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Cover: L’Oréal dedicates the 2016 Annual Report cover page to the American make-up brand Urban Decay, “prestige beauty brand winner of the year” by WWD magazine. This image was chosen from the Vice Lipstick launch campaign, which is already a worldwide success.
89,300 employees

A global flotilla of 34 complementary brands

473 patents registered in 2016

1st cosmetics group worldwide (1)

140 countries

25.84 billion euros of sales

4.54 billion euros in operating profit (2)

Commitments for 2020 “Sharing Beauty With All”

(1) Source: WWD, “Beauty’s Top 100”, April 2016. (2) At 31 December 2016.
2016 was another good year for L’Oréal. We accelerated our growth, outperformed the market once again and increased our worldwide leadership of the beauty industry.

2016 was another good year for L’Oréal. Three of our Divisions, L’Oréal Luxe, Consumer Products and Active Cosmetics, made great progress and we gained market shares in each of our three strategic regions. 2016 was also a great vintage in terms of emblematic innovations and strategic acquisitions. With IT Cosmetics, Atelier Cologne, Saint-Gervais Mont Blanc and CeraVe\(^1\), we made four very diverse acquisitions that perfectly complement our global flotilla of brands and allow us to respond to new beauty desires. And, last but not least, we delivered a compelling set of results that once again prove the robustness of L’Oréal’s economic model and its powerful capacity to create value.

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(1) Acquisition announced on 6 January 2017 and finalised on 6 March 2017.
2016 was also a year of great progress in the transformation of our group, with L’Oréal becoming even more digital, efficient, agile and sustainable.

We increased our digital lead. Our e-commerce sales grew by +33% (1) and are now equivalent to the group’s 4th largest country. More than 30% of our advertising is now digital, with even more targeted and efficient communications. We have recruited 1,600 experts and trained almost ten times that amount in-house. Across all Divisions, digital is amplifying the power of our brands and bringing them even closer to our consumers.

We also continued our Industry 4.0 transformation programme, which integrates all the new opportunities that digitalisation offers. There is a true industrial revolution taking place throughout our entire value chain.

We also profoundly transformed ourselves to meet our sustainable development targets, set by our “Sharing Beauty With All” initiative. 2016 was a pivotal year for our 2020 objectives and a year of major achievements, particularly in sustainable innovation and sustainable production. We achieved and even went beyond our goal of reducing CO₂ emissions by 60%, four years ahead of schedule (2).

If we have been working hard to transform our company into a New L’Oréal it is because we believe that we are right now at the dawn of a Bright New World of Beauty.

The world is changing around us at an amazing speed, the World of Beauty is also changing radically. As digital and social media become omnipresent in our lives, we are entering into the era of “social beauty”. An era where beauty is becoming even more essential. The way you look will be more important than ever in expressing your personality, crafting your image of yourself, and interacting positively with others.
This Bright New World of Beauty is a unique opportunity for L’Oréal, since we are uniquely positioned to drive and lead this new era.

First, because our superiority in Research and Innovation gives us an edge in the quality, efficacy, safety and sincerity of our products. These qualities are now, more than ever, required by consumers. Our capacity for innovation also includes services such as the Makeup Genius app, the My UV Patch or the connected brush by Kérastase.

Furthermore, because we are able to track emerging trends and quickly offer products that meet these new aspirations, such as make-up, natural beauty, or personalisation desires. Moreover, because of our proximity and the quality of our interactions with consumers. Digital, in particular, offers opportunities for an ongoing dialogue and personal advice. With over one billion viewers on our brand websites and social media pages, L’Oréal is clearly the champion of connected beauty. We are also currently exploring all the direct-to-consumer channels, from e-commerce to boutiques opened by some of our brands.

Finally, our unique characteristics appear to be perfectly fitted to this New World of Beauty.

Our global flotilla of brands, each of which addresses specific consumer needs; Our presence across all channels, categories, price points and regions of the world; Our agile and flexible organisation, strategically concentrated but operationally decentralised; And, last but not least, our entrepreneurial culture and highly engaged teams.

We, at L’Oréal, plan to make the most of this new golden age of beauty. More than any other company, since we are and will be the beauty company, offering the best of beauty to all women and men living on this planet, thus fulfilling its mission: Beauty for All.
OUR MISSION

**Beauty for All**

Offering all women and men worldwide the best of cosmetics innovation in terms of quality, efficacy and safety to satisfy all their desires and all their beauty needs in their infinite diversity.

OUR STRATEGY

**Universalisation**

L’Oréal has chosen a unique strategy: Universalisation. It means globalisation that captures, understands and respects differences. Differences in desires, needs and traditions. To offer tailor-made beauty, and meet the aspirations of consumers in every part of the world. L’Oréal is driven by this vision of the world.
L’Oréal’s flotilla of brands is organised by Division, which each develop a specific vision of beauty by consumption universe and distribution channel.
The Board of Directors

L’Oréal’s Governance is solid, perfectly in line with the challenges of tomorrow.

JEAN-PAUL AGON
Chairman and Chief Executive Officer

Stable governance in the swiftly changing world of cosmetics

The composition of the Board reflects L’Oréal’s shareholding structure and guarantees the interests of all its shareholders. Alongside the Chairman and Chief Executive Officer, there are five directors who represent L’Oréal’s major shareholders, seven independent directors and two directors representing the employees.

The diversity and complementarity of the directors’ industrial, financial and entrepreneurial expertise equip them to quickly and thoroughly comprehend the development challenges facing L’Oréal, the leader of a globalised and highly competitive cosmetics market in which the need to innovate and adapt is crucial. Most of the directors have experience managing international groups at the highest level. In 2016, the Board’s composition became even more diversified, with a higher proportion of women and greater internationalisation. The Board’s women directors now represent 46% of the total, and 50% of the Committees are chaired by women independent directors.

Proactive and committed directors

Extremely determined and proactive, the directors are convinced that stringent governance creates value for the company, and they always keep the company’s long-term interests first in mind as they voice their opinions. The directors play a dynamic and assiduous role in the work of the Board and its four Committees, which actively contribute to preparing the Board’s deliberations. The Board closely monitors changes in best practices and, to ensure that constant progress is achieved, carries out a full review of its modus operandi and organisation every year.

Ethics at the heart of L’Oréal’s governance and commitments

The Board of Directors places great importance on respecting L’Oréal’s ethical principles - Integrity, Respect, Courage and Transparency - and more generally the Code of Ethics. In 2016, the Senior Vice-President and Chief Ethics Officer presented the ethics policy and the initiatives taken in this field, as well as their results. The Board considers these policies to be an integral part of L’Oréal’s growth model; it supports their implementation and regularly measures the advances made.
JEAN-PAUL AGON
Chairman and Chief Executive Officer
since 18 March 2011
(term of office renewed in 2014)

PETER BRABECK-LETMATHE
Vice-Chairman of the Board
(term of office renewed in 2013)

JEAN-PIERRE MEYERS
Vice-Chairman of the Board
(term of office renewed in 2016)

BÉATRICE GUILLAUME-GRABISCH
(term of office renewed in 2016)

ANA SOFIA AMARAL
(since 15 July 2014)

CHARLES-HENRI FILIPPI
(term of office renewed in 2015)

BELÉN GARIJO
(since 17 April 2014)

BERNARD KASRIEL
(term of office renewed in 2016)

JEAN-VICTOR MEYERS
(term of office renewed in 2016)

FRANÇOISE BETTENCOURT MEYERS
(term of office renewed in 2013)

SOPHIE BELLON
(since 22 April 2015)

BÉATRICE GUILLAUME-GRABISCH
(since 20 April 2016)

EILEEN NAUGHTON
(since 20 April 2016)

JEAN-PAUL AGON
Chairman and Chief Executive Officer
since 18 March 2011
(term of office renewed in 2014)

BÉATRICE GUILLAUME-GRABISCH
(since 20 April 2016)

JEAN-PAUL AGON
Chairman and Chief Executive Officer
since 18 March 2011
(term of office renewed in 2014)

BÉATRICE GUILLAUME-GRABISCH
(since 20 April 2016)
GOVERNANCE

The Executive Committee, the group’s management body

The Executive Committee members are in charge of the operational Divisions and functional Departments, as well as the geographic Zones. They implement the strategic guidelines and direct the activities of L’Oréal all over the world. In 2016, Nathalie Roos and Vianney Derville joined the Executive Committee as President Professional Products Division and Executive Vice-President Western Europe Zone respectively. Alexis Perakis-Valat was appointed President Consumer Products Division and Jochen Zaumseil Executive Vice-President Asia, Pacific Zone.
Members of the Executive Committee of L’Oréal

1 • JEAN-PAUL AGON
Chairman and Chief Executive Officer

2 • LAURENT ATTAL
Executive Vice-President
Research and Innovation

3 • VIANNEY DERVILLE
Executive Vice-President
Western Europe Zone

4 • NICOLAS HIERONIMUS
President Selective Divisions

5 • BARBARA LAVERNOS
Executive Vice-President Operations

6 • BRIGITTE LIBERMAN
President Active Cosmetics Division

7 • ISABEL MAREY-SEMPER
Executive Vice-President Communications and Public Affairs

8 • CHRISTIAN MULLIEZ
Executive Vice-President Chief Financial Officer

9 • ALEXIS PERRAKIS-VALAT
President Consumer Products Division

10 • ALEXANDRE POPOFF
Executive Vice-President
Eastern Europe and Africa, Middle East Zones

11 • LUBOMIRA ROCHET
Chief Digital Officer

12 • NATALIE ROOS
President Professional Products Division

13 • FRÉDÉRIC ROZÉ
Executive Vice-President Americas Zone

14 • JÉRÔME TIXIER
Executive Vice-President Human Relations and Advisor to the Chairman

15 • JOCHEN ZAUMSEIL
Executive Vice-President Asia, Pacific Zone
OUR COMMITMENTS
“Sharing Beauty With All”

INNOVATING SUSTAINABLY
By 2020, 100% of L’Oréal products will have an improved environmental or social profile, for example thanks to the reduction of the environmental footprint of formulas, the respect of biodiversity or eco-design of packaging.

PRODUCING SUSTAINABLY
By 2020, L’Oréal will have reduced the environmental footprint of its plants and distribution centres by 60% (1), through the reduction of CO₂ emissions (2), water consumption and waste generation (3).

LIVING SUSTAINABLY
L’Oréal aims to empower its consumers to make sustainable choices. To achieve this goal, the group is pursuing a number of initiatives such as assessing the footprint of each product and using the brands’ influence to raise consumer awareness.

DEVELOPING SUSTAINABLY
Sharing its growth with its stakeholders is a priority for L’Oréal, which fosters access to work for people from underprivileged communities, involves suppliers in its sustainable development commitments and ensures that its employees around the world benefit from the best social practices.

(1) From a 2005 baseline. (2) In absolute terms. (3) Per unit per finished product.
OUR COMMITMENTS
The L’Oréal Foundation

The L’Oréal Foundation is committed to supporting and empowering women worldwide. It helps them to pursue careers in the fields of beauty and science, through two specific programmes: “For Women in Science” and “Beauty for a Better Life”.

“FOR WOMEN IN SCIENCE”
Celebrating women in science who have the power to change the world
The “For Women in Science” programme was set up in 1998 by L’Oréal in partnership with UNESCO with one aim in mind: to ensure that women achieve equal representation with men in all scientific disciplines, so that research benefits from women’s intelligence, creativity and drive.

“BEAUTY FOR A BETTER LIFE”
The Maison Rose in Bordeaux
In February, the first-ever Maison Rose opened its doors in Bordeaux, thanks to support from the L’Oréal Foundation. Based on a concept invented with women cancer sufferers, the house provides them with a space that fosters a sense of well-being. A range of activities are available to help women feel better during and after treatment, including beauty advice and care from a specially trained socio-aesthetician.
Ethics at the heart of L’Oréal’s commitments

L’Oréal was built on strong ethical principles that guide its development and contribute to building its reputation: Integrity, Respect, Courage and Transparency. These principles are namely the foundation of the group’s policies in terms of compliance, responsible innovation, environmental stewardship, social responsibility and philanthropy.

Longstanding commitment to the United Nations

L’Oréal has been a signatory since 2014 of the Women’s Empowerment Principles of UN Women, an initiative which aims to promote gender equality, and the empowerment of women in the workplace, market place, and the community. In 2016, Jean-Paul Agon, Chairman and CEO of L’Oréal, received the Women’s Empowerment Principles CEO Leadership Award. On 1 January 2016, the 17 Sustainable Development Goals for 2030 – adopted by world leaders in September 2015 at a historic United Nations summit meeting – came into force. As a responsible citizen, L’Oréal is already strongly committed to 14 out of the 17 goals.

L’Oréal recognised by the Ethisphere Institute for the 7th time

L’Oréal has been recognised as one of the World’s Most Ethical Companies 2016 by the Ethisphere Institute, a global leader in defining and advancing the standards of ethical business practices. Receiving this honour for the 7th time underscores L’Oréal’s commitment to leading ethical business standards.

The global network of Ethics Correspondents

L’Oréal has set up a global network of Ethics Correspondents to make sure each employee has a local point of contact whilst favouring the normal route for handling concerns by management.
8th edition of Ethics Day

Ethics Day has become a key date on the group’s calendar. The central event is a worldwide webchat with Chairman and CEO Jean-Paul Agon, who answers live hundreds of questions on ethics sent to him by L’Oréal employees. The General Manager of each country also organises a local session. In 2016 more than 60% of L’Oréal employees took part in Ethics Day, asking more than 4,800 questions. Employees were also able to participate in a global crowdsourcing initiative, to gather collective intelligence on the theme of “How to better Work Together”. More than 1,100 suggestions were sent in, and over 4,000 votes cast.
The world of beauty in 2016

The worldwide cosmetics market, estimated at a total of 205 billion euros, was stronger in 2016, with growth of +4.0%\(^{(1)}\). In this supply-driven market, spurred by innovation, quality and perceived results, L’Oréal strengthened its leadership\(^{(2)}\).

**Growth of the worldwide cosmetics market over ten years\(^{(1)}\)**

**Breakdown of the market by geographic Zone\(^{(1)}\)**

- **36.9%** Asia, Pacific
- **24.8%** North America
- **19.3%** Western Europe
- **10.2%** Latin America
- **6.0%** Eastern Europe
- **2.9%** Africa, Middle East

**Breakdown of the market by product category\(^{(1)}\)**

- **36.3%** Skincare
- **22.9%** Haircare
- **18.2%** Make-up
- **12.0%** Fragrances
- **10.5%** Hygiene products

**Acceleration of online sales**

+20.7% growth in worldwide online sales\(^{(1)}\)

11% share of selective cosmetics market e-commerce\(^{(1)}\)

**Main worldwide players in sales (in billions of USD\(^{(2)}\))**

- **L’ORÉAL** 28.02
- **SHISEIDO** 7.11\(^{(4)}\)
- **UNILEVER** 20.47\(^{(4)}\)
- **ESTÉE LAUDER** 11.10
- **PROCTER & GAMBLE** 17.80\(^{(4)}\)

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\(^{(1)}\) Source: L’Oréal 2016 estimates of the worldwide cosmetics market in net manufacturer prices. Excluding soaps, oral hygiene, razors and blades. Excluding currency effects.

In all geographic Zones, the make-up market is growing faster than the cosmetics market (1)

**Record growth** (1)

+8.4%

**BOOM IN MAKE-UP MARKET**

For the fourth consecutive year, the make-up category drove cosmetics market growth worldwide.
The reasons behind this swift expansion across all regions and beauty sectors are analysed in detail below.

**New Markets**

North America

Western Europe

**Powerful growth potential**

PENETRATION RATES STILL RELATIVELY MODEST IN SOME GEOGRAPHICAL AREAS

**UNITED STATES**

68%  

**FRANCE**

60%

**BRAZIL**

50%

**CHINA**

28%

% of women who use at least one lip make-up product per year (4)

**Lipstick hits the headlines**

**A star segment**

+13.6% (3) GROWTH

**1.5 BILLION LIP MAKE-UP PRODUCTS SOLD PER YEAR** (3)

(1) Source: L’Oréal 2016 estimates of the worldwide cosmetics market in net manufacturer prices. Excluding soaps, oral hygiene, razors and blades. Excluding currency effects.

New generations reinvent make-up

The make-up boom is driven by the selfie generation, and the fast-growing use of social media, which focuses on appearance, self-expression and presentation. The new generations are reinventing uses, giving trends their own spin, and creating buzz for new looks.

Who are the new make-up consumer generations?

<table>
<thead>
<tr>
<th>New generations have a significant beauty spending budget</th>
<th>The new generations set and follow the trends</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>FRANCE</strong> Per capita</td>
<td><strong>MILLENIALS</strong> born between 1980 and 2000</td>
</tr>
<tr>
<td>19-24 year-olds: $42</td>
<td><strong>GENERATION Z</strong> born between 1995 and 2010</td>
</tr>
<tr>
<td><strong>CHINA</strong> Per capita</td>
<td></td>
</tr>
<tr>
<td>14-18 year-olds: $77</td>
<td></td>
</tr>
<tr>
<td>19-24 year-olds: $85</td>
<td></td>
</tr>
<tr>
<td><strong>UNITED STATES</strong> Per capita</td>
<td></td>
</tr>
<tr>
<td>14-18 year-olds: $37</td>
<td></td>
</tr>
<tr>
<td>19-24 year-olds: $49</td>
<td></td>
</tr>
</tbody>
</table>

**L’ORÉAL IS IDEALLY PLACED TO SEIZE THE POTENTIAL OF THE MAKE-UP MARKET**

- **L’ORÉAL PARIS AND MAYBELLINE NEW YORK**
  The two top worldwide make-up brands

- **NYX PROFESSIONAL MAKEUP**
  The highest growth in the market

- **LANCÔME, YVES SAINT LAURENT, GIORGIO ARMANI, URBAN DEcAY AND SHU UEMURA**
  Emblematic signatures with complementary positioning in the Luxury sector

- **ESSIE**
  A specialist nail care and varnish brand

- **IT COSMETICS**
  A newcomer to the portfolio: a skincare make-up brand developed with plastic surgeons

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(1) Source: Ipsos, 2015 qualitative study. “Only include the beauty products you buy with your own money and not products bought for you by other people.”
A robust and balanced business model

The group achieved a significant growth in sales and robust profits in 2016. Operating margin and cash flows have set new records, confirming that L’Oréal’s business model is set to deliver robust performance and create significant value.

Growth in sales in all Divisions and all geographic Zones

Consolidated sales

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

(2) Sales achieved on the brands’ own websites and estimated sales achieved by the brands on retailers’ websites (non-audited data).

Weight of digital in sales

1.7 billion euros of sales in e-commerce

6.5% of consolidated sales in e-commerce

+32.7% of like-for-like growth in e-commerce
Breakdown of 2016 operational Divisions’ sales

**BY DIVISION**

- **48.1%** Consumer Products
- **30.8%** L’Oréal Luxe
- **13.6%** Professional Products
- **7.5%** Active Cosmetics
- **12.1%** Hair colourants
- **9.5%** Fragrances
- **4.4%** Other

**BY GEOGRAPHIC ZONE**

- **32.1%** Western Europe
- **39.4%** New Markets:
  - 22.6% Asia, Pacific
  - 7.4% Latin America
  - 6.3% Eastern Europe
  - 3.1% Africa, Middle East
- **28.5%** North America
- **22.6%** Asia, Pacific
- **7.4%** Latin America
- **6.3%** Eastern Europe
- **3.1%** Africa, Middle East

**BY BUSINESS SEGMENT**

- **28.5%** Skincare
- **26.4%** Make-up
- **19.2%** Haircare
- **12.1%** Hair colourants

Record operating margin, representing 17.6% of sales

**Operating profit**

<table>
<thead>
<tr>
<th>Year</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value (in millions of euros)</td>
<td>3,558</td>
<td>3,760</td>
<td>3,891</td>
<td>4,388</td>
<td><strong>4,540</strong></td>
</tr>
</tbody>
</table>

*Change: +3.5%* 

**Net profit excluding non-recurring items after non-controlling interests**

<table>
<thead>
<tr>
<th>Year</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value (in millions of euros)</td>
<td>2,861</td>
<td>3,032</td>
<td>3,125</td>
<td><strong>3,490</strong></td>
<td>3,647</td>
</tr>
</tbody>
</table>

*Change: +4.5%* 

**Earnings per share**

<table>
<thead>
<tr>
<th>Year</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value (in euros)</td>
<td>4.73</td>
<td>4.99</td>
<td>5.34</td>
<td><strong>6.18</strong></td>
<td>6.46</td>
</tr>
</tbody>
</table>

*Change: +4.6%*
A balanced operating profitability

Profitability by Division
(as % of Division sales)

- Consumer Products: 20.2%
- L'Oréal Luxe: 21.2%
- Professional Products: 20.3%
- Active Cosmetics: 23.2%

Profitability by geographic Zone
(as % of Zone sales)

- Western Europe: 22.9%
- North America: 19.6%
- New Markets: 19.7%

Total operational Divisions’ profitability: 20.7%

Solid balance sheet

- Shareholders’ equity: 68.8% of total assets
- Net cash surplus of 481 million euros
- Capital expenditure: 5.4% of sales

A dynamic shareholder return policy

Dividend per share
(in euros)

- 2012: €2.30
- 2013: €2.50
- 2014: €2.53
- 2015: €2.97
- 2016: €3.41

- 2016: €3.63 = Preferential dividend of +10% for shareholders who have held shares in registered form for two years

At 31 December 2016

- €173.40 Share price
- €97.4 Bn Market capitalisation

(1) Before non-allocated: before central group expenses, fundamental research expenses, stock options and free grant of shares expenses and miscellaneous items. (2) For shareholders who continuously hold their shares in registered form for a minimum of two full calendar years, up to a maximum of 0.5% of the capital for the same shareholder. (3) Dividend proposed at the Annual General Meeting of 20 April 2017. (4) Pay-out ratio based on diluted net profit excluding non-recurring items, after non-controlling interests, per share. (5) Pay-out ratio based on diluted net profit excluding non-recurring items, after non-controlling interests, per share.

(6) On the number of shares at 31 December 2016, i.e. 561,855,741 shares.
A dynamic acquisitions policy

Ever since it was founded more than 100 years ago, the L’Oréal group has been building, through a succession of targeted acquisitions, a global flotilla of emblematic and complementary brands. Today it is the most powerful and diversified range of brands in the beauty industry, and drives the group’s performance in a long-term perspective.

Find out how acquisitions enrich L’Oréal’s flotilla of brands, to drive future organic growth

L’Oréal consolidated sales in billions of euros

Major acquisitions in 2016

**IT Cosmetics**, a skincare make-up brand

IT Cosmetics is one of the fastest-growing American selective beauty brands. Created by Jamie Kern Lima and Paulo Lima, the brand was developed in conjunction with renowned plastic surgeons to provide skincare make-up products with a “problem-solution” approach. It is now part of the L’Oréal Luxe brand portfolio.

**Atelier Cologne**, a niche perfume specialist

The brand has a distinctive offering of concentrated and refreshing pure perfumes, or “colognes absolues”. Atelier Cologne has joined the prestigious brands of L’Oréal Luxe, such as Maison Margiela and the exclusive collections of Giorgio Armani and Yves Saint Laurent, in the high-growth alternative fragrances segment.
“Sharing Beauty With All” 2016 indicators

2016 is the third year of implementation of the social responsibility and sustainability programme “Sharing Beauty With All”, which aims to make L’Oréal an exemplary company in sustainable innovation, production and consumption, and in sharing growth with all its stakeholders.

82% of new products analysed have an improved social or environmental profile

-67% CO₂ emissions

-48% water consumption

-35% waste generation

90% of the brands have evaluated their environmental or social impact

46% of the brands have conducted a consumer awareness initiative

More than 67,500 people from socially and financially underprivileged communities were provided with access to work

83% of the group’s strategic suppliers have been evaluated and selected based on their environmental and social performance

88% of the group’s permanent employees have healthcare coverage that reflects best practices in their country of residence

77% of the group’s employees attended at least one training session in 2016

To find out more: www.sharingbeautywithall.loreal.com

(1) New products, i.e. those for which new formulas have been developed and which are produced for the first time in the group’s factories, or products whose packaging was modified/renovated in 2016. (2) In the plants and distribution centres. In absolute value. Period 2005-2016. (3) In the plants and distribution centres. Per unit of finished product. Period 2005-2016. (4) In the plants and distribution centres. In absolute value. Period 2005-2016. Transportable waste (excluding reusable packaging rotation). (5) Calculated as a proportion of 2015 consolidated sales.
Seizing the potential of every market

In a favourable cosmetics market, L’Oréal in 2016 once again strengthened its position as the worldwide leader in beauty(1), thanks to market share gains in its three main geographic Zones – Western Europe, North America and the New Markets.

**Western Europe**
L’Oréal once again extended its leadership in Western Europe, despite the difficult context in France. The group made strong market share gains in the United Kingdom, where it posted double-digit growth, and outperformed the market in Germany and Spain. The sales of the Consumer Products Division accelerated at the end of the year.

- **+2.4%**
  
  Like-for-like growth in Western Europe(2)

**North America**
2016 was a year of acceleration in North America for L’Oréal, which is consolidating its leadership of the American beauty market(3). The Consumer Products Division made outstanding market share gains. L’Oréal Luxe expanded strongly thanks to the successes of Lancôme, Urban Decay, Yves Saint Laurent and IT Cosmetics.

- **+5.8%**
  
  Like-for-like growth in North America(2)

- **14.0%**
  
  L’Oréal market share in North America(2)
Asia, Pacific
L’Oréal had a good year in Southern Asia and the Pacific region, thanks to buoyant markets in Indonesia, Thailand and Australia. Taiwan and South Korea also posted good growth. In China, L’Oréal Luxe achieved double-digit growth, but the Consumer Products Division, in a transitional phase, slowed.

+3.6%
LIKE-FOR-LIKE GROWTH IN ASIA, PACIFIC(2)

9.5%
L’ORÉAL MARKET SHARE IN ASIA, PACIFIC (EXCLUDING JAPAN)(3)

Latin America
L’Oréal made substantial market share gains in Latin America, especially in Mexico, Colombia and Peru, thanks to the dynamic growth of the make-up brands Vogue, Maybelline New York and L’Oréal Paris. In Brazil, the Active Cosmetics Division outperformed the market and the Consumer Products Division benefited from the successful integration of Niely.

+11.1%
LIKE-FOR-LIKE GROWTH IN LATIN AMERICA(2)

8.8%
L’ORÉAL MARKET SHARE IN LATIN AMERICA(3)

Eastern Europe
The group had a very good year in Eastern Europe. Russia, Poland and Ukraine drove growth in this Zone. The Professional Products Division, L’Oréal Luxe and the Consumer Products Division all outperformed their markets.

+10.4%
LIKE-FOR-LIKE GROWTH IN EASTERN EUROPE(2)

12.8%
L’ORÉAL MARKET SHARE IN EASTERN EUROPE(3)

Africa, Middle East
All the Divisions consolidated market share in Africa, Middle East. L’Oréal sales slowed at the end of the year, particularly because of Saudi Arabia. Egypt and Pakistan however maintained their good growth rates.

+7.9%
LIKE-FOR-LIKE GROWTH IN AFRICA, MIDDLE EAST(2)

13.0%
L’ORÉAL MARKET SHARE IN AFRICA, MIDDLE EAST (IN COUNTRIES WHERE THE GROUP OPERATES)(3)

Make-up leading the way

ALEXIS PERAKIS-VALAT
President
Consumer Products Division

“A year of acceleration and innovations for the Division”

The headline news in 2016 was the acceleration of our growth, at +4.4% (2), reflecting a string of game-changing innovations and the success of our two strategic focuses: make-up and haircare. The Consumer Products Division had a very good year in North America, where it posted record market share. Growth in Western Europe accelerated, with good results in Germany, the United Kingdom and Spain. It also increased in the New Markets, with good performances in Latin America, Eastern Europe, Southern Asia and in the Africa, Middle East Zone.

SUCCESS OF OUR TWO STRATEGIC FOCUSES

Make-up, with growth of +10.3% (2), is the Division’s flagship category: our four brands increased sales and contributed to growth. This clearly illustrates the strength of our portfolio of complementary brands: Maybelline New York, the world’s number 1 make-up brand (3), which makes New York style accessible to consumers; L’Oréal Paris, the number 2 in make-up worldwide (3), which combines everything that is best in Parisian make-up style and know-how; NYX Professional Makeup, the cult brand for make-up fans; and Essie, the nail varnish brand with its iconic colours. Meanwhile, the Division tapped into the global natural haircare trend as it continued the global roll-out of Ultra Doux by Garnier, the brand that posted the highest growth in haircare in 2016.

LOVE BRANDS (4) AND E-COMMERCE

Thanks to their strong presence on social networks, a strategy of creating attractive and authentic content, and connected beauty services like the Makeup Genius app, today more than ever, our brands are “digital love brands” (4). The Division’s e-commerce sales are growing strongly at +30.7%, with good performances in China, where online sales already account for 28.2%, and by the United Kingdom, where they are up by 62.1% (1).

(1) Sales achieved on the brands’ own websites and estimated sales achieved by the brands corresponding to sales through retailers’ websites (non-audited data). Like-for-like. (2) Like-for-like. (3) Source: Distributor panels Nielsen/IRI/Intage/RTRI, market share value 2016. (4) Internet users’ favourite brands.
NEW BEAUTY STEPS

The Consumer Products Division is innovating with accessible products that change consumers’ everyday routines and beauty rituals. From concealing roots to micellar waters and clay or tissue beauty masks: 2016 was a great vintage thanks to a series of innovations.

1 - MAGIC RETOUCH BY L’ORÉAL PARIS
This innovative product temporarily covers roots and grey hair by matching hair colour, and disappears after shampooing.

2 - PURE CLAY BY L’ORÉAL PARIS
Each mask in the range provides a tailor-made solution, adapted to the needs of each skin type.

3 - MICELLAR CLEANSING WATER BY GARNIER
This product combines micellar water and make-up removal oils to ensure perfect skin cleansing, even with waterproof make-up.

An instant root spray
In 2016, L’Oréal Paris offered its consumers a completely new hair colour service: a spray that colours and conceals grey roots in a few seconds. With this launch, L’Oréal Paris is further strengthening its market leader position in the hair colour segment.

Clay and tissue beauty masks
With Pure Clay, L’Oréal Paris offers both women and men the possibility of “Multi-Masking” that is combining different masks in the range to suit each zone of the face. Pure Clay masks are already contributing to L’Oréal Paris skincare growth in Western Europe. Garnier is launching its first Hydra Bomb tissue mask, a cosmetics trend inspired by Asian beauty traditions. This new well-being and beauty routine fits the Garnier brand universe like a glove.

Garnier takes micellar waters into the mainstream
2016 was also a year of continuing worldwide success for Garnier’s Micellar range. Micellar Cleansing Water Sensitive Skin Solution is already a success in numerous countries, and this year Garnier launched Micellar Cleansing Water.
INCREDIBLE SUCCESS FOR NYX PROFESSIONAL MAKEUP

With sales quadrupling in just two years, the American brand NYX Professional Makeup posted spectacular growth. It continued to extend its network of beauty fans all over the world, thanks to its strong online presence and a host of successful launches. The brand is now present in 45 countries in North America, Europe and Asia, Pacific.

GLOBAL ROLL-OUT FOR ULTRA DOUX

Ultra Doux by Garnier posted very good growth in 2016 as it continued its international roll-out in countries including the United States, China and India. The brand provides the ideal response to increasingly strong consumer demand for natural haircare. The Ultra Doux Delicate Oat line is a worldwide success story.

+61.9%

ULTRA DOUX BY GARNIER LIKE-FOR-LIKE SALES GROWTH

“Glossy Talk”, a successful web series

Maybelline New York has launched its web series “Glossy Talk” in several countries, and in 2016 the series was viewed some 35 million times.

Digital love brands

The Division’s brands have a very high profile on social media and engage strongly with their communities. Maybelline New York has more than 30 million followers on Facebook and L’Oréal Paris some 25 million.

The hottest trends within reach thanks to Maybelline New York

The American brand was boosted by performances in face make-up, especially in the strobing segment with Master Strobing Stick, and in lip make-up with Vivid Matte Liquid, highly successful in France and the United Kingdom.

(1) Source: SocialBakers. (2) Internet users’ favourite brands. (3) Source: statistics provided by social networks. (4) Make-up technique used to layer highlights on the face to create an illuminated complexion.
L’Oréal Luxe posted a very good year in 2016, with growth at +6.9% and market share gains on all continents. Western Europe performed well, while North America had an outstanding year and the New Markets delivered an excellent performance with double-digit growth in Russia, Japan, Southern Asia and China. Make-up became L’Oréal Luxe’s number 1 growth driver. We strengthened our brand portfolio with two strategic acquisitions: in make-up, IT Cosmetics, an American brand in the selective beauty segment, which experienced the strongest growth in the sector; and in fragrances, Atelier Cologne, a brand whose expertise in the niche perfume segment perfectly complements our collections.

**FLAGSHIP BRANDS ALL OVER THE WORLD**

As the world number 1 luxury women’s brand, Lancôme moved into 2nd place in the American selective market. Urban Decay continued its global roll-out, with store openings in 11 new countries and the successful Vice Lipstick launch. Kiehl’s continued to grow. The market share of alternative brands and their contribution to growth increased. In Asia, our designer brands Yves Saint Laurent and Giorgio Armani posted outstanding growth. Yves Saint Laurent had an exceptional year, with sales exceeding one billion euros. Our strength is our ability to develop and roll out a portfolio of complementary brands that appeals to all regions of the world and all types of consumers.

**REACHING NEW CONSUMERS ONLINE**

Today more than ever, luxury consumers focus on a new interactive space: their smartphones. To personalise our services, we strive to get to know them better and to enhance our direct relationship, whether through targeted marketing campaigns or our dedicated stores, particularly online. Lastly, we are committed to ensuring our brands are responsible, in line with the new generations’ expectations. Many of our products have a positive societal impact, either through green design, refillable packaging or even contributions to charities. The Shu Uemura eyeshadow palette, the Biosource range by Biotherm, or the Kiehl’s charities are good examples.
THE CONSUMER EXPERIENCE IS AT THE HEART OF OUR STRATEGY

End consumers are the focus of the L’Oréal Luxe strategy. Looking beyond the product, they expect services and an experience in line with their lifestyle. The group brands have come up with a host of initiatives to bring consumers a personalised experience.

1 - LE TEINT PARTICULIÈRE BY LANÇÔME
A foundation made in a “mini factory” at the point of sale from a selection of 22,000 possible pigment combinations.

2 - APOTHECARY PREPARATIONS BY KIEHL’S
A new personalised service that allows consumers to formulate skincare products based on their specific needs.

3 - VICE LIPSTICK BY URBAN DECAY
The application enables consumers to try on the range’s 100 shades before buying.

Increasingly qualified leads
L’Oréal Luxe is investing in getting to know its consumers better. The Division’s database continued to grow in 2016, and now contains more than 60 million qualified leads. Getting to know consumers better is the first step to better understanding them and better meeting their expectations in a personalised way.

Targeted communications
L’Oréal Luxe continues to develop its expertise in the era of precision marketing. In the United States, Black Opium by Yves Saint Laurent used this approach to attract new generations, as did Énergie de Vie by Lancôme, which successfully reached out to Millennials.

Services and experiences
The brands are inventing new relationships with their consumers through services, like the Vice Lipstick app by Urban Decay, and unique experiences that embody the brands’ DNA, like launch parties filmed and shared on social media.

Personalisation
Personalised products are symbolic of new luxury and an important trend for the future of L’Oréal Luxe. Kiehl’s launched Apothecary Preparations and Lancôme developed Le Teint Particulier.

FOUR MAJOR SUCCESSES IN WOMEN’S FRAGRANCES

The group recorded very good results in fragrances, with three perfumes in the women’s top 10 in Europe: La Vie Est Belle by Lancôme came in 1st for the second year running(1), followed by Black Opium by Yves Saint Laurent and Sì by Giorgio Armani, which ranked 5th and 7th respectively(1). Mon Paris, the new women’s fragrance by Yves Saint Laurent, has already been a big hit for the brand, particularly in the United States, where it made the top 10 women’s fragrances(2).

OUTSTANDING PERFORMANCE FOR L’ORÉAL LUXE IN THE ASIA, PACIFIC ZONE

The Division recorded dynamic growth in Asia, Pacific, with double-digit growth in China, Japan and Southern Asia. Yves Saint Laurent, Giorgio Armani and Lancôme spearheaded growth thanks to the strong performance of make-up, new point-of-sale concepts, and an aggressive digital strategy.

Acquisition of the perfume house Atelier Cologne

L’Oréal Luxe strengthened its expertise in the niche fragrance market with the acquisition of the perfume house Atelier Cologne and its unique selection of concentrated and refreshing pure perfumes, or “colognes absolues”.

American success stories for L’Oréal Luxe

Strong growth from Urban Decay, and from Yves Saint Laurent, whose Black Opium and Mon Paris fragrances made the top 10(3), was backed up by the continued success of La Vie Est Belle and very good sales of Teint Idole Ultra Wear by Lancôme.

Quinoa: a new ingredient for Kiehl’s

Micro-Peel is a night-time exfoliating skincare product made with sustainably sourced quinoa husk. It is proving really successful in Asia thanks to its immediate results, natural ingredients and “baby-smooth-skin” effect.

(1) Source: Women’s fragrances segment, aggregate NPD France, United Kingdom, Spain, Italy and IRI Germany, market share value 2016.
(2) Source: Women’s alcohol-based fragrances segment, NPD United States panel, market share value during the period from July (launch) to December 2016.
Hair colour takes centre stage

NATHALIE ROOS
President, Professional Products Division

“Professional beauty: an attractive, rapidly changing market”

OUR AMBITION: TO MAKE HAIR COLOUR THE NEW MAKE-UP

Mirroring the acceleration in make-up, the strong attraction of hair colour for consumers is continuing, amplified by the boom in social networks. Asserting personality through hair colour is becoming a real beauty statement, and hairdressers are at the heart of the movement: only professionals have the skills to personalise colours and master the techniques involved. As the market leader in professional beauty\(^{(1)}\), our ambition is to expand on this emerging trend.

Hair colour was the top contributor to growth in 2016, and all our brands increased sales in this category, thanks to our solid core franchises, boosted by colour innovations, trend-inspired collections and new services. Two examples are Inoa, adopted by more than 100,000 salons worldwide\(^{(2)}\) and boosted by Inoa Blond Resist in 2016 or Diarichesse Hi-Visibility by L’Oréal Professionnel. Meanwhile at Redken, City Beats by Shades EQ was launched in the United States at the end of the year, and was showcased on social networks by Chloe Nørgaard, a DJ with a strong online following, who dons one of the range’s 12 bold shades each month.

PARTNERSHIP AND CO-CREATION WITH BEAUTY PROFESSIONALS

The Division has been supporting hairdressers with its education programmes for more than 100 years. To ensure that our hairdresser partners worldwide are always up to date with the latest trends, we are constantly in touch with the most recent information. We contact trendsetting professionals at fashion shows and reach out to celebrity hairdressers to co-create exclusive professional launches and tutorials. With its monthly Flash Trend Alerts, L’Oréal Professionnel keeps the whole hairdressing community up to speed, and raises awareness of the latest consumer expectations and professional techniques. This close relationship means we can take hairdressers’ needs on board, and make sure that they are fully involved in designing our innovations. A prime example is Smartbond by L’Oréal Professionnel, co-created with 12 international colour specialists.

\(^{(1)}\) Source: Kline data, 2015. \(^{(2)}\) Source: Internal data. \(^{(3)}\) Source: Internal estimates.
THE PROFESSIONAL ADVANTAGE: A STRONGER FOCUS ON PERSONALISATION

Through its haircare innovations, attuned to consumers’ strong aspirations for tailor-made beauty, the Professional Products Division offers exclusive salon services that showcase the advantages of professional services.

The Pro Fiber saga continues
Building on a successful launch in 2015, L’Oréal Professionnel continued the international roll-out of Pro Fiber. This haircare line places the hairdresser’s expertise at the heart of the protocol, with an intricate application technique. In 2016, the brand produced a video tutorial – available on YouTube and through a free app – to train hairdressers and support them in hair diagnosis and choosing the most suitable range of products. The Re-create line, for thinning hair, was launched this year.

Kérastase: the expert in extreme personalisation
Fusio-Dose by Kérastase, a haircare protocol that is an emblematic expression of extreme personalisation, is performing well, especially in Western Europe. Feedback from both professionals and their customers is very positive, with results that are immediately perceptible to the touch. 2016 also saw the re-launch of Nutritive, a micro-targeted haircare line enriched with a major active ingredient discovered by L’Oréal Research, intra-cylane, which durably strengthens the hair fibre.

1 - PRO FIBER BY L’ORÉAL PROFESSIONNEL
This haircare line provides lasting hair repair and establishes continuity between professional salon services and home haircare.

2 - FUSIO-DOSE BY KÉRASTASE
The hairdresser selects a combination of concentrate and booster ideally suited to the consumer’s hair, then mixes the active ingredients on the spot.
**BIOLAGE R.A.W.: AN ENVIRONMENTALLY FRIENDLY PROFESSIONAL HAIRCARE LINE**

Biolage R.A.W.\(^{(1)}\) was launched in the United States to meet the growing needs of consumers and hairdressers for natural beauty: eight of its formulas are biodegradable at 95% and its portfolio includes between 70% and 100% of ingredients of natural origin. Biolage R.A.W. encourages eco-responsible consumption habits, by raising hairdressers’ awareness about the potential impact of their everyday behaviour on the environment.

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**INDIA: “BEST IN CLASS” IN EDUCATION AND THE TOP CONTRIBUTOR TO GROWTH\(^{(2)}\)**

In India, education is the backbone of market expansion. L’Oréal has focused its efforts on developing and reinforcing the expertise of professionals through education, while moving the quality of hair salons upmarket. This professionalisation strategy has extended the Division’s distribution network and enhanced its value.

**+17.6%**

**PROFESSIONAL PRODUCTS DIVISION SALES GROWTH IN INDIA\(^{(3)}\)**

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**Hair Fashion Night rolled out in 25 countries**

In 2016, it reached 40,000 women in France, for example. The event brings professionals and consumers together so all participants can enjoy the professional beauty experience.

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**Bonders\(^{(4)}\): a new growth-driver service**

A service that protects hair during and after all types of technical services\(^{(5)}\) for a guaranteed professional result, which encourages hairdressers to make daring transformations.

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**Decléor: a holistic vision of beauty**

The pioneering aromatherapy brand posted +10.3% growth in 2016\(^{(3)}\). Its philosophy “Skin, Body, Spirit” is fully in line with consumer expectations.

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\(^{(1)}\) Raw/Authentic/Wholesome. \(^{(2)}\) Professional Products Division growth. \(^{(3)}\) Likes-for-like. \(^{(4)}\) A formula that protects keratin bonds inside the hair fibre. \(^{(5)}\) Such as hair colour, bleaching and texture (e.g. permanent straightening).
ACTIVE Cosmetics

LA ROCHE-POSAY • VICHY • SKINCEUTICALS
ROGER&GALLET • SANOFLORE
In 2016, the Active Cosmetics Division maintained its growth momentum. With a +5.7% increase in sales, higher than market growth, we confirmed our worldwide leadership in dermocosmetics. It was another year of strong sales growth for La Roche-Posay and SkinCeuticals, especially in the United States, where the Division’s growth was outstanding. Latin America and the Africa, Middle East Zone posted double-digit growth. Online sales rose by +40%, contributing to the Division’s dynamics as a whole. Skincare, our flagship category, continued to grow and win market shares, driven by our innovations and the recommendations made by healthcare professionals.

**HEALTH DRIVES SKINCARE GROWTH**

The Active Cosmetics Division firmly believes that “Health is the future of beauty”, which means it is fully attuned to the increasing universal and multigenerational trend towards health and tolerance in cosmetics. To obtain clearer consumer insights, we interviewed 1,000 women on this topic in five countries: 57% of them believe that daily beauty rituals have an impact on health. The survey also confirms the importance of the values of protection, tolerance, naturalness and ethics, and the expectation of advice from healthcare professionals. Thanks to another worldwide survey, we have identified a target with real potential: 360 million women who have concerns about health issues. They live all over the world, with 75% of them outside Western Europe. Two goals motivate their use of skincare products: preserving their beauty capital through a holistic approach to well-being and naturalness, and using products with high technological added value to actively improve their skin. Our five very complementary brands are well-placed to meet the expectations of this universal trend.
The Division’s expansion was remarkable in the United States, which has now become its 2nd largest country after France in terms of sales. The market was driven by SkinCeuticals and La Roche-Posay, which both continued to develop the dermocosmetics category in particular in drugstores(1).

In its home country, SkinCeuticals owes its success to a unique positioning, increased visibility and high value-added innovations. Its approach to skincare as an integral part of aesthetic procedures designed to improve their performance or lessen side effects. In 2016, studies demonstrated the post-procedure effectiveness of two facial skincare treatments: Metacell Renewal B3 (IPL) to complement intense pulsed light sessions, and Phyto Corrective Masque to calm the skin after laser treatment.

La Roche-Posay – a trusted name in the fields of sun protection and acne-prone skin – ramped up its development in the United States. The brand was boosted by the Division’s creation of the dermocosmetics category in drugstores(1). Growth at La Roche-Posay was also driven by the impact of physicians’ recommendations, linked especially to the success of its Effaclar and Anthelios ranges.

(1) Retailers offering products ranging from food items to pharmaceuticals. (2) Source: Euromonitor International Limited, 2016.
THE MISSION OF LA ROCHE-POSAY: CHANGING BEHAVIOUR

The brand is stepping up its initiatives in skin cancer prevention, with My UV Patch, the first connected patch that helps people to adopt the right skin protection habits, and the roll-out of its viral “Become a Skin Checker” campaign.

VICHY SLOW ÂGE, A NEW APPROACH TO ANTI-AGEING

Vichy is moving for the first time into the scientific field of the exposome, which takes into account all the factors – particularly environmental – that can have an impact on skin ageing. Vichy Slow Âge is an everyday preventive treatment designed to help slow the appearance of the signs of ageing. It is based on an innovative combination of baicalin, with its antioxidant properties, bifidus lysate, and Vichy spa water, together with an SPF 25 filter.

Sanoflore delivers strong growth in France

The organic cosmetics brand recorded its third year of double-digit growth in France, and is launching Aqua Rosa, a cosmetic water inspired by the beauty routine of Japanese women.

130 doctors at the SkinAlliance Forum

In October 2016, the Active Cosmetics Division brought together 130 future opinion leaders in dermatology from 39 countries for the second SkinAlliance Forum. During the two-day event, dermatologists exchanged views with L’Oréal researchers and international scientists to develop their expertise in dermocosmetics.

Roger & Gallet launched in China

The flagship brand is making the most of Chinese consumers’ strong affinities for naturalness, well-being and authenticity: it is opening eight stores that focus on introducing consumers to the brand and providing a rich sensory experience.
The Body Shop creates nature-inspired products using the finest ingredients of natural origin sourced from around the world. The brand has always been committed to animal welfare, campaigning against animal testing; it is 100% vegetarian and supports fair trade through its Community Trade programme. The Body Shop is one of the “youngest” brands in the United Kingdom, its historic market, with most consumers under 35 years old\(^1\). To further increase the brand’s appeal, the packaging design is being renovated across all 950 products and over 100 trial-size and travel-size products. Consumers today are looking for more experiences in retail, as well as authenticity and ease of shopping. Many of The Body Shop’s stores are being renovated and redesigned to attract more consumers. In 2016, The Body Shop also launched a new mobile responsive, state of the art e-commerce platform.


Body and skincare are at the heart of the brand’s expertise

JEREMY SCHWARTZ
Chairman and CEO of The Body Shop

“Our strategy is to be a pioneer in nature-inspired products, personalised service and ethical business”
THREE STAR PRODUCTS OF THE YEAR

Body and skincare are at the heart of The Body Shop’s expertise, clearly demonstrated by the extensive range of products, dedicated in-store consultations and nature-inspired innovations: the Himalayan Charcoal purifying glow mask, the Drops of Youth serum and the Hawaiian Kukui Cream.

MILLION SQUARE METRES
OF BIODIVERSE RICH HABITAT
TO BE REGENERATED BY 2020
WITH THE BODY SHOP BIO-BRIDGES

OUR COMMITMENT: ENRICH NOT EXPLOIT™

At The Body Shop, the Enrich Not Exploit™ Commitment reflects the brand’s belief that business can be a force for good, which means enriching people as well as the planet, its biodiversity and resources, while also developing sustainable and ethical products.

Beautiful British roses

The new British Rose range features the essence of hand-picked, organic roses from a farm in the United Kingdom, producing a new British take on a classic beauty and fragrant ingredient.

Now in Chile!

In 2016, The Body Shop opened three new stores in Chile, its 66th global market.
The digitalisation of our laboratories is intensifying and opening up new horizons. Combined with the knowledge base L’Oréal has built up over the years, it bolsters our innovation model, from the science stage through to formulation and product evaluation. New data processing techniques are combined with artificial intelligence to foster and support scientific discoveries. Digital tools now extend to molecular modelling and rapid-result testing robots, to continue to guarantee L’Oréal’s high standards for quality, efficacy and safety. Connected beauty is pushing back the limits of the consumer experience, with personalised services, like the My UV Patch for sun protection.

In Advanced Research, we are continuing our work on sun protection and pollution, investing in particular on a new scientific area: the exposome. The term encompasses all the environmental exposures an individual is subjected to over the course of his or her life. Our goal is to measure the impact of the exposome on skin health, with a promising cosmetics angle: how can we protect the skin from daily aggressions and slow ageing?

A new Research and Innovation Centre in Sub-Saharan Africa

To expand its knowledge of the specific needs of African hair and skin, and develop innovations in tune with the beauty rituals and expectations of consumers, L’Oréal opened a new Research and Innovation Centre in Johannesburg, South Africa. It is L’Oréal’s sixth Research and Innovation regional hub worldwide, and it is home to consumer insight, advanced research, development, and product evaluation teams who work with the region’s scientific ecosystem.

THE CHIMEX PLANT WON THE PIERRE POTIER PRIZE FOR ITS QUINOA EXTRACTION PROCESS. L’ORÉAL’S QUINOA HUSK EXTRACT ALSO WON THE SUSTAINABLE INGREDIENT AWARD AT THE SUSTAINABLE BEAUTY AWARDS.
With the My UV Patch, L’Oréal has entered the era of electronic sensors. This adhesive patch precisely measures the wearer’s exposure to UV rays in real time. It is connected to a smartphone application that alerts the wearer when his or her sun protection becomes insufficient, and offers customised advice. The My UV Patch was launched in 2016 by La Roche-Posay, a brand that has proven its commitment to helping consumers protect their skin from the sun. The My UV Patch is an innovation developed by the Connected Beauty Incubator created by L’Oréal in 2014 to invent the products and services of the future by combining cosmetics research and digital innovation.

L’Oréal is moving into a new scientific field, the exposome, which takes into account all environmental factors that can affect health, and its relationship to skin ageing.

A NEW GENERATION OF BIODEGRADABLE SHAMPOOS

To reduce the environmental footprint of products that consumers rinse off(1), one of the avenues L’Oréal Research and Innovation is exploring is how to improve their biodegradability. Among the new products launched by the group’s brands in 2016, many are between 95 and 99% biodegradable. One prime example is the Biolage R.A.W. haircare line by Matrix, which was developed with this approach in mind.

(1) Such as shampoo, hair dye and shower gel.
Cutting-edge expertise and agility: driving innovative consumer experiences

L’Oréal’s Operations\textsuperscript{(1)} draw on a wealth of diverse professional skills and expertise to serve the end consumers of all the group’s brands in every country. With one fundamental responsibility: to guarantee the quality and safety of the group’s products to consumers worldwide while protecting the environment.

To enhance agility and efficiency, we are continuing to integrate all the opportunities opened up by digitalisation. A number of advances highlight this transformation throughout our chain of expertise:

- our design centres use rapid 3D printer prototyping techniques to optimise time-to-market for new products;
- in production, our industrial platform delivers precise responses for all needs, from large to “tailor-made” series, with ultraconnected plants equipped with cobots\textsuperscript{(2)} that are bringing us on the path to Industry 4.0. Finally, our supply chain\textsuperscript{(3)} is becoming even more responsive to take up the key challenge of e-commerce.

Another major success in 2016 was our shared commitment and contribution to the “Sharing Beauty With All” programme. L’Oréal has been recognised as a leader by the CDP\textsuperscript{(4)} for its initiatives on three fronts: combating climate change, managing water in a sustainable way and protecting forests.

A more agile and more digital supply chain

To make sure consumers get the best service wherever and whenever they need it, L’Oréal’s supply chain\textsuperscript{(5)} is evolving as fast as digital technology itself. The challenge is to ensure total consumer satisfaction, both in stores and online, by taking on new challenges: the ramp-up of e-commerce, the personalisation of products, and the management of products data and different delivery modes. All the while with the same guarantee of quality, swiftness and safety.

\textsuperscript{(1)} Operations orchestrates cutting-edge expertise in fields ranging from packaging design and product development, sourcing of packaging and raw materials, production to the distribution of all the group’s products.

\textsuperscript{(2)} Cobotics (collaborative robotics) involves the use of a robotised system to assist an operator in a task that remains under human control.

\textsuperscript{(3)} L’Oréal’s supply chain handles and optimises all information flows and physical product flows from suppliers to points-of-sale.

\textsuperscript{(4)} CDP is an independent global organisation that evaluates companies’ achievements in their environmental performance.

Barbara La Vernos
Executive Vice-President
Operations
From hyper-automation to luxury know-how

The very broad range of expertise and the excellence of quality systems at L'Oréal mean its industrial facilities have a real competitive edge. With AGVs(1) now in use, and the completion in 2016 of an automated storage system, the Karlsruhe plant in Germany enjoys a high level of automation. The upgrade has increased the plant’s productivity and speed of execution, particularly on very high speed lines. The key advantage of the Lassigny plant in France is the combination of the “tailor-made” luxury approach and agility. It is equipped to produce with excellence either large or exclusive series, and can thus adapt to meet specific consumer demands.

L’Oreal, a responsible world leader

CDP(2) has awarded L'Oréal an “A” rating – the best possible score – in three fields of environmental protection: fighting against climate change, managing water in a sustainable way and protecting forests. Only two companies worldwide, out of some 3,000, were awarded this distinction in 2016.

Strongly committed environment

In the United States L’Oreal is committed to a project to build two large solar power plants, which means that 100% of production at its two plants will be powered by renewable energy. In Italy, for the Settimo Torinese plant, the water resource is at the heart of the team’s commitment.

(1) Automated Guided Vehicles. (2) CDP is an independent global organisation that evaluates companies’ achievements in their environmental performance.
Continuing to reinvent our marketing model and relationship with consumers

Digital has changed the way we do marketing. Our first challenge was to successfully transform our brands into digital “love brands”, capable of creating rich and personalised relationships with their consumers and producing content that appeals to them, which they then share with others. Our brands are becoming ubiquitous on the web and are at the top of the rankings. We are always looking to enrich our relationship with consumers. Thanks to the data now available across our range of consumer data bases and a detailed understanding of their expectations, we can adapt our pitch to make sure we send out the right message at the right time. That gives L’Oréal a clear competitive edge. Our consumers are also eager for new services that help them when they are choosing or using products. This is the mission of our connected beauty incubator, which has developed ideas such as My UV Patch, a sensor that informs users so they can protect their skin from the sun. Going one step further, in 2016 we became the exclusive beauty partner of Founders Factory, a start-up accelerator. Our partnership with the Partech early stage fund in France expands our dense worldwide network of talented entrepreneurs and promising start-ups in the digital beauty field.

In May 2016, the group invested in Founders Factory, a London-based start-up incubator and accelerator, to become its exclusive partner in the beauty sector. L’Oréal and Founders Factory will assist five recently-founded companies and will together create two start-ups each year. The group’s aim is to intensify its digital innovation strategy by gaining access to a worldwide ecosystem of promising talent and cutting-edge technology.

Developing connected beauty start-ups

This weekly web series, launched in four countries in 2016, highlights make-up tips and features the well-known beauty blogger EnjoyPhoenix. It has enabled Maybelline New York to become the number 1 beauty brand YouTube channel in France.
Digital skills for everyone

Enhancing the skills of employees is a keystone in L’Oréal’s digital acceleration strategy. More than 14,000 people have already benefited from the Digital Upskilling Plan, a massive training programme. Its goal is to build digital expertise at grassroots level and integrate it into all functions on an everyday basis. To engage strongly with key employees, L’Oréal has a wide spectrum of flexible and interactive methods, including immersion in digital start-ups and reverse mentoring, with a senior employee receiving coaching from a junior digital expert.

DIGITAL CHAMPION BRANDS

The impact of L’Oréal brands is very strong online. In 2016, the group totalled more than one billion visits across all the Internet sites and some 300 million subscribers on social media. Meanwhile, L’Oréal Paris is generating over 20 million video views on YouTube every month(1).

The e-commerce acceleration

With online sales(2) of 1.7 billion euros in 2016, e-commerce represents 6.5% of group sales, which is equivalent to L’Oréal’s 4th country. This growth is being driven by new partnerships with local, regional and global players, such as Alibaba, Amazon, BOL.com, Boots.com and Ulta.com, and by L’Oréal brands’ e-commerce websites.

(1) Statistics provided by social networks. (2) Sales achieved on the brands’ own websites and estimated sales achieved by the brands on retailers’ websites (non-audited data).
Innovating to recruit, develop and engage with talented people all over the world

The role played by our 89,300 employees in creating long-term value at L’Oréal is crucial. They are the key players in the group’s transformation and the future leaders of a new L’Oréal they are helping to build. To find, attract and recruit the top candidates with the most diverse profiles, we are seizing all the opportunities that digital technology is opening up. We are also creating conditions that meet the expectations of the talent we want to attract, particularly in the younger generations, whose relationships with companies and the world of work have changed fundamentally.

To deepen our connection with employees, and engage with them on an ongoing basis all over the world, we are building an ecosystem that will enable them to flourish and perform at their best. Because while they drive the success of the company, they are also its best ambassadors. Meanwhile, to promote and support the transformations that are making L’Oréal more universal, digital and agile, we are introducing a more collaborative way of working to co-construct our vision of tomorrow’s L’Oréal with the teams.

At the end of 2015, the L’Oréal “Share & Care” programme achieved its first goal: to guarantee that L’Oréal employees all over the world benefit from the best practices in terms of social protection. The group’s subsidiaries are continuing to develop local initiatives, particularly in the area of quality of life in the workplace. Programmes to make working hours more flexible are being developed in all L’Oréal entities.

New challenges for the L’Oréal “Share & Care” social programme

JÉRÔME TIXIER
Executive Vice-President
Human Relations
and Advisor to the Chairman

(1) Source: Business students, all sectors of activity, Universum, 2016.
(2) Massive Open Online Course.

On the right:

ONLINE TRAINING SPEEDS TRANSFORMATION

Training for everyone is one of the priorities of Human Relations – one that is now possible thanks to an e-learning platform open to all employees. L’Oréal has also sealed a partnership with Coursera, a leading player in the MOOC sector, to offer employees programmes certified by the most prestigious universities worldwide.

9th PLACE WORLDWIDE IN STUDENTS MOST ATTRACTIVE EMPLOYERS RANKING, UNIVERSUM 2016

77% OF EMPLOYEES HAVE TAKEN A TRAINING COURSE
To continue attracting a wide and diverse range of talent all over the world, the group has changed the way it develops relationships with candidates as well as its recruitment techniques. To construct its new employer promise, L’Oréal uses an innovative approach combining digital data analysis with the customary in-house and external surveys. L’Oréal is relying more heavily on digital tools in its recruitment strategy, and is intensifying its presence on social networks. Staying at the cutting edge in talent evaluation and selection, and improving the candidate experience are priorities for the group, which is strengthening the expertise of its recruitment teams.

Citizen Day is a celebration of solidarity that brings together thousands of L’Oréal employees all over the world. In 2016 there was an increase in participation with a total of 164,000 hours of volunteer work completed, making a real difference for more than 150,000 beneficiaries.

New Diversity & Inclusion Index
Launched by Thomson Reuters, this new index ranks L’Oréal 19th out of more than 5,000 companies rated worldwide.

5th Disability Initiatives Trophies
ACCELERATING THE INCLUSION OF DISABLED PEOPLE IS THE OBJECTIVE OF THIS IN-HOUSE COMPETITION, WHICH REWARDS INITIATIVES IN THIS FIELD BY L’ORÉAL SUBSIDIARIES.

THOUSANDS OF HOURS OF VOLUNTEER WORK ON CITIZEN DAY

Citizen Day is a celebration of solidarity that brings together thousands of L’Oréal employees all over the world. In 2016 there was an increase in participation with a total of 164,000 hours of volunteer work completed, making a real difference for more than 150,000 beneficiaries.
Building trust and supporting the sustainable growth of L’Oréal

2016 was another year of growth in sales, results and profitability. Working closely with the group’s different entities, the administration, controlling and finance teams help to build and foster a solid relationship of trust that is essential for L’Oréal’s sustainable growth. This trust is based on constant vigilance, fairness, transparency, professionalism and an ethical approach in our relations with all stakeholders. This year once again, we strongly contributed to the economic and financial management of L’Oréal’s businesses, the identification of risks and opportunities, and the optimisation of resource allocation.

The relationship of trust between L’Oréal and all its stakeholders is maintained through constant vigilance. The group’s financial health depends on closely monitoring cash flow and making sure that financing is secure. With suppliers and customers, the relationship of trust is based on professionalism and ethical behaviour in all exchanges. As for shareholders and investors, the financial communications team maintains a close relationship with them by welcoming dialogue and providing fair and transparent information about the group’s activities. The teams work to assist the Board of Directors and its Committees, striving to maintain the highest quality standards.

Data protection: a crucial challenge

The IT security and legal teams work alongside all the group’s entities to identify sensitive data – such as consumer, financial and research data – to ensure it remains confidential. L’Oréal’s cybersecurity programme is based on three core priorities: risk management, the introduction of appropriate and coherent protection solutions, and a principle of detection-reaction to deal with any threats.

L’ORÉAL RECEIVES GRAND PRIX FOR FINANCIAL TRANSPARENCY

At the 7th Grands Prix for Financial Transparency, which reward best practices in regulated financial information, L’Oréal received the 2016 Grand Prix in the “Consumer Goods and Health” category.
In a changing world that is constantly driven by digital technology, the expertise of the IT teams is at the heart of digital acceleration at L’Oréal. The IT experts contribute to operational excellence, by developing innovative solutions in close collaboration with experts in each business, to optimise or reinvent working practices and make them secure. Good examples are the global solution for managing economic activity that has been rolled out across the controlling functions or other latest generation business applications available in the Cloud.

**IT**

provides crucial leverage for L’Oréal’s digital acceleration

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**Financial Communications Listens to Shareholders’ Views**

Financial Communications puts shareholders at the heart of its content and its tools. This year the Annual Report has been co-constructed with a panel of shareholders, to ensure the navigation experience is as smooth and intuitive as possible. User surveys have also been conducted on the L’Oréal Finance app to make sure it is always attuned to users’ expectations. This approach reflects the close relationship, based on mutual trust, that L’Oréal has with its shareholders.

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**Investors and financial analysts at Founders Factory**

During the Capital Market Days, investors and analysts were invited to witness L’Oréal’s digital acceleration for themselves with a working session at the Founders Factory in London, a start-up incubator and a global accelerator in which the group is investing.

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(1) Information technology. (2) Event organised by the L’Oréal Investor Relations team.
CORPORATE SOCIAL RESPONSIBILITY

Combining economic growth with ambitious sustainable development commitments

Alexandra Palt
Chief Sustainability Officer

2016 was a milestone year: we are halfway to our 2020 commitments, and there has already been a clear change in the way we work. Each time we invent, develop or revamp a product, we think not only about its efficacy and profitability, but also about the contribution it makes to sustainable development.

Four years ahead of schedule, L’Oréal has not only achieved its objective of cutting the quantities of CO₂ emitted from its factories and distribution centres by more than 60%, but exceeded it, over a period when production volume rose by some 30%. With such outstanding figures, L’Oréal continues to prove its ability to combine economic growth with ambitious climate protection commitments.

This performance has been acknowledged internationally: CDP has awarded L’Oréal three “A” ratings – the best possible score – in each of the three fields of environmental protection: combating climate change, managing water in a sustainable way and protecting forests.

We want to be attentive to the current and future sustainable development expectations and concerns of our consumers, and this year we have set up a consumer advisory committee in France. Helping consumers make decisions that match up with their convictions as citizens remains one of our key challenges.

In June 2016, L’Oréal published its first palm oil sourcing progress report. It reviews the strategy and initiatives introduced by the group to ensure a sustainable approach to sourcing palm oil.

82% of new or revamped products in 2016 have an improved environmental or social profile.(1)

-67% of CO₂ emissions in absolute value from factories and distribution centres since 2005.(1)

Moving towards “zero deforestation” guaranteed palm oil

In June 2016, L’Oréal published its first palm oil sourcing progress report. It reviews the strategy and initiatives introduced by the group to ensure a sustainable approach to sourcing palm oil.

SHARING BEAUTY WITH ALL

All the 2016 results of L’Oréal’s sustainable development programme can be found at www.sharingbeautywithall.loreal.com

(1) Period 2005-2016. In absolute value. (2) CDP is an independent global organisation that evaluates companies’ achievements in their environmental performance. (3) New products, i.e. products for which new formulas have been developed and which are produced for the first time in the group’s plants or products for which packaging was changed/updated in 2016.
A new way of innovating

82% of L’Oréal products in 2016 have an improved environmental or social profile. The group is aiming for 100% by 2020. To achieve this ambitious target, the group is focusing on several aspects: improving the water footprint of formulas, using raw materials that are renewable or based on green chemistry, and optimising packaging.

A cosmetics product’s water footprint is one of the main expressions of its environmental impact. L’Oréal makes a special effort to ensure the biodegradability of its formulas, and several products launched in 2016 have biodegradability levels above 98%, including Ultra Doux 5 Precious Herbs shampoo by Garnier, Aura Mirabilis make-up remover mask by Roger & Gallet, and Absolue Precious Oil by Lancôme. L’Oréal favours the use of renewable raw materials that are responsibly sourced. In 2016, several products have a renewable raw material content above 94%, including Biolage R.A.W. Uplift shampoo, Midnight Recovery Botanical Cleansing Oil by Kiehl’s and Ultra Doux Honey Treasures hand cream by Garnier. One of L’Oréal’s approaches to improving packaging is an ongoing policy of replacing traditional materials by others that are recycled or biosourced. The bottles used for Biolage R.A.W. shampoos, and the haircare ranges Aura Botanica by Kérastase and Botanicals Fresh Care by L’Oréal Paris – apart from the caps and pumps – are made of 100% recycled plastic, and can be recycled again after use.

54% of raw materials used by L’Oréal are renewable (1) that is 1,540 raw materials from more than 350 plant species, sourced from around 100 countries.

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(1) By volume.
Consult all the 2016 publications

Discover more content online at loreal.com or by flashing this page with the L’Oréal Finance app.

REGISTRATION DOCUMENT
This document includes the Integrated Report, in particular the 2016 financial statements, the Annual Financial Report, the Management Report of the Board of Directors including a section on Social and Environmental Responsibility.

ANNUAL REPORT
Overview of L’Oréal in 2016, its Divisions, brands and countries, driven by its mission – Beauty for All – and strategy – Universalisation.

PROGRESS REPORT
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Environmental calculator

By using Cocoon Silk rather than a non-recycled paper, the environmental impact was reduced by:

- 1,189 kg of landfill
- 160 kg CO₂ and greenhouse gases:
  - 1,598 litres of water
  - 2,526 kWh of energy
  - 44.962 km travel in an average European car

Text pages:
- brand: Cocoon Silk
- basis weight: 150 g/m²
- number of pages: 4,000

Cover pages:
- brand: Cocoon Silk
- basis weight: 300 g/m²
- number of pages: 56

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