2

Corporate governance*

** 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.*

This chapter describes the way in which the Board's work is prepared and organised and includes, in particular, 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 Directors and executive officers are mentioned as well as the trading by Directors and executive officers in L'Oréal shares reported in 2016, and also the remuneration policy pursuant to Article L. 225-37-2 of the French Commercial Code.

The Internal Control procedures implemented by the Company are also described as well as the Risk Factors. The Statutory Auditors' Reports related to Corporate Governance, namely their report on the report prepared by the Chairman and that on regulated agreements and commitments are included here.

2.1. FRAMEWORK FOR IMPLEMENTATION OF THE 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, paragraphs 6 to 10 of the French Commercial Code, this chapter integrates the Report of the Chairman of the Board of directors regarding the Board's composition and the ways in which the Board's work is prepared and organised, and the Internal Control procedures. This chapter deals also with the following in particular:

- the Board's composition and the application of the principle of balanced gender representation on the Board;
- the ways in which the Board's work is prepared and organised;
- the Code of Corporate Governance to which the Company refers, the provisions which have not been applied and the reasons for this non-application;
- the principles and rules adopted by the Board of Directors to determine the remuneration and benefits of all kinds granted to the Directors and executive officers;
- limitations placed by the Board of Directors on the powers of the Chief Executive Officer;
- the Internal Control and risk management procedures implemented by the Company.

The Risk Factors are described in this Chapter.

The other information provided for in Article L. 225-100-3 of the French Commercial Code and particularly that relating to the share capital and the shareholders are published in chapter 6.

Pursuant to Article L. 225-37 of the French Commercial Code, the Board of Directors of L'Oréal approved this document at its meeting on February 9th, 2017.

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

2

2.1.2. THE BALANCE OF POWERS ON THE BOARD OF DIRECTORS

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

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

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

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

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

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

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

2.1.2.2. The balance of powers on the Board

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

Harmonious composition of the Board of Directors

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

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

The Directors' diversity and complementarity of experience and expertise (entrepreneurial, financial, industrial, digital, etc.) enable them to understand quickly and thoroughly the development issues facing the L'Oréal Group, the leader on a highly competitive globalised cosmetics market where there are very substantial requirements to innovate and adapt.

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

The relationships organised between the Board and the General Management

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

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

The Board provides the General Management with invaluable support for strategic decision-making through its reflections and the impetus it provides. The Chairman and Chief Executive Officer conducts the Board's work in order to obtain this adherence to strategy and to ensure the Company's development with complete confidence and peace of mind. It is naturally in the interest of all the shareholders but also of all the stakeholders for the Chairman and Chief Executive Officer to lead the debates and encourage discussions on the Board of Directors. The Board may meet at any time if required by current events. It may also decide to organise meetings outside the presence of the 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 independent Directors, 60% for the Audit Committee and half for the Appointments and Governance Committee and the Human Resources and Remuneration 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, who does not serve on any other committee.

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

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

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

Within the framework of the review of its activities at the end of 2016, the Board once again appreciated 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 2016, the Board of Directors confirmed that the current mode of governance was well-balanced and effective. The decision-making processes are clear and the balance of powers is properly ensured. As it prefers to have a direct relationship with the Chairman and Chief Executive Officer, it does not consider the appointment of a Lead Director to be necessary.

Internal Rules that are regularly updated

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

The Internal Rules address both the formal aspects of the Board's remits and the rights and obligations of the Directors (knowledge of and compliance with regulations, recommendations and obligations, respect of the Company's interest, obligations of diligence and provision of information, reserve and confidentiality, responsibility with regard to stock market ethics, etc.). It is updated by the Board in order to take account of the changes in the laws and regulations, good corporate governance practices and its own *modus operandi*, particularly within the scope of the annual evaluation of its work. The Internal Rules were last updated on December 7th, 2016 and February 9th, 2017. They concern the rules providing for a minimum number of L'Oréal shares to be held by the Directors, stock market ethics following the entry into application of the European Market Abuse Regulation, the Audit Committee's remit following the entry into force of the Ordinance of March 17th, 2016 relative to Statutory Auditors and the introduction of meetings without the presence of the executive officers. The Internal Rules are published in full in this Chapter.

2.2. COMPOSITION OF THE BOARD OF DIRECTORS

"L'Oréal's Board of Directors is made up of talented individuals, from different backgrounds who have extensive experience of the business."

Jean-Paul Agon – Chairman and Chief Executive Officer

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

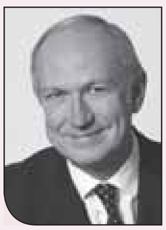
At December 31st, 2016, the Board of Directors comprises 15 members:

- the Chairman and Chief Executive Officer, Mr. Jean-Paul Agon;
- five Directors appointed by the majority shareholders, three of whom are from the Bettencourt Meyers family, Mrs. Françoise Bettencourt Meyers, Mr. Jean-Pierre Meyers, Mr. Jean-Victor Meyers and two appointed by Nestlé, Mr. Peter Brabeck-Letmathe, Mrs. Béatrice Guillaume-Grabisch (the two Vice-Chairmen of the Board being chosen from among these members);
- seven independent Directors: Mrs. Sophie Bellon, Mrs. Belén Garijo, Mrs. Virginie Morgon, Mrs. Eileen Naughton (since April 20th, 2016), Mr. Charles-Henri Filippi, Mr. Xavier Fontanet and Mr. Bernard Kasriel;
- two Directors representing the employees, Mrs. Ana Sofia Amaral and Mr. Georges Liarokapis.

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

The breakdown of L'Oréal's share capital at December 31st, 2016 is shown in chapter 6 of this Document.

2.2.1. LIST OF CORPORATE OFFICES AND DIRECTORSHIPS HELD BY DIRECTORS AT DECEMBER 31ST, 2016



JEAN-PAUL AGON

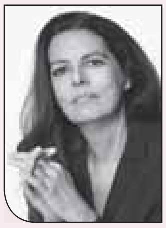
French
Age: 60
With the L'Oréal Group since 1978, after an international career as General Manager of the Consumer Products Division in Greece and of L'Oréal Paris in France, International Managing Director of Biotherm, General Manager of L'Oréal Germany, Executive Vice-President of the Asia Zone, President and CEO 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 CEO in 2011. A Director of L'Oréal since 2006, he is the Chairman of the Strategy and Sustainable Development Committee. Jean-Paul Agon is also Chairman of the L'Oréal Corporate Foundation and a Director of Air Liquide.

EXPIRY DATE OF TERM OF OFFICE 2018

- Professional address: L'Oréal – 41, rue Martre – 92117 Clichy Cedex
- Holds 556,500 L'Oréal shares

OTHER CORPORATE OFFICES AND DIRECTORSHIPS HELD		
French company		
Air Liquide S.A.*	Director	
Other		
L'Oréal Corporate Foundation	Chairman of the Board of Directors	
CORPORATE OFFICES AND DIRECTORSHIPS OVER THE LAST FIVE YEARS THAT HAVE EXPIRED		**Expiry date of term of office**
Foreign companies		
Galderma Pharma S.A. (Switzerland)	Director	2014
L'Oréal USA Inc. (United States)	Director	2014
Galderma Pharma S.A. (Switzerland)	Chairman of the Board of Directors	2012
The Body Shop International PLC (United Kingdom)	Vice-Chairman and Director	2012

* *Listed company.*



FRANÇOISE BETTENCOURT MEYERS

French
Age: 63
Daughter of Mrs. Liliane Bettencourt and granddaughter of the founder of L'Oréal, Mr. Eugène Schueller. She has been the Chairwoman of the family-owned holding company Téthys since January 31st, 2012, is the Chairwoman of the Supervisory Board of the investment subsidiary Téthys Invest, Chairwoman of the Bettencourt Schueller Foundation and Honorary President of the Agir Pour l'Audition Foundation. She has been a Director of L'Oréal since 1997 and a member of the Strategy and Sustainable Development Committee since 2012.

EXPIRY DATE OF TERM OF OFFICE 2017

- Professional address: Téthys – 27-29, rue des Poissonniers – 92200 Neuilly-sur-Seine
- Holds 24,443 L'Oréal shares in absolute ownership and 33,141,389 shares in bare ownership

OTHER CORPORATE OFFICES AND DIRECTORSHIPS HELD		
French companies		
Téthys SAS	Chairwoman Chairwoman of the Supervisory Board	
Téthys Invest SAS	Chairwoman of the Supervisory Board	
Financière l'Arcouest SAS	Chairwoman	
Société Immobilière Sebor SAS	Chairwoman	
Others		
Bettencourt Schueller Foundation	Chairwoman of the Board of Directors	
Agir Pour l'Audition Foundation	Honorary President and member of the Board of Directors	
CORPORATE OFFICES AND DIRECTORSHIPS OVER THE LAST FIVE YEARS THAT HAVE EXPIRED		**Expiry date of term of office**
French company		
Clymène SAS	Chairwoman	2012

PETER BRABECK-LETMATHE

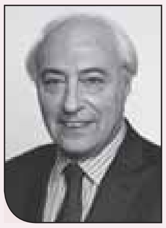
Austrian
Age: 72
Chairman of the Board of Directors of Nestlé. Peter Brabeck-Letmathe has been a Director of L'Oréal since 1997, and is Vice-Chairman of the Board of Directors. He is a member of the Strategy and Sustainable Development Committee, the Appointments and Governance Committee and the Human Resources and Remuneration Committee.

EXPIRY DATE OF TERM OF OFFICE 2017

- Professional address: Nestlé – Avenue Nestlé, 55 – CH 1800 Vevey – Switzerland
- Holds 27,500 L'Oréal shares

MAIN CORPORATE OFFICE HELD OUTSIDE L'ORÉAL		
Nestlé S.A. (Switzerland)*	Chairman of the Board	
OTHER CORPORATE OFFICES AND DIRECTORSHIPS HELD		
Foreign companies		
Delta Topco Limited (Jersey)	Director	
Exxon Mobil (USA)*	Director	
Nestlé Skin Health SA (Switzerland)	Chairman	
Others		
World Economic Forum (Switzerland)	Vice-Chairman	
Verbier Festival Foundation (Switzerland)	Vice-Chairman	
Hong Kong-Europe Business Council	Director	
Water Resource Group 2030 (WRG)	Chairman	
CORPORATE OFFICES AND DIRECTORSHIPS OVER THE LAST FIVE YEARS THAT HAVE EXPIRED		**Expiry date of term of office**
Foreign companies		
Nestlé Health Science S.A. à Lutry (Switzerland)	Chairman of the Board of Directors and Director	2016
Delta Topco Limited (Jersey)	Chairman of the Board of Directors	2016
Credit Suisse Group (Switzerland)	Vice-Chairman of the Board Director	2014
Other		
Table Ronde des Industriels Européens (Belgium)	Member of the Executive Committee Chairman of the Working group on External Economic Relations	2013

* *Listed companies.*



JEAN-PIERRE MEYERS

French
Age: 68
Director of L'Oréal since 1987, Vice-Chairman of the Board of Directors since 1994, Jean-Pierre Meyers is a member of the Strategy and Sustainable Development Committee, the Appointments and Governance Committee and the Human Resources and Remuneration Committee. He is Vice-Chairman of the Supervisory Board and Chief Executive Officer of the family-owned holding company Téthys, Chairman of the investment subsidiary Téthys Invest, Vice-Chairman of the Bettencourt Schueller Foundation and President of the Agir Pour l'Audition Foundation.

EXPIRY DATE OF TERM OF OFFICE 2020

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

OTHER CORPORATE OFFICES AND DIRECTORSHIPS HELD		
French compagnies		
Téthys SAS	Vice-Chairman of the Supervisory Board Chief Executive Officer	
Téthys Invest SAS	Chairman and member of the Supervisory Board	
Others		
Bettencourt Schueller Foundation	Vice-Chairman of the Board of Directors	
Agir Pour l'Audition Foundation	Chairman and member of the Board of Directors	
CORPORATE OFFICES AND DIRECTORSHIPS OVER THE LAST FIVE YEARS THAT HAVE EXPIRED		**Expiry date of term of office**
Foreign company		
Nestlé S.A. (Switzerland)	Director	2014
French company		
Clymène SAS	General Manager	2012

ANA SOFIA AMARAL

Portuguese
Age: 51
Scientific and Technical Affairs Director for L'Oréal Portugal, Ana Sofia Amaral was appointed in 2014 by L'Oréal's Instance Européenne de Dialogue social/European Works Council as Director representing the employees. She is a member of the Human Resources and Remuneration Committee.

EXPIRY DATE OF TERM OF OFFICE 2018

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

OTHER CORPORATE OFFICES AND DIRECTORSHIPS HELD		
Foreign companies		
EMBOPAR Embalagens de Portugal SGPS S.A.	Permanent representative of L'Oréal Portugal on the Board of Directors	
Sociedade Ponto Verde	Director	
CORPORATE OFFICES AND DIRECTORSHIPS OVER THE LAST FIVE YEARS THAT HAVE EXPIRED		**Expiry date of term of office**
None		

SOPHIE BELLON

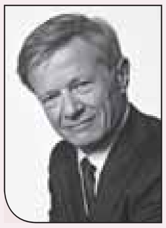
French
Age: 55
Chairwoman of the Board of Directors at Sodexo which she joined in 1994, after a career in the United States in finance, as a Mergers & Acquisitions advisor, then in the fashion sector as an agent for major international brands, Sophie Bellon has been a Director of L'Oréal since 2015 and Chairwoman of the Appointments and Governance Committee and member of the Audit Committee.

EXPIRY DATE OF TERM OF OFFICE 2019

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

MAIN CORPORATE OFFICE HELD OUTSIDE L'ORÉAL		
Sodexo*	Chairwoman of the Board of Directors	
OTHER CORPORATE OFFICES AND DIRECTORSHIPS HELD		
French companies		
PB Holding SAS**	Chairwoman	
Bellon SA**	Member of the Management Committee	
Others		
Pierre Bellon Foundation	Founding Member	
SWIFT (Sodexo Women's International Forum for Talent)	Co-Chair	
Association Nationale des Sociétés par Actions (ANSA)	Member of the Board of Directors	
CORPORATE OFFICES AND DIRECTORSHIPS OVER THE LAST FIVE YEARS THAT HAVE EXPIRED		**Expiry date of term of office**
French companies		
Sodexo	Vice-Chair of the Board In charge of Research-Development-Innovation Strategy	2016
Bellon S.A.	Chairwoman of the Management Board	2015
Altys Multiservices SAS	Chairwoman of the Board of Directors	2012
SORESCOM SARL	Managing Director	2012
Société Française de Restauration et Services SAS	Member of the Management Board	2012
Société Française de Propreté SAS	Member of the Management Board	2012
Sodexo Santé Medico-Social	Member of the Management Board	2012
Sodexo Entreprises SAS	General Manager	2012

* *Listed company.*
** *Sodexo group companies.*



CHARLES-HENRI FILIPPI

French
Age: 64
Chairman of Citigroup for France after having spent his career within the HSBC group, in which he was notably Chairman and Chief Executive Officer of HSBC France from 2004 to 2007 and Chairman of the Board of Directors in 2007 and 2008. Charles-Henri Filippi has been a Director of L'Oréal since 2007 and is a member of the Audit Committee, the Appointments and Governance Committee and Chairman of the Human Resources and Remuneration Committee. He is also a Director of Orange and Nexity.

EXPIRY DATE OF TERM OF OFFICE 2019

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

MAIN CORPORATE OFFICE HELD OUTSIDE L'ORÉAL		
Citigroup France	Chairman	
OTHER CORPORATE OFFICES AND DIRECTORSHIPS HELD		
French companies		
Nexity*	Director	
Orange*	Director	
Piasa S.A	Director	
Foreign company		
ABERTIS * (Spain)	Member of the International Advisory Board	
Others		
ADIE (Association pour le Droit à l'Initiative Économique)	Director	
Association des Amis de l'Opéra-Comique	Director	
CORPORATE OFFICES AND DIRECTORSHIPS OVER THE LAST FIVE YEARS THAT HAVE EXPIRED		**Expiry date of term of office**
French companies		
Femu Qui S.A.	Member of the Supervisory Board	2015
Nexity	Non-voting member of the Board of Directors	2014
Euris	Member of the Supervisory Board	2014
Viveris Reim S.A.	Member of the Supervisory Board	2012
Octagones (parent company) and Alfina (subsidiary)	Chairman	2012
Others		
Association des Amis de l'Opéra-Comique	Chairman	2015
Centre National d'Art et de Culture Georges Pompidou	Director	2013

* *Listed companies.*

XAVIER FONTANET

French
Age: 68
Former Chairman and Chief Executive Officer of Essilor (1996-2009) and former Chairman of the Board of Directors of Essilor (2010-2012), Xavier Fontanet has been a Director of L'Oréal since May 2002 and member of the Strategy and Sustainable Development Committee. He is also a member of the Board of Directors of Schneider Electric.

EXPIRY DATE OF TERM OF OFFICE 2018

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

OTHER CORPORATE OFFICES AND DIRECTORSHIPS HELD	
French company	
Schneider Electric S.A. *	Director
Others	
Centre des Professions Financières (Financial Professions Centre)	Director
Carrefour Foundation	Director
ANSA *(Association Nationale des Sociétés par Actions)*	Permanent representative of Essilor International and member of the Board of Directors

CORPORATE OFFICES AND DIRECTORSHIPS OVER THE LAST FIVE YEARS THAT HAVE EXPIRED		Expiry date of term of office
French companies		
Essilor International S.A.	Director	2016
Crédit Agricole S.A.	Director	2012
Essilor International S.A	Chairman of the Board of Directors	2012

* *Listed companies.*

BELÉN GARIJO

Spanish
Age:56
Chairwoman and Chief Executive Officer of Merck Healthcare, a company bringing together all the pharmaceutical businesses of the German Merck group and a member of this group's Executive Committee, Belén Garijo has been a Director of L'Oréal since 2014 and is a member of the Human Resources and Remuneration Committee. She is also a Director of BBVA (Spain).

EXPIRY DATE OF TERM OF OFFICE 2018

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

MAIN CORPORATE OFFICE HELD OUTSIDE L'ORÉAL	
Merck Healthcare (Germany)	Chairwoman and Chief Executive Officer
OTHER CORPORATE OFFICES AND DIRECTORSHIPS HELD	
Foreign company	
BBVA* (Spain)	Director
CORPORATE OFFICES AND DIRECTORSHIPS OVER THE LAST FIVE YEARS THAT HAVE EXPIRED	
None	

* *Listed company.*

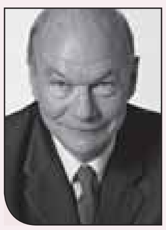
BÉATRICE GUILLAUME-GRABISCH

French
Age: 52
General Manager of Nestlé Germany, Béatrice Guillaume-Grabisch has been a Director of L'Oréal since April 2016 and is a member of the Audit Committee.

EXPIRY DATE OF TERM OF OFFICE 2020

- Professional address: Nestlé – AG Lyoner Straße 23 – 60528 Frankfurt am Main – Germany
- Holds 1,000 L'Oréal shares

MAIN CORPORATE OFFICE HELD OUTSIDE L'ORÉAL		
Nestlé Germany	General Manager	
OTHER CORPORATE OFFICES AND DIRECTORSHIPS HELD		
Foreign company		
MarkenVerband/Brand producers' association (Germany)	Member of the Management Board	
CORPORATE OFFICES AND DIRECTORSHIP OVER THE LAST FIVE YEARS THAT HAVE EXPIRED		**Expiry date of term of office**
Foreign company		
Henkel (Germany)	Director	2016



BERNARD KASRIEL

French
Age: 70
A former Chief Executive Officer of Lafarge, Bernard Kasriel has been a Director of L'Oréal since 2004, and is a member of the Strategy and Sustainable Development Committee. He is also a Director of Arkema and Nucor (United States).

EXPIRY DATE OF TERM OF OFFICE 2020

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

OTHER CORPORATE OFFICES AND DIRECTORSHIPS HELD		
French company		
Arkema S.A.*	Director	
Foreign company		
Nucor (United States)*	Director	
CORPORATE OFFICES AND DIRECTORSHIP OVER THE LAST FIVE YEARS THAT HAVE EXPIRED		**Expiry date of term of office**
None		

* *Listed companies.*

GEORGES LIAROKAPIS

French and Greek
Age: 54
Coordinator of Sustainability for L'Oréal Western Europe, Georges Liarokapis was appointed in 2014 by the CFE-CGC as a Director representing the employees. He is a member of the Audit Committee.

EXPIRY DATE OF TERM OF OFFICE 2018

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

OTHER CORPORATE OFFICES AND DIRECTORSHIPS HELD

None

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

None

JEAN-VICTOR MEYERS

French
Age: 30
A member of the Supervisory Board of the family-owned holding company Téthys since January 2011, member of the Supervisory Committee of the investment subsidiary Téthys Invest and Chairman of Exemplaire, Jean-Victor Meyers has been a Director of L'Oréal since 2012 and is a member of the Audit Committee.

EXPIRY DATE OF TERM OF OFFICE 2020

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

OTHER CORPORATE OFFICES AND DIRECTORSHIPS HELD

French companies	
Téthys SAS	Member of the Supervisory Board
Téthys Invest SAS	Member of the Supervisory Board
Exemplaire SAS	Chairman

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

None

VIRGINIE MORGON

French
Age: 47
Deputy Chief Executive Officer of Eurazeo which she joined in 2008 after working for 16 years at Lazard, and President and CEO of Eurazeo North America Inc. (USA), Virginie Morgon has been a Director of L'Oréal since 2013 and is Chairwoman of the Audit Committee.
She is Vice-Chairwoman of the Board of Directors of Moncler SpA, Chairwoman of the Supervisory Board of Asmodee Holding and Eurazeo PME, Director of Abasic (Desigual), member of the Supervisory Board of Grandir (Les Petits Chaperons Rouges) and of Vivendi. She is also Vice-President of the Paris Committee of Human Rights Watch.

EXPIRY DATE OF TERM OF OFFICE 2017

- Professional address: 1, rue Georges Berger – 75017 Paris
- Holds 1,000 L'Oréal shares

MAIN CORPORATE OFFICE HELD OUTSIDE L'ORÉAL		
Eurazeo*[E]	Deputy CEO and Member of the Executive Board	
OTHER CORPORATE OFFICES AND DIRECTORSHIPS HELD		
French companies		
Eurazeo PME[E]	Chairwoman of the Supervisory Board	
Grandir[E] (Les Petits Chaperons Rouges investment)	Member of the Supervisory Board	
Asmodee Holding[E]	Chairwoman of the Supervisory Board	
Legendre Holding 43[E] (People Doc investment)	Chairwoman	
Legendre Holding 44[E] (Fintrax investment)	Chairwoman	
Legendre Holding 47[E] (Les Petits Chaperons Rouges investment)	Chairwoman	
Vivendi*	Member of the Supervisory Board	
Foreign companies		
Abasic SL (Spain) [E]	Director	
Eurazeo North America Inc. (USA)[E]	President	
Moncler SpA (Italy)*[E]	Vice-Chairwoman of the Board of Directors	
Other		
Human Rights Watch	Vice-President of Paris Committee	
CORPORATE OFFICES AND DIRECTORSHIPS OVER THE LAST FIVE YEARS THAT HAVE EXPIRED		**Expiry date of term of office**
French companies		
AccorHotels	Director	2016
Elis	Member of the Supervisory Board	2016
Holdelis	Member of the Board of Directors	2016
LH APCOA	Chief Executive Officer	2016
Legendre Holding 45	Chairwoman	2016
Legendre Holding 46	Chairwoman	2016
Elis	Chairwoman of the Supervisory Board	2015
Holdelis	Chairwoman of the Board of Directors	2014
Legendre Holding 33	Chairwoman	2014
Edenred	Director	2013
OFI Private Equity Capital (now Eurazeo PME capital)	Chairwoman of the Supervisory Board	2012
Foreign companies		
APCOA group GmbH (Germany)	Managing Director	2016
Broletto 1 Srl (Italy)	Chairwoman of the Board of Directors	2015
Euraleo Srl (Italy)	Managing Director	2015
APCOA Parking AG (Germany)	Chairwoman of the Supervisory Board	2014
APCOA Parking Holdings GmbH (Germany)	Chairwoman of the Advisory Board	2014
Intercos SpA (Italy)	Managing Director	2014
Sportswear Industries Srl (Italy)	Director	2013
Other		
Women's Forum (WEFCOS)	Member of the Board of Directors	2014

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

EILEEN NAUGHTON

American
Age: 59
Vice-President, People Operations at Google which she joined in 2006 after holding various responsibilities with Time Warner, including the position of President of Time group from 2002 to 2005, Eileen Naughton has been a Director of L'Oréal since April 20th, 2016.

EXPIRY DATE OF TERM OF OFFICE 2020

- Professional address: Google Inc – 1600 Amphitheatre Parkway, Mountain View, CA 94043, USA
- Holds 885 L'Oréal shares in the form of ADRs (American Depositary Receipts)

MAIN CORPORATE OFFICE HELD OUTSIDE L'ORÉAL		
Google Inc.*	Vice-President, People Operations	
CORPORATE OFFICES AND DIRECTORSHIPS OVER THE LAST FIVE YEARS THAT HAVE EXPIRED		**Expiry date of term of office**
Foreign companies		
Google UK & Ireland	Vice-President Managing Director	2016
XO group (USA)	Director	2014

* *Listed company.*

2.2.2. TABLE SHOWING THE COMPOSITION OF THE BOARD AT DECEMBER 31ST, 2016

	Independence	Expiry Date Of Current Tenure	Board Committees			
			Strategy & Sustainable Development	Audit	HR & Remuneration	Appointments & Governance
Mr. Jean-Paul AGON		2018	●			
Mrs. Françoise BETTENCOURT MEYERS		2017	•			
Mr. Peter BRABECK-LETMATHE		2017	•		•	•
Mr. Jean-Pierre MEYERS		2020	•		•	•
Mrs. Ana Sofia AMARAL	Employee Director	2018			•	
Mrs. Sophie BELLON	◆	2019		•		●
Mr. Charles-Henri FILIPPI	◆	2019		•	●	•
Mr. Xavier FONTANET	◆	2018	•			
Mrs. Belén GARIJO	◆	2018			•	
Mrs. Béatrice GUILLAUME-GRABISCH		2020		•		
Mr. Bernard KASRIEL	◆	2020	•			
Mr. Georges LIAROKAPIS	Employee Director	2018		•		
Mr. Jean-Victor MEYERS		2020		•		
Mrs. Virginie MORGON	◆	2017		●		
Mrs. Eileen NAUGHTON	◆	2020				

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

58
Average age of the Directors at 12/31/2016

7
independent Directors

46%
female Directors (excluding the Directors representing the employees)

2.2.3. CHANGES IN CORPORATE OFFICES AND DIRECTORSHIPS OF THE DIRECTORS

Changes in 2016

- Renewal of the tenures as Director of Mr. Jean-Pierre Meyers, Mr. Bernard Kasriel and Mr. Jean-Victor Meyers

  The Annual General Meeting held on April 20th, 2016 renewed the tenures of Mr. Jean-Pierre Meyers, Mr. Bernard Kasriel and Mr. Jean-Victor Meyers as Director for four years.

- Resignation of Mr. Louis Schweitzer as Director

  Appointed as a Director in 2005, Mr. Louis Schweitzer tendered his resignation to the Board of Directors, in accordance with the Internal Rules of the Board of Directors, as the 2016 Annual General Meeting was that following his 73rd birthday.

- Tenure as Director expiring in 2016: Mrs. Christiane Kuehne

  The tenure of Mrs. Christiane Kuehne, Head of the Food Strategic Business Unit at Nestlé until September 2015, expired at the end of the Annual General Meeting on April 20th, 2016.

- Appointment of Mrs. Béatrice Guillaume-Grabisch and Mrs. Eileen Naughton as Directors

  The Annual General Meeting held on April 20th, 2016 appointed Mrs. Béatrice Guillaume-Grabisch, General Manager of Nestlé Germany and Mrs. Eileen Naughton, Vice-President Managing Director Google UK & Ireland, for a four-year tenure.

Changes scheduled in 2017

- Renewal of the tenure as Director of Mrs. Françoise Bettencourt Meyers

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

  Mrs. Françoise Bettencourt Meyers has in-depth knowledge of the Company, of which she is extremely fond. She actively contributes to the quality of the Board's strategic debates. She has been a member of the Strategy and Sustainable Development Committee since 2012.

  She participated in all Board meetings and meetings of that committee in 2016.

- Renewal of the tenure as Director of Mrs. Virginie Morgon

  Mrs. Virginie Morgon has been a Director of L'Oréal since 2013, and is the Chairwoman of the Audit Committee.

  Mrs. Virginie Morgon is Deputy CEO of Eurazeo which she joined in 2008, after working for sixteen years with Lazard, and President and CEO of Eurazeo North America. Since January 2008, she has been a member of the Executive Board of Eurazeo. She is also a member of the Supervisory Board of Vivendi and Vice-President of the Paris Committee of Human Rights Watch.

  Highly committed, exercising freedom of judgment, she provides the Board with her recognised financial expertise and her dynamic and entrepreneurial vision of business.

  Mrs. Virginie Morgon participated in all the meetings of the Board and the Audit Committee in 2016.

- End of Mr. Peter Brabeck-Letmathe's tenure

  The tenure of Mr. Peter Brabeck-Letmathe expires at the close of the Annual General Meeting on April 20th, 2017. Mr. Peter Brabeck-Letmathe has informed the Board of Directors that he does not want his tenure to be renewed after the end of his office as Chairman of the Board of Directors of Nestlé in April 2017.

  At the Board meeting on February 9th, 2017, Mr. Jean-Paul Agon extended the Board's sincere thanks to Mr. Peter Brabeck-Letmathe for his active contribution to its work over the last twenty years: *"A visionary but also pragmatic, Peter Brabeck-Letmathe has made an exceptional contribution to our Board. His unfailing support, his strategic input and his commitment to strict governance standards have been very precious to the Board. His intimate consumer knowledge, his multicultural approach and his great intellectual rigour have been real assets in helping L'Oréal to tackle the major challenges of the last two decades"*.

- Appointment of a new Director in 2017: Mr. Paul Bulcke

  Following the proposal made by Nestlé and on the recommendation of the Appointments and Governance Committee, the Board of Directors submits the appointment of Mr. Paul Bulcke as Director to the Annual General Meeting for a tenure of four years.

  Mr. Paul Bulcke, Belgian, aged 62, who has been with Nestlé since 1979, pursued an international career in Latin America and then in Europe. He was appointed as Executive Vice-President of Nestlé SA in 2004 in charge of the Americas Divisions. He was Chief Executive Officer of Nestlé SA. from 2008 to 2016 and the Board of Directors of Nestlé has proposed to appoint Mr. Paul Bulcke as President of the Board of Directors of Nestlé S.A. (Annual General Meeting of 7 April 2017). He is also a Director of Roche Holding in Switzerland.

  Mr. Paul Bulcke was a Director of L'Oréal and a member of the Strategy and Sustainable Development Committee from 2012 until July 2014 . He resigned on July 2014 as the part of the reduction from 3 to 2 of the number of Nestlé representatives on the Board of Directors of L'Oréal (see paragraph 6.3.5 of the Registration Document).

The appointment of Mr. Paul Bulcke as Director for a tenure of four years is submitted to the Annual General Meeting.

On the basis of these proposals, the number of independent Directors would remain unchanged, representing 53.8% of the Board of Directors at 12/31/2016, and the percentage representation of women on the Board would also remain unchanged, at 46%.

2.2.4. THE GUIDING PRINCIPLES

2.2.4.1 Experienced Directors who complement one another

L'Oréal's Directors 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 strongly committed. These are all assets which contribute to the quality of the Board's deliberations in the context of the decisions that it is called on to make.

2.2.4.2 Two Directors representing the employees since July 2014

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

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

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

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

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

After an integration period of one year to allow them to know the Board's *modus operandi* and the main challenges faced by the Company, Mrs. Ana Sofia Amaral and Mr. Georges Liarokapis joined the Human Resources and Remuneration Committee and the Audit Committee respectively after the Annual General Meeting on April 22nd, 2015.

Their tenure covers a period of four years and they receive attendance fees according to the same allocation rules as the other Directors. The components of their remuneration as employees are not published.

2.2.4.3. Gender equity on the Board of Directors

At December 31st, 2016, out of a total of 13 Directors (excluding the 2 Directors representing the employees), 6 women are members of L'Oréal's Board of Directors, representing a proportion of 46%. In addition, 2 committees out of 4 are chaired by a woman: the Audit Committee and the Appointments and Governance Committee.

2.2.4.4. Independent Directors

All the Directors of L'Oréal have freedom of judgment

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

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

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

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

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

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

- the member must not be an employee or executive officer of the Company, employee or an executive officer or Director of a company that is consolidated by the Company, an employee, executive officer or Director of its parent company or of a company consolidated by this parent company and must not have held any of these positions during the previous five years;
- the member must not be an executive officer of a company in which the Company directly or indirectly holds the office of Director or in which an employee designated as such or an executive officer of the Company (either currently or having performed such duties within the last five years) holds an office as Director;

- the member must not be a customer, supplier, investment banker or financial banker which is important for the Company or its Group, or for which the Company or its Group represents a significant proportion of activities;
- the member must not have any close family links with a corporate officer;
- the member must not have been the Company's 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 December 7th, 2016, the Board of Directors examined, on a case-by-case basis, the situation of each of the members concerned in light of the independence criteria provided for in the AFEP-MEDEF Code.

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

(1) On the basis of the work carried out by the Appointments and Governance Committee, the Board of Directors analysed on December 7th, 2016 as it does every year, the financial flows that took place during the financial year between L'Oréal and the companies in which the Directors who qualify as independent also hold an office or perform duties.

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

Concerning the relations between L'Oréal and Citigroup France of which Mr. Charles-Henri Filippi is the Chairman, the Board noted that they were not significant in terms of their volume. Furthermore, the possibility for L'Oréal to use a panel of banks, in a competitive context, rules out all relationship of dependence. Furthermore, Mr. Charles-Henri Filippi is aware that he is under the obligation of notifying the L'Oréal Board of Directors of all situations constituting a conflict of interest, even if such conflict is only potential, and that he must refrain from participating in the corresponding deliberations and decisions. Furthermore, at Citigroup, he will not take part in the work that could concern L'Oréal. The business relations with Citigroup France are not therefore liable to affect Mr. Charles-Henri Filippi's independence.

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

(2) On the basis of the work conducted by the Appointments and Governance Committee, the Board of Directors carefully examined the situation of Mr. Xavier Fontanet and Mr. Bernard Kasriel whose tenures have exceeded 12 years. The Board of Directors took into account the objectiveness that Mr. Xavier Fontanet and Mr. Bernard Kasriel have always shown at the time of the debates and decisions of the Board and their ability to express their convictions and make a balanced judgment in all circumstances with regard to the General Management. Their experience at the very top level as senior management executives of large international groups gives them a perspective and authority enabling them both to challenge and support General Management in defining the Group's strategy. Their good knowledge of the Group adds to their well-informed, critical judgment capacity.

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

Finally, the Board considered that the experience of Mr. Xavier Fontanet and Mr. Bernard Kasriel on the Board are essential in light of the large number of recent appointments of new independent Directors and the integration of the Directors representing the employees. These qualities, combined with a good understanding of the challenges facing the Company, contribute to a great extent to the continuity of the Board's debates and help to put its decisions into perspective. In light of these elements of assessment concretely analysed with great care, the Board of Directors considered that the 12-year criterion, defined by the AFEP-MEDEF Code in addition to five other criteria, was not sufficient in and of itself for Mr. Xavier Fontanet and Mr. Bernard Kasriel to automatically lose the status of independent Director.

In sum, at December 31st, 2016, 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):

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

2.2.4.5. Responsible Directors

Handling of conflicts of interest

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

Thus, *"the Directors are under the obligation of notifying the Board of all situations constituting a conflict of interest, even if such conflict is only potential, and must refrain from participating in the corresponding deliberation"*. In this regard, on the basis of the reports made by each Director, the Board has not identified any conflict of interests. The information pursuant to Annex I of European regulation No. 809/2004 set out hereafter contains additional details in this respect.

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

Family relationships existing between the corporate officers or Directors (Article 11 of the Annex)

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

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

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

No conviction or incrimination of the corporate officers and Directors (Article 11 of the Annex)

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

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

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

The Company was informed of the participation, for 100 shares, by its Chairman and Chief Executive Officer, Mr. Jean-Paul Agon, in the collective lock-up agreements signed on December 16th, 2016 by Téthys SAS and the members of the Bettencourt Meyers family group under the Dutreil law. The Appointments and Governance Committee 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 or lead to consequences on the Company's governance, and informed the Board of Directors accordingly.

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

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

Stock market ethics

The Board took cognizance of the rules to be applied to prevent insider trading, in particular those resulting from European Market Abuse Regulation No. 596/2014 which came into application on July 3rd, 2016 and the recommendations of the French financial markets authority (the *Autorité des Marchés Financiers* or "AMF"), in particular regarding the periods during which it is prohibited to trade 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, in particular, fall into one of three main categories: strategic, linked to the definition and application of the Group's development policy; recurring, linked to the annual schedule for production and publication of annual and interim financial statements, regular releases or periodic meetings devoted to financial information; exceptional, linked to a specific programme, project or financial transaction.

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

L'Oréal shares precisely in certain periods and when they have access to inside information.

Lastly, Directors are required to notify the AMF of each transaction carried out by them or by persons closely affiliated with them related to L'Oréal shares. The Company reminds them regularly of this obligation (see section 2.7 *Summary of trading by Directors and corporate officers in L'Oréal shares in 2016*).

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 2016

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

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

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

The Directors can propose any subject that is appropriate for good governance for inclusion on the agenda for the work by the Board and its committees with complete independence.

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

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

2.3.1.2. Assiduous Directors

In 2016, the Board met 6 times. The attendance rate at Board meetings was 98% on average (compared with 96% in 2015). The attendance rate at Board Committee meetings is specified below.

The allocation of attendance fees, based on the rate of attendance by each of the Directors at Board meetings and presence at the meetings of its various committees, is described in section 2.4.

The rules on the breakdown of attendance fees allocated in respect of the 2016 financial year take into account the recommendations of the AFEP-MEDEF Code, with a predominant overall variable portion taking account of the rate of attendance at meetings of the Board and its committees.

2.3.2 THE ACTIVITIES OF THE BOARD OF DIRECTORS

2.3.2.1 General missions and Internal Rules

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

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

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

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

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

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

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

The Board is also informed throughout the year of developments in the cosmetics market, the results of competitors and the Group's relative positioning. The Board is thus completely up-to-date on L'Oréal's economic environment, the new challenges faced and the main changes in the cosmetics business.

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

In 2016, the Board attentively examined the main consumer trends and developments in the Group's competitive universe, particularly the Mass Market.

It was also informed of market organisation, in particular of the Chinese and Korean markets, consumer expectations, the characteristics of distribution, the importance and positioning of its main competitors on these markets. A presentation on this topic was made by the President of the Selective Divisions.

L'Oréal's Chief Digital Officer gave another a presentation of the challenges of the digital revolution and reported on the progress made by L'Oréal in this field. The Directors considered and discussed the opportunities that digital offers L'Oréal and the changes that this revolution entails on the mode of development of its brands.

The Directors reviewed in-depth the deployment of the commitments for 2020 under the *Sharing Beauty With All* Sustainable Development programme and the progress made. The Group's Director of Corporate Social Responsibility and Sustainability thus reported on the 2015 results for each of the four pillars of this programme (*Innovating Sustainably, Producing Sustainably, Living Sustainably* and *Developing Sustainably*) and stated L'Oréal priorities for 2016. She also described L'Oréal's *Carbon balanced* ambition and the projects associated with it that are currently being developed (see chapter 3).

The Directors received the Senior Vice-President and Chief Ethics Officer to review the ethical principles that guide the actions and behaviour of L'Oréal and of each of its employees in their business practices. He made a detailed presentation on the actions taken and the programmes and tools made available to employees. The Directors were able to measure the results obtained.

The Board also decided to interview the Executive Vice-President Human Resources on the Group's Human Resources policy. The debates concerned, in particular, progress made with regard to digitalisation and the Group's recruitment policy.

The Board went on a three-day trip to New York in June 2016 where a day was spent on a visit to the retail outlets during which the Directors were able to see various points of sale in New York and New Jersey. The Directors were welcomed to each sales outlet by the managers of the various Divisions or commercial entities and were able to talk with them; this was the case in particular at Sephora, Macy's, CVS, Walmart, Target, Ulta and Saloncentric but also the Kiehl's, The Body Shop and NYX Professional Makeup stores. Following these on-site visits, the Directors spent a day reviewing the strategy of L'Oréal USA. The Executive Vice-President of the Americas Zone initiated the reflections by presenting the main trends and profound changes in the Beauty market in the United States. He explained L'Oréal USA's results and its ambitions. The senior managers in charge of the various Divisions then described the issues specific to their brands. The Board was able to discuss the opportunities for development of the Group's business in the United States with each of them in-depth and openly.

The Board also contributes to the development of strategy, by analysing the interest of acquisitions, their impact on the Company's financial structure and on its long-term development capabilities. In 2016, the Directors looked at a number of projects, including IT Cosmetics, Atelier Cologne, the licence for the Saint-Gervais Mont-Blanc trademark and CeraVe, which all led to the signature of agreements.

The Board is very attentive to following up on the acquisitions made in previous years and asks for a report to be made to it regularly on the operations recently carried out: integration within the Group, synergies, complementarities, achievement of the business plan drawn up at the time of the acquisition and value created for L'Oréal.

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

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

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

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

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

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

2.3.3. THE ACTIVITIES OF THE BOARD COMMITTEES

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

The committees were again given responsibility by the Board for preparing its decisions in 2016. The composition of these committees, their remits and their work in 2016 are described in detail below.

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

STRATEGY AND SUSTAINABLE DEVELOPMENT COMMITTEE

COMPOSITION

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

The committee met 4 times in 2016, with an attendance rate of 100%.

It is specified that 2 members are part of the Bettencourt Meyers family and one member is from Nestlé.

MAIN REMITS

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

2016 MAIN ACTIVITIES

- Analysis of sales, update on business activities, markets and competition.
- Analysis of the performance of the latest product launches.
- Examination of the Group's strategic development prospects.
- Review of the main acquisition projects, and follow-up of recent acquisitions.

AUDIT COMMITTEE

COMPOSITION

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

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

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

The Audit Committee met 4 times in 2016, with an attendance rate of 96%.

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

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

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

The committee meets at least twice a year outside the presence of management, with the participation of the Statutory Auditors.

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

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

MAIN REMITS

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

2016 MAIN ACTIVITIES

- Review of annual, interim results and balance sheet.
- Review of Statutory Auditors' Reports.
- Review of 2016 audit plan of the Statutory Auditors and the results of the audits carried out, their recommendations and the follow-up actions taken, in application of the statutory audit of the accounts.
- Examination of the audits carried out by the Statutory Auditors with regard to social, environmental and societal (CSR) information, enlargement of the audit scope and improvement of reliability of the data having made it possible to issue an additional voluntary assurance report.
- Review of the approval procedures of non-audit services.
- Internal Audit assessment: the committee considered that the Internal Audit Department performed a thorough review of all key processes, using strict criteria. It also monitored the enlargement of the tasks of the Internal Audit Department with regard to CSR commitments.
- Internal Control: review of the measures taken to enhance Internal Control. The committee noted that operational risk management and control are effective.
- Information on legal risks and potential litigation and major events that could have a significant impact on L'Oréal's financial situation and on its assets and liabilities.
- Information Systems Security and Safety: the committee ensured that the infrastructures were solid, and made sure of the availability of applications and data and their integrity (traceability of operations and confidentiality of information). Presentation of cybersecurity programme.
- Follow-up of acquisitions business plan.
- Insurance policy.

APPOINTMENTS AND GOVERNANCE COMMITTEE

COMPOSITION

- Mrs. Sophie Bellon (Chairwoman)
- Mr. Peter Brabeck-Letmathe
- Mr. Charles-Henri Filippi
- Mr. Jean-Pierre Meyers

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

In 2016, the committee met 4 times with an attendance rate of 95%.

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

MAIN REMITS

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

2016 MAIN ACTIVITIES

- Analysis of the 2016 voting policies of the investors and proxy advisors with regard to governance topics (composition of the Board, balance of powers, tenures, independence of Directors, etc.).
- Reflection on composition of the Board (diversity, complementary profiles, skills, gender balance, holding of several offices, etc.),
- Selection and interviews with candidates and proposals to the Board for validation.
- Preparation and monitoring of the induction course for the new Directors.
- Reflection on composition of the Board Committees and proposals.
- Proposal to the Board concerning training for the Directors representing the employees for 2017.
- Examination of the independence of each of the Directors in light of the criteria set out in the AFEP-MEDEF Code.
- Determination of the terms and conditions of the annual evaluation of the Board.
- Analysis of the 2016 reports of the AMF and the *Haut Comité de Gouvernement d'Entreprise* (High Committee on Corporate Governance) and review of the AFEP-MEDEF Code revised in November 2016.
- Review of the succession plans with a view to ensuring the continuity of General Management.
- Review of the key positions in the organisation from the perspective of ensuring the continuity of business activities (in the short-term).
- Determination of the methods of organisation of executive sessions (meetings held without the presence of the executive officer) and review of the provisions of the Internal Rules.
- Review of the provisions of the Internal Rules concerning the entry into application of the European Market Abuse Regulation.
- Review of the provisions of the Internal Rules concerning the rules on the holding of the Company's shares by the Directors.

HUMAN RESOURCES AND REMUNERATION COMMITTEE

COMPOSITION

- Mr. Charles-Henri Filippi (Chairman)
- Mrs. Ana Sofia Amaral
- Mr. Peter Brabeck-Letmathe
- Mrs. Belén Garijo
- Mr. Jean-Pierre Meyers

The number of independent Directors is 2 out of 4, namely 50% (excluding the Director representing the employees).

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

In 2016, the committee met 5 times with an attendance rate of 97%.

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

MAIN REMITS

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

2016 MAIN ACTIVITIES

- Analysis of the 2015 performance of the executive officer and communication to the Board of a recommendation with regard to setting of the annual variable remuneration for 2015, and the objectives and weightings for 2016.
- Reflection concerning the annual variable remuneration structure of the executive officer and the objectives for 2017.
- Analysis of the 2016 voting policies of the investors and proxy advisors concerning remuneration issues.
- Say on Pay: preparation of draft resolutions:
  - resolution presented to the Annual General Meeting on April 20th, 2016,
  - resolution proposed to the Annual General Meeting of April 20th, 2017 on the components of remuneration paid to the executive officer in respect of 2016 (*ex post*);
- Analysis of the terms and conditions of implementation of the binding vote (*ex ante*) on the remuneration policy of the executive officer ("Sapin II" law) proposed to the Annual General Meeting on April 20th, 2017.
- Delivery of the Long-Term Incentives (LTI) plans: recording of the performances relating to the 2011 Stock Option plan and the 2012 ACAs plan.
- Long-Term Incentives Plans : preparation of the resolution proposed to the Annual General Meeting and Plan for the grant of performance shares (ACAs) of April 20th, 2016 and proposal for a grant to the executive officer.
- Attendance fees: allocation of the attendance fees. Recommendation to the Board concerning the schedule of fees applicable for 2017.
- AFEP-MEDEF Code revised in November 2016: review of the changes made concerning executive officer remuneration.

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.

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.

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

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

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

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

1. DUTIES AND AUTHORITY OF THE BOARD OF DIRECTORS

1.1. The general powers of the Bard

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

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

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

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

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

1.2. Relations between the General Management and the Board

1.2.1. Form of General Management

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

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

1.2.2. Powers of General Management

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

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

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

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

1.2.3. The duties of the General Management

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

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

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

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

2. COMPOSITION OF THE BOARD

2.1. The Directors

The Directors of the Company:

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

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

2.1.1. Independence

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

2.1.2. Diversity

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

2.1.3. Renewal of tenures

The length of the term of office of Directors is 4 years. However, the staggering of the terms of office is organised in order to avoid renewal of too many Directors all at once and favour the harmonious renewal of the Directors.

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

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

2.2. The Chairman of the Board

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

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

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

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

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

The Chairman of the Board must use his best efforts to promote the values and image of the Company at all times. The Chairman 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 DIRECTORS

3.1. Awareness of and compliance with regulatory texts, recommendations and obligations

Each of the members of the Board declares that he/she is aware of:

- the Company's Articles of Association;
- the legal and regulatory texts that govern French sociétés anonymes within the framework of the functioning of a Board of Directors and in particular the rules relating to:
  - the number of offices that may be held simultaneously,
  - the agreements and transactions concluded between the Director and the Company,
  - the definition of the powers of the Board of Directors,
  - the holding and use of inside information, which are set out hereafter in point 3.6.,
  - the recommendations defined by the AFEP-MEDEF Code;
- L'Oréal's Code of Ethics;
- L'Oréal's Stock Market Code of Ethics; and
- the provisions of these Rules.

3.2. Respect for the interests of the Company

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

The Directors are under the obligation of notifying the Board of all situations constituting a conflict of interest, even if such conflict is only potential, and must refrain from participating in the corresponding deliberations.

The Directors inform the Board every year of the offices and positions they hold in other companies and of any conflicts of interest, even if they are only potential, that they have identified (see Annual Report on independence under Article 4.4).

The Board furthermore discusses every year the assessment of whether or not the business relationships maintained between the companies in which the Directors hold their offices and the Company are significant. It reports on its evaluation in the Registration Document.

3.3. Obligation of diligence and provision of information

The Director must devote the necessary time and attention to his/her duties.

He/she must limit the number of offices held so as to ensure his availability.

A Director must not hold more than four other terms of office in listed companies outside the Group, including foreign companies. The Director concerned is given enough time to bring his/her situation into compliance with this rule, where required.

The Director must keep the Board informed of the terms of office held in other companies, including his/her participation on the Board Committees of such French or foreign companies.

An executive officer must not hold more than two tenures as Director in listed companies outside the Group, including foreign companies. The Director must ask for the Board's opinion before accepting a new corporate office in a listed company.

Each Board member undertakes to be diligent:

- by attending all Board meetings, where necessary by means of videoconference or telecommunication facilities, except in the case of a major impediment;
- by attending, wherever possible, all the General Shareholders' Meetings;
- by attending the meetings of the Board Committees of which he/she is a member.

In connection with decisions to be made, the Director must ensure that he/she has all the information he/she considers as essential for the smooth conduct of the work of the Board or the committees. If this information is not made available to him/her, or he/she considers that it has not been made available, he/she must request such information from the Chairman of the Board who is required to ensure that the Directors are in a position to perform their duties.

3.4. Training of Directors

All the Directors, and in particular those representing the employees, may benefit, on their appointment or throughout their directorship, from the appropriate training programmes for the performance of the office.

These training programmes are organised and proposed by the Company and are provided at its expense.

3.5. Obligation of reserve and confidentiality

The Directors undertake not to express themselves individually other than in the internal deliberations of the Board on questions raised at Board meetings.

Outside the Company, only collegial expression is possible, particularly in the form of releases intended to provide the markets with information.

With regard to information not in the public domain to which the Director has access as a result of his duties, the Director must consider him/herself to be bound by strict professional confidentiality, which is more demanding than the mere legal obligation of discretion. This obligation applies to all persons called on to attend Board meetings, and covers all information of a confidential nature and all information presented as confidential by the Chairman of the Board.

Beyond this legal obligation and to ensure the quality of the discussions of the Board of Directors, all the information given to Board members and the opinions they express have to be kept strictly confidential.

This obligation applies to any person invited to attend a Board meeting.

3.6. Stock market ethics

3.6.1. Principles

The Company has put in place a "Stock Market Code of Ethics" that is regularly updated, in particular to take into account changes in the regulations in force. This code was thus updated following the entry into application on July 3rd, 2016 of European regulation No. 596/2014 on market abuse (the "Market Abuse Regulation"). The Board members comply with the Principles of Stock Market Ethics "related to inside information" provided for by this code.

Inside information must only be used by the Director in the exercise of his office. Such information must in no case be communicated to a third party other than in the exercise of the Director's duties, and for any other purpose or any other activity than those for which it is held.

It is the duty of all Directors to refrain from trading in, having others trade in, or enabling others (including through recommendations or encouragements) to trade in the securities of the Company on the basis of this information, until such time as the information has been made public.

It is the personal responsibility of each Director to determine whether the information he/she holds is inside information or not, and accordingly whether he/she may or may not use or transmit any of the information, and whether he/she may or may not trade or have others trade in the Company's securities.

3.6.2. Abstention periods

During the period preceding the publication of any inside information to which Directors have access, in their capacity of insiders, the members of the Board must by law refrain from all trading in L'Oréal securities.

Furthermore, it is prohibited for them, in accordance with the Market Abuse Regulation and the recommendations of the French financial markets authority (AMF), to trade in the Company's shares over the following periods:

- a minimum of 30 calendar days before the date of publication of the press release on the annual and half-year results,
- a minimum of 15 calendar days before the date of publication of the press release on quarterly financial information.

The Directors are only authorised to trade in L'Oréal shares the day after the date of publication of the press release.

3.6.3. Insider trading

The Director has been informed of the provisions in force relating to the holding of inside information, insider trading and the unlawful disclosure of inside information: Articles 465-1 *et seq.*, L. 621-14 and L. 621-15, III c of the French Monetary and Financial Code and Articles 7 *et seq.* of the Market Abuse Regulation.

3.6.4. Obligation of reporting trading in the securities of the Company

In accordance with the applicable regulations, the Directors and closely associated persons, as defined by Article 3.1.26 of the Market Abuse Regulation, must inform the AMF of 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 calendar year in progress.

The Directors and closely associated persons must submit their declarations to the AMF by e-mail within 3 trading days following completion of the transaction.

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

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

On the AMF's secure website called ONDE after requesting identifiers by email sent to the following address (ONDE_Administrateur_Deposant@amf-france.org).

3.7. Holding of a minimum number of shares

In accordance with the AFEP-MEDEF Code and independently of any obligation to hold shares under the Articles of Association, the Directors must personally be shareholders of the Company and hold a significant number of shares.

Each Director shall own at least 1,000 shares in the Company. At the time of his/her appointment by the Annual General Meeting, every Director must hold at least 500 shares, with the remainder to be acquired at the latest within the next 24 months.

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

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

4. MODUS OPERANDI OF THE BOARD OF DIRECTORS

4.1. Convening the Board

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

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

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

4.2. Board meetings and method of participation

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

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

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

The Directors meet once a year without the presence of the executive officer, the Directors representing the employees and 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

Minutes are prepared of the deliberations of each Board meeting.

The minutes of the meeting mention the use of videoconference or telecommunication facilities and the name of each person who participated in the Board by such means. The minutes also indicate whether any technical incidents occurred during a meeting held by means of videoconference or telecommunication facilities, if such incidents disrupted the course of the meeting.

The minutes of the deliberations include a summary of the debates and specify the decisions that were made. They mention the questions raised or the reservations expressed by participants.

The draft minutes of the last Board meeting are sent or given to all the Directors at the latest on the date when the next meeting is convened.

The Secretary of the Board is empowered to issue and certify copies or extracts of the minutes of Board meetings.

4.4. The Secretary of the Board

The Secretary is appointed by the Board. He/she assists the Chairman in organising the Board's work and in particular with regard to the definition of the annual work programme and the dates of Board meetings.

With the support of the General Management, he/she ensures the quality and production, sufficiently in advance, of the documents and drafts put to the vote of the Board at its meetings.

He/she prepares the draft minutes of Board meetings, which are submitted for the Board's approval.

He/she is responsible for the secure IT platform made available to the Directors.

He/she monitors on an ongoing basis changes in the regulations and reflections in the marketplace with regard to the corporate governance of listed companies.

The Secretary organises, together with the Chairman, the annual evaluation of the Board's work and receives the Annual Reports on independence by each Director (see Article 3.2).

Every Director may consult the Board Secretary at any time with regard to the scope of the rights and obligations linked to his/her office.

4.5. Annual evaluation of the modus operandi of the Board

Every year, the Board carries out an evaluation of its ability to respond to the expectations of the shareholders by reviewing its composition, its organisation and its *modus operandi*.

At its last meeting for the year and on the basis of a summary of the interviews that are previously organised and conducted with each Director, on the basis of a guide which includes the recommendations adopted by the AFEP-MEDEF Code, the Board discusses points of view and opinions expressed. It draws the conclusions from this with the aim of improving the conditions for the preparation and organisation of its work and that of its committees.

The results of the evaluation, with the avenues of progress that remain open, are passed on to the shareholders in the Annual Report and at the time of the General Shareholders' Meeting.

5. BOARD COMMITTEES

When the Board sets up committees, it appoints the members of these committees and determines their duties and responsibilities.

These committees act within the remit granted to them by the Board and therefore have no decision-making power. The committees may not at any time take over the powers of the General Management as set out in chapter 1.2.2. of these Rules.

The committee members are Directors. They are appointed by the Board in person and may not be represented. All Board members have the necessary qualifications due to their professional experience. They actively take part in Committee meetings with complete freedom of judgement and in the interest of the Company.

The task of secretary of each committee is carried out by a person appointed in agreement with the Chairman/Chairwoman of the committee. It may also be performed by the Secretary of the Board.

Each committee defines the frequency of its meetings. These meetings are held at the Company's registered head office or at any other place decided by the Chairman/Chairwoman of the committee.

The Chairman/Chairwoman of each committee prepares the agenda for each meeting.

The committees may make contact, in the performance of their duties, with the Company's main senior managers, in agreement with the Chairman of the Board and after informing the General Management and will report on such contacts to the Board.

The Board may entrust a committee Chairman/Chairwoman, or one or more of its members, with a special assignment or project to carry out specific research or study future possibilities. The designated individual will report on this work to the committee concerned such that the committee may deliberate on this work and in turn report thereon to the Board.

For each Committee meeting, its members may decide to invite any other person of their choice to attend as needs be and on an advisory basis, when they consider it appropriate.

In its field of competence, each committee makes proposals and recommendations and expresses opinions as the case may be. For this purpose, it may carry out or have carried out any studies that may assist in the deliberations by the Board. When they use the services of external consultants, the committees must ensure that their service is objective.

5.1. Strategy and Sustainable Development Committee

5.1.1. Remit

The remit of the Strategy and Sustainable Development Committee is to throw light, through its analyses and debates, on the Group's strategic orientations as submitted to the Board of Directors and to monitor the implementation and advancement of significant operations in progress.

The committee examines:

- the main strategic lines of development, options and projects presented by the General Management, and their economic, financial, societal and environmental consequences;
- opportunities for acquisitions or investments which involve significant amounts or which represent a departure from the Group's usual business operations, and the conditions relating to their implementation;
- financial transactions liable to significantly change the balance sheet structure;
- the Company's commitments with regard to Sustainable Development, in light of the issues specific to the Group's business activities and its objectives, and the means and resources put in place;
- the proposed strategic orientations to be defined by the Board with a view to consultation of the Central Works Council.

More generally, the committee debates all questions considered essential for the future strategy of the Group and for preserving its main financial balances.

5.1.2. Work organisation

It meets when convened by the Chairman/Chairwoman of the committee whenever he/she or the Board considers this appropriate.

The agenda of the meetings is set by the Chairman/Chairwoman of the committee, in conjunction with the Board of Directors if the Board initiates the meeting.

The Strategy and Sustainable Development Committee reports on its work to the Board whenever necessary, and at least once a year.

5.2. Audit Committee

5.2.1. Remit

The Audit Committee, acting under the responsibility of the members of the Board, is responsible for monitoring issues relating to the preparation and control of accounting and financial information, the Internal Control and risk management systems, and questions relating to the Statutory Auditors.

The Audit Committee must make sure that the General Management has at its disposal the means to enable it to identify and manage the economic, financial and legal risks facing the Group inside and outside France in carrying out its normal or exceptional operations.

Without prejudice to the areas of authority of the Board of Directors, this committee is responsible in particular for:

- carrying out the process for preparation of financial information and, where applicable, making recommendations to guarantee the integrity thereof.

  The committee is informed of the accounting rules applicable within the Group. Any issues that may be encountered in the due and proper application of such rules are referred to it. It examines any proposal for a change in accounting standards or in accounting methods and keeps itself informed in particular with regard to accounting standards at national and international level.

  The review of the accounts by the Audit Committee is accompanied by a presentation by the Vice-President, Finance describing the Company's significant off-balance sheet commitments.

- monitoring the efficiency of the Internal Control and risk management systems, and Internal Audit, in order to obtain reasonable assurance with regard to their effectiveness and their coherent application.

  It is also responsible for monitoring the Group's main risk exposures and sensitivities. The committee reviews, in particular, the programme and objectives of the Internal Audit Department and reviews the main topics that it identifies as well as the Internal Control systems methods and procedures used.

  It reviews every year the section of the Management Report relating to "risk factors" and the Report of the Chairman of the Board relating to Internal Control and risk management procedures.

  The Audit Committee's review of the financial statements is accompanied by a presentation by the Vice-President, Finance describing the Company's exposure to significant risks.

- Monitoring the performance by the Statutory Auditor of its statutory audit engagement in respect of the annual and, where applicable, the consolidated accounts by the Statutory Auditors.

  It reviews the audit plan and the Statutory Auditors' work programme, the results of their audits, their recommendations and the follow-up action taken further to such recommendations.

  It reviews the breakdown of the fees billed by the Statutory Auditors between audit services as such, audit-related work and any other services they provide.

  It takes into account the findings and conclusions of the *Haut Conseil du Commissariat aux Comptes* (the Superior Council of Statutory Auditors) following the audits carried out pursuant to Articles L. 821-9 *et seq.* of the French Commercial Code.

- Making sure that the Statutory Auditors comply with their independence requirements.

  It makes a recommendation with regard to the Statutory Auditors proposed to the Annual General Meeting for appointment and when their renewal is envisaged 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 *Charte des prestations de services pouvant être confiées aux Commissaires aux comptes du Groupe L'Oréal et à leurs réseaux* ("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") adopted by the Audit Committee at its meeting on December 6th, 2016 and approved by the Board of Directors at its meeting on February 9th,2017.

It makes a decision on this issue after having analysed the risks with regard to the independence of the Statutory Auditors and the protection measures they apply. The committee can thus approve each non-audit service on a case-by-case basis or approve a set of services.

- Reporting regularly to the Board on the performance of its remit. It also reports on the repercussions of the audit engagement, the way in which this engagement contributed to the integrity of financial information and the role that it played in this process. The committee informs the Board of Directors without delay of any difficulty encountered.

This monitoring enables the committee to issue recommendations, if necessary, concerning the improvement of existing processes and the possible setting up of new procedures.

The Audit Committee can be consulted for all questions relating to procedures for controlling risks of an unusual nature, particularly when the Board or the General Management considers it appropriate to submit such questions to it.

5.2.2. Composition

All the Directors who are members of this committee have the necessary qualifications due to their professional experience and their good knowledge of the Group's accounting and financial procedures.

As soon as they are appointed, the members of the Audit Committee must receive specific information on the Company's accounting, financial or operational particularities.

The appointment or renewal of the Chairman/Chairwoman of the Audit Committee, proposed by the Appointments and Governance Committee, must be the subject of a specific review by the Board.

The Chairman and Chief Executive Officer or the Chief Executive Officer is not a member of the Audit Committee.

5.2.3. Work organisation

The Chairman/Chairwoman of the Audit Committee issues guidelines for the committee's work each year, based on his/her judgement concerning the importance of the specific types of risk faced, in agreement with the General Management and the Board.

The committee meets when convened by its Chairman/Chairwoman, whenever the Chairman/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 the General Management, obtain information from people who are able to assist it in the performance of its tasks, and in particular senior managers in charge of economic and financial issues and those in charge of information processing.

5.2.3.1. Relations with the Statutory Auditors

The committee regularly interviews the Statutory Auditors, including outside the presence of management.

The Statutory Auditors inform the Audit Committee of:

1. their general work programme implemented as well as the various sampling tests they have carried out;
2. the changes which they consider should be made to the financial statements to be closed off or other accounting documents, making any appropriate observations on the valuation methods used to prepare them;
3. the irregularities and inaccuracies they may have discovered;
4. the conclusions resulting from the above observations and rectifications with regard to the results for the period compared to those for the previous period.

The Statutory Auditors also assess, with the Audit Committee, the risks with regard to their independence and the protective measures taken to mitigate these risks. For this purpose, the committee obtains a statement of independence from the Statutory Auditors.

They inform the committee of significant Internal Control weaknesses, with regard to the procedures for preparation and processing of accounting and financial information, and provide it with the documents required by law every year.

5.2.3.2. Activity Report

The Audit Committee regularly reports to the Board on the performance of its remit and takes note of the Board's observations.

The committee informs the Board without delay of any difficulty encountered.

In its report, the Audit Committee makes the recommendations it considers appropriate with regard to:

- the suitability of the various procedures and of the system as a whole in terms of achieving the objective of managing information and risk;
- the effective application of the procedures in place, and where appropriate the means implemented to achieve this aim.

It also formulates in its report all recommendations and proposals aimed at improving the effectiveness of the various procedures or at adapting them to a new situation.

If during its work, the committee detects a substantial risk which in its view is not adequately taken into account, it warns the Chairman of the Board accordingly.

5.3. Appointments and Governance Committee

5.3.1. Remit

The main tasks of the Appointments and Governance Committee, within the context of the work of the Board, are to:

- review and propose to the Board candidates for appointment as new Directors;
- provide the Board with clarifications on the conditions of performance of General Management and the status of the executive officers;
- issue an opinion on proposals made by the Chairman of the Board for appointment of the Chief Executive Officer;
- ensure the implementation of a procedure for preparation of succession plans for the executive officers in the event of an unforeseen vacancy;
- ensure the application of the AFEP-MEDEF Code to which the Company refers;
- discuss governance issues related to the functioning and organisation of the Board;
- decide on the conditions in which the regular evaluation of the Board is carried out;

- discuss the classification of Directors as independent which is reviewed by the Board every year prior to publication of the Annual Report;
- conduct the reflection process with regard to the committees that are in charge of preparing the Board's work;
- prepare for the decisions by the Board with regard to updating its Internal Rules.

5.3.2. *Work organisation*

The committee meets after being convened by its Chairman/Chairwoman whenever the Chairman/Chairwoman or the Board considers it useful.

The agenda of the meetings is set by the Chairman of the committee, in relation with the Board if the latter initiated the convening of the meeting.

The committee may meet at any time it considers to be appropriate, for example to assess the performance of the Company's senior managers.

The Chairman of the Board is associated with its work, except with regard to all the topics concerning him personally.

The committee must regularly report on its work to the Board and makes proposals to the Board.

5.4. The Human Resources and Remuneration Committee

5.4.1. *Remit*

The Board freely determines the remuneration of the Chairman, the Chief Executive Officer and the Deputy Chief Executive Officers.

Within this framework, the main tasks of the Human Resources and Remuneration Committee are to make proposals with regard to the following in particular:

- the fixed and variable remuneration of the Chairman of the Board and any other benefits he receives;
- the fixed and variable remuneration of the Chief Executive Officer and any other benefits he receives (pension, termination indemnities, etc.);
- the total amount of attendance fees to be submitted to the General Shareholders' Meeting and the method of distribution of such fees;
- the implementation of long-term incentive plans, such as, for example, those that could provide for the distribution of stock options or for free grants of shares.

The committee looks at the questions relating to the remuneration of the executive officers outside their presence.

The committee also examines:

- all the other components of the Human Resources policy such as, for example, labour relations, recruitment, diversity, talent management and fostering employee loyalty. Within this framework, the committee is informed in particular of the remuneration policy for the main senior managers who are not executive officers;
- the rules of ethical conduct, as set out in the Code of Business Ethics, and the Group's strong values, such as respect and integrity, that must be widely disseminated, known and put into practice.

5.4.2. *Work organisation*

The committee meets when convened by its Chairman/Chairwoman, whenever the Chairman or Board considers this appropriate. The agenda of the meetings is set by the Chairman/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 of the Board is associated with its work, except with regard to all the topics concerning him personally. The committee is required to report regularly on its work to the Board and make proposals to the Board.

6. REMUNERATION OF THE EXECUTIVE OFFICERS

The Directors receive attendance fees in the amount approved by the vote at the Ordinary General Meeting, and which are allocated as decided by the Board.

The method of allocation of attendance fees comprises a predominant variable portion determined on the basis of the regularity of attendance at Board and Committee meetings.

The Board of Directors may award exceptional remuneration for specific assignments or projects entrusted to the Directors and subject to regulated agreements.

The Directors have the possibility of asking for reimbursement of the expenses necessary for the performance of their corporate office upon presentation of supporting documents.

2.4. REMUNERATION OF THE MEMBERS OF THE BOARD OF DIRECTORS

The Directors receive attendance fees in the maximum amount approved by the vote at the Ordinary General Meeting, and which are allocated as decided by the Board.

2.4.1. RULES FOR ALLOCATION IN RESPECT OF THE 2016 FINANCIAL YEAR

The amount of attendance fees divided between the Directors includes a predominant variable portion depending on the degree of regularity in attending meetings, in accordance with the provisions of the AFEP-MEDEF Code. The Board adopted the following rules for a full year:

Board of Directors	Fixed annual sum	Amount per Board meeting	Total amount for the Board of Directors (on the basis of 6 meetings a year)
	€30,000	€5,000	€60,000
Board Committees	Fixed annual amount (40%)	Variable annual amount (60%)*	Total amount per committee**
Audit	€10,000	€15,000	**€25,000**
Strategy and Sustainable Development	€6,000	€9,000	**€15,000**
Appointments and Governance	€4,000	€6,000	**€10,000**
Human Resources and Remuneration	€4,000	€6,000	**€10,000**

* *Allocated on the basis of the attendance rates at Committee meetings.*
** *On the basis of a 100% attendance rate.*

The attendance fees allocated to the Chairman/Chairwoman of each of these committees are doubled and also consist of a fixed part of 40% and a variable part of 60%.

2.4.2. AMOUNTS PAID IN RESPECT OF THE 2016 FINANCIAL YEAR

A total amount of €1,173,550, which falls within the maximum overall amount of €1,450,000 voted by the Annual General Meeting on April 17th, 2014, was distributed to the Directors at the beginning of 2017 in respect of the 2016 financial year, for a total of 6 meetings of the Board of Directors and 17 Committee meetings.

The average attendance rates at meetings are 98% on average for the Board of Directors in 2016, 100% for the Strategy and Sustainable Development Committee, 96% for the Audit Committee, 95% for the Appointments and Governance Committee and 97% for the Human Resources and Remuneration Committee.

It is to be noted that the Board of Directors has placed on record the wish expressed by Mr. Jean-Paul Agon in 2014 to no longer receive attendance fees in his capacity as Chairman and Chief Executive Officer.

Mr. Jean-Paul Agon thus receives no attendance fees from companies of the L'Oréal Group.

AMOUNTS OF ATTENDANCE FEES ALLOCATED (€)

Directors	**2016 financial** *(total f 6 meetings and 17 Committee meetings)*	2015 financial year *(total of 6 meetings and 18 Committee meetings)*
Mr. Jean-Paul Agon	0	0
Mrs. Françoise Bettencourt Meyers	75,000	70,000
Mr. Peter Brabeck-Letmathe	95,000	85,200
Mr. Jean-Pierre Meyers	95,000	95,000
Mrs. Ana-Sofia Amaral	70,000	66,000
Mrs. Sophie Bellon	85,000	50,000
Mr. Charles-Henri Filippi	105,500	105,000
Mr. Xavier Fontanet	77,500	80,000
Mrs. Belén Garijo	63,800	61,000
Mrs. Béatrice Guillaume-Grabisch*	68,750	-
Mr. Bernard Kasriel	83,000	95,000
Mrs. Christiane Kuehne*	16,250	85,000
Mr. Georges Liarokapis	85,000	78,750
Mr. Jean-Victor Meyers	85,000	81,250
Mrs. Virginie Morgon	97,500	85,000
Mrs. Eileen Naughton*	45,000	-
Mr. Louis Schweitzer*	26,250	120,000
TOTAL	**1,173,550**	**1,157,200**

* *Directors whose term of office began or ended during the 2016 financial year.*

2.4.3. RULES FOR ALLOCATION IN RESPECT OF THE 2017 FINANCIAL YEAR

Within the scope of the maximum overall amount of €1,450,000 voted by the Annual General Meeting on April 17th, 2014, the Board of Directors decided to change for 2017 the conditions of allocation of attendance feels concerning Board meetings, that have been unchanged since 2005: the amount of the attendance fees per Board meeting is set for 2017 at €6,500 per meeting (instead of €5,000), the fixed part remaining unchanged (€30,000/year).

2.5. REMUNERATION OF THE EXECUTIVE OFFICERS

2.5.1. REPORT ON THE PRINCIPLES AND CRITERIA FOR DETERMINATION, ALLOCATION AND DISTRIBUTION OF THE REMUNERATION APPLICABLE TO THE EXECUTIVE OFFICERS, DUE TO THEIR CORPORATE OFFICE, AS PROVIDED FOR BY ARTICLE L. 225-37-2 OF THE FRENCH COMMERCIAL CODE

Pursuant to Article L. 225-37-2 of the French Commercial Code, as introduced by the law relating to transparency, the fight against corruption and the modernisation of economic life known as the Sapin II law, the Annual General Meeting on April 20th, 2017 is called upon, by voting resolution No. 7 on chapter 7 of the Registration Document to approve, on the basis of this report, the principles and criteria for determination, allocation and distribution of the fixed, variable and exceptional components of the total remuneration and benefits of all kinds that may be granted to the executive [1] officers [1], due to their corporate office.

It is specified, pursuant to Article L. 225-37-2, that the payment of the variable and exceptional components, in respect of the 2017 financial year, is conditional on the approval thereof by the Annual General Meeting called upon to approve the financial statements for the 2017 financial year.

At the present time, Mr. Jean-Paul Agon, in the capacity of Chairman and Chief Executive Officer, is the only executive officer concerned by this report.

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

The Board refers, in particular, to the recommendations of the AFEP-MEDEF Code for the determination of the remuneration and benefits granted to the executive officers.

In accordance with these recommendations, it makes sure that the remuneration policy complies with the principles of comprehensiveness, balance, comparability, consistency, transparency and proportionality, and takes into account market practices.

Appointment as executive officers of employees who have completely succeeded in the various stages of their careers in the Group

L'Oréal's constant practice has been to appoint as executive officers employees who have completely succeeded in the various stages of their careers in the Group.

The remuneration policy applicable to the executive officers is the logical result of this choice.

It must make it possible to attract the most talented employees of L'Oréal to the very top positions in General Management, without them being deprived for all that, after a long career in the Group, of the benefits to which they would have continued to be entitled had they remained employees.

To achieve this objective, the Board of Directors decided to maintain the employment contracts of the executive officers who have at least 15 years of length of service in the Group and ensured that the benefits under the suspended employment contract are not combined with those in respect of the corporate office.

This is why the Board of Directors has decided to make a clear distinction between:

- firstly, the remuneration components related to the corporate office that are the subject matter of this report: fixed and variable remuneration and grant of performance shares;

  The policy adopted by the Board for each of these components and the breakdown thereof are set out in sections 2.5.1.2. of this report;

- secondly, the other benefits that may be due pursuant to the suspended employment contract and calculated on the basis of the remuneration on the date of suspension of the employment contract: termination indemnities, retirement indemnities in the event of voluntary retirement or retirement at the Company's request, financial consideration for the non-competition clause, defined benefit pension scheme.

  All these benefits do not relate to the corporate office and are therefore not covered by this report. The Chairman and Chief Executive Officer's benefits were approved by the Annual General Meeting on April 27th, 2010 deciding on the basis of the Statutory Auditors' Special Report. Informations relative to benefits attached to suspended employment contract are developed in section 2.5.2 of this Chapter.

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

The executive officers' remuneration policy is in line with the policy which was applied to the executive officer as a 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.

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

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

This remuneration is assessed overall, namely by taking into account all the components that make it up.

To assess the competitiveness of this remuneration, a coherent and stable reference panel is defined with the assistance of an external consulting firm.

It is made up of French and international companies that hold the position of global leader. These companies operate on similar markets and are, in the cosmetics sector, direct competitors of L'Oréal, or operate on the wider everyday consumer goods market, as regards all or part of their business activities.

This panel is composed, for 2017, of the remuneration of the executive officers of the following companies:

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

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

Remuneration that is directly linked to the Company's strategy

a) Close links with 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 objectives that are directly correlated with those of the Company and create value

The Board of Directors chooses to correlate the executive officer's performance directly with the Company's performance by using the same performance indicators, in particular of a financial nature.

The choice of correlating the performance criteria for the executive officer's remuneration with the Company's performance indicators, particularly those of a financial nature, is the guarantee of a decipherable, relevant remuneration policy.

These criteria make it possible to assess L'Oréal's intrinsic performance, namely its progress year-on-year *via* internal performance indicators and also its relative performance as compared to its market and its competitors *via* external growth indicators.

The objectives adopted generate long-term value creation. In particular, the choice of varied operational financial criteria aims at encouraging durable, balanced growth. An overall long-term performance results from the convergence of these criteria.

These objectives also have to be an incentive for the executive officer to adapt the Group's strategy to the profound transformations in the world of beauty, and the digital revolution in particular.

c) Predominant share of remuneration subject to performance conditions

The executive officers' remuneration has to include a predominant portion subject to performance conditions, with annual and multi-annual assessment periods adapted to the time horizon of each of these objectives.

Remuneration that is directly in line with the Group's ambitious social, societal and environmental commitments

The remuneration must be designed to favour a regular and sustainable development, in line with the Group's commitments with regard to ethics, and respectful towards the environment in which L'Oréal operates.

The annual variable portion of the remuneration is based on extra-financial criteria, in particular relating to environmental and societal commitments and Human Resources, which will be assessed year-on-year in a long-term perspective.

Remuneration that creates medium or long-term value for the shareholders

The executive officers' remuneration must be linked to the changes over the medium to long-term in the Company's intrinsic value and in share performance.

A significant portion of the executive officers' remuneration thus consists of performance shares, a significant percentage of which is retained until the end of their corporate office, with the undertaking not to carry out risk hedging transactions.

This leads to alignment with the shareholders' interests, understood as long-term value creation (see paragraph 6.5.2.2. Total Shareholder Return).

2.5.1.2. Policy with regard to fixed and variable remuneration and grant of performance shares

The allocation key for the annual remuneration

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

It does not include any exceptional components.

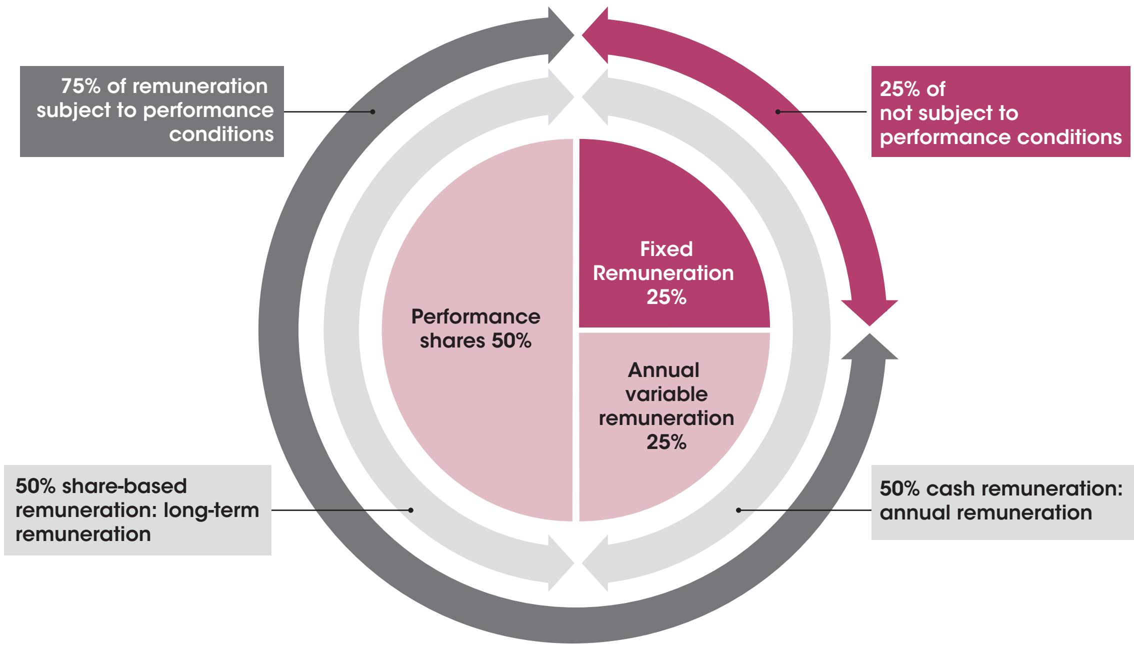
The Board of Directors adopts the various components of this remuneration, paying attention to the necessary balance between each of them.

Each component of annual remuneration corresponds to a well-defined and clearly substantiated objective.

The various components of annual remuneration form a balanced whole with a breakdown that is approximately:

- 50/50 between fixed and annual variable remuneration on the one hand and long-term remuneration (performance shares) on the other;
- 50/50 between cash remuneration and share-based remuneration;
- 75/25 between remuneration subject to performance conditions and remuneration not subject to performance conditions.

DIAGRAM SHOWING THE BALANCE BETWEEN THE DIFFERENT COMPONENTS OF ANNUAL REMUNERATION



N.B.: the employer's contributions financing the additional social protection plans are to be added to the above.

Fixed remuneration

The fixed remuneration must reflect the responsibilities of the executive officer, his level of experience and his skills.

It is stable for several years and may be re-examined at the time of renewal of the term of office. It serves as a basis to determine the maximum percentage of annual variable remuneration.

Annual variable remuneration

Annual variable remuneration is expressed as a percentage of fixed remuneration and can amount to up to a maximum of 100% of the fixed remuneration.

It must not lead to taking inappropriate, excessive risks. For this purpose, it must remain reasonable in comparison with the fixed portion.

It is designed to align the remuneration allocated to the executive officer with the Group's annual performance and to promote the implementation of its strategy year after year.

The variable remuneration is based on precise performance appraisal criteria determined at the beginning of the year by the Board of Directors.

It consists for 60%, of financial criteria that are directly correlated with the Company's performance indicators:

- growth in comparable sales as compared to the budget;
- growth in market share as compared to the main competitors;
- growth in operating profit as compared to the previous year;
- growth in net earnings per share as compared to the previous year;
- growth in cash flow as compared to the previous year.

And for 40% of:

- extra-financial criteria related, in particular, to progress in the *Sharing Beauty With All* sustainable development programme and implementation of the Human Resources and digital development policy;
- as well as qualitative criteria.

The financial and extra-financial criteria are simple and quantifiable. They represent a predominant portion of the annual variable remuneration.

A limit on the qualitative portion is set every year.

The weighting of each of the criteria and the objectives to be met are set at the beginning of the year concerned and communicated to the executive officer.

Other benefits

a) Award of performance shares

Since 2009, the Board of Directors has awarded performance shares to employees of the Group and, since 2012, also to its executive officer, within the scope of Articles L. 225-197-1 *et seq.* of the French Commercial Code and the authorisations voted by the Annual General Meeting.

The objective of these awards is to encourage achievement of the Group's long-term objectives and the resulting value creation for the shareholders. Consequently, the final vesting of the shares is subject to performance conditions which are recorded at the end of a vesting period of 4 years as from the date of grant.

The value of these shares, estimated at the date of grant according to the IFRS applied for the preparation of the consolidated financial statements, represents approximately 50% of the executive officer's total remuneration and may not exceed 60%.

The Board of Directors reserves the possibility to decide on an additional grant in the event of a particular event that justifies it.

The total number of free shares granted to the executive officers during a financial year may not represent more than 10% of the total number of free shares granted in respect of that same financial year.

The executive officer is required to retain 50% of the free shares finally allocated to him at the end of the vesting period in registered form until the termination of his duties.

The executive officer makes a formal undertaking not to enter into any risk hedging transactions with regard to the performance shares, until the end of the holding period set by the Board of Directors.

An executive officer may not be awarded performance shares at the time of his departure.

Performance conditions

The performance criteria concern all the shares granted to the executive officer.

They take into account partly:

- growth in comparable 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 in this regard that these two criteria, assessed over a long period of 3 full financial years and reapplied to several plans, are complementary, in line with the objectives and specificities of the Group and of a nature to promote continuous, balanced long-term growth. They are exacting but remain a source of motivation for the beneficiaries.

The shares only finally vest at the end of a period of 4 years, which is a sufficiently long time to be able to assess the performance achieved over 3 full financial years.

Thresholds for final vesting:

Pursuant to the criterion related to sales, in order for all the free shares granted to finally vest at the end of the vesting period, L'Oréal has to outperform the average growth in sales of the panel of competitors, which is made of the following companies : Unilever, Procter & Gamble, Estée Lauder, Shiseido, Beiersdorf, Johnson & Johnson, Henkel, LVMH, Kao, Coty. Below that level, the grant decreases. The Board defines a threshold, which is not made public for confidentiality reasons, below which no share will finally vest pursuant to this criterion.

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

The results recorded each year to determine the levels of performance achieved are published in chapter 6.

Consequences on the performance shares in the event of departure

The right to the performance shares is lost in the event of departure from the Group due to resignation (other than in the case of termination of corporate office in connection with the exercise of pension rights under applicable retirement regimes) or termination for gross misconduct or gross negligence. In any case, the final vesting of the shares remains subject to achievement of the performance conditions.

The choice made by the Board of maintaining, except in the above-mentioned cases, the entitlement to the grants of performance shares to the executive officer in the event of departure prior to expiry of the vesting period is motivated by the following considerations. The performance shares represent a predominant component of the executive officer's annual remuneration assessed during their year of grant; they are the consideration for the performance of his corporate office subject to achievement of long-term performances. The maintenance thereof incites the executive officer to take a long term view.

b) Attendance fees

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

c) Benefits in addition to remuneration

- Benefits in kind

It is not planned to supplement the executive officer's fixed remuneration by granting benefits in kind.

The executive officer benefits from the necessary material resources for performance of his office such as, for example, the provision of a car with a chauffeur. These arrangements, which are strictly limited to professional use, are not benefits in kind.

- Additional social protection schemes

The executive officer continues to be treated in the same way as a senior manager during the term of his corporate office which allows him to continue to benefit from the additional social protection schemes and, in particular, from the employee benefit and healthcare schemes applicable to the Company's employees.

The amount of the employer's contributions concerning the defined contribution pension scheme will be deducted from the pension due in respect of the defined benefit pension in accordance with the provisions of this collective scheme.

2.5.1.3. Breakdown of the components of remuneration for the 2017 financial year applicable to Mr. Jean-Paul Agon, only executive officer concerned by this Report

	Amount	Presentation
Fixed remuneration	€2,200,000	At its meeting on February 9th, 2017, and on the proposal of the Human Resources and Remuneration Committee, the Board of Directors decided to maintain the amount of Mr. Jean-Paul Agon's fixed remuneration at a gross amount of €2,200,000 on an annual basis.
Variable annual remuneration	**Cap 100% of the fixed remuneration**	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. It is expressed as a percentage of fixed remuneration and this percentage may amount to a maximum of 100% of the fixed remuneration. **CRITERIA FOR ASSESSMENT OF THE PERFORMANCE FOR 2017** — **Weightings** ◆ **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 2016 — *10%* ◆ Growth in net earnings per share as compared to 2016 — *10%* ◆ Growth in cash flow as compared to 2016 — *10%* ◆ **EXTRA-FINANCIAL AND QUALITATIVE CRITERIA** — **40%** ***Quantifiable criteria:*** CSR (*Sharing Beauty With All* programme): Innovating sustainably, Producing sustainably, Living sustainably; Developing sustainably; Human Resources : Gender equity, Development of talented employees, Access to training; Digital Development — *25%* ***Individual qualitative performance:*** Management, Image, the Company's reputation, Dialogue with stakeholders. — *15%* The quantifiable criteria, financial (60%) and extra financial (25%), represent 85% of the annual variable remuneration. The weighting of each of these criteria, both financial, extra-financial and qualitative, and the objectives to be met were set at the start of the year and communicated to the executive officer. The assessment is made without offsetting among criteria. Pursuant to Article L. 225-37-2 of the French Commercial Code, payment of the annual variable remuneration is conditional on approval by the Annual General Meeting called upon to approve the 2017 financial statements.
Other benefits ◆ **Performance shares**		Concerning the grant of performance shares in 2017, the Board will be called upon to decide on the implementation of a new plan within the scope of the authorisation requested from the General Meeting on April 20th, 2016. The grant which would be decided in favour of Mr. Jean-Paul Agon would comply with the recommendations of the AFEP-MEDEF Code of November 2016 and, in particular, that relating to the value of the shares granted which should not deviate from L'Oréal's prior practices: the value of the grant (estimated according to IFRS), represents approximately 50% of the executive officer's total remuneration without exceeding 60%. Mr. Jean-Paul Agon is also required to hold 50% of the free shares that are finally allocated to him at the end of the vesting period, in registered form, until the termination of his duties. The final vesting of these shares is subject to the fulfilment of performance conditions which would be recorded at the end of a vesting period of 4 years as from the date of grant. The number of shares that finally vests would depend, for half of them, on growth in comparable cosmetics sales compared to those of a panel of competitors, which is composed of Unilever, Procter&Gamble, Estée Lauder, Shiseido, Beiersdorf, Johnson& Johnson, Henkel, LVMH, Kao, Coty; and for the other half, on growth in the L'Oréal Group's consolidated operating profit. The calculation would be based on the arithmetic average for the three full financial years of the vesting period. The first full year taken into account for assessment of the performance conditions relating to this grant would be 2018. Concerning the criterion related to sales, in order for all the free shares granted to finally vest for the beneficiaries at the end of the vesting period, L'Oréal has to outperform the average growth in sales of the panel of competitors. Below that level, the grant decreases. The Board defines a threshold, which is not made public for confidentiality reasons, below which no share 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 finally vest for the beneficiaries at the end of the vesting period. Below that level, the grant decreases. If the operating profit does not increase in absolute value over the period, no share will finally vest pursuant to this criterion.
◆ **Attendance fees**	0 €	Mr. Jean-Paul Agon did not wish to receive attendance fees in his capacity as Chairman and Chief Executive Officer.
◆ **Benefits additional to remuneration**		◆ Benefits in kind Mr. Jean-Paul Agon benefits from the necessary material resources for performance of his office such as, for example, the provision of a car with a chauffeur. These arrangements, which are strictly limited to professional use, to the exclusion of all private use, are not benefits in kind. ◆ Additional social protection schemes: defined contribution pension, employee benefit and healthcare schemes. Mr. Jean-Paul Agon continues to be treated in the same way as a senior manager during the entire term of his corporate office which allows him to continue to benefit from the additional social protection schemes and, in particular, the employee benefit and healthcare schemes applicable to the Company's employees. The amount of the employer's contributions concerning the defined contribution pension scheme will be deducted from the pension due in respect of the defined benefit pension in accordance with the provisions of this collective scheme. The continuation of this treatment was approved by the Annual General Meeting on April 27th, 2010.

2.5.2. TERMINATION INDEMNITIES AND PENSION SCHEME

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

2.5.2.1. Maintenance of the employment contract and separation of the benefits attached to the employment contract on the one hand and to the corporate office on the other

The AFEP-MEDEF Code to which L'Oréal refers, recommends that companies should put an end to the practice of combining an employment contract with a corporate office although it does not impose this as a mandatory requirement.

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 new corporate officer appointed who has over 15 years' length of service in the Group at the time of his appointment.

As L'Oréal's ongoing policy is to appoint employees who have completely succeeded in the various stages of their careers in the Group as executive officers, the Board does not want these executives to be deprived of the benefits to which they would have continued to be entitled had they remained employees, after spending many years of their career at L'Oréal.

The Board of Directors has considered that the objective pursued by the AFEP-MEDEF recommendation could be fully achieved by maintaining the suspension of the employment contract and clearly separating out the benefits related to the employment contract on the one hand from those relating to the corporate office on the other.

Remuneration in respect of the corporate office will in no event be taken into consideration for calculation of the indemnities due pursuant to the collective agreement and the Company-level agreements applicable to all L'Oréal's senior managers.

The remuneration under the suspended employment contract to be used to calculate all the rights attached thereto, and in particular for the calculation of the defined-benefit pension, will be established on the basis of the remuneration at the date of suspension of the contract. This remuneration will be revised every year by applying the revaluation coefficient in respect of salaries and pension contributions published by the French State pension fund.

The length of service applied will take into consideration the entire career, including the years spent as an executive officer.

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

In the event of departure, and depending on the reasons for such departure, the executive officer will only be paid the termination indemnities, except in the event of gross misconduct or gross negligence, or the retirement indemnities in the event of voluntary retirement or retirement at the Company's request due pursuant to the employment contract that has been suspended, to the exclusion of any indemnity due in respect of the corporate office.

These indemnities, which are attached solely to termination of the employment contract and in strict application of the National Collective Agreement for the Chemical Industries and the Company-level agreements applicable to all L'Oréal's managers, are due in any event pursuant to the public policy rules of French labour law. They are not subject to any condition other than those provided for by the National Collective Agreement for the Chemical Industries or the above-mentioned Company-level agreements. The same applies to the non-competition clause and the related financial consideration.

2.5.2.3. Defined benefit pension scheme

The executive officer, subject to ending his career in the Company, will benefit from one of the defined benefit pension schemes currently applicable to the Group's senior managers. This is the scheme to which he was subject as an employee.

The main features of these schemes, which fall under Article L. 137-11 of the French Social Security Code, are as follows:

- they concern all the senior managers of L'Oréal, in France, whether active or retired, representing 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 schemes;
- the reference period taken into account for calculation of the benefits is 3 years; the average of the amounts of remuneration for the 3 best years out of the last 7 years is used.
- the schemes are financed by contributions paid to an insurance institution. These contributions are deductible from corporate income tax and are subject to the employer's contribution as provided by Article L. 137-11, 2°a) of the French Social Security Code at a rate of 24%.

In the light of the legal characteristics of defined benefit pension schemes (the rights only accrue if the beneficiary ends his career in the Company and the funding of this scheme cannot be broken down individually by employee) and also on account of the characteristics specific to the L'Oréal schemes referred to as "differential" since they take into account, in order to supplement them, all the other pensions such as those resulting, *inter alia*, from the French basic and supplementary pension schemes, the precise amount of the pension annuity will in fact only be calculated on the date when the beneficiary applies for all his pensions.

2.5.2.4. Situation of Mr. Jean-Paul Agon

Mr. Jean-Paul Agon, then Deputy Chief Executive Officer, was appointed as Chief Executive Officer in April 2006, following a brilliant career spanning 27 years with L'Oréal.

The Board of Directors noted that if, in accordance with the AFEP-MEDEF recommendation, Mr. Jean-Paul Agon's employment contract with L'Oréal was to be terminated, Mr. Agon would lose the status he acquired as a result of the 27 years he spent working for the Group as an employee.

The Board did not want Mr. Jean-Paul Agon, who accepted the office of Chief Executive Officer after 27 years working with L'Oréal, to be deprived of the benefits to which he would have continued to be entitled had he remained an employee, and adopted the following measures:

Maintenance of the employment contract and separation of the benefits attached to the employment contract on the one hand and to the corporate office on the other

The remuneration under the suspended employment contract to be taken into account for all the rights attached thereto, and in particular for the calculation of the defined benefit pension referred to below, is based on the amount of remuneration at the date of suspension of the contract in 2006, namely fixed remuneration of €1,500,000 and variable remuneration of €1,250,000.

This remuneration is revised every year by applying the revaluation coefficient in respect of salaries and pension contributions published by the French State pension fund. As of January 1st, 2017, the fixed remuneration amounts to €1,672,500 and the variable remuneration to €1,393,750.

The length of service applied takes into consideration his entire career, including the years during which he was Chief Executive Officer and Chairman and Chief Executive Officer.

Payment solely of the termination indemnities due pursuant to the employment contract to the exclusion of any indemnity in the event of termination of the corporate office

In the event of departure, and depending on the reasons for such departure, Mr. Jean-Paul Agon would only be paid the termination indemnities, except in the event of 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.

Pursuant to the schedule of indemnities under the National Collective Agreement for the Chemical Industries, in the event of termination, except in the event 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 under the suspended employment contract.

In respect of the employment contract, pursuant to the provisions of the National Collective Bargaining Agreement for the Chemical Industries, in the event of termination of the employment contract, the indemnity due in consideration of the non-competition clause would be payable every month for two years on the basis of two-thirds of the monthly fixed remuneration attached to the suspended employment contract unless Mr. Jean-Paul Agon were to be released from application of the clause.

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 December 31st, 2016 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 2016 as a corporate officer.

Maintenance of entitlement to the defined benefit pension scheme for the Group's senior managers

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 December 31st, 2000, as described in Chapter 3 of this Document, in the section on the *Overview of the Pension and Employee Benefit schemes in France*.

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 length of service requirement was 10 years at the time of closure of the scheme on December 31st, 2000;
- the cover may not exceed 40% of the calculation basis for the Pension Cover plus 0.5% per year for the first 20 years, then 1% per year for the following 20 years;
- the cover may not exceed the average of the fixed part of the remuneration for the three years used for the calculation basis out of the seven 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, 2°a) of the French Social Security Code at a rate of 24%.

For information purposes, it can be estimated that the amount of the pension that would be paid to Mr. Jean-Paul Agon, under the *Garantie de Retraite* scheme, had he been able to apply for a full-rate pension from the French social security scheme on December 31st, 2016, after 38 years' length of service at L'Oréal, would represent around €1.56 million a year, representing approximately 37% of the fixed and variable remuneration he received as an executive officer in 2016.

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 December 31st, 2016 and which may be subject to change.

The amount of the pension paid to Mr. Jean-Paul Agon, under the *Garantie de Retraite* 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 April 27th, 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 March 18th, 2011 and the renewal of his term of office on April 17th, 2014. This is the only agreement entered into and authorised in previous years for which performance continued during the 2016 financial year. Pursuant to Article L. 225-40-1 of the French Commercial Code, this agreement was examined by the Board of Directors on February 9th, 2017, which confirmed the relevance and terms thereof.

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 April 25th, 2006, the date on which he was appointed as Chief Executive Officer. His tenure was renewed at the Annual General Meeting on April 27th, 2010. Mr. Jean-Paul Agon has been Chairman and Chief Executive Officer since March 18th, 2011. His term of office was renewed on April 17th, 2014.
(3) Mr. Jean-Paul Agon's employment contract is suspended throughout the entire length of his corporate office.
(3) Pursuant to his employment contract, Mr. Jean-Paul Agon is entitled to benefit from the Garantie de Retraite des Membres du Comité de Conjoncture (Pension Cover of the Members of the Comité de Conjoncture) as described in the chapter 3. This defined benefit pension scheme provides that the building up of rights to benefits is conditional on the beneficiary ending his career in the Company; the funding of this scheme by L'Oréal cannot be broken down individually by employee.
(4) No indemnity is due in respect of termination of the corporate office. In respect of the employment contract, pursuant to the schedule of indemnities of the National Collective Bargaining Agreement for the Chemical Industries, in the event of termination, except in the case of gross misconduct or gross negligence, the termination indemnity would be capped, in light of Mr. Jean-Paul Agon's length of service, at 20 months' remuneration related to the employment contract.
(5) In respect of the employment contract, pursuant to the provisions of the National Collective Bargaining Agreement for the Chemical Industries, in the event of termination of the employment contract, the indemnity due in consideration of the non-competition clause would be payable every month for two years on the basis of two thirds of the monthly fixed remuneration related to the employment contract unless Mr. Jean-Paul Agon were to be released from application of the clause.

2.5.3. PROCEDURE FOR SETTING THE REMUNERATION OF THE EXECUTIVE OFFICER

Remuneration is established in such a way as to guarantee the due and proper application of the policy and rules set by the Board of Directors. It bases its decision on the work and recommendations of the Human Resources and Remuneration Committee which has the necessary information to prepare its recommendations, and more particularly to assess the performances of the executive officer in light of the Group's short and long-term objectives.

2.5.3.1. The Human Resources and Remuneration Committee uses the studies conducted by an independent consulting firm

These studies are based on an international panel of world leaders, which will serve as a reference for the comparative remuneration studies. This panel is made up of executive officers of French and international companies with a position of world leader in comparable luxury and consumer goods industries. This panel consisted of the executive officers of the following 13 companies: Beiersdorf, Colgate-Palmolive, Coty, Danone, Estée Lauder, GSK, Henkel, Johnson & Johnson, Kimberly Clark, LVMH, Procter & Gamble, Reckitt Benckiser, Unilever. It enables to measure the competitiveness of the executive officer's total remuneration in comparison with the panel.

The studies conducted with the independent consulting firm also enable the Committee to measure:

- the comparative results of L'Oréal in light of the criteria adopted by the Group to assess the executive officer's performance;
- the link between the executive officer's remuneration and his performance;
- the relevance over time of the remuneration structure and the objectives assigned to him.

2.5.3.2. The Human Resources and Remuneration Committee has all useful internal information

This information enables it to assess the performance of the Company and that of its executive officer both from an economic standpoint and in extra-financial fields.

The Group's annual economic and financial results are presented every year completely and exhaustively to the members of the Human Resources and Remuneration Committee at its meeting in February, and are used as a basis for the assessment of the financial performance criteria for the executive officer's variable remuneration.

The principles of the Human Resources policy are regularly presented to the committee members or at a Board meeting by the Executive Vice-President Human Resources.

Similarly, the Senior Vice-President, Chief Ethics Officer, also regularly explains the policy and the actions taken in this field.

Two members of the Human Resources and Remuneration Committee are members of the Strategy and Sustainable Development Committee at which the actions taken with regard to the programmes concernng the Group's social and environmental responsibility are discussed.

This information contributes to the assessment of the qualitative portion of the annual variable remuneration.

The Chairman of the Human Resources and Remuneration Committee is a member of the Audit Committee and participates in the closing of the accounts as well as the examination of the risk prevention policy.

The committee can also carry out a more in-depth evaluation of the Company's performance by contacting the Company's main senior managers, after informing the General Management.

This information enriches their vision of the strategy and performances of the Company and its executive officer.

The recommendations to the Board of Directors are made on these bases, and the Board then makes its decisions collectively concerning the executive officer's remuneration.

See the chart on next page explaining the organisation of the work of the Human Resources and Remuneration Committee concerning the remuneration of the executive officer.

2.5.3.3. Chart of the organisation of the work of the Human Resources and Remuneration Committee concerning the remuneration of the executive officer

February 2016

Presentation of the 2016 study on the executive officer's remuneration carried out by an independent consulting firm including:

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

Recommendations concerning the 2015 remuneration:

- evaluation and setting of the variable remuneration after a review of the 2015 financial and extra-financial results;
- draft resolution on the Say On Pay.

Recommendations concerning the 2016 remuneration including:

- fixed remuneration;
- setting of the level of the 2016 variable remuneration, the weight of the performance criteria and the objectives to be met.

Long-term incentives Plans:

- assessment of the performance levels achieved for the ACAs and SO Plans finally vesting;
- reflection on the 2016 ACAs Plan. the objectives to be met.

April 2016

Recommendations for the 2016 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 2016

Reflection on 2017 remuneration policy.

Information on the impacts of the proposed "Sapin II" Law with regard to the vote on executive officer remuneration.

December 2016

Studies on 2016 Say On Pay resolution

- submitted to the 2017 Annual General Meeting.

Analysis of the "Sapin II" law

- concerning the introduction of a binding vote on remuneration.

Analysis of the changes in the AFEP-MEDEF Code revised in November 2016.

February 2017

Presentation of the 2017 study on the executive officer's remuneration carried out by an independent consulting firm including:

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

Recommendations concerning the 2016 remuneration:

- evaluation and setting of the variable remuneration after a review of the 2016 financial and extra-financial results;
- draft resolution on the Say On Pay.

Recommendations concerning the 2017 remuneration policy:

- including fixed remuneration, annual variable remuneration and award of performance shares;
- draft resolution on the « Sapin II » law.

ACAs Plans:

- assessment of the performance levels achieved for the 2013 ACAs Plan finally vesting;
- reflection on the 2017 ACAs Plan.

2.5.4. REMUNERATION OF THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER DUE OR ALLOCATED WITH RESPECT TO 2016

2.5.4.1. Fixed remuneration

On the proposal of the Human Resources and Remuneration Committee, the Board of Directors decided on February 10th, 2016 to maintain the fixed annual remuneration of Mr. Jean-Paul Agon at a gross amount of €2,200,000.

2.5.4.2. Annual variable remuneration

Concerning Mr. Jean-Paul Agon's annual variable remuneration for 2016, the objective had been set at €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 February 10th, 2016, the Board of Directors had set the variable remuneration criteria applicable for 2016 and the respective weighting of such criteria. The financial criteria represent 60% of the variable remuneration and the extra-financial criteria 40%. These financial criteria are directly correlated with the Company's economic performance indicators: growth in sales, market share as compared to its main competitors, operating profit, EPS and cash flow.

At its meeting on February 8th, 2017, 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.

On the basis of the recommendations of the Human Resources and Remuneration Committee, the Board of Directors decided, at its meeting on February 9th, 2017, to allocate €1,992,100 to Mr. Jean-Paul Agon in respect of the 2016 annual variable remuneration.

This amount represents 90.6% of the maximum amount of variable remuneration that could be paid to him, respectively 89.6% for financial objectives and 92% for extra-financial objectives.

FINANCIAL OBJECTIVES FOR 2016 (60% OF TOTAL ANNUAL VARIABLE REMUNERATION):

FINANCIAL CRITERIA	RESPECTIVE WEIGHT OF CRITERIA	2016
Comparable sales as compared to the budget	15%	€25,837.1 million*
Market share as compared to the main competitors	15%	+1.6 point
Operating profit as compared to 2015	10%	€4,539.9 million, *i.e.* +3.5%
Net earnings per share as compared to 2015**	10%	€6.46, *i.e.* +4.6%
Cash-flow*** as compared to 2015	10%	€3,339.4 million, *i.e.* +10.0%
RATE OF ACHIEVEMENT OF FINANCIAL CRITERIA		**89.6%**

* *Budget not disclosed for confidentiality reasons.*
** *Diluted net earnings per share attributable to owners of the company from continuing operations excluding non-recurring items.*
*** *Operational cumulative cash flow : Net cash provided by operating activities – Purchases of property, plant and equipment and intangible assets + Disposals of property, plant and equipment and intangible assets – Changes in other financial assets.*

EXTRA-FINANCIAL OBJECTIVES FOR 2016 (40% OF THE TOTAL ANNUAL VARIABLE REMUNERATION):

CSR CRITERIA: *SHARING BEAUTY WITH ALL* PROGRAMME	2016 RESULTS	2015 RESULTS*
The *Sharing Beauty With All* programme was launched in October 2013 by Mr. Jean-Paul Agon. It structures the Group's CSR strategy and sets ambitious targets to be met by 2020. This project consists of 4 pillars, for which the 2016 achievements are set out in detail in chapter 3.		
"Innovating Sustainably" (see Chapter 3 §3.2.1.) • **Environmental or social benefit for 100% of our products.**	82% of the new products analysed have an improved social or environmental profile.	*74%*
"Producing Sustainably" (see Chapter 3 §3.2.2.) • **-60% in CO_2 emissions** • **-60% in water consumption (plants and distribution centres)** • **-60% in waste generation**	Reduction of our environmental footprint by (*versus* 2005): • -67% in CO_2 emissions • -48% in water consumption • -35% in waste generation by the plants and distribution centres	 *-56%* *-45%* *-31%*
"Living Sustainably" (see Chapter 3 §3.2.3.) • **Each brand will have assessed its environmental and social footprint.** • **Each brand will have reported on its progress and associated consumers with its commitments.**	• 90% of the brands have evaluated their impact. • 46% of the brands have carried out an action to raise awareness among consumers.	*66.6%* *34.4%*
"Developing Sustainably" (see Chapter 3 §3.2.4.) • **With the employees (L'Oréal's *Share & Care* program): In 2020, 100% of L'Oréal's employees will have access to healthcare coverage and social protection wherever they are in the world.** • **With strategic suppliers:** • **With communities:**	• 88% of the Group's permanent employees have access to healthcare coverage reflecting best practices in their country of residence. • 85% of the Group's permanent employees benefit from financial protection in the event of unexpected life events, such as death or total permanent disability. • 83% of them carried out a self-assessment of their sustainability policy. • Access to work for 67,533 people.	*86.6%* *78.4%* *74%* *66,600*
HUMAN RESOURCES CRITERIA	**2016 RESULTS**	**2015 RESULTS**
Gender Balance • **Development of gender balance, in particular at the level of senior management positions.** • **Mr. Jean-Paul Agon received the 2016 *CEO Leadership Award* for *Championing Gender Equity by Women's Empowerment Principles* for L'Oréal's action in favour of gender equality.**	33% of women on the Executive Committee. 42.6% of key positions held by women. 4th place in the 2016 "*Féminisation des Instances dirigeantes*" ranking (French ministry of health, social affairs and women's rights). 1st Grand Prize for Gender Diversity (Zimmermann Gender Diversity index in the SBF 120 created in 2016).	*31%* *41%* *9th place* *N/A*
Talent Development • **Positive results of the policy 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 talents.** • **Attractive, targeted, digital employer communication.**	No. 9 in the Universum global ranking, Strong presence on social networks: 1 million followers on LinkedIn.	*No. 11 globally*
Access to training • **100% of the employees will benefit from one training action per year in 2020.**	77% of employees have been trained in 2016.	*72.6%*
DIGITAL DEVELOPMENT CRITERIA	**2016 RESULTS**	

• **Increase in sales made in e-commerce.**
• **Development of digital media, personalised marketing.**
• **Continuation of the Company's digital transformation:**
  • **Training;**
  • **Continuation of the recruitment policy for business segment experts.**
• **L2 Digital IQ ranking.**
	4th country in the Group in terms of sales (€1.7 billion representing +32.7% / 2015) L'Oréal confirms its place as the world's leader in e-commerce in the cosmetics sector.
	Development of connected objects (UV patch...).
	Over 14,000 people trained and accompanied (2015-2016), *via* daily e-learning practices (more than 100,000 modules viewed), collaborative work sessions, reverse mentoring, etc.
	L2 Digital IQ ranking: at least 3 of the Group's brands in the Top 10 in China, the United States, the United Kingdom, France and Germany.	

* *Based on data published in the 2015 Registration Document*

QUALITATIVE CRITERIA	2016 RESULTS
Management	◆ High retention rate in the Top 250. ◆ Integration of CSR performance criteria into the bonuses for the brand and country managers. ◆ Changes in the Executive Committee.
The Company's image; **Reputation;** **Dialogue with stakeholders.**	◆ **Personal involvement** in the conduct of the *Sharing Beauty With All* programme and the L'Oréal *Share & Care* programme internally and with regard to the international experts and organisations involved with these projects. ◆ Speaking at the general meeting of Global Compact France on June 30th, 2016 on the topic of the UN's Sustainable Development Goals. ◆ Jean-Paul Agon was recognised as one of the "best performing CEOs of the year" by the Harvard Business Review, and as one of the 5 best CEOs in the area of sustainability. ◆ L'Oréal is one of the only two companies in the world, out of nearly 3,000, to have received a triple A rating, the highest score, from the Carbon Disclosure Project, in 3 areas: the climate, sustainable water management, and the fight against deforestation. ◆ **Diversity**: Initiatives for the Disabled Awards (65 Group countries took part). L'Oréal is ranked in 2016 among the top 20 global companies in terms of Diversity and Inclusion according to the new Diversity & Inclusion (D&I) index launched by Thomson Reuters. L'Oréal is in 19th place out of over 5,000 companies evaluated all over the world. ◆ **Ethics:** L'Oréal was once again recognised in 2016 by Ethisphere as one of the World's Most Ethical Companies, and has been part of the United Nations Global Compact 100 stock index since its creation. Ethics Day on October 13th, 2016: live webchat with Mr. Jean-Paul Agon open to all employees all over the world.
RATE OF ACHIEVEMENT OF EXTRA-FINANCIAL CRITERIA	**92%**

2.5.4.3. Attendance fees

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

The Board of Directors took due note of the decision made by Mr. Jean-Paul Agon for 2014 and the following years.

2.5.4.4. Award of performance shares (ACAs)

Within the scope of Articles L. 225-197-1 *et seq.* of the French Commercial Code and the authorisation of the Ordinary and Extraordinary General Meeting of April 20th, 2016, the Board of Directors decided on the same day, taking into account of Mr. Jean-Paul Agon's performances, to grant him 32,000 performance shares (ACAs – Conditional grants of shares).

The estimated fair value according to the IFRS applied for the preparation of the consolidated financial statements of one performance share (ACAs) under the April 20th, 2016 plan of which Mr. Jean-Paul Agon is a beneficiary is €154.32. This fair value was €161.49 on April 22nd, 2015.

The estimated fair value according to the IFRS of the 32,000 performance shares (ACAs) granted in 2016 to Mr. Jean-Paul Agon is therefore €4,938,240.

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

Performance conditions

The final vesting of these shares is subject to fulfilment of performance conditions which will be recorded at the end of a vesting period of 4 years as from the date of grant.

Half of the number of shares that finally vests will depend on growth in comparable cosmetics sales as compared to those of a panel of competitors, such panel consisting in 2016 of Unilever, Procter & Gamble, Estée Lauder, Shiseido, Beiersdorf, Johnson & Johnson, Henkel, LVMH, Kao, Coty; the other half will depend on the growth in L'Oréal's consolidated operating profit.

The calculation will be based on the arithmetic average for the 3 full financial years of the vesting period. The first full year taken into account for evaluation of the performance conditions relating to this grant is 2017.

In order for all the free shares granted to finally vest at the end of the vesting period pursuant to the criterion related to sales, L'Oréal has to outperform the average growth in sales of the panel of competitors. Below that level, the grant decreases. The Board defines a threshold, which is not made public for confidentiality reasons, below which no share will finally vest pursuant to this criterion.

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

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

Main characteristics of the grant

This Plan made it possible to grant 906,100 performance shares (ACAs) to 2,079 beneficiaries.

The grant of performance shares (ACAs) which Mr. Jean-Paul Agon received in 2016 represents 3.53% of the total number of performance shares (ACAs) granted.

Moreover, Mr. Jean-Paul Agon, as an executive officer, shall retain 50% of the shares which will finally vest for him at the end of the vesting period in registered form, until the termination of his duties as L'Oréal's Chairman and Chief Executive Officer.

Furthermore, as for previous grants, Mr. Jean-Paul Agon has undertaken not to enter into any risk hedging instruments.

It is to 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 2016.

2.5.4.5. Maintenance of the benefit of the additional social protection schemes applicable to the Company's employees.

Mr. Jean-Paul Agon will continue to be entitled to benefit from the additional social protection schemes and in particular the employee benefit and healthcare scheme applicable to the Company's employees due to the fact that he will be treated as a senior manager throughout the entire length of his corporate office.

The amount of the employer's contributions to the provident and mutual schemes amounted to € 2,457 in 2016, and the amount of the employer's contribution to the Defined Benefit Pension scheme amounted to € 5,985.

Under the Defined Benefit Pension Scheme ("RCD L'Oréal", as described in Chapter 3 of this Document), whose rights are strictly proportional to the contributions paid, and which benefits all employees of L'Oréal in France, the estimated amount of Jean-Paul Agon's annual retirement pension at December 31, 2016 would be € 2,938 gross.

As for all other senior executives of the Group, the capital resulting from the employer contributions of the RCD L'Oréal will be deducted from the amount of the Retirement Guarantee for the calculation of the life annuity potentially due under this plan so that these benefits do not add up (see section 2.5.2.4).

As a reminder, the lifetime risk related to the plans resulting from article 83.2 of the French tax code is borne by the insurer.

As of December 31, 2016, the distribution of contributions was as follows: a contribution from the company, subject to a 20% social contribution, 0.5% for the portion of earnings below a French social security ceiling and 3% for the part of remuneration between one and six social security ceilings; and an employee contribution of 0.2% for the part of remuneration below one French social security ceiling and 3% for the part of remuneration between one and six French social security ceilings. The contributions paid by the company and the related taxes are deductible from the corporate income tax.

2.5.4.6. Summary table of the remuneration of Mr. Jean-Paul Agon, Chairman and Chief Executive Officer

	2016		2015	
€	**Amounts due**	**Amounts paid**	Amounts due	Amounts paid
Fixed remuneration	2,200,000	2,200,000	2,200,000	2,200,000
Annual variable remuneration (1)	1,992,100	1,782,000	1,782,000	1,760,000
Exceptional remuneration	-	-	-	-
Attendance fees	-	-	-	-
Benefits in kind	-	-	-	-
TOTAL	**4,192,100**	**3,982,000**	**3,982,000**	**3,960,000**

(1) Variable remuneration due in respect of year Y is paid in year Y+1.

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

€	**2016**	2015
Remuneration due in respect of the financial year	4,192,100	3,982,000
Value of the performance shares granted during the financial year	4,938,240 (1)	5,167,680 (2)
TOTAL	**9,130,340**	**9,149,680**

(1) Corresponding to 32,000 performance shares x €154.32 (estimated fair value on April 20th, 2016 according to the IFRS applied for the preparation of the consolidated financial statements).
(2) Corresponding to 32,000 performance shares x €161.49 (estimated fair value on April 22th, 2015 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 DECEMBER 31ST, 2016 (SEE ALSO CHAPTER 6)

Date of grant	Number of options granted	Number of options not yet exercised	1st possible date of exercise	Date of expiry	Subscription price (euros)
11.30.2007	350,000	350,000	12.01.2012	11.30.2017	91.66
03.25.2009 (1)	-	-	-	-	-
04.27.2010	400,000	400,000	04.28.2015	04.27.2020	80.03
04.22.2011	200,000 (2)	200,000	04.23.2016	04.22.2021	83.19

(1) As Mr. Jean-Paul Agon informed the Board of Directors that he did not wish to be granted any share subscription options with respect to 2009, he did not receive any grant under the Plan dated March 25th, 2009.
(2) The Board of Directors allocated 400,000 stock options to Mr. Jean-Paul Agon on April 22nd, 2011. Mr. Jean-Paul Agon waived 200,000 of these stock options. He therefore benefits from 200,000 stock options under the Plan decided by the Board of Directors on April 22nd, 2011.

Mr. Jean-Paul Agon, as an executive officer, will retain a number of shares corresponding to 50% of the "balance of the shares resulting from the exercise of the stock options", in registered form, until the termination of his duties as Chairman and Chief Executive Officer of L'Oréal.

The "balance of the shares resulting from the exercise of the stock options" should be understood to mean the total number of shares resulting from the exercise of stock options minus the number of shares that have to be sold to finance the exercise of the stock options in question and, where applicable, the payment of any immediate or deferred taxes, social levies and costs relating to the exercise of these stock options as applicable at the date of exercise of the options. If the number of shares thus determined that 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, this number of shares would be rounded down to the nearest lower whole number of shares.

Mr. Jean-Paul Agon has undertaken not to enter into any risk hedging transactions.

TABLE SHOWING THE STOCK OPTIONS TO PURCHASE OR SUBSCRIBE FOR SHARES EXERCISED BY MR. JEAN-PAUL AGON DURING THE 2016 FINANCIAL YEAR

Date of grant	Stock options for the purchase or subscription of shares exercised	Exercise price
Stock options granted during performance of the corporate office (1)		
December 1st, 2006	360,000	78.06

(1) These stock options, granted on December 1st, 2006, prior to the date when the provisions of the law of December 30th, 2006 came into force, were not subject to any retention obligation. Nevertheless, Mr. Jean-Paul Agon decided to retain some of the shares resulting from the exercise of these stock options, bringing the total number of shares held by him at December 31st, 2016 to 556,500 shares.

HISTORY OF CONDITIONAL GRANTS OF SHARES TO MR. JEAN-PAUL AGON SINCE HIS APPOINTMENT AS AN EXECUTIVE OFFICER

Date of grant	Number of ACAs granted	Performance conditions (2)	Grant value (IFRS fair value)	Date of final vesting of all or part of the ACAs	1st possible date of sale of some of them (1)
April 17th, 2012	50,000	Yes	3,853,500	April 18th, 2016	April 18th, 2018
April 26th, 2013	40,000	Yes	4,494,800	April 27th, 2017	April 27th, 2019
April 17th, 2014	40,000	Yes	4,183,200	April 18th, 2018	April 18th, 2020
April 22nd, 2015	32,000	Yes	5,167,680	April 23rd, 2019	April 23rd, 2021
April 20th, 2016	32,000	Yes	4,938,240	April 21st, 2020	April 21st, 2020 (3)

(1) At the end of the vesting period, Mr. Jean-Paul Agon, as a French resident on the date of granting of the shares, is required to hold the shares definitively vested for him for an additional 2-year period during which the shares cannot be disposed of. At the end of this additional 2-year period, Mr. Jean-Paul Agon, as an executive officer, will hold 50% of the shares that finally vest in registered form until the end of his term of office as Chairman and Chief Executive Officer of L'Oréal. Mr. Agon has undertaken not to enter into any risk hedging transactions.
(2) See the performance conditions in Chapter 6 of this document.
(3) The April 20th, 2016 Plan sets a 4-year vesting period, but does not provide for any holding period.

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

The 50,000 performance shares granted to Mr. Jean-Paul Agon and permanently vested on April 18th 2016 are subject to a two-year holding period, i.e. until April 18th 2018.

2.6 SUMMARY TABLE OF THE RECOMMENDATIONS OF THE AFEP-MEDEF CODE WHICH HAVE NOT BEEN APPLIED

Recommendations of the AFEP-MEDEF Code	L'Oréal's practices and justifications
Independence criteria for the Directors (point 8.5 of the code)	
Criterion providing that in order to be considered as independent a Director must not *"have been a Director for more than twelve years"*.	The Board of Directors carefully examined the situation of Mr. Xavier Fontanet and Mr. Bernard Kasriel whose tenures have exceeded 12 years. The Board of Directors took into account the objectiveness that Mr. Fontanet and Mr. Kasriel have always shown at the time of the debates and decisions of the Board and their ability to express their convictions and make a balanced judgment in all circumstances with regard to the General Management. Their experience at the very top level as senior management executives of large international groups gives them a perspective and authority enabling them both to challenge and support General Management in defining the Group's strategy. Their good knowledge of the Group adds to their well-informed, critical judgment capacity. Furthermore, the Board considered that the personality, leadership and commitment shown by Mr. Xavier Fontanet, recognised by L'Oréal's shareholders, 98.28% of whom approved the renewal of his tenure on April 17th, 2014, were all guarantees of his independent-mindedness. It also considered that the freedom of speech, close involvement and critical mind of Mr. Bernard Kasriel, whose tenure was renewed by 98.49% of the shareholders on April 20th, 2016, are all qualities proving his independence. Finally, the Board considered that the experience of Mr. Xavier Fontanet and Mr. Bernard Kasriel on the Board are essential in light of the large number of recent appointments of new independent Directors and the integration of the Directors representing the employees. These qualities, combined with a good understanding of the challenges facing the Company, contribute to a great extent to the continuity of the Board's debates and help to put its decisions into perspective.
Composition of committees: proportion of independent members on the committees (points 15.1, 16.1 and 17.1 of the code)	
The proportion of independent Directors on the Audit Committee must be at least two-thirds. The 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.*, 3 out of 5, excluding Directors representing the employees). 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 and the Human Resources and Remuneration Committee currently consists of 50% of independent Directors. These committees are chaired by an independent Director, Mrs. Sophie Bellon and Mr. Charles-Henri Filippi respectively. Furthermore, it is pointed out that the *Haut Comité du Gouvernement d'Entreprise* specified in its October 2014 report that *"an Audit Committee that consists, for example, of three independent members out of five, or a Remuneration Committee comprising two out of four, remain in keeping with the spirit of the code as long as they are chaired by an independent Director"*.
The executive officer's employment contract (point 21 of the code):	
It is recommended, though not mandatorily required, that when a senior manager or executive becomes a corporate officer of the Company, his/her employment contract with the Company or another company of the Group should be terminated by agreed termination or by resignation.	The Board of Directors considered that the objective pursued by this recommendation can be fully achieved by maintaining the suspension of the employment contract and clearly separating out the benefits related to the employment contract on the one hand from those relating to his corporate office on the other. Furthermore, the Board of Directors has decided to eliminate all right to any indemnity in the event of termination of the corporate office. This position of the Board applies to the current office of Mr. Jean-Paul Agon and, in future, to any new executive officer appointed who has over 15 years' length of service in the Group at the time of appointment. L'Oréal's ongoing policy has been to appoint employees who have completely succeeded in the various stages of their career in the Group as executive officers. This is how Mr. Jean-Paul Agon, then Deputy Chief Executive Officer, was appointed as Chief Executive Officer of L'Oréal in April 2006, following a brilliant career spanning 27 years with L'Oréal. The Board of Directors noted that if, in accordance with the AFEP-MEDEF recommendation, Mr. Jean-Paul Agon's employment contract with L'Oréal was to be terminated, Mr. Agon would lose the status he acquired as a result of the twenty-seven years he spent working for the Group as an employee. Indeed, the AMF considers that a company complies with the AFEP-MEDEF Code when it justifies the maintenance of its executive officer's employment contract on the basis of his length of service as an employee in the Company and his personal situation (2014 AMF Report on Corporate Governance and Executive Compensation).

2.7 SUMMARY OF TRADING BY DIRECTORS AND EXECUTIVE OFFICERS IN L'ORÉAL SHARES IN 2016

(Article 223-26 of the General Regulation of the *Autorité des Marchés Financiers*)

Person concerned	Description of the financial instrument	Nature of the transaction	Number of transactions	Total amount
Jean-Paul Agon, Chairman & CEO	Shares	Exercise of stock options	5	€28,101,600.00
	Shares	Sale	3	€8,200,786.00
Individuals associated with Mr. Jean-Paul AGON, Chairman & CEO	Shares	Sale	4	€898,491.57
Françoise Bettencourt Meyers	Shares	Contribution in-kind of the beneficial ownership of shares	1	€5,712,361,824.31
	Shares	Sale	1	€779,524,000.00
	Shares	Gift	1	€249,375.00
TETHYS SAS, legal entity associated with Françoise Bettencourt Meyers	Shares	Acquisition	1	€779,524,000.00
Georges Liarokapis	Shares	Sale	1	€134,280.00

2.8 RISK FACTORS AND CONTROL ENVIRONMENT

At the request of the Chairman and Chief Executive Officer and the Board of Directors, the Administration and Finance Division compiled the information contained in this Document based on the different types of work carried out by departments working on Internal Control and management of the Group's risks which aims at covering the main operational, legal, industrial, environmental, economic and financial risks and to present the Internal Control and risk management procedures aimed at preventing them better and bringing them under control.

2.8.1. DEFINITION AND OBJECTIVES OF INTERNAL CONTROL

2.8.1.1. Reference work

For the preparation and drafting of this Document and the definition of Internal Control, L'Oréal used the Reference Framework and its application guide initially published in January 2007, and updated on July 22nd, 2010 by the *Autorité des Marchés Financiers* (AMF).

2.8.1.2. Internal Control Objectives

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

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

By contributing to preventing and managing the risks to which the Group is exposed, the purpose of the Internal Control system is to enable the Group's industrial and economic development to take place in a steady and sustainable manner in a control environment appropriate for the Group's businesses. There are however limits inherent in any system and process. These limits result from a number of factors, in particular the uncertainties of the outside world or malfunctions that may occur due to technical or human failures.

The choice of how to handle a risk is made, in particular, by making an informed choice between the opportunities to be seized and the cost of the risk treatment measures, taking into account their possible effects on the occurrence and/or the consequences of the risk.

2.8.1.3. Continuous improvement of the Internal Control system

With the aim of continually improving the system of Internal Control, the Group continued with its efforts in 2016 by notably taking the following actions:

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

- a library that makes available to all the employees the reference works, guides, charters, codes of conduct (…) and expert contacts organised by profession and business and by thematics;
- revamping of the programme to raise awareness of the risks of fraud.

An e-learning programme on corruption prevention is in the process of being deployed all over the world.

The network of Internal Control managers continued to be built up worldwide through:

- specific training courses;
- a special-purpose social network which encourages and facilitates the sharing of best practices.

Communication within the Group on the main priorities of the Internal Control is promoted by the "Internal Control Awards" which 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.

2.8.2. COMPONENTS OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

2.8.2.1. Organisation and environment

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

The Group's ethical principle

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

L'Oréal's Code of Ethics was updated in 2014. Available in 45 languages and in Braille in French and English, it is distributed to all employees worldwide. 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. Seven supplements to the Code of Ethics have, since 2010, covered certain aspects of the code in more detail. Country Managers (or for Corporate or Zone staff, the members of the Group's Executive Committee to whom they report) are responsible for ensuring the respect of the Code of Ethics in their Country.

Respect of these Ethical Principles is integrated in the annual appraisal system for all the employees through two ethical competencies: "Acts/Leads with Human Sensitivity" and "Obtains Results with Integrity".

The Senior Vice-President and Chief Ethics Officer, who reports directly to the Chairman and Chief Executive Officer, is in charge of ensuring the promotion and integration of best practices within the Group, providing guidance in ethical decision-making. He ensures employees are trained and oversees the handling of concerns, if any. He reports regularly to the Chairman and Chief Executive Officer and informs the Board of Directors and the Executive Committee. The Senior Vice-President and Chief Ethics Officer has a dedicated budget and team, has access to all the information and documents concerning the Group's activities and can call upon all the Group's teams and resources to carry out his mission.

Furthermore, Ethics Day, an annual day devoted to ethics has been organised since 2009: a live webchat with the Chairman and Chief Executive Officer enables all the Group's employees to ask questions and discuss the everyday application of L'Oréal's Ethical Principles. Dialogues on ethics were also organised locally with each Country Manager. In 2016, more than 60% of the employees took part in this dialogue and over 4,800 questions were asked worldwide. The employees have a dedicated intranet site which provides additional information on ethics.

The role of the 74 Ethics Correspondents all over the world is to assist the Country Managers/Entity Managers in implementing the ethics programme and enable all the employees to have a local point of contact whilst favouring the normal routes for handling concerns by management. The Ethics Correspondents benefit every year from a specific coordination and training programme. The ethics training campaign is on-going. A specific e-learning course on ethics is currently being rolled out in all countries. At December 31st, 2016, 76% of the employees who had access to the online module had completed it. The Ethics Department also provides in-room training sessions. In 2016, 15 training courses were delivered to 382 employees, representing 1,150 hours of training (Country Managers, Purchasers and Human Resources).

L'Oréal's "Open Talk" policy enables employees to raise any concerns they may have directly with the Group's Senior Vice-President and Chief Ethics Officer including *via* a secure website. All allegations are examined and appropriate measures are taken, where applicable.

A practical tool enables Country Managers to evaluate and analyse any local ethical risks and to take the necessary measures to prevent them. An annual reporting system makes it possible to monitor implementation of the ethics programme.

The Senior Vice-President and Chief Ethics Officer regularly visits the Group's entities all over the world (head offices, plants, distribution centres and research centres) to meet employees at all levels of the Company and visit the various sites. In 2016, within this framework, he visited 16 countries, making a total of 63 countries visited since the end of 2013.

Ethics risks are systematically reviewed during audit assignments, through individual interviews. These interviews are conducted separately with the Country Manager and the Administrative and Financial Director.

L'Oréal corporate social, societal and environmental responsibility

Convinced that Sustainable Development is an essential factor for success and durability, L'Oréal has adopted an ambitious corporate social, societal and environmental policy, which is shared by its management and its teams and is based on a core set of strong ethical principles defined by the Group: Integrity, Respect, Courage and Transparency (see chapter 3.1 *The L'Oréal Group's social, environmental and societal policies*).

In 2013, a new level was reached with the implementation of the *Sharing Beauty With All* programme. Clear targets were set for 2020 in terms of innovation, production, meeting the challenges of sustainable consumption, and sharing the Group's growth (see chapter 3.2 – *the Sharing Beauty With All* programme).

It should be noted that the financial risks related to the effects of climate change and the measures taken by the Group to reduce them through the *Sharing Beauty With All* programme are set out in chapter 3.

Human Resources policy

The quality and skills of male and female employees are key components of the Internal Control system. Human Resources policy within L'Oréal is defined by the constant search for excellence in recruitment and by the development of talent within the Group, so as to ensure that it has the required level of skills in all areas. These activities also form part of the Group's diversity policy, which seeks to value and respect difference throughout the organisation. The Learning teams all over the world offer technical training and personal development programmes, including programmes to help employees with integration or management; such programmes are tailored to different job profiles and aimed at providing mastery of different skills in all areas of activity.

Information systems

The information systems, chosen in accordance with the strategic orientations given by the Group's Global IT Department, integrate, in particular, implementation of a single ERP (Enterprise Resource Planning) management software application used by the vast majority of commercial subsidiaries, and which issues instructions regarding systems security. The worldwide roll-out of this integrated software package also contributes to strengthening the reliability and the security of the process of production of information, notably accounting and financial information. In pursuit of the same objective, the deployment of an integrated production and management solution in the Group's industrial entities is continuing.

The procedures and standards governing the activities

Each Functional Division has responsibility, in its own specific field, for defining the principles and standards applicable to all the entities. In order to make it easier for employees to take on board all these principles and standards, the key points have been summarised in the "Fundamentals of Internal Control" that are regularly updated.

This guide is a reference framework for the Group's operational activities, and is presented in the form of an information sheet for each area. Each information sheet refers to the detailed charters, codes and standards of the Group. The information sheets are regularly updated, supplemented, validated by the experts in each area of expertise and presented to the Group Management Committee.

A management standard with regard to segregation of duties was distributed to all entities in 2010. It defines the main rules to be observed in the fields of sales, purchasing, logistics, finance, Human Resources and information systems management. The application of these rules is aimed at better prevention 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" brochure is circulated individually to the Managing Directors and Finance Directors 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.

Meetings are regularly organised aimed at passing on information about orientations of the General Management to managers of the subsidiaries. The Functional Divisions also coordinate their networks of experts through seminars and training sessions. Newsletters give managers regular news and pass on strong messages with regard to Internal Control.

Finally, the Internal Control Awards illustrate the Group's commitment to durably strengthening Internal Control: they are aimed at showcasing the best initiatives and promoting exchanges of good operational practices between the Group's subsidiaries.

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

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

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

The main players involved in monitoring Internal Control and risk management are:

- the General Management and its Management Committee (Executive Committee);
- the Audit Committee and the Board of Directors;
- the Operational Divisions and the geographic zones;
- the Functional Departments and Divisions, including the Risk Management and Compliance Department, the Internal Control Department and the Internal Audit Department.

General management and its Management Committee (Executive Committee)

The role of the General Management is to define the general principles regarding Internal Control and to ensure that they are correctly put in place. Within the scope of their worldwide Internal Control responsibilities, the members of the Management Committee rely on operational and functional managers, according to their respective areas of expertise. These managers must ensure implementation of these general principles and make sure of the correct functioning of the procedures enabling the level of Internal Control required by General Management to be attained.

The Audit Committee and the Board of Directors

The Board of Directors has always asserted the importance that it attributes, together with General Management, to Internal Control and to its main areas of application. Since its creation, the Audit Committee has been responsible for monitoring actions undertaken in the area of Internal Control and it reports thereon to the Board of Directors. Its remits are defined in the Internal Rules of the Board of Directors.

Each year, the committee performs a review of the Internal Audit plan, its objectives and the general conclusions of Internal Audit assignments. Major Internal Control projects and initiatives are also presented to it. The committee then prepares a report with its own remarks for the Board of Directors.

The Operational Divisions and geographical zones

The Group is organised into worldwide Divisions and geographical zones which are fully responsible, with the management of each country, commercial or industrial entity, for the achievement of the objectives defined by the General Management with regard to Internal Control. The Functional Divisions bring their expertise to all operational employees.

Worldwide responsibilities for Internal Control of the activities of their Division or department are entrusted to each of the members of the Management Committee. A system of delegation of authority is in place and continues to be reinforced. The powers of the legal representatives of Group companies and of those to whom they delegate are limited and controlled in accordance with the provisions of the Legal Charter.

Specialists in financial control, information systems, Human Resources or industrial and logistics techniques provide support to operational employees at all levels of the organisation, which makes it easier to disseminate Internal Control best practices.

The Functional Divisions and departments

Through their network of specialists or *via* regular audits, the Functional Divisions review the functioning of their respective areas of responsibility, as follows:

- the Purchasing Departments with regard to suppliers and their working conditions;
- the Environment, Health & Safety Department, for checks related to site safety and environmental compliance;
- the Quality Department to measure performance and the progress made by industrial entities with regard to the quality of production;
- the Global IT Department to assess compliance with the Security Policy.

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

Each of the Functional Divisions define, in their own areas, the focuses and procedures that they pass on to the countries and entities.

The Administration and Finance Division

This Division's main role is to assist and control the operational employees in their administrative, financial and legal activities and in the processing of information. In order to do so, it sets the operating rules that apply to all entities and is responsible for the definition and deployment of tools, procedures and best practices, particularly in the following areas: financial control, accounting and consolidation, financing and treasury, tax, legal affairs, financial communication, strategic planning, information systems and insurance.

An Internal Control Committee has the task of taking all measures to promote the proper understanding and the proper application of the Group's Internal Control rules and also to monitor progress on important Internal Control projects. It is made up of the Administrative and Finance Director, and the Risk Management and Compliance, Internal Control, Economic Affairs, Internal Audit and Global IT Directors.

The Risk Management and Compliance Department

The objective of this department, which was created in 2012, is to identify, assess and prioritise risks with all those concerned, and keep the risk mapping analysis up-to-date. Its aim is to promote optimal use of resources to minimise and control the impact of negative events and maximise the realisation of opportunities.

The Internal Control Department

This department, which is separate from Internal Audit and placed under the responsibility of the Risk Management and Compliance Department, ensures the distribution and updating of the "Fundamentals of Internal Control" guide. Frequent actions at seminars and during training cycles and the publication of newsletters help to increase knowledge of this tool, to improve its application and use by operational employees and keep them informed of the Group's projects and priorities in the area of Internal Control.

It is responsible for the continued development of the network of Internal Control managers in the Group's entities. In this connection, the role of this function was specifically detailed and a training module was created. At the end of 2016, the Internal Control Department can rely on a network of more than 130 local managers present in the Group's different entities.

The Internal Control Department leads the Internal Control Committee. The Internal Control Department coordinates the implementation of the projects and work decided by the Internal Control Committee with the experts in each area of expertise. The updating of the standards mentioned in this document is one example of this work.

With the constant desire for improvement, the Internal Control Department, on the basis of the "Fundamentals of Internal Control" reference guide, develops, disseminates and coordinates self-evaluation campaigns focusing on the main risks and issues identified, gradually being rolled out in each of the professions and businesses. The self-evaluation of Internal Control makes it possible for the Group's entities to ensure the due and proper functioning of the system and to reinforce it with operational actions.

In addition, this department monitors the regulatory obligations relating to Internal Control.

The Internal Audit Department

In addition to its role of supervision of application of the Internal Control system, the Internal Audit Department carries out cross-functional analyses with regard to possible Internal Control weaknesses based on findings noted during their assignments. These analyses make it possible to orient the work of the Internal Control Committee and to identify the priority areas for improvement and strengthening of procedures.

Internal Audit is carried out by a central team that reports directly to the Executive Vice-President Administration and Finance. This department carries out regular assignments to audit major processes and check on the application of Group principles and standards.

Internal Audit assignments are submitted to the General Management and the Audit Committee for their approval and give rise, with their agreement, to the preparation of an annual audit plan. The choice of assignments notably takes into account the assessment of the risks identified.

The size, the contribution to key economic indicators, the history of the entities together with the pattern of their development, are factors that are also taken into consideration for the preparation of the annual audit plan.

The Internal Audit Department carried out 44 assignments in 2016, involving 35 commercial entities representing over 37% of the Group's sales and 5 plants; the audited plants represent 17% of worldwide production in units. Furthermore, 4 other assignments were carried out with regard to specific topics. Audit assignments systematically lead to the preparation of a report comprising a presentation of the findings and related risks and making recommendations regarding an action plan to be put in place by the audited entity.

The Internal Audit Department relies on the support of the Group's integrated ERP (Enterprise Resource Planning) software package for the performance of its work and has developed a certain number of specific transactions that contribute to increasing the efficiency of its work. Since 2007, complementary assignments aimed at verifying certain key Internal Control points in the configuration of the ERP software have been performed. In addition, in 2014, the Internal Audit Department finalized the GRC (Governance, Risk, Compliance) tool, which now enables it to carry out its assignments using an integrated tool and to consolidate in real-time the progress made in the action plans of the audited entities.

The action plans decided on further to the audits are followed up regularly by the Internal Audit Department, which measures the rate of progress made in the implementation of the recommendations, weighted by the risk levels applied. The summary of performance and results of the assignments and the progress of the action plans are presented to the General Management and the Audit Committee every year.

The Internal Audit Department shares the results of its audits with the Group's Statutory Auditors. The remarks made by the external auditors within the scope of their annual audit are also taken into consideration by the Internal Audit Department when it carries out its assignments.

The Global IT Department

Strategic choices in terms of systems are determined by the Global IT Department, which is responsible in particular for implementation of a single ERP (Enterprise Resource Planning) management software application used by the vast majority of commercial subsidiaries, plants and the logistics function, issues instructions regarding systems security and accompanies the Group's digital transformation.

The Group also has an Information Systems Security Policy. Based on the international ISO 27001 standard, this policy covers the main topics of Information Systems security, describing the general principles to be applied for each of them. It enables all the Group's Information Systems teams, and by extension all the employees, to share clear objectives, good practices and levels of control adapted to the risks incurred. 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 Quality, EHS (Environment, Health and Safety), Purchasing, Information Systems (production), Human Resources (production), Supply Chain, Production Organisation, Industrial Management and Real Estate Departments. It defines standards and methods applicable in the areas of production quality, safety and the environment. It assists operational employees in the definition and implementation of their manufacturing and logistics policies.

In line with the Group's Code of Ethics, since 2011, the purchasers have a practical and ethical guide *The Way We Buy* which aims at helping all employees in their relationships with the Group's suppliers. In addition, the purchasers have Group guides *The Way We Compete* and *The Way We Prevent Corruption* for which they follow e-learning modules.

The standard for *Management of suppliers* and tender procedures specify the conditions for competitive tendering and for the registration of the main suppliers. The general terms of purchase are used as the framework for transactions with suppliers. The *Purchase Commitments and Order Management* standard is aimed at facilitating and strengthening control of the spending and investments of Group entities.

In the area of the supply chain, the main assignments consist in defining and applying the sales planning, customer demand management, development and control of customer service processes, particularly through management of physical order fulfilment, application of the general terms of sale, the follow-up of orders, management of customer returns and customer disputes as well as accounts receivable collection procedures. Measures are also recommended for the management of distribution centres and inventories, subcontracting, product traceability, business continuity plans and transportation.

The other Functional Departments

The following departments are also involved in Internal Control:

- the Human Resources Department, which is responsible for monitoring and supervising the obligations related to personnel management, specifies the documents to be provided to employees, the way to book and report headcount and personnel charges, the procedures for recruitment, training and appraisal and the rules to be observed in the field of payroll management;
- the Research and Innovation Department is responsible in particular for cosmeto-vigilance and the quality of the formulas used in product composition (see chapter 3 *Cosmetovigilance and impact on safety assessment*);
- the Communications and Public Affairs Department which co-ordinates communications initiatives, prepares crisis management principles and ensures that they are applied (see chapter 2.8.4.3. *Image and reputation*);
- the Security and Safety Department which has defined a security and safety policy for people, travel, property, information and data confidentiality (see chapter 2.8.4.3. *Employee safety*).

2.8.3. SYSTEM RELATING TO THE PREPARATION AND PROCESSING OF FINANCIAL AND ACCOUNTING INFORMATION

For the preparation of this report, L'Oréal based itself on the *Application Guide for Internal Control of accounting and financial information published by issuers*, which is part of the Reference Framework published by the AMF on July 22nd, 2010. This approach is part of an overall process aimed at making continual progress and improving the Internal Control system that has already been set up.

2.8.3.1. Definition, scope and objectives

Internal Control of accounting and financial fields covers the processes that contribute to accounting data: *i.e.* the process of production of financial information, the accounts closing processes and financial communication actions.

The Internal Control system with regard to accounting and financial aspects aims to ensure:

- compliance with accounting regulations and the correct application of the principles on which the financial statements are based;
- application of the guidelines set by the General Management with regard to financial information;
- protection of assets;
- quality of the reporting that contributes to the preparation of the published financial statements and the reliability of their centralised treatment for the Group with a view to their distribution and their use for monitoring purposes;
- control of the production of financial, general and management accounting information including fraud prevention.

The scope of application of the Internal Control procedures relating to the preparation and processing of financial and accounting information encompasses the parent company and all subsidiaries included in the consolidated financial statements.

2.8.3.2. Monitoring process for the organisation of the accounting and finance functions

Organisation of the Finance Departments

Dedicated teams of specialists ensure the implementation of accounting and financial monitoring, under the supervision of the General Management, in the following areas: accounting, consolidation, tax, financial control, financial services and treasury.

In the Administration and Finance Division, the preparation of the Group's consolidated results is the responsibility of the Economic Affairs Department. The tax function, consisting of a network of tax lawyers at corporate level, in the zones and in the 17 countries of the Group that are the most exposed, monitors the changes in regulations, ensures compliance with the local rules, and oversees the implementation of the Group's tax policy, and in particular the strict application of the transfer pricing policy and the customs rules. The presence of management controllers at each level of the organisation helps to reinforce the Internal Control system. This network of management controllers in the subsidiaries is coordinated by the Economic Affairs Department.

Processing and pooling of cash flows and hedging of currency and interest rate risks are carried out by the Financial Services Department, which is in charge of identifying commitments and enabling their proper booking.

General accounting standards

The Group has put in place a set of accounting policies and standards, which all consolidated subsidiaries are required to apply and which enable uniform, reliable financial information to be provided.

These accounting policies are regularly updated, taking into account the changes in regulations and accounting principles:

- accounting standards 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. They are in accordance with IFRS, the accounting standards used to prepare the consolidated financial statements. The Group's Accounting Department monitors, on an ongoing basis, new accounting standards currently under preparation, with a view to alerting the General Management and anticipating their effects on the Group's financial statements;
- the chart of accounts, which is common to all subsidiaries, provides the definitions and the methodology for the preparation of the reporting required for the preparation of the financial statements.

Management standards

Management standards not only specify the rules applicable to the valuation of certain significant accounts in the balance sheet and the income statement but also the controls and validations applicable to the key processes.

The 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 choices of software that is adapted to the Group's financial and accounting requirements are made jointly by the Economic Affairs Department and the Global IT Department.

At the level of information systems, the teams work on strengthening the procedures for the separation of tasks and improved control of access rights. Tools have been made available to enable them to ensure that access rights comply with the Group's rules.

Management tools

The system for monthly reporting of the various economic indicators enables the monitoring of the evolution of the performance of each subsidiary in a continuous and harmonised manner. It also enables assurance to be obtained that such performance is in line with the objectives set.

The reporting and consolidation system, used by all entities, ensures the consistency and reliability of figures at the level of each subsidiary through blocking controls that operate before the financial data is uploaded to Group level. In this regard, the operating profit and loss account by destination, which is common to both management and general accounting, contributes to strengthening the control of accounts in the financial statements through the use of a single reference framework.

In addition, the Group's organisation, which is based on reporting from each subsidiary that is provided directly by the countries to the parent company, without any intermediate aggregates for the vast majority of the subsidiaries, enables optimisation of the data transfer and the completeness of the information, and in particular enables the checking of the accuracy of the exchange conversion rates.

The Managing Director and the Finance Director of each subsidiary make a joint commitment with regard to the quality, reliability and completeness of the accounting and financial information they have prepared and sent to the Group's Economic Affairs Department, through a representation letter that they jointly sign.

The Audit Committee

The role and tasks of the Audit Committee are described above. These tasks are in compliance with the 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 July 22nd, 2010.

2.8.3.3. Processes used to prepare accounting and financial information

Operational processes contributing to accounting figures

All of the processes that contribute to accounting figures, particularly sales and purchases, and inventory, fixed asset, payroll and treasury management are covered by specific procedures, follow-up checks and rules for validation, authorisation and booking operations.

Closing of the accounts, consolidation and management reporting information

The accounts closing process is governed by precise instructions and is based on a detailed time schedule circulated to all the subsidiaries to make sure that deadlines are met and the financial statements are prepared in a consistent manner. In this regard, the Group has introduced 2 hard closings (anticipating the work for the accounts closing) in May and November which make it possible to anticipate better and to speed up closing times. For the preparation of the consolidated financial statements, validation procedures apply at each stage of the process of reporting and processing information. Their purpose is to verify in particular that:

- inter-company transactions are correctly adjusted and eliminated (these are reported on a monthly basis);
- consolidation operations are checked;
- accounting standards are correctly applied;
- the consolidated published accounting and financial data are harmonised and properly determined and general accounting data and management reporting figures used in the preparation of the financial information are consistent.

Financial communication

Managers in charge of Financial Communication prepare a precise timetable for publication of up-to-date information on the Group to the financial markets. This timetable complies with the requirements of market authorities. These managers ensure, with the assistance of the Legal Department, that communications are made within the required deadlines and in accordance with laws and regulations, which they constantly monitor.

Their role is also to publish, precisely and accurately, the information provided by the Economic Affairs Department and the Legal Department. All material information provided to the financial community reflects with truth and transparency the situation and activities of the Group and the process is carried out in accordance with the principle of equal provision of information to all shareholders.

The Statutory Auditors

All accounting and financial information prepared by consolidated subsidiaries is subject to a limited review at the time of the half-year closing process and to a full audit at year-end, by the external auditors. Twice a year, the Managing Director and the Finance Director of each consolidated subsidiary make a joint commitment as to the true and fair view, reliability and completeness of the financial information by jointly signing a representation letter.

Audit assignments in the countries are almost all entrusted to members of the networks of the two Statutory Auditors who, after having jointly performed the review of all the Group's accounts and the manner in which they were prepared, are responsible for issuing an opinion on the Group's consolidated financial statements. The Statutory Auditors issue an opinion as to whether the consolidated financial statements and parent company financial statements give a true and fair view. They are kept informed from the early stages of preparation of the financial statements and present an overview of their work to the Group's accounting and finance managers and to the Audit Committee at the time of the half-year and annual closings.

2.8.4. RISK FACTORS AND RISK MANAGEMENT

2.8.4.1. Definitions and general framework

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

Risk management consists in identifying, managing and controlling risks that may affect the smooth running of the Company. It also participates in value creation by promoting the good use of resources to minimise the impact of negative events and maximise the realisation of opportunities. Risk management therefore goes beyond a strictly financial framework.

In order to ensure the sustainability of its development and the achievement of its objectives, the Group strives to anticipate and manage the risks to which it is exposed in its different areas of activity. In addition, the Internal Rules of the Board of Directors specify the role played by the Audit Committee which *"must make sure that the General Management has at its disposal the means to enable it to identify and manage the economic, financial and legal risks facing the Group inside and outside France in carrying out its normal or exceptional operations"*.

On the basis of the work by the Internal Audit Department, the analysis of major accounting and financial risks, in conjunction with the processes used by subsidiaries, makes it possible to identify Internal Control improvements and update the Group's standards.

2.8.4.2. Risk mapping

The risk mapping concerning all L'Oréal's activities is updated periodically: this process of identification and analysis of the significant risks and processes enhances the knowledge of the Group's risks by formalising and consolidating the work already achieved to date. The results of this work were presented to the Audit Committee. It is the responsibility of the Risk Management and Compliance Department to lead this process which makes it possible to prepare the appropriate action plans and it makes a presentation to the Audit Committee every year on the main progress made. The main risks to which the Group is exposed are described below.

2.8.4.3. Risk factors

The Group operates in a changing environment. Like any company, it is necessarily exposed to risks which, if they were to materialise, could have a negative impact on its business activities, its financial situation and its assets, particularly in terms of reputation and image. This chapter presents the main risks to which the Group considers that it is exposed: risks specific to L'Oréal's activities, followed by legal, industrial and environmental risks, and finally risks of an economic and financial nature.

Faced with these risks, L'Oréal has set up an Internal Control system to prevent and manage them more effectively. The Internal Control and risk management procedures are therefore described in this chapter as provided for by Article L. 225-37 of the French Commercial Code.

However, a wholly risk-free environment cannot be guaranteed. Moreover, the Group could be adversely impacted by other risks of which it is not currently aware or which it does not consider material at the date of this Document.

RISKS TO WHICH THE GROUP BELIEVES IT IS EXPOSED

BUSINESS RISKS

BUSINESS RISKS \ IMAGE AND REPUTATION	
Risk identification	**Risk management**
The Company's reputation and its brand image may be compromised at any time in a globalised world where information is disseminated rapidly. No company is safe from an undesirable event, whether this involves the use or misuse of a product or reprehensible individual conduct. Circulation of detrimental information in the media, regardless of whether or not such information is founded, has been facilitated by the introduction of new technologies and the development of social networks, and could also affect the Company's reputation and brand image.	In order to reduce the risks that could result from events of this kind, L'Oréal has set up a system which monitors English- and French-language websites on an ongoing basis. The subsidiaries deploy their own social media and web monitoring system under the aegis of their Director of Communications and report on monitoring 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. Furthermore, the deployment of the Code of Ethics throughout the Group aims at reinforcing the dissemination of the rules of good conduct which form the basis of L'Oréal's integrity and ethics. These rules of good conduct seek to guide actions and behaviour, inspire choices and make sure that the Group's values are reflected in the everyday acts of each employee. L'Oréal has also implemented a Code of Good Practice for the use of social media by its employees.

BUSINESS RISKS \ PRODUCT QUALITY AND SAFETY	
Risk identification	**Risk management**
Consumer safety is an absolute priority for L'Oréal: assessing safety is at the heart of any new product development process and a prerequisite before any new product can be launched on the market. The principles governing the Group's quality and safety policy are ◆ satisfaction of customer needs; ◆ compliance with safety requirements and legislation; ◆ product quality and conformity across the supply chain.	The Worldwide Safety Evaluation organisation specifically evaluates the safety of raw materials and finished products. It establishes the toxicological profile of the ingredients used and the tolerance of the formulas before they are launched on the market. The same safety standards are applied worldwide to ensure that consumers from across the globe have access to products of identical quality. L'Oréal goes one step further in safety assessments by monitoring the potential adverse effects that may arise once the product is on the market through its international cosmeto-vigilance network. This network compiles, validates and analyses any adverse effects related to use of a product based on rigorous, proven methodologies, allowing the appropriate corrective measures to be taken where necessary (see 3.1.4.5. *Cosmeto-vigilance and impact on safety assessment*). In terms of questions that civil society may ask regarding certain substances and their effects on health and the environment, three points summarise L'Oréal's position: ◆ vigilance with regard to any new scientific data; ◆ co-operation with the relevant authorities; ◆ precaution leading to the substitution of ingredients in the event of a proven risk or a strongly suspected risk. The Group has also put in place insurance policies protecting it in particular against third party liability claims related to its products (see *Integrated worldwide programmes* below). The measures taken in favour of consumer health and safety are described in further detail in chapter 3. Finally, production quality standards define rules governing the quality of products, for all stages from creation to production and distribution. Almost all the plants are ISO 9001-certified as regards production.

BUSINESS RISKS \ RESPONSIBLE COMMUNICATION

Risk identification	Risk management
L'Oréal provides consumers with innovative products whose success is based on their quality and performance. The benefits of these products are highlighted in the Group's communications. Despite all due care taken to guarantee the accuracy and fairness of the claims made in these communications, there is always a possibility that they may be challenged by the authorities, organisations or consumers.	In order to reduce the risk of any such challenges being made, the International Product Communication Evaluation Department ensures the conformity of product communications before they are put 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.

BUSINESS RISKS \ SEASONAL NATURE OF BUSINESS

Risk identification	Risk management
In certain cases and for specific products, the timing of sales can be linked to climate conditions, such as for example sun care products. Products and brands sought after by consumers as gifts see particularly strong sales at year-end and during holiday periods. This is particularly the case for fragrances and The Body Shop products. A major disruption in any of these factors could affect L'Oréal's sales.	L'Oréal endeavours to mitigate these risks through the diversity and enrichment of its range of products and by organising product launches and special product promotional events throughout the entire year.

BUSINESS RISKS \ GEOGRAPHIC PRESENCE AND ECONOMIC AND POLITICAL ENVIRONMENT

Risk identification	Risk management
L'Oréal has subsidiaries in 70 countries, with 67.9% of its sales being generated outside Western Europe. Global growth in the cosmetics market has led L'Oréal to develop its activities in countries within the "New Markets" Zone, which represented over 39.4% of its cosmetics sales in 2016. The breakdown of L'Oréal's sales and sales growth are set out in chapter 1 of this Document. Besides the currency risks mentioned in note 10.1. in chapter 4, *Hedging of currency risk* and in the *Currency risk* section below, political or economic disturbances in countries where the Group generates a significant portion of its sales could have an impact on its business activities.	However, its broad global presence helps to maintain a balance in sales and enables results to be offset between countries and geographic zones. In periods of major economic slowdown or sovereign debt crises in certain countries, the Group's sales growth could however be affected.

BUSINESS RISKS \ DISTRIBUTION NETWORK	
Risk identification	**Risk management**
To sell its products, L'Oréal uses independent distribution channels as well as a limited number of stores which are owned by the Company. The combination or disappearance of distribution chains and changes in regulations with regard to selective distribution could impact the development of the Group's brands in the country or countries concerned.	The presence of the Group's brands in all types of distribution networks helps mitigate any potential negative impact.

BUSINESS RISKS \ COMPETITION	
Risk identification	**Risk management**
Due to its size and brand positioning, L'Oréal is subject to constant pressure from local and international competitors across the globe. Competition is healthy: it drives the Group's teams around the world to always do their utmost to serve the interests of consumers and the Group's brands. Winning market share, improving operating profitability and thereby ensuring growth are a permanent challenge in a context where companies constantly strive to obtain the best positions for their products and launch the most attractive and effective product ranges offering an optimal price/quality ratio.	With a view to the roll-out of its "Universalisation" strategy, the Group has rethought its innovation model and is constantly increasing its investments in research. L'Oréal's research teams innovate to respond to the infinite diversity of beauty aspirations all over the world. Thanks to this ability to implement long-term research programmes, L'Oréal can maintain its lead over its competitors (see chapter 1 paragraph 1.2.5. *Research and Innovation adapted to the market*).

BUSINESS RISKS \ INNOVATION AND CONSUMER EXPECTATIONS	
Risk identification	**Risk management**
The development of innovative products and their adaptation to market requirements is an ongoing priority for the Group. If it fails to anticipate or interpret changes in consumer expectations and new trends, especially with regard to digital solutions and connected tools, its sales could be affected.	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. Its work enables the Group's researchers to develop new products that are in step with market needs, as discussed in the paragraph on Research and Innovation adapted to the market in Chapter 1, paragraph 1.2.5. The Digital Division is responsible for accelerating the Group's digital transformation by helping the brands create enriched spaces for expression and helping teams to establish more interactive, close-knit and bespoke relationships with consumers, while leveraging the opportunities for developing business through digital media as a distribution channel. Consumers' expectations with regard to Sustainable Development are also at the heart of the *Sharing Beauty With All* programme unveiled in 2013 (see chapter 3).

BUSINESS RISKS \ EXTERNAL GROWTH TRANSACTIONS

Risk identification	Risk management
As part of its growth strategy, L'Oréal has made, and may have occasion to make acquisitions or sign licence agreements. However, implementation of this strategy depends on L'Oréal identifying development opportunities at an acceptable cost and under acceptable conditions. These operations may have a negative impact on the Group's results if the Group fails to successfully integrate the activities of the acquired companies and their personnel, products and technologies under the expected conditions, or if it fails to achieve the expected synergies or to successfully handle liabilities not anticipated when the transaction was completed and for which L'Oréal has little or no protection from the seller.	The Group has put in place a monitoring process for such transactions, which includes: ◆ setting up multidisciplinary teams to prepare projects and due diligence work; ◆ a review by the Board of Directors' Strategy and Sustainable Development Committee and then by the Board of Directors, of acquisition or equity investment opportunities that represent significant amounts or fall outside the scope of the Group's usual business activities, and of the conditions for their implementation. Acquisitions, which are decided by the Board of Directors, are regularly reviewed by the Board of Directors which is informed of the conditions of integration and the performances achieved.

BUSINESS RISKS \ RISKS RELATED TO HUMAN RESOURCES MANAGEMENT

Risk identification	Risk management
One of the keys to L'Oréal's success lies in the talent of its staff. If L'Oréal fails to identify, attract, retain and train competent employees who behave responsibly, the development of its activities and its results could be affected.	The Group looks to create a motivating, engaging professional environment which also encourages employees to take on board the Group's values, including those put forward by the Code of Ethics. The launch of the international *Share & Care* program, which meets the essential needs of each of the Group's employees (in terms of social protection, healthcare, parenthood and quality of life at work) helps the Group to be more competitive and plays out its belief that social and economic performance are not just closely related but mutually reinforcing. L'Oréal's Human Resources policy is described in 3.1.2.

BUSINESS RISKS \ SAFETY AND SECURITY

Risk identification	Risk management
The Group's presence at more than 450 sites (excluding its own stores and the point-of-sales outlets of distributor customers) exposes it to risks with regard to events stemming for example from geopolitical tensions, malicious acts or natural disasters. The consequences of these risks may adversely affect the Group's valuable resources, namely people and tangible and intangible assets.	In order to permanently protect these resources (or Group assets) against malicious acts, the Security and Safety Department helps in the preventive implementation of technical, HR and operational procedures to limit the residual risk of malicious damage and support the Group's international development in high-risk countries. It also provides employees travelling abroad for business with a monthly report on "travel risks". Since 2010, with regard to the occurrence of natural disasters, the Real Estate Department has deployed a global programme to assess site vulnerability to seismic risk in the most exposed areas. At the same time, the Information Systems Department ensures that seismic risk is taken into consideration in the IT continuity plans for the countries most at risk.

BUSINESS RISKS \ INFORMATION SYSTEMS AND DATA	
Risk identification	**Risk management**
The day-to-day management of activities such as purchasing, production and distribution, invoicing, reporting and consolidation, as well as internal data exchange and access, relies on the proper functioning of all technical infrastructure and IT applications. As part of the ongoing development of information technologies and their applications, the Group's business activities, expertise and more generally its relations with all stakeholders in its social and economic environment depend on being able to function in a more virtual, digital environment. The risk of a malfunction/breakdown in these systems or misappropriation of confidential or personal data for exogenous or endogenous reasons (including intrusions, malicious acts, etc.) cannot be ruled out.	To minimise the impact that this type of occurrence could have, the Information Systems Department has introduced strict rules with regard to data back-up, protection of, and access to, confidential data and data security with regard to both computer hardware and software applications. Furthermore, in order to adapt to the development of new methods of communications and to the digital transformation of its activities, L'Oréal has introduced an Information and Communication Technologies Code of Practice and disseminated the Group's principles with regard to personal data management all over the world. 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, an information system security audit programme, protecting sensitive equipment and providing global supervision for identifying irregularities. L'Oréal's safety focus is constantly adjusted to deal with new threats of cyberattacks. For example, the Group is increasingly investing in systems for detecting and reacting to warnings and security incidents and in the periodic supervision of the effectiveness of such solutions. Furthermore, the Group deployed all over the world in 2016 an on-line training programme on best practices with regard to safety and security, intended for all the employees.

BUSINESS RISKS \ RISK OF AN INTERNAL CONTROL FAILURE	
Risk identification	**Risk management**
L'Oréal has set up an Internal Control system which, however effective it may be, can only provide reasonable and not absolute assurance that the Company's objectives can be achieved due to the inherent limitations of any control system. Accordingly, the Group cannot rule out the risk of an Internal Control failure that may expose it to an act of fraud in particular.	A programme designed to raise the awareness of fraud risk has been rolled out to all the Management Committees of the Group's subsidiaries (setting out the main operational scenarios that could occur, the alert systems and the existing procedures and controls) and helps reduce the Group's exposure to this risk. The Group has also published a guide and is gradually deploying an e-learning module on corruption prevention which round out the commitments and principles set out in L'Oréal's Code of Ethics and are described in the *Social, Environmental and Societal Information* below (3.1.4.4).

LEGAL RISKS

LEGAL RISKS \ INTELLECTUAL PROPERTY: TRADEMARKS AND MODELS

Risk identification	Risk management
L'Oréal is the owner of key intangible assets on behalf of the Group's companies to which it grants licences in exchange for the payment of royalties. L'Oréal thereby owns most of its brands, which are a strategic asset for the Group, particularly the major international brands described in the *Operational Divisions* section (see 1.4.2.). This does not include a few brands for which L'Oréal has obtained a license and most of which are currently marketed by L'Oréal Luxe, primarily the Giorgio Armani, Yves Saint Laurent, Ralph Lauren, Cacharel, Viktor&Rolf and Diesel brands. The trademark name, the products themselves and the models may be infringed or counterfeited by economic players wishing to illegally and illegitimately claim the benefits of their reputation. In light of the large number of countries in which its products are sold and the multiple potential prior rights that may exist in each of these countries, it is impossible to rule out the possibility that third parties may claim prior rights to certain L'Oréal trademarks and models. This potential risk has to be cited in order to provide a comprehensive risk account, even though the likelihood of it occurring is low due to the care taken when conducting prior rights searches.	Special care is given to the protection of the trademarks and models belonging to L'Oréal, and this responsibility is entrusted to a special unit of the Group's Legal Department, which has responsibility for registering trademarks in all countries. This unit also keeps a close watch on the market and takes the necessary actions against infringers and counterfeiters. The L'Oréal Group is also an active member of organisations which have set themselves the goal of combating counterfeiting and promoting good commercial practices. In particular, these include the French Manufacturers' association *(Union des Fabricants)*, the International Chamber of Commerce and Business Europe. Before any trademark or model is registered, searches are conducted to identify any prior rights that may exist.

LEGAL RISKS \ INDUSTRIAL PROPERTY: PATENTS

Risk identification	Risk management
Research and Innovation are the historic pillars of L'Oréal's development. The dedication of L'Oréal's research teams has made it one of the leading industrial patent filers in its field for many years now.	In order to protect the Group against the risk of another company claiming one of its molecules, a production process or packaging, L'Oréal has set up the International Industrial Property Department, a specific structure which is part of the Research and Innovation Division. This specific department is responsible for filing the Group's patents, exploiting them and defending them on a worldwide basis. However, it cannot be excluded that third parties could contest the validity of certain patents held by the Group.

LEGAL RISKS \ REGULATORY CHANGES	
Risk identification	**Risk management**
L'Oréal is subject to the laws which apply to all companies and it requires its subsidiaries to comply with the regulations of the countries in which it operates.	As an active member of professional associations in the countries in which its industry is represented, L'Oréal is involved in an ongoing dialogue with national or regional authorities in charge of specifically regulating products in its industrial sector in order to anticipate or manage any risks that may arise from changes in the regulatory landscape.
The European REACH regulation (Registration, Evaluation and Authorisation of Chemicals) that came into force in June 2007, is aimed at increasing human and environmental safety of chemicals by requiring all user companies to prove that they have implemented appropriate risk management measures.	L'Oréal plays an active role in this process for compliance with the REACH regulation for the substances manufactured or imported by its European legal entities concerned. Within the framework of national and European associations, L'Oréal helps analyse and draft practical guides for the implementation of these regulations.
L'Oréal is also subject in Europe to the 7th amendment to the European Cosmetics Directive on animal testing of cosmetic ingredients.	An action plan has been drawn up at L'Oréal in order to improve the design and methods used to assess the safety of raw materials. This plan is being implemented on an accelerated basis in order to prepare as effectively as possible for the application of these regulations. L'Oréal was able to stop testing finished products on animals in 1989 (14 years before it became a legal obligation in Europe) and develop predictive evaluation strategies to meet European regulations which prohibit the offering for sale of products containing any ingredient that has been tested on animals after March 11th, 2013 (see 1.2.5."Ethically respectful research").
Certain countries are moreover subject to export restrictions, embargoes, economic sanctions or other forms of trade restrictions levied by the US, the European Union or other countries or organisations.	L'Oréal has put in place a compliance programme aimed at ensuring that the entities in its group comply with the regulations applicable to them with regard to embargoes and economic sanctions.

LEGAL RISKS \ OTHER LEGAL RISKS AND LITIGATION	
Risk identification	**Risk management**
In the ordinary course of its business, the Group is involved in legal actions and is subject to tax assessments, customs controls and administrative audits. It is also the subject of proceedings initiated by national competition authorities, in particular in European countries (see note 1.2.2. of the Consolidated Financial Statements).	The Legal Charter reaffirms the obligation to comply with local legislation and notably sets out the internal principles for signature on behalf of the Company, the general and specific rules relating to contracts, trademark law, intellectual property law, company law and competition law. Furthermore, the Group's Legal Department has set up a training programme on competition law for the employees concerned. It also distributes practical guides concerning the issues related to competition law and participation in professional associations which define the principles to be complied with and provide operational answers to any questions which employees may have in this area. A provision is set aside in the parent company and consolidated financial statements whenever the Group has an obligation towards a third party likely to involve an outflow of economic resources whose cost can be reliably estimated. There are no other governmental procedures, legal or arbitration proceedings, including any proceedings or procedures of which the Company is aware, which are pending or threatened, that may have, or have had over the last 12 months, material effects on the financial situation or profitability of the Company and/or the Group.

INDUSTRIAL AND ENVIRONMENTAL RISKS

In order to improve the efficiency and productivity of its industrial processes, L'Oréal carries out most of its production in 42 plants, each specialising in a specific type of technology.

INDUSTRIAL AND ENVIRONMENTAL RISKS \ PRODUCTION AND SUPPLY CHAIN	
Risk identification	**Risk management**
Products must be made available on the market on the scheduled dates to meet time-to-market and customer demands, in order to enable new product ranges to be referenced by distributors in a cosmetics market that requires companies to be increasingly responsive. A major stoppage of activity at a plant or distribution centre could therefore have an adverse effect on the achievement of commercial objectives.	To prevent this risk, business continuity plans exist for each operational site. The Group is currently deploying a single methodology of business continuity plans at all its plants and all its distribution centres. These plans aim at planning for the unavailability of part of the Group's supply chain as far as possible and resuming business activities as quickly as possible.

INDUSTRIAL AND ENVIRONMENTAL RISKS \ SUPPLIER DEPENDENCE	
Risk identification	**Risk management**
L'Oréal is dependent on its external suppliers for the delivery of materials (raw materials and packaging items) that are essential for the manufacture of finished products, which may therefore suffer a disruption as the result of a failure by an important supplier.	In order to prevent these risks, L'Oréal has prepared production continuity plans which aim to identify replacement solutions (*e.g.*, supplier back-up, availability of several moulds for articles for strategic products, etc.).

INDUSTRIAL AND ENVIRONMENTAL RISKS / EMPLOYEE SAFETY	
Risk identification	**Risk management**
The cosmetics industry has a limited environmental risk profile. However, as is the case for any production, distribution, research and general administration operations, L'Oréal is exposed to safety and environmental issues (for example related to the use of certain raw materials, the use of machines or electrical equipment in production or storage areas, handling operations liable to cause accidents involving bodily injury, waste water treatment, etc.). The main risk for the Group's industrial sites is the risk of fire due to the inflammable materials used in products (alcohol, propellant gases, powders, oxidants and solvents) and the storage of combustible products and chemicals. Furthermore, the risks related to climate change, pursuant to Article L. 225-37 of the French Commercial Code, are described in chapter 3.	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. Moreover, under its *Sharing Beauty With All* programme, the Group pursues its initiatives aimed at reducing its environmental footprint by setting itself ambitious, concrete targets (see chapter 3). This rigorous EHS policy has been implemented throughout the Group for many years. The Operations Division issues Internal Rules that set out the principles of L'Oréal's EHS policy. An EHS officer is appointed at each site. Training programmes are systematically organised. EHS performance indicators are collected monthly from all production sites, distribution centres and research centres. This data is collected quarterly for most of the administrative sites. Fire risk is dealt with in the framework of very strict fire prevention standards (National Fire Protection Association standards). As well as being implemented on all the industrial sites, EHS policy has been rolled out to all the Group's research centres and administrative sites. The *Working Sustainably* programme, launched in 2016, which aims at reducing the environmental impact of these activities, has moreover reinforced the commitment by these sites to environmental issues.
The L'Oréal Group operates 103 industrial sites, 3 of which are classified as "Seveso high threshold".	The industrial sites classified as "Seveso high threshold" are subject to strict regulations through the European Union Seveso Directive on the prevention of major accident hazards due to the storage of chemicals or inflammable products.

INDUSTRIAL AND ENVIRONMENTAL RISKS / EMPLOYEE SAFETY	
Risk identification	**Risk management**
Preservation of employee health and safety is one of L'Oréal's priorities and is an integral part of the EHS policy and the Group's human and social policy. It is rooted in the evaluation and prevention of professional risks in the Company as described in detail in chapter 3. Nevertheless, the risk of accidents at the workplace or occupational diseases cannot be entirely ruled out.	The Group implements the necessary means to ensure that it is in compliance with the applicable health and safety legislation and regulations in the various countries where it operates. In the area of safety, procedures relating to the protection of persons, property and products set out the principles for covering industrial and logistical risks relating to organisation and safety. Almost all the plants are ISO 14001-certified for their environmental policy and OHSAS 18001-certified (or have an equivalent certification) for their safety policy. Within the scope of this EHS policy, prevention is based on the Safety Hazard Assessment Procedure (SHAP) carried out by employees on the ground under the responsibility of the Site Manager. This programme helps identify dangers both overall and for each workstation, and assesses the corresponding risks. The SHAP method thus makes it possible to draw up a risk map for the sites, assess the level of risks and put in place the necessary oversight measures. It is based on a dialogue between those in charge and contributes to a significant collective improvement in risk management. This approach is constantly evolving and is updated regularly in line with changes at sites and experience on the ground. EHS audits are conducted every three or four years in each plant and distribution centre. The risk mapping is reviewed within the scope of this audit. In 2016, 11plants, 13 distribution centres, 1 research centre and 1 administrative site were subject to an EHS risk audit. Within the scope of the Commitments for 2020 under the *Sharing Beauty With All* programme, L'Oréal employees will notably have access to healthcare coverage and social protection wherever they are in the world. L'Oréal wants its geographical expansion to go hand-in-hand with social protection for L'Oréal employees all over the world. L'Oréal's employees will benefit from healthcare coverage aligned with the best practices in the country in which they are based. Financial protection will also be provided for all L'Oréal employees should unforeseen life events such as permanent disability occur.

COUNTERPARTY RISK

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

CUSTOMER RISK

CUSTOMER RISK	
Risk identification	**Risk management**
Customer risk may result from a failure to collect receivables due to cash problems encountered by customers or to customers no longer being in business.	However, this risk is limited by the Group's policy of taking out receivables insurance cover as far as this is permitted by local conditions. The risk associated with credit insurance is mentioned below in the paragraph on *Insurance*. Due to the large number and variety of distribution channels worldwide, the likelihood of a significant impact on the Group as a whole remains limited. The 10 largest distributor customers represent 21.8% of the Group's sales. The amount provisioned which is considered at risk of non-collection is set out in note 3.3.2. *Trade accounts receivable* of the Consolidated Financial Statements. This amount does not exceed 2% of gross accounts receivable

LIQUIDITY RISK

LIQUIDITY RISK	
Risk identification	**Risk management**
The L'Oréal Group's liquidity risk is managed with the primary aim of ensuring continued financing and optimising the financial cost of debt.	The Group's Financial Services Department centralises all the subsidiaries' financing needs and also negotiations with financial institutions so as to have better command over borrowing conditions. Any transactions that may be carried out directly by subsidiaries are closely supervised. To this effect, the Group has unused confirmed credit lines from several first-rate banks totalling €3,727 million, including 450 million in USD facilities (€427 million). In all, €100 million matures within 1 year and €3,627 million matures within 1 to 4 years (see note 9.1.9. *Confirmed credit lines* of the Consolidated Financial Statements). These credit lines are not subject to any conditionality clause based on financial criteria. The Group also regularly uses the financial markets through the use of short-term marketable instruments in France and commercial paper in the United States. None of these debts contains an early repayment clause linked to compliance with financial ratios (covenants) (see note 9.1.1. *Debt by type*, 9.1.2. *Debt by maturity date*, and note 10.6. *Liquidity risk* of the Consolidated Financial Statements. When the Group makes financial investments, in the form of either bank deposits or marketable securities, it gives priority to short-term transferable instruments from first-rate financial institutions. The L'Oréal Group benefits from the following short-term credit ratings: ◆ A-1+, awarded in September 2016 by Standard & Poor's; ◆ Prime 1, awarded in April 2016 by Moody's; and ◆ F1+, awarded in September 2016 by FitchRatings. These ratings are unchanged compared to those assigned in 2015.

FINANCIAL AND MARKET RISKS

FINANCIAL AND MARKET RISKS \ INTEREST RATE RISK	
Risk identification	**Risk management**
For the requirements of its development and its capital expenditure policy, L'Oréal uses borrowings and short-term marketable instruments. The Group mainly refinances at floating rates, as mentioned in note 9.1.4. *Breakdown of fixed rate and floating rate debt* of the Consolidated Financial Statements.	None of these debts contains an early repayment clause linked to compliance with financial ratios. In order to limit the negative impact of interest rate fluctuations, the Group has a non-speculative interest rate management policy using derivatives as appropriate, as described in notes 10.3. *Hedging of interest rate risk* and 10.4. *Sensitivity to changes in interest rates* of the Consolidated Financial Statements. Other details with regard to debt and interest rates are also provided in notes 9.1.5. *Effective interest rates*, 9.1.6. *Average debt interest rates* and 9.1.7., *Fair value of borrowings and debts* of the Consolidated Financial Statements.

FINANCIAL AND MARKET RISKS \ CURRENCY RISK	
Risk identification	**Risk management**
Due to its international presence, L'Oréal is naturally exposed to currency fluctuations. Fluctuations between the main currencies may therefore have an impact on the Group's results when translating the foreign currency financial statements of subsidiaries into euros, and may therefore make it difficult to compare performances between two financial years. In addition, commercial flows resulting from purchases and sales of items and products arise between subsidiaries in different countries.	The Financial Code of Ethics and the exchange risk management standard specify, in particular, the principles to be applied by Group entities to ensure that management of currency risk is both prudent and centralised. In order 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 forward purchases or sales contracts or through options at year-end. Requirements are established for the following year on the basis of the operating budgets of each subsidiary. These requirements are then reviewed regularly throughout the year in progress. In order to obtain better visibility over the flows generated, currency risk management is centralised with the Treasury Department at head office (Corporate Finance Department), which uses a specific tool for centralising the subsidiaries' requirements by currency (FX report). The system of foreign exchange risk hedging is presented to the Audit Committee. The hedging methodology and the values involved are described in note 10.1. *Hedging of currency risk* of the Consolidated Financial Statements.
Procurement by subsidiaries is mainly in the currency of the supplier's country.Significant changes in the monetary environment could have an impact on the Group's results and shareholders' equity.	The analysis of sensitivity to currency fluctuations and the impact on equity are set out in detail in note 11.3. *Other comprehensive income* of the Consolidated Financial Statements. Finally, the impact of foreign exchange gains and losses on the income statement is described in note 10.2. *Foreign exchange gains and losses* of the Consolidated Financial Statements.

FINANCIAL AND MARKET RISKS \ RISK RELATING TO THE IMPAIRMENT OF INTANGIBLE ASSETS	
Risk identification	**Risk management**
As stated in the section on legal risks, L'Oréal's brands are a strategic asset for the Group and may be subject to impairment.	As described in note 7 *Intangible assets* of the consolidated financial statements, brands with an indefinite useful life and goodwill are not amortised but are tested for impairment at least once a year. Where the recoverable amount of a brand is lower than its net book value, an impairment loss is recognised. Similarly, any difference between the recoverable amount of each cash-generating unit and the net book value of the assets including goodwill would lead to an impairment loss in respect of the asset, recorded in the income statement. The amounts of impairment for the last three financial years are provided in note 4.1. *Other operational income and expenses* of the Consolidated Financial Statements. The data and assumptions used in impairment tests carried out on cash-generating units that comprise material amounts of goodwill and non-amortisable brands are set out in note 7.3. *Impairment tests on intangible assets* of the Consolidated Financial Statements.

FINANCIAL AND MARKET RISKS \ EQUITY RISK	
Risk identification	**Risk management**
L'Oréal does not invest its cash in shares. Its main equity risk is the 9.15% stake it held in Sanofi as of December 31st, 2016, for an amount described in note 9.3. *Non-current financial assets* of the Consolidated Financial Statements	If the Sanofi share price suffered a significant or prolonged decline in value below the initial share price, this would potentially lead L'Oréal to write down its asset through the income statement as explained in note 10.7. *Shareholding risk* of the Consolidated Financial Statements.

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

Risk identification	Risk management
By nature, assets used to finance employee benefit commitments are exposed to fluctuations on the markets in which such assets are invested. A sharp, prolonged downturn in the financial markets may have an impact on the value of the portfolios created (see note 5.4. *Post-employment benefits, termination benefits and other long-term employee benefits* of the Consolidated Financial Statements.	Pursuant to the provisions of the Group's Internal Charter on the Management of Plan Assets, the allocation by category of assets is subject to limits aimed in particular at reducing volatility and correlation risks between these different asset categories. A Supervisory Committee for the pension and employee benefit schemes offered to the Group's employees ensures that these principles are implemented and monitored, as described in the *Employee benefit and pension schemes* section in the *Social information* section (see chapter 3). Moreover, the Group chooses insurers and custodians with robust ratings from the three main specialist rating agencies.

FINANCIAL AND MARKET RISKS \ RISK RELATING TO CHANGES IN TAX REGULATIONS

Risk identification	Risk management
The Group is exposed to risks arising from changes in tax regulations or from their interpretation. An increase in existing taxes, the introduction of new taxes, or double taxation concerning in particular corporate income tax, customs duties, import taxes, the repatriation of dividends or social levies, could have an adverse impact on the Company's results.	The Tax Department and the operational Finance Departments, assisted where applicable by external advisors, monitor these changes to ensure that the Group complies with these regulations. In the event of a dispute or a difference in interpretation with the tax authorities, L'Oréal may defend its position by taking legal action.

FINANCIAL AND MARKET RISKS \ CORE COMMODITY RISK

Risk identification	Risk management
The production of cosmetics depends on the purchase of raw materials whose prices vary. These raw materials or components are used in the manufacture of products or in their packaging. The main core raw materials are polyethylene, polypropylene, aluminium and vegetable oils and their by-products. An exceptionally sharp increase in the price of these raw materials or energy prices on the world market could have a direct effect on the manufacturing cost of the cosmetics. However, it is estimated that the impact of this rise on gross margin would remain limited.	In order to anticipate the impact of these fluctuations and as a preventive measure, L'Oréal negotiates price indices with its main suppliers of raw materials and packaging items. The Group therefore does not use hedging. 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.

Insurance

The Group's overall insurance policy

The objective of the Group's policy on insurance is to protect the Group's assets and people from the occurrence of identified material risks that could adversely affect it.

For that purpose, the Group has implemented global insurance programmes (in particular for the Property Damage & Interruption of Operations, Third Party Liability and Transport insurance policies) which make it possible to manage the insurance cover and provide for uniform insurance cover for all its subsidiaries throughout the world, except in countries where this type of arrangement is not permitted (see the chapter on *Assurance of the Fundamentals of Internal Control*).

This policy is applied as follows:

- at parent company level, the Group has negotiated insurance programmes on a worldwide basis with first-rate insurance companies to cover its main risks on the basis of the cover available;
- at local level, subsidiaries have to put in place mandatory insurance cover in order to meet their local regulatory obligations.

The financial solvency of the insurers chosen is an important criterion in the Group's insurer selection process. Most of the insurance programmes subscribed by the Group involve co-insurance. Globally, the world's main insurance companies are involved in one or more of these Group programmes.

Integrated worldwide programmes

General third party liability

General third party liability, notably operating liability, third party liability related to products, and sudden and accidental environmental damage.

For several years, the Group has had in place a programme for all of its subsidiaries across the globe. This programme covers the financial consequences of the third-party liability of Group entities.

Claim activity under this programme has historically been low, which shows the extremely high quality requirements and safety standards applied by the Group in managing its operations and in designing and manufacturing its products.

Property damage and interruption of operations: fire, lightning, explosion, theft and natural disasters are notably insured, within the limits of the terms and conditions available on the insurance market.

The Group has set up a global programme to cover its property (chiefly fixed assets and inventories). This programme also includes a chapter on operating losses directly resulting from an insured property loss or damage.

As the capacity of the insurance market is limited for certain risks, this programme includes sublimits, particularly as regards natural disasters. Finally, it also provides for prevention inspections for the Group's sites conducted by specialist departments of the leading insurer.

Transport by road, sea and air of all flows of goods

The Group has set up an insurance programme to cover the transportation of all its products. All subsidiaries benefit from the protection offered by this worldwide programme, which ensures that appropriate cover is provided.

Customer credit risk

Group subsidiaries are encouraged to purchase credit insurance, assisted by head office and under the terms and conditions negotiated, in addition to their own credit management policy, provided that insurance cover compatible with their level of commercial activity is available under financially acceptable conditions.

Nevertheless, in a period of major economic slowdown, large insurance companies could scale back their commitments on the credit insurance market as they may decide to reduce their cover of amounts receivable in certain countries. The insurance policies put in place in these countries could be affected by this trend.

Self-insurance

Through its reinsurance subsidiary, the Group carries risk retention levels that are not material at consolidated level, and these are applicable over and above local deductible amounts. Two programmes are concerned: "Transport" and "Property Damage and Interruption of Operations".

2.9. STATUTORY AUDITORS' REPORT

2.9.1. STATUTORY AUDITORS' REPORT, PREPARED IN ACCORDANCE WITH ARTICLE L. 225-235 OF THE FRENCH COMMERCIAL CODE

(General meeting called to approve the annual financial statements for 2016)

To the Shareholders,

In our capacity as Statutory Auditors of L'Oréal and in accordance with Article L. 225-235 of the French Commercial Code *(Code de commerce)*, we hereby report to you on the report prepared by the Chairman of your Company in accordance with Article L. 225-37 of the French Commercial Code for the year ended December 31, 2016.

It is the Chairman's responsibility to prepare and submit to the Board of Directors for approval, a report describing the Internal Control and risk management procedures implemented by the Company and providing the other information required by Article L. 225-37 of the French Commercial Code in particular relating to corporate governance.

It is our responsibility:

- to report to you our observations on the information set out in the Chairman's report on Internal Control and risk management procedures relating to the preparation and processing of financial and accounting information, and
- to attest that the report sets out the other information required by Article L. 225-37 of the French Commercial Code, it being specified that it is not our responsibility to assess the fairness of this information.

We conducted our work in accordance with professional standards applicable in France.

Information concerning the Internal Control and risk management procedures relating to the preparation and processing of financial and accounting information

The professional standards require that we perform procedures to assess the fairness of the information on Internal Control and risk management procedures relating to the preparation and processing of financial and accounting information set out in the Chairman's report. These procedures mainly consisted of:

- obtaining an understanding of the Internal Control and risk management procedures relating to the preparation and processing of financial and accounting information on which the information presented in the Chairman's report is based and of the existing documentation;
- obtaining an understanding of the work performed to support the information given in the report and of the existing documentation;
- determining if any material weaknesses in the Internal Control procedures relating to the preparation and processing of the financial and accounting information that we may have identified in the course of our work are properly described in the Chairman's report.

On the basis of our work, we have no matters to report on the information given on Internal Control and risk management procedures relating to the preparation and processing of financial and accounting information, set out in the Chairman of the Board's report, prepared in accordance with Article L. 225-37 of the French Commercial Code.

Other information

We attest that the Chairman's report sets out the other information required by Article L. 225-37 of the French Commercial Code.

Neuilly-sur-Seine, February 20, 2017

The Statutory Auditors

PricewaterhouseCoopers Audit Gérard Morin	Deloitte & Associés Frédéric Moulin

2.9.2. STATUTORY AUDITORS' SPECIAL REPORT ON REGULATED AGREEMENTS AND COMMITMENTS WITH THIRD PARTIES

(Annual General Meeting held to approve the financial statements for the year ended December 31, 2016)

To the Shareholders,

In our capacity as Statutory Auditors of your Company, we hereby present our report on regulated agreements and commitments with third parties.

It is our responsibility to communicate to you, based on information provided to us, the principal terms and conditions of these agreements and commitments brought to our attention or which we may have identified as part of our engagement, without expressing an opinion on their usefulness or their merit or identifying such other agreements or commitments, if any. Under the provisions of article R.225-31 of the French Commercial Code (*Code de commerce*), it is the responsibility of the shareholders to determine whether the agreements and commitments are appropriate and should be approved.

Where applicable, it is our responsibility to communicate to you the information pursuant to article L.225-31 of the French Commercial Code relating to agreements and commitments previously approved by the Annual General Meeting during the year.

We performed the procedures that we deemed necessary in accordance with professional standards applicable in France. These procedures consisted in verifying that the information provided to us is consistent with the underlying documents.

Agreements and commitments subject to the approval of the Annual General meeting

Pursuant to article L.225-38 of the French Commercial Code, we hereby advise you that we have not been informed of any agreements or commitments signed during the year to be approved by the Annual General Meeting.

Agreements and commitments previously approved by the Annual General meeting

Pursuant to article R. 225-30 of the French Commercial Code, we have been advised that the following agreement, previously approved by the Annual General Meeting of April 27, 2010 and mentioned in our Statutory Auditors' special report of February 19, 2010, has remained in effect during the year.

Agreement concerning Jean-Paul Agon

- Suspension of Mr Jean-Paul Agon's employment contract during the period of his corporate office.
- Elimination of all rights to indemnification in respect of Mr Jean-Paul Agon's corporate office.

  In the event of departure, and depending on the reasons, Mr Jean-Paul Agon would only be paid the dismissal indemnities, except in the event of gross misconduct or gross negligence, or retirement indemnities in the event of voluntary retirement or retirement at the Company's request due 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 National Collective Bargaining Agreement for the Chemical Industries and the company-level agreements applicable to all L'Oréal executives, are due in any event pursuant to the public policy rules of French labour law. They are not subject to any condition other than those provided for by the National Collective Bargaining Agreement for the Chemical Industries or the above-mentioned company-level agreements. The same applies to the non-competition clause and the related financial consideration.

  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 bargaining agreement and the company-level agreements applicable to all L'Oréal executives.

  Mr Jean-Paul Agon will continue to benefit from the defined benefit pension scheme currently applicable to the Group's senior managers.

- Terms and conditions relating to the suspension of Mr Jean-Paul Agon's employment contract:
  - The reference remuneration to be used to calculate all the rights attached to the employment contract and in particular to compute the pension under the defined benefit scheme will be based on the amount of remuneration under the employment contract when it was suspended in 2006, namely fixed remuneration of €1,500,000 and variable remuneration of €1,250,000. This reference remuneration is reviewed every year by applying the revaluation coefficient in respect of salaries and pension contributions published by the French State pension fund. As of January 1, 2017, the fixed remuneration amounts to €1,672,500 and the variable remuneration to €1,393,750.
  - The length of service applied will take into consideration his entire career, including the years during which he was Chairman and Chief Executive Officer.
- Mr Jean-Paul Agon will maintain the status of senior manager throughout the period of his corporate office, so that he may continue to benefit from the additional social protection schemes and in particular the employee benefit and healthcare schemes available to the Company's employees.

Neuilly-sur-Seine, February 20, 2017

The Statutory Auditors

PricewaterhouseCoopers Audit Gérard Morin	Deloitte & Associés Frédéric Moulin