2019 Universal 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

2019

UNIVERSAL REGISTRATION DOCUMENT

Including the Annual Financial Report – Integrated Report – Corporate and Social Responsibility

This Universal Registration Document has been filed on March 17, 2020 with the Autorité des Marchés Financiers (AMF), as competent authority under Regulation (EU) 2017/1129, without prior approval pursuant to article 9 of said regulation.

The Universal Registration Document may be used for the purposes of an offer to the public of securities or admission of securities to trading on a regulated market if completed by a securities note and, if applicable, a summary and any amendments to the Universal Registration Document. The whole is approved by the AMF in accordance with Regulation (EU) 2017/1129.

AUTORITÉ DES MARCHÉS FINANCIERS
AMF

JEAN-PAUL AGON
CHAIRMAN AND CHIEF EXECUTIVE OFFICER OF L'ORÉAL

Jean-Paul Agon, Chairman and Chief Executive Officer of L'Oréal, interviewed by two Group employees, Jessica Simmonds and Santiago Amaya. They discuss the highlights of 2019 and the Group's prospects for the future.

Jessica

Each year, the cosmetics market is continuing to grow steadily. In your view, which key factors made the market dynamic in 2019?

The cosmetics market was very dynamic in 2019, growing between +5% and +5.5%[1]. It was driven firstly by the same fundamental economic, demographic and sociological trends seen over the last few years: globalisation, the rise of the middle and upper income class, and the emergence of new targets, including seniors and men... More recently, growth has also been fuelled by other factors, and primarily of course by the digital revolution. Because beauty has vast potential in terms of engaging with people on the Internet. Then there is e-commerce, extending the reach of the beauty sector to far greater numbers of consumers all over the world, well beyond the possibilities of traditional retailing. Another factor is the huge appetite of younger generations for beauty products, especially in the new markets. And last but not least, the "premiumisation" of the market. More and more consumers want to trade up to products offering both higher performance and superior quality.

Santiago

L'Oréal has once again outperformed the market in 2019, and it's the case year after year. How do you explain this?

We not only outperformed the market, but also posted our best like-for-like sales growth for 12 years[2]! This reflects a winning strategy that is clearly defined: concentrating our resources and our efforts on the fastest-growing segments of the market. And outperforming each one of those segments.

L'Oréal Luxe, drawing on its iconic brands, significantly outperformed the selective market. The Active Cosmetics Division grew twice as fast as the dermocosmetics market, thanks to the power of its business model based on brands recommended by health professionals. In skincare, the number one category in this market, our R&D, expertise and star innovations enabled us to post growth two and a half times higher than the market. The story is the same in Asia Pacific, now our number one geographic Zone,

> "Exemplarity and non-financial performance are just as important as financial performance"

JEAN-PAUL AGON

with a spectacular growth rate. And finally our sales have accelerated strongly in two channels that are booming. In e-commerce, where our growth is twice as fast as the market[3]. And in the Travel Retail channel, where we are the long-established market leader.

Jessica

In this new world of augmented reality and beauty experiences driven by digital, can you explain how we use technology to improve the experiences of our consumers?

Today we can deliver quite remarkable services: make a skin diagnosis based on a selfie, or use virtual reality to try out a hair colour or makeup... These services, created by our company ModiFace, provide a much richer relationship with the consumer. For a number of years now, L'Oréal has been leading the field when it comes to digital. We are experts in new marketing models, with digital representing about half of our media spending. And we are determined to keep on advancing. We have decided to be the pioneers, the champions and the leaders of Beauty Tech, which is clearly the future of the beauty market. We have everything it takes to be successful. We are the only company that can combine more than 100 years of beauty expertise and knowledge of our consumers with cutting-edge digital excellence.

Santiago

L'Oréal is the undisputed leader of the beauty market in terms of performance. But we are also proud that L'Oréal is just as committed to corporate social responsibility. What were the major advances this year? And how will we continue to act in the face of our current climate emergency?

For me also, this is my greatest source of pride. In today's world, financial performance is obviously important, but exemplarity and non-financial performance in social, societal, environmental and ethical responsibility are just as important. Over the last ten years I have guided the Group in this direction.

2019 was another year of outstanding achievements. The vast majority of our new and renovated products have an improved social or environmental profile. And our transition to a low-carbon business model has made great progress. We are continuing to demonstrate that it is possible to uncouple impact and growth.

Our efforts have been recognised by independent experts. In the environmental field, L'Oréal is the only company in the world to be awarded three A-ratings from CDP for the fourth year running, for our efforts in combating climate change, managing water sustainably and preventing deforestation. In the field of ethics, L'Oréal is world number one in the Covalence EthicalQuote reputation index. And we are recognised by Equileap as one of the top global companies in terms of gender equality.

But faced with the vast scale of climate issues, it is essential to achieve much more. We will shortly be announcing the next chapter of our "Sharing Beauty With All"[4] programme, and setting highly ambitious targets for 2030.

Jessica

Could you share your vision of L'Oréal's future? How is the group well-equipped to remain the market leader going forward?

L'Oréal has been the market leader for more than 30 years. And the goal shared by each one of us, every day, is to strengthen this leadership. To do so, we can draw on our very solid fundamentals. First of all, we boast the strongest R&D force in the cosmetics industry. And we have always been totally focused on quality, safety and sustainability. This enables us to create major innovations that renew and strengthen the most attractive brand portfolio in the industry. Furthermore, we have put digital at the very heart of our business model. We also have a unique organisational approach: we are strategically centralised but operationally decentralised. And this approach is backed up by L'Oréal's unique corporate culture. Although we are the market leader, we are driven by the spirit of a challenger. Although we are a major company, we are constantly becoming more agile thanks to a startup mindset. And lastly, I am convinced that we have the best teams in the industry, which you are also part of. For all these reasons, I am extremely confident and optimistic. I am fully convinced that a tremendous new collective adventure lies ahead, and a great success story.

(1) Source: L'Oréal estimate of the global cosmetics market in 2019 based on manufacturers' net prices. Excluding soaps, oral hygiene, razors and blades. Excluding currency effects.
(2) Like-for-like: based on a comparable structure and identical exchange rates.
(3) Sales achieved on our brands' own websites + estimated sales achieved by our brands corresponding to sales through our retailers' e-commerce websites (non-audited data).
(4) L'Oréal's corporate social and environmental responsibility programme.

1

PRESENTATION OF THE GROUP INTEGRATED REPORT*

* *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 fourth 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 the L'Oréal Group, its strategic orientations, its 2019 results and its relationships with its stakeholders, particularly in the context of the *Sharing Beauty With All* [(1)] programme.

1.1. THE L'ORÉAL GROUP: THE FUNDAMENTALS

1.1.1. Our Sense of Purpose ("notre raison d'être")

The desire for beauty has existed since the beginning of humanity,
It's a universal aspiration which crosses time, countries, and cultures.

Beauty is a powerful force that moves us.

We know that beauty is more than just looking good.Beauty gives us confidence in who we are, in who we want to be, and in our relationships with others.

For over a century we have been dedicated to one sole vocation: creating beauty.
Remaining true to the pioneering spirit of our founder, with the unwavering support of his family,
who always accompanied our development.

Our goal is to offer each and every person around the world the best of beauty
in terms of quality, efficacy, safety, sincerity and responsibility
to satisfy all beauty needs and desires in their infinite diversity.

Because beauty is a permanent quest,
we harness the power of our innovation to continually enhance the performance of our products & services.
Because we value diversity,
we leverage each of our brands to celebrate all expressions of beauty.
Because we strive to be exemplary with a long-term vision,
we anchor our actions in our strong values and demanding ethical principles.

And because we are the global leader in beauty,
we are aware that **everything we do can have a meaningful impact**,
therefore:

We act to shape the future of beauty
by leveraging the best of science and technology, increasingly inspired by nature.
We act to drive social innovation
by offering the best working conditions, training, and social protection for our employees.
We act to build a business with inclusivity at its heart
by ensuring we are as diverse as the people we serve.
We act to nurture lasting partnerships with our clients and suppliers
based on mutual trust and collaboration.
We act to create value for all our shareholders,
by sustaining a robust business model.
We act to champion the cause of women and to strengthen the communities with which we engage.
We act to protect the beauty of the planet,
by fighting climate change, respecting biodiversity and preserving natural resources.

At L'Oréal, we share a common purpose to

Create the beauty that moves the world.

(1) See Section 1.3.2. "Corporate Social Responsibility (CSR): shared, lasting growth".

1.1.2. A clear mission and strategy

A vision: cosmetics are rich in meaning. They allow each person to boost their self-confidence, express their personality and open up to others.

The mission that L'Oréal has set itself, and which inspires its teams, is to offer women and men around the world the best in cosmetics in terms of quality, effectiveness, safety, sincerity and responsibility in order to meet all their needs and all their beauty wishes in their infinite diversity.

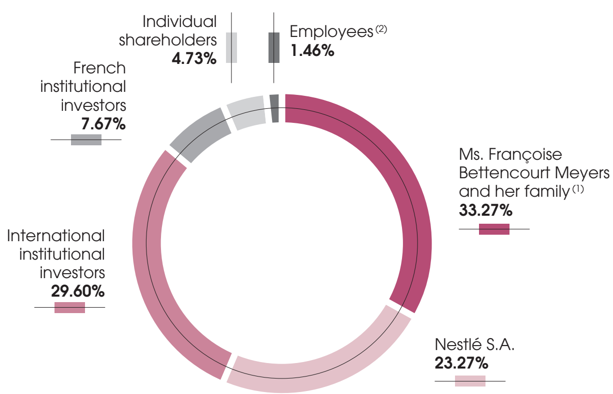
L'Oréal's strategy is Universalisation, meaning globalisation with a detailed understanding and respect for differences. The goal is to offer beauty by responding to the specific aspirations of consumers in every region of the world. In contrast to standardisation, it is based on careful attention to consumers and a deep respect for their differences.

1.1.3. Stable governance

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 2019



At 31 December 2019, the Company held none of its own shares.

(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 performance shares granted in accordance with Article L. 225-197-1 of the French Commercial Code. Including 0.83% 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 fully plays its role of reflection and strategic impetus

The Board of Directors defines the strategic orientations of L'Oréal and monitors its implementation, in accordance with its corporate interest, taking the social and environmental challenges of its business activity into consideration. 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 specific nature of its shareholding structure while guaranteeing the interests of all its stakeholders.

At 31 December 2019, the Board of Directors comprised 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 33.27% 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 23.27% of the share capital – Mr Paul Bulcke and Ms Béatrice Guillaume-Grabisch;
- seven independent Directors: Ms Sophie Bellon, Ms Fabienne Dulac, Ms Belén Garijo, Ms Virginie Morgon, Ms Eileen Naughton, 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 of Directors (see section 2.2.1.2. *"Diversity Policy applied to the Board: experienced Directors who complement one another"*) means that the Board understands rapidly and in detail the development challenges facing L'Oréal, the leader in a highly competitive globalised cosmetics market, in a rapidly changing world.

L'Oréal is attentive to compliance with the principle of balanced gender representation on the Board: 54% of its members are women (excluding Directors representing employees), and 3 Board Committees out of 4 are chaired by women.

Ethics, at the heart of the Group's 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".

These principles underpin the Group's culture and business model and our compliance, responsible innovation, environment, corporate social responsibility and philanthropy policies. L'Oréal's Code of Ethics is available in 45 languages. It is distributed to all employees. 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 2019

	As of December 31, 2019		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	Audit	HR and Remuneration	Appointments and Governance
Chairman and CEO	**Mr. Jean-Paul Agon**		63	M	French	1		25/04/2006	2022	13	**C**			
Françoise Bettencourt Meyers and her family	**Ms. Françoise Bettencourt Meyers**		66	W	French			12/06/1997	2021	22	●			
	Mr. Jean-Pierre Meyers Vice-Président		71	M	French			15/12/1987	2020	32	●		●	●
	Mr. Jean-Victor Meyers		33	M	French			13/02/2012	2020	7		●		
Directors from Nestlé	**Mr. Paul Bulcke**** Vice-President		65	M	Belgian Swiss	2		20/04/2017	2021	2	●		●	●
	Ms. Béatrice Guillaume-Grabisch		55	W	French			20/04/2016	2020	3		●		
Independent Directors	**Ms. Sophie Bellon**		58	W	French	1	♦	22/04/2015	2023	4		●	**C**	**C**
	Mr. Patrice Caine		49	M	French	1	♦	17/04/2018	2022	2				●
	Ms. Fabienne Dulac		52	W	French	1	♦	18/04/2019	2023	<1		●		
	Ms. Belén Garijo		59	W	Spanish	1	♦	17/04/2014	2022	5			●	
	Mr. Bernard Kasriel		73	M	French		♦	29/04/2004	2020	15	●			
	Ms. Virginie Morgon		50	W	French	2	♦	26/04/2013	2021	6		**C**		
	Ms. Eileen Naughton		62	W	American		♦	20/04/2016	2020˜	3			●	
Directors representing the employees	**Ms. Ana Sofia Amaral**		54	W	Portuguese			15/07/2014	2022	5			●	
	Mr. Georges Liarokapis		57	M	French Greek			15/07/2014	2022	5		●		

58
average age of the Directors at 31/12/2019

54%
of Independent Directors***

54%
of female directors***

*♦ 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 o˜ ces (excluding L'Oréal) in listed companies, including foreign companies, in accordance with the provisions of point 19 of the AFEP-MEDEF Code (i.e. with the exception of o˜ ces held in subsidiaries and investments, alone or in concert, by an executive o˜ cer of companies whose main activity is to acquire and manage such interests).*
***Mr Paul Bulcke was a Director at L'Oréal from 2012 to June 2014 and has been again since 2017.*
****Excluding Directors representing the employees.*

ACTIVITIES OF THE BOARD AND ITS COMMITTEES IN 2019

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 to reflect on issues and drive strategic decision-making, in 2019, the Board carried out an evaluation of its modus operandi and organisation, as it has done every year since 1996 (see section 2.3.4. "*Board of Directors Self-assessment*").

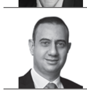
BOARD OF DIRECTORS
7 meetings in 2019 and Strategic Seminar "Beauty in 2030" organised in June *96% attendance rate*
MAIN WORK IN 2019

- **Corporate governance:** changes in the composition of the Board and Committees, draft resolutions on the renewal of terms of office and nominations; information on the expectations of investors and proxy advisors; implementation of the procedure for assessing free agreements; assessment of the Board's functioning;
- **Remuneration policy for corporate executive officers and Human Resources:** definition of the remuneration policy and the amounts due or awarded to Mr Jean-Paul Agon; Group employee remuneration policy; review of the diversity and gender parity policy; report on the first worldwide shareholding plan ;
- **Business activity and results:** systematic review of sales by business segment by zone and by brand; analysis of market share and competition; analysis of the development of e-commerce;
- **Strategy and Sustainable Development:** development challenges (by zone and by business segment); monitoring of the results of the digital transformation and sharing of the L'Oréal Beauty Tech project; change in consumer expectations; monitoring of the objectives for sustainable development and description of new commitments, "Science Based Targets"; acquisitions and licences (projects and monitoring of business plans); Human Resources policy;
- **Ethics**: description of the Ethics policy; training seminar for Directors;
- **Strategic Seminar in June 2019:** "Beauty in 2030".

STRATEGY AND SUSTAINABLE DEVELOPMENT COMMITTEE	AUDIT COMMITTEE	APPOINTMENTS AND GOVERNANCE COMMITTEE	HUMAN RESOURCES AND REMUNERATION COMMITTEE
6 meetings 100% attendance rate	*4 meetings* 95% attendance rate	*6 meetings* 100% attendance rate	*5 meetings* 93% attendance rate
MAIN ACTIVITIES IN 2019	MAIN ACTIVITIES IN 2019	MAIN ACTIVITIES IN 2019	MAIN ACTIVITIES IN 2019
• Analysis of sales, update on business activities, markets and competition • Analysis of the performance of the latest product launches • Review of the Group's strategic development prospects • Review of the main acquisition projects, and review of recent acquisitions • Update on the development of the business activity of the BOLD fund (*Business Opportunities for L'Oréal Development*)	• Review of the accounts and financial position • Risk review and monitoring • Review of risk mapping • 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 changes in the Vigilance Plan and risk factors (URD) • Review of the IFRS 16 standard • European GDPR *(General Data Protection Regulation)* regulation: monitoring of the compliance process • Cyber security: assessment of the measures deployed • Review of the management of currency risk	• Reflection on the composition of the Board and its committees • Diversity policy applied to the Board of Directors: objectives and 2019 results • Review of the succession plans • Review of the independence of Directors • Organisation and annual evaluation of the modus operandi of the Board • Topical issues with regard to Governance (PACTE Law, Reports by the AMF and the Haut Comité de Gouvernement d'Entreprise, etc.) • Review of the voting policies of the main investors and proxy advisors • Review and implementation of the procedure for regular evaluation of current agreements concluded under normal terms • Amendment to the Internal Rules of the Board of Directors	• Analysis of the voting policies of the main investors and proxy advisors on remuneration issues • Analysis of the performance of the Chairman and Chief Executive Officer in 2018 • Recommendations concerning the 2019 remuneration policy • Proposals concerning the bonus structure and objectives for the Chairman and Chief Executive Officer for 2019 • Preparation of the *Say On Pay* resolutions (*ex ante* and *ex post*) • Benefit pension scheme: Ordinance of July 2019 and consequences for L'Oréal and review of the level of achievement of the performance conditions for the executive officer. • *Long Term Incentive* policy (delivery of the 2015 Plan, preparation of the draft resolution, 2019 Plan, proposed award of performance shares to the Chairman and Chief Executive Officer) • Diversity: policy developed and results obtained • Distribution of remuneration of Directors (formerly known as attendance fees) • Review of the Group's employee remuneration policy

Composition of the Executive Committee

The Executive Committee 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
	**Christophe BABULE**	Executive Vice-President Chief Financial Officer
	**Vincent BOINAY**	Managing Director Travel Retail
	**Cyril CHAPUY**	President L'Oréal Luxe
	**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
	**Fabrice MEGARBANE**	President L'Oréal China
	**Alexandre PALT**	Executive Vice President, Chief Corporate Sustainability Officer and L'Oréal Foundation
	**Alexis PERAKIS-VALAT**	President Consumer Products
	**Alexandre POPOFF**	Executive Vice-President Eastern Europe and Africa, Middle East Zones
	**Stéphane RINDERKNECH**	President North America
	**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

1.2. BUSINESS MODEL: A SUSTAINABLE DEVELOPMENT MODEL SERVING A CLEAR MISSION

Created in 1909,
No.1
in beauty,
its sole business

VISION

Cosmetics are rich in meaning

They allow each person to boost their self-confidence, express their personality and open up to others.

MISSION

Beauty for all

The mission that L'Oréal has set for itself, which inspires its teams, is to offer women and men around the world the best in cosmetics in terms of quality, responsibility, efficacy, honesty and safety, in order to meet all their needs and all their beauty wishes in their infinite diversity.

RESOURCES

Human capital

- **87,974** employees
- **47%** of key positions held by women

Research and innovation

- **497 patents** filed in 2019
- **€985 million**: Research & Innovation budget
- **21** cosmetics research centres, **13** evaluation centres and **4.100** employees around the world

Brands

- **36** diverse and complementary brands
- Supported by strong media investments
- **3rd** biggest global advertiser across all industries

Purchases of goods and services

- **€4.68 billion** in production-related purchasing
- **48%** of the newly registered raw materials are renewable
- **34%** of the newly registered raw materials respect green chemistry principles

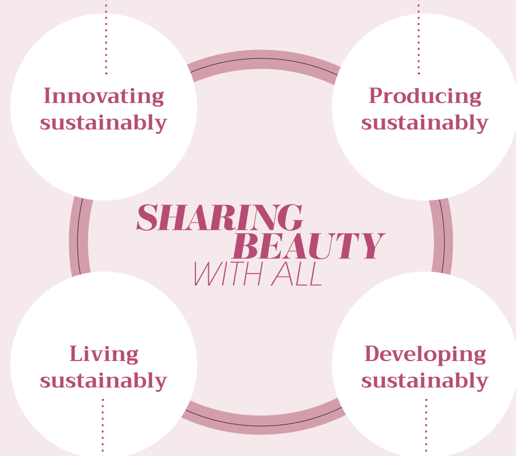
Production

- **39** plants located around the world
- **95%** of plants ISO 9001-certified (Quality management)
- **100%** ISO 22716-certified (Manufacturing Best Practices for the cosmetics industry)

A SUSTAINABLE COMMITMENT

By end-2020, **100%** of the Group's products will have an improved environmental or social profile

By end-2020, the Group will have reduced its environmental footprint by **60%**



By end-2020, the Group will offer consumers the possibility to make **sustainable consumption** choices

With employees
By end-2020, all employees will have access to healthcare coverage, social protection and training

With suppliers
By end-2020, **100% of strategic suppliers** will be participating in our supplier Sustainable Development programme

With communities
By end-2020, the Group will enable **more than 100,000 people** from socially or underprivileged communities to access work

Science-Based Targets Commitment

By 2025, 100% of the Group's plastic packaging will be refillable, reusable, recyclable or compostable

L'Oréal is committed to reducing greenhouse gas emissions on its Scopes 1, 2 and 3 **by 25% in absolute value by 2030**

STRATEGY

Universalisation

Universalisation means globalisation with 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.

Unlike standardisation, it is based on attentive listening to consumers and a deep respect for their differences.

ETHICAL PRINCIPLES

RESPECT
Transparency
Integrity
COURAGE

STAKEHOLDERS

Employees

- **1st prize** for gender equality in the workplace (Equileap Europe)
- **94%** of the Group's permanent employees have access to healthcare coverage reflecting the best practices in their country of residence
- **91%** of the Group's permanent employees have access to financial protection in the event of a life-changing accident, including death or permanent disability

Consumers

- **85 %** of new or renovated products have an improved environmental or social profile

Shareholders

- Dividends paid in 2019: **€2.2 billion**
- Market capitalisation of **€147.3 billion** as at 12/31/2019
- Shareholder return over 10 years: **+15.08%** per year

Service providers and suppliers of Goods and Services

- **96%** of strategic suppliers have completed a self-assessment of their sustainable development policy with L'Oréal's support
- **17%** of strategic suppliers are involved in the Solidarity Sourcing programme

The State and local authorities

- Group tax charge and taxes in 2019: **€2.1 billion**

Communities

- **90,635** people from underprivileged communities gained access to employment

Ecosystem and environment

- Achievement of the "**zero waste to landfill**" target for all plants and distribution centres
- **78% reduction** in CO_2 emissions and **51%** reduction in water consumption (plants and distribution centres)

BUSINESS ACTIVITY

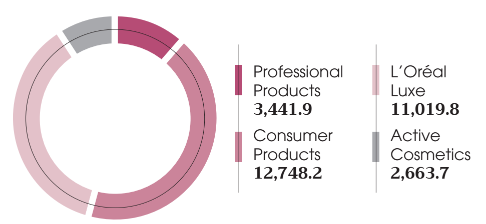
CONSOLIDATED SALES 2019: €29.87 BILLION

Presence in **150 countries**

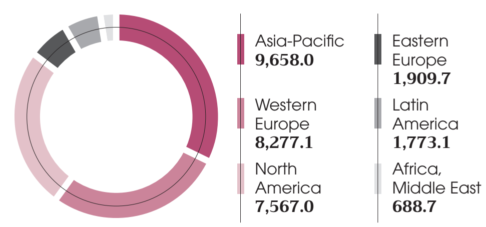
Diverse range of distribution channels: hair salons, mass-market retail, perfumeries, department stores, pharmacies, drugstores, medispas, branded retail, Travel Retail, e-commerce

CONSOLIDATED SALES
(€ millions)

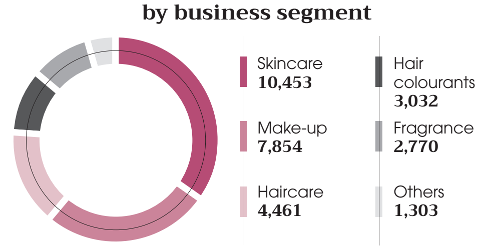
by operational division



by geographic zone



by business segment



1.2.1. L'Oréal Group Profile

L'Oréal is the world leader in beauty – its sole business, expertise and passion for more than 110 years. The Group is split into Divisions, each of which has a specific vision of beauty, by consumer universe and distribution channels. This strategy is backed by a portfolio of 36 diverse and complementary brands.

SUPPORT FUNCTIONS

CORPORATE RESEARCH AND INNOVATION

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

CORPORATE DIGITAL

The 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 offe ed by Digital as a distribution channel.

CORPORATE OPERATIONS

The 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

Professional Products

O er the expertise of professional beauty based on more than 110 years of knowledge and support for the world of hairdressing.

CONTRIBUTION TO PERFORMANCE

Sales
€3,441.9 million

11.5% of Group sales

Operating margin as a % of sales
20.1%

- 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.

Consumer Products

Democratise access to the best that the world of beauty has to o er.

CONTRIBUTION TO PERFORMANCE

Sales
€12,748.2 million

42,7% of Group sales

Operating margin as a % of sales
20.2%

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

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.

CORPORATE HUMAN RELATIONS
The Human Relations Department is in charge of recruitment,training and talent development policies and of coordinating social policy.

CORPORATE ADMINISTRATION AND FINANCE
The Administration and Finance Department is responsible for the Group's financia policy, management and consolidation, acquisitions, legal and tax coordination, financial eporting,shareholder and investor relations, and strategic planning.

CORPORATE COMMUNICATION AND PUBLIC AFFAIRS
The Corporate Communications and Public Affairs Department is esponsible for coordinating corporate and brand communications.

CORPORATE ENVIRONMENTAL AND SOCIAL RESPONSIBILITY
The Corporate Environmental 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 undertaken by the Group and the L'Oréal Corporate Foundation.

L'Oréal Luxe

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

CONTRIBUTION TO PERFORMANCE

Sales **€11,019.8 million**

36.9% of Group sales

Operating margin as a % of sales
22.6%

- Create 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.

Active Cosmetics

Help everyone in their quest for healthy and beautiful skin.

CONTRIBUTION TO PERFORMANCE

Sales
€2,663.7 million

8.9% of Group sales

Operating margin as a % of sales
23.3%

- Keep pace with major trends in skincare and the recommendations of healthcare 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, i retail outlets and on digital platforms.

1.2.2. The Group in key figures

150
countries
International presence

111
years
Created in 1909

No1
in beauty

87,974
employees

Top 5
Gender Equality (Equileap worldwide)

90,635
people from underprivileged communities gained access to employment.

€147.3 billion
Market capitalisation as of 12.31.2019

€985 million
Research and Innovation budget

497
patents

85%
of new or updated products have an improved social profile

57%
of brands conducted a consumer awareness initiative

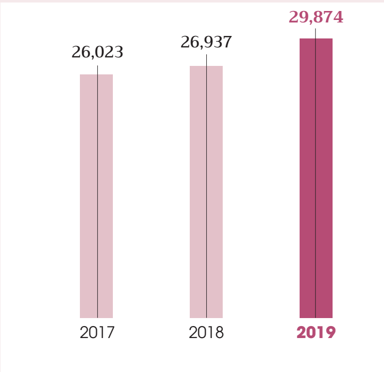
-78%*
CO_2 emission (plants and distribution centres)

-35%*
Reduction in waste (plants and distribution centres)

-51%*
water consumption (plants and distribution centres)

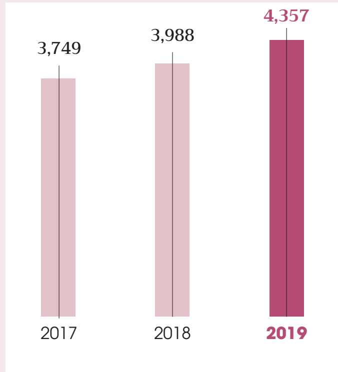
** Versus 2005, see chapter 4.*

Consolidated sales
(€ million)



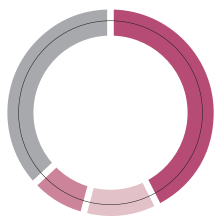
Operating profit
(€ million)

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



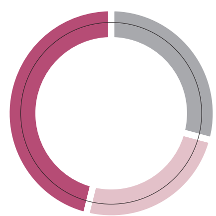
BREAKDOWN OF SALES 2019

By operational division



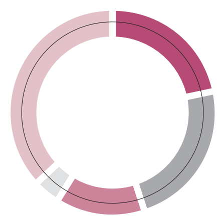
Professional Products **11.5%**
Consumer Products **42.7%**
L'Oréal Luxe **36.9%**
Active Cosmetics **8.9%**

By geographic zone



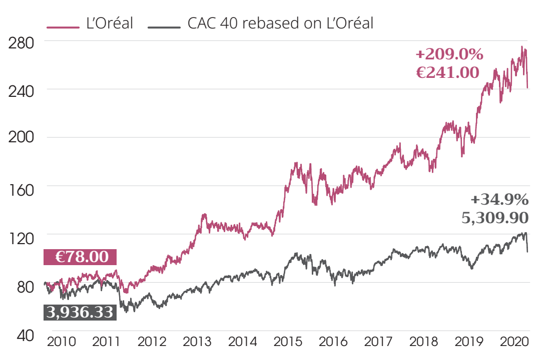
Western Europe **27.7%**
North America **25.3%**
New Markets **47.0%**
Of which:
Asia-Pacific **32.3%**
Eastern Europe **6.4%**
Africa, Middle East **2.3%**
Latin America **6.0%**

By currency

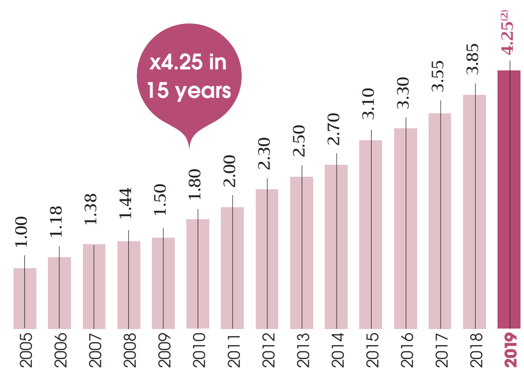


Euro **21.7%**
Dollar **23.5%**
Chinese yuan **13.8%**
Pound sterling **4.3%**
Other currencies **36.7%**
Of which:
Mexican peso **1.5%**
Japanese yen **1.8%**
Russian rouble **2.5%**
Canadian dollar **2.3%**
Brazilian real **2.2%**
Other **26.4%**

Change in the L'Oréal share price compared to the CAC 40 index
(from 1 January 2010 to 28 February 2020)



Steady increase in dividend per share
(€)



(1) Non-recurring items mainly include capital gains and losses on disposals of long-term assets, impairment of assets, restructuring costs and clearly identified non-recurring income and expense items that are material to the consolidated financial statements. See note 11.4 to the consolidated financial statements

(2) Proposed dividend at the Annual General Meeting of 21 April 2020.

NET DEBT

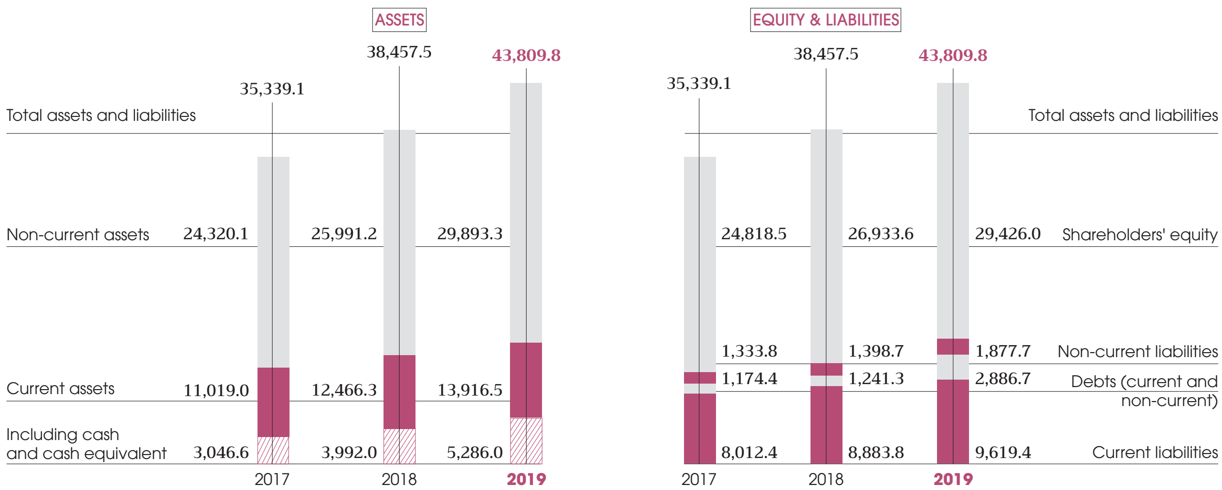
	31.12.2017	31.12.2018	31.12.2019
Net cash position = Net cash or net debt (€ millions) [1]	+1,872.2	2,751	2,399.3[2]
Net gearing (Net financial position/ Equity)	N/A	N/A	N/A

(1) Net cash (+) or net debt (-) = cash and cash equivalents – current and non-current debt.
(2) Including lease debt IFRS 16 for € 2,035.9 million.

SHORT-TERM RATINGS

A1 +	Standard & Poor's	SEPTEMBER 2019
PRIME 1	Moody's	SEPTEMBER 2019
F1 +	Fitch Ratings	MARCH 2019

A SOLID BALANCE SHEET (€ MILLION)



1.2.3. Meeting the global demand for beauty

With €29.9 billion in net sales and 87,974 employees in 2019, L'Oréal is the world leader in beauty.

Building on a long-term vision, with a motivating mission and a clear strategy, L'Oréal continues its development by relying on its fundamental assets and transforming itself to respond to the new aspirations of consumers, employees and the company.

In the new world of Beauty, the Group is, now more than ever, in a position to seize all opportunities, strengthen its leadership and ensure tomorrow's success.

Focus on a single, unique business: beauty

Since it was founded, L'Oréal has always focused on a single business: beauty.

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

In this business based on a detailed knowledge of the beauty cultures, needs and desires of consumers around the world, the Group's experience and unique expertise represent a major competitive advantage.

By focusing its energy on a single and unique business, along with an obsession for seizing what is new and fresh, L'Oréal is able to identify new consumer trends very quickly.

An exhilarating mission: beauty for all

The mission that L'Oréal has set itself, and which inspires its teams, is to offer women and men around the world the best in cosmetics in terms of quality, effectiveness, safety, sincerity and responsibility in order to meet all their needs and all their beauty wishes in their infinite diversity.

L'Oréal has set a goal to attract one billion new consumers in the coming years. The New Markets represent a particularly important source of growth, carried by the emergence of a growing middle class that wants access to quality products. Although L'Oréal is already No. 1 in this area, the potential here is still enormous, since the Group's market share of around 10% is still limited.

A unique development strategy: universalisation

L'Oréal relies on a single strategy – Universalisation – meaning globalisation with a detailed understanding and respect for differences.

The goal is to offer beauty by responding to the specific aspirations of consumers in every region of the world. In contrast to standardisation, it is based on careful attention to consumers and a deep respect for their differences.

The diversity and complementary nature of the Group's presence in all geographic areas, categories, price levels, and circuits are what generates its strength. This allows the Group to better detect consumer trends, benefit from growing segments, and offset disparities in growth in an increasingly volatile world.

The Group has a well-balanced geographical footprint across most of the world's major markets. The Asia Pacific region became the Group's top zone in 2019. Moreover, the convergence of profitability among the Divisions is a real asset for lasting growth.

Digital technologies are accelerating marketing and sales models

The beauty sector is among those that have most benefited from the new digital era. L'Oréal is the third world advertiser – across all industries [(1)]. Thus, the digital revolution touches the Group's marketing approach, 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 US and accelerating regions such as India, South-East Asia and Eastern European countries. E-commerce[(3)] accounted for 15.6% of the Group's net sales in 2019, up 52.4%, almost twice the global growth of e-commerce in the beauty sector. 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 US, where e-commerce also represents a high percentage of total sales.

(1) *Source: 2018 AdAge ranking published in December 2019.*
(2) *Earned media refers to the exposure gained by a brand on Internet via social networks, blogs, etc. Owned media concerns the exposure on media owned by a brand. Paid media is the advertising exposure purchased by a brand.*
(3) *Sales achieved on our brands' own websites + estimated sales made by our brands corresponding to sales through our retailers' websites (non-audited data); like-for-like growth.*

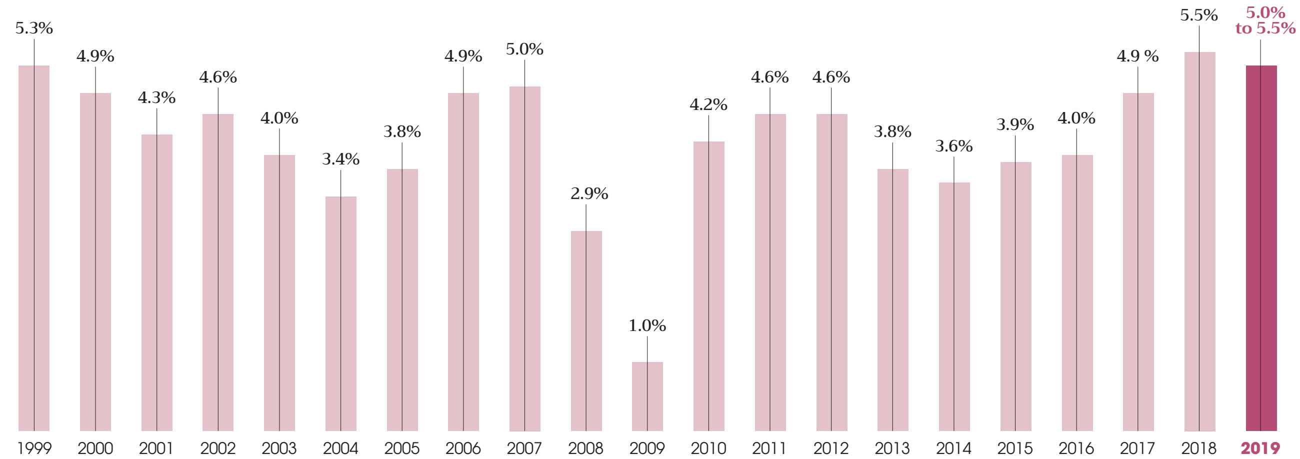
HISTORY: THE IMPORTANT DATES IN THE GROUP'S DEVELOPMENT

	2019	Prada (licence).
Acquisitions of Modiface, Armani (licence renewal), Stylenanda, Pulp Riot, Valentino (licence), Thermes de la Roche-Posay, Logocos. Equileap award.	2018	
	2017	Acquisition of CeraVe. Disposal of The Body Shop.
Acquisition of IT Cosmetics.	2016	
	2015	Acquisition of Niely Cosméticos.
L'Oréal/Nestlé strategic agreement. Acquisition of Magic Holdings in China and NYX Professional Makeup in the United States. Disposal of Galderma.	2014	
	2013	The Sharing Beauty With All programme 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 is celebrating its 100th anniversary and is setting a goal of winning one billion new consumers.
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 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 econstructed epidermis from L'Oréal Research.	1979	
	1973	Acquisition of Gemey, a point of entry into 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 p otection oil with a filt ation system.	1935	
	1929	Imedia, the first quick oxidation hair colou .
Creation of La Société Française de Teintures Inoffensive pour Cheveux by Eugene Schueller.	1909	

1.2.4. The beauty market – a 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.*

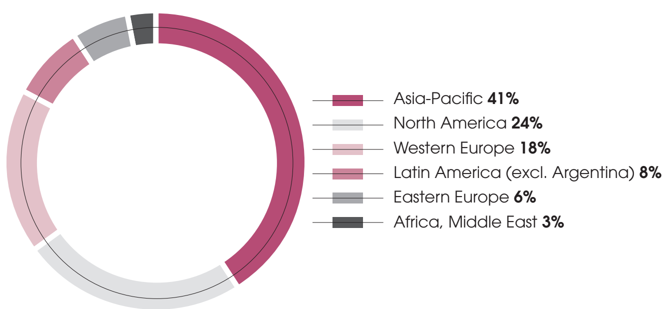
WORLDWIDE COSMETICS MARKET FROM 1999 TO 2019[1]



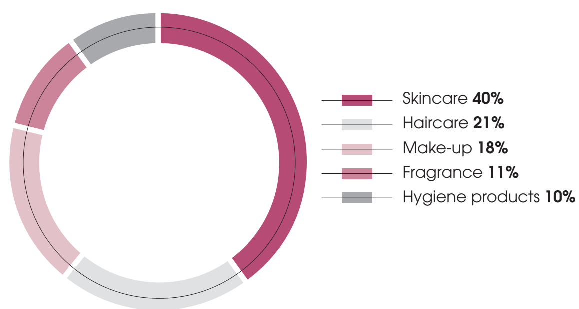
The cosmetics market remains a supply-led market driven by innovation, where consumers are always on the look-out for quality, performance and perceived results. The global cosmetics market is worth over €220 billion [1]. It is a particularly robust market which is steadily expanding while proving very 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.

GLOBAL COSMETICS MARKET IN 2019 [2]

BY GEOGRAPHIC ZONE



BY PRODUCT CATEGORY



In 2019, growth in the beauty market was between +5% and +5.5%.

We saw contrasting growth patterns by region and by distribution universe.

Growth was again robust for skincare in 2019, particularly in the selective market. This category remains the leading contributor to growth in the beauty market.

The selective market surged once again in 2019, driven by China and Travel Retail. It is the sector that made the largest contribution to growth in the beauty market in 2019.

It is estimated that the *mass market* developed in 2019 at the same rate as in 2018. The market is driven by the growth of Asia Pacific and a slight recovery in Western Europe. However, the growth of the *mass market* was disadvantaged by a slowdown in the United States and limited progress in Japan and Russia.

Dermocosmetics continued to grow at a steady pace, driven by Asia Pacific and the Americas. Growth in the Professional market remained limited.

Across all segments, the sharp acceleration in e-commerce continued.

North American growth slowed in 2019, due in particular to the difficulties on the makeup market in the United States.

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

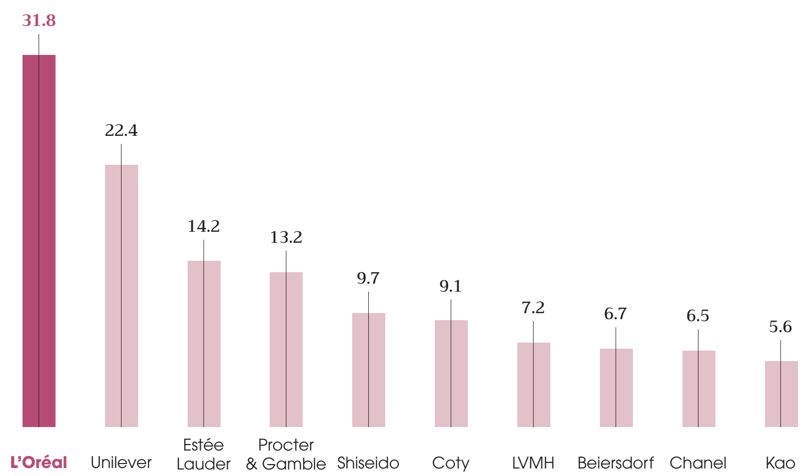
Western Europe was up slightly thanks to an improvement in the market in France, Great Britain and Southern Europe.

The pace of growth picked up in new markets to account for more than three-quarters of the beauty market's global growth in 2019:

- Asia remains highly dynamic, driven by very strong growth in China, despite a more difficult situation in Hong Kong in the second half of the year;
- the growth of Latin America continued in 2019, particularly thanks to Brazil;
- Eastern Europe grew at the same pace in 2019 as in 2018, against the background of a slack Russian market;
- the return of growth in Africa and the Middle East thanks to an improvement in the Gulf States.

MAIN WORLDWIDE PLAYERS

2018 sales in billion of US $ (1)



A dynamic market carried by major socio-demographic changes

Estimated at more than €220 billion[2], the global cosmetics market has grown at a steady pace, driven by several fundamental trends:

- the first and probably most important factor is the insatiable desire for beauty across all countries and cultures: beauty is synonymous with well-being, pleasure, confidence and self-esteem, at every stage in life;
- second, "premiumisation": consumers are ready to pay more and trade up for products with new benefits, better performance and superior quality;
- third, the digitalization of the world, because beauty and digital are a perfect match. It has never been easier to discover beauty, and buy products online. Digital is a tremendous booster for the beauty market;
- finally, 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 the many areas that remain to be explored in terms of categories and countries. And finally, because there are always new consumer targets, with the expansion of the middle classes related to urbanisation, an ageing population, male consumers, etc.

1.2.5. 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, the Italian brand Valentino for L'Oréal Luxe, Logocos with its *vegan* and organic concept for the Consumer Products Division; and Pulp Riot, which expands the growth potential of Professional Products.

Other acquisitions aim to extend the Group's geographic scope: the makeup brand Vogue in Colombia, Interbeauty in Kenya, Niely Cosmeticos in Brazil, and Stylenanda in South Korea.

These 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) Source: Beauty's top 100, WWD, May 2019.
(2) Source: L'Oréal estimates of the global cosmetics market based on net manufacturer prices excluding soap, toothpaste, razors and blades, increase excluding currency fluctuations.

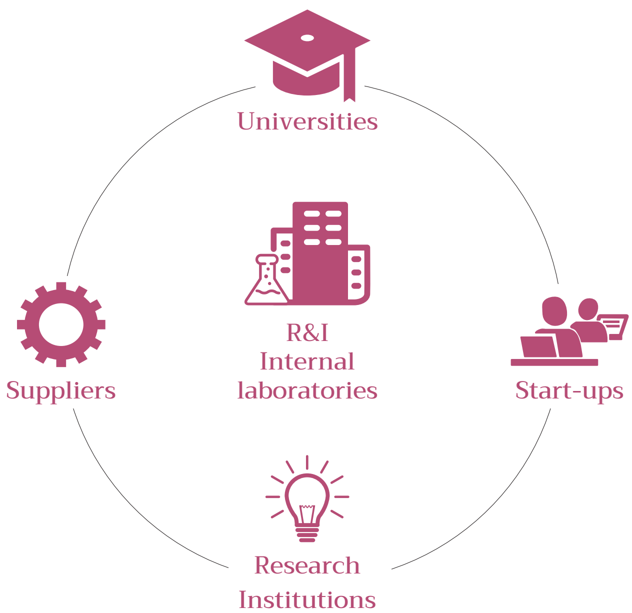
1.2.6. The bet on research, safety and innovation

Cosmetics is an offer business. Innovation is the key in beauty, because beauty is an ideal, an ongoing quest. Consumers always want to try new products. L'Oréal's success today and in the future is fed by its permanent obsession for innovation, which feeds into its performance in all its forms.

With 4,100 researchers and a budget of approximately 3.3% of sales, L'Oréal has the top Research and Innovation (R&I) force in the cosmetics industry. It is a powerful organisation, in which the level of expertise and wealth of scientific and technical data represent a significant asset. The Group's laboratories are intransigent about the absolute safety of its ingredients, superior quality and the effectiveness of the formulas, and the sincerity of its claims.

L'Oréal invests in all areas, from Advanced Research to formulation and from France to regional centres anchored in the major markets around the world. The Group holds a total of 21 research centres and 13 assessment centres.

R&I: A VAST ECOSYSTEM OPEN TO THE WORLD

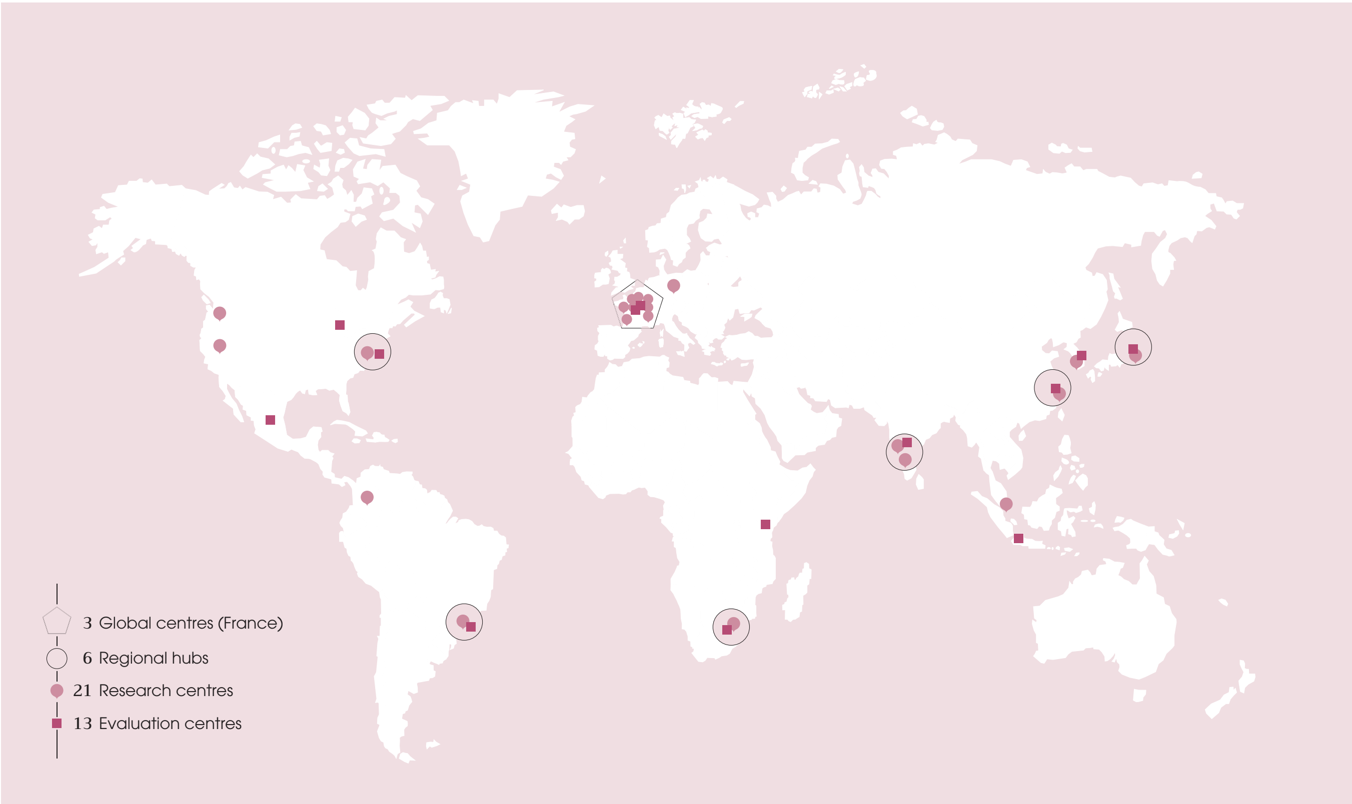


A planetary research

L'Oréal today has a powerful R&I model with a level of expertise and a wealth of scientific and technical data, which represent a true 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.

Research facilities around the world

In order to adapt to consumer expectations worldwide, L'Oréal's research teams work in 21 cosmetics research centres and 13 assessment centres. The research centres are grouped into three global centres in France (Advanced Research, Haircare Métiers and Cosmetics Métiers). The regional hubs (Japan, US, China, India, South Africa and Brazil) identify consumer needs and study their cosmetics habits. The R&I teams build on this rich seam of local scientific ecosystems to develop collaboration agreements and partnerships of excellence. The data generated enables researchers to develop new products, that are perfectly in tune with market needs and local expectations. The innovations produced are also shared in a coordinated way to promote discussion flows.



Research and Innovation budget
(€ million)

2017	877
2018	914
2019	**985**

Research and Innovation headcount

2017	3,885
2018	3,993
2019	**4,100**

Number of patents filed

2017	498
2018	505
2019	**497**

Our ingredients with complete transparency

In light of the growth in public applications, the cosmetics industry studies the best way to respond to the new expectations of consumers. The Group has launched a multi-language information platform on its website, named "Inside our products", which focuses on the composition of the Group's brand products. Here, researchers explain the choice of ingredients on the basis of recognised scientific realities, describing their origin and use, explaining dosages as a function of use, as well as procedures for verifying their safety, and reminds that products are subject to continuous international monitoring after they have been placed on the market. The page does not dismiss controversial ingredients, however, it explains the reasons for maintaining them, where appropriate, in inoffensive formulas, at concentrations that produce no risk for consumers or the planet.

When ethics rhymes with innovation

In order to meet essential tolerance requirements for its products, research was initiated in the 1980s on the development of alternatives to animal testing to assess the safety of its ingredients and its products. Major progress was made thanks to tissue engineering: reconstructing the first human epidermis in 1979, followed by the first complete skin model in 1986. In four decades of international scientific collaborations, the Group has built true expertise in reconstructed skin models used in alternative methods to animal testing. These methods led to the end of testing finished products on animals in 1989 and the development of predictive evaluation strategies to meet European regulations that prohibit any sale of products containing any ingredient that has been tested on animals after 11 March 2013. This quest to better assess safety without using animals resulted in the creation of a subsidiary, Episkin, in Lyon, which produces and markets validated models. The commitment was extended in line with changes in international laws and regulations through the creation of subsidiaries in China, and then in Brazil in September 2019. In pursuing this expansion, L'Oréal supports regulatory changes to promote alternative methods to assess safety without animal testing.

Do solar filters have an impact on coral reefs ?

Coral reefs are suffering from disturbing episodes of bleaching related to the disappearance of the microalgae that they house. The scientific community attributes this damage to climate change. But the blame has recently been thrown on sunscreens, which are accused of damaging coral reefs. Sun protection is now a public health challenge (prevention of skin cancer) and L'Oréal's biologists have published a large number of studies in this area. In order to shed light on this possible responsibility of sunscreens, L'Oréal's environmental research teams have developed a method to accurately assess their impact on coral reefs with the Monaco Scientific Centre. This is the first replicable test based on the photosynthesis of microalgae that live in an essential symbiosis with coral reefs. The study shows that coral reefs exposed to sunscreens that are currently used in cosmetics for five weeks retain their photosynthesis capacity, even in the presence of sunscreen concentrations that are much higher than those measured in the marine environment.

"In my skin", a popular scientific exhibition

As an extension of the exhibition on hair 15 years ago, L'Oréal has launched an exhibition aimed at the general public, entirely dedicated to the discovery of skin in collaboration with the Musée de l'Homme in Paris. Designed as a real scientific immersion of the skin, the exhibition brings together biology and anthropology to present a dual view of the subject (the *continuum* of skin colours versus racism, the barrier function versus scarring, etc.) via two major parts: an entertaining and instructive journey inside skin, followed by an overview of current research (reconstructed skin tissue, damage from UV rays, aging, skin grafts, bio-printing, connected sensors, etc.). Ultimately, more than 25 R&I researchers were involved in the creation of the cultural mediation media, i.e. all forms of communication to the target audiences. The main goal was to reveal an expertise by illustrating the wonders of science whilst fighting against the pointless image of beauty.

The invisible power of microbiota

The study of cutaneous microbiota (1) has made enormous progress thanks to gene sequencing: we now know how to describe all the species of this ecosystem, both quantitatively and qualitatively. Each person has his or her own microbiota, influenced by their ethnic origin, age, family, diet, lifestyle, climate and environment in which they live. Today, biologists are trying to make the good bacteria proliferate, either by modifying lifestyles (diet, exposure to pollution), or through the application of skin care products that correspond to the results of diagnostic tests. Tomorrow, personalised treatments will better prevent skin changes and treat disorders (irregular skin tones, spots and dandruff). Other strategies are being studied, such as the use of prebiotic molecules capable of modifying the bacterial ecosystem by promoting the growth of certain species, or the use of bacteriophages, *i.e.* viruses that selectively eliminate harmful bacteria. The first results in the laboratory are, for the moment, very encouraging.

The CONSTANCES cohort

In order to continue to study the physiology of healthy skin and hair, L'Oréal's R&I teams have formed a research partnership with INSERM within the framework of CONSTANCES, the largest French (2) epidemiological team, which is monitoring 200,000 people between the ages of 18 and 69. This epidemiological study, which was initially intended to study the causes of diseases, has also been very valuable for monitoring large samples of the population for phenomena such as those related to aging. The cohort is open to researchers who may benefit from the data collected from volunteers.

Space research joins skin research

The Mini-EUSO (Extreme Universe Space Observatory) telescope developed jointly by RIKEN (Japanese Institute of Physical and Chemical Research) and L'Oréal R&I was launched in August by the International Space Station to study ultra-high energy cosmic rays. Two devices designed in parallel, one for the skin and the other for space, were based on the same hyperspectral imaging technology and common algorithms for processing the data. The goal of the space researchers was to identify rare phenomena in order to establish a dynamic map of the different events occurring in the atmosphere. For L'Oréal, the goal was to develop a non-invasive *in vivo* imaging device to evaluate an entire face in a single exposure with a far more complete analytic spectrum. Three years of collaboration optimised this imaging technique and generated new data to improve our knowledge of skin physiology.

Innovating sustainably

Converting sugars into natural polymers

Through its BOLD investment fund, L'Oréal acquired a stake in Global Bioenergies, the French start-up specialising in biotech processes to produce compounds which, until now, have been derived from oil. Global Bioenergies successfully converted sugars into natural polymers that can be used in many applications. Isododecane, for example, now represents one of the best solutions to replace the silicones in cosmetics. This texture modifying lipid now lets us obtain specific sensory properties for creams and lotions. It contains 100% renewable carbon and thus meets ISO standard 16128 on natural and organic cosmetics. Its extensive use will also increase the naturalness of products without losing their performance.

Recycling plastic to infinity

L'Oréal has decided to focus on a plastic recycling technology by acquiring a stake in the young CARBIOS company via its BOLD investment fund. In collaboration with INSA Toulouse (National Institute for Applied Sciences), Carbios has developed an enzymatic method to recycle PET (polyethylene terephthalate) plastics in bottles, which can then be reused. This looped enzymatic biorecycling was perfected by developing an innovative channel: the enzyme is used directly on the used plastic, which then becomes 100% infinitely recyclable. The operation is performed without preliminary sorting, by using the natural selectivity of the enzymes. This process makes a significant contribution to the circular economy.

(1) *Refers to the billions of bacteria, viruses and fungi that live on our skin.*
(2) *A group of people was monitored over time to study changes in the condition of their health.*

Artificial intelligence in the service of beauty

A personalised skin diagnostic

L'Oréal R&I and ModiFace have introduced the first personalised skin diagnostic, based on 15 years of research on skin aging. Using deep learning methods, the artificial intelligence algorithm was trained with 4,500 selfies for different populations of women in different lighting conditions. The results, which were validated by dermatologists, showed a high level of precision obtained with photo conditions (light, telephone position) similar to those for consumers. Women thus have a reliable diagnosis to better understand the ageing of their skin and can find, with VICHY SKIN CONSULT for example, a skincare to suit them.

A digital application analyses acne in China

Using 6,000 images of acne skin collected by L'Oréal researchers in China, artificial intelligence experts from Alibaba created a neuronal network based on deep learning in order to develop a first digital application that analyses acne and connects the visual data extracted from user selfies with the type of acne from which they suffer. The La Roche-Posay EFFACLAR SPOTSCAN application offers personalised advice and skincare recommendations.

A virtual service to test makeup on mass-market retail channels

The digital age is revolutionising shopping experiences by making them more fun and completely personalised. As a result, services for virtual makeup testing, based on the ModiFace augmented reality technology, allow buyers to virtually test several hundred makeup products on the retailers' mobile applications by taking a selfie with a smartphone camera. This technology generates a realistic result based on make-up shades. Products associated with different looks can be home delivered or picked up at a Group store.

1.2.7. Operations, expertise and services closer 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.

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

Through the Operations 4.0 programme, which is accelerating the digital transformation of Operations, L'Oréal is adopting new technologies all along the value chain to respond specifically both to the new challenges of personalisation, agility and traceability expected by consumers and to the new needs of its employees: simplification, real-time access to data, new capacities related to the use of virtual reality, 3D printing, artificial intelligence and others.

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 ensures an agile response to consumers' new beauty expectations and evolving cosmetic trends. In 2019, seven 3D printing design centres were in operation in L'Oréal's major design centres [1]. In total, more than 10,000 packaging prototypes were 3D printed in 2019.

In production, the combination of technologies such as 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 data management (Big Data) open up exciting prospects for traceability and productivity by improving supply chains, creating smoother flows for the customer experience, managing the omni-channel experience and providing increased interaction with consumers.

At the centre of design and development is innovation in 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, the L'Oréal teams specialised in design, packaging innovation and product development rely on the expertise of the materials and packaging laboratories to offer leading-edge innovations on all continents. L'Oréal filed 69 patents for packaging and processes in 2019.

Since 2007, L'Oréal has been committed to an eco-design process for sustainable packaging and has very significantly intensified its progress in recent years. A three-pronged process (the 3R policy): 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 2019, the social or environmental profile of 85% of new or redesigned products have been improved for all of the Group's brands. The Group is expanding the use of recycled plastic and includes up to 100% recycled plastic in some of its packaging lines. L'Oréal is committed to ensuring that all its plastic packaging will be refillable, reusable, recyclable or compostable by 2025. In 2019, L'Oréal established new partnerships with two suppliers (Albea for cardboard cosmetic tubes and Paboco for paper boxes) in order to develop alternative solutions for innovative packaging based on biosourced materials. L'Oréal also set up partnerships with players that produce recycled resins and develop collection. In addition, the Group decided to invest in biotechnology in the service of plastic recycling with its acquisition of a stake in Carbios in particular.

(1) Located in six countries: United States, France, Japan, India, China and Mexico.

A Purchasing programme combining economic, environmental and social value

To accompany the Group's growth, the Purchasing teams select the most cost-effective suppliers in accordance with the *L'Oréal Buy & Care* responsible purchasing policy. 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 2019, the Group conducted 1,562 social audits ☑, making a total of more than 12,400 since 2006.

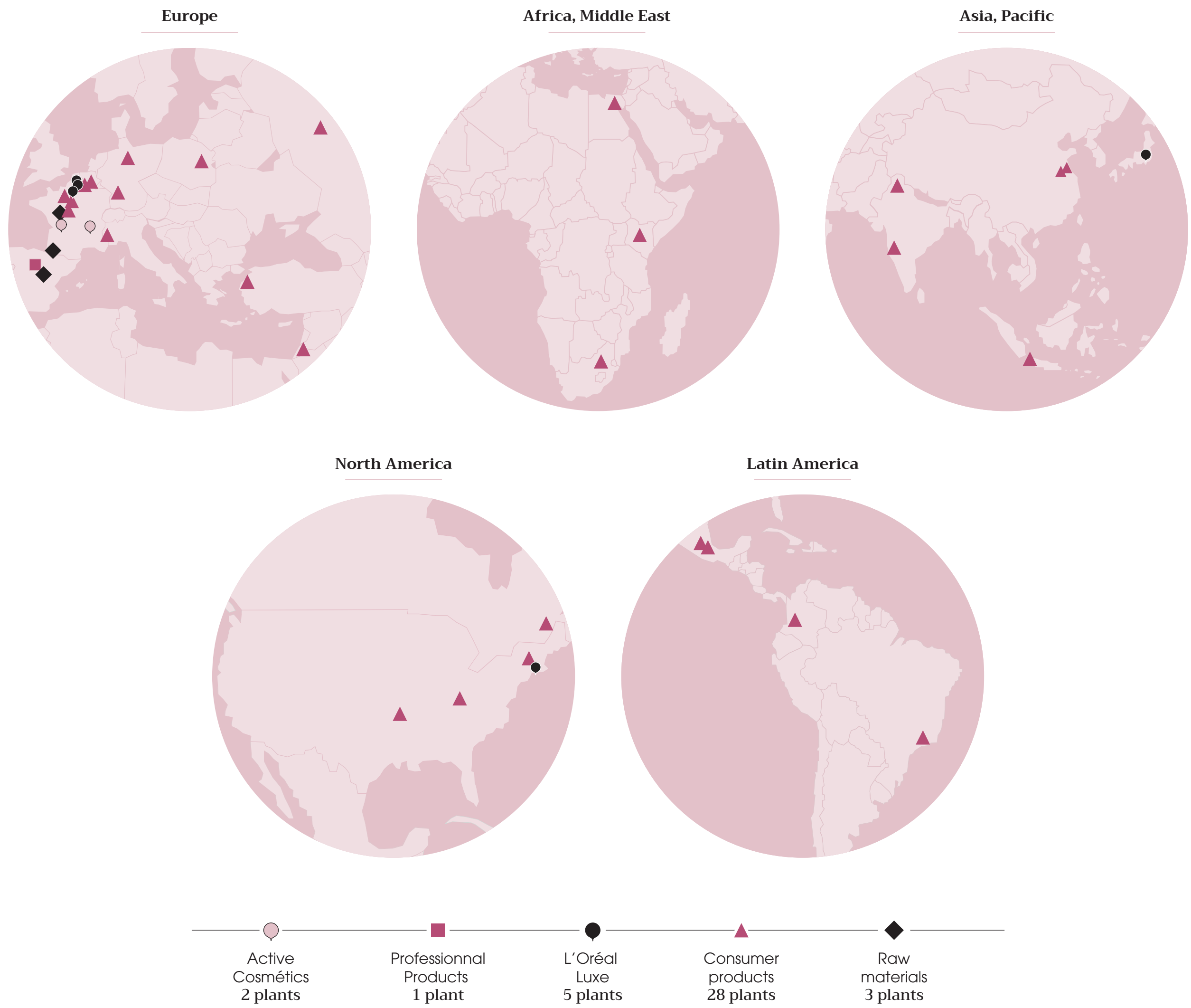
Furthermore, by creating the responsible purchasing programme, *Solidarity Sourcing*, L'Oréal chose as from 2010 to enable sourcing from suppliers with an inclusive solidarity model, in other words, companies that offer employment to vulnerable workers and people in deprived communities, such as people with a disability, the long-term unemployed or fair trade suppliers (see *Solidarity Sourcing* in section 4.3.3.4. "*Measures taken in favour of local communities*"). Today, 70,912 persons have benefited from access to employment within the *Solidarity Sourcing* programme. In September 2019, at the UN's headquarters, L'Oréal received the first GEEIS-SGD(1) Trophy from the Arborus Fund, the international organisation that created the international label GEEIS that validates efforts to achieve gender equality in the workplace. In 2019, for the fourth consecutive year, L'Oréal earned an "A" classification from the CDP for Supplier Commitment, for its actions to support its suppliers in order to improve the environmental footprint of their activities.

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

L'Oréal has 39 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 in the case of specific technologies (make-up pencils, soaps, etc.) or sometimes for purchases of finished products. Launched in 2019, the project to transform the Aulnay-Sous-Bois (France) plant will allow this production site to join in with manufacturing the L'Oréal Luxe perfume.

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

☑ *The Statutory Auditors have expressed reasonable assurance with regard to this indicator.*
(1) *Gender Equality and Diversity for European and International Standard.*



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.

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 2019, 95% of L'Oréal plants were ISO 9001 (Quality Management) certified and 100% were ISO 22716 (Best cosmetics manufacturing practices) compliant.

This unique 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 and heads towards customers and consumers.

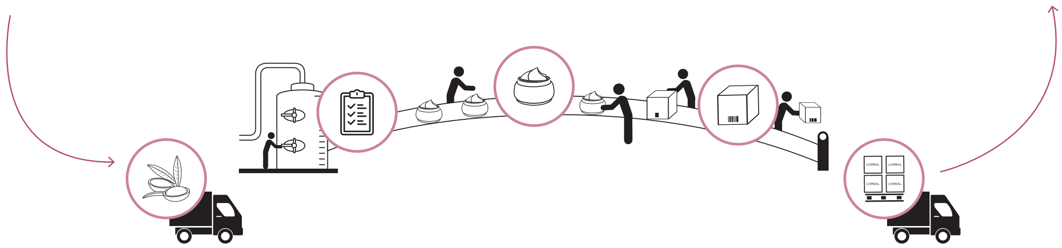
The continuous quality improvement process has been effective as seen in the low rate of consumer complaints in 2019, and the ongoing improvement: 47 complaints per million products sold.

L'Oréal selects suppliers according to strict standards and criteria

in respect of quality, safety, and social and environmental responsibility, applied worldwide and compliant with its responsible purchasing policy.

L'Oréal offers consumers effective and high-quality products

by respecting the most stringent regulations and though its continuous improvement approach, which is central to its quality policy.



~100 quality controls

For each cosmetic product

Products meet the same standards of excellence and quality all over the world

Identical processes are followed in the 39 plants, from the reception of raw materials, through the manufacturing of formulas and the packaging of finished products, until products are placed on the market.

Plants certified to the highest level

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

95 %
of the Group's plants
are **ISO 9001**** compliant

*Best practices in cosmetics manufacturing
**Quality management

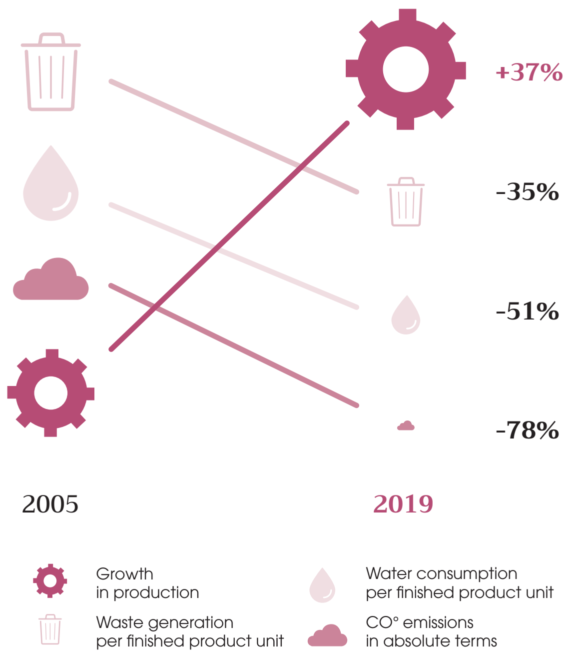
Safety of L'Oréal's men and women is at the center of the model

In 2019, the Safety Management System, which is applied worldwide for the teams on all administrative sites, laboratories, plants, distribution centres and stores, was recognised by RoSPA (*the Royal Society for the Prevention of Accidents*), and L'Oréal received six awards from RoSPA for its sites in Brazil, the plants at Baddi and Pune (India), the logistics hub in Bury (UK) and the North Little Rock plant (United States).

At the heart of production: environmental protection

The Group's environmental policy is intended to roll out best practices in sustainable production to limit the direct environmental impact of the Group's business activities and preserve resources: energy efficiency, the use of renewable energies, optimisation of water consumption and recycling, and reduction of waste production, among others. Results in 2019 again demonstrated L'Oréal's capacity to decouple increased production (+37% since 2005) from its environmental impact with CO_2 emissions cut by 78% in absolute terms since 2005, water consumption per finished product unit down 51% and waste production per finished product unit reduced by 35%. It should be noted that 97% of residual waste was recovered in 2019, meaning that it was reused, recycled or used for energy recovery.

RESPONSIBLE PRODUCTION (PLANT AND DISTRIBUTION CENTRES COMPARED WITH 2005)



35 L'Oréal's industrial sites [1] were "carbon neutral" at year-end 2019, an increase of 13% since 2018, including 14 plants (Libramont in Belgium, Settimo in Italy, Burgos and Alcalá de Henares in Spain, Rambouillet, Ormes, Gauchy, Vichy and La Roche-Posay in France, Karlsruhe in Germany, Yichang and Suzhou in China, Montreal in Canada and Funza in Colombia) (see "increasing recourse to renewable energies", section 4.3.1.3.1., A/ Combating climate change).

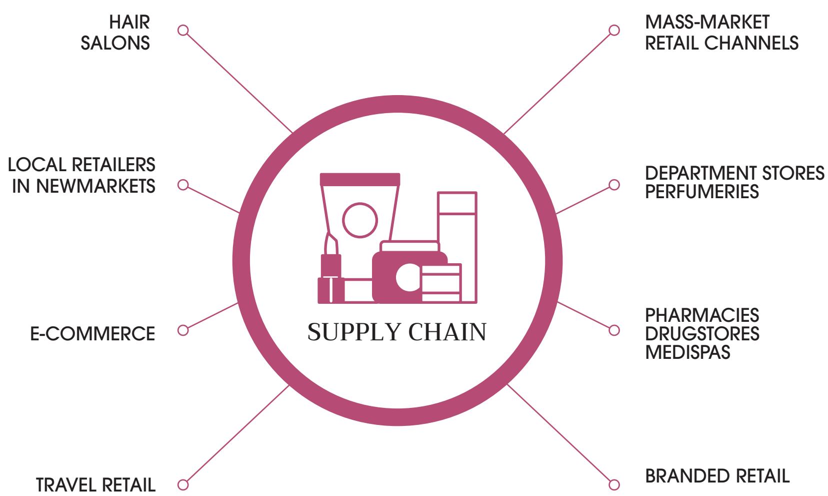
At year-end 2019, there were four "Waterloop Factory" plants (Burgos in Spain, Settimo in Italy, Vorsino in Russia, Libramont in Belgium): all the water required by the utilities (equipment cleaning, steam production, etc.) comes from reused or recycled water in a closed loop on the site (see "Waterloop plant concept", section 4.3.1.3.1., B/ Preserving water resources).

L'Oréal's commitment for over 25 years to environmental leadership was recognised in 2016, 2017, 2018 and 2019, with the best possible rating by the CDP [2]. This year, L'Oréal became the only company worldwide, out of 7,000 companies assessed, to receive a triple "A" ranking for the fourth 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.

Rapidly 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. On average, across all channels, L'Oréal delivers an order every two seconds around the world and sells nearly 7 billion finished products. This order rate is heavily impacted by the acceleration in e-commerce sales.

L'Oréal is unique in the cosmetics market in that it serves a global market through a diverse range of distribution channels (see below) with a portfolio of many different beauty and cosmetic product categories. L'Oréal continuously optimises all information flows and physical flows from suppliers to customers.



(1) *Owned plants and distribution centres.*
(2) *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. It 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. The supply chain network composed of 150 distribution centres is a strategic lever to ensure agile coverage of market challenges.

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). The deployment of the multi-method strategy allowed to set up concrete actions to diversify the routing methods for the Group's products, particularly for final mile delivery.

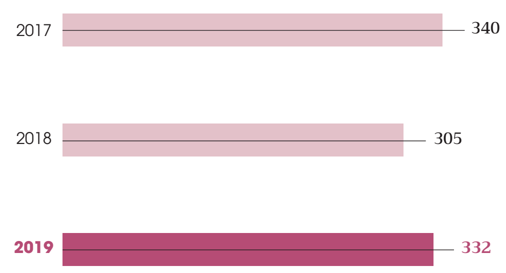
Global economic performance at the service of the brands and the commercial entities

The Operations Division plays a key economic role for all brands and markets, which has an impact on the overall cost of products.

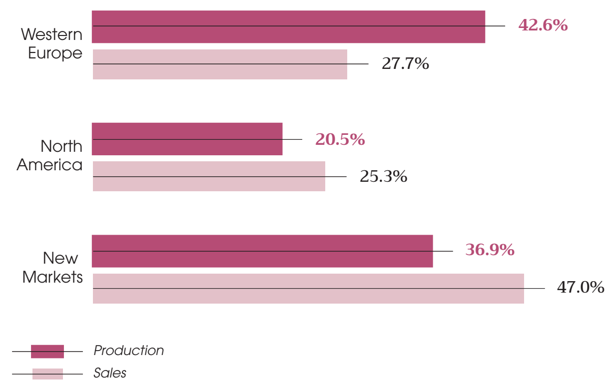
Economic optimisation efforts led by Operations involve tracking the total landed cost, i.e., the final full cost of a product, which includes the cost of packaging and raw materials, the value added by the plants and all supply chain costs.

COMMITMENT TO INVEST IN OPERATIONS

(production and supply chain commitments in € million)



PRODUCTION AND SALES OF THE DIVISIONS BY GEOGRAPHIC ZONE IN 2019: PRODUCTION CLOSE TO ITS MARKETS



1.3. GOOD GROWTH MOMENTUM FOR SHARED, LASTING DEVELOPMENT

1.3.1. 2019 results *

"L'Oréal closed the decade with its best year for sales growth since 2007, at +8.0% like-for-like [(1)], and an excellent fourth quarter, in a beauty market that remains very dynamic.

All Divisions are growing. L'Oréal Luxe sales exceeded €11 billion, driven by the strong dynamism of its four big brands – Lancôme, Yves Saint Laurent, Giorgio Armani and Kiehl's – which all posted double-digit growth. The Active Cosmetics Division had its best year ever, with La Roche-Posay sales exceeding one billion euros. Growth at the Consumer Products Division was boosted by L'Oréal Paris which had a great year. Lastly, growth improved in the Professional Products Division; the highlight was the double-digit performance of Kérastase.

Performances by geographic Zone were contrasted. The New Markets posted their strongest growth for more than 10 years [(1)]. Asia Pacific became the Group's number one Zone, with a remarkable end to the year in China, but also good growth in South Korea, India, Indonesia and Malaysia. Eastern Europe maintained its strong growth rate, and Western Europe returned to growth last year. North America was impacted by the poor performance in makeup.

E-commerce [(2)] and Travel Retail, which are also powerful growth drivers, contributed strongly to the Group's success. E-commerce grew spectacularly by +52.4% and accounts for 15.6% of sales. Travel Retail maintained its strong momentum and posted growth of +25.3% [(1)].

The year 2019 was also marked by solid growth in the Group's profits. The strong growth in sales and the increase in gross profit, combined with a decline in operating expenses, enabled more investment in the brands and improved profitability.

Once again this year, the strength of L'Oréal's well-balanced business model paid off. It is the universal presence of L'Oréal, which covers the whole beauty market, combined with its talented teams all over the world, which enable the Group to keep on achieving profitable and sustainable growth, while again strengthening its position as the beauty market leader.

Meanwhile, in a world that was hit particularly hard by climate-related uncertainties in 2019, L'Oréal is continuing its initiatives to promote responsible and sustainable growth. For the fourth consecutive year, CDP [(3)] awarded the Group three A ratings for its initiatives in tackling climate change, sustainable water management and combating deforestation. L'Oréal was also recognised, for the tenth time, as one of the world's most ethical companies by Ethisphere Institute. And lastly, the Group is playing a major role in gender equality, and its leadership in this field has been recognised by Equileap and Bloomberg. These extra-financial performances are a source of pride for the Group, which is firmly committed to promoting a responsible and sustainable model.

1.3.1.1. Overview of the results for 2019

- Sales: €29.9 billion;
  - +8.0% like-for-like [(1)],
  - +8.8% at constant exchange rates,
  - +10.9% based on reported figures;
- Operating profit: €5.54 billion, an increase of +12.7% [(4)];
- Earnings per share [(5)] : €7.74, an increase of +9.3%;
- Operating cash flow [(6)]: €5.03 billion, an increase of +29.8%;
- Dividend per share [(7)]: €4.25, an increase of +10.4%.

* *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 structure and identical exchange rates.*
(2) *Sales achieved on our brands' own websites + estimated sales made by our brands corresponding to sales through our retailers' websites (non-audited data); like-for-like growth.*
(3) *An independent international NGO that evaluates companies' efforts to measure, report and reduce their greenhouse gas emissions.*
(4) *Excluding the impact of IFRS 16, the increase was 11.8%.*
(5) *Diluted net earnings per share excluding non-recurring items after non-controlling interests.*
(6) *Operating cash flow = Gross cash flow + changes in working capital - capital expenditure.*
(7) *Proposed at the Annual General Meeting of 21 April 2020.*

NORTH AMERICA

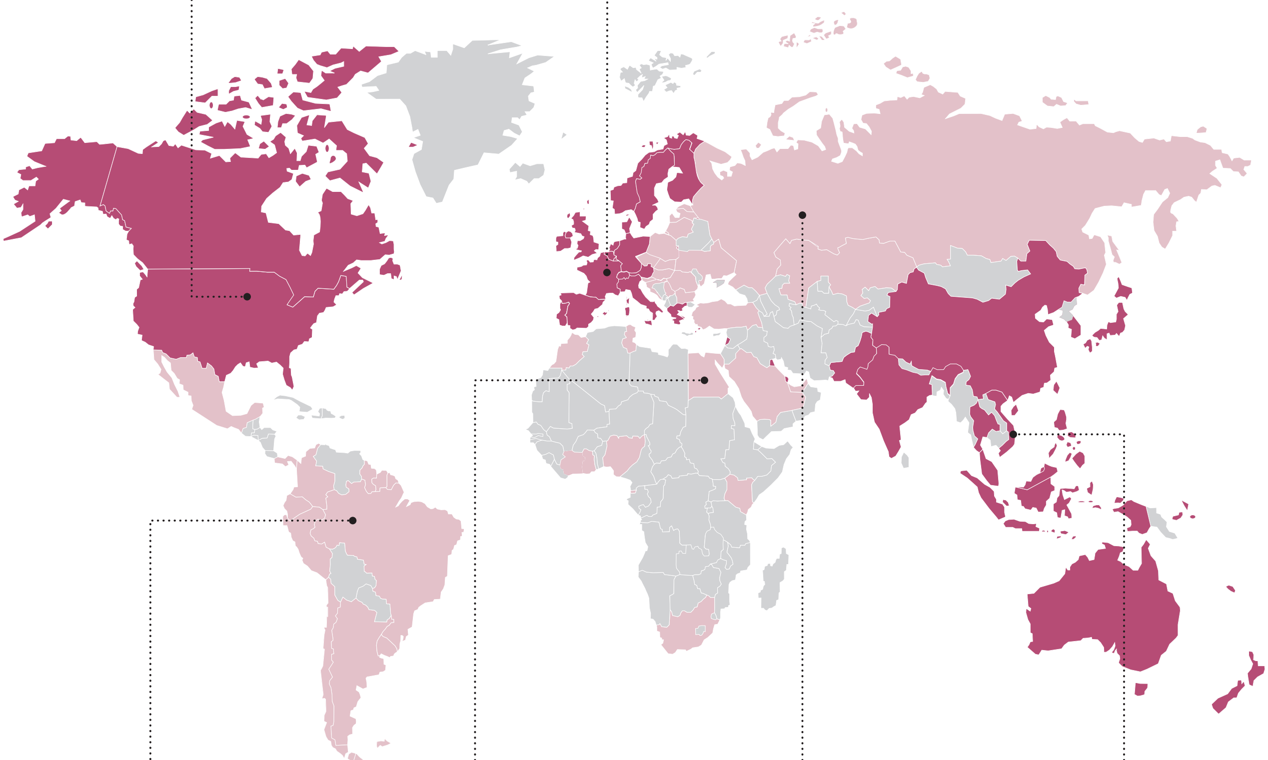
25.3% share of Group sales
-0,8% sales evolution in 2019 (1)

€7,567.0M
SALES

WESTERN EUROPE

27.7% share of Group sales
+1,8% sales growth in 2019 (1)

€8,277.1M
SALES



LATIN AMERICA

6.0% share of Group sales
+2.0% sales growth
in 2019 (1)

€1,773.1M
SALES

AFRICA, MIDDLE-EAST

2.3% share of Group sales
-4.1% sales evolution
in 2019 (1)

€688.7M
SALES

EASTERN EUROPE

6.4% share of Group sales
+9.0% sales growth
in 2019 (1)

€1,909.7M
SALES

ASIA-PACIFIC

32.3% share of Group sales
+25.5% sales growth
in 2019 (1)

€9,658.0M
SALES

NEW MARKETS

47.0% share of Group sales
+17.9% sales growth in 2019 (1)

€14,029.5M
SALES

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

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 8.0%.

The net impact of changes in the scope of consolidation amounted to +0.8%.

Growth at constant exchange rates was 8.8%.

At the end of 2019, currency fluctuations had a positive impact of 2.1%.

Based on reported figures, the Group's sales, at 31 December 2019, amounted to €29.87 billion, an increase of 10.9%.

SALES BY OPERATIONAL DIVISION AND BY GEOGRAPHIC ZONE

					2018/2019 progression	
€ millions	**2017**	**2018**	**2019**	**% 2019 sales**	**Like-for-like**	**Reported figures**
By Division						
Professional Products	3,350.4	3,262.5	3,441.9	11.5%	+3.2%	+5.5%
Consumer Products	12,118.7	12,032.2	12,748.2	42.7%	+3.3%	+6.0%
L'Oréal Luxe	8,471.7	9,367.2	11,019.8	36.9%	+13.8%	+17.6%
Active Cosmetics	2,082.9	2,275.5	2,663.7	8.9%	+15.5%	+17.1%
Group total	**26,023.7**	**26,937.4**	**29,873.6**	**100%**	+8.0%	+10.9%
By geographic zone						
Western Europe	8,125.3	8,065.1	8,277.1	27.7%	+1.8%	+2.6%
North America	7,350.5	7,234.3	7,567.0	25.3%	-0.8%	+4.6%
New Markets, of which:	10,547.8	11,638.1	14,029.5	47.0%	+17.9%	+20.5%
• Asia, Pacific	6,151.8	7,405.6	9,658.0	32.3%	+25.5%	+30.4%
• Latin America (1)	1,952.9	1,784.8	1,773.1	6.0%	+2.0%	-0.7%
• Eastern Europe	1,750.8	1,754.2	1,909.7	6.4%	+9.0%	+8.9%
• Africa, Middle East	692.4	693.5	688.7	2.3%	-4.1%	-0.7%
GROUP TOTAL	**26,023.7**	**26,937.4**	**29,873.6**	**100%**	**8.0%**	**+10.9%**

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.
(1) The Group has applied IAS 29 (Financial Reporting in Hyperinflationary Economies) to Argentina since 1 July 2018. The negative impact of this adjustment is 340 basis points on like-for-like growth in Latin America and 20 basis points on that of the entire L'Oréal Group in 2019.

Summary by Divisions

Professional Products

The Professional Products Division ended the year at +3.2% like-for-like and +5.5% reported.

The year was marked by the Division's return to a growth rate stronger than the market, with a clear acceleration in the second half.

The Division strengthens its positions worldwide, driven by sustained growth in the United States and in the Asia Pacific Zone. Eastern Europe maintained its dynamism. In addition, the Division is accelerating strongly in e-commerce [(1)].

Consumer Products

The Consumer Products Division ended the year at +3.3% like-for-like and +6.0% based on reported figures.

L'Oréal Paris had its strongest year of growth since 2007, thanks in particular to major launches such as Rouge Signature in makeup and Revitalift Filler. Garnier recorded growth, driven by emerging countries, the worldwide success of Tissue Masks and Micellar Cleansing Water, and its initiatives in organic and natural such as Garnier Organic and Fructis Hair Food. Skincare recorded significant growth. In makeup, the market slowed in the developed countries, especially in the United States. The Division has accelerated further in e-commerce [(2)] and in Travel Retail.

L'Oréal Luxe

L'Oréal Luxe has grown by 13.8% like-for-like and 17.6% based on reported figures.

The Division outperformed the market and confirmed its success in skincare and fragrances. The Division's four billionaire brands posted double-digit growth. Overall, L'Oréal Luxe is winning market share, particularly in Asia Pacific and Western Europe, despite the more difficult context in the United States. The Division also performed well in a dynamic Travel Retail market, in Eastern Europe and in Latin America. Meanwhile, the Division continued to accelerate in e-commerce (2) which now accounts for more than 20% of its sales.

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

Active Cosmetics

The Active Cosmetics Division achieved record growth of +15.5% like-for-like, the Division's highest growth rate for 20 years. Growth based on reported figures is at +17.1%.

The Division's sales grew at rapid pace, twice that of the dermocosmetics market. All the Zones contributed to growth, with strong performances in Asia and North America in particular. The Division is growing in all distribution channels, and continues to accelerate in e-commerce [(1)].

Multi-division summary by geographic zone

Western Europe

The Zone recorded growth of +1.8% like-for-like and +2.6% based on reported figures.

L'Oréal Luxe outperformed its market thanks to the success of the perfume launch and the dynamism of its major brands in several countries. Lancôme has become the number one brand in the women's selective market. The Active Cosmetics Division also asserted its vitality. In a sluggish market, the Consumer Products Division won market share in several key countries, especially in Germany, the United Kingdom, Spain and the Netherlands, and maintained its very strong position in France. The Division also outperformed the makeup and facial skincare markets. The transformation of the Professional Products Division continued, which should pay off from 2020.

North America

The Zone is at -0.8% like-for-like and +4.6% based on reported figures, with contrasting performances across the Divisions. The persistent difficulties of the makeup market held back the Consumer Products Division and L'Oréal Luxe. However, these Divisions took advantage of the dynamism of skincare where they gained market share. L'Oréal Luxe also outperformed in the perfume segment thanks to very good launch results. The Active Cosmetics Division continued its breakthrough on the North American market with double-digit growth thanks to all its brands. The Professional Products Division also posted excellent performance, driven by colouring and haircare.

New markets

- **Asia Pacific:** growth in the Zone came out at +25.5% like-for-like and +30.4% based on reported figures. All the Divisions are posting double-digit growth. Fourth-quarter growth was driven in particular by the exceptional performance of Singles' Day (11/11) in China, where sales have been growing throughout the year, and the Group is making significant market share gains. Sales in Hong Kong have been strongly affected by the social context, particularly in the fourth quarter. Growth in this Zone was also driven by the countries of Southeast Asia, particularly India, Indonesia and Malaysia. The Consumer Products Division benefited from a good year at L'Oréal Paris, the success of the Korean brand 3CE Stylenanda as well as the good performance of Garnier in many Asian countries. As for the Professional Products Division, growth is being driven in particular by the Kérastase brand and hair colour. The Active Cosmetics Division continued its good progress in all markets.
- **Latin America:** the Zone is at +2.0% like-for-like and -0.7% based on reported figures. The year was marked by the sharp contrast between Divisions. On the one hand, the L'Oréal Luxe and Active Cosmetics Divisions recorded good growth, with Active Cosmetics winning market share, while the Consumer Products and Professional Products Divisions found it hard to progress. The skincare category, which is benefiting from a dynamic market, has become the main growth driver for the Zone. In Brazil, the contrast between Divisions is particularly pronounced, with strong growth for the L'Oréal Luxe and Active Cosmetics Divisions. Mexico and Chile contributed to the growth of the Zone.
- **Eastern Europe:** the Zone recorded growth of +9.0% like-for-like and +8.9% based on reported figures, driven by Russia, Turkey, Ukraine and Romania. The Consumer Products, L'Oréal Luxe and Active Cosmetics Divisions have won market share, with, at the Group level, gains in makeup, skincare and hair. E-commerce continued to grow strongly, and now represents 10% of sales in this Zone.
- **Africa, Middle East:** the Zone was down 4.1% like-for-like and down 0.7% based on reported figures. The Zone was affected by a sharp fourth-quarter deceleration in the countries of the Levant, and Lebanon in particular. Over the year, Pakistan, Egypt, Saudi Arabia and Morocco recorded double-digit growth. The Active Cosmetics Division hasdriven growth, with market share gains in the Maghreb-Middle East and in Sub-Saharan Africa.

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

1.3.1.3. 2019 Consolidated results

OPERATING PROFITABILITY AND CONSOLIDATED INCOME STATEMENT

	2017		2018		2019	
	€ million	% 2017 sales	€ million	% 2018 sales	€ million	% 2019 sales
Net sales	**26,023.7**	**100.0%**	**26,937.4**	**100.0%**	**29,873.6**	**100%**
Cost of sales	- 7,359.2	28.3%	- 7,331.6	27.2%	-8,064.7	27.0%
Gross profit	**18,664.5**	**71.7%**	**19,605.8**	**72.8%**	**21,808.9**	**73.0%**
Research and innovation	- 877.1	3.4%	- 914.4	3.4%	-985.3	3.3%
Advertising and promotion	- 7,650.6	29.4%	- 8,144.7	30.2%	-9,207.8	30.8%
Selling, general and administrative expenses	- 5,460.5	21.0%	- 5,624.7	20.9%	-6,068.3	20.3%
OPERATING PROFIT	**4,676.3**	**18.0%**	**4,922.0**	**18.3%**	**5,547.5**	**18.6%**

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.

Gross profit, at €21,808 million, came out at 73.0% of sales, compared with 72.8% in 2018, which is an improvement of 20 basis points.

Research and innovation expenses, at €985 million, increased by 7.8% compared to 2018.

Advertising and promotion expenses increased by 60 basis points, at 30.8% of sales.

Selling, general and administrative expenses, at 20.3% of sales, have been reduced by 60 basis points.

Overall, operating profit has grown by +12.7% to €5,547 million, and amounts to 18.6% of sales, representing an increase of 30 basis points. Excluding the impacts of applying the IFRS 16 accounting rule, this growth amounted to 11.8%.

NET PROFIT

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

€ millions	2017	2018	2019	Growth
Operating profit	**4,676.3**	**4,922.0**	**5,547.5**	**+12.7%**
Financial revenues and expenses excluding Sanofi dividends	- 22.9	- 1.9	-62.7	
Sanofi dividends	350.0	358.3	363.0	
Profit before tax excluding non-recurring items	**5,003.3**	**5,278.4**	**5,847.9**	**+10.8%**
Income tax excluding non-recurring items	- 1,250.5	- 1,286.8	-1,486.7	
Net profit excluding non-recurring items of equity consolidated companies	- 0.1	0.1	+1.0	
Non-controlling interests	- 3.9	- 4.1	-5.2	
Net profit excluding non-recurring itemsafter non-controlling interests (1)	**3,748.7**	**3,987.6**	**4,356.9**	**+9.3%**
EPS (2) (€)	6.65	7.08	7.74	9.3%
NET PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY	**3,581.4**	**3,895.4**	**3,750.0**	
Diluted earnings per share attributable to owners of the company *(euros)*	6.36	6.92	6.66	
Diluted average number of shares	563,528,502	563,098,506	562,813,129	

(1) Net profit excluding non-recurring items attributable to owners of the company excludes impairment losses, restructuring costs, tax effects and minority interests.
(2) Diluted earnings per share, based on net profit, excluding non-recurring items, after non-controlling interests.

Net finance costs amount to €63 million, of which €54 million is the result of applying the IFRS 16 accounting rule.

Sanofi dividends amounted to €363 million.

Income tax excluding non-recurrent items amounted to €1,487 million, representing a tax rate of 25.4%.

Net profit excluding non-recurring items after non-controlling interests amounted to €4,357 million, an increase of +9.3%.

Earnings per share, at 7.74 euros, is up by +9.3%.

Non-recurring items after non-controlling interests [1] amounted to €607 million net of tax.

(1) Non-recurring items include impairment of assets, net profit of discontinued operations, restructuring costs and tax effects of non-recurring items.

Gross cash flow, Balance sheet and Cash position

Gross cash flow amounted to €5,802 million, an increase of 12.1%.

The working capital requirement decreased by 460 million euros.

At €1,231 million, investments represented 4.1% of sales.

Net cash flow [1] at €5,032 million, increased by 29.8%.

The balance sheet is particularly solid, with shareholders' equity amounting to €29.4 billion. After allowing for finance lease debts in an amount of €2,035 million, net cash came out at €2,399 million at 31 December 2019.

Proposed dividend at the Annual General Meeting of 21 April 2020

The Board of Directors has decided to propose to the shareholders' Annual General Meeting of 21 April 2020 a dividend of 4.25 euros per share, an increase of +10.4% compared with the dividend paid in 2019. The dividend will be paid on 30 April 2020 (ex-dividend date 28 April 2020 at 0:00 a.m., Paris time).

Share capital and additional paid in capital

At 31 December 2019, the capital of the company is formed by 558,117,205 shares, each with one voting right.

Operating profit, by Operational Division

	2017		2018		2019	
	€ millions	% 2017 sales	€ millions	% 2018 sales	€ millions	% 2019 sales
Professional Products	669	20.0%	652	20.0%	691	20.1%
Consumer Products	2,419	20.0%	2,428	20.2%	2,575	20.2%
L'Oréal Luxe	1,856	21.9%	2,072	22.1%	2,494	22.6%
Active Cosmetics	471	22.6%	523	23.0%	621	23.3%
COSMETICS DIVISIONS TOTAL	**5,415**	**20.8%**	**5,675**	**21.1%**	**6,381**	**21.4%**
Non-allocated [1]	- 739	-2.8%	- 753	-2.8%	-833	-2.8%
GROUP TOTAL	**4,676**	**18.0%**	**4,922**	**18.3%**	**5,548**	**18.6%**

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

The profitability of the Professional Products Division came out at 20.1%, an improvement of 10 basis points.

The profitability of the Consumer Products Division was stable at 20.2%.

The profitability of L'Oréal Luxe, at 22.6%, increased by 50 basis points.

The profitability of the Active Cosmetics Division came out at 23.3%, representing an increase of 30 basis points.

Non-allocated expenses amounted to €833 million, which is stable in relative value.

Sales by business segment

				2018/2019 progression	
€ millions	2017	2018	2019	Like-for-like	Reported figures
Skincare	7,624	8,557	10,453	19.6%	22.2%
Make-up	7,266	7,383	7,854	3.0%	6.4%
Haircare	4,559	4,358	4,461	1.5%	2.4%
Hair colourants	3,076	2,950	3,032	1.0%	2.8%
Perfumes	2,393	2,495	2,771	8.4%	11.0%
Other [1]	1,107	1,194	1,303	-3.3%	9.1%
TOTAL COSMETICS SALES	**26,024**	**26,937**	**29,874**	**8.0%**	**10.9%**

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

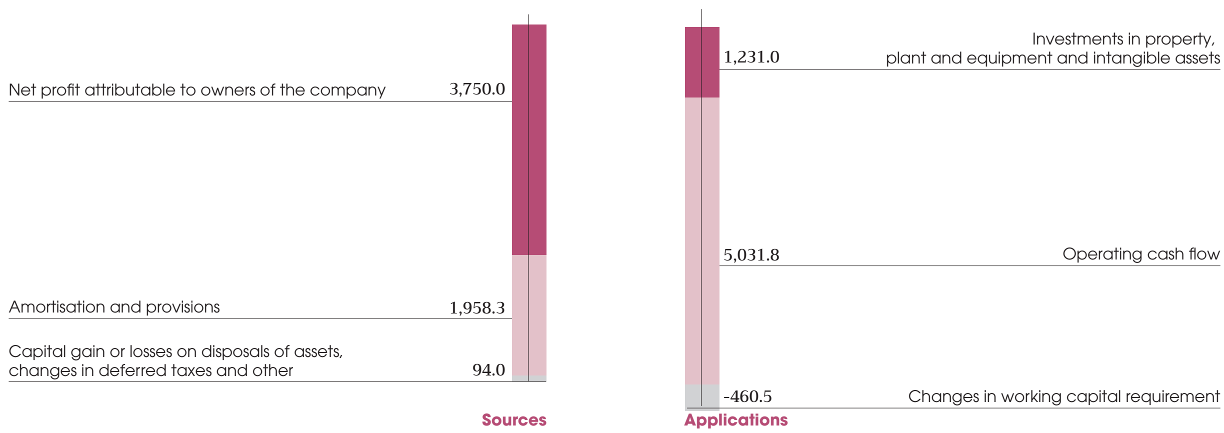
(1) Cash-flow opérationnel = Marge brute d'autofinancement + variation du besoin en fonds de roulement - investissements.

Simplified consolidated income statements

€ millions	31.12.2017	31.12.2018	31.12.2019	% 2019 sales
Net sales	**26,023.7**	**26,937.4**	**29,873.6**	**100%**
Gross profit	**18,664.5**	**19,605.8**	**21,808.9**	**73.0%**
Research and development costs	- 877.1	- 914.4	-985.3	3.3%
Advertising and promotion	- 7,650.6	- 8,144.7	-9,207.8	30.8%
Selling, general and administrative expenses	- 5,460.5	- 5,624.7	-6,068.3	20.3%
Operating profit	**4,676.3**	**4,922.0**	**5,547.5**	**18.6%**
Operational profit	**4,400.0**	**4,827.3**	**5,111.0**	
Finance costs excluding dividends received	- 22.9	- 1.9	-62.7	
Sanofi dividends	350.0	358.3	363.0	
Income tax	- 901.3	- 1,284.3	-1,657.2	
Non-controlling interests	- 4.1	- 4.1	-5.2	
Impact of deconsolidation of The Body Shop (1)	- 240.1			
Net profit attributable to owners of the company	**3,581.4**	**3,895.4**	**3,750.0**	
Non-recurring items (expense -/income +)	- 167.2	- 92.2	-607.0	
Net profit attributable to owners of the company excluding non-recurring items from continuing operations (2)	**3,748.7**	**3,987.6**	**4,356.9**	**14.6%**
Diluted earnings per share attributable to owners of the company *(euros)*	6.36	6.92	6.66	
Diluted earnings per share attributable to owners of the company excluding non-recurring items *(€)*	6.65	7.08	7.74	

(1) The finalisation of the disposal of The Body Shop on 7 September 2017 led to the application, in 2017, of IFRS 5 for discontinued operations.
(2) Net profit after non-controlling interests excluding non-recurring items of continuing operations excludes asset depreciations, restructuring costs, tax effects and non-controlling interests in continuing operations.

Sources and application of funds



Gross cash flow: 5,802.3

Financial ratios

	2017	2018	2019
Operating profit/Sales *(as % of sales)*	18.0%	18.3%	18.6%
Net profit excluding non-recurring items attributable to the owners of the group/Opening shareholders' equity *(% of shareholders' equity)*	15.1%	16.1%	16.2%
Net gearing (1) *(% of shareholders' equity)*	N/A	N/A	N/A
Gross cash flow/Investments	3.9x	3.7x	4.7x

(1) Net gearing: (Current and non-current debt – Cash and cash equivalents) / Shareholders' equity attributable to owners of the company.

L'Oréal 2013-2019

€ millions	2013 [7]	2014 [7]	2015	2016	2017	2018	2019
Results							
Consolidated sales	22,124	22,532	25,257	25,837	26,023	26,937	29,874
Operating profit	3,760	3,891	4,388	4,540	4,676	4,922	5,548
As a percentage of consolidated sales	17.0%	17.3%	17.4%	17.6%	18.0%	18.3%	18.6%
Profit before tax excluding non-recurring items	4,056	4,198	4,711	4,867	5,003	5,278	5,848
Net profit excluding non-recurring items attributable to the owners of the company [1]	3,032	3,125	3,490	3,647	3,748	3,988	4,357
Net profit attributable to owners of the company	2,958	4,910	3,297	3,106	3,581	3,895	3,750
Total dividend	1,507	1,511	1,742	1,858	2,006	2,175	2,392
Balance sheet							
Non-current assets	21,485	23,284	24,458	25,585	24,320	25,991	29,893
Current assets excl. cash and cash equivalents	6,730	6,858	7,854	8,300	7,972	8,474	8,631
Cash and cash equivalents	2,659	1,917	1,400	1,746	3,047	3,992	5,286
Equity [2]	22,651	20,197	23,617	24,504	24,819	26,933	29,426
Net financial position [3]	- 2,320	671	- 618	- 481	- 1,872	-2,751	-2,399
Gross cash flow	3,758	3,808	4,399	4,717	4,972	5,178	5,802
Per share data *(€)*							
Diluted earnings per share attributable to owners of the company excluding non-recurring items [1]	4.99 [4]	5.34	6.18	6.46	6.65	7.08	7.74
Dividend	2.50	2.70	3.10	3.30	3.55	3.85	4.25 [5]
Share price at 31 December [6]	127.70	139.30	155.30	173.40	184.95	201.20	264.0
Highest share price during the year [6]	137.85	140.40	181.30	177.90	197.15	214.90	267.60
Lowest share price during the year [6]	103.65	114.55	133.40	142.65	167.75	170.30	194.55
Diluted weighted average number of shares outstanding [6]	608,001,407	585,238,674	564,891,388	564,509,135	563,528,502	563,098,506	562,813,129

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.
(1) For 2013, 2014 and 2015 this is the net profit from continuing operations.
(2) Plus non-controlling interests.
(3) The net cash surplus was €2,320 million in 2013, €618 million in 2015, €481 million in 2016, €1,872 million in 2017, €2,751 million in 2018 and €2,399 million in 2019. In 2014, net debt was €671 million.
(4) Net profit per share, excluding non-recurring items, attributable to the owners of the company, published on 31 December 2013 was €5.13.
(5) Dividend proposed to the Annual General Meeting of 21 April 2020.
(6) 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 €111,623,441 at 31 December 2019; the par value of one share is €0.2.
(7) The balance sheets at 31 December 2014 and 31 December 2013 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 outlook

Significant events in 2019

- On 16 January, L'Oréal announced that it was among the 230 companies of the Bloomberg Gender-Equality Index (GEI), an index that highlights companies that demonstrate transparency in their gender balance reporting and are highly committed to professional equality.
- On 26 February, L'Oréal was recognised for the 10th time as one of the most ethical companies in the world by Ethisphere Institute, a world leader in defining and promoting business ethics standards.
- On 6 June, in Aulnay-sous-Bois, L'Oréal inaugurated "*MYT - Make Your Technology*", the first 4.0 technology incubator dedicated to industry and the supply chain of the future.
- On 26 June, BOLD (Business Opportunities for L'Oréal Development), a capital investment fund created by L'Oréal in December 2018, took a minority stake in the capital of Carbios, a start-up that is developing a recycling solution for plastic packaging.
- On 12 July, L'Oréal announced the appointment of three new members to its Executive Committee: Alexandra Palt, Executive Vice-President of Societal and Environmental Responsibility and Executive Vice-President of the L'Oréal Foundation, and Vincent Boinay, Executive Vice-President of L'Oréal Travel Retail, joined the Group's Executive Committee from 1 September. Fabrice Megarbane appointed CEO of L'Oréal China, joined the Group's Executive Committee on 1 July.

- On 30 July, the Board of Directors decided, within the framework of the authorisation voted by the Annual General Meeting of 18 April 2019, to conduct redemptions of L'Oréal shares during the second half of 2019 up to a maximum amount of €750 million or a maximum number of 3 million shares to be redeemed. Pursuant to this decision, 3 million L'Oréal shares were redeemed between 28 August and 7 October 2019. On 15 October, the Board of Directors decided to cancel the shares thus redeemed, as well as 771,125 shares that were previously treasury shares.
- On 20 September, L'Oréal announced the conclusion of constructive discussions with the French tax administration to resolve a dispute on the tax base of three of its subsidiaries, primarily with regard to tax on the companies from 2014 to 2018, with no penalties. The financial impact of this agreement represents a charge of €320 million, which will be recorded under exceptional items for the 2019 financial year. At Group level, there will be no significant impact on the future.
- On 24 September, at the United Nations Climate Action Summit in New York, L'Oréal was named Global Compact LEAD for its contribution to combating climate change and its commitment to achieving the target of net zero emissions by 2050.
- On 2 October, at the 10th ceremony of the Grands Prix de la Transparence, L'Oréal Group received the Transparency Grand Prix All Categories, for the quality of regulated information and its financial and non-financial communication practices.
- On 3 October, in the context of a partnership based on the responsible packaging innovation, L'Oréal and Albéa announced the development of a breakthrough innovation for cosmetics packaging. The idea is to design the first cosmetic tube based on cardboard, thereby replacing the majority of plastic with a biosourced material that is a certified paper type.
- On 21 October, after the two parties consulted with each other via employee representative bodies, L'Oréal and the Clarins Group signed an agreement to make the sale of the Mugler brand and Azzaro perfumes official through L'Oréal's acquisition of Clarins's fragrance division which comprised Mugler, Thierry Mugler (Fashion), Clarins Fragrance Group (CFG), CFG France, Cosmeurop and CFG UK on the date it was finalised. The acquisition should be finalised in the first quarter of 2020.
- On 11 December, Prada S.p.A. and L'Oréal signed a long-term licence agreement for the creation, development and distribution of luxury beauty products for the Prada brand. This agreement will allow both companies to contribute the expertise of their respective sectors.
- On 23 December, L'Oréal China was awarded the Alibaba Grand ONE Business Award, the highest recognition for digital transformation across all industries of Alibaba Group. The award recognises L'Oréal's digital pioneering underpinned by consumer-centricity in new marketing, new retail, data and artificial intelligence as well as digital talent, culture and organisation.

Significant events that have occurred since the beginning of financial year 2020

- On 3 February, for the 4th year in a row, L'Oréal has been highlighted as a world leader in corporate sustainability by the international non-profit organisation CDP, whose annual environmental disclosure and scoring process is recognised as the gold standard of corporate environmental transparency. The Group achieved a place on the 'A' List for all three environmental issues covered by CDP scores: climate change, water security and forests.
- On 4 February, following a strategic review regarding the best development options for the Roger & Gallet brand, L'Oréal announced that it has entered in exclusive negotiation with the French investment holding Impala for the sale of the Roger & Gallet brand.
- The coronavirus epidemic (COVID-19), that first emerged in China, creates a context that impacts on the Beauty market in several geographic Zones as well as Travel Retail (see "2020 Outlook").

2020 Outlook

The beginning of 2020 has been marked by the coronavirus epidemic (Covid-19) that will impact the beauty market in several geographic Zones and Travel Retail for a period of time and that is difficult to determine at this stage.

Our first priority is the safety of our employees and we are taking all possible measures to protect those working in countries impacted by this epidemic.

The experience we have had with similar situations in the past (SARS, MERS, etc…) shows that after a period of disturbance, consumption resumes strongly.

At the time of filing this Universal Registration Document, assuming that this epidemic and consequent disturbance will not exceed a few months, and that it follows a similar pattern to previous cases, we are confident in our capacity this year again to outperform the beauty market 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 investments, which are described in several sections of this document (see Sections 1.2.6. and 1.2.7. in particular); ;
2. marketing investments, 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 2019, the Group's investments totalled €1,231 million, or 4.1% 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 2019 can be broken down as follows:

- production and the physical supply chain represent approximately 28% of total investments;
- marketing investments, including moulds, POS advertising materials and stores account for 45%;
- IT investments spread over all these categories represent 21% of total investments;
- research and the head offices in the different countries accounted 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.

1.3.2. Corporate Social Responsibility (CSR): shared and lasting growth

Priority to Human Capital

As our founder Eugène Schueller declared with conviction: "a company is not walls and machines but people, people and more people."

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

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 on the suppliers of the 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. 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 planet, and to improve 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 formalised 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 results transparently and through 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.

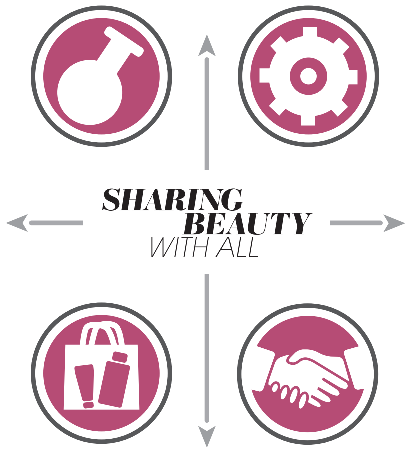
The *Sharing Beauty With All* programme stands out for its complete integration into the Company's value chain. It therefore covers all the Group's impacts broken down into four areas:

- innovating sustainably, which aims at improving the environmental and social footprint of products (see section 1.2.6 and chapter 4);
- producing sustainably, to reduce the environmental footprint of the Group's plants and distribution centres, all over the world (see section 1.2.7. and chapter 4);
- living sustainably, to engage with consumers and offer them the possibility to make sustainable consumption choices;
- developing sustainably to share growth with all the Group's stakeholders (employees, suppliers, communities).

SHARING BEAUTY WITH ALL

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

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



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

Developing sustainably
with employees - by end-2020, L'Oréal employees will have access to healthcare coverage, social protection and training, wherever they are in the world;
with suppliers - by end-2020, 100% of the Group's strategic suppliers will be participating in our supplier Sustainable Development programme
with communities - by end-2020, through its actions, the Group will have enabled more than 100,000 people from socially or financially deprived communities to access work.

Sharing growth

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

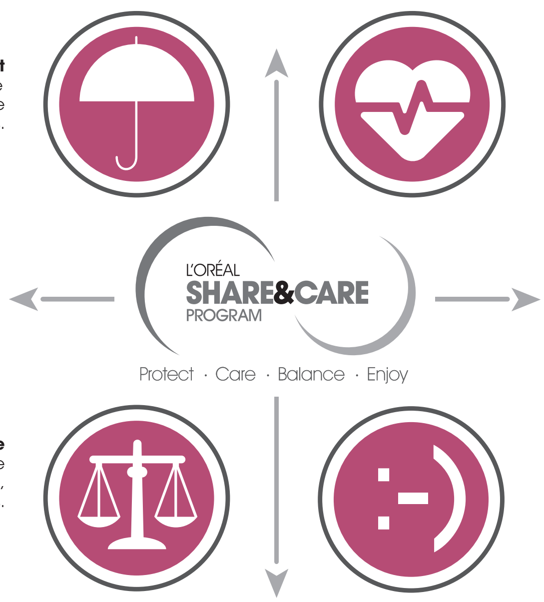
...with employees

"By the end of 2020, L'Oréal employees will have access to healthcare coverage, 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 four pillars put in place in all countries: social protection, healthcare, parenthood and quality of life at work.

Protect
Providing employees with e˜ective 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 employees to fully experience milestones in life such as parenthood, while pursuing their careers.

Enjoy
O˜ering high standards of quality of life at work to all the Company's employees.

...with suppliers

"By the end of 2020, 100% of the Group's strategic suppliers (1) will be participating in our Sustainable Development programme aimed at suppliers."

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

Following on from the responsible purchasing policy it has implemented since 2002 known as the *L'Oréal Buy & Care* programme, the *Sharing Beauty With All* programme has enabled the Group to associate its suppliers more with its CSR initiatives by developing a twofold approach:

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

...with communities

"By the end of 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 was reflected in a commitment in the *Sharing Beauty With All* programme: to enable over 100,000 people from socially or financially deprived 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.

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 socially-inclusive purchasing programme which aims to open up the Group's calls for tenders to companies that employ people from economically vulnerable communities to allow them to have durable access to work and income, as well as to companies that traditionally do not have access to 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 products and sets out an action plan. In 2019, this work was carried out with 89% 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 2019, 57% of the brands conducted this type of action. Furthermore, since 2013, L'Oréal has conducted 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 2019, 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, India and Europe with a view to understanding their expectations and fine-tuning its policies.

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

Sharing Beauty With All: commitments by the end of 2020, 2019 results

INNOVATING SUSTAINABLY

2020 TARGETS	2019 RESULTS		2018 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 in at least one of the following criteria:	85%	of new or updated products have an improved environmental or social profile.	79%
• the new formula uses renewable raw materials that are sustainably sourced or derived from green chemistry;	59%	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.	43%
• the new formula reduces the product's environmental footprint, particularly with regard to water use;	46%	of new or updated products have an improved environmental profile due to a new formula with a lower environmental footprint.	48%
• the new packaging has an improved environmental profile;	67%	of new or renovated products have an improved environmental profile due to packaging with a lower environmental footprint.	58%
• the new product has a positive social impact.	40%	of new or renovated products have an improved social profile as they notably incorporate raw materials from Solidarity Sourcing programmes.	31%

PRODUCING SUSTAINABLY

2020 TARGETS	2019 RESULTS		2018 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.	-78%	reduction in CO_2 emissions from plants and distribution centres in absolute value since 2005.	-77%
L'Oréal will have reduced its water consumption by 60% per finished product, compared to 2005.	-51%	reduction in water consumption at plants and distribution centres compared to 2005.	-48%
L'Oréal will have reduced its waste generation by 60% per finished product, compared to 2005.	-35%	reduction in waste generated from plants and distribution centres compared to 2005.	-37%
L'Oréal will send zero industrial waste to landfill.		The objective of sending "zero" waste to landfill (excluding regulatory obligations) was achieved for all plants and distribution centres in 2018.	
Reduce the CO_2 emissions linked to the transport of its product by 20% (in sales unit/km), compared with 2011.	-12%	reduction in CO_2 emissions from the transport of products (in grams of CO_2/sales unit/km) since 2011, with 434,293 tonnes of CO_2 emitted in 2019, which represents 0.0243 g CO_2/sales unit/km.	-8%

LIVING SUSTAINABLY

2020 TARGETS	2019 RESULTS		2018 RESULTS
L'Oréal will evaluate the environmental and social profile of all its products using an assessment tool. All brands will make this information publicly available to allow consumers to make sustainable choices.	100%	of new or renovated products in 2019 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.	89%	of brands have assessed their environmental and social impact.	88%
Every brand will report on its sustainability progress and associate consumers with its commitments.	57%	of brands conducted a consumer awareness initiative.	57%
Consumers will be able to influence L'Oréal's sustainability efforts through a consumer advisory committee.		In 2019, 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 several studies conducted with American, Indian and European consumer panels to understand their expectations and fine-tune its policies.	

DEVELOPING SUSTAINABLY…

2020 TARGETS		2019 RESULTS		2018 RESULTS
…WITH COMMUNITIES				
	100,000 people from underprivileged communities will gain access to employment through the following programmes:	**90,635**	people from underprivileged communities gained access to employment.	63,584 people
L'ORÉAL SOLIDARITY SOURCING	• *Solidarity Sourcing;*	**70,912**	people gained access to work through the *Solidarity Sourcing* programme.	56,842 people
	• Vocational training in the beauty industry;	**18,443**	people in difficult social or economic situations participated in free vocational training in beauty professions.	5,565 people
	• Employment of disabled people.	**1,280**	people with disabilities worked for L'Oréal.	1,177 people
…WITH SUPPLIERS				
	All strategic suppliers [(1)] will be evaluated and selected on the basis of their social and environmental performance.	**87%**	of the Group's strategic suppliers have been evaluated and selected on the basis of their environmental and social performance. All the suppliers evaluated represent more than 81% of total direct purchases (raw materials, packaging articles and subcontracting). Furthermore, in 2019, 1,562 social audits were carried out, making a total of over 12,400 since 2006.	83%
	All strategic suppliers [(1)] will have completed a self-assessment of their sustainability policy with the Group's support.	**96%**	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 2019, had been assessed on their social, environmental and ethical policies, as well as the application of such policies at their own suppliers, by Ecovadis.	93%
	All suppliers will have access to L'Oréal training tools to improve their sustainability policies.		Our dedicated on-line 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.	
L'ORÉAL SOLIDARITY SOURCING	20% of strategic suppliers will be associated with our *Solidarity Sourcing* programme.	**17%**	of strategic suppliers are involved in the *Solidarity Sourcing* programme.	13%
…WITH EMPLOYEES				
	Employees will benefit from health cover that reflects best practices in their country of residence.	**94%**	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, such as death or permanent disability.	**91%**	of the Group's permanent employees have access to financial protection in the event of a life-changing accident (including death or permanent disability).	93%
	Employees will have access to training, wherever they are in the world.	**96%**	of the Group's employees benefitted from at least one training session in 2019.	88%

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

1.4. AN ORGANISATION SERVING 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 S.A. acts as a holding company and provides strategic coordination on the one hand and scientific, industrial and marketing coordination for the L'Oréal Group throughout the world on the other.

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 the markets, each of these Divisions develops and enhances its brand portfolio with consumers (see section 1.2.1. "*L'Oréal Group Profile*").

Travel Retail is a fast-growing groupwide channel that conveys the Company's image and is expanding in line with the number of travellers. By establishing the multi-division Travel Retail Department, the Group has given itself the resources to grow this segment using a global shopper strategy: a bespoke approach designed, at the destinations favoured by each nationality, to personalise the experience on the basis of the language, culture and beauty rituals of travellers.

1.4.3. Geographic zones

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 geographic zones have therefore been created, each of which has operational responsibility for the subsidiaries located in their country (Western Europe Zone; Americas Zone; Asia Pacific Zone; Eastern Europe Zone; Africa, Middle East Zone).

1.4.4. Support Departments

Several specialist corporate departments provide their expertise and support to the Operational Divisions, to subsidiaries in their markets and to the other business activities (see section 1.2.1. *"L'Oréal Group Profile"*).

(1) Furthermore, it should be noted, that pursuant to Article L. 232-1 of the French Commercial Code, 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 position 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 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.

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

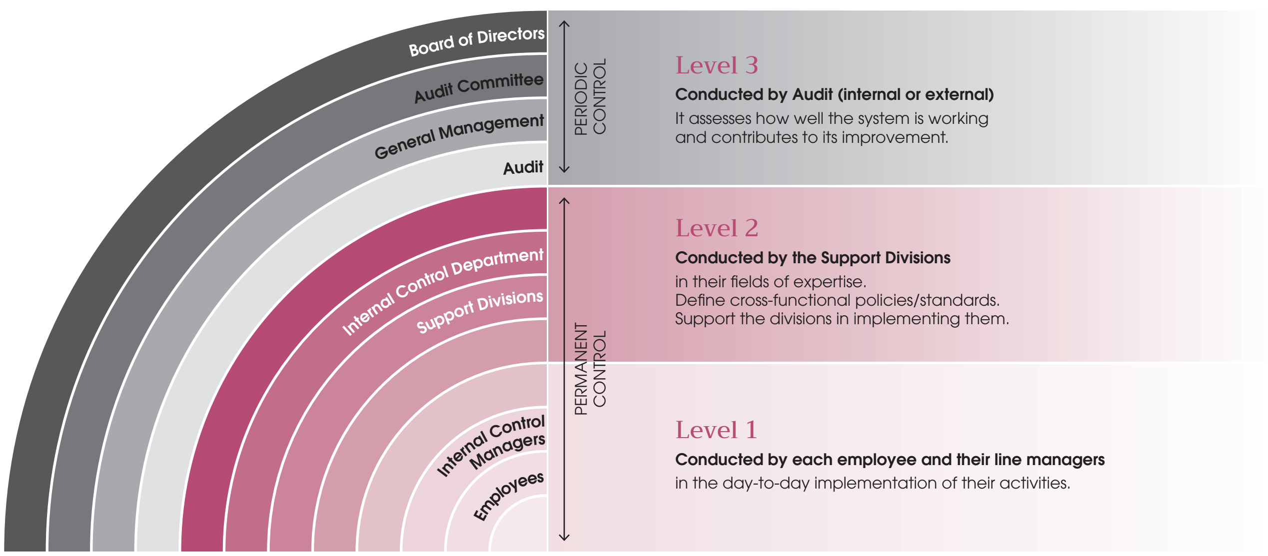
- economic and financial targets are achieved in compliance with the laws and regulations in force and the Group's Ethical Principles and standards;
- the orientations set by General Management are followed;
- the Group's assets and reputation are valued and protected;
- the Group's financial and accounting 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 behaviour, the organisational structure and employees. At 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 the governance bodies to all employees.

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 3 *"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 2019, and the remuneration policy pursuant to Article L. 225-37-2 of the French Commercial Code.

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;
- remuneration policy for executive officers;
- information relating to the remuneration and benefits of any kind of executive officers during the previous financial year pursuant to Article L. 225-37-3 of the French Commercial Code;
- 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 7, specifically:

- the table summarising the authorisations in force granted by the Annual General Meeting (see Section 7.2.2.) ;
- the special rules for shareholder participation in the Annual General Meeting or the provisions of the Articles of Association providing for these rules (see Section 7.1.11.) ;
- 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 7.3.).

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 2.5).

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. Procedures for performing 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, M. Jean-Paul Agon, 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 sector also requires strong, coherent communication. This method of implementing General Management duties respects the balance of powers and is appropriate for L'Oréal's particular shareholder structure: stable, loyal shareholders with two major shareholders highly committed to the Group's longterm development.

Pursuant to the company's articles of association, Mr. Jean-Paul Agon will no longer be able to assume the position of Chief Executive Officer as of his 65th birthday i.e. July 6, 2021, it being understood that the next expiry of his term of office as Director is the Annual General Meeting of 2022. The Appointments and Governance Committee, in charge of preparing the succession plan for Mr. Jean-Paul Agon, is considering all the terms and conditions for the exercise of General Management, including the separation of functions as practiced from 2006 to 2011.

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.

As of december 31, 2019, 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) from Nestlé, seven independent Directors, who are in the majority on the Board (seven out of thirteen Board members, excluding the Directors representing the employees), 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, industrial, digital, financial and extra-financial, 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 meets 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 corporate executive 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 the Committees include a large number of 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 Directors representing the employees 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 context of the review of its activities at the end of 2019, 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 2019, 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.).

They are 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 05 December 2019. They concern the general powers of the Board of Directors and the remit of the Appointments and Governance Committee, following the entry into force of the PACTE law. 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 sections 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. COMPOSITION OF THE BOARD OF DIRECTORS

As of December 31, 2019			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	Audit	HR and Remuneration	Appointments and Governance
Chairman and CEO	Mr. Jean-Paul Agon		63	M	French	1		25/04/2006	2022	13	C			
Françoise Bettencourt Meyers and her family	Ms. Françoise Bettencourt Meyers		66	W	French			12/06/1997	2021	22	●			
	Mr. Jean-Pierre Meyers Vice-Président		71	M	French			15/12/1987	2020	32	●		●	●
	Mr. Jean-Victor Meyers		33	M	French			13/02/2012	2020	7		●		
Directors from Nestlé	Mr. Paul Bulcke ** Vice-President		65	M	Belgian Swiss	2		20/04/2017	2021	2	●		●	●
	Ms. Béatrice Guillaume-Grabisch		55	W	French			20/04/2016	2020	3		●		
Independent Directors	Ms. Sophie Bellon		58	W	French	1	♦	22/04/2015	2023	4		●	C	C
	Mr. Patrice Caine		49	M	French	1	♦	17/04/2018	2022	2				●
	Ms. Fabienne Dulac		52	W	French	1	♦	18/04/2019	2023	<1		●		
	Ms. Belén Garijo		59	W	Spanish	1	♦	17/04/2014	2022	5			●	
	Mr. Bernard Kasriel		73	M	French		♦	29/04/2004	2020	15	●			
	Ms. Virginie Morgon		50	W	French	2	♦	26/04/2013	2021	6		C		
	Ms. Eileen Naughton		62	W	American		♦	20/04/2016	2020˜	3			●	
Directors representing the employees	Ms. Ana Sofia Amaral		54	W	Portuguese			15/07/2014	2022	5			●	
	Mr. Georges Liarokapis		57	M	French Greek			15/07/2014	2022	5		●		

58
average age
of the Directors
at 31/12/2019

54%
of Independent
Directors***

54%
of female
directors***

*♦ 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 o˜ ces (excluding L'Oréal) in listed companies, including foreign companies, in accordance with the provisions of point 19 of the AFEP-MEDEF Code (i.e. with the exception of o˜ ces held in subsidiaries and investments, alone or in concert, by an executive o˜ cer of companies whose main activity is to acquire and manage such interests).*
***Mr Paul Bulcke was a Director at L'Oréal from 2012 to June 2014 and has been again since 2017.*
****Excluding Directors representing the employees.*

2.2.1. Guiding principles

2.2.1.1. Balance in the composition of the Board of Directors

At 31 December 2019, the Board of Directors comprised 15 members:

- the Chairman and Chief Executive Officer, Mr Jean-Paul Agon;
- three Directors from the Bettencourt Meyers family, which owns 33.27% 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 23.27% 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, Ms Fabienne Dulac, 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 Social and Economic 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 2019 is shown in chapter 7 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).

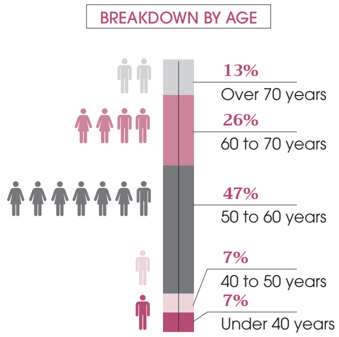
The Directors of L'Oréal come from different backgrounds. They complement one another due to their different professional experience, their skills and their nationalities.

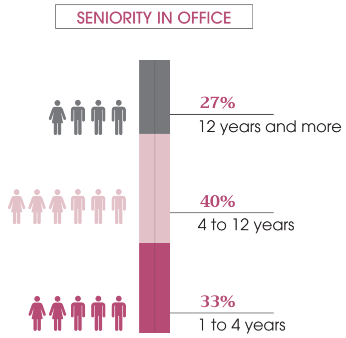
The Board is attentive to maintaining a balance between Directors with historical knowledge of the Company and Directors who have joined the Board more recently.

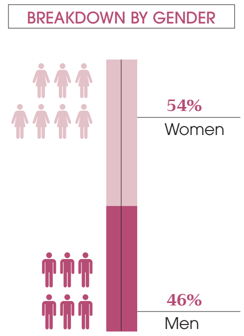
SUMMARY TABLE OF THE DIVERSITY POLICY APPLIED TO THE BOARD OF DIRECTORS:

Criteria	Policy and objectives	Means of implementation and outcomes achieved in 2019
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 agreed that Directors must resign from the Board before the Annual 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 33 and 73, with an average age of 58. 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 54% of female Directors represents a 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 next page)

SUMMARY OF RESULTS OBTAINED DURING THE 2019 FINANCIAL YEAR:







QUALIFICATIONS AND PROFESSIONAL EXPERIENCE OF THE 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 a particular focus on their extensive 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 four-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. Since then, they have been receiving training seminars each year in line with their term of office. In 2019, they both followed the "Company Director" certification developed by the IFA (French Institute of Directors) and SciencesPo.

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 remuneration in respect of their term of office according to 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 6 February 2020, 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
Ms Fabienne Dulac	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 06 February 2020, 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 scrutinised.
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 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.

It is stated that Ms Eileen Naughton and Mr Bernard Kasriel have informed the Board of Directors that they do not wish to request the renewal of their terms of office, which expire at the end of the Annual General Meeting of 21 April 2020.

In summary, on 31 December 2019, 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
- Ms Fabienne Dulac
- 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 pursuant to Delegated European Regulation No. 2019/980 supplementing Regulation No. 2017/1129 and known as

"Prospectus 3", 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 positions. 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, *"the Directors are obliged to notify the Board of any situation that may constitute a conflict of interest, even if such conflict is only potential, and must refrain from participating in the corresponding deliberations"*.

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 1 of Delegated European Regulation No. 2019/980 set out hereafter contains additional details in this respect.

Information relating to corporate officers pursuant to Annex 1 of Delegated European Regulation No. 2019/980

Family links existing between corporate officers (Article 12.1 of the Annex)

Ms Françoise Bettencourt Meyers is the wife of Mr Jean-Pierre Meyers 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 12.1 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 12.2 and 16.3 of the Annex)

The method of organisation and modus operandi adopted by the Board would allow it, where applicable, to prevent any abusive nature 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, customers, 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 7.3.5. *"Shareholders' agreements relating to equity shares in the Company"*).

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 12.2 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 periodically reminds them of this obligation (see section 2.6. *"Summary of trading in L'Oréal shares by executive officers in 2019"* of this document).

2.2.2. List of corporate offices and directorships of the Directors exercised at 31 December 2019

JEAN-PAUL AGON

French

Age: 63

Joined the L'Oréal Group in 1978. Following an international career as Chief Executive Officer of the Consumer Products Division in Greece and of L'Oréal Paris in France, International Managing Director of Biotherm, Chief Executive Officer of L'Oréal Germany, Chief Executive Officer of the Asia Zone, Chairman 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.

EXPIRY DATE OF TERM OF OFFICE: 2022

- Professional address: L'Oréal – 41, rue Martre – 92117 Clichy Cedex – France
- Holds 1,186,432 L'Oréal shares

OTHER CURRENT OFFICES AND POSITIONS	
French company	
Air Liquide S.A. *	Director
Others	
L'Oréal Corporate Foundation	Chairman of the Board
Raisesherpas	Director
French Association of Private Enterprises (AFEP)	Director
French Institute of International Relations (IFRI)	Director
CORPORATE OFFICES AND DIRECTORSHIP OVER THE LAST FIVE YEARS THAT HAVE EXPIRED	
None	

** Listed company.*

FRANÇOISE BETTENCOURT MEYERS

French

Age: 66

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 Chairwoman of the *Pour l'Audition* Foundation. 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 – France
- Holds 33,182,455 L'Oréal shares

OTHER CURRENT OFFICES AND POSITIONS	
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	
None	

PAUL BULCKE

Belgian and Swiss

Age: 65

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 CURRENT OFFICES AND POSITIONS		
Foreign company		
Roche Holding Ltd (Switzerland)*	Member of the Board of Directors	
Others		
2030 Water Resources Group (WRG)	Co-Chair	
JP Morgan International Council	Member	
Avenir Suisse Foundation (Switzerland)	Member of the Board	
World Economic Forum (WEF)	Member Community of Chairpersons	
European Round Table for Industry (Belgium)	Member	
CORPORATE OFFICES AND DIRECTORSHIP OVER THE LAST FIVE YEARS THAT HAVE EXPIRED		**EXPIRY DATE OF TERM OF OFFICE**
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. (Switzerland)	Deputy Director	2016
Others		
Consumer Goods Forum	Member of the Board of Directors and member of the Governance Committee	2017

** Listed companies.*

JEAN-PIERRE MEYERS

French

Age: 71

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 – France
- Holds 15,332 L'Oréal shares

OTHER CURRENT OFFICES AND POSITIONS

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

None

ANA SOFIA AMARAL

Portuguese

Age: 54

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 CURRENT OFFICES AND POSITIONS

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

None

SOPHIE BELLON

French

Age: 58

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, the Human Resources and Remuneration Committee, and a member of the Audit Committee.

EXPIRY DATE OF TERM OF OFFICE: 2023

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

MAIN CORPORATE OFFICE HELD OUTSIDE L'ORÉAL		
Sodexo*	Chairwoman of the Board of Directors	
OTHER CURRENT OFFICES AND POSITIONS		
French companies		
Bellon S.A. [S]	Member of the Management Board	
PB Holding SAS [S]	Chairwoman	
Others		
French Association of Private Enterprises (AFEP)	Member of the Board of Directors	
French Association of Joint Stock Companies (ANSA)	Member of the Board of Directors	
France-China Committee (CPC)	Member of the Board of Directors	
United Way Alliance (UWA)	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 S.A.	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 – France
- Holds 1,000 L'Oréal shares

MAIN CORPORATE OFFICE HELD OUTSIDE L'ORÉAL		
Thales *	Chairman and Chief Executive Officer	
OTHER CURRENT OFFICES AND POSITIONS		
French company		
Naval Group (ex-DCNS)	Director	
Others		
National Association for Research and Technology (ANRT)	Chairman	
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**
Others		
École des Mines de Paris	Director	2016

** Listed company.*

FABIENNE DULAC

French

Age: 52

Chairwoman and Chief Executive Officer of Orange France and Deputy Chief Executive Officer of the Orange Group, which she joined in 1997. She has held various positions in marketing, business development, communications and digital. She joined the Executive Committee of the Orange Group in 2015 as Executive Director of Orange France. She is also a Director of Orange Bank and Willa (an incubator dedicated to Female entrepreneurship). Fabienne Dulac has been a Director of L'Oréal since April 2019 and is a member of the Audit Committee.

EXPIRY DATE OF TERM OF OFFICE: 2023

- Professional address: Orange – 1 avenue Nelson Mandela 94745 Arcueil Cedex – France
- Holds 500 L'Oréal shares

MAIN CORPORATE OFFICE HELD OUTSIDE L'OREAL	
Orange*	Deputy Chief Executive Officer
OTHER CURRENT OFFICES AND POSITIONS	
French companies	
Orange France °	Chairwoman and Chief Executive Officer
Orange Bank °	Member of the Board of Directors
Française des Jeux*	Director
Others	
Willa	Member of the Board of Directors
CORPORATE OFFICES AND DIRECTORSHIP OVER THE LAST FIVE YEARS THAT HAVE EXPIRED	
None	

** Listed companies*
° Orange Group companies

BELÉN GARIJO

Spanish

Age: 59

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

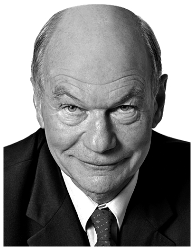
French

Age: 55

Executive Vice-President Human Resources and Business Services of Nestlé Group, which she joined in 2013. She was formerly Chief Executive Officer of Nestlé Germany after a career in various consumer goods groups (Colgate-Palmolive, Beiersdorf, Johnson & Johnson, L'Oréal, Coca-Cola). Béatrice Guillaume-Grabisch has been a Director of L'Oréal since 2016 and is a member of the Audit Committee.

		EXPIRY DATE OF TERM OF OFFICE: 2020
• Professional address: Nestlé – Avenue Nestlé, 55 – CH 1800 Vevey – Switzerland • Holds 1,400 L'Oréal shares		
MAIN CORPORATE OFFICE HELD OUTSIDE L'ORÉAL		
Nestlé S.A. (Switzerland) *	Executive Vice-President Human Resources and Business Services	
OTHER CORPORATE OFFICES AND DIRECTORSHIPS HELD		
Other		
GS1	Director	
CORPORATE OFFICES AND DIRECTORSHIP OVER THE LAST FIVE YEARS THAT HAVE EXPIRED		**EXPIRY DATE OF TERM OF OFFICE**
Foreign companies		
Nestlé (Germany)	Chief Executive Officer	2019
Henkel (Germany)	Director	2016
Other		
MarkenVerband/Brand producers' association (Germany)	Member of the Management Board	2019

** Listed company.*



BERNARD KASRIEL

French

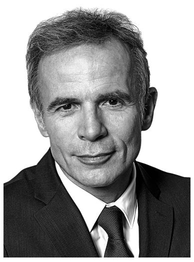
Age: 73

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

		EXPIRY DATE OF TERM OF OFFICE: 2020

- Professional address: 1, rue Saint-James – 92200 Neuilly-sur-Seine – France
- 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: 57

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 then 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 – France

OTHER CORPORATE OFFICES AND DIRECTORSHIPS HELD
None
CORPORATE OFFICES AND DIRECTORSHIP OVER THE LAST FIVE YEARS THAT HAVE EXPIRED
None

JEAN-VICTOR MEYERS

French

Age: 33

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 and Constantine Capital, 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 – France
- Holds 1,500 L'Oréal shares

OTHER CURRENT OFFICES AND POSITIONS

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: 50

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 – United States of America
- Holds 1,745 L'Oréal shares

MAIN CORPORATE OFFICE HELD OUTSIDE L'ORÉAL	
Eurazeo* [E]	Chairwoman of the Management Board

OTHER CURRENT OFFICES AND POSITIONS	
French company	
Idinvest Partners [E]	Chairwoman of the Supervisory Board
Foreign companies	
Alpine Newco Inc. (US) [E]	Chief Executive Officer/Chairwoman
Eurazeo North America Inc. (US) [E]	Chairwoman
Moncler SpA (Italy) *	Member of the Board of Directors
Others	
Human Rights Watch	Co-Chair of the Paris 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-Chairwoman 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 (Investissement Les Petits Chaperons Rouges)	Chairwoman	2017
AccorHotels	Director	2016
Elis	Member of the Supervisory Board	2016
LH APCOA	Chief Executive Officer	2016
Legendre Holding 45	Chairwoman	2016
Legendre Holding 46	Chairwoman	2016
Elis	Chairwoman of the Supervisory Board	2015
Foreign companies		
Moncler SpA (Italy)	Vice-Chairwoman of the Board of Directors	2019
Abasic SL (Spain)	Director	2018
Open Road Parent LLC (US)	Member of the Board of Directors	2018
Trader Interactive LLC (US)	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

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

EILEEN NAUGHTON

American

Age: 62

Vice-President People Operations at Google, which she joined in 2006 after holding various responsibilities with Time Warner, including the position of Chairwoman 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 – United States
- Holds 1,000 L'Oréal shares in the form of ADRs (American Depositary Receipts)

MAIN CORPORATE OFFICE HELD OUTSIDE L'ORÉAL	
Google Inc. (US)	Vice-President, People Operations

CORPORATE OFFICES AND DIRECTORSHIP OVER THE LAST FIVE YEARS THAT HAVE EXPIRED		EXPIRY DATE OF TERM OF OFFICE
Foreign company		
Google UK & Ireland	Vice-President Managing Director	2016

2.2.3. Changes in corporate offices and directorships of the Directors

Changes in 2019

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

The Annual General Meeting of 18 April 2019 renewed Ms Sophie Bellon's term of office as Director for a four-year period.

- **Resignation of Mr Axel Dumas from his position as Director**

The Board of Directors' meeting on 18 April 2019 noted the resignation of Mr Axel Dumas from his position as Director of L'Oréal due to the announcement by Hermès of a project to launch a line of cosmetics, which could create a potential conflict of interests. The term of Mr Dumas, appointed as Director in 2018, ended on 15 April 2019.

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

The Annual General Meeting of 18 April 2019 appointed Ms Fabienne Dulac as Director for a four-year period.

Changes scheduled in 2020

Non-renewal of Directors whose terms are expiring

- The term of office of Mr Jean-Pierre Meyers, a director of L'Oréal since 1987, Vice-Chairman of the Board of Directors since 1994, and a member of the Strategy and Sustainable Development, Human Resources and Remuneration, and Appointments and Governance Committees, expires at the end of this Annual General Meeting.

Mr Jean-Pierre Meyers informed the Board that he would not request the renewal of his term of office as Director, stating that the time seemed appropriate for him after 33 years of exercising his role to encourage the continuation of family succession, emphasising the deep and long-lasting attachment of the Bettencourt Meyers family to L'Oréal. Mr Jean-Paul Agon, on behalf of the Board of Directors, warmly thanked Mr Jean-Pierre Meyers for his major contribution to the work of the Board and its Committees over the course of these years. He particularly commended his deep understanding of the Company, his ongoing concern for preserving its values, his stringency in terms of governance and the support that he has contributed to the Group's international development and success.

- Mr Bernard Kasriel, Director of L'Oréal since 2004 and member of the Strategy and Sustainable Development Committee, informed the Board of Directors that he did not wish to request the renewal of his term of office. The Board was anxious to express to Mr Bernard Kasriel its recognition for the quality of his contribution during this 16-year term of office. He brought to the Board his experience as a director of a major international industrial group. The Board thanks Mr Kasriel for his commitment, his great freedom of judgement and his contribution of proposals for the work of the various Committees of which he has been a member or Chairman.
- The term of office of Ms Eileen Naughton, Director of L'Oréal since 2016 and member of the Human Resources and Remuneration Committee, expires in 2020. Ms Naughton informed the Board of Directors that she was not seeking to renew her term of office. The Board thanked Ms Eileen Naughton for taking part in the Board's debates and for the work of the Committee of which she was a member.

Appointment of two new Directors: Mr Nicolas Meyers and Ms Ilham Kadri

- **Appointment of Mr Nicolas Meyers as Director**

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

Mr Nicolas Meyers, 32, studied Communications in Brussels, then at the *Institut des Hautes Etudes pour l'Innovation et l'Entrepreneuriat (IHEIE)*. As part of his varied professional experience, he spent several months in Divisions of the L'Oréal Group, both in France and abroad (United Kingdom, USA, Canada, India, Japan). After his first business experience with Christie's in London in 2009, he held the position of e-commerce and Social Media Manager at SwatchGroup France from 2011 to 2014. In 2017, he was an analyst with McKinsey.

He has been a member of the Supervisory Committee of the family holding company Téthys since 2011 and Téthys Invest since 2016. He has also been a director of the Bettencourt Schueller Foundation since 2012.

Mr Nicolas Meyers will bring the Board of Directors his knowledge of L'Oréal and his deep commitment to the company, his strong interest in new technologies and his international experience.

- **Appointment of Ms Ilham Kadri as Director**

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

Ms Ilham Kadri, 51, holds dual French and Moroccan nationality and has a PhD in Macromolecular Physical-Chemistry. She has been Chairwoman of the Executive committee and CEO of Solvay since March 2019, before which she had been CEO and Chairwoman of the American company Diversey since 2013. Ms Kadri has international professional experience, which she acquired in leading industrial companies (Shell, UCB, Dow, Sealed Air…), where she performed roles in research & development, sales, marketing, strategy, business management and digital technology.

Ms Kadri is very committed to diversity and inclusion, through mentoring young women and promoting their leadership in science.

She will notably bring to the L'Oréal Board of Directors her knowledge of industrial challenges, her diversified and international experience acquired in the United States, Europe, the Middle East, Africa and Asia, and her strategic vision focused on innovation.

Renewal of the term of office of two Directors: Ms Béatrice Guillaume-Grabisch and Mr Jean-Victor Meyers

- **Renewal of the term of office of Ms Béatrice Guillaume-Grabisch as Director**

As the term of office of Ms Béatrice Guillaume-Grabisch expires in 2020, her renewal for a term of four years is submitted to the Annual General Meeting.

Ms Béatrice Guillaume-Grabisch has been a Director at L'Oréal since 2016 and a member of the Audit Committee since that date.

Since 2019, Ms Béatrice Guillaume-Grabisch has been Chief Executive Officer of Human Resources and Business Services of Nestlé Group, which she joined in 2013. She was formerly Chief Executive Officer of Nestlé Germany after a career in various consumer goods groups (Colgate-Palmolive, Beiersdorf, Johnson & Johnson, L'Oréal, Coca-Cola).

Ms Guillaume-Grabisch is deeply committed to the work of the Audit Committee and the Board of Directors, to which she brings her experience in marketing and general management in the consumer goods sector, as well as her skills in Human Resources management.

Over the four years of her term of office as Director, Ms Guillaume-Grabisch's attendance rate has been 100% at the meetings of the Board of Directors and the Audit Committee of which she is a member.

- **Renewal of the term of office of Mr Jean-Victor Meyers as Director**

As the term of office of Mr Jean-Victor Meyers as Director is due to expire in 2020, the renewal of his term of office for four years is submitted to the Annual General Meeting.

Mr Jean-Victor Meyers has been a Director of L'Oréal since 2012 and a member of the Audit Committee since 2014.

Mr Jean-Victor Meyers has been a member of the Supervisory Board of the family-owned holding company Téthys since January 2011. He is the Chairman of the Exemplaire and Constantine Capital companies.

He brings to the Board his in-depth knowledge of L'Oréal and his strong attachment to the company, his experience in luxury businesses and his entrepreneurial vision.

Over the four years of his term of office as Director, the attendance of Mr Jean-Victor Meyers at meetings of the Board of Directors and of the Committee on which he serves has been 100%.

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 2019

In 2019, the Board met 7 times.

Four Committees prepare for the discussions and deliberations by the Board. 21 meetings were held in 2019: 6 for the Strategy and Sustainable Development Committee, 4 for the Audit Committee, 6 for the Appointments and Governance Committee, and 5 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). Two executive sessions were held in 2019.

The Audit Committee also meets twice a year in the presence of the Statutory Auditors and in the absence of any representative from Management, at the end of the meetings dedicated to reviewing the annual and interim financial statements. These two meetings were held on 7 February and 30 July 2019.

Attendance rate

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

In 2019, the attendance rate at Board meetings was 96% on average. The individual attendance rate at Board and Committee meetings is specified below.

The allocation of directors' fees, based on the rate of attendance by each member at Board meetings and meetings of the various Committees, is described in section 2.4 of this document.

INDIVIDUAL ATTENDANCE RATES OF DIRECTORS IN 2019 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	100%	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	100%			100%	
Fabienne Dulac (from 18/04/2019)	80%		67%		
Belén Garijo	86%				100%
Béatrice Guillaume-Grabisch	100%		100%		
Bernard Kasriel	100%	100%			
Georges Liarokapis	100%		100%		
Jean-Victor Meyers	100%		100%		
Virginie Morgon	100%		100%		
Eileen Naughton	71%				60%
2019 AVERAGE	**96%**	**100%**	**95%**	**100%**	**93%**

2.3.2. 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 2019, 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 2019

In 2019, the Board of Directors met seven times. The Directors also participated in a strategy seminar devoted to "Beauty in 2030".

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 2019, the Board's activity was mainly focused on the following areas:

Corporate governance

In 2019, 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 18 April 2019, it proposed to renew the term of office of Ms Sophie Bellon, Chairwoman of the Board of Directors of Sodexo, as well as the appointment of Ms Fabienne Dulac, Chairwoman and Chief Executive Officer of Orange France and Deputy Chief Executive Officer of the Orange Group.

Further to the renewal of a portion of its members, the Board of Directors also reviewed the composition of the Committees in 2019. Ms Sophie Bellon continues to chair the Appointments and Governance Committee and the Human Resources and Remuneration Committee. Ms Fabienne Dulac joins 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 during meetings with the Company's departments that are responsible for preparing for the Annual General Meeting. It met to approve the answers to the written questions posed by the shareholders before the Annual General Meeting. It is noted that **dialogue with shareholders** is the domain either directly of the Chairman and Chief Executive Officer (Annual General Meeting, meetings with the main investors, Investir Day 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 is the case every year, the Board made **a full evaluation of its modus operandi and its organisation**. This was discussed as an agenda item at its meeting of 5 December 2019. 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).

Two **executive sessions**, in which the Directors meet in the absence of the executive officers and any in-house Directors or employees, were held in 2019.

In 2019, the Board established a procedure to regularly evaluate whether **agreements on current operations** that are signed under normal terms do meet these conditions. This procedure was implemented for the first time at its meeting on 6 February 2020.

In October 2019, all Directors took part in a **half-day training session on Ethics**, led by the Chief Ethics Officer.

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 2019, based on the extensive work by and recommendations from the Human Resources and Remuneration Committee.

It approved the 2019 Plan for the **award of performance shares**.

It noted the progress update of the first **employee shareholding plan** launched worldwide.

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 net sales generated by Division, geographic area, brand, and e-commerce, as well as an analysis of market share gains, enables the Directors to be immersed in the Company's economic realities and to be continually informed of the problems faced by L'Oréal.

The Board is also informed throughout the year of developments in the cosmetics market, the results of competitors and the Group's relative positioning. It receives regular updates on the consequences of the digital revolution for the Group's activities and the way in which L'Oréal takes on the opportunities it provides. It carefully monitors the major changes in consumer trends and, in particular, the development of e-commerce and new distribution channels.

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.

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.

The theme of the strategy seminar in June 2019 was "beauty in 2030". It was an opportunity for the Directors to meet with many senior managers, in particular, the Deputy Chief Executive Officer in charge of Divisions, the Executive Vice-Presidents of L'Oréal's four Operational Divisions, the Executive Vice-President for Research & Innovation, the Executive Vice-President for Technology and Operations, the Executive Vice-President Chief Digital Officer, the Director of Business Development and Consumer Intelligence. This seminar provided the backdrop for many fruitful discussions. The Board was able to appreciate the collaborative, forward-looking work carried out within the Group to make the future bright and outline L'Oréal's key prospects for development over the next decade.

In June 2019, the Chief Corporate Responsibility Officer presented the 2019 objectives and the 2018 results of the **Sustainable Development program *Sharing Beauty With All*** and the new "*Science Based Targets*" commitments. In her capacity as Executive Director of the L'Oréal Foundation, she also told the Directors about the activity of this foundation.

In July 2019, the Directors welcomed the Executive Vice-President Chief Digital Officer, who presented to them on **the main trends in digital technology**. She has shown how digital technology is at the heart of L'Oréal's Beauty Tech project. She explained the importance of the e-commerce strategy for future growth. Finally, the Directors were able to discuss in depth the Group's investments in the ecosystem of start-ups and funds.

In October 2019, the Executive Vice-President, Americas Zone presented **the current position of the beauty market in the United States,** detailing the position of each L'Oréal Division and the main changes since the Board of Directors visited the United States in 2016.

In December 2019, the Executive Vice-President of the Professional Products Division gave the Directors a presentation on **the professional hairstyling market**, the profound changes in the profession, the strategy and results of the Division in this new environment.

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 2019, the Directors once again reviewed a number of new projects, including the signing of a licensing agreement with Prada, which will provide L'Oréal Luxe with an ideal addition to its portfolio of emblematic brands.

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. In this way, it reviewed in detail the latest acquisitions of US brands with the Executive Vice-President, Americas Zone.

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 opinion of the Central Works Council and responded to it.

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

In April 2019, the Board thus interviewed the Executive Vice-President Human Relations on the Group's Human Resources policy. The discussions covered recruitment and talent management. The Directors were given a presentation on feedback from 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. The Board was informed of the current state of social dialogue in the Group worldwide and was able to discuss its general trends.

In October 2019, the Senior Vice-President and Chief Ethics Officer presented the highlights of the Ethics policy and its implementation to the Board. He explained that new ethical rules had been developed and that these would enrich the Ethics Charter and the guidance already in existence.The Senior Vice-President and Chief Ethics Officer provided an update on *Ethics Day* 2019 and the ethical questions posed by employees directly to the Chairman and Chief Executive Officer on that day.

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

The financial position 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 is solid.

Every year, it reviews the agreements concluded 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. 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 actively prepare 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 2019, the Committees were once again tasked with preparing the Board's deliberations. The composition of these Committees, their remits and their work in 2019 are described in detail below.

STRATEGY AND SUSTAINABLE DEVELOPMENT COMMITTEE

Composition	Independence *	Number of meetings in 2019	Attendance rate (average 100%)	Date of appointment to the Committee
Mr Jean-Paul Agon (Chairman)		6	100%	2011
Ms Françoise Bettencourt Meyers			100%	2012
Mr Paul Bulcke			100%	2017
Mr Bernard Kasriel	◆		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.

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.

MAIN ACTIVITIES IN 2019

- 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 development of the business activity of the BOLD fund (Business Opportunities for L'Oréal Development).
- Update on the brands.

AUDIT COMMITTEE

Composition	Independence*: 60%	Number of meetings in 2019	Attendance rate (average 95%)	Date of appointment to the Committee
Ms Virginie Morgon (Chairwoman)	◆	4	100%	2013
Ms Sophie Bellon	◆		100%	2016
Ms Fabienne Dulac	◆		67%	2019 (April)
Ms Béatrice Guillaume-Grabisch			100%	2016
Mr Georges Liarokapis	●		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.*
● Director representing the employees

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 present, 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.

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.

2019 MAIN ACTIVITIES

- Review of annual, interim results and balance sheet. Analysis of the operating profit by division and zone.
- Review of Statutory Auditors' Reports.
- Review of the Statutory Auditors' 2019 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 IFRS 16 standard and the consequences of it.
- 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 Committee of the measures taken to enhance Internal Control. Review of the changes in the Vigilance Plan and risk factors (DEU).
- Review of Group risk mapping.
- Monitoring the process for compliance with the European GDPR *(General Data Protection Regulation)*.
- Review of legal risks and potential litigation and of major events that could have a significant impact on L'Oréal's financial position and on its assets and liabilities.
- Monitoring of the *business plan* for major acquisitions.
- Cybersecurity: assessment of the measures deployed.
- Review of the management of currency risk.

APPOINTMENTS AND GOVERNANCE COMMITTEE

Composition	Independence*: 50%	Number of meetings in 2019	Attendance rate (average 100%)	Date of appointment to the Committee
Ms Sophie Bellon (Chairwoman)	◆	6	100%	2016
Mr Paul Bulcke			100%	2017
Mr Patrice Caine	◆		100%	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 may attend Committee meetings with the exception of items on the agenda that concern him directly.

REMITS

- Reflections and recommendations to the Board with regard to the methods of General Management performance 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.
- Procedure to evaluate non regulated agreements: annual review of the summary table prepared by the Company of the financial flows that have occurred during the financial year between L'Oréal and interested parties as defined by regulations in order to report to the Board of Directors as part of the apraisal procedure of transactions concluded in ordinary course of business and under normal conditions pursuant to Article L225-39 of the French Commercial Code. In case of doubts about the classification of an agreement, the Committee must verify that the transactions have been concluded in ordinary course of business and under normal conditions, so that the Board of Directors can implement the procedure for regulated agreements when necessary. In this case, the persons directly or indirectly interested in this agreement do not participate in the assessment.

2019 MAIN ACTIVITIES

- Reflection on the composition of the Board (diversity, complementary profiles, expertise, gender parity, combining of offices, etc.) and review of the 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 2020.
- Examination of the independence of each of the Directors in light of the criteria set out in the AFEP-MEDEF Code (meeting of February 2020).
- 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.
- Implementation of a process to prepare the General Management succession plan.
- 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 2019 reports of the AMF and the *Haut Comité de Gouvernement d'Entreprise* (High Committee on Corporate Governance) (meeting of February 2020).
- Analysis of the 2019 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 changes made to the Internal Rules following the PACTE law and following the change in the threshold of share ownership required for Directors appointed by the Annual General Meeting.
- Review and implementation of the procedure for regular evaluation of current agreements concluded under normal terms.

HUMAN RESOURCES AND REMUNERATION COMMITTEE

Composition	Independence*: 60%	Number of meetings in 2019	Attendance rate (average 93%)	Date of appointment to the Committee
Ms Sophie Bellon (Chairwoman)	◆	5	100%	2018
Ms Ana Sofia Amaral	●		100%	2015
Mr Paul Bulcke			100%	2017
Ms Belén Garijo	◆		100%	2015
Mr Jean-Pierre Meyers			100%	2007
Ms Eileen Naughton	◆		60%	2017

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

The Chairman and Chief Executive Officer may attend Committee meetings with the exception of items on the agenda that concern him directly.

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 Directors' 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: remuneration, employee relations, recruitment, diversity, etc.
- Monitoring of the application of the Code of Ethics in the Company.

2019 MAIN ACTIVITIES

- Analysis of the executive officer's performance in 2018 and communication to the Board of a recommendation with regard to setting the annual variable remuneration for 2018, and the targets and weightings for 2019.
- Reflection concerning the structure of the executive officer's annual variable remuneration and targets objectives for 2020.
- Analysis of the 2019 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 18 April 2019 (ex ante vote on the remuneration policy for 2019 and ex post vote on the components of remuneration paid to the executive officer for 2018) and review of the proposed resolutions for the 2020 Annual General Meeting, presentation of the pay ratios.
- Benefit pension scheme: presentation of the consequences of the Ordinance of July 2019 on the plans in effect at L'Oréal and review of the level of achievement of the performance conditions for the corporate executive officer.
- Delivery of *Long-Term Incentive* (LTI) plans: recording of performances relating to the ACAs plan of 2015.
- Long-Term Incentive plans: preparation of the ACAs plan of 18 April 2019 and proposal for appointment to the executive officer. Review of the proposed resolution in preparation for the 2020 Annual General Meeting.
- Review of the Group's remuneration policy.
- Monitoring of establishment of the global employee shareholding plan launched in June 2018.
- Directors' fees: breakdown of fees for 2019 and recommendation for the policy and schedule to be applied in 2020.
- 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 4 of this document, "Promotion of diversity and inclusion", Section 4.3.2.6.

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 2019 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 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 2020.

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 2019, and, the next day, to the Board of Directors, followed by a debate between the Directors and decisions for 2020.

Firstly, with regard to **the Board's composition**, the Directors consider it completely satisfactory. The Board has a good balance of major shareholders, independent Directors and salaried Directors. The Directors are complementary in terms of age, gender, experience, and personalities. This diversity of profiles and skills produces very successful discussions and covers all areas related to the L'Oréal strategy, as defined by the Board (see Section 2.2.1.2.).

The composition of the Committees is considered appropriate, with the right experts serving on each one.

With regard to the **modus operandi of the Board**, it was noted that Directors are present, active, involved and dynamic. It operates as a collegial body. The Directors, while demonstrating an ability to think critically, support General Management with a constructive approach and concern for acting in L'Oréal's long-term interests.

The **quality of dialogue** was highlighted. The Chairman and Chief Executive Officer is accessible and a good mentor. He is open and transparent. He allows each Director to speak with confidence, giving them true freedom of speech in a very positive climate. He does not hesitate to bring up any topic, including critical points. Discussions are productive and constructive. The Directors thus exercised their complete freedom of judgment in 2019, 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 **pace and frequency of meetings** of the Board are deemed appropriate. Meetings are well organised.

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 Directors appreciate receiving analysts' reports after the publication of the annual and half-yearly results and the net sales figures. 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 **work performed by the Board's Committees** is appreciated. It is very thorough and meaningful. The files are well put-together; they enable the work of the Committees to be carried out successfully and result in sound recommendations. The reports provided by the Committee Chairs during the Board meetings were interesting and very comprehensive. They provide a good understanding of the topics covered and enable the Board to take the right decisions.

The **agendas** for the Board meetings are interesting and very business-oriented. The Directors consider it very important to have a consistent presentation at each Board meeting covering net sales, markets and competition, e-commerce and Travel Retail, which enables the Directors to be immersed in the realities of the Company and keeps them fully informed of L'Oréal issues on a continuous basis.

The Chairman and Chief Executive Officer highlights the accomplishments of his teams who regularly report to the Board on their activities. It is clear that **management presentations** raise real strategic issues.

In 2019, for example, the Board of Directors considered that the in-depth report given by the Executive Vice-President, Americas Zone on the position of the beauty market in the United States, detailing the position of each L'Oréal Division in this market enabled the Directors to understand the main changes that had taken place since their visit to New York in 2016. The Board of Directors also appreciated the presentation given by the Executive Vice-President of the Professional Products Division on the professional hairstyling market, which highlighted the profound upheavals in the profession and described the Division's strategy and results in this new environment. Finally, the 2019 presentation on digital technology, with a focus on e-commerce, highlighted strategic issues and fuelled future discussions and reflections.

In June 2019, the strategy seminar themed "Beauty in 2030", was considered inspiring, enthralling and team-driven, presenting a very broad range of issues and challenges. The Board appreciated the collaborative, forward-looking work carried out within the Group to make the future bright and outline L'Oréal's key prospects for development over the next decade.

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 2019. The Directors appreciate the regular monitoring that is done subsequent to acquisitions.

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 **role of reflecting on issues and driving the Group's strategic decision-making** was fulfilled satisfactorily. Strategic issues are shared properly, at the right level, and without going into operational detail.

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. They do not take a principled stance: it is important to be pragmatic. 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, without going through a Lead Director, who would intervene between the Chairman and the other Directors.

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. Two *executive sessions* were held in 2019.

The Directors consider that great attention should be paid to the handling of **conflicts of interest**, especially as the strategy is discussed openly at meetings of the Board. They find that these are well managed by the rules in force: non-participation in discussions and decisions, and an annual declaration of independence. They attach particular importance to the analysis of the independence of the Directors, which is carried out in depth each year, and welcome the apraisal procedure of transactions concluded in ordinary course of business under normal conditions, which has been implemented for 2020.

Directors consider that the current procedure for organising **meetings with shareholders**, investors, and proxy advisors on issues of corporate governance (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.

With regard to the **training of Directors**, the Directors believed that the interactive and case-based ethics training delivered by the Chief Ethics Officer had been useful. The Directors representing the employees were very appreciative of the diploma course provided by *SciencesPo* and the *Institut Français des Administrateurs* (French Institute of Directors, *IFA*).

For 2020, various decisions with regard to improvements were made. They concern, in particular, the adherence to timing in the meetings and the time required to provide management information and presentations. 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 2020 and the organisation of the 2020 strategy seminar, which will be held outside France. After discussion and review, a list of priority subjects was drawn up by the Board meeting of 5 December 2019.

Concerning the Board's self-evaluation procedure in 2020, the Board did not think it appropriate, as in 2019, 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, after having been reviewed, if applicable, by an external firm to be consulted on best operating practices for boards of directors. The Appointments and Governance Committee 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 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 05 December 2019. They concern the general powers of the Board of Directors and the remit of the Appointments and Governance Committee, following the entry into force of the PACTE law. 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") fulfils 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 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 Universal 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 defines the business strategy of the Company and monitors its implementation, in accordance with its corporate interest, taking social and environmental challenges into consideration.

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 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 the responsibility of 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 renewing too many Directors at once and favour renewing Directors harmoniously.

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 discussed in Section 4.6. ;
- 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 obliged to notify the Board of any situation that may constitute 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. Obligations 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 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 must 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 ("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 on the day after publishing 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 to declare 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 three trading days following completion of the transaction.

These individuals must simultaneously provide a copy of this declaration to the Secretary of the Company's Board of Directors.

The declarations are then posted on the AMF's website and are mentioned in an annual summary set out in the Company's Management Report.

3.6.5. Appointment of an Internal Stock Market Ethics Advisor

L'Oréal has appointed an "Internal Stock Market Ethics Advisor",

who 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 500 shares in the Company: at least 250 shares on the date of his/her election by the Annual General Meeting, and the balance no later than 24 months after this election.

(1) *On the AMF's secure website, ONDE, after verification of identity by email to the following address: ONDE_Administrateur_Deposant@amf-france.org.*

The decision as to whether the shares held by the Director should be registered or deposited, in full or in part, is the responsibility of the Director.

This stock ownership obligation is not applicable to the Directors representing the employees.

4. Modus operandi of the Board of Directors

4.1. Convening the Board

The Board is convened by any appropriate means. Notices convening a meeting may be transmitted by the Secretary of the Board of Directors. They are sent in writing at least eight days prior to each meeting, except in particular circumstances. The notices specify the venue of the meeting, which may be the registered head office or any other venue.

All the documents that are necessary to inform the Directors about the agenda and about any questions submitted to the Board for review are enclosed with the notice convening the meeting or are sent or provided to them within a reasonable period of time, prior to the meeting.

These documents may be provided to them on a secure digital platform, within a reasonable period of time prior to the meeting. They may in exceptional cases be provided at the meeting.

4.2. Board meetings and method of participation

The Board meets as often as required in the best interest of the Company, and at least five times per year.

The dates of the Board meetings for the following year are set no later than the beginning of the summer, except in the case of Extraordinary Meetings.

The frequency and length of Board meetings must be such that they allow for an in-depth review and discussion of the matters that fall within the scope of the remits of the Committees.

The Directors meet once a year without the presence of the executive officer, the Directors representing the employees or any other Group employee.

In accordance with the legal and regulatory provisions and with Article 9 paragraph 2 of the Articles of Association, Directors who take part in Board meetings by means of videoconference or telecommunication facilities are deemed to be present for the purpose of calculating the quorum and the majority.

These means must guarantee simultaneous, continuous retransmission of the debates.

However, these means of participation are excluded when the Board so decides and in any event when it decides with regard to closing of the Company's parent company and consolidated financial statements and on the preparation of the Management Report.

A Director who participates by means of videoconference or teletransmission must ensure that the confidentiality of the debates is preserved.

The attendance register mentions the Board members who attend Board meetings by means of videoconference or telecommunication facilities, with the Secretary of the meeting having the task of initialling the register for them.

4.3. Minutes of the Board meetings

Minutes are prepared for each Board meeting.

The minutes of the meeting mention the use of videoconference or telecommunication facilities and the name of each person who participated in the Board by such means. The minutes also indicate whether any technical incidents occurred during a meeting held by means of videoconference or telecommunication facilities, and 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/Chairwoman of the Board and after informing the General Management and will report on such contacts to the Board.

The Board may entrust a Committee Chair, 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 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 ensure that the General Management has 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 Audit Committee's review of the financial statements is accompanied by a presentation by the Finance Director describing the Company's significant off-balance sheet commitments.
- monitoring the efficiency of the Internal Control and risk management systems, as well as 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 Finance Director 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 fees billed by the Statutory Auditors between audit services as such, audit-related work and any other services provided by them.

  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;
- ensuring 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, where 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 subject to a specific review by the Board.

The Chairman/Chairwoman 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/Chairwoman or Board considers this appropriate.

The agenda of the meetings is set by the Chairman/Chairwoman 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 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 handled, it notifies 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 that the AFEP-MEDEF Code to which the Company refers is applied;
- 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;
- review the implementation of the procedure for regular evaluation of current agreements concluded under normal terms;
- prepare 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/Chairwoman or Board considers this appropriate.

The agenda of the meetings is set by the Chairman/Chairwoman 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/Chairman of the Board is associated with its work, except with regard to all the topics concerning him or her 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 Chair, 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/ Chairwoman of the Board and any other benefits he or she receives;
- the fixed and variable remuneration of the Chief Executive Officer and any other benefits he or she receives (pension, termination indemnities, etc.);
- the amount of the remuneration package for Directors to be submitted to the Annual General Meeting and the method of distribution;
- 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 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/Chairwoman or Board considers this appropriate. The agenda of the meetings is set by the Chairman/Chairwoman 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/Chairman of the Board is associated with its work, except with regard to all the topics concerning him or her personally. The Committee is required to report regularly on its work to the Board and make proposals to the Board.

6. Remuneration of Directors

Directors receive a remuneration in this capacity, the amount of which is approved by the Ordinary General Meeting, and which is allocated as decided by the Board.

The method of allocation of this remuneration 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 EXECUTIVE OFFICERS

2.4.1. Remuneration policy for corporate officers

Pursuant to Article L. 225-37-2 of the French Commercial Code, the Annual General Meeting of 21 April 2020 is called upon to approve the remuneration policy for corporate officers, i.e. the Directors of L'Oréal and its Chairman and Chief Executive Officer as established by the Board of Directors (Resolution No. 10).

This policy describes all the components of corporate officers' remuneration, and explains the decision-making process followed to determine, review and implement this policy.

2.4.1.1. Remuneration policy for Directors

Directors receive a remuneration (formerly known as Directors' fees), the maximum amount of which is approved by vote at the Ordinary General Meeting, and which is allocated by the Board in accordance with the remuneration policy.

As part of the €1,600,000 budget voted by the Annual General Meeting of 17 April 2018, the Board of Directors decided to renew for 2020 the procedures for distributing the sums allocated for the remuneration of Directors applied for 2019.

It should be noted that the amount of this remuneration divided between the Directors includes a predominant variable portion depending on attendance at meetings, in accordance with the provisions of the AFEP-MEDEF Code.

As a result, the Board is proposing the retention of the following rules for one year:

Board of Directors	Fixed annual sum	Amount per Board meeting	Total for the Board of Directors *
	€30,000	€6,500 €10,000 (Directors located outside Europe)	€69,000 €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

** Based on 6 meetings per year.*
*** Allocated on the basis of attendance at Committee meetings.*
**** Based on a 100% attendance rate.*

The remuneration allocated to Committee Chairs is double and this also consists of a fixed portion of 40% and a variable portion of 60%.

2.4.1.2. Remuneration policy for corporate executive officers

At the present time, Mr Jean-Paul Agon, in his capacity as Chairman and Chief Executive Officer, is the Company's only executive officer[1].

The remuneration policy submitted to the vote of the Annual General Meeting of 21 April 2020 is a continuation of the policy adopted by 89.96% of the votes at the Annual General Meeting of 18 April 2019.

2.4.1.2.1. Fundamental principles for determination of the remuneration of 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 executive officers.

In accordance with these recommendations, it ensures 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.

(1) *Executive officers of a French "société anonyme à conseil d'administration" (i.e. limited company with a Board of Directors) are: the Chairman/Chairwoman of the Board of Directors who is responsible for the Company's general management or the Chairman/Chairwoman and Chief Executive Officer, the Chief Executive Officer and the Deputy Chief Executive Officers.*

To achieve this objective, the Board of Directors decided to maintain the employment contract of executive officers with at least 15 years' 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.

The Board of Directors has considered that the objective pursued by the AFEP-MEDEF and intended to avoid the combination of benefits drawn from both an employment contract and a corporate office, could be fully achieved by maintaining the suspension of the employment contract and clearly separating the benefits related to the employment contract from those relating to 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: fixed and variable remuneration and grant of performance shares,
- secondly, the other benefits that may be due pursuant to the suspended 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.

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 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.

These benefits that may be due under the suspended employment contract were approved by the Annual General Meeting of 27 April 2010 pursuant to Article L. 225-38 of the French Commercial Code.

The Annual General Meeting of 17 April 2018 approved the implementation of the provisions of Mr Jean-Paul Agon's employment contract regarding defined benefit pension scheme commitments for the duration of his renewed corporate office.

Information on the benefits that could be owed under the suspended employment contract are discussed in Section 2.4.3. of this chapter.

Remuneration that is consistent with that of the Company's senior managers

The executive officers' remuneration policy is in line with the policy which was applied to them as senior manager.

It is based on the same foundations and the same instruments as those applied to the Company's executive officers. The remuneration principles are therefore stable and durable.

The Board of Directors is informed every year of the Group's Human Resources Policy. It is in a position to verify the consistency between the executive officer's remuneration and the arrangements put in place, in particular, for the members of the Group's Executive Committee, on the basis of the work by the Human Resources and Remuneration Committee and the Appointments and Governance Committee.

Competitive remuneration in comparison to a coherent and stable reference panel

The remuneration of executive officers must be competitive in order to attract, motivate and retain the best talents in the Company's top positions.

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.

Since 2019, the panel has consisted of the remuneration of executives of the following companies:

Coty	Kimberly Clark	Reckitt Benckiser	Beiersdorf	Danone
GSK	Henkel	LVMH	Unilever	Colgate Palmolive
Estée Lauder	Johnson & Johnson	Procter & Gamble	Kering	

This panel is re-examined every year by the Human Resources and Remuneration Committee in order to check its relevance. It may evolve, particularly to take into account the changes in the structure or business activities of selected companies, on the basis of the proposals made by the external firm.

Remuneration that is aligned to the Company's interests and directly linked to the Company's strategy

The Board of Directors has aligned the remuneration policy for executive officers with the interests of the company, in order to ensure the long-term sustainability and development of the Company, by taking into consideration the social and environmental issues of its business activity.

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 performance 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 environmental, societal and Human Resources commitments, with particular regard to gender parity. These criteria will be assessed year-on-year with 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.

2.4.1.2.2. Decision-making, review and implementation process for the executive officer's remuneration

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. This is comprised of 6 Directors, 60% of whom are independent directors, including its Chairwoman. The executive officer is not a member of the Committee. The Committee's recommendations are made taking into account the studies carried out at its request by an independent consulting firm.

The Committee met five times in 2019 and its work is detailed in section 2.3.3 of this chapter.

The Committee has the necessary information to prepare its recommendations and more particularly to assess the performance of the executive officer in light of the Group's short- and long-term objectives.

The purpose of this organisation and this process is to prevent any conflicts of interest.

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 and Unilever. It is used to assess the competitiveness of the executive officer's total remuneration.

In terms of market capitalisation, L'Oréal is above the 3rd quartile of companies on this panel.

According to an analysis by an independent firm, Mr Agon's remuneration was above the average and very close to the median of companies on the panel.

It should be noted that the Company's remuneration policy, specifically that in place for senior management executives, aims to position their remuneration between the median and the 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 or her performance;
- the relevance over time of the remuneration structure and the objectives assigned to him.

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. The Directors are therefore able to verify the consistency between the remuneration of the executive officer and the remuneration and employment conditions of the Company's employees.

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 non-financial and qualitative portion of the annual variable remuneration.

The Chairwoman 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.

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 financial 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.

Conditions for derogation from the remuneration policy in the event of exceptional circumstances

The Order of 27 November 2019, pursuant to the PACTE Law, invites companies to provide in their remuneration policy for any derogations in the event of exceptional circumstances. Failing this, the Board of Directors would be unable to grant an element of remuneration not provided for in the remuneration policy previously approved by the Annual General Meeting, even though this decision would be necessary in view of these exceptional circumstances. It is stated that this derogation may only be temporary, pending the approval of the amended remuneration policy by the next Annual General Meeting, and should be duly substantiated.

If applicable, the adaptation of the remuneration policy to exceptional circumstances would be decided by the Board of Directors on the recommendation of the Human Resources and Remuneration Committee, after seeking the opinion, as necessary, of an independent consulting firm. Thus, for example, the recruitment of a new executive officer under unforeseen conditions might require the temporary adaptation of some existing remuneration elements or the proposal of new remuneration elements.

It might also be necessary to amend the performance conditions governing the acquisition of all or some of the existing remuneration elements in the event of exceptional circumstances resulting in particular from a significant change in the Group's scope following a merger or sale, the acquisition or creation of a significant new business activity or the elimination of a significant business activity, a change in accounting method or a major event affecting the markets and/or L'Oréal's major competitors.

WORK SCHEDULE OF THE HUMAN RESOURCES AND REMUNERATION COMMITTEE CONCERNING THE REMUNERATION OF THE EXECUTIVE OFFICER

February 2019

Presentation of the 2019 study on the executive officer's remuneration carried out by an independent firm including:

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

Recommendations concerning 2018 remuneration

- evaluation and setting of the variable remuneration after a review of the 2018 financial and non-financial results;
- draft Say On Pay resolution.

Recommendations concerning 2019 remuneration

- fixed remuneration;
- setting of the level of 2019 variable remuneration, weighting of the performance assessment criteria, and of the objectives to be met;
- draft resolution on the remuneration policy.

Defined benefit pension

- review of the level of achievement of performance conditions for 2018.

Long-term incentive plans

- assessment of performance levels achieved for the expiring 2015 ACAs (Conditional grants of shares) Plan;
- analysis of the draft 2019 ACAs Plan.

April 2019

Recommendations for the 2019 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.

October 2019

Work on the changes introduced under the PACTE law affecting the vote on remuneration:

- methodology for measuring remuneration ratios.

December 2019

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

- review of the planned changes to be submitted to the 2020 Annual General Meeting.

2.4.1.2.3. Policy with regard to fixed and variable remuneration and granting of performance shares

The key for allocating annual remuneration

The executive officer's annual remuneration consists of a fixed remuneration, an annual variable remuneration and the granting of performance shares.

It does not include any exceptional components.

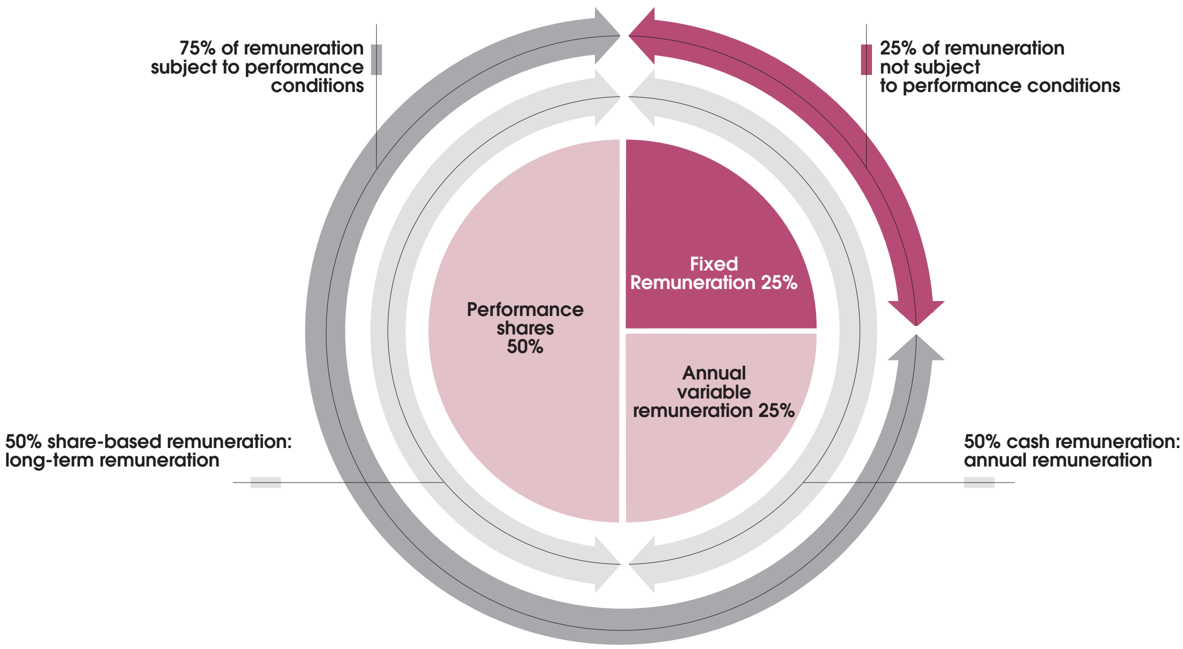
The Board of Directors adopts the various components of this remuneration, paying attention to the necessary balance between each of them.

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 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.

Insofar as the payment of variable and exceptional elements allocated to the Chairman and Chief Executive Officer are subject to the approval of the Annual General Meeting of shareholders, no provision has been made for an extension period or the possibility for the Company to ask for variable remuneration to be returned.

Granting 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 grants 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 from the grant date.

The value of these shares, estimated at the grant date 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 a total annual ceiling (all grants combined) of 5% of the total number of performance 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 granted 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 three 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 strict but remain a source of motivation for the beneficiaries.

The shares are only finally vested 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 performance shares granted to finally vest for the beneficiaries at the end of the vesting period, L'Oréal must outperform the average growth in sales of the panel of competitors consisting of the following companies: Unilever, Procter & Gamble, Estée Lauder, Shiseido, Beiersdorf, Johnson & Johnson, Henkel, LVMH, Kao and Coty. Below this level, the grant decreases. If the growth in L'Oréal's like-for-like net sales is lower than the average growth in net sales of the panel of competitors, no shares will be awarded under this criterion.

Pursuant to the criterion related to operating profit, in order for all the performance 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 this level, the grant decreases. If the operating profit does not increase in absolute value over the period, no share will finally vest pursuant to this criterion.

The results recorded each year to determine the levels of performance achieved are published in chapter 7.

HISTORY OF THE ACHIEVEMENT OF PERFORMANCE CONDITIONS OVER THE LAST THREE FINANCIAL YEARS

Performance share plan dated:	17/04/2014	22/04/2015	20/04/2016
Arithmetical average of performances for financial years	2015 – 2016 – 2017	2016 – 2017 – 2018	2017 – 2018 – 2019
For 50%: Growth in like-for-like cosmetics sales as compared to a panel of competitors*	+0.73 points	+1.2 points	+1.47 points
For 50%: Growth in the Group's operating profit	+6.43%	+3.91%	+6.99%
Level of achievement of the performance conditions	**100%**	**82.6%**	**100%**

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

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 the event of dismissal of the executive officer, the Board will decide, pursuant to the AFEP-MEDEF Code, on the outcome of the performance shares granted from 2020 onwards.

The maintenance, excluding the above-mentioned cases, of the benefit of the performance share grants to the executive officer, in the event of his 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 encourages the executive officer to take a long-term view;
- the final vesting of the shares remains subject to achievement of the performance conditions.

Other benefits

a) Remuneration for term of office as Director

The Board of Directors can decide to pay remuneration for the office of Director to the executive officer. In such cases, the remuneration would be paid in accordance with the same rules as those applicable to other Directors.

b) 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 driver. 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.

2.4.1.2.4. Breakdown of the components of remuneration for the 2020 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 6 February 2020, on the recommendation of the Human Resources and Remuneration Committee, the Board of Directors proposes at the Annual General Meeting of 21 April 2020 to maintain Mr 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 amount to a maximum of 100% of the fixed remuneration.
<table>
<tr><th>Criteria for assessment of performance for 2020</th><th>Weightings</th></tr>
<tr><td>• Financial criteria</td><td>60%</td></tr>
<tr><td>• Growth in comparable sales as compared to the budget</td><td>15%</td></tr>
<tr><td>• Growth in market share as compared to the main competitors</td><td>15%</td></tr>
<tr><td>• Growth in operating profit as compared to 2019</td><td>10%</td></tr>
<tr><td>• Growth in net earnings per share as compared to 2019</td><td>10%</td></tr>
<tr><td>• Growth in cash flow as compared to 2019</td><td>10%</td></tr>
<tr><td>• Extra-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)
• 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 2020 financial statements.</td></tr>
<tr><td>Performance shares</td><td></td><td>Concerning the granting of performance shares in 2020, the Board will be called upon to decide on the implementation of a new plan within the scope of the authorisation requested from the Annual General Meeting on 21 April 2020.
The allocation that would be decided for Mr Jean-Paul Agon would comply with the recommendations of the AFEP-MEDEF Code of January 2020 and, in particular, the recommendation on the value of the shares granted, which must 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 performance shares that are definitively awarded at the end of the vesting period in registered form until the termination of his position.
Final vesting of these shares is subject to achievement of performance conditions which will be recorded at the end of a four-year vesting period as from the grant date. Half of the number of finally vested shares would depend on growth in like-for-like cosmetics sales compared to the growth of a panel of competitors, which consists of Unilever, Procter & Gamble, Estée Lauder, Shiseido, Beiersdorf, Johnson & Johnson, Henkel, LVMH, Kao, Coty; the other half would depend on the growth in 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 would be 2021.
Concerning the sales criterion, in order for all the performance shares granted to be finally vested by 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. If the growth in L'Oréal's like-for-like net sales is lower than the average growth in net sales of the panel of competitors, no shares will be awarded under 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 performance shares granted to finally vest for the beneficiaries at the end of the vesting period. Below this level, the grant decreases. If the operating profit does not increase in absolute value over the period, no share will finally vest pursuant to this criterion.</td></tr>
<tr><td>Remuneration as Director</td><td>€0</td><td>Mr Jean-Paul Agon did not wish to receive remuneration as Director (formerly called 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 driver. 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>

2.4.2. Remuneration of the corporate officers for 2019

The information in this section relating to the remuneration of L'Oréal's executive officers (the Directors and the Chairman and Chief Executive Officer), required by Articles L. 225-37-3 I and L. 225-100 II and III of the French Commercial Code, is subject to the approval of the Annual General Meeting of 21 April 2020 at the time of voting on Resolutions 8 and 9.

2.4.2.1. Remuneration paid during the 2019 financial year or allocated for that year to Directors

A total amount of €1,341,490, within the limits of the €1,600,000 package voted for by the Annual General Meeting of 17 April 2018, allocated for financial year 2019, will be paid to the Directors.

The Board of Directors met 7 times in 2019 (including one non-remunerated meeting) and 21 meetings of its committees were organised.

The average attendance rates at meetings in 2019 are 96% for the Board of Directors, 100% for the Strategy and Sustainable Development Committee, 95% for the Audit Committee, 100% for the Appointments and Governance Committee and 93% 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 directors' fees in his capacity as Chairman and Chief Executive Officer.

Mr Jean-Paul Agon does not receive any remuneration as a Director of L'Oréal Group companies.

Directors	Remuneration allocated for 2019 paid in 2020 *(in euros)* 7 Board meetings (6 of which were remunerated) 21 Committee meetings	Remuneration allocated for 2018 paid in 2019 *(in euros)* 7 Board meetings (6 of which were remunerated) 16 Committee meetings
Mr Jean-Paul Agon	0	0
Ms Ana Sofia Amaral	80,500	80,500
Ms Sophie Bellon	140,000	134,250
Ms Françoise Bettencourt Meyers	84,000	77,500
Mr Paul Bulcke	107,000	107,000
Mr Patrice Caine	80,500	50,020
Ms Fabienne Dulac (1)	66,000	-
Mr Axel Dumas (1)	17,750	63,250
Ms Belén Garijo	74,000	78,775
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	107,000
Mr Jean-Victor Meyers	94,000	94,000
Ms Virginie Morgon (2)	140,000	130,000
Ms Eileen Naughton (2)	78,740	81,500
TOTAL	**1,341,490**	**1,275,795**

(1) Directors whose term of office began or ended during the 2019 financial year.
(2) Amount per Board meeting, increased to account for intercontinental travel for Directors located outside Europe.

2.4.2.2. Remuneration paid in financial year 2019 or allocated for that year to Mr Jean-Paul Agon

2.4.2.2.1. Fixed remuneration

At its meeting of 7 February 2019, and on the recommendation of the Human Resources and Remuneration Committee, the Board of Directors decided to maintain Mr Jean-Paul Agon's fixed annual remuneration at the gross amount of €2,200,000. This has remained unchanged since 2014.

2.4.2.2.2. Annual variable remuneration

Concerning Mr Jean-Paul Agon's annual variable remuneration for 2019, 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 7 February 2019, the Board of Directors had set the variable remuneration criteria applicable for 2019 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 5 February 2020, 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 6 February 2020, to allocate €2,168,831 to Mr Jean-Paul Agon for the 2019 annual variable remuneration.

This represents 98.6% of the maximum amount of variable remuneration that could be paid to him, respectively 100% for financial targets and 96.5% for non-financial and qualitative targets. The achievement rate of the financial criteria is detailed in the table below.

For the record, following the approval by the Annual General Meeting of 18 April 2019 (seventh resolution), an annual variable remuneration was paid for financial year 2018 in a total amount of €2,045,998, the Board of Directors having considered on 7 February 2019, based on a proposal from the Human Resources and Remuneration Committee, that 93.0% of the maximum objective had been achieved.

2019 FINANCIAL OBJECTIVES (60% OF TOTAL ANNUAL VARIABLE REMUNERATION)

FINANCIAL CRITERIA	Weighting	2019 results	Achievement rate 2019	Assessment
Comparable sales as compared to the budget [1]	15%	€29,874 million [1]	> 100%	Outperformance in relation to the objective Capped at 100%
Growth in sales compared with main competitors [2]	15%	+2.8 points	> 100%	Outperformance in relation to the objective Capped at 100%
Operating profit as compared to 2018	10%	€5,547.5 million *i.e.* +12.7%	> 100%	Outperformance in relation to the objective Capped at 100%
Net earnings per share as compared to 2018 [3]	10%	€7.74 *i.e.* +9.3%	> 100%	Outperformance in relation to the objective Capped at 100%
Cash flow as compared to 2018 [4]	10%	€5,031.8 million *i.e.* +29.8%	> 100%	Outperformance in relation to the objective Capped at 100%
RATE OF ACHIEVEMENT OF FINANCIAL CRITERIA			**100%**	

(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.

2019 EXTRA-FINANCIAL OBJECTIVES (40% OF TOTAL ANNUAL VARIABLE REMUNERATION)

CSR criteria: *Sharing Beauty With All* programme	2019 results	2018 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 four pillars, for which the 2019 achievements are set out in detail in chapter 4.		
"Innovating Sustainably"		
• Improved environmental or social impact for 100% of our products.	• 85% of new products that have been screened have an improved environmental or social profile.	79%
"Producing Sustainably" (plants and distribution centres)		
• -60% on CO_2 emissions.	• -78% on CO_2 emissions (absolute value)	-77%
• -60% water consumption.	• -51% water consumption (per finished product unit)	-48%
• -60% waste generation.	• -35% waste production (by finished product unit) The objective of 0% waste from plants and distribution centres sent to landfill was met from 2018.	-37%
"Living Sustainably"		
• Each brand will have assessed its environmental and social footprint.	• 89% of brands have assessed their impact.	88%
• Each brand will have reported on its progress and associated consumers with its commitments.	• 57% of brands conducted a consumer awareness initiative.	57%
"Developing Sustainably"		
• With the employees (L'Oréal Share & Care programme): 100% of L'Oréal employees around the world will have access to healthcare coverage and social protection in 2020.	• 94%[1] of the Group's permanent employees have access to healthcare coverage reflecting the best practices in their country of residence. • 91%[1] of the Group's permanent employees benefit from financial protection in the event of life-changing accidents, such as death or permanent disability.	96% 93%
• With strategic suppliers.	• 96% of the Group's strategic suppliers carried out a self-assessment of their Sustainable Development policy.	93%
• With communities.	• Access to work for 90,635 people.	63,584
Human Resources criteria	**2019 results**	**2018 results**
Gender Balance		
• Improving gender parity, in particular at the level of senior management positions.	• 30% of Executive Committee members are women. • 47% of key positions held by women.	31% 45%
	• France: First place in Equileap France ranking • Worldwide: 2019 Equileap ranking: for the third consecutive year, L'Oréal is among the TOP 5 most advanced companies in the world in terms of gender parity, and is ranked no 2. in Europe. For the third consecutive year, L'Oréal is ranked among the 325 companies of the Bloomberg Gender-Equality Index 2020.	No. 1 in Europe Idem
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.	• No. 12 in the Universum global ranking (business schools).	No. 12
• Attractive, targeted, digital employer communication.	• Strong presence on social networks: 2.3 million followers on LinkedIn. • No. 2 in the PotentialPark global ranking (recruiting/social media)	1.67 million No. 2
Access to training		
• 100% of employees will receive training once a year starting in 2020.	• 96% of employees received training in 2019. Over 202,000 hours of digital training.	88% 184,000 hours

(1) Gradual integration of recent acquisitions and new subsidiaries.

Digital development criteria	2019 results
Increase in sales achieved in e-commerce	• €4.6 billion in net sales, i.e. 15.6% of Group sales, up +52.4% compared to 2018.
Partnerships and innovation	• Continued development of technologies coming from the Modiface acquisition within the framework of the accelerated service strategy conducted by the "Digital Services Factory". Roll-out of 487 projects on 21 brands in 75 countries, shift to the scale of virtual try-outs of makeup, hair colour, skin diagnostics, and production recommendations. Integration of our Modiface technologies at 13 retailers, including Watsons, DM, Amazon, Sephora, TMall and Lazada. Integration of our Modiface technologies on the most important digital platforms (Facebook, Instagram, YouTube, Snapchat, WeChat).
Continuation of the Company's digital transformation	• Continued Transformation of the Marketing business line for every greater commitment online with consumers (1.2 billion visitors to our websites, 1.3 billion in consumer information, 7.4 billion views on YouTube videos, and 285 million fans on social media). • 50% of media is digital and 78% is programmed. Focus on excellence in execution with centralised production of our websites (>100/year) and real-time monitoring of digital performance using our proprietary "Cockpit" tool that collected over 1 billion pieces of data per year on the performance of our digital initiatives, particularly our media ROI, estimated at 1.7 out of 100 in television. Recruitment and training: over 2,200 digital experts recruited and 33,000 people trained as part of the *Upskilling* programme (2015-2019). Move to the 2nd generation of digital skills tests ("DM1") with the launch of the "CM1": 94% of marketing teams took these tests and 7,800 applicants at the recruitment phase.
Gartner L2 Digital ranking	• At least three brands in the top 10 Gartner L2 Digital transformation ranking in the key countries: USA, UK, France, Germany and China.
Qualitative criteria	**2019 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 5,000 managers in 2019, representing a total of 16,000 managers trained in Simplicity since 2017. • *Pulse* survey (internal employee opinion survey): improved results for 30 of the 33 questions asked in 2018. The results with new generations demonstrate their commitment to the Group: 87% of *Millennial* employees are "proud to work for L'Oréal", which is 10 points higher than the external benchmark. • GLASSDOOR awards: Jean-Paul Agon is ranked no. 1 in the "Top CEOs France" ranking

Image
Reputation of the Company
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 fourth consecutive year, which is the highest score in three areas: climate, sustainable water management and the fight against deforestation.
	• Attendance at forums and conferences which promote the value of the Company in society:
	  ◦ Appearances at the Fortune Forum, Forum of the Americas, CITEO
	  ◦ Interview by David Rubinstein for the "92Y" (February 2019)
	  ◦ Attendance at the IFRI marking the 40th anniversary of the institution: "industry facing new protectionism" (April 2019)
	  ◦ Attendance at the awards for best management theses (French Foundation for Management Education (FNEGE), May 2019)
	• Diversity and Inclusion: Participation in the Tech for Good Forum (chairman of the Tech for Diversity group)
	• Ethics: L'Oréal again ranked no. 1 worldwide in the Covalence EthicalQuote ethical reputation index and was recognised for the tenth time as one of the world's most ethical companies by the Ethisphere Institute. L'Oréal is one of the world's 36 UN Global Compact LEAD companies. Ethics day on 8 October 2019: live webchat with Jean-Paul Agon open to all employees worldwide.

Rate of achievement of extra-financial and qualitative targets	**96.5%**

2.4.2.2.3. Granting of performance shares

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 17 April 2018, taking into account Mr Jean-Paul Agon's performances and the stronger share price, the Board meeting of 18 April 2019 decided to grant him 24,000 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 19 April 2019, of which Mr Jean-Paul Agon is a beneficiary, is €226.25. This fair value was €176.17 on 17 April 2018.

The estimated fair value according to the IFRS of the 24,000 performance shares (ACAs) granted in 2019 to Mr Jean-Paul Agon is therefore €5,430,000.

These shares will only finally vest, in full or in part, if the performance conditions described below are reached.

Performance conditions

Final vesting of these shares is subject to achievement of performance conditions which will be recorded at the end of a four-year vesting period as from the grant date.

Half of the number of finally vested shares will depend on growth in like-for-like cosmetics sales as compared to those of a panel of competitors, such panel consisting in 2019 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 2020.

In order for all the performance shares granted to be finally vested at the end of the vesting period pursuant to the criterion related to sales, 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.

In order for all the performance shares granted to be finally vested at the end of the vesting period pursuant to the criterion related to operating profit, a level of growth defined by the Board, but not made public for confidentiality reasons, must be met or exceeded. Below this level, the grant decreases. If the operating profit does not increase in absolute value over the period, no share will finally vest pursuant to this criterion.

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

Main characteristics of the grant

Under this plan, 843,075 performance shares (ACAs) were granted to 2,107 beneficiaries, representing 0.15% of the share capital.

The conditional award of performance shares to Mr Jean-Paul Agon in 2019 represented 2.85% of the total number of performance shares granted and 0.004% of the share capital at 31 March 2019.

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 2019.

2.4.2.2.4. Remuneration as Director

At the Board meeting of 28 November 2014, Mr Jean-Paul Agon informed the members of the Board of Directors that, in his capacity as Chairman and Chief Executive Officer, he no longer wished to receive remuneration for his service as Director.

The Board of Directors duly noted the decision made by Mr Jean-Paul Agon for 2014 and the following years.

2.4.2.2.5. 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 €4,115 in 2019, and the amount of the employer's contribution to the Defined Contribution Pension scheme amounted to €6,281.

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 2019 would be €4,538 gross.

As for all other senior management executives of the Group, the capital resulting from the employer contributions of the L'Oréal RCD will be deducted from the amount of the pension cover for the calculation of the life annuity potentially due under this plan so that these benefits are not added up (see section 2.4.3.4.).

As a reminder, the lifetime risk related to the plans resulting from Article 83.2 of the French General Tax Code is borne by the insurer.

As of 31 December 2019, 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.

2.4.2.2.6. Remuneration ratios and annual changes in L'Oréal's remuneration, ratios and performance over five years

	2015	2016	2017	2018	2019
Chairman-CEO remuneration (€)	9,127,680	8,920,240	9,532,900	9,523,832	9,675,998
Change/N-1		*-2.3%*	*+6.9%*	*-0.1%*	*+1.6%*
Average L'Oréal SA remuneration (€)	89,928	90,618	92,745	95,207	100,959
Change/N-1		*+0.8%*	*+2.3%*	*+2.7%*	*+6.0%*
Median L'Oréal SA remuneration (€)	62,430	63,013	64,148	66,167	68,709
Change/N-1		*+0.9%*	*+1.8%*	*+3.1%*	*+3.8%*
Average ratio	101	98	103	100	96
Change/N-1		*-3 points*	*+5 points*	*-3 points*	*-4 points*
Median ratio	146	142	149	144	141
Change/N-1		*-4 points*	*+7 points*	*-5 points*	*-3 points*
Group net sales (€bn)	25,257	25,837	26,023	26,937	29,873.6
Change/N-1 (like-for-like)		*+4.9%*	*+4.8%*	*+7.1%*	*+8.0%*
Group operating profit (€bn)	4,388	4,540	4,676	4,922	5,547.5
Change/N-1		*+3.5%*	*+3.0%*	*+5.3%*	*+12.7%*

Methodology followed for calculating ratios:

Pursuant to Article L. 225-37-3 of the French Commercial Code, for the calculation of average and median remuneration, the scope used is that of L'Oréal SA, which comprises 7,758 employees as at 31 December 2019, 5,412 of whom are managers and sales representatives, 1,959 are technicians and supervisors and 387 are workers. This scope is representative of the various business lines of L'Oréal: Operations (plants and distribution centres), Sales, Marketing, Digital, Research, Support functions, etc.

For reasons of comparability, and in accordance with the recommendations of the AFEP, the number of employees selected for the calculation of average and median remuneration corresponds to a full-time equivalent workforce continuously present over 24 months, excluding executive officers. Remuneration is calculated on the basis of all amounts paid or allocated during the financial year in question.

It is stated that these ratios do not include all the benefits enjoyed by employees, which are detailed in chapter 4 ("L'Oréal Share & Care programme: an accelerator of social progress" in section 4.3.2.4.).

2.4.3. Termination indemnities and pension scheme applicable to the executive officer

These benefits are not related to performance of the corporate office, but could be due under the suspended employment contract.

2.4.3.1. 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 require, that companies should put an end to 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 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.

2.4.3.2. 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 termination indemnities, except in the event of gross misconduct or gross negligence, retirement indemnities in the event of voluntary retirement or retirement at the Company's request pursuant to the suspended employment contract excluding 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 French National Collective Bargaining 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.

2.4.3.3. 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 4.3.2.5 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.

2.4.3.4. 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 at 1 January 2020 it is €1,725,000 of fixed remuneration and €1,437,500 of variable remuneration.

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 retirement 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 for such departure, Mr Jean-Paul Agon would only be paid termination 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 suspended employment contract. These indemnities, which are attached solely to termination of the employment contract and in strict application of the National Collective Bargaining 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 Bargaining 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 Bargaining 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 2019 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 2019 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 20 years, then 1% per year for the following 20 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 gross 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" (Pension Cover of Members of the Economic Committee) scheme, had he been able to apply for a full-rate pension from the French social security scheme on 31 December 2019, after 41 years' length of service at L'Oréal, would be €1.6 million, i.e. around 37% of the fixed and variable remuneration he received as executive officer in 2019. 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 2019 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" (Pension Cover of the Members of the 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 and 17 April 2018. 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 Annual General Meeting of 17 April 2018 approved, pursuant to the old Article L 225-42-1 of the French Commercial Code, 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
- 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 1 September 2018. As a result, no other supplementary annuity may be subsequently granted to him.

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.

At its meeting of 6 February 2020, the Board of Directors noted that the performance conditions were fully met. Therefore, the Board decided that the Chairman and Chief Executive Officer benefits from the principle of the revaluation of his pension on the basis of the salaries and contributions revaluation coefficient published by the French State pension system (*Caisse nationale d'assurance vieillesse*) (coefficient equal to 1.01 for 2019).

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) scheme 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 Bargaining 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 2.4.3.4. 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 Bargaining 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 2.4.3.4 on the accumulated amount of the contractual indemnity and the indemnity due in consideration of the non-competition clause).

2.4.4. Summary table of Mr Jean-Paul Agon's remuneration Chairman and Chief Executive Officer

	2019		2018	
In Euros	Amounts allocated	Amounts paid	Amounts allocated	Amounts paid
Fixed remuneration	2,200,000	2,200,000	2,200,000	2,200,000
Annual variable remuneration(1)	2,168,831	2,045,998	2,045,998	2,038,732
Exceptional remuneration	-	-	-	-
Remuneration for term of office as Director	-	-	-	-
Benefits in kind	-	-	-	-
TOTAL	**4,368,831**	**4,245,998**	**4,245,998**	**4,238,732**

(1) The variable remuneration due for year N is paid in N +1. The variable remuneration for 2019 will be paid subject to the approval of Resolution 9 by the Annual General Meeting on 21 April 2020.

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

In Euros	2019	2018
Remuneration due in respect of the financial year	4,368,831	4,245,998
Value of performance shares granted during the financial year	5,430,000 (1)	5,285,100 (2)
TOTAL	**9,798,831**	**9,531,098**

(1) Corresponding to 24,000 performance shares x €226.25 (estimated fair value on 18 April 2019 according to the IFRS applied for the preparation of the consolidated financial statements).
(2) 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).

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 2019 (SEE ALSO CHAPTER 7)

Grant date	Number of options granted	Number of options not yet exercised	First possible date of exercise	Date of expiry	Subscription price (euros)
22 April 2011	200,000 (1)	200,000	23.04.2016	22.04.2021	83.19

(1) At its meeting on 22 April 2011, the Board of Directors awarded 400,000 stock options to Mr Jean-Paul Agon. Mr Agon waived 200,000 of these options. He therefore benefits from 200,000 stock options under the plan decided by the Board of Directors on 22 April 2011.

TABLE OF STOCK OPTIONS FOR NEW OR EXISTING SHARES EXERCISED BY MR JEAN-PAUL AGON DURING THE 2019 FINANCIAL YEAR

Grant date	Stock options for the purchase or subscription of shares exercised	Exercise price
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 (ACAS) 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 finally vested shares	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 April 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	32,000	21 April 2020
20 April 2017 (2)	32,000	Yes	5,340,800	21 April 2021	N/A	21 April 2021
17 April 2018 (2)	30,000	Yes	5,285,100	18 April 2022	N/A	18 April 2022
18 April 2019 (2)	24,000	Yes	5,430,000	19 April 2023	N/A	19 April 2023

(1) At the end of the vesting period, Mr Jean-Paul Agon, as a French resident on the date of granting the shares, is required to hold the finally vested shares for an additional two-year period during which the shares may not be transferred.
(2) The 20 April 2016, 20 April 2017, 17 April 2018 and 18 April 2019 Plans set a four-year vesting period, without any holding period.
(3) See the performance conditions in chapter 6 of this document.
(4) Mr Jean-Paul Agon, as executive officer, shall retain 50% of the finally vested shares 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 2019 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
26 April 2013 (1)	40,000	4,494,800	27 April 2017	27 April 2019

(1) Mr Jean-Paul Agon, as executive officer, shall retain 50% of the finally vested shares 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.

2.5. 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 Directors (point 9.5 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 Kasriel to automatically lose his status as independent Director. It is stated that Mr Bernard Kasriel has informed the Board of Directors that he does not wish to request the renewal of his term of office, which expires at the end of the Annual General Meeting of 21 April 2020.
Composition of the Committees: proportion of independent members of the Committees (points 16.1 and 17.1 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 (High Committee on Corporate Governance) 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).
Employment contract of the corporate executive officer (point 22 of the Code):	
It is recommended, though not 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).

2.6. SUMMARY STATEMENT OF TRADING BY CORPORATE OFFICERS IN L'ORÉAL SHARES IN 2019

(ARTICLE 223-26 OF THE GENERAL REGULATION OF THE AUTORITÉ DES MARCHÉS FINANCIERS)

Person concerned	Description of the financial instrument	Nature of transaction	Number of transactions	Total amount
Jean-Paul Agon Chairman and Chief Executive Officer	Equity securities	Sale	20	€22,995,561.60
	Exercise of options under the SO plan of 27/04/2010	Exercise of stock options	2	€16,006,000.00
	Equity securities	Acquisition	1	€0.00
Georges Liarokapis Director	Employees Mutual Fund (FCPE)	Acquisition	1	€21,033.89

2.7. STATUTORY AUDITORS' SPECIAL REPORT ON RELATED-PARTY AGREEMENTS AND COMMITMENTS

(Annual General Meeting held to approve the financial statements for the year ended December 31, 2019)

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.

It is our responsibility to report to shareholders, based on the information provided to us, on the main terms and conditions of, as well as the reasons provided for, the agreements that have been disclosed to us or that we may have identified as part of our engagement, without commenting on their relevance or substance or identifying any undisclosed agreements. 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 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 already approved by the Annual General Meeting.

We performed the procedures that we considered necessary with regard to the professional guidelines of the French National Institute of Statutory Auditors (*Compagnie Nationale des Commissaires aux Comptes*) applicable to this engagement. These procedures consisted in agreeing the information provided to us with the relevant source documents.

Agreements submitted for the approval of the Annual General Meeting

Agreements authorised during the year

We were not informed of any agreements 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 already approved by Annual General Meeting

Agreements 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 of 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 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.

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, 2020, the fixed remuneration amounted to €1,725,000 and the variable remuneration to €1,437,500.
  - The seniority applied will cover his entire career, including his years as Chairman and Chief Executive Officer.
- Jean-Paul Agon will continue to be treated in the same way as a senior manager throughout the term of his corporate office, which allows him to benefit from the additional social protection schemes, including the employee benefit and healthcare schemes applicable to the Company's employees, as described in chapter 2 of the management report.

Neuilly-sur-Seine and Paris-La Défense, February 17, 2020

The Statutory Auditors

PricewaterhouseCoopers Audit	Deloitte & Associés
Anne-Claire FERRIE	Frédéric MOULIN

3

RISK FACTORS AND CONTROL ENVIRONMENT*

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

At the request of the Chairman and Chief Executive Officer and the Board of Directors, the Administration and Finance Department compiled the information contained in this Document on the basis of the different types of work carried out by departments responsible for Internal Control and Group Risk Management, which is designed to cover the main operational, industrial and environmental, legal and regulatory, financial and market risks, and to present the associated mechanisms for prevention and control.

3.1. DEFINITION AND OBJECTIVES OF INTERNAL CONTROL

3.1.1. 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).

3.1.2. 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 handling of a risk relies in particular on an informed choice between the challenges to be controlled, the opportunities to be seized and the cost of the risk management measures, taking into account the effects of these measures on the occurrence and the impact of the risk.

3.1.3. 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 2019 by taking the following actions:

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

- new summary operating guides made available to restate the Group's principles and to facilitate the sharing of best practices (use of social media, management of influencers, payroll management, safety of people and property, legal charter, supply chain, retail, digital, and the protection of personal data);
- in addition, the existing standards are regularly revised to be adapted to new challenges;
- an updated version of the Group's digital standard (see *"Communication of information inside the Group"* in Section 3.2.1.);
- 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 communication platform that 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 reward 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.

3.2. COMPONENTS OF THE INTERNAL CONTROL AND RISK MANAGEMENT PROCESSES

3.2.1. 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 behaviour, the organisational structure and employees. At 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. It is on these Ethical Principles that its sustainable development, social and societal responsibility, compliance and philanthropy policies are based.

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

He reports directly to the Chairman and Chief Executive Officer and keeps him informedon a regular basis.

The Senior Vice-President and Chief Ethics Officer's 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 management of concerns and directly manage those related to senior management positions;
- measure and assess the Company's ethical performance.

He regularly informs the Board of Directors and the Executive Committee.

He has a dedicated budget and team, unrestricted and on first demand access to all information and documents concerning the Group's activities and can call upon all the Group's teams and resources to carry out his mission.

The Senior Vice-President and Chief Ethics Officer moreover oversees respect for human rights within the Group (see section 4.3.3) and is L'Oréal's representative for the United Nations Global Compact and NGOs linked to his activity.

Implementation of L'Oréal's ethics and human rights approach

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. The Senior Vice-President and Chief Ethics Officer systematically meets each new Country Manager and the Group's main senior managers to raise awarness on their role. Senior managers also benefit from a tool to help develop their ethics leadership as weel as specific training.

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 specific support 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 105 country visits.

The ethical and human rights risks are mapped and regularly updated, which includes suppliers and subcontractors (see Section 3.4.3.2). A practical tool has been created to enable Country Managers to evaluate and analyse eventual 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 subsidiaries are informed of their potential areas for improvement by the Office of the Chief Ethics Officer. 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 such companies have carried out their risk analysis consideration, namely those related to business ethics.

A specific and compulsory *e-learning* course on ethics is available in all subsidiaries. As of 31 December 2019, 72% of employees with access to the online module had completed this course. The Office of the Chief Ethics Officier also dispenses classroom training as part of the ongoing training of managers and certain business functions (Country Managers, Buyers, Human Resources).

Compliance with the Ethical Principles is integrated in the annual appraisal system for all employees via three competencies : "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".

Regular dialogue with stakeholders and the establishment of internal working groups contribute to the inclusion of Ethics in the Group's new policies and strategic decisions (for example, the Charter of Influencer Values and the Social Media policy in 2019).

Regular audits of the Group's sites and suppliers and subcontractors (see Section 4.4), the Group's secure whistleblowing line (www.lorealspeakup.com) accessible to all Group stakeholders, as well as a speak up policy to ensure the proper handling of any issues.

In 2019, 647 possible ethical violations were identified either via the secure website, or via the Ethics correspondants, and local or international management. All cases reported are thoroughly examined and appropriate measures are taken, where applicable. Every year, employees are notified of the number of cases of discrimination, sexual and other types of harassment reported at Group level worldwide, the number of fully or partially substantiated cases and corrective measures taken.

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 Executive Committee and each Country Manager also organises local ethics discussions. In 2019, nearly 70% of the employees participated in this dialogue and over 7,000 questions were asked worldwide.

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

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

For several years, L'Oréal has begun a profound transformation of the enterprise in all areas in order to adapt to the great changes in the 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 is deploying an ambitious corporate social, societal and environmental policy, which is shared by its management and teams (see section 4.3.).

In 2013, a new step was taken with the implementation of the L'Oréal Sustainable Development *Sharing Beauty With All* programme. Clear commitments were set for the end of 2020 for innovation, production, meeting the challenges of sustainable consumption, and sharing the Group's growth (see sections 4.1 and 4.4.).

Moreover, in 2015, L'Oréal undertook to define Science Based Targets (SBT) to reduce its greenhouse gas emissions across its entire value chain over the long term, in accordance with the Paris Climate Change Agreements. In December 2017, the SBT initiative validated the Group's proposal: L'Oréal is committed to reducing greenhouse gas emissions on its Scopes 1, 2 and 3 by 25% in absolute value by 2030, compared with the 2016 baseline.

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.

In 2019, in collaboration with the Department of Risk Management and Compliance, L'Oréal's Corporate Social Responsibility Department conducted a deeper assessment of the risks related to climate change on the Group's operations, using in particular the scenario analysis method, in order to improve its ability to anticipate and mitigate the impact of these risks.

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 4.

Human Resources policy

The quality and skills of male and female employees are key components of the Internal Control system.

L'Oréal's Human Resources (HR) Department has always had the mission of supporting the 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.

L'Oréal's HR policy focuses on the identification, recruitment and development of employees throughout their career, 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 in each of these areas (see Section 4.3.2.).

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 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 make these principles and standards their own, the key principles are summarised in the "Fundamentals of Internal Control", which are regularly updated under the responsibility of the Department of Risk Management and Compliance.

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 sheets are regularly updated, expanded and validated by Support Divisions.

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 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 employees news updates and strong messages on 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.

3.2.2. Control and supervision activities: those involved and their roles

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

This system is the subject of ongoing supervision in order to verify its relevance 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 (Executive Committee);
- In particular, the Board of Directors and the Audit Committee ;
- the Risk Management and Compliance Department, the Internal Control Department and the Internal Audit Department;
- the Support Divisions;
- the Operational Divisions and Geographic Zones.

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. In the context of their global Internal Control responsibilities, the members of the Executive 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 Board of Directors and Audit Committee

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 Geographic Zones

The Group is organised into worldwide Divisions and geographical zones which are fully responsible, with the management of each country, business or industrial entity, for the achievement of the objectives for Internal Control defined by General Management.

Worldwide responsibilities for Internal Control of the activities within the scope of their responsibilities are entrusted to each of the members of the Executive 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 management, information systems, Human Resources, digital, *retail*, purchasing, logistics and production provide support to operational employees at all levels of the organisation, and in this way contribute to the achievement of the Internal Control objectives.

The Functional Divisions and Departments

Worldwide responsibilities for Internal Control of the activities within the scope of their responsibilities are entrusted to each of the members of the Executive Committee.

The Support Divisions define, in their own areas, the strategies, policies and procedures which they communicate to the countries and entities. Through their network of specialists or by regular audits, they bring their expertise to the operational divisions and review the correct operation of their respective areas of responsibility.

The principal Departments concerned are:

- the Research and Innovation Department, which is particularly responsible for cosmeto-vigilance and the quality of the formulas used in the composition of the products (see "Product quality and safety: a priority" in Section 4.3.3.2.) ;
- 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, primarily to assess compliance with the Security Policy;
- the Administration and Finance Division;
- the Human Resources Department, which monitors and supervises all obligations related to personnel management, specifies the documents to be provided to employees, the remuneration of the workforce and personnel expenses, recruitment, training and evaluation procedures, the rules to be followed in payroll management and the implementation of the *Share & Care* programme;
- the Communications and Public Affairs Department, which coordinates communications operations, establishes crisis management principles and ensures that they are applied (see Section 3.5.3.1.1, "Crisis Management");
- the Digital Department, the mission of which is to secure the digital transformation of the Group (e-commerce, consumer relations, influencers, digital media, etc.) by defining the policies, tools, and processes and ensuring that they are deployed;
- the Security and Safety Department, which has defined a security and safety policy for people, travel, property, information and data confidentiality (see Section 3.5.3.1.1 "Safety of people and property").

Indicators and reporting procedures enable the regular monitoring of the local activities of most of these Functional Divisions.

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, defines and deploys tools, procedures and best practices, particularly in the following areas: management, accounting and consolidation, financing and cash, taxes, legal issues and personal data protection, financial communication, strategic planning, 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 is composed of the Chief Administrative and Financial Officer, and the Directors of Risk Management and Compliance, Internal Control, Operational Finance, Internal Audit and Information Systems (Global IT).

The Department of Risk Management and *Compliance*

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. For this reason, the role of this function was specifically detailed and a training module was created. At the end of 2019, 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 changes related to Internal Control relating to expectations and market practices.

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 in the construction of the annual audit plan.

The Internal Audit Department carried out 49 assignments in 2019, 27 of which involved commercial entities representing almost 35% of the Group's sales and 8 were carried out at plants contributing over 16% of the plants' global production. The 2019 Internal Audit also covered a research centre, a *sourcing centre* and two International Marketing Departments. Finally, eight other assignments were carried out with regard to specific topics.

Audits systematically result in a report that describes the findings and corresponding risks, and provides an action plan covering all recommendations to be implemented 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. The Internal Audit Department has a *Governance, Risk, Compliance* (GRC) tool, which now enables it to carry out its tasks using an integrated tool and to consolidate in real-time the progress made in the action plans of the audited entities.

The 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 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 of the Group by developing the use of Cloud services (*SaaS, Iaas, PaaS*) and connected things.

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 "The Way We Buy" guide 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 managing 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.

3.3. SYSTEMS RELATING TO THE PREPARATION AND PROCESSING OF FINANCIAL AND ACCOUNTING INFORMATION

For the preparation of this report, L'Oréal based its work on the "Application Guide for Internal Control of accounting and financial information published by issuers", from 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.

3.3.1. 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 published financial statements and the reliability of their centralised treatment for the Group with a view to their distribution and 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.

3.3.2. Monitoring process for the organisation of 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. International accounting management is executed by a team of specialists that ensure the application of IFRS and the implementation and harmonisation of the Group's accounting *processes* in the accounting pooled service centres in the countries. 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 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 methodology for preparing the necessary 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 continuous, homogenous monitoring of changes in the performance of each subsidiary and ensures they are 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, optimises data transfer and the completeness of information and, in particular, verification of data accuracy.

The Managing Director and 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.

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.

3.3.3. 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 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 subsidiaries to make sure that deadlines are met and 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 financial statements) in May and November which make it possible to better anticipate and speed up closing times. For the preparation of 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 Chief Executive Officer and the Chief Financial Officer of the consolidated subsidiary make a joint commitment as to the fair presentation, 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 the parent's company's 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.

3.3.4. Insurance policy

The Group's general insurance policy

The objective of the Group's insurance policy is to provide the best protection of Group assets and people from the occurrence of significant and insurable risks that could adversely affect it.

For that purpose, the Group has implemented global insurance programmes (in particular for the Property Damage & Operating Losses, Third-Party Liability, Transport and Credit Insurance) that harmonise coverage and control insurance cover for all its subsidiaries throughout the world, except in countries where regulations do not allow this type of arrangement (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 a central 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 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 programmes.

Integrated worldwide programmes

General third party and environmental liability

This global programme covers two complementary components that benefit all Group subsidiaries (except Restriction):

- general third-party liability, which covers operating liability, third-party liability related to products, and sudden and accidental environmental damage;
- third-party liability for environmental damage for sudden, accidental or gradual damage, which includes prevention inspections at Group sites conducted by the specialised units of the insurer.

These programmes cover the financial consequences of the civil liability of Group entities, to the extent that they are liable.

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 cover also includes a portion on operating losses directly resulting from covered 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.

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.

Finally, the insurance offering includes prevention inspections for the Group's sites conducted by specialist departments of the leading insurer.

Transport

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 for Group operations (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.

3.4. VIGILANCE PLAN

3.4.1. Introduction

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

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

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

It contains reasonable vigilance measures intended to prevent the risk of serious adverse impacts on Human Rights and Fundamental Freedoms, health, as well as safety and the environment within the framework of a best efforts obligation.

It applies to subsidiaries controlled directly or indirectly by L'Oréal (the "Subsidiaries"), as defined by Article L 233-16 of the French Commercial Code, and to suppliers and subcontractors with which the companies of the Group have an "ongoing commercial relationship", that is, a direct, ongoing and stable commercial relationship (based on the definition in French case law) and which, after a comprehensive risk assessment, are identified in the risk mapping mentioned in Section 3.4.3.2.1 of this Vigilance Plan (hereafter the "Suppliers").

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

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

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

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

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

A continuous improvement process

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

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

3.4.2. Applicable rules

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

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

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

Non-discrimination

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

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

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

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

The abolition of child labour

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

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

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

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

Elimination of all forms of forced or compulsory labour

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

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

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

- unless there is a legal obligation, employees' identity papers, passports or any other personal documents cannot be held from them; in the event of a legal obligation, the documents must be returned to the employee at their first request;
- in addition, employees cannot be asked to pay for recruitment costs or to make cash deposits to obtain employment;
- recourse to prison labour is only possible when it is voluntary within the scope of a professional reinsertion programme, and paid at the market rate. Suppliers must request authorisation from L'Oréal before they use this type of labour;
- security personnel must only ensure the safety of persons and property;
- any salary withholding must be strictly authorised by law. It may not under any circumstances be used for the purpose of confiscation, for the direct or indirect benefit of the employer.

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

Working hours

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

All employees must also be granted at least one day of rest for every seven-day period, or two consecutive days of rest for every fourteen-day period.

Freedom of association

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

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

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

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

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

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

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

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

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

1. Risks concerning serious adverse impacts to the environment

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

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

2. Risks concerning serious adverse impacts to health and safety

The Prevention System must include measures intended to prevent serious adverse impacts on health and safety of people resulting from the following events and risks:

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

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

(ii) Risks related to energy sources and materials

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

(iii) Risks related to human activities

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

3.4.3. Effective application and compliance with the Vigilance Plan

The Vigilance Plan includes effective application measures intended to ensure the correct implementation of the Applicable Rules by the Subsidiaries and Suppliers. Monitoring of compliance with the Plan is carried out through audits and analyses performed by external service providers or by Group teams. In addition, the Subsidiaries and Suppliers are asked to carry out self-assessments.

3.4.3.1. Effective application of the Vigilance Plan

1. Adoption of Applicable Rules

(i) Adoption of the Applicable Rules by the Subsidiaries

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

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

(ii) Adoption of Applicable Rules by Suppliers

The Suppliers included in the risk mapping (see section 3.4.3.2.1.) must undertake to comply with the Applicable Rules. In particular, they must sign the Ethical Commitment Letter which covers the Applicable Rules and informs them that they can be audited in these areas.

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

2. Governance

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

(i) Human rights and fundamental freedoms

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

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

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

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

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

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

The Purchasing teams ensure that Supplier activities respect human rights and fundamental freedoms. Suppliers included in the risk mapping are not listed in L'Oréal's supplier database until they have contractually committed to comply with the Applicable Rules. Purchasing teams discuss, during Management Committee meetings that include representatives from all Zones and purchasing areas, the results of audits, their consequences for commercial relations, and the related actions plans to achieve continuous improvement of results at the Group's suppliers.

(ii) Environment, health and safety

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

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

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

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

The Purchasing and Quality teams are responsible for ensuring that Suppliers included in the risk mapping implement the prevention measures for EHS risks via control audits carried out by third-party companies. As for Human Rights, the Purchasing teams discuss, during Management Committee meetings that include representatives from all Zones and purchasing areas, the results of audits, their consequences for commercial relations, and the related actions plans to achieve continuous improvement of results at the Group's Suppliers.

3. Communication and training

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

(i) Human rights and fundamental freedoms

Communication

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

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

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

An Ethics intranet site is available to employees.

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

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

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

With respect to Suppliers, in addition to the communication of Applicable Rules via the Ethical Commitment Letter, an Internet site has been provided to strategic Suppliers (Class A Suppliers as defined in section 3.4.3.2.1.) of raw materials and packaging and subcontractors for finished products. The site contains the following documents:

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

Training

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

In addition, new buyers receive compulsory training on Responsible Purchasing to learn about how to ensure respect of the Group's Ethical Principles.

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

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

Communication

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

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

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

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

Training

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

General EHS training includes:

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

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

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

In terms of ergonomics, a "manual handling" e-learning course is provided to all employees.

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

3.4.3.2. Monitoring compliance with the Plan

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

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

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

- The country in which the Supplier's sites are located: a country is considered vulnerable on Human Rights and Fundamental Freedoms, and in the environment, health and safety, if it meets at least one of the following criteria:

1. The country is classified as "High risk" or "Extreme risk" according to the criteria of the consultancy firm Verisk Maplecroft: 12 evaluation indices are used in this methodology and aggregated in a single grade compared with the threshold values set by Verisk Maplecroft.
2. The results of social audits conducted by L'Oréal in the country include cases of Zero Tolerance or *Need Immediate Action* (ratings that correspond to the most severe failures in compliance).
3. L'Oréal's internal experts or partners (e.g. Ecovadis) recommend that the country be considered for auditing.

- Business sector: each Supplier is associated with a sector area according to a governance ranking of Purchases ("Global Purchasing Categories").
- The nature of operations: the activities most heavily exposed to labour risk are the activities with high manual added value, imply work on a production line.

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

SUBSIDIARY AUDIT MATRIX

Type of country	Sites audited
All countries	Plants and distribution centres

MATRIX THAT TRIGGERS SUPPLIER AUDITS ACCORDING TO RISK MAPPING

Business sector	Description of business sector	Type of country	Suppliers audited
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 "Satisfactory" or "NCI" (Needs Continuous Improvement) rating 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"	100% of Supplier Production Sites
Industrial equipment	Suppliers of industrial equipment (manufacturing tanks, filling machines, etc.)	Countries classified as "high risk"	100% of Supplier Production Sites
Promotional items	Suppliers of promotional items (bags, etc.)	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"	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 "Satisfactory" or "NCI" (*Needs Continuous Improvement*), additional audits are no longer necessary
		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 "Satisfactory" or "NCI" (*Needs Continuous Improvement*) rating is reached, additional audits are no longer necessary
		Countries classified as "high risk"	100% of Supplier production Sites

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

2. Audit and self-assessment system

(i) Audits

Audits of Applicable Rules

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

Audits are done by specialist external companies.

When a Subsidiary or Supplier is audited, the process is carried out in accordance with the risk mapping described in section 3.4.3.2.1. A written audit report is prepared.

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

There are three types of audits:

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

The possible outcomes of the audits are as follows:

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

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

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

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

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

EHS audits specific to Subsidiaries

In order to ensure compliance with the Group's EHS policy, a system of worldwide audits has been set up since 1996, and was reinforced in 2001 with the presence of external auditors, who are experts in the local context and regulations. These audits take place regularly on each L'Oréal site : every three years for production sites and every four years for the distribution centres, administrative sites and research centres. If the result of the audit does not meet the standard required by the L'Oréal benchmarks, a specific interim audit is scheduled for the following year. Every year, the teams responsible for EHS risks review the audit results and identify general improvement plans. The improvement plans specific to the audited Sites are established immediately after the end of the audit. In addition, any emergency measure intended to prevent an imminent risk for the health of persons at the Site is implemented by the Site EHS teams without waiting for the completion of an audit even if it is not part of the improvement plan that may exist.

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

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

Additional procedures

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

(ii) Self-assessment system

Human rights and fundamental freedoms

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

The Senior Vice-President and Chief Ethics Officer regularly visits the Group's entities all over the world to meet employees at all levels of the Company. In 2019, he visited 14 countries.

Environment, health and safety

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

3.4.4. Whistleblowing mechanism and reporting system

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

3.4.5. Update on the effective implementation of the Vigilance Plan

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

3.4.5.1. Results of whistleblowing mechanism and reporting

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

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

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

3.4.5.2. Results of the application of the plan to Subsidiaries

1. Adoption of the Applicable Rules by the Subsidiaries

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

91% of employees individually acknowledged the receipt of the Code of Ethics and 74% of employees have been trained using an e-learning training tool on ethics.

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

2. Monitoring and control system in respect of Human Rights

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

Results by topic

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

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

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

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

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

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

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

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

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

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

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

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

In 2019, 63 "top managers" (managers of plants or distribution centres, Management Committee members etc.) attended the Leadership & Safety Culture seminar, held at the CEDEP, the European Centre for Executive Development at the INSEAD campus in France. Since the start of this programme, 573 senior managers have been trained. The main objectives of these seminars are to raise awareness with top managers about safety issues, increase their leadership ability and see these behaviours adopted and maintained over the long term.

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

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

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

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

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

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

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

3.4.5.3. Results of the application of the plan to suppliers

1. Adoption of Applicable Rules by Suppliers

100% of strategic Suppliers are contractually committed to comply with the Applicable Rules.

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

In 2019, 88 newly recruited purchasers in the Group received in-depth training in responsible purchases.

2. Monitoring and control system

The Applicable Rules are controlled through external audits. These audits cover questions on Human Rights as well as Environment, Health and Safety and cover all activities of the audited Site without being limited to the parts of the Site that operate for L'Oréal.

1,562 on-site audits were conducted in 2019, ☑ as part of regular audits and also *ad hoc* audits following whistle-blower reports (50 *ad hoc* audits in 2019) [1]. Thus, 93% of Supplier production sites requiring audits were audited at least once.

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

2.1. In terms of Human Rights

Results of audits by topic

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

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

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

(ii) Forced labour: 7% non-compliance ☑.

Most of cases of non-compliance concern the withholding of identity documents without a legal requirement, as well as the freedom for employees to end their contracts without penalty (financial or other) except for those stipulated by social legislation. The main corrective measures requested were the return of the identity documents and the updating of employee contracts. Follow-up audits will check the effective implementation of these corrective measures.

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

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

(iv) Non-discrimination: 1.3% non-compliance ☑.

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

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

(v) Working hours: 24% non-compliance ☑.

The audits did not find undue salary withholding or charges.

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

☑ The Statutory Auditors have expressed reasonable assurance with regard to this indicator.
(1) Audits for which the auditor was unable to access the site or sufficient data are included. They represent 2.9% of the total number of audits. Note that these cases are excluded from the analysis of non-compliance.
(2) Figures exclude audits where verification could not be performed because of the specific nature of local regulations.

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

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

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

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

2.2. Health, Safety and the Environment.

38% of the cases of non-compliance concerned the Applicable Rules on Health, Safety and the Environment.

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

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

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

3.5. RISK FACTORS AND RISK MANAGEMENT

3.5.1. Definitions and general framework

Risk management (events or situations, the occurrence of which is uncertain, could have a financial, non-financial, or reputational impact) is a process that 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 ensure that General Management has 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 risks, in conjunction with the processes used by subsidiaries, makes it possible to identify Internal Control improvements and update the Group's standards.

3.5.2. Risk mapping

The Group's risk mapping process is led by the Risk Management and Compliance Department.

The risk mapping for all of L'Oréal's activities is updated periodically. A significant update was made in 2019. This process to identify, analyse and assess significant risks strengthens Group actions and allows them to be prioritised. The results of this work are presented to the Audit Committee. The main risks to which the Group is exposed are described below.

3.5.3. 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.

For taking an informed investment decision, as required by the regulations in force, section 3.5.3.1 discusses major risks in a limited number of categories (given the probability of their occurrence and the expected magnitude of their negative impact) taking the risk management policies into account. In each category, the most material risks are mentioned first. The way in which each risk factor could impact L'Oréal is also explained.

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.

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.

Other risks, which are not considered material for making investments as defined by the regulations, are described in Section 3.5.3.2.

3.5.3.1. Major risks to which the Group believes it is exposed

Business risks	Crisis management *
	Information and cybersecurity systems *
	Geographic presence and economic and political environment *
	Data
	Market and Innovation
	Business ethics
	Sales distribution networks
	Human Resources risk
	Product quality and safety
	Security of people and assets
Industrial and environmental risks	Product availability *
	Environment and safety
	Climate change
Legal and regulatory risks	Risk of non-compliance *
	Intellectual property: trademarks, designs & models, domain names, patents
	Product claims
Financial and market risks	Currency risk *
	Risk on financial equity interests
	Risk relating to the impairment of intangible assets

** Most material risks in each category.*

3.5.3.1.1. Business risks

Business risks/Crisis management	
Risk identification	**Risk management**
Prejudicial information relating primarily to the use or misuse of a product, or an inappropriate individual behaviour, whether proven or not, could affect the reputation of L'Oréal, its 36 major international brands and its products. The impact of the risk could be amplified, notably, by: • the explosion of the digital universe and social networks in all countries; • the emergence of social beauty, which is social, connected and shared beauty; • the role of influencers as opinion leaders with a significant community of subscribers.	L'Oréal has set up a watch system that monitors English, French and Chinese-language websites on an ongoing basis. The subsidiaries deploy their own social media and web monitoring systems under the responsibility of their Director of Communications and 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 has published the "Charter of values" which each influencer with whom L'Oréal collaborates agrees to respect. The Group's principles and operational processes to be applied for partnerships with influencers, have been disseminated worldwide to the collaborators concerned.

Business risks/Information and cybersecurity systems	
Risk identification	**Risk management**
In a context of digital transformation and constant development of the information technologies and their uses, the Group's business activities, expertise and, more generally, its relations with all stakeholders in its social and economic environment, depend on increasingly virtual and digital operation. As a result, the malfunction or breakdown of these systems or the loss of data for exogenous or endogenous reasons (including cyberattacks, malicious acts, hacks, etc.) internally or at a third-party service provider of the Group could have a material impact on the Group's business activities.	The Global IT Department has introduced strict security rules for infrastructures, 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, the protection of sensitive equipment and global supervision to identify 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 initiated a worldwide awareness raising campaign, which continued in 2019. Online training in best cybersecurity practices is available for all employees. As at 31 December 2019, 69% of employees had validated this e-learning programme, which was updated against at the end of 2019. Management of the data risk is described in the "Data" risk.

Business risks/Geographic presence and economic and political environment	
Risk identification	**Risk management**
L'Oréal is a global corporation that has subsidiaries in 67 countries. More specifically, global growth in the cosmetics market has led L'Oréal to develop its activities in countries within the "New Markets" Zone, which represented 47% of its sales in 2019. Because of this globalisation, political or economic disturbances (strong economic slowdown due for example to geopolitical tensions or sanitary crisis, international trade tensions, sovereign debt crises) in countries in which the Group generates a significant portion of its sales could have an impact on its business activities.	L'Oréal's global presence (geographic, product categories and distribution channels) helps to maintain a balance in sales and offsets between countries and geographic zones. (details on sales from the zones presented in Section 1.3).

Business risks/Data	
Risk identification	**Risk management**
The data collected and processed by L'Oréal or its partners, the volume of which is increasing with the growth in digital activities, particularly personalized services for consumers, could be fraudulently used, altered or lost. Furthermore, personal data protection regulations are being reinforced throughout the world. Specifically, the European General Data Protection Regulation (GDPR) 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 its reputation and consumer confidence and thus 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 data, in particular 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 teams 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/Market and innovation	
Risk identification	**Risk management**
L'Oréal is subject to constant pressure from many competitors in all countries due to: • its size and the positioning of its brands in various markets in which major international groups operate; • local brands and new players coming from the digital economy; • rapid technological changes in emerging fields of research by new operators. If the Group fails to anticipate or respond to changes in consumer expectations, especially in the areas of natural beauty, health, personalised services, connected things and environmental commitments, with innovative and adapted product offerings, its sales and growth could be affected.	The Group continually adapts 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. 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. All of these research programmes, which are part of a long-term vision, allow L'Oréal to meet the challenges of innovation (Section 1.2.6 "The bet on research, safety and innovation"). The Digital General Management 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. Consumers' expectations with regard to Sustainable Development are also at the heart of the Sharing Beauty With All programme (see chapter 4) and are taken into account in developing the Group's brand and product portfolio. Finally, the Group's acquisition strategy always takes into account changes in the competitive environment.

Business risks/Business ethics	
Risk identification	**Risk management**
As L'Oréal is an international group of 88,000 employees working in 74 countries and at more than 423 sites, it cannot exclude potential violations of its ethical commitments (Code of Ethics based on the four Ethical Principles – Integrity, Respect, Courage and Transparency–, its Human Rights policy, support of the United Nations Global Compact and the United National Sustainable Development Goals, etc.), whether directly by its employees, or indirectly because of the activities of its partners, particularly its suppliers and subcontractors. In addition, civil society is expressing higher expectations with regard companies' integrity and transparency and the way in which they manage scientific and technological innovations. Such non-compliance with its commitments or the lack of a response to new ethical questions could have an adverse impact on the Group's reputation and as well as expose it to criminal or administrative sanctions.	The Group's sustainable development, social and societal responsibility, compliance and philanthropy are based on the Ethical Principles. The role and the resources granted to the Chief Ethics Officer allow him to succeed in his mission by relying on all the teams and resources of the Group (see 3.2.1). Specific training of management teams, regular dialogue with stakeholders and the establishment of internal working groups facilitate the inclusion of Ethics in the Group's new policies and strategic decisions. The ethical and human rights risks are mapped and regularly updated, including for suppliers and subcontractors (see Section 3.4.3.2). The deployment of the Code of Ethics throughout the Group, a mandatory *e-learning* training and ongoing communication campaigns *via* an *Ethics Day*, ensures that employees are aware of the ethical standards. A network of 75 Ethics Correspondents around the world and regular visits by the Chief Ethics Officer to the Countries ensures close contact with these employees. Regular audits of the Group's sites, suppliers and subcontractors (see Section 3.4), the Group's secure whistleblowing line (www.lorealspeakup.com), which opened to all Group stakeholders in 2018, as well as a speak up policy ensure the proper handling of any issues.

Business risks/Sales distribution networks	
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 concentration of the Group's large customers, the restructuring or disappearance of physical supply chains, and changes in selective distribution could impact the development of the Group's brands in the country or countries involved.	The presence of the Group's brands in all types of distribution channels allows the Group to offer its products and services, whatever the consumer practices. The departments concerned anticipate trends to adapt to these changes and, more involved, have steadily developed online sales with diversified partners.

Business risks/Risks related to Human Resources	
Risk identification	**Risk management**
One of the keys to L'Oréal's success lies in the talent of its employees to ensure its growth. This is particularly true because L'Oréal is evolving in a complex, highly competitive and rapidly changing context (globalisation, digital transformation, sustainable development challenges, etc.) that requires specific expertise. If L'Oréal fails to identify, attract, retain and train competent and engaged employees who behave responsibly, the development of its activities and its results could be affected. Moreover, given L'Oréal's activities, particularly its industrial operations, the risk of workplace accidents or occupational illnesses could become a reality.	The Group is developing a motivating, professional environment with respect for its ethical values, particularly diversity. The recruitment and development of the employees occurs within a long-term perspective, also to ensure the continuity of key functions within the Group, in which training plays a core role throughout an employee's career. The remuneration policy combines external competitiveness and internal fairness. It recognises both individual and collective performance. The international global Share & Care programme meets the essential needs of each of the Group's employees in terms of benefits, healthcare, parenthood and quality of life at work. Training sessions in stress prevention and workstation ergonomics are organised. The Group has set ambitious goals for the health and safety of its employees, defining high standards that often exceed legal obligations and involve personnel at all levels. Prevention is based on the GHAP (General Hazardous Assessment Procedure) and SHAP (Safety Hazard Assessment Procedure) programmes, which identify the dangers, generally and for each workstation, assess the risks and allow the implementation of the necessary means of control (see Section 4.3.2.1 of this document).

Business risks/Product quality and safety	
Risk identification	**Risk management**
Placing on the market a product that does not meet the safety requirements, or consumer or stakeholder questions about the quality and safety of L'Oréal products, whether based on proven facts or not, whether or not they are related to the use or misuse of a product, could affect the Group's sales and reputation.	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. The principles governing the Group's quality and safety policy are: • satisfaction of customer needs; • compliance with safety requirements and laws; • the maintenance of standards and regular updates of safety assessment approaches; • product quality and conformity across the supply chain. The International Safety Evaluation Department 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 identical quality across the globe. 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 in order to take the appropriate corrective measures if necessary (for more details, see "Product Quality and Safety: a Priority" in Section 4.3.3.2.). In terms of questions that civil society may ask regarding certain substances and their effects on health and the environment, L'Oréal's position can be summarised in three points: • vigilance with regard to any new scientific data concerning these; • co-operation with the relevant authorities; • precaution leading to the substitution of ingredients in the event of a proven or strongly suspected risk. L'Oréal relies on its scientific teams to answer consumers' questions about the safety of its products, primarily through its "Inside our Products" platform that came on line in 2019. 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. In the case of production subcontracting, the rules governing the choice of the subcontractor and its production follow the same principles. The subcontracting quality charter lays out these requirements, compliance with which is evaluated during audits.

Business risks/Security of people and assets	
Risk identification	**Risk management**
As the Group is a global group present in 74 countries and more than 423 sites (excluding stores and the point-of-sales outlets of distributor customers), it is exposed to a variety of risks inherent to the environments in which it performs its activities (geopolitical, climate, sanitary, economic and social, malicious acts, climate and natural disasters). The direct and indirect consequences of these risks may adversely affect people and the assets of the Group (tangible and intangible).	In order to permanently protect these resources (or Group assets) against malicious acts, the Security 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 Department: • has implemented a watch and evaluation of the state of security in the countries in which the Group is active; • conducts evaluation visits in the countries in which it is present; • creates country security sheets 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.

3.5.3.1.2. Industrial and environmental risks

Industrial and environmental risks/Product availability	
Risk identification	**Risk management**
In the context of a globalised logistics chain and the increased geographic concentration of certain supply sources, the failure of an external supplier to deliver raw materials, packaging articles or finished products, along with a major interruption of operations in a L'Oréal industrial unit or shipping hub, could impact the Group's sales because of the unavailability of products that could result thereof.	L'Oréal regularly revises its inventory policies, reserves capacities with its suppliers and negotiates long-term contracts. Likewise, 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. L'Oréal also looks for alternative *sourcing* 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 safety	
Risk identification	**Risk management**
The L'Oréal Group, with its 93 industrial sites (owned plants and distribution centres), including four classified as "Seveso high threshold", is exposed to various industrial risks related to the environment and safety (fires, explosions, failure of installations or safety systems, or even human failure, in the operation of the existing facilities or management of the work, etc.), which can result in human injuries and/or accidental pollution at Group sites, or outside those sites, particularly when they are located in a populated area.	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. The Operations Division issues Internal Rules that set out the principles of L'Oréal's EHS policy. Each site is covered by an EHS officer. Training programmes are systematically organised. EHS performance indicators are collected monthly from all plants, distribution centres, and administrative and research sites with over 50 people. Specific audits are conducted by internal EHS teams, and external independent experts. Fire risk is dealt with in the framework of very strict fire prevention standards (National Fire Protection Association standards). Industrial sites classified "Seveso" are subject to specific procedures adapted to the nature of the risks related to storage of chemicals or flammable materials and are in compliance with the regulations. Across all sites, 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.

Industrial and environmental risks/Climate change	
Risk identification	**Risk management**
As for any company, the Group's activities are exposed to the physical and transition risks related to climate change. The increase in risks of natural origin, both extreme and chronic, could impact the availability of finished products by disturbing the Group's operations and/or *supply chain*. The rarefaction of resources and the implementation of the transition to a low-carbon economy could also increase production costs. In addition, insufficient consideration of these impacts related to the usage phase during product design could represent a risk for sales in certain areas of the world affected by water scarcity or the lack of adapted infrastructures to collect and treat effluents and waste. Finally, the choices made by certain categories of consumers could be increasingly influenced by the carbon impact of products and the Group's total environmental performance. As a result, if the Group did not sufficiently anticipate all these impacts and did not initiate a voluntary process to adapt to climate change, its financial performance and reputation could be impacted.	Through its *Sharing Beauty With All* programme, the Group pursues its initiatives aimed at reducing its environmental footprint by setting ambitious, concrete targets (see chapter 4). Thus, L'Oréal has undertaken to reduce the environmental footprint of its operations by 60% in 2020 from a 2005 baseline. This 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. By 2025, for example, 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. Finally, L'Oréal has sought to cover all impacts associated with its value chain and had its commitment validated in late 2017 with the *Science Based Targets initiative:* • from 2025, all its industrial, administrative and research sites will be carbon neutral; • by 2030, the Group will have reduced all its greenhouse gas emissions by 25% in absolute value compared to 2016 (Scopes 1, 2 and 3); • as a signatory of the Business Ambition for 1.5°C initiative, L'Oréal has made a commitment to reach net zero emissions by 2050. Management of potential consequences of extreme events is described in the section on "product unavailability" risk.

3.5.3.1.3. Legal and regulatory risks

Legal and regulatory risks/Non-compliance	
Risk identification	**Risk management**
Many general and specific laws and regulations apply to the L'Oréal Group, such as the European REACH and CLP ("Classification, Labelling, Packaging") regulations intended to strengthen the human and environmental safety of chemical products, the European Cosmetics Directive governing animal testing of ingredients, and the regulations on competition law and corruption. The diversity and constant reinforcement of the regulatory environment expose the Group to a risk of non-compliance or increased compliance costs. Despite the internal control procedures established by L'Oréal, it cannot be excluded that any failure would expose it to an act of fraud or corruption, which could have an impact on the reputation, business and results of the Group. Finally, in the ordinary course of its business, the Group will potentially be involved in all types of legal actions and may be subject to tax, customs and administrative audits.	The Legal Charter reaffirms the obligation to comply with local legislation and, in particular, sets out the internal principles for signatures, the general and specific rules relating to contracts, trademark law, intellectual property law, company law, competition law, embargoes and economic sanctions 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. L'Oréal is involved in an ongoing dialogue with national or regional authorities in charge of specifically regulating products in its industrial sector through the professional associations to which it belongs. With regard to the REACH and CLP regulations, L'Oréal communicates proactively with its European suppliers in order to ensure a continuing supply of compliant raw materials. 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. 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. 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 to all Group subsidiaries of programmes to prevent corruption and raise awareness of the fraud risk (see Section 4.3.4) contribute to managing these risks. 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.

Legal and regulatory risks/Intellectual property: trademarks, designs & models, domain names, patents	
Risk identification	**Risk management**
The brands, particularly the 36 major international brands, designs, models, domain names and patents filed are strategic intangible assets for the Group. Given the image and reputation of the Group around the world and given the large number of patents (497 in 2019) and trademarks filed by L'Oréal, third parties could: • dispute the validity of L'Oréal's intellectual property rights, or attempt to enforce their intellectual property rights against the products marketed by L'Oréal; • infringe on L'Oréal's intellectual property rights (patents, trademarks, designs and models, copyrights), reproduce or imitate the Group's packaging and products in order to benefit illegitimately from this name or technology and thus illegally draw a profit from the efforts and investments made by the Group. Given the competitive context in which a growing number of patents and trademarks are filed, and in which some intellectual property rights result from acquisitions or are developed by third parties ("open development"), the free use of a technology or full availability of a brand before any launch cannot, therefore, be completely secured by L'Oréal.	Special care is given to the protection of 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. In order to protect the Group against the risk of appropriation of a molecule, a production or packaging process 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 defence on a worldwide basis. It also conducts 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. The L'Oréal Group is also an active member of organisations which have set themselves the goal of combating counterfeiting and promoting best 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 and regulatory risks/Product claims	
Risk identification	**Risk management**
In its communications, L'Oréal highlights the innovative nature, quality and performance of its products. These communications may be challenged by authorities, organisations or consumers, despite every care used to guarantee their accuracy and fairness.	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" are described in a 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.

3.5.3.1.4. Financial and market risks

Financial and market risks/Currency risk	
Risk identification	**Risk management**
Due to its international presence, L'Oréal is naturally exposed to currency fluctuations. 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. Fluctuations between the main currencies may therefore have an impact on the results of the subsidiaries, but also on the Group's results during the conversion of non-euro subsidiaries' accounts into euros and, as a result, make it difficult to compare performances between two financial years. The impact of hedging on equity and the analysis of sensitivity to currency fluctuations are detailed in note 11.3. "Other comprehensive income" in the Consolidated Financial Statements. Finally, the impact of foreign exchange gains and losses on the income statement is described in note 10.2 "Foreign exchange gains and losses" of the Consolidated Financial Statements.	The Financial Code and the currency 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. Hedging requirements are established for the following year on the basis of 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" in the Consolidated Financial Statements.

Financial and market risks/Financial equity risk	
Risk identification	**Risk management**
The main equity risk for L'Oréal is the 9.43% stake it held in Sanofi at 31 December 2019 (see note 9.3 "Non-current financial assets" of the Consolidated Financial Statements), the value of which fluctuates primarily as a function of global market trends, Sanofi's results and, more generally, economic and financial data from Sanofi and its sector. A significant decrease in the amount of the dividend paid by Sanofi or a significant or extended decline in its market price could have an impact on the price of the L'Oréal shares.	This interest and changes in the market in which Sanofi operates are monitored on a regular basis. As at 31 December 2019, the market value of the Sanofi share was significantly higher than the value recorded on the L'Oréal balance sheet (see note 9.3. to the Consolidated Financial Statements).

Financial and market risks/Risk relating to the impairment of intangible assets	
Risk identification	**Risk management**
L'Oréal's intangible assets, which are primarily its 36 major international brands, and the goodwill recognised at the time of external growth transactions, are susceptible 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 periodic 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 for which the goodwill and non-amortisable brands are significant, are presented in note 7.3. "Impairment tests on intangible assets" of the Consolidated Financial Statements.

3.5.3.2. Other risks

In section 3.5.3.1, L'Oréal reports on major risks for taking informed investment decision, as required by the regulations.

Intentionally, other risk factors, not classified as important for investment decisions, are voluntarily described in this section.

Other risks/Seasonal nature of sales	
Risk identification	Risk management
In certain cases and for specific products such as sun care products, the timing of sales can be linked to climate conditions. Products and brands sought by consumers for gifts, or during specific promotional events, record particularly strong sales at year-end and during holiday periods. This is in particular the case for fragrances. A major disruption in any of these factors could affect L'Oréal's sales.	L'Oréal's presence in all sectors contributes to a balance of sales among product categories. Moreover, L'Oréal works to mitigate these risks through the diversity and expansion of its product offerings, and by organising product launches and promotional events throughout the year.

Other risks/Integration of acquisitions	
Risk identification	Risk management
Within the framework of its growth strategy, L'Oréal has made acquisitions or signed licensing agreements as a function of opportunities for growth 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 successfully manage liabilities not anticipated when the transaction was completed, and for which L'Oréal would have little or no protection from the seller.	The Group has implemented a control process for such transactions, which includes: • the formation of 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.

Other risks/Funding of employee benefit obligations	
Risk identification	Risk management
L'Oréal allocates assets to cover its employee benefits commitments. By nature, these assets are exposed to fluctuations in the markets in which they are invested. A sharp, prolonged downturn in the financial markets could have an impact on the value of the portfolios created (see 5.4. "Post-employment benefits, retirement benefits and other long-term 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 the different asset categories authorised. A Supervisory Committee for the pension and employee benefit schemes offered to Group employees ensures that these principles are implemented and monitored, as described in "Employee benefit and pension schemes" in the "Social information" section (see Chapter 4). Moreover, the Group chooses insurers and custodians with the highest credit ratings from the three main specialised ratings agencies.

Other risks/Tax regulations	
Risk identification	**Risk management**
Because of its global presence (74 countries), the Group is subject to different tax regulations. 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. In addition, the tax authorities in the countries in which the Group is present carry out tax audits that may lead to additional 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.	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 exclusively for tax purposes. 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. The Tax Charter, which was reviewed in 2018 and published worldwide in 2019 sets out 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 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. Lastly, in an evolving international tax environment, the positions taken by the Group may be questioned and 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.

Other risks/Basic raw materials	
Risk identification	**Risk management**
The manufacture of cosmetic products depends on the purchase of raw materials and components intended to be used in the composition of products or their packaging. A change or an exceptionally sharp increase in the price of these raw materials (particularly petrochemical-based materials such as plastic resins or silicone, cardboard, aluminium, vegetable oils or their by-products) or energy prices on the world market could have a direct impact on the cost of the cosmetic products and have a limited impact on the gross margin.	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.

4

L'ORÉAL'S 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 in the context of the *Sharing Beauty With All* programme that covers the Group's Sustainable Development commitments by the end of 2020.

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].

4.1. INTRODUCTION

L'Oréal's strategy is based on Universalisation, which is globalisation with profound understanding and respect for differences in order to meet the beauty expectations and needs of women and men around the world, while at the same time being a societal leader.

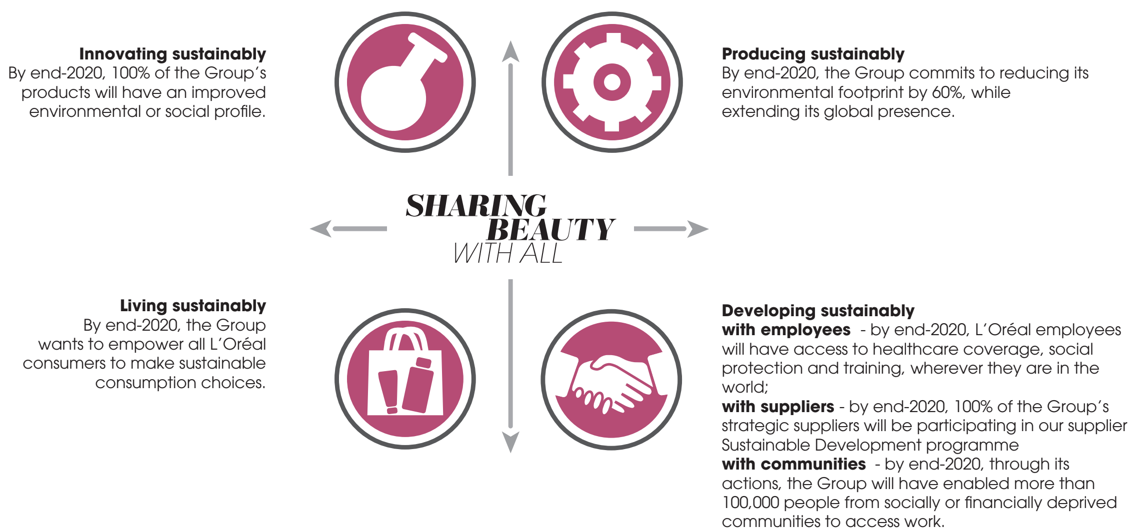
L'Oréal's Ethical Principles – Integrity, Respect, Courage and Transparency – guide the Group's development and help establish its reputation. It is on these principles that its sustainable development, social and societal responsibility, compliance and philanthropy policies are based.

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 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 make sustainable consumption choices (see section 1.2 for further details of the business plan).

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 Chief Corporate Sustainability Officer reports directly to the Chairman and Chief Executive Officer[2].

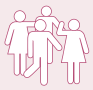
This strategic programme, the results of which are regularly reviewed and challenged by a panel of independent international experts *(Panel of Critical Friends)*[3] is based on four pillars:



(1) *L'Oréal's contribution to the United Nations Sustainable Development Goals is detailed on its website at www.loreal.com/sharing-beauty-with-all.*
(2) *The Executive Vice President, Chief Corporate Sustainability Officer is a member of the Executive Committee and the Executive Vice President of the L'Oréal Foundation.*
(3) *L'Oréal has established an external governance body known as the Panel of Critical Friends, which meets regularly 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 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 Helio Mattar, Chairman and Director of the Akatu institute, who works in the field of sustainable development in Brazil. The last meeting of the Panel of Critical Friends was held in March 2018.*

4.1.1. A Group with a longstanding commitment

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



1979
- First production of reconstructed skin

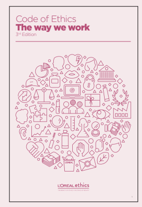
1988
- Signature of the **incentive profit-sharing agreement** for French employees

1989
- **End of animal** testing 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 the **ISO 14001 certification** programme
- First participation In the **Carbon Disclosure Project** – CDP
- 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 cha ter** 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 Foundation**
- First recognition as **"One of the World's Most Ethical Companies"**

2008
- First edition of **Ethics Day**

2009
- L'Oréal pledges to reduce CO_2 emissions, **waste generation and water consumption by 50%** at its production sites and distribution 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 **eight Group entities**

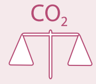
2013

SHARING BEAUTY WITH ALL

- 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 the **Women's Empowerment Principles**, a United Nations initiative to promote gender equality
- L'Oréal joins **Transparency International** France

2015
- Launch of the **Carbon Balanced** programme
- **Signature of the Global Disability Charter**



2016
- Rated **"3A"** by the CDP
- **First Palm Oil Progress Report**

2017
- Rated **"3A"** by the CDP for the second consecutive year
- Founding partner of **Women4Climate** with C40
- Launch of the second stage of the **Share & Care** programme
- Validation of the **Science Based Target**
- Human Rights Policy

2018
- Tenth **Ethics Day**
- Circulation of the **Report Collection and Processing** procedure
- **First employee shareholding plan**
- **Act4Nature** biodiversity commitment
- First and only company worldwide to be rated **"3A"** by the CDP for the thirds consecutive year
- Achievement of the **"zero waste to landfill** target for industrial sites.
- L'Oréal recognised as a **LEAD company** by the United Nations

2019
- Only company worldwide to be rated **"3A"** by the CDP for the fourth consecutive year
- UN Global Compact: **Business Ambition for 1.5°C**, signature of the pledge (Net Zero Emissions 2050)
- **GEEIS award** (Gender Equality European & International Standard) of the United Nations for L'Oréal's **Solidarity Sourcing** programme
- L'Oréal joins the **One Planet Business for Biodiversity coalition**

4.1.2. Constant dialogue with stakeholders

L'Oréal is perfectly aware that a company can only grow and prosper if it cares about its ecosystem, which is made up of many stakeholders. 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 its stakeholders' 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:

First 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 eight 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 four 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 to revise the priorities of its Sustainable Development strategy at regular intervals, 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.

Second phase: in 2013, the Group set up a dialogue platform hosted on the loreal.com website making it possible to continue this dialogue online, offering the possibility for NGOs and associations to interact with the Group's experts.

Third 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 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 2019.

	CURRENT RELATIONSHIP	SOME INITIATIVES IN 2019
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.	Nearly 70% of the Group's employees took part in *Ethics Day* in 2019 and more than 7,000 questions were raised worldwide. Employees were also asked to respond to an ethics survey in 2019.
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* (1), L'Oréal discusses five primary issues with its suppliers: quality, CSR, innovation, delivery/*supply chain* and competitiveness. In 2019, 414 *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 2019, 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 consumer panels in the United States, India 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 its 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 and an Integrated Report; • Participation in 2019 in the first edition of the Investir Day shareholders fair; • Organisation of around ten meetings and site visits with the shareholders of the Advisory Committee; • Distribution of shareholders' letters and *newsletters*; • Presentation of Operations by the Director of Operations, a member of the Executive Committee, at the Annual General Meeting in April 2019.
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 2019, L'Oréal and Casino Group organised a hackathon to identify long-lasting synergies between the two companies. Possible collaborations on the permanent promotion of POS(2) advertising and the bulk distribution of cosmetics were discussed and kicked off with project teams at the end of the event.

(1) Annual review of the supplier's activity, its performance over the past year and objectives for the following year.
(2) *Point of sale adversiting.*

	CURRENT RELATIONSHIP	SOME INITIATIVES IN 2019
NGOs, associations and not-for-profit organisations	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. 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.	In 2019, at the 10th edition of *Citizen Day*, more than 27,500 employees participated in the event, totalling more than 156,200 hours of volunteering, which helped to support 969 associations in 61 countries.
Extra-financial rating agencies and investors	Every year, 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 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 is an integral part of L'Oréal's identity that maintains close links with a large number of public or private research centres all over the world, in the form of partnerships or collaborations, in areas as varied as green chemistry, synthetic biology, genomics, skin stem cells, microfluidics, bioprinting and microbiomes.	• Through the L'Oréal Foundation's *For Women in Science* programme, the Foundation rewards scientists and awards scholarships to young female researchers; • L'Oréal's teams have established a collaboration with the *Stockholm Resilience Center* (the result of a coming-together of Stockholm University and the Beijer Institute of Ecological Economics at the Royal Swedish Academy of Sciences) to put the concept of planetary boundaries into practice. One of their objectives is to assess how current sustainability practices deal with environmental problems, long-term management of ecosystems and sustainable development; • The environmental research teams are working with the University of Nantes to develop innovative methods to be able to assess easily the biodegradability of mixtures of chemical substances by using a system currently undergoing validation.
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.
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, such as the Marketing Chair at the Saïd Business School at the 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 2019, L'Oréal ranked No. 1 worldwide in the Covalence EthicalQuote ethical reputation index. This index ranks 6 452 large companies worldwide, reflecting the perceptions of stakeholders, the media and corporate communications on their environmental, social and governance issues. L'Oréal was also named one of the 36 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 2019, and in particular:

- 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 six companies in the world obtained this triple "A" score in 2019, and L'Oréal is the only company in the world to have earned this score in four consecutive years;
- for the eighth consecutive year, extra-financial rating agency ISS-Oekom gave L'Oréal Prime status, a rating awarded to top-performing companies;
- the non-financial ratings agency, MSCI, awarded L'Oréal an AAA rating;
- L'Oréal was recognised for the tenth time as one of the World's Most Ethical Companies by the Ethisphere Institute.

The Group's good performance means 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.

4.2. MAIN NON-FINANCIAL RISKS

L'Oréal presents its strategy in Social, Environmental and Societal Responsibility[1] with a view in order to meet the requirements of the Non-Financial Information Statement[2]. This declaration sets out the Group's main 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 section 1.2. of this document.

L'Oréal has a long-standing commitment to corporate social responsibility; section 4.3 also describes policies and actions implemented beyond response to key risks.

4.2.1. 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 the fight against corruption[3] are presented in detail in this section 4.2 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. the risks that could have a material impact on its business, financial position or outlook, are described in chapter 3 of this document (see section 3.5. *"Risk factors and risk management"*) and have been established in conjunction with Group risk mapping (see section 3.5.2. *"Risk mapping"*).

These risks cover 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 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. This work also draws on the Sustainable Development materiality analysis, the Group's Human Rights and corruption mapping, also conducted for each country on corruption, as well as on the risk analysis carried out within the framework of the Vigilance Plan (see section 3.4. *"Vigilance Plan"*).

The risks associated with climate change have been the subject of a long-term approach - more than 10 years - given their specific nature.

The main risks have been validated at the highest level of responsibility of the organisation by the relevant General Managements.

(1) *The acronym "CSR" refers to Corporate Social, environmental and societal Responsibility.*
(2) *Non-financial statement – 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 accordance with the regulations, information on the fight against tax evasion is given in section 3.5.3.2. "Tax regulations" in this document.*

4.2.2. Principal risks for 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 4.2.1, are set out below. Other risks, of which the Group is not currently aware or which it does not consider material at the date of this Document, could have a negative impact.

For the main environmental risks, the concept of risk covers both risks related to the impact of the Group's business activities on its ecosystem and the risks of the impact of climate change in the short and medium terms on its business model, activity and financial performance (1).

Main environmental risks
Industrial risks As with any production, distribution, research and general administration activity, L'Oréal is exposed to a variety of industrial risks that may impact the environment and safety: fires, explosions, technical failure of safety system installations, or even human failure in the operation of existing facilities (such as those dedicated to the treatment of effluents and/or their discharge), or when managing exceptional work. These events can generate accidental pollution (surface and underground water, air, soils) that may have consequences inside or outside the sites, which are sometimes located near an inhabited area. **Physical and transitional risks associated with climate change** 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. The increase in these risks could impact the availability of finished products by disturbing the Group's operations and/or *supply chain*. 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 geographic areas. Insufficient consideration of these impacts related to the usage phase during the design of L'Oréal products could represent a risk in certain areas of the world affected by water stress or the lack of adapted infrastructures for the collection and treatment of effluents. 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 anticipates that the choices made by certain categories of consumers could be increasingly influenced by the carbon impact of the products and the total environmental performance of industrial producers. If the Group is unable to anticipate changes in such behaviours, meet stakeholders' expectations, overcome major environmental and social challenges and respond notably with appropriate product innovation, a significant contribution in the transition towards a low carbon economy and the preservation of water and natural resources within its value chain, the Group's performance and reputation could be affected. **Risk of regulatory non-compliance** L'Oréal operates through subsidiaries located in many countries. Like any international 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 combat climate change, and the preservation of water resources and of 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 Given L'Oréal's activities, particularly its industrial operations, the risks of workplace accidents or occupational illnesses could materialise. **Human Resources management risk** One of the keys to L'Oréal's success lies in the talent of its staff to ensure its development. This is all the more true as L'Oréal is changing within a complex, highly competitive and rapidly changing environment (globalisation, digital transformation, sustainable development issues, etc.) that requires specific expertise. If L'Oréal fails to identify, attract, retain and train competent and engaged employees who behave responsibly, the development of its activities and its results could be affected.

(1) *Pursuant to AMF recommendation no. 2018-12 of 29 October 2018, the 2019 AMF report on the "Corporate social, societal and environmental responsibility of listed companies", and the Guidelines of the European Commission on Climate of 20 June 2019.*

Main Human Rights risks

In 2017, L'Oréal conducted an 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 2018, 55% of subsidiaries[2] have conducted their own self-assessment of ethical risks.

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 in particular relations with:

- public authorities, in particular 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 corruption prevention principles may be prejudicial to L'Oréal and its partners. Equally, any failure of a partner may be detrimental to L'Oréal.

4.3. POLICIES, PERFORMANCE INDICATORS AND RESULTS

The Group's policies, described in this section, address the need to prevent the main CSR risks and mitigate their impact. 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.

These policies also reflect a proactive approach by the Group that takes stakeholder expectations into consideration (see section 4.*1.2. "Constant dialogue with stakeholders"*).

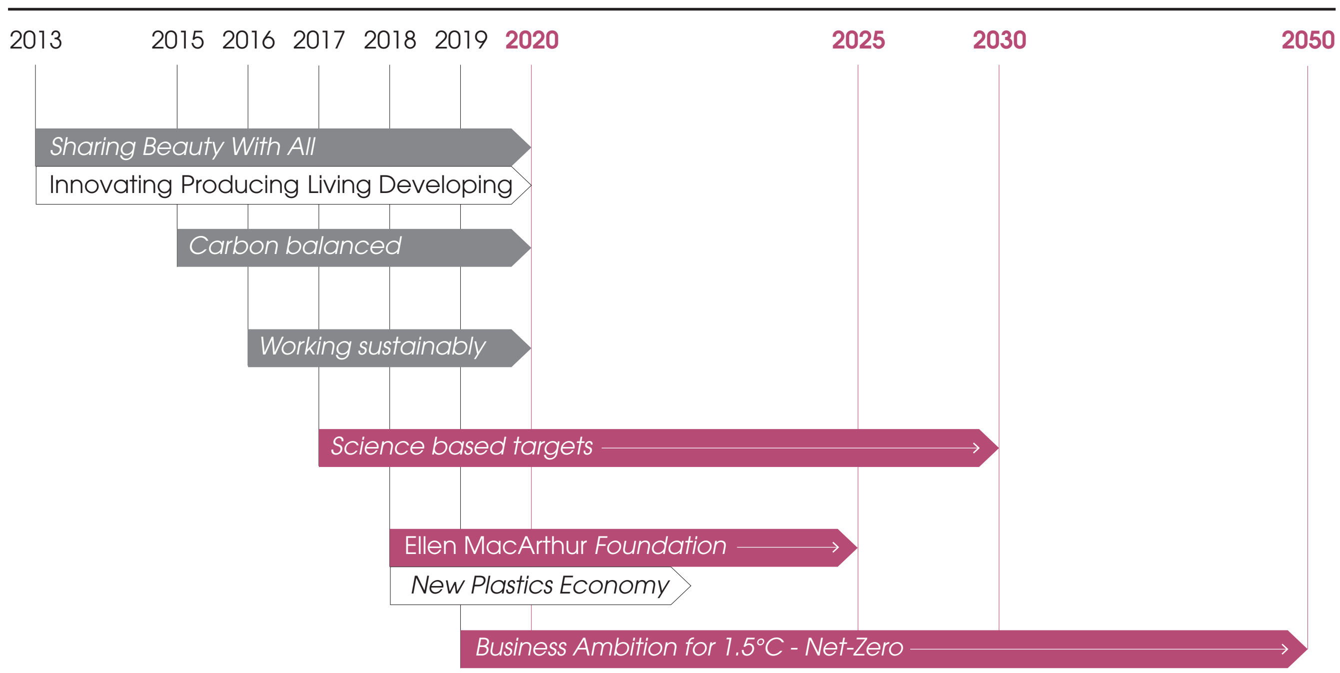
4.3.1. Environmental policy

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 greenhouse gas emissions by 25% compared to their 2016 levels by the 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 100% of packaging by 2025. Finally, in 2019, L'Oréal was one of the first companies to sign the *Business Ambition for 1.5°C* pledge of the UN Global Compact, thereby committing to reach "*zero net emissions*" by 2050 over its entire value chain, in accordance with the 1.5°C path of the IPCC[3].

(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) *Not including L'Oréal Caribe and L'Oréal entities in France.*
(3) *Intergovernmental Panel on Climate Change.*

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.



POLICY	INDICATORS AND PRINCIPAL RESULTS
An ambitious EHS policy shared by all	• a worlwide organisation and a unique reference manual • trainings in EHS policy and practices: *6,964 training actions globally* • a worldwide audit programme: 88 *EHS audits* • a continuous improvement process: *33 ISO 14001 certifications, 26 ISO 50001 certifications, 36 OHSAS 18001/ISO 45001* certifications • a process of systematic integration of new sites
Managing risks and controlling the impact of sites on their environment	• an environmental analysis at least every three years • consideration of biodiversity and soil use in the design or operation of sites • monitoring of surface water: *no accidental spills* • monitoring of industrial effluents: *quality index for effluents after treatment: 0.7g of COD/FP* • monitoring of air emissions, excluding greenhouse gases: *SO_2, 0.3t; VOC, 173t; ozone-depleting substances, 1.5t* • monitoring of noise pollution
Fighting climate change and preserving natural resources on the sites operated: • **producing sustainably** • ***working sustainably***	• reducing greenhouse gas emissions (Scopes 1 and 2, according to the *GHG Protocol*): *-78% for industrial sites (vs 2005); -29% for administrative sites and research centres (vs. 2016)* • CO_2 Scopes 1 and 2 emitted by sites; *51 carbon neutral sites at end 2019* • reducing energy consumption: *total energy consumption of sites: 744,186 MWh for industrial sites and 187,607 MWh for administrative sites and research centres* • increasing renewable energy use: *proportion of renewable energy consumed by sites: 69% for industrial sites; 55% for administrative sites and research centres* • reducing Group emissions from product transport (Scope 3 as per the *GHG Protocol*): *CO_2 emitted by transport: -12% (vs. 2011)* • preserving water resources: total water consumption of sites: *-51% for industrial sites (vs. 2005); -22% for administrative sites and research centres (vs. 2016); 4 "Waterloop Factory" plants* • reducing waste and preserving material resources: *total generation of transportable waste of sites; -35% for industrial sites (vs. 2005); -29% for administrative sites and research centres (vs. 2016); recovery index: 97% for industrial sites; 89% for administrative sites and research centres; material recovery index: 58% for industrial sites; 51% for administrative sites and research centres*
Fighting climate change and preserving natural resources: within the supply chain	• encouraging strategic suppliers to reduce their greenhouse gas emissions: *479 suppliers participated in the CDP supply chain, representing 85% of the expenditure for direct suppliers* • engaging strategic suppliers: *96% of strategic suppliers conducted a self-assessment; 1,562 social audits carried out in 2019* • selecting and evaluating strategic suppliers: *87% of strategic suppliers assessed and selected on the basis of their social and environmental performance* • using the Group's purchasing power to serve social inclusion: *40% of new or renovated products that have an improved environmental profile, particularly because of the Solidarity Sourcing programme*
Fighting climate change and preserving natural resources: throughout the life cycle of products	• new or updated products with an improved environmental or social profile: *85%* • new or renovated products with an improved environmental profile due to improved packaging: *67%* • *59% by volume of raw materials used by the Group are renewable* • new or renovated products with an improved environmental profile due to a new formula incorporating renewable raw materials that are sustainably sourced or respect the principles of green chemistry: *59%* • "Zero deforestation" commitment: *100% of purchases of palm oil and of palm oil and palm kernel derivatives have been certified as sustainable according to the RSPO criteria* • new or updated products with an improved environmental profile due to a new formula with a reduced environmental footprint: *46%* • brands that have assessed their environmental and social impact: 89% *of the Group's brands* • brands that have conducted a consumer awareness initiative: *57% of the Group's brands*
Combating climate change: across the entire value chain	• greenhouse gas assessment : an annual exercise: Scopes 1, 2 and 3: *11,762 thousand tonnes* equivalent *CO_2* • *Sciences Based Targets* commitment • *UN Global Compact pledge: "Business Ambition for 1.5°C"*

4.3.1.1. 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 4.2.2) is presented and described in the discussion of the Human Resources policy (section 4.3.2).

A SYSTEM BUILT UP OVER MANY YEARS

	2019	"AAA" rating obtained within the scope of the CDP for the fourth consecutive year. UN Global Compact: "Business Ambition for 1.5°C", signature of the pledge. First International Day for Biodiversity.
"AAA" rating obtained within the scope of the CDP for the third consecutive year. Achievement of the "zero waste to landfill" ta get 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 consecutive year. Validation of the Science Based Targets. First "dry factory" plant in the Group and first administ ative 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" ta get for plants.
Achievement of the target of 50% reduction in CO_2 emissions compared to 2005 for plants and distribution centres. Launch of ISO 50001 certification of plants	2014	
	2013	Launch of the SBWA programme and new commitments. for reducing the environmental footprint of the Operations Division. Launch of Waterscan. Deployment of the EHS manual.
Creation of the EHS function in 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% reduction in CO_2 emissions, water consumption and waste production between 2005 and 2015. Launch of MESUR and SIO safety tools.
Group Carbon Assessment.	2008	
	2007	Measurement and reporting on CO_2 emissions (Scope 1 & Scope 2). OHSAS certification of plants
First environmental objective for the Group (reduction of energy consumption).	2004	
	2003	14001 certification of plants Creation of the EHS functions at R&I and administrative sites. Creation of the first p ocedures 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.
First EHS Audits.	1996	
	1993	Creation of internal EHS Awards.
First EHS seminar. Launch of on-site fi e prevention inspections.	1992	
	1991	Creation of the "Industrial Risks" department in the Operations Division and the ETNEHS function at the sites. Creation of the first EHS p ocedures 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 and 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: Commitment to reduce greenhouse gas emissions over the long term and across the entire value chain, in accordance with the Paris climate agreements.

SHAP: Safety Hazards Assessment Procedure.

SIO: Safety Improvement Opportunity.

Waterscan: A tool enabling to quantify possible savings of water used in a plant.

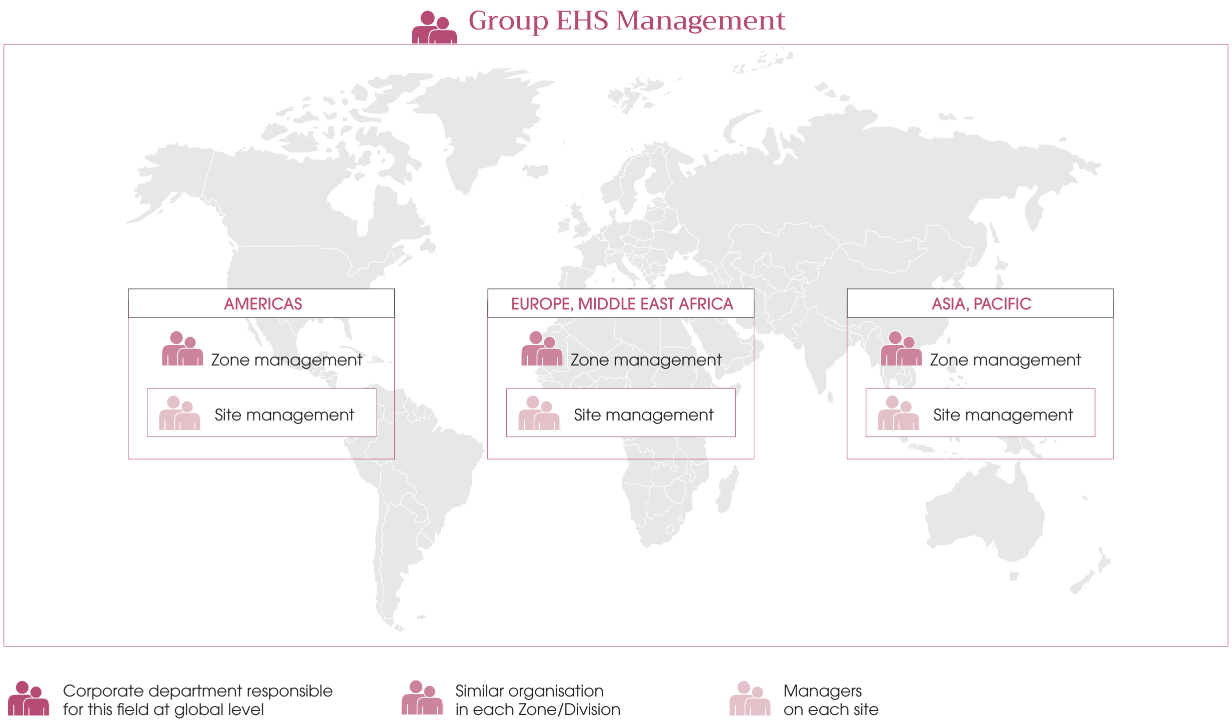
A unique reference manual

The Group's EHS policy is based on a set of stringent standards, compiled in an EHS manual that 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 "risk" 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 worldwide organization

The EHS organisation, under the responsibility of Operations Direction, is built in line with the Group's worldwide organisation. It includes a Group "Métier" (business activity) Department, mirror organisations in each geographic zone and managers at each site.

WORLDWIDE EHS ORGANISATION



In support of this organisation, the EHS manual is the reference tool for the Group 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 *"A continuous improvement process"* section below). 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 performance 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 risks;
- efficiency of the use of resources, water and energy consumption;
- greenhouse gas emissions, wastewater discharges, waste generation and treatment.

The EHS policy is accompanied by monthly *reporting* of detailed indicators used to monitor evolutions in results in each of these areas and to identify anomalies and incidents.

The EHS manual is rolled out at all industrial sites, research centres and administrative sites, free standing stores and point of sales.

Trainings in EHS policy and practices

Training sessions dedicated to L'Oréal's EHS policy and practices have been provided at all levels of the Company. They constitute one of the cornerstones of implementing risk identification and management systems, and deploying 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	2019 RESULTS
EHS expertise	Guaranteeing a high level of expertise for EHS managers in the Group	EHS teams	17 people trained worldwide
Leadership & Safety culture	Training managers in the EHS culture of their unit	Top managers	63 people trained worldwide
EHS for DOP		Operations Directors (DOP)	71 people trained worldwide
EHS Operations & Labs		Managers and operational supervisors	169 people trained worldwide
EHS for stores		Managers of branded retail	75 people trained worldwide
***Ergonomic Attitude* programme**	Training in health and safety issues specific to the Operations Division sites	Experts, managers and employees	15 experts and 6,554 employees trained (managers, technicians, etc.)

In addition to these specialist trainings sessions, every new L'Oréal employee receives general and specific trainings at their workstation including the Group's EHS rules before taking up her position.

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 local contexts 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 risks and culture", performed 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 with the Security and Real Estate departments for property.*

TYPES OF AUDITS CONDUCTED IN 2019

	Objectives	Methodology	2019 audits
Risks 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 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 risks audits were conducted at three administrative sites and one research centre.
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.	These EHS culture audits were carried out at one administrative site.
Combined EHS Risks and Culture Audits	Combination of the risks and culture audits.	This combined audit is carried out with the help of external independent experts for risk areas and by internal teams for the culture-related areas.	These mixed audits were conducted in 4 plants and 7 distribution centres.
Combined Quality, Environment, Health, Safety and Performance Audits	Optimising "Métiers" (business activities) audits at a site by combining the various existing Operations audit programmes.	This audit is conducted for plants on the basis of reference manuals for each of the EHS, Quality and Performance "Métiers", 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 8 plants (risks and culture), 2 plants (culture), and 1 distribution centre (risks and culture).
Real estate audits	Verifying 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, indoor 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 help of external independent experts.	8 sites have been audited (4 plants, 2 research centres and 2 administrative sites).
Industrial subcontractor audits	Verifying the production conditions of the Group's industrial subcontractors (processing of products, in particular aerosols, inflammable products, etc.)	These audits are carried out with the assistance of external independent experts. If necessary, a follow-up audit is scheduled.	53 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.	8 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 2019, 7 sites (4 plants, 2 distribution centres and 1 laboratory) were visited in 5 countries for environmental risks (China,Germany, France, Russia, United States) and 23 sites (12 plants, 9 distribution centres and 2 external distribution centres) with regard to fire prevention in 13 countries (Belgium, Canada, China, Colombia, France, Greece, Italy, Japan, Poland, South Africa, Thailand, United Kingdom, United States).

Of all preventive audits and visits described above, 97% 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 contributes to 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 goal; whether it involves the construction of a new plant, the purchase of new equipment or the definition of new *processes,* each industrial development is an opportunity to reduce the environmental footprint and safety risks.

Lastly, some major programmes within EHS, or more generally within the Group, are vectors for progress in 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 Events)*

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 Producing Sustainably component of this programme has contributed to the continuous improvement in the industrial sites' environmental performance for several years, notably via the definition and dissemination of best practices in energy efficiency, CO_2 emissions, consumption of water and resources, and waste reduction and treatment.

The programme's *Working Sustainably* component aims to achieve continuous improvement of the environmental performance of administrative sites and research centres. It aims to reinforce the commitment of administrative sites and 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.

2020 TARGETS - CO_2

PRODUCING SUSTAINABLY	*WORKING SUSTAINABLY*
Reducing the CO_2 emissions generated by plants and distribution centres by 60% in absolute terms, compared to 2005	Reducing the CO_2 emissions generated by administrative sites and research centres by 60% in absolute terms, compared to 2016

2020 TARGETS - WATER

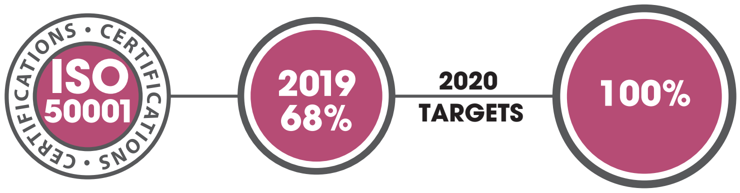
PRODUCING SUSTAINABLY	*WORKING SUSTAINABLY*
Reducing the water consumption of plants and distribution centres by 60% per finished product, compared to 2005	Reducing the water consumption of administrative sites and research centres by 20% per 100 hours worked, compared to 2016

2020 TARGETS - WASTE

PRODUCING SUSTAINABLY	*WORKING SUSTAINABLY*
Reducing the waste production of plants and distribution centres by 60% per finished product, compared to 2005	Reducing the waste production of administrative sites and research centres by 20% per 100 hours worked, compared to 2016
Sending zero industrial waste to landfill (without regulatory constraints)	

The Group is committed to an ISO/OHSAS certification process to permanently anchoring EHS performance on its industrial sites:

- Since 2003, L'Oréal has committed to ISO 14001 certification (Environmental Management) in all of its plants.
- In 2015, the Group launched an ISO 50001 "Energy Management" certification programme with the objective of certifying all of its plants by the end of 2020, in line with a clearly defined roadmap. Some administrative sites and research centres have also initiated this process.



- Since 2007, L'Oréal has committed to apply OHSAS 18001 and then ISO 45001 "Occupational Health and Safety Management" certification to all of its plants.

Certifications	ISO 14001		ISO 50001		OHSAS 18001/ISO 45001	
	number of sites	%	number of sites	%	number of sites	%
Plants	33	87	26	68	36	95

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. Finally, a history is accessible by each site covering the nature and root causes of EHS incidents/ accidents that have occurred in all sites.

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.

4.3.1.2. Managing risks and controlling the impact of sites on their environment

The Group systematically anticipates industrial risks of its activities, specifically the environmental impacts 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. Proper implementation of these measures is verified during prevention 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 processing process, 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 purchasing land or buildings, L'Oréal conducts due diligence, which includes, in particular, a review of the environmental aspects.

Biodiversity and soil use

L'Oréal's biodiversity and soil 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 and may be based on the SITESv2 standards *(Reference guide for sustainable land design and development)*, which is aligned with LEED environmental certification *(Leadership in Energy and Environmental Design)*;

(1) *Excluding the stores.*

- 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 brownfield site 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. A sustainable bulding site charter includes these recommendations and requires selective sorting of bulding site waste and minimising the impact on residents during the project phase;
- if possible, place the site on land located more than 30 metres from any body of wetland (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 green space areas on the site (even in excess of local regulations) and minimise 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;
- lease buildings for administrative sites that are LEED Gold certified or equivalent in mature real estate markets;
- deploy projects on the sites in consultation with local associations or experts in order to develop biodiversity that is consistent with the ecosystem in which they are operating. These projects have an educational component intended for L'Oréal employees and stakeholders by leading them to a stronger connection with nature.

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 retention and operating area where spills are liable to occur must have adequate retention capacities. Sites must also have retention capacity to contain fire extinguishing water.

No spills were reported in 2019.

Industrial effluent

27 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. L'Oréal continues to install its effluent treatment plants, as for example in the United States in 2019.

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 chemical oxygen demand (COD), biochemical oxygen demand (BOD), pH, the temperature of effluent and substances that could 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 any non-compliances and initiate corrective actions.

In 2019, total chemical oxygen demand for the Group's effluent (in tonnes of COD) leaving the site fell by 44% as compared to 2005 and by 59% in grams per finished product, at 0.7g per finished product.

EFFLUENT QUALITY INDEX

(grams of COD per finished product)

Scope of industrial sites	2018	2019
Accidental spills *(m^3)*	0	0
Effluents after treatment *(m^3)*	1,205,836	1,064,281
COD after treatment *(t)*	4,875	4,209

The Group's aiemissions, 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 (in tonnes)	2018	2019
SO_2	2.0	0.3
VOC	171	173
Ozone depleting substances	2.0	1.5 ☑

☑The Statutory Auditors have expressed reasonable assurance with regard to 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 for environmental risks is not material (see Note 13.3 of the "*Consolidated Financial Statement*").

4.3.1.3. 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 products, their consumption and their end of life. L'Oréal is committed to continuously improving the impact of its products throughout their life cycle.

4.3.1.3.1. 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, waste generation, and to protect biodiversity. It is also committed to reducing the footprint of product transport, and no longer sending waste to landfill without regulatory constraints.

A/ Fighting climate change

As the cosmetics industry has low energy consumptions and low CO_2 emissions compared with other sectors, L'Oréal is not subject to the CO_2 emission quotas provided for by EU regulations, whether for industrial sites, administrative sites or research centres. However, L'Oréal, which 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.

Group greenhouse gases emissions

(Scopes 1 and 2, according to the *GHG Protocol*)[1]

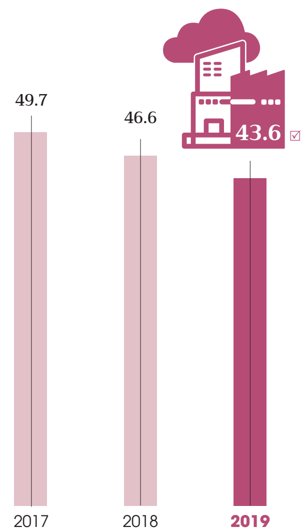
To limit its impact on climate change and fulfil its objective of reducing greenhouse gas emissions (Scopes 1 and 2), L'Oréal has implemented a strategy based on three pillars:

1. Reducing its energy needs 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.

(1) *In this Document, the Group's performance in terms of CO_2 emissions is expressed in equivalent CO_2, i.e. eq CO_2. 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)".*

CO_2 EMISSIONS - SCOPES 1 OF INDUSTRIAL SITES

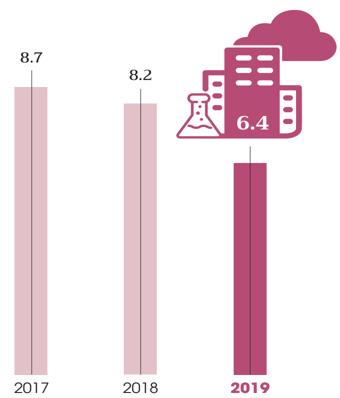
(thousands tonnes of CO_2 equivalent) (1)



☑ The Statutory Auditors have expressed reasonable assurance about this indicator.

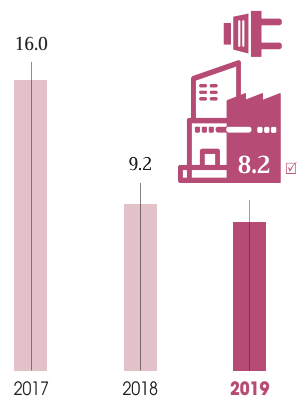
CO_2 EMISSIONS - SCOPE 1 OF ADMINISTRATIVE SITES AND RESEARCH CENTRES

(thousands tonnes of CO_2 equivalent) (1)



CO_2 EMISSIONS - MARKET BASED SCOPE 2 OF INDUSTRIAL SITES

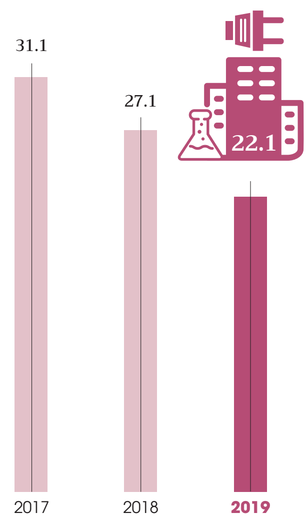
(thousands tonnes of CO_2 equivalent) (1)



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

CO_2 EMISSIONS - MARKET BASED SCOPE 2 OF ADMINISTRATIVE SITES AND RESEARCH CENTRES

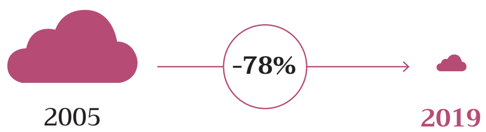
(thousands tonnes of CO_2 equivalent) (1)



(1) The Group's emissions are calculated in accordance with the terms defined by the GHG protocol, and monitored in accordance with the market-based CO_2 indicator.

CO_2 EMISSIONS - SCOPES 1 AND 2 OF INDUSTRIAL SITES

By 2016, the 2020 targets had been exceeded, with a 67% reduction in emissions. In 2019, a 78% reduction in CO_2 emissions was achieved on a 37% increase in production compared with 2005, demonstrating the Group's ability to decorrelate its growth from its environmental impact.



(in absolute terms: tonnes of CO_2 equivalent at constant scope, as per the *GHG Protocol*)

SHARING BEAUTY WITH ALL

Target 2020 -60%

CO_2 EMISSIONS - SCOPES 1 AND 2 OF ADMINISTRATIVE SITES AND RESEARCH CENTRES

(in absolute terms: tonnes of CO_2 equivalent 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 the low carbon strategy of L'Oréal, which is now applying a twofold approach to reduce its carbon footprint:

- A 60% reduction in absolute value in emissions related to its industrial activities by the end 2020 compared to 2005, through increasing use of renewable energies and by improving energy efficiency at its industrial sites;
- Reaching a balance, by the end of 2020, in the remainder of those emissions by reducing carbon emissions from its sustainable sourcing of raw materials, in partnership with its suppliers. With this new ambition, L'Oréal wants to avoid carbon emissions in a quantity equivalent to its residual greenhouse gas emissions (approximately 400,000 tonnes of CO_2 equivalent 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:

- 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 who are carbon specialists, 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 2019, 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.

In 2019, it was estimated that the eight energy and forestry projects implemented since 2015 made it possible to generate carbon savings of 116,720 tonnes of CO_2 equivalent.

Example in Burkina Faso: 4 years of collaboration with impacts that far exceed carbon gains

Since 2016, L'Oréal has been supporting the activities of social enterprise Nafa Naana, which has enabled more than 5,000 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. In 2019, the project avoided the emission of more than 10,500 tonnes of CO_2 equivalent, and the cutting of more than 5,000 tonnes of wood traditionally harvested in forests. The use of the 2,235 items of cooking equipment distributed in 2019 reduced unpaid domestic work by women, primarily spent preparing meals and collecting wood, often at the expense of income-generating activities, by more than 40,000 hours. Thanks to the wood savings achieved, energy expenditures, which represent up to 30% of the household budget, have been reduced by more than CFA 345 million. Finally, 31 jobs for artisans making stoves have been created locally for the project.

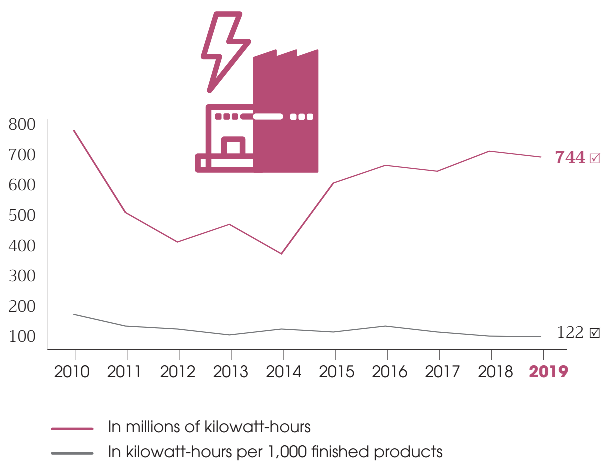
Reducing energy consumption

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.

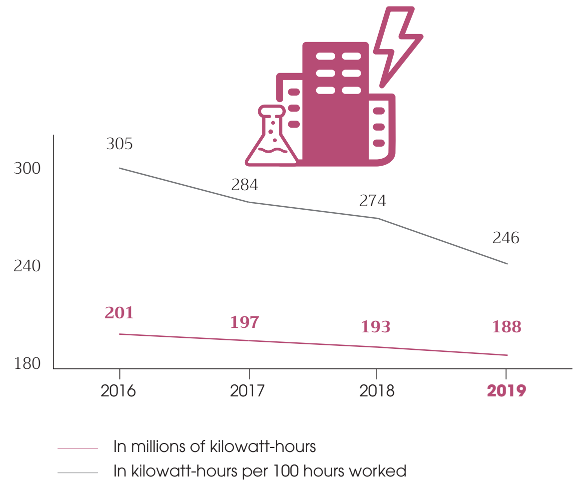
This policy reduced the consumption of plants and distribution centres in kWh per 1,000 finished products by 36% between 2005 and 2019, and the consumption of administrative sites and research centres by 19% in kWh/100 hours worked between 2016 and 2019.

TOTAL ENERGY CONSUMPTION OF INDUSTRIAL SITES IN KILOWATT-HOURS



☑ The Statutory Auditors have expressed reasonable assurance about this indicator.

TOTAL ENERGY CONSUMPTION OF ADMINISTRATIVE SITES AND RESEARCH CENTRES IN KILOWATT-HOURS



DATA ON CONSUMPTION WITH AN IMPACT ON CLIMATE CHANGE

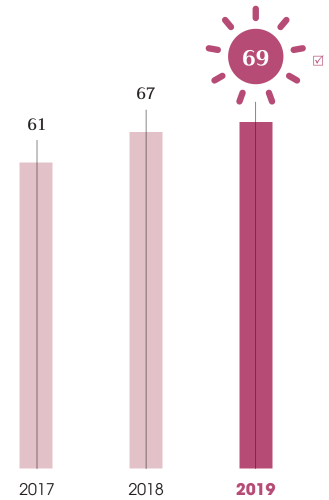
	Administrative sites and research centres		Industrial sites	
	2018	**2019**	**2018**	**2019**
Renewably electricity (MWh)	76,066	87,780	380,397	379,143 ☑
Biogas (MWh)	6,238	5,690	78,260	80,078
Other renewable energies (MWh)	5,154	9,608	47,230	53,460
Total renewable energy consumption (MWh)	**87,458**	**103,078**	**505,887**	**512,681 ☑**
Non-renewable electricity (MWh)	59,075	43,362	20,834	17,198 ☑
Gas (MWh)	30,998	25,680	198,731	191,721 ☑
Fuel oil (MWh)	195	171	7516	6,617 ☑
Other non-renewable energies (MWh)	15,509	15,316	21,429	15,969
Total non-renewable energies (MWh)	**105,777**	**84,529**	**248,510**	**231,505 ☑**
TOTAL ENERGY CONSUMPTION (MWH)	**193,235**	**187,607**	**754,397**	**744,186 ☑**

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

Making increased use of renewable energies

SHARE OF RENEWABLE ENERGY CONSUMED BY INDUSTRIAL SITES

(as a percentage)



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

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 2019, 69% of the energy consumed by the plants and distribution centres was renewable, and 55% of the energy consumed by the administrative sites and research centres was renewable.

Certain sites are now able to claim the status of "carbon neutral site," if they meet the following two requirements:

- Direct CO_2 (Scope 1) = 0 with the exception of gas used for catering, the fuel oil used for sprinkler tests or maintenance, cooling gas leaks if they are lower than 150 tonnes CO_2eq/year
- Indirect CO_2 Market Based (Scope 2) = 0.

The renewable energy sources must be located on site or less than 500 kilometres from the site and be connected to the same distribution network.

51 of the Group's sites were carbon neutral at the end of 2019:

"Carbon neutral" sites						
Type of site	**Industrial sites**	plants	distribution centres	**Administrative sites and research centres**	administrative sites	research centres
Number of neutral sites	**35**	14	21	**16**	12	4
% of total number of sites	**40%**	37%	42%	**19%**	15%	50%

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.

The *Sharing Beauty With All* commitments are shared with the entire internal and external transport ecosystem: sustainable transport is ranked as a priority. In 2018, in support of the sustainable transport strategy, 7 priorities were communicated to the country transport teams via a manifesto. The first being 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. It was also stated that all Group entities must make a contribution. Henceforth, the process to select the Group's carriers also includes the criterion of Sustainable Development. 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.

In 2019, the sustainable transport strategy was built on three pillars:

- reduction of air transport: implementation of monthly verification and analysis and verification of the use of air transport;
- *Green Lanes:* implementation of solutions that will reduce CO_2 emissions on long-distance road flows that emit the most CO_2. Initial tests of the use of rail freight on the lines between Europe and China were conducted in order to sustainably shift large shipment volumes to Asia over to rail.

New solutions are progressively being rolled out over all flows between the Group's plants, distribution centres and customers:

  - Biogas vehicle as an alternative to diesel;
  - Multimodal transport with the use of river or rail freight as an alternative to roads;

- GLAM (*Green Last Mile*): Implementation of solutions that will reduce the environmental impact of urban transport.

At the beginning of 2019, the GLAM programme was launched in a selection of 10 cities that cover all the zones in which Group deliveries are the highest.

18 high-impact innovative initiatives were launched and deployed in 13 countries, including Belgium, Italy and Spain, such as bicycle deliveries, the use of electric vehicles, the use of biogas as a fuel, or flow consolidation.

The 2025 goal is to expand this programme to 50 cities.

2019 was the year of the 2nd Edition of the CO_2 challenge that promotes the *Green Lanes* and GLAM programmes. The challenge evaluates the initiatives on the basis of four criteria: quantitative, innovative, collaborative and transposable. It highlighted 26 initiatives of the country teams that have a favourable impact on CO_2 emissions. The 2 winners will be selected by a vote in which all Group employees will be able to participate.

(in absolute terms: tonnes of CO_2 equivalent at constant scope, as per *GHG Protocol*)

Product transport resulted in 434,293 tonnes of CO_2 equivalent emissions in 2019, representing 0.0243 g CO_2/sales unit/km.

SHARING BEAUTY WITH ALL
Target 2020
-20%

Tonnages shipped by the Group by air freight increased by 6.6% in 2019, resulting in a 6.7% increase in CO_2 emissions. The increase stems chiefly from flows from our plants to the Asian markets. Road transport emissions were up 2% in 2019. Over the 2011-2019 period, road transport emissions increased 3 times more slowly than tonnages shipped. Finally, the United States quadrupled the use of rail over the previous year, resulting in a 61% increase in the tonnages shipped by rail in 2019 for the Group.

B/ Preserving water resources

L'Oréal Group is committed to preserving water resources throughout its value chain, especially on each of the sites operated. The "Producing Sustainably" and "Working Sustainably" pillars establish a goal for sustainable management of this vital resource. The action plans implemented around the world are based notably on the following key principles:

- mapping of the consumption of the Group's plants using the *Waterscan tool*, which is a standard tool for exhaustive mapping of water consumption;
- the installation of reduction equipment and *processes*, particularly during the cleaning phase of production equipment and the plant packaging lines, following the OPTICIP (*OPTimisation Cleaning In Place*) approach;
- the reuse of industrial water without treatment for a new purpose and recycling of the water used, after a specific additional treatment stage.

The *"Waterloop Factory"* concept

The "*Waterloop Factory*" concept consists of using city mains water only for human consumption and for the production of the high-quality water used as raw material for product manufacture; all the water required for industrial processes (cleaning equipment, steam production, etc.) is derived from water that is reused or recycled in a loop on the site.

It involves the implementation of a two-step system:

- optimisations of industrial *processes* in order to minimise water consumption;
- 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 in a loop to clean production tools and services as a replacement for municipal mains water. As such, water requirements for utilities are fully covered.

The *Waterloop Factory* concept was adopted for the first time in 2017 by the Burgos plant in Spain. In 2019, it was extended to the plants in Settimo in Italy, Vorsino in Russia and Libramont in Belgium. It will be rolled out gradually to all plants where the conditions are met for its implementation.

WATER CONSUMPTION OF INDUSTRIAL SITES

Total water consumption in the plants and distribution centres was 2,159 thousand m^3 in 2019☑, representing a 6% decrease in absolute value compared with 2018. Since 2005, L'Oréal has also reduced the water consumption of its plants and distribution centres by 33% in absolute value, while production of finished products rose by 37% over the same period, thus demonstrating the Group's ability to decorrelate its growth from its environmental impact.

Water consumption was 0.35 l/FP for 2019. ☑

(in litres per finished product)

SHARING BEAUTY WITH ALL
Target 2020
-60%

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

WATER CONSUMPTION OF ADMINISTRATIVE SITES AND RESEARCH CENTRES

Total water consumption in the administrative sites and research centres was 410 thousand m^3 in 2019, representing a 3% decrease in absolute value from 2018. Water consumption was 538 l/100 hours worked for 2019.

(in litres per 100 hours worked)

The *Water Disclosure Project*: a CDP initiative for transparency in 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 not-for-profit organisation that promotes transparency and environmental information reporting on several issues: climate change, water, deforestation, etc.

In 2019, L'Oréal was recognised for the fourth 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", which is 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 4.3.1.3.2. "*Within the supply chain*").

C/ Preserving resources and reducing waste

For several years, an ambitious approach to waste optimisation that goes well beyond regulatory compliance has been implemented in the Group within the framework of the *Sharing Beauty With All* programme, through the "Producing Sustainably" and "*Working Sustainably*" pillars. 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 packaging articles, 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, recycling, or using it as an energy source. For the industrial sites, the Group has set a goal for materials recovered (reuse or recycling) of 70% by the end of 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:

- for the packaging teams, who are mobilised through an eco-design approach to packaging components and transport packaging (reduction of weight, optimisation, reuse, etc.) aimed at reducing waste starting with the design of packaging;
- for the purchasing teams, privileged contacts with suppliers, with the aim of optimising packaging used for the transport of raw materials and packaging components 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;
- for the industrial teams involved in a process of continuous improvement of manufacturing and packaging *processes* in order to reduce losses during production;
- for the *supply chain* teams, for whom the reduction in obsolete inventories is essential for the reduction of waste related to the Group's business activities. The Asia zone 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 6,600 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 was signed with NGO Restaurants du Cœur, which as a result received more than 1,100 meals in the town of Aulnay-sous-Bois in 2019.

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 2019, the equivalent of 6,900 meals was collected and redistributed.

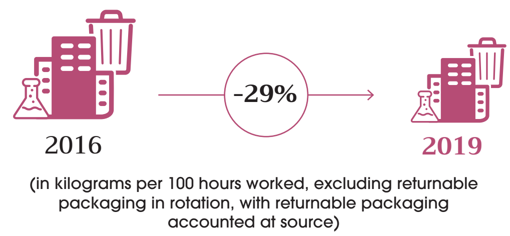
Many initiatives are also being taken to develop responsible, fair and sustainable food in the Group's restaurants and cafeterias, such as the supply of fair trade coffee, the development of the use of local and organic products, and an emphasis on seasonal fruit and vegetables in the preparation of menus.

GENERATION OF TRANSPORTABLE WASTE FROM INDUSTRIAL SITES

Waste generation (excluding returnable packaging in rotation, and including the accounting of returnable packaging at the source) on industrial sites represented 93,804 tonnes in 2019 ☑, i.e. an increase of 2% in absolute value mainly with 2018. This increase is mainly linked to the increase in the destruction of raw materials, bulks and finished products, primarily the result of obsolescence.

Waste generation (excluding returnable packaging in rotation, and including the accounting of returnable packaging at the source) on administrative sites and research centres totalled 6,397 tonnes in 2019, representing a 6% increase in absolute value over 2018 and a 29% decrease from 2016 in kilograms per 100 hours worked.

GENERATION OF TRANSPORTABLE WASTE FROM ADMINISTRATIVE SITES AND RESEARCH CENTRES



	Administrative sites and research centres		Industrial sites	
	2018	**2019**	**2018**	**2019**
Transportable waste excluding returnable packaging in rotation with returnable packaging accounted at source (in tonnes)	**6,091,887**	**6,397**		**93,804 ☑**
Returnable packaging in rotation (in tonnes)	0.62	2.06	37,998	20,659 ☑
Total recovered (in tonnes)	5,305	5,494	109,278	109,539 ☑
Recovery index (%)	**89**	**89**	**97**	**97 ☑**
Total recovered material (tonnes)	2,624	3,155	68,184	65,310 ☑
Material recovery index (%)	44	51	61	58 ☑

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

At each Group site, specific tracking (volumetry, collection streams, treatments, etc.) of waste that is subject to special regulations (flammable, toxic, etc.) is implemented, taking into consideration the specific characteristics of each country in which the site operates. Regulated waste benefits, as does all waste, from the continuous improvement approach in this area.

Regulated waste (tonnes)	**2017**	**2018**	**2019**	**Variation vs. 2018**
L'Oréal Group	18,437	17,774	**20,440**	15%
Industrial sites	17,662	17,225	**19,877**	15%
Administrative sites and research centres	775	549	**563**	3%

The portion of regulated waste generated in the Group was up in 2019, with 20,440 tonnes. This change was mainly driven by the increase in destructions of raw materials and bulks, which are primarily treated in regulated waste disposal streams.

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

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 energy recovery the waste it produces. In 2019, 97% of the waste generated by industrial sites was recovered through re-use, recycling or energy recovery, and 58% 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 (without regulatory constraints). Work has been done with specialised companies and local authorities to implement appropriate treatment solutions. The mobilisation of all plants and distribution centres ensures the achievement of the "zero waste to landfill" objective for the second consecutive year.

0 tonne ☑

In 2019, all of the Group's plants and distribution centres achieved the "zero waste to landfill" target (without regulatory constraints).

SHARING BEAUTY WITH ALL

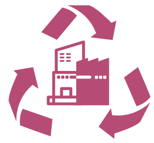
Target 2020
0
tonne

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

The approach is more recent for administrative sites, and 227 tonnes of waste were sent to landfill in 2019 (without regulatory constraints).

Achievement of the target of "zero waste to landfill" is the first stage of a more global process of circular economy 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 and to create potential synergies with other local stakeholders.

Use of landfills due to regulatory requirements totalled 41 tonnes for plants and distribution centres, and 223 tonnes for administrative sites and research centres.

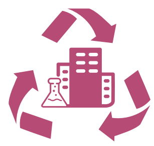


97%
waste recovery in 2019 for industrial sites ☑

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

97% of waste was recovered in 2019 for industrial sites ☑, i.e. 10% more than in 2005. 24 plants and 29 distribution centres had a recovery rate of 100% in 2019.

3% of waste was destroyed without recovery (incineration without energy recovery and sent to landfill without regulatory constraints) in 2019, i.e. 3,942 tonnes. ☑



89%
waste recovery in 2019 for administrative sites and research centres

89% of the waste generated on administrative sites and research centres was recovered in 2019. 36 administrative sites and 5 research centres had a recovery rate of 100% in 2019.

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

4.3.1.3.2. 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 around the world that cover the Group's needs for packaging, raw materials, sub-contracting, production equipment, promotional and advertising articles, etc.

In 2019, many supplier events were organised around the world (titled "*Spread the green vibes"*) to share the progress in results and build the next priorities together. Over 300 suppliers met in the Americas, Asia and in Europe. The emphasis was placed on decarbonation commitments (*Science Based Targets*) and on suppliers' contribution to achieving the targets set.

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 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, health and safety;
- compliance with the laws relating to trade unions;
- non-discrimination;
- disciplinary practices;
- 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).

Social audits: a rigorous and continuous improvement process

In 2019, the audit management tool was improved to facilitate and make the execution of the process more reliable, particularly by enriching the exchange interface with the external service provider's system, integrating it with the Group supplier management system, and improving the reporting interface for better management of performance by each area and for each zone.

An *e-learning* module is 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 process.

The Group's purchasers accordingly promote the continuous improvement of their suppliers in line with the Group's standards.

Key figures

8,152 supplier sites have been subject to social audits since the *reporting* tool was rolled out in 2006 (see 3.4.5.3.) *"Results of the application of the plan to suppliers"*):

- 1,562 audits[1] ☑ were carried out in 2019, making a total of over 12,400 since 2006;
- Follow-up audits, which verify the correction of non-conformities, represent 21% of the total number of audits conducted in 2019 and allowed 74% of the suppliers audited to improve their results.
- Thus 93% of supplier production sites requiring audits have been audited at least once.

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

(1) *Audits where the auditor was unable to access the site or sufficient data are included in the number of social audits carried out. They represent 2.9% 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.)*

Encouraging strategic suppliers to reduce their greenhouse gas emissions

Since 2009, L'Oréal has associated its suppliers in 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 international not-for-profit organisation, 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.

In 2019, 479 suppliers participated in the CDP *Supply Chain*, representing 93% of the 516 suppliers invited. They were selected in the six purchase categories (raw materials, packaging articles, production equipment, subcontracting, POS advertising/promotional items and materials and indirect purchases) all over the world, whether large industrial groups or SMEs. The average of the 2019 Supplier results was "C", as it has been since 2016.

In the direct purchases category, the suppliers participating in the *CDP Supply Chain* programme account for 85% of expenditures made in 2019. Among them, 251 suppliers have assigned their emissions to L'Oréal. The average score of the direct suppliers is "C".

In December 2015 at the time of the COP21, L'Oréal strengthened its objectives to accelerate the implementation of efforts to combat climate change. Since then, suppliers have been encouraged to:

- participate in the CDP *Supply Chain*;
- set targets for reducing greenhouse gas emissions;
- communicate about their action plans in order to succeed in those plans.

At the end of 2019, the suppliers meeting this commitment represented 69% of expenditures on direct purchases. L'Oréal's goal is to reach 80% in 2020.

L'Oréal continues to be recognised by the CDP as one of the 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. In 2019 these 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 entering the programme;
- continued to develop online toolboxes to help suppliers understand these issues.

The CDP *Supply Chain* assessment is at the heart of the discussions during annual *business reviews*, but also throughout the year, in the context of our interactions with suppliers.

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 2019, for the sixth edition of the *Water Disclosure Project Supply Chain* programme, L'Oréal selected 104 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. 94 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 2019, suppliers fulfilling this commitment represented 65% of the expenses incurred on all suppliers, raw materials, packaging articles and subcontracting selected. 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 2019, for the fourth consecutive year, 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 36 main suppliers of paper, palm oil and soya to take part. As of the end of 2019, 83% of the selected suppliers had taken part in this second year. Reporting suppliers that have implemented a zero deforestation policy and related initiatives represent 37% of expenditure in respect of all selected suppliers (raw materials, packaging articles 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 Sustainable Development policy. In addition to its own assessment, L'Oréal has mandated Ecovadis to 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 allows 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 4.3.3 *"Human rights policy"*).

2019 results

In 2019, 713 suppliers conducted an Ecovadis assessment of their social, environmental and ethical policies, as well as the implementation of those policies by their own suppliers in 2019 (an increase of 93 suppliers compared with 2018). 179 of them represent 96% of the Group's strategic suppliers.

In 2019, **96%** of strategic suppliers completed a self-assessment of their sustainability policy with L'Oréal's support.

SHARING BEAUTY WITH ALL

Target 2020 **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 best practices and the Company's values and standards with its suppliers.

The CSR commitments and performance 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 five pillars of performance that make it possible to assess and choose suppliers:

- quality;
- corporate Social and Environmental Responsibility;
- innovation;
- the *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 the suppliers are fully integrated into their relationship with L'Oréal and are therefore discussed at strategic meetings *(Business Reviews)*. Thus, 414 *business reviews* were carried out in 2019. 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 2019, **87%** of strategic suppliers were assessed and selected to date on the basis of their environmental and social performance.

SHARING BEAUTY WITH ALL

Target 2020 **100%**

All the suppliers evaluated represent more than 81% of total direct purchases (raw materials, packaging articles 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 operational since 2016. It offers *e-learning* modules, videos, presentations on ethics, climate change, social audits, etc. Today, it is open to all strategic suppliers of the Group and it is being extended progressively to all suppliers.

A dedicated online training platform was launched a the **end of october 2016**. It will firstly be made available to strategic suppliers, before being gradually implemented more broadly.

SHARING BEAUTY WITH ALL

Target 2020
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 goal has resulted in a commitment to allow 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 probably employees in the Group.

Created in 2010, *Solidarity Sourcing* is L'Oréal's global responsible purchasing programme. In 2019, 70,912 economically or socially vulnerable people benefited from decent and lasting employment under this programme (see section 4.3.3.4. *"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.

In 2019, with its Solidarity Sourcing Programme, the L'Oréal Group received the GEEIS-SDG Prize (*Gender Equality European & International Standard*, SDG: *Sustainable Development Goals),* at a ceremony held under the patronage of France's permanent delegation to the United Nations. This prize recognises five initiatives to promote gender equality. This is a major recognition of the Group's general commitment to promote equality between men and women.

The award, which was given for the first year in 2019, was born out of the initiative of the Fonds Arborus, an NGO that was behind the international GEEIS (Gender Equality European & International Standard) label. This label is testimony to the efforts made by the major international corporations to advance gender equality.

In 2019, **40%** of new or renovated products have an improved social profile, thanks in particular to the Solidarity Sourcing programme
(see section 4.3.1.3.3 Assessing the footprint of products using the SPOT tool)

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 the establishment of community projects to 42,000 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 is multiplying its impacts:
    - 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, which cultivates 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 producers, the cooperative also has a "bio-solidarity" certification, a label given to products arising from the North/North fair trade movement. In 2019, 26 farmers directly benefited from purchases of these raw materials.

4.3.1.3.3. 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 product in order to activate them.

Within the framework of the "Innovating sustainably" pillar of the *Sharing Beauty with All* programme, the Group has made the commitment that 100% of 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 2019, **85%** of new or renovated products have an improved environmental or social profile.

SHARING BEAUTY WITH ALL

Target 2020
100%

In 2017, the SPOT *(Sustainable Product Optimisation Tool)* was rolled out to all Group brands (except recent acquisitions). This tool calculates the complete environmental and social footprint of a product in accordance with the European Commission recommendation *(Product Environmental Footprint)* on the use of common methods to measure and communicate the 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 social life cycle assessments (see Section 4.3.1.3.2 "*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 a method based on the *Planetary Boundaries* developed by an international team led by Professor Johan Rockström of the Stockholm Resilience Centre. In a final stage, the footprint is compared 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 allowed assessment of the environmental and social footprint of all products developed in 2019.

100% of new or renovated products in 2019 were assessed using the product assessment tool.

SHARING BEAUTY WITH ALL

Target 2020 **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 articles 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 advertising display stands. An eco-design process based on detailed best practices and key performance indicators has been defined. A pilot was therefore launched in 2015 and, in 2019, more than 550 suppliers in over 50 countries were able to share best eco-design practices with the goal of implementing them for any new project.

In 2019, **67%** of new or renovated products have 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 graded. 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 articles 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 2019.

Control of the source of the materials used in the packaging is a major challenge issue that 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 2019, 100% of the paper used for product leaflets and 99.9% of the cardboard used for boxes were certified as coming from sustainably managed forests. This certification process is also used for POS advertising (cardboard stands, graphic prints): in 2019, 94% of the paper/cardboard used in POS advertising was certified (this figure covers 99.6% of expenditures 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 the Group's products.

Finally, with the aim of improving the recycling of the products they market, several Group brands have undertaken to provide consumers with detailed sorting instructions (including new brands such as Lancôme, Biotherm or L'Oréal Professionnel in 2019), and to design packaging that is compatible with existing sorting and recycling streams, thereby promoting material recovery after use of the product.

In addition, several brands marketed by L'Oréal in France (Ushuaïa, L'Oréal Paris, Garnier, Cadum, Narta, Vichy, and others), in partnership with the eco-organisation CITEO, have launched a sorting awareness campaign via the "Trionsenbeauté.fr" platform, designed to support consumers in their process to sort their beauty products.

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. As an illustration, two weight-reduction initiatives implemented in 2019 can be cited:

- 8% reduction in the weight of the Garnier 300 ml shampoo bottles in Europe, with 30 tonnes of PET plastic saved;
- 9% reduction in the weight of the sensational coloured plastic capsules from Maybelline in Latin America, with 3 tonnes of plastic saved;

In 2019 the L'Oréal Group also launched the first PET compressed aerosol deodorant under the Ushuaïa brand, thus moving from a 200ml aluminium bottle to a 100ml compressed PET bottle that offers an equivalent number of uses, for a substantial improvement in the environmental impact.

Moreover, to reduce the resources intended for packaging, L'Oréal is marketing an increasing number of reusable products, pushing reloadable or re-fillable systems, for example: the pocket-sized 400ml jar of Sanoflore Aqua Magnifica, the refillable bottles for the Idole perfume from Lancôme and the Pure Shot skincare product from Yves Saint-Laurent (Luxury Division), or even the pocket-sized 1000ml refill for Elsève's "Huile Extraordinaire" in Asia.

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 to reduce the environmental impact.

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 Section 4.3.1.3.3);
- A tool to help in reducing the environmental impacts of transportation packaging for packing components 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, in 2018 the L'Oréal Group created the SPICE initiative *(Sustainable Packaging Initiative for Cosmetics)* with Quantis (an environmental consulting firm). SPICE's purpose is to share the best practices and methodologies of each stakeholder in cosmetics (SPOT-PKG for L'Oréal), in order to harmonise and enhance the methods used to assess the packaging environmental footprint to make it easier to understand for consumers. Tracking of work and achievements, as well as the plan for the coming months, are accessible on the open platform www.Open-Spice.com. The SPICE initiative now has more than 24 members for global coverage.

In the same way, in 2019, on the basis of its internal *"My Eco Design POS"*, L'Oréal participated in the working Group of the Institut du Commerce in order to build a "Guide of common operational recommendations for the eco-design of POS for selective Perfumes". This eco-design guide, published in 2019, is intended to support all operators in the industry: brands, chains, manufacturers, recyclers and, more generally, all service providers, in acquiring best practices designed to reduce the environmental impact of their activity and be part of a circular economy approach, which also takes into consideration the extension of the life and repair cycle of the products. This guide collects the best practices for eco-design of POS, but goes even further with common operational recommendations on the choice of materials and decor, the use of electrical components, screens and lighting, sizing of campaigns, shipping methods, etc. which are all capable of reducing the environmental impact of this activity.

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. 13,204 tonnes of recycled materials[2] saved the equivalent amount of virgin materials in 2019. For the PET, 22.8% of the quantity consumed worldwide is recycled PET.

In addition to the brands that are moving their bottles to 100% recycled PET (Garnier Bio, Elsève in Asia, and others), the shift of the Booster bottles and concentrates of the Fusiodose line from Kerastase to 50% recycled PET saves 75T of virgin PET per year. The bottles used in the "Biolage" line from Matrix contain 100% recycled PE plastic, which saves 95 tonnes of virgin plastic each year. As a reminder, in 2017, L'Oréal launched 100% recycled, food grade, PE plastic shampoo bottles on the market for the first time on the Redken brand.

At the same time, within the framework of a partnership on innovation in responsible packaging, in 2019 L'Oréal and Albéa developed a breakthrough innovation: the first cardboard-based cosmetics tube, thus replacing a significant portion of plastic with a renewable material.

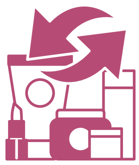
For glass packaging, completing the initiatives in skincare with Vichy's Mineral 89 bottle and the Biotherm Aquasource jar, in 2019 Garnier Bio launched its jar made of 25% recycled glass. This trend has even expanded beyond skincare with new initiatives that can be as high at 10% recycled glass for makeup or perfumes (makeup foundations from Lancôme, "Si" from Armani, and "La nuit Trésor" from Lancôme). 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 "Perfumery and Cosmetics" was recycled to produce the Viktor & Rolf brand's "Bonbon" and "Flowerbomb" bottles (for their Christmas editions).

(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.*
(2) *Excluding full-buy and l'aluminium*

In order to find new solutions to optimise the end of life of its packaging, L'Oréal is collaborating with an ecosystem of partners to develop better recycling technologies:

- L'Oréal has created a consortium with Carbios to perfect a biorecycling process using very specific enzymes that will recycle PET plastics and polyester fibres more broadly. This innovative process will produced a recycled PET equivalent to virgin PET. In April 2019, Suntory, Nestlé Waters and Pepsi-Co joined this consortium;
- Since 2018, L'Oréal has signed a partnership with LOOP™ Industries to produce food quality PET through chemical recycling;
- Finally, L'Oréal also signed a partnership with PURECYCLE in order to produce food quality recycled PP.

In 2017, L'Oréal joined the *New Plastics Economy* (NPEC) initiative of the Ellen MacArthur Foundation, the objective of which is to rethink the life-cycle of plastic so that plastic packaging never becomes a waste product, and is re-inserted into the circular economy in the form of materials with biological or technical value. Since 2018, L'Oréal has been a *core member* of the Ellen MacArthur Foundation (NPEC), with the goal, for example, of having 100% reusable, recyclable and/or compostable plastic for all packaging by 2025. This goal is one of L'Oréal's commitments through the Global *Commitment* of the NPEC, monitored by the annual *Progress Report*).



13,204 tonnes
of recycled materials used in the Group's packaging.

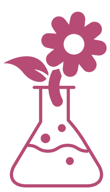
Giving preference to the use of sustainably sourced renewable raw materials

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 sharing of 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 strived, 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. To do so, the Group gives preference, in particular, to the use of renewable raw materials[(1)] 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 preserve the water cycle. For more than ten 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 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 2019, 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 28%. In 2019, for the first time, the raw materials used for The Body Shop were no longer accounted for, which explains the stagnation between 2018 and 2019.

59% (by volume) of the raw materials used by L'Oréal are renewable, i.e. roughly 1,593 raw materials from nearly 349 species of plants from over 100 countries.



In 2019, of the Group's newly registered raw materials, **48%** are renewable and **34%** are based on green chemistry principles.

(1) *This means that the carbon content is primarily of plant origin.*

Products marketed in 2019 had a proportion of renewable raw materials above 98%	
Rosa Fresca - Crème Riche	Sanoflore
Le Baume de Jouvence anti-âge nuit	La Provençale Bio
Biolage R.A.W. Gelée d'Aloès Gel Volumisant	Matrix
CREMA NERA reviving volcanic mask	Armani

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, the consumption of non-toxic solvents and energy, and the production of by-products.

In 2019, more than 28% (in volume) of the raw materials used by L'Oréal were 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 777 raw materials. In 2019, 32 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 Act4nature biodiversity, 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. At the level of plant growing and 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 among producers; preservation of biodiversity and the efforts to combat 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 Section 4.3.3.4. "*Solidarity Sourcing*").

In 2019, 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 349 plant species that are the source of the renewable raw materials used by the Group, around 12% (in number) present 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 initiated with suppliers and, if necessary, benefit from the systematic support of independent external third parties, in order to manage the real impacts on the territories of origin of the ingredients.

- For the palm oil and its by-products segment, which are the subject of a specific "Zero deforestation" approach (see below), at year-end 2019, 100% of the supplies were covered by action plans with the suppliers concerned.
- For other renewable streams raw materials, which represent 17% of the portfolio of renewable raw materials in volumes and 64% in number, L'Oréal, on the basis of environmental, social and economic indicators from external databases (IHDI of the UNDP, EPI from Yale University, *Verisk Maplecroft Country Index*), has defined indicators of "*sustainable sourcing challenges*" to assess renewable raw material streams with regard to their sustainability. These indicators are consolidated within the SCAN *(Sustainable Characterisation)* index, allowing the Group to prioritise the implementation of its sustainable *sourcing* action plans. The Group updates the information collected regularly. 64% of volumes and 25% 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. The goal is to reach 100% of the Group's renewable raw materials from sustainable sources, notably by deploying more broadly a field audit procedure for producers (88 indicators), developed with the support of the NGO *Rainforest Alliance* and reviewed in 2019 by EcoCert, *The Biodiversity Consultancy* and *The Danish Institute for Human Rights*.

In 2019, **59%** of new or renovated products have an improved social/environmental profile due to a new formula incorporating renewable raw materials that are sustainably sourced or based on green chemistry principles.

Madagascar: *sustainable sourcing* of Centella Asiatica

L'Oréal uses an active ingredient that comes from the Centella Asiatica from Madagascar in its skincare products. In 2016, L'Oréal launched a project in partnership with its suppliers and the support of the Union for Ethical BioTrade (UEBT) working to preserve this wild plant, while guaranteeing traceability, quality and fair remuneration for the women who collect centella leaves. In 2019, 3,366 women benefited from this fair remuneration, and were trained in best practices for collection to ensure the preservation of the resource, while increasing ease of extraction and thus minimising the footprint of the production process. After three years, this project demonstrated that it is possible to create a positive socio-economic and environmental impact on a local level, while generating cost savings that are beneficial to the entire value chain. The partners therefore decided to renew it for an additional three years to enhance its regional impact. At the same time, studies on growing Centella were conducted locally in order to minimise the pressure on this fragile resource and balance our supply between a wild picking model and a cultivation model that are both respectful of the environment and contribute to local development. Finally, research studies are also in place to optimise the process for extracting active ingredients from the Centella plant and establish a greener process, in line with the principles for accessing and sharing the benefits of biodiversity elements.

"Zero deforestation" commitment

In 2019, L'Oréal consumed less than 320 tonnes of palm oil and 70,000 tonnes of palm oil derivatives (which come from palm fruit pulp) and palm kernel oil (extracted from palm fruit kernels). 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;
- 88% of the main derivatives come from sources that are identified (as far as 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. 100% of the derivatives are also certified. L'Oréal increased the proportion of its physically certified purchases to 70% of the *Mass Balance* by the end of 2019, compared with 54% in 2018 and 51% in 2017. 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 was a difficult task as the process for transformation of the derivatives involved 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 2018, 98% of these volumes of palm and palm kernel derivatives can be traced to the refineries, 88% to the mills and 25% as far as the plantations.

In 2019, on the basis of this work, and with a goal of greater transparency, L'Oréal published, for the second consecutive year, the list of the 1,355 mills indirectly connected to its derivatives supply chain as well as the list of its direct suppliers of derivatives.

In 2016, L'Oréal rounded out its evaluation and selection tools for palm oil and palm kernel derivative suppliers with a specific tool, 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 was made public in 2019 and is now available.

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: a territorial project in the Berbak region

In 2018, L'Oréal, in collaboration with the 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 next five years in the improvement of production practices with the goal of preventing deforestation activities, while improving their standard of living. 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. In 2019, 7,169 small independent producers received training in best agricultural practices offered by SNV. The increase in the quality of crops and yields from plantations secured and boosted their income. In order to boost the territorial impact of the project, L'Oréal is also supporting the restoration of 22,000 hectares of peat bogs in the region, contributing in this way to the protection of a biodiversity corridor and preventing the emission of 50,000 tonnes of CO_2 in 2019.

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 geographic area.

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 2019, 46% of new or renovated products have an improved environmental profile due to a new formula with a lower environmental footprint.

In 2019, **46%** of new or renovated 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 in 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 product categories 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 2019 the aggregate biodegradability of the Group's formulas increased by 4% 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 2019, the products below have formulas with biodegradability levels of over 98% across L'Oréal's Divisions:

LIFTACTIV SPECIALIST Peptide-c Ampoules Anti-Âge	Vichy
Fructis Masque Aloe Vera Hairfood	Garnier
Life Plankton™ Huile Corps Multi-correction anti-vergetures	Biotherm
Biolage R.A.W. Jus nettoyant Glucoside de Coco	Matrix

Raising awareness among consumers about sustainable lifestyle choices

By the end of 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 the end of 2020. In conjunction with the development of the tool, each brand will have assessed its environmental and societal footprint by the end of 2020 and will have made commitments to improve it (see Section 4.3.1.3.3.).

In 2019, **89%** of brands assessed their environmental and social impact.

SHARING BEAUTY WITH ALL

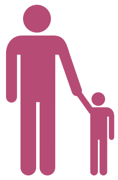
Target 2020
100%

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 Edelman in 2018, 64% of consumers select, change or boycott a brand on the basis of its positions on societal challenges. 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 110 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 35,000 downloads of the app that trains hairdressers on stretches and warming exercises to prevent musculoskeletal problems);
- 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 has made a commitment alongside the NGO Care by investing in literacy programmes and Biolage is partnered with the international NGO Conservation International to support the preservation of freshwater ecosystems.
- IT Cosmetics believes that beauty can change the world. Through its partnership with the Look Good Feel Better programme, IT Cosmetics has given more than US$24 million in products to assist women facing the consequences of cancer.



In 2019, **57%** of brands conducted a consumer awareness initiative.

SHARING BEAUTY WITH ALL

Target 2020 **100%**

In addition, to anticipate future consumption choices and take into account the CSR expectations of our consumers, the Group regularly conducts studies among its consumers. In 2019, 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, India and Europe to understand their expectations and fine-tune its policies.

4.3.1.4. Fighting climate change over the entire value chain

4.3.1.4.1. Greenhouse gas assessment: an annual exercise

L'Oréal carries out an annual 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 conducted 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 in three categories – Scopes – defined above in section 4.3.1.3.1.

In 2019, GHG assessment of the L'Oréal Group was estimated at 11,762 thousand tonnes equivalent CO_2.

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 4.4.):

	2020 TARGETS	2018	2019
Producing sustainably	- 60% (vs. 2005)	-77%	**-78%**
Working sustainably	- 60% (vs. 2016)	-12%	**-29%**

For 2019, all these emissions represented 51.8 thousand tonnes☑ for the plants and distribution centres, and 28.5 thousand tonnes for the administrative sites and research centres.

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 2019, work was carried out on Scope 3 of the GHG Assessment in order to improve its input data, limits and emission factors.

For 2019, L'Oréal Group's Scope 3 is estimated to be 11,682 thousand tonnes, representing a reduction of around 0.2 million tonnes compared with 2018, primarily due to the use phase.

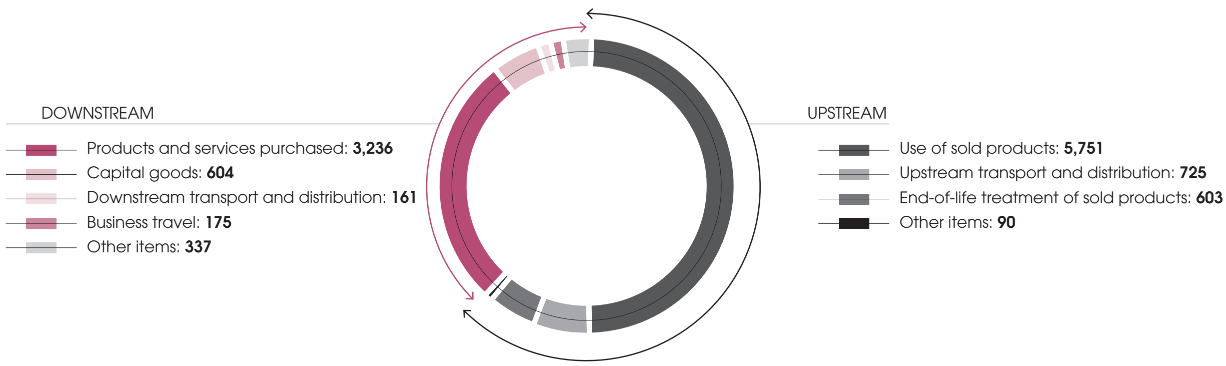
☑ *The Statutory Auditors have expressed reasonable assurance with regard to this indicator.*

The *GHG Protocol* defines 15 items of emissions associated with Scope 3:

Upstream or downstream	Scope 3 categories	Scope	2019 emissions *(in thousands tonnes of CO_2 eq.)*
Upstream	1. Products and services purchased	CO_2 emissions related to the preparation of all 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 followed by their processing prior to delivery.	3,236
	2. Capital goods	CO_2 emissions related capital goods acquired or purchased by L'Oréal in 2019 (property, production, IT, etc.).	604
	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.	134
	4. Upstream transport and distribution	CO_2 emissions generated by the transport of items purchased and shipped to production or distribution sites.	161
	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).	175
	7. Employee commuting	CO_2 emissions related to employees' journeys from their home to their workplace.	105
	8. Upstream leased assets	CO_2 emissions generated by stores and vehicles on long-term leases	78
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.	725
	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.	5,751
	12. End-of-life treatment of sold products	CO_2 emissions relating to the treatment of sold products after their use: packaging articles 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 treatment.	603
	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 2019. Investments are recognised via the share of L'Oréal's investments in the company or companies in question.	90

THE MAIN ITEMS OF CO_2 EMISSIONS OF SCOPE 3

(thousands tonnes of CO_2 equivalent)



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 (see "Inciting strategic suppliers to reduce their greenhouse gas emissions", Section 4.3.1.3.2.);
- 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 *"Reducing emissions from product transport (Scope 3 as per the GHG Protocol)"*, Section 4.3.1.3.1.);
- the *Carbon Balanced* commitment, stipulating that the residual emissions for Scopes 1 and 2, and the downstream transport category of Scope 3, be offset in 2020 thanks to an ambitious *insetting* programme: the remainder of these emissions must be balanced *via* the reduction of carbon emissions in sustainable sourcing channels for certain raw materials, in partnership with suppliers (see *"The Carbon Balanced project: towards a low-carbon company by the end of 2020"*, Section 4.3.1.3.1.);
- finally, L'Oréal, through its *Science Based Targets* (SBT) commitment validated by the initiative at the end of 2017, has sought to cover all impacts associated with its value chain. The commitment to reduce greenhouse gas emissions by 25% in 2030 (baseline 2016) comprises all of Scopes 1, 2, and 3 (according to the *GHG Protocol*) (see *"Science Based Targets commitment"* section 4.3.1.4.2.).

- CO_2 emissions in 2019 (Scopes 1, 2, 3) over the entire Group (industrial sites, administrative sites and research centres):

(thousands tonnes of CO_2 equivalent	Scope 1	Scope 2	Scope 3	Scopes 1, 2 & 3
Group	50.0	30.3	11,682	11,762

Changes in the data of the GHG Assessment since 2015 *(thousands tonnes of CO_2 equivalent)*

		COMMENTS	2015	2016	2017	2018	2019
Published data	**Scopes 1, 2 and 3**		**7,825**	**114**	**9741** (2)	**11,944**	**11,762**
	inc. Scope 3		**7,720**	**unpublished** (1)	**9590** (2)	**11,855**	**11,682**
Unpublished data	Scopes 1, 2 and 3	Unpublished 2016 GHG Assessment results Scopes 1, 2 and 3		9,881 (3)			
	inc. Scope 3			9,712 (3)			
Restatements of data	Scopes 1 and 2	**TOTAL RESTATEMENTS**			51		
		Improvement in the accuracy of the scope (as from 2018) (7)			51		
	Scope 3	**TOTAL RESTATEMENTS**	3,770	1,714	1,714	368	
		Update of the parameters (as from 2019) (4)	28	28	28	28	
		Improvement in the accuracy of the scope (as from 2019) (5)	340	340	340	340	
		Update of the emission factors (as from 2018) (6)	1,295	1,295	1,295		
		Improvement in the accuracy of the scope (as from 2018) (7)	51	51	51		
		Update of the emission factors (as from 2016) (8)	1,030				
		Improvement in the accuracy of the scope (as from 2016) (9)	1,026				
Like-for-like basis	**Scopes 1, 2 and 3**		**11,595**	**11,595**	**11,404**	**12,312**	
	inc. Scope 3		**11,490**	**11,426**	**11,304**	**12,223**	

(1) In 2016, the total scope 3 reported was that of 2015; only the five main items of the 2016 scope 3 were updated and reported (representing 90% of scope 3). The work on the 2016 GHG assessment continued pursuant to the SBT commitments.
(2) Data corrected after publication - The value reported was 9,760; scope 3 was 9,610.
(3) Data calculated under the SBT commitments (*SBT baseline* scopes 1, 2 and 3).
(4) Improvement in the data related to the product use phase (volume of water and quantity of products used).
(5) Improved precision in the POS data.
(6) Update of the energy mix used for residential water heating in the different countries.
(7) Change in allocations to leased vehicles and stores, in Scope 3.
(8) Alignment of the emission factors of the GHG assessment with those of the SPOT tool.
(9) Integration of consumers travels and improvements to estimates of the emissions associated with POS advertising.

4.3.1.4.2. *Science Based Targets* commitment

In 2015, L'Oréal undertook to define *Science Based Targets* to reduce its greenhouse gas emissions across its entire value chain and over the long term, in accordance with the Paris Climate Accords.

In December 2017, the SBT initiative validated the Group's proposal: by 2030, L'Oréal is committed to reducing by 25% in absolute value the greenhouse gas emissions of Scopes 1, 2 and 3 (with full coverage of the items of Scope 3, in accordance with the definition of the *GHG Protocol*), with a reference year of 2016; the L'Oréal Group is committed in particular to reducing greenhouse gas emissions from all the sites it operates by 100% by 2025, through a programme of energy efficiency and a supply of renewable energy exclusively.

These commitments were revaluated in 2019 over Scopes 1 and 2 by the SBT initiative and considered to be in compliance with the new SBT 1.5°C criteria.

Roadmaps are currently being deployed within the different segments (packaging, research, *sourcing, supply chain, etc.*) so that each one contributes to the reduction of CO_2 emissions in Scopes 1, 2 et 3. Specific tracking has been started and will allow each of the segments to monitor its own performance starting in 2020.

4.3.1.4.3. UN Global Compact *Pledge*: "*Business Ambition for 1.5°C*"

In September 2019, L'Oréal joined the "*Business Ambition for 1.5°C"* initiative, a call to action launched by a broad coalition of companies, civil society and UN leaders, thus reaffirming its leadership on climate action. The Group has committed to net zero CO_2 emissions by 2050, contributing in this way to limiting the increase in global temperature to 1.5°C above preindustrial levels, a necessary condition for limiting the worst impacts of climate change according to the latest conclusions of climate science.

4.3.1.5. 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 challenges are placed at the same level as the financial objectives that contribute to its total performance. The ambition is to design an innovative low-carbon business model and to make a contribution to the major collective challenge that limiting climate change represents.

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 even more the decision-making process of each of the Group's "Métiers" (business activities), 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 mission: 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 orientations and decisions adopted by this committee.

The Group's risk review includes 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 consumer expectations, are analysed, resulting in the preparation of impact scenarios and the definition of strategic orientations. In 2019, in-depth analyses of climate risks were finalised: a dynamic approach to risks, the scenario method with two 2°C and 4°C assumptions that integrate social, economic, political and technological trends. More specifically, studies of the impact of climate change on plant-based raw materials *sourcing* were also conducted. This work will allow the Group to adapt policies and define its strategic goals.

Similarly, the profound changes to come are the subject of studies on the potential opportunities they may represent, notably wherever cosmetics can make a positive contribution to the adaptation to climate change, but also wherever L'Oréal operates. They are also just as many opportunities to contribute positively to the regions and local communities in which the Group is acting.

4.3.2. Human Resources policy

The mission of L'Oréal's Human Resources Department (HR) is to support the Group's growth and 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 players in the Group's success. Built on this conviction, the Group's human and social project is based on individualised management of employees and on collective strength.

L'Oréal's HR policy focuses on the attractiveness of the Group and the development and commitment of all employees to meet the requirements of a constantly changing world. Policies dedicated to these subjects are in place within the Group and are described in this chapter.

The Executive Vice-President of Human Relations reports to the Chairman and Chief Executive Officer and is regularly in contact with him. He is responsible for all aspects of the Group's Human Resources management.

Identify, attract, develop and engage: employees are central to the *business model*

The conviction that the talents of each person make a difference has led the Group to place the focus 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 their careers.

The Group's HR naturally reflects on a human level the three main strategic priorities of the business: Universalisation, digital transformation and corporate 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, to develop everybody's talent across the world and to prepare the leaders of tomorrow, while building career paths for employees who will hold key functions.

Digital technology is one of the Group's major transformations supported by HR: the digital transformation relies on the recruitment of experts, the integration of new jobs and the dissemination of a digital culture at all levels of the company.

HR also plays a central role in the transformation of work and management methods. They thus accompanied the rollout of the Simplicity programme, initiated in 2016, to enhance cooperation, instil more agile working methods and promote management based on trust and empowerment. The programme was accompanied by a major managerial training named 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 for country ideas and initiatives. This approach, known as "Disrupt HR" promotes co-construction and a "test-and-learn" approach designed to boost agility and respond more effectively to the expectations of employees and job candidates.

To support corporate social and environmental responsibility within the framework of the 2020 objectives of the Sharing

Beauty With All programme, L'Oréal has made the commitment to provide annual training to 100% of its employees worldwide.

Based on the Group's conviction that there can be no economic growth without social progress, the L'Oréal Share & Care programme was launched in 2013 and deployed to all subsidiaries. This programme offers employees a shared framework of social benefits in the areas of welfare, healthcare, parenthood and quality of life at work. New targets were set in 2017 for implementation by the end of 2020.

L'Oréal's policy to share growth with its employees is based on *profit sharing schemes*, which have been in place for many years. In addition, the Group launched an employee shareholding plan in 2018.

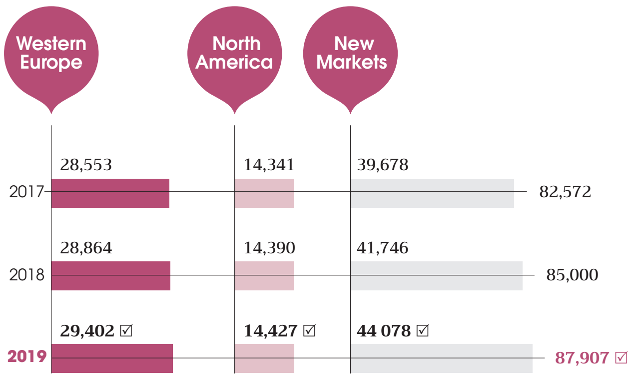
The strength of employee dialogue remains one of the essential components of L'Oréal's operations and illustrates the Company's desire to make employees and their representatives partners in the Group's development.

Diversity and inclusion also serve to drive performance and innovation at the heart of the Group's strategy. L'Oréal wishes to shape and guarantee work environments where everyone feels valued and can develop, whatever their social, cultural or religious background, gender, sexual orientation, age or disability.

Policy	INDICATORS AND PRINCIPAL RESULTS
Preserving employee health and safety	L'Oréal's set goal is to reach "Zero accidents" Number of lost-time accidents: *139 (L'Oréal personnel and temporary employees)* Objective: Conventional Frequency Rate (TFc) <0.5 for all Group sites Conventional Frequency Rate (TFc) *0.78* Total expanded incident rate reported (TIRe) *1.47* Accident severity rate: *0.04*
Recruit talented employees for the present and future success of the Group around the world	13,035 employees hired under permanent contracts Nearly a million applications received in 2019 Social media strategy: over 2.2 million followers on LinkedIn.
Development of employees throughout their careers **Anticipate changes in jobs and future skills requirements**	96% of employees trained, with a target of 100% by the end of 2020 2,692,570 training hours
Create the conditions for a positive and attractive work environment	Share & Care programme in place in all countries since 2016; second phase launched in 2017 with full rollout by the end of 2020 91% of the Group's permanent employees benefit from financial protection in the event of unexpected life events, with a target of 100% in 2020 94% of the Group's permanent employees benefit from healthcare coverage aligned with the best local practices, with a target of 100% in 2020. 85% of the Group's employees work in subsidiaries where there are employee representative bodies. 44% of the Group's employees are covered by a collective agreement and 96% of them are covered by company collective agreements.
Offering a motivating and competitive remuneration system	Amount of worldwide profit sharing, incentive and mandatory profit sharing schemes: €310 m distributed to employees Plan for the conditional grant of shares to employees: more than 3,400 employees involved 2018 employee shareholding plan: 35% participation Employee benefits and retirement schemes: supplemental retirement plans in place in 83% of the Group's subsidiaries
Strengthen gender equality **Accelerate the inclusion of disabled workers** **Increase the diversity of socioeconomic and cultural origins in our teams.**	At 31 December 2019, women represented: • 64% of managers; • 47% of key positions; • 49% in positions of greater responsibility within L'Oréal SA; and • 54% in positions of greater responsibility within the Group; • 30% of the Executive Committee members; • 54% of the members of the Board of Directors; With the goal of reaching parity up through the most strategic positions 30 countries EDGE or GEEIS certified 1.5% of employees with disabilities worldwide, with the goal of 2% by the end of 2020 in subsidiaries without local regulations 42,000 employees trained in Diversity Workshops

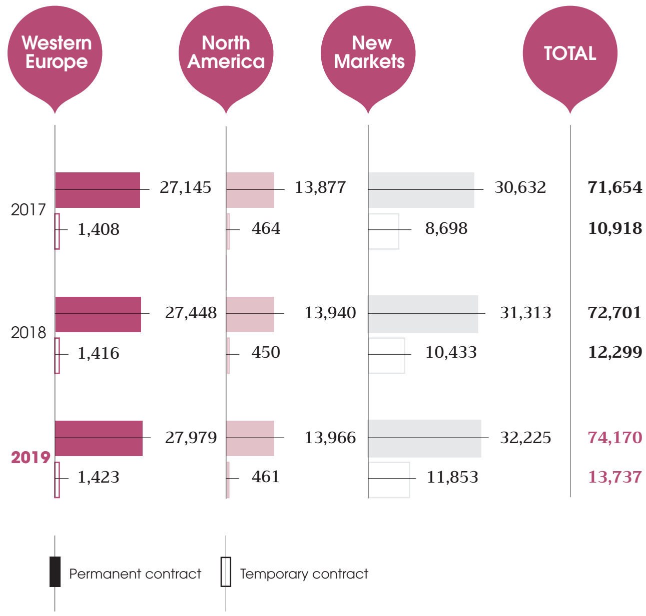
Group L'Oréal social data

EMPLOYEES BY GEOGRAPHIC ZONE [1]

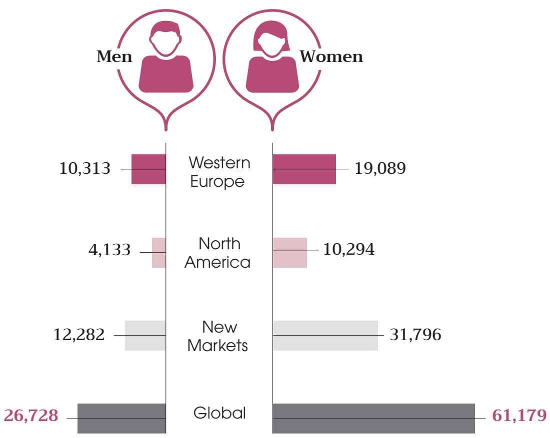


☑ The Statutory Auditors have expressed a reasonable assurance with regard to this indicator.

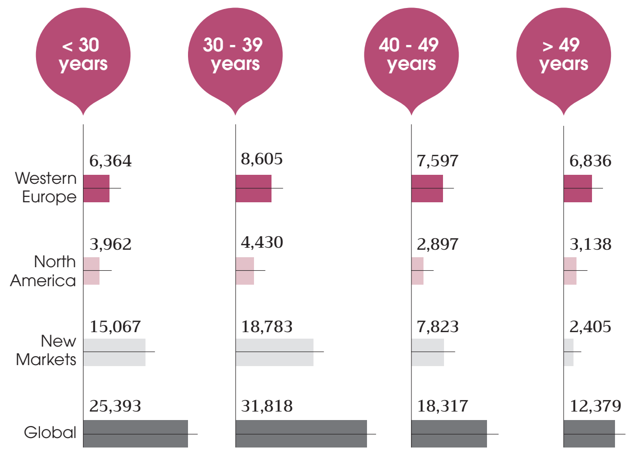
BREAKDOWN OF EMPLOYEES BY TYPE OF CONTRACT BY GEOGRAPHIC ZONE



BREAKDOWN OF EMPLOYEES BY GENDER



BREAKDOWN OF EMPLOYEES BY AGE GROUP



AVERAGE AGE

37
years

(1) *Excluding recent acquisitions. See notes on methodology (Section 4.5).*

ABSENTEEISM RATES

	2017	2018	2019	Details
Total absenteeism rate (%)	**4.2%**	**4.1%**	**4.1%**	**C/(A-B)**
Of which rate due to illness	2.2%	2.2%	2.0%	D/(A-B)

(A) Number of working days worked by all statutory employees.
(B) Number of days of annual leave taken 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 (permanent contract)	Western Europe	North America	New markets	Total
2019	3,415	2,791	6,829	**13,035**
2018	3,598	3,204	6,780	**13,582**
2017	3,577	3,129	6,927	**13,633**

NUMBER OF DEPARTURES

	2017	2018	2019
Number of departures (resignations, retirements, agreed terminations, dismissals) (permanent contracts)	10,555	11,823	**11,603**
Of which number of dismissals (permanent contract)	2,787	3,106	2,813

4.3.2.1. Preserving employee health and safety

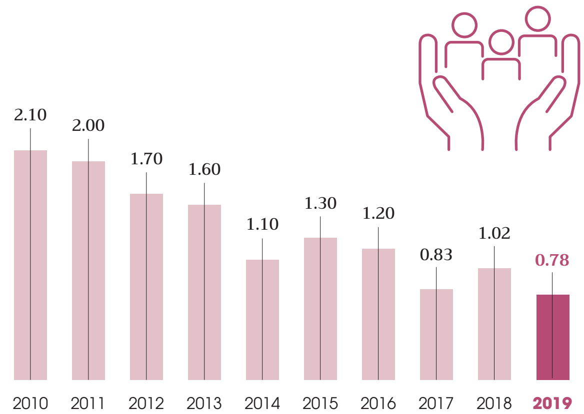
An ambitious shared health and safety policy

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 in the section 4.3.1.1 *"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 the definition of high standards and 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.

Change in safety performance: Conventional Frequency Rate (TFc) [(2)]



139 lost-time accidents (L'Oréal staff and temporary employees) were reported in 2019, compared with 145 lost-time accidents in 2018. The conventional frequency rate (TFc) is 0.78 and the expanded total incident rate (TIRe)[(3)] is 1.47; they improved in 2019.

The lost-time accidents recorded in the Group in 2019 resulted in the following frequency rates by entity:

Sites	TFc 2019	Variation in TFc vs. 2018	TIRe 2019	Variation in TIRe vs. 2018
Plants and distribution centres	1.51 ☑	6%	3.08 ☑	-1%
Administrative sites	0.31	-30%	0.50	-25%
R&I Sites	0.35	-54%	1.90	-31%
Sales forces & Stores	1.5	-50%	1.70	-62%
Group: all sites	0.78	-24%	1.47	- 30%

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

The accident severity rate was slightly higher than in 2018 for the Group. It stands at 0.04 for the Group and 0.07☑ for the plants and distribution centres in 2019.

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: Conventional Frequency Rate (TFc) <0.5 for all Group sites;
2. commitment and visible participation by management;
3. initiatives to fight the most frequent incidents, including a global ergonomics programme and a specific LIFE programme (see Section 4.3.1.1. "A continuous improvement process") on potentially serious accidents;
4. organisation and HS practices in line with the Group's standards with OHSAS 18001 accreditation for all Operations 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.

95% of the Group's plants OHSAS 18001 or ISO 45001 certified for their safety policy.

☑ *The Statutory Auditors have expressed reasonable assurance with regard to this indicator.*
(1) *These rates may be subject to a maximum 5% lack of precision due to local interpretation of the rules; work to improve the precision of these indicators is currently in progress.*
(2) *TFc = number of injured persons with lost time to L'Oréal employees at one million (10^6) hours worked by L'Oréal employees.*
(3) *TIRe = number of injured persons with lost time to L'Oréal employees, with an adjusted task and medical treatment reported at one million (10^6) hours worked by L'Oréal employees and hours worked by temporary employees.*

A global programme dedicateo improving safety

L'Oréal has programmes with specific and innovative tools to achieve excellence in safety, which is based on two approaches:

- Analysis of safety and health risks with the following tools: GHAP *(General Hazardous Assessment Procedure)*, detailed SHAP *(Safety Hazards Assessment Procedure)*, Ergoval, PSM (*Process Safety Management*), CHERIE *(Chemical Hazardous risks)*.
- In-depth analysis of the root causes for the occurrence of incidents/accidents with the RCA tool *(Root Cause Analysis)*

A programme to improve the safety culture	EHS Steering 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 is designed to improve the individual safety culture so that each 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	Since 2015, this programme, which is intended to be extended to all the Group's sites by the end of 2020, has been based 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 the *L'Oréal Share & Care* programme. The committee has defined a roadmap and, since 2015, it meets twice a year to oversee its deployment.
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 2019, 25,844 MESUR visits were conducted on all the L'Oréal Group's sites.
	Group EHS audits	The combined or mixed 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 2019, 63 "top managers" (managers of plants or distribution centres, Management Committee members, etc.) attended the *Leadership & Safety Culture* seminar, held at the CEDEP, the European Centre for Executive Development at the INSEAD campus in France. Since the start of this programme, 573 senior managers have been trained. The main objectives of these seminars are 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.

4.3.2.2. Recruiting and supporting talents

The Group continually strives to enrich and diversify its pool of talent around the world for its present and future needs.

The recruitment teams are tasked with recruiting the best talent in all countries in which L'Oréal Group 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 39,000 students from over 65 countries in 2019 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;
- *Management Trainee*, a rotational programme which allows new graduates to prepare effectively to take on major business responsibilities. In 2019, 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, daily and transparently, the richness of its business lines and diversity of its career paths, and to understand the keys to its culture. L'Oréal's Social Media strategy in recruitment has also been recognised as one of the best in the world [(1)]. A strong presence on LinkedIn, with more than 2.2 million followers, helps proactive recruiting of the best talent. Moreover, L'Oréal is ranked as one of the best employers selected by Glassdoor in France.

An International Digital team provides L'Oréal recruiters around the world with cutting edge digital tools to efficiently select candidates from among nearly one million applications received. These solutions, such as MYA and SEEDLINK, use artificial intelligence that provides greater efficiency and correction of the unconscious biases of recruiters.

One of the major projects of 2019 was the redesign of the applicant data base ("Applicant tracking system") in order to improve the applicant's experience, harmonise the data flows, and improve the quality of the data collected. Another major development is the "Great recruiter portal", a management tool that gives recruiters a comprehensive vision of their current subjects.

L'Oréal welcomes approximately 10,000 new employees worldwide each year. Successful integration lays the groundwork for a lasting, quality relationship between the employee and the Company. To achieve this objective, the FIT programme provides a number of actions to give everyone the keys to success within the Group, both from an operational standpoint and with the desire to the share the corporate culture.

4.3.2.3. Training and development of employees throughout their careers

L'Oréal has always considered the development of its employees as one of the main drivers of its performance and its transformation. To prepare tomorrow's leaders, 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.

The *Learning* teams' task is to contribute to L'Oréal's competitive advantage through 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 to benefit permanently from employees with the right skills for internal needs and to adapt to rapid changes in its markets.

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 addition, the mylearning.com portal, with nearly 52,000 regular users, aims to offer a broad range of innovative development resources 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.

(1) *L'Oréal ranks second worldwide for its social media strategy developed in 2019 by the Swedish firm PotentialPark.*

Faced with a growing demand for certifications, more and more Group employees are now taking *Massive Open Online Courses* (MOOCs), thanks to the partnership signed with industry leader Coursera. In 2019, almost 4,100 people registered for MOOCs, receiving nearly 26,800 training hours, with an exceptional certification rate of 28%.

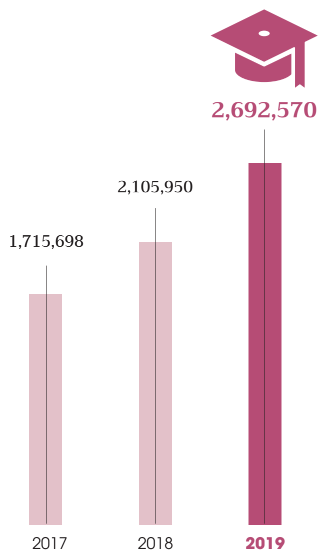
To allow an employee to access the most relevant development solution at the right time, the Group has set up a "*self-directed learning*" policy in the last two years, which gives employees the opportunity to direct their development. Today, this programme is available in all countries. The goal is for 50% of all training hours to be completed in "*self-directed learning*".

96% of the Group's employees benefited from at least one training session in 2019.

SHARING BEAUTY WITH ALL

Target 2020
100%

NUMBER OF TRAINING HOURS



BREAKDOWN BY GEOGRAPHIC ZONE

	Employees trained	Number of hours
Western Europe	27,295	686,263
North America	14,240	257,981
Emerging countries	43,142	1,748,326

Training at the service of the Group's performance

Training is central to the Company's major transformations: the digital revolution and changes 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 components:

- consolidating the new skills necessary for the digital transformation (e-commerce, *precision advertising, 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 **33 000 employees**.

For changes in managerial practices, the Group *Simplicity* project completed the third year of its rollout in 2019. It builds on deepening cooperation and trust, as well as agile and efficient teams.

The Group's desire for 2019 was both to extend this transformation by engaging all team managers via the *Team Leader* programme and to support the managers in the evolution of their practices. As at 31 December 2019, 7,500 Team Leaders have joined the movement, created in 2017, by more than 3,300 managers involved in this transformation. These Team Leaders are now supported in using the Simplicity tools daily with their teams.

To support changes in managerial practices over the long term, the Group is active in several areas:

- a second wave of 360° feedback for the top 2,000 leaders is underway, initiated last year by the members of the Executive Committee;
- a "*Leadership Survey*" for the top 300 managers was initiated this year. The results will be taken into account in awarding a portion of the bonus;
- a Simplicity for All programme to anchor these new practices in the daily lives of all employees.

Evaluation process

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.

Finally, all the training actions include an assessment process to measure the impact on performance.

The Learning *governance* of the Group

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 offerings in line 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 "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.).

L'Oréal's training policy rewarded

In 2019, L'Oréal received three awards for excellence from the Brandon Hall Group[1]:

- The best strategy for a corporate university rewarding our "Fast Learning Company" vision and the mylearning platform;
- The best use of "mobile learning" integrated in Wechat to develop L'Oréal employees in China;
- The best use of "mobile learning" to develop our Hairdresser partners in the Professional Products Division.

4.3.2.4. Creating the conditions for a positive and attractive work environment

The *L'Oréal Share & Care* programme: an accelerator of social progress

Throughout its history, L'Oréal has set itself the target of offering its employees security and protection to enable them to work with peace of mind. L'Oréal's *Share & Care* programme follows on from a 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 set a goal to create a work environment in which all employees can thrive both at a professional and personal level, and therefore enhancing the Group's appeal and employee loyalty.

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 is designed 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 countries in which L'Oréal has subsidiaries.

The four pillars of the *L'Oréal 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	Objectives	Main commitments achieved in all countries [1]
Protect (welfare schemes)	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 10 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.

(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.

(1) The Human Capital Management (HCM) award for excellence from the Brandon Hall Group is the most prestigious award in the industry. Often referred to as the Academy Awards by managers in training, this programme, launched in 1994, is the first of its kind in the learning industry.

In 2019, **91%** (1) of the Group's permanent employees benefited from financial protection in the event of unexpected life events, such as death or permanent disability.

SHARING BEAUTY WITH ALL — Target 2020 **100%**

In 2019, **94%** (1) of the Group's permanent employees had access to healthcare coverage reflecting best practices in their country of residence.

SHARING BEAUTY WITH ALL — Target 2020 **100%**

(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.

The development of the *L'Oréal Share & Care* programme

The second phase of the programme, launched in January 2017, is designed to strengthen the commitments by setting global targets for 2020. These measures include the introduction of a minimum paternity leave of 10 fully paid days, the strengthening of flex work, telecommuting and flexible working hour schemes, wherever local practices so allow, or the expansion of employee benefit schemes.

At the end of 2019, concrete progress had been made. For example, all subsidiaries had established 10 days of paternity leave paid at 100%. Some countries are even going further: for example, France and the United Kingdom moved to six weeks, when the United States instituted eight weeks of paternity leave. The United States was even cited in the 2019 rankings of "*Fatherly's Best Place To Work for Dads*" [(1)].

Other advances are being studies for a third stage of the programme. A first goal has already been set: the implementation, in the short term, of a minimum six weeks of paternity leave, 100% paid, everywhere in the world.

The assessment tools of the *L'Oréal 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 include 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

To assist in the changes to the *L'Oréal Share & Care* programme, an *Advisory board* composed of personalities from outside the Group, representing different geographic regions and consisting of academics, trade union officials or members of international organisations, met between 2014 and 2017.

Its objective was to cast a critical eye over the programme content, provide an analysis of the main social trends, and study best practices in the major regions of the world.

The ILO is 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.

(1) *https://www.fatherly.com/fatherly-at-work/best-places-to-work-for-dads-honor-roll/*

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.

The Group has made flexible work time a key component of the *Enjoy* pillar of the *L'Oréal Share & Care* programme as a key element of its appeal. The second stage in the *L'Oréal Share & Care* programme, which was launched in January 2017 for the period 2017-2020, is reinforcing these aspects even further, particularly telecommuting and flexible working hours. At the end of 2019, 58 of the 66 subsidiaries of the Group had established telecommuting policies and 55 subsidiaries had set up flexible working schedules.

Employees from all categories have chosen this option of part-time work. In 2019, there were 6,319 part-time employees, 5,779 of whom were women and 540 were men.

An active social dialogue with employees and their representatives

L'Oréal undertakes to respect the freedom of association and to recognise the right to collective bargaining as provided in the United Nations Global Compact, of which L'Oréal has been a member since 2003. In countries where freedom of association and the right to collective bargaining are restricted or non-existent, L'Oréal ensures that other modes of dialogue exist with its employees enabling them to report any concerns they have.

In the context of this general principle, the social climate at L'Oréal is the fruit of an ongoing dialogue between management, employees and their representatives, in accordance with trade union rights in each country and with a neutral attitude with regard to the various trade union organisations.

Employee representative institutions are in place in most of the European subsidiaries, in several Asian subsidiaries (China, South Korea, India, Indonesia, Japan), in Africa (South Africa, Kenya, Morocco), in North America and South America (Canada, United States, Argentina, Brazil, Chile, Colombia, Mexico), and also in Australia and New Zealand.

In total, 85% of the Group's employees work in subsidiaries where there are employee representative institutions. 44% of the Group's employees are covered by a collective agreement and 96% of them are covered by company collective agreements.

In the cases where there is no employee representative institution (often in subsidiaries with a small workforce), dialogue is conducted directly with the employees, in complete compliance with the principles of transparency and trust that are applied uniformly throughout the Group.

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 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. Today, the IEDS/EWC covers approximately 31,200 employees in 26 countries that are part of the European Economic Area, including the 18 countries with at least 150 employees when the body was renewed who are directly represented.

L'Oréal's social policy permits the signing of a certain number of company-level agreements in the subsidiaries every year. In 2019, 107 agreements were signed in France and 91 agreements were signed in the rest of the world. In total, the number of agreements in force at 31 December 2019 was 779, 524 of which were in France. 85 agreements in force cover health and safety, in whole or in part.

These agreements, which mainly concern work-time organisation, remuneration and working conditions (working hours, quality of life at work, professional equality, telecommuting, health and safety, etc.), contribute to the smooth running of the Company and to its performance, by reinforcing employee participation and dialogue with their representatives.

4.3.2.5. 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 remuneration policy is structured under a charter and is implemented by a network of Rewards experts present in the various countries.

In most of the countries, L'Oréal's lowest base salaries are generally higher than the national minimum wages in effect.

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	2017	2018	2019
Total	5,433	5,634	6,131

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 line with the L'Oréal policy to share growth with its employees, in 2018, L'Oréal launched its first employee shareholding plan at the international level. This plan was recognised by the French Federation of Employees and Former Employee Shareholder Associations (FAS), which awarded L'Oréal the CAC All Tradable Grand Prix in 2018.

The plan was designed to encourage broad participation 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].

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:

- to motivate and associate those who make significant contributions in future increases in the Group's results;
- strengthen involvement and the sense of belonging of beneficiaries by fostering long-term loyalty in a context of increased competition for talented personnel.

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 determined by a specific policy (see Section 7.4. "*Long-term incentive 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 18 April 2019 plan were women. More than 3,400 employees representing 10% of the managers around the world, nearly 57% of whom are employed in the international subsidiaries, benefit from at least one stock option plan or one conditional grant of shares plan (ACA) as at 31 December 2019.

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 optional and mandatory *profit sharing* schemes, €310 million were redistributed to L'Oréal's employees in 2019, on the basis of the 2018 results. In 1968, an employee profit sharing agreement ("participation") was signed in France, followed by another one ("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 *(in € million)*	2017	2018	2019
Total [1]	298	296	310

(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 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 83% 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.

(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.

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 supplementary pension schemes described below:

Defined contribution plan

In September 2003, L'Oréal set up a "defined contribution pension scheme".

All categories of employees are beneficiaries of this scheme, after one year of employment, which is financed jointly by L'Oréal and the employee, and which makes it possible for everyone to build up pension savings. As of the 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, as well as the annuity option selected. 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.

Order No. 2019-697 of 3 July 2019 transposing EU Directive of 16 April 2014 no longer allows the acquisition of additional new rights in schemes open on 20 May 2014 for employment periods after 31 December 2019. In this context, L'Oréal will focus on the rights at 31 December 2019, and remain attentive to the legislative framework that will be proposed for the establishment of a new scheme in 2020.

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 additional 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 until 31 December 2019, 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 ten 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 on the basis of the number of years of professional service in the Company until 31 December 2019, capped at 25 years, each year leading to a progressive and regular increase of 1.8% in 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 these schemes if they fulfil all conditions after ending 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 twenty years, then 1% per year for the following twenty 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. If 100% of the Profit Sharing is placed in the PERCO for five consecutive years, an employer's contribution of €600 gross is paid (capped at €4,600/year total PERCO employer contributions). Each year, employees may also transfer 10 days of saved leave time 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 €10,342 gross/month) as well as profit sharing, incentives and paid leave; The CFC may range from three months for 20 years' seniority to nine months for 30 years' seniority and more;
- 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 two months' salary for five 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 all or part of his/her retirement indemnities into time, or may choose to receive payment of all or part of the retirement indemnities, which will be made at the time the employees 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 eight 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 eight 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 benefits scheme for managers and employees governed by Article 36 of the AGIRC convention, the payment of a Spouse Pension to the surviving spouse. This ensures that the spouse has an income similar to the Surviving Spouse Pension paid for supplementary retirement contributions on the portion of remuneration greater than the annual cap on social security 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.

4.3.2.6. Promoting diversity and inclusion

L'Oréal's commitment to "Beauty for all" implies that the Group has teams that reflect diversity in order to respond to the aspirations of consumers around the world in their infinite diversity.

L'Oréal has set three objectives to continue to make progress on the challenges of diversity and inclusion:

1. Achieve gender equality at all levels and positions in the Company;
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 the Group's teams.

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 relies particularly 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.

In 2004, L'Oréal was a founding member of the first "Diversity Charter" in France, and is now a signatory of 21 charters around the world [(1)].

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

(1) *Egypt, Morocco, Hong Kong, Czech Republic, Hungary, Poland, Slovakia, France, United States, Austria, Denmark, Germany, Italy, Netherlands, Portugal, Spain, Australia, Brazil, Uruguay, Finland, Sweden.*

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 gender equality and reaching parity

Achieving real gender equality, up to the most strategic positions, is a key challenge for the Company, both to promote a culture of inclusion and to strengthen 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 opportunities for career development. Special attention is given to pivotal periods such as parenthood (see Section 4.3.2.4. "*L'Oréal Share & Care*").

Since 2007, L'Oréal has collaborated with the INED (National Institute for Demographic Studies), which analyses the differences in 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 2% between 2007 and 2018, and has now been eliminated for workers and supervisors. In 2019, the INED also completed an analysis of the 2018 pay spread in the following subsidiaries: Brazil, China, Germany, United Kingdom, Ireland, Nordic countries (Denmark, Finland, Sweden), United States, India, Italy, Spain, Russia, Mexico, and Canada, which represent 70% of the total number of L'Oréal employees.

L'Oréal and equity

At 31 December 2019, women account for:

- 70% of the total workforce
- 64% of managers
- 46% of expatriates in place
- 47% of key positions (1)
- 67% of employees who were promoted
- 66% of international brand directors
- 49% in positions of greater responsibility within L'Oréal SA(2);
- 54% in positions of greater responsibility within the Group (3);
- 30% of Executive Committee members
- 54% of the members of the Board of Directors.

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 the Fondation Agir Contre l'Exclusion (FACE) and the Kering Foundation in 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.

Concrete actions were taken in 2019, such as:

- An international inter-company study to measure the impact of these acts of violence for the Company. A total of more than 10,500 employees in five of our European subsidiaries (United Kingdom, Belgium, France, Italy, Germany) were asked to respond to the survey as part of this study;
- Awareness sessions to better understand domestic violence and its impact on work. Over 100 employees in France participated in the survey;
- Awareness kits for employees (posters, useful numbers, first recommendations, etc.);
- Events intended to mobilise and inform in the subsidiaries in question.

When it was launched in 2018, the #StOpE initiative against so-called "ordinary" sexism in the workplace, conducted by L'Oréal France with AccorHotels and EY, brought together 30 companies and organisations that had signed a commitment under the patronage of the French Minister for Equality between Women and Men and the Fight Against Discrimination. In 2019, these companies and organisations rolled out at least one of the eight priority actions identified and selected at the end of the work of a group of 100 representatives from the companies mobilised. In 2019, more than 20 new companies joined this commitment.

L'Oréal chose to have gender equality of its practices and policies audited. Today, the Group relies on two independent organisations to measure and evaluate the situation of each subsidiary: Gender Equality European & International Standard (GEEIS) and Economic Dividend for Gender Equality (EDGE).

Since 2010, the Group's head office in France and 23 of its countries have been awarded the GEEIS label, and are audited every two years☑ by Bureau Veritas to measure the progress achieved. The head office of the Group as well as Spain, France, Romania, Austria, Belgium, Netherlands, the Adria Balkan Hub (Bulgaria, Croatia, Slovenia) and Sweden were recertified in 2019.

As of this date, seven other L'Oréal entities rely on the Economic Dividend for Gender Equality (EDGE) certification process. The subsidiaries are audited by Flocert or Intertek to be certified. L'Oréal USA was the first subsidiary to obtain the label in 2014. In 2019 Australia, the Philippines, Brazil, Canada, Russia and India were recertified☑.

In 2019, a total of 30 countries ☑ continued to be EDGE or GEEIS certified.

☑ The Statutory Auditors have expressed reasonable assurance with regard to this indicator.
(1) Strategic and key positions at the Group level (around 1,300 positions).
(2) These positions represent 11.5% of L'Oréal S.A. employees as at 31 December 2019.
(3) These positions represent 5.8% of Group employees as at 31 December 2019.

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 2019, the Group employed 1,280 people with disabilities (under permanent and fixed-term contracts), i.e. 1.46% 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;
- Declaration of disability: create the conditions for employees to declare their disability, so that the Company can adapt positions, jobs and care;
- Digital accessibility: any new site must now meet this objective;
- Employee awareness: internal communication and training are closely linked to the success of the Disability pillar of the Diversity policy implemented at L'Oréal;
- Sharing best practices: collaboration with experts, associations and NGOs recognised in this issue is an important element in advancing inclusion within and outside the Group. An active member of the ILO since 2010, L'Oréal was one of the first signatories of the Charter of the Global Business and Disability Network in 2015.

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.

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 recruitments in its subsidiaries, L'Oréal wants to enable all individuals to take on high-level responsibilities within the Company, whatever their origins. In July 2019, L'Oréal joined Tent Partnership for Refugees, an international network of 130 companies that support refugees. This partnership will allow L'Oréal to enhance the socio-economic and multicultural diversity of its teams, and attract candidates concerned about this cause.

Training employees in diversity

In order to support these initiatives, L'Oréal trains its employees in diversity by organising Diversity Training Workshops. At the end of 2019, over 42,000 employees had participated in these sessions.

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 570 of the Group's employees, both men and women, have taken part in this programme. The Group worked to go further by partnering with Danone to create versions of the programme in Asia in 2014 (EVE Asia-Pacific), and Africa (EVE Africa) since 2017.

Beyond these three priority issues, L'Oréal's actions also extend to the LGBTI community. L'Oréal has been one of the sponsors of the UN Global LGBTI Standards of Conduct for Business since 2018. 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.

In this area, L'Oréal USA again received the maximum grade of 100 on the 2019 Corporate Equality Index of the Human Rights Campaign Foundation, which reflects its commitment to the equality of people from the LGBTI community within the Company.

Awards obtained in 2019

L'Oréal was recognised several times for its exemplary conduct in the area of diversity and inclusion:

- L'Oréal was recognised again in 2019 by the Bloomberg Gender-Equality Index saluting the most advanced companies in the area of parity.
- L'Oréal ranks in the international top 5 of the Equileap Awards and earned first place in France last year. This ranking, created in 2017, assesses the degree of gender equality of more than 3,500 listed companies in order to help investors make better investments on the basis of this new differentiating criterion.
- L'Oréal was ranked by the Financial Times in the top 100 of 10,000 European companies evaluated on their actions to promote inclusion.

4.3.3. Human rights policy

4.3.3.1. 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 Guidelines 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.

The Group completed a generic review of the Human Rights issues related to its operational activities and commercial relationships, and identified four groups of impacted stakeholders that inform the Group's Human Rights policy:

- The right to consumer health;
- The human rights of employees;
- The human rights of communities;
- Women's rights.

In order to achieve its goals in human rights and face these risks, L'Oréal has been a member of the United Nations Global Compact since 2003, and is committed to respecting all internationally recognised Human Rights. A specific partnership was also signed in 2019 with Danish Institute for Human Rights to support the Group in the implementation of Human Rights. This commitment to respect Human Rights is supported each year, at the highest level of the Company by its Chairman and Chief Executive Officer and by the Senior Vice President and Chief Ethics Officer, who also chairs the Group's Human Rights Committee. Aware of the magnitude of the challenge throughout its value chain, L'Oréal has set ambitious goals in favour of Human Rights, with respect to its consumers (4.3.3.2.), its employees and those of its suppliers (4.3.3.3.), local communities (4.3.3.4.) and women (4.3.3.5.) 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 at risk 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 3.4 "*Vigilance Plan*").
"Suppliers/Subcontractors and Child Labour"	Description of the main commitments concerning child labour by suppliers/subcontractors.
Employee evaluation system	"Treats all individuals in a respectful and consistent manner" ethical competency is included in the annual appraisal system for all employees.
Speak Up policy	L'Oréal's Speak up policy enables employees to report serious violations of Human Rights and Fundamental Freedoms and non-compliance 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 3.2.
An annual ethics *reporting* system	This system allows monitoring of the implementation of the ethics programme, particularly with regard to Human Rights. The subsidiaries are informed of their potential areas for improvement by the Office of the Chief Ethics Officer. 100% of the subsidiaries completed their annual ethics *reporting* in 2019.
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. On 10 December 2019, to celebrate the UN International Human Rights Day, the Group launched a training campaign on Human Rights to increase employee awareness of this issue. This campaign shows the link between different Group functions and Human Rights. In particular, the campaign highlighted certain Employees who work on these issues every day and offered a participatory platform. The Senior Vice-President and Chief Ethics Officer regularly visits the Group's entities all over the world to meet employees at all levels of the Company. In 2019, he visited 14 countries, making a total of 105 countries visited since the end of 2013. 98% of the subsidiaries have communicated on at least one Human Rights theme.
Training	Specific training is being rolled out for the management committees. • A specific, compulsory *e-learning* course on ethics covering certain Human Rights themes is currently being rolled out in all subsidiaries. As at 31 December 2019, 74% of the employees with access to the online module had completed this course. • In 2019, 88 purchasers were trained in responsible purchasing practices. This training is compulsory for any new purchaser. 97% of the Group's subsidiaries included subjects related to Human Rights in their local training programme.

4.3.3.2. 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.

100% of 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 relevant new scientific data;
- co-operation with the relevant authorities;
- precaution leading to the substitution of ingredients in the event of a proven or strongly suspected risk.

The launch of the au-coeur-de-nos-produits.loreal.fr website in 2019 is testimony to the Group's desire for increased transparency on this issue.

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 life cycle of the products. 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 assessment is conducted 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, and takes into consideration the conditions of use of the product. 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 health 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.

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 mobilisation against skin cancer (more than 110 million people have committed to having their moles checked to prevent melanoma since the beginning of the campaign in 2014); • L'Oréal Professionnel with its action to prevent musculoskeletal disorders: more than 35,000 downloads of the app that trains hairdressers on stretches and warming exercises to prevent musculoskeletal problems); 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 of 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 communicated worldwide to raise the awareness of all employees about respect of the 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 3.5.3.1.1. of this document).

4.3.3.3. 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 4.3.2.4.).
Employees of the Group's suppliers	L'Oréal seeks out suppliers that share its ethical commitments, namely 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 identified in the Group's risk mapping must sign an ethical commitment letter; some may also be audited. The details of this *Buy & Care* programme and its implementation are described in L'Oréal's Vigilance Plan in section 3.4 of this document, and in section 4.3.1.3.2.

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 and implementation of these rules are described in L'Oréal's Vigilance Plan (section 3.4 of this document), which also explains the Group's organisation with regard to Human Rights (see section 3.4.2.1.).

4.3.3.4. Measures taken in favour of local communities

As part of the "Developing sustainably" pillar with communities 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 by the end of 2020.

In 2019, **90,635 people** from underprivileged communities gained access to employment.

SHARING BEAUTY WITH ALL

Target 2020
100,000

2020 targets	2019 results
100,000 people from socially or financially deprived communities will be able to access work through the following programme:	90,635 people from socially or financially deprived communities have found work.
• *Solidarity Sourcing;*	70,912 people accessed work through the *Solidarity Sourcing* programme.
• Professionalisation in the business of beauty;	18,443 people from extremely vulnerable environments were trained in beauty professions.
• Employment of disabled people and people from under-represented socio-ethnic groups.	1,280 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 2019. 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.

SOME MEASURES TAKEN IN FAVOUR OF LOCAL COMMUNITIES

Throughout the production chain	The environmental risks related to L'Oréal's sites and activities may potentially have an impact on the local communities in which 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 detail in Section 4.3.1.
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 *"Giving preference to the use of sustainably sourced renewable raw materials"* in Section 4.3.1.3.3. *"Throughout the product life cycle"*.

Solidarity Sourcing : Using the Group's purchasing power to serve social inclusion

Through its *Solidarity Sourcing* programme, due 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).

Solidarity Sourcing offers a novel purchasing approach due to its global, holistic nature:

- the programme is deployed in all the geographic zones;
- it concerns all areas of purchases (raw materials, packaging, subcontracting, promotional items and indirect *retail,* etc.);
- it comprises an environmental aspect for the projects that require it.

The ambition of the programme is to associate economic performance with a positive social, societal and environmental footprint.

Global beneficiaries of the Programme included 2,452 people with disabilities in 27 countries in 2019. This represents an increase of 64% over five years.

L'ORÉAL
SOLIDARITY
SOURCING

In 2019, as part of the Solidarity Sourcing programme, **70,912** economically or socially vulnerable people gained permanent employment.

In 2019, the *Solidarity Sourcing* programme enabled 70,912 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 14,070 people (+25%) compared with 2018 on a like-for-like basis. *Solidarity Sourcing* has 318 projects up and running in 51 countries, with the support of 47 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 2019, 140 purchasers were involved in a *Solidarity Sourcing* project, an increase of 26% over the last three years.

In addition, L'Oréal encourages its strategic suppliers to implement programmes inspired from the *Solidarity Sourcing* programme for their own purchases. In 2019, 17% 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 2019, **17%** of strategic suppliers were involved in the Group's Solidarity Sourcing programme.

SHARING BEAUTY WITH ALL

Target 2020
20%

FOCUS on the Group's solidarity purchases in France

67 projects of the global *Solidarity Sourcing* programme support employment in France (1 in 5 projects). France, the L'Oréal Group's country of origin, is the country that undertakes the highest number of *Solidarity Sourcing* projects (out of 51 countries in which the programme operates).

In 2019, solidarity purchases in France represented 2,362 full-time jobs. The number of jobs generated by the *Solidarity Sourcing* programme in France was up 50% compared with 2018 (789 jobs), thanks in large part to the mobilisation of Group purchasing managers and 62 suppliers.

These projects cover a wide range of purchases, including cardboard, glass and plastic packaging, POS advertising materials, and services, packaging and logistics:

- nearly 25% of the beneficiaries are people with disabilities (549 jobs);
- more than half of the beneficiaries are in zones classified as vulnerable (1,337 jobs). These are areas classified as "Rural Revitalisation Zones" (ZRR) and "Sensitive Urban Zones" (ZUS). These jobs, located on the sites of 22 Group suppliers, cover production needs (glass bottles, tubes, cardboard boxes, subcontracting) or services related to our business.
- 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 prepare their CVs, etc. For the last nine years, more and more employees have demonstrated their commitment. In 2019, with some 27,500 participants and more than 156,200 hours of voluntary work, the L'Oréal *Citizen Day* provided support to 969 associations in 61 countries.
***Beauty for a Better Life*: a L'Oréal Foundation programme**	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. In 2019, the L'Oréal Foundation launched a new initiative to allow access to this care for women in fragile social situations who are geographically isolated: a bus fitted with a care room travelled to rural areas and priority neighbourhoods to give 850 women these social-aesthetic care services. In 2019, more than **65 000 beauty care** and well-being treatments were provided in France, enabling the L'Oréal Foundation to support more than 18,000 disadvantaged people. At end-2019, as part of the "Beauty For a Better Life" programme, **18 443** people from extremely vulnerable environments were trained in beauty professions.
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. **600** children operated on in 2019 as part of Opération Sourire.

(1) L'Oréal, all geographic zones and all areas of purchases.

4.3.3.5. 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, cover namely 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 *"Guaranteeing and achieving professional gender equality"* in section 4.3.2.6. *"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	The L'Oréal Foundation in partnership with UNESCO has been working since 1998, through its *Pour les Femmes et la Science* programme, for equal recognition of women and men in science, in order to give the world a real chance to face the great challenges of tomorrow effectively. As of this date, the International "L'Oréal-UNESCO Pour les Femmes et la Science" Prize has honoured 107 women, distinguished for the excellence of their scientific work. They include Professors Elizabeth H. Blackburn and Ada Yonath, who then received a Nobel Prize. Since 2000, the programme has also recognised the 15 most promising female researchers among the 250 young talents of the national and regional programmes who embody the future of science. A total of more than 3,300 women were supported with grants in 118 countries. To support these scientific women even further, the L'Oréal Foundation has also made a commitment to train the Laureates and Young Talents in skills to which they generally don't have access during their academic courses (such as Management, Communication or Negotiation), to allow them to break the glass ceiling more easily. In 2018, the Foundation launched an ambitious initiative, titled "Men for Women in Science". The goal is to involve the leaders of scientific institutions, who play a key role in changing the system, to join the fight for a more inclusive science and society that benefits everyone. Over 50 male scientific leaders around the world have made a commitment through a charter to lift the brakes on the advancement of women in the sciences and accelerate a change in the culture and practices. Since the under-representation of women in the scientific fields originates during the school years, the Foundation launched the "For the Girls and Science" programme in 2014. The goal: to improve the appeal of the sciences, encourage scientific careers for young female students, and fight gender stereotypes. Over 50,000 students have received awareness training since the launch of the programme through class interventions and "Science, is it for me?" awareness days. . More than **3,300 women in science** from over 118 countries have received awards or been recognised 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 brand, 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. Every year, through its *Women of Worth* programme in the United States, L'Oréal Paris awards US$135,000 to 11 exceptional women to support them in their efforts to help their communities.
Responsible and inclusive purchasing	In 2019, with its Solidarity Sourcing Programme, the L'Oréal Group received the GEEIS-SD Prize (Gender Equality European & International Standard, SDG: Sustainable Development Goals), which recognises five initiatives that promote gender equality at a ceremony held under the patronage of France's permanent delegation to the United Nations. Two-thirds of the beneficiaries of the Group's Solidarity Sourcing programme (see *"Solidarity Sourcing"* in Section 4.3.3.4) are women. A total of 47,260 beneficiaries come from 30 projects specifically related to the emancipation of women in 17 countries, with the support of 14 associations 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* (female entrepreneurs); • single mothers; • military wives; • victims of violence. Other than agricultural professions, these projects concern a broad range of industrial activities and services: production, assembly, logistics, sales, marketing, or digital business activities.

4.3.4. 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, in particular the Sapin 2 law in France.

L'Oréal is a member of the International Chamber of Commerce Anti-Corruption Commission and a member of *Transparency International 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.

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 Chairman and Chief Executive Officer, the Director of Risk Management and Compliance is responsible for designing and monitoring the corruption prevention programme and relies on the global network of internal control managers for its implementation. He leads the specific risk mapping.
The Country Managers	The Country Managers ensure the correct deployment of the corruption prevention programme and its respect.
Employees	Employees apply the corruption prevention policy in the context of their activities. In case of doubt, they may contact their management, their Chief Counsel, their Administrative & Financial Director, their Internal Control Manager, their Ethics Correspondent or the Director of Risk Management and Compliance and, ultimately, the Chief Ethics Officer, if they have any questions about respect of 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 preventing corruption :

- ***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;
  - respect of these commitments by intermediaries 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 area; it is now integrated within 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.

Corruption prevention measures implemented within the Group

Group-level risk assessment	The risk of corruption is included in the Group 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 82% of involved employees as of 31 December 2019.
Internal Control within the scope on the control procedures for operational activities	The Group's Internal Control framework provides for control procedures on operational activities, in particular for the separation of tasks and accounting controls. 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 assignments, 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 diligences 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 the companies.
Third-party due diligences	The third-party management process (customers/suppliers) includes corruption risk. 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 was recognised for the tenth time as one of the World's Most Ethical Companies by the Ethisphere Institute.

4.4. *SHARING BEAUTY WITH ALL:* 2019 RESULTS

INNOVATING SUSTAINABLY

2020 TARGETS	2019 RESULTS		2018 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 in at least one of the following criteria:	**85%**	of new or updated products have an improved environmental or social profile.	79%
the new formula uses renewable raw materials that are sustainably sourced or derived from green chemistry;	**59%**	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.	43%
the new formula reduces the product's environmental footprint, particularly with regard to water use;	**46%**	of new or updated products have an improved environmental profile due to a new formula with a lower environmental footprint.	48%
the new packaging has an improved environmental profile;	**67%**	of new or renovated products have an improved environmental profile due to packaging with a lower environmental footprint.	58%
the new product has a positive social impact.	**40%**	of new or renovated products have an improved social profile as they notably incorporate raw materials from Solidarity Sourcing programmes.	31%

PRODUCING SUSTAINABLY

2020 TARGETS	2019 RESULTS		2018 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.	**-78%**	reduction in CO_2 emissions from plants and distribution centres in absolute value since 2005.	-77%
L'Oréal will have reduced its water consumption by 60% per finished product, compared to 2005.	**-51%**	reduction in water consumption at plants and distribution centres compared to 2005.	-48%
L'Oréal will have reduced its waste generation by 60% per finished product, compared to 2005.	**-35%**	reduction in waste generated from plants and distribution centres compared to 2005.	-37%
L'Oréal will send zero industrial waste to landfill.		The objective of sending "zero" waste to landfill (excluding regulatory obligations) was achieved for all plants and distribution centres in 2018.	
Reduce the CO_2 emissions linked to the transport of its product by 20% (in sales unit/km), compared with 2011.	**-12%**	reduction in CO_2 emissions linked to the transport of product (in grams of CO_2 per sales unit per km) since 2011 with 434,293 tonnes of CO_2 emitted in 2019, which represents 0.0243 g CO_2 per sales unit per km.	-8%

LIVING SUSTAINABLY

2020 TARGETS	2019 RESULTS		2018 RESULTS
L'Oréal will evaluate the environmental and social profile of all its products using an assessment tool. All brands will make this information publicly available to allow consumers to make sustainable choices.	**100%**	of new or renovated products in 2019 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.	**89%**	of brands have assessed their environmental and social impact.	88%
Every brand will report on its sustainability progress and associate consumers with its commitments.	**57%**	of brands conducted a consumer awareness initiative.	57%
Consumers will be able to influence L'Oréal's sustainability efforts through a consumer advisory committee.		In 2019, 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 several studies conducted with American, Indian and European consumer panels to understand their expectations and fine-tune its policies.	

DEVELOPING SUSTAINABLY…

2020 TARGETS	2019 RESULTS		2018 RESULTS
…WITH COMMUNITIES			
100,000 people from underprivileged communities will gain access to employment through the following programmes:	**90,635**	people from underprivileged communities gained access to employment.	63,584 people
Solidarity Sourcing;	**70,912**	people gained access to work *through* the Solidarity *Sourcing* programme.	56,842 people
Vocational training in the beauty industry;	**18,443**	people in difficult social or economic situations participated in free vocational training in beauty professions.	5,565 people
Employment of disabled people.	**1,280**	people with disabilities worked for L'Oréal.	1,177 people
…WITH SUPPLIERS			
All strategic suppliers [(1)] will be evaluated and selected on the basis of their social and environmental performance.	**87%**	of the Group's strategic suppliers have been evaluated and selected on the basis of their environmental and social performance. All the suppliers evaluated represent more than 81% of total direct purchases (raw materials, packaging articles and subcontracting). Furthermore, in 2019, 1,562 social audits ☑ were carried out, making a total of over 12,400 since 2006.	83%
All strategic suppliers [(1)] will have completed a self-assessment of their sustainability policy with the Group's support.	**96%**	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 2019, had been assessed on their social, environmental and ethical policies, as well as the application of such policies at their own suppliers, by Ecovadis.	93%
All suppliers will have access to L'Oréal training tools to improve their sustainability policies.		Our dedicated on-line 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 will be associated with our Solidarity Sourcing programme.	**17%**	of strategic suppliers are involved in the Solidarity Sourcing programme.	13%
…WITH EMPLOYEES			
Employees will benefit from health cover that reflects best practices in their country of residence.	**94%**	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, such as death or permanent disability.	**91%**	of the Group's permanent employees have access to financial protection in the event of a life-changing accident (including death or permanent disability).	93%
Employees will have access to training, wherever they are in the world.	**96%**	of the Group's employees benefitted from at least one training session in 2019.	88%

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

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

4.5. METHODOLOGICAL NOTES

4.5.1. Social data

4.5.1.1. Scope of consolidation

The employees indicated and their breakdown correspond to the total workforce(1).

The employees of the French companies Retail Excellence 4, La Roche Posay, Saint Gervais Mont Blanc and Logocos, representing a total of 872 employees, are included in the total workforce. The various breakdowns of these numbers are calculated in proportion to the breakdown of the workforce in France (for Retail Excellence 4, La Roche Posay, Saint-Gervais Mont-Blanc) and Germany (for Logocos). They are excluded from the indicators on diversity, minimum salaries and the number of collective agreements. Logocos and Retail Excellence 4 are also excluded from the training indicators.

4.5.1.2. 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.

4.5.1.3. Data

Four methods are used to collect data for the defined scope:

- most of the data are collected using the dedicated *"Country Reporting"* intranet, available in all countries in which there is a L'Oréal subsidiary. The system covers several topics: employees, training, absenteeism, labour relations, the *L'Oréal Share & Care* programme, remuneration, diversity, recruitment and *profit sharing.* At the beginning of each financial 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 *L'Oréal 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.

4.5.2. Health and safety data

4.5.2.1. 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 the plants, distribution centres, administrative sites and research 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, the data for 3 sites recently attached to the Group are not included in the 2019 EHS *reporting:* the Logocos NaturKosmetik plant in Germany, the Stylenanda distribution centre and the administrative site corresponding, both in South Korea.

4.5.2.2. 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.

4.5.2.3. 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.

When the data are compiled, each site or Zone 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.

In rare cases, certain data already published for the preceding year may be modified when inaccuracies or errors are discovered after the end of the financial year. These data are tracked and are included in the annual consistency review.

(1) *The subsidiaries in Venezuela were deconsolidated at 31 December 2015. Certain recent acquisitions/subsidiaries (Côte d'Ivoire, Bangladesh, and Modiface), whose information systems have not yet been integrated in the Group's system, are excluded from the reporting. They represent 0.08% of the Group's employees.*

4.5.3. Environmental data

4.5.3.1. 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, the data for 3 sites recently attached to the Group are not included in the 2019 EHS reporting for the Group: tthe Logocos NaturKosmetik plant in Germany, the Stylenanda distribution centre and the administrative site corresponding, both in South Korea.

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 2019, 86 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: 100% of these sites provided information relating to energy consumption and CO_2 emissions, 100% of them reported their water consumption and 95% of the sites reported their quantity of waste.

4.5.3.2. 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 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 2016 IEA edition for 2019 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 given 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 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.

Water: The "dry" plant concept was renamed "*Waterloop factory*" in 2019. All the related definitions are unchanged.

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 packaging compounds items, wastewater treatment plant sludge, broken pallets, etc.).

In order to improve the system of waste performance monitoring and exhaustively record the waste generated by the use of returnable packaging, a system of recording returnable packaging at source was put in place in 2014. L'Oréal thus records the weight of its returnable packaging at source in transportable waste, with each of the sites being responsible for maximising the number of rotations. The recording of the weight of returnable packaging at source is a measure intended to encourage rotation of this returnable packaging and contributes, through its reuse, to increasing of their useful life.

Sites that no longer send any waste for destruction or to landfill are considered to have attained a 100% recovery rate.

The material recovery index corresponds to the quantity of waste, reused or recycled, excluding transport pallets, divided by the total amount of waste generated, including the returnable packaging, excluding waste sent to landfill due to regulatory obligations, and excluding transport pallets.

The recovery index corresponds to the quantity of waste recovered, whether material or energy, excluding transport pallets, divided by the total amount of waste generated, including returnable packaging in rotation, excluding waste sent to landfill due to regulatory obligations and excluding transport pallets.

To obtain a more accurate understanding of the recovery and raw material recovery indices, these indicators are now calculated excluding transport pallets that represented a significant share of the returnable packaging in rotation.

(1) *Emissions & Generation Resource Integrated Database.*
(2) *Environmental Protection Agency.*

4.5.3.3. 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 all 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.

In rare cases, certain data already published for the preceding year may be modified when inaccuracies or errors are discovered after the end of the financial year. These data are tracked and are included in the annual consistency review.

4.5.4. Human Rights data

4.5.4.1. 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. The subsidiaries[1] Retail Excellence 4 and Logocos are excluded from the e-learning data.

4.5.4.2. Indicators

The indicators chosen are those within the scope of the applicable regulations, with in particular the aim of data comparability.

4.5.4.3. 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 Office of the Chief Ethics Officer 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).

4.5.5. Innovating sustainably data

4.5.5.1. 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 2019 which did not exist in 2018.

The products considered in 2019 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.

4.5.5.2. 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.

(1) *The subsidiaries in Venezuela were deconsolidated at 31 December 2015. Certain recent acquisitions/subsidiaries (Côte d'Ivoire, Bangladesh, and Modiface), whose information systems have not yet been integrated in the Group's system, are excluded from the reporting. They represent 0.08% of the Group's employees.*

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 practices in terms of Sustainable Development or those whose accessibility and use by older people or people with disabilities is favoured.

4.6. CROSS-REFERENCE TABLES

4.6.1. Table of concordance for reporting standards in respect of social, environmental and societal matters

Sections or pages	Non-financial information statement – Articles L. 225-102-1 and R. 225-105 of the French Commercial Code	Global Compact
	PRINCIPLES	
4.5	Methodological notes	
4.7.1	Opinion on the compliance of the information	
4.7.1	Opinion with regard to the true and fair view given by the information	
12-13, 1.2	Business model	
	MAIN RISKS:	
4.2.2	• Environment	
4.2.2	• Human resources	
4.2.2	• Human Rights	
4.2.2	• The fight against corruption	
4.2.2, 141	• The fight against tax evasion	
	POLICIES, INDICATORS, RESULTS:	
4.3.1	• Environment	
4.3.2	• Human resources	
4.3.3	• Human Rights	
4.3.4	• The fight against corruption	
141	• The fight against tax evasion	
	INFORMATION AND COMMITMENTS	
182-189	Consequences on climate change	
197	Collective agreements concluded within the company	
190-191, 195-202	Working conditions of employees	
200-202	Measures to combat discrimination and promote diversity	
202, 207	Measures in favour of disabled people	
	SOCIETAL COMMITMENTS IN FAVOUR OF:	
4.3.1	• Sustainable Development	
167-169, 174-177	• Circular economy	
167-168	• Fight against food waste	
167-168	• Fight against food insecurity	
205	• Respect for animal welfare	
168	• Responsible, fair and sustainable food	
	SOCIAL, ENVIRONMENTAL, AND SOCIETAL INFORMATION	
	SOCIAL INFORMATION	
	Employment	#3 to 8 and #A, #D
188	• Total workforce	
188	• Distribution of employees by gender, by age and by geographic zone	
189, 192	• Recruitments	
189	• Dismissals	

Sections or pages	Non-financial information statement – Articles L. 225-102-1 and R. 225-105 of the French Commercial Code	Global Compact
197-200	• **Remuneration and trends**	
	Work organisation	#3 to 8
197	• Organisation of working time	
189	• Absenteeism	
	Social relation	#3 to 8
197	• Organisation of the social dialogue	
197	• Situation with regard to collective agreements	
	Health & Safety	#3 to 8
190-191	• Health and safety conditions at work	
197	• Status report on agreements signed with trade union organisations with regard to health and safety at work	
190	• Frequency and severity of accidents at work	
189	• Occupational diseases	
	Training	#3 to 8
192-195	• Training policy implemented	
193	• Total number of training hours	
	Equality of treatment	#3 to 8 and #A, #D
200-202	• Measures taken to promote gender equality	
202, 207	• Measures taken in favour of employment and professional insertion of the disabled	
200-202	• Policy to combat discrimination	
	Promotion & compliance with the ILO conventions	#3 to 8 and #A, #D
4.3.3.3., 170	• Compliance with freedom of association and the right to collective bargaining	
200-202	• Elimination of employment and professional discrimination	
4.3.3.3., 170	• Elimination of forced or compulsory labour	
4.3.3.3., 170	• Effective abolition of child labour	
	ENVIRONMENTAL INFORMATION	
	General environmental policy	#9 to 11
4.3.1.	• 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	
4.3.1.	• Measures to prevent environmental risks and pollution	
161	• 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 to 11
159-186	• Means devoted to prevention of environmental risks and pollution	
161	• Noise disturbances and any other pollution related to an activity	
	Circular economy	#9 to 11
	(1) Prevention and management of waste	
167-169, 174-177	• Measures to prevent, recycle, reuse, other forms of recovery and waste elimination	
167-168	• Fight against food waste	
	(1) Sustainable use of resources	
166-167, 180-181	• Water consumption and water supply depending on local constraints	
161-182	• Raw material consumption and measures taken to improve efficiency in their use	

Sections or pages	Non-financial information statement – Articles L. 225-102-1 and R. 225-105 of the French Commercial Code	Global Compact
161-166	• Energy consumption, measures taken to improve energy efficiency and use of renewable energies	
159-160	• Soil use	
	Climate change	#9 to 11
182-184	• Significant sources of greenhouse gas emissions generated by the activity, in particular by the use of goods and services produced by the Company	
161-163, 182-186	• Ambitious voluntary medium- and long-term greenhouse gas emission reduction targets and the means implemented to achieve them	
182-186	• Adaptation to the consequences of climate change	
	Protection of biodiversity	#9 to 11
178-180	• Measures taken to preserve or develop biodiversity	
	SOCIETAL INFORMATION	
	Societal commitments for Sustainable Development	#16 to 18 and 21 and #C
178-180	• Impact of the Company's activity on employment and local development	
207-209	• Impact of the Company's activity on neighbouring or local populations	
146-148	• Relationships with the Company's stakeholders and means of dialogue with them	#2 and 16 to 18 and #21
146-148, 181, 209-210	• Partnership or philanthropy actions	
	Subcontractors and suppliers	#2 to 11 and #B
170-174, 206-209	• Taking into account social and environmental issues in purchasing policy	
170-174, 206-209	• Consideration of their social and environmental responsibility in relations with suppliers and subcontractors	
	Fair practices	
212-213	• The actions taken to prevent corruption	#12 to 14
204-206	• The measures taken in favour of consumer health and safety	#6 to 8
203-211	**Other actions taken in favour of Human Rights**	#3 to 5 and #A to D

4.6.2. 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	4.3.2.
	102-9	*Supply chain*		Fully compliant	1.2.7.
	102-10	Significant changes to the organization and its *supply chain*		Fully compliant	1.2.7.
	102-11	Precautionary Principle or approach		Fully compliant	1.2.6. - 3.2.
	102-12	External initiatives		Fully compliant	4.1.2.
	102-13	Membership of associations		Fully compliant	4.1.2.
	102-14	Statement from senior decision-maker		Fully compliant	Introduction
	102-15	Key impacts, risks, and opportunities		Fully compliant	1.2.3. - 3.5. - 4.2.
	102-16	Values, principles, standards, and norms of behaviour		Fully compliant	4.3.
	102-17	Mechanisms for advice and concerns about ethics		Fully compliant	3.4.4. - 4.3.3. - 4.3.4.
	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	4.1.2.

Theme	Standard number	Disclosure title	Additional information	Level of compliance	Location of information
	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.
	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	1.2.4.
	102-28	Evaluating the highest governance body's performance		Fully compliant	2.4.1.2.1. 4.1.2.
	102-29	Identifying and managing economic, environmental, and social impacts		Fully compliant	2.4.1.1. 4.1.2.
	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	4.1.2.
	102-41	Collective bargaining agreements		Fully compliant	4.3.2.4.
	102-42	Identifying and selecting stakeholders		Fully compliant	4.1.2.
	102-43	Approach to stakeholder engagement		Fully compliant	4.1.2.
	102-44	Key topics and concerns raised		Fully compliant	4.1.2.

Theme	Standard number	Disclosure title	Additional information	Level of compliance	Location of information
	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	4.1.2. - 4.5.
	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	4.5.
	102-49	Changes in *reporting*		Fully compliant	4.5.
	102-50	Reporting period		Fully compliant	1.
	102-51	Date of most recent report		Fully compliant	1.
	102-52	Reporting cycle		Fully compliant	4.5.
	102-53	Contact point for questions regarding the report		Fully compliant	At the end of Report
	102-54	Claims of reporting in accordance with the GRI Standards		Fully compliant	4.5.
	102-55	GRI content index		Fully compliant	4.6.
	102-56	External assurance		Fully compliant	4.7.
Management Approach	103-1	Explanation of the material topic and its Boundaries		Fully compliant	4.1. - 4.3.
	103-2	The management approach and its components		Fully compliant	4.1. - 4.3.
	103-3	Evaluation of the management approach		Fully compliant	4.1. - 4.3.
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	3.5. 4.3.4.
	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	4.3.3.3. 4.3.4.

Theme	Standard number	Disclosure title	Additional information	Level of compliance	Location of information
ENVIRONMENTAL					
Energy	302-1	Energy consumption within the organisation	Fuel consumption from non-renewable sources: 198,337,385 kWh; Fuel consumption from renewable sources: 84,102,928 kWh; Total consumption of non-renewable electricity: 17,197,667 kWh; Total consumption of renewable electricity: 379,142,681 kWh; Total consumption of non-renewable heating: 26,545,797 kWh; Total consumption of renewable heating 17,846,443 kWh; Total quantity of energy produced on sites: 31,964,875 kWh 69% of renewable energy in total energy consumption	Fully compliant	4.3.1.3.1.
	302-3	Energy intensity	Energy intensity: 122 kWh/1,000 FP	Fully compliant	4.3.1.3.1.
	302-4	Reduction of energy consumption		Fully compliant	4.3.1.3.1.
Water	303-1	Water withdrawal by source	Volume of water withdrawn – Surface water, including water from wetlands, rivers, lakes and oceans, and ground water: 255,696 m³ Volume of water withdrawn – Rainwater collected directly and stored: 4,871 m3 Volume of water withdrawn – Wastewater from another organisation: 0 m³ Water from municipal water supplies or water from other water utilities: 1,898,749 m³ Total volume of water consumed by plants and distribution centres: 2,159,315 m³; 37% of water consumption intended for cleaning (plants and distribution centres)	Fully compliant	4.3.1.3.1.
Biodiversity	304-2	Significant impacts of activities, products, and services on biodiversity		Fully compliant	4.3.1.3.3
Emissions	305-1	Direct (Scope 1) GHG emissions		Fully compliant	4.3.1.3.1. - 4.3.1.4.1.
	305-2	Energy indirect (Scope 2) GHG emissions		Fully compliant	4.3.1.3.1. - 4.3.1.4.1.
	305-3	Other indirect (Scope 3) GHG emissions		Fully compliant	4.3.1.3.1. - 4.3.1.4.1.
	305-4	GHG emissions intensity	Intensity of direct CO_2 emissions at 31/12/2019: 7.1 g eq. CO_2/FP (scope 1); Change in the intensity of direct CO_2 emissions compared with 2005: -67% Intensity of indirect CO_2 emissions at 31/12/2019: 1.3 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 31/12/2019: 8.5 g eq. CO_2/FP (Scope 1, Scope 2, Market-based) Change in the intensity of CO_2 emissions compared with 2005 (direct + indirect): -84%	Fully compliant	4.3.1.3.1. - 4.3.1.4.1.
	305-5	Reduction of GHG emissions	Change in direct CO_2 emissions compared with 2005 (Scope 1): -54% Change in indirect CO_2 emissions compared with 2005 (scope 2, Market-based): -94%)	Fully compliant	4.3.1.3.1. - 4.3.1.4.1.
Effluents and Waste	306-2	Waste by type and disposal method	Waste recovered for use as a source of energy: 44,230 tonnes; Waste recovered through reuse and recycling: 65,310 tonnes Waste incinerated without recovery for use as a source of energy: 3,942 tonnes	Fully compliant	4.3.1.3.1.
	306-3	Significant spills		Fully compliant	4.3.1.2.

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, 85% of all direct L'Oréal suppliers have participated in the CDP Supply Chain Climate Change programme, and 69% have reported target actions.	Fully compliant	4.3.1.3.2.
SOCIAL					
Employment	401-1	New employee hires and employee turnover	Employee turnover: 13.2%	Fully compliant	4.3.2.
Occupational Health and Safety	403-1	Workers representation in formal joint management–worker health and safety committees		Fully compliant	4.3.2.1. - 4.3.2.4.
Training and education	404-1	Average hours of training per year per employee		Fully compliant	4.3.2.3.
	404-3	Percentage of employees receiving regular performance and career development reviews	All employees receive an annual performance and career development review.	Fully compliant	4.3.2.5.
Child labour	408-1	Operations and suppliers at significant risk for incidents of child labour	96% 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 2019, had been assessed on their social, environmental and ethical policies, as well as the application of such policies at their own suppliers, by Ecovadis. For social audits, in the event of major non-conformities, corrective action plans are put in place and are subject to a follow-up audit. The most serious cases of non-compliance or the absence of effective implementation of a corrective action plan may lead to the cessation of commercial relations.	Fully compliant	3.4. 4.3.1.3.2.
Forced labour	409-1	Operations and suppliers at significant risk for incidents of forced or compulsory labour		Fully compliant	3.4. 4.3.1.3.2. 4.3.3.

Theme	Standard number	Disclosure title	Additional information	Level of compliance	Location of information
Human Rights Assessment	412-1	Operations that have been subject to Human Rights reviews or impact assessments		Fully compliant	4.3.3.
	412-2	Employee training on Human Rights policies or procedures		Fully compliant	4.3.3.
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) 93% Audits – Europe: 138; Audits – Asia-Pacific: 865; Audits - Oceania: 12; Audits – Americas: 435; Audits – Africa, Middle East: 112. Of all cases of non-compliance: 38% were related to working conditions, health or safety, 24% were related to working hours, 19% were related to wages, 19% 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	4.3.1.3.2.
Customer Health and Safety	416-1	Assessment of the health and safety impacts of product and service categories		Fully compliant	4.3.3.2.
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	4.3.1.3.3. 4.3.3.2.

4.7. STATUTORY AUDITOR'S REPORTS

4.7.1. 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, 2019)

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, 2019 (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.225105 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 evasion 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.2251021 III, as well as information regarding compliance with human rights and anticorruption 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 31% 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 nine people between September 2019 and January 2020 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.

(1) *Selected sample: Verification of human resources and human rights information: three subsidiaries: Brazil, China and Germany/Verification of environmental and health/safety information: Suzhou, Yichang, Burgos, Rambouillet, Lassigny, Caudry, Nairobi, Warsaw and Istanbul plants; China, Burgos, Vémars, Poland, Czech Republic and Thailand distribution centers; China research and innovation center; Shanghai, Hudson Yards, Clichy, Centre Charles Zviak, Poland and Portugal administrative sites; France sales force; United Kingdom stores.*

Conclusion

Based on our work, nothing has come to our attention that causes us to believe that the consolidated 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 and Paris-La Défense, February 17, 2020

One of the Statutory Auditors

PricewaterhouseCoopers Audit

Anne-Claire Ferrié	Emilie Bobin
Partner	Sustainable Development Partner

Appendix: List of information that we considered to be the most important

Key performance indicators and other quantitative outcomes:

- environment: finished goods, energy consumption (of which percentage of renewable energy), emissions of scopes 1, 2 and 3 greenhouse gases, 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 an improved CSR impact, renewable raw materials, certified or recycled packaging materials, brands that have assessed their CSR impact, and brands that have carried out an awareness-raising measure;
- human resources: accident frequency and severity rate, MESUR visits, headcount and the breakdown thereof, turnover, absenteeism, *Share & Care*, social dialogue, profit sharing schemes, training, and diversity;
- human rights: awareness-raising and training at L'Oréal entities on human rights, child labor, forced labor, ethics indicators, number of whistleblowing reports, non-compliance issues identified during social audits and the breakdown thereof, people from underprivileged backgrounds who have had access to work, and strategic suppliers associated with the Solidarity Sourcing program;
- anti-corruption: employee anti-corruption training, and corruption risk mapping in the various countries where the Group operates.

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;
- fight against tax evasion: information about the rollout of the tax charter.

4.7.2. 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, 2019

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.

L'Oréal S.A.

14, rue Royale

75008 Paris, 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, 2019 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;
  - 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 produced;
  - direct and indirect CO_2 emissions using the "market-based" and "location-based" method, total energy consumption and by finished good, 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 and 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 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 Germany, Brazil and China representing 20.5% 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), Brazil (Sao Paulo), Canada (DC Canada), China (DC China, Suzhou, Yichang), Spain (Burgos, DC PP Int Burgos), the USA (DC S. Brunswick USA, DC SC Pennsylvania, Franklin), France (Aulnay, Caudry, DC Vémars, Lassigny, Mourenx, Ormes, Rambouillet), India (Baddi), Indonesia (Jakarta), Kenya (Nairobi), Mexico (San Luis Potosi), Poland (DC Poland, Varsovie), Czech Republic (DC Czech Republic), Thailand (DC Thailand) and Turkey (Istanbul), representing 42.7% 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 with

the Guidelines.

Paris-La Défense and Neuilly-sur-Seine, February 17, 2020

The Statutory Auditors

Deloitte & Associés		PricewaterhouseCoopers Audit	
Frédéric Moulin Partner	Julien Rivals Partner, Sustainable Development	Anne-Claire Ferrié Partner	Emilie Bobin Partner, Sustainable Development

5

2019 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 S.A. is a French company, with its registered office in France. It performs a sales activity that is specific to France.

At the same time, L'Oréal S.A. acts as a holding company and provides strategic coordination on the one hand and scientific, industrial and marketing coordination for the L'Oréal Group throughout the world on the other.

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%.

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.

5.1. COMPARED CONSOLIDATED INCOME STATEMENTS

€ millions	Notes	2019	2018	2017 [1]
Net sales	**3.1**	**29,873.6**	**26,937.4**	**26,023.7**
Cost of sales		-8,064.7	-7,331.6	-7,359.2
Gross profit		**21,808.9**	**19,605.8**	**18,664.5**
Research and innovation expenses		-985.3	-914.4	-877.1
Advertising and promotion expenses		-9,207.8	-8,144.7	-7,650.6
Selling, general and administrative expenses		-6,068.3	-5,624.7	-5,460.5
Operating profit	**3.1**	**5,547.5**	**4,922.0**	**4,676.3**
Other income and expenses	4	-436.5	-94.7	-276.3
Operational profit		**5,111.0**	**4,827.3**	**4,400.0**
Finance costs on gross debt		-75.4	-34.8	-35.5
Finance income on cash and cash equivalents		28.7	47.9	38.5
Finance costs, net		**-46.7**	**13.1**	**3.1**
Other financial income and expenses	9.4	-16.0	-15.0	-26.0
Sanofi dividends		363.0	358.3	350.0
Profit before tax and associates		**5,411.4**	**5,183.7**	**4,727.0**
Income tax	6	-1,657.2	-1,284.3	-901.3
Share of profit in associates		1.0	0.1	-0.1
Net profit from continuing operations		**3,755.2**	**3,899.5**	**3,825.6**
Net profit from discontinued operations	**2.3**	**-**	**-**	**-240.1**
Net profit		**3,755.2**	**3,899.5**	**3,585.5**
Attributable to:				
• owners of the company		3,750.0	3,895.4	3,581.4
• non-controlling interests		5.2	4.1	4.1
Earnings per share attributable to owners of the company (euros)		6.70	6.96	6.40
Diluted earnings per share attributable to owners of the company (euros)		6.66	6.92	6.36
Earnings per share of continuing operations attributable to owners of the company (euros)	11.4	6.70	6.96	6.83
Diluted earnings per share of continuing operations attributable to owners of the company (euros)	11.4	6.66	6.92	6.78
Earnings per share of continuing operations attributable to owners of the company, excluding non-recurring items (euros)	11.4	7.78	7.13	6.70
Diluted earnings per share of continuing operations attributable to owners of the company, excluding non-recurring items (euros)	11.4	7.74	7.08	6.65

(1) The 2017 consolidated income statement is presented to reflect the impacts of the application of IFRS 5 related to discontinued operations, by restating The Body Shop business on a single line "Net profit from discontinued operations" (see note 2.3.).

5.2. CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

€ millions	Notes	2019	2018	2017*
Consolidated net profit for the period		**3,755.2**	**3,899.5**	**3,585.5**
Financial assets available-for-sale		-	-	-597.1
Cash flow hedges		2.9	-60.3	88.9
Cumulative translation adjustments		188.2	126.4	-824.8
Income tax on items that may be reclassified to profit or loss (1) (2)		-1.9	14.8	4.5
Items that may be reclassified to profit or loss		**189.2**	**80.9**	**-1,328.5**
Financial assets at fair value through profit or loss	9.3	1,650.6	450.5	-
Actuarial gains and losses	11.3	-327.7	-58.5	280.0
Income tax on items that may not be reclassified to profit or loss (1) (2)		29.7	0.5	-107.9
Items that may not be reclassified to profit or loss		**1,352.6**	**392.5**	**172.1**
Other comprehensive income		**1,541.8**	**473.4**	**-1,156.5**
Consolidated comprehensive income		**5,297.0**	**4,372.9**	**2,428.9**
Attributable to:				
• **owners of the company**		**5,291.9**	**4,368.7**	**2,424.8**
• non-controlling interests		5.1	4.2	4.1

** 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 US following the change in the tax rate at 1 January 2018.
(2) The tax effect is as follows:

€ millions	2019	2018	2017
Financial assets available-for-sale	-	-	37.3
Cash flow hedges	-1.9	14.8	-32.8
Items that may be reclassified to profit or loss	**-1.9**	**14.8**	**4.5**
Financial assets at fair value through profit or loss	-51.7	-14.0	-
Actuarial gains and losses	81.4	14.5	-107.9
Items that may not be reclassified to profit or loss	**29.7**	**0.5**	**-107.9**
TOTAL	**27.8**	**15.4**	**-103.4**

5.3. COMPARED CONSOLIDATED BALANCE SHEETS

ASSETS

€ millions	Notes	31.12.2019	31.12.2018	31.12.2017 [1]
Non-current assets		**29,893.3**	**25,991.2**	**24,320.1**
Goodwill	7.1	9,585.6	9,597.1	8,872.3
Other intangible assets	7.2	3,163.8	3,087.3	2,579.1
Right-of-use assets	3.2	1,892.3	-	-
Property, plant and equipment	3.2	3,644.3	3,624.6	3,571.1
Non-current financial assets	9.3	10,819.1	9,100.5	8,766.2
Investments in associates	8	10.9	9.0	1.1
Deferred tax assets	6.3	777.3	572.7	530.3
Current assets		**13,916.5**	**12,466.3**	**11,019.0**
Inventories	3.3	2,920.8	2,821.9	2,494.6
Trade accounts receivable	3.3	4,086.7	3,983.2	3,923.4
Other current assets	3.3	1,474.9	1,509.1	1,393.8
Current tax assets		148.1	160.1	160.6
Cash and cash equivalents	9.2	5,286.0	3,992.0	3,046.6
TOTAL		**43,809.8**	**38,457.5**	**35,339.1**

EQUITY & LIABILITIES

€ millions	Notes	31.12.2019	31.12.2018	31.12.2017 [1]
Equity	**11**	**29,426.0**	**26,933.6**	**24,818.5**
Share capital		111.6	112.1	112.1
Additional paid-in capital		3,130.2	3,070.3	2,935.3
Other reserves		16,930.9	15,952.5	14,761.8
Other comprehensive income		5,595.8	4,242.1	3,895.0
Cumulative translation adjustments		-99.2	-287.4	-413.5
Treasury shares		-	-56.5	-56.5
Net profit attributable to owners of the company		3,750.0	3,895.4	3,581.4
Equity attributable to owners of the company		**29,419.3**	**26,928.4**	**24,815.7**
Non-controlling interests		6.7	5.2	2.8
Non-current liabilities		**3,515.3**	**1,412.2**	**1,347.2**
Provisions for employee retirement obligations and related benefits	5.4	772.9	388.9	301.9
Provisions for liabilities and charges and other non-current liabilities	12.1	367.1	336.1	434.9
Deferred tax liabilities	6.3	737.7	673.7	597.0
Non-current borrowings and debt	9.1	9.6	13.5	13.4
Non-current lease debt	9.1	1,628.0	-	-
Current liabilities		**10,868.5**	**10,111.6**	**9,173.4**
Trade accounts payable		4,658.4	4,550.0	4,140.8
Provisions for liabilities and charges	12.1	1,117.8	979.8	889.2
Other current liabilities	3.4	3,508.5	3,138.9	2,823.9
Income tax		334.8	215.1	158.5
Current borrowings and debt	9.1	841.2	1,227.8	1,161.0
Current lease debt	9.1	407.9	-	-
TOTAL		**43,809.8**	**38,457.5**	**35,339.1**

(1) The balance sheets at 31 December 2017 have been restated to reflect the change in accounting policy pertaining to IFRS 9 "Financial Instruments" (see note 1).

5.4. CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

€ millions	Common shares outstanding	Capital	Additional paid-in capital	Retained earnings and net profit	Other comprehensive income	Treasury shares	Cumulative translation adjustments	Equity attributable to owners of the company	Non-controlling interests	Total equity
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
Changes 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**
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
Changes 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).
(3) After taking account of the change in accounting policy pertaining to IFRS 16 "Leases" (note 1).

€ millions	Common shares outstanding	Capital	Additional paid-in capital	Retained earnings and net profit	Other comprehensive income	Treasury shares	Cumulative translation adjustments	Equity attributable to owners of the company	Non-controlling interests	Total equity
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**
Change in accounting policy at 01.01.2019				-81.5				-81.5		-81.5
At 01.01.2019 (3)	**559,625,527**	**112.1**	**3,070.3**	**19,766.3**	**4,242.1**	**-56.5**	**-287.4**	**26,847.0**	**5.2**	**26,852.2**
Consolidated net profit for the period				3,750.0				3,750.0	5.2	3,755.2
Cash flow hedges					1.1			1.1	-0.1	1.0
Cumulative translation adjustments							174.1	174.1		174.1
Hyperinflation							14.1	14.1	0.0	14.1
Other comprehensive income that may be reclassified to profit and loss					**1.1**		**188.2**	**189.3**	**-0.1**	**189.2**
Financial assets at fair value through profit or loss					1,598.9			1,598.9		1,598.9
Actuarial gains and losses					-246.3			-246.3		-246.3
Other comprehensive income that may not be reclassified to profit and loss					**1,352.6**			**1,352.6**	**-**	**1,352.6**
Consolidated comprehensive income				**3,750.0**	**1,353.7**		**188.2**	**5,291.9**	**5.1**	**5,297.0**
Capital increase	1,491,678	0.3	59.9	-0.1				60.0		60.0
Cancellation of Treasury shares		-0.8		-803.0		803.8		-		-
Dividends paid (not paid on Treasury shares)				-2,176.7				-2,176.7	-3.6	-2,180.3
Share-based payment				144.4				144.4		144.4
Net changes in Treasury shares	-3,000,000					-747.3		-747.3		-747.3
Purchase commitments for non-controlling interests								-		-
Changes in the scope of consolidation								-		-
Other movements				-0.1				-0.1		-0.1
AT 31.12.2019	**558,117,205**	**111.6**	**3,130.2**	**20,680.9**	**5,595.8**	**0.0**	**-99.2**	**29,419.3**	**6.7**	**29,426.0**

(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).
(3) After taking account of the change in accounting policy pertaining to IFRS 16 "Leases" (note 1).

5.5. COMPARED CONSOLIDATED STATEMENTS OF CASH FLOWS

€ millions	Notes	2019	2018	2017 [1]
Cash flows from operating activities				
Net profit attributable to owners of the company		3,750.0	3,895.4	3,581.4
Non-controlling interests		5.2	4.1	4.1
Elimination of expenses and income with no impact on cash flows:				
• depreciation, amortisation, provisions and other non-current liabilities		1,958.3	1,109.3	1,218.5
• changes in deferred taxes	6.1	-42.5	43.0	-194.8
• share-based payment (including free shares)	5.5	144.4	126.4	126.7
• capital gains and losses on disposals of assets		-14.0	-2.7	-3.9
Other non-cash transactions		1.9	2.7	-
Net profit from discontinued operations		-	-	240.1
Share of profit in associates net of dividends received		-1.0	-0.1	0.1
Gross cash flow		**5,802.3**	**5,178.1**	**4,972.2**
Changes in working capital	3.5	460.5	113.8	261.1
Net cash provided by operating activities from discontinued operations		-	-	-36.7
Net cash provided by operating activities (A)		**6,262.8**	**5,291.9**	**5,196.6**
Cash flows from investing activities				
Purchases of property, plant and equipment and intangible assets		-1,231.0	-1,416.1	-1,263.5
Disposals of property, plant and equipment and intangible assets		16.6	5.6	8.2
Changes in other financial assets (including investments in non-consolidated companies)		-65.9	61.0	-70.7
Effect of changes in the scope of consolidation	2.2	-9.3	-666.5	-166.5
Net cash from discontinued operations used in investing activities		-	-	-24.4
Net cash from investing activities (B)		**-1,289.6**	**-2,016.0**	**-1,516.9**
Cash flows from financing activities				
Dividends paid		-2,221.1	-2,061.4	-1,870.7
Capital increase of the parent company		60.0	135.3	118.3
Disposal (acquisition) of Treasury shares		-747.3	-499.4	-499.2
Purchase of non-controlling interests		-	-	-2.0
Issuance (repayment) of short-term loans		-354.9	62.3	-86.6
Issuance of long-term borrowings		-	-	-
Repayment of long-term borrowings		-0.6	-4.3	-7.0
Repayment of lease debt		-425.8	-	-
Net cash from discontinued operations used in financing activities		-	-	71.5
Net cash from financing activities (C)		**-3,689.6**	**-2,367.5**	**-2,275.7**
Net effect of changes in exchange rates and fair value (D)		10.5	36.9	-65.3
Change in cash and cash equivalents (A+B+C+D)		**1,294.0**	**945.4**	**1,338.7**
Cash and cash equivalents at beginning of the year (E)		**3,992.0**	**3,046.6**	**1,746.0**
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**	**5,286.0**	**3,992.0**	**3,046.6**

(1) The statement of cash flows for 2017 is presented to reflect the impacts of IFRS 5 regarding discontinued operations (see note 2.3.).

Income tax paid totalled €1,534.3 million, €1,098.4 million, and €989.2 million for 2019, 2018 and 2017, respectively (excluding The Body Shop as it was classified under discontinued operations).

Interest paid (excluding interest on lease debts amounted to €21.6 million, €35.3 million, and €35.8 million in 2019, 2018 and 2017, respectively (excluding The Body Shop).

Dividends received totalled €364.1 million, €358.3 million and €350.0 million in 2019, 2018 and 2017, respectively (excluding dividends received by The Body Shop). These are included within the gross cash flow.

Cash outflow relating to leases amounted to €570.8 million and include leases that do not fall under the scope of IFRS 16.

5.6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Notes contents

NOTE 1. Accounting principles

The consolidated financial statements of L'Oréal and its subsidiaries ("the Group") published for 2019, have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted in the European Union as of 31 December 2019.

On 6 February 2020, the Board of Directors closed the consolidated financial statements at 31 December 2019. The financial statements will not become final until they have been approved by the Annual General Meeting of shareholders to be held on 21 April 2020.

Applying IFRIC 23 "Uncertainty over Income Tax Treatments" led the group to reclassify uncertain tax provisions as Other non-current liabilities under Provisions for liabilities and charges and other non-current liabilities.

The Group did not anticipate any standards or interpretations not mandatorily applicable in 2019.

Change in accounting policy applied at 1 January 2019: IFRS 16 "Leases"

This standard took effect on 1 January 2019.

Key changes resulting from the standard are as follows:

- Accounting for operating leases as of 1 January 2019: all leases are accounted for under a single model consisting of recording a debt (present value of future lease payments) and a right-of-use asset.

  The lease term is the non-cancellable period of each lease unless the Group is reasonably certain to exercise the contractual renewal options.

  The right of use is depreciated over the term of the lease.

  The Group is currently analysing the IFRS Interpretation Committee (IC) decision dated 26 November 2019. The Group does not anticipate any material impact.

  The discount rate used to assess the lease debt corresponds to the effective annual interest rate for each lease. We calculate it using the zero interest rate coupons received per currency and per maturity tranche, plus the Group credit spread.

  L'Oréal selected the simplified retrospective approach, and has measured the right of use of almost all its leases by determining their book value from the lease start date;
- 95% of the capitalised leases are property leases, including country head offices, stores and distribution centres. Other types of leases involve vehicle fleets, traditional handling equipment and packaging tools and equipment;
- Low value leases and leases that ended in 2019 are not included in the scope;
- On initial recognition, deferred tax are recognised;
- The amounts of operating lease off-balance sheet commitments at 31 December 2018 that were moved to lease debt on 1 January 2019 are broken down as follows:

€ millions	01.01.2019
Operating lease commitments at 31.12.2018	**2,582.1**
Leases on low-value assets or those expiring in 2019	-162.8
Other (free rent, lease renewals, etc.)	-34.0
Lease debt before discounting at 01.01.2019	**2,385.3**
Discounting	-225.5
LEASE DEBT AT 01.01.2019	**2,159.8**

The weighted average incremental borrowing rate at 01.01.2019 was 2.5%.

- The restated balance sheet at 1 January 2019 is as follows:

€ millions		*€ millions*	
ASSETS		**EQUITY & LIABILITIES**	
Other intangible assets/ property, plant and equipment	-92	Equity	-82
		Deferred tax liabilities	-10
Right-of-use assets	2,005	Non-current lease debt	1,751
Deferred tax assets	19	Other current liabilities	-129
Other current assets	2	Current lease debt	404
TOTAL	**1,934**	**TOTAL**	**1,934**

Change in accounting policy applied at 1 January 2018: IFRS 15 "Revenue from Contracts with Customers"

This standard took 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. Net 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 net 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.

Change in accounting policy applied at 1 January 2016: IFRS 9 "Financial Instruments" applicable at 1 January 2018

This standard took 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 that may not be reclassified 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.

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, operating lease terms, provisions, pension obligations, deferred taxes and share-based payments. Estimates used by the Group in relation to these different areas are made based on information available when the accounts are prepared and are 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 with a limited number of other shareholders under a contractual agreement are consolidated under 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 the closing exchange rates in effect 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 2019

Acquisition

L'Oréal did not make any significant acquisitions in 2019.

2.1.2. 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 equip its 36 international brands with the most innovative beauty experience and service technologies. Founded by Parham Aarabi in Toronto in 2007, ModiFace has developed cutting edge technology for the 3D virtual try-on of makeup, colouring and assessment of skin 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 30 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, makeup and fashion company founded by Kim So-Hee in Seoul in 2004. Stylenanda, which started in the fashion segment, has since become a company built around the 3CE makeup 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 net 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 to acquire 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, Germany, and has close to 340 employees. In 2017, it had 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 sale of the hotel business to the current shareholders of Holding STRP and exclusive negotiation rights for L'Oréal. Founded in 1921, STRP is the first thermal centre in Europe exclusively dedicated to the treatment of skin conditions. In 2017, the thermal business saw over 7,500 patients per year, generating net 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 represented €805.1 million. The total amount of goodwill and other intangible assets resulting from the acquisitions amounted to €601.8 million and €160.4 million, respectively. In 2018, these acquisitions represented €219.9 million in full-year net sales and €39.9 million in full-year operating profit.

2.1.3. Year 2017

Acquisitions

On 10 January 2017, L'Oréal announced the signing of a final 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 pharmacies and drug stores, mass-market and beauty retailers, and select online outlets. AcneFree markets and distributes a complete range of over-the-counter (OTC) skin-cleanser products and acne-treatment products in the US. Ambi distributes skincare products designed to meet the needs of multi-ethnic consumers. Both brands are distributed by pharmacies and drug stores, mass-market retailers and select online outlets. These three brands generated combined annual net sales of approximately US$168 million in 2016. CeraVe, AcneFree and Ambi are part of L'Oréal's Active Cosmetics Division, which includes brands such as La Roche-Posay, Vichy and SkinCeuticals, which 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 State. 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 this date.

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 accounted for around €154.1 million in full-year net sales and €31.0 million in full-year operating profit.

Other transactions

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 relevant authorities, L'Oréal and Natura Cosmeticos SA finalised the final agreement to sell The Body Shop to Natura on 7 September 2017, in accordance with the terms of the plan communicated on 9 June 2017 (note 2.3.).

2.2. Impact of changes in the scope of consolidation in the cash flow statement

The impact of acquisitions is not material for 2019.

In 2018, they 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.

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.

The notes to the income statements have been adjusted for The Body Shop business for 2017.

2.3.1. Income statements from discontinued operations (The Body Shop)

€ millions	2019	2018	2017
Sales	-	-	524.7
Operating profit	-	-	-15.7
Net profit from discontinued operations (1)	-	-	-240.1

(1) Of which -€13.7 million in profits generated for 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	2019	2018	2017
Net cash provided by operating activities	-	-	-36.7
Cash flows from investing activities	-	-	-24.4
Cash flows from financing activities	-	-	71.5
NET CASH FROM DISCONTINUED OPERATIONS	**-**	**-**	**10.4**

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 net sales.

NOTE 3. Operating items – Segment information

Accounting Principles

Net sales

Net sales are recognised when the goods have been transferred to the customer.

Sales incentives, cash discounts and product returns are deducted from net 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 innovation expenses

Expenditure during the research phase is charged to the income statement for the financial year during which it is incurred.

Expenses incurred during the innovation 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 innovation 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 and expenses of free shares.

Operating profit

Operating profit consists of gross profit less research and innovation 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 purchase price. They are not remeasured.

Assets financed by lease contracts are recognised as assets on the balance sheet under *Right-of-use assets*. The corresponding debt is recognised as a liability under *Lease debt*.

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 property, plant and equipment	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 it, the Group has insurance cover for the subsidiaries.

3.1. Segment information

3.1.1. Information by business segment

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 and IT Cosmetics);

- the Active Cosmetics Division, whose goal is to help everyone in their quest to have healthy and beautiful skin.

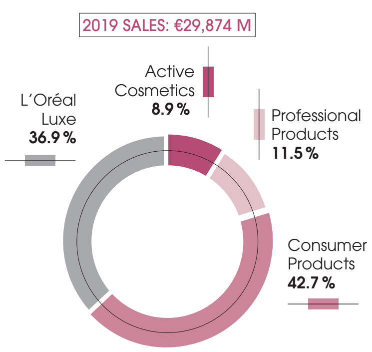
Its portfolio of highly complementary brands (Vichy, La Roche-Posay, SkinCeuticals and Roger&Gallet) is designed to keep pace with major skincare trends and recommendations of healthcare professionals. The recent acquisition of the US brand CeraVe was recently added to this portfolio.

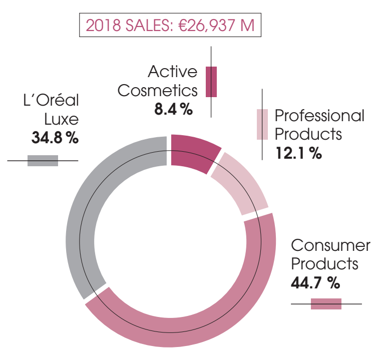
The "non-allocated" item includes expenses incurred by the Functional Divisions, fundamental research and the cost of free shares not allocated to the Divisions. It also includes non-core businesses, such as reinsurance.

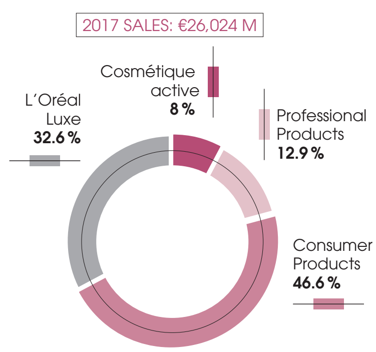
The information provided below has been adjusted to exclude The Body Shop for 2017.

The performance of each Division is measured on the basis of operating profit.

Net sales by Division changed as follows over the three periods:







€ millions **2019**	Sales	Operating profit	Operational Assets (1)	Investments in property, plant and equipment and intangible assets	Depreciation, amortisation and provisions
Professional Products	3,441.9	691.6	3,506.1	85.7	191.4
Consumer Products	12,748.2	2,574.6	10,700.0	514.3	780.7
L'Oréal Luxe	11,019.8	2,493.7	7,941.7	514.4	592.9
Active Cosmetics	2,663.7	620.8	2,374.1	66.1	92.3
TOTAL OF DIVISIONS	**29,873.6**	**6,380.7**	**24,521.8**	**1,180.5**	**1,657.3**
Non-allocated		-833.2	1,077.6	142.4	199.6
GROUP	**29,873.6**	**5,547.5**	**25,599.5**	**1,322.9**	**1,856.9**

(1) Operational assets mainly include goodwill, intangible assets and property, plant and equipment, right-of-use assets, trade accounts receivable and inventories.

€ 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.

Operational assets can be reconciled to the 2019, 2018 and 2017 balance sheets as follows:

€ millions	2019	2018	2017
Operational assets	**25,599.5**	**23,373.2**	**21,636.7**
Non-current financial assets	10,819.1	9,100.5	8,766.2
Investments in associates	10.9	9.0	1.1
Deferred tax assets	777.3	572.7	530.3
Other current assets	1,317.1	1,410.1	1,358.2
Cash and cash equivalents	5,286.0	3,992.0	3,046.6
Non-allocated assets	**18,210.3**	**15,084.3**	**13,702.4**
TOTAL ASSETS	**43,809.8**	**38,457.5**	**35,339.1**

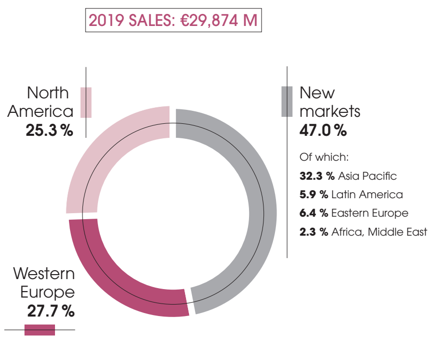
3.1.2. Information by geographic zone

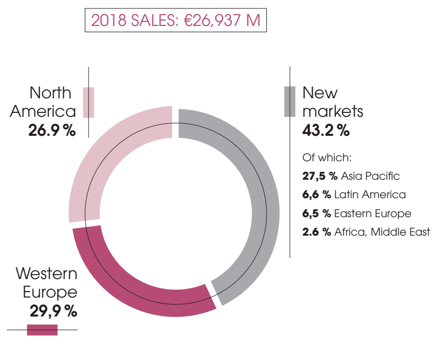
All information is presented on the basis of geographic location of the subsidiaries.

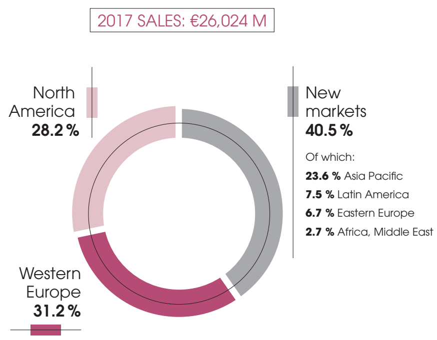
3.1.2.1. Consolidated net sales by geographic zone

	2019		Growth (%)		2018		2017	
	€ millions	% of total	Published data	Excluding exchange effect	€ millions	% of total	€ millions	% of total
Western Europe	8,277.1	27.7%	2.6%	2.5%	8,065.1	29.9%	8,125.3	31.2%
of which France	2,479.5	8.3%	2.3%	2.3%	2,424.1	9.0%	2,444.6	9.4%
North America	7,567.0	25.3%	4.6%	-0.6%	7,234.3	26.9%	7,350.5	28.2%
New markets	14,029.5	47.0%	20.5%	19.2%	11,638.1	43.2%	10,547.8	40.5%
Asia Pacific	9,658.0	32.3%	30.4%	26.6%	7,405.6	27.5%	6,151.8	23.6%
Latin America	1,773.1	5.9%	-0.7%	6.6%	1,784.8	6.6%	1,952.9	7.5%
Eastern Europe	1,909.7	6.4%	8.9%	8.8%	1,754.2	6.5%	1,750.8	6.7%
Africa, Middle East	688.7	2.3%	-0.7%	-4.1%	693.5	2.6%	692.4	2.7%
GROUP	**29,873.6**	**100.0%**	**10.9%**	**8.8%**	**26,937.4**	**100.0%**	**26,023.7**	**100.0%**

Net sales by geographic zone changed as follows over the three periods:







3.1.2.2. Breakdown of operational assets and consolidated investments by geographic zone

	2019		2018		2017	
€ 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	9,829.6	480.6	9,246.8	615.4	8,600.9	371.7
North America	7,789.0	332.3	7,317.6	293.9	6,929.2	346.9
New markets	6,903.2	367.6	5,970.8	343.7	5,279.3	378.0
Non-allocated	1,077.6	142.4	838.0	151.7	827.3	159.2
GROUP	**25,599.5**	**1,322.9**	**23,373.2**	**1,404.7**	**21,636.7**	**1,255.7**
The Body Shop assets	-	-	-	-	-	24.1
GROUP (INCLUDING THE BODY SHOP)	**25,599.5**	**1,322.9**	**23,373.2**	**1,404.7**	**21,636.7**	**1,279.8**

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 €1,603.3 million, including €445.1 million for rights of use (IFRS 16), €1,095.3 million, and €1,169.4 million (€1,147.6 million excluding The Body Shop) respectively, for 2019, 2018 and 2017.

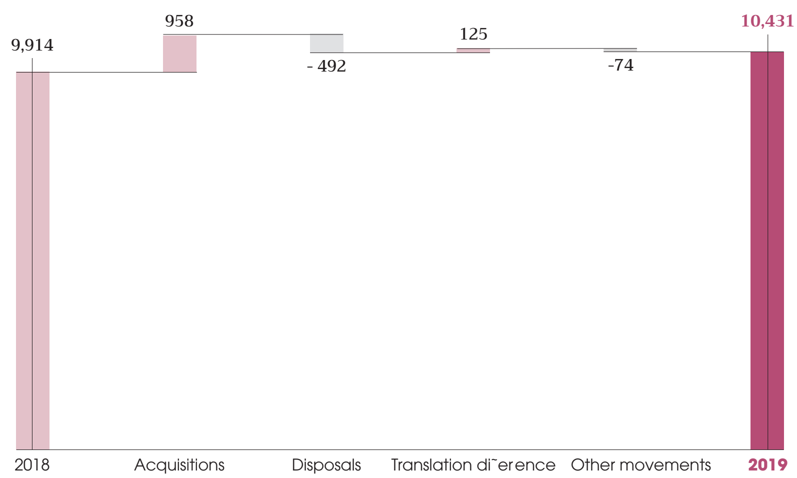
3.2.2. Property, plant and equipment

€ millions **2019**	**31.12.2018**	**Acquisitions/ Depreciation**	**Disposals/ Reversals**	**Translation difference**	**Other movements [1]**	**31.12.2019**
Land and buildings	2,259.2	43.1	-38.2	18.4	50.8	2,333.3
Machinery and equipment	3,585.1	158.3	-129.6	38.0	83.5	3,735.3
Point-of-sales advertising: stands and displays	2,147.8	372.2	-247.4	43.0	42.5	2,358.1
Other property, plant and equipment and fixed asset in progress	1,922.1	384.0	-76.8	25.8	-250.8	2,004.3
Gross value	**9,914.3**	**957.6**	**-492.0**	**125.2**	**-74.0**	**10,431.1**
Land and buildings	1,169.9	77.1	-33.3	6.8	-1.8	1,218.7
Machinery and equipment	2,585.7	258.6	-126.7	24.9	-9.9	2,732.6
Point-of-sales advertising: stands and displays	1,559.4	440.2	-246.6	31.5	-10.1	1,774.4
Other property, plant and equipment	974.7	168.3	-75.6	13.5	-19.9	1,061.0
Depreciation and provisions	**6,289.7**	**944.2**	**-482.2**	**76.8**	**-41.7**	**6,786.8**
PROPERTY, PLANT AND EQUIPMENT – NET	**3,624.6**	**13.4**	**-9.8**	**48.4**	**-32.4**	**3,644.3**

(1) These mainly consist of assets related to refurbishment costs for premises reclassified as rights of use after the Group applied IFRS 16 on 1 January 2019 (€33 million) and tangible assets in progress allocated to other fixed assets.

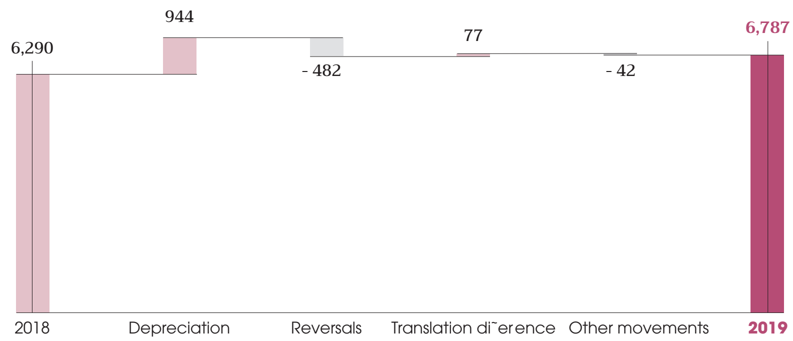
CHANGE IN GROSS FIXED ASSETS

(€ millions)



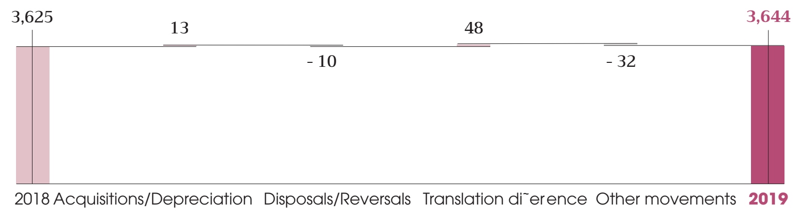
CHANGE IN DEPRECIATION, AMORTISATION AND PROVISIONS

(€ millions)



NET PROPERTY, PLANT AND EQUIPMENT

(€ millions)



€ 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
Depreciation 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.

€ 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.

Property, plant and equipment include finance lease contracts for the following amounts:

€ millions	31.12.2019 (1)	31.12.2018	31.12.2017
Land and buildings	-	11.2	10.7
Machinery and equipment	-	-	-
Other property, plant and equipment and fixed assets in progress	-	22.4	21.3
Gross value	**-**	**33.6**	**32.0**
Depreciation	-	22.4	19.6
Net value	**-**	**11.2**	**12.5**

(1) Finance lease contracts have been reclassified as right-of-use assets as from the application of IFRS 16.

3.2.3. Leases

3.2.3.1. Right-of-use assets

Right-of-use assets break down by type of underlying asset, as follows:

€ millions	Gross	Depreciation and impairment losses (1)	31.12.2019 Net	Net 01.01.2019
Buildings	2,254.1	962.9	1,291.2	1,286.7
Stores	863.6	418.5	445.1	547.4
Key money	67.5	18.5	49.0	60.0
Others	150.3	43.4	106.9	111.3
RIGHT-OF-USE ASSETS	**3,335.5**	**1,443.3**	**1,892.2**	**2,005.4**

(1) Of which €445.1 million in depreciation for the period.

3.2.3.2. Lease debt

Lease debt break down as follows:

€ millions	31.12.2019
Lease debt due in more than 5 years	465.7
Lease debt due in between 1 and 5 years	1,162.3
Lease debt due in less than 1 year	407.9
LEASE DEBT	**2,035.9**

3.3. Inventories, Trade accounts receivable and Other current assets

3.3.1. Inventories

€ millions	31.12.2019	31.12.2018	31.12.2017
Finished products and consumables	2,724.0	2,599.5	2,302.2
Raw materials, packaging and semi-finished products	605.7	594.3	507.4
Gross value	**3,329.7**	**3,193.8**	**2,809.6**
Valuation allowance	409.0	371.9	315.0
INVENTORIES – NET	**2,920.8**	**2,821.9**	**2,494.6**

3.3.2. Trade accounts receivable

€ millions	31.12.2019	31.12.2018	31.12.2017
Gross value	4,133.5	4,032.7	3,969.8
Valuation allowance	46.8	49.4	46.4
NET VALUE	**4,086.7**	**3,983.2**	**3,923.4**

Trade accounts receivable are due within one year. The impairment of trade accounts receivable reflects the level of expected losses on the customer portfolio from the outset of the receivable. Moreover, except when local conditions do not allow it, the Group has insurance cover for the subsidiaries. The non-collection risk on trade accounts 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 2019.

3.3.3. Other current assets

€ millions	31.12.2019	31.12.2018	31.12.2017
Tax and employee-related receivables (excluding income tax)	616.0	617.9	546.2
Prepaid expenses	365.9	338.5	295.8
Derivatives	49.2	175.6	240.5
Current financial assets	23.3	23.1	23.6
Other current assets	420.4	354.0	287.7
TOTAL	**1,474.9**	**1,509.1**	**1,393.8**

3.4. Other current liabilities

€ millions	31.12.2019	31.12.2018	31.12.2017
Tax and employee-related payables (excluding income tax)	1,586.8	1,406.6	1,268.8
Credit balances on trade receivables	1,128.2	1,026.0	944.6
Fixed assets payables	434.5	279.9	178.5
Derivatives	123.6	182.5	190.5
Other current liabilities	235.4	243.9	241.5
TOTAL	**3,508.5**	**3,138.9**	**2,823.9**

3.5. Changes in working capital

This caption amounts to €460.5 million, €113.8 million and €261.1 million respectively in 2019, 2018 and 2017, and are broken down as follows:

€ millions	2019	2018	2017
Inventories	-53.8	-292.8	-82.6
Trade accounts receivable	-59.6	-83.1	-266.7
Trade accounts payable	110.7	392.9	317.1
Other receivables and payables	463.2	96.8	293.3
TOTAL	**460.5**	**113.8**	**261.1**

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	2019	2018	2017
Capital gains and losses on disposals of property, plant and equipment and intangible assets (1)	14.0	2.7	3.9
Impairment of property, plant and equipment and intangible assets (2)	-142.8	-	-
Restructuring costs (3)	-120.2	-85.1	-262.5
Other (4)	-187.5	-12.3	-17.8
TOTAL	**-436.5**	**-94.7**	**-276.3**

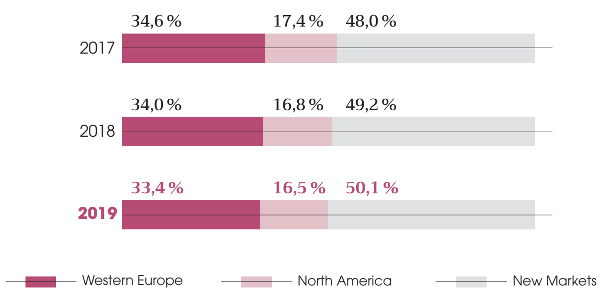
(1) Including €11 million in capital gains on property sales in Germany in 2019.
(2) In 2019, the brand and goodwill of Clarisonic and Roger & Gallet for €80 million and €59 million, respectively.
(3) Including:
• in 2019, the redesign of NYX Professional Makeup's distribution channels (€76 million), the refocus of production facilities on Luxe, mostly in France (€11 million), restructuring Clarisonic manufacturing in the US (€8.6 million), reorganising distribution, organisational and accounting structures in Europe (€9 million) and additional costs for various reorganisation projects in 2018, primarily in Brazil (€8.2 million);
• 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 refocusing 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, repositioning Clarisonic's distribution activities (€10.0 million), discontinuing several Selective Division brands in countries where they are dilutive (€26.4 million), reorganising activities in Brazil to cope with the difficult economic environment (€50.3 million), reorganising IT structures in Europe (€9.2 million) as well as carrying out various projects to streamline sales teams and operational and administrative structures in Western Europe (€29.4 million), restructuring the activities of the Consumer Products Division in China (€58.2 million), pooling the "international marketing" Divisions of the Global Selective Divisions on one site (€33.9 million), launching the Professional Products Division global transformation plan (€21.8 million), pooling accounting activities in several geographic zones (€7.7 million), as well as continuing to reorganise the French business activities of the four Divisions (€12.4 million).
(4) Including:
• in 2019, acquisition-related costs (€6.1 million), the increase of the Stylenanda earn-out (€56.5 million), the disputes related to intellectual property (€55.8 million) and the profit-sharing adjustment following the agreement signed with the French tax administration for the 2014-2018 tax audits (€56.7 million);
• 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).

NOTE 5. Number of employees, personnel costs and employee benefits

5.1. Number of employees

	31.12.2019	31.12.2018	31.12.2017
Western Europe	29,402	29,256	28,555
North America	14,480	14,443	14,363
New markets	44,092	42,331	39,688
TOTAL [1]	**87,974**	**86,030**	**82,606**

(1) Excluding employees of equity-accounted companies.



5.2. Personnel costs

€ millions	2019	2018	2017
Personnel costs (including welfare contributions) [1]	**6,131.1**	**5,634.1**	**5,433.5**

(1) Excluding employees of equity-accounted companies.

Personnel costs include pension expenses (excluding interest components), 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	2019	2018	2017
Directors' fees	1.3	1.3	1.3
Salaries and benefits including employer welfare contributions	40.1	34.4	32.3
Employee retirement obligation charges	10.8	10.0	9.7
Share-based payment (stock options and free shares)	33.7	24.6	26.1
Exceptional factors	-	3.2	-

The number of executives who were members of the Management Committee was 20 at 31 December 2019 compared with 16 at 31 December 2018 and 15 at 31 December 2017.

5.4. Post-employment benefits, termination benefits and other long-term employee benefits

Accounting principles

The Group operates pension, early retirement and other employee 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 retirement schemes or other specific obligations relating to defined benefit plans, the excess of the projected benefit obligation over the scheme's assets is also 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:

- 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;
- the 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 costs. The interest component is shown within Net financial income on the Other financial income and expenses item.

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).

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 and 2018 owing to durations exceeding those of the obligation and the interest rate yield curve in these countries. Financial costs are calculated by applying the discount rate used for the obligation to plan assets 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 obligations 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 %	31.12.2019	31.12.2018	31.12.2017
Discount rate (commitment)	1.6%	2.6%	2.2%
Discount rate (service cost)*	1.9%	2.9%	2.5%
Salary increases	3.5%	3.6%	3.6%

** Used for the service cost for the following financial year.*

	31.12.2019			31.12.2018			31.12.2017		
	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%	2027	5.7%	4.2%	2023	5.7%	4.2%	2023

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 %	2019	2018	2017
Weighted average (all countries) based on the benefit obligation	**1.6%**	**2.6%**	**2.2%**
Of which:			
Euro zone			
Discount rate (commitment) (1)	0.9%	1.9%	1.6%
Discount rate (service cost)*	1.0%	2.1%	1.9%
USA			
Discount rate (commitment)	2.8%	4.0%	3.3%
Discount rate (service cost)*	3.0%	4.3%	3.5%
United Kingdom			
Discount rate (commitment)	2.0%	2.8%	2.5%
Discount rate (service cost)*	2.0%	2.8%	2.5%

(1) The weighted average for 2019 consists of a 1.04% discount rate on annuity plans with an average term of 20.48 years and a 0.67% discount rate on capital plans with an average term of 12.63 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 obligations by €258.4 million for the euro zone, €78.5 million for the United States and €75.0 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 %	31.12.2019	31.12.2018	31.12.2017
Equity securities (1)	33.9%	33.1%	42.1%
Bonds	57.8%	57.8%	49.3%
Property assets (2)	4.8%	5.3%	4.4%
Monetary instruments	0.6%	1.2%	2.6%
Other	2.9%	2.6%	1.7%
TOTAL	**100%**	**100%**	**100%**

(1) Of which L'Oréal shares: none.
(2) Of which property assets occupied by Group entities: none.

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.

Fluctuations during 2019, 2018 and 2017 are set out below:

€ millions	Present value of defined benefit obligation	Plan assets	Net provisions
Balance at 31 December 2016	**4,476.8**	**-3,765.1**	**711.8**
Service cost during the period	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 during the period	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**
Service cost during the period	168.8	-	168.8
Interest cost	111.8	-	111.8
Expected return on assets	-	-99.5	-99.5
Past service cost: new plans/plan amendments	72.9	-	72.9
Curtailments	-100.3	-	-100.3
Settlements	-	-	-
Benefits paid	-198.4	151.9	-46.5
Contributions paid	6.3	-58.9	-52.6
Actuarial gains and losses	706.6	-378.9	327.7
Translation differences	67.9	-66.3	1.6
Other movements	-5.3	5.6	0.3
BALANCE AT 31 DECEMBER 2019	**4,974.5**	**-4,201.6**	**772.9**

The total present value of defined benefit obligations breaks down as follows between wholly or partly funded plans and wholly unfunded plans:

€ millions	31.12.2019	31.12.2018	31.12.2017
Present value of defined benefit obligations wholly or partly funded	4,507.6	3,755.6	3,843.2
Fair value of plan assets	4,201.6	3,755.5	3,919.8
Net position of defined benefit obligations wholly or partly funded	306.1	0.1	-76.6
Present value of defined benefit obligations wholly unfunded	466.9	388.8	378.5

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	2019	2018	2017
Service cost during the financial year	168.8	168.0	170.2
Interest costs	111.8	96.6	105.0
Expected return on assets	-99.5	-88.7	-88.6
New plans/plan amendments (1)	72.9	2.2	2.2
Curtailments (1)	-100.3	-24.4	-20.8
Settlements	-	-0.2	1.3
TOTAL	**153.6**	**153.6**	**169.2**

(1) Order no. 2019-697 transposing a European Directive dated 16 April 2014 into law no longer allows new members to join "conditional" defined benefit pension schemes as from 4 July 2019, the day the Order was issued. The Order also no longer allows for new additional rights to be acquired in schemes opened on 20 May 2014 for employment periods after 31 December 2019. At the same time, the Group set up a new plan for employment periods starting 1 January 2020. The net impact recorded in net income for these developments is +€17.5 million.

Contributions to defined contribution schemes recognised as an expense for 2019, 2018 and 2017 amounted to €524.8 million, €468.2 million and €463.1 million, 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	11.6	-9.6
Impact on current service cost and interest costs	0.5	-0.4

Actuarial gains and losses for the periods presented are as follows:

€ millions **2019**	Present value of defined benefit obligation	Plan assets	Net provisions
Actuarial gains and losses: experience adjustments	-25.5	-378.9	-404.4
Actuarial gains and losses: demographic assumptions	-36.6	-	-36.6
Actuarial gains and losses: financial assumptions	768.8	-	768.8
TOTAL	**706.6**	**-378.9**	**327.7**

€ 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**

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 five years for purchase options and four 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 item 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 2019.

Grant date	Number of options	Number of options not yet exercised	Exercise period from	Exercise period to	Exercise price
27.04.2010	4,200,000	211,728	28.04.2015	27.04.2020	€80.03
22.04.2011	1,470,000	312,465	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 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	
	April 2010	April 2011
Risk-free rate of return	2.83%	3.42%
Expected life span	7 years	8 years
Expected volatility	23.53%	22.60%
Expected dividends	1.86%	2.10%
Share price	€80.50	€85.68
Exercise price	€80.03	€83.19
Fair value	€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 2019, 2018 and 2017 are set out below:

	31.12.2019		31.12.2018		31.12.2017	
	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	**1,313,801**	**€78.60**	**2,233,775**	**€76.43**	**3,798,051**	**€77.04**
• Options granted	-		-		-	
• Options exercised	-785,408	€76.43	-919,474	€73.32	-1,509,576	€78.40
• Options expired	-4,200		-500		-54,700	
Number of options not exercised at end of period	**524,193**	**€81.91**	**1,313,801**	**€78.60**	**2,233,775**	**€76.43**
Of which:						
• number of exercisable options at end of period	524,193	€81.91	1,313,801	€78.60	2,233,775	€76.43
• expired options at end of period	-		-		-	

The weighted average share price was €240.28, €197.19 and €181.49 for 2019, 2018 and 2017, respectively.

No stock option plan expenses were recognised in 2019, 2018 or 2017.

b) Free shares

The table below summarises the data on free share plans vesting after 1 January 2017.

Grant date					
Stock subscription plans	Share purchase plans	Vesting date	Number of shares granted	Number of shares issued/allotted	Number of shares not finally vested
	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	706,937	
20.04.2016		21.04.2020	906,100	125	851,375
20.04.2017		21.04.2021	906,000		863,475
17.04.2018		18.04.2022	931,000		911,475
18.04.2019		19.04.2023	843,075		842,000

For the conditional grant of shares, the plan provides for a four-year vesting period after which vesting is effective and final, subject to meeting the conditions of the plan. After this vesting period, a two-year mandatory holding period applies for French residents, for plans prior to 1 January 2016, during which the shares cannot be sold.

The performance conditions concern for the 18 April 2019, 17 April 2018, 20 April 2017, 20 April 2016 and 22 April 2015 plans:

- for 50% of shares granted, the growth in comparable Cosmetics sales in relation to growth in net sales for a panel of competitors:
  - 2020, 2021 and 2022 financial years under the 2019 plan,
  - 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;
- 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 mean of the performance in the:

- 2020, 2021 and 2022 financial years under the 2019 plan;
- 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;

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 26 April 2013, 17 April 2014 and 22 April 2015 were finally granted by the allocation of, respectively, 986,220 shares on 27 April 2017, 993,765 shares on 18 April 2018 and 706,262 shares on 23 April 2019.

At 31 December 2019, the performance conditions for plans in progress were deemed achieved except for the 22 April 2015 plan. Shares finally granted for the 22 April 2015 plan accounted for the performance percentage achieved at the end of the plan.

The fair value of free shares is determined using the following assumptions:

	Share purchase plans						Stock subscription plans
Grant date	April 2013	April 2014	April 2015	April 2016	April 2017	April 2018	April 2019
Risk-free rate of return	0.50%	0.65%	-0.02%	-0.06%	-0.35%	-0.28%	-0.25%
Discount for post-vesting transfer restrictions for French employees	5.75%	4.46%	1.70%	n/a	n/a	n/a	n/a
Expected dividends	1.76%	2.06%	1.52%	1.85%	1.82%	1.85%	1.58%
Share price	€130.45	€121.35	€177.10	€168.10	€181.75	€191.85	€243.80
Fair value							
Employees resident in France	€112.37	€104.58	€161.49	€154.32	€166.90	€176.17	€226.25
Employees not resident in France	€119.87	€109.99	€164.50	€154.32	€166.90	€176.17	€226.25

The expense recorded in 2019, 2018 and 2017 amounted to €143.2 million, €120.9 million and €126.7 million, respectively.

c) Capital increase reserved for employees

In June 2018, Group employees had the opportunity to join 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 in proportion 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 continued employment condition for the employee and proportionate to how much the employee contributes 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 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 based on 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 lease contracts within the scope of IFRS 16 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	2019	2018	2017
Current tax	1,699.7	1,241.3	1,096.1
Deferred tax	-42.5	43.0	-194.8
INCOME TAX	**1,657.2**	**1,284.3**	**901.3**

6.2. Analysis of tax charge

The income tax charge may be analysed as follows:

€ millions	2019	2018	2017
Profit from continuing operations before tax and associates	**5,411.4**	**5,183.7**	**4,727.0**
Theoretical tax rate	26.21%	26.25%	28.95%
Expected tax charge	**1,418.1**	**1,360.6**	**1,368.3**
Impact of permanent differences	64.4	28.8	0.5
Impact of tax rate differences (1)	-161.6	-148.3	-305.9
Change in unrecognised deferred taxes	2.3	-3.2	-21.2
Other (2)	334.0	46.4	-140.4
GROUP TAX CHARGE	**1,657.2**	**1,284.3**	**901.3**

(1) Including, in 2017, profits of €147 million related to the impact of the decrease in the tax rate from 38.25% to 24.95% on deferred tax balances in the US, and €35 million in 2017 related to the impact of the decrease in the tax rate from 34.43% to 25.83% on deferred tax balances planned in France by 2022.
(2) Including tax credits, taxes on dividend distributions, tax reassessments and provisions for tax liabilities.
• Including, in 2019, a €262 million expense to cover an agreement made with the French tax administration regarding a disagreement over which French products in our business fall under the tax base for 2014-2018.
• 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 item also includes a charge of €62 million relating to an exceptional and additional contribution of 30% in France.

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 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**
Income statement impact	42.5
Translation differences	3.8
Other effects (1)	94.3
BALANCE OF DEFERRED TAX ASSETS AT 31 DECEMBER 2019	**777.3**
BALANCE OF DEFERRED TAX LIABILITIES AT 31 DECEMBER 2019	**-737.7**

(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. We also took into account in 2017 the impact of a decrease in the tax rate in France on the Group's stake in Sanofi for €16.6 million and the impact of the decrease in the rates in the US on deferred taxes on currency hedges and an actuarial gains and losses 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:

	31.12.2019		**31.12.2018**		**31.12.2017**	
€ millions	**Deferred tax assets**	**Deferred tax liabilities**	**Deferred tax assets**	**Deferred tax liabilities**	**Deferred tax assets**	**Deferred tax liabilities**
Temporary differences	760.2	422.5	562.4	409.6	520.3	346.9
Deferred tax liabilities on revaluation of Sanofi		315.2		264.1		250.1
Tax credits and tax loss carry-forwards	17.1		10.3		10.0	
DEFERRED TAX TOTAL	**777.3**	**737.7**	**572.7**	**673.7**	**530.3**	**597.0**

Deferred tax assets on temporary differences mainly relate to provisions for pensions and early retirement (€209.8 million, €113.0 million and €77.2 million respectively at the end of 2019, 2018 and 2017) and provisions for liabilities and charges (€136.5 million, €113.1 million and €138.9 million at the end of 2019, 2018 and 2017).

Deferred tax liabilities on temporary differences mainly include intangible assets acquired under 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 €17.0 million at 31 December 2019 compared with €21.6 million at 31 December 2018 and €35.5 million at 31 December 2017.

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 item.

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 acquisition cost;
- the acquisition cost, 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 recognised in 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 recognised on the income statement;
- purchase commitments for minority interests are recognised in financial debt at the acquisition-date fair value. Subsequent changes in fair value of the commitment are recognised by adjusting equity.

Goodwill is allocated by Cash Generating Units or by groups of Cash Generating Units. A Cash Generating Unit corresponds to one or more worldwide brands.

€ millions 2019	31.12.2018	Acquisitions/Disposals	Other movements	31.12.2019
L'Oréal Professionnel/Kérastase	388.9		5.6	394.5
Matrix	405.8		7.3	413.1
Redken/Pureology	560.5	3.5	9.1	573.1
Decléor and Carita	137.4			137.4
Others	66.1		1.8	67.9
Professional Products Total	1,558.7	3.5	23.8	1,586.0
L'Oréal Paris	899.1		11.0	910.2
Maybelline/Garnier	1,251.6		23.5	1,275.1
LaSCAD	158.3			158.3
NYX Professional Makeup	322.6		5.2	327.8
Niely	139.7		-2.5	137.1
Stylenanda	429.4		1.3	430.7
Others	495.4		-9.0	486.4
Consumer Products Total	3,696.1	-	29.4	3,725.5
Lancôme	825.3		7.3	832.6
Shu Uemura	137.9		5.3	143.1
YSL Beauté	533.2		2.9	536.1
Perfumes	454.9		2.8	457.7
L'Oréal Beauty Device (1)	71.3		-46.7	24.6
Urban Decay	150.2		2.5	152.7
IT Cosmetics	775.9		11.4	787.4
Others	65.0		2.6	67.5
L'Oréal Luxe Total	3,013.8	-	-12.0	3,001.8
Vichy/Dermablend	354.3		-34.6	319.6
CeraVe	629.5		5.9	635.4
La Roche-Posay	161.4		7.6	169.0
Others	77.6		1.1	78.6
Active Cosmetics Total	**1,222.8**	**-**	**-20.1**	**1,202.7**
Others	105.7		-36.1	69.6
GROUP TOTAL	**9,597.1**	**3.5**	**-14.9**	**9,585.6**

(1) This Cash Generating Unit mainly concerns Clarisonic.

No significant acquisitions or disposals took place during this financial year.

Other movements mainly reflect the positive impact of changes in exchange rates for €65.4 million, as well as the recognition of impairment losses on Clarisonic (€47 million) and Roger & Gallet (€36 million).

The accumulated impairment losses relating to L'Oréal Beauty Device, Magic, and Softsheen-Carson amounted to €279.7 million, €153.0 million, and €149.3 million, respectively at 31 December 2019.

€ 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**
Others	69.6	36.1		105.7
GROUP TOTAL	**8,872.3**	**602.8**	**121.9**	**9,597.1**

(1) The Magic Holdings business is no longer a full Cash Generating Unit due to the reorganisation of the distribution networks and the commercial structures that are now pooled together 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.

€ 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**
Others	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.

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 brands, customer relationships and formulas and patents.

With regard to brands, 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 brand, compared with the future cash flows that the activity could generate without the brand;
- royalty-based approach: this involves estimating the value of the brand by referencing the levels of royalties demanded for the use of similar brands. It is based on sales forecasts drawn up by the Group.

These approaches are based on a qualitative analysis of the brand 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 brand may have a finite or an indefinite useful life span.

Local brands which are to be gradually replaced by an international brand 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 brands are brands 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 net sales or operational profit compared to forecasts.

The impairment test consists of calculating the recoverable amount of the brand 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

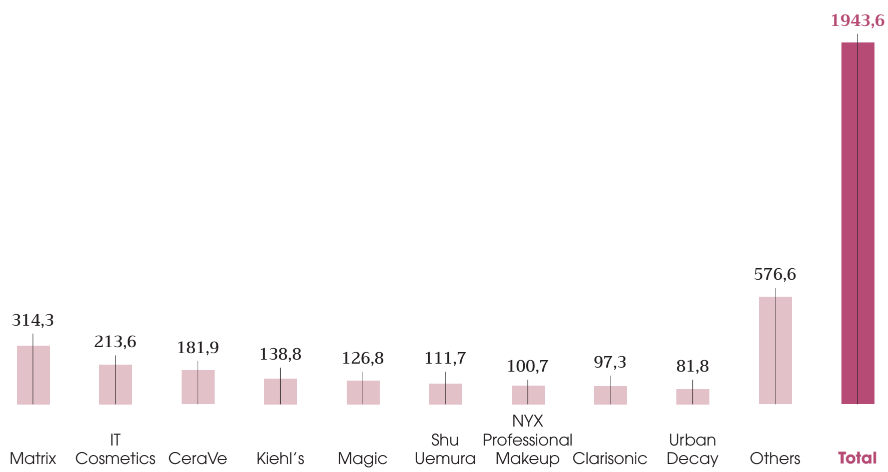
These mainly consist of software.

Innovation 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 innovation 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 2019	31.12.2018	Acquisitions/ Depreciation	Disposals/ Reversals	Changes in the scope of consolidation	Other movements [1]	31.12.2019
Brands with indefinite useful life [2]	1,906.4				37.2	1,943.6
Amortisable brands and product ranges	101.3		-2.8		0.5	99.0
Licences and patents	579.9	140.1			10.5	730.5
Software	1,380.8	80.4	-38.1		126.5	1,549.6
Customer relationships	605.0			1.3	4.4	610.8
Key money	74.2				-74.2	0.0
Others	197.6	144.9	-8.6		-94.1	239.8
Gross value	**4,845.1**	**365.4**	**-49.5**	**1.3**	**10.8**	**5,173.1**
Brands with indefinite useful life	156.1	55.3			1.0	212.4
Amortisable brands and product ranges	72.3	3.5	-0.9		0.3	75.2
Licences and patents	163.7	8.7			0.5	172.9
Software	936.5	157.0	-38.0		10.6	1,066.1
Customer relationships	404.2	48.2			6.3	458.7
Key money	14.1				-14.1	0.0
Others	10.8	10.2	-4.8		7.9	24.1
Depreciation and provisions	**1,757.8**	**282.9**	**-43.7**		**12.4**	**2,009.4**
OTHER INTANGIBLE ASSETS – NET	**3,087.3**	**82.5**	**-5.8**	**1.3**	**-1.6**	**3,163.8**

(1) Other movements mainly include the reclassification of €60.1 million in key money to right-of-use assets on 1 January 2019, which was offset by the final granting of the acquisition of Logocos purchased in 2018. The Group allocated €14.5 million to the brands with an indefinite useful life span line and €9.9 million to the Licences and patents line. Lastly, there was a €31.3 million positive change in exchange rates over the period.
(2) At end-2019, the gross value of brands with an indefinite useful life span breaks down as follows:



€ 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
Depreciation 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 31 December 2018, brands with an indefinite useful life span mainly included Matrix (€309.7 million), IT Cosmetics (€210.1 million), CeraVe (€179.5 million), Kiehl's (€137.0 million), Magic (€126.3 million), Shu Uemura (€109.1 million), NYX Professional Makeup (€99.1 million), Clarisonic (€95.8 million), Decléor and Carita (€81.4 million).

Accumulated impairment losses amounted to €53.9 million on Softsheen-Carson, €45.9 million on Magic, €42.4 million on Yue-Sai and €14.0 million on Biomedic at 31 December 2018.

€ millions **2017**	31.12.2016	Acquisitions/ Depreciation	Disposals/ Reversals	Change in the scope of consolidation [(2)]	Other movements [(1)]	31.12.2017
Brands with indefinite useful life [(3)]	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
Depreciation 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) Other movements mainly consisted of the negative change in exchange rates over the period totalling -€241.7 million.
(2) This mainly relates to changes in the scope of consolidation: The Body Shop and CeraVe.
(3) At 31 December 2017, brands with an indefinite useful life mainly included 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).

Accumulated impairment losses amounted to €52.2 million on Softsheen-Carson, €46.1 million on Magic, €42.6 million on Yue-Sai and €14.0 million on Biomedic at 31 December 2017.

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 net 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 amounted to 6.8% in 2019, to 6.9% in 2018 and 6.8% in 2017 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 US	USA
TEST 2019			
Maybelline/Garnier	1,275.1	6.8	7.8
IT Cosmetics	1,001.0	6.8	7.8
L'Oréal Paris	910.2	6.8	7.8
Lancôme	832.6	6.8	7.8
CeraVe	817.3	6.8	7.8
Matrix	727.4	6.8	7.8
Redken/PureOlogy	645.5	6.8	7.8
YSL Beauté	536.1	6.8	(1)
Stylenanda	506.6	6.8	7.8
Perfumes/Helena Rubinstein/Atelier Cologne	474.0	6.8	7.8
NYX Professional Makeup	428.5	6.8	7.8
L'Oréal Professionnel/Kérastase	394.6	6.8	7.8
Vichy/Dermablend	335.4	6.8	(1)
Shu Uemura	254.8	6.8	7.8
TEST 2018			
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
TEST 2017			
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

(1) Since the USD amounts for the YSL Beauté 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 distribution networks and commercial structures that are now grouped together in the Consumer Products Division in China.

The impairment test carried out on 31 December 2019 on the L'Oréal Beauty Device Cash Generating Unit resulted in the same impairment loss recorded at 30 June 2019. The recoverable amount of the L'Oréal Beauty Device Cash Generating Unit totalled €94.3 million at the end of December 2019.

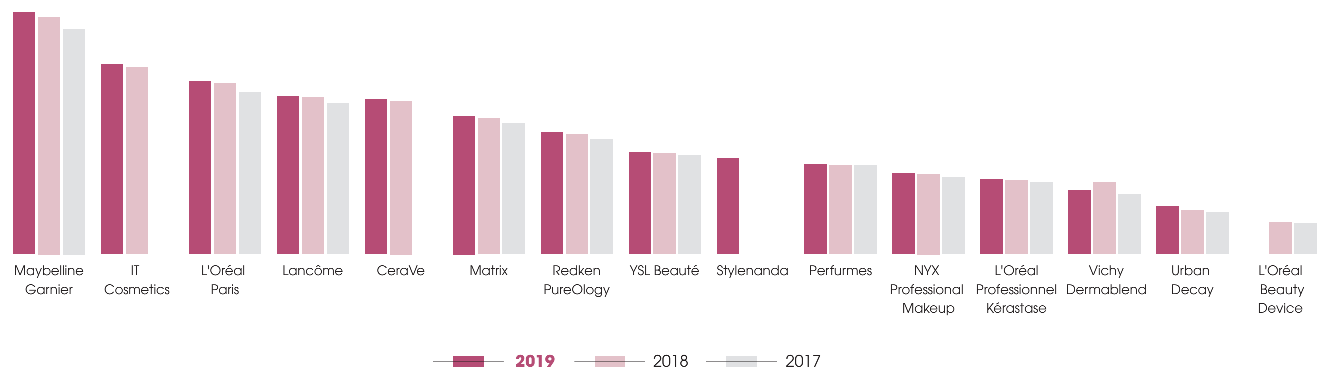
At 31 December 2019, a 1% increase in the discount rate on all the Group's Cash Generating Units would lead to an impairment loss risk of around €59.6 million.

The terminal growth rate is consistent 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 the Group's Cash Generating Units would lead to an impairment loss risk of around €36.7 million.

A 1-point decrease in the margin rate over the business plan period on all the Group's Cash Generating Units would lead to an impairment loss risk of around €28.8 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	31.12.2019	31.12.2018	31.12.2017
Investments in associates			
LIPP Distribution [(1)]	10.1	8.1	-
Others	0.8	0.9	1.1
TOTAL	**10.9**	**9.0**	**1.1**

(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 as well as 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

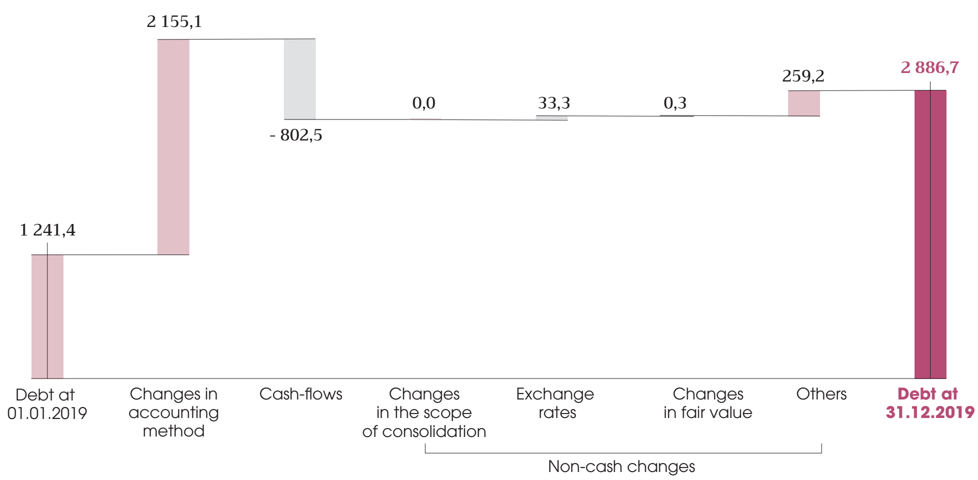
The Group takes out bank loans to cover its medium-term financing needs and issues short-term marketable instruments in France and commercial paper in the US to cover its financing needs in the short term. None of the Group's borrowings or debt contains an early repayment clause linked to financial ratios (covenants).

9.1.1. Debt by type

€ millions	31.12.2019		31.12.2018		31.12.2017	
	Non-current	Current	Non-current	Current	Non-current	Current
Short-term marketable instruments	-	601.1	-	748.6	-	768.1
MLT bank loans	-	-	0.6	-	0.3	0.3
Debt on finance lease contracts	-	-	3.6	2.4	4.6	2.9
Lease debt	1,628.0	407.9	-	-	-	-
Overdrafts	-	136.8	-	363.8	-	261.0
Other borrowings and debt	9.6	103.3	9.3	113.0	8.6	128.7
TOTAL	**1,637.6**	**1,249.1**	**13.5**	**1,227.8**	**13.4**	**1,161.0**

9.1.2. Change in debt

€ millions	31.12.2018	Change in accounting policy	Cash-flows	"Non-cash" changes: Changes in the scope of consolidation	"Non-cash" changes: Translation adjustments	"Non-cash" changes: Changes in fair value	"Non-cash" changes: Others	31.12.2019
Short-term marketable instruments	748.6		-158.4		10.9			601.1
MLT bank loans	0.6		-0.6					0.0
Lease debt	6.1	2,155.1	-425.8		30.5		270.0	2,035.9
Overdrafts	363.8		-220.9		-6.0			136.9
Other borrowings and debt	122.3		3.2		-2.1	0.3	-10.8	112.9
TOTAL	**1,241.4**	**2,155.1**	**-802.5**	**0.0**	**33.3**	**0.3**	**259.2**	**2,886.7**



9.1.3. Debt by maturity date

€ millions	31.12.2019	31.12.2018	31.12.2017
Less than 1 year (1)	1,249.1	1,227.8	1,161.0
1 to 5 years	1,162.3	3.6	4.2
More than 5 years	475.3	9.9	9.2
TOTAL	**2,886.7**	**1,241.4**	**1,174.4**

(1) At 31 December 2019, the Group had confirmed undrawn credit lines for €3,801.1 million compared with €3,643.6 million at 31 December 2018 and €3,675.2 million at 31 December 2017. These lines were not subject to any covenants.

Estimated interest expense at 31 December 2019, as at 31 December 2018 and 31 December 2017, 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 lease debts.

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.

9.1.4. Debt by currency excluding lease debts

€ millions	31.12.2019	31.12.2018	31.12.2017
Euro (EUR)	284.2	404.8	378.2
US Dollar (USD)	422.2	571.7	630.2
Chilean Peso (CLP)	27.5	26.2	18.7
Colombian Peso (COP)	27.0	25.4	29.4
Egyptian Pound (EGP)	14.5	20.6	13.6
Chinese Yuan Renminbi (CNY)	13.4	16.9	19.2
Kenyan Shilling (KES)	11.5	10.6	6.6
South African Rand (ZAR)	9.3	6.7	7.5
Argentine Peso (ARS)	7.8	21.6	2.5
Pakistani Rupee (PKR)	6.2	4.0	2.2
Indonesian Rupee (IDR)	5.2	3.4	9.2
Others	22.0	129.4	57.1
TOTAL	**850.8**	**1,241.4**	**1,174.4**

9.1.5. Breakdown of fixed rate – floating rate debt (after allowing for interest rate hedging instruments)

€ millions	31.12.2019	31.12.2018	31.12.2017
Floating rate	757.4	1,162.0	1,132.3
Fixed rate including lease debts	2,129.3	79.4	42.1
TOTAL	**2,886.7**	**1,241.4**	**1,174.4**

9.1.6. Effective interest rates

Effective interest rates on Group debt after allowing for hedging instruments are 0.99% in 2019 compared with 1.69% in 2018 and 0.94% in 2017 for short-term marketable instruments.

Medium- to long-term bank loans amounted to €0.0 million at 31 December 2019 compared with €0.6 million at 31 December 2018 and €0.6 million at 31 December 2017.

9.1.7. Average debt interest rates

Average debt interest rates after allowing for hedging instruments break down as follows:

	31.12.2019	31.12.2018	31.12.2017
Euro (EUR) (1)	-0.45%	-0.45%	-0.42%
US Dollar (USD)	2.34%	1.97%	1.00%

(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 €2,886.7 million at 31 December 2019 compared with €1,241.8 million at 31 December 2018 and €1,175.0 million at 31 December 2017.

9.1.9. Debt covered by collateral

No debt was covered by material amounts of collateral at 31 December 2019, 2018 and 2017.

9.1.10. Confirmed credit lines

At 31 December 2019, L'Oréal and its subsidiaries had €3,801.1 million of confirmed undrawn credit lines, compared with €3,643.6 million at 31 December 2018 and €3,675.2 million at 31 December 2017.

The maturities of the credit lines at 31 December 2019 are broken down as follows:

- €222.8 million at less than one year;
- €3,578.3 million between one and four years.

9.2. Cash and cash equivalents

	31.12.2019		31.12.2018		31.12.2017	
€ millions	Carrying amount	Acquisition cost	Carrying amount	Acquisition cost	Carrying amount	Acquisition cost
Marketable securities	3,042.4	3,044.6	1,899.8	1,900.5	1,810.4	1,810.8
Bank accounts and other cash and cash equivalents	2,243.6	2,243.6	2,092.2	2,092.2	1,236.1	1,236.1
TOTAL	**5,286.0**	**5,288.2**	**3,992.0**	**3,992.7**	**3,046.6**	**3,046.9**

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 three months at inception are shown on the Bank accounts and other cash and cash equivalents line.

9.3. Non-current financial assets

	31.12.2019		31.12.2018		31.12.2017	
€ millions	Carrying amount	Acquisition cost	Carrying amount	Acquisition cost	Carrying amount	Acquisition cost
Investments in non-consolidated companies						
• Sanofi (1)	10,595.5	4,033.5	8,945.0	4,033.5	8,494.6	4,033.5
• Unlisted securities (2)	94.9	189.2	52.5	147.5	32.1	127.1
Financial assets at amortised cost						
• Non-current loans and receivables	129.0	131.4	103.0	105.5	239.5	242.4
TOTAL	**10,819.4**	**4,354.1**	**9,100.5**	**4,286.5**	**8,766.2**	**4,403.0**

(1) L'Oréal's stake in Sanofi was 9.43% at 31 December 2019. The carrying amounts at 31 December 2019, 31 December 2018 and 31 December 2017 (€10,595.5 million, €8,945.0 million and €8,494.6 million respectively) correspond to the market value of the shares based on the closing price at each of these dates (€89.62, €75.66 and €71.85, 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 is broken down as follows:

€ millions	2019	2018	2017
Interest component of pension costs	-12.3	-7.9	-16.3
Other financial income and expenses	-3.7	-7.1	-9.7
TOTAL	**-16.0**	**-15.0**	**-26.0**

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 accordance with 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 item.

The fair value of interest rate derivative instruments is their market value. This 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 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 FINVAL or, in exceptional cases, directly by the Group's subsidiaries. Such transactions are supervised by the Group's Treasury department.

As a non-financial corporation, FINVAL is 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. 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 currency risk 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 currency risk hedging purposes have a maturity of less than 18 months at inception and break down as follows:

	Nominal			Market value		
€ millions	**31.12.2019**	**31.12.2018**	**31.12.2017**	**31.12.2019**	**31.12.2018**	**31.12.2017**
Currency futures						
Purchase of EURO against foreign currencies	**2,959.1**	**2,552.5**	**1,784.8**	**-75.8**	**-54.8**	**61.5**
EUR/CNY	678.8	452.1	185.1	-5.7	-9.2	1.4
EUR/USD	370.5	319.2	188.3	-3.1	-12.9	13.6
EUR/RUB	268.2	238.7	127.7	-12.9	5.5	-1.7
EUR/GBP	241.1	295.5	229.0	-16.4	2.6	5.6
EUR/MXN	196.6	171.7	168.3	-6.4	-2.9	8.9
EUR/HKD	166.5	87.6	42.2	-12.8	-22.9	16.2
EUR/CAD	140.0	119.4	173.2	-3.0	2.7	1.9
EUR/AUD	93.9	87.8	97.1	-1.4	1.8	3.0
EUR/BRL	85.4	63.2	57.7	0.0	-4.1	2.9
EUR/TRY	67.9	62.4	76.7	-3.0	-7.1	4.1
EUR/Asia Pacific currencies	252.5	288.0	230.8	-8.3	-9.4	3.3
EUR/Eastern European currencies	92.5	66.7	68.9	-1.1	-0.7	-2.0
EUR/Other currencies	305.2	300.1	139.8	-1.7	1.7	4.4
Purchase of USD against foreign currencies	**414.0**	**377.9**	**434.8**	**1.2**	**9.0**	**-10.6**
USD/Other currencies	188.9	161.7	202.2	-1.8	1.5	-3.9
USD/Latin American currencies	132.9	126.8	149.7	4.0	2.1	-3.6
USD/CAD	92.2	89.3	82.9	-1.0	5.3	-3.0
Sale of USD against foreign currencies	**199.8**	**185.3**	**14.2**	**-0.7**	**3.0**	**-4.8**
USD/Asia Pacific currencies	199.8	185.3	14.1	-0.7	3.0	-4.8
USD/Other currencies	-	-	0.1	-	-	-
Other currency pairs	**727.2**	**1,073.6**	**705.0**	**-4.2**	**0.8**	**-27.2**
CURRENCY FUTURES TOTAL	**4,300.0**	**4,189.2**	**2,938.8**	**-79.5**	**-42.0**	**18.9**
Currency options						
EUR/CNY	63.5	100.9	37.8	1.7	2.3	1.7
EUR/USD	40.9	-	75.5	0.7	-	5.0
EUR/GBP	33.3	-	101.6	0.3	-	3.3
EUR/TRY	19.7	31.4	10.5	1.2	4.1	1.9
EUR/BRL	9.9	35.4	4.6	0.8	1.8	0.5
EUR/RUB	-	-	76.7	-	-	4.0
EUR/HKD	-	-	34.9	-	-	2.8
EUR/Other currencies	-	-	19.3	-	-	1.9
Other currency pairs	**7.8**	**22.8**	**8.1**	**0.6**	**0.9**	**0.2**
CURRENCY OPTIONS TOTAL	**175.1**	**190.6**	**369.0**	**5.3**	**9.1**	**21.3**
Of which total options purchased	175.1	190.6	369.0	5.3	9.1	21.3
TOTAL	**4,475.2**	**4,379.8**	**3,307.8**	**-74.2**	**-32.9**	**40.2**

The market values by type of hedging are as follows:

€ millions	**2019**	**2018**	**2017**
Fair value hedges [1]	-25.6	-9.7	-0.6
Cash flow hedges	-48.6	-23.2	40.8
TOTAL	**-74.2**	**-32.9**	**40.2**

(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	2019	2018	2017
Time value	-126.9	-76.7	-90.5
Other foreign exchange gains and losses	-63.2	87.1	-5.0
TOTAL	**-190.1**	**10.4**	**-95.5**

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 -€9.2 million, -€4.3 million and -€8.4 million in 2019, 2018 and 2017, respectively.

These amounts are allocated to the appropriate operating expense items. They are broken down as follows:

€ millions	2019	2018	2017
Cost of sales	-161.9	13.2	-77.8
Research and innovation expenses	16.5	-6.2	3.3
Advertising and promotion expenses	-25.5	1.9	-12.4
Selling, general and administrative expenses	-19.3	1.6	-8.6
FOREIGN EXCHANGE GAINS AND LOSSES	**-190.1**	**10.4**	**-95.5**

10.3. Hedging of interest rate risk

The Group did not have any interest rate hedging instruments at 31 December 2019, 2018 and 2017.

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 +€45.3 million on the Group's net finance costs at 31 December 2019, compared with a direct positive impact of +€28.3 million at 31 December 2018 and a direct positive impact of +€19.1 million at 31 December 2017. This calculation allows for cash, cash equivalents and derivatives, and assumes that total net debt/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 -€0.9 million at 31 December 2019 compared with -€0.4 million at 31 December 2018 and €0.1 million 31 December 2017.

10.5. Counterparty risk

The Group has financial relations with international banks rated investment grade by specialised agencies. 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 short-term marketable instruments programme. Should these bank facilities not be renewed, the Group would have confirmed undrawn credit lines of €3,801.1 million at 31 December 2019. 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 2019, marketable securities consist mainly of unit trusts (note 9.2.).

At 31 December 2019, the Group held 118,227,307 Sanofi shares for an amount of €10,595.5 million (note 9.3.). A change of plus or minus 10% in the market price of these shares relative to the market price of €89.62 on 31 December 2019 would have an impact of plus or minus €1,059.5 million before tax on Group equity.

The initial share price for Sanofi shares was €34.12.

The shares are valued based on their fair value, and unrealised losses and gains are accounted for through equity in the Other comprehensive income item.

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.

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.

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 table below provides an analysis of financial instruments recorded at fair value on the balance sheet by level of the fair value hierarchy.

€ millions **31 December 2019**	Level 1	Level 2	Level 3	Total fair value
Assets at fair value				
Foreign exchange derivatives		49.2		49.2
Sanofi shares	10,595.5			10,595.5
Marketable securities	3,042.4			3,042.4
TOTAL ASSETS AT FAIR VALUE	**13,637.9**	**49.2**	**-**	**13,687.1**
Liabilities at fair value				
Foreign exchange derivatives		123.6		123.6
TOTAL LIABILITIES AT FAIR VALUE	**-**	**123.6**	**-**	**123.6**

€ 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**

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 €48.8 million, €65.5 million and €80.1 million respectively in 2019, 2018 and 2017.

NOTE 11. Equity – Earnings per share

11.1. Share capital and additional paid in capital

Share capital consists of 558,117,205 shares with a par value of €0.20 at 31 December 2019 following the exercise of subscription options for 785,408 shares, the issue of eight shares for the employee shareholding plan, 706,262 free shares and the cancellation of 3,771,125 shares.

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.

11.2. Treasury shares

Accounting principles

Treasury shares are recorded at acquisition cost and deducted from equity. Capital gains/losses on disposal of these items net of tax are charged directly to equity and do not contribute to profit for the financial year.

a) 2019

The change in the number of shares in 2019 was as follows:

In shares	Share capital	Treasury shares	Common shares outstanding
At 01.01.2019	**560,396,652**	**-771,125**	**559,625,527**
Shares cancelled	-3,771,125	3,771,125	
Options and free shares exercised	1,491,678		1,491,678
Treasury shares purchased		-3,000,000	-3,000,000
AT 31.12.2019	**558,117,205**	**-**	**558,117,205**

The change in treasury shares in 2019 was as follows:

In shares	Buyback programme	Allocated to stock option/free-share plans	Total	€ millions
At 01.01.2019		**771,125**	**771,125**	**56.5**
Shares cancelled	-3,000,000	-771,125	-3,771,125	-56.5
Options and free shares exercised				
Treasury shares purchased	3,000,000		3,000,000	
AT 31.12.2019	**-**	**-**	**-**	**-**
€ millions	-	-	-	

b) 2018

The change in the number of shares in 2018 was as follows:

In shares	Share capital	Treasury shares	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 shares purchased		-2,497,814	-2,497,814
AT 31.12.2018	560,396,652	-771,125	559,625,527

The change in treasury shares in 2018 was 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 shares purchased	2,497,814		2,497,814	
AT 31.12.2018	-	771,125	771,125	56.5
€ millions	-	56.5	56.5	

c) 2017

The change in the number of shares in 2017 was as follows:

In shares	Share capital	Treasury shares	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 shares purchased		-2,846,604	-2,846,604
AT 31.12.2017	560,519,088	-771,125	559,747,963

The change in treasury shares 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 shares purchased	2,846,604		2,846,604	499.2
AT 31.12.2017	-	771,125	771,125	56.5
€ millions	-	56.5	56.5	

11.3. Other comprehensive income

The following tables indicate movements in this item:

€ millions	31.12.2019	31.12.2018	31.12.2017
Securities at fair value through other comprehensive income			
Reserve at beginning of period	4,911.7	4,461.2	-
Changes in fair value over period	1,650.6	450.5	-
Changes in fair value recorded through other comprehensive income	-	-	-
RESERVE AT END OF PERIOD	6,562.3	4,911.7	-

€ millions	31.12.2019	31.12.2018	31.12.2017
Financial assets available-for-sale			
Reserve at beginning of period	-	-	5,058.2
Changes in fair value over period	-	-	-597.0
Impairment loss recorded through other comprehensive income	-	-	-
Changes in fair value recorded in profit and loss	-	-	-
RESERVE AT END OF PERIOD	**-**	**-**	**4,461.2**

€ millions	31.12.2019	31.12.2018	31.12.2017
Cash flow hedges – foreign exchange			
Reserve at beginning of period	41.7	101.0	10.7
Change in accounting policy (1)	-	1.0	-0.4
Changes in fair value over period	201.8	54.2	162.5
Changes in fair value recorded through other comprehensive income	-198.7	-114.5	-74.2
Deconsolidation	-	-	2.4
RESERVE AT END OF PERIOD	**44.8**	**41.7**	**101.0**

(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	31.12.2019	31.12.2018	31.12.2017
Impact of a 10% increase in the EUR against all other Group currencies	+323.1	+277.8	+250.0
Impact of a 10% decrease in the EUR against all other Group currencies	-301.9	-258.7	-217.4
Impact of a 10% increase in the USD against key Group currencies	-27.0	-16.1	+10.0
Impact of a 10% decrease in the USD against key Group currencies	+41.2	+27.7	+3.6

€ millions	31.12.2019	31.12.2018	31.12.2017
Cash flow hedges – interest rates			
Reserve at beginning of period	-	-	-
Changes in fair value over period	-	-	-
Changes in fair value recorded through other comprehensive income	-	-	-
RESERVE AT END OF PERIOD	**-**	**-**	**-**

€ millions	31.12.2019	31.12.2018	31.12.2017
Actuarial gains/(losses) and impact of asset ceiling			
Reserve at beginning of period	-730.5	-671.8	-946.2
Actuarial gains/(losses) over the period	-327.7	-58.5	279.9
Impact of asset ceiling	-	-	-
Deconsolidation and other	-	-0.2	-5.6
RESERVE AT END OF PERIOD	**-1,058.2**	**-730.5**	**-671.8**

€ millions	31.12.2019	31.12.2018	31.12.2017
Other comprehensive income			
Gross reserve	5,548.8	4,222.9	3,890.6
Associated tax effect	46.9	19.2	4.4
RESERVE NET OF TAX	**5,595.8**	**4,242.1**	**3,895.0**

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 share 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	2019	2018	2017
Net profit from continuing operations attributable to owners of the company	**3,750.0**	**3,895.4**	**3,821.7**
Capital gains and losses on property, plant and equipment and intangible assets	-14.0	-2.7	-3.9
Impairment of property, plant and equipment and intangible assets	142.8	-	-
Restructuring costs	120.2	85.1	262.5
Others	187.5	12.3	17.8
Tax effect on non-recurring items	165.0	-25.1	-83.4
Non-controlling interests on non-recurring items	-0.1	-	-0.1
Tax effect on acquisitions and internal restructuring	5.5	32.7	-16.1
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
3% tax levied on dividends paid and 2017 exceptional and additional contributions (1)	-	-	-146.0
NET PROFIT FROM CONTINUING OPERATIONS ATTRIBUTABLE TO OWNERS OF THE COMPANY EXCLUDING NON-RECURRING ITEMS	**4,356.9**	**3,987.6**	**3,748.7**

(1) Following the decision taken by the Constitutional Court in October 2017 to invalidate the additional 3% contribution, the amounts paid for 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.):

2019	**Net profit – attributable to owners of the company** *(€ millions)*	**Number of shares**	**Earnings per share attributable to owners of the company** *(€)*
Earnings per share	3,750.0	559,739,718	6.70
Stock options	-	666,108	-
Free shares	-	2,407,303	-
DILUTED EARNINGS PER SHARE	**3,750.0**	**562,813,129**	**6.66**

2018	**Net profit – attributable to owners of the company** *(€ millions)*	**Number of shares**	**Earnings per share attributable to owners of the company** *(€)*
Earnings per share	3,895.4	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 *(€ millions)*	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**

11.4.3. Earnings per share 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.):

2019	Net profit attributable to owners of the company excluding non-recurring items *(€ millions)*	Number of shares	Earnings per share attributable to owners of the company excluding non-recurring items *(€)*
Earnings per share excluding non-recurring items	4,356.9	559,739,718	7.78
Stock options	-	666,108	-
Free shares	-	2,407,303	-
DILUTED EARNINGS PER SHARE EXCLUDING NON-RECURRING ITEMS	**4,356.9**	**562,813,129**	**7.74**

2018	Net profit attributable to owners of the company excluding non-recurring items *(€ millions)*	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 *(€ millions)*	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**

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 2019 on shares held continuously in registered form between 31 December 2017 and the 2020 dividend payment date. The number of shares eligible for the preferential dividend cannot exceed 0.5% of the share capital for any one shareholder.

2019	Number of shares	Diluted earnings per share	Diluted earnings per share of continuing operations
Shares carrying ordinary dividend rights	516,215,525	6.61	6.61
Shares carrying preferential dividend rights	46,597,604	7.27	7.27

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

NOTE 12. Provisions for liabilities and charges and other non-current liabilities – Contingent liabilities and material ongoing disputes

12.1. Provisions for liabilities and charges and other non-current liabilities

Accounting principles

Provisions for liabilities and charges and other non-current liabilities 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 mainly relate to restructuring costs, industrial, environmental and commercial risks relating to operations such as breach of contract, product returns, employee-related risks and uncertain tax positions.

These provisions are estimated based on the most likely assumptions or by using statistical methods, depending on their type.

Provisions for liabilities and charges and other non-current liabilities are recorded either as Non-current liabilities or as Current liabilities, depending on their type. Provisions for liabilities or disputes 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	31.12.2019	31.12.2018	31.12.2017
Provisions for liabilities and charges and other non-current liabilities	**367.1**	**336.1**	**434.9**
Non-current provisions (1)	56.9	47.6	184.0
Non-current liabilities (2)	310.2	288.5	250.9
Current provisions for liabilities and charges	**1,117.8**	**979.8**	**889.2**
Provisions for restructuring	112.9	102.1	146.0
Provisions for product returns	351.1	316.8	303.6
Other current provisions (1)	653.7	560.9	439.6
TOTAL	**1,484.9**	**1,315.9**	**1,324.1**

(1) This item notably includes provisions for 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).
(2) This heading corresponds to uncertain tax positions. It includes an estimate of tax risks and litigation related to income tax for the various countries the Group operates in.

12.1.2. Changes in provisions for liabilities and charges during the period

€ millions	31.12.2017	31.12.2018	Charges (2)	Reversals (used) (2)	Reversals (not used) (2)	Other (1)	31.12.2019
Provisions for restructuring	146.0	102.1	89.1	-58.7	-13.3	-6.4	112.9
Provisions for product returns	303.6	316.8	301.0	-233.6	-38.6	5.5	351.1
Other provisions for liabilities and charges	623.6	608.5	278.9	-127.7	-62.2	13.2	710.7
TOTAL	**1,073.2**	**1,027.4**	**669.0**	**-420.0**	**-114.1**	**12.4**	**1,174.7**

(1) Mainly resulting from translation differences.
(2) These figures can be analysed as follows:

€ millions	Charges	Reversals (used)	Reversals (not used)
• Operating profit	530.7	-360.0	-100.8
• Other income and expenses	138.3	-60.0	-13.3
• Net financial income	-	-	-

The change in this caption in 2018 can be analysed as follows:

€ 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	559.1	623.6	287.8	-130.8	-167.3	-4.8	608.5
TOTAL	**930.0**	**1,073.2**	**631.2**	**-462.8**	**-214.1**	**-0.1**	**1,027.4**

(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

** 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	432.4	559.1	163.3	-113.9	-34.4	49.5	623.6
TOTAL	**792.6**	**930.0**	**651.0**	**-432.4**	**-99.5**	**24.1**	**1,073.2**

(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	-	-	-

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 income 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 €699.9 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 the average prices applied by its subsidiaries as a basis for tax and not its whole third party net sales.

India – Advertising, marketing and promotional costs challenged

L'Oréal received several tax reassessment notices regarding financial years 2007/08 to 2015/16 for the most part concerning the tax deductibility of advertising, marketing and promotional expenses for a total amount of €167.6 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 disagreements 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 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 Greek Administrative Court of Appeal quashed this decision on 5 November 2018. The Greek competition authority lodged an appeal in cassation against this decision on 28 January 2019 and a hearing before the Council of State will be held during the first half of 2020.

In Germany, after the German competition authority filed a lawsuit in 2008 in the area of personal care products, which was definitively closed in 2015, distributors filed a lawsuit seeking damages against L'Oréal Germany which has resulted in dismissals by the courts at this stage. These proceedings are still ongoing. L'Oréal Germany is contesting the merits of these claims and denies that any damages occurred.

b) France

In France, on 18 December 2014, the French competition authority handed down a fine of €189.5 million against L'Oréal in the hygiene products sector for events that took place in the early 2000s. On 27 October 2016, the Paris Court of Appeal upheld this first instance decision. L'Oréal refutes all accusations of concerted practices with its competitors and regrets that the French competition authority did not take into account the highly competitive French market in household and hygiene 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.

Following an appeal lodged by L'Oréal, on 27 March 2019, the Court of Cassation partially overturned the ruling relating to the amount of the fine imposed on L'Oréal. The hearing before the Second Court of Appeal will be held in early 2020 and the ruling should be handed down during the first half of 2020.

It should be noted that since the appeal and cassation appeal 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 2019, the provision was maintained in liabilities and the payment recognised in Other current assets.

Following this ruling, the distributors filed lawsuits for damages against L'Oréal. These proceedings are in initial stages. L'Oréal contests the merits of these claims and denies that any damages occurred.

A provision has been set aside for all disputes still in progress at 31 December 2019 amounting to €189.5 million at year-end, versus €189.5 million at end-2018 and €212.3 million at end-2017.

At the present time, no other exceptional events or disputes are highly likely to have a material impact on the earnings, financial situation, assets, or operations of the Company or the L'Oréal Group.

NOTE 13. Off-balance sheet commitments

13.1. Lease commitments

These amounted to €230.7 million at 31 December 2019 compared with €2,582.1 million at 31 December 2018 and €2,385.0 million at 31 December 2017, of which:

- €41.8 million was due within one year at 31 December 2019, compared with €512.4 million at 31 December 2018 and €475.5 million at 31 December 2017;
- €48.5 million was due within one to five years at 31 December 2019, compared with €1,422.8 million at 31 December 2018 and €1,222.0 million at 31 December 2017;
- €140.4 million was due in over five years at 31 December 2019, compared with €646.9 million at 31 December 2018 and €687.5 million at 31 December 2017.

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	31.12.2019	31.12.2018	31.12.2017
Guarantees given (1)	398.5	380.8	305.9
Guarantees received	80.3	63.7	60.2
Capital expenditure orders (2)	329.6	303.2	284.1
Firm purchase commitments under logistics supply contracts	871.0	932.8	770.8

(1) These consist mainly of guarantees given to governmental bodies or concerning loans granted to third parties who are partners of the Group, and the net commitment toward the L'Oréal Foundation for its long-term action programme and commitment to pay into the fund dedicated to rebuilding the Notre-Dame Cathedral.
(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 situation, earnings or assets.

The risks identified at 31 December 2019 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	2019	2018	2017
Sales of goods and services	-0.0	0.1	0.1
Financial expenses and income	-	-	-

The following receivables and payables were recorded on the balance sheet for the related parties:

€ millions	31.12.2019	31.12.2018	31.12.2017
Operating receivables	0.0	0.1	0.1
Operating payables	0.1	0.1	0.1
Financial receivables	0.1	0.1	-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 2019, 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 2019 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	50%	n/a	n/a	1.4	57%	n/a	n/a
Fully consolidated subsidiaries	0.8	36%	4.0	41%	0.7	28%	4.7	93%
Subtotal	**1.9**	**86%**	**4.0**	**41%**	**2.1**	**85%**	**4.7**	**93%**
Non-audit services (1)								
L'Oréal	0.3	13%	2.6	27%	0.3	14%	-	-
Fully consolidated subsidiaries	0.0	1%	3.2	32%	0.0	0%	0.4	7%
Subtotal	**0.3**	**14%**	**5.8**	**59%**	**0.3**	**15%**	**0.4**	**7%**
TOTAL	**2.2**	**100%**	**9.8**	**100%**	**2.4**	**100%**	**5.1**	**100%**

(1) Mainly concerning acquisition audits.

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 acquisition audits.

NOTE 16. Acquisition in progress

On 2 July 2019, L'Oréal announced that the Group had entered into negotiations with Clarins to acquire the Mugler and Azzaro brands. The Clarins group owns these two iconic companies worldwide.

On 21 October 2019, after the two parties consulted with each other via employee representative bodies, L'Oréal and the Clarins group signed an agreement to make the sale of the Mugler brand and Azzaro perfumes official. When L'Oréal's acquisition of Clarins's fragrance division was finalised, it comprised Mugler, Thierry Mugler (Fashion), Clarins Fragrance Group (CFG), CFG France, Cosmeurop and CFG UK. These businesses generated combined net sales of approximately €340 million in 2018.

The Clarins group owns iconic globally renowned perfume brands and has well-known and highly-valued expertise within the industry: Angel revolutionised the industry, Alien built solid positions, Azzaro Pour Homme and Chrome are classics, and millennials love Wanted and Wanted Girl.

By joining L'Oréal, the Mugler and Azzaro brands will be able to continue growing internationally and taking advantage of our resources as a worldwide leader in the beauty market – especially our marketing, distribution and innovation resources.

The acquisition should be finalised by the first half of 2020, subject to traditional suspensive conditions and approval from regulatory authorities.

NOTE 17. Subsequent events

On 4 February 2020, after some strategic thinking to ensure the best possible development for the Roger & Gallet brand, L'Oréal announced it had entered into negotiations with the French investment holding company Impala to sell Roger & Gallet.

The project will be subject to an information-consultation phase between employee representative bodies of L'Oréal and could be finalised by this summer.

5.7. CONSOLIDATED COMPANIES AT 31 DECEMBER 2019

5.7.1. Fully consolidated companies

Company	Head office	% interest
ATELIER COLOGNE (as a sub-group)	France	100.00
BCI BIO COSMETICS INTERNATIONAL GmbH	Germany	100.00
BEAUTE, 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 ou CLOE	France	100.00
CENTRE THERMAL DE LA ROCHE-POSAY	France	100.00
CHIMEX	France	100.00
COBELSA COSMETICOS, S.A.	Spain	100.00
COLORIGHT LTD	Israel	100.00
COMPAGNIE THERMALE HOTELIERE ET FINANCIERE – C.T.H.F.	France	99.98
COMPTOIR LAINIER AFRICAIN	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
COSMETIQUE ACTIVE FRANCE	France	100.00
COSMETIQUE ACTIVE INTERNATIONAL – CAI	France	100.00
COSMETIQUE ACTIVE PRODUCTION – C.A.P.	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	99.89
ERWITON S.A.	Uruguay	100.00
FAPAGAU & CIE	France	100.00
FAPROREAL	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.A.	Italy	100.00
HOLDIAL	France	100.00
INTERBEAUTY COSMETICS LTD	Israel	92.97
INTERBEAUTY PRODUCTS LIMITED	Kenya	100.00
JSC L'OREAL	Russia	100.00
KOSMEPOL Sp. z.o.o.	Poland	100.00
L & J RE	France	100.00
LA ROCHE-POSAY LABORATOIRE DERMATOLOGIQUE	France	99.98
LABORATOIRE SANOFLORE	France	100.00
LABORATORIOS DE COSMETICOS VOGUE S.A.S.	Colombia	100.00
LOA1	France	100.00
LOA3	France	100.00
LOA6	France	100.00
LOA7	France	100.00

Company	Head office	% interest
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
L'OREAL (CHINA) CO. LTD	China	100.00
L'OREAL (THAILAND) LIMITED	Thailand	100.00
L'OREAL (UK) LIMITED	United Kingdom	100.00
L'OREAL ADRIA d.o.o.	Croatia	100.00
L'OREAL ARGENTINA Sociedad Anonima	Argentina	100.00
L'OREAL AUSTRALIA PTY LTD	Australia	100.00
L'OREAL BALKAN d.o.o.	Serbia	100.00
L'OREAL BALTIC SIA	Latvia	100.00
L'OREAL BANGLADESH LIMITED	Bangladesh	100.00
L'OREAL BELGILUX S.A.	Belgium	100.00
L'OREAL BRASIL COMERCIAL DE COSMÉTICOS LTDA	Brazil	100.00
L'OREAL BRASIL PESQUISAS E INOVACAO LTDA	Brazil	100.00
L'OREAL BRASIL-LICENCIAMENTOS EMPRESARIAIS, COSMETICOS E PERFUMES LTDA	Brazil	100.00
L'OREAL BULGARIA EOOD	Bulgaria	100.00
L'OREAL CANADA, INC.	Canada	100.00
L'OREAL CENTRAL AMERICA S.A.	Panama	100.00
L'OREAL CENTRAL WEST AFRICA LTD	Nigeria	100.00
L'OREAL CESKA REPUBLIKA s.r.o.	Czech Republic	100.00
L'OREAL CHILE S.A.	Chile	100.00
L'OREAL COLOMBIA S.A.S.	Colombia	100.00
L'OREAL COSMETICS INDUSTRY S.A.E.	Egypt	100.00
L'OREAL CÔTE D'IVOIRE	Ivory Coast	100.00
L'OREAL DANMARK A/S	Denmark	100.00
L'OREAL DEUTSCHLAND GmbH	Germany	100.00
L'OREAL EAST AFRICA LIMITED	Kenya	100.00
L'OREAL ECUADOR S.A.	Ecuador	100.00
L'OREAL EGYPT LLC	Egypt	100.00
L'OREAL ESPANA S.A.	Spain	100.00
L'OREAL FINLAND OY	Finland	100.00
L'OREAL GUATEMALA S.A.	Guatemala	100.00
L'OREAL HELLAS S.A.	Greece	100.00
L'OREAL HONG KONG LIMITED	Hong Kong	100.00
L'OREAL INDIA PRIVATE LIMITED	India	100.00
L'OREAL INVESTMENTS B.V.	The Netherlands	100.00
L'OREAL ITALIA S.p.A.	Italy	100.00
L'OREAL KAZAKHSTAN Limited Liability Partnership	Kazakhstan	100.00
L'OREAL KOREA LIMITED	Korea	100.00
L'OREAL LIBAN SAL	Lebanon	99.98
L'OREAL LIBRAMONT	Belgium	100.00
L'OREAL MAGYARORSZAG KOZMETIKAI Kft	Hungary	100.00
L'OREAL MALAYSIA SDN BHD	Malaysia	100.00
L'OREAL MANUFACTURING MIDRAND (PROPRIETARY) LIMITED	South Africa	100.00
L'OREAL MAROC	Morocco	50.00
L'OREAL MEXICO S.A. de C.V.	Mexico	100.00
L'OREAL MEXICO SERVICIOS S.A. DE C.V.	Mexico	100.00
L'OREAL MIDDLE EAST	United Arab Emirates	100.00
L'OREAL NEDERLAND B.V.	The Netherlands	100.00
L'OREAL NEW ZEALAND LIMITED	New Zealand	100.00
L'OREAL NORGE A/S	Norway	100.00

Company	Head office	% interest
L'OREAL ÖSTERREICH GmbH	Austria	100.00
L'OREAL PAKISTAN PRIVATE LIMITED	Pakistan	100.00
L'OREAL PANAMA COMERCIAL S.A.	Panama	100.00
L'OREAL PANAMA S.A.	Panama	100.00
L'OREAL PERU S.A.	Peru	100.00
L'OREAL PHILIPPINES, INC.	The Philippines	100.00
L'OREAL POLSKA Sp. z.o.o.	Poland	100.00
L'OREAL PORTUGAL UNIPESSOAL, LDA	Portugal	100.00
L'OREAL PRODUITS DE LUXE FRANCE	France	100.00
L'OREAL PRODUITS DE LUXE INTERNATIONAL	France	100.00
L'OREAL PRODUKTION DEUTSCHLAND BETEILIGUNGS GmbH	Germany	100.00
L'OREAL PRODUKTION DEUTSCHLAND GmbH & CO KG	Germany	100.00
L'OREAL ROMANIA SRL	Romania	100.00
L'OREAL SAIPO INDUSTRIALE S.p.A.	Italy	100.00
L'OREAL SAUDI ARABIA	Saudi Arabia	75.00
L'OREAL SINGAPORE Pte Ltd	Singapore	100.00
L'OREAL SLOVENIJA kozmetika d.o.o.	Slovenia	100.00
L'OREAL SLOVENSKO s.r.o.	Slovakia	100.00
L'OREAL SLP S.A. de C.V.	Mexico	100.00
L'OREAL SOUTH AFRICA HOLDINGS (PROPRIETARY) LIMITED	South Africa	100.00
L'OREAL SUISSE S.A.	Switzerland	100.00
L'OREAL SVERIGE AB	Sweden	100.00
L'OREAL TAIWAN CO., LTD.	Taiwan	100.00
L'OREAL TRAVEL RETAIL AMERICAS, INC.	USA	100.00
L'OREAL TÜRKIYE KOZMETIK SANAYI VE TICARET ANONIM SIRKETI	Turkey	100.00
L'OREAL UAE GENERAL TRADING LLC	United Arab Emirates	99.80
L'OREAL UKRAINE	Ukraine	100.00
L'OREAL URUGUAY S.A.	Uruguay	100.00
L'OREAL USA, INC. (sub-groupe)	USA	100.00
L'OREAL VERWALTUNGS GmbH	Germany	100.00
L'OREAL VIETNAM CO. LTD	Vietnam	100.00
L'OREAL WEST AFRICA LIMITED	Ghana	100.00
MAGIC HOLDINGS (sub-groupe)	China	100.00
MASRELOR LLC	Egypt	100.00
MATRIX DISTRIBUTION GmbH	Germany	100.00
MODIFACE INC.	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'OREAL 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'OREAL INDONESIA	Indonesia	100.00
P.T. YASULOR INDONESIA	Indonesia	100.00
PRESTIGE ET COLLECTIONS INTERNATIONAL	France	100.00
PROCOSA PRODUCTOS DE BELEZA LTDA	Brazil	100.00
PRODUCTOS CAPILARES L'OREAL S.A.	Spain	100.00
REAL CAMPUS BY L'OREAL	France	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

Company	Head office	% interest
SHANGHAI L'OREAL INTERNATIONAL TRADING CO. LTD	China	100.00
SHU UEMURA COSMETICS INC.	Japan	100.00
SICOS & CIE	France	100.00
SLP ASISTENCIA S.A. DE C.V.	Mexico	100.00
SOCIETE HYDROMINERALE DE LA ROCHE-POSAY	France	99.98
SOPROCOS	France	100.00
SOPROREAL	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

5.7.2. Equity-accounted companies

Company	Head office	% interest
INNEOV ARGENTINA S.A.	Argentina	50.00 (1)
INNEOV DEUTSCHLAND GmbH	Germany	50.00 (1)
INNEOV HELLAS A.E.	Greece	50.00 (1)
INNEOV MEXICO S.A. DE C.V.	Mexico	50.00 (1)
INNEOV TAIWAN CO. LTD	Taiwan	50.00 (1)
LIPP DISTRIBUTION	Tunisia	49.00
NUTRICOS TECHNOLOGIES	France	50.00 (1)
SCI GOLF DU CONNETABLE	France	38.12

(1) Companies jointly owned with Nestlé.

5.8. STATUTORY AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

(For the year ended December 31, 2019)

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.

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 consolidated financial statements of L'Oréal for the year ended December 31, 2019.

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, 2019 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, 2019 to the date of our report, and, in particular, we did not provide any non-audit services prohibited by article 5(1) of Regulation (EU) No 537/2014 or the French Code of Ethics (*Code de déontologie*) for Statutory Auditors.

Emphasis of matter

Without qualifying the opinion expressed above, we draw your attention to Note 1 "Change in accounting policy applied at 1 January 2019: IFRS 16 Leases" to the consolidated financial statements, which describes the impacts of the first-time application of IFRS 16 Leases as of January 1, 2019.

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*	
At December 31, 2019, the carrying amount of goodwill and other intangible assets recognized in the consolidated financial statements totaled €12,749 million, representing 29% 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 led to the recognition of impairment losses for a total of €139 million at December 31, 2019, of which €83 million relating to goodwill. We deemed the measurement of these assets to be a key audit matter because of their relative materiality in the consolidated financial statements and because the calculation of their recoverable amount requires a high degree of judgment from Management in terms of projecting future cash flows and determining the main assumptions to be used.	We obtained the impairment tests and sensitivity analyses prepared by Management. We assessed the sensitivity analyses, in particular by comparing them to our own sensitivity analyses, to determine the nature and scope of our procedures. We assessed, in particular, the quality of the process implemented by Management for drawing up and approving budgets and forecasts and, for the impairment tests that we deemed the most sensitive, 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, other non-current liabilities and contingent liabilities *See Note 12 – Provisions for liabilities and charges and other non-current liabilities - Contingent liabilities and material ongoing disputes, to the consolidated financial statements*	
The Group is exposed to various risks arising in the ordinary course of its operations, particularly tax risks, industrial, environmental and commercial risks relating to operations (excluding provisions for product returns), employee-related risks and risks related to antitrust investigations, for which provisions amounting to €1,134 million had been recorded at December 31, 2019. 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 €700 million and €168 million, respectively, and are partially covered by provisions. We deemed the determination and measurement of provisions for liabilities and charges and other non-current liabilities 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 profit.	In order to identify and gain an understanding of all of the existing disputes and liabilities as well as the corresponding judgments made, we made inquiries with General Management and the Legal and Tax Departments 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 amounts paid out with the provisions recorded in recent years. Regarding the most significant disputes for which a provision was recorded, with the guidance of our experts in the field where applicable, 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 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. Regarding contingent liabilities, with the guidance of our experts in the field where applicable, we examined the procedural aspects and/or the legal or technical opinions prepared by the lawyers or external experts selected by Management in order to assess the merits of the decision not to record a provision. We verified the appropriateness of the disclosures provided in the notes to the consolidated financial statements.

Description of risk	How our audit addressed this risk
Recognition of net sales – estimation of items to be deducted from sales *See Note 3 – Accounting principles – Net sales, to the consolidated financial statements*	
Sales incentives, discounts and product returns are deducted from sales, as are incentives granted to distributors or consumers, such as commercial cooperation, coupons, discounts and loyalty 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, 2019, PricewaterhouseCoopers Audit and Deloitte & Associés were in the sixteenth 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.

Paris-La Défense and Neuilly-sur-Seine, February 17, 2020

The Statutory Auditors

PricewaterhouseCoopers Audit	Deloitte & Associés
Anne-Claire Ferrié	Frédéric Moulin

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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 situation 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 General 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.

6.1. COMPARED INCOME STATEMENTS

€ millions	Notes	31.12.2019	31.12.2018	31.12.2017
Operating revenue		**4,615.5**	**4,319.4**	**4,017.5**
Sales	2	4,131.0	3,888.4	3,613.5
Reversals of provisions and transfers of charges		84.5	76.4	69.2
Other revenues	3	400.0	354.6	334.8
Operating expenses		**-4,184.5**	**-3,930.4**	**-3,697.5**
Purchases and change in inventories		-424.7	-401.0	-358.8
Other purchases and external charges		-2,119.0	-2,064.0	-1,976.8
Taxes and similar payments		-108.2	-92.0	-105.3
Personnel costs		-1,038.5	-979.4	-898.6
Depreciation, amortisation and charges to provisions	5	-283.6	-195.6	-169.6
Other charges		-210.5	-198.4	-188.4
Operating profit		**431.0**	**389.0**	**320.0**
Net financial revenue	6	4,086.5	3,523.6	2,637.2
Net charges/reversals of provisions and transfers of charges	6	-198.7	-221.9	122.3
Exchange gains and losses		-108.0	-24.2	-111.9
Net financial income		**3,779.8**	**3,277.5**	**2,647.6**
Profit before tax and exceptional items		**4,210.8**	**3,666.5**	**2,967.6**
Exceptional items	**7**	**22.5**	**-57.0**	**-62.2**
Employee Profit Sharing		-44.8	-21.5	-19.7
Income tax	8	-82.7	6.9	166.0
NET PROFIT		**4,105.8**	**3,594.9**	**3,051.7**

6.2. COMPARED BALANCE SHEETS

ASSETS

€ millions (net values)	Notes	31.12.2019	31.12.2018	31.12.2017
Intangible assets	11	2,937.5	2,820.5	2,234.4
Tangible assets	12	530.9	513.5	498.0
Financial assets	14	10,633.8	10,368.8	10,237.1
Non-current assets		**14,102.2**	**13,702.8**	**12,969.5**
Inventories		69.7	74.8	64.7
Prepayments to suppliers		7.3	7.8	6.2
Trade accounts receivable	16	616.7	540.5	567.6
Other current assets	16	471.1	486.2	452.5
Marketable securities	15	22.6	93.5	95.3
Cash and cash equivalents	27	2,463.5	1,496.9	806.5
Current assets		**3,650.9**	**2,699.7**	**1,992.8**
Prepaid expenses		65.9	59.6	58.2
Unrealised exchange losses	21	60.3	55.0	46.4
TOTAL ASSETS		**17,879.3**	**16,517.1**	**15,066.9**

SHAREHOLDERS' EQUITY & LIABILITIES

€ millions	Notes	31.12.2019	31.12.2018	31.12.2017
Share capital		111.6	112.1	112.1
Additional paid-in capital		3,130.2	3,070.3	2,935.3
Reserves and retained earnings		8,087.1	7,470.2	6,922.8
Net profit		4,105.8	3,594.9	3,051.7
Regulated provisions		49.8	64.4	89.1
Shareholders' equity		**15,484.5**	**14,311.9**	**13,111.0**
Provisions for liabilities and charges	**18**	**610.4**	**516.0**	**466.3**
Borrowings and debt	19	207.5	209.6	211.6
Trade accounts payable	20	568.0	718.4	684.5
Other current liabilities	20	999.0	743.8	571.4
Other payables		1,774.5	1,671.8	1,467.5
Unrealised exchange gains	21	9.9	17.4	22.1
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**17,879.3**	**16,517.1**	**15,066.9**

6.3. CHANGES IN SHAREHOLDERS' EQUITY

The share capital comprises 558,117,205 shares with a par value of €0.2 each following transactions carried out in 2019:

- subscription of 785,408 shares following the exercise of options, the issue of eight shares for the employee shareholding plan and the grant of 706,262 free shares ;
- cancellation of 3,771,125 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 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**
Capital increase	0.3	118.0					118.3
Cancellation of shares	-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 31 December 2017 before appropriation of net profit	**112.1**	**2,935.3**	**42.5**	**6,880.4**	**3,051.7**	**89.0**	**13,111.0**
Capital increase	0.5	135.0					135.5
Cancellation of shares	-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**
Capital increase	0.3	59.9					60.2
Cancellation of shares	-0.8			-801.2			-802.0
Appropriation of 2018 net profit				1,418.2	-1,418.2		0.0
Dividends paid for 2018					-2,176.7		-2,176.7
2019 net profit					4,105.8		4,105.8
Other movements during the period				-0.1		-14.6	-14.7
BALANCE AT 31 DECEMBER 2019 BEFORE APPROPRIATION OF NET PROFIT	**111.6**	**3,130.2**	**42.5**	**8,044.6**	**4,105.8**	**49.8**	**15,484.5**

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 dividend payment date, on maturing free share plans, stock option exercises and the final number of shares eligible for the bonus dividend, stood at -€0.7 million in 2019, compared with -€0.7 million in 2018 and €9.9 million in 2017.

Regulated provisions mainly consisted of accelerated tax-driven depreciation, which amounted to €49.7 million at 31 December 2019, compared with €64.2 million at 31 December 2018 and €88.8 million at 31 December 2017.

Details of option plans and free share plans are provided in note 17.

6.4. STATEMENTS OF CASH FLOWS

€ millions	Notes	31.12.2019	31.12.2018	31.12.2017
Operating activities				
Net profit		**4,105.8**	**3,594.9**	**3,051.7**
Depreciation and amortisation	12	121.0	117.2	105.7
Charges to provisions (net of reversals)		304.4	290.4	-93.3
Gains and losses on disposals of non-current assets		-1.3	2.0	61.4
Other non-cash transactions (1)		-136.4	-	71.5
Gross cash flow		**4,393.5**	**4,004.5**	**3,197.0**
Changes in working capital	25	-231.0	81.8	292.4
Net cash provided by operating activities		**4,162.5**	**4,086.3**	**3,489.4**
Investing activities				
Investments in non-current assets		-1,234.3	-1,674.2	-2,209.5
Changes in other financial assets	26	30.9	56.2	46.7
Disposals of non-current assets		55.4	39.5	962.9
Net cash from investing activities		**-1,148.0**	**-1,578.5**	**-1,199.9**
Financing activities				
Capital increase		60.0	135.3	118.3
Dividends paid		-2,176.7	-2,006.6	-1,857.7
Changes in financial debt		-0.9	-1.9	196.9
Net cash from financing activities		**-2,117.6**	**-1,873.2**	**-1,542.5**
Cash acquired or sold in the period (complete transfer of assets and liabilities)		69.8	55.9	32.7
Change in cash and cash equivalents		**966.7**	**690.5**	**779.7**
Net cash and cash equivalents at beginning of the year		1,496.6	806.1	26.4
NET CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**27**	**2,463.3**	**1,496.6**	**806.1**

(1) In 2017, mainly made up of the value of free shares acquired related to the 2013 plan that matured in 2017. For 2019, it mainly consisted of the merger bonus from the complete transfer of assets and liabilities of Lancôme Parfums et Beauté & Cie.

6.5. NOTES TO THE FINANCIAL STATEMENTS OF L'ORÉAL SA

Notes contents

Highlights of the financial year

On 3 September 2019, the assets and liabilities of Lancôme Parfums et Beauté & Cie were transferred to L'Oréal.

NOTE 1. Accounting principles

The Company's annual financial statements are prepared in accordance with French law and regulations (French Chart of Accounts) and generally accepted accounting principles.

Change in accounting policy applied on 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 transactions 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 policy was limited to existing transactions 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 regarding 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 impaired whenever the present value of future cash flows is less than the book value.

Software of material value is amortised using the straight-line method over its probable useful life, generally between 5 and 7 years. It is also subject to accelerated tax-driven amortisation, which is recognised over a 12-month period.

Other intangible assets are usually amortised over periods not exceeding 20 years.

1.6. Tangible assets

Tangible assets are recognised at purchase cost, including acquisition expenses.

The useful lives of tangible assets are as follows:

	Length
Buildings	20-50 years
Fixtures and fittings	5-10 years
Industrial machinery and equipment	10 years
Other tangible assets	3-10 years

Both straight-line and declining-balance depreciation is calculated over the actual useful lives of the assets concerned. Exceptionally, industrial machinery and equipment is depreciated using the straight-line method over a period of 10 years, with all additional depreciation classified as accelerated tax-driven depreciation.

1.7. Financial assets

1.7.1. 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.

NOTE 2 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 shares 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.

1.1. 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.

1.2. 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 exchange gains or losses" account.

Translation differences on operating assets and liabilities and related hedging instruments are also recognised in the balance sheet as "Unrealised exchange gains or losses".

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.

1.3. 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 pro rata basis symmetrically with the gains and losses on the items hedged.

1.4. 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 item.

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.

Only obligations in respect of long-service awards are 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. Net sales

€ millions	31.12.2019	31.12.2018	31.12.2017
Sales of goods [1]	1,547.9	1,537.7	1,368.2
Services [2]	2,424.2	2,186.8	2,053.0
Other revenues	158.9	163.9	192.3
TOTAL	**4,131.0**	**3,888.4**	**3,613.5**

(1) 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 €2,263.9 million of its net sales in France in 2019, compared with €2,172.5 million in 2018 and €1,987.4 million in 2017.

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:

	2019	2018 [1]	2017
Executives	4,923	4,650	4,230
Supervisors	1,975	2,011	1,994
Administrative staff	180	210	235
Manual workers	227	219	211
Sales representatives	387	420	390
TOTAL	**7,692**	**7,510**	**7,060**
Apprentices	232	203	201

(1) 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	31.12.2019	31.12.2018	31.12.2017
Depreciation and amortisation	-119.0	-111.8	-103.5
Impairment of non-current assets	-67.9	-13.3	-6.7
Impairment of current assets	-4.5	-5.7	-4.5
Provisions for liabilities and charges	-92.2	-64.8	-54.9
TOTAL	**-283.6**	**-195.6**	**-169.6**

NOTE 6. Net financial income

Net financial income amounts includes the following items:

€ millions	31.12.2019	31.12.2018	31.12.2017
Dividends received	3,967.0	3,533.2	2,691.2
Revenues on other receivables and marketable securities	0.2	0.5	1.4
Interest expense on borrowings and financial debt	-9.8	-5.9	-4.5
Others (1)	129.1	-4.2	-50.9
TOTAL	**4,086.5**	**3,523.6**	**2,637.2**

(1) In 2019, this mainly included the merger bonus related to the Lancôme Parfums et Beauté & Cie.

Additions to provisions net of reversals and expense transfers chiefly concern:

€ millions	31.12.2019	31.12.2018	31.12.2017
Impairment of financial investments (1)	-181.4	-256.8	5.6
Impairment of other financial assets	-	-	0.2
Impairment of Treasury stock	-	-	79.0
Provisions for liabilities and charges relating to financial items	-17.2	34.9	37.5
Others	-	-	-
TOTAL	**-198.6**	**-221.9**	**122.3**

(1) In 2018, this mainly related to the impairment of shares in Atelier Cologne and L'Oréal Argentina.
In 2019, this mainly related to the impairment of shares in Magic Holdings.

NOTE 7. Exceptional items

Exceptional items represented €22.5 million in 2019, compared to -€57.0 million in 2018 and -€62.2 million in 2017.

NOTE 8. Income tax

The income tax breaks down as follows:

€ millions	31.12.2019	31.12.2018	31.12.2017
Tax on profit before tax and exceptional items	-87.6	4.3	156.6
Tax on exceptional items and employee Profit Sharing	4.9	2.6	9.4
INCOME TAX	**-82.7**	**6.9**	**166.0**

In 2019, the tax charge recorded by L'Oréal recognised includes a tax consolidation loss of €4.1 million and €55.5 million for the agreement with the French Tax Administration regarding the disagreement over which French business products fall under the tax base for 2014 to 2018.

In 2018, the tax income recognised by L'Oréal reflected €56.0 million in savings 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 net sales in excess of €3 billion.

NOTE 9. Increases or reductions in future tax liabilities

	31.12.2017		31.12.2018		Changes		31.12.2019	
€ millions	Liabilities	Assets	Liabilities	Assets	Liabilities			Assets
Temporary differences								
Regulated provisions	-	30.6	-	22.1	8.3	2.1	-	15.9
Temporarily non-deductible charges	84.7	-	74.7	-	20.9	0.3	95.3	-
Charges deducted (or revenue taxed) for tax purposes but not yet recognised	-	8.4	-	12.0	-	4.1	-	16.1
Temporarily non-taxable revenue	-	-	-	-	-	-	-	-
Deductible items								
Tax losses, deferred items	-	-	-	-	-	-	-	-
Potentially taxable items								
Special reserve for long-term capital gains	-	182.7	-	182.7	12.8	-	-	169.9

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 for Research activities in 2019 totalled €1,015.8 million, compared with €923.3 million in 2018 and €895.0 million in 2017.

NOTE 11. Intangible assets

€ millions	31.12.2017	31.12.2018	Acquisitions/ Depreciation	Disposals/ Reversals	Other movements	31.12.2019
Patents and trademarks	634.6	930.6	9.9	-0.5	3.6	943.6
Business goodwill (1)	1,496.2	1,786.9	1.4	-1.6	-	1,786.7
Software	390.3	466.2	35.0	-6.2	24.4	519.4
Other intangible assets	186.5	239.6	10.8	-	-	250.4
Tangible assets in progress	124.0	54.0	212.6	-25.6	-23.1	217.9
Gross value	**2,831.6**	**3,477.3**	**269.7**	**-33.9**	**4.9**	**3,718.0**
Patents and trademarks	118.4	130.1	7.3	-0.5	3.4	140.3
Business goodwill	0.6	1.3	1.8	-1.6	-	1.5
Software	277.7	314.9	50.3	-6.2	-	359.0
Other intangible assets	56.0	59.7	3.7	-	-	63.4
Amortisation	**452.7**	**506.0**	**63.1**	**-8.3**	**3.4**	**564.2**
Patents and trademarks	51.4	51.4	-	-	-	51.4
Business goodwill (2)	84.6	95.8	42.7	-1.1	-	137.4
Other intangible assets (2)	8.4	3.5	24.0	-	-	27.5
Impairment	**144.4**	**150.7**	**66.7**	**-1.1**	**-**	**216.3**
NET VALUE	**2,234.5**	**2,820.6**	**139.9**	**-24.5**	**1.5**	**2,937.5**

(1) In 2018, the increase in business goodwill was due to the acquisition of ModiFace and Nanda Co.
(2) In 2019, the increase in impairment of goodwill and of other intangible assets was primarily related to Roger & Gallet.

NOTE 12. Tangible assets

€ millions	31.12.217	31.12.2018	Acquisitions/ Depreciation	Disposals/ Reversals	Other movements	31.12.2019
Land	76.5	76.8	0.2	-	0.5	77.5
Buildings	627.6	638.7	17.7	-16.2	30.3	670.5
Industrial machinery and equipment	192.8	199.8	10.1	-1.6	0.4	208.7
Other tangible assets	201.1	225.2	15.6	-6.5	7.6	241.9
Tangible assets in progress	48.1	70.0	32.3	-	-41.3	61.0
Advances and prepayments	0.7	0.9	1.4	-	-	2.3
Gross value	**1,146.8**	**1,211.4**	**77.3**	**-24.3**	**-2.5**	**1,261.9**
Land	0.9	1.2	0.3	-	-	1.5
Buildings	385.7	400.8	23.2	-16.2	-	407.8
Industrial machinery and equipment	148.6	155.5	9.5	-1.5	-	163.5
Other tangible assets	111.6	136.5	24.8	-6.3	-	155.0
Amortisation	**646.8**	**694.0**	**57.8**	**-24.0**	**-**	**727.8**
Industrial machinery and equipment	2.1	3.9	1.2	-1.9	-	3.2
Impairment	**2.1**	**3.9**	**1.2**	**-1.9**	**-**	**3.2**
NET VALUE	**497.9**	**513.5**	**18.3**	**1.6**	**-2.5**	**530.9**

Depreciation and amortisation recognised in 2019 for tangible assets and intangible assets included:

- €118.1 million on a straight-line basis;
- €0.9 million on a declining-balance basis;
- €2.0 million relating to exceptional depreciation and amortisation.

NOTE 13. Non-current assets held under finance leases

€ millions Balance sheet captions	Non current assets under finance leases at 31.12.2019 Cost on initial recognition [1]	Depreciation and amortisation expenses [2] Period	Accumulated	Net value	Balance sheet including assets under finance leases Gross value	Depreciation	Net value
Land and buildings	-	-	-	-	747.9	-409.3	338.6
TOTAL AT 31.12.2019	**-**	**-**	**-**	**-**	**747.9**	**-409.3**	**338.6**
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

(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.
The finance lease option was exercised on 30 June 2019.

€ millions Balance sheet captions	Finance lease commitments Lease payments made Period	Accumulated	Lease payments outstanding at year-end Less than 1 year	1 to 5 years	More than 5 years	Total payable	Residual purchase price under the lease
Land and buildings	0.5	10.6	-	-	-	-	-
TOTAL AT 31.12.2019	**0.5**	**10.6**	**-**	**-**	**-**	**-**	**-**
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	-

The finance lease option was exercised on 30 June 2019.

NOTE 14. Financial assets

€ millions	31.12.2017	31.12.2018	Allocation of technical merger losses	Acquisitions/ Subscriptions	Disposals/ Reductions	Other movements [3]	31.12.2019
Financial investments [1]	10,682.6	11,117.7	-	320.5	-	148.6	11,586.8
Loans and other receivables	64.0	61.7	-	933.8	-935.5	-11.3	48.7
L'Oréal shares [2]	-	-	-	745.5	-745.5	-	-
Others	58.3	14.1	-	0.9	-0.6	-10.0	4.4
Gross value	**10,804.9**	**11,193.5**	**-**	**2,000.7**	**-1,681.6**	**127.3**	**11,639.9**
Financial investments	567.0	823.8	-	193.5	-12.1	-	1,005.2
Loans and other receivables	0.6	0.7	-	0.7	-0.7	-	0.7
Others	0.2	0.2	-	-	-	-	0.2
Impairment	567.8	824.7	-	194.2	-12.8	-	1,006.1
NET VALUE	**10,237.1**	**10,368.8**	**-**	**1,806.5**	**1,668.8**	**127.3**	**10,633.8**

(1) The increase mainly concerns the purchase of Cosmetique Active France shares prior to the merger with L'Oréal SA on 1 January 2020.
(2) At its meeting on 30 July 2019, the Board of Directors voted to buy back L'Oréal shares as part of the authorisation voted on by the Annual General Meeting on 18 April 2019 for a maximum purchase amount of €750 million and 3 million shares. The purchased shares will then be cancelled.
The buyback programme took place on 7 October 2019 and 3,000,000 shares were purchased on the market.
The shares were cancelled in accordance with the Board of Directors' decision on 15 October 2019. The same applies to the previous 771,125 treasury shares.
(3) Other movements mostly came from the Complete transfer of assets and liabilities of Lancôme Parfums et Beauté & Cie on 3 September 2019.

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	31.12.2019	31.12.2018	31.12.2017
L'Oréal shares	-	56.5	56.5
Financial instruments/Premiums paid on options	22.6	37.0	38.8
Gross value	**22.6**	**93.5**	**95.3**
L'Oréal shares	-	-	-
Financial instruments/Premiums paid on options	-	-	-
Impairment	**-**	**-**	**-**
NET VALUE	**22.6**	**93.5**	**95.3**

Throughout 2019, 706,262 free shares were granted.

At 31 December 2019, there were no longer any unclaimed treasury shares.

At the end of 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.

At the end of 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.

NOTE 16. Maturity of receivables

€ millions	1 year or less	More than 1 year	Gross	Impairment	Net
Loans and other receivables	**44.7**	**4.0**	**48.7**	**-0.7**	**48.0**
Other financial assets	**4.2**	**-**	**4.2**	**-**	**4.2**
Trade accounts receivable	**618.4**	**-**	**618.4**	**-1.7**	**616.7**
Other current assets, of which	**472.9**	**-**	**472.9**	**-1.8**	**471.1**
Tax and employee-related receivables (1)	386.1	-	386.1	-	386.1
Other receivables	86.8	-	86.8	-1.8	85.0
Prepaid expenses	**65.9**	**-**	**65.9**	**-**	**65.9**

(1) Including a corporate income tax receivable in the amount of €125.7 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 follows:

€ millions	31.12.2019	31.12.2018	31.12.2017
Trade accounts receivable	1.5	2.3	2.1
Other receivables	14.1	56.4	47.8
TOTAL	**15.6**	**58.7**	**49.9**

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 2019:

Share grant date	Number of options	Number of options not yet exercised	Exercise period		Exercise price
27.04.2010	4,200,000	211,728	28.04.2015	27.04.2020	80.03
22.04.2011	1,470,000	312,465	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 plan 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					
Stock subscription plans	Stock purchase plans	Vesting date	Number of shares granted	Number of shares issued/allotted	Number of shares not finally vested
	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	706,937	-
20.04.2016		21.04.2020	906,100	125	851,375
20.04.2017		21.04.2021	906,000	-	863,475
17.04.2018		18.04.2022	931,000	-	911,475
18.04.2019		19.04.2023	843,075	-	842,000

For the conditional grant of shares, the plan provides for a four-year vesting period after which vesting is effective and final, subject to meeting the conditions of the plan. After this vesting period, a two-year mandatory holding period applies for French residents, for plans prior to 1 January 2016, during which the shares cannot be sold.

The performance conditions concern:

- For the 18 April 2019, 17 April 2018, 20 April 2017 and 20 April 2016, and 22 April 2015 plans:
  - for 50% of shares granted, the increase in comparable Cosmetics net sales for the 2020, 2021 and 2022 financial years under the 2019 plan; for the 2019, 2020 and 2021 financial years under the 2018 plan; for the 2018, 2019 and 2020 financial years under the 2017 plan; and the 2017, 2018 and 2019 financial years under the 2016 plan in relation to the growth in net sales 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 mean of the performance in the 2020, 2021 and 2022 financial years under the 2019 plan; in the 2019, 2020 and 2021 financial years under the 2018 plan; in the 2018, 2019 and 2020 financial years under the 2017 plan; and in the 2017, 2018 and 2019 financial years under the 2016 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 26 April 2013, 17 April 2014 and 22 April 2015 were finally granted by the allocation of, respectively, 986,220 shares on 27 April 2017, 993,765 shares on 18 April 2018 and 706,262 shares on 23 April 2019.

At 31 December 2019, the performance conditions for plans in progress were deemed achieved except for the 22 April 2015 plan. Shares finally granted for the 22 April 2015 plan accounted for the performance percentage achieved at the end of the plan.

In June 2018, Group employees had the opportunity to join 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 in proportion 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 continued employment condition for the employee and proportionate to how much the employee contributes 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	31.12.2017	31.12.2018	Charges	Reversals (used)	Reversals (not used)	Others	31.12.2019
Provisions for litigation (1)	195.3	195.2	0.9	-2.3	-0.9	-	192.9
Provisions for foreign exchange losses	31.4	44.9	52.0	-44.9	-	-	52.0
Provisions for expenses	124.6	98.4	64.4	-40.2	-12.1	2.2	112.7
Other provisions for liabilities (2)	115.0	177.5	129.1	-31.1	-41.3	18.7	252.9
TOTAL	**466.3**	**516.0**	**246.4**	**-118.5**	**-54.3**	**20.9**	**610.5**

(1) L'Oréal SA was ordered to pay a fine of €189.5 million following the decision handed down in the 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. On 27 March 2019, the Court of Cassation partially overturned the ruling relating to the amount of the fine imposed on L'Oréal. The hearing before the Second Court of Appeal will be held in early 2020 and the ruling should be handed down during the first half of 2020. 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 2019 income statement as follows:

€ millions	Charges	Reversals (used)	Reversals (not used)
Operating profit	92.2	-46.7	-15.7
Net financial income	62.7	-44.6	-0.8
Exceptional items	91.5	-27.2	-37.8
TOTAL	**246.4**	**-118.5**	**-54.3**

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 €5,000 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 undrawn short-term credit facilities with banks, which amounted to €3,801 million at 31 December 2019, compared to €3,644 million at 31 December 2018 and €3,675 million at 31 December 2017.

All borrowings and debt are denominated in euros and can be broken down as follows:

BREAKDOWN BY TYPE OF DEBT

€ millions	31.12.2019	31.12.2018	31.12.2017
Bonds	-	-	-
Short-term marketable instruments	200.0	200.0	200.0
Bank overdrafts and financing with the Group's cash pool	-	-	-
Other borrowings and debt	7.5	9.6	11.6
TOTAL	**207.5**	**209.6**	**211.6**

BREAKDOWN BY MATURITY DATE

€ millions	31.12.2019	31.12.2018	31.12.2017
Less than 1 year	200.9	200.7	200.5
1 to 5 years	6.6	7.8	9.9
More than 5 years	-	1.1	1.2
TOTAL	**207.5**	**209.6**	**211.6**

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 2019, compared with -0.45% in 2018 and -0.42% in 2017.

NOTE 20. Maturity of payables

€ millions	1 year or less	More than 1 year	Total
Trade accounts payable	**568.0**	**-**	**568.0**
Other current liabilities, of which	**814.8**	**184.1**	**999.0**
Tax and employee-related payables	500.0	-	500.0
Payables related to non-current assets [(1)]	141.3	183.6	324.9
Other payables	173.6	0.5	174.1

(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	31.12.2019	31.12.2018	31.12.2017
Trade accounts payable	**369.3**	**419.3**	**388.8**
Payables related to non-current assets	**315.4**	**157.4**	**61.0**
Tax and employee-related payables, of which	**391.2**	**330.8**	**291.5**
Provision for employee Profit Sharing	45.5	22.9	22.6
Provision for incentives	103.6	94.9	89.3
Other payables	64.6	85.1	46.5
TOTAL	**1,140.5**	**992.6**	**787.8**

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:

	Assets			Liabilities		
€ millions	31.12.2019	31.12.2018	31.12.2017	31.12.2019	31.12.2018	31.12.2017
Financial receivables	-	-	8.2	-	-	0.1
Trade accounts receivable	0.7	0.2	0.2	-	0.1	0.1
Borrowings and debt	-	-	-	-	-	-
Trade accounts payable	-	-	0.6	-	0.1	0.4
Derivative financial instruments	59.6	54.8	37.4	9.9	17.2	21.5
TOTAL	**60.3**	**55.0**	**46.4**	**9.9**	**17.4**	**22.1**

The overall foreign exchange position, calculated on a currency-per-currency basis at 31 December 2019 is an unrealised loss of €52.0 million. This loss is recognised as a provision for risk. At 31 December 2018, the overall foreign exchange position was an unrealised loss of €44.9 million, compared with an unrealised loss of €31.4 million at 31 December 2017.

NOTE 22. Derivative financial instruments

Derivative financial instruments can be broken down as follows:

	Notional			Market value		
€ millions	31.12.2019	31.12.2018	31.12.2017	31.12.2019	31.12.2018	31.12.2017
Currency futures						
Purchase of EURO against foreign currencies						
EUR/CNY	785.0	464.3	319.1	-8.9	-12.6	-0.9
EUR/RUB	296.2	258.0	198.1	-15.7	5.8	-3.1
EUR/USD	114.2	98.9	43.5	-5.2	-4.1	2.1
EUR/BRL	81.1	56.3	58.5	-0.1	-4.3	2.2
EUR/TRY	61.5	47.5	8.6	-3.8	-7.7	0.4
EUR/KRW	57.8	65.5	63.9	-1.2	-2.5	0.2
EUR/TWD	48.1	41.5	37.9	-1.2	-0.6	1.0
EUR/THB	45.1	45.8	41.4	-2.3	-1.9	0.1
EUR/IDR	42.7	33.3	29.9	-3.4	-3.1	0.7
EUR/GBP	36.6	44.9	42.4	-1.8	0.1	0.8
EUR/ZAR	26.9	26.6	22.1	-2.2	-0.6	-1.8
EUR/CAD	25.0	21.6	23.7	-0.8	0.4	0.5
EUR/AUD	19.6	17.5	17.1	-0.4	0.2	0.5
EUR/INR	19.1	28.7	17.4	-0.7	-2.1	-0.5
EUR/PEN	10.4	7.2	6.5	-0.3	-0.1	0.1
EUR/CLP	9.7	9.5	10.4	0.7	0.3	-0.3
EUR/MYR	0.0	4.0	16.7	0.0	-0.3	-0.4
EUR/Other currencies	68.6	67.0	66.3	-1.9	-1.6	0.7
Sale of EUR against foreign currencies						
EUR/PLN	37.8	30.9	31.6	0.6	0.0	0.8
EUR/JPY	22.7	22.2	20.7	-0.1	0.6	-1.8
EUR/SGD	22.4	14.8	14.9	0.3	0.3	-0.1
EUR/HKD	9.7	8.0	7.5	0.0	0.0	-0.6
Purchase of USD against foreign currencies						
USD/CNY	153.8	54.3	0.0	-1.1	-1.0	0.0
USD/BRL	56.4	29.0	50.6	0.2	-0.8	-0.1
USD/THB	34.4	40.6	58.4	-1.4	-0.2	-2.8
USD/KRW	15.7	16.5	21.0	-0.1	0.0	-1.1
USD/TWD	15.1	14.8	18.5	-0.3	0.2	-0.4
USD/PEN	12.7	12.2	15.4	-0.2	0.2	-0.5
USD/PHP	9.2	10.6	17.6	-0.3	-0.3	-0.5
USD/INR	7.9	16.8	16.3	-0.2	-0.4	-0.5
USD/MYR	0.0	5.3	20.3	0.0	-0.2	-1.5
USD/Other currencies	21.4	24.6	20.9	-1.6	-0.3	-1.6
Sale of USD against foreign currencies						
USD/IDR	23.2	22.1	0.0	1.3	0.8	0.0
USD/CNY	0.0	0.0	46.1	0.0	0.0	1.4
Purchase of CNY against foreign currencies						
CNY/IDR	32.4	27.3	0.0	-2.1	-1.5	0.0
CNY/THB	27.8	17.1	0.0	-0.8	-0.2	0.0
CNY/INR	24.8	14.6	0.0	-0.7	-0.6	0.0
CNY/PHP	17.7	9.5	0.0	-0.7	-0.4	0.0
CNY/Other currencies	8.4	8.9	0.0	-0.2	0.0	0.0
Other currencies pairs						
JPY/CNY	45.2	29.0	21.5	-1.0	0.1	-1.7
KRW/CNY	11.5	0.0	0.0	0.0	0.0	0.0
PLN/RUB	7.9	10.4	14.9	-0.5	0.5	0.3
Others	30.8	29.1	29.6	-0.8	-0.5	-1.5
Currency futures total	**2,396.5**	**1,806.7**	**1,449.3**	**-58.9**	**-38.4**	**-9.9**

	Notional			Market value		
€ millions	31.12.2019	31.12.2018	31.12.2017	31.12.2019	31.12.2018	31.12.2017
Currency options						
EUR/CNY	63.5	100.9	37.8	1.7	2.3	1.7
EUR/TRY	19.7	31.5	0.7	1.3	4.1	0.1
EUR/USD	15.7	0.0	25.4	0.3	0.0	1.8
EUR/BRL	9.9	35.4	4.6	0.8	1.8	0.5
USD/BRL	7.8	22.8	4.8	0.6	0.9	0.2
EUR/RUB	0.0	0.0	76.7	0.0	0.0	4.0
Other currencies	3.0	0.0	16.1	0.0	0.0	0.6
Currencies options total	**119.6**	**190.6**	**166.1**	**4.7**	**9.1**	**8.9**
of which total options purchased	119.6	190.6	166.1	4.7	9.1	8.9
of which total options sold	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL INSTRUMENTS	**2,516.1**	**1,997.3**	**1,615.4**	**-54.2**	**-29.3**	**-1.0**

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 amounted to €77.5 million due in less than one year, €277.7 million due between one and five years and €72.3 million due after five 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	31.12.2019	31.12.2018	31.12.2017
Commitments in connection with employee retirement obligations and related benefits (1)	246.1	9.0	-97.7
Commitments to buy out non-controlling interests	9.9	9.3	8.6
Guarantees given (2)	1,865.6	1,799.4	1,741.4
Guarantees received	3.7	3.7	3.8
Capital expenditure orders	95.1	77.3	84.6
Documentary credits	-	-	-

(1) The discount rate used in 2019 to measure commitments was 0.70% for plans providing for the payment of capital and 1.10% for annuity plans, compared with 1.75% and 2.00% respectively in 2018, and 1.50% and 1.75% in 2017.
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, including €1,798.5 million at 31 December 2019 on behalf of the Group's direct and indirect subsidiaries, compared with €1,774.8 million at 31 December 2018 and €1,709.1 million at 31 December 2017. Seller's warranties are also included in this amount as appropriate. This line also includes a commitment to pay toward the Notre Dame Cathedral Reconstruction fund.

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	31.12.2019	31.12.2018	31.12.2017
Inventories	6.5	-11.2	-15.7
Accounts Receivable	-15.7	87.6	214.0
Accounts Payable	-221.8	5.4	94.1
TOTAL	**-231.0**	**81.8**	**292.4**

NOTE 26. Changes in other financial assets

This line primarily includes cash flows relating to financial instruments, classified as Marketable Securities, and cash flows associated with collateral posted with the Group's bank, classified as Financial assets. 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	31.12.2019	31.12.2018	31.12.2017
Cash	2,463.5	1,496.9	806.5
Accrued interest receivable	-	-	-
Bank overdrafts and financing with the Group's cash pool (see note 19)	-	-	-
Accrued interest payable	-0.2	-0.3	-0.4
NET CASH AND CASH EQUIVALENTS	**2,463.3**	**1,496.6**	**806.1**

NOTE 28. Other information

Statutory audit fees are presented in note 15 to the Consolidated Financial Statements.

NOTE 29. Subsequent events

On 4 February 2020, after some strategic thinking to ensure the best possible development for the Roger & Gallet brand, L'Oréal announced it had entered into negotiations with the French investment holding company Impala to sell Roger & Gallet. The project will be subject to an information-consultation phase between employee representative bodies of L'Oréal and could be finalised by this summer.

NOTE 30. Table of subsidiaries and holdings

Table of subsidiaries and holdings at 31 December 2019 (€ thousands)

DETAILED INFORMATION

	Capital	Reserves and retained earnings before appropriation of net profit	% holding	Acquisition cost	Book value of shares held gross (after revaluation) Gross	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	15,045	100.00	9,495	9,495	9,495	6,432	8,056
Chimex	1,958	9,916	100.00	19,955	21,501	21,501	4,766	3,410
Cosmétique Active France	24	7	100.00	300,622	300,622	300,622	12,636	22,055
Cosmétique Active International	19	13,947	88.97	15,100	15,100	15,100	167,800	26,304
Cosmétique Active Production	186	19,279	80.13	5,049	5,081	5,081	6,292	4,093
EpiSkin	13,609	9,485	99.89	17,978	17,978	17,978	671	-
Fapagau & Cie	15	3,972	79.00	12	12	12	8,655	6,290
Faproreal	11,944	4,301	100.00	11,953	11,953	11,953	4,822	-
Finval	19,516	142,736	100.00	75,677	75,677	75,677	27,950	1,182
Gemey Paris – Maybelline New York	35	8,245	99.96	46	46	46	4,509	5,181
Holdial	1	-	98.00	1	1	1	1,603	263
L & J Ré	1,500	10,632	100.00	1,500	1,500	1,500	-151	-
La Roche-Posay Laboratoire Pharmaceutique	380	4,578	99.98	27,579	27,579	27,579	225,351	23,504
Nutricos Technologies	535	385	50.00	38,125	38,125	-	-181	-
Laboratoire Sanoflore	10	1,147	100.00	5,197	5,197	1,697	722	696
L'Oréal Produits de Luxe France	84	56,284	100.00	57,233	57,233	57,233	5,334	9,783
L'Oréal Produits de Luxe International	98	78,693	99.85	75,350	75,350	75,350	29,945	43,918
LOA3	90,402	-35,805	100.00	90,400	90,400	53,624	-272	-
BOLD (Business Opportunities for L'Oréal Development)	16,253	11,852	100.00	28,603	28,603	28,603	-6,267	-
LOA6	3	-7	100.00	3	3	3	-3	-
LOA7	3	-19	100.00	3	3	3	-6	-
Real Campus by L'Oréal	2,705	-13	100.00	2,705	2,705	2,705	-1,383	-
Prestige & Collections International	76	1,779	99.80	92,676	92,676	92,676	420,880	113,372
Magic Holdings International Limited	10,197	80,099	100.00	615,198	615,198	226,398	-739	-
Sicôs & Cie	375	9,033	100.00	386	1,076	1,076	11,546	6,313
Soprocos	8,250	10,431	100.00	8,521	11,904	11,904	9,531	7,324
Soproréal	15	3,914	99.90	15	15	15	-541	3,476
Sparlys	5,477	2,309	100.00	8,553	8,553	8,553	2,743	600
Thermes De Saint Gervais Les Bains Le Fayet	1,047	7,006	100.00	22,942	22,942	22,942	-531	-
B. Main french investments (Holdings of under 50%)								
Sanofi [2]	2,507,692		9.43	423,887	423,887	423,887		362,958

(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 2019, L'Oréal owned 118,227,307 shares. Their market value at 31 December 2019 amounted to €10,595,531 thousand.

	Capital	Reserves and retained earnings before appropriation of net profit	% holding	Acquisition cost	Book value of shares held gross (after revaluation) Gross	Net	Profit or loss in last year	Dividends [1] booked during the year
A. Main foreign subsidiaries (Holdings of over 50%)								
Atelier Cologne (Luxembourg)	1,210	15,725	100.00	106,978	106,978	14,625	-631	-
Beautycos International Co. Ltd (China)	52,482	27,016	73.46	46,195	46,195	46,195	15,972	12,505
Beautylux International Cosmetics (Shanghai) Co. Ltd (China)	5,629	-442	100.00	16,871	16,871	4,871	198	-
Biotherm (Monaco)	152	16	99.80	3,505	3,545	3,545	7,369	5,690
Canan Kozmetik Sanayi Ve Ticaret A.S. (Turkey)	6,451	7,475	100.00	30,290	30,290	21,290	415	1,622
Cosmelor Ltd (Japan)	548	18,455	100.00	35,810	35,810	20,810	-206	-
Cosmephil Holdings Corporation (Philippines)	171	-139	100.00	400	400	14	-	-
Egyptelor LLC (Egypt)	6	368	99.80	7	7	7	110	-
Elebelle (Proprietary) Ltd (South Africa)	806	26,368	100.00	61,123	61,123	49,519	2,614	2,480
Erwiton S.A. (Uruguay)	147	-446	100.00	3	3	3	8,443	5,611
Interbeauty Cosmetics Ltd (Israel)	4,137	15,561	92.97	38,497	38,497	38,497	9,987	8,649
Kosmepol Sp. z.o.o. (Poland)	38,844	62,914	99.73	48,965	48,965	48,965	3,377	6,945
L’Oréal Adria d.o.o. (Croatia)	131	3,955	100.00	1,503	1,503	1,503	-1,709	5,635
L’Oréal Argentina SA (Argentina)	72,530	-43,345	95.00	148,602	148,602	26,702	11,917	-
L'Oréal Australia Pty Ltd	2,711	14,123	100.00	33,516	33,867	33,867	44,936	43,315
L’Oréal Balkan d.o.o. (Serbia)	1,283	-357	100.00	1,285	1,285	1,285	2,331	1,707
L’Oréal Baltic SIA (Latvia)	387	-18	100.00	529	529	529	4,309	5,637
L’Oréal Bangladesh Ltd (Bangladesh)	154	-1,585	100.00	154	154	154	-67	-
L’Oréal Brasil	315,133	-72,155	90.82	287,835	287,835	287,835	6,206	24,624
L’Oréal Belgilux S.A. (Belgium)	16,124	18,173	98.93	59,871	77,150	77,150	31,155	34,775
L’Oréal Brasil Pesquisas e Inovacao Ltda	45,887	-6,007	99.99	45,654	45,654	45,654	1,187	-
L’Oréal Bulgaria EOOD	102	700	100.00	102	102	102	3,975	3,644
L’Oréal Canada Inc.	3,979	73,712	100.00	146,517	146,517	146,517	56,321	79,531
L’Oréal Central America (Panama)	8	-389	100.00	8	8	8	-93	-
L’Oréal Central West Africa (Nigeria)	3,443	-3,435	99.91	18,106	18,106	106	-	-
L’Oréal Ceska Republika s.r.o (Czech Republic)	2,268	1,540	100.00	4,983	4,983	4,983	4,406	13,347
L’Oréal Chile S.A. (Chile)	6,173	8,146	100.00	43,784	43,784	43,784	28,136	26,350
L’Oréal China Co Ltd (China)	43,498	105,920	100.00	345,733	345,733	345,733	441,407	337,673
L’Oréal Colombia S.A. (Colombia)	16,160	43,628	100.00	80,419	80,419	61,419	2,712	-
L’Oréal Cosmetics Industry S.A.E (Egypt)	58,382	-31,442	100.00	58,363	58,363	23,363	-4,516	-
L’Oréal Côte d’Ivoire	99	-1,146	100.00	100	100	-	-750	-
L’Oréal Danmark A/S (Denmark)	270	5,508	100.00	7,929	8,336	8,336	15,015	13,713
L’Oréal Deutschland Gmbh (Germany)	12,647	278,661	100.00	72,259	76,855	76,855	154,879	239,564
L’Oréal East Africa Ltd (Kenya)	301	19,852	99.91	42,050	42,050	11,050	-6,292	-
L’Oréal Ecuador (Ecuador)	9	-	99.99	9	9	9	-	-
L’Oréal España S.A. (Spain)	59,911	20,734	63.86	299,154	299,154	299,154	40,851	55,524

	Capital	Reserves and retained earnings before appropriation of net profit	% holding	Acquisition cost	Book value of shares held gross (after revaluation) Gross	Net	Profit or loss in last year	Dividends [1] booked during the year
L'Oréal Finland Oy (Finland)	673	74	100.00	1,280	1,280	1,280	5,474	8,856
L'Oréal Guatemala S.A.	1,044	1,173	100.00	2,162	2,162	2,162	851	962
L'Oréal Hellas S.A. (Greece)	9,736	3,828	100.00	34,821	35,307	35,307	16,464	16,243
L'Oréal Hong-Kong Ltd	-77	22,593	99.97	24,276	24,276	24,276	-14,004	653,488
L'Oréal India Private Ltd (India)	48,691	-11,663	100.00	75,987	75,987	75,987	35,677	32,248
L'Oréal Investments B.V. (The Netherlands)	18	-1	100.00	18	18	18	-	-
L'Oréal Italia Spa	1,680	53,042	100.00	226,469	226,469	226,469	26,255	66,430
L'Oréal Kazakhstan Llp (Kazakhstan)	422	522	100.00	422	422	422	1,418	3,728
L'Oréal Korea Ltd (Korea)	1,991	7,779	100.00	20,794	20,794	20,794	2,759	-
L'Oréal Liban SAL	-428	1,525	99.98	4,135	4,135	4,135	8,537	18,969
L'Oréal Magyarorszag Kosmetikai Kft (Hungary)	428	-82	100.00	787	787	787	5,866	5,676
L'Oréal Malaysia SDN BHD (Malaysia)	3,268	7,615	100.00	6,762	6,762	6,762	19,051	13,605
L'Oréal Mexico S.A. de C.V. (Mexico)	2,349	69,493	100.00	8,443	8,443	8,443	37,112	37,604
L'Oréal Middle East (United Arab Emirates)	7,761	2,301	100.00	54,379	54,379	44,379	40,143	5,887
L'Oréal Nederland B.V. (The Netherlands)	1,178	159	100.00	18,869	22,014	22,014	27,993	28,972
L'Oréal New Zealand Ltd (New Zealand)	44	2,587	100.00	6,110	6,110	6,110	6,432	6,858
L'Oréal Norge A/S (Norway)	1,384	2,415	100.00	4,050	4,050	4,050	4,058	8,865
L'Oréal Osterreich Gmbh (Austria)	2,915	1,786	100.00	3,417	3,818	3,818	11,344	12,445
L'Oréal Pakistan Private Ltd	17,313	-20,490	100.00	17,534	17,534	-	-4,781	-
L'Oréal Panama S.A.	159	1,887	100.00	168	168	168	-2,949	846
L'Oréal Peru S.A. (Peru)	2,322	565	100.00	3,739	3,739	3,739	3,718	2,994
L'Oréal Philippines, Inc.	1,736	6,425	99.53	39,107	39,107	16,107	6,912	-
L'Oréal Polska Sp. Z.O.O. (Poland)	405	847	100.00	707	707	707	34,338	39,526
L'Oréal Portugal Lda	495	403	100.00	6,289	6,459	6,459	14,514	14,661
L'Oréal Romania SRL (Romania)	799	25	100.00	974	974	974	10,857	10,323
L'Oréal Saudi Arabia (Saudi Arabia)	5,682	-689	74.63	4,260	4,260	4,260	4,375	-
L'Oréal Singapore Pte Ltd (Singapore)	1,165	8,626	100.00	18,991	18,991	18,991	6,238	4,895
L'Oréal Slovenija kosmetika d.o.o. (Slovenia)	465	193	100.00	856	856	856	266	6,882
L'Oréal Slovensko s.r.o. (Slovakia)	98	868	100.00	173	173	173	3,125	3,051
L'Oréal Suisse S.A.	346	12,014	100.00	160,173	160,311	160,311	23,326	21,593
L'Oréal Sverige AB (Sweden)	2,038	1,041	100.00	2,247	2,247	2,247	12,396	13,690
L'Oréal Taiwan Co Ltd (Taiwan)	187	58	100.00	17,881	17,881	17,881	30,890	26,867
L'Oréal Thailand Ltd	3,992	3,915	100.00	5,238	5,238	5,238	44,475	40,173
L'Oréal Turkiye Kozmetik Sanayi Ve Ticaret Anonim Sirketi	39,142	-19,947	100.00	55,093	55,093	40,093	16,744	6,667
L'Oréal UK Ltd (United Kingdom)	121,150	-53,256	100.00	139,351	145,573	145,573	122,150	144,946
L'Oréal Ukraine	3,033	498	100.00	2,990	2,990	2,990	13,084	14,789
L'Oréal Uruguay S.A.	244	3,144	100.00	2,718	2,718	2,718	4,296	3,864
L'Oréal USA Inc. [3]	647,731	3,657,043	100.00	4,851,879	4,851,879	4,851,879	620,359	915,986
L'Oréal Venezuela C.A.	-	-33	100.00	26,953	26,953	0	-11,763	-
L'Oréal Vietnam Co Ltd	13,537	-15,659	100.00	13,646	13,646	0	2,657	-
L'Oréal West Africa Ltd (Ghana)	14,469	-14,373	100.00	17,260	17,260	0	-3,290	-

	Capital	Reserves and retained earnings before appropriation of net profit	% holding	Acquisition cost	Book value of shares held gross (after revaluation) Gross	Net	Profit or loss in last year	Dividends [1] booked during the year
Masrelor LLC (Egypt)	17,686	-9,687	100.00	17,573	17,573	2,073	-17	-
Nanda CO Ltd (Korea)	196	139,798	100.00	629,871	629,871	629,871	37,027	20,071
Nihon L'Oréal KK (Japan)	-17,697	158,758	100.00	351,452	351,504	351,504	17,318	22,371
Oomes B.V. (Netherlands)	6,354	55,956	100.00	144,312	144,312	144,312	31,375	31,397
L'Oréal Travel Retail Americas Inc. (USA)	40	-6,980	100.00	100,317	100,317	100,317	20,289	29,844
Procosa Productos de Beleza Ltda (Brazil)	154,342	22,578	100.00	223,938	223,938	223,938	-915	2,488
P.T. L'Oréal Indonesia	1,510	5,467	99.00	2,305	2,305	2,305	7,840	3,488
P.T. Yasulor Indonesia	73,931	1,047	99.99	110,022	110,022	79,022	941	-
Scental Limited (Hong Kong)	5	197	100.00	8	8	8	-	-
Venprobel (Venezuela)	-	-	100.00	2,722	2,722	0	-	-
B. Main foreign investments (Holdings of under 50%)								
LIPP Distribution (Tunisia)	3,561	3,247	49.00	9,009	9,009	9,009	507	-
L'Oréal UAE General Trading LLC (United Arab Emirates)	72	-13	49.00	35	35	35	4,777	7,801

(1) 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.
(2) It is specified that the list above is not exclusive.
(3) Figures from the sub-consolidation of L'Oréal USA INC.

GLOBAL INFORMATION RELATING TO SUBSIDIARIES AND INVESTMENTS

	Subsidiaries		Other investments	
	French	Foreign	French	Foreign
Book value of shares held:				
• Gross (after revaluation)	1,536,543	9,584,323	433,887	9,045
• Net	1,069,342	9,046,365	433,887	9,045
Amount of loans and advances granted		40,495		
Amount of guarantees and security granted	7,037	1,791,452		
Amount of dividends booked	285,839	3,230,782	364,083	7,802

6.6. OTHER INFORMATION RELATING TO THE FINANCIAL STATEMENTS OF L'ORÉAL S.A.

6.6.1. Expenses and charges falling under Article 223 quater of the French Tax Code

The total amount of expenses and charges falling under Article 223 quater of the French General Tax Code and the amount of tax applicable to such expenses and charges are as follows:

Expenses and charges	€2.5 million
Corresponding tax	€0.9 million

6.6.2. Invoices issued and received but 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 2019 and in arrears are broken down as follows:

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 D. 441-I.-1: invoices received not paid at the end of the financial year and in arrears						Article D. 441-I.-2: invoices issued not paid at the end of the financial year and in arrears					
€	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	37					729	6,410					24,432
Total amount of invoices concerned, including taxes	-288,843	561,269	57,230	98,828	24,023	741,350	5,952,458	41,371,360	9,473,158	4,505,877	21,785,830	77,136,225
Percent of total amount of purchases for the financial year, including taxes	-0.01%	0.02%	0.00%	0.00%	0.00%	0.02%						
Percent of sales for the financial year, including taxes							0.12%	0.84%	0.19%	0.09%	0.44%	1.57%
(B) Invoices excluded from (A) because of disputed or unrecognised payables and receivables												
Number of excluded invoices						1,757						640
Total amount of excluded invoices						10,823,574						2,807,163
(C) Benchmark payment terms used (contractual or statutory term, Article L. 441-6 or L. 443-1 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):
351,860 euros in invoices received, i.e. 47% of the total amount;
57,717,993 euros in invoices issued, i.e. 75% of the total amount.

6.6.3. Net sales (excluding taxes)

€ millions	2019	2018	% change
1st quarter	1,074.3	1,018.5	5.48%
2nd quarter	1,034.9	1,003.7	3.11%
3rd quarter	992.4	918.4	8.06%
4th quarter	1,029.4	947.8	8.60%
TOTAL	**4,131.0**	**3,888.4**	**6.24%**

This includes sales of goods net of any rebates and discounts granted, along with services provided and technology royalties.

6.7. FIVE-YEAR FINANCIAL SUMMARY

L'Oréal company (excluding subsidiaries)

€ millions (except for earnings per share, shown in €)	2015	2016	2017	2018	2019
I. Financial situation at financial year-end					
a) Share capital	112.6	112.4	112.1	112.1	111.6
b) Number of shares	562,983,348	561,855,741	560,519,088	560,396,652	558,117,205 (1)
c) Number of convertible bonds					
II. Overall results of operations					
a) Net pre-tax sales	2,967.6	3,053.1	3,613.5	3,888.4	4,131.0
b) Pre-tax profit before depreciation, amortisation, provisions and reversals of provisions (including provision for investment activities and profit-sharing reserve)	3,024.7	3,158.0	2,917.8	4,017.1	4,658.7
c) Income tax	+23.3	+113.1	+166.0	+6.9	-82.7
d) Net profit	3,055.4	3,014.4	3,051.7	3,594.9	4,105.8
e) Amount of distributed profits	1,741.9	1,857.7	2,006.6	2,176.7	2,391.6 (2)
III. Results of operations per share					
a) Profit after tax and profit-sharing, but before depreciation, amortisation and provisions	5.38	5.79	5.47	7.14	8.12
b) Net profit	5.43	5.36	5.44	6.41	7.36
c) Dividend paid on each share (not including tax credit)	3.10	3.30	3.55	3.85	4.25 (2)
IV. Personnel					
a) Number of employees	6,385	6,653	7,060	7,510	7,692
b) Total salaries	560.9	569.8	612.2	667.4	692.3
c) Amount paid for welfare benefits (social security, provident schemes, etc.)	265.0	257.2	286.4	312.0	346.2

(1)The share capital comprises 558,117,205 shares with a par value of €0.2 following the subscription of 785,408 shares through the exercise of options, the issue of eight shares under the employee shareholding plan, the grant of 706,262 free shares and the cancellation of 3,771,125 treasury shares.
(2)The dividend will be proposed to the Annual General Meeting of 21 April 2020.

6.8. INVESTMENTS (MAIN CHANGES INCLUDING SHAREHOLDING THRESHOLD CHANGES)

INVESTMENTS

(main changes including shareholding threshold changes >5%)

€ millions	At 31.12.2018 Including revaluation		Acquisitions		Subscriptions		Others		At 31.12.2019	
Headings	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
Atelier Cologne (Luxembourg)	101.5	100.0					5.5		107.0	100.0
L'Oréal West Africa	15.0	100.0					2.3		17.3	100.0
Cosmétique Active France	0.1	62.0	300.5						300.6	100.0
Lehoux & Jacque	0.3	100.0					-0.3	(1)	-	-
L'Oréal Liban	7.7	100.0					-3.6	(2)	4.1	100.0
Bold	8.6	100.0			20.0				28.6	100.0
Real Campus by L'Oréal	n/s	100.0			2.7				2.7	100.0
L'Oréal East Africa	39.6	99.9			2.4				42.0	99.9
Lancôme Parfums et Beauté	3.2	100.0					-3.2	(1)	-	-
Prestige et Collections International	25.4	59.5					67.2	(1)	92.7	99.8
L'Oréal Colombia	74.4	100.0					6.0		80.4	100.0
Nanda Co	573.4	100.0					56.5		629.9	100.0
L'Oréal Ecuador	n/s	0.0			n/s				n/s	100.0
L'Oréal Pakistan	16.9	100.0					0.6		17.5	100.0
L'Oréal Produits de Luxe International	73.9	99.4					1.5		75.4	99.8
Sicôs & Cie	1.0	80.0					0.1	(1)	1.1	100.0
L'Oréal Produits de Luxe France	56.3	99.4	0.9				0.1	(1)	57.2	100.0

(1) Complete transfer of assets and liabilities/merger.
(2) Capital reduction.

6.9. STATUTORY AUDITORS' REPORT ON THE FINANCIAL STATEMENTS

(For the year ended December 31, 2019)

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.

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, 2019.

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, 2019 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, 2019 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 – Accounting principles - Investments, Note 14 – Financial assets, and Note 30 – Table of subsidiaries and holdings, to the parent company financial statements*	

At December 31, 2019, the carrying amount of investments recognized in the balance sheet amounted to €10,582 million, representing 59% 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 exerience 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 or granted to 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 controlled by it and included in the consolidation scope. 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, 2019, PricewaterhouseCoopers Audit and Deloitte & Associés were in the sixteenth 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.

Paris-La Défense and Neuilly-sur-Seine, February 17, 2020

The Statutory Auditors

PricewaterhouseCoopers Audit	Deloitte & Associés
Anne-Claire Ferrié	Frédéric Moulin

7

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.

7.1. INFORMATION RELATING TO THE COMPANY

7.1.1. Legal form

L'Oréal is incorporated in France as a *société anonyme* (limited company).

7.1.2. Law governing the issuer

French law.

7.1.3. 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.

7.1.4. 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 on 1 January 1963 and shall thus expire on 31 December 2061, except in the event of early dissolution or extension, as provided for in these Articles of Association."

7.1.5. Purpose of the Company (excerpts 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 cosmetic 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, assignment and/or 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.

7.1.6. Company Registration

632 012 100 Paris Trade and Companies Registry.

LEI *(Legal Entity Identifier)* Code: 529900JI1GG6F7RKVI53.

7.1.7. 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, whose information is not an integral part of this document.

7.1.8. General Management (Article 11 of the Articles of Association)

1. "In accordance with legal provisions, 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[(1)].
3. The Chief Executive Officer is granted the most extensive powers to act in all circumstances on behalf of the Company. The Chief Executive Officer 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."

7.1.9. Financial year (Article 14 of the Articles of Association)

"Each financial year shall have a duration of twelve months, to begin on 1 January and end on 31 December of each year."

7.1.10. 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 performance shares, shall be entitled to an increase in the number of performance 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.
4. 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. Losses (if any) shall be charged to the retained earnings from preceding financial years or to reserve funds, and the balance shall be booked into a special 'carry forward' account."

(1) In the absence of an express provision in the Articles of Association, the role of General Management cannot be performed from the age of 65.

7.1.11. 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.

7.1.12. Statutory share ownership thresholds (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 shall 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 shareholder in violation shall be deprived of the voting rights to the shares exceeding the fraction which should have been disclosed, in accordance with the conditions stipulated in the French Commercial Code, if during a General Meeting, the failure to disclose has been 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, *"Regulated information"*.

7.2. INFORMATION CONCERNING THE SHARE CAPITAL*

7.2.1. Statutory requirements governing changes in the share capital and shareholders' rights

None.

7.2.2. Issued share capital and authorised unissued share capital

The share capital amounted to €111,623,441 at 31 December 2019. It was divided into 558,117,205 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 21 April 2020.

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

	Authorisations in force				Authorisations proposed to the Annual General Meeting of 21 April 2020		
	Date of the Annual General Meeting (Resolution No.)	Length (date of expiry)	Maximum authorised amount	Use of the authorisation in 2019	Resolution No.	Length	Maximum calling
Share capital increases							
Capital increase through the issue of shares with maintenance of preferential subscription rights	18 April 2019 (9)	26 months (17 June 2021)	Increase the share capital to €156,911,062.56 (1)	None			
Capital increase via the capitalisation of share premiums, reserves, profits or other amounts	18 April 2019 (10)	26 months (17 June 2021)	Increase the share capital to €156,911,062.56 (1)	None			
Capital increase reserved for L'Oréal employees savings plan (PEE)	18 April 2019 (12)	26 months (17 June 2021)	1% of share capital on the date of the Annual General Meeting (i.e. a maximum of 5,608,396 shares at 18 April 2019) (2)	8 shares (3)	14	26 months (20 June 2022)	1% of share capital on the date of the Annual General Meeting (i.e., as an indication, 5,581,172 shares at 31 December 2019) (2)
Capital increase reserved for employees of foreign subsidiaries	18 April 2019 (13)	18 months (17 October 2020)	1% of share capital on the date of the Annual General Meeting (i.e. a maximum of 5,608,396 shares at 18 April 2019) 2	None	15	18 months (20 October 2021)	1% of share capital on the date of the Annual General Meeting (i.e., as an indication, 5,581,172 shares at 31 December 2019) (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.	18 April 2019 (11)	26 months (17 June 2021)	2% of 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)	None			
Buyback by the Company of its own shares							
Buyback by the Company of its own shares	18 April 2019 (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)	3,000,000 shares	11	18 months (20 October 2021)	10% of share capital on the date of the buybacks (i.e. as an indication, 55,811,720 shares at 31 December 2019)
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 (13)	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)	3,000,000 shares	12	26 months (20 June 2022)	10% of share capital on the date of cancellation per 24-month period (i.e. as an indication, 55,811,720 shares at 31 December 2019)
Cancellation of shares purchased by the Company within the scope of Article L. 225-208 of the French Commercial Code	17 April 2018 (13)	26 months (16 June 2020)	771,125 shares	771,125 shares			
Free grants of shares							
Grant of existing free shares or shares to be issued to the employees	17 April 2018 (15)	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)	843,075 shares	13	26 months (20 June 2022)	0.6% of the share capital on the grant decision date (i.e. as an indication, 3,348,703 shares at 31 December 2019)

(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 14th and 15th resolutions submitted for a vote of the Annual General Meeting on 21 April 2020 may not exceed the maximum amount of 1% of the share capital, which constitutes a ceiling that applies jointly to these two resolutions, and a ceiling that was also common to the 12th and 13th resolutions adopted by the Annual General Meeting of 18 April 2019.
(3) These new shares resulted in increasing the capital by €1.6 achieved by deduction from "Other Reserves".

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 2019, 524,193 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, 3,468,325 conditional shares had been granted to Group employees subject to performance conditions, not yet met. These 3,468,325 shares will be created when necessary and, where applicable, by the capitalisation of reserves. Accordingly, the potential share capital of the Company amounts to €112,421,944.60, divided into 562,109,723 shares with a par value of €0.20.

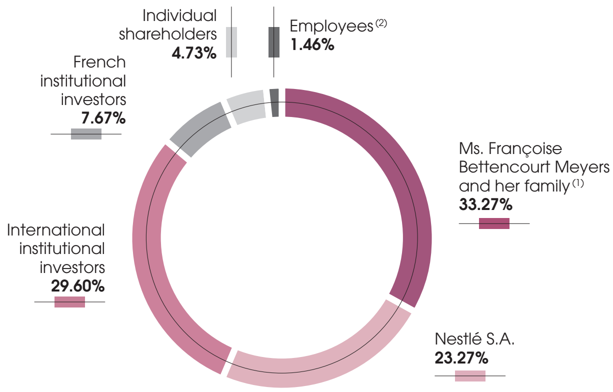
The Company has not issued any securities which grant indirect entitlement to shares in the capital.

7.2.3. 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
31.12.2014				€112,246,077.80		
01.01.2015 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
02.03.2015 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
22.04.2015 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
01.01.2016 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
01.07.2016 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
26.04.2018	Cancellation of shares	-€499,562.80		€112,016,437.40	-2,497,814	560,082,187
24.07.2018	Employee shareholding plan	€91,122.60	€68,810,045.12	€112,516,000.20	455,613	562,580,001
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
01.01.2019 to 26.02.2019	Exercise of share subscription options	€57,499.20	€21,553,333.36	€112,136,829.60	287,496	560,684,148
26.02.2019	Employee shareholding plan	€0.80		€112,136,830.40	4	560,684,152
27.02.2019 to 22.04.2019	Exercise of share subscription options	€31,104.00	€10,717,971.48	€112,167,934.40	155,520	560,839,672
23.04.2019	Conditional grant of shares	€141,252.40		€112,309,186.80	706,262	561,545,934
23.04.2019 to 22.10.2019	Exercise of share subscription options	€56,523.60	€22,792,564.74	€112,365,710.40	282,618	561,828,552
22.10.2019	Employee shareholding plan	€0.80		€112,365,711.20	4	561,828,556
22.10.2019 to 31.10.2019	Exercise of share subscription options	€2,883.00	€1,163,389.45	€112,368,594.20	14,415	561,842,971
31.10.2019	Cancellation of shares	-€754,225.00		€111,614,369.20	-3,771,125	558,071,846
01.11.2019 to 30.11.2019	Exercise of share subscription options	€3,504.00	€1,416,001.60	€111,617,873.20	17,520	558,089,366
01.12.2019 to 31.12.2019	Exercise of share subscription options	€5,567.80	€2,224,836.37	€111,623,441.00	27,839	558,117,205

7.3. SHAREHOLDER STRUCTURE*

SHAREHOLDER STRUCTURE AT 31 DECEMBER 2019



At 31 December 2019, the Company held none of its own shares.

(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 performance shares granted in accordance with Article L. 225-197-1 of the French Commercial Code. Of which 0.83% 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.

7.3.1. Legal entities or individuals acting in concert to the Company's knowledge

The Bettencourt Meyers family is composed of Ms Françoise Bettencourt Meyers, Mr. Jean-Pierre Meyers, Mr. Jean-Victor Meyers and Mr. Nicolas Meyers, along with Téthys SAS. It is reminded that, following the expiration of the agreement signed in 2004 between the Bettencourt Meyers family and Nestlé S.A. (see *"Shareholders' agreements on shares in the Company's capital"* below, section 7.3.5), these two shareholders are no longer acting in concert as of 21 March 2018.

7.3.2. 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:

	31.12.2019			31.12.2018			31.12.2017		
	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)
Ms Françoise Bettencourt Meyers and her family (1)	185,715,079	33.27	33.27	185,715,079	33.14	33.14	185,715,079	33.13	33.13
Nestlé S.A.	129,881,021	23.27	23.27	129,881,021	23.18	23.18	129,881,021	23.17	23.17
Concert – until 21 March 2018 (2)							315,596,100	56.30	56.30
Employees (3)	8,124,383	1.46	1.46	8,142,675	1.45	1.45	7,304,411	1.30	1.30
Public	234,396,722	42.00	42.00	235,886,752	42.09	42.09	236,847,452	42.26	42.26
Treasury stock	0	0.00	0.00	771,125	0.14	0.14	771,125	0.14	0.14
TOTAL	**558,117,205**	**100**	**100**	**560,396,652**	**100**	**100**	**560,519,088**	**100**	**100**

(1) Including, at 31 December 2019, 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 performance shares granted in accordance with Article L. 225-197-1 of the French Commercial Code. Of which 0.83% 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 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 number of shares held by each member of the Board of Directors is shown in the information sheets on the directors set out in Chapter 2, paragraph 2.2.2. 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 and seq. of The French Commercial Code, within the limits and in accordance with the purposes defined by the authorisations that are granted to it by its Annual General Meeting.

At 31 December 2019, the Company did not hold any of its own shares.

7.3.3. Employee share ownership

The employees and former employees of L'Oréal and its affiliates held 8,124,383 shares at 31 December 2019 representing 1.46% [1] of the share capital, of which 0.83% in the Employee Savings Plan (PEE) and the employee investment fund. At that date, this stake in the capital is held by 11,923 employees participating in the Group Employee Savings Plan as defined by Article L. 225-102 of the French Commercial Code, and 12,724 employees participating in the Employee Share Ownership plan.

7.3.4. Disclosures to the Company of legal thresholds crossed during the financial year

None.

7.3.5. Shareholders' agreements relating to shares in the Company's share capital

Collective lock-up agreements within the scope of Articles 787 B and 885 I *bis* of the French General 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.

The Company is not aware of any shareholders' agreements affecting shares and his capital other than the agreement described above.

Note: the agreement between Ms Liliane Bettencourt and her family and Nestlé ended on 21 March 2018

It is reminded that the memorandum of understanding signed on 3 February 2004 between Ms Liliane Bettencourt and her family with Nestlé, which provided for the merger of Gesparal within L'Oréal (merger completed on 29 April 2004), later amended to reflect the change in Nestlé's stake in their agreements through an amendment signed on 10 February 2014 between Ms Liliane Bettencourt and her family and Nestlé, 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 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."

(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 performance shares granted in accordance with Article L. 225-197-1 of the French Commercial Code.*

7.3.6. Buyback by the Company of its own shares

7.3.6.1. Information concerning share buybacks during the 2019 financial year

In 2019, the Company bought back 3,000,000 of its own shares, in accordance with the authorisation approved by the Annual General Meeting of 18 April 2019.

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	8th resolution of 18 April 2019
Expiry date of the authorisation	17 October 2020
Maximum amount of authorised buybacks	10% of the share capital on the date of the buybacks (i.e. as in indication, 56,039,665 shares at 31 December 2018)
Maximum purchase price per share (excluding costs)	€270
Authorised purposes	Cancellation Employee Shareholding Free grants of shares Liquidity and market stabilisation External growth
Board of Directors' meeting that decided on the buybacks	30 July 2019
Purpose of buybacks	Cancellation
Period of buybacks made	From 28 August to 7 October 2019
Number of shares purchased	3,000,000*
Average purchase price per share	€248.49**
Use of shares purchased	Cancellation

** These shares were cancelled on 31 October 2019.*
*** Before costs.*

7.3.6.2. Transactions carried out by L'Oréal with respect to its shares in 2019

Percentage of share capital held by the Company directly and indirectly at 31 December 2019 of which:	0.000%
• those intended to cover existing share purchase plans	0.000%
• those intended to cover conditional shares	0.000%
• those intended to be cancelled	0.000%
Number of shares cancelled during the last 24 months	6,268,939
Number of shares held in the portfolio at 31.12.2019	0
Net book value of the portfolio at 31.12.2019	0
Portfolio market value at 31.12.2019	0

	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 2019.

7.3.6.3. 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 €350 (excluding expenses); it is specified that in the event a public offer by a third party for the shares of the Company is filed, 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 2019, 55,811,720 shares for a maximum amount of €19,534,102,000; it being specified that the Company may not at any time hold more than 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 11 presented in the draft resolutions).

7.4. LONG-TERM INCENTIVE PLANS*

7.4.1. Presentation of the stock option plans for the purchase or subscription of shares and plans for conditional grants of shares to employees (ACAs)

Policy

For several 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 significant contributions in 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.

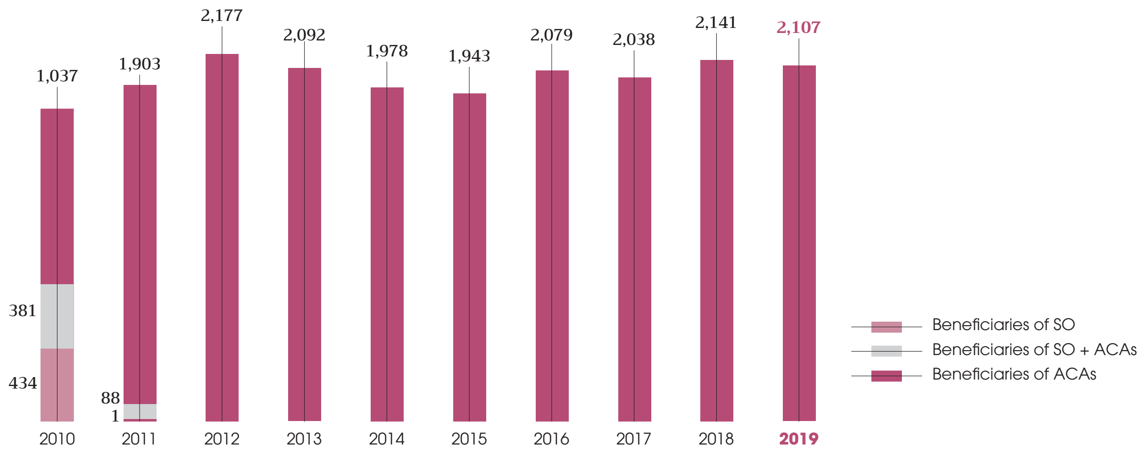
The Board of Directors draws the attention of the beneficiaries of stock options and conditional grants of shares to the regulations in force concerning persons holding "inside information". The beneficiaries of stock options and conditional grants of shares undertake to read the Stock Market Code of 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 18 April 2019 plan are women. More than 3,400 employees, representing 10% of the managers around the world, nearly 57% of whom are in international subsidiaries, benefit from at least one stock option plan or one conditional grant of shares plan (ACAs), as at 31 December 2019.

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

CHANGE IN THE NUMBER OF BENEFICIARIES OF STOCK OPTIONS AND ACAS SINCE 2010



7.4.2. 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 2019, 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.

7.4.2.1. 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 2019, are included in the tables set out hereafter:

AGM authorisation date	16.04.2009	22.04.2011
Date of Board of Directors' Meeting	**27.04.2010**	**22.04.2011**
Total number of beneficiaries	815	89
Total number of shares that may be subscribed or purchased	4,200,000	1,470,000
Including the number that may be subscribed or purchased by the executive officers [1]: • Mr Jean-Paul Agon	*400,000*	*200,000 [2]*
Start date for exercise of the options	28.04.2015	23.04.2016
Date of expiry	27.04.2020	22.04.2021
Subscription or acquisition price *(€)*	80.03	83.19
Number of stock options exercised at 31.12.2019	3,736,072	923,535
Total number of share subscription or purchase options that have been cancelled or lapsed	252 200	234,000
Number of share subscription or purchase options remaining year-end	**211,728**	**312,465**

(1) 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.
(2) The Board of Directors' Meeting of 22 April 2011 allotted 400,000 share subscription options to Mr Jean-Paul Agon. Mr Agon waived 200,000 of these options. He therefore benefits from 200,000 stock options under the plan decided by the Board of Directors at its meeting of 22 April 2011.

There were 524,193 outstanding options granted by the Board of Directors under the authorisations approved by the Annual General Meetings and not yet exercised at 31 December 2019, at an average price of €81.91, namely 0.09% of the 558,117,205 shares composing the share capital at such date.

(1) L'Oréal has no plans for stock options in L'Oréal subsidiaries.

7.4.2.2. Share subscription or purchase options granted to employees other than executive officers of L'Oréal or exercised by them during the 2019 financial year

	Total number of options granted	Weighted average price
Options granted, by L'Oréal S.A., to the ten employees [1] whom the largest number of stock options was granted	No stock options granted in 2019	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	25.03.2009 plan	27.04.2010 plan	22.04.2011 plan
Options held with regard to L'Oréal parent company exercised by the ten employees[1] who have thus purchased or subscribed to the largest number of options	300,254	€77.46	38,481	141,226	120,547

(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.

7.4.3. Plan for the Conditional Grants of Shares (ACAs)

7.4.3.1. Authorisation of the Ordinary and Extraordinary General Meeting of 17 April 2018

The Ordinary and Extraordinary General Meeting of 17 April 2018 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 Annual 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.

7.4.3.2. Conditional grants of shares granted within the framework of the authorisation of 17 April 2018 (ACAs plan of 18 April 2019)

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 18 April 2019, to make a conditional grant of shares within the scope of the authorisation granted by the Annual General Meeting on 17 April 2018.

The share capital at 18 April 2019 was composed of 560,839,672 shares, and 3,365,038 shares could therefore be issued.

The Board of Directors used this authorisation at its meeting of 18 April 2019 by granting 843,075 shares to 2,107 beneficiaries.

This is a free grant of shares to be issued.

Vesting of the shares is subject to a dual condition:

- of presence: the shares granted will only finally vest after a period of four years at the end of which the beneficiary must still be an employee of the Group (save the exceptions provided for by law or the Plan regulations);
- of performance:
  - vesting of all or part of 50% of the shares granted will depend on the growth in comparable cosmetics sales for financial years 2020, 2021 and 2022 compared with 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 average of the performances for the 2020, 2021 and 2022 financial years.

Pursuant to the criterion relating to sales, in order for all the free shares granted to be finally vested by the beneficiaries at the end of the vesting period, L'Oréal must outperform the average growth in sales of the panel of competitors. Below this level, the grant decreases. The Board defines a threshold, not made public for confidentiality reasons, below which no share will finally vest pursuant to this criterion.

Pursuant to the criterion relating to operating profit, in order for all the free shares granted to finally vest for the beneficiaries at the end of the vesting period, a level of growth defined by the Board, but not made public for confidentiality reasons, must be achieved or exceeded. Below this level, the grant decreases. If the operating profit does not increase in absolute value over the period, no share will finally vest pursuant to this criterion.

The Human Resources and Remuneration Committee is responsible for communicating to the Board of Directors the level of indicators recorded for the years to be used for the calculation of the performance conditions. The Board of Directors records, at the appropriate time, the level of performance achieved on which the number of shares that finally vests depends.

The data recorded year after year to determine the levels of performance achieved are published in paragraphs 7.4.3.5 and 7.4.3.6.

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.

7.4.3.3. 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 2019 to the ten employees other than corporate officers who received the largest number of shares was 128,000 shares.

7.4.3.4. Existing conditional grant of shares at 31 December 2019

Date of authorisation by the Extraordinary General Meeting	20.04.2016	20.04.2016	20.04.2016	17.04.2018
Date of grant by the Board of Directors	20.04.2016	20.04.2017	17.04.2018	18.04.2019
Total number of shares conditionally granted	906,100	906,000	931,000	843,075
Of which the ten employees other than executive officers granted the largest number of shares (1)	*128,600*	*137,600*	*141,000*	*128,000*
Number of beneficiaries	2,079	2,038	2,141	2,107
Performance conditions	• 50% growth in comparable cosmetics sales compared to a panel of competitors (2) • 50% growth in L'Oréal Group's consolidated operating profit			
Date of final vesting	20.04.2020	20.04.2021	17.04.2022	18.04.2023
End of lock-in period	N/A	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.

7.4.3.5. Shares definitively vested under the 20 April 2016 ACAs plan

The Board of Directors Meeting on 6 February 2020 found that the performance conditions achieved during the three years taken into consideration by the 20 April 2016 ACAs plan, namely 2017, 2018 and 2019, exceeded the levels established for the grant of all the ACAs.

Accordingly, the beneficiaries who fulfil the conditions under the plan on 20 April 2020 and, in particular, the condition of presence in the Company, will receive all the shares that were granted to them.

For information purposes, 32,000 shares were granted to the executive officer, under the Plan of 20 April 2016.

TABLE MONITORING THE PERFORMANCE CONDITIONS OF THE ACAS PLAN OF 20 APRIL 2016

ACAs plan of 20 April 2016	2017	2018	2019	Average arithmetic of performance for financial years 2017, 2018 and 2019
50% growth in comparable cosmetics sales compared to a panel of competitors *	**0.4 point** (+4.8%/4.4%)	**+1.2 points** (+7.1%/+5.9%)	**+2.8 points** (+8.0%/+5.2%)	**+ 1.47 points**
50% growth in the Group's operating profit	**+3.00%** (4,539.9/4,676.3)	**5.25%** (4,676.3/4,922.0)	**12.71%** (4,922.0/5,547.5)	**6.99%**

** Panel of competitors: Unilever, Procter & Gamble, Estée Lauder, Shiseido, Beiersdorf, Johnson & Johnson, Henkel, LVMH, Kao and Coty.*

7.4.3.6. Tables monitoring performance conditions for the ACAs plans that are currently in progress

ACAs plan of 20 April 2017	2018	2019	2020
50% growth in comparable sales compared to a panel of competitors*	**+1.2 points** (+7.1%/+5.9%)	**+2.8 points** (+8.0%/+5.2%)	to come
50% growth in the Group's operating profit	**5.25%** (4,676.3/4,922.0)	**12.71%** (4,922.0/5,547.5)	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*	**+2.8 points** (+8.0%/+5.2%)	to come	to come
50% growth in the Group's operating profit	**12.71%** (4,922.0/5,547.5)	to come	to come

**Panel of competitors: Unilever, Procter & Gamble, Estée Lauder, Shiseido, Beiersdorf, Johnson & Johnson, Henkel, LVMH, Kao, Coty*

ACAs plan of 18 April 2019	2020	2021	2022
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, Coty*

7.4.4. Renewal of the authority for conditional share grants submitted to the Ordinary and Extraordinary General Meeting of 21 April 2020

The authority given by the Annual General Meeting of 17 April 2018 to the Board of Directors to grant performance shares to Group employees and some of its executive officers expires in 2020. A new authorisation will be submitted to the Annual General Meeting of 21 April 2020. See Resolution 13 of the text of draft resolutions.

7.5. THE L'ORÉAL SHARE/L'ORÉAL SHARE MARKET

7.5.1. The L'Oréal share

7.5.1.1. Information on the L'Oréal share

ISIN code: FR0000120321.

Loyalty Bonus codes:

- Shares that already benefit from the preferential dividend: FR0011149590.
- Dividend +10% in 2020: FR0013295268.
- Dividend +10% in 2021: FR0013374436.
- Dividend +10% in 2022: FR0013459336.

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.

7.5.1.2. Stock market data

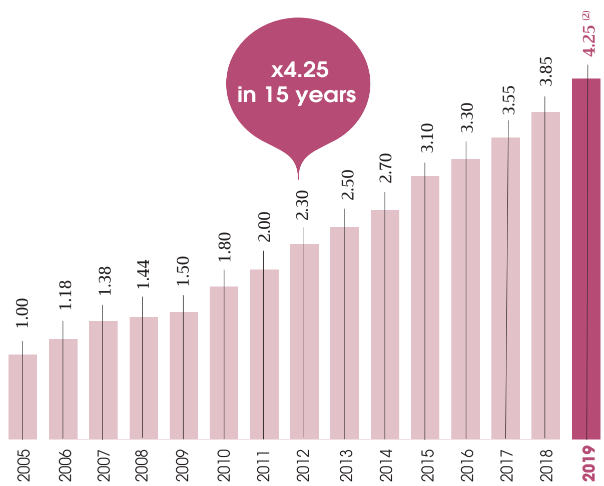
Price at 31 December 2019	**€264.00**
Average of last 30 days' closing share prices for 2019	€257.71
Low	€194.55 15.01.2019
High	€267.60 27.12.2019
Annual share price increase at 31 December 2019	
• L'Oréal	+31.21%
• CAC 40	+26.37%
• Euronext 100	+24.85%
• DJ Euro Stoxx 50	+24.78%
• Stoxx Europe 600 Personal and Household Goods	+26.90%
Market capitalisation at 31 December 2019	€147.3 billion (1)
At 31 December 2019, the L'Oréal share weighed:	
• in the CAC 40	4.98%
• in the Euronext 100 (2)	4.87%
• in the DJ Euro Stoxx 50	2.38%
• in the Stoxx Europe 600 Personal and Household Goods	8.62%

(1) Out of the number of shares at 31 December 2019, i.e. 558,117,205 shares.
(2) Based on the total number of shares for the Euronext 100 index.

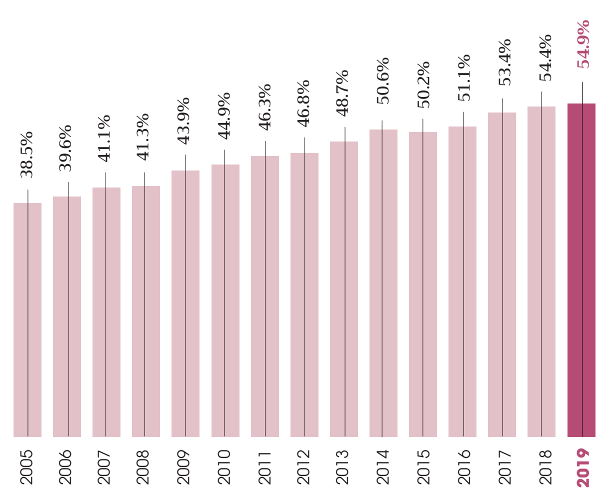
7.5.1.3. Dynamic shareholder return policy

- Earnings per share: €7.74 (1)
- Dividend per share: €4.25 (2)

STEADY INCREASE IN DIVIDEND PER SHARE (€):



SHARE OF PROFITS DEDICATED TO DIVIDENDS (AS %): 54.9%



(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 21 April 2020.

7.5.2. Share market

7.5.2.1. 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.

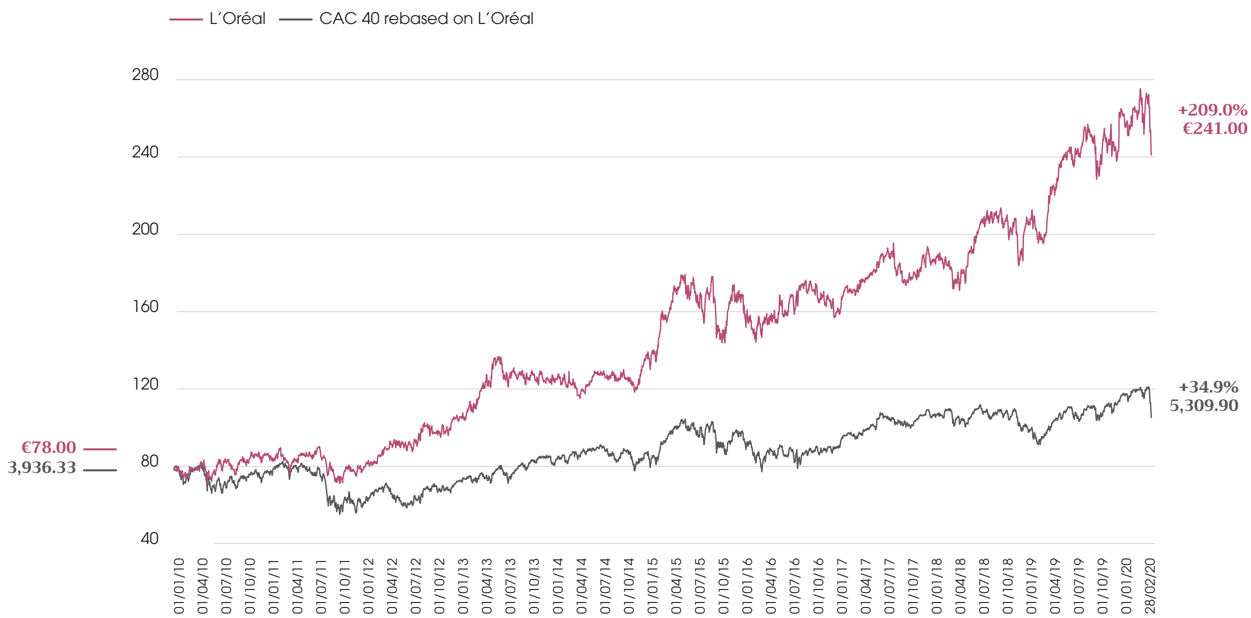
Date	Price (€) High	Price (€) Low	Price (€) Average	Average daily trading volume (€ millions)
2017				
January	174.00	168.35	170.75	91.80
February	177.25	167.75	173.18	119.22
March	180.15	173.90	177.50	101.06
April	186.40	177.80	181.77	120.89
May	191.80	182.80	188.28	103.44
June	197.15	182.20	189.53	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

Date	Price (€) High	Price (€) Low	Price (€) Average	Average daily trading volume (€ millions)
2019				
January	210.10	194.55	199.74	92.35
February	226.70	209.60	220.98	113.99
March	240.30	221.30	231.32	104.80
April	245.80	237.20	241.03	117.39
May	245.70	233.10	240.43	105.83
June	257.30	238.10	247.79	113.36
July	257.80	235.30	251.27	98.03
August	251.10	226.40	237.00	138.50
September	257.40	241.40	248.79	126.70
October	266.60	235.50	245.97	128.10
November	265.50	254.00	260.51	97.26
December	267.60	248.30	257.79	110.61

Date	Price (€) High	Price (€) Low	Price (€) 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	Price (€) Low	Price (€) Average	Average daily trading volume (€ millions)
2020				
January	276.20	251.90	264.76	120.55
February	278.50	235.20	263.09	173.29

CHANGE IN THE L'ORÉAL SHARE PRICE COMPARED TO THE CAC 40 INDEX FROM 1 JANUARY 2010 TO 28 FEBRUARY 2020



7.5.2.2. 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).

7.5.2.2.1. 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
31.12.2014	Purchase of 108 shares at €139.30	15,044.40		108
07.05.2015	Dividend: €2.70 per share		291.60	108
	Reinvestment: purchase of 2 shares at €168.60	337.20		110
03.05.2016	Dividend: €3.10 per share		341.00	110
	Reinvestment: purchase of 3 shares at €157.80	473.40		113
03.05.2017	Dividend: €3.30 per share		372.90	113
	Reinvestment: purchase of 3 shares at €184.55	553.65		116
27.04.2018	Dividend: €3.55 per share		411.80	116
	Reinvestment: purchase of 3 shares at €196.90	590.70		119
30.04.2019	Dividend: €3.85 per share		458.15	119
	Reinvestment: purchase of 2 shares at €245.10	490.20		121
TOTAL		**17,489.55**	**1,875.45**	
TOTAL NET INVESTMENT		**15,614.10**		

Portfolio value at 31 December 2019 (121 shares at €264.00, price at 31 December 2019): €31,994.00

The initial capital has thus been multiplied by 2.1 over 5 years (5-year inflation rate = 4.27% – Source INSEE) and the final capital is 2 times the total net investment.

The Total Shareholder Return of the investment is thus 15.63% per year (assuming that the shares are sold on 31 December 2019, 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.

7.5.2.2.2. 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
31.12.2009	Purchase of 192 shares at €78.00	14,976.00		192
05.05.2010	Dividend: €1.50 per share		288.00	192
	Reinvestment: purchase of 4 shares at €76.77	307.08		196
04.05.2011	Dividend: €1.80 per share		352.80	196
	Reinvestment: purchase of 5 shares at €85.79	428.95		201
03.05.2012	Dividend: €2.00 per share		402.00	201
	Reinvestment: purchase of 5 shares at €92.84	464.20		206
10.05.2013	Dividend: €2.30 per share		473.80	206
	Reinvestment: purchase of 4 shares at €134.05	536.20		210
05.05.2014	Dividend: €2.50 per share		525.00	210
	Reinvestment: purchase of 5 shares at €123.90	619.50		215
07.05.2015	Dividend: €2.70 per share		580.50	215
	Reinvestment: purchase of 4 shares at €168.60	674.40		219
03.05.2016	Dividend: €3.10 per share		678.90	219
	Reinvestment: purchase of 5 shares at €157.80	789.00		224
03.05.2017	Dividend: €3.30 per share		739.20	224
	Reinvestment: purchase of 5 shares at €184.55	922.75		229
27.04.2018	Dividend: €3.55 per share		812.95	229
	Reinvestment: purchase of 5 shares at €196.90	984.50		234
30.04.2019	Dividend: €3.85 per share		900.90	234
	Reinvestment: purchase of 4 shares at €245.10	980.40		238
TOTAL		**21,682.98**	**5,754.05**	
TOTAL NET INVESTMENT		**15,928.93**		

Portfolio value at 31 December 2019 (238 shares at €264.00, price at 31 December 2019): €62,832.00

The initial capital has thus been multiplied by 4.2 over 10 years (10-year inflation rate = 9.72% – Source INSEE) and the final capital is 3.9 times the total net investment.

The Total Shareholder Return of the investment is thus 15.08% per year (assuming that the shares are sold on 31 December 2019, 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.

7.5.2.2.3. 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
31.12.1999	Purchase of 19 shares at €796.50	15,133.50		19
15.06.2000	Dividend: €3.40 per share		64.60	19
	Reinvestment: purchase of 1 share at €825.00	825.00		20
03.07.2000	Ten-for-one share split			200
08.06.2001	Dividend: €0.44 per share		88.00	200
	Reinvestment: purchase of 2 shares at €78.15	156.30		202
04.06.2002	Dividend: €0.54 per share		109.08	202
	Reinvestment: purchase of 2 shares at €74.95	149.90		204
27.05.2003	Dividend: €0.64 per share		130.56	204
	Reinvestment: purchase of 3 shares at €61.10	183.30		207
14.05.2004	Dividend: €0.73 per share		151.11	207
	Reinvestment: purchase of 3 shares at €63.65	190.95		210
11.05.2005	Dividend: €0.82 per share		172.20	210
	Reinvestment: purchase of 4 shares at €56.50	226.00		214
10.05.2006	Dividend: €1.00 per share		214.00	214
	Reinvestment: purchase of 3 shares at €72.65	217.95		217
03.05.2007	Dividend: €1.18 per share		256.06	217
	Reinvestment: purchase of 3 shares at €86.67	260.01		220
30.04.2008	Dividend: €1.38 per share		303.60	220
	Reinvestment: purchase of 4 shares at €76.21	304.84		224
24.04.2009	Dividend: €1.44 per share		322.56	224
	Reinvestment: purchase of 7 shares at €52.02	364.14		231
05.05.2010	Dividend: €1.50 per share		346.50	231
	Reinvestment: purchase of 5 shares at €76.77	383.85		236
04.05.2011	Dividend: €1.80 per share		424.80	236
	Reinvestment: purchase of 5 shares at €85.79	428.95		241
03.05.2012	Dividend: €2.00 per share		482.00	241
	Reinvestment: purchase of 6 shares at €92.84	557.04		247
10.05.2013	Dividend: €2.30 per share		568.10	247
	Reinvestment: purchase of 5 shares at €134.05	670.25		252
05.05.2014	Dividend: €2.50 per share		630	252
	Reinvestment: purchase of 6 shares at €123.90	743.40		258
07.05.2015	Dividend: €2.70 per share		696.60	258
	Reinvestment: purchase of 5 shares at €168.60	843.00		263
03.05.2016	Dividend: €3.10 per share		815.30	263
	Reinvestment: purchase of 6 shares at €157.80	946.80		269
03.05.2017	Dividend: €3.30 per share		887.70	269
	Reinvestment: purchase of 5 shares at €184.55	922.75		274
27.04.2018	Dividend: €3.55 per share		972.70	274
	Reinvestment: purchase of 5 shares at €196.90	984.50		279
30.04.2019	Dividend: €3.85 per share		1,074.15	279
	Reinvestment: purchase of 5 shares at €245.10	1,225.50		284
TOTAL		**25,717.90**	**8,709.62**	
TOTAL NET INVESTMENT		**17,008.27**		

Portfolio value at 31 December 2019 (284 shares at €264.00, price at 31 December 2019): €74,976.00

The initial capital has thus been multiplied by 5.0 over 20 years (20-year inflation rate = 28.89% – Source INSEE) and the final capital is 4.4 times the total net investment.

The Total Shareholder Return of the investment is thus 7.91% per year (assuming that the shares are sold on 31 December 2019, 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.

7.5.2.3. 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.

7.6. 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.

7.6.1. Additional communications media

Keen on transparency and accessibility of information, in 2019, L'Oréal's Financial Communications Department shared a wealth of complete financial and non-financial information with the entire financial community via communication tools, with a heavy emphasis on digital.

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-2019/ – and the Universal Registration Document (e.g. 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 more than 57,000 times, it is highly 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 2019, 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.

7.6.2. A large number of shareholder events for 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 regional 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 Association 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 2019, the Individual Shareholder Relations Department successfully organised various site visits (the Group's Retail Lab and plant) and Shareholder Meetings.
- L'Oréal actively participated in the first edition of Investir Day on 3 October 2019, which was an opportunity to bring together nearly 4,000 shareholders, students and investors; 300 of them attended a presentation by Mr Christophe Babule, Chief Administration and Financial Officer of L'Oréal. Many shareholders also met directly with Group representatives at the L'Oréal stand and obtained information about registering their shares or advice on the various possibilities for transmission of a portfolio of shares from representatives of Notaries of France who were present in our stadn. L'Oréal also led a masterclass on its policy and achievements in Corporate Social and Environmental Responsibility.
- All these events gave the Individual Shareholder Relations Department team the opportunity to meet nearly 4,000 individual shareholders in 2019.
- 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 Annual General Meeting, the development of the operational divisions or the discovery of the Retail Lab.
- The Investor Relations Department (IRD) organises numerous meetings throughout the year with institutional investors of the main international financial marketplaces. In all, in 2019, they thus met over 600 investors.
- Finally, a free phone 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).

7.6.3. 2020 Financial Calendar

06.02.2020	**2019 Annual results**
16.04.2020	1st quarter 2020 sales
21.04.2020	Ordinary and Extraordinary General Meeting
July 2020 *	First-half 2020 sales and results
October 2020 *	Sales at 30 September 2020

** The precise date will be indicated on the website www.loreal-finance.com.*

7.6.4. Financial press releases published in 2019

07.02.2019	**2018 Annual results**
14.03.2019	Annual General Meeting of 18 April 2019 / 2018 Registration Document
16.04.2019	First quarter 2019 sales
18.04.2019	Annual General Meeting and Board of Directors' Meeting of 18 April 2019
02.07.2019	Exclusive negotiation for the acquisition of Mugler and Azzaro
30.07.2019	First-half 2019 results
02.08.2019	Availability of the 2019 Half-Year Financial Report
20.09.2019	L'Oréal signed an agreement with the French Tax Administration
21.10.2019	L'Oréal signed the contract for the acquisition of Mugler and Azzaro perfumes from the Clarins group
29.10.2019	Sales at 30 September 2019
12.12.2019	Prada and L'Oréal announce the signing of a long-term licensing agreement

8

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 (adopted on 6 February 2020) and the Statutory Auditors' Reports referred to by some of these resolutions.

This meeting will be held on 21 April 2020 at the Palais des Congrès, in Paris.

8.1. DRAFT RESOLUTIONS AND REPORT OF THE BOARD OF DIRECTORS (EXPLANATORY STATEMENT) TO THE ORDINARY AND EXTRAORDINARY GENERAL MEETING TO BE HELD ON 21 APRIL 2020

Agenda

Ordinary part

1. Approval of the 2019 parent company financial statements
2. Approval of the 2019 consolidated financial statements
3. Allocation of the Company's net income for 2019 and setting of the dividend
4. Appointement of Mr Nicolas Meyers as a Director
5. Appointement of Ms Ilham Kadri as a Director
6. Renewal of Ms Béatrice Guillaume-Grabisch's term of office as a Director
7. Renewal of Mr Jean-Victor Meyers' term of office as a Director
8. Approval of the information on the remuneration of each of the corporate officers required by Article L. 225-37-3 I of the French Commercial Code
9. Approval of the fixed and variable components of the total remuneration and benefits of any kind paid during the 2019 financial year or allocated for that year to the Chairman and Chief Executive Officer, Mr Jean-Paul Agon
10. Approval of remuneration policy for corporate officers
11. Authorisation for the Company to buy back its own shares

Extraordinary part

12. Authorisation given to the Board of Directors to reduce the share capital by cancelling the shares acquired by the Company under article L.225-209 of the French Commercial Code
13. Authorisation granted to the Board of Directors to carry out free grants of existing shares and/or shares to be issued with cancellation of shareholders' preferential subscription right to employees and executive officers
14. Delegation of authority to the Board of Directors for the purpose of carrying out a capital increase reserved for employees with cancellation of shareholders' preferential subscription rights
15. 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
16. Amendment to Article 8 of the Articles of Association on the number of Directors representing the employees
17. Powers for formalities

8.1.1. Ordinary part

RESOLUTIONS 1, 2, 3: APPROVAL OF THE ANNUAL (PARENT COMPANY AND CONSOLIDATED) FINANCIAL STATEMENTS FOR 2019, ALLOCATING THE COMPANY'S NET INCOME AND SETTING 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 €4,105,828,765.28 for 2019, compared with €3,594,895,876.41 for 2018;
- the 2019 consolidated financial statements.

  The details of these financial statements are set out in the 2019 Annual Financial Report and the main data included in the package containing the notice convening the Annual General Meeting.

The Board of Directors proposes to the Annual General Meeting:

- an ordinary dividend of €4.25 per share, representing an increase of +10.4% 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 54.9% in 2019. Over the last five financial years, this rate was:

Year	2014	2015	2016	2017	2018
Rate of distribution	50.6%	50.2%	51.1%	53.4%	54.4%

- A per share bonus dividend of €4.67, 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 2017 at the latest, and which continuously remain in registered form until the dividend payment date in 2020. 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 28 April 2020 at zero hour, Paris time, and they will be paid on 30 April 2020.

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 General 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 2019 parent company financial statements

The Annual General Meeting, voting in accordance with the quorum and majority requirements for Ordinary General Meetings, having reviewing the Reports of the Board of Directors and the Statutory Auditors, approves the Report of the Board of Directors and the 2019 parent company financial statements, as presented, and the transactions reported in these financial statements and summarised in these Reports, showing net income of €4,105,828,765.28 compared with €3,594,895,876.41 for the 2018 financial year.

Second resolution: approval of the 2019 consolidated financial statements

The Annual General Meeting, voting 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 2019 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 2019 and setting of the dividend

The Annual General Meeting, voting 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 2019 financial year, amounting to €4,105,828,765.28 as follows:

No allocation to the legal reserve which already represents over one-tenth of the share capital	-
Amount allocated to the shareholders as dividend * (including bonus dividend)	€2,391,569,114.93
Balance that will be allocated to the "Other reserves" item	€1,714,259,650.35

** 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 2019 and will be adjusted to reflect:

- the number of shares issued between 1 January 2020 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 2020 and the date of payment of the dividend.

The Annual General Meeting therefore declares an ordinary dividend of €4.25 per share, the bonus dividend entitling eligible holders to a total of €4.67 per share. The preferential dividend will be granted to the shares held in registered form since 31 December 2017 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 a 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 28 April 2020 at zero hour (Paris time) and they will be paid on 30 April 2020.

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 General 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 General Tax Code, for the last three financial years:

	2016	2017	2018
Ordinary dividend per share	€3.30	€3.55	€3.85
Preferential dividend per share	€0.33	€0.35	€0.38

RESOLUTIONS 4, 5, 6 & 7: OFFICES OF DIRECTORS

EXPLANATORY STATEMENT

1. Composition of L'Oréal's Board of Directors at 31 December 2019

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 it is called on to make.

The Directors (whose biographies are included below) 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 63, 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, Chairman 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 66, 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 *Pour l'Audition* Foundation. 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 65, of Belgian and Swiss nationality, 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 71, 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.

Ana Sofia Amaral, age 54, 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 term of office was then renewed for a period of four years in 2018. She is a member of the Human Resources and Remuneration Committee.

Sophie Bellon, age 58, is 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 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, 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 the 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.

Fabienne Dulac, age 52, is Chairwoman and Chief Executive Officer of Orange France and Deputy Chief Executive Officer of the Orange Group, which she joined in 1997. She has held various positions in marketing, business development, communications and digital. She is also a Director of Orange Bank and Willa (an incubator dedicated to female entrepreneurship). She has been a Director of L'Oréal since 2019 and is a member of the Audit Committee.

Belén Garijo, age 59, 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-Grabisch, age 55, has been since 2019 Executive Vice-President and Global Head of Human Resources and Business Services of the Nestlé Group, which she joined in 2013. She previously served as Chief Executive Officer of Nestlé Germany, after a career in a variety of consumer goods corporations (Colgate-Palmolive, Beiersdorf, Johnson & Johnson, L'Oréal and Coca-Cola). Béatrice Guillaume-Grabisch has been a Director at L'Oréal since 2016 and is a member of the Audit Committee.

Bernard Kasriel, age 73, 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 57, of French and Greek nationality, is Coordinator of Sustainability for L'Oréal Western Europe. Mr Liarokapis was appointed by the CFE-CGC union as a Director representing the employees in 2014; his term of office was renewed for a period of four years in 2018. He is a member of the Audit Committee.

Jean-Victor Meyers, age 33, 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 the Exemplaire and Constantine Capital companies. Jean-Victor Meyers has been a Director of L'Oréal since 2012 and is a member of the Audit Committee.

Virginie Morgon, age 50, is Chairwoman of the Executive Board of Eurazeo, which she joined in 2008 after working for sixteen years at Lazard, and is also 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.

Eileen Naughton, age 62, of American nationality, is Vice-President People Operations at Google, which she joined in 2006 after holding various positions 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 21 April 2020

The appointment of two new Directors, Mr Nicolas Meyers and Ms Ilham Kadri, as well as the renewal of the terms of office of Ms Béatrice Guillaume-Grabisch and Mr Jean-Victor Meyers, whose current terms of office are expiring, are submitted to a vote by the Annual General Meeting.

The term of office of Mr Jean-Pierre Meyers, a director of L'Oréal since 1987, Vice-Chairman of the Board of Directors since 1994, and a member of the Strategy and Sustainable Development, Human Resources and Remuneration, and Appointments and Governance Committees, expires at the end of this Annual General Meeting.

Mr Jean-Pierre Meyers has informed the Board that he does not wish to request the renewal of his term of office as Director, and declared that this seemed an opportune moment after 33 years on the Board to enable the family connection to continue, stressing the profound and lasting attachment of the Bettencourt Meyers family to L'Oréal. Mr Jean-Paul Agon, on behalf of the Board of Directors, warmly thanked Mr Jean-Pierre Meyers for his outstanding contribution to the works of the Board and of its Committees over so many years. He paid tribute in particular to Mr Meyers' in-depth knowledge of the company, his constant determination to preserve its values, his insistence on the highest standards of governance, and the support he has provided for the Group's development and international success.

Mr Bernard Kasriel, a Director of L'Oréal since 2004 and a member of the Strategy and Sustainable Development Committee, has informed the Board of Directors that he does not wish to request the renewal of his term of office. The Board expressed its gratitude to Mr Bernard Kasriel for the quality of his contribution during his 16 years of office. He brought to the Board his experience as an executive of a large international industrial group. The Board thanked him for his commitment, his great freedom of judgement and his contribution of proposals for the works of the various Committees of which he has been a member or Chairman.

The term of Ms Eileen Naughton, a Director of L'Oréal since 2016 and a member of the Human Resources and Remuneration Committee, expires in 2020. Ms Naughton has informed the Board of Directors that she does not wish to request the renewal of her office. The Board thanked Ms Eileen Naughton for taking part in the Board's debates and for the works of the Committee of which she was a member.

2.1. Appointment of two new Directors: Mr Nicolas Meyers and Ms Ilham Kadri

Appointment of Mr Nicolas Meyers as Director

On the recommendation of the Appointments and Governance Committee, the Board of Directors submits the name of Mr Nicolas Meyers as Director to the vote of the Annual General Meeting for a term of four years.

Mr Nicolas Meyers, age 32, studied communications in Brussels, then at the *Institut des Hautes Etudes pour l'Innovation et l'Entreprenariat* (IHEIE). As part of his varied professional experience, he spent several months in Divisions of the L'Oréal Group, both in France and abroad (United Kingdom, USA, Canada, India, Japan). After his first business experience with Christie's in London in 2009, he held the positions of e-commerce and Social Media Manager at SwatchGroup France from 2011 to 2014. In 2017, he was an analyst with McKinsey.

He has been a member of the Supervisory Committee of the family holding company Téthys since 2011 and Téthys Invest since 2016. He has also been a director of the Bettencourt Schueller Foundation since 2012.

Mr Nicolas Meyers will bring the Board of Directors his knowledge of L'Oréal and his deep commitment to the company, his strong interest in new technologies and his international experience.

Appointment of Ms Ilham Kadri as Director

On the recommendation of the Appointments and Governance Committee, the Board of Directors submits the name of Ms Ilham Kadri as Director to the vote of the Annual General Meeting for a term of four years.

Ms Ilham Kadri, 51, holds dual French and Moroccan nationality and has a PhD in Macromolecular Physical-Chemistry. She has been Chairwoman of the Executive committee and CEO of Solvay since March 2019, before which she had been CEO and Chairwoman of the American company Diversey since 2013. Ms Kadri has international professional experience, which she acquired in leading industrial companies (Shell, UCB, Dow, Sealed Air…), where she performed roles in research & development, sales, marketing, strategy, business management and digital technology.

Ms Kadri is very committed to diversity and inclusion, through mentoring young women and promoting their leadership in science.

She will notably bring to the L'Oréal Board of Directors her knowledge of industrial challenges, her diversified and international experience acquired in the United States, Europe, the Middle East, Africa and Asia, and her strategic vision focused on innovation.

2.2. Renewal of the terms of office of two Directors: Ms Béatrice Guillaume-Grabisch and Mr Jean-Victor Meyers

Renewal of Ms Béatrice Guillaume-Grabisch's term of office as a Director

As the term of office of Ms Béatrice Guillaume-Grabisch expires in 2020, her renewal for a term of four years is submitted to the Annual General Meeting.

Béatrice Guillaume-Grabisch has been a Director at L'Oréal since 2016 and a member of the Audit Committee since that date.

Since 2019, Ms Guillaume-Grabisch has been Executive Vice-President and Global Head of Human Resources and Business Services of the Nestlé Group, which she joined in 2013. She was formerly Chief Executive Officer of Nestlé Germany after a career in various consumer goods groups (Colgate-Palmolive, Beiersdorf, Johnson & Johnson, L'Oréal, Coca-Cola).

Ms Guillaume-Grabisch is deeply committed to the work of the Audit Committee and the Board of Directors, to which she brings her experience in marketing and general management in the consumer goods sector, as well as her skills in Human Resources management.

Over the four years of her term of office as Director, Ms Guillaume-Grabisch's attendance rate has been 100% at the meetings of the Board of Directors and the Audit Committee of which she is a member.

Renewal of Mr Jean-Victor Meyers' term of office as a Director

As the term of office of Mr Jean-Victor Meyers as Director expires in 2020, his renewal for a term of four years is submitted to the Annual General Meeting.

Jean-Victor Meyers has been a Director of L'Oréal since 2012 and a member of the Audit Committee since 2014.

He has been a member of the Supervisory Board of the family holding company Téthys since January 2011. He is the Chairman of the Exemplaire and Constantine Capital companies.

He brings to the Board his in-depth knowledge of L'Oréal and his strong attachment to the company, his experience in luxury businesses and his entrepreneurial vision.

Over the four years of his term of office as Director, the attendance of Mr Jean-Victor Meyers at meetings of the Board of Directors and of the Audit Committee on which he serves has been 100%.

3. Composition of the Board of Directors after the Annual General Meeting of 21 April 2020

If the Annual General Meeting approves the appointments and renewals proposed to it in 2020, the expiry dates of the terms of office of the 14 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
Mr Jean-Paul Agon		2022	C			
Ms Françoise Bettencourt Meyers		2021	•		•	•
Mr Paul Bulcke		2021	•		•	•
Ms Ana Sofia Amaral	●	2022			•	
Ms Sophie Bellon	◆	2023		•	C	C
Mr Patrice Caine	◆	2022	•			•
Ms Fabienne Dulac	◆	2023		•	•	
Ms Belén Garijo	◆	2022			•	
Ms Béatrice Guillaume-Grabisch		2024		•		
Ms Ilham Kadri	◆	2024				
Mr Georges Liarokapis	●	2022		•		
Mr Jean-Victor Meyers		2024	•	•		
Mr Nicolas Meyers		2024				
Ms Virginie Morgon	◆	2021		C		

◆ *Independence as defined by the criteria of the AFEP-MEDEF Code*
● *Director representing the employees*
C *Chairman / Chairwoman of the Committee*
• *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.

If the Annual General Meeting approves the appointements and renewals that are proposed by the Board of Directors, the number of Independent Directors would be 6 out of 12, i.e. an independence rate of 50% (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 approves the appointments and renewals proposed to it, the number of women on the Board of Directors would be 7 out of the 12 Directors appointed by the Annual General Meeting, i.e. a percentage representation of women of 58% (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 term of office of the Directors appointed by the L’Oréal Annual General Meeting is four years or less to allow a planned scheduled renewal of the terms of office of Directors. 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 500 L’Oréal shares: at least 250 shares on the date of his/her appointment by the Annual General Meeting, and the balance no later than 24 months after this appointment. A list of the offices and functions of the Directors at 31 December 2019 (with an indication of the number of L’Oréal shares held for Directors appointed by the Annual General Meeting) is set out in section 2.2.2. of Chapter 2 of the Universal Registration Document.

Fourth resolution: appointment of Mr Nicolas Meyers 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 Mr Nicolas Meyers as a Director for a period of four years.

His term of office will expire at the end of the Annual General Meeting to be held in 2024 to vote on the financial statements for the previous financial year.

Fifth resolution: appointment of Ms Ilham Kadri 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 Ilham Kadri as a Director for a term of four years.

Her term of office will expire at the end of the Annual General Meeting to be held in 2024 to vote on the financial statements for the previous financial year.

Sixth resolution: renewal of Ms Béatrice Guillaume-Grabisch's term of office 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 term of office as a Director of Ms Béatrice Guillaume-Grabisch for a term of four years.

Her term of office will expire at the end of the Annual General Meeting to be held in 2024 to vote on the financial statements for the previous financial year.

Seventh resolutions: renewal of Mr Jean-Victor Meyers’ term of office 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 Mr Jean-Victor Meyers’ term of office as a Director for a term of four years.

His term of office will expire at the end of the Annual General Meeting to be held in 2024 to vote on the financial statements for the previous financial year.

RESOLUTIONS 8, 9, 10: REMUNERATION OF THE CORPORATE OFFICERS

EXPLANATORY STATEMENT

Pursuant to Ordinance no. 2019-1234 of 27 November 2019, adopted to implement Law No. 2019-486 of 22 May 2019 concerning the growth and transformation of companies (PACTE law), the Annual General Meeting is called upon to approve the following:

- in the eighth resolution: the information on the remuneration of each of the corporate officers of L'Oréal required by Articles L. 225-37-3 I and L. 225-100 II of the French Commercial Code. This information is presented in section 2.4.2. of the chapter 2 of the Universal Registration Document;
- in the ninth resolution: the fixed and variable components of the total remuneration and benefits of any kind paid during the 2019 financial year or allocated for that year to the Chairman and Chief Executive Officer Mr Jean-Paul Agon pursuant to Article L. 225-100 III of the French Commercial Code. This information is summarised in the following table ("Summary table of the elements of remuneration paid during the 2019 financial year or allocated for that year");
- in the tenth resolution: the policy for remuneration of the corporate officers, i.e. the Directors of L'Oréal and its Chairman and Chief Executive Officer, as established by the Board of Directors pursuant to Article L. 225-37-2 of the French Commercial Code. This policy is in line with L'Oréal's corporate interest, contributes to its continuity and is aligned with its commercial strategy. It is presented in section 2.4.1 of the chapter 2 of the Universal Registration Document ("Remuneration policy for corporate officers").

SUMMARY TABLE OF THE COMPONENTS OF REMUNERATION PAID IN 2019 OR ALLOCATED FOR THAT YEAR

Remuneration components submitted for a vote	Amounts allocated for the 2019 financial year or accounting valuation	Amounts paid during the 2019 financial year	Description
Fixed remuneration 2019/2018 changes	**€2,200,000** 0%		At its meeting on 7 February 2019, and on the recommendation of the Human Resources and Remuneration Committee, the Board of Directors decided to maintain Mr Jean-Paul Agon's fixed gross annual remuneration at €2,200,000.
Annual variable remuneration	**€2,168,831** 98.6% out of a maximum target of 100% of the fixed remuneration		The annual variable remuneration is designed to align the corporate 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. It is expressed as a percentage of the fixed remuneration and can amount to a maximum of 100% of the fixed remuneration. **CRITERIA FOR ASSESSMENT OF PERFORMANCE FOR 2019** • **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 2018 10% • Growth in net earnings per share as compared to 2018 10% • Growth in cash flow as compared to 2018 10% • **EXTRA-FINANCIAL AND QUALITATIVE CRITERIA** **40%** • ***Quantifiable criteria*** (allocated equally among the following criteria) 25% • CSR (*Sharing Beauty With All* programme) • Human Resources: gender parity, development of talented employees, access to training • Digital Development • ***Individual qualitative performance:*** Management, Image, Company reputation, Dialogue with stakeholders. 15% The assessment is carried out on a criterion-by-criterion basis without offsetting among the criteria. A summary of achievements in 2019 is available in section 2.4.2.2. of Chapter 2 of the Universal Registration Document. **ASSESSMENT FOR 2019 BY THE BOARD OF DIRECTORS OF 6 FEBRUARY 2020** On the basis of the aforementioned assessment criteria, the Board of Directors decided, on the recommendation of the Human Resources and Remuneration Committee, to award gross variable remuneration of €2,168,831 for 2019, which is 98.6% of the maximum objective, with a level of achievement of the financial and extra-financial and qualitative criteria of 100% and 96.5% respectively. The assessment elements are set out in section 2.4.2.2. of Chapter 2 of the Universal Registration Document. Pursuant to Article L. 225-100 III of the French Commercial Code, the payment of this annual variable remuneration is subject to the approval of this ninth resolution.
		€2,045,998 93% out of a maximum target of 100% of the fixed remuneration	For information, following the approval by the Annual General Meeting of 18 April 2019 (seventh resolution), an annual variable remuneration was paid for the 2018 financial year amounting to a total of €2,045,998, since the Board of Directors decided on 7 February 2019, as proposed by the Human Resources and Remuneration Committee, that 93% of the maximum objective had been achieved.

Remuneration components submitted for a vote	Amounts allocated for the 2019 financial year or accounting valuation	Amounts paid during the 2019 financial year	Description
Performance shares	**24,000** performance shares valued at €5,430,000 (fair value estimated according to the IFRS standards used to prepare the consolidated financial statements)	N/A	Under the authorisation of the Extraordinary General Meeting of 17 April 2018 (fifteenth resolution), the Board of Directors, meeting on 18 April 2019, and on the recommendation of the Human Resources and Remuneration Committee, approved a conditional grant of 24,000 shares (ACAs) to Mr Jean-Paul Agon. This grant is in line with the 2019 remuneration policy defined by the Board of Directors on 7 February 2019 and approved by the Annual General Meeting of 18 April 2019. The fair value of one performance share (ACAs) under the 18 April 2019 plan, estimated according to the IFRS standards applied for the preparation of the consolidated financial statements, is €226.25, i.e. a fair value of €5,430,000 for the 24,000 ACAs granted to Mr Jean-Paul Agon in 2019. For the 17 April 2018 Plan, the fair value of one ACAs amounted to €176.17. Final vesting of these shares is subject to performance conditions being achieved, which will be recorded at the end of a 4-year vesting period as from the date of grant. Half of the number of fully vested shares will depend on growth in comparable cosmetics net sales compared to those of a panel of L'Oréal's competitors: 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 arithmetic average for the three full financial years of the vesting period. The first full year taken into account for evaluating the performance conditions relating to this grant is 2020. The monitoring of performance conditions each year is described in section 7.4.3.6. of Chapter 7 of the Universal 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 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. 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 be fully vested by the beneficiaries at the end of the vesting period. Below this level, the grant decreases. If the operating profit does not increase in absolute value over the period, no share will fully be vested pursuant to this criterion. The grant of shares from which Mr Jean-Paul Agon benefited in 2019 represents 2.85% of the total number of ACAs granted to the 2,107 beneficiaries of this same plan. In accordance with the authorisation granted by the Annual General Meeting on 18 April 2019, 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 to shares or other long-term incentive was granted to Mr Jean-Paul Agon in 2019.
Remuneration as Director	**€0**		Mr Jean-Paul Agon did not wish to receive remuneration as Director (formerly called attendance fees) in his capacity as Chairman and Chief Executive Officer.
Benefits in addition to remuneration	**€0** **€10,396**		**Benefits in kind**: Mr Jean-Paul Agon benefits from the material resources needed for the performance of his office such as, for example, the provision of a car with a driver. These arrangements, which are strictly limited to professional use, to the exclusion of any private use, are not benefits in kind. **Additional social protection schemes:** employee benefit and healthcare schemes and defined-contribution pension. Mr Jean-Paul Agon 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, the employee benefit and healthcare schemes applicable to the Company's employees. The amount of the employer's contributions to these different schemes was €10,396 in 2019, including €6,281 for the defined contribution pension scheme; it is noted that the amount due in this respect will be deducted from the pension due for the defined benefits 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.

The information on (i) the severance package, (ii) dismissal or retirement benefits, (iii) the financial 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, can be found in section 2.4.3. of Chapter 2 of the Universal Registration Document. The application of the defined-benefit pension plan provisions of Mr Jean-Paul Agon's employment contract of Mr Jean-Paul Agon for the duration of his renewed corporate office was approved by the Annual General Meeting of 17 April 2018.

Eighth resolution: approval of the information on the remuneration of each of the corporate officers of L'Oréal required by Article L. 225-37-3 I of the French Commercial Code

Pursuant to Article L. 225-100 II of the French Commercial Code, the Annual General Meeting, voting in accordance with the quorum and majority required for Ordinary General Meetings, approves the information described in Article L. 225-37-3 I of the French Commercial Code as presented in section 2.4.2. of Chapter 2 of the Universal Registration Document.

Ninth resolution: approval of the fixed and variable components of the total remuneration and benefits of any kind paid during the 2019 financial year or allocated for that year to the Chairman and Chief Executive Officer, Mr Jean-Paul Agon

Pursuant to Article L. 225-100 III of the French Commercial Code, the Annual General Meeting, voting in accordance with the quorum and majority required for Ordinary General Meetings, approves the fixed and variable components of the total remuneration and benefits of any kind paid in the 2019 financial year or allocated for that year to Chairman and Chief Executive Officer, Mr Jean-Paul Agon, as presented in section 2.4.2. of Chapter 2 of the Universal Registration Document.

Tenth resolution: approval of the remuneration policy for corporate officers

The Annual General Meeting, voting in accordance with the quorum and majority required for Ordinary General Meetings, having reviewed the Report of the Board of Directors, established pursuant to Article L. 225-37-2 of the French Commercial Code, approves the remuneration policy for the corporate officers of L'Oréal, who are currently the Chairman and Chief Executive Officer and the Directors, as presented in section 2.4.1. of Chapter 2 of the Universal Registration Document.

RESOLUTION 11: AUTHORISATION FOR THE COMPANY TO BUY BACK ITS OWN SHARES

EXPLANATORY STATEMENT

As the existing authorisation is due to expire in October 2020, it is proposed that the Annual General Meeting give the Board a new authorisation, it being specified that in the event of a public offer being filed 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 under a liquidity agreement entered into with an investment services provider in accordance with the ethics charter recognised 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 renders ineffective from this day onwards any previous authorisation for the unused portion with the same purpose.

The purchase price per share may not exceed €350 (excluding expenses). The authorisation would be for a maximum of 10% of the share capital, namely, for information purposes, at 31 December 2019, 55,811,720 shares for a maximum amount of €19,534,102,000 it being specified that the Company may not at any time hold more than 10% of its own capital.

Eleventh resolution: authorisation for the Company to buy back its own shares

The Annual General Meeting, voting in accordance with the quorum and majority required for Ordinary General Meetings, having reviewed the Report of the Board of Directors, authorises the Board of Directors, with the option to delegate to the Chairman and Chief Executive Officer, to purchase shares of the Company in accordance with Articles L. 225-209 et seq. of the French Commercial Code and EU Regulation No 596/2014 of the European Parliament and of the Council of 16 April 2014, and subject to the following conditions:

- the purchase price per share may not exceed €350 (excluding expenses);
- the number of shares that may be bought by the Company may not exceed 10% of the number of shares forming the Company's capital on the date of execution of these buybacks, which is, for information purposes, at 31 December 2019, 55,811,720 shares for a maximum amount of €19,534,102,000 on the understanding 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 under a liquidity agreement entered into with an investment services provider in accordance with the ethics charter recognised 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 a public offer being filed 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 renders ineffective from this day onwards any previous authorisation for the unused portion with the same purpose.

The Board of Directors will have the option 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 option for it to delegate, for the implementation of this resolution and, more generally, to do anything that may be necessary.

8.1.2. Extraordinary part

RESOLUTION 12: AUTHORISATION GIVEN TO THE BOARD OF DIRECTORS TO REDUCE THE SHARE CAPITAL BY CANCELLING THE SHARES ACQUIRED BY THE COMPANY UNDER ARTICLE L.225-209 OF THE FRENCH COMMERCIAL CODE

EXPLANATORY STATEMENT

The authorisation granted to the Board of Directors in 2018 to cancel shares purchased by the Company within the scope of L.225-209 of the french commercial code is due to expire.

It is proposed that the Annual General Meeting give the Board a new authorisation allowing it to carry out share cancellations, subject to the legal limits, namely 10% of the existing share capital on the date of the cancellation per twenty-four month periods.

This authorisation shall be granted for a duration of twenty-six months from the date of this Annual General Meeting and shall render ineffective all previous authorisations.

Twelfth resolution: authorisation given to the Board of Directors to reduce the share capital by cancelling the shares acquired by the Company under article L.225-209 of the French Commercial Code

The Annual General Meeting, voting in accordance with the quorum and majority required for Extraordinary General Meetings, having reviewed the Reports of the Board of Directors and the Statutory Auditors, authorises the Board of Directors, in accordance with Article L. 225-209 of the French Commercial Code, to cancel, on one or more occasions, all or some of the shares held by the Company under Article L. 225-209 of the French Commercial Code, subject to a limit of 10% of the share capital existing on the date of cancellation per twenty-four month periods.

Full powers are granted to the Board of Directors, with the option of delegation, to:

- carry out a reduction in share capital by a cancellation of shares;
- determine the final amount of the capital reduction;
- set the terms and conditions and record completion;
- deduce the difference between the book value of the shares cancelled and their nominal amount from the available reserves and premiums;
- amend the articles of association accordingly;
- and, more generally, carry out all formalities and do everything necessary for the implementation of this resolution.

This authorisation is granted for a duration of twenty-six months from the date of this General Meeting, and shall render ineffective as of this date, any previous authorisation for the unused portion with the same purpose.

RESOLUTION 13: AUTHORISATION GRANTED TO THE BOARD OF DIRECTORS TO CARRY OUT FREE GRANTS OF EXISTING SHARES AND/OR SHARES TO BE ISSUED WITH CANCELLATION OF SHAREHOLDERS' PREFERENTIAL SUBSCRIPTION RIGHT TO EMPLOYEES AND EXECUTIVE OFFICERS

EXPLANATORY STATEMENT

It is proposed that the Annual General Meeting renew its authorisation to carry out free grants of shares to Group employees and certain executive officers which will expire in August 2020.

Under the scope of this authorisation, the number of free shares that may be granted may not exceed 0.6% of the share capital on the date of the Board of Directors' decision. The maximum nominal amount of the capital increases that may be carried out pursuant to this authorisation will be charged against the total ceiling of 40% of the share capital provided for in 2) of the ninth resolution approved by the Annual General Meeting of 18 April 2019.

The total number of free shares granted to the executive officers during a financial year may not represent more than 10% of the total number of free shares granted during this same financial year.

Pursuant to Article L. 225-197-1 of the French Commercial Code, the free grant of shares to their beneficiaries will become final and binding subject to the satisfaction of the other conditions set at the time of the grant, and specifically the employment condition, for all or part of the shares granted:

- either after a minimum vesting period of two years, and in this case, without a minimum holding period;
- or after a minimum vesting period of one year, it being stated that the beneficiaries must then hold these shares for a minimum of one year from their final allocation.

In all these cases, the Board of Directors proposes that the vesting and holding periods should be a minimum of four years. The Board of Directors shall have the power, in all cases, to provide for vesting periods which are longer than the minimum periods set above or to provide for a holding period.

If the Annual General Meeting approves this resolution, any free grant of shares shall be decided by the Board of Directors on the basis of the proposals made by the General Management and examined by the Human Resources and Remuneration Committee.

The Board of Directors will decide the identity of the beneficiaries of the grants, the number of shares allocated to each one and the performance conditions to be met for the final vesting of all or part of the shares.

These performance conditions will take into account:

- partly, growth in comparable cosmetics sales of L'Oréal as compared to a panel of L'Oréal's major direct competitors;
- partly, growth in L'Oréal's consolidated operating profit.

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

The Board of Directors considers that these two criteria, assessed over a long period of three financial years and applied to several plans, are complementary, in line with the Group's objectives and its specificities, and should make it possible to promote balanced, continuing growth over the long term. They are exacting but remain a source of motivation for the beneficiaries.

Pursuant to the criterion relating to sales, in order for all the free shares granted to finally vest for the beneficiaries at the end of the vesting period, L'Oréal must outperform the average growth in sales of the panel of competitors. This panel comprises Unilever, Procter & Gamble, Estée Lauder, Shiseido, Beiersdorf, Johnson & Johnson, Henkel, LVMH, Kao, and Coty. Below this level, the grant decreases. If L'Oréal's comparable growth in net sales is less than the average growth in sales of the panel of competitors, no share will be allocated for this criterion.

Pursuant to the criterion relating to operating profit, in order for all the free shares granted to finally vest for the beneficiaries at the end of the vesting period, a level of growth defined by the Board, but not made public for confidentiality reasons, must be achieved or exceeded. Below this level, the grant decreases. If the operating profit does not increase in absolute value over the period, no share will finally vest pursuant to this criterion.

These performance conditions will apply to all individual allocations greater than 200 bonus shares per plan, with the exception of executive officers and member of the Executive Committee, for which they will apply to the totality.

The free grant of shares may be carried out for all Group staff, or for shares allocated on the basis of cash subscriptions carried out as part of an increase in share capital reserved for Group employees pursuant to the fifteenth resolution.

Any allocations of shares to the executive officers will be decided by the Board of Directors on the basis of the proposals of the Human Resources and Remuneration Committee after assessment of their performance.

The executive officers of L'Oréal will be obliged to retain 50% of the free shares that are definitively granted to them at the end of the vesting period in registered form until the termination of their term of office.

Thirteenth resolution: authorisation granted to the Board of Directors to carry out free grants of existing shares and/or shares to be issued with cancellation of shareholders' preferential subscription right to employees and executive officers

The Annual General Meeting, voting in accordance with the quorum and majority required for Extraordinary General Meetings, having reviewed the Reports of the Board of Directors and the Statutory Auditors, and acting in accordance with Articles L. 225-197-1 et seq. of the French Commercial Code:

1. authorises the Board of Directors to carry out, on one or several occasions, free grants of existing or shares to be issued in L'Oréal to employees and executive officers of the Company and of its French or foreign affiliates under the conditions of Article L. 225-197-2 of the French Commercial Code, or to certain categories of such affiliates;
2. sets the validity period of this authorisation, which may be used on one or several occasions, at 26 months from the date of the Annual General Meeting, and notes that this authorisation renders ineffective the unused portion of any prior authorisation for the same purpose;
3. decides that the number of free shares granted may not represent more than 0.6% of the share capital recorded on the date of the Board's decision, it being specified that this maximum number of shares, existing or to be issued, does not include the number of additional shares that may be allocated as the result of an adjustment in the number of shares initially granted following a transaction on the Company's share capital;
4. decides that the maximum nominal amount of the capital increases carried out on the basis of this authorisation will be charged against the total ceiling stipulated in 2) of the ninth resolution approved by the Annual General Meeting of 18 April 2019 or, as applicable, against the ceiling stipulated by a similar resolution that may potentially succeed this ninth resolution during the period in which this authorisation is valid;
5. decides that the number of free shares granted to the Company's executive officers during a financial year under this resolution may not represent more than 10% of the total number of free shares granted during the same financial year;
6. decides that the Board of Directors shall determine the identity of the beneficiaries or categories of beneficiaries of the allocations and the number of free shares granted to each one as well as the conditions to be met in order for the allocation to become binding, and notably the performance conditions, it being stated that the free grant of shares may be carried out without performance conditions as part of an allocation (i) for the benefit of all employees of L'Oréal and, if applicable, of its French and foreign affiliates, or (ii) for the benefit of employees and executive officers of foreign companies subscribing to a capital increase carried out pursuant to the fifteenth resolution of this Annual General Meeting or taking part in an employee shareholder transaction through the disposal of existing shares, or (iii) for the benefit of employees that are not members of the Executive Committee for a maximum of 200 free shares allocated as part of each of the plans decided by the Board of Directors;
7. decides (i) that the grant of such shares to their beneficiaries, for all or part of the shares granted, will become final and binding subject to satisfying the other conditions set at the time of the grant, at the end of a minimum vesting period of four years, and (ii) that the Board of Directors may set, and if applicable decide the duration of, a holding period for the vested shares;
8. decides that the grant of these shares to their beneficiaries will become final and binding prior to the expiry of the above-mentioned vesting periods in the event of disability of the beneficiary corresponding to a classification in the second or third categories provided for in Article L. 341-4 of the French Social Security Code (Code de la sécurité sociale) and that such shares will be freely transferable in the event of disability of the beneficiary corresponding to a classification in the above mentioned categories under the French Social Security Code;
9. authorises the Board of Directors to carry out, where necessary, during the vesting period, adjustments to the number of shares associated with any possible transactions on the Company's share capital under the meaning of Article L. 225-181 of the French Commercial Code, so as to preserve the rights of the beneficiaries;
10. duly notes that this authorisation automatically entails, for the benefit of the beneficiaries of the free shares, the waiver by shareholders of their preferential subscription rights and of the portion of the reserves, profits or share premiums which, where applicable, are necessary for the issue of new shares;
11. delegates full powers to the Board, with the power to delegate further subject to the legal limits, to implement this authorisation.

RESOLUTIONS 14 AND 15: 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 fourteenth 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 to L'Oréal shares, in France, within the scope 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 fifteenth 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.

Under the fourteenth resolution, the issue price may not be higher than the average of the trading prices recorded 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 exceed the legal maximum of 30% of this average, it being specified that the Board of Directors, or its delegated agent, is expressly authorised, if he deems wise, to reduce or eliminate the discount.

Pursuant to the fifteenth resolution, the issue price would be determined under similar terms and conditions to those set for the fourteenth 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 fourteenth and fifteenth 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 2019 through the issue of 5,581,172 new shares, this ceiling being applicable jointly to the twelfth and thirteenth resolutions. The amount of the capital increases that may be carried out on the basis of the fourteenth and fifteenth resolutions will be charged against the total ceiling of 40% of the capital stipulated in 2) of the ninth resolution approved by the Annual General Meeting of 18 April 2019.

Fourteenth 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 rights

The Annual General Meeting, having reviewed the Reports of the Board of Directors and the Statutory Auditors, voting 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, as at 31 December 2019, an increase in the share capital by a nominal amount of €1,116,234.40 by issuing 5,581,172 new shares), it being specified that the cumulative amount of the increases in share capital that may be carried out under this resolution and the fifteenth 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 fourteenth and fifteenth 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 stipulated in 2) of the ninth resolution approved by the Annual General Meeting of 18 April 2019 or, as applicable, against the ceiling stipulated by a similar resolution that may potentially succeed this ninth resolution during the period in which this delegation is valid;
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 the legal maximum of 30% of this average, it being specified that the Board of Directors, or its delegated agent, if it deems appropriate, is expressly authorised to reduce or eliminate the discount, in particular to take into account market practices, 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, for the employer contribution that may be paid pursuant to the Employee Savings Scheme regulations, and/or in repsect 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, to 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 rights 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 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.

Fifteenth 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 scope of an employee share ownership plan

The Annual General Meeting, voting in accordance with the quorum and majority required for Extraordinary General Meetings, having reviewed the Report of the Board of Directors and the Special Report of 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 rights 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 the Chief Executive Officer, setting the opening date of the subscription period, with a maximum discount of 30%, and/or (ii) at the same price as decided on the basis of the fourteenth 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 that would be carried out within the framework 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 2019, an increase in the share capital by a maximum nominal amount of €1,116,234.40 through the issue of 5,581,172 new shares), it being specified that the cumulative amount of the increases in share capital that may be carried out under this resolution and the fourteenth 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 fourteenth and fifteenth 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 stipulated in 2) of the ninth resolution approved by the Annual General Meeting of 18 April 2019;
7. resolves that the Board of Directors will have full powers, to delegate further under the conditions provided for by law, with the possibility to delegate authority on one or more occasions, in particular in order to:
   - decide on the list of beneficiaries, from one or more categories defined above, or the categories of employees who will be beneficiaries of each issue and the number of shares to be subscribed to 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 any 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 16: AMENDMENT TO ARTICLE 8 OF THE ARTICLES OF ASSOCIATION ON THE NUMBER OF DIRECTORS REPRESENTING THE EMPLOYEES

EXPLANATORY STATEMENT

The Annual General Meeting is being asked to make its Articles of Association comply with Article L. 225-27-1 of the French Commercial Code, amended by Law no. 2019-486 of 22 May 2019 concerning the growth and transformation of companies, known as the PACTE law. Now, when the number of Directors is greater than eight, compared with twelve previously, two Directors must be designated representing the employees. This legislative change has no impact on the composition of the L'Oréal Board of Directors which, as at 31 December 2019, had thirteen members, excluding Directors representing the employees, and which has had two Directors representing the employees since July 2014. Article 8 of the Company's Articles of Association, which mentions the previous threshold of twelve Directors, must be amended in order to comply with the law.

Sixteenth resolution: amendment to Article 8 of the Articles of Association on the number of Directors representing the employees

The Annual General Meeting, voting with the quorum and majority required for Extraordinary General Meetings, having reviewed the Report of the Board of Directors, resolves to amend Article 8 of the Company's Articles of Association on the number of directors representing the employees as follows.

Current version of Article 8 of the Articles of Association	New version of Article 8 of the Articles of Association
The Company is administered by a Board of Directors.	The Company is administered by a Board of Directors.
The Board of Directors consists of at most eighteen members appointed by the Annual General Meeting.	The Board of Directors consists of at most eighteen members appointed by the Annual General Meeting.
The length of the terms of office of directors appointed by the Annual General Meeting is four years. By way of exception, the Annual General Meeting may appoint a director for a term of office of one, two or three years, in order to provide for staggered renewal of the directors' terms of office.	The length of the terms of office of directors appointed by the Annual General Meeting is four years. By way of exception, the Annual General Meeting may appoint a director for a term of office of one, two or three years, in order to provide for staggered renewal of the directors' terms of office.
The Board of Directors includes a director representing the employees appointed by the trade union organisation which obtained the most votes in the first round of the elections mentioned in Articles L. 2122-1 and L. 2122-4 of the French Labour Code at the Company and its direct or indirect subsidiaries with their registered office on French territory.	The Board of Directors includes a director representing the employees appointed by the trade union organisation which obtained the most votes in the first round of the elections mentioned in Articles L. 2122-1 and L. 2122-4 of the French Labour Code at the Company and its direct or indirect subsidiaries with their registered office on French territory.
The Board of Directors will include a second Director representing the employees who is appointed by the European Works Council inasmuch as the Board of Directors has more than twelve directors appointed by the Annual General Meeting at the date of such appointment.	The Board of Directors will include a second Director representing the employees who is appointed by the European Works Council known in the L'Oréal Group as the "Instance Européenne de Dialogue Social") inasmuch as the Board of Directors has more than **eight** directors appointed by the Annual General Meeting at the date of such appointment.
If the number of directors elected by the Annual General Meeting to the Board of Directors then falls to twelve or fewer directors, the term of office of the director representing the employees appointed by the European Works Council will continue in force until it expires but will not be renewed.	If the number of directors elected by the Annual General Meeting to the Board of Directors then falls to **eight** or fewer than **eight** directors or less, the term of office of the director representing the employees appointed by the European Works Council will continue in force until it expires but will not be renewed.
The term of office of a director not appointed by the Annual General Meeting is four years and ends at the close of the Ordinary General Meeting held during the year in which that director's term of office expires to review the financial statements for the previous financial year.	The term of office of a director not appointed by the Annual General Meeting is four years and ends at the close of the Ordinary General Meeting held during the year in which that director's term of office expires to review the financial statements for the previous financial year.
In the event that the conditions for application of Article L. 225-27-1 of the French Commercial Code do not continue to apply at the end of a financial year, the terms of office of the directors representing the employees will end at the close of the Annual General Meeting that approved the financial statements for such financial year. .../...	In the event that the conditions for application of Article L. 225-27-1 of the French Commercial Code do not continue to apply at the end of a financial year, the terms of office of the directors representing the employees will end at the close of the Annual General Meeting that approved the financial statements for such financial year. .../...

RESOLUTION 17: 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.

Seventeenth 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.

8.2. STATUTORY AUDITORS' REPORT

8.2.1. Statutory Auditors' report on the share capital reduction by cancellation of purchased shares

(Ordinary and Extraordinary Annual General Meeting of April 21, 2020 – 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.

To the Shareholders,

L'ORÉAL

14, rue Royale

75008 Paris

In our capacity as Statutory Auditors of your Company and in accordance with article L.225-209 of the French Commercial Code (*Code de commerce*), which applies in the event of a share capital reduction by cancellation of shares purchased by a company, we hereby report to you on our assessment of the reasons for and terms and conditions of the planned share capital reduction.

The Board of Directors invites you to delegate, for a period of 26 months as from the date of this Annual General Meeting, the authority to cancel, on one or more occasions, up to a maximum limit of 10% of the share capital as of the date of the cancellation, and within a given period of 24 months, shares purchased pursuant to an authorization for the Company to purchase its own shares in accordance with the aforementioned article. The authorization to purchase shares is submitted for the approval of the Annual General Meeting under the eleventh resolution and would be granted for a period of 18 months.

We performed the procedures that we deemed necessary in accordance with the professional standards applicable in France to such engagements. Those standards require that we ensure that the reasons for and terms and conditions of the planned share capital reductions, which are not considered to affect shareholder equality, comply with the applicable legal provisions.

We have no matters to report on the reasons for and the terms and conditions of the proposed share capital reduction.

Paris-La Défense and Neuilly-sur-Seine, February 17, 2020

The Statutory Auditors

PricewaterhouseCoopers Audit	Deloitte & Associés
Anne-Claire Ferrié	Frédéric Moulin

8.2.2. Statutory auditors' report on the authorisation of free grants of existing shares and/or shares to be issued to employees and executive officers

(Ordinary and Extraordinary Annual General Meeting of April 21, 2020 – 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.

To the Shareholders

L'ORÉAL

14, rue Royale

75008 Paris

In our capacity as the Statutory Auditors of your Company and in accordance with article L.225-197-1 of the French Commercial Code (*Code de commerce*), we hereby report to you on the proposed authorization of free grants of existing and/or newly issued shares to employees and corporate officers of L'Oréal and French or non-French entities related to your Company, within the meaning of article L.225-197-2 of the French Commercial Code, or to certain categories of said employees and corporate officers, a matter submitted for your approval.

The total number of shares likely to be granted under this authorization may not represent more than 0.6% of the Company's share capital as of the date of the Board of Directors' decision, it being specified that the aggregate amount of any share capital increases that may be carried out under this resolution will count towards the maximum limit for share capital increases set in paragraph 2 of the ninth resolution approved by the Annual General Meeting of April 18, 2019.

On the basis of its report, the Board of Directors invites you to authorize it, for a period of 26 months as from the date of this Annual General Meeting, to grant existing and/or newly issued shares on one or more occasions.

It is the role of the Board of Directors to prepare a report on the proposed transaction. It is our responsibility to provide you with our observations, if any, on the information provided to you on the proposed transaction.

We performed the procedures that we deemed necessary in accordance with professional standards applicable in France to such engagements. These procedures consisted in verifying in particular that the proposed terms and conditions of the transaction described in the Board of Directors' report comply with applicable legal provisions.

We have no matters to report on the information provided in the Board of Directors' report, with respect to the proposed authorization to grant free shares.

Paris-La Défense and Neuilly-sur-Seine, February 17, 2020

The Statutory Auditors

PricewaterhouseCoopers Audit	Deloitte & Associés
Anne-Claire Ferrié	Frédéric Moulin

8.2.3. Statutory Auditors' report on the issue of shares and securities granting access to the Company's share capital reserved for members of an employee savings scheme

(Ordinary and Extraordinary Annual General Meeting of April 21, 2020 - Fourteenth 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.

To the Shareholders

L'ORÉAL

14, rue Royale

75008 Paris

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 granting 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 non-French 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 Labour Code (*Code du travail*), who are members of a Company employee savings scheme, 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 Labour 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 share capital increases that may be carried out under this resolution and the fifteenth resolution may not exceed the maximum amount of 1% of the share capital as at the date of this Annual General Meeting, and
- the amount of any share capital increases that may be carried out, either immediately or in the future, under this resolution, will count towards the maximum limit for share capital increases set in paragraph two of the ninth resolution approved by the Annual General Meeting of April 18, 2019.

On the basis of its report, the Board of Directors invites you to delegate, for a period of twenty-six months as from 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 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 granting access to other securities, or issue securities granting access to securities to be issued.

Paris-La Défense and Neuilly-sur-Seine, February 17, 2020

The Statutory Auditors

PricewaterhouseCoopers Audit	Deloitte & Associés
Anne-Claire Ferrié	Frédéric Moulin

8.2.4. Statutory Auditors' report on the issue of shares and securities granting 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 21, 2020 – Fifteenth 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.

To the Shareholders

L'ORÉAL

14, rue Royale

75008 Paris

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 granting 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 Labour Code (*Code du travail*), which have their registered office outside France and/or (ii) UCITS or other entities governed by French or non-French 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 share capital increases that may be carried out under this resolution and the fourteenth resolution may not exceed the maximum amount of 1% of the share capital as at the date of this Annual General Meeting,
- the amount of any share capital increases that may be carried out, either immediately or in the future, under this resolution, will count towards the maximum limit for share capital increases set in paragraph two of the ninth resolution approved by the Annual General Meeting of April 18, 2019.

On the basis of its report, the Board of Directors invites you to delegate, for a period of eighteen months as from 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 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 granting access to other securities, or issue securities granting access to securities to be issued.

Paris-La Défense and Neuilly-sur-Seine, February 17, 2020

The Statutory Auditors

PricewaterhouseCoopers Audit	Deloitte & Associés
Anne-Claire Ferrié	Frédéric Moulin

9

APPENDICES*

* *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.*

** *AMF: Autorité des Marchés Financiers*

9.1. STATUTORY AUDITORS

9.1.1. Auditors

	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	

9.1.2. Fees to Statutory Auditors and members of their networks payable by the Group

See note 15 of the Consolidated financial statements in chapter 5 of this document.

9.2. HISTORICAL FINANCIAL INFORMATION INCLUDED BY REFERENCE (TO BE UPDATED)

In accordance with Article 19 of European regulation EU No. 2017/1129 of 14 June 2017, this 2019 Universal Registration Document contains the following information by reference:

- the consolidated financial statements for the year ended 31 December 2018 prepared in accordance with IFRS and the accompanying Statutory Auditors' Report presented on pages 300 to 303 of the 2018 Registration Document, filed with the French Financial Markets Authority (AMF) on 14 March 2019 under number D. 19-0151, and the information extracted from the 2018 Management Report presented on pages 27 to 37 of the 2018 Registration Document;
- 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 the number D. 18-0124, and the information extracted from the 2017 Management Report presented on pages 26 to 32 of the 2017 Registration Document.

9.3. PERSON RESPONSIBLE FOR THE UNIVERSAL 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.

9.4. DECLARATION BY THE PERSON RESPONSIBLE FOR THE UNIVERSAL REGISTRATION DOCUMENT AND THE ANNUAL FINANCIAL REPORT*

"I declare, having taken all reasonable care to ensure that such is the case, that the information contained in this Universal 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 9.8, 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."

Clichy, 13 March 2020

On the authority of the Chairman and Chief Executive Officer,

Christophe Babule,

Executive Vice-President, Chief Financial Officer

* *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.*

9.5. CROSS-REFERENCE TABLE WITH THE UNIVERSAL REGISTRATION DOCUMENT

In order to facilitate the reading of this Universal Registration Document, the following table provides the page references of the main information required by Annex 1 of European delegated regulation No. 2019/980, completing the European regulation No. 2017/1129.

9.6. 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. 2019 Annual Financial Statements	307-334
2. 2019 Consolidated Financial Statements	235-301
3. 2019 Management Report of the Board of Directors of L'Oréal	393
4. Declaration by the person responsible for the 2019 Annual Financial Report	388
5. Statutory Auditors' Report on the 2019 financial statements	335-339
6. Statutory Auditors' Report on the 2019 consolidated financial statements	302-305
7. Fees of Auditors	296

9.7. CROSS-REFERENCE TABLE WITH THE AMF(1) 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 2013 and 5 December 2014 (see also AFEP-MEDEF Code).

Tables with regard to Remuneration provided for in the AMF's recommendations	Pages
Table No 1. Summary of the remuneration, stock options and performance shares granted to each executive officer	106 2nd table
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Table No 10. Historical information on free grants of shares	351-354 1st table

(1) AMF: Autorité des Marchés Financiers

9.8. 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 2019 Management Report	Pages
The Group's situation and business activities in 2019/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)	32-39
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