective commitment

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.

This responsibility bears on the permanent development of its employees. Within the scope of the 2020 targets of the *Sharing Beauty With All* programme, L'Oréal has made the commitment to provide annual training to all of its employees worldwide.

In terms of social protection, L'Oréal's Share & Care programme, created in 2013 and 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 common core, the programme provides that each subsidiary should reflect the level of the best practices of each country and that they should roll out their own initiatives to contribute to social innovation and keep L'Oréal among the most attractive employers in each market. New targets were set in 2017 for implementation by 2020, including greater flexibility of time and place of work as well as special attention to parenthood measures.

Year after year, L'Oréal is expanding its policy of sharing the benefits of its growth with its employees. In addition to its worldwide profit sharing, incentive and mandatory profit sharing schemes, which have been in place for many years, the Group launched its first employee shareholding plan in 2018. The aim was to give employees a stake in the Company's development, to unite them around the Group's strategy and to strengthen their sense of belonging.

The strength of social dialogue remains one of the essential components of L'Oréal's operations and illustrates the Company's desire to involve employees and their representatives in the Group's development.

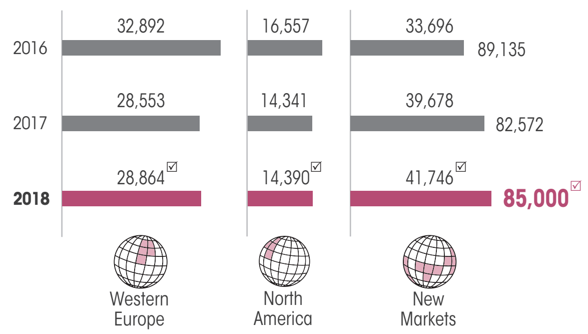
The diversity and inclusion policy, a performance driver

As a structuring element of corporate culture, diversity and inclusion also serve to drive performance and innovation at the heart of the Group's strategy and its HR policy.

L'Oréal wishes to shape and guarantee work environments where everyone feels valued and can develop, whatever their social, cultural or religious background, their gender, their sexual orientation, their age or their disability.

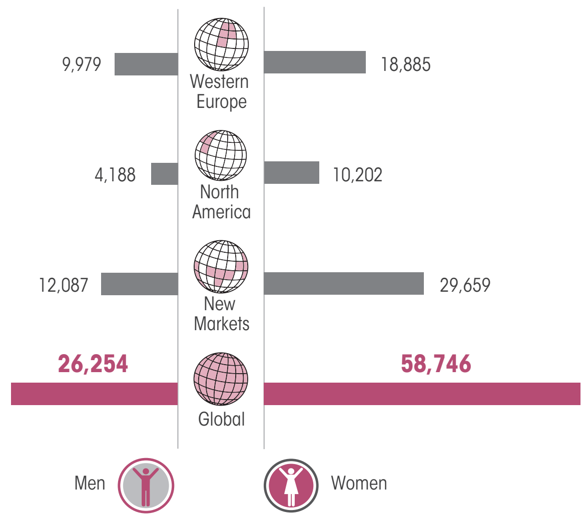
L'Oréal social data

EMPLOYEES BY GEOGRAPHIC ZONE[1]

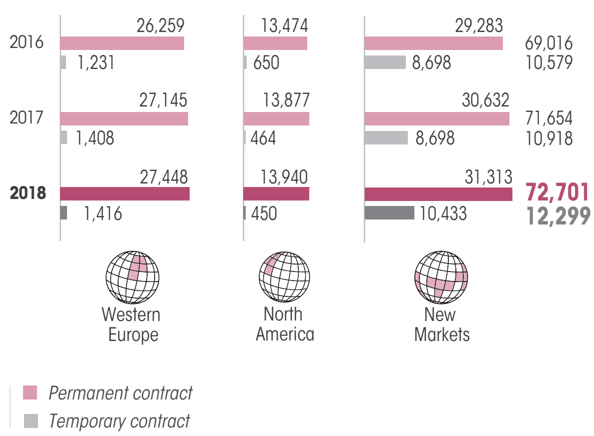


☑ *The Statutory Auditors have expressed a reasonable assurance with regard to this indicator.*

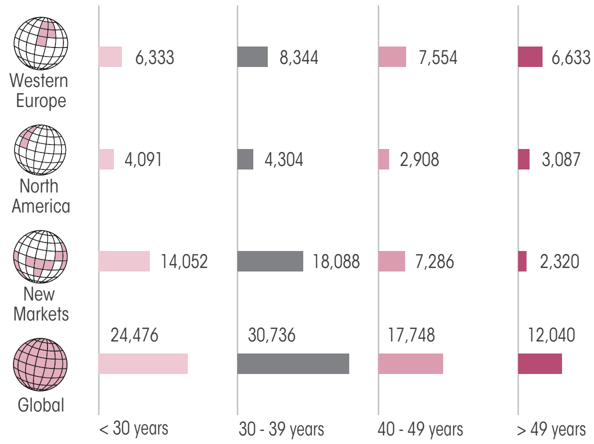
BY GENDER



BREAKDOWN BY TYPE OF CONTRACT BY GEOGRAPHIC ZONE OVER THREE YEARS

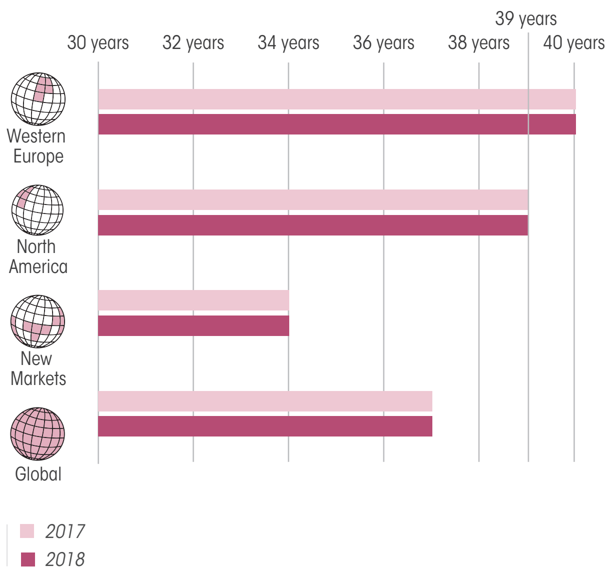


BY AGE GROUP



(1) *Excluding recent acquisitions, see notes on methodology. (section 3.5).*

AVERAGE AGE BY GEOGRAPHIC ZONE



ABSENTEEISM RATES

	2016	2017	2018	Details
Total absenteeism rate (%)	**4.4%**	**4.2%**	**4.1%**	**C/ (A-B)**
Of which rate due to illness	2.1%	2.2%	2.2%	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 commuting accidents or any other paid or unpaid absence).
(D) Number of days of sick leave (excluding occupational diseases, maternity or paternity leave, work-related accidents and/or commuting accidents).

NUMBER OF RECRUITMENTS

Number of recruitments	Western Europe	North America	New markets	**Total**
2018	3,598	3,204	6,780	13,582
2017	3,577	3,129	6,927	13,633
2016	3,812	3,979	6,208	13,999

NUMBER OF DEPARTURES

	2016	2017	2018
Number of departures (resignations, retirements, agreed terminations, dismissals) (permanent contracts)	**10,498**	**10,555**	**11,823**
Of which number of dismissals (permanent contract)	2,589	2,787	3,106

3.3.2.1. Preserving employee health and safety

An ambitious shared health and safety policy

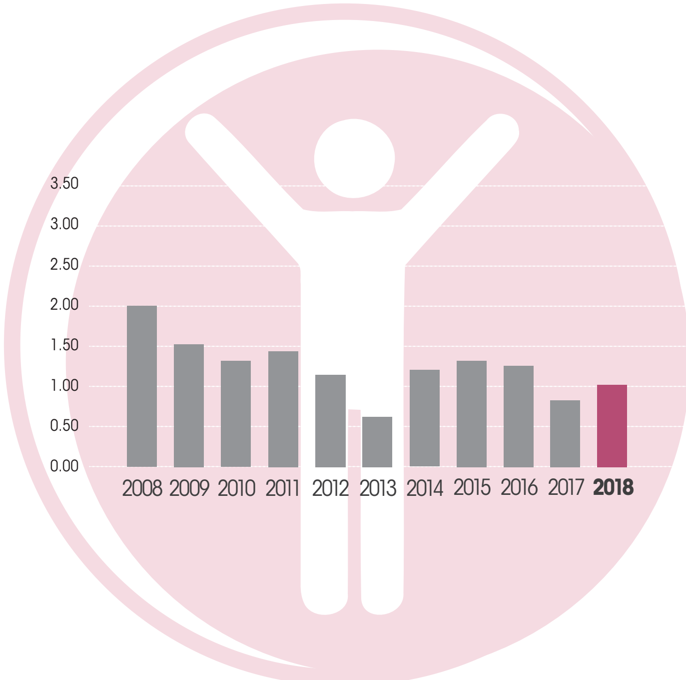
The Health (H) and Safety (S) policy is a main priority objective of the Group's general policy, and one of its main managerial pillars. Each manager is evaluated on his or her ability to apply it, and on his or her results in this area. It is based on the fundamentals presented under the heading "An ambitious EHS policy shared by all".

L'Oréal's ambition is to reach "Zero accidents" for the safety of its employees. To this end, the Group has implemented comprehensive programmes aimed at reducing risks and ensuring regular improvement in results. This safety culture has led to high standards being set and to the involvement of employees at all levels of the Company [(1)].

The Group strives to ensure regulatory compliance, compliance with 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 people through a specifically dedicated audit programme.

(1) These rates may be subject to an imprecision of 5% maximum due to the local interpretation of the rules; work to improve the precision of these indicators is currently in progress.

EVOLUTION IN SAFETY PERFORMANCE (TFC) [1]



The increase in accidents in plants and distribution centres, together with the significant improvement in accident reporting in sales forces and stores, resulted in a deterioration in the 2018 results compared with the previous year, when accident data were particularly low for the Group as a whole.

144 lost-time accidents (L'Oréal staff and temporary employees) were reported in 2018, representing a conventional frequency rate (TFc) of 1.02 and an enlarged total incident rate (TIRe) of 2.1.

The 144 lost-time accidents (L'Oréal staff and temporary employees) registered in the Group in 2018 resulted in the following frequency rates by entity:

Sites	TFc 2018	Variation in TFc *vs.* 2017	TIRe 2018	Variation in TIRe *vs.* 2017
Plants and distribution centres	1.38 ☑	104%	3.08 ☑	-18%
Administrative sites	0.44	2%	0.67	25%
R&I Sites	0.76	-33%	2.75	-55%
Sales forces & Stores	2.1	22%	4.53	86%
Group: all sites	1.02	26%	2.10	7%

☑ *The Statutory Auditors have expressed a reasonable assurance with regard to this indicator*

The accident severity rate, in line with the increase in the number of accidents, was slightly higher than in 2017 for the Group. It stands at 0.03 for the Group and 0.05 ☑ for the plants and distribution centres in 2018.

Priorities

The main HS priorities and orientations relate to the following 8 areas:

1. definition and deployment of strategy and action plans to achieve the 2020 target: TFc (Conventional Frequency Rate) [1] <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 ergonomics programme and a specific programme to prevent falls and hand injuries;
4. organisation and HS 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.

83% of the Group's plants OHSAS 18001 or ISO 45001 certified for their safety policy.

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

(1) TFc = Number of lost-time accidents per million hours worked for L'Oréal staff.

A global programme dedicated to improving safety

L'Oréal has programmes with specific and innovative tools to achieve excellence in safety:

Involvement of all employees	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.
	Constructive Challenge	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.
A programme to improve the ergonomics culture	Ergonomic attitude	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. 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. These are periodic on-site safety visits by a manager. In 2015, the programme was also deployed on certain administrative and research sites. In 2018, 24,875 MESUR visits were conducted on all the L'Oréal Group's sites.
Safety control tools	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 2018, 24,875 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.
Dedicated training sessions	Safety Training for management	In 2018, 60 "top managers" (managers of plants or distribution centres, Management Committee members, etc.) attended the Leadership & Safety Culture seminar, held at the CEDEP, the European Centre for Executive Development at the INSEAD campus in France. Since the start of this programme, 510 senior managers have been trained. The main objectives of these seminars are raising awareness of top managers about safety issues, to increase their leadership ability and to see these behaviours adopted and maintained over the long term.

3.3.2.2. Recruiting and supporting talents

At L'Oréal, employees have always been central to the Group's success; as such, they are its greatest assets for its future success. With this in mind, the Group strives constantly to enrich and diversify its pool of talent around the world for its present and future needs.

Recruitment serves L'Oréal's objectives and transformation. As part of the Group's universalisation strategy, the recruitment teams are tasked with recruiting the best talent in all countries where L'Oréal operates so as to form teams that resemble our consumers and integrate all cultures. The local implementation of the recruitment policy is carried out by a network of recruitment experts present in most countries.

To select the best talents capable of contributing to L'Oréal's transformation, the Group has developed a reference system of skills and innovative methods to evaluate them. To this end, the Group is looking for people with innovative and entrepreneurial skills, who take a strategic and holistic view, and who are capable of developing talent, as well as profiles with the potential to grow and blossom within the Group thanks to its training schemes and internal mobility policy.

L'Oréal has unique know-how in the recruitment of new graduates, in connection with higher education:

- Brandstorm, an international student competition, brought together more than 30,000 students from over 65 countries in 2018 and gave them a unique experience allowing them to get to know the beauty industry, express their creativity and discover the Group's values of innovation and entrepreneurship;
- the Management Trainee programme, which offers the best new graduates the chance to join a rotational programme allowing them to prepare effectively to take on major business responsibilities. In 2018, this programme was offered in most L'Oréal subsidiaries;

- in recent years, the Group has also developed a powerful digital communications system to enhance its employer image, and to share, on a daily basis and in a transparent manner, the wealth of its business lines and the diversity of its career paths, and to provide the keys to its culture. L'Oréal's Social Media strategy in the area of recruitment has been recognised as one of the best in the world [1];
- an International Digital team provides L'Oréal recruiters around the world with the most innovative tools and methods to efficiently select candidates from among nearly one million applications received. Among them, the Group this year launched two artificial intelligence solutions that improve the candidate experience and diversify the sources of applications, namely Mya and Seedlink. A strong presence on LinkedIn (1.6 million followers and No. 2 in the LinkedIn Top Companies ranking) helps proactively recruit the best talent.

In all countries where L'Oréal operates, 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 develop their talent, to contribute to the Group's success and enhance its international reputation.

13,582 employees hired on permanent contracts in 2018

Artificial intelligence in the service of recruitment

In several of its subsidiaries, L'Oréal has rolled out two artificial intelligence solutions in order to improve the efficiency and diversity of recruitment processes, especially for positions generating large numbers of applications.

- MYA is a chatbot with which candidates interact when they apply online. It asks questions prepared upstream by the recruitment teams to determine the candidate's suitability for the position. Mya accordingly serves to gather factual information based on a list of prerequisites for a position (date of availability, place of work, level of study, internship agreement, etc.). It can also respond in real time to the questions most frequently asked by candidates during the recruitment process.
- SEEDLINK is a customised algorithm for L'Oréal that, through the analysis of candidates' responses to the questions asked during the pre-selection phase, helps determine whether they are a match with the corporate culture. SEEDLINK accordingly serves to promote the integration and engagement of new recruits.

These tools allow recruiters to spend less time on the pre-selection part of the recruitment process and to reallocate time to the human dimension of their mission, where they have real added value: building the relationship with candidates, ensuring they have the best possible experience, assessing the match between their profile and the position and interacting with managers in-house. As they can handle large volumes of applications, these solutions also help increase the diversity of the profiles reviewed since they make it possible to evaluate applications other than simply through the applicant's CV.

3.3.2.3. Training employees throughout their careers

As part of the Group's Universalisation strategy, the Learning teams' task is to contribute to L'Oréal's competitive advantage by responding to both business acceleration and human challenges. This task is expressed in four priorities:

- support the development of the talents, with a particular focus on each stage of the career;
- anticipate changes in jobs and future skills requirements, particularly the critical skills that will allow the Group to stay one step ahead;
- support business transformations and the related human challenges;
- nurture the sense of belonging and cohesiveness of teams around the world, stimulating the sharing of corporate culture and passion for the beauty business.

This allows the Group at all times to benefit from employees with the right skills for internal needs and to adapt to rapid changes in its markets.

L'Oréal has always considered the development of its employees as one of the main drivers of its performance and its transformation. The world is changing, jobs are changing, skills are changing. To prepare tomorrow's leaders, and to develop everyone's potential throughout their lives, the Group aims to provide the most pertinent and up-to-date training and development solutions everywhere in the world. Training has strategic importance, and enables the L'Oréal Group to be recognised as a school of excellence that attracts and retains employees.

(1) 2018 ranking of Swedish firm Potentialpark: L'Oréal ranks second worldwide for its social media strategy, and first in France, the United States and Italy.

The vision of Learning for all

Learning for All is a commitment for L'Oréal, a social and human responsibility, expressed through the *Sharing Beauty With All* programme: L'Oréal has made the commitment that every employee will have access to training every year by the end of 2020, wherever they are in the world.

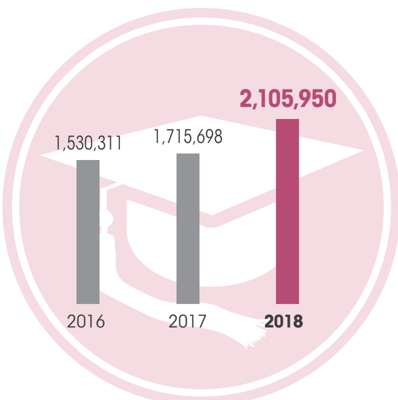
To achieve the aim of Learning for All enabling the largest possible number of employees to develop and maintain their skills, L'Oréal has set up a training system open to everyone without distinction as to hierarchical level, job or country. This system makes it possible to:

- promote the global dissemination of the corporate culture and the integration of new employees;
- help develop each person's potential;
- accelerate the transmission of know-how and develop strategic professional skills;
- allow everyone to update their skills in line with changes in jobs, to contribute to their employability throughout their lives.

In 2018, 88% of the Group's employees attended at least one training course

SHARING BEAUTY WITH ALL — **2020 TARGET** — **100%**

NUMBER OF TRAINING HOURS



BREAKDOWN BY GEOGRAPHIC ZONE

	Employees trained	Number of Hours
Western Europe	26,337	655,109
North America	12,455	260,167
Emerging countries	35,714	1,190,674

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 ninefold and there are now more than 54,000 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:

- communication of the knowledge related to L'Oréal's core business (marketing, sales, operations, Research & Innovation, etc.);
- managerial development (leadership, collaborative networking, agility, etc.);
- support for all the international programmes concerning responsible business conduct (ethics, *Sharing Beauty With All*, antitrust law, information security, etc.).

MOOCs in 2018: since 2017 employees can now follow Massive Open Online Courses (MOOCs) thanks to the pioneering partnership signed with industry leader Coursera. More than 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 2018, almost 3,200 people registered for MOOCs, receiving nearly 18,000 training hours, and with an exceptional certification rate of 22%.

Mylearning.com 2018 results: 54,107 active users, 749,758 training modules followed (representing an average of 14 modules per learner), 184,806 online training hours, representing an average of 3.4 hours per user.

INTEGRATION OF NEW EMPLOYEES AT L'ORÉAL

fit READY FOR A NEW ADVENTURE ?

L'Oréal welcomes more than 10,000 new employees worldwide each year. Their integration is an important moment, as it shapes their perception of the Group. Successful integration perpetuates the relationship between the employee and the Company and provides a sound foundation for moving forward together. Its purpose is to provide the keys necessary for everyone to understand their tasks, the context and the Group in a broader fashion.

At L'Oréal, the FIT integration programme for new employees has four key pillars:

- understand your role: a personalised learning experience around the job, collectively and also through meetings with all stakeholders related to the specific tasks of the new employee;
- decode the Group and its culture: immersion in the field, in laboratories and in plants, as well as seminars on the history and culture of L'Oréal (online and face-to-face);
- build your network: many opportunities are provided to meet people from different Group entities, to exchange and build cross-cutting relationships;
- individual support: the basics of induction (reception by the team and the manager, definition of tasks and objectives, etc.), logistical aspects (computer, badges, access, etc.) and mentoring.

New employees typically receive support in their first six months, after which they assess, qualitatively and quantitatively, the quality of the integration path. This attention to the employee experience allows a continuous adjustment of integration programmes.

Training at the service of the Group's performance

Training is central to the Company's major transformations: the digital revolution and developments in managerial practices.

For digital technology, the *Digital Upskilling* training programme is one of the pillars of the Group's digital acceleration strategy. This programme, launched in 2015, began by communicating the Group's digital ambition in the areas 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.

The *Digital Upskilling* programme has been developing since the launch, with two major pillars:

- consolidating the new skills necessary for the digital transformation (e-commerce, advertising precision, analytics, etc.);
- integrating digital in all of the Group's training plans.

It is systematically based on three teaching 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 Digital Upskilling programme has involved more than 22,000 employees.

The Learning Operations team supports the digital transformation of Operations with a training offer known as Acculturation #Operations 4.0, which is aimed equally at:

- managers (*Digital Upskilling* Learning Expedition in Paris, New York and Shanghai, 200 managers "inspired" as of end-2018);
- project leaders with Fast Prototyping workshops;
- employees with an #Operations 4.0 webseries on MyLearning (nine episodes to date, 3,149 visits), a Digital Experience Toolbox for the everyday use of digital tools and a Digital Events Kit to help sites organise their local digital events, for all their employees.

By the end of 2018, more than 2,700 people had been immersed in local digital events, notably at the Libramont, Saint Quentin, Rambouillet, Aulnay, Chimex, Burgos and Ville-Saint-Laurent plants in Canada, and at the headquarters of the Americas Operations zone in Clark.

As regards change in managerial practices, the Group *Simplicity* project completed the second year of its rollout in 2018. It builds on deepening cooperation and trust, as well as agile and efficient teams.

The ongoing will and implication of the Group for 2018 was both to extend this transformation and to engage all team managers via the program Team Leader as well as to support the leaders in the evolution of their practices. By the 31st of December 2018, 6,000 managers have joined the movement, created in 2017, by more than 3,300 leaders involved in this transformation.

To support change in managerial practices over the long term, the Group is active in several areas:

- a second wave of 360° feedback for the top 250 leaders is underway, initiated by the members of the Executive Committee;
- a "Simplicity for All programme" to anchor these new practices in the daily lives of all employees.

Our Learning governance

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 an internal international network.

The training offer is developed by 18 "practice leaders", whose role is to anticipate future skills requirements and build the appropriate training offer in the various areas of expertise (marketing, sales, research, operations, management, personal development, HR, finance, IT, 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.

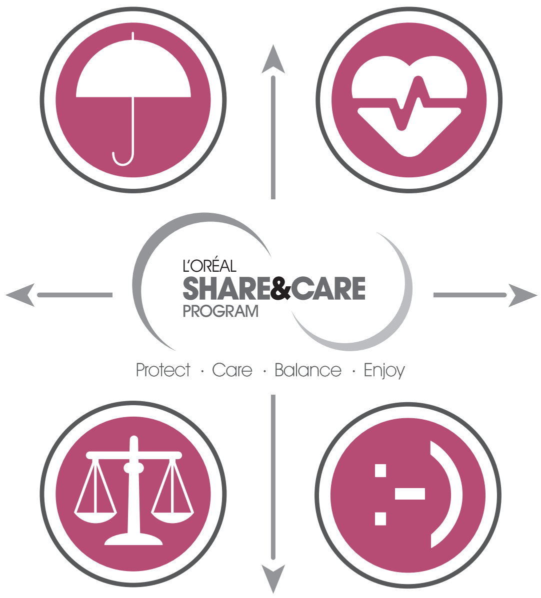
In addition, employees have access to a comprehensive set of development resources offering a mix of face-to-face training, training videos, and digital and social experiences, as well as coaching in the work situation. They can thus build their own training experience, while sharing their practices 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.

3.3.2.4. Creating the conditions for a positive and attractive work environment

L'ORÉAL SHARE & CARE PROGRAMME: AN ACCELERATOR OF SOCIAL PROGRESS

Protect
Providing employees with effective support particularly of a financial nature in the event of unexpected life events

Care
Providing employees and their families with access to a high-quality healthcare system which is one of the top performers on the local market



Balance
Enabling all employees to live important life moments to the full, such as maternity and paternity, while pursuing their careers

Enjoy
Offering high standards of quality of life at work to all the Company's employees.

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 totally consistent with its global dimension: this is a strong commitment that 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. The aim is to strengthen employees' social protection in the areas of welfare, health, parenthood and quality of life at work. 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 implemented in all countries: social protection, health, parenthood and quality of life at work.

PILLARS OF THE L'ORÉAL SHARE & CARE PROGRAM	OBJECTIVES	MAIN COMMITMENTS ACHIEVED IN ALL COUNTRIES (1)
Protect (social protection)	Providing employees and their families with effective support of a financial nature in the event of unexpected life events.	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.
Care (healthcare)	Providing employees and their families with access to a high-quality healthcare system.	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.
Balance (parenthood)	Enabling all employees to fully experience milestones in life such as maternity and paternity, while pursuing their careers.	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.
Enjoy (quality of life at work)	Offering high standards of quality of life at work and contributing to professional fulfilment of all the Company's employees.	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.

In 2018, 93% of the Group's(1) permanent employees benefited from financial protection in the event of unexpected life events, such as death or permanent disability

In 2018, 96% of the Group's(1) permanent employees had access to healthcare coverage reflecting best practices in their country of residence.

(1) *Permanent employees of the Group (Cosmetics) excluding, in some countries, part-time contracts of < 21 hours a week, casual contracts, beauty advisers and store employees, bearing in mind that the integration of recent acquisitions and new subsidiaries is gradual.*

FOCUS ON L'ORÉAL EGYPT

"L'Oréal Egypt is very proud of the work we have achieved and will continue to support Share & Care programme. We want L'Oréal Egypt to be a best-in-class company within the Egyptian market. That means we must continue to benchmark ourselves against other top employers to ensure that our employer value proposition and benefits are very competitive and well advanced." Hossam SOLIMAN - HR Director, L'Oréal Egypt.

Hossam SOLIMAN - HR Director, L'Oréal Egypt.The launch of the Share & Care programme in 2013 aimed at taking commitments to our employees in terms of social protection, health, parenthood and quality of life at work. L'Oréal Egypt quickly achieved all of the programme's must-haves on the Protect pillar. In a very practical way, this has allowed eligible employees to benefit from full medical coverage as well as life insurance that can cover up to 24 months' salary.

On the Care pillar, the programme has achieved significant results. L'Oréal Egypt has given its employees the opportunity to benefit from access to gyms at competitive prices, and has organised numerous awareness actions such as stress and breast cancer prevention, and health checks. In 2018, the country implemented all of the commitments defined by the second phase of the programme on this pillar. In addition, in 2018, L'Oréal Egypt also held its first day dedicated to well-being. This gave employees the opportunity to participate in various activities focused on positive energy such as meditation, to better help preventing stress.

In 2015, on the Balance pillar, maternity leave was extended from 13 to 14 fully paid weeks. The programme has also been enriched with childcare services, such as a list of nurseries with discounted rates. In addition, a one-day event dedicated to employees' family will be launched before 2020 to contribute to the variety of actions on this pillar.

On the Enjoy pillar – or quality of life at work– L'Oréal Egypt has made its offices accessible to employees with disabilities. In addition, ergonomic trainings at work are organised annually. In 2015, quarterly "What You Need To Know" meetings were launched to share the latest business results in all divisions, to promote information sharing, participation and employee engagement. L'Oréal Egypt regularly reviews its Share & Care programme to ensure that its employees receive the best quality services – in line with the level offered by the most advanced companies in the country – in each pillar of the programme.

The assessment tools 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 countries contain detailed verification of the programme's implementation;
- external audit: certain key indicators are audited within the scope of the annual external audit.

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, according to the ILO, nearly 73% of the world's population [1] 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.

Flexible 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 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: telecommuting and flexible working hours (see focus on this topic below), adjustment to working hours on occurrence of specific events and implementation of a system of banking of hours).

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 2018, there were 6,360 part-time employees, 5,827 of whom were women and 533 men.

TELECOMMUTING AND FLEXIBLE WORKING HOURS

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, working from home has been possible since 2009. Today, there are two distinct systems designed to meet the expectations and needs of employees. In 2018, some 4,000 employees benefited from one of these systems, 70% of whom were managers.

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 2018, 51 of the Group's 66 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 54 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.

(1) *https://www.social-protection.org/gimi/gess/ShowWiki.action?id=3035*

Employee representative institutions are in place in most of the European subsidiaries, in several Asian subsidiaries (China, India, Indonesia, Japan, South Korea, etc.), in Africa (South Africa, Kenya, Morocco, etc.), in North and South America (Argentina, Brazil, Canada, Chile, Mexico, the United States), and also in Australia and New Zealand.

In total, 84% of the Group's employees work in subsidiaries where there are employee representative institutions. 43% of the Group's employees are covered by a collective agreement, and in almost all cases, 96%, 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.

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 2018, 229 agreements were signed in France and 85 agreements were signed in the rest of the world. In total, the number of agreements in force at 31 December 2018 was 812, of which 533 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. Ninety agreements in force at 31 December 2018 which totally or partially relate to health and safety issues have nevertheless been identified, including 24 outside France.

3

A 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. In 2018, training was focused on the text of the agreement governing the operation of the body, and on digital technology. On this second point, the participants were able to exchange with business experts during presentations. They were also able to enjoy a practical experience thanks to the presence of external and internal partners, who encouraged them to test the solutions used.

Today, the IEDS/EWC covers approximately 31,000 employees in 27 countries that are part of the European Economic Area, including the direct representation of the 18 countries with more than 150 employees.

3.3.2.5. Offering a motivating and competitive remuneration system

The principles of the remuneration policy

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.

A "total package" approach is used. It offers each employee a highly competitive remuneration package, consisting of a range of components (basic pay, variable pay, long-term remuneration) and employee benefits. To this end, external surveys are conducted every year with specialist firms to ensure that L'Oréal's positioning is appropriate in comparison with the local reference market. The Group is also committed to allowing employees to share in the Company's results through collective profit-sharing schemes rolled out worldwide. The implementation of the remuneration policy is ensured by a network of Rewards experts present in the various countries.

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 welfare contributions)

€ millions	2016	2017	**2018**
TOTAL	**5,183**	**5,433**	**5,634**

The comparison between the three years takes into account the foreign exchange impacts and is not representative of the real changes in personnel costs.

Employee shareholding plan

In 2018, L'Oréal launched its first Employee Shareholding Plan in more than 50 countries with a view to pursuing and strengthening its HR policy, which aims to allows its employees to benefit from the Group's development and results.

The plan gave eligible employees the chance to buy shares on very advantageous terms and, where permitted by local law, to benefit from a discount of 20% on the share price and up to four shares offered as an additional employer contribution.

The plan, which allows employees to benefit from the Company's growth, aims to gather, unite and build loyalty around the Company's strategy everywhere in the world by strengthening the sense of belonging, commitment and solidarity.

The plan was designed to encourage broad support among employees, and the results were very satisfactory, with a 35% buy-in rate, which is a high level compared with other companies that have similar plans in place (1).

The result was applauded by the FAS (French Federation of Employee and Former Employee Shareholder Associations), which awarded L'Oréal the CAC All Tradable Grand Prix in 2018.

Plans for the conditional grant of shares to employees (ACAs)

L'Oréal sets up long-term remuneration plans in favour of its employees and executive officers in an international context, in the form of grants of performance shares.

It pursues a dual objective:

- motivating and associating those who make major contributions to future changes in the Group's results;
- strengthening involvement and the sense of belonging of its beneficiaries by fostering long-term loyalty in a context of increased competition for talents.

The vesting of these shares is subject to the achievement of performance targets and the beneficiary's continued presence in the Company. To ensure consistency with the Group's strategic objectives, the choice of beneficiaries and the vesting criteria are the subject of a specific policy (see section 6.4. "Long-term remuneration plans"). The Board of Directors, subject to the opinion of the Human Resources and Remuneration Committee, carries out the conditional grant of shares and lays down the applicable rules.

50% of the beneficiaries of the 17 April 2018 plan are women. Nearly 3,400 employees representing 11% of managers worldwide, 62% of whom are in international subsidiaries, benefit from or have benefited from at least one stock option plan or conditional grant of shares (ACAs) plan, and were part of the workforce as at 31 December 2018.

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, €296 million were redistributed to L'Oréal's employees in 2018, on the basis of the 2017 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*	2016	2017	**2018**
TOTAL (1)	**268**	**298**	**296**

(1) Incentives, Profit Sharing, Additional Employer Contributions, Mandatory Profit Sharing.

Employee benefit and pension schemes

L'Oréal wants to make sure that its employees benefit from competitive pension and benefit schemes in all countries. 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.

L'Oréal's commitments with regard to benefit coverage are part of the "Protect" pillar of the L'Oréal Share & Care programme. In all countries, L'Oréal guarantees the payment of a lump sum, or equivalent pension, equal to a minimum of

(1) 2018 Employee Share Ownership Survey by FAS (Fédération Actionnariat Salarié). The study looks at entities in France that practise employee share ownership and involves an annual analysis of these entities.

24 months' salary in the event of death or total permanent disability, or more where local practice is higher.

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 where L'Oréal operates, the Group contributes to the building up of additional retirement benefits for its employees, in excess of the minimum benefits provided for under the Social Security system. This policy is carried out through defined benefit and/or defined contribution schemes. In some cases, defined benefit schemes have been closed to new recruits, who are offered defined contribution schemes.

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.

Overview of the Pension and Employee Benefit schemes in France

Pension schemes

To supplement the pensions provided for by the compulsory French pension scheme, L'Oréal has implemented the following supplementary pension schemes:

Defined contribution plan

In September 2003, L'Oréal set up a "defined contribution pension scheme".

All categories of employees are beneficiaries of this scheme, which is financed jointly by L'Oréal and the employee, and which makes it possible for everyone to build up pension savings. As of 1 January 2016, the contributions have been increased on Brackets A, B and capped at half of Bracket C.

The scheme entitles beneficiary pensioners to a lifelong annuity calculated after they claim their pension rights with the Social Security pension system, 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.

Defined benefit pension schemes

L'Oréal has also set up several differential or additive 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 held positions as senior managers 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 additive defined benefit pension scheme which grants entitlement to payment of a life annuity. The reference salary taken into account for calculation of the pension 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 for at least 10 years at the end of their career. It provides entitlement to payment to the beneficiary retiree of a life annuity, as well as, after his/her death, the payment, subject to conditions, to the beneficiary's spouse and/or ex-spouse(s) of a surviving spouse pension and, to the children, of an orphan pension. 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 number of years of professional service in the Company, capped at 25 years, each year leading to a progressive and regular increase of 1.8% of the level of the Guarantee. The Income Guarantee cannot exceed 50% of the calculation base or exceed the average of the fixed part of wages. A gross annuity and gross lump sum equivalent are then calculated, taking into account the sum of the annual pensions accrued by the beneficiary as a result of his/her professional activity and assuming that the beneficiary's age is 65 . 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. Around 340 senior managers are eligible for this scheme if they fulfil all 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, the payment under certain conditions to the spouse and/or ex-spouse(s) of a surviving spouse pension and, to the children, of an orphan pension. 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,with a ceiling of 40 years. it being specified that at the date of closure of the scheme, on 31 December 2000, the minimum length of service required was 10 years. The Pension Cover may not exceed 40% of the calculation base, 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. Around 120 Senior managers (active or retired) are eligible for this scheme subject to the requirement, 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. The additional employer contribution for the mandatory profit sharing amount invested in the PERCO is 100% up to a gross amount of €1,000 invested, and 50% beyond that amount. Each year, employees may also invest up to 10 days of paid leave in the PERCO, with an additional employer contribution of 20%.

Pre-retirement arrangements

L'Oréal pays close attention to its employees' retirement conditions. 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, while maintaining their remuneration (up to a limit of €10,000 gross/month) as well as profit sharing, incentives and paid leave;
- retirement compensation ("*indemnité de départ à la retraite*", IDR): the scale set by collective agreement is more favourable than that of the National Collective Agreement for 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.

These commitments are guaranteed by external financial cover aimed at gradually building up funds derived from premiums paid to external organisations.

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;
- 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.

Minimum guaranteed lump sum death benefits

L'Oréal has established an additional guaranteed Lump Sum Death Benefit that supplements, where applicable, for all employees, the Lump Sum Death Benefit in an amount equal to three years' average income. The total amount of the risk capital needed to fund the Surviving Spouse Pension and Education Annuity, the Lump Sum Death Benefits and the minimum guaranteed Lump Sum Death Benefit is capped.

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.

3.3.2.6. Promoting diversity and inclusion

L'Oréal's commitment to Beauty for All requires the Group to have the most diverse teams, reflecting the diversity of the world and its consumers.

As a structuring element of corporate culture and a driver of performance and innovation, diversity and inclusion are naturally central to the Group's strategy and its HR policy.

L'Oréal shapes and guarantees working environments where everyone can feel valued and fulfilled, and where everyone can develop, regardless of their social, cultural or religious background, their gender, their sexual orientation, their age or any disability.

L'Oréal has set three objectives to continue to make progress on diversity and inclusion:

1. strengthen gender equality and ensure that women represent 50% at all levels and functions;
2. accelerate the inclusion of people with disabilities, internally, with a minimum goal in all countries. The Group also adopts an inclusive approach towards consumers, suppliers and all stakeholders;

3. increase the diversity of socioeconomic and cultural origins in our teams.

On top of these three priority issues, L'Oréal's actions extend to the LGBTI community and to raising awareness of all forms of gender-based violence.

The Group's diversity and inclusion policy is also reflected outside the Company: L'Oréal takes the same approach to its suppliers, consumers, local communities, NGOs and associations dedicated to inclusion on each continent.

To achieve its objectives, L'Oréal calls notably on an internal network of "Diversity Coordinators" ☑, in all of its entities. These employees are the guarantors of the diversity and inclusion policy, which they adapt to their local context.

L'Oréal was a founding member in 2004 of the first "Diversity Charter" in France, and is now a signatory of 19 charters (Morocco, Hong Kong, Baltic countries, Czech Republic, Hungary, Poland, Slovakia, France, Argentina, Mexico, United States, Austria, Belgium, Denmark, Germany, Italy, Netherlands, Portugal, Spain).

In September 2018, L'Oréal welcomed members of the "Diversity Charter" network for the signature of a new version of the document signed by more than 3,800 companies and organisations based in France.

The Group shares its achievements and progress in a new dedicated section on the loreal.com website, as well as on all local versions.

Guaranteeing and achieving gender equality

Achieving real gender equality, up to the highest levels of responsibility, is a key challenge for the Company, both to promote a culture of Inclusion and to increase L'Oréal's ability to innovate. The Group therefore ensures that all jobs are accessible to women and men, both at the level of recruitment and with regard to career development possibilities. Special attention is given to pivotal periods such as parenthood (see section 3.3.2.4. "L'Oréal Share & Care").

Since 2007, L'Oréal has collaborated with INED (National Institute for Demographic Studies), which analyses the gender pay in the Company in all professional categories. The aim is to guarantee identical pay for people with the same level of skills and the same classification. Overall, the gender pay gap in France narrowed from 10% to 3% between 2007 and 2017, and has now been eliminated for workers and supervisors. The pay gap measurement approach is being rolled out in several subsidiaries: Germany, China, United States, India, Nordic countries (Denmark, Finland, Norway, Sweden), United Kingdom.

L'Oréal and equity

At 31 December 2018, women account for:

- 69% of the total workforce;
- 64% of executives;
- 46% of expatriates in place;
- 45% of Group key positions [(1)];
- 69% of employees who were promoted;
- 66% of international brands are managed by women
- 47% in positions of greater responsibility within L'Oréal SA [(2)];
- 54% in positions of greater responsibility within the Group [(3)];
- 31% of the Executive Committee members;
- 46% of the members of the Board of Directors.

ONE IN THREE Women

COMPANIES UNITED TO END VIOLENCE AGAINST WOMEN

In November 2018, L'Oréal was the first company to join the One In Three Women network, the first European network of companies committed to fighting violence against women in the private sphere. One In Three Women is an initiative launched by Fondation Agir Contre l'Exclusion (FACE) and the Kering Foundation. It was launched on 9 November 2018 under the patronage of the Minister for Equality between Women and Men and the Fight Against Discrimination.

Its aim is to create and test modules to combat violence against women and to support the employees concerned, through specialised NGOs. Very concrete actions are to be implemented, such as international research to measure the impact of domestic violence in companies, training to better understand these violences and its impact at work, awareness kits for companies (posters, useful numbers, first recommendations, etc.), and events to mobilise and raise awareness.

L'Oréal France launched the #StOpE initiative against so-called "ordinary" sexism at work, together with AccorHotels and EY, in December 2018. This initiative brings together 30 companies and organisations that have signed a commitment under the patronage of the French Minister for Equality between Women and Men and the Fight Against Discrimination. These companies have committed to rolling out in 2019 at least one of the eight priority actions that were identified and selected.

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

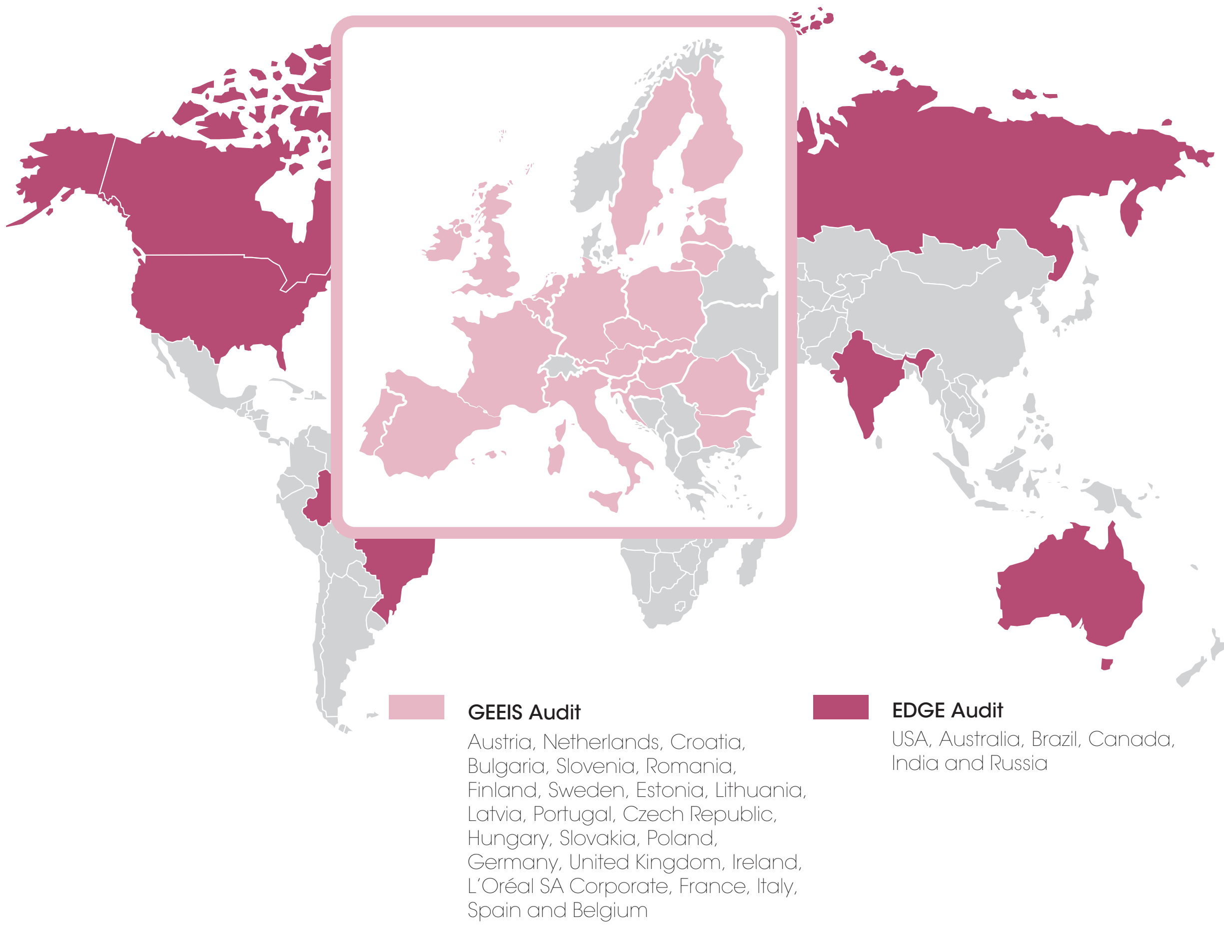
(1) *Group key positions: Positions that are identified as key for the Group and followed directly on an international level by the members of the HR Audit Committee (approximately 1,200 positions).*

(2) *These positions represent 10.8% of L'Oréal S.A. employees as at 31 December 2018.*

(3) *These positions represent 8.2% of Group employees as at 31 December 2018.*

Certifications in Europe

Throughout the world, L'Oréal has chosen to be audited by independent experts. Since 2010, the Group has been awarded the Gender Equality European & International Standard (GEEIS) in Europe. This label is given to companies meeting nine key criteria established by the GEEIS (assessment of general policy, action plan, social dialogue, management training, gender balance, equal pay practices, work-life balance, introduction of shared inclusive culture). In 2018, the Group's head office in France and 23 European countries were awarded the GEEIS label, and are audited every two years by Bureau Veritas to measure progress. L'Oréal Germany, L'Oréal Finland and L'Oréal United Kingdom and Ireland were re-certified in 2018.



For entities outside Europe, L'Oréal relies on the Economic Dividend for Gender Equality (EDGE) certification process. To be certified, subsidiaries are audited by Flocert and Intertek and must provide three sources of information on gender equality (statistics, questionnaire on HR procedures and an employee survey). L'Oréal USA was the first subsidiary to obtain the label in 2014 and was re-certified in 2016 and 2018.

Five other entities have now been certified: Australia, Brazil, Canada, India and Russia.

In 2018, a total of 29 countries ☑ continued to be EDGE or GEEIS certified.

Promoting the inclusion of people with disabilities

For more than 15 years, L'Oréal has been developing a global policy to include people with disabilities within the Company. In 2018, the Group employed 1,177 people with disabilities (under permanent and fixed-term contracts), *i.e.* 1.4% of the total workforce. L'Oréal has set a target of having at least 2% of employees with disabilities by the end of 2020 in countries without specific local regulations.

The disability pillar of L'Oréal's Diversity and Inclusion policy covers the following five priorities:

- recruitment: L'Oréal promotes the recruitment of people with disabilities in all countries, whether or not there is a legal obligation; All subsidiaries are committed to this, depending on their context;

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

- disclosure: create the conditions for employees to declare their disability ("Disclosure"), so that the Company can adapt positions, jobs and care. L'Oréal USA has launched a Break the Silence campaign which has led 173 employees to declare their disability. This campaign will now be rolled out throughout the Group;
- accessibility of premises and digital accessibility: all new sites must now meet this objective. Certain countries have retained an external 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. As such, L'Oréal Paris in Portugal now offers a fully accessible website, an approach that has inspired other brands and Divisions to commit to the same path;
- employee awareness: internal communication and training are closely linked to the success of the Disability pillar of the Diversity policy implemented at L'Oréal;
- Collaboration with experts, associations and NGOs on the subject is an important element in advancing inclusion within and outside the Group. L'Oréal is also involved with other companies: since 2016, the Group has been a signatory of the ILO Global Business & Disability Network Charter (International Labour Organization).

In 2018, the Group held the 10th edition of the DisAbility Awards, an internal competition dedicated to the inclusion of people with disabilities and aimed at sharing and promoting best practices. This edition marked a turning point by highlighting initiatives not only for employees, but also for consumers and the most vulnerable communities. Fifty-four projects representing 65 countries ☑ were submitted, with 15 finalists presenting their project before an international panel that selected the five prize-winners.

Reinforcing cultural and social diversity

L'Oréal's goal is to reflect the diversity of the markets in which it 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.

In June 2018, L'Oréal became an official sponsor of the he UN Global LGBTI Standards of Conduct for Business. Established by the Office of the United Nations High Commissioner for Human Rights, these standards are designed to guide businesses in the fight against discrimination against lesbian, gay, bisexual, transgender and intersex (LGBTI) people.

L'Oréal continues to support the Equal at Work network of the European Network Against Racism (ENAR), which helps ensure progress on this important issue.

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 2018, 23 countries focused part of their diversity policy on social and cultural origins in line with the realities in their countries.

Among the results, 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 L'Oréal USA's commitment to the equality of people in the LGBTQ community within the Company.

Since 2016, in Chile, the Avanza programme has been helping to improve the employability of disadvantaged young people through training and mentoring initiatives. L'Oréal also offers scholarships and internships in partnership with two universities (Universidad de Chile and Universidad de Santiago). The Avanza programme helped 80 students, offered seven internships, and recruited two employees.

Training employees in diversity

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, through discussions and role playing.

L'ORÉAL
DIVERSITY
+ INCLUSION
DRIVEN

At the end of 2018, more than 33,000 employees have taken part in "Diversity Training Workshops" all over the world

Since 2010, L'Oréal has also been a committed player in the annual EVE programme, an initiative led by the Danone Group, aimed at helping women to be agents of change in their business and to develop their leadership and careers. Since the programme's inception, more than 500 of the Group's employees, both men and women, have taken part in this programme. The Group has sought to go further by partnering with Danone to create versions of the programme in Asia in 2014 (EVE Asia-Pacific), followed by Africa (EVE Africa), where the first edition was held in 2017.

Awards obtained in 2018

The Group's Diversity and Inclusion policy is now widely acknowledged. In autumn 2018, out of over 7,000 companies, L'Oréal was recognised by Thomson Reuters as one of the 10 best international companies with regard to Diversity and Inclusion.

The winner of several awards for its exemplarity in the field of gender equality, L'Oréal this year took first place among European companies in the 2018 Equileap Awards. This ranking, created in 2017, assesses the degree of gender equality of 3,000 listed companies. It is intended to help investors better identify leading companies in the area of gender equality, and as such invest on the basis of a new differentiating criterion.

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

In 2018, the second edition of the Grands Prix de la Mixité (Diversity Awards) awarded by the Institute of Responsible Capitalism and the Ethics & Boards Observatory awarded L'Oréal the Grand Prize in the "CAC 40" category. The Group also won the Consumer Goods and Services Sector Prize.

Lastly, in 2018, L'Oréal took fifth place in the ranking of feminisation of the governing bodies of major French companies for its commitment to gender equality at the highest level of the Company. This list is produced by Ethics & Boards for the State Secretariat for Equality between Women and Men and the Fight Against Discrimination.

Lastly, in 2018, L'Oréal featured among the top 100 companies in the Bloomberg Gender-Equality Index.

3.3.3. HUMAN RIGHTS POLICY

3.3.3.1. A commitment of the entire organisation

L'Oréal's commitment to Human Rights is based in particular on the Universal Declaration of Human Rights, the United Nations Guiding Principles on Business and Human Rights and the Fundamental Conventions of the International Labour Organization, although these conventions have not all been ratified by all the countries where L'Oréal operates.

L'Oréal has been a member of the United Nations Global Compact since 2003, and is committed to respecting and promoting all internationally recognised Human Rights and Fundamental Freedoms.

This commitment is supported at the highest level of the Company by its Chairman and Chief Executive Officer, who renews it each year.

The Group's Senior Vice-President and Chief Ethics Officer systematically meets with each new Country Manager and with the Human Resources Directors of the subsidiaries to raise their awareness about Human Rights and Fundamental Freedoms issues.

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 within the Group (or for corporate or zone staff the members of the group's Executive Committee to whom they report) are responsible for ensuming respect of Human Rights and Fundamental Freedoms 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 subsidiaries' Human Resources representatives 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.

The Purchasing teams ensure that supplier activities respect Human Rights and Fundamental Freedoms.

The Human Rights Steering Committee, chaired by the Senior Vice-President and Chief Ethics Officer and made up of representatives of the various activities, functions and geographical areas, allows coordination and exchange on the implementation of the Group's Human Rights policy.

L'Oréal's commitments in favour of Human Rights, with respect to its consumers (3.3.3.2), its employees and those of its suppliers (3.3.3.3), local communities (3.3.3.4) and women (3.3.3.5) express themselves through various internal and public documents.

The L'Oréal Spirit	Main commitments with regard to employees (health, hygiene and safety, 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 1948 Universal Declaration of Human Rights and the 2011 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	Certain 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 (see section 2.8.4 "Vigilance Plan").
"Suppliers/Subcontractors and Child Labour"	Description of the main commitments concerning child labour by suppliers/subcontractors.
Employee evaluation system	Operational procedures A "Treats all individuals in a respectful and consistent manner" ethical competency is included in the annual appraisal system for all employees.
Procedure for Collecting and Processing Reports	L'Oréal's procedure for collecting and processing reports enables employees to report serious violations of Human Rights and Fundamental Freedoms and breaches of rules related to health and safety of people 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. The Group's ethics whistle-blowing line (www.lorealspeakup.com) is also open to all Group stakeholders. For more information, see "Components of the Internal Control and risk management system", section 2.8.2.
An annual ethics reporting system	This system allows 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 Countries completed their annual ethics reporting practices in 2018.
Procedures for prospective acquisitions	When prospective acquisitions are being reviewed, the responses to the "Ethics and Human Rights questionnaire" submitted to target companies serve to identify whether they have properly taken into account risks related to failure to respect Human Rights (abolition of child labour and compulsory and forced labour, etc.), among other issues.

RAISING EMPLOYEE AWARENESS

Ongoing communication	The Group's Human Rights policy is communicated to all Group employees. 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 and with the members of the Executive Committee for the Corporate teams. In 2018, over 60% of the employees took part in these chats and over 6,800 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 2018, within this framework, he visited 10 countries, making a total of 91 countries visited since the end of 2013. 99% of 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.
Training	Specific training is being rolled out for the management committees. ◆ A specific, compulsory e-learning course on ethics covering Human Rights issues in particular is currently being rolled out in all countries. ◆ As of 31 December 2018, 82% of the employees with access to the online module had completed this course. ◆ 19 ethics training courses were delivered by the Ethics Department and Purchasing Department to 381 employees, representing 972.5 hours of training in 2018. ◆ In 2018, 67 purchasers were trained in responsible purchasing practices. This training is compulsory for any new purchaser. ◆ 99% of the Group's countries included subjects related to Human Rights in their local training programme.

3.3.3.2. Measures taken in favour of consumers

Product quality and safety: a priority

A chapter of L'Oréal's Code of Ethics is devoted to product quality and safety.

Consumer safety is an absolute priority for L'Oréal: assessing safety is central to any new product development process and a prerequisite before any new product can be brought to the market.

All of the L'Oréal Group's products are subject to a rigorous safety assessment.

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. The same safety standards are applied worldwide to ensure that consumers from across the globe have access to products of identical quality. 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 cosmeto-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.

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:

- vigilance with regard to any new scientific data;
- co-operation with the relevant authorities;
- precaution leading to the substitution of ingredients in the event of a proven risk or a strongly suspected risk.

Finally, production quality standards define rules governing the quality of products, for all stages from creation to production and distribution. Almost all plants are ISO 9001 certified for their production and follow Best Manufacturing Practices in accordance with the ISO 22716 standard.

THE PRODUCT SAFETY ASSESSMENT PROCESS

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 assessments by the Worldwide Safety Evaluation unit, 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.

3

Other measures in favour of consumers

Promoting healthy behaviour	Several L'Oréal brands conduct awareness campaigns to promote healthy behaviour. They include: ◆ La Roche-Posay with its stand against skin cancer (more than 100 million people have committed to getting their moles checked to prevent melanoma since the beginning of the campaign in 2014); ◆ L'Oréal Professionnel with its commitment to the prevention of musculoskeletal disorders (more than 330,000 hairdressers had their awareness raised in 2018). As health authorities are increasingly concerned about the eating disorders affecting some young women, L'Oréal's Code of Ethics states that the Group will not work with models who clearly present a major behavioural disorder. Moreover, advertising encouraging the use of drugs, alcohol or tobacco must be eschewed. At Corporate level, L'Oréal has created a department responsible for the pre-approval of advertising messages for all the products that the Group markets worldwide. This central entity is made up of experts who have an extremely precise knowledge of the performances of L'Oréal products as well as a perfect grasp of advertising regulations.
Respect for privacy and protection of personal data	A chapter of L'Oréal's Code of Ethics is devoted to respect for privacy and personal data. Anyone whose personal data are collected by L'Oréal must be informed of the type of information collected, the use that L'Oréal intends to make of them and ways to contact the Group for any questions. Only necessary data are collected. Data are kept safe, and any inaccurate or incomplete data are corrected or destroyed. The Group's principles governing the processing of personal data 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. This policy is described in the "Data" section of the chapter devoted to risk factors (see section 2.8.5 this document).

3.3.3.3. Measures taken in favour of L'Oréal employees and the employees of the Group's suppliers in the context of their working conditions

L'Oréal employees	L'Oréal has numerous other policies that contribute to the respect of employees' Human Rights and Fundamental Freedoms, notably through its workplace health and safety, social dialogue and diversity policies, and its Share & Care programme (see 3.3.2.4.).
Employees of the Group's suppliers	L'Oréal seeks and prefers suppliers that share its ethical commitments, notably with regard to the Human Rights and working conditions of their employees. L'Oréal's commitments are communicated to all suppliers *via* the general terms of purchase. Moreover, suppliers involved in risk mapping must sign the letter of ethical commitment; some may also be audited. The details of this policy and its implementation are described in L'Oréal's Vigilance Plan in section 2.8.4 of this document, and in section 3.3.1.3.2.

Lastly, L'Oréal's subsidiaries must comply with applicable local legislation and the minimum set of core rules designed to prevent serious Human Rights violations. The details of this policy and its implementation are described in L'Oréal's Vigilance Plan in section 2.8.4 of this document.

3.3.3.4. Measures taken in favour of local communities

"As part of its action by end-2020 under the Developing sustainably with communities pillar in the Sharing Beauty With All programme, the Group will enable more than 100,000 people from socially or financially deprived communities to access work."

In 2018, 63,584 people from underprivileged communities gained access to employment

SHARING BEAUTY WITH ALL

2020 TARGET **100,000**

2020 TARGETS	2018 RESULTS
100,000 people from socially or financially deprived communities will be able to access work through the following programme:	Over **63,584** people from socially or financially disadvantaged communities have had access to work.
◆ Solidarity Sourcing;	**56,842** people accessed work through the Solidarity Sourcing programme.
◆ Professionalisation in the business of beauty;	**5,565** people from extremely vulnerable environments were trained in beauty professions.
◆ Employment of disabled people and people from under-represented socio-ethnic groups.	**1,177** people with disabilities worked for L'Oréal [1].

(1) This figure takes into account the total number of disabled employees (with permanent and fixed-term employment contracts) as of 31 December 2018. 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.

Throughout the production chain

The environmental risks related to L'Oréal's sites and activities may have an impact on the local communities where the Group operates. In this area, L'Oréal has a long-standing commitment to managing risks and reducing its environmental footprint, and is implementing an ambitious policy described in section 3.3.1.

A responsible approach to property assets

For prospective acquisitions of premises or building land, L'Oréal must ensure that the former owners and/or occupiers have not been unfairly removed and/or that any expropriation by the authorities was conducted in accordance with international law, namely with the free agreement and compensation of the previous owners and/or occupants.

Responsible sourcing

See under "Giving preference to the use of sustainably sourced renewable raw materials" in section 3.3.1.3.3. "Throughout the product life cycle".

Solidarity Sourcing: Using the Group's purchasing power to serve social inclusion

Via its Solidarity Sourcing programme and thanks to its many industrial and administrative sites all over the world, L'Oréal is strongly involved in the life of local communities in the areas neighbouring its sites. A company committed to demonstrating strong corporate citizenship, L'Oréal makes a contribution to many local projects.

This ambition was reflected in a commitment in the *Sharing Beauty With All* programme: to enable over 100,000 people from socially or financially disadvantaged communities to access work by the end of 2020. This means that L'Oréal will support as many people outside the Company as there are employees in the Group.

L'Oréal also created its global Solidarity Sourcing programme in 2010. Its aim is to put the Group's purchasing power in the service of social inclusion by devoting part of its purchases to suppliers that provide access to work and a sustainable income for people generally excluded from the labour market, economically vulnerable communities, including small businesses and those that have trouble accessing major contractors.

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).

Global beneficiaries of the Programme included 2,080 people with disabilities in 23 countries in 2018. This represents an increase of 39% over four years.

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.

L'ORÉAL SOLIDARITY SOURCING

In 2018, as part of the Solidarity Sourcing programme, 56,842 economically or socially vulnerable people gained permanent employment.

The ambition of the programme is to associate economic performance with a positive social, societal and environmental footprint.

In 2018, the Solidarity Sourcing programme enabled 56,842 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 8,150 people (+16.7%) compared with 2017 on a like-for-like basis[1]. Solidarity Sourcing has 234 projects up and running in 44 countries, with the support of 35 third parties.

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 2018, the number of purchasers involved in a Solidarity Sourcing project reached 144, an increase of 30% over the last two years.

In addition, L'Oréal encourages its strategic suppliers to implement programmes inspired from the Solidarity Sourcing programme for their own purchases. In 2018, 13% of these suppliers have thus applied a similar programme. L'Oréal pledged that 20% of them would be involved in the project by the end of 2020.

L'ORÉAL SOLIDARITY SOURCING

In 2018, 13% of strategic suppliers were involved in the Group's Solidarity Sourcing programme.

SHARING BEAUTY WITH ALL — 2020 TARGET: 20%

FOCUS on the Group's solidarity purchases in France

64 of the global Solidarity Sourcing programme projects support employment in France (one in four).

France, the L'Oréal Group's country of origin, is the country that undertakes the highest number of Solidarity Sourcing projects (out of 44 countries in which the programme operates).

In 2018, solidarity purchases in France represented 1,573 full-time jobs.

The number of jobs generated by the Solidarity Sourcing programme in France was up 79% compared with 2017 (+692 jobs), thanks in large part to the mobilisation of Group purchasing managers and 379 suppliers.

These projects cover a wide range of purchases including cardboard, glass and plastic packaging; point-of-sale advertising supports; and services, packaging and logistics.

Nearly 30% of beneficiaries are people with disabilities (468 jobs)

More than half of beneficiaries are located in areas classified as vulnerable (808 jobs), namely areas classified as "Rural Revitalisation Zones" (ZRR) and "Sensitive Urban Zones" (ZUS).

For instance, a project was launched in 2018 with the IDC France (International Distribution Centre) platform located in the ZRR area of Moÿ de l'Aisne.

It centralises and stores finished products from the six plants of the Consumer Products Division and prepares all supplies of finished products for subsidiaries in France, Europe and other geographic areas.

Logistics and transport activities for L'Oréal accordingly represent 68 jobs at this site This project actively supports a partner supplier, CITRA-BLONDEL, which is committed to promoting economic activity and the development of local employment in an economically and socially deprived area.

The other solidarity purchase projects in France mainly concern people in social integration, support for SMEs, older people experiencing discrimination in hiring, women's access to jobs from which they are generally excluded, Living Heritage Enterprises (EPV label), and a bio-solidarity cooperative.

Employees mobilised: 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 nine years, more and more employees have demonstrated their commitment. In 2018, with some 27,600 participants and more than 170 000 hours of voluntary work, the L'Oréal Citizen Day provided support to 855 associations in 63 countries.

Beauty for a Better Life: a programme of the L'Oréal Foundation

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 specially trained socio-beauticians.

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 people who are marginalised in society.

En 2018, en France, plus de 32 000 soins de beauté et de bien-être ont été prodigués, permettant à la Fondation L'Oréal de soutenir plus de 17 000 personnes fragilisées.

(1) L'Oréal, all geographic zones and areas of purchases.

	In 2018, as part of the Solidarity Sourcing programme, 56,842 economically or socially vulnerable people gained permanent employment.
A L'Oréal Foundation partnership with Médecins du Monde to put a smile on children's faces	The L'Oréal Foundation also supports the Médecins du Monde association's reconstructive surgery operations (Opération Sourire) for children who suffer from congenital malformations and young women who have been victims of acid-throwing attacks. The L'Oréal Foundation allows these people to regain their integrity and return to their community.
	More than 700 children operated on in 2018 as part of Opération Sourire (Operation Smile)

(1) L'Oreal, all geographic zones and all areas of purchases, excluding The Body Shop.

3.3.3.5. Measures for the promotion of women's rights

As an active supporter of the UN Women's Empowerment Principles, the Group is involved in numerous initiatives aimed not only at improving the situation of women in the private and public spheres, but also at recognising the contribution of women to the advancement of humanity.

Responsible communication	The Group's Code of Ethics and the principles of "Responsible Communication", which are summarised in an operational brochure distributed worldwide, concern notably the prohibition of stereotypes and degrading images of women.
Gender equality	Achieving real gender equality, up to the highest levels of responsibility, is a key challenge for the Company, both to promote a culture of inclusion and to increase L'Oréal's ability to innovate. The Group therefore ensures that all jobs are accessible to women and men, both at the level of recruitment and with regard to career development possibilities. Special attention is given to pivotal periods such as parenthood. For more information, see under "Guaranteeing and achieving gender equality" in section 3.3.2.6 "Promoting diversity and inclusion". During supplier audits, L'Oréal also seeks to ensure the absence of discrimination and sexual harassment.
Programmes of the L'Oréal Foundation	To fight against the under-representation of women in the scientific world, in conjunction with Unesco, the L'Oréal Foundation created the L'Oréal-Unesco For Women in Science programme in 1998. This international programme is born of one conviction: the world needs science, and science needs women. That is why the L'Oréal Foundation each year 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, 102 prize-winners have been honoured for the excellence of their scientific work, including professors Elizabeth H. Blackburn, Ada Yonath and Christiane Nüsslein-Volhard who also received Nobel Prizes. To mark the programme's 20th anniversary, the Foundation launched a new initiative, entitled "Men for Women in Science". The goal is to call on men, who hold 89% of senior science-related positions, to join the fight for greater inclusiveness in science and society. Twenty-five male leaders in the world of science have undertaken, through a charter, to work more closely with their female colleagues to change the system and harness the potential of women scientists for the service of all. 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 53 countries. 3,100 women in science from over 117 countries who have received awards and been rewarded since 1998 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.

Brand programmes	Brands are taking a stand, such as SkinCeuticals, an expert in skincare, which has launched, with the NGO ReSurge International, a programme designed to train the first generation of women in reconstructive surgery in developing countries. Alongside NGO Care, Lancôme is taking part in Write her Future, an international programme aimed at fighting illiteracy among girls. Since 2012, in partnership with ELLE Magazine, L'Oréal Paris has organised the ELLE Active forum dedicated to working women and women's empowerment. Each year, through its Women of Worth programme in the United States, L'Oréal Paris awards US$25,000 to 10 exceptional women to support them in their efforts in favour of their communities.
Responsible and inclusive purchasing	Two-thirds of the beneficiaries of the Group's Solidarity Sourcing programme (see section 3.3.3.4 for "Solidarity sourcing") are women. A total of 38,596 beneficiaries come from 29 projects specifically related to the emancipation of women in 14 countries, with the support of 10 association and NGO partners. These Solidarity Sourcing projects support the following women: ◆ producers of raw materials such as shea and argan grown and harvested in accordance with fair trade principles; ◆ hailing from various vulnerable local communities, or who have assumed positions usually reserved for men; ◆ beneficiaries through support for Women-Owned Businesses; ◆ single mothers; ◆ military wives; ◆ victims of violence. Other than agricultural professions, these projects concern a wide range of industrial activities and services: production, assembly, logistics, sales, marketing, digital and construction.

3.3.4. POLICY TO PREVENT CORRUPTION

Wishing to act in all circumstances in accordance with the ethical principles it has set itself and to comply with the laws and regulations in force in all the countries where it operates, the L'Oréal Group applies a zero tolerance policy in terms of corruption.

A long-standing commitment at the highest level of the Company

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 the Sapin 2 law in France.

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.

3

The involvement of everyone in preventing corruption

The Executive Committee	Regularly reviews the corruption prevention policy presented to the Board of Directors.
The Director of Risk Management and Compliance	Reporting to the Chief Executive Officer, he is responsible for preparing and monitoring the corruption prevention programme. He leads corruption risk mapping.
The Country Managers	They are responsible for the proper deployment of the corruption prevention programme and for compliance with the corruption prevention policy.
Employees	They 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.

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 corruption prevention policy that is available on its website, 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 corruption prevention:

- **Specific corruption prevention Guide:** rolled out throughout the Group as a whole since 2013 and rounded out in 2018, 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) restates the following principles:
  - the zero-tolerance policy on corruption,
  - the prohibition of facilitation payments,
  - the prohibition of 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 Group-wide basis to specify the rules in this regard; it is now integrated into the specific corruption prevention guide;
- *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.

Anti-corruption measures implemented within the Group

Group-level risk assessment	The risk of corruption is included in the Group-level risk assessment. The corruption specific risk mapping established at Group level and in each country was updated in 2018. The Group currently has 105 corruption risk maps produced in 67 countries. A tool enables Country Managers to assess and analyse possible local ethical risks (including corruption) and to take the necessary prevention measures.
Specific Human Resources procedures	An ethical competency "Delivers both sustainable and short-term results with integrity" is included in the annual appraisal system for all employees.
L'Oréal's "Speak Up" policy	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. The whistle-blowing line was opened to stakeholders in 2018.
Training	An e-learning module for the prevention of corruption, available in 18 languages, has been rolled out in all countries; it had been taken by 71% of relevant employees as of 31 December 2018.
Internal Control within the scope of the control procedures for operational activities	The Group's Internal Control system provides for control procedures for operational activities and in particular with regard to separation of tasks. The implementation of the corruption prevention programme is part of the internal control self-assessment process rolled out in operational entities. L'Oréal's Internal Audit teams are particularly vigilant in this respect. Corruption risks are systematically reviewed during audit engagements, through individual interviews and specific checks. These interviews 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.
Due diligence prior to proposed acquisitions	Responses to the "ethics questionnaire" submitted to target companies are intended notably to identify whether corruption risk prevention has been taken into account by companies.
Third-party diligence	The third-party management process (customers/suppliers) includes taking the risks of corruption into account. For intermediaries with public authorities, a specific guide has been made available to employees.

A commitment shared with the Group's 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.

A recognised approach

L'Oréal has been recognised for the ninth time as one of the World's Most Ethical Companies by the Ethisphere Institute.

3.4. SHARING BEAUTY WITH ALL: 2018 RESULTS

INNOVATING SUSTAINABLY

2020 TARGETS	2018 RESULTS	2017 RESULTS
100% of L'Oréal products will have an improved environmental or social profile. Every time the Group creates or renovates a product, it will improve the product's environmental or social profile with regard to at least one of these four criteria:	**79%** of new or renovated products have an improved environmental or social profile.	76%
• the new formula uses renewable raw materials that are sustainably sourced or derived from green chemistry;	**43%** of new or renovated products have an improved environmental profile due to a new formula incorporating renewable raw materials that are sustainably sourced or respect the principles of green chemistry.	
• the new formula reduces the product's environmental footprint, particularly with regard to water use;	**48%** of new or renovated products have an improved environmental profile due to a new formula with a lower environmental footprint.	
• The new packaging has an improved environmental profile;	**58%** of new or renovated products have an improved environmental profile due to packaging with a lower environmental footprint.	
• the new product has a positive social impact.	**31%** of new or renovated products have an improved social profile as they notably incorporate raw materials from *Solidarity Sourcing* programmes.	

PRODUCING SUSTAINABLY

2020 TARGETS	2018 RESULTS	2017 RESULTS
L'Oréal will have reduced the CO_2 emissions generated by its plants and distribution centres by 60% in absolute terms, compared to 2005.	**- 77%** reduction in CO_2 emissions from plants and distribution centres in absolute value since 2005.	- 73%
L'Oréal will have reduced its water consumption by 60% per finished product, compared to 2005.	**- 48%** reduction in water consumption at plants and distribution centres since 2005 (in litres/finished product).	- 48%
L'Oréal will have reduced its waste generation by 60% per finished product, compared to 2005.	**- 37%** reduction in waste generated from plants and distribution centres since 2005 (in grams per finished product).	- 37%
L'Oréal will send zero industrial waste to landfill.	The objective of sending "zero" waste to landfill (excluding regulatory obligations) has been achieved for all plants and distribution centres.	0,1%
L'Oréal will have reduced the CO_2 emissions linked to the transport of its product by 20% (in grams of CO_2 per sales unit per km), compared to 2011.	**- 8%** reduction in CO_2 emissions linked to the transport of product (in grams of CO_2 per sales unit per km) since 2011 with 413,568 tonnes ☑ of CO_2 emitted in 2018, which represents 0.0256 g CO_2 per sales unit per km.	- 18%

LIVING SUSTAINABLY

2020 TARGETS	2018 RESULTS	2017 RESULTS
L'Oréal will evaluate the environmental and social profile of all its products using an assessment tool. All brands will make this information publically available to allow consumers to make sustainable choices.	**100%** of new or renovated products in 2018 were assessed using the product assessment tool. 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.	100%
All brands will assess their environmental and social impact and make commitments to improve it.	**88%** of brands have assessed their environmental and social impact.	91%
Every brand will report on its sustainability progress and raise consumers awareness of its commitments.	**57%** of brands conducted a consumer awareness initiative.	46%
Consumers will be able to influence L'Oréal's sustainability efforts through a consumer advisory committee.	In 2018, pursuing the work of the Advisory Committee established in 2016, L'Oréal continued its policy of actively listening to consumers on sustainable development issues through a number of studies conducted with consumer panels in the United States, China and Europe with a view to understanding their expectations and fine-tuning its policies.	

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

DEVELOPING SUSTAINABLY...

2020 TARGETS		2018 RESULTS	2017 RESULTS
... with communities			
By 2020, L'Oréal will enable more than 100,000 people from underprivileged communities to gain access to employment through the following programmes:	**63,584**	people from underprivileged communities gained access to employement.	53,505
• *Solidarity Sourcing* ;	**56,842**	people gained access to work through the *Solidarity Sourcing* programme.	48,692
• vocational training in the beauty sector;	**5,565**	people in difficult social or economic situations participated in free vocational training in the beauty sector through the *Beauty for a Better Life* programme, supported by the L'Oréal Foundation.	3,771
• employment of disabled people.	**1,177**	people with disabilities worked for L'Oréal.	1,042
... with suppliers			
All strategic suppliers[1] will be evaluated and selected based on social and environmental performance.	**83%**	of the Group's strategic suppliers have been evaluated and selected on the basis of their environmental and social performance. They represent more than 73% of total direct purchases (raw materials, packing items and subcontracting) Furthermore, in 2018, 1,369 social audits were carried out, making a total of over 10,800 since 2006.	82%
All strategic suppliers[1] will have completed a self-assessment of their sustainability policy with the Group's support.	**93%**	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 2018, had been assessed on their social, environmental and ethical policies, as well as the application of such policies at their own suppliers, by Ecovadis.	87%
All suppliers will have access to L'Oréal training tools to improve their sustainability policies.		Our dedicated online training platform was launched at the end of October 2016. It will firstly be made available to strategic suppliers, before being gradually implemented more broadly.	
20% of strategic suppliers[1] will be associated with our Solidarity Sourcing programme.	**13%**	of strategic suppliers are involved in the *Solidarity Sourcing* programme.	9%
... with employees			
Employees will benefit from health cover that reflects best practices in their country of residence.	**96%**	of the Group's permanent employees benefit from health cover that reflects best practice in their country of residence.	96%
Employees will benefit from financial protection in the event of a life-changing accident.	**93%**	of the Group's permanent employees have access to financial protection in the event of a life-changing accident (including death or permanent disability).	92%
Every L'Oréal employees will be able to attend at least one training session per year, wherever they are in the world.	**88%**	of the Group's employees benefitted from at least one training session in 2018.	78%

(1) *Strategic supplier = supplier whose added value is significant for the Group by contributing to the L'Oréal sustainable strategy by its weight, its innovations, its strategic alignment and its geographical deployment.*

3.5. METHODOLOGICAL NOTES

3.5.1. SOCIAL DATA

3.5.1.1. Scope of consolidation

The workforce indicated and its breakdowns correspond to the total workforce [1].

The employees of the French companies Retail Excellence 4, Atelier Cologne and Saint Gervais Mont Blanc, representing a total of 522 employees, are included in the total workforce. The various breakdowns of these numbers are calculated in proportion to the breakdown of the French workforce.

They are included in the indicators concerning collective agreements, health coverage and financial protection in the event of unexpected life events.

These employees are excluded from all other data.

3.5.1.2. 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.

3.5.1.3. 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;
- 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. They 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 the communication, monitoring and control process.

3.5.2. HEALTH AND SAFETY DATA

3.5.2.1. Scope of consolidation

The safety indicators relate to all sites: plants, distribution centres, administrative sites, research centres and stores, as well as sales forces.

Safety reporting covers 99% 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 integrate the environmental and safety reporting systems. In accordance with this rule, data from the Logocos NaturKosmetik site in Germany, which recently joined the Group, are not integrated into the 2018 EHS reporting.

3.5.2.2. 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.

3.5.2.3. 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) Subsidiaries in Venezuela were deconsolidated on 31 December 2015. Certain recent acquisitions/subsidiaries (Luxembourg, Côte d'Ivoire, Bangladesh, Modiface, Stylenanda, Logocos Naturkosmetik, Société des Thermes de La Roche-Posay), whose information systems have not yet been integrated into the Group's system, are excluded from reporting. They represent 1.21% of the Group's employees. The goal is to include them in the 2019 reporting.

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. 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.

3.5.3. ENVIRONMENTAL DATA

3.5.3.1. Scope of consolidation

The environmental indicators cover all sites: plants, distribution centres, administrative sites and research centres.

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 integrate the environmental reporting systems:

In accordance with this rule, data for the Logocos NaturKosmetik plant in Germany, recently attached to the Group, are not included in the EHS 2018 reporting.

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 of the Group's impacts, environmental reporting was extended to the Group's administrative sites and research centres in 2016. In 2018, 88 administrative sites and research centres, representing over 80% of the workforce of the Group's administrative sites and research centres, participated in the reporting. As they share their premises with other companies, a number of sites could not obtain certain information: 98% of these sites provided information relating to energy consumption and CO_2 emissions, 100% of them reported their water consumption and 90% of the sites reported their quantity of waste.

3.5.3.2. 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_2 emissions are now calculated in accordance with the concepts defined by the GHG protocol, and monitored according to the Market-based CO_2 indicator.

With the desire for comparability, the data on CO_2 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 emission factors [1], available in 2006, corresponding to IEA factors for 2003 and EPA [2] (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 2018 emissions).

Remarks concerning the level of uncertainty depending on the scope in question:

Scopes 1 and 2: The level of uncertainty at the Group level is approximately 1% for plants and distribution centres, and 5% for administrative sites and research centres.

Scope 3: The highest level of uncertainty in a greenhouse gas assessment concerns the Scope 3 estimate in view of the number and nature of the data necessary for its calculation (emission factors for the energy used to heat the water necessary for the usage phase of our rinse-off products all over the world, the quantity of water necessary for rinsing off, CO_2 emissions of our raw materials and packaging suppliers, distances travelled for transportation, etc.).

Because measurement of the global CO_2 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 estimated to be between 20 and 30%. This suggests that, 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.

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.).

(1) Emissions & Generation Resource Integrated Database.
(2) Environmental Protection Agency.

In order to improve the system of waste performance monitoring and exhaustively record the waste generated by the use of reusable packaging, a system of recording reusable packaging at source was put in place in 2014. L'Oréal thus records the weight of its reusable 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 reusable 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 reusable packaging in rotation.

3.5.3.3. Data

The collection of data for the defined scope uses the following method: environmental data are collected using the dedicated intranet-based site reporting system, available in all countries where L'Oréal has a 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 and modified taking into account their recommendations and monitoring objectives for subsequent years: updating the indicators to be monitored, improving their definition and the communication, monitoring and control process.

3.5.4. HUMAN RIGHTS DATA

3.5.4.1. 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.

3.5.4.2. Indicators

The indicators chosen are those within the scope of the applicable regulations, with in particular the aim of data comparability.

3.5.4.3. Data

The following methods are used to collect data for the defined scope:

- the data relating to Ethics and Human Rights for L'Oréal subsidiaries is collected by the Ethics Department using the Annual Ethics Reporting platform.

The scope is aligned with individual company data unless otherwise indicated for each indicator in the report:

- Human Rights data for the employees of the Group's suppliers are consolidated by the Purchasing Department and collected during social audits by an independent and accredited third party that carries out the audits and shares the data collected as well as the audit reports;
- the other data are collected from the corporate departments concerned (Corporate Social Responsibility Department, Worldwide Safety Evaluation, Risk Management and Compliance Department and the L'Oréal Foundation).

3.5.5. INNOVATING SUSTAINABLY DATA

3.5.5.1. 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 products of brands for which the quantity of data available is sufficient, *i.e.* those that were acquired/created before 2013, are taken into account.

The calculation of the indicators is based on all new or updated products (sales models only), *i.e.* products manufactured in 2018 which did not exist in 2017.

The products considered in 2018 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, in terms of formula or packaging or with a social benefit.

New or updated products do not include extensions to the range of colours, changes in appearance that do not affect the environmental and social profile or changes to ensure compliance with regulations or due to the unavailability of a raw material.

3.5.5.2. 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. The indicator includes products for which only the formula is deteriorated but recognised as natural.

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 compared to the average rating of the product family concerned or to the previous formula in the case of an updated formula, 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 on the "Percentage of new or updated products with an improved environmental profile thanks to new packaging with a reduced environmental footprint": the improvement is assessed on the basis of the criteria of the type and quantity of resources used, quality/sustainability of the resources used (recycled) and management of the end of life of the new packaging compared to the average rating of the product family concerned or to the previous packaging in the case of updated packaging, for an equivalent use. It only concerns products for which the packaging is new or updated.

Concerning the indicator on the "Percentage of new or updated products with an improved social profile thanks to a positive social impact": the indicator corresponds to the percentage of new or updated products including in particular raw materials and packaging items obtained under the Solidarity Sourcing programme. It also includes products providing information to consumers about product performance, best practice in terms of Sustainable Development or those whose accessibility and use by older people or people with disabilities is favoured.

3.6. CROSS-REFERENCE TABLES

3.6.1. TABLE OF CONCORDANCE IN RESPECT OF SOCIAL, ENVIRONMENTAL AND SOCIETAL MATTERS

Section or page	Non-financial information statement – Articles L. 225-102-1 and R. 225-105 of the French Commercial Code	Global Compact
	PRINCIPLES	
3.5.	Methodological notes	
3.7.1.	Opinion on the compliance of the information	
3.7.1.	Opinion with regard to the true and fair view given by the information	
Chapter 1.2	Business model	
	MAIN RISKS:	
3.2.2.	Environment	
3.2.2.	Human resources	
3.2.2	Human Rights	
139	The fight against corruption	
2.8.5.3.7 "Risk relating to tax regulations"	The fight against tax evasion	
	POLICIES, INDICATORS, RESULTS:	
3.3.1	Environment	
3.3.2	Human resources	
3.3.3	Human Rights	
3.3.4	The fight against corruption	
See "Risk relating to tax regulations", 5.5.3.7	The fight against tax evasion	
	INFORMATION AND COMMITMENTS	
187-188	Consequences on climate change	
201	Collective agreements concluded within the company	
190-192, 197-204	Working conditions of employees	
204-208	Measures to combat discrimination and promote diversity	
204-207, 213	Measures in favour of disabled people	
	Societal commitments in favour of:	
3.3.1	◆ Sustainable Development	
169-172, 178-179	◆ the circular economy	
169	◆ the fight against food waste	
169	◆ the fight against food insecurity	
211	◆ respect for animal welfare	
169	◆ responsible, fair and sustainable food	
	SOCIAL, ENVIRONMENTAL, AND SOCIETAL INFORMATION	
	SOCIAL INFORMATION	
	Employment	#3 à 8 et #A, #D
189	◆ Total workforce	°
189-190	◆ Distribution of employees by gender, by age and by geographic zone	°
190, 193	◆ Recruitments	°
190	◆ Dismissals	°
201-204	◆ Remuneration and trends	°
	Work organisation	#3 à 8
200	◆ Organisation of working time	°
190	◆ Absenteeism	°
	Social relation	#3 à 8
200-201	◆ Organisation of the social dialogue	°
201	◆ Situation with regard to collective agreements	°
	Health & Safety	#3 à 8
190-192	◆ Health and safety conditions at work	°
201	◆ Status report on agreements signed with trade union organisations with regard to health and safety at work	°
191	◆ Frequency and severity of accidents at work	°
190	◆ Occupational diseases	°
	Training	#3 à 8
193-196	◆ Training policy implemented	°

Section or page	Non-financial information statement – Articles L. 225-102-1 and R. 225-105 of the French Commercial Code	Global Compact
194	◆ Total number of training hours	°
	Equality of treatment	#3 à 8 et #A, #D
204-206	◆ Measures taken to promote gender equality	°
204-204, 213	◆ Measures taken in favour of employment and professional insertion of the disabled	°
204-208	◆ Policy to combat discrimination	°
	Promotion & compliance with the ILO conventions	#3 à 8 et #A, #D
3.3.3.3., 172-173	◆ Compliance with freedom of association and the right to collective bargaining	°
204-208	◆ Elimination of employment and professional discrimination	°
3.3.3.3., 172-173	◆ Elimination of forced or compulsory labour	°
3.3.3.3., 172-173	◆ Effective abolition of child labour	°
	ENVIRONMENTAL INFORMATION	
	General environmental policy	#9 à 11
3.3.1.	◆ Company structure to take into account environmental issues and, where applicable, environmental evaluation or certification measures	°
155-156	◆ Training actions and provision of information to employees with regard to environmental protection	°
3.3.1.	◆ Measures to prevent environmental risks and pollution	°
160	◆ 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	°
	Pollution	#9 à 11
159-187	◆ Means devoted to prevention of environmental risks and pollution	°
159-160	◆ Noise disturbances and any other pollution related to an activity	°
	Circular economy	#9 à 11
	(1) Prevention and management of waste	
169-172, 177-179	◆ Measures to prevent, recycle, reuse, other forms of recovery and waste elimination	°
169	◆ Fight against food waste	°
	(1) Sustainable use of resources	
166-169, 182-183	◆ Water consumption and water supply depending on local constraints	°
160-183	◆ Raw material consumption and measures taken to improve efficiency in their use	°
160-166	◆ Energy consumption, measures taken to improve energy efficiency and use of renewable energies	°
159	◆ Soil use	°
	Climate change	#9 à 11
185-187	◆ Significant sources of greenhouse gas emissions generated by the activity, in particular by the use of goods and services produced by the Company	°
160-163, 187	◆ Ambitious voluntary medium- and long-term greenhouse gas emission reduction targets and the means implemented to achieve them	°
3.3.1.4	◆ Adaptation to the consequences of climate change	°
	Protection of biodiversity	#9 à 11
177-180	◆ Measures taken to preserve or develop biodiversity	°
	SOCIETAL INFORMATION	
	Societal commitments for Sustainable Development	#16 à 18 et 21 et #C
177-184	◆ Impact of the Company's activity on employment and local development	°
212-217	◆ Impact of the Company's activity on neighbouring or local populations	°
147-149	◆ Relationships with the Company's stakeholders and means of dialogue with them	#2 et 16 à 21 et #C
147-149, 183, 214-216	◆ Partnership or philanthropy actions	°
	Subcontractors and suppliers	#2 à 11 et #B
172-176, 212-214	◆ Taking into account social and environmental issues in purchasing policy	°
172-176, 212-214	◆ Consideration of their social and environmental responsibility in relations with suppliers and subcontractors	°
	Fair practices	
217-218	◆ The actions taken to prevent corruption	#12 à 14
210-212	◆ The measures taken in favour of consumer health and safety	#6 à 8
208-216	**Other actions taken in favour of Human Rights**	#3 à 5 et #A à D

3.6.2. 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
GENERAL DISCLOSURES					
General Disclosures	102-1	Name of the organization		Fully compliant	1.1
	102-2	Activities, brands, products, and services		Fully compliant	1.2
	102-3	Location of headquarters		Fully compliant	1.1
	102-4	Location of operations		Fully compliant	1.2
	102-5	Ownership and legal form		Fully compliant	1.1
	102-6	Markets served		Fully compliant	1.2
	102-7	Scale of the organization		Fully compliant	1.2
	102-8	Information on employees and other workers		Fully compliant	3.1.2
	102-9	Supply chain		Fully compliant	1.2.8
	102-10	Significant changes to the organization and its supply chain		Fully compliant	1.2.8
	102-11	Precautionary Principle or approach		Fully compliant	1.2.7 2.8.2
	102-12	External initiatives		Fully compliant	3.1.2
	102-13	Membership of associations		Fully compliant	3.1.2
	102-14	Statement from senior decision-maker		Fully compliant	Introduction
	102-15	Key impacts, risks, and opportunities		Fully compliant	1.2.3 2.8.5 3.2
	102-16	Values, principles, standards, and norms of behaviour		Fully compliant	3.3
	102-17	Mechanisms for advice and concerns about ethics		Fully compliant	2.8.4.4 3.3.3 3.3.4
General Disclosures	102-18	Governance structure		Fully compliant	2.2 2.3
	102-19	Delegating authority		Fully compliant	2.2 2.3
	102-20	Executive-level responsibility for economic, environmental, and social topics		Fully compliant	2.2 2.3
	102-21	Stakeholder consultation on economic, environmental and social concerns		Fully compliant	3.1.2
	102-22	Composition of the highest governance body and its committees		Fully compliant	2.2
	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
	102-24	Nominating and selecting the members of the highest governance body		Fully compliant	2.3.5
	102-25	Conflicts of interest		Fully compliant	2.2.1.5
	102-26	Role of highest governance body in setting objectives, values, and strategy		Fully compliant	2.3.3
	102-27	Collective knowledge of highest governance body		Fully compliant	1.2.5
	102-28	Evaluating the highest governance body's performance		Fully compliant	2.5.1.1 2.5.1.2
	102-29	Identifying and managing economic, environmental, and social impacts		Fully compliant	2.5.1.1 3.1.2
	102-30	Effectiveness of risk management processes		Fully compliant	2.3.3
	102-31	Review of economic, environmental, and social topics		Fully compliant	2.3.3
	102-32	Highest governance body's role in sustainability reporting		Fully compliant	2.3.3
	102-33	Communicating critical concerns		Fully compliant	2.3.3
	102-40	List of stakeholder groups		Fully compliant	3.1.2
	102-41	Collective bargaining agreements		Fully compliant	3.3.2.4
	102-42	Identifying and selecting stakeholders		Fully compliant	3.1.2
	102-43	Approach to stakeholder engagement		Fully compliant	3.1.2
	102-44	Key topics and concerns raised		Fully compliant	3.1.2
	102-45	Entities included in the consolidated financial statements		Fully compliant	1.4.1 1.4.2
	102-46	Defining report content and topic Boundaries		Fully compliant	3.1.2 3.5
	102-47	List of material topics	www.loreal.fr/sharing-beauty-with-all	Fully compliant	*Website www.loreal.fr*
	102-48	Restatements of information		Fully compliant	3.5
	102-49	Changes in reporting		Fully compliant	3.5
	102-50	Reporting period		Fully compliant	1
	102-51	Date of most recent report		Fully compliant	1
	102-52	Reporting cycle		Fully compliant	3.5
	102-53	Contact point for questions regarding the report		Fully compliant	En fin de Rapport
	102-54	Claims of reporting in accordance with the GRI Standards		Fully compliant	3.5
	102-55	GRI content index		Fully compliant	3.6
	102-56	External assurance		Fully compliant	3.7

Theme	Standard number	Disclosure title	Additional information	Level of compliance	Location of information
Management Approach	103-1	Explanation of the material topic and its Boundaries		Fully compliant	3.1 - 3.3
	103-2	The management approach and its components		Fully compliant	3.1 - 3.3
	103-3	Evaluation of the management approach		Fully compliant	3.1 - 3.3
ECONOMIC					
Market presence	202-2	Key posts and local managers	Strategic positions outside France occupied by local managers: 36%	Fully compliant	
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	2.8.5 3.3.4
	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	3.3.3.1.3.2 3.3.4
ENVIRONMENTAL					
Energy	302-1	Energy consumption within the organisation	Fuel consumption from non-renewable sources: 206,247,005 kWh Fuel consumption from renewable sources: 84,111,656 kWh Total consumption of non-renewable electricity: 20,739,639 kWh Total consumption of renewable electricity: 380,491,194 kWh Total consumption of non-renewable heating: 13,348,947 kWh Total consumption of renewable heating 30,185,422 kWh Total quantity of energy produced on sites: 37,387,054 kWh 66% of renewable energy in total energy consumption	Fully compliant	3.3.1.3.1
	302-3	Energy intensity	Energy intensity: 123 kWh/1,000 FP	Fully compliant	3.3.1.3.1
	302-4	Reduction of energy consumption		Fully compliant	3.3.1.3.1
Water	303-1	Water withdrawal by source	Volume of water withdrawn – Surface water, including water from wetlands, rivers, lakes and oceans, and ground water: 237,653 m^3 Volume of water withdrawn – Rainwater collected directly and stored: 5,840 m3 Volume of water withdrawn – Wastewater from another organisation: 0 m^3 Water from municipal water supplies or water from other water utilities: 2,058,664 m^3 Total volume of water consumed by plants and distribution centres: 2,302,156 m^3 35% of water consumption intended for cleaning (plants and distribution centres)	Fully compliant	3.3.1.3.1
Biodiversity	304-2	Significant impacts of activities, products, and services on biodiversity		Fully compliant	3.3.1.3.3
Emissions	305-1	Direct (Scope 1) GHG emissions		Fully compliant	3.3.1.3.1. 3.3.1.3.4
	305-2	Energy indirect (Scope 2) GHG emissions		Fully compliant	3.3.1.3.1 3.3.1.3.4
	305-3	Other indirect (Scope 3) GHG emissions		Fully compliant	3.3.1.3.1 3.3.1.3.4
	305-4	GHG emissions intensity	Intensity of direct CO_2 emissions at 31/12/2017: 7.6 g eq. CO_2/FP (scope 1) Change in the intensity of direct CO_2 emissions compared with 2005: -65% Intensity of indirect CO_2 emissions at 31/12/2018: 1.5 g eq. CO_2/FP (scope 2, Market-based) Change in the intensity of indirect CO_2 emissions compared with 2005: -96% Intensity of CO_2 emissions at 31/12/2018: 9.0 g eq. CO_2/FP (Scope 1, Scope 2, Market-based) Change in the intensity of CO_2 emissions compared with 2005 (direct + indirect): -83%	Fully compliant	3.3.1.3.1 3.3.1.3.4
	305-5	Reduction of GHG emissions	Change in direct CO_2 emissions compared with 2005 (Scope 1): -51% Change in indirect CO_2 emissions compared with 2005 (scope 2, Market-based): -94%)	Fully compliant	3.3.1.3.1 3.3.1.3.4
Effluents and Waste	306-2	Waste by type and disposal method	Waste recovered for use as a source of energy: 41,049 tonnes Waste recovered through reuse and recycling: 84,869 tonnes Waste incinerated without recovery for use as a source of energy: 2,983 tonnes	Fully compliant	3.3.1.3.1
Effluents and Waste	306-3	Significant spills		Fully compliant	3.3.1.2

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 58% have reported target actions.	Fully compliant	3.3.1.3.2
SOCIAL					
Employment	401-1	New employee hires and employee turnover	Employee turnover: 13.9%	Fully compliant	3.3.2
Occupational Health and Safety	403-1	Workers representation in formal joint management–worker health and safety committees		Fully compliant	3.3.2.1 3.3.2.4
Training and education	404-1	Average hours of training per year per employee		Fully compliant	3.3.2.3
	404-3	Percentage of employees receiving regular performance and career development reviews	All employees receive an annual performance and career development review.	Fully compliant	3.3.2.5
Child labour	408-1	Operations and suppliers at significant risk for incidents of child labour	93% 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 2018, 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 noted during the social audits, 2.0% 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	2.8.4 3.3.1.3.2
Forced labour	409-1	Operations and suppliers at significant risk for incidents of forced or compulsory labour		Fully compliant	2.8.4 3.3.1.3.2 3.3.3
Human Rights Assessment	412-1	Operations that have been subject to Human Rights reviews or impact assessments		Fully compliant	3.3.3
	412-2	Employee training on Human Rights policies or procedures		Fully compliant	3.3.3
Supplier social assessment	414-2	Negative social impacts in the supply chain and actions taken	% of the portfolio of suppliers audited (amongst those to be audited) 85% Audits – Europe: 197 audits – Asia-Pacific: 650 audits – Americas: 422 audits – Africa, Middle East: 100. audits Of all cases of non-compliance: 37.0% were related to working conditions, health or safety, 22.4% were related to working hours, 18.5% were related to wages, 22.1% were classified as "Other". In the event of major non-compliance, corrective action plans are put in place and 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	3.3.1.3.2
Customer Health and Safety	416-1	Assessment of the health and safety impacts of product and service categories		Fully compliant	3.3.3.2
Marketing and labelling	417-1	Requirements for product and service information and labelling	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 which it operates. Policies and initiatives going beyond legal requirements are listed in the report.	Fully compliant	3.3.1.3.3 3.3.3.2

3.7. STATUTORY AUDITORS' REPORTS

3.7.1 REPORT BY ONE OF THE STATUTORY AUDITORS, APPOINTED AS AN INDEPENDENT THIRD PARTY, ON THE CONSOLIDATED NON-FINANCIAL INFORMATION STATEMENT INCLUDED IN THE GROUP MANAGEMENT REPORT

For the year ended December 31, 2018

This is a free translation into English of the Statutory Auditor's 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.

L'Oréal S.A.
14, rue Royale
75008 Paris, France

To the Shareholders,

In our capacity as Statutory Auditor of L'Oréal (hereinafter the "entity"), appointed as an independent third party and certified by COFRAC under number 3-1060 rév.2 (whose scope is available at www.cofrac.fr), we hereby report to you on the consolidated non-financial information statement for the year ended December 31, 2018 (hereinafter the "Statement"), included in the Group management report pursuant to the legal and regulatory provisions of articles L.225-102-1, R.225-105 and R.225-105-1 of the French Commercial Code (*Code de commerce*).

The entity's responsibility

Pursuant to legal and regulatory requirements, the Board of Directors is responsible for preparing the Statement, which must include a presentation of the business model, a description of the principal nonfinancial risks, a presentation of the policies implemented in light of those risks and the outcome of said policies, including key performance indicators.

The Statement has been prepared in accordance with the entity's procedures (hereinafter the "Guidelines"), the main elements of which are presented in the Statement and available on request from the departments that are responsible for those elements.

Independence and quality control

Our independence is defined by the provisions of article L.822-11-3 of the French Commercial Code and the French Code of Ethics (*Code de déontologie*) of our profession. In addition, we have implemented a system of quality control including documented policies and procedures regarding compliance with the ethical requirements, French professional standards and applicable legal and regulatory requirements.

Responsibility of the Statutory Auditor, appointed as an independent third party

On the basis of our work, our responsibility is to provide a reasoned opinion expressing a limited assurance conclusion on:

- the consistency of the Statement with the provisions of article R. 225-105 of the French Commercial Code;
- the fairness of the information provided in accordance with article R.225-105 I, 3 and II of the French Commercial Code, i.e., the outcome of the policies, including key performance indicators, and the measures implemented in light of the principal risks (hereinafter the "Information").

However, it is not our responsibility to comment on:

- the entity's compliance with other applicable legal and regulatory provisions, in particular the French duty of care law and anti-corruption and tax legislation;
- the consistency of products and services with the applicable regulations.

Nature and scope of our work

The work described below was performed in accordance with the provisions of articles A.225-1 *et seq.* of the French Commercial Code determining the conditions in which the independent third party performs its engagement and with the professional standards applicable in France to such engagements, as well as with ISAE 3000 – Assurance engagements other than audits or reviews of historical financial information.

Our procedures allowed us to assess the consistency of the Statement with regulatory provisions and the fairness of the Information:

- we obtained an understanding of all the consolidated entities' activities, the description of the human resources and environmental risks associated with their activities, and the impact of those risks on compliance with human rights and anti-corruption and tax evasion legislation, as well as the resulting policies and their outcomes;

- we assessed the appropriateness of the Guidelines with respect to their relevance, completeness, reliability, objectivity and understandability, with due consideration of industry best practices, where appropriate;
- we verified that the Statement includes each category of human resources and environmental information set out in article L.225-102-1 III, as well as information regarding compliance with human rights and anti-corruption and tax evasion legislation;
- we verified that the Statement presents the business model and the principal risks associated with all the consolidated entities' activities, including where relevant and proportionate, the risks associated with their business relationships and products or services, as well as their policies, measures and the outcomes thereof, including key performance indicators;
- we verified, where relevant with respect to the principal risks or the policies presented, that the Statement provides the information required under article R.225-105 II;
- we assessed the process used to identify and confirm the principal risks;
- we asked what internal control and risk management procedures the entity has put in place;
- we assessed the consistency of the outcomes and the key performance indicators used with respect to the principal risks and the policies presented;
- we verified that the Statement covers the scope of consolidation, i.e., all the companies included in the scope of consolidation in accordance with article L.233-16, within the limitations set out in the Statement;
- we assessed the data collection process implemented by the entity to ensure the completeness and fairness of the Information;
- for the key performance indicators and other quantitative results that we considered to be the most important (see the list provided in the appendix), we implemented:
  - analytical procedures to verify the proper consolidation of the data collected and the consistency of any changes in those data,
  - tests of details, using sampling techniques, in order to verify the proper application of the definitions and procedures and reconcile the data with the supporting documents. This work was carried out on a selection of contributing entities(1) and covers between 18% and 82% of the consolidated data relating to the key performance indicators and outcomes selected for these tests;
- we referred to documentary sources and conducted interviews to corroborate the qualitative information (measures and outcomes) that we considered to be the most important (see the list provided in the appendix);
- we assessed the overall consistency of the Statement based on our knowledge of all the consolidated entities.

We believe that the work carried out, based on our professional judgement, is 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.

Means and resources

Our work was carried out by a team of ten people between September 2018 and January 2019 and took a total of 11 weeks.

We were assisted in our work by our specialists in sustainable development and corporate social responsibility. We conducted some 30 interviews with the people responsible for preparing the Statement, in particular representing the Operations, Risk Management and Compliance, Tax, Human Resources, Ethics, Environmental and Social Responsibility, Research and Innovation and Purchasing Departments.

Conclusion

Based on our work, nothing has come to our attention that causes us to believe that the non-financial information statement is not in accordance with the applicable regulatory provisions and that the Information, taken as a whole, is not presented fairly and in accordance with the Guidelines.

Neuilly-sur-Seine, February 8, 2019

One of the Statutory Auditors

PricewaterhouseCoopers Audit

Anne-Claire Ferrié Partner	Emilie Bobin Sustainable Development Partner

(1) *Selected sample: Verification of human resources and human rights information: three subsidiaries: France, United Kingdom, Vietnam/Verification of environmental and health/safety information: Nova Iguaçu, Sao Paulo, Brazil Sales administrative site, Montréal, Canada administrative site, Hong Kong administrative site, Pudong administrative site, Florence, Franklin, Piscataway, Streetsboro distribution center, USA research and innovation center, Hudson Yards administrative site, Salon Centric Stores administrative site, Saint-Quentin, Vichy LRP, Saint-Ouen research and innovation center, Seine 62 administrative site, Nairobi, Mexico, Mexico distribution center, Trafford distribution center.*

APPENDIX: LIST OF INFORMATION THAT WE CONSIDERED TO BE THE MOST IMPORTANT

Quantitative information (including key performance indicators):

- environment: energy consumption (of which percentage of renewable energy), emissions of CO_2, VOC, SO_2 and ozone depleting substances, water consumption, COD effluents and discharges, waste production (of which rate of waste recovered and rate of waste sent to landfill), any noncompliance notified by an administrative body, strategic suppliers that have conducted a selfassessment of their sustainable development policy, strategic suppliers selected based on their CSR performance, new or updated products with a positive CSR impact, renewable raw materials, certified or recycled packaging materials, brands that have improved their CSR impact, and brands that have carried out an awareness-raising measure;
- human resources: accident frequency and severity rate, headcount and the breakdown thereof, turnover, absenteeism, *Share and Care*, social dialogue, *Worldwide Profit Sharing*, training, and diversity;
- human rights: awareness-raising and training at L'Oréal entities on human rights, child labor, forced labor, ethics indicators, non-compliance issues identified during social audits and the breakdown thereof, and people from underprivileged backgrounds who have had access to work;
- corruption: information about corruption risk mapping and anti-corruption prevention training.

Qualitative information (measures and outcomes):

environment: information about EHS audits, the *Carbon Balanced* program, supplier participation in the CDP, and the "zero deforestation" commitment;

human rights: information about the *Solidarity Sourcing* program, social audits of suppliers and L'Oréal entities, the *Beauty for a Better Life* program, and cosmeto-vigilance.

3.7.2. REASONABLE ASSURANCE REPORT OF THE STATUTORY AUDITORS ON A SELECTION OF CONSOLIDATED NON-FINANCIAL INFORMATION PUBLISHED IN THE GROUP MANAGEMENT REPORT

For the year ended December 31, 2018

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 attention of General Management,

In our capacity as Statutory Auditors of L'Oréal, (the "Company") and at the Company's request, we have carried out verification procedures with the aim of expressing reasonable assurance on a selection of non-financial information for the year ended December 31, 2018 published in the L'Oréal Group management report.

The information selected by L'Oréal is as follows:

- Human resources information:
  - total workforce, breakdown of headcount by geographic zone;
  - number of countries that submitted a disability insertion project in 2018 and number of countries with a diversity coordinator;
  - percentage of brands managed by women, number of entities that have been awarded the European labels "*Gender Equality European & International Standard*" and "*Economic Dividend for Gender Equality*".
- Social information:
  - number of social audits carried out during the year and breakdown of non-compliance by subject audited.
- Environmental, health and safety information:
  - units of finished goods produced;
  - direct and indirect CO_2 emissions using the "market-based" and "location-based" method, 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 water consumption by finished good (excluding recycled and rain water used for gardening);
  - 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 rates, enlarged frequency rates, and severity rates for work accidents.

This information was prepared under the responsibility of L'Oréal's Board of Directors in accordance with the guidelines used by the Company (hereinafter the "Guidelines"), a summary of which appears in the management report and which are available upon request from the Operations, Human Resources and Environmental and Social Responsibility Departments.

Based on our work, it is our responsibility to express a reasonable assurance conclusion on the selected information.

Nature and scope of procedures

- We performed our work as 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 international standard ISAE 3000 (*Asssurance engagements other than audits or reviews of historical financial information*).
- We conducted the following procedures with the aim of expressing reasonable assurance 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 examined, at Group level, the reporting procedures set up by L'Oréal with regard to their relevance, completeness, reliability, neutrality and clarity.
- We verified the process set up to collect, compile and check the selected information with regard to its completeness and consistency. We also reviewed the internal control and risk management procedures used to prepare the selected information.
- We conducted analytical procedures and verified, using sampling techniques, the calculations and consolidation of the data. The work was backed up by interviews with persons from the L'Oréal Environmental and Social Responsibility and Sustainable Development Departments in charge of data collection and consolidation and the proper application of procedures.
- We selected a sample of entities for which:
  - we verified, through interviews with the people in charge of data collection, the correct application of procedures;
  - we conducted tests of details on representative samples, which consisted in verifying the calculations and corroborating these samples with supporting documents.

The following entities were selected:

- for selected human resources information: the activities in France, the United Kingdom and Vietnam, representing 21.7% of the Group's headcount;
- for selected social information: the L'Oréal head office which centralizes all the information;
- for selected environmental, health and safety information: Germany (DC Germany), Belgium (Libramont), Brazil (Nova Iguaçu, Sao Paulo), Canada (DC Canada, Montréal), China (DC China, Yichang), Colombia (Bogota), Denmark (DC Denmark), Egypt (Cairo), the USA (DC Little Rock, DC Streetsboro, Florence, Franklin, Piscataway), France (Caudry, IDC ACD, Saint-Quentin, Vichy LRP), Israel (Migdal), Italy (Settimo), Kenya (Nairobi), Mexico (DC Mexico, Mexico Plant, San Luis Potosi), the United Kingdom (DC Trafford), Russia (Vorsino) and Thailand (DC Thailand), representing 42.4% of Group activity (in units of finished goods reviewed).

We were assisted in our work by our sustainable development experts.

Conclusion

Based on our work, the consolidated non-financial information selected by L'Oréal, presented hereinabove and published in its management report, has been presented, in all material aspects, in accordance withthe Guidelines.

Neuilly-sur-Seine and Paris-La Défense, February 8, 2019

The Statutory Auditors

Deloitte & Associés	PricewaterhouseCoopers Audit
Frédéric Moulin *Partner*	Anne-Claire Ferrié Partner
Julien Rivals *Partner, Sustainable Development*	Emilie Bobin *Partner, Sustainable Development*

4

2018 Consolidated Financial Statements*

* *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.

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, 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 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	2018	2017 [1]	2016 [1]
Net sales	**3.1**	**26,937.4**	**26,023.7**	**24,916.3**
Cost of sales		-7,331.6	-7,359.2	-7,068.6
Gross profit		**19,605.8**	**18,664.5**	**17,847.7**
Research and development		-914.4	-877.1	-841.2
Advertising and promotion		-8,144.7	-7,650.6	-7,264.4
Selling, general and administrative expenses		-5,624.7	-5,460.5	-5,236.0
Operating profit	**3.1**	**4,922.0**	**4,676.3**	**4,506.1**
Other income and expenses	4	-94.7	-276.3	-541.3
Operational profit		**4,827.3**	**4,400.0**	**3,964.8**
Finance costs on gross debt		-34.8	-35.5	-27.4
Finance income on cash and cash equivalents		47.9	38.5	39.0
Finance costs, net		**13.1**	**3.1**	**11.6**
Other financial income (expenses)	9.4	-15.0	-26.0	-25.8
Sanofi dividends		358.3	350.0	346.5
Profit before tax and associates		**5,183.7**	**4,727.0**	**4,297.1**
Income tax	6	-1,284.3	-901.3	-1,213.7
Share of profit in associates		0.1	-0.1	-0.1
Net profit from continuing operations		**3,899.5**	**3,825.6**	**3,083.4**
Net profit from discontinued operations	**2.3**	**-**	**-240.1**	**25.3**
Net profit		**3,899.5**	**3,585.5**	**3,108.7**
Attributable to:				
◆ owners of the company		3,895.4	3,581.4	3,105.8
◆ non-controlling interests		4.1	4.1	2.9
Earnings per share attributable to owners of the company *(euros)*		6.96	6.40	5.55
Diluted earnings per share attributable to owners of the company *(euros)*		6.92	6.36	5.50
Earnings per share of continuing operations attributable to owners of the company *(euros)*	11.4	6.96	6.83	5.51
Diluted earnings per share of continuing operations attributable to owners of the company *(euros)*	11.4	6.92	6.78	5.46
Earnings per share of continuing operations attributable to owners of the company, excluding non-recurring items *(euros)*	11.4	7.13	6.70	6.47
Diluted earnings per share of continuing operations attributable to owners of the company, excluding non-recurring items *(euros)*	11.4	7.08	6.65	6.41

(1) The 2017 and 2016 consolidated income statements are presented to reflect the impacts of the application of IFRS 5 relative to discontinued operations, by restating The Body Shop activity on a single line "Net profit from discontinued operations" (see note 2.3.).

4

4.2. CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

€ millions	Notes	2018	2017**	2016*
Consolidated net profit for the period		**3,899.5**	**3,585.5**	**3,108.7**
Financial assets available-for-sale		-	*-597.1*	*-201.0*
Cash flow hedges		*-60.3*	*88.9*	*-124.0*
Cumulative translation adjustments		*126.4*	*-824.8*	*19.6*
Income tax on items that may be reclassified to profit or loss (1)(2)		*14.8*	*4.5*	*86.3*
Items that may be reclassified to profit or loss		**80.9**	**-1,328.5**	**-219.1**
Financial assets at fair value through profit or loss	*9.3*	*450.5*	-	-
Actuarial gains and losses	*11.3*	*-58.5*	*280.0*	*-1.3*
Income tax on items that may not be reclassified to profit or loss (1)(2)		*0.5*	*-107.9*	*-39.3*
Items that may not be reclassified to profit or loss		**392.5**	**172.1**	**-40.6**
Other comprehensive income		**473.4**	**-1,156.5**	**-259.7**
Consolidated comprehensive income		**4,372.9**	**2,428.9**	**2,849.0**
Attributable to:				
◆ **owners of the company**		**4,368.7**	**2,424.8**	**2,845.6**
◆ non-controlling interests		4.2	4.1	3.4

* 2016 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	2018	2017	2016
Financial assets available-for-sale	-	*37.3*	*41.7*
Cash flow hedges	*14.8*	*-32.8*	*44.6*
Items that may be reclassified to profit or loss	**14.8**	**4.5**	**86.3**
Financial assets at fair value through profit or loss	*-14.0*	-	-
Actuarial gains and losses	*14.5*	*-107.9*	*-39.3*
Items that may not be reclassified to profit or loss	**0.5**	**-107.9**	**-39.3**
TOTAL	**15.4**	**-103.4**	**47.0**

4.3. COMPARED CONSOLIDATED BALANCE SHEETS

ASSETS

€ millions	Notes	**31.12.2018**	31.12.2017 (1)	31.12.2016 (1)(2)
Non-current assets		**25,991.2**	**24,320.1**	**25,584.6**
Goodwill	7.1	9,597.1	8,872.3	8,792.5
Other intangible assets	7.2	3,087.3	2,579.1	3,179.4
Property, plant and equipment	3.2	3,624.6	3,571.1	3,756.9
Non-current financial assets	9.3	9,100.5	8,766.2	9,306.5
Investments in associates	8	9.0	1.1	1.0
Deferred tax assets	6.3	572.7	530.3	548.3
Current assets		**12,466.3**	**11,019.0**	**10,045.6**
Inventories	3.3	2,821.9	2,494.6	2,698.6
Trade accounts receivable	3.3	3,983.2	3,923.4	3,941.8
Other current assets	3.3	1,509.1	1,393.8	1,420.4
Current tax assets		160.1	160.6	238.8
Cash and cash equivalents	9.2	3,992.0	3,046.6	1,746.0
TOTAL		**38,457.5**	**35,339.1**	**35,630.2**

EQUITY & LIABILITIES

€ millions	Notes	**31.12.2018**	31.12.2017 (1)	31.12.2016 (1)(2)
Equity	**11**	**26,933.6**	**24,818.5**	**24,504.0**
Share capital		112.1	112.1	112.4
Additional paid-in capital		3,070.3	2,935.3	2,817.3
Other reserves		15,952.5	14,761.8	13,961.9
Other comprehensive income		4,242.1	3,895.0	4,227.3
Cumulative translation adjustments		-287.4	-413.5	410.9
Treasury stock		-56.5	-56.5	-133.6
Net profit attributable to owners of the company		3,895.4	3,581.4	3,105.8
Equity attributable to owners of the company		**26,928.4**	**24,815.7**	**24,501.9**
Non-controlling interests		5.2	2.8	2.1
Non-current liabilities		**1,412.2**	**1,347.2**	**1,918.9**
Provisions for employee retirement obligations and related benefits	5.4	388.9	301.9	711.8
Provisions for liabilities and charges	12.1	336.1	434.9	333.3
Deferred tax liabilities	6.3	673.7	597.0	842.9
Non-current borrowings and debt	9.1	13.5	13.4	30.9
Current liabilities		**10,111.6**	**9,173.4**	**9,207.3**
Trade accounts payable		4,550.0	4,140.8	4,135.3
Provisions for liabilities and charges	12.1	979.8	889.2	810.7
Other current liabilities	3.4	3,138.9	2,823.9	2,854.4
Income tax		215.1	158.5	173.2
Current borrowings and debt	9.1	1,227.8	1,161.0	1,233.7
TOTAL		**38,457.5**	**35,339.1**	**35,630.2**

(1) The balance sheets at 31 December 2017 and 31 December 2016 have been restated to reflect the change in accounting policy pertaining to IFRS 9 Financial Instruments (see note 1).
(2) 2016 balance sheet 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 compre-hensive income	Treasury shares	Cumulative translation adjustments	Equity attributable to owners of the company	Non-controlling interests	Total equity
At 31.12.2015	**559,988,178**	**112.6**	**2,654.4**	**16,170.8**	**4,517.5**	**-233.3**	**391.9**	**23,613.9**	**3.1**	**23,617.0**
Change in accounting policy at 01.01.2016				10.0	-10.0			-		-
At 01.01.2016 (1)	**559,988,178**	**112.6**	**2,654.4**	**16,180.8**	**4,507.5**	**-233.3**	**391.9**	**23,613.9**	**3.1**	**23,617.0**
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*
Other comprehensive income that may be reclassified to profit and loss					**-238.6**		**19.0**	**-219.6**	**0.5**	**-219.1**
Actuarial gains and losses					*-40.6*			*-40.6*		*-40.6*
Other comprehensive income that may not be reclassified to profit and loss					**-40.6**			**-40.6**	**-**	**-40.6**
Consolidated comprehensive income				**3,105.8**	**-279.2**		**19.0**	**2,845.6**	**3.4**	**2,849.0**
Capital increase	2,074,893	0.4	162.8					163.2		163.2
Cancellation of Treasury shares		-0.6		-498.9		499.5		-		-
Dividends paid (not paid on Treasury shares)				-1,741.9				-1,741.9	-3.4	-1,745.2
Share-based payment				120.4				120.4		120.4
Net changes in Treasury shares	-1,964,675			-99.3		-399.8		-499.1		-499.1
Purchase commitments for non-controlling interests								-	-0.1	-0.1
Change in the scope of consolidation				-0.8				-0.8	-0.9	-1.7
Other movements				1.6	-1.0			0.6	-0.1	0.5
At 31.12.2016 (1)	**560,098,396**	**112.4**	**2,817.3**	**17,067.6**	**4,227.3**	**-133.6**	**410.9**	**24,501.9**	**2.1**	**24,504.0**
Consolidated net profit for the period				3,581.4				3,581.4	4.1	3,585.5
Financial assets available-for-sale					*-559.7*			*-559.7*		*-559.7*
Cash flow hedges					*55.5*			*55.5*	*0.4*	*55.9*
Cumulative translation adjustments							*-824.5*	*-824.5*	*-0.3*	*-824.8*
Other comprehensive income that may be reclassified to profit and loss					**-504.2**		**-824.5**	**-1,328.7**	**0.1**	**-1,328.6**
Actuarial gains and losses					*172.1*			*172.1*		*172.1*
Other comprehensive income that may not be reclassified to profit and loss					**172.1**			**172.1**	**-**	**172.1**
Consolidated comprehensive income				**3,581.4**	**-332.2**		**-824.5**	**2,424.8**	**4.1**	**2,428.9**
Capital increase	1,509,951	0.3	118.0					118.3		118.3
Cancellation of Treasury shares		-0.6		-498.6		499.2		-		-
Dividends paid (not paid on Treasury shares)				-1,857.7				-1,857.7	-3.5	-1,861.2
Share-based payment				128.8				128.8		128.8
Net changes in Treasury shares	-1,860,384			-77.2		-422.0		-499.2		-499.2
Change in the scope of consolidation				-1.3				-1.3		-1.3
Other movements				0.3				0.2		0.2
At 31.12.2017 (1)	**559,747,963**	**112.1**	**2,935.3**	**18,343.3**	**3,895.0**	**-56.5**	**-413.5**	**24,815.7**	**2.8**	**24,818.5**

(1) After taking account of the change in accounting policy pertaining to IFRS 9 Financial Instruments (note 1).

€ millions	Common shares outstanding	Share capital	Additional paid-in capital	Retained earnings and net profit	Other compre-hensive income	Treasury shares	Cumulative translation adjustments	Equity attributable to owners of the company	Non-controlling interests	Total equity
At 31.12.2017 (1)	**559,747,963**	**112.1**	**2,935.3**	**18,343.3**	**3,895.0**	**-56.5**	**-413.5**	**24,815.7**	**2.8**	**24,818.5**
Change in accounting policy at 01.01.2018				-12.0				-12.0	-0.9	-12.9
At 01.01.2018 (2)	**559,747,963**	**112.1**	**2,935.3**	**18,331.3**	**3,895.0**	**-56.5**	**-413.5**	**24,803.7**	**1.9**	**24,805.6**
Consolidated net profit for the period				3,895.4				3,895.4	4.1	3,899.5
Cash flow hedges					*-45.3*			*-45.3*	*-0.2*	*-45.5*
Cumulative translation adjustments							*114.5*	*114.5*	*0.3*	*114.8*
Hyperinflation							*11.6*	*11.6*		*11.6*
Other comprehensive income that may be reclassified to profit and loss					**-45.3**		**126.1**	**80.8**	**0.1**	**80.9**
Financial assets at fair value through profit or loss					*436.5*			*436.5*		*436.5*
Actuarial gains and losses					*-44.0*			*-44.0*		*-44.0*
Other comprehensive income that may not be reclassified to profit and loss					**392.5**			**392.5**	**-**	**392.5**
Consolidated comprehensive income				**3,895.4**	**347.2**		**126.1**	**4,368.7**	**4.2**	**4,372.9**
Capital increase	2,375,378	0.5	135.0	-0.2				135.3		135.3
Cancellation of Treasury shares		-0.5		-498.9		499.4		-		-
Dividends paid (not paid on Treasury shares)				-2,006.6				-2,006.6	-3.8	-2,010.4
Share-based payment				126.4				126.4		126.4
Net changes in Treasury shares	-2,497,814					-499.4		-499.4		-499.4
Change in the scope of consolidation				-2.9				-2.9	2.9	-
Other movements				3.4	-0.1			3.3		3.3
AT 31.12.2018	**559,625,527**	**112.1**	**3,070.3**	**19,847.8**	**4,242.1**	**-56.5**	**-287.4**	**26,928.4**	**5.2**	**26,933.6**

(1) After taking account of the change in accounting policy pertaining to IFRS 9 Financial Instruments (note 1).
(2) After taking account of the change in accounting policy pertaining to IFRS 15 Revenue from Contracts with Customers (note 1).

4.5. COMPARED CONSOLIDATED STATEMENTS OF CASH FLOWS

€ millions	Notes	2018	2017 [1]	2016 [1]
Cash flows from operating activities				
Net profit attributable to owners of the company		3,895.4	3,581.4	3,105.8
Non-controlling interests		4.1	4.1	2.9
Elimination of expenses and income with no impact on cash flows:				
◆ depreciation, amortisation and provisions		1,109.3	1,218.5	1,382.3
◆ changes in deferred taxes	6.1	43.0	-194.8	86.5
◆ share-based payment (including free shares)	5.5	126.4	126.7	120.4
◆ capital gains and losses on disposals of assets		-2.7	-3.9	-16.2
Other non-cash transactions		2.7	-	-
Net profit from discontinued operations		-	240.1	-25.3
Share of profit in associates net of dividends received		-0.1	0.1	0.1
Gross cash flow		**5,178.1**	**4,972.2**	**4,656.4**
Changes in working capital	3.5	113.8	261.1	4.3
Net cash provided by operating activities from discontinued operations		-	-36.7	43.9
Net cash provided by operating activities (A)		**5,291.9**	**5,196.6**	**4,704.7**
Cash flows from investing activities				
Purchases of property, plant and equipment and intangible assets		-1,416.1	-1,263.5	-1,334.9
Disposals of property, plant and equipment and intangible assets		5.6	8.2	34.2
Changes in other financial assets (including investments in non-consolidated companies)		61.0	-70.7	-42.9
Effect of changes in the scope of consolidation	2.2	-666.5	-166.5	-1,209.0
Net cash (used in) from investing activities from discontinued operations		-	-24.4	-51.8
Net cash (used in) from investing activities (B)		**-2,016.0**	**-1,516.9**	**-2,604.5**
Cash flows from financing activities				
Dividends paid		-2,061.4	-1,870.7	-1,832.9
Capital increase of the parent company		135.3	118.3	163.2
Disposal (acquisition) of Treasury shares		-499.4	-499.2	-499.1
Purchase of non-controlling interests		-	-2.0	-
Issuance (repayment) of short-term loans		62.3	-86.6	446.0
Issuance of long-term borrowings		-	-	1.8
Repayment of long-term borrowings		-4.3	-7.0	-16.4
Net cash (used in) from financing activities from discontinued operations		-	71.5	-3.5
Net cash (used in) from financing activities (C)		**-2,367.5**	**-2,275.7**	**-1,740.8**
Net effect of changes in exchange rates and fair value (D)		36.9	-65.3	-13.1
Change in cash and cash equivalents (A+B+C+D)		**945.4**	**1,338.7**	**346.2**
Cash and cash equivalents at beginning of the year (E)		**3,046.6**	**1,746.0**	**1,399.8**
Net effect of changes in cash and cash equivalents of discontinued operations (F)		-	-38.1	-
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (A+B+C+D+E+F)	**9.2**	**3,992.0**	**3,046.6**	**1,746.0**

(1) The statements of cash flows for 2017 and 2016 are presented to reflect the impacts of IFRS 5 regarding discontinued operations (see note 2.3).

Income tax paid amount to €1,098.4 million, €989.2 million excluding The Body Shop and €1,041.0 million (€1,029.4 million excluding The Body Shop) respectively for the 2018, 2017 and 2016 financial years.

Interest paid amount to €35.3 million, €35.8 million excluding The Body Shop and €35.4 million (€31.0 million excluding The Body Shop) respectively for the 2018, 2017 and 2016 financial years.

Dividends received, excluding those from discontinued operations, amount to €358.3 million, €350.0 million and €346.5 million respectively for the 2018, 2017 and 2016, and are included within gross cash flow.

4.6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Notes contents

4

NOTE 1 Accounting principles

The consolidated financial statements of L'Oréal and its subsidiaries ("the Group") published for 2018, have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted in the European Union as of 31 December 2018.

On 7 February 2019, the Board of Directors closed the consolidated financial statements at 31 December 2018. The financial statements will not become final until they have been approved by the Annual General Meeting of shareholders to be held on 18 April 2019.

The Group did not early adopt any standards or interpretations not mandatorily applicable in 2018.

The Group is affected by IFRS 16 "Leases" applicable at 1 January 2019. The Group elected to apply the simplified retrospective approach as well as, for most leases, the option of measuring the right-of-use by determining their carrying amount from the date of commencement of the lease. Note 13.1., which details operating lease commitments, sets the undiscounted amount of commitments at €2,582.1 million including circa €135 million outside the scope of IFRS 16. Over 95% of these commitments comprise property leases including country head offices, stores and distribution centres. The results of the initial simulations make it possible to estimate lease liabilities at around €2.2 billion.

The Group does not anticipate any significant effect on the tax charge from IFRIC 23 Uncertainty over Income Tax Treatments applicable at 1 January 2019.

The Group is not affected by the new standards or amendments published and applicable at 1 January 2018 aside from IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers.

Change in accounting policy applied at 1 January 2016: IFRS 9 Financial Instruments applicable at 1 January 2018

This standard came into effect on 1 January 2018.

The Group is primarily affected as follows:

- 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 securities affected are mainly the investment in Sanofi but also strategic investments in venture capital funds, for which the "equity" option was chosen. This classification reflects the purpose behind these investments, which are not cash investments but rather investments designed to further L'Oréal's overall strategy;

- 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 this new accounting policy regarding the time value of options on income in comparative periods was not deemed material. As a result, they were not restated.

This change resulted in a reclassification in opening equity at 1 January 2016 of €10.0 million from *Retained earnings and net profit* to *Other comprehensive income*, at 1 January 2017 of €10.3 million from *Retained earnings and net profit* to *Other comprehensive income* and at 1 January 2018 of €9.6 million from *Retained earnings and net profit* to *Other comprehensive income*.

The current trade accounts receivable impairment methodology at L'Oréal reflects the level of expected losses on the customer portfolio, calculated on the basis of past statistics from the outset of the receivable. Moreover, this risk is contained thanks to the credit insurance policy applied by the Group. As a result, the application of IFRS 9 in this area has no impact on the Group's financial statements.

Change in accounting policy applied at 1 January 2018: IFRS 15 Revenue from Contracts with Customers

This standard came into effect on 1 January 2018.

The main change identified concerns the Group's relationships with distributors with respect to which the view was taken that the distributor acted as agent and not as principal. Sales are now recognised upon sale of products to the end customer.

The standard is applied retrospectively by recognising the cumulative effect of the initial application in equity on 1 January 2018. The impact of this new accounting policy is not material on the income statement and in 2018 resulted in a €28.2 million increase in sales, offset by a corresponding increase in expenses.

This change resulted in a €12.9 million reduction in equity, offset by a €5.2 million increase in inventories, a €1.7 million increase in deferred assets and €19.8 million in other liabilities.

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 2018

Acquisitions

On 16 March 2018, L'Oréal announced the acquisition of 100% of ModiFace, a Canadian-based global leader in augmented reality and artificial intelligence applied to beauty.
This acquisition is part of L'Oréal Group's digital acceleration strategy, one of the pillars of which is to provide its 34 international brands with the most innovative technologies in terms of beauty experience and services.
Founded by Parham Aarabi in Toronto in 2007, ModiFace has developed cutting edge technology for the photo-realistic try-on of make-up, colourants and skin assessment by using proprietary face tracking and colour rendering expertise. ModiFace employs close to 70 engineers, researchers and scientists who have published over 200 scientific articles and registered some thirty patents.
This acquisition has been fully consolidated since 15 March 2018.

On 2 May 2018, L'Oréal announced the acquisition of 100% of Nanda Co. Ltd., the Korean lifestyle, make-up and fashion company founded by Kim So-Hee in Seoul in 2004.
Stylenanda, which started in fashion, has since become a company built around the 3CE brand, which now accounts for over 70% of its business. With €127 million in net sales in 2017 and close to 400 employees, the Company now operates in Korea and Japan, and has expanded its commercial footprint to Hong Kong, Singapore, Malaysia and Thailand.
Stylenanda is a very popular brand with millennials both in Korea and China. It is sold using a multi-channel distribution model that includes e-commerce, beauty retailers, department stores and duty free shops.
The acquisition was completed on 20 June 2018 following regulatory clearance and has since been fully consolidated.

On 25 May 2018, L'Oréal completed the acquisition of Pulp Riot, the professional hair colour brand launched by David and Alexis Thurston in the United States in June 2016.
Since its launch, Pulp Riot has transformed the professional market by creating avant-garde content, and by using social media to inspire and educate stylists worldwide. Pulp Riot currently has over 675,000 followers on Instagram.
With sales of US $11 million in 2017, Pulp Riot is distributed in the United States, primarily by SalonCentric. The brand has also started its global roll-out.
This acquisition has been fully consolidated since 25 May 2018.

On 1 August 2018, L'Oréal announced the signing of an agreement for the acquisition of the German company Logocos Naturkosmetik AG, a pioneer in natural cosmetics with brands such as Logona and Sante. All this company's brands are vegan and certified organic with a product range made from plant extracts and natural ingredients derived from organic farming.

Founded in 1978 by a naturopath, Logocos Naturkosmetik is based in Hanover in Germany and has close to 340 employees. It had 2017 net sales of €59 million, generated in Germany and other European countries.
The acquisition was completed on 17 October 2018 following regulatory clearance and has since been fully consolidated.

On 1 August 2018, L'Oréal made a firm offer to shareholders in Holding STRP (Société des Thermes de La Roche-Posay) to buy out all the shares in the Company. The plan provides for the prior disposal of the hotel business to the current shareholders of Holding STRP and exclusive negotiation rights for L'Oréal.
Founded in 1921, STRP is the largest thermal centre in Europe wholly dedicated to skin conditions. In 2017, the thermal business saw over 7,500 patients, generating sales of €3.6 million.
The acquisition was completed on 13 December 2018 following regulatory clearance and has since been fully consolidated.

The cost of these new acquisitions represents €804.5 million.
The total amount of goodwill and other intangible assets resulting from these acquisitions has been provisionally estimated at €602.8 million and €140.3 million respectively.
The allocation of the acquisition cost to the identifiable intangible assets of these acquisitions had not been finalised at 31 December 2018.
In 2018, these acquisitions represented €219.9 million in full-year sales and €39.9 million in full-year operating profit.

2.1.2. 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 acquisition was finalised on 31 May 2017.
This acquisition has been fully consolidated since 31 May 2017.

The cost of these new acquisitions represents €1,245.3 million.
The total amount of goodwill and other intangible assets resulting from the acquisitions was €1,017.8 million and €198.4 million, respectively.
In 2017, these acquisitions represent around €154.1 million in full-year 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 Cosmeticos SA to acquire The Body Shop and has entered into exclusive discussions with Natura. The sale contract to Natura Cosmeticos SA was signed on 27 June 2017.
After obtaining the necessary authorisations from the competent authorities, L'Oréal and Natura Cosmeticos 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.).

2.1.3. Year 2016

Acquisitions

On 4 January 2016, L'Oréal USA announced the signing of an agreement to acquire key assets from Raylon Corporation, a full-service 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 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 acquisition 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 sales and €51.5 million in full-year operating profit.

2.2. Impact of changes in the scope of consolidation in the cash flow statement

In 2018, this item mainly related to the acquisitions of Stylenanda, Pulp Riot, ModiFace, Logocos and the La Roche-Posay thermal centre.

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.

2.3. Discontinued operations and assets and liabilities held for sale

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	**2018**	2017	2016
Sales	-	524.7	920.8
Operating profit	-	-15.7	35.6
Net profit from discontinued operations [1]	-	-240.1	25.3

(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	**2018**	2017	2016
Net cash provided by operating activities	-	-36.7	43.9
Cash flows from investing activities	-	-24.4	-51.8
Cash flows from financing activities	-	71.5	-3.5
NET CASH (USED IN) FROM DISCONTINUED OPERATIONS	**-**	**10.4**	**-11.4**

2.4. Situation in Argentina

Argentina has been considered a hyperinflationary economy since 1 July 2018 and L'Oréal has applied the provisions of IAS 29 Financial Reporting in Hyperinflationary Economies from that date.

Under IAS 29, the non-monetary items in the balance sheet and income statement have been adjusted using a general price index, such that they are stated in terms of the measuring unit current at the end of the reporting period, and translated at the closing exchange rate. Argentina accounts for less than 1% of the Group's sales.

NOTE 3 Operating items – Segment information

ACCOUNTING PRINCIPLES

Net sales

Sales are recognised when 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 results

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.

The current trade accounts receivable impairment methodology at L'Oréal reflects the level of expected losses on the customer portfolio, calculated on the basis of past statistics from the outset of the receivable. Moreover, this risk is contained thanks to the credit insurance policy applied by the Group.

Except when local conditions do not allow, the Group has insurance cover for the subsidiaries.

3.1. Segment information

3.1.1. Segment information

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

- 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;

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

  The 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.);

- 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);

- the Active Cosmetics Division, whose goal is to help everyone in their quest to have healthy and beautiful skin.

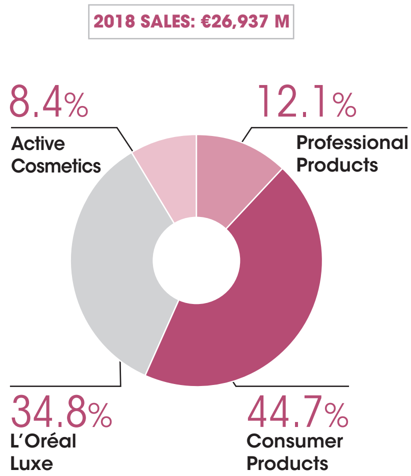
  Its portfolio of highly complementary brands (Vichy, La Roche-Posay, SkinCeuticals, and Roger&Gallet) is designed to keep pace with major skincare trends and recommendations of healthcare professionals. The recent acquisition of the US brand CeraVe has recently added to this portfolio.

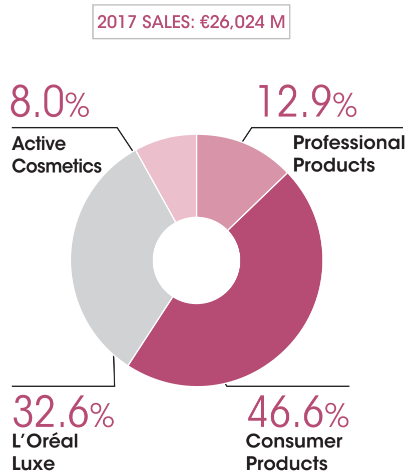
The "non-allocated" item includes expenses incurred by the Functional Divisions, fundamental research and the costs of stock options not allocated to the Divisions. It also includes activities that are auxiliary to the Group's core businesses, such as insurance, reinsurance and banking.

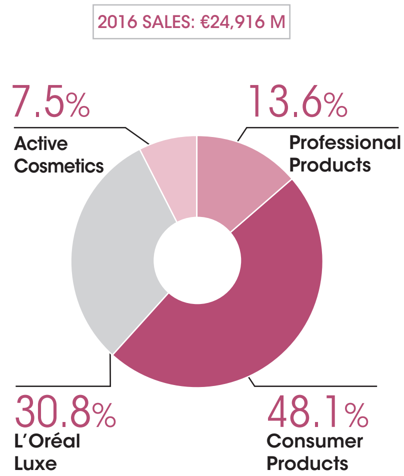
The following information was adjusted to exclude The Body Shop following the definitive sales agreement signed at the beginning of September 2017 (note 2.3.).

The performance of each Division is measured on the basis of operating profit.

Sales by Division changed as follows over the three financial years:







€ millions **2018**	**Sales**	**Operating profit**	**Operational Assets (1)**	**Investments in property, plant and equipment and intangible assets**	**Depreciation, amortisation and provisions**
Professional Products	3,262.5	651.5	3,378.8	84.1	142.9
Consumer Products	12,032.2	2,428.1	9,987.6	523.4	592.1
L'Oréal Luxe	9,367.2	2,072.4	7,000.3	588.4	413.0
Active Cosmetics	2,275.5	523.0	2,168.5	57.1	53.5
TOTAL OF DIVISIONS	**26,937.4**	**5,675.0**	**22,535.2**	**1,253.0**	**1,201.5**
Non-allocated		-753.1	838.0	151.7	114.8
GROUP	**26,937.4**	**4,922.0**	**23,373.2**	**1,404.7**	**1,316.3**

(1) *Operational assets mainly include goodwill, intangible assets and property, plant and equipment, trade accounts receivable and inventories.*

€ millions 2017	Sales	Operating profit	Operational assets (1)	Investments in property, plant and equipment and intangible assets	Depreciation, amortisation and provisions
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
TOTAL OF DIVISIONS	**26,023.7**	**5,415.4**	**20,809.4**	**1,096.6**	**1,206.5**
Non-allocated		-739.1	827.3	159.1	107.7
GROUP	**26,023.7**	**4,676.3**	**21,636.7**	**1,255.7**	**1,314.2**

(1) *Operational assets mainly include goodwill, intangible assets and property, plant and equipment, trade accounts receivable and inventories.*

€ millions 2016	Sales	Operating profit	Operational assets (1)	Investments in property, plant and equipment and intangible assets	Depreciation, amortisation and provisions
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
TOTAL OF DIVISIONS	**24,916.3**	**5,160.0**	**20,481.2**	**1,177.6**	**1,119.1**
Non-allocated		-653.9	834.2	177.5	123.7
GROUP	**24,916.3**	**4,506.1**	**21,315.5**	**1,355.0**	**1,242.8**

(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 2018, 2017 and 2016 balance sheets as follows:

€ millions	2018	2017	2016
Operational assets	**23,373.2**	**21,636.7**	**21,315.5**
Non-current financial assets	9,100.5	8,766.2	9,306.5
Investments in associates	9.0	1.1	1.0
Deferred tax assets	572.7	530.3	548.3
Other current assets	1,410.1	1,358.2	1,468.5
Cash and cash equivalent	3,992.0	3,046.6	1,746.0
Non-allocated assets	**15,084.3**	**13,702.4**	**13,070.3**
The Body Shop assets	-	-	*1,244.4*
TOTAL ASSETS	**38,457.5**	**35,339.1**	**35,630.2**

3.1.2. Information by geographic zone

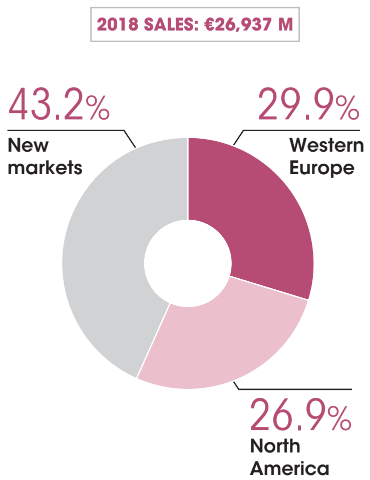
All information is presented on the basis of geographic location of the subsidiaries.

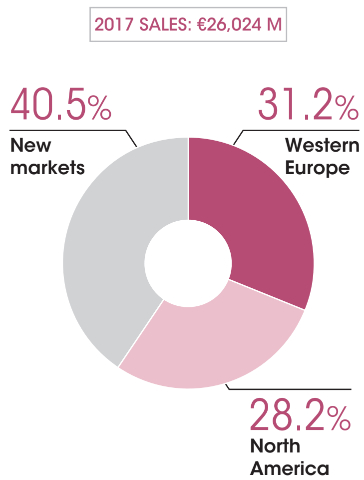
3.1.2.1. Consolidated sales by geographic zone

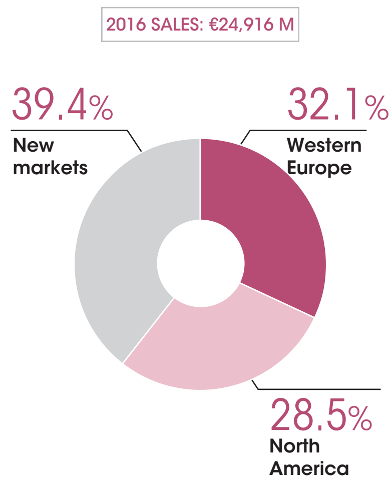
	2018		Growth *(%)*		2017		2016 (1)(2)	
	€ millions	**% of total**	Published data	Excluding exchange effect	€ millions	% of total	€ millions	% of total
Western Europe	8,065.1	29.9%	-0.7%	-0.3%	8,125.3	31.2%	8,008.0	32.1%
of which France	2,424.1	9.0%	-0.8%	-0.8%	2,444.6	9.4%	2,467.4	9.9%
North America	7,234.3	26.9%	-1.6%	3.1%	7,350.5	28.2%	7,098.8	28.5%
New markets	11,638.1	43.2%	10.3%	18.2%	10,547.8	40.5%	9,809.5	39.4%
Asia Pacific	7,405.6	27.5%	20.4%	25.3%	6,151.8	23.6%	5,635.4	22.6%
Latin America	1,784.8	6.6%	-8.6%	7.2%	1,952.9	7.5%	1,838.0	7.4%
Eastern Europe	1,754.2	6.5%	0.2%	9.2%	1,750.8	6.7%	1,571.5	6.3%
Africa, Middle East	693.5	2.6%	0.2%	5.1%	692.4	2.7%	764.5	3.1%
GROUP	**26,937.4**	**100.0%**	**3.5%**	**8.0%**	**26,023.7**	**100.0%**	**24,916.3**	**100.0%**

(1) 2016 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.

Sales by geographic zone changed as follows over the three financial years:







3.1.2.2. Breakdown of operating profit of Divisions by geographic zone

€ millions	**2018**	2017	2016 (1) (2)
Western Europe	1,682.5	1,860.4	1,831.5
North America	1,430.0	1,411.3	1,392.3
New markets	2,562.5	2,143.6	1,936.2
TOTAL OF DIVISIONS	**5,675.0**	**5,415.4**	**5,160.0**
Non-allocated	-753.1	-739.1	-653.9
GROUP	**4,922.0**	**4,676.3**	**4,506.1**

(1) Operating profit for 2016 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

	2018		2017		2016	
€ millions	**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	9,246.8	615.4	8,600.9	371.7	7,867.3	378.2
North America	7,317.6	293.9	6,929.2	346.9	7,017.2	399.0
New markets	5,970.8	343.7	5,279.3	378.0	5,596.7	400.3
Non-allocated	838.0	151.7	827.3	159.2	834.2	177.5
GROUP	**23,373.2**	**1,404.7**	**21,636.7**	**1,255.7**	**21,315.5**	**1,355.0**
The Body Shop assets	-	-	-	*24.1*	*1,244.4*	*51.5*
GROUP *(INCLUDING THE BODY SHOP)*	**23,373.2**	**1,404.7**	**21,636.7**	**1,279.8**	**22,559.9**	**1,406.6**

3.2. Depreciation and amortisation expense and Property, plant and equipment

3.2.1. Depreciation and amortisation expenses

Depreciation and amortisation of property, plant and equipment and intangible assets included in operating expenses amounted to €1,095.3 million, €1,169.4 million (€1,147.6 million excluding The Body Shop) and €1,028.4 million (€985.3 million excluding The Body Shop) respectively, for 2018, 2017 and 2016.

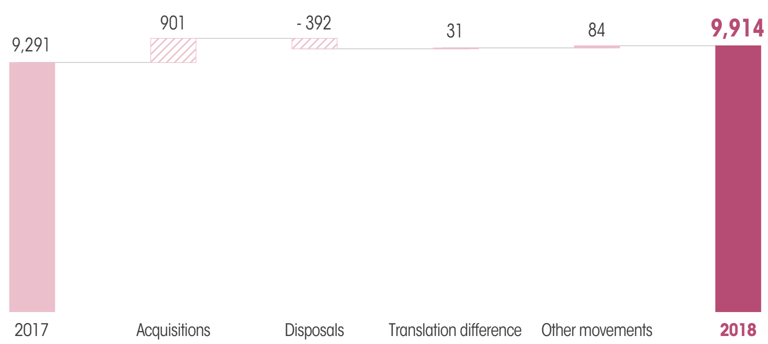
3.2.2. Property, plant and equipment

€ millions **2018**	31.12.2017	**Acquisitions/ Depreciation**	**Disposals/ Reversals**	**Translation difference**	**Other movements** [(1)]	**31.12.2018**
Land and buildings	2,161.7	43.9	-19.7	-5.6	78.7	2,259.2
Machinery and equipment	3,439.2	142.0	-77.8	4.9	76.8	3,585.1
Point-of-sales advertising: stands and displays	1,981.6	345.5	-233.9	17.4	37.2	2,147.8
Other property, plant and equipment and fixed assets in progress	1,708.1	369.4	-60.9	14.4	-108.9	1,922.1
Gross value	**9,290.7**	**900.8**	**-392.2**	**31.2**	**83.9**	**9,914.3**
Land and buildings	1,099.9	76.2	-19.7	2.1	11.5	1,169.9
Machinery and equipment	2,402.2	252.3	-78.2	8.6	0.8	2,585.7
Point-of-sales advertising: stands and displays	1,369.9	410.9	-231.3	11.6	-1.7	1,559.4
Other property, plant and equipment	847.6	161.3	-60.6	9.6	16.8	974.7
Amortisation and provisions	**5,719.6**	**900.6**	**-389.8**	**31.9**	**27.4**	**6,289.7**
PROPERTY, PLANT AND EQUIPMENT – NET	**3,571.1**	**0.1**	**-2.4**	**-0.7**	**56.5**	**3,624.6**

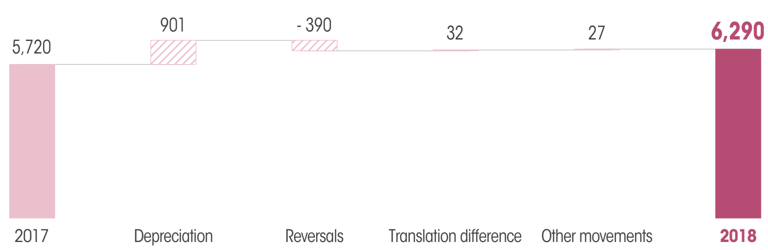
(1) These mainly include the impact of changes in the scope of consolidation and fixed assets in progress allocated to other fixed assets.

4

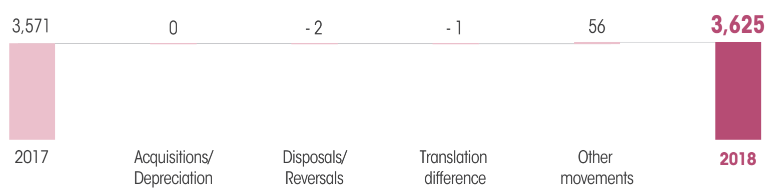
Change in gross fixed assets
(€ millions)



Change in depreciation, amortisation and provisions
(€ millions)



Net property, plant and equipment
(€ millions)



€ millions 2017	31.12.2016	Acquisitions/ Depreciation	Disposals/ Reversals	Translation difference	Other movements [1]	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
Gross value	**9,540.8**	**1,064.1**	**-472.4**	**-523.7**	**-318.2**	**9,290.7**
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
Depreciation and provisions	**5,783.9**	**920.1**	**-467.6**	**-299.1**	**-217.8**	**5,719.6**
PROPERTY, PLANT AND EQUIPMENT – NET	**3,756.9**	**144.0**	**-4.8**	**-224.6**	**-100.4**	**3,571.1**

(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 [1]	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
Gross value	**8,903.1**	**1,196.0**	**-604.1**	**56.7**	**-10.9**	**9,540.8**
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
Depreciation and provisions	**5,499.6**	**846.8**	**-589.1**	**38.9**	**-12.4**	**5,783.9**
PROPERTY, PLANT AND EQUIPMENT – NET	**3,403.5**	**349.2**	**-15.0**	**17.8**	**1.4**	**3,756.9**

(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	**31.12.2018**	31.12.2017	31.12.2016
Land and buildings	11.2	10.7	56.7
Machinery and equipment	-	-	-
Other property, plant and equipment and fixed assets in progress	22.4	21.3	25.1
Gross value	**33.6**	**32.0**	**81.8**
Amortisation	22.4	19.6	51.1
Net value	**11.2**	**12.5**	**30.7**

3.3. Inventories, Trade accounts receivable and Other current assets

3.3.1. Inventories

€ millions	31.12.2018	31.12.2017	31.12.2016
Finished products and consumables	2,599.5	2,302.2	2,446.4
Raw materials, packaging and semi-finished products	594.3	507.4	550.3
Gross value	**3,193.8**	**2,809.6**	**2,996.8**
Valuation allowance	371.9	315.0	298.2
Inventories – net	**2,821.9**	**2,494.6**	**2,698.6**

3.3.2. Trade accounts receivable

€ millions	31.12.2018	31.12.2017	31.12.2016
Gross value	4,032.7	3,969.8	3,993.4
Valuation allowance	49.4	46.4	51.6
Net value	**3,983.2**	**3,923.4**	**3,941.8**

Trade accounts receivable are due within one year. The impairment of trade accounts receivables reflects the level of expected losses on the customer portfolio from the outset of the receivable. Moreover, except when local conditions do not allow, the Group has insurance cover for the subsidiaries.

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 2018.

3.3.3. Other current assets

€ millions	31.12.2018	31.12.2017	31.12.2016
Tax and employee-related receivables (excluding income tax)	617.9	546.2	548.6
Prepaid expenses	338.5	295.8	312.0
Derivatives	175.6	240.5	254.2
Current financial assets	23.1	23.6	49.5
Other current assets	354.0	287.7	256.1
TOTAL	**1,509.1**	**1,393.8**	**1,420.4**

3.4. Other current liabilities

€ millions	31.12.2018	31.12.2017	31.12.2016
Tax and employee-related payables (excluding income tax)	1,406.6	1,268.8	1,301.1
Credit balances on trade receivables	1,026.0	944.6	855.0
Fixed asset payables	279.9	178.5	196.5
Derivatives	182.5	190.5	330.4
Other current liabilities	243.9	241.5	171.4
TOTAL	**3,138.9**	**2,823.9**	**2,854.4**

3.5. Changes in working capital

This caption amounts to €113.8 million, €261.1 million and €4.3 million respectively in 2018, 2017 and 2016, and can be analysed as follows:

€ millions	2018	2017	2016
Inventories	-292.8	-82.6	-196.4
Trade accounts receivable	-83.1	-266.7	-238.4
Trade accounts payable	392.9	317.1	169.9
Other receivables and payables	96.8	293.3	269.2
TOTAL	**113.8**	**261.1**	**4.3**

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	**2018**	2017	2016
Capital gains and losses on disposals of property, plant and equipment and intangible assets (1)	2.7	3.9	16.2
Impairment of property, plant and equipment and intangible assets (2)	-	-	-447.2
Restructuring costs (3)	-85.1	-262.5	-99.3
Other (4)	-12.3	-17.8	-11.0
TOTAL	**-94.7**	**-276.3**	**-541.3**

(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 2018, the global plan to transform the Professional Products Division (€15.6 million), the reorganisation in Brazil (€26.8 million), various plans to restructure sales forces and operating structures in Western Europe (€19.3 million), the streamlining of production and the refocussing of the distribution of the Decléor brand (€12.1 million) as well as the closure of the Canton mask production plant in China (€6.0 million) and the discontinuing of various selective brands in Malaysia and Singapore (€4.6 million);*
- *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).*

(4) Of which:

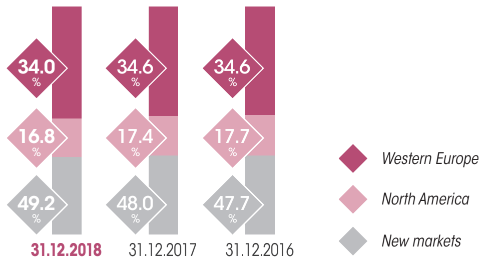
- *in 2018, acquisition-related costs (€17.3 million) as well as the downward adjustment of the Atelier Cologne earn-out (-€3.8 million);*
- *in 2017, acquisition-related costs (€12.9 million), as well as adjustments made to the opening balance sheet of Atelier Cologne (€4.5 million);*
- *in 2016, reversals 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).*

NOTE 5 Number of employees, personnel costs and employee benefits

5.1. Number of employees

	31.12.2018	31.12.2017	31.12.2016
Western Europe	29,256	28,555	27,579
North America	14,443	14,363	14,118
New markets	42,331	39,688	38,044
TOTAL (1)(2)	**86,030**	**82,606**	**79,741**

(1) Excluding employees of equity-accounted companies.
(2) Excluding employees of The Body Shop which accounted for 9,590 employees in 2016.



5.2. Personnel costs

€ millions	2018	2017	2016
Personnel costs (including welfare contributions) (1)(2)	**5,634.1**	**5,433.5**	**5,182.6**

(1) Excluding employees of equity-accounted companies.
(2) Excluding personnel costs related to The Body Shop which amounted to €255.3 million in 2016.

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	2018	2017	2016
Directors' fees	1.3	1.3	1.2
Salaries and benefits including employer welfare contributions	34.4	32.3	29.9
Employee retirement obligation charges	10.0	9.7	15.6
Share-based payment (stock option and free shares)	24.6	26.1	24.1
Exceptional factors	3.2	-	-

The number of executives who were members of the Management Committee was 16 at 31 December 2018 compared with 15 at 31 December 2017 and 31 December 2016.

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, since 2017 the Group has 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 %	**31.12.2018**	31.12.2017	31.12.2016
Discount rate (commitment)	2.6%	2.2%	2.4%
Discount rate (service cost)*	2.9%	2.5%	2.4%
Salary increases	3.6%	3.6%	3.9%

* *Used for the service cost for the following financial year.*

	31.12.2018			31.12.2017			31.12.2016		
	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%	2023	5.7%	4.2%	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 %	**2018**	2017	2016
Weighted average (all countries) based on the benefit obligation	**2.6%**	**2.2%**	**2.4%**
of which:			
Euro zone			
Discount rate (commitment) (1)	1.9%	1.6%	1.8%
Discount rate (service cost) *	2.1%	1.9%	1.8%
United States			
Discount rate (commitment)	4.0%	3.3%	3.5%
Discount rate (service cost) *	4.3%	3.5%	3.5%
United Kingdom			
Discount rate (commitment)	2.8%	2.5%	2.5%
Discount rate (service cost) *	2.8%	2.5%	2.5%

(1) The weighted average for 2018 consists of a 2.0% discount rate on annuity plans with an average term of 19.1 years and a 1.6% discount rate on capital plans with an average term of 12.0 years.
* *Used for the service cost for the following financial year.*

A 50 basis point decrease in the discount rates would increase the projected defined benefit obligation by €194.0 million for the euro zone, €55.7 million for the United States and €69.9 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 %	**31.12.2018**	31.12.2017	31.12.2016
Equity securities (1)	33.1%	42.1%	38.5%
Bonds	57.8%	49.3%	54.0%
Property assets (2)	5.3%	4.4%	4.1%
Monetary instruments	1.2%	2.6%	1.7%
Other	2.6%	1.7%	1.7%
TOTAL	**100%**	**100%**	**100%**

(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 2018, 2017 and 2016 are set out below:

€ millions	Present value of defined benefit obligation	Plan assets	Net provisions
Balance at 31 December 2015	**4,254.7**	**-3,447.5**	**807.2**
Service cost	173.4	-	173.4
Interest cost	128.5	-	128.5
Expected return on plan 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 (1)	33.8	-33.4	0.4
Balance at 31 December 2016	**4,476.8**	**-3,765.1**	**711.8**
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
Balance at 31 December 2017	**4,221.7**	**-3,919.8**	**301.9**
Service cost	168.0	-	168.0
Interest cost	96.6	-	96.6
Expected return on assets	-	-88.7	-88.7
Past service cost: new plans / plan amendments	2.2	-	2.2
Curtailments	-24.4	-	-24.4
Settlements	-1.5	1.3	-0.2
Benefits paid	-189.3	138.5	-50.7
Contributions paid	5.1	-85.8	-80.8
Actuarial gains and losses	-172.1	230.5	58.5
Translation differences	43.1	-36.9	6.2
Other movements	-5.2	5.4	0.2
BALANCE AT 31 DECEMBER 2018	**4,144.4**	**-3,755.5**	**388.9**

(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	**31.12.2018**	31.12.2017	31.12.2016
Present value of defined benefit obligations wholly or partly funded	3,755.6	3,843.2	4,049.3
Fair value of plan assets	3,755.5	3,919.8	3,765.1
Net position of defined benefit obligations wholly or partly funded	0.1	-76.6	284.2
Present value of defined benefit obligations wholly unfunded	388.8	378.5	427.5

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	2018	2017	2016 [1]
Service cost	168.0	170.2	173.4
Interest cost	96.6	105.0	128.5
Expected return on plan assets	-88.7	-88.6	-108.2
New plans/plan amendments	2.2	2.2	2.8
Curtailments	-24.4	-20.8	-20.5
Settlements	-0.2	1.3	-
TOTAL	**153.6**	**169.2**	**176.0**

(1) Including The Body Shop.

Contributions to defined contribution plans recognised as an expense for 2018, 2017 and 2016 amounted to €468.2 million, €463.1 million and €463.1 million (€435.6 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	10.2	-8.5
Impact on current service cost and interest costs	0.4	-0.3

Actuarial gains and losses for the periods presented are as follows:

€ millions **2018**	**Present value of defined benefit obligation**	**Plan assets**	**Net provisions**
Actuarial gains and losses: experience adjustments	124.2	230.5	354.7
Actuarial gains and losses: demographic assumptions	-35.3	-	-35.3
Actuarial gains and losses: financial assumptions	-261.0	-	-261.0
TOTAL	**-172.1**	**230.5**	**58.5**

€ millions 2017	Present value of defined benefit obligation	Plan assets	Net provisions
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
TOTAL	**-37.9**	**-242.1**	**-280.0**

€ millions 2016	Present value of defined benefit obligation	Plan assets	Net provisions
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
TOTAL	**126.5**	**-125.2**	**1.3**

5.5. Share 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 2018:

			Exercise period		
Grant date	Number of options	Number of options not yet exercised	From	To	Exercise price
25.03.2009	3,650,000	113,078	26.03.2014	25.03.2019	€50.11
27.04.2010	4,200,000	724,851	28.04.2015	27.04.2020	€80.03
22.04.2011	1,470,000	475,872	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.

The fair value of options is determined using the Black & *Scholes method* based on the following assumptions:

	Subscription options		
	March 2009	April 2010	April 2011
Risk-free rate of return	3.15%	2.83%	3.42%
Expected life span	7 years	7 years	8 years
Expected volatility	31.95%	23.53%	22.60%
Expected dividends	2.83%	1.86%	2.10%
Share price	€50.94	€80.50	€85.68
Exercise price	€50.11	€80.03	€83.19
Fair value	€12.16	€17.17	€18.58

Expected volatility is equal to the implied volatility of the options listed on MONEP at the grant dates. 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 financial years 2016, 2017 and 2018 are set out below:

	31.12.2018		31.12.2017		31.12.2016	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Number of options not exercised at beginning of period	**2,233,775**	**€76.43**	**3,798,051**	**€77.04**	**5,933,374**	**€77.61**
◆ Options granted	-		-		-	
◆ Options exercised	-919,474	€73.32	-1,509,576	€78.40	-2,080,123	€78.65
◆ Options expired	-500		-54,700		-55,200	
Number of options not exercised at end of period	**1,313,801**	**€78.60**	**2,233,775**	**€76.43**	**3,798,051**	**€77.04**
of which:						
◆ number of exercisable options at end of period	1,313,801	€78.60	2,233,775	€76.43	3,798,051	€77.04
◆ expired options at end of period	-		-		-	

The weighted average share price was €197.19, €181.49 and €163.04 respectively for 2018, 2017 and 2016.

The total expense recognised in 2016 was €1.6 million. No stock option plan expenses were recognised in 2018 or 2017.

b) Free shares

The table below summarises the data on free share plans vesting after 1 January 2016.

Grant date					
Stock subscription plans	Stock purchase plans	Vesting date	Number of shares granted	Number of shares issued/allotted	Number of shares not definitively vested
	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	994,815	-
22.04.2015		23.04.2019	860,150	675	809,150
20.04.2016		21.04.2020	906,100	125	874,225
20.04.2017		21.04.2021	906,000	-	888,050
17.04.2018		18.04.2022	931,000	-	927,700

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 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 17 April 2018, 20 April 2017, 20 April 2016 and 22 April 2015 plans:

- for 50% of shares granted, the increase in comparable Cosmetic revenues in relation to growth in revenues for a panel of competitors:
  - 2019, 2020 and 2021 financial years under the 2018 plan,
  - the 2018, 2019 and 2020 financial years under the 2017 plan,
  - 2017, 2018 and 2019 financial years under the 2016 plan,
  - 2016, 2017 and 2018 financial years under the 2015 plan;
- 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:

- 2019, 2020 and 2021 financial years under the 2018 plan;
- 2018, 2019 and 2020 financial years under the 2017 plan;
- 2017, 2018 and 2019 financial years under the 2016 plan;
- 2016, 2017 and 2018 financial years under the 2015 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 17 April 2012, 26 April 2013 and 17 April 2014 were definitively vested by the allocation of, respectively, 1,230,850 shares on 18 April 2016, 986,220 shares on 27 April 2017 and 993,765 shares on 18 April 2018.

At 31 December 2018, the performance conditions were deemed satisfied, except for the 22 April 2015 plan for which the expense was reviewed on the basis of the predefined scale having regard to the best current estimate of the performance achieved at the end of the plan.

The fair value of free share awards is determined using the following assumptions:

		Stock purchase plans					Stock subscription plans
Grant date	April 2012	April 2013	April 2014	April 2015	April 2016	April 2017	April 2018
Risk-free rate of return	1.43%	0.50%	0.65%	-0.02%	-0.06%	-0.35%	-0.28%
Discount for post-vesting transfer restrictions for French employees	8.06%	5.75%	4.46%	1.70%	N/A	N/A	N/A
Expected dividends	2.14%	1.76%	2.06%	1.52%	1.85%	1.82%	1.85%
Share price	€93.68	€130.45	€121.35	€177.10	€168.10	€181.75	€191.85
Fair value							
◆ Employees resident in France	€77.07	€112.37	€104.58	€161.49	€154.32	€166.90	€176.17
◆ Employees not resident in France	€84.62	€119.87	€109.99	€164.50	€154.32	€166.90	€176.17

The expense recorded in 2018, 2017 and 2016 amounted to €120.9 million, €126.7 million and €118.8 million, respectively.

c) Share capital increase reserved for employees

In June 2018, Group employees had the opportunity of subscribing to a Shareholding Plan based on a traditional format with discount and matching contribution.

The subscription price was set at €162.52, representing 80% of the average share price over the 20 trading sessions prior to the decision by the Chairman and Chief Executive Officer setting the subscription period from 4 June to 18 June 2018 during which 423,916 shares were subscribed. This number does not include the subscription reserved for a Trustee under the laws of England and Wales, as part of a Share Incentive Plan established for Group employees in the UK, with the final number of shares subscribed determined at 4,514 in November 2018.

For French employees, free shares were offered upon subscription having regard to their personal contribution to the plan with a maximum of 4 shares offered for every 10 shares subscribed.

For employees in other countries, shares were offered under a free share plan with a condition of the continued employment of the employee and having regard to the personal contribution to the plan with a maximum of 4 shares offered for every 10 shares subscribed. The shares will be allocated to employees on 25 July 2023 provided they are still with the Group on that date.

The IFRS 2 expense measuring the benefit offered to employees is calculated with reference to the fair value of the discount offered on the non-transferable shares.

The capital was increased on 24 July 2018 by 455,613 shares and on 15 November 2018 by 6,524 shares.

The IFRS 2 expense for free shares granted amounted to:

- €5.1 million for French employees on the basis of a subscription price of €162.52 per share; and
- €7.1 million for employees outside France. This cost is amortised over the vesting period and corresponds to the share reference value adjusted for the expected dividends over the vesting period namely €180.94 per share, except for the Share Incentive Plan for which the acquisition cost is €205.66 per share.

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	**2018**	2017	2016
Current tax	1,241.3	1,096.1	1,127.2
Deferred tax	43.0	-194.8	86.5
INCOME TAX	**1,284.3**	**901.3**	**1,213.7**

6.2. Analysis of tax charge

The income tax charge may be analysed as follows:

€ millions	**2018**	2017	2016
Profit from continuing operations before tax and associates	**5,183.7**	**4,727.0**	**4,297.1**
Theoretical tax rate	26.25%	28.95%	28.91%
Expected tax charge	**1,360.6**	**1,368.3**	**1,242.5**
Impact of permanent differences (1)	28.8	0.5	131.7
Impact of tax rate differences (2)	-148.3	-305.9	-164.6
Change in unrecognised deferred taxes	-3.2	-21.2	9.3
Other (3)	46.4	-140.4	-5.2
GROUP TAX CHARGE	**1,284.3**	**901.3**	**1,213.7**

(1) In 2016, this amount included €130.5 million relating to impairment losses recognised against Clarisonic and Magic (note 4).
(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 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.*

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	
Balance of deferred tax assets at 31 December 2015	**547.9**
Balance of deferred tax liabilities at 31 December 2015	**-876.8**
Income statement impact (including The Body Shop)	-79.8
Translation differences	17.5
Other effects (1)	96.7
Balance of deferred tax assets at 31 December 2016	**548.3**
Balance of deferred tax liabilities at 31 December 2016	**-842.9**
Income statement impact (including The Body Shop)	197.2
Translation differences	12.7
Other effects (1)	18.0
Balance of deferred tax assets at 31 December 2017	**530.3**
Balance of deferred tax liabilities at 31 December 2017	**-597.0**
Income statement impact	-43.0
Translation differences	-19.0
Other effects (1)	27.8
BALANCE OF DEFERRED TAX ASSETS AT 31 DECEMBER 2018	**572.7**
BALANCE OF DEFERRED TAX LIABILITIES AT 31 DECEMBER 2018	**-673.7**

(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:

	31.12.2018		31.12.2017		31.12.2016	
€ millions	**Deferred tax assets**	**Deferred tax liabilities**	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Temporary differences	562.4	409.6	520.3	346.9	536.4	542.0
Deferred tax liabilities on revaluation of Sanofi		264.1		250.1		300.9
Tax credits and tax loss carry-forwards	10.3		10.0		11.9	
DEFERRED TAX TOTAL	**572.7**	**673.7**	**530.3**	**597.0**	**548.3**	**842.9**

Deferred tax assets on temporary differences mainly relate to provisions for pensions and early retirement (€113.0 million, €77.2 million and €211.3 million respectively at the end of 2018, 2017 and 2016) and provisions for liabilities and charges (€113.1 million, €138.9 million and €153.4 million at the end of 2018, 2017 and 2016).

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 €21.6 million at 31 December 2018 compared with €35.5 million at 31 December 2017 and €102.5 million at 31 December 2016.

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.

4

Goodwill is allocated by Cash Generating Unit or by groups of Cash Generating Units. A Cash Generating Unit corresponds to one or more worldwide brands.

€ millions 2018	31.12.2017	Acquisitions/ Disposals	Other movements	31.12.2018
L'Oréal Professionnel/Kérastase	380.3		8.6	388.9
Matrix	391.5		14.3	405.8
Redken/PureOlogy	539.6		20.9	560.5
Decléor and Carita	137.4			137.4
Others	3.0	62.5	0.6	66.1
Professional Products Total	**1,451.7**	**62.5**	**44.4**	**1,558.7**
L'Oréal Paris	852.4		46.8	899.1
Maybelline/Garnier	1,186.0		65.6	1,251.6
LaSCAD	158.3			158.3
NYX Professional Makeup	310.2		12.4	322.6
Niely	155.6		-15.9	139.7
Stylenanda	-	429.3	0.1	429.4
Other (1)	426.0	66.2	3.2	495.4
Consumer Products Total	**3,088.5**	**495.5**	**112.1**	**3,696.1**
Lancôme	795.1		30.2	825.3
Shu Uemura	129.3		8.6	137.9
YSL Beauté	519.8		13.4	533.2
Perfumes	453.9		1.0	454.9
L'Oréal Beauty Device (2)	69.8		1.5	71.3
Urban Decay	144.1		6.1	150.2
IT Cosmetics	749.0		27.0	775.9
Others	64.6		0.4	65.0
L'Oréal Luxe Total	**2,925.6**	**-**	**88.1**	**3,013.7**
Vichy/Dermablend	278.1		76.1	354.3
CeraVe	943.0		-313.5	629.5
La Roche-Posay	52.4	8.7	100.3	161.4
Others	63.3		14.3	77.6
Active Cosmetics Total	**1,336.8**	**8.7**	**-122.8**	**1,222.8**
Other	69.6	36.1		105.7
GROUP TOTAL	**8,872.3**	**602.8**	**121.9**	**9,597.1**

(1) The Magic Holdings business no longer comprises a full Cash Generating Unit due to the reorganisation of the distribution networks and the commercial structures that are now pooled with the Consumer Products Division in China.
(2) This Cash Generating Unit mainly concerns Clarisonic.

The acquisitions in 2018 mainly involved Stylenanda, Logocos, ModiFace, Pulp Riot and the La Roche-Posay thermal centre, totalling €602.8 million.

The €943.0 million goodwill stemming from the acquisition of CeraVe was primarily allocated to the amount of €99.7 million to the La Roche-Posay Cash Generating Unit, €73.5 million to the Vichy Cash Generating Unit and €54.5 million to the L'Oréal Paris Cash Generating Unit on the basis of expected synergies.

No significant disposals took place during 2018.

Other movements mainly reflect the positive impact of changes in exchange rates for €124.6 million.

The accumulated impairment losses relating to L'Oréal Beauty Device, Magic, Softsheen-Carson, Yue-Sai and Sanoflore amounted to €228.3 million, €152.4 million, €146.3 million, €30.9 million and €35.7 million respectively at 31 December 2018.

Change in goodwill in 2018
(€ millions)

€ millions

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
Others	3.4		-0.4	3.0
Professional Products Total	**1,560.4**	**21.2**	**-129.8**	**1,451.7**
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
Others	186.8		-18.0	168.8
Consumer Products Total	**3,306.7**		**-218.2**	**3,088.5**
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 (1)	73.9		-4.1	69.8
Urban Decay	161.1		-17.0	144.1
IT Cosmetics	812.4		-63.4	749.0
Others	65.6		-1.0	64.6
L'Oréal Luxe Total	**3,022.6**		**-96.9**	**2,925.6**
Vichy/Dermablend	285.5		-7.3	278.1
CeraVe	-	1,004.0	-61.0	943.0
Others	123.8		-8.1	115.7
Active Cosmetics Total	**409.2**	**1,004.0**	**-76.4**	**1,336.8**
Other	83.9		-14.3	69.6
The Body Shop	**409.8**	**-382.4**	**-27.5**	**-**
GROUP TOTAL	**8,792.5**	**642.9**	**-563.1**	**8,872.3**

(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.

€ millions

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
Others	3.3		0.1	3.4
Professional Products Total	**1,520.8**	**7.5**	**32.1**	**1,560.4**
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
Others	180.7		6.1	186.8
Consumer Products Total	**3,371.3**	**13.7**	**-78.3**	**3,306.7**
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 (1)	311.9		-238.0	73.9
Urban Decay	156.7		4.4	161.1
IT Cosmetics	-	779.5	32.9	812.4
Others	65.4		0.3	65.6
L'Oréal Luxe Total	**2,324.6**	**892.4**	**-194.5**	**3,022.6**
Vichy/Dermablend	283.3		2.2	285.5
Others	121.7		2.1	123.8
Active Cosmetics Total	**405.0**	**-**	**4.3**	**409.2**
Others	80.0		3.9	83.9
The Body Shop	**449.9**	**-**	**-40.0**	**409.8**
GROUP TOTAL	**8,151.5**	**913.6**	**-272.5**	**8,792.5**

(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.

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

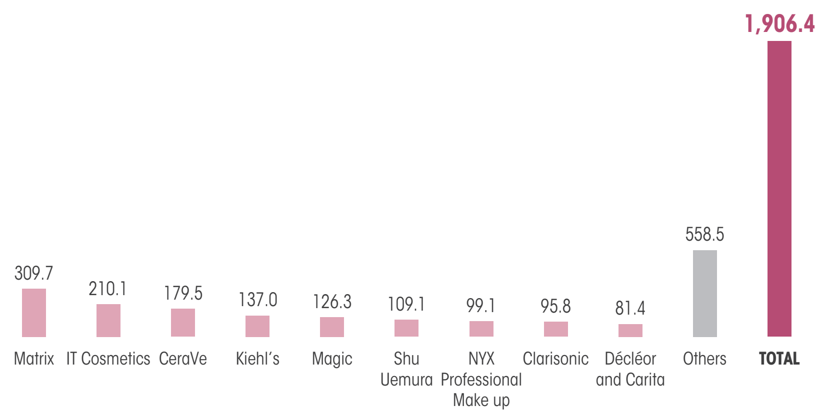
These mainly consist of software.

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.

€ millions 2018	31.12.2017	Acquisitions/ Depreciation	Disposals/ Reversals	Change in the scope of consolidation (2)	Other movements (1)	31.12.2018
Brands with indefinite useful life (3)	1,761.0	-	-	93.8	51.6	1,906.4
Amortisable brands and product ranges	111.0	-	-9.6	-	-0.2	101.3
Licences and patents	308.3	265.0	-	5.6	1.0	579.9
Software	1,172.0	89.7	-24.2	1.3	142.1	1,380.8
Customer relationships	542.6	-	-	41.9	20.5	605.0
Key money	53.0	23.1	-1.8	-	-0.2	74.2
Others	198.5	126.2	-0.3	0.4	-127.1	197.6
Gross value	**4,146.4**	**504.0**	**-35.9**	**142.9**	**87.7**	**4,845.1**
Brands with indefinite useful life	154.8	-	-	-	1.3	156.1
Amortisable brands and product ranges	78.2	3.9	-9.6	-	-0.3	72.3
Licences and patents	149.0	12.4	-	1.4	0.9	163.7
Software	816.6	128.6	-24.5	1.0	14.7	936.5
Customer relationships	349.6	40.8	-	-	13.8	404.2
Key money	8.6	7.3	-1.8	-	0.0	14.1
Others	10.4	1.8	-0.1	0.1	-1.4	10.8
Amortisation and provisions	**1,567.4**	**194.8**	**-35.9**	**2.6**	**28.9**	**1,757.8**
Other intangible assets – net	**2,579.1**	**309.1**	**0.0**	**140.3**	**58.8**	**3,087.3**

(1) Other movements mainly consisted of the positive change in exchange rates over the period for €60.9 million.
(2) This mainly relates to changes in the scope of consolidation: Stylenanda, Pulp Riot and Logocos.
(3) At end-2018, the gross value of brands with an indefinite useful life span break down as follows:



Accumulated impairment losses amounted to €14.0 million on Biomedic, €42.4 million on Yue-Sai, €53.9 million on Softsheen-Carson and €45.9 million on Magic at 31 December 2018.

€ millions 2017	31.12.2016	Acquisitions/ Depreciation	Disposals/ Reversals	Change in the scope of consolidation (1)	Other movements	31.12.2017
Brands with indefinite useful life (2)	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
Others	263.6	140.3	-27.3	-52.4	-125.8	198.5
Gross value	**4,765.0**	**215.7**	**-86.1**	**-387.0**	**-361.1**	**4,146.4**
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
Others	74.9	5.3	-26.8	-38.7	-4.3	10.4
Amortisation and provisions	**1,585.5**	**250.2**	**-85.5**	**-81.0**	**-101.9**	**1,567.4**
Other intangible assets – net	**3,179.4**	**-34.5**	**-0.6**	**-305.9**	**-259.2**	**2,579.1**

(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.

€ millions 2016	31.12.2015	Acquisitions/ Depreciation	Disposals/ Reversals	Change in the scope of consolidation (1)	Other movements	31.12.2016
Brands with indefinite useful life (2)	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
Others	232.2	106.9	-0.1	0.0	-75.4	263.6
Gross value	**4,340.1**	**210.6**	**-54.1**	**290.9**	**-22.5**	**4,765.0**
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
Others	70.8	7.0	-0.1	0.0	-2.8	74.9
Amortisation and provisions	**1,397.2**	**230.5**	**-54.0**	**0.3**	**11.6**	**1,585.5**
Other intangible assets – net	**2,942.9**	**-19.9**	**-0.2**	**290.6**	**-34.1**	**3,179.4**

(1) This mainly related to changes in the scope of consolidation: IT Cosmetics.
(2) At 31 December 2016, brands with an indefinite useful life consisted 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.

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 6.9% in 2018, to 6.8% in 2017 and 6.8% in 2016 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:

		Discount *rate (%)*	
€ millions	Net carrying amount of goodwill and brands with an indefinite useful life	International excluding USA	USA
2018 test			
Maybelline/Garnier	1,251.6	6.9	8.1
IT Cosmetics	986.0	6.9	8.1
L'Oréal Paris	899.1	6.9	8.1
Lancôme	825.3	6.9	8.1
CeraVe	809.0	6.9	8.1
Matrix	715.5	6.9	8.1
Redken/PureOlogy	631.6	6.9	8.1
YSL Beauté	533.2	6.9	(1)
Perfumes/Helena Rubinstein/Atelier Cologne	471.2	6.9	8.1
NYX Professional Makeup	421.7	6.9	8.1
L'Oréal Professionnel/Kérastase	389.0	6.9	8.1
Vichy/Dermablend	377.5	6.9	(1)
Urban Decay	230.8	6.9	8.1
L'Oréal Beauty Device	167.1	6.9	8.1
2017 test			
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 (2)	338.1	9.3	-
Vichy/Dermablend	315.1	6.8	(1)
Urban Decay	221.9	6.8	7.7
L'Oréal Beauty Device	161.9	6.8	7.7
2016 test			
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 (2)	360.2	9.1	-
Vichy/Dermablend	324.3	6.8	(1)
Urban Decay	246.9	6.8	7.8
L'Oréal Beauty Device	176.4	6.8	7.8

(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.
(2) The Magic Holdings business no longer comprises a full Cash Generating Unit from 2018 due to the reorganisation of the distribution networks and the commercial structures that are now grouped together in the Consumer Products Division in China.

No impairment of goodwill or other intangible assets was recognised in 2018.

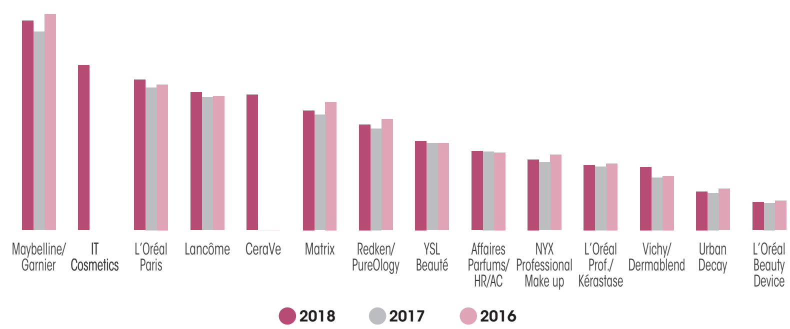
At 31 December 2018, a 1% increase in the discount rate on all Cash Generating Units of the Group would lead to an impairment loss risk of around €38.5 million.

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 €18.2 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 €11.0 million.

The net carrying amount of goodwill and brands with indefinite useful life breaks down as follows for the largest Cash Generating Units:



NOTE 8 Investments in associates

€ millions	**31.12.2018**	31.12.2017	31.12.2016
Investments in associates			
◆ LIPP Distribution (1)	8.1	-	-
◆ Nutricos Technologies	0.9	1.1	1.0
TOTAL	**9.0**	**1.1**	**1.0**

(1) On 13 June 2018, L'Oréal acquired 49% of the Tunisian company LIPP Distribution, which distributes the Group's brands in Tunisia.

NOTE 9 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 debt

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 equivalent

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*.

The money-market unit trusts are classified as financial assets at fair value through profit or loss. 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 classified as financial assets at fair value through other comprehensive income. 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. For unlisted securities, in the absence of specific events, their acquisition cost is deemed to be the best possible estimate of fair value.

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.

9.1. Borrowings and debt

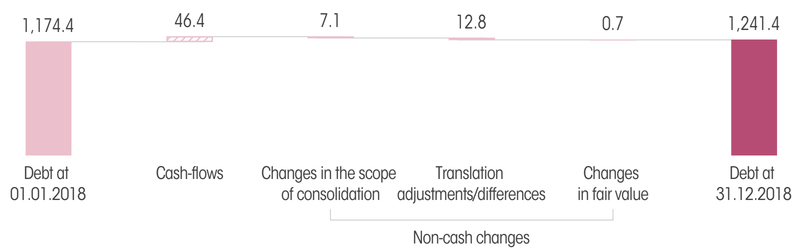
The Group takes out bank loans to cover its medium-term financing needs and issues short-term marketable instruments in France and commercial paper in the US to cover its financing needs in the short term. None of the Group's borrowings or debt contains an early repayment clause linked to financial ratios (covenants).

9.1.1. Debt by type

	31.12.2018		31.12.2017		31.12.2016	
€ millions	Non-current	Current	Non-current	Current	Non-current	Current
Short-term marketable instruments	-	748.6	-	768.1	-	979.8
MLT bank loans	0.6	-	0.3	0.3	1.3	2.7
Debt on capital lease contracts	3.6	2.4	4.6	2.9	20.3	4.3
Overdrafts	-	363.8	-	261.0	-	36.7
Other borrowings and debt	9.3	113.0	8.6	128.7	9.3	210.2
TOTAL	**13.5**	**1,227.8**	**13.4**	**1,161.0**	**30.9**	**1,233.7**

9.1.2. Change in debt

			"Non-cash" changes			
€ millions	31.12.2017	Cash-flows	Changes in the scope of consolidation	Translation adjustments/ differences	Changes in fair value	31.12.2018
Short-term marketable instruments	768.1	-45.8	-	26.3	-	748.6
MLT bank loans	0.6	-0.5	0.6	-	-	0.6
Debt on capital lease contracts	7.5	-3.5	2.0	-	-	6.1
Overdrafts	261.0	105.3	5.8	-8.3	-	363.8
Other borrowings and debt	137.3	-9.1	-1.4	-5.2	0.7	122.3
TOTAL	**1,174.4**	**46.4**	**7.1**	**12.8**	**0.7**	**1,241.4**



9.1.3. Debt by maturity date

€ millions	31.12.2018	31.12.2017	31.12.2016
Less than 1 year [1]	1,227.8	1,161.0	1,233.7
1 to 5 years	3.6	4.2	12.1
More than 5 years	9.9	9.2	18.8
TOTAL	**1,241.4**	**1,174.4**	**1,264.6**

(1) At 31 December 2018, the Group had confirmed undrawn credit lines for €3,643.6 million compared with €3,675.2 million at 31 December 2017 and €3,726.6 million at 31 December 2016. These lines were not subject to any covenants.

Estimated interest expense at 31 December 2018, as at 31 December 2017 and 2016, 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.

9.1.4. Debt by currency

€ millions	31.12.2018	31.12.2017	31.12.2016
Euro (EUR)	404.8	378.2	21.8
US Dollar (USD)	571.7	630.2	989.1
British Pound (GBP)	46.3	2.2	15.0
Chilean Peso (CLP)	26.2	18.7	10.7
Colombian Peso (COP)	25.4	29.4	14.6
Argentine Peso (ARS)	21.6	2.5	-
Egyptian Pound (EGP)	20.6	13.6	11.9
Brazilian Real (BRL)	19.8	27.6	93.9
Chinese Yuan Renminbi (CNY)	16.9	19.2	46.8
Hong Kong dollar (HKD)	15.6	-	-
Australian dollar (AUD)	12.3	-	0.1
Other	60.1	52.8	60.7
TOTAL	**1,241.4**	**1,174.4**	**1,264.6**

9.1.5. Breakdown of fixed rate – floating rate debt (after allowing for interest rate hedging instruments)

€ millions	31.12.2018	31.12.2017	31.12.2016
Floating rate	1,162.0	1,132.3	1,202.6
Fixed rate	79.4	42.1	62.1
TOTAL	**1,241.4**	**1,174.4**	**1,264.6**

9.1.6. Effective interest rates

Effective interest rates on Group debt after allowing for hedging instruments are 1.69% in 2018 compared with 0.94% in 2017 and 0.68% in 2016 for short-term marketable instruments.

Bank loans amounted to €0.6 million at 31 December 2018 compared with €0.6 million at 31 December 2017 and €4.0 million at 31 December 2016.

9.1.7. Average debt interest rates

Average debt interest rates after allowing for hedging instruments break down as follows:

	31.12.2018	31.12.2017	31.12.2016
Euro (EUR) [1]	-0.45%	-0.42%	-0.33%
US Dollar (USD)	1.97%	1.00%	0.48%

(1) The fall in euro interest rates is now reflected by drawdowns of short-term marketable instruments with negative interest rates.

9.1.8. 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 €1,241.8 million at 31 December 2018 compared with €1,175.0 million at 31 December 2017 and €1,265.3 million at 31 December 2016.

9.1.9. Debt covered by collateral

No debt was covered by material amounts of collateral at 31 December 2018, 2017 and 2016.

9.1.10. Confirmed credit lines

At 31 December 2018, L'Oréal and its subsidiaries had €3,643.6 million of confirmed undrawn credit lines, compared with €3,675.2 million at 31 December 2017 and €3,726.6 million at 31 December 2016. At 31 December 2018, these credit lines had a maturity of between one and four years.

9.2. Cash and cash equivalents

	31.12.2018		31.12.2017		31.12.2016	
€ millions	**Carrying amount**	**Acquisition cost**	Carrying amount	Acquisition cost	Carrying amount	Acquisition cost
Marketable securities	1,899.8	1,900.5	1,810.4	1,810.8	758.4	758.5
Bank accounts and other cash and cash equivalents	2,092.2	2,092.2	1,236.1	1,236.1	987.6	987.6
TOTAL	**3,992.0**	**3,992.7**	**3,046.6**	**3,046.9**	**1,746.0**	**1,746.1**

Marketable securities consist mainly of SICAV money-market funds and unit trusts (on which the return is based on EONIA). They are considered as financial assets at fair value through profit or loss

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.

9.3. Non-current financial assets

	31.12.2018		31.12.2017		31.12.2016	
€ millions	**Carrying amount**	**Acquisition cost**	Carrying amount	Acquisition cost	Carrying amount	Acquisition cost
Investments in non-consolidated companies						
• Sanofi (1)	8,945.0	4,033.5	8,494.6	4,033.5	9,091.7	4,033.5
• Unlisted securities (2)	52.5	147.5	32.1	127.1	17.5	112.5
Financial assets at amortised cost						
• Non-current loans and receivables	103.0	105.5	239.5	242.4	197.3	200.8
TOTAL	**9,100.5**	**4,286.5**	**8,766.2**	**4,403.0**	**9,306.5**	**4,346.8**

(1) L'Oréal's stake in Sanofi was 9.48% at 31 December 2018. The carrying amounts at 31 December 2018, 31 December 2017 and 31 December 2016 (€8,945.0 million, €8,494.6 million and €9,091.7 million respectively) correspond to the market value of the shares based on the closing price at each of these dates (€75.66, €71.85 and €76.90, respectively). The acquisition cost of €4,033.5 million corresponds to an entry cost of €34.12. The investment is measured at fair value through other comprehensive income.

(2) This heading mainly includes:
- *strategic investments in investment funds measured at fair value through other comprehensive income;*
- *securities of our subsidiaries in Venezuela deconsolidated since 31 December 2015, for €94.4 million fully written down.*

In the absence of specific events, their acquisition cost is deemed to be the best possible estimate of fair value.

9.4. Other financial income and expenses

This item breaks down as follows:

€ millions	**2018**	2017	2016
Interest component of pension costs	-7.9	-16.3	-20.3
Other financial income and expenses	-7.1	-9.7	-5.5
TOTAL	**-15.0**	**-26.0**	**-25.8**

NOTE 10 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 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.

10.1. 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 or, in exceptional cases, directly by the Group's subsidiaries. Such operations are supervised by REGEFI (the Group's bank). Since 31 December 2018, REGEFI has been merged into FINVAL, the Company running the Group's treasury operations. FINVAL is not authorised as a credit institution.

REGEFI, as the Group's bank, was subject to the 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. FINVAL continues to be subject to this regulation as a non-financial undertaking. 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 11.3.

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:

	Nominal			Market value		
€ millions	**31.12.2018**	31.12.2017	31.12.2016	**31.12.2018**	31.12.2017	31.12.2016
Currency futures						
Purchase/Sale of EUR against foreign currencies	**2,552.5**	**1,784.8**	**2,148.0**	**-54.8**	**61.5**	**-92.7**
CNY/EUR	452.1	185.1	143.6	-9.2	1.4	-0.3
USD/EUR	319.2	188.3	181.2	-12.9	13.6	-21.8
GBP/EUR	295.5	229.0	352.4	2.6	5.6	24.1
RUB/EUR	238.7	127.7	243.1	5.5	-1.7	-44.3
MXN/EUR	171.7	168.3	156.9	-2.9	8.9	4.0
CAD/EUR	119.4	173.2	180.1	2.7	1.9	-2.6
AUD/EUR	87.8	97.1	82.9	1.8	3.0	-2.7
HKD/EUR	87.6	42.2	117.6	-22.9	16.2	-23.0
BRL/EUR	63.2	57.7	78.4	-4.1	2.9	-14.1
TRY/EUR	62.4	76.7	84.1	-7.1	4.1	5.7
EUR/Asia Pacific currencies	288.0	230.8	232.2	-9.4	3.3	-6.4
EUR/Eastern European currencies	66.7	68.9	85.7	-0.7	-2.0	0.1
EUR/Other currencies	300.1	139.8	209.9	1.7	4.4	-11.4
Purchase of USD against foreign currencies	**377.9**	**434.8**	**441.2**	**9.0**	**-10.6**	**-13.3**
USD/Other currencies	161.7	202.2	179.9	1.5	-3.9	-2.2
USD/Latin American currencies	126.8	149.7	177.2	2.1	-3.6	-13.7
USD/CAD	89.3	82.9	84.1	5.3	-3.0	2.7
Sale of USD against foreign currencies	**185.3**	**14.2**	**23.1**	**3.0**	**-4.8**	**9.2**
USD/Asia Pacific currencies	185.3	14.1	23.1	3.0	-4.8	9.2
USD/Other currencies	-	0.1	-	-	-	-
Other currency pairs	**1,073.6**	**705.0**	**658.0**	**0.8**	**-27.2**	**14.5**
CURRENCY FUTURES TOTAL	**4,189.2**	**2,938.8**	**3,270.4**	**-42.0**	**18.9**	**-82.2**
Currency options						
EUR/CNY	100.9	37.8	17.5	2.3	1.7	0.3
EUR/HKD	35.4	34.9	36.2	1.8	2.8	0.1
EUR/TRY	31.4	10.5	-	4.1	1.9	-
EUR/GBP	-	101.6	49.7	-	3.3	3.9
EUR/RUB	-	76.7	39.6	-	4.0	0.2
EUR/USD	-	75.5	39.0	-	5.0	0.2
EUR/Other currencies	-	23.9	7.5	-	2.4	-
Other currencies pairs	**22.8**	**8.1**	**9.1**	**0.9**	**0.2**	**0.0**
CURRENCY OPTIONS TOTAL	**190.6**	**369.0**	**198.6**	**9.1**	**21.3**	**4.8**
Of which total options purchased	190.6	369.0	198.6	9.1	21.3	4.8
TOTAL	**4,379.8**	**3,307.8**	**3,469.0**	**-32.9**	**40.2**	**-77.4**

The market values by type of hedging are as follows:

€ millions	**2018**	2017	2016
Fair value hedges [1]	-9.7	-0.6	-20.0
Cash flow hedges	-23.2	40.8	-57.4
TOTAL	**-32.9**	**40.2**	**-77.4**

(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.

10.2. 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	2018	2017	2016
Time value	-76.7	-90.5	-44.8
Other foreign exchange gains and losses	87.1	-5.0	87.1
TOTAL	**10.4**	**-95.5**	**42.3**

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 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 -€4.3 million, -€8.4 million and -€10.9 million in 2018, 2017 and 2016 respectively.

These amounts are allocated to the appropriate operating expense items as follows:

€ millions	2018	2017	2016
Cost of sales	13.2	-77.8	28.2
Research and development	-6.2	3.3	6.9
Advertising and promotion	1.9	-12.4	4.6
Selling, general and administrative expenses	1.6	-8.6	2.6
FOREIGN EXCHANGE GAINS AND LOSSES	**10.4**	**-95.5**	**42.3**

4

10.3. Hedging of interest rate risk

The Group did not have any interest rate hedging instruments at 31 December 2018, 2017 and 2016.

10.4. Sensitivity to changes in interest rates

An increase of 100 basis points in interest rates would have had a direct positive impact of +€28.3 million on the Group's net finance costs at 31 December 2018, compared with a direct positive impact of +€19.1 million at 31 December 2017 and a direct positive impact of +€5.4 million at 31 December 2016. 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.

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 -€0.4 million at 31 December 2018 compared with €0.1 million at 31 December 2017 and €0.2 million 31 December 2016.

10.5. 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.

10.6. 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 €3,643.6 million at 31 December 2018. These lines were not subject to any covenants.

10.7. 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 2018, marketable securities consist mainly of unit trusts (note 9.2.).

At 31 December 2018, the Group held 118,227,307 Sanofi shares for an amount of €8,945.0 million (note 9.3.). A change of plus or minus 10% in the market price of these shares relative to the market price of €75.66 on 31 December 2018 would have an impact of plus or minus €894.5 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 2017, the Group held 118,227,307 Sanofi shares for an amount of €8,494.6 million (note 9.3.). 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.

At 31 December 2016, the Group held 118,227,307 Sanofi shares for an amount of €9,091.7 million (note 9.3.). 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.

10.8. 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.

€ millions

31 December 2018	level 1	level 2	level 3	Total fair value
Assets at fair value				
Foreign exchange derivatives		149.6		149.6
Sanofi shares	8,945.0			8,945.0
Marketable securities	1,899.8			1,899.8
TOTAL ASSETS AT FAIR VALUE	**10,844.8**	**149.6**	**-**	**10,994.4**
Liabilities at fair value				
Foreign exchange derivatives		182.5		182.5
TOTAL LIABILITIES AT FAIR VALUE	**-**	**182.5**	**-**	**182.5**

€ millions

31 December 2017	level 1	level 2	level 3	Total fair value
Assets at fair value				
Foreign exchange derivatives		230.3		230.3
Sanofi shares	8,494.6			8,494.6
Marketable securities	1,810.4			1,810.4
TOTAL ASSETS AT FAIR VALUE	**10,305.0**	**230.3**	**-**	**10,535.3**
Liabilities at fair value				
Foreign exchange derivatives		190.5		190.5
TOTAL LIABILITIES AT FAIR VALUE	**-**	**190.5**	**-**	**190.5**

€ millions

31 December 2016	level 1	level 2	level 3	Total fair value
Assets at fair value				
Foreign exchange derivatives		254.2		254.2
Sanofi shares	9,091.7			9,091.7
Marketable securities	758.4			758.4
TOTAL ASSETS AT FAIR VALUE	**9,850.1**	**254.2**	**-**	**10,104.3**
Liabilities at fair value				
Foreign exchange derivatives		330.4		330.4
TOTAL LIABILITIES AT FAIR VALUE	**-**	**330.4**	**-**	**330.4**

10.9. 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 €65.5 million, €80.1 million and €125.4 million respectively at 31 December 2018, 2017 and 2016.

NOTE 11 Equity – Earnings per share

11.1. Share capital and additional paid in capital

Share capital consisted of 560,396,652 shares with a par value of €0.20 at 31 December 2018, following the exercise of subscription options for 919,474 shares and 993,765 free shares, the cancellation of 2,497,814 shares and the Employee Shareholding Plan for 462,139 shares.

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.

11.2. 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) 2018

The change in the number of shares in 2018 is as follows:

In shares	Share capital	Treasury stock	Common shares outstanding
AT 01.01.2018	**560,519,088**	**-771,125**	**559,747,963**
Shares cancelled	-2,497,814	2,497,814	
Options and free shares exercised	2,375,378		2,375,378
Treasury stock purchased		-2,497,814	-2,497,814
AT 31.12.2018	**560,396,652**	**-771,125**	**559,625,527**

The change in Treasury stock in 2018 is as follows:

In shares	Buyback programme	Allocated to stock option/ free-share plans	**Total**	*€ millions*
AT 01.01.2018		**771,125**	**771,125**	**56.5**
Shares cancelled	-2,497,814		-2,497,814	
Options and free shares exercised				
Treasury stock purchased	2,497,814		2,497,814	
AT 31.12.2018	**-**	**771,125**	**771,125**	**56.5**
€ millions	-	56.5	56.5	

b) 2017

The change in the number of shares in 2017 was as follows:

In shares	Share capital	Treasury stock	Common shares outstanding
AT 01.01.2017	**561,855,741**	**-1,757,345**	**560,098,396**
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
AT 31.12.2017	**560,519,088**	**-771,125**	**559,747,963**

The change in Treasury stock in 2017 was as follows:

In shares	Buyback programme	Allocated to stock option/ free-share plans	**Total**	€ millions
AT 01.01.2017		**1,757,345**	**1,757,345**	**133.6**
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
AT 31.12.2017	**-**	**771,125**	**771,125**	**56.5**
€ millions	-	56.5	56.5	

c) 2016

The change in the number of shares in 2016 was as follows:

In shares	Share capital	Treasury stock	Common shares outstanding
AT 01.01.2016	**562,983,348**	**-2,995,170**	**559,988,178**
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
31.12.2016	**561,855,741**	**-1,757,345**	**560,098,396**

The change in Treasury stock in 2016 was as follows:

In shares	Buyback programme	Allocated to stock option/ free-share plans	**Total**	*€ millions*
AT 01.01.2016		**2,995,170**	**2,995,170**	**233.3**
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
AT 31.12.2016	**-**	**1,757,345**	**1,757,345**	**133.6**
€ millions	-	133.6	133.6	

11.3. Other comprehensive income

The following tables indicate movements in this item:

€ millions	31.12.2018	31.12.2017	31.12.2016
Securities at fair value through other comprehensive income			
Reserve at beginning of period	4,461.2	-	-
Changes in fair value over period	450.5	-	-
Changes in fair value recorded in profit and loss	-	-	-
Reserve at end of period	**4,911.7**	**-**	**-**

€ millions	31.12.2018	31.12.2017	31.12.2016
Financial assets available-for-sale			
Reserve at beginning of period	-	5,058.2	5,259.2
Changes in fair value over period	-	-597.0	-201.0
Impairment loss recorded in profit and loss	-	-	-
Changes in fair value recorded in profit and loss	-	-	-
Reserve at end of period	**-**	**4,461.2**	**5,058.2**

€ millions	31.12.2018	31.12.2017	31.12.2016
Cash flow hedges – foreign exchange			
Reserve at beginning of period	101.0	10.7	148.8
Change in accounting policy (1)	1.0	-0.4	-14.0
Changes in fair value over period	54.2	162.5	-118.7
Changes in fair value recorded in profit and loss	-114.5	-74.2	-5.2
Deconsolidation	-	2.4	-0.1
Reserve at end of period	**41.7**	**101.0**	**10.7**

(1) IFRS 9 Financial Instruments (note 1).

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	31.12.2018	31.12.2017	31.12.2016
Impact of a 10% increase in the EUR against all other Group currencies	+277.8	+250.0	+224.5
Impact of a 10% decrease in the EUR against all other Group currencies	-258.7	-217.4	-214.4
Impact of a 10% increase in the USD against key Group currencies	-16.1	+10.0	+24.5
Impact of a 10% decrease in the USD against key Group currencies	+27.7	+3.6	-14.2

€ millions	31.12.2018	31.12.2017	31.12.2016
Cash flow hedges – interest rates			
Reserve at beginning of period	-	-	-
Changes in fair value over period	-	-	-
Changes in fair value recorded in profit and loss	-	-	-
Reserve at end of period	**-**	**-**	**-**

€ millions	31.12.2018	31.12.2017	31.12.2016
Actuarial gains/(losses) and impact of asset ceiling			
Reserve at beginning of period	-671.8	-946.2	-944.2
Actuarial gains/(losses) over the period	-58.5	279.9	-1.3
Impact of asset ceiling	-	-	-
Deconsolidation and other	-0.2	-5.6	-0.7
Reserve at end of period	**-730.5**	**-671.8**	**-946.2**

€ millions	31.12.2018	31.12.2017	31.12.2016
Other comprehensive income			
Gross reserve	4,222.9	3,890.6	4,122.6
Associated tax effect	19.2	4.4	104.9
Reserve net of tax	**4,242.1**	**3,895.0**	**4,227.3**

11.4. 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.

11.4.1. 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	2018	2017	2016
Net profit from continuing operations attributable to owners of the company	**3,895.4**	**3,821.7**	**3,080.5**
Capital gains and losses on property, plant and equipment and intangible assets	-2.7	-3.9	-16.2
Impairment of property, plant and equipment and intangible assets	-	-	447.2
Restructuring costs	85.1	262.5	99.4
Others	12.3	17.8	11.0
Tax effect on non-recurring items	-25.1	-83.4	-36.1
Non-controlling interests on non-recurring items	-	-0.1	-0.1
Tax effect on acquisitions and internal restructuring	32.7	-16.1	5.6
Impact of the decrease in the US tax rate	-10.1	-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 (1)	-	-146.0	52.3
NET PROFIT FROM CONTINUING OPERATIONS ATTRIBUTABLE TO OWNERS OF THE COMPANY EXCLUDING NON-RECURRING ITEMS	**3,987.6**	**3,748.7**	**3,619.6**

(1) 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.

11.4.2. 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 11.4.5.):

2018	**Net profit attributable to owners of the company** *(€ million)*	**Number of shares**	**Earnings per share attributable to owners of the company** *(€)*
Earnings per share	3,895.4	559,603,188	6.96
Stock options	-	1,155,173	-
Free shares	-	2,340,145	-
DILUTED EARNINGS PER SHARE	**3,895.4**	**563,098,506**	**6.92**

2017	Net profit attributable to owners of the company *(€ million)*	Number of shares	Earnings per share attributable to owners of the company *(€)*
Earnings per share	3,581.4	559,233,644	6.40
Stock options	-	1,792,615	-
Free shares	-	2,502,243	-
DILUTED EARNINGS PER SHARE	**3,581.4**	**563,528,502**	**6.36**

2016	Net profit attributable to owners of the company (€ million)	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	-
DILUTED EARNINGS PER SHARE	**3,105.8**	**564,509,135**	**5.50**

11.4.3. 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 11.4.5.):

2018	**Net profit attributable to owners of the company excluding non-recurring items** (€ million)	**Number of shares**	**Earnings per share attributable to owners of the company excluding non-recurring items** (€)
Earnings per share excluding non-recurring items	3,987.6	559,603,188	7.13
Stock options	-	1,155,173	-
Free shares	-	2,340,145	-
DILUTED EARNINGS PER SHARE EXCLUDING NON-RECURRING ITEMS	**3,987.6**	**563,098,506**	**7.08**

2017	Net profit attributable to owners of the company excluding non-recurring items (€ million)	Number of shares	Earnings per share 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	-
DILUTED EARNINGS PER SHARE EXCLUDING NON-RECURRING ITEMS	**3,748.7**	**563,528,502**	**6.65**

2016	Net profit attributable to owners of the company excluding non-recurring items (€ million)	Number of shares	Earnings per share attributable to owners of the company excluding non-recurring items (€)
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	-
DILUTED EARNINGS PER SHARE EXCLUDING NON-RECURRING ITEMS	**3,619.6**	**564,509,135**	**6.41**

11.4.4. 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.

11.4.5. 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 2018 on shares held continuously in registered form between 31 December 2016 and the 2019 dividend payment date. The number of shares eligible for the preferential dividend cannot exceed 0.5% of the share capital for any one shareholder.

2018	Number of shares	Diluted earnings per share	Diluted earnings per share of continuing operations
Shares carrying ordinary dividend rights	514,624,593	6.86	6.86
Shares carrying preferential dividend rights	48,473,913	7.54	7.54

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

4

NOTE 12 Provisions for liabilities and charges – Contingent liabilities and material ongoing disputes

12.1. 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*.

12.1.1. Closing balances

€ millions	**31.12.2018**	31.12.2017	31.12.2016
Non-current provisions for liabilities and charges	**336.1**	**434.9**	**333.3**
Other non-current provisions (1)	336.1	434.9	333.3
Current provisions for liabilities and charges	**979.8**	**889.2**	**810.7**
Provisions for restructuring	102.1	146.0	47.5
Provisions for product returns	316.8	303.6	323.4
Other current provisions (1)	560.9	439.6	439.8
TOTAL	**1,315.9**	**1,324.1**	**1,144.0**

(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 12.2.2.a and b).
At end-December 2017, L'Oréal and some of its 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. The process was ongoing at end-2018 and the inspections for 2015 for L'Oréal and 2015 to 2017 for its subsidiaries were not yet complete.
In 2018, L'Oréal reconsidered the assessment of its risks in Brazil, particularly concerning the IPI (see notes 12.1.2 and 12.2.1.)

12.1.2. Changes in provisions for liabilities and charges during the period

€ millions	31.12.2016	31.12.2017	Charges (2)	Reversals (used) (2)	Reversals (not used) (2)	Other (1)	31.12.2018
Provisions for restructuring	47.5	146.0	48.7	-83.7	-7.5	-1.4	102.1
Provisions for product returns	323.4	303.6	294.7	-248.3	-39.3	6.0	316.8
Other provisions for liabilities and charges	773.1	874.5	384.0	-144.1	-214.6	-2.9	897.0
TOTAL	**1,144.0**	**1,324.1**	**727.4**	**-476.1**	**-261.4**	**1.8**	**1,315.9**

(1) Mainly resulting from translation differences.
(2) These figures can be analysed as follows:

€ millions	Charges	Reversals (used)	Reversals (not used)
◆ Operating profit*	580.5	-356.1	-191.8
◆ Other income and expenses	50.7	-106.7	-7.6
◆ Net financial income *	-	-	-14.8
◆ Income tax	96.2	-13.3	-47.3

* *Including dispute on IPI, with an increase of €46.9 million and a reversal without cost of €114.3 million under operating and €14.8 million under financial (see note 12.2.1.).*

The change in this caption in 2017 can be analysed as follows:

€ millions	31.12.2015	31.12.2016	Charges (2)	Reversals (used) (2)	Reversals (not used) (2)	Other (1)	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
TOTAL	**950.4**	**1,144.0**	**744.7**	**-447.8**	**-133.7**	**16.9**	**1,324.1**

(1) Mainly resulting from translation differences and €67.1 million relating to the dispute on IPI with the tax administration in Brazil (note 12.2.1.).
(2) These figures can be analysed as follows:

€ millions	Charges	Reversals (used)	Reversals (not used)
◆ Operating profit	494.1	-388.4	-89.4
◆ Other income and expenses	156.9	-44.0	-10.1
◆ Net financial income	-	-	-
◆ 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 (2)	Reversals (used) (2)	Reversals (not used) (2)	Other (1)	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
TOTAL	**915.6**	**950.4**	**571.3**	**-372.4**	**-137.2**	**131.9**	**1,144.0**

(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 12.2.1.).
(2) These figures can be analysed as follows:

€ millions	Charges	Reversals (used)	Reversals (not used)
◆ Operating profit	480.2	-322.2	-107.1
◆ Other income and expenses	50.6	-40.5	-7.8
◆ Net financial income	-	-	-
◆ Income tax	40.5	-9.7	-22.3

12.2. Contingent liabilities and material ongoing disputes

L'Oréal is party to several material disputes, described below:

12.2.1. Tax disputes

Brazil - IPI indirect tax base challenged

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. In light of changes in market practices and a favourable change in the opinion of its advisers, since 1 January 2018 L'Oréal has recognised the IPI collected under revenue and the provision that had been funded was accordingly reversed in 2018.

L'Oréal received tax reassessment notices regarding the indirect IPI tax for financial years 2008 and 2011 to 2015 totalling €683.7 million, including interest and penalties. The Brazilian tax authorities are questioning the ex-works sales price to the commercial arm 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.

In light of the negative developments in administrative court decisions on the same matter for other Brazilian groups, L'Oréal funded a provision to partially cover this risk using as a basis for the tax the average prices applied by its subsidiaries and not its whole third party sales (see notes 12.1.1. and 12.1.2.).

India – Advertising, marketing and promotional costs challenged

L'Oréal received several tax reassessment notices regarding financial years 2007/08 to 2014/15 for the most part concerning the tax deductibility of advertising, marketing and promotional expenses for a total amount of €136.9 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.

Europe - Mutual agreement procedures

Mutual agreement procedures were instigated *vis-à-vis* the Italian, French and Spanish tax authorities in order to eliminate double taxation following disagreement between these authorities.

12.2.2. 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)

- 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 recalculated the fine in accordance with the criteria specified by the Court of Cassation and confirmed the amount of the fine initially set at €23 million, which was paid on 5 July 2018;
- 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. The total amount of the fine has been provisioned. The Greek Administrative Court of Appeal quashed this decision on 5 November 2018. The Greek Competition Authority may appeal this decision to quash.

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 the 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 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. The Court of Cassation is expected to hand down its decision in first half 2019.

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 2018, the provision was maintained in liabilities and the payment recognised in *Other current assets*.

A provision has been set aside for all disputes still in progress at 31 December 2018 amounting to €189.5 million at the year-end, *versus* €212.3 million at end-2017 and €214.4 million at end-2016.

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.

NOTE 13 Off-balance sheet commitments

13.1. Operating lease commitments

These amounts to €2,582.1 million at 31 December 2018 compared with €2,385.0 million at 31 December 2017 and €2,840.4 million at 31 December 2016, of which:

- €512.4 million was due within one year at 31 December 2018, compared with €475.5 million at 31 December 2017 and €536.8 million at 31 December 2016;
- €1,422.8 million was due within one to five years at 31 December 2018, compared with €1,222.0 million at 31 December 2017 and €1,372.8 million at 31 December 2016;
- €646.9 million was due in over five years at 31 December 2018, compared with €687,5 million at 31 December 2017 and €930.8 million at 31 December 2016.

13.2. Other off-balance sheet commitments

Confirmed credit lines are discussed in note 9.1.10.

Other significant off-balance sheet commitments have been identified and measured. They chiefly fall due within one year and are as follows:

€ millions	**31.12.2018**	31.12.2017	31.12.2016
Guarantees given [(1)]	380.8	305.9	324.0
Guarantees received	63.7	60.2	59.8
Capital expenditure orders [(2)]	303.2	284.1	306.7
Firm purchase commitments under logistics supply contracts	932.8	770.8	640.9

(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.

13.3. 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 2018 are not material.

NOTE 14 Transactions with related parties

14.1. 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	**2018**	2017	2016
Sales of goods and services	0.1	0.1	0.1
Financial expenses and income	-	-	-

The following receivables and payables were recorded on the balance sheet for the related parties:

€ millions	**31.12.2018**	31.12.2017	31.12.2016
Operating receivables	0.1	0.1	0.1
Operating payables	0.1	0.1	0.1
Financial receivables	0.1	-1.5	-1.5

14.2. 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 2018, 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 15 Fees accruing to auditors and members of their networks payable by the Group

FEES FOR THE 2018 FINANCIAL YEAR

	PricewaterhouseCoopers Audit				Deloitte & Associés			
	Auditor PricewaterhouseCoopers Audit		Network		Auditor Deloitte & Associés		Network	
€ millions excl. VAT	Amount	As a %	Amount	As a %	Amount	As a %	Amount	As a %
Review of interim, company and consolidated financial statements								
L'Oréal	1.1	49%	N/A	N/A	1.4	56%	N/A	N/A
Fully consolidated subsidiaries	0.8	39%	3.9	47%	0.6	23%	4.8	88%
Subtotal	**1.9**	**88%**	**3.9**	**47%**	**2.0**	**79%**	**4.8**	**88%**
Non-audit services (1)								
L'Oréal	0.2	9%	2.0	25%	0.5	20%	-	-
Fully consolidated subsidiaries	0.1	3%	2.3	28%	0.0	1%	0.6	12%
Subtotal	**0.3**	**12%**	**4.3**	**53%**	**0.5**	**21%**	**0.6**	**12%**
TOTAL	**2.2**	**100%**	**8.2**	**100%**	**2.5**	**100%**	**5.5**	**100%**

(1) Mainly concerning acquisitions.

FEES FOR THE 2017 FINANCIAL YEAR

	PricewaterhouseCoopers Audit				Deloitte & Associés			
	Auditor PricewaterhouseCoopers Audit		Network		Auditor Deloitte & Associés		Network	
€ millions excl. VAT	Amount	As a %	Amount	As a %	Amount	As a %	Amount	As a %
Review of interim, company and consolidated financial statements								
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%
Subtotal	**2.0**	**58%**	**5.1**	**61%**	**1.8**	**87%**	**3.6**	**71%**
Non-audit services (1)								
L'Oréal	1.4	42%	-	-	0.3	13%	-	-
Fully consolidated subsidiaries	-	-	3.2	39%	-	-	1.4	29%
Subtotal	**1.4**	**42%**	**3.2**	**39%**	**0.3**	**13%**	**1.4**	**29%**
TOTAL	**3.4**	**100%**	**8.3**	**100%**	**2.1**	**100%**	**5.0**	**100%**

(1) Mainly concerning acquisition/disposal audits.

NOTE 16 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 2018

4.7.1. FULLY CONSOLIDATED COMPANIES

Company	Head office	% interest
Atelier Cologne (as a sub-group)	France	100.00
BCI Bio Cosmetics International GmbH	Germany	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
BOLD Business Opportunities for L’Oréal Development	France	100.00
Canan Kozmetik Sanayi Ve Ticaret A.S.	Turkey	100.00
Centre Logistique d’Essigny (Cloe)	France	100.00
Chimex	France	100.00
Cobelsa Cosmeticos, 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
Egyptelor LLC	Egypt	100.00
Elebelle Proprietary Limited	South Africa	100.00
EpiSkin	France	99.89
EpiSkin Brasil Biotecnologia EIRELI	Brazil	100.00
Erwiton S.A.	Uruguay	100.00
Fapagau & Cie	France	100.00
Faproréal	France	100.00
Finval	France	100.00
Fitne Gesundheit und Wellness GmbH	Germany	100.00
Frabel S.A. de C.V.	Mexico	100.00
Gemey Paris – Maybelline New York	France	100.00
Helena Rubinstein Italia S.p.À.	Italy	100.00
Holdial	France	100.00
Holding STRP	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

Company	Head office	% interest
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, Cosmeticos 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.À.	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 Magyarorszag Kozmetikai Kft	Hungary	100.00
L'Oréal Malaysia SDN BHD	Malaysia	100.00
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

Company	Head office	% interest
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 sub-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
La Roche Posay Soins	France	99.55
Laboratoire Sanoflore	France	100.00
Laboratorios de Cosmeticos Vogue S.A.S.	Colombia	100.00
Lancôme Parfums et Beauté & Cie	France	100.00
Lehoux et Jacque	France	100.00
LOA1	France	100.00
LOA3	France	100.00
LOA6	France	100.00
LOA7	France	100.00
LOA8	France	100.00
Logistica 93 S.r.l.	Italy	100.00
Logo-Bau GmbH & Co Gründstücksverwaltungs KG	Germany	100.00
Logo-Bau Verwaltungs GmbH	Germany	100.00
Logocos Naturkosmetik AG	Germany	100.00
Magic Holdings (as a sub-group)	China	100.00
Masrelor LLC	Egypt	100.00
Matrix Distribution GmbH	Germany	100.00
ModiFace	Canada	100.00
Nanda Co. Ltd	Korea	100.00
Nanda Japan K.K.	Japan	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
Soprocos	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 (1)
Innéov Deutschland GmbH	Germany	50.00 (1)
Innéov Hellas A.E.	Greece	50.00 (1)
Innéov Mexico S.A. de C.V.	Mexico	50.00 (1)
Innéov Taiwan Co. Ltd	Taiwan	50.00 (1)
LIPP DISTRIBUTION	Tunisia	49.00
Nutricos Technologies	France	50.00 (1)
SCI Golf Connetable	France	38.12

(1) Companies jointly owned with Nestlé.

4.8 STATUTORY AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

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 includes information specifically required by European regulations or French law, such as information about the appointment of Statutory Auditors. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

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, 2018.

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 at December 31, 2018 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, 2018 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 the most significant 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

Description of risk

At December 31, 2018, the carrying amount of goodwill and other intangible assets recognized in the consolidated financial statements totaled €12,684 million, representing 33% of assets. These assets consist primarily of goodwill and non-amortized brands with indefinite useful lives, 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 did not lead to any impairment losses being recognized at December 31, 2018.

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.

How our audit addressed this risk

We examined the methodology for performing impairment tests.

We assessed, in particular, 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 the Group's past performance 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 future 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 12 – Provisions for liabilities and charges - Contingent liabilities and material ongoing disputes, to the consolidated financial statements

Description of risk

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 (excluding provisions for product returns), employee-related risks and risks related to antitrust investigations, for which provisions amounting to €999 million had been recorded at December 31, 2018.

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 reported in Note 12.2.1 include tax disputes in Brazil and India. These tax risks amounted to €684 million and €137 million, respectively, and are partially covered by provisions.

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.

How our audit addressed this risk

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 mapping, as presented by the Legal Department to the Audit Committee;
- the information provided by the principal law firms acting for the Group, with which we conducted interviews.

We assessed the quality of Management's estimates by comparing the amRegarding 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.ounts 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 methods used for these assessments.

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 programs. 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;

Specific verifications

As required by legal and regulatory provisions and in accordance with professional standards applicable in France, we have also verified the information pertaining to the Group presented in the Board of Directors' management report.

We have no matters to report as to its fair presentation and its consistency with the consolidated financial statements.

We attest that the consolidated non-financial information statement provided for in article L.225-102-1 of the French Commercial Code is included in the information pertaining to the Group presented in the management report, it being specified that, in accordance with article L.823-10 of the Code, we have not verified the fair presentation and consistency with the consolidated financial statements of the information contained in that statement, which must be verified in a report by an independent third party.

Report on other legal and regulatory requirements

Appointment of the Statutory Auditors

We were appointed Statutory Auditors of L'Oréal by the Annual General Meeting of April 29, 2004 for both PricewaterhouseCoopers Audit and Deloitte & Associés.

At December 31, 2018, PricewaterhouseCoopers Audit and Deloitte & Associés were in the fifteenth consecutive year of their engagement.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for preparing consolidated financial statements giving 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 that are 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 taken by users 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 the Company's management.

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 in the consolidated financial statements, whether due to fraud or error, design and perform audit procedures in response 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 the internal control procedures 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 management, 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 program 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 the most significant for 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 and Paris-La Défense, February 18, 2019

The Statutory Auditors

PricewaterhouseCoopers Audit	Deloitte & Associés
Anne-Claire Ferrié	Frédéric Moulin

5

Parent company financial statements*

* *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.*

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 invoices issued and received, not paid at the end of the financial year and in arrears, 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	**31.12.2018**	31.12.2017	31.12.2016
Operating revenue		**4,319.4**	**4,017.5**	**3,381.2**
Sales	2	3,888.4	3,613.5	3,053.1
Reversals of provisions and transfers of charges		76.4	69.2	65.2
Other revenues	3	354.6	334.8	262.9
Operating expenses		**-3,930.4**	**-3,697.5**	**- 3,212.7**
Purchases and change in inventories		-401.0	-358.8	- 206.5
Other purchases and external charges		-2,064.0	-1,976.8	- 1,754.0
Taxes and similar payments		-92.0	-105.3	- 110.0
Personnel costs		-979.4	-898.6	- 827.0
Depreciation, amortisation and charges to provisions	5	-195.6	-169.6	- 205.6
Other charges		-198.4	-188.4	-109.6
Operating profit		**389.0**	**320.0**	**168.5**
Net financial revenue	6	3,523.6	2,637.2	3,009.5
Net charges/reversals of provisions and transfers of charges	6	-221.9	122.3	-96.1
Exchange gains and losses		-24.2	-111.9	-167.5
Net financial income		**3,277.5**	**2,647.6**	**2,745.9**
Profit before tax and exceptional items		**3,666.5**	**2,967.6**	**2,914.4**
Exceptional items	7	**-57.0**	**-62.2**	**5.8**
Employee Profit Sharing		-21.5	-19.7	-18.9
Income tax	8	6.9	166.0	113.1
NET PROFIT		**3,594.9**	**3,051.7**	**3,014.4**

5.2. COMPARED BALANCE SHEETS

ASSETS

€ millions (net value)	Notes	31.12.2018	31.12.2017	31.12.2016
Intangible assets	11	2,820.5	2,234.4	1,535.5
Tangible assets	12	513.5	498.0	477.3
Financial assets	14	10,368.8	10,237.1	10,571.1
Non-current assets		**13,702.8**	**12,969.5**	**12,583.9**
Inventories		74.8	64.7	26.8
Prepayments to suppliers		7.8	6.2	7.1
Trade accounts receivable	16	540.5	567.6	493.1
Other current assets	16	486.2	452.5	471.4
Marketable securities	15	93.5	95.3	124.7
Cash and cash equivalents	27	1,496.9	806.5	180.9
Current assets		**2,699.7**	**1,992.8**	**1,304.0**
Prepaid expenses		59.6	58.2	42.0
Unrealised exchange losses	21	55.0	46.4	18.4
TOTAL ASSETS		**16,517.1**	**15,066.9**	**13,948.3**

SHAREHOLDERS' EQUITY AND LIABILITIES

€ millions	Notes	31.12.2018	31.12.2017	31.12.2016
Share capital		112.1	112.1	112.4
Additional paid-in capital		3,070.3	2,935.3	2,817.3
Reserves and retained earnings		7,470.2	6,922.8	6,269.6
Net profit		3,594.9	3,051.7	3,014.4
Regulated provisions		64.4	89.1	92.2
Shareholders' equity		**14,311.9**	**13,111.0**	**12,305.9**
Provisions for liabilities and charges	**18**	**516.0**	**466.3**	**401.6**
Borrowings and debt	19	209.6	211.6	169.0
Trade accounts payable	20	718.4	684.5	486.8
Other current liabilities	20	743.8	571.4	574.8
Other liabilities		**1,671.8**	**1,467.5**	**1,230.6**
Unrealised exchange gains	21	17.4	22.1	10.2
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**16,517.1**	**15,066.9**	**13,948.3**

5.3. CHANGES IN SHAREHOLDERS' EQUITY

The share capital comprises 560,396,652 shares with a par value of €0.2 each following transactions carried out in 2018:

- subscription for 919,474 shares following the exercise of options, the grant of 993,765 free shares and 462,139 shares under the employee shareholding plan;
- cancellation of 2,497,814 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**
Balance at 31 December 2015 before appropriation of net profit	**112.6**	**2,654.5**	**43.7**	**5,410.4**	**3,055.4**	**80.7**	**11,357.3**
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		0.0
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
Balance at 31 December 2016 before appropriation of net profit	**112.4**	**2,817.3**	**43.7**	**6,226.0**	**3,014.4**	**92.2**	**12,306.0**
Change in accounting policy at 1 January 2017 (1)				-4.7			-4.7
Balance at 1 January 2017 before appropriation of net profit	**112.4**	**2,817.3**	**43.7**	**6,221.3**	**3,014.4**	**92.2**	**12,301.3**
Changes in share capital	0.3	118.0					118.3
Cancellation of Treasury stockres	-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
Balance at 1 January 2018 before appropriation of net profit	**112.1**	**2,935.3**	**42.5**	**6,880.4**	**3,051.7**	**89.0**	**13,111.0**
Changes in share capital	0.5	135.0					135.5
Cancellation of Treasury stock	-0.5			-497.6			-498.1
Appropriation of 2017 net profit				1,045.1	-1,045.1		0.0
Dividends paid for 2017					-2,006.6		-2,006.6
2018 net profit					3,594.9		3,594.9
Other movements during the period				-0.2		-24.6	-24.8
BALANCE AT 31 DECEMBER 2018 BEFORE APPROPRIATION OF NET PROFIT	**112.1**	**3,070.3**	**42.5**	**7,427.7**	**3,594.9**	**64.4**	**14,311.9**

(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).

The amount added to reserves for unpaid dividends on some treasury shares held by L'Oréal as well as movements between 1 January and the date of payment of the dividend, on maturing free shares plans, stock option exercises and the final number of shares eligible for the bonus dividend, stood at -€0.7 million in 2018, compared with €9.9 million in 2017 and €14.2 million in 2016.

Accelerated tax-driven depreciation at 31 December 2018 amount to €64.2 million compared with €88.8 million at 31 December 2017 and €91.9 million at 31 December 2016.

Details of option plans and free share plans are provided in note 17.

5.4. STATEMENTS OF CASH FLOWS

€ millions	Notes	31.12.2018	31.12.2017	31.12.2016
Operating activities				
Net profit		**3,594.9**	**3,051.7**	**3,014.4**
Depreciation and amortisation	12	117.2	105.7	106.1
Charges to provisions (net of reversals)		290.4	-93.3	131.7
Gains and losses on disposals of non-current assets		2.0	61.4	- 10.4
Other non-cash transactions (1)		-	71.5	126.3
Gross cash flow		**4,004.5**	**3,197.0**	**3,368.1**
Changes in working capital	25	81.8	292.4	148.6
Net cash provided by operating activities		**4,086.3**	**3,489.4**	**3,516.7**
Investing activities				
Investments in non-current assets		-1,674.2	-2,209.5	- 1,372.4
Changes in other financial assets	26	56.2	46.7	11.9
Disposals of non-current assets		39.5	962.9	110.9
Net cash from (used in) investing activities		**-1,578.5**	**-1,199.9**	**- 1,249.6**
Financing activities				
Capital increase		135.3	118.3	163.2
Dividends paid		-2,006.6	-1,857.7	- 1,741.9
Changes in financial debt		-1.9	196.9	- 103.5
Net cash from (used in) financing activities		**-1,873.2**	**-1,542.5**	**- 1,682.2**
Cash acquired or sold in the period (complete transfer of assets and liabilites)		55.9	32.7	- 1.0
Change in cash and cash equivalents		**690.5**	**779.7**	**583.9**
Net Cash and cash equivalents at beginning of the year		806.1	26.4	- 557.5
NET CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**27**	**1,496.6**	**806.1**	**26.4**

(1) Relating mainly to the value of free shares vested under the 2012 and 2013 plans which matured in 2016 and 2017, respectively.

5

5.5. NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

Notes contents

Highlights of the financial year

On 2 May 2018, L'Oréal announced the acquisition of 100% of Nanda Co. Ltd., the Korean lifestyle, make-up and fashion company founded by Kim So-Hee in Seoul in 2004. The acquisition was finalised on 20 June 2018 following regulatory clearance

At midnight on 30 June 2018, Gemey Maybelline Garnier transferred all its assets to L'Oréal, in consideration for taking on all its debt, with retroactive effect to 1 January 2018.

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. Property, plant and equipment

Property, plant and equipment 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. Impairment of financial 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 cash and cash equivalents

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 parent company operates pension, early retirement and other benefit schemes for employees and retirees depending on 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	31.12.2018	31.12.2017	31.12.2016
Sales of goods (1)	1,537.7	1,368.2	873.4
Services (2)	2,186.8	2,053.0	1,929.3
Other revenues	163.9	192.3	250.4
TOTAL	**3,888.4**	**3,613.5**	**3,053.1**

(1) *The growth in sales of goods in 2017 stemmed from the merger with LaScad and as from 1 July 2017 the commencement of lease management of the business assets of Gemey Maybelline Garnier.*
At midnight on 30 June 2018, Gemey Maybelline Garnier transferred all its assets to L'Oréal, in consideration for taking on all its debt, with retroactive effect to 1 January 2018.
(2) *Including invoicing of technological assistance.*

The Company generated €2,172.5 million of its sales in France in 2018, compared with €1,987.4 million in 2017 and €1,467.6 million in 2016.

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:

	2018 (2)	2017 (1)	2016
Executives	4,650	4,230	3,902
Supervisors	2,011	1,994	1,968
Administrative staff	210	235	249
Manual workers	219	211	201
Sales representatives	420	390	333
TOTAL	**7,510**	**7,060**	**6,653**
Apprentices	203	201	196

(1) *Including an additional 411 employees in 2017 from the retroactive merger of LaScad on 1 July 2017 and the lease management contract granted by Gemey Maybelline Garnier as of 1 July 2017.*
(2) *Including a change in 2018 in Gemey Maybelline Garnier personnel over the full-year, following the merger with L'Oréal at midnight on 30 June with retroactive effect to 1 January 2018.*

NOTE 5 Depreciation, amortisation and charges to provisions

Depreciation, amortisation and charges to provisions can be broken down as follows:

€ millions	**31.12.2018**	31.12.2017	31.12.2016
Depreciation and amortisation	-111.8	-103.5	- 103.2
Impairment of non-current assets (1)	-13.3	-6.7	- 43.0
Impairment of current assets	-5.7	-4.5	- 2.7
Provisions for liabilities and charges	-64.8	-54.9	- 56.7
TOTAL	**-195.6**	**-169.6**	**-205.6**

(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	**31.12.2018**	31.12.2017	31.12.2016
Dividends received	3,533.2	2,691.2	3,139.1
Revenues on other receivables and marketable securities	0.5	1.4	0.4
Interest expense on borrowings and financial debt	-5.9	- 4.5	- 2.2
Other (1)	-4.2	-50.9	-127.8
TOTAL	**3,523.6**	**2,637.2**	**3,009.5**

(1) Including mainly the net carrying amount of free shares vested under the 2012 and 2013 plans which matured in 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	**31.12.2018**	31.12.2017	31.12.2016
Impairment of financial investments (1)	-256.8	5.6	-245.0
Impairment of other financial assets	-	0.2	-
Impairment of Treasury stock	-	79.0	100.5
Provisions for liabilities and charges relating to financial items	34.9	37.5	51.7
Other movements	-	-	-3.3
TOTAL	**-221.9**	**122.3**	**-96.1**

*(1) In 2018, this is mainly related to the impairment of shares in Atelier Cologne and L'Oréal Argentina
In 2016, this item concerns the write-down of shares in Magic for €218.8 million.*

NOTE 7 Exceptional items

Exceptional items represented -€57.0 million in 2018, compared to -€62.2 million in 2017 and €5.8 million in 2016.

NOTE 8 Income tax

The income tax breaks down as follows:

€ millions	**31.12.2018**	31.12.2017	31.12.2016
Tax on profit before tax and exceptional items	4.3	156.6	105.5
Tax on exceptional items and employee Profit Sharing	2.6	9.4	7.6
INCOME TAX	**6.9**	**166.0**	**113.1**

In 2018, the tax income recognised by L'Oréal reflected a €56.0 million saving resulting from tax consolidation.

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 included the additional 3% tax on dividends (€52.3 million) and savings 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.

The CICE (*Crédit d'Impôt Compétitivité Emploi*) tax credit is recognised as a deduction from personnel costs in an amount of €5.8 million *versus* €6.4 million in 2017 and €5.1 million in 2016. It represented 6% of eligible salaries paid in 2018 (*versus* 6% in 2016 and 7% in 2017). The CICE tax credit was allocated to investments in premises.

NOTE 9 Increases or reductions in future tax liabilities

	31.12.2016		31.12.2017		Changes		**31.12.2018**	
€ millions	Asset	Liability	Asset	Liability	Asset	Liability	Asset	Liability
Temporary differences								
Regulated provisions		31.6		30.6	10.2	1.7		22.1
Temporarily non-deductible charges	55.5		84.7		7.6	17.7	74.7	
Charges deducted (or revenue taxed) for tax purposes but not yet recognised		2.8		8.4		3.6		12.0
Temporarily non-taxable revenue								
Deductible items								
Tax losses, deferred items								
Potentially taxable items								
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, mainly for intangible asset impairment.

NOTE 10 Research costs

Expenses booked in Research activities in 2018 totalled €923.3 million compared with €895.0 million in 2017 and €858.1 million in 2016.

NOTE 11 Intangible assets

€ millions	31.12.2016	31.12.2017	Acquisitions/ Depreciation	Disposals/ Reversals	Other movements [2]	31.12.2018
Patents and trademarks	556.4	634.6	277.4	-	18.6	930.6
Business goodwill [1]	891.4	1,496.2	172.1	-	118.6	1,786.9
Software	347.7	390.3	43.1	-12.1	44.9	466.2
Other intangible assets	186.5	186.5	35.6	-	17.5	239.6
Tangible assets in progress	90.1	124.0	66.9	-72.5	-64.4	54.0
Gross value	**2,072.1**	**2,831.6**	**595.1**	**-84.6**	**135.2**	**3,477.3**
Patents and trademarks	103.1	118.4	10.6	-	1.1	130.1
Business goodwill	0.3	0.6	0.7	-	-	1.3
Software	241.4	277.7	46.7	-12.1	2.6	314.9
Other intangible assets	52.4	56.0	3.7	-	-	59.7
Amortisation	**397.2**	**452.7**	**61.7**	**-12.1**	**3.7**	**506.0**
Patents and trademarks	51.4	51.4	-	-	-	51.4
Business goodwill	84.6	84.6	11.2	-	-	95.8
Other intangible assets	3.5	8.4	-	-4.9	-	3.5
Impairment	**139.5**	**144.4**	**11.2**	**-4.9**	**-**	**150.7**
NET VALUE	**1,535.4**	**2,234.5**	**522.3**	**-67.6**	**131.5**	**2,820.6**

(1) In 2018, the increase in business goodwill was due to the acquisition of ModiFace and Nanda Co.
In 2017, the increase in business goodwill related to the acquisition of CeraVe.
(2) Other movements mainly stemmed from the merger of Gemey Maybelline Garnier and the reclassification of non-current assets in progress.

5

NOTE 12 Tangible assets

€ millions	31.12.2016	31.12.2017	Acquisitions/ Depreciation	Disposals/ Reversals	Other movements	31.12.2018
Land	77.4	76.5	0.1	-	0.2	76.8
Buildings	619.6	627.6	8.4	-6.5	9.2	638.7
Industrial machinery and equipment	186.7	192.8	9.2	-4.6	2.4	199.8
Other tangible assets	188.0	201.1	15.6	-8.1	16.6	225.2
Tangible assets in progress	25.4	48.1	33.1	-	-11.2	70.0
Advances and prepayments	10.7	0.7	0.2	-	-	0.9
Gross value	**1,107.8**	**1,146.8**	**66.6**	**-19.2**	**17.2**	**1,211.4**
Land	0.7	0.9	0.3	-	-	1.2
Buildings	383.1	385.7	21.6	-6.5	-	400.8
Industrial machinery and equipment	147.1	148.6	9.5	-4.4	1.8	155.5
Other tangible assets	99.3	111.6	24.1	-7.8	8.6	136.5
Amortisation	**630.2**	**646.8**	**55.5**	**-18.7**	**10.4**	**694.0**
Industrial machinery and equipment	0.3	2.1	2.1	-0.3	-	3.9
Impairment	**0.3**	**2.1**	**2.1**	**-0.3**	**-**	**3.9**
NET BOOK VALUE	**477.3**	**497.9**	**9.0**	**-0.2**	**6.8**	**513.5**

Depreciation and amortisation recognised in 2018 for property, plant and equipment and intangible assets included:

- €110.7 million on a straight-line basis;
- €1.1 million on a declining-balance basis;
- €5.3 million relating to exceptional depreciation and amortisation.

NOTE 13 Non-current assets held under finance leases

€ millions	Non current assets under finance leases at 31.12.2018				Balance sheet including assets under finance leases		
Balance sheet captions	Cost on initial recognition [1]	Depreciation and amortisation expense [2]					
		Period	Accumulated	Net book value	Gross value	Depreciation	Net book value
Land and buildings	9.2	-0.5	-4.2	5.0	724.8	-406.3	318.5
TOTAL AT 31.12.2018	**9.2**	**-0.5**	**-4.2**	**5.0**	**724.8**	**-406.3**	**318.5**
Total at 31.12.2017	9.2	-0.5	-3.8	5.4	713.3	-390.5	322.8
Total at 31.12.2016	9.2	-0.4	-3.3	5.9	706.3	-387.2	319.1

(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						
Balance sheet captions	Lease payments made		Lease payments outstanding at year-end				Residual purchase price under the lease
	Period	Accumulated	Less than 1 year	1to 5 years	More than 5 years	Total payable	
Land and buildings	1.1	10.1	0.5	-	-	0.5	-
TOTAL AT 31.12.2018	**1.1**	**10.1**	**0.5**	**-**	**-**	**0.5**	**-**
Total at 31.12.2017	1.1	9.0	1.1	0.5	-	1.6	-
Total at 31.12.2016	1.1	7.9	1.1	1.6	-	2.7	-

NOTE 14 Financial assets

€ millions	31.12.2016	31.12.2017	**Allocation of technical merger losses**	**Acquisitions/ Subscriptions**	**Disposals/ Reductions**	**Other movements [4]**	**31.12.2018**
Investments [1]	10,898.8	10,682.6	23.0	598.2	-2.7	-183.4	11,117.7
Loans and other receivables	71.4	64.0	-	29.5	-13.9	-17.9	61.7
L'Oréal shares [2]	-	-	-	498.1	-498.1	-	-
Other [3]	174.5	58.3	-	276.6	-320.9	0.1	14.1
Gross value	**11,144.7**	**10,804.9**	**23.0**	**1,402.4**	**-835.6**	**-201.2**	**11,193.5**
Investments	572.7	567.0	-	279.7	-22.9	-	823.8
Loans and other receivables	0.8	0.6	-	0.7	-0.6	-	0.7
Others currencies	0.2	0.2	-	-	-	-	0.2
Impairment	**573.7**	**567.8**	**-**	**280.4**	**-23.5**	**--**	**824.7**
VALUE NET	**10,571.0**	**10,237.1**	**23.0**	**1,122.0**	**-812.1**	**-201.2**	**10,368.8**

(1) The increase is mainly related to the purchase of shares in Nanda Co Ltd.
(2) On 8 February 2018, the Board of Directors approved the buyback of L'Oréal shares for a maximum amount of €500 million. The buyback plan ended at end-May 2018 at 2,497,814 shares. The shares were cancelled in accordance with the decision by the Board of Directors on 17 April 2018.
(3) Mainly include the cash-collateral agreements granted to the bank of the Group. The deposit was reimbursed at end-2018 due to the merger of the Group bank at 31 December 2018 into the Company running the Group's treasury operations.
(4) Other movements mainly related to the merger of Gemey Maybelline Garnier.

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	31.12.2018	31.12.2017	31.12.2016
L'Oréal shares	56.5	56.5	133.6
Financial instruments/Premiums paid on options	37.0	38.8	35.4
Gross value	**93.5**	**95.3**	**169.0**
L'Oréal shares	-	-	-44.3
Financial instruments/Premiums paid on options	-	-	-
Impairment	**-**	**-**	**-44.3**
NET BOOK VALUE	**93.5**	**95.3**	**124.7**

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.

In 2018, the Group granted 993,765 free shares plus 462,139 shares following the establishment of an employee shareholding plan.

Stock purchase options expiring in 2018 represent a total of 771,125 shares, for a gross value (equal to the net value) of €56.5 million.

In 2018, the total market value of Treasury stock amounted to €157.5 million based on the average share price in December and to €155.2 million based on the closing share price on 31 December.

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.

5

NOTE 16 Maturity of receivables

€ millions	Less than 1 year	More than 1 year	Gross	Impairment	Net
Loans and other receivables	**55.6**	**6.1**	**61.7**	**-0.7**	**61.0**
Other financial assets	**3.9**	**-**	**3.9**	**-0.1**	**3.8**
Trade accounts receivable	**542.0**	**-**	**542.0**	**-1.5**	**540.5**
Other current assets, of which	**488.0**	**-**	**488.0**	**-1.8**	**486,2**
Tax and employee-related receivables (1)	350.6	-	350.6	-	350.6
Other receivables	137.4	-	137.4	-1.8	135.6
Prepaid expenses	**59.6**	**-**	**59.6**	**-**	**59.6**

(1) Including a corporate income tax receivable in the amount of €94.9 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	31.12.2018	31.12.2017	31.12.2016
Trade accounts receivable	**2.3**	**2.1**	**41.9**
Other receivables	**56.4**	**47.8**	**23.8**
TOTAL	**58.7**	**49.9**	**65.7**

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 2018:

Share grant date	Number of options	Number of options not yet exercised	Exercise period		Exercise price
			From	To	
25.03.2009	3,650,000	113,078	26.03.2014	25.03.2019	50.11
27.04.2010	4,200,000	724,851	28.04.2015	27.04.2020	80.03
22.04.2011	1,470,000	425,872	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	Nmber of shares not definitively vested
Stock subscription plans	Stock purchase plans				
	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	994,815	-
22.04.2015		23.04.2019	860,150	675	809,150
20.04.2016		21.04.2020	906,100	125	874,225
20.04.2017		21.04.2021	906,000	-	888,050
17.04.2018		18.04.2022	931,000	-	927,700

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, for plans prior to 1 January 2016, during which the shares cannot be sold.

The performance conditions concern:

- for the 17 April 2018, 20 April 2017, 20 April 2016 and 22 April 2015 plans:
  - for 50% of shares attributed, the increase in comparable Cosmetics revenues for the 2019, 2020 and 2021 fiscal years under the 2018 plan; for the 2018, 2019 and 2020 fiscal years under the 2017 plan; for the 2017, 2018 and 2019 fiscal years under the 2016 plan; and the 2016, 2017 and 2018 fiscal years under the 2015 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 2019, 2020 and 2021 fiscal years under the 2018 plan; in the 2018, 2019 and 2020 fiscal years under the 2017 plan; in the 2017, 2018 and 2019 fiscal years under the 2016 plan; and in the 2016, 2017 and 2018 fiscal years under the 2015 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 17 April 2012, 26 April 2013 and 17 April 2014 were definitively vested by the allocation of, respectively, 1,230,850 shares on 18 April 2016, 986,220 shares on 27 April 2017 and 993,765 shares on 18 April 2018.

At 31 December 2018, the performance conditions were deemed satisfied, except for the 22 April 2015 plan for which the expense was reviewed on the basis of the predefined scale having regard to the best current estimate of the performance achieved at the end of the plan.

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 2012 and 2013.

In June 2018, Group employees had the opportunity of subscribing to a Shareholding Plan based on a traditional format with discount and matching contribution.

The subscription price was set at €162.52, representing 80% of the average share price over the 20 trading sessions prior to the decision by the Chairman and Chief Executive Officer setting the subscription period from 4 June to 18 June 2018 during which 423,916 shares were subscribed. This number does not include the subscription reserved for a Trustee under the laws of England and Wales, as part of a Share Incentive Plan established for Group employees in the UK, with the final number of shares subscribed determined at 4,514 in November 2018.

For French employees, free shares were offered upon subscription having regard to their personal contribution to the plan with a maximum of 4 shares offered for 10 shares subscribed.

For employees in other countries, shares were offered under a free share plan with a condition of the continued employment of the employee and having regard to the personal contribution to the plan with a maximum of 4 shares offered for 10 shares subscribed. The shares will be allocated to employees on 25 July 2023 provided they are still with the Group on that date.

The capital was increased on 24 July 2018 by 455,613 shares and on 15 November 2018 by 6,524 shares.

NOTE 18 Provisions for liabilities and charges

€ millions	31.12.2016	31.12.2017	**Charges**	**Reversals (used)**	**Reversals (not used)**	**Other**	**31.12.2018**
Provisions for litigation (1)	195.4	195.3	1.8	-1.3	-0.6	-	195.2
Provisions for foreign exchange losses	8.2	31.4	44.9	-31.4	-	-	44.9
Provisions for expenses	107.3	124.6	53.6	-41.7	-38.2	0.1	98.4
Other provisions for liabilities (2)	90.7	115.0	91.6	-23.5	-6.2	0.6	177.5
TOTAL	**401.6**	**466.3**	**191.9**	**-97.9**	**-45.0**	**0.7**	**516.0**

(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. The Court of Cassation is expected to hand down its decision in first half 2019. 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) 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 2018 income statement as follow:

€ millions	Charges	Reversals (used)	Reversals (not used)
Operating profit	64.8	-45.1	-5.0
Net financial income	47.0	-46.7	-35.3
Exceptional items	80.1	-6.1	-4.7
TOTAL	**191.9**	**-97.9**	**-45.0**

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 €3,644 million at 31 December 2018, €3,675 million at 31 December 2017 and €3,727 million at 31 December 2016.

All borrowings and debt are denominated in euros and can be broken down as follows:

BREAKDOWN BY TYPE OF DEBT

€ millions	**31.12.2018**	31.12.2017	31.12.2016
Bonds	-	-	-
Short-term marketable instruments	200.0	200.0	-
Bank overdrafts and financing with the Group's cash pool	-	-	154.5
Other borrowings and debt	9.6	11.6	14.5
TOTAL	**209.6**	**211.6**	**169.0**

BREAKDOWN BY MATURITY DATE

€ millions	**31.12.2018**	31.12.2017	31.12.2016
Less than 1 year	200.7	200.5	154.7
1 to 5 years	7.8	9.9	13.0
More than 5 years	1.1	1.2	1.3
TOTAL	**209.6**	**211.6**	**169.0**

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 denominated in euros was -0.45% in 2018, compared with -0.42% in 2017 and -0.33% in 2016.

NOTE 20 Maturity of payables

€ millions	Less than 1 year	More than 1 year	Total
Trade accounts payable	**718.4**	**-**	**718.4**
Other current liabilities, of which	**615.6**	**128.3**	**743.9**
Tax and employee-related payables	383.7	-	383.7
Payables related to non-current assets (1)	33.9	127.8	161.6
Other payables	198.0	0.5	198.5

(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	**31.12.2018**	31.12.2017	31.12.2016
Trade accounts payable	**419.3**	**388.8**	**279.2**
Payables related to non-current assets	**157.4**	**61.0**	**65.2**
Tax and employee-related payables, of which	**330.8**	**291.5**	**251.6**
Provision for employee Profit Sharing	22.9	22.6	20.3
Provision for incentives	94.9	89.3	80.1
Other payables	**85.1**	**46.5**	**28.4**
TOTAL	**992.6**	**787.8**	**624.4**

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:

	Unrealised exchange losses			Unrealised exchange gains		
€ millions	**31.12.2018**	31.12.2017	31.12.2016	**31.12.2018**	31.12.2017	31.12.2016
Financial receivables	-	8.2	9.2	-	0.1	0.1
Trade accounts receivable	0.2	0.2	1.8	0.1	0.1	3.1
Borrowings and debt	-	-	-	-	-	-
Trade accounts payable	-	0.6	1.7	0.1	0.4	0.5
Derivative financial instruments	54.8	37.4	5.7	17.2	21.5	6.5
TOTAL	**55.0**	**46.4**	**18.4**	**17.4**	**22.1**	**10.2**

The overall foreign exchange position, calculated on a currency-per-currency basis, at 31 December 2018 is an unrealised loss of €44.9 million. This loss is recognised. At 31 December 2017, the overall foreign exchange position was an unrealised loss of €31.4 million compared with an unrealised loss of €8.2 million at 31 December 2016.

NOTE 22 Derivative financial instruments

Derivative financial instruments can be broken down as follows:

	Notional			Market value		
€ millions	31.12.2018	31.12.2017	31.12.2016	31.12.2018	31.12.2017	31.12.2016
Purchase of EUR						
against foreign currencies						
EUR/CNY	464.3	319.1	256.7	-12.6	-0.9	- 2.1
EUR/RUB	258.0	198.1	218.2	5.8	-3.1	-44.1
EUR/USD	98.9	43.5	43.8	-4.1	2.1	-3.8
EUR/KRW	65.5	63.9	61.4	-2.5	0.2	0.0
EUR/BRL	56.3	58.5	56.2	-4.3	2.2	-14.8
EUR/TRY	47.5	8.6	9.1	-7.7	0.4	0.5
EUR/THB	45.8	41.4	35.8	-1.9	0.1	-1.9
EUR/GBP	44.9	42.4	49.9	0.1	0.8	2.9
EUR/TWD	41.5	37.9	35.2	-0.6	1.0	- 2.1
EUR/IDR	33.3	29.9	31.6	-3.1	0.7	- 3.0
EUR/INR	28.7	17.4	13.0	-2.1	-0.5	-1.7
EUR/ZAR	26.6	22.1	27.6	-0.6	-1.8	- 3.5
EUR/CAD	21.6	23.7	25.2	0.4	0.5	- 0.8
EUR/AUD	17.5	17.1	18.6	0.2	0.5	- 0.5
EUR/CLP	9.5	10.4	10.9	0.3	-0.3	- 1.0
EUR/MYR	4.0	16.7	14.6	-0.3	-0.4	0.4
EUR/Other currencies	74.2	72.8	83.6	-1.7	0.8	-2.2
Sale of EUR against foreign currencies						
EUR/PLN	30.9	31.6	0.0	0.0	0.8	0.0
EUR/JPY	22.2	20.7	24.5	0.6	-1.8	-0.5
EUR/SGD	14.8	14.9	11.2	0.3	-0.1	0.0
EUR/HKD	8.0	7.5	0.0	0.0	-0.6	0.0
Purchase of USD against foreign currencies						
USD/CNY	54.3	0.0	0.0	-1.0	0.0	0.0
USD/THB	40.6	58.4	57.7	-0.2	-2.8	0.7
USD/BRL	29.0	50.6	70.3	-0.8	-0.1	-9.8
USD/INR	16.8	16.3	17.4	-0.4	-0.5	-0.7
USD/KRW	16.5	21.0	30.8	0.0	-1.1	1.7
USD/TWD	14.8	18.5	20.2	0.2	-0.4	0.2
USD/PEN	12.2	15.4	20.1	0.2	-0.5	- 0.5
USD/PHP	10.6	17.6	18.0	-0.3	-0.5	0.7
USD/RUB	6.9	6.3	12.1	0.5	-0.5	-1.6
USD/MYR	5.3	20.3	21.8	-0.2	-1.5	1.7
USD/Other currencies	17.8	14.6	6.4	-0.8	-1.1	-0.4
Sale of USD against foreign currencies						
USD/IDR	22.1	0.0	3.2	0.8	0.0	0.1
USD/CNY	0.0	46.1	57.3	0.0	1.4	-3.9
Purchase of CNY against foreign currencies						
CNY/IDR	27.3	0.0	0.0	-1.5	0.0	0.0
CNY/THB	17.1	0.0	0.0	-0.2	0.0	0.0
CNY/INR	14.6	0.0	0.0	-0.6	0.0	0.0
CNY/Other currencies	18.3	0.0	0.0	-0.4	0.0	0.0
Other currencies pairs						
JPY/CNY	29.0	21.5	20.1	0.1	-1.7	-0.5
PLN/RUB	10.4	14.9	13.7	0.5	0.3	-2.9
Others	29.1	29.6	27.5	-0.5	-1.5	-1.2
Currency futures total	**1,806.7**	**1,449.3**	**1,423.7**	**-38.4**	**-9.9**	**- 94.6**

	Notional			Market value		
€ millions	31.12.2018	31.12.2017	31.12.2016	31.12.2018	31.12.2017	31.12.2016
Currency options						
EUR/CNY	100.9	37.8	17.5	2.3	1.7	0.3
EUR/BRL	35.4	4.6	7.5	1.8	0.5	0.0
EUR/TRY	31.5	0.7	0.0	4.1	0.1	0.0
USD/BRL	22.8	4.8	7.8	0.9	0.2	0.0
EUR/RUB	0.0	76.7	39.5	0.0	4.0	0.2
EUR/USD	0.0	25.4	14.9	0.0	1.8	0.1
Other currencies	0.0	16.1	5.9	0.0	0.6	0.4
Currencies options total	**190.6**	**166.1**	**93.1**	**9.1**	**8.9**	**1.0**
◆ Of which total options purchased	190.6	166.1	93.1	9.1	8.9	1.0
◆ Of which total options sold	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL INSTRUMENTS	**1,997.3**	**1,615.4**	**1,516.8**	**-29.3**	**-1.0**	**-93.6**

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 €64.5 million due in less than one year, €236.2 million due between one and 5 years and €105.2 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	**31.12.2018**	31.12.2017	31.12.2016
Commitments in connection with employee retirement obligations and related benefits (1)	9.0	- 97.7	74.1
Commitments to buy out non-controlling interests	9.3	8.6	9.3
Guarantees given (2)	1,799.4	1,741.4	1,977.8
Guarantees received	3.7	3.8	4.2
Capital expenditure orders	77.3	84.6	69.7
Documentary credits	-	-	-

(1) The discount rate used in 2018 to measure commitments was 1.75% for plans providing for the payment of capital and 2.00% for annuity plans, compared with 1.50% and 1.75% respectively in 2017, and 1.50% and 2.00% in 2016.
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 €1,774.8 million at 31 December 2018 on behalf of the Group's direct and indirect subsidiaries, compared with €1,709.1 million at 31 December 2017 and €1,937.3 million at 31 December 2016. 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	**31.12.2018**	31.12.2017	31.12.2016
Inventories	-11.2	-15.7	11.2
Accounts Receivable	87.6	214.0	146.1
Accounts Payable	5.4	94.1	- 8.7
TOTAL	**81.8**	**292.4**	**148.6**

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*. The deposit was reimbursed at end-2018 due to the merger of the Group bank at 31 December 2018 into the Company running the Group's treasury operations.

NOTE 27 Cash and cash equivalents at the end of the year

Cash and cash equivalents can be broken down as follows:

€ millions	**31.12.2018**	31.12.2017	31.12.2016
Cash	1,496.9	806.5	180.9
Accrued interest receivable	-	-	-
Bank overdrafts and financing with the Group's cash pool (see note 19)	-	-	-154.4
Accrued interest payable	-0.3	-0.4	-0.1
CASH AND CASH EQUIVALENTS	**1,496.6**	**806.1**	**26.4**

NOTE 28 Disclosures

Statutory audit fees are presented in the note 15 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 holdings

TABLE OF SUBSIDIARIES AND HOLDINGS AT 31 DECEMBER 2018 (€ THOUSANDS)

DETAILED INFORMATION

						Book value of investment				
	Capital	Other equity	% holding	Acquisition cost	Revaluation C/261190	Gross	Provision	Net	Profit or loss in last year	Dividends (1) booked during the year
A. Main french Subsidiaries (Holdings of over 50%)										
Beauté, Recherche & Industries	1,069	13,598	100.00	9,495	0	9,495	0	9,495	8,508	11,560
Chimex	1,958	10,206	100.00	19,955	1,545	21,501	0	21,501	3,691	2,885
Cosmétique Active France	24	25	61.97	130	0	130	0	130	36,213	19,922
Cosmétique Active International	19	13,947	88.97	15,100	0	15,100	0	15,100	29,940	12,045
Cosmétique Active Production	186	17,838	80.13	5,049	32	5,081	0	5,081	5,656	5,095
EpiSkin	13,609	8,573	99.89	17,978	0	17,978	0	17,978	985	0
Fapagau & Cie	15	4,271	79.00	12	0	12	0	12	8,384	7,295
Faproreal	11,944	(22)	99.99	11,953	0	11,953	0	11,953	4,501	0
Finval	19,516	119,590	100.00	75,677	0	75,677	0	75,677	35,378	3,298
Gemey Paris – Maybelline New York	35	7,664	99.96	46	0	46	0	46	5,524	170,539
Holdial	1	0	98.00	1	0	1	0	1	268	6,683
L & J Ré	1,500	11,532	100.00	1,500	0	1,500	0	1,500	(900)	0
La Roche-Posay Laboratoire Pharmaceutique	380	4,437	99.98	27,579	0	27,579	0	27,579	23,649	23,675
Nutricos Technologies	535	242	50.00	38,125	0	38,125	38,125	0	143	0
Laboratoire Sanoflore	10	999	100.00	5,197	0	5,197	3,500	1,697	863	1,124
Lancôme Parfums & Beauté & Cie	1,192	0	100.00	1,211	2,024	3,235	0	3,235	78,546	117,495
Lehoux et Jacque	39	595	100.00	263	0	263	0	263	465	0
L'Oréal Produits de Luxe France	84	56,284	99.38	56,292	0	56,292	0	56,292	10,547	3,788
L'Oréal Produits de Luxe International	98	75,745	99.38	73,872	0	73,872	0	73,872	46,314	13,763
LOA3	90,402	(35,734)	100.00	90,400	0	90,400	36,776	53,624	(70)	0
BOLD (Business Opportunities for L'Oréal Development)	4,253	4,051	100.00	8,603	0	8,603	0	8,603	(200)	0
LOA6	3	(5)	100.00	3	0	3	0	3	(3)	0
LOA7	3	(13)	100.00	3	0	3	0	3	(6)	0
LOA8	5	(8)	100.00	5	0	5	0	5	(6)	0
Prestige & Collections International	76	94,380	59.53	25,450	0	25,450	0	25,450	98,488	32,272
Magic Holdings International Limited	10,197	80,006	100.00	615,198	0	615,198	218,800	396,398	93	0
Sicôs & Cie	375	8,525	80.00	309	690	999	0	999	8,380	10,183
Soprocos	8,250	10,159	100.00	8,521	3,383	11,904	0	11,904	7,627	6,493
Soproréal	15	4,367	99.90	15	0	15	0	15	3,480	2,700
Sparlys	5,477	2,309	100.00	8,553	0	8,553	0	8,553	600	5,637
Thermes De Saint Gervais Les Bains Le Fayet	1,047	8,930	100.00	22,942	0	22,942	0	22,942	(1,924)	0
B. Main french investments (Holdings of under 50%)										
Sanofi (2)	2,494,791		9.48	423,887		423,887		423,887		358,229

(1) The SNCs (general partnership), and Sociétés civiles (non trading companies), that are not tax consolidated, distributed profits.
(2) Listed company. At the end of 2018, L'Oréal owns 118,227,307 shares. Their market value at 31 December 2018 amounts to €8,945,078 thousand.

	Capital	Other equity	% holding	Acquisition cost	Revaluation C/261190	Book value of investment			Profit or loss in last year	Dividends booked during the year
						Gross	Provision	net		
A. Main foreign subsidiaries (Holdings of over 50%)										
Atelier Cologne (Luxembourg)	1,210	17,672	100.00	101,493	0	101,493	92,353	9,140	(1,947)	0
Beautycos International Co. Ltd (China)	52,482	31,956	73.46	46,195	0	46,195	0	46,195	12,785	17,530
Beautylux International Cosmetics (Shanghai) Co.Ltd (China)	5,629	(577)	100.00	16,871	0	16,871	12,000	4,871	114	0
Biotherm (Monaco)	152	16	99.80	3,505	41	3,545	0	3,545	5,690	5,336
Canan Kozmetik Sanayi Ve Ticaret A.S. (Turkey)	6,451	6,706	100.00	30,290	0	30,290	7,900	22,390	2,868	1,851
Cosmelor Ltd (Japan)	548	13,954	100.00	35,810	0	35,810	15,000	20,810	2,983	0
Cosmephil Holdings Corporation (Philippines)	171	(140)	100.00	400	0	400	386	14	0	0
Egyptelor LLC (Egypt)	6	218	99.80	7	0	7	0	7	101	0
Elebelle (Proprietary) Ltd (South Africa)	806	25,469	100.00	61,123	0	61,123	11,604	49,519	2,166	2,195
Erwiton S.A. (Uruguay)	147	(2,774)	100.00	3	0	3	0	3	9,471	14,456
Interbeauty Cosmetics Ltd (Israel)	4,137	13,476	92.97	38,497	0	38,497	0	38,497	9,575	6,776
Kosmepol Sp. z.o.o. (Poland)	38,844	61,592	99.73	48,965	0	48,965	0	48,965	6,943	0
L'Oréal Adria d.o.o. (Croatia)	131	1,191	100.00	1,503	0	1,503	0	1,503	8,347	7,052
L'Oréal Argentina SA (Argentina)	51,975	(5,650)	95.00	148,602	0	148,602	121,900	26,702	14,517	21,373
L'Oréal Australia Pty Ltd	2,711	15,563	100.00	33,516	350	33,867	0	33,867	44,433	43,567
L'Oréal Balkan d.o.o. (Serbia)	1,283	(411)	100.00	1,285	0	1,285	0	1,285	1,793	1,594
L'Oréal Baltic SIA (Latvia)	387	1,457	100.00	529	0	529	0	529	4,162	4,064
L'Oréal Bangladesh Ltd (Bangladesh)	154	(1,018)	100.00	154	0	154	0	154	(558)	0
L'Oréal Brasil	315,133	(66,004)	90.82	287,835	0	287,835	0	287,835	32,239	80,861
L'Oréal Belgilux S.A. (Belgium)	16,124	18,661	98.93	59,871	17,279	77,150	0	77,150	31,528	25,042
L'Oréal Brasil Pesquisas e Inovacao Ltda	45,887	(6,102)	99.99	45,654	0	45,654	0	45,654	879	0
L'Oréal Bulgaria EOOD	102	710	100.00	102	0	102	0	102	3,648	3,875
L'Oréal Canada Inc.	3,979	92,200	100.00	146,517	0	146,517	0	146,517	81,949	0
L'Oréal Central America (Panama)	8	(408)	100.00	8	0	8	0	8	26	0
L'Oréal Central West Africa (Nigeria)	3,443	(3,435)	99.91	18,106	0	18,106	18,106	0	0	0
L'Oréal Ceska Republika s.r.o (Czech Republic)	2,268	1,561	100.00	4,983	0	4,983	0	4,983	13,390	11,599
L'Oréal Chile S.A. (Chile)	6,173	8,273	100.00	43,784	0	43,784	0	43,784	29,245	28,395
L'Oréal China Co Ltd (China)	43,498	112,716	100.00	345,733	0	345,733	0	345,733	345,018	229,251
L'Oréal Colombia S.A. (Colombia)	10,688	44,685	100.00	74,440	0	74,440	19,000	55,440	(682)	0
L'Oréal Cosmetics Industry S.A.E (Egypt)	58,382	(34,601)	100.00	58,363	0	58,363	34,000	24,363	64	0
L'Oréal Côte d'Ivoire	99	(346)	100.00	100	0	100	0	100	(800)	0
L'Oréal Danmark A/S (Denmark)	270	5,403	100.00	7,929	407	8,336	0	8,336	13,760	9,540
L'Oréal Deutschland Gmbh (Germany)	12,647	285,478	100.00	72,259	4,596	76,855	0	76,855	232,611	170,181
L'Oréal East Africa Ltd (Kenya)	3,368	16,497	99.90	39,650	0	39,650	25,700	13,950	(2,546)	0
L'Oréal Espana S.A. (Spain)	59,911	21,146	63.86	299,154	0	299,154	0	299,154	84,853	55,905
L'Oréal Finland Oy (Finland)	673	26	100.00	1,280	0	1,280	0	1,280	8,874	9,662
L'Oréal Guatemala S.A.	1,044	1,114	100.00	2,162	0	2,162	0	2,162	798	1,283
L'Oréal Hellas S.A. (Greece)	9,736	5,673	100.00	34,821	486	35,307	0	35,307	16,298	14,234
L'Oréal Hong-Kong Ltd	(77)	26,802	99.97	24,276	0	24,276	0	24,276	104,107	411,857
L'Oréal India Private Ltd (India)	48,691	(1,559)	100.00	75,987	0	75,987	0	75,987	23,811	35,890
L'Oréal Investments B.V. (The Netherlands)	18	(1)	100.00	18	0	18	0	18	0	0
L'Oréal Italia Spa	1,680	54,450	100.00	226,469	0	226,469	0	226,469	66,434	76,116
L'Oréal Kazakhstan Llp (Kazakhstan)	422	199	100.00	422	0	422	0	422	3,858	3,643
L'Oréal Korea Ltd (Korea)	1,991	155	100.00	20,794	0	20,794	0	20,794	9,352	11,082
L'Oréal Liban SAL	3,139	1,596	99.98	7,700	0	7,700	0	7,700	17,914	16,460
L'Oréal Magyarorszag Kosmetikai Kft (Hungary)	428	(63)	100.00	787	0	787	0	787	5,877	5,170

	Capital	Other equity	% holding	Acquisition cost	Revaluation C/261190	Book value of investment Gross	Provision	net	Profit or loss in last year	Dividends booked during the year
L'Oréal Malaysia SDN BHD (Malaysia)	3,268	7,705	100.00	6,762	0	6,762	0	6,762	13,786	7,228
L'Oréal Mexico S.A. de C.V. (Mexico)	2,349	101,807	100.00	8,443	0	8,443	0	8,443	29,705	28,950
L'Oréal Middle East (United Arab Emirates)	7,761	1,395	100.00	54,379	0	54,379	0	54,379	5,422	21,548
L'Oréal Nederland B.V. (The Netherlands)	1,178	49	100.00	18,869	3,145	22,014	0	22,014	28,934	28,437
L'Oréal New Zealand Ltd (New Zealand)	44	2,504	100.00	6,110	0	6,110	0	6,110	6,978	6,456
L'Oréal Norge A/S (Norvway)	1,384	3,380	100.00	4,050	0	4,050	0	4,050	9,072	14,990
L'Oréal Osterreich Gmbh (Austria)	2,915	1,651	100.00	3,417	401	3,818	0	3,818	12,579	14,988
L'Oréal Pakistan Private Ltd	16,910	(14,910)	100.00	16,929	0	16,929	16,929	0	(6,127)	0
L'Oréal Panama S.A.	159	2,081	100.00	168	0	168	0	168	(154)	6,446
L'Oréal Peru S.A. (Peru)	2,322	1,193	100.00	3,739	0	3,739	0	3,739	2,489	0
L'Oréal Philippines Inc.	14,196	(10,106)	99.53	39,107	0	39,107	35,000	4,107	4,665	0
L'Oréal Polska Sp. Z.O.O. (Poland)	405	62	100.00	707	0	707	0	707	40,061	30,479
L'Oréal Portugal Lda	495	532	100.00	6,289	170	6,459	0	6,459	14,661	15,081
L'Oréal Romania SRL (Romania)	799	123	100.00	974	0	974	0	974	10,581	7,320
L'Oréal Saudi Arabia (Saudi Arabia)	5,682	(2,352)	74.63	4,260	0	4,260	0	4,260	1,439	0
L'Oréal Singapore Pte Ltd (Singapore)	1,165	8,387	100.00	18,991	0	18,991	0	18,991	4,739	7,376
L'Oréal Slovenija kosmetika d.o.o. (Slovenia)	465	393	100.00	856	0	856	0	856	6,677	786
L'Oréal Slovensko s.r.o. (Slovakia)	98	821	100.00	173	0	173	0	173	3,051	3,618
L'Oréal Suisse S.A. (Switzerland)	346	10,599	100.00	160,173	139	160,311	0	160,311	21,984	19,886
L'Oréal Sverige AB (Sweden)	2,038	144	100.00	2,247	0	2,247	0	2,247	15,769	20,761
L'Oréal Taiwan Co Ltd (Taiwan)	187	(17)	100.00	17,881	0	17,881	0	17,881	29,180	26,665
L'Oréal Thailand Ltd	3,992	3,712	100.00	5,238	0	5,238	0	5,238	41,163	37,095
L'Oréal Turkiye Kozmetik Sanayi Ve Ticaret Anonim Sirketi	39,142	(20,198)	100.00	55,093	0	55,093	11,900	43,193	12,588	7,042
L'Oréal UK Ltd (United Kingdom)	121,150	(19,400)	100.00	139,351	6,222	145,573	0	145,573	143,401	179,657
L'Oréal Ukraine	3,033	(728)	100.00	2,990	0	2,990	0	2,990	13,140	10,273
L'Oréal Uruguay S.A.	244	2,286	100.00	2,718	0	2,718	0	2,718	5,366	8,940
L'Oréal USA Inc.(3)	647,731	3,632,040	100.00	4,851,879	0	4,851,879	0	4,851,879	862,394	751,684
L'Oréal Venezuela C.A.	179	(50)	100.00	26,953	0	26,953	26,953	0	(2,254)	0
L'Oréal Vietnam Co Ltd	13,537	(16,779)	100.00	13,646	0	13,646	13,646	0	1,179	0
L'Oréal West Africa Ltd (Ghana)	12,335	(11,599)	100.00	14,960	0	14,960	14,960	0	(3,157)	0
Masrelor LLC (Egypt)	17,686	(10,635)	100.00	17,573	0	17,573	15,500	2,073	(22)	0
Nanda CO Ltd. (South Korea)	196	79,178	100.00	573,369	0	573,369	0	573,369	84,643	0
Nihon L'Oréal KK (Japan)	(17,697)	152,854	100.00	351,452	52	351,504	41	351,463	21,199	14,145
Oomes B.V. (Netherlands)	6,354	55,951	100.00	144,312	0	144,312	0	144,312	31,610	31,605
Parbel of Florida, Inc. (USA)	40	(5,568)	100.00	100,317	0	100,317	0	100,317	27,834	29,201
Procosa Productos de Beleza Ltda (Brazil)	154,342	35,493	100.00	223,938	0	223,938	0	223,938	(6,519)	5,276
P.T. L'Oréal Indonesia	1,510	4,737	99.00	2,305	0	2,305	0	2,305	3,968	8,558
P.T. Yasulor Indonesia	73,931	(5,170)	99.99	110,022	0	110,022	31,000	79,022	2,293	0
Scental Limited (Hong Kong)	5	192	100.00	8	0	8	0	8	0	0
Venprobel (Venezuela)	0	0	100.00	2,722	0	2,722	2,722	0	0	0
B. Main Foreign investments (Holdings of under 50%)										
LIPP Distribution (Tunisia)	3,561	2,278	49.00	9,009	0	9,009	0	9,009	348	0
L'OREAL UAE General Trading LLC (United Arab Emirates)	72	266	49.00	35	0	35	0	35	7,412	40,489

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.

5

GLOBAL INFORMATION RELATING TO SUBSIDIARIES AND INVESTMENTS

	Subsidiaries		Other Investments	
	French	Foreign	French	Foreign
Book value of shares helds gross (after revaluation)				
◆ gross (after revaluation)	1,147,112	9,514,608	423,887	9,044
◆ net	849,910	9,080,361	423,887	9,044
Amount of loans and advances granted		46,280		
Amount of guarantees and security granted	12,966	1,761,801		
Amount of dividends booked	456,452	2,670,332	358,229	40,489

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	€1.6 million
Corresponding tax	€0.5 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. 441-6-1 and D. 441-4 of the French Commercial Code, invoices issued and received not paid at 31 December 2018 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)

	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					
In Euros	0 days (indicative)	1 - 30 days	31 - 60 days	61 - 90 days	91 days and more	Total (1 day and more) (1)	0 days (indicative)	1 - 30 days	31 - 60 days	61 - 90 days	91 days and more	Total (1 day and more)
(A) Late payment tranches												
Number of invoices concerned	34					1,024	6,327					26,467
Total amount of invoices concerned, including taxes	240,543	14,910,390	400,439	- 4,029,730	410,835	11,691,934	4,837,457	16,323,570	9,478,900	4,789,719	27,354,230	57,946,419
Percent of total amount of purchases for the financial year, including taxes	0.01 %	0.46 %	0.01 %	- 0.13 %	0.01 %	0.36 %						
Percent of sales for the financial year, including taxes							0.11 %	0.36 %	0.21 %	0.10 %	0.60 %	1.26 %
(B) Invoices excluded from (A) because of disputed or unrecognised payables and receivables												
Number of excluded invoices	2,582						0					
Total amount of excluded invoices	12,757,249						0					
(C) Benchmark payment terms used (contractual or statutory term, Article L.441 or L.443 of the French Commercial Code)												
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					

(1) Including invoices due to L'Oréal Group companies (intra-group):
- 8,923,939 euros in invoices received, i.e. 76% of the total amount
- 39,431,357 euros in invoices issued, i.e. 68% of the total amount.
Intra-group payments had to be temporarily suspended at the end of the year due to the merger of L'Oréal's internal bank with the company running the Group's treasury operations.

5.6.3. NET SALES (EXCLUDING TAXES)

Sales *(€ millions)*	**2018**	2017	% change
1st quarter	1,018.5	801.6	27.05
2nd quarter	1,003.7	784.6	27.92
3rd quarter	918.4	1,116.1	-17.71
4th quarter	947.8	911.2	4.01
TOTAL	**3,888.4**	**3,613.5**	**7,61**

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)	2014	2015	2016	2017	**2018**
I. Financial position at financial year-end					
• a) Share capital	112.2	112.6	112.4	112.1	112.1
• b) Number of shares	561,230,389	562,983,348	561,855,741	560,519,088	560,396,652 (1)
• c) Number of convertible bonds	-	-	-	-	-
II. Overall results of operations					
• a) Net pre-tax sales	2,818.6	2,967.6	3,053.1	3,613.5	3,888.4
• b) Pre-tax profit before depreciation, amortisation, provisions and reversals of provisions (including provision for investment activities and Profit Sharing reserve)	5,418.1	3,024.7	3,158.0	2,917.8	4,017.1
• c) Income tax	-112.9	+23.3	+113.1	+166.0	+6.9
• d) Net profit	4,938.0	3,055.4	3,014.4	3,051.7	3,594.9
• e) Amount of distributed profits	1,511.4	1,741.9	1,857.7	2,006.6	2,175.9(2)
III. Results of operations per share					
• a) Profit after tax and Profit Sharing, but before depreciation, amortisation and provisions	9.42	5.38	5.79	5.47	7.14
• b) Net profit	8.80	5.43	5.36	5.44	6.41
• c) Dividend paid on each share (not including tax credit)	2.70	3.10	3.30	3.55	3.85(2)
IV. Personnel					
• a) Number of employees	6,220	6,385	6,653	7,060	7,510
• b) Total salaries	541.7	560.9	569.8	612.2	667.4
• c) Amount paid for welfare benefits (social security, provident schemes, etc.)	253.5	265.0	257.2	286.4	312.0

(1) The share capital comprises 560,396,652 shares with a par value of €0.2 euro, following the subscription of 919,474 shares through the exercise of options, 993,765 free shares and 462,139 shares associated with the employee shareholding plan, as well as the cancellation of 2,497,814 treasury shares.
(2) The dividend will be proposed to the Annual General Meeting of 18 April 2019.

5.8. INVESTMENTS (MAIN CHANGES INCLUDING SHAREHOLDING THRESHOLD CHANGES)

INVESTMENTS

(Main changes including shareholding threshold changes > 5%)

(€ thousands)	At 31.12.2017 *Including revaluation*		Acquisitions	Subscriptions	Others	At 31.12.2018	
Headings	Amount	%	Amount	Amount	Amount	Amount	%
Atelier Cologne (Luxembourg)	105.3	100.0			-3.8	101.5	100.0
L'Oréal West Africa	n/s	100.0		15.0		15.0	100.0
Faproréal	-	-			11.9 (1)	11.9	100.0
Helena Rubinstein	46.7	100.0			-46.7 (1)	-	-
Gemey Maybelline Garnier	165.6	100.0			-165.6 (1)	-	-
Bold	6.3	100.0		2.3		8.6	100.0
L'Oréal Vietnam	9.8	100.0		3.9		13.7	100.0
L'Oréal East Africa	36.7	99.9		2.9		39.6	99.9
L'Oréal Produits de Luxe France	53.6	92.8			2.7 (1)	56.3	99.4
Prestige et Collections International	25.3	52.1			0.1 (1)	25.4	59.5
L'Oréal Colombia	72.5	96.6	1.9			74.4	100.0
Thermes de Saint-Gervais les Bains Le Fayet	15.1	100.0		7.8		22.9	100.0
L'Oréal Uruguay	5.4	100.0			-2.7	2.7	100.0
Lipp distribution	-	-	9.0			9.0	49.0
Nanda CO Ltd	-	-	573.4			573.4	100.0
Regefi	75.7	100.0			-75.7 (1)	-	-
Finval	n/s	100.0			75.7 (1)	75.7	100.0

(1) Complete transfer of assets and liabilities/merger.

5.9 STATUTORY AUDITORS' REPORT ON THE FINANCIAL STATEMENTS

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 includes information specifically required by European regulations or French law, such as information about the appointment of Statutory Auditors. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

For the year ended December 31, 2018

L'Oréal
14, rue Royale
75008 Paris, France

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, 2018.

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 at December 31, 2018 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, 2018 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 the most significant 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, 2018, the carrying amount of investments recognized in the balance sheet amounted to €10,294 million, representing 62% 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 future 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 1.1 – Accounting principles – Sales, and Note 2 – 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 Group'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 within the Company, 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.

Specific verifications

In accordance with professional standards applicable in France, we have also performed the specific verifications required by French legal and regulatory provisions.

Information given in the management report and in the other documents provided to the shareholders 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 Board of Directors' management report and in the other documents provided to the shareholders with respect to the Company's financial position and the financial statements.

We attest to the fair presentation and the consistency with the financial statements of the information given with respect to the payment terms referred to in article D.441-4 of the French Commercial Code.

Report on corporate governance

We attest that the corporate governance section of the Board of Directors' management report 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.

Concerning the information given in accordance with the requirements of article L.225-37-5 of the French Commercial Code relating to those items your Company has deemed liable to have an impact in the event of a takeover bid or exchange offer, we have verified its consistency with the underlying documents that were disclosed to us. Based on this work, we have no matters to report with regard to this information.

Other information

In accordance with French law, we have verified that the required information concerning the acquisition 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 by the Annual General Meeting of April 29, 2004 for both PricewaterhouseCoopers Audit and Deloitte & Associés.

At December 31, 2018, PricewaterhouseCoopers Audit and Deloitte & Associés were in the fifteenth consecutive year of their engagement.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for preparing financial statements giving 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 that are 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 taken by users 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 the Company's management.

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 in the financial statements, whether due to fraud or error, design and perform audit procedures in response 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 the internal control procedures 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 program 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 the most significant for 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 and Paris-La Défense, February 18, 2019

The Statutory Auditors

PricewaterhouseCoopers Audit
Anne-Claire Ferrié

Deloitte & Associés
Frédéric Moulin

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6

Stock Market Information Share capital

* *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 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): 529900JI1GG6F7RKVI53.

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 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 section 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 January 1st 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 (EXTRACTS FROM ARTICLE 7 OF THE ARTICLES OF ASSOCIATION)

"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". 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.

"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".

See the complete text of the Company's Articles of Association on the 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 €112,079,330.40 at 31 December 2018. It was divided into 560,396,652 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 18 April 2019.

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

	Authorisations in force				Authorisations proposed to the Annual General Meeting of 18 April 2019		
	Date of the Annual General Meeting (Resolution No.)	Length (date of expiry)	Maximum authorised amount	Use of the authorisation in 2018	Resolution No.	Length	Maximum calling
Share capital increases							
Capital increase through the issue of shares with maintenance of preferential subscription rights	20 April 2017 (11th)	26 months (19 June 2019)	Increase the share capital to €157,319,607(1)	None	9	26 months (17 June 2021)	Increase the share capital to €156,911,062.56(1)
Capital increase *via* the capitalisation of share premiums, reserves, profits or other amounts	20 April 2017 (12th)	26 months (19 June 2019)	Increase the share capital to €157,319,607 (2)	None	10	26 months (17 June 2021)	Increase the share capital to €156,911,062.56(1)
Capital increase reserved for L'Oréal employees savings plan (PEE)	17 April 2018 (16th)	26 months (16 June 2020)	1% of share capital at the date of the Annual General Meeting (*i.e.* a maximum of 5,617,997 shares at 17 April 2018)(3)	233,076(3)	12	26 months (17 June 2021)	1% of share capital on the date of the Annual General Meeting (*i.e.*, as an indication, 5,603,966 shares at 31 December 2018)(5)
Capital increase reserved for employees of foreign subsidiaries	17 April 2018 (17th)	18 months (16 October 2019)	1% of share capital at the date of the Annual General Meeting (*i.e.* a maximum of 5,617,997 shares at 17 April 2018)(6)	229,063(4)	13	18 months (17 October 2020)	1% of share capital on the date of the Annual General Meeting (*i.e.*, as an indication, 5,603,966 shares at 31 December 2018)(2)
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.	17 April 2018 (14th)	26 months (16 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)(2)	None	11	26 months (17 June 2021)	2% of the share capital on the date of the decision to increase the capital (*i.e.*, as an indication, 11,207,933 shares at 31 December 2018)(2)
Buyback by the Company of its own shares							
Buyback by the Company of its own shares	17 April 2018 (12th)	18 months (16 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)	2,497,814(5)	8	18 months (17 October 2020)	10% of share capital on the date of the buybacks (*i.e.*, as an indication, 56,039,665 shares at 31 December 2018)
Reduction in the share capital via cancellation of shares							
Cancellation of shares purchased by the Company within the scope of Article L. 225-209 of the French Commercial Code	17 April 2018 (13th)	26 months (16 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)	2,497,814			
Cancellation of shares purchased by the Company within the scope of Article L. 225-208 of the French Commercial Code	17 April 2018 (13th)	26 months (16 June 2020)	771,125 shares	None			
Free grants of shares							
Grant of existing free shares or shares to be issued to the employees	17 April 2018 (15th)	26 months (20 August 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)	931,000(6)			

(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 12th and 13th resolutions submitted for a vote of the Annual General Meeting on 18 April 2019 may not exceed the maximum amount of 1% of the share capital which constitutes a ceiling which applies jointly to resolutions 16 and 17 adopted by the Annual General Meeting of 17 April 2018.
(3) These new shares resulted in increasing the capital by €46,615.20 and the recognition of additional paid-in capital in the amount of €32,687,839.28. The capital increase arising from bonus share grants was completed by deduction of an amount of €6,339.40 from "Other Reserves".
(4) These new shares resulted in increasing the capital by €45,812,60 and the recognition of additional paid-in capital in the amount of €37,462,626,88. The capital increase arising from bonus share grants was completed by deduction from "Other reserves". The capital increase arising from bonus share grants was completed by deduction from "Other reserves" for €0.40.
(5) It should be noted that the buyback transactions in April and May 2018 were completed under the authorisation granted by the Annual General Meeting of 20 April 2017, which expired on 20 October 2018.
(6) It should be noted that the conditional grant of shares approved by the Board of Directors at its meeting of 17 April 2018 was made pursuant to the authorisation given by the General Meeting of 20 April 2016, which expires on 20 June 2018.

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 2018, 1,313,801 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, 3,499,125 conditional shares had been granted to Group employees subject to performance conditions, not yet met. Out of these, 3,499,125 shares will be created when necessary and, where applicable, by capitalisation of reserves. Accordingly, the potential share capital of the Company amounts to €113,041,915.60, divided into 565,209,578 shares with a par value of €0.20.

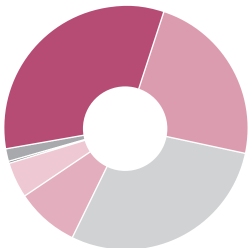
The Company has not issued any securities which grant indirect entitlement to shares in the capital.

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
31.12.2013				€121,180,377.40		
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
01.01.2018 to 17.04.2018	Exercise of share subscription options	€57,369.20	€21,158,193.70	€112,161,186.80	286,846	560,805,934
18.04.2018	Conditional grant of shares	€198,753.00		€112,359,939.80	993,765	561,799,699
19.04.2018 to 23.07.2018	Exercise of share subscription options	€64,937.80	€22,727,703.99	€112,424,877.60	324,689	562,124,388
24.07.2018	Employee shareholding plan	€91,122.60	€68,810,045.12	€112,516,000.20	455,613	562,580,001
26.04.2018	Cancellation of shares	-€499,562.80		€112,016,437.40	-2,497,814	560,082,187
26.07.2018 to 10.10.2018	Exercise of share subscription options	€45,549.40	€17,689,229.85	€112,061,986.80	227,747	560,309,934
11.10.2018	Employee shareholding plan	€0.40		€112,061,987.20	2	560,309,936
11.10.2018 to 14.11.2018	Exercise of share subscription options	€5,018.00	€1,919,400.30	€112,067,005.20	25,090	560,335,026
15.11.2018	Employee shareholding plan	€1,304.80	€1,340,421.04	€112,068,310.00	6,524	560,341,550
16.11.2018 to 30.11.2018	Exercise of share subscription options	€2,764.80	€830,879.04	€112,071,074.80	13,824	560,355,374
01.12.2018 to 31.12.2018	Exercise of share subscription options	€8,255.60	€2,909,254.74	€112,079,330.40	41,278	560,396,652

6.3. SHAREHOLDER STRUCTURE*

SHAREHOLDER STRUCTURE AT 31 DECEMBER 2018



[1] Consisting of Ms. Françoise Bettencourt Meyers, Mr. Jean-Pierre Meyers, Mr. Jean-Victor Meyers and Mr. Nicolas Meyers, along with 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 the bonus shares granted in accordance with Article L. 225-197-1 of the French Commercial Code. Of which 0.84% as part of the L'Oréal Employee Savings Plan and employee investment fund 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

As the 2004 agreement between the Bettencourt Meyers family (comprising Ms. Françoise Bettencourt Meyers, Mr. Jean-Pierre Meyers, Mr. Jean-Victor Meyers, Mr. Nicolas Meyers and Téthys SAS) and Nestlé S.A. (see '*Shareholders' agreements relating to shares in the Company's share capital*' *below*, 6.3.5), these two shareholders are no longer acting in concert as of 21 March 2018.

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:

	31.12.2018			31.12.2017			31.12.2016		
	Number of shares	**% of capital**	**% of voting rights (4)**	Number of shares	% of capital	% of voting rights (4)	Number of shares	% of capital	% of voting rights (4)
Mrs Françoise Bettencourt Meyers and her family (1)	185,715,079	33.14	33.14	185,715,079	33.13	33.13	185,704,089	33.05	33.05
Nestlé S.A.	129,881,021	23.18	23.18	129,881,021	23.17	23.17	129,881,021	23.12	23.12
Concert party - until 21 March 2018 (2)				315,596,100	56.30	56.30	315,585,110	56.17	56.17
Employees (3)	8,142,675	1.45	1.45	7,304,411	1.30	1.30	6,714,399	1.20	1.20
Public	235,886,752	42.09	42.09	236,847,452	42.26	42.26	237,798,887	42.32	42.32
Treasury stock	771,125	0.14	0.14	771,125	0.14	0.14	1,757,345	0.31	0.31
TOTAL	**560,396,652**	**100.0**	**100.0**	**560,519,088**	**100.0**	**100.0**	**561,855,741**	**100.0**	**100.0**

(1) Including, at 31 December 2018, 152,514,292 L'Oréal shares held in absolute ownership by Téthys SAS, a company controlled by Ms. Françoise Bettencourt Meyers and her family, 33,182,455 shares held in absolute ownership by Ms. Françoise Bettencourt Meyers, 15,332 shares held in absolute ownership by Mr. Jean-Pierre Meyers, 1,500 held in absolute ownership by Mr. Jean-Victor Meyers and 1,500 held in absolute ownership by Mr. Nicolas Meyers.

(2) The Bettencourt Meyers family and Nestlé S.A. acted in concert until 21 March 2018 (see below "Shareholders' agreements relating to shares in the Company's share capital").

(3) Concerns the employees and former employees of L'Oréal. Pursuant to law no. 2015-990 of 6 August 2015, since 2016, the percentage also includes the bonus shares granted in accordance with Article L. 225-197-1 of the French Commercial Code. Of which 0.84% 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.

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

To the Company's knowledge, at 31 December 2018, 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.

On this basis, at 31 December 2018, the Company held 771,125 of its own shares (amounting to 0.14% of the capital) which, valued at their purchase price, represented €56.5million in L'Oréal S.A.'s financial statements.

6.3.3. EMPLOYEE SHARE OWNERSHIP

The employees and former employees of L'Oréal and its affiliates held 8,142,675 shares at 31 December 2018 representing 1.45% (1) of the share capital, of which 0.84% in the Employee Savings Plan (PEE) and the employee investment fund. At that date, this stake in the capital is held by 12,201 employees participating in the Group Employee Savings Plan as defined by Article L. 225-102 of the French Commercial Code, and 13,562 employees participating in the Employee Share Ownership plan.

6.3.4. DISCLOSURES TO THE COMPANY OF LEGAL THRESHOLDS CROSSED DURING THE FINANCIAL YEAR

The Bettencourt Meyers family and the Swiss company Nestlé S.A. declared that on 21 March 2018, they crossed below their concert threshold of 50%, 1/3, 25%, 20%, 15%, 10% and 5% of L'Oréal's share capital and voting rights. They further declare that they no longer hold any of the Company's shares in concert.

These thresholds were crossed as a result of the end of the concert party agreement between them.

No thresholds were breached by the declaring parties individually.

6.3.5. SHAREHOLDERS' AGREEMENTS RELATING TO SHARES IN THE COMPANY'S SHARE CAPITAL

6.3.5.1. Memorandum of agreement in effect until 21 March 2018

A memorandum of agreement was signed on 3 February 2004 between Ms. Liliane Bettencourt and her family, and Nestlé, providing for the merger of Gesparal into L'Oréal (merger completed on 29 April 2004). A rider to this memorandum of agreement was signed on 10 February 2014 between Ms. Liliane Bettencourt and her family, and Nestlé, to reflect changes in Nestlé S.A.'s shareholdings in their agreements.

In this agreement, the parties had declared they were acting in concert. A number of stipulations were agreed for a term running, in all cases, until a period of six months has elapsed after the death of Ms. Liliane Bettencourt. Following her death on 21 September 2017, the agreement ended on 21 March 2018.

Press release published by Ms Françoise Bettencourt Meyers on 21 September 2017

Press release from Ms. Françoise Bettencourt Meyers following the death of Ms. Liliane Bettencourt on 21 September 2017: "I would like to reiterate, on behalf of our family, our entire commitment and loyalty to L'Oréal and to renew my confidence in its President Jean-Paul Agon and his teams worldwide."

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 21 March 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."

The Company is not aware of any shareholders' agreements relating to shares in its share capital other than the agreement described below.

6.3.5.2. 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 Ms. Liliane Bettencourt, Ms. 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.

(1) Concerns the employees and former employees of L'Oréal. Pursuant to law no. 2015-990 of 6 August 2015 on growth, activity and equal economic opportunities, since 2016, the percentage also includes the bonus shares granted in accordance with Article L. 225-197-1 of the French Commercial Code.

6.3.6. BUYBACK BY THE COMPANY OF ITS OWN SHARES

6.3.6.1. Information concerning share buybacks during the 2018 financial year

In 2018, the Company bought back 2,497,814 of its own shares, in accordance with the authorisation voted by the Annual General Meeting of 20 April 2017.

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	9th resolution of 20 April 2017
Expiry date of the authorisation	20 October 2018
Maximum amount of authorised buybacks	10% of share capital on the date of the buybacks (*i.e.*, as an indication, 56,185,574 shares at 31 December 2016)
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	17 April 2018
Purpose of buybacks	Cancellation
Period of buybacks made	From 23 April to 29 May 2018
Number of shares purchased	2,497,814*
Average purchase price per share	€199.43**
Use of shares purchased	Cancellation

* *These shares were cancelled on 26 July 2018.*
** *Before costs.*

6.3.6.2. Transactions carried out by L'Oréal with respect to its shares in 2018

Percentage of share capital held by the Company directly and indirectly at 31 December 2018 of which:	0.138%
◆ 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	5,344,418
Number of shares held in the portfolio at 31.12.2018	771,125
Net book value of the portfolio at 31.12.2018	€56.5 M
Portfolio market value at 31.12.2018	€155.1 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 2018.

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 €270 (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 2018, 56,039,665 shares for a maximum amount of €15,130,709,550 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 8 presented in the draft resolutions, 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 severaly years L'Oréal has set up long-term remuneration plans in favour of its employees and executive officers in an international context, in the form of grants of performance shares.

It pursues a dual objective:

- motivating and associating those who make big contributions with future increases in the Group's results;
- strengthening involvement and the sense of belonging of its beneficiaries by fostering long-term loyalty in a context of increased competition for talents.

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 vesting period, and conditional grants of shares for a period of four years followed, for France up until the 2015 plan, by a 2-year holding period during which these shares cannot be sold.

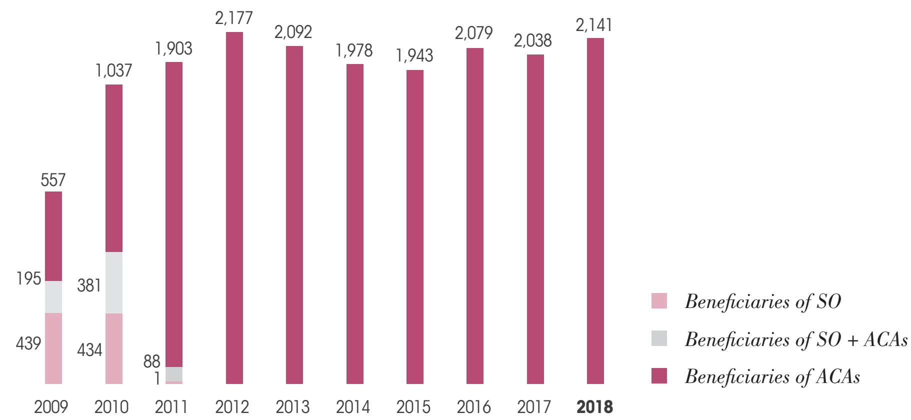
The Board of Directors draws the attention of the beneficiaries of stock options and conditional grants of shares to the regulations in force concerning persons holding "inside information". The beneficiaries of stock options and conditional grants of shares undertake to read the Stock Market Code of 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 17 April 2018 plan are women. Nearly 3,400 employees representing 11% of the managers throughout the world, who were employed at 31 December 2018, 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 intergral part of the Annual Financial Report as provided in the Article L.451-1-2 of the French Monetary and Financial Code.*

CHANGE IN THE NUMBER OF BENEFICIARIES OF STOCK OPTIONS AND ACAS SINCE 2009



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 2018, 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 (1)

The main features of the plans that existed at 31 December 2018, 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 (2):			
◆ Mr.. Jean-Paul Agon	*0 (3)*	*400,000*	*200,000 (4)*
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	80.03	83.19
Number of stock options exercised at 31.12.2018	3,303,922	3,225,949	760,128
Total number of share subscription or purchase options that have been cancelled or lapsed	233,000	249,200	234,000
Number of share subscription or purchase options remaining year-end	**113,078**	**724,851**	**475,872**

(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 who waived 200,000 of the 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 1,313,801 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 2018, at an average price of €78.60, namely 0.23% of the 560,396,652 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 2018 financial year

	Total number of options granted	Weighted average price
Options granted, by L'Oréal S.A. to the 10 employees [(1)] whom the largest number of stock options was granted	No stock options granted in 2018	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	25.03.09 plan	27.04.10 plan	22.04.11 plan
Options held with regard to L'Oréal parent company exercised by the ten employees[(1)] who have thus purchased or subscribed for the largest number of options	377,771	€73.26	94,921	192,850	90,000

(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 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.

The 15th resolution approved by the Ordinary and Extraordinary General Meeting on 17 April 2018, granting authorisation to the Board of Directors to make 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, came into force on 21 June 2018, as of the expiration of the authorisation granted by the Ordinary and Extraordinary General Meeting on 20 April 2016. This authorisation was not used by the Board Directors in 2018.

6.4.3.2. Conditional grants of shares granted within the framework of the authorisation of 20 April 2016 (ACAs plan of 17 April 2018)

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 17 April 2018, 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 17 April 2018 consisted of 560,805,934 shares, taking into account the use of the resolution adopted in 2016 and 2017, 1,552,735 shares could be issued.

The Board of Directors used this authorisation at its meeting of 17 April 2018 by granting 931,000 free shares to 2,141 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);
- performance:
  - vesting of all or part of 50% of the shares granted will depend on the growth in comparable cosmetics sales for financial years 2019, 2020 and 2021 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 2019, 2020 and 2021 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 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 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 2018 to the ten employees other than corporate officers who received the largest number of shares amounts to 141,000 shares.

6.4.3.4. Existing conditional grant of shares at 31 December 2018

Date of authorisation by the Extraordinary General Meeting	22.04.2015	20.04.2016	20.04.2016	20.04.2016
Date of grant by the Board of Directors	22.04.2015	20.04.2016	20.04.2017	17.04.2018
Total number of shares conditionally granted	860,150	906,100	906,000	931,000
Of which the ten employees other than executive officers granted the largest number of shares (1)	*126,100*	*128,600*	*137,600*	*141,000*
Number of beneficiaries	1,943	2,079	2,038	2,141
Performance conditions	◆ 50% growth in comparable cosmetics sales compared to a panel of competitors (2) ◆ 50% growth in the L'Oréal Group's consolidated operating profit			
Date of final vesting for French tax residents at the date of grant	22.04.2019	20.04.2020	20.04.2021	17.04.2022
Date of final vesting for non-French tax residents at the date of grant	22.04.2019	20.04.2020	20.04.2021	17.04.2022
End of the holding period for French tax residents at the date of grant	22.04.2021	N/A	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) The panel consists of the following companies: Unilever, Procter & Gamble, Estée Lauder, Shiseido, Beiersdorf, Johnson & Johnson, Henkel, LVMH, Kao and Coty.

6.4.3.5. Shares definitively vested under the 22 April 2015 ACAs plan

The Board of Directors Meeting on 7 February 2019 found that 82.6% of the performance conditions achieved during the three years taken into consideration by the 22 April 2015 ACAS plan, namely 2016, 2017 and 2018. Accordingly, the beneficiaries who fulfil the conditions under the plan on 23 April 2019 and, in particular, the condition of presence in the Company, will receive 82.6% of the shares that were granted to them for those in excess of 200 shares. Indeed, the acquisition of the first 200 shares granted is not subject to the achievement of the performance conditions, except for the members of the Executive Committee, including the Chairman and CEO.

For information purposes, 32,000 shares were granted to the executive officer, under the Plan of 22 April 2015. After application of the performance conditions, 26,432 shares will finally be acquired by Mr. Jean-Paul Agon.

TABLE MONITORING THE PERFORMANCE CONDITIONS OF THE ACAS PLAN OF 22 APRIL 2015

ACAs plan of 22 April 2015	2016	2017	2018	Average arithmetic mean of performance for the financial years 2016, 2017 and 2018
50% growth in comparable cosmetics sales compared to a panel of competitors*	**+1.8 point** (+4.9%/+3.1%)	**+0.4 point** (+4.8%/+4.4%)	**+1.2 point** (+7.1%/+5.9%)	**+1.1 point**
50% growth in the Group's operating profit	**+3.47%** (4,387.7/4,539.9)	**+3.00%** (4,539.9/4,676.3)	**+5.25 %** (4,676.3 / 4,922.0)	**3.91%**

* *Panel of competitors: Unilever, Procter & Gamble, Estée Lauder, Shiseido, Beiersdorf, Johnson & Johnson, Henkel, LVMH, Kao and Coty.*

6.4.3.6. Tables monitoring performance conditions for the ACAs plans that are currently in progress

ACAs plan of 20 April 2016	2017	**2018**	2019
50% growth in comparable sales compared to a panel of competitors*	**+0.4 point (+4.8% / +4.4%)**	**+ 1,2 point (+7.1% / +5.9 %)**	**to come**
50% growth in the Group's operating profit	**+3.00%** (4,539.9 / 4,676.3)	**+ 5.25 %** (4,676.3 / 4,922.0)	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 sales compared to a panel of competitors*	**+ 1.2 point** (+ 7.1 %/+ 5.9 %)	to come	to come
50% growth in the Group's operating profit	**+ 5.25 %** (4,676.3/4,922.0)	to come	to come

* *Panel of competitors: Unilever, Procter & Gamble, Estée Lauder, Shiseido, Beiersdorf, Johnson & Johnson, Henkel, LVMH, Kao and Coty.*

ACAs plan of 17 April 2018	2019	2020	2021
50% growth in comparable sales compared to 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

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 2019: FR0013217056.
- Dividend +10% in 2020: FR0013295268.
- Dividend +10% in 2021: FR0013374436.

Minimum lot: 1 share.

Par value: €0.20.

Trading on the spot market of Euronext Paris.

Eligible for the Deferred Settlement Service (SRD).

Unsponsored 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

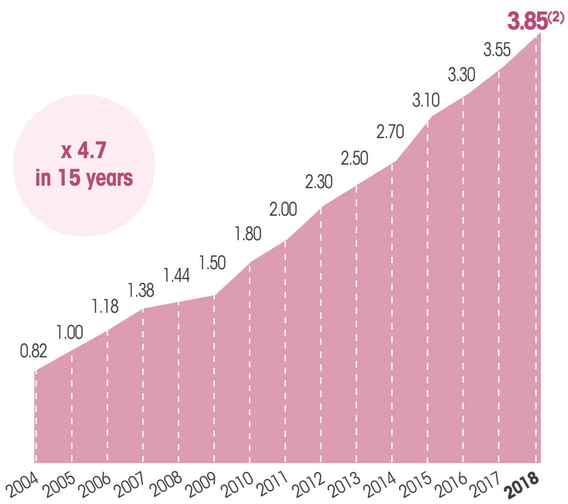
Price at 31 December 2018	**€201.20**
Average of last 30 days' closing prices for 2018	€205.13
Low	€170.30 06.02.2018
High	€214.90 08.08.2018
Annual share price increase at 31 December 2018	
◆ L'Oréal	+8.79%
◆ CAC 40	-10.95%
◆ Euronext 100	-11.24%
◆ DJ Euro Stoxx 50	-14.34%
◆ Stoxx Europe 600 Personal and Household Goods	-15.74%
Market capitalisation at 31 December 2018	€112.75 billion (1)
At 31 December 2018, the L'Oréal share weighed:	
◆ in the CAC 40	4.83%
◆ in the Euronext 100 (2)	4.71%
◆ in the DJ Euro Stoxx 50	2.28%
◆ in the Stoxx Europe 600 Personal and Household Goods	8.34%

(1) *Out of the number of shares at 31 December 2018, i.e. 560,396,652 shares.*
(2) *Based on the total number of shares for the Euronext 100 index.*

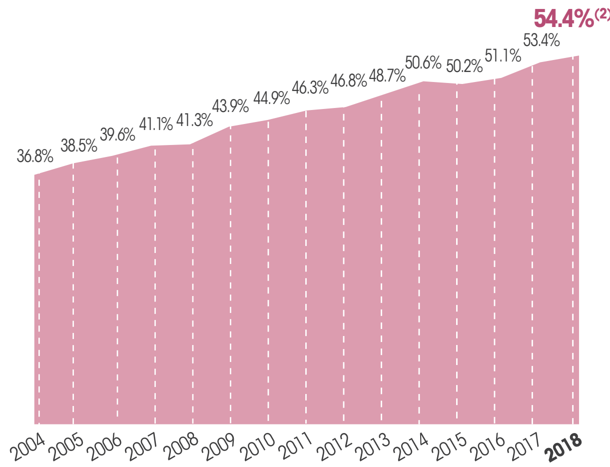
6.5.1.3. Dynamic shareholder return policy

- Earnings per share: €7.08 [1]
- Dividend per share: €3.85 [2]

STEADY INCREASE IN DIVIDEND PER SHARE (€):



SHARE OF PROFITS DEDICATED TO DIVIDENDS [3] (AS %): 54.4%[4]



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 *(€)* High	Low	Average	Average daily trading volume *(€ millions)*
2016				
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

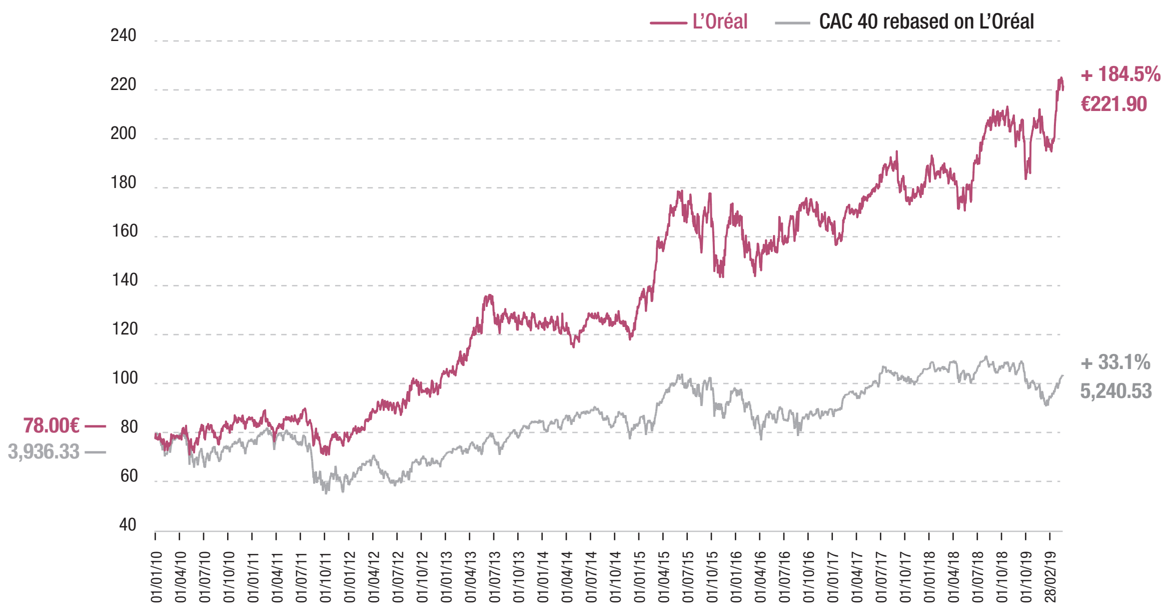
Date	Price *(€)* High	Low	Average	Average daily trading volume *(€ millions)*
2017				
January	174.00	168.35	170.75	91.80
February	177.25	167.75	173.18	119.22
March	180.15	173.90	177.50	101.06
April	186.40	177.80	181.77	120.89
May	191.80	182.80	188.28	103.44
June	197.15	182.20	189.53	117.68
July	186.25	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

(1) Diluted net profit per share attributable to owners of the Company excluding non-recurring items.
(2) Proposed dividend at the Annual General Meeting of 18 April 2019.
(3) Payout ratio based on diluted net profit excluding non-recurring items of continuing operations, Group share, per share
(4) On the basis of the dividend proposed to the General Meeting of 18 April 2019.

Date	Price (€) High	Low	Average	Average daily trading volume (€ millions)
2018				
January	188.85	180.90	184.42	90.16
February	184.30	170.30	176.18	131.85
March	184.50	170.50	178.41	111.64
April	199.30	182.05	191.29	132.12
May	210.20	194.15	202.98	116.45
June	214.40	202.00	208.10	118.05
July	213.20	200.80	209.11	113.29
August	214.90	200.70	208.11	87.20
September	209.50	197.25	202.82	100.80
October	208.60	182.00	193.44	120.42
November	210.50	197.90	205.46	105.38
December	214.30	193.20	204.29	119.22

Date	Price (€) High	Low	Average	Average daily trading volume (€ millions)
2019				
January	210.10	194.55	199.24	92.35
February	226.70	209.60	220.98	113.99

CHANGE IN THE L'ORÉAL SHARE PRICE COMPARED TO THE CAC 40 INDEX FROM 1 JANUARY 2010 TO 28 FEBRUARY 2019



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
31.12.2013	Purchase of 117 shares at €127.70	14,940.90		117
05.05.2014	Dividend: €2.50 per share		292.50	117
	Reinvestment: purchase of 3 shares at €123.90	371.70		120
07.05.2015	Dividend: €2.70 per share		324.00	120
	Reinvestment: purchase of 2 shares at €168.60	337.20		122
03.05.2016	Dividend: €3.10 per share		378.20	122
	Reinvestment: purchase of 3 shares at €157.80	473.40		125
03.05.2017	Dividend: €3.30 per share		412.50	125
	Reinvestment: purchase of 3 shares at €184.55	553.65		128
27.04.2018	Dividend: €3.55 per share		454.40	128
	Reinvestment: purchase of 3 shares at €196.90	590.70		131
TOTAL		**17,267.55**	**1,861.60**	
TOTAL NET INVESTMENT		**15,405.95**		

Portfolio value at 31.12.2018 (131 shares at €201.20, price at 31.12.2018): €26,357.20

The initial capital has thus been multiplied by 1.8 over 5 years (5-year inflation rate = 3.35% – Source INSEE) and the final capital is 1,7 times the total net investment.

The Total Shareholder Return of the investment is thus 11.51% per year (assuming that the shares are sold on 31 December 2018, excluding tax on capital gains).

Note: 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
31.12.2008	Purchase of 241 shares at €62.30	15,014.30		241
24.04.2009	Dividend: €1.44 per share		347.04	241
	Reinvestment: purchase of 7 shares at €52.02	364.14		248
05.05.2010	Dividend: €1.50 per share		372.00	248
	Reinvestment: purchase of 5 shares at €76.77	383.85		253
04.05.2011	Dividend: €1.80 per share		455.40	253
	Reinvestment: purchase of 6 shares at €85.79	514.74		259
03.05.2012	Dividend: €2.00 per share		518.00	259
	Reinvestment: purchase of 6 shares at €92.84	557.04		265
10.05.2013	Dividend: €2.30 per share		609.50	265
	Reinvestment: purchase of 5 shares at €134.05	670.25		270
05.05.2014	Dividend: €2.50 per share		675.00	270
	Reinvestment: purchase of 6 shares at €123.90	743.40		276
07.05.2015	Dividend: €2.70 per share		745.20	276
	Reinvestment: purchase of 5 shares at €168.60	843.00		281
03.05.2016	Dividend: €3.10 per share		871.10	281
	Reinvestment: purchase of 6 shares at €157.80	946.80		287
03.05.2017	Dividend: €3.30 per share		947.10	287
	Reinvestment: purchase of 6 shares at €184.55	1,107.30		293
27.04.2018	Dividend: €3.55 per share		1,040.15	293
	Reinvestment: purchase of 6 shares at €196.90	1,181.40		299
TOTAL		**22,326.22**	**6,580.49**	
TOTAL NET INVESTMENT		**15,745.73**		

Portfolio value at 31.12.2018 (299 shares at €201.20, price at 31.12.2018): €60,158.80

The initial capital has thus been multiplied by 4 over 10 years (10-year inflation rate = 9.23% – Source INSEE) and the final capital is 3.82 times the total net investment.

The Total Shareholder Return of the investment is thus 14.65% per year (assuming that the shares are sold on 31 December 2018, excluding tax on capital gains).

Note: 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
31.12.1998	Purchase of 24 shares at €615.89	14,781.36		24
15.06.1999	Dividend: €2.82 per share		67.69	24
	Reinvestment: purchase of 1 share at €586.50	586.50		25
15.06.2000	Dividend: €3.40 per share		85.00	25
	Reinvestment: purchase of 1 share at €825.00	825.00		26
03.07.2000	Ten-for-one share split			260
08.06.2001	Dividend: €0.44 per share		114.40	260
	Reinvestment: purchase of 2 shares at €78.15	156.30		262
04.06.2002	Dividend: €0.54 per share		141.48	262
	Reinvestment: purchase of 2 shares at €74.95	149.90		264
27.05.2003	Dividend: €0.64 per share		168.96	264
	Reinvestment: purchase of 3 shares at €61.10	183.30		267
14.05.2004	Dividend: €0.73 per share		194.91	267
	Reinvestment: purchase of 4 shares at €63.65	254.60		271
11.05.2005	Dividend: €0.82 per share		222.22	271
	Reinvestment: purchase of 4 shares at €56.50	226.00		275
10.05.2006	Dividend: €1.00 per share		275.00	275
	Reinvestment: purchase of 4 shares at €72.65	290.60		279
03.05.2007	Dividend: €1.18 per share		329.22	279
	Reinvestment: purchase of 4 shares at €86.67	346.68		283
30.04.2008	Dividend: €1.38 per share		390.54	283
	Reinvestment: purchase of 6 shares at €76.21	457.26		289
24.04.2009	Dividend: €1.44 per share		416.16	289
	Reinvestment: purchase of 9 shares at €52.02	468.14		298
05.05.2010	Dividend: €1.50 per share		447.00	298
	Reinvestment: purchase of 6 shares at €76.77	460.62		304
04.05.2011	Dividend: €1.80 per share		547.20	304
	Reinvestment: purchase of 7 shares at €85.79	600.53		311
03.05.2012	Dividend: €2.00 per share		622.00	311
	Reinvestment: purchase of 7 shares at €92.84	649.88		318
10.05.2013	Dividend: €2.30 per share		731.40	318
	Reinvestment: purchase of 6 shares at €134.05	804.30		324
05.05.2014	Dividend: €2.50 per share		810.00	324
	Reinvestment: purchase of 7 shares at €123.90	867.30		331
07.05.2015	Dividend: €2.70 per share		893.70	331
	Reinvestment: purchase of 6 shares at €168.60	1,011.60		337
03.05.2016	Dividend: €3.10 per share		1,044.70	337
	Reinvestment: purchase of 7 shares at €157.80	1,104.60		344
03.05.2017	Dividend: €3.30 per share		1,135.20	344
	Reinvestment: purchase of 7 shares at €184.55	1,291.85		351
27.04.2018	Dividend: €3.55 per share		1,246.05	351
	Reinvestment: purchase of 7 shares at €196.90	1,378.30		358
TOTAL		**26,894.62**	**9,882.83**	
TOTAL NET INVESTMENT		**17,011.87**		

Portfolio value at 31.12.2018 (358 shares at €201.20, price at 31.12.2018): €72,029.60

The initial capital has thus been multiplied by 4.87 over 20 years (20-year inflation rate = 27.9% – Source INSEE) and the final capital is 4.23 times the total net investment.

The Total Shareholder Return of the investment is thus 7.70% per year (assuming that the shares are sold on 31 December 2018, excluding tax on capital gains).

NOTE: 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 2018, 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-2018/ – and the Registration Document.

The 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 50,000 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-issued in 2018, the shareholder brochure "Take part in the L'Oréal adventure" describes the Company's business model and explains 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. 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 2018, the Individual Shareholder Relations Department successfully organised various site visits (to the Group's plant and laboratories) and Shareholder Meetings.
- Participation in the Actionaria Stock Market Fair for the fifteenth 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 2018.

- 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 12 shareholders appointed for three years. Representatives 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: the AGM and digital communication. In 2018, 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 Chinese market. In all, in 2018, 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 (8.45am – 6pm. Paris time).

6.6.3. FINANCIAL CALENDAR FOR 2019

07.02.2019	2018 Annual results
16.04.2019	First quarter 2019 sales
18.04.2019	Ordinary and Extraordinary General Meeting
July 2019 *	First-half 2019 sales and results
October 2019 *	Sales at 30 September 2019

* *The precise date will be indicated on the website www.loreal-finance.com.*

6.6.4. FINANCIAL NEW RELEASES IN 2018

08.02.2018	2017 Annual Results
13.03.2018	Annual General Meeting of 17 April 2018 / 2017 Registration Document
16.03.2018	L'Oréal acquires ModiFace further expanding its worldwide expertise in beauty tech
22.03.2018	L'Oréal and Armani renew their partnership in beauty
12.04.2018	First quarter 2018 sales
17.04.2018	Annual General Meeting and Board of Directors' Meeting of 17 April 2018
02.05.2018	L'Oréal acquires Korean Stylenanda
15.05.2018	Launch of an Employee Share Ownership Plan
25.05.2018	L'Oréal acquires Pulp Riot, the new US based professional haircolor brand
28.05.2018	L'Oréal and Valentino announce a worldwide license agreement for fine fragrances and luxury beauty
26.07.2018	First-half 2018 results
01.08.2018	L'Oréal acquires German natural beauty company Logocos Naturkosmetik AG
01.08.2018	L'Oréal announces the project of acquisition of Société des Thermes de La Roche Posay
17.10.2018	L'Oréal finalises the acquisition of Logocos Naturkosmetik AG
30.10.2018	Sales at 30 September 2018
19.11.2018	Important changes in the L'Oréal Executive Committee
05.12.2018	L'Oréal creates "BOLD", a corporate venture capital fund dedicated to accompanying innovative startups

7

Annual General Meeting

This chapter sets out the draft resolutions which will be submitted to L'Oréal's Ordinary and Extraordinary General Meeting, the Report of the Board of Directors' ("explanatory statement") on these resolutions and the Statutory Auditors' Reports referred to by some of these resolutions.

This meeting will be held on 18 April 2019 at the Palais des Congrès, in Paris.

7.1. DRAFT RESOLUTIONS AND REPORT OF THE BOARD OF DIRECTORS (EXPLANATORY STATEMENT) TO THE ORDINARY AND EXTRAORDINARY GENERAL MEETING TO BE HELD ON 18 APRIL 2019 (ADOPTED ON 7 FEBRUARY 2019)

AGENDA

ORDINARY PART

1. Approval of the 2018 parent company financial statements
2. Approval of the 2018 consolidated financial statements
3. Allocation of the Company's net income for 2018 and setting of the dividend
4. Appointment of Ms Fabienne Dulac as a Director
5. Renewal of the office of Ms Sophie Bellon as a Director
6. 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
7. 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 2018 financial year due to his office as Chairman and Chief Executive Officer
8. Authorisation for the Company to buy back its own shares

EXTRAORDINARY PART

9. Delegation of authority to the Board of Directors to increase the share capital through the issue of ordinary shares with maintenance of the shareholders' preferential subscription rights
10. Delegation of authority to the Board of Directors to increase the share capital *via* the capitalisation of share premiums, reserves, profits or other amounts
11. 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
12. 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
13. 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
14. Powers for formalities

7.1.1. ORDINARY PART

RESOLUTIONS 1, 2, 3: APPROVAL OF THE ANNUAL (PARENT COMPANY AND CONSOLIDATED) FINANCIAL STATEMENTS FOR 2018, ALLOCATION OF THE COMPANY'S NET INCOME AND SETTING OF THE DIVIDEND

EXPLANATORY STATEMENT

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 showing net income of €3,594,895,876.41 for 2018, compared with €3,051,719,329.20 for 2017;
- the 2018 consolidated financial statements.

  The details of these financial statements are set out in the 2018 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 €3.85 per share, representing an increase of +8,5% 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 54.4% in 2018.

  Over the last five financial years, this rate was

Year	2013	2014	2015	2016	2017
Rate of distribution	48.7%	50.6%	50.2%	51.1%	53.4%

- A per share bonus dividend of €4.23, 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 bonus dividend will be granted to the shares held in registered form since 31 December 2016 at the latest, and which continuously remain in registered form until the dividend payment date in 2019. 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 26 April 2019 at zero hour, Paris time, and they will be paid on 30 April 2019.

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 2018 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 2018 parent company financial statements, as presented, and the transactions included in these financial statements and summarised in these Reports, showing net income of €3,594,895,876.41, compared with €3,051,719 329.20 for 2017.

Second resolution: Approval of the 2018 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 2018 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 2018 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 2018 financial year, amounting to €3,594,895,876.41:

No allocation to the legal reserve which already represents over one-tenth of the share capital	–
Clearance of the debtor "Retained earnings" account*	€4,709,896.78
Amount allocated to the shareholders as a dividend ** (including bonus dividend)	€2,175,947,197.14
Balance that will be allocated to the "Other reserves" item	**€1,414,238,782.49**

* *Application of ANC Regulation No. 2015-05 on forward financial instruments and hedging transactions (see Chapter 5 of the 2018 parent company financial statement.*
** *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 2018 and will be adjusted to reflect:

- the number of shares issued between 1 January 2019 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 bonus dividend, taking into account sales or transfers to a bearer account between 1 January 2019 and the date of payment of the dividend.

The Annual General Meeting therefore declares an ordinary dividend to be paid of €3.85 per share, the bonus dividend entitling eligible holders to a total of €4.23 per share. The preferential dividend will be granted to the shares held in registered form since 31 December 2016 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 bonus 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 26 April 2019 at zero hour (Paris time) and they will be paid on 30 April 2019.

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 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:

	2015	2016	2017
Ordinary dividend per share	€3.10	€3.30	€3.55
Preferential dividend per share	€0.31	€0.33	€0.35

RESOLUTIONS 4 & 5: OFFICES OF DIRECTORS

EXPLANATORY STATEMENT

1. Composition of L'Oréal's Board of Directors at 31 December 2018

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 62, 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 Director of Air Liquide.

Françoise Bettencourt Meyers, age 65, 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, age 64, 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 70, 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 53, 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; her office was renewed for a period of four years in 2018. She is a member of the Human Resources and Remuneration Committee.

Sophie Bellon, age 57, is the Chairwoman of the Board of Directors at 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 of L'Oréal since 2015. She is the Chairwoman of the Appointments and Governance Committee, and the Human Resources and Remuneration Committee, and a member of the Audit Committee.

Patrice Caine, age 49, has been Chairman and Chief Executive Officer of Thales Group since December 2014, after holding management positions in various operating units (Aviation and Naval, Communications, Navigation and Identification, Air Systems, Radio-Communication Products, Network and Infrastructure Systems, and Protection Systems) from 2002 to 2013. Patrice Caine has been a Director of L'Oréal since April 2018, and is a member of the Appointments and Governance Committee.

Axel Dumas, age 48, has been Executive Chairman of Hermès International since 2013, successively holding various positions in that company. 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, Axel Dumas was appointed as Executive Vice-President of Operations and member of the Executive Committee of the Group. Axel Dumas has been a Director of L'Oréal since April 2018, and is a member of the Audit Committee.

Belén Garijo, age 58, 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, age 54, 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 72, 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.

Georges Liarokapis, age 56, of French and Greek nationality, is Coordinator of Sustainability for L'Oréal Western Europe. Georges Liarokapis was appointed by the CFE-CGC union as a Director representing the employees in 2014; his office was renewed for a period of four years in 2018. He is a member of the Audit Committee.

Jean-Victor Meyers, age 32, 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 Exemplaire. Jean-Victor Meyers has been a Director of L'Oréal since 2012 and is a member of the Audit Committee.

Virginie Morgon, age 49, is Chairwoman of the Executive Board of Eurazeo, which she joined in 2008 after working for sixteen years at Lazard, as well as Chairwoman and Chief Executive Officer of Eurazeo North America Inc. (USA). She is also Co-Chair of the Paris Committee of Human Rights Watch. Virginie Morgon has been a Director of L'Oréal since 2013 and is the Chairwoman of the Audit Committee.

Eileen Naughton, age 61, 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 18 April 2019

2.1 Appointment of Ms Fabienne Dulac as a Director

Following the proposal made by the Appointments and Governance Committee, the Board of Directors submits the appointment of Ms Fabienne Dulac as Director, for a period of four years, to the Annual General Meeting.

Ms Fabienne Dulac, age 51, a French national, holds a DEA post-graduate degree in Political Sociology obtained after a degree in History and Modern Literature.

After working for the French Ministry of Home Affairs, she joined the corporate world, taking a position as Head of Communication and Marketing at VTCOM, a multimedia services development company, in 1993.

Ms Dulac joined France Telecom in 1997 in its Multimedia Division. Her responsibilities as Head of External Communication included all of France Telecom's multimedia businesses ; she particularly contributed to founding Wanadoo. She held various positions over a decade in marketing, business development, and customer relationships. In 2008, she was named Vice President of Digital business of Orange France. In 2011, Ms. Dulac became Head of the Orange North France Division in charge of Operations for France. In 2013, Ms Dulac was appointed Head of Communication at Orange France. In 2015, Ms Dulac was made Senior Vice-President of Orange France and joined the Executive Committee as Chairwoman and Chief Executive of Orange France.

She was appointed Deputy Chief Executive Officer of the Orange Group in May 2018. She is also Director of Orange Bank, as of Willa (an incubator dedicated to Female entrepreneurship).

Ms Fabienne Dulac will bring to L'Oréal's Board of Directors her knowledge of the digital industry, consumers and customer relationships, her expertise in Human Resources and her experience of leading an organisation undergoing a major transformation. Ms Dulac will also bring her personal vision drawn from her training and background, as well as her sense of innovation combined with great human qualities.

2.2 Renewal of the office of Ms Sophie Bellon as a Director

As the office of Ms Sophie Bellon as Director is due to expire in 2019, the renewal of her office for an office of four years is submitted to the Annual General Meeting.

Ms Sophie Bellon has been a Director of L'Oréal since April 2015. She chairs two committees: the Human Resources and Remuneration Committee, and the Appointments and Governance Committee. She is also a member of the Audit Committee.

Ms Sophie Bellon, age 57, has been Chairwoman of Sodexo's Board of Directors since January 2016, after holding various positions within the Group for more than 20 years.

Sodexo, a world leader in quality-of-life services, has locations in 72 countries and has 460,000 employees worldwide.

Ms Bellon is an independent Director, closely involved in the work of the Committees, who brings to the Board her multidisciplinary knowledge of business, her customer relationship expertise, her grasp of governance issues, her strategic vision and her commitments to social and societal responsibility.

Over the four years of her office as Director, Ms Bellon's attendance has been 100% for the meetings of the Board of Directors and 96% for the three Committees of which she is a member.

3. *Composition of the Board of Directors after the Annual General Meeting of 18 April 2019*

If the Annual General Meeting votes in favour of the renewal and appointment proposed to it in 2019, the expiry dates of the offices of the 16 Directors of L'Oréal would be as follows:

			Board Committees			
	Independence	Expiry date of current term of office	Strategy and Sustainable Development	Audit	HR and Remuneration	Appointments and Governance
Ms Françoise Bettencourt Meyers		2021	●			
Mr Paul Bulcke		2021	●		●	●
Mr Jean-Pierre Meyers		2020	●		●	●
Ms Ana Sofia Amaral	Employee Director	2022			●	
Ms Sophie Bellon	◆	2023		●	C	C
Mr Patrice Caine	◆	2022				●
Ms Fabienne Dulac	◆	2023				
Mr Axel Dumas	◆	2022		●		
Ms Belén Garijo	◆	2022			●	
Ms Béatrice Guillaume-Grabisch		2020		●		
Mr Bernard Kasriel	◆	2020	●			
Mr Georges Liarokapis	Employee Director	2022		●		
Mr Jean-Victor Meyers		2020		●		
Ms Virginie Morgon	◆	2021		C		
Ms Eileen Naughton	◆	2020			●	

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

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 appointment and renewal that are proposed by the Board of Directors, the number of Independent Directors would be 8 out of 14, namely a rate of independence of 57% (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 appointment and renewal proposed to it, the number of women on the Board of Directors would be 7 out of the 14 Directors appointed by the Annual General Meeting, namely a percentage representation of women of 50% (the two Directors representing the employees are not taken into account pursuant to the French Commercial Code).

3.3. Length of office and minimum number of shares held

The length of the office of the Directors appointed by L'Oréal's Annual General Meeting is set at four years. The term of office of a Director who is not appointed by the Annual General Meeting is four years. Directors appointed by the Annual General Meeting must 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.

A list of the offices and functions of the Directors at 31 December 2018 (with an indication of the number of L'Oréal shares held for Directors appointed by the Annual General Meeting) begins on pages 57 of the Registration Document.

Fourth resolution: Appointment of Ms Fabienne Dulac as a Director

The Annual General Meeting, voting in accordance with the quorum and majority requirements for Ordinary General Meetings, having reviewed the Report of the Board of Directors, appoints Ms Fabienne Dulac as a Director for a period of four years.

Her office will expire at the end of the Annual General Meeting to be held in 2023 to review the financial statements for the previous financial year.

Fifth resolution: Renewal of the office of Ms Sophie Bellon as a Director

The Annual General Meeting, voting in accordance with the quorum and majority requirements for Ordinary General Meetings, having reviewed the Report of the Board of Directors, renews the office of Ms Sophie Bellon as Director for a period of four years.

Her office will expire at the end of the Annual General Meeting to be held in 2023 to review the financial statements for the previous financial year.

RESOLUTION 6: 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

EXPLANATORY STATEMENT

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 section 2.5.1 of the Registration Document.

7

Sixth 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 7: 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 2018 FINANCIAL YEAR DUE TO HIS OFFICE AS CHAIRMAN AND CHIEF EXECUTIVE OFFICER

EXPLANATORY STATEMENT

Pursuant to Article L. 225-100 of the French Commercial Code, the fixed and variable components of the total remuneration and benefits of all kinds paid or allocated to Mr Jean-Paul Agon for the 2018 financial year on the basis of his office as Chairman and Chief Executive Officer must be approved by the Ordinary General Meeting.

SUMMARY TABLE OF COMPONENTS OF REMUNERATION PAID OR ALLOCATED FOR THE 2018 FISCAL YEAR

Components of remuneration paid or allocated for the 2018 financial year	Amounts or accounting valuation put to the vote	Description
Fixed remuneration *2018/2017 changes*	**€2,200,000** 0%	At its meeting on 8 February 2018, 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.
Annual variable remuneration	**€2,045,998** 93.0% out of a maximum target of 100% of the fixed remuneration	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. The Board of Directors' intention is to encourage the Chairman and Chief Executive Officer both to maximise performance in each financial year and to ensure that it is repeated and regular year on year. Annual variable remuneration can amount to a maximum of 100% of the fixed remuneration. CRITERIA FOR ASSESSMENT OF THE PERFORMANCE FOR 2018 ◆ **FINANCIAL CRITERIA** **60%** • Growth in comparable 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%* ◆ **EXTRA-FINANCIAL AND QUALITATIVE CRITERIA** **40%** • ***Quantifiable criteria*** *(allocated equally among the following criteria)* *25%* - CSR (Sharing Beauty With All programme): Innovating sustainably, Producing sustainably, Living sustainably; Developing sustainably; - Human Resources: Gender parity, Development of talented employees, Access to training; - Digital Development • ***Individual qualitative performance:*** *15%* Management, Image, Company reputation, Dialogue with stakeholders. The assessment is carried out on a criterion-by-criterion basis without offsetting among the criteria. A summary of achievements in 2018 is available on pages 102 of the Registration Document. ASSESSMENT FOR 2018 BY THE BOARD OF DIRECTORS OF 7 FEBRUARY 2019 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 €2,045,998 for 2018, namely 93.0% of the maximum objective, with a level of achievement of the financial and extra-financial and qualitative criteria of 91.7% and 95.0% respectively. The level of achievement for each financial criterion as well as the assessment of non-financial achievements are provided on pages 102-103 of the Registration Document. Pursuant to Article L. 225-100 of the French Commercial Code, the payment of this annual variable remuneration is subject to the approval of this seventh resolution.

Components of remuneration paid or allocated for the 2018 financial year	Amounts or accounting valuation put to the vote	Description
Other benefits ◆ **Performance shares**	**30,000** performance shares valued at €5,285,100 (fair value estimated according to the IFRS standards used to prepare the consolidated financial statements)	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 17 April 2018 decided, on the proposal of the Human Resources and Remuneration Committee, to make a conditional grant of 30,000 shares ("ACAs") to Mr Jean-Paul Agon. The estimated fair value of one performance share (ACAs) under the 17 April 2018 plan according to the IFRS standards applied for the preparation of the consolidated financial statements is €176.17, *i.e.* a fair value of €5,285,100 for the 30,000 ACAs granted to Mr Jean-Paul Agon in 2018. For the 20 April 2017 plan, the fair value of one ACAs amounted to €166.90. 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. 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 & Gamble, Estée Lauder, Shiseido, Beiersdorf, Johnson & Johnson, Henkel, LVMH, Kao, Coty; the other half will depend on the growth in L'Oréal Group's consolidated operating profit. 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 2019. The monitoring of performance conditions each year is described on pages 352 and 353 of the Registration Document. 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 that 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. With respect 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 in order for all the free shares granted to finally vest for the beneficiaries at the end of the vesting period. 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 grant of shares from which Mr Jean-Paul Agon benefited in 2018 represents 3.22% of the total number of ACAs granted to the 2,141 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 2018.
◆ **Directors' fees**	**€0**	Mr. Jean-Paul Agon did not wish to receive attendance fees in his capacity as Chairman and Chief Executive Officer.
◆ **Benefits in addition to remuneration**	**€0**	◆ 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.
	€9,893	◆ Additional social protection schemes: death, disability, healthcare insurance and defined-contribution pension. 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 €9,893 in 2018, €6,158 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.

Mr. Jean-Paul Agon does not receive exceptional or multi-year remuneration.

Information on (i) severance benefits, (ii) dismissal or retirement benefits, (iii) monetary consideration for the non-compete clause, and (iv) the supplementary defined-benefit pension scheme to which Mr Agon may be entitled under his suspended employment contract, which were submitted to the AFEP-MEDEF for its advisory opinion, can be found on pages 97 and 98 of the Registration Document.

The application of the defined-benefit pension plan provisions of the employment contract of Mr Agon for the duration of his renewed corporate office was approved by the Annual General Meeting of 17 April 2018.

Seventh 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 2018 financial year due to his office as Chairman and Chief Executive Officer

Pursuant to Articles L. 225-37-2 and L. 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 2018 financial year due to his office as Chairman and Chief Executive Officer as presented in the explanatory statement for this resolution.

RESOLUTION 8: AUTHORISATION FOR THE COMPANY TO BUY BACK ITS OWN SHARES

EXPLANATORY STATEMENT

As the existing authorisation is due to expire in October 2019, 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;
- market-making through a liquidity agreement entered into with an investment services provider and in accordance with market practice accepted by the French Financial Markets Authority (AMF);
- 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 Annual General Meeting resolves that this authorisation will take effect on the date of this Annual General Meeting and will expire at the end of a period of 18 months from the date of this Annual General Meeting. It cancels from this day, for the unused portion, any previous authorisation with the same purpose.

The purchase price per share may not exceed €270 (excluding expenses). The authorisation would concern a maximum of 10% of the share capital, namely, for information purposes, at 31 December 2018, 56,039,665 shares for a maximum amount of €15,130,709,550, it being specified that the Company could not at any time hold more than 10% of its own capital.

Eighth 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 N° 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 €270 (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 2018, 56,039,665 shares for a maximum amount of €15,130,709,550, 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;
- market-making through a liquidity agreement entered into with an investment services provider and in accordance with market practice accepted by the French Financial Markets Authority (AMF);
- 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 resolves that this authorisation will take effect on the date of this Annual General Meeting and will expire at the end of a period of 18 months from the date of this Annual General Meeting. It cancels from this day, for the unused portion, any previous authorisation with the same purpose.

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 9: DELEGATION OF AUTHORITY TO THE BOARD OF DIRECTORS TO INCREASE THE SHARE CAPITAL THROUGH THE ISSUE OF ORDINARY SHARES WITH MAINTENANCE OF THE SHAREHOLDERS' PREFERENTIAL SUBSCRIPTION RIGHTS

EXPLANATORY STATEMENT

It is proposed that the Annual General Meeting delegate to the Board of Directors its authority to increase the share capital through the issue of ordinary shares with maintenance of the shareholders' preferential subscription rights.

The total amount of capital increases carried out could not bring the share capital, which as at 31 December 2018 amounted to €112,079,330.40, to an amount over €156,911,062.56. This ceiling will also include any increases made pursuant to the fifteenth resolution approved at the 2018 Annual General Meeting, which remains in effect until 20 August 2020, and the tenth, eleventh, twelfth and thirteenth resolutions submitted to the vote of this Annual General Meeting. As an indicative maximum, this corresponds to an increase of 40% of the share capital.

No overallocation option is provided for.

This delegation of authority would be valid for a period of 26 months from the date of this Annual General Meeting, it being specified that, in the event of the filing of a public offer by a third party for the Company's shares, the Board of Directors may not use this authorisation during the public offer period without the prior authorisation of the General Meeting.

Ninth resolution: Delegation of authority to the Board of Directors to increase the share capital through the issue of ordinary shares with maintenance of the shareholders' preferential subscription rights

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 in accordance with Articles L. 225-129 *et seq.* of the French Commercial Code, and in particular Article L. 225-129-2 of the French Commercial Code:

1) delegates to the Board of Directors its authority to increase the share capital on one or more occasions through the issue of ordinary shares of the Company. The delegation of authority thus granted to the Board of Directors is valid for a period of 26 months from the date of this Annual General Meeting;

2) resolves that the total amount of capital increases that may be carried out under this authorisation could not bring the share capital, which as at 31 December 2018 amounted to €112,079,330.40, to an amount over €156,911,062.56. The capital increases that may be carried out pursuant to the fifteenth resolution approved by the 2018 Annual General Meeting, which remains in effect until 20 August 2020, and the tenth, eleventh, twelfth and thirteenth resolutions submitted to the vote of this General Meeting will also be charged against this ceiling, it being specified that this total nominal amount does not take into account adjustments that may be made in accordance with the applicable provisions of the laws and regulations, and where applicable, the contractual provisions providing for other cases of adjustment, to preserve the rights of holders of free shares or stock options for the subscription and purchase of shares. As an indicative maximum, this corresponds to an increase of 40% of the share capital.

3) resolves that, in the event that the Board of Directors uses this delegation of authority, the shareholders will have a preferential subscription right to the shares issued pursuant to this resolution, in proportion to the number of their shares. If subscriptions made by shareholders by exercise of their irreducible subscription rights and, where applicable, by exercise of their reducible subscription rights they hold do not cover the full number of shares issued, the Board of Directors may offer to the public some or all of the shares not subscribed on the French or foreign market, or limit the increase in capital to the amount of the subscriptions on the condition that it reaches at least three-quarters of the intended increase in capital;

4) resolves that the transactions involving an increase in the share capital may be carried out any time, in compliance with the regulations in force on the date of the transactions in question. However, in the event of the filing of a public offer by a third party for the Company's shares, the Board of Directors may not use this delegation of authority during the public offer period without the prior authorisation of the General Meeting;

5) resolves that the Board of Directors will have full powers, with the possibility to delegate further under the conditions set by law, to implement this delegation of authority within the limits and under the conditions set out above in order to set the terms and conditions of the increases in capital and, in particular, in general, to carry out all actions and formalities, take all decisions and enter into all agreements that are useful or necessary to successfully carry out the share issues made pursuant to this delegation of authority and to record the final completion of the increase(s) in capital carried out pursuant to this delegation of authority and amend the Articles of Association accordingly;

6) notes that this delegation cancels any prior delegation with the same purpose.

RESOLUTION 10: DELEGATION OF AUTHORITY TO THE BOARD OF DIRECTORS TO INCREASE THE SHARE CAPITAL VIA THE CAPITALISATION OF SHARE PREMIUMS, RESERVES, PROFITS OR OTHER AMOUNTS

EXPLANATORY STATEMENT

It is proposed that the Annual General Meeting delegate to the Board of Directors its authority to increase the share capital *via* the capitalisation of share premiums, reserves, profits or other amounts.

The maximum nominal amount of the capital increases that may be carried out for this purpose is equal to the total amount of the sums capitalised and will be charged against the amount of the total ceiling provided for in the ninth resolution of this General Meeting.

In the event of a free grant of shares, the allotment rights representing fractional shares are neither tradable nor transferable. The corresponding shares will be sold and the amounts resulting from the sale will be allocated to the holders of such rights.

This delegation of authority would be valid for a period of 26 months from the date of the Annual General Meeting, it being specified that, in the event of the filing of a public offer by a third party for the Company's shares, the Board of Directors may not use this authorisation during the public offer period without the prior authorisation of the Annual General Meeting.

Tenth resolution: Delegation of authority to the Board of Directors to increase the share capital via the capitalisation of share premiums, reserves, profits or other amounts

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 and in accordance with Articles L. 225-129 *et seq.* of the French Commercial Code, and in particular Article L. 225-130 of the French Commercial Code:

1) delegates to the Board of Directors, with the possibility to delegate further, its authority to increase the share capital on one or more occasions *via* the capitalisation of share premiums, reserves, profits or other amounts that may be capitalised in the form of the allotment of free shares or an increase in the par value of the existing shares or by the joint use of both these processes. The delegation of authority thus granted to the Board of Directors is valid for a period of 26 months from the date of this Annual General Meeting;

2) resolves that the maximum nominal amount of the capital increases that may be carried out for this purpose will be equal to the total amount of the sums that may be capitalised and will be charged against the amount of the total ceiling provided for in the ninth resolution of this General Meeting. This total nominal amount does not take into account adjustments that may be made in accordance with the applicable provisions of the laws and regulations, and where applicable, the contractual provisions providing for other cases of adjustment to preserve the rights of holders of free shares or stock options for the subscription and purchase of shares;

3) resolves that, if the Board of Directors uses this delegation of authority, in accordance with the provisions of Article L. 225-130 of the French Commercial Code, the rights representing fractional shares will, where applicable, not be tradable or transferable, and that the corresponding shares will be sold; the amounts resulting from the sale will be allocated to the rights holders under the conditions and within the time periods provided for by the applicable regulations;

4) resolves that the transactions involving an increase in the share capital may be carried out any time, in compliance with the regulations in force on the date of the transactions in question. However, in the event of the filing of a public offer by a third party for the Company's shares, the Board of Directors may not use this delegation of authority during the public offer period without the prior authorisation of the Annual General Meeting;

5) resolves that the Board of Directors will have full powers, with the possibility to delegate further under the conditions set by law, to implement this delegation of authority within the limits and under the conditions set out below in order to set the terms and conditions of the increases in capital and, in particular, in general, to carry out all actions and formalities, take all decisions and enter into all agreements that are useful or necessary to successfully carry out the share issues made pursuant to this delegation of authority and to record the final completion of the increase(s) in capital carried out pursuant to this delegation of authority and amend the Articles of Association accordingly;

6) notes that this delegation of authority cancels any prior delegation with the same purpose.

RESOLUTION 11: 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

EXPLANATORY STATEMENT

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 the capital increase(s) that may be carried out pursuant to this resolution is limited to 2% of the share capital on the day of the decision to increase the capital, and will be charged against the total ceiling for capital increases provided for in the ninth resolution approved during this General Meeting.

This delegation of authority will not apply in the context of a public offer for Company securities.

Shareholders will not have preferential subscription right on shares issued under this delegation.

Eleventh 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) resolves that the amount of the capital increases that may be carried out pursuant to this resolution shall be charged against the total ceiling for capital increases provided for in the ninth resolution of this General Meeting;

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 General Meeting;

4) notes that, 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. 225-147 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 of authority at 26 months from the date of this Annual General Meeting, and notes that this delegation renders ineffective the unused portion of any prior delegation with the same purpose.

7

RESOLUTIONS 12 AND 13: 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 RIGHTS

EXPLANATORY STATEMENT

It is proposed to the Annual General Meeting, pursuant to the twelfth 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 implement, where applicable, a global employee share ownership programme in the best possible conditions, it is also proposed to the Annual General Meeting in the thirteenth resolution to delegate to the Board of Directors the authority to increase the 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 twelfth 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 thirteenth resolution, the issue price would be determined under similar terms and conditions to those set for the twelfth resolution, and could also be set taking into account the specific regime of an offering of shares in the Company carried out within the framework of a share ownership scheme governed by foreign law.

The Annual General Meeting is therefore asked to delegate to the Board of Directors, pursuant to the twelfth and thirteenth resolutions, the authority to increase the share 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 2018 through the issue of 5,603,966 new shares, this ceiling being applicable jointly to the twelfth and thirteenth resolutions. The amount of the capital increases that may be carried out pursuant to the twelfth and thirteenth resolutions will be charged against the total ceiling for capital increases provided for the ninth resolution approved at this Annual General Meeting.

Twelfth 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, corporate 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 (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 General Meeting;

4) resolves 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 2018, an increase in the share capital by a maximum nominal amount of €1,120,793.20 through the issue of 5,603,966 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 thirteenth 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 applicable jointly to the twelfth and thirteenth resolutions;

5) resolves that the amount of the increases in capital that may be carried out pursuant to this resolution will be charged against the total ceiling for increases in capital provided for in the ninth resolution;

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 twenty 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.

Thirteenth resolution: Delegation of authority granted to the Board of Directors for the purpose of carrying out a capital increase reserved for categories of beneficiaries consisting of employees of foreign subsidiaries, with cancellation of preferential subscription rights, within the framework of an employee share ownership plan

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 corporate 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 twelfth 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) resolves to set at 1% of the share capital existing at the date of this Annual General Meeting, the capital increase that may be carried out (namely, for information purposes, at 31 December 2018, an increase in the share capital by a maximum nominal amount of €1,120,793.20 through the issue of 5,603,966 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 twelfth 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 applicable jointly to the twelfth and thirteenth resolutions;

6) resolves that the amount of the increases in capital that may be carried out pursuant to this resolution will be charged against the total ceiling for increases in capital provided for in the ninth resolution;

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 14: POWERS FOR FORMALITIES

EXPLANATORY STATEMENT

This resolution is intended to grant the powers necessary to carry out all formalities resulting from the holding of the Annual General Meeting.

Fourteenth 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. 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 18, 2019 - Twelfth resolution)

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 auditing standards applicable in France.

L'Oréal
14, rue Royale
75008 Paris, France

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 cancelation of preferential subscription rights, reserved for employees, corporate officers and eligible former employees of your Company and of French and foreign entities related to your Company within the meaning of article L.225-180 of the French Commercial Code and article L.3344-1 of the French Labor Code (*Code du travail*), who are members of a Company employee share savings program, 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 thirteenth 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 the ninth resolution of this Annual General Meeting.

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 shares or 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 cancelation 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 cancelation 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 18, 2019

The Statutory Auditors

PricewaterhouseCoopers Audit	Deloitte & Associés
Anne-Claire Ferrié	Frédéric Moulin

7.2.2. STATUTORY AUDITORS' REPORT ON THE ISSUE OF SHARES AND SECURITIES GIVING ACCESS TO THE COMPANY'S SHARE CAPITAL RESERVED FOR CATEGORIES OF BENEFICIARIES CONSISTING OF EMPLOYEES OF FOREIGN SUBSIDIARIES WITHIN THE SCOPE OF AN EMPLOYEE SHARE OWNERSHIP PROGRAM

(Ordinary and Extraordinary Annual General Meeting of April 18, 2019 – Thirteenth resolution)

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 auditing standards applicable in France.

L'Oréal
14, rue Royale
75008 Paris, France

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 cancelation 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 programs 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 program, 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 twelfth 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 the ninth resolution of this Annual General Meeting.

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 shares or 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 cancelation 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 cancelation 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 and Paris-La Défense, February 18, 2019

The Statutory Auitors

PricewaterhouseCoopers Audit Anne-Claire Ferrié	Deloitte & Associés Frédéric Moulin

8

Appendices

8.1. STATUTORY AUDITORS

8.1.1. STATUTORY AUDITORS

2011, 2012, 2013, 2014, 2015, 2016, 2017 and 2018	Current appointments: Date of first appointment	Date of appointment	Term of office	Expiry date
Auditors				
PricewaterhouseCoopers Audit Auditor, member of the Compagnie Régionale de Versailles, represented by Anne-Claire Ferrié 63 rue de Villiers 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
Deloitte & Associés Auditor, member of the Compagnie Régionale de Versailles, represented by Frédéric Moulin 6, Place de la Pyramide 92908 Paris La Défense Cedex (France)	29 April 2004	20 April 2016	6 years	AGM reviewing the financial statements for 2021 to be held in 2022
Substitute auditors				
Mr Georghiou Jean-Christophe 63 rue de Villiers 92200 Neuilly-sur-Seine (France)	20 April 2016	20 April 2016	6 years	
Société BEAS 6, Place de la Pyramide 92908 Paris La Défense Cedex (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 15 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 2018 Registration Document contains the following information by reference:

- the consolidated financial statements for the year ended 31 December 2017 prepared in accordance with IFRS and the accompanying Statutory Auditors' Report presented on pages 281 to 284 of the 2017 Registration Document, filed with the French Financial Markets Authority (AMF) on 13 March 2018 under number D. 18-0124, and the information extracted from the 2017 Management Report presented on pages 26 to 32 of the 2017 Registration Document;
- the consolidated financial statements for the year ended 31 December 2016, prepared in accordance with IFRS and the accompanying Statutory Auditors' Report presented on pages 209 to 268 of the 2016 Registration Document, filed with the French Financial Markets Authority (AMF) on 14 March 2017 under the number D. 17-0168, and the information extracted from the 2016 Management Report presented on pages 23 to 32 of the 2016 Registration Document.

8.3. PERSON RESPONSIBLE FOR THE REGISTRATION DOCUMENT AND THE ANNUAL FINANCIAL REPORT

Mr Christophe Babule, Executive Vice-President, Chief Financial Officer, 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, 12 March 2019

On the authority of the Chairman and Chief Executive Officer,

Christophe Babule,

Executive Vice-President, Chief Financial Officer

8

8.5. CROSS-REFERENCE TABLE WITH THE REGISTRATION DOCUMENT

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.

8.6. ANNUAL FINANCIAL REPORT CROSS-REFERENCE TABLE

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. 2018 Annual Financial Statements	306-330
2. 2018 Consolidated Financial Statements	237-300
3. 2018 Management Report of the Board of Directors of L'Oréal	385
4. Declaration by the person responsible for the 2017 Annual Financial Report	381
5. Statutory Auditors' Report on the 2018 financial statements	333-337
6. Statutory Auditors' Report on the 2018 consolidated financial statements	300-303
7. Fees of Auditors	296

8.7. CROSS-REFERENCE TABLE WITH THE AMF TABLES ON THE REMUNERATION OF CORPORATE OFFICERS

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 013 and 5 December 2014 (see also AFEP-MEDEF Code).

Tables with regard to Remuneration provided for in the AMF's recommendations	Pages
Table N° 1. Summary of the remuneration, stock options and performance shares granted to each executive officer	106 2nd table
Table N° 2. Summary of the remuneration of each executive officer	106 1st table
Table N° 3. Attendance fees and other remuneration received by non-executive Directors	89
Table N° 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	NA
Table N° 5. Stock options for the subscription or purchase of shares exercised during the financial year by each executive officer	106 4th table
Table N° 6. Performance shares granted to each executive officer	107 1st table
Table N° 7. Performance shares that have vested for each executive officer	107 2nd table
Table N° 8. History of grants of stock options for the subscription or purchase of shares	106 3rd table
Table N° 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	350
Table N° 10. Historical information on free grants of shares	107 1st table

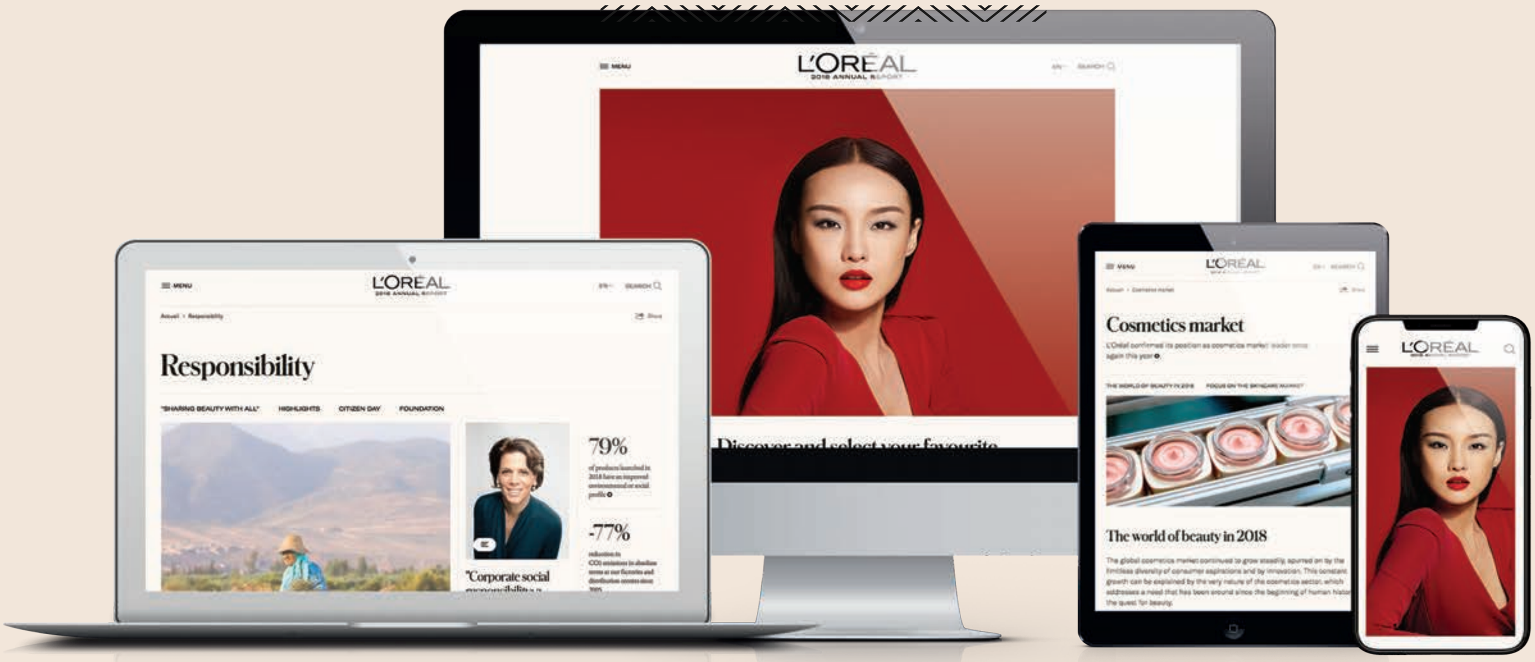
8.8. MANAGEMENT REPORT CROSS-REFERENCE TABLE

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 2018 Management Report	Pages
The Group's situation and business activities in 2018 Comments on the financial year	
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)	27-35, 363-364
Significant events that have occurred since the beginning of 2019 and prospects	36, 296
Research and development	19-21, 133
Operations	22-26
Parent company financial statements	
Net sales	332
L'Oréal parent company balance sheet and income statement	306-307
Expenses and charges falling under Article 223 quater of the French Tax Code	330
Trade accounts payable and customers debt	331
Five-year financial summary	332
Subsidiaries and holdings	297-300, 327-329
Risk factors	
Business risks	128-132
Legal risks (challenges and constraints linked to the legislation, significant disputes…)	133-134
Industrial and environmental risks	135-136
Counterparty risk	136
Customer risks	137
Liquidity risk	137
Financial and market risks	138-139
Insurance	140
Internal Control and risk management	
Key features of the internal monitoring and risk management procedures related to the production and processing of financial and accounting information	115-117
Vigilance Plan	**117-126**
Corporate governance	
Choice of organisation of the General Management	49
Limitations placed by the Board of Directors of the powers of the CEO	49-50, 79-80
Board of Directors composition, conditions governing the preparation and organisation of the Board's work	51-78
List of offices and Directorships held by each of the corporate officers in any company during the financial year	57-68
Remuneration of the executive officers	88-107
Stock options granted to and exercised by the executive officers	106-107, 349-350
Commitments made with regard to the executive officers	96-99
Summary of trading by Directors and executive officers and their closely related parties in L'Oréal shares in 2017	109
Summary table of the outstanding delegations given to the Board of Directors by the Annual General Meeting relating to capital increase	343
Description of the diversity policy, objectives and results applied to Board members	52-53
Provisions of the AFEP-MEDEF Code not applied and reasons for that choice	108
Special rules for shareholder participation in the Annual General Meeting	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	346
Non-financial statement	**144-226**
Information concerning the share capital	
Statutory requirements governing changes in the share capital and shareholders' rights	342
Structure and changes in the share capital *(including the table summarising the authorisations in force granted by the Annual General Meeting with regard to share capital increases)*	342-345
Changes in allocation of the share capital and voting rights over the last three years	345
Employee share ownership	345-346
Disclosures to the Company of legal thresholds crossed	346
Shareholders' agreements relating to shares in the Company's share capital	346
Buyback by the Company of its own shares	347
Presentation of the L'Oréal S.A. parent company stock option plans and plans for the conditional grant of shares to employees	348-353

8

Consult all the 2018 publications



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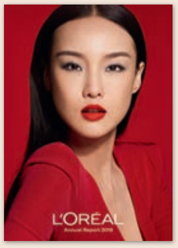

Annual Report

Overview of L'Oréal in 2018, its Divisions, brands and countries, driven by its mission - Beauty for All - and strategy - Universalisation.

Registration Document

This document includes the integrated Report, in particular the 2018 financial statements, the Annual Financial Report, the Management Report of the Board of Directors including a section on Social and Environmental Responsability.

Progress Report

2018 Progress Report of the "Sharing Beauty With All" sustainability programme.

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