

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 2016 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 asked once again to consider certain Governance topics: separation of the duties of Chairman and of Chief Executive Officer, the question of scheduling meetings of the Board of Directors outside the presence of the executive Directors, the appointment of a Lead Director and the conduct of the General Meeting.

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

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

They formulated suggestions for improvements and submitted proposals with regard to strategic themes and subjects which they would like to discuss in further detail in 2017.

The summary of these interviews made by the Secretary of the Board led to an initial report to the Appointments and Governance Committee, and then to the Board of Directors, followed by a debate between the Directors and decisions for 2017.

Firstly, concerning the Board's composition, the Directors issued a very positive assessment. The diversity of the Board, in terms of age, length of tenure, gender and nationality, has been increased. The skills of its members are varied and complementary and cover business development and

finance, marketing, Human Resources, digital and communications. The balance between the Directors who have served for a long time and those who have been appointed more recently makes it possible to combine new viewpoints with consistency of decisions over the long term. All the Directors are active, assiduous in their duties and closely involved. They share the same concern for acting in L'Oréal's long-term interests.

The very high-level exchanges of views are encouraged by a Chairman who is open to ideas and listens to the Directors.

The Board is highly participative, discussions are relaxed and unrestricted and are conducted in detail, and the members are able to speak in a climate of confidence, with great mutual respect. The Directors thus exercised their complete freedom of judgment in 2016 like they did 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 Board is attentive to the handling of conflicts of interest. It also attaches particular importance to analysis of the independence of the Directors.

In 2016, the Board once again appreciated the pace and frequency of its meetings and those of its committees.

The composition of the committees is considered appropriate with the right experts serving on each of them. The in-depth work carried out by all the committees was stressed. Each Director expresses great mutual confidence in the work carried out by his/her colleagues on the other committees. Gender equity is noted with regard to chairing of the committees.

The format of the information provided to it in connection with business activities in general and the main events in the life of the Group is satisfactory. Making documentation available prior to Board or Committee meetings, in compliance with the requirements of confidentiality and the time constraints with which the Company is faced, boosts the quality of the debates.

The Board considered that its driving role for the Group's strategic-decision making was fulfilled satisfactorily. It welcomes the fact that the topics handled and the presentations made by management are addressed from a strategic angle favouring forward thinking. The in-depth understanding of the Group's issues and development prospects, in a profoundly changing cosmetics market, thus made it possible for the Board to give a well-informed opinion on the numerous acquisition projects that were submitted to it by the General Management in 2016.

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

The Board's trip to New York in June 2016 was considered positive and instructive. It enabled the Board to gain a better understanding of the American market and the challenges faced by L'Oréal USA. The Directors were able to talk with the local teams and confront their strategic vision with its operational implementation.

Concerning Governance topics, the Directors consider that the method of organisation of the General Management chosen, with a Chairman and Chief Executive Officer, is adapted to the situation at L'Oréal. The balance of powers is properly ensured.

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

They consider the introduction of executive sessions as positive. Since 2016, the Directors meet at least once a year without the presence of the executive officer, the Directors representing the employees and any other Group employee.

For 2017, various decisions with regard to improvements were made. They concern, in particular, the posting online of the information and presentations by management on the dedicated digital platform and the format and frequency of the press reviews.

The Directors also expressed the desire to go into certain points in more detail. They made proposals with regard to the themes to be included on the Board's agenda in 2017. After discussion, a list was adopted of the subjects considered to be a priority.

Concerning the Board's self-evaluation procedure in 2017, the Board did not think it appropriate, like in 2016, to entrust this evaluation to an external body, considering that the current process was satisfactory. The interview guide will be re-examined once again by the Appointments and Governance Committee which will supervise the process in liaison with the Secretary of the Board. The summary of the interviews with the Directors will be discussed at a Board meeting as is the case every year.

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

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

L'Oréal's Board of Directors refers to the principles of corporate governance as presented by the AFEP-MEDEF Code. The Internal Rules specify the *modus operandi* of the Board, in the interests of the Company and of all its shareholders, and those of its committees, whose members are Directors to whom it gives preparatory assignments for its work. The latest updates of the Internal Rules were made on December 7th, 2016 and February 9th, 2017. They concern the rules with regarding to the holding of a minimum number of L'Oréal shares by the Directors, stock market ethics following the entry into application of the European Market Abuse Regulation, the remit of the Audit Committee following the entry into force of the Ordinance of March 17th, 2016 and the introduction of meetings without the presence of the executive officers. As was the case for previous versions, the Internal Rules are made public in full in this chapter.